CU INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE SIX MONTHS ENDED JUNE 30, 2017

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CONSOLIDATED STATEMENT OF EARNINGS

(millions of Canadian Dollars)	Three Months Ended June 30 2017	Three Months Ended June 30 2016	Six Months Ended June 30 2017	Six Months Ended June 30 2016
Revenues	**588**	571	**1,363**	1,257
Costs and expenses				
Salaries, wages and benefits	**(61)**	(65)	**(116)**	(125)
Energy transmission and transportation	**(53)**	(50)	**(107)**	(99)
Plant and equipment maintenance	**(18)**	(33)	**(57)**	(64)
Fuel costs	**(3)**	(3)	**(7)**	(6)
Purchased power	**(15)**	(15)	**(37)**	(34)
Depreciation and amortization	**(118)**	(112)	**(237)**	(226)
Franchise fees	**(52)**	(43)	**(135)**	(108)
Property and other taxes	**(18)**	(16)	**(37)**	(31)
Other	**(50)**	(46)	**(105)**	(91)
	(388)	(383)	**(838)**	(784)
Operating profit	**200**	188	**525**	473
Interest income	**3**	4	**8**	8
Interest expense	**(86)**	(85)	**(175)**	(170)
Net finance costs	**(83)**	(81)	**(167)**	(162)
Earnings before income taxes	**117**	107	**358**	311
Income taxes	**(31)**	(29)	**(97)**	(84)
Earnings for the period	**86**	78	**261**	227

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three Months Ended June 30		Six Months Ended June 30	
(millions of Canadian Dollars)	**2017**	**2016**	**2017**	**2016**
Earnings for the period	**86**	78	**261**	227
Other comprehensive (loss) income, net of income taxes				
Items that will not be reclassified to earnings:				
Re-measurement of retirement benefits (1)	**(2)**	2	**(5)**	(2)
Comprehensive income for the period	**84**	80	**256**	225

(1) Net of income taxes of $1 million and $2 million for the three and six months ended June 30, 2017 (2016 - nil and $1 million).

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

(millions of Canadian Dollars)	Note	June 30 2017	December 31 2016
ASSETS			
Current assets			
Cash		**69**	25
Accounts receivable		**244**	331
Accounts receivable from parent and affiliate companies		**25**	28
Inventories		**25**	24
Prepaid expenses and other current assets		**33**	17
		396	425
Non-current assets			
Property, plant and equipment	4	**14,218**	14,040
Intangibles		**497**	485
Long-term advances to affiliate company		**130**	130
Other assets		**28**	13
Total assets		**15,269**	15,093
LIABILITIES			
Current liabilities			
Bank indebtedness		**–**	1
Accounts payable and accrued liabilities		**361**	427
Accounts payable to parent and affiliate companies		**12**	10
Other current liabilities		**22**	7
Long-term debt		**150**	150
		545	595
Non-current liabilities			
Deferred income tax liabilities		**1,136**	1,076
Retirement benefit obligations		**152**	142
Deferred revenues		**1,676**	1,652
Other liabilities		**4**	4
Long-term debt		**7,140**	7,139
Total liabilities		**10,653**	10,608
EQUITY			
Equity preferred shares		**187**	187
Equity preferred shares to parent company		**79**	79
Class A and Class B share owner's equity			
Class A and Class B shares		**1,056**	1,056
Retained earnings		**3,294**	3,163
		4,350	4,219
Total equity		**4,616**	4,485
Total liabilities and equity		**15,269**	15,093

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(millions of Canadian Dollars)	Note	Class A and Class B Shares	Equity Preferred Shares	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
December 31, 2015		1,056	266	2,944	–	4,266
Earnings for the period		–	–	227	–	227
Other comprehensive loss		–	–	–	(2)	(2)
Losses on retirement benefits transferred to retained earnings		–	–	(2)	2	–
Dividends	5	–	–	(6)	–	(6)
June 30, 2016		1,056	266	3,163	–	4,485
December 31, 2016		1,056	266	3,163	–	4,485
Earnings for the period		–	–	**261**	–	**261**
Other comprehensive loss		–	–	–	**(5)**	**(5)**
Losses on retirement benefits transferred to retained earnings		–	–	**(5)**	**5**	–
Dividends	5,6	–	–	**(125)**	–	**(125)**
June 30, 2017		**1,056**	**266**	**3,294**	–	**4,616**

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOW

(millions of Canadian Dollars)	Note	Three Months Ended June 30 2017	Three Months Ended June 30 2016	Six Months Ended June 30 2017	Six Months Ended June 30 2016
Operating activities					
Earnings for the period		**86**	78	**261**	227
Adjustments to reconcile earnings to cash flows from operating activities	7	**244**	227	**509**	485
Changes in non-cash working capital		**(36)**	30	**50**	17
Cash flows from operating activities		**294**	335	**820**	729
Investing activities					
Additions to property, plant and equipment		**(209)**	(243)	**(397)**	(433)
Proceeds on disposal of property, plant and equipment		**–**	–	**–**	3
Additions to intangibles		**(21)**	(10)	**(35)**	(22)
Changes in non-cash working capital		**(20)**	(13)	**(42)**	(73)
Other		**–**	(1)	**–**	(1)
Cash flows used in investing activities		**(250)**	(267)	**(474)**	(526)
Financing activities					
Dividends paid on equity preferred shares	5	**(2)**	(3)	**(5)**	(6)
Dividends paid to Class A and Class B share owner	6	**(120)**	–	**(120)**	–
Interest paid		**(99)**	(92)	**(182)**	(174)
Interest received from affiliate company		**4**	4	**6**	6
Cash flows used in financing activities		**(217)**	(91)	**(301)**	(174)
(Decrease) increase in cash position		**(173)**	(23)	**45**	29
Beginning of period		**242**	43	**24**	(9)
End of period	7	**69**	20	**69**	20

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2017

(Tabular amounts in millions of Canadian Dollars, except as otherwise noted)

1. THE COMPANY AND ITS OPERATIONS

CU Inc. was incorporated under the laws of Canada and its debt and equity preferred shares are listed on the Toronto Stock Exchange. Its head office and registered office is at 700, 909 - 11th Avenue SW, Calgary, Alberta, T2R 1N6. The Company is controlled by Canadian Utilities Limited, which in turn is principally controlled by ATCO Ltd. and its controlling share owner, the Southern family.

CU Inc. is engaged in the following business activities:

- Electricity (electricity distribution, transmission and infrastructure development); and
- Pipelines & Liquids (natural gas transmission, distribution and infrastructure development).

The unaudited interim consolidated financial statements include the accounts of CU Inc. and its subsidiaries (the Company).

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

The unaudited interim consolidated financial statements are prepared according to International Accounting Standard (IAS) 34 Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. They do not include all the disclosures required in annual consolidated financial statements and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2016, prepared according to IFRS.

The unaudited interim consolidated financial statements are prepared following the same accounting policies used in the Company's most recent annual financial statements, except for income taxes. In interim periods, income taxes are accrued using an estimate of the annualized effective tax rate applied to year-to-date earnings.

The unaudited interim consolidated financial statements were authorized for issue by the Audit Committee, on behalf of the Board of Directors, on July 26, 2017.

BASIS OF MEASUREMENT

The unaudited interim consolidated financial statements are prepared on a historic cost basis, except for retirement benefit obligations and cash-settled share-based compensation liabilities which are carried at remeasured amounts or fair value.

Revenues, earnings and adjusted earnings for any quarter are not necessarily indicative of operations on an annual basis. Quarterly financial results may be affected by the seasonal nature of the Company's operations and the timing of utility rate decisions.

Certain comparative figures have been reclassified to conform to the current presentation.

3. SEGMENTED INFORMATION

SEGMENTED RESULTS

Results by operating segment for the three months ended June 30 are shown below.

2017 2016	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues	**301**	**287**	**–**	**–**	**588**
	323	248	–	–	571
Operating expenses [1]	**(91)**	**(179)**	**–**	**–**	**(270)**
	(100)	(171)	–	–	(271)
Depreciation and amortization	**(73)**	**(45)**	**–**	**–**	**(118)**
	(70)	(42)	–	–	(112)
Net finance costs	**(55)**	**(28)**	**–**	**–**	**(83)**
	(54)	(27)	–	–	(81)
Earnings before income taxes	**82**	**35**	**–**	**–**	**117**
	99	8	–	–	107
Income taxes	**(22)**	**(9)**	**–**	**–**	**(31)**
	(27)	(2)	–	–	(29)
Earnings for the period	**60**	**26**	**–**	**–**	**86**
	72	6	–	–	78
Adjusted earnings	**81**	**27**	**–**	**–**	**108**
	86	24	–	–	110
Capital expenditures [3]	**92**	**143**	**–**	**–**	**235**
	126	131	–	–	257

Results by operating segment for the six months ended June 30 is shown below.

2017 2016	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues - external	**639**	**724**	**–**	**–**	**1,363**
	669	588	–	–	1,257
Operating expenses [1]	**(218)**	**(383)**	**–**	**–**	**(601)**
	(206)	(352)	–	–	(558)
Depreciation and amortization	**(148)**	**(89)**	**–**	**–**	**(237)**
	(142)	(84)	–	–	(226)
Net finance costs	**(111)**	**(56)**	**–**	**–**	**(167)**
	(109)	(53)	–	–	(162)
Earnings before income taxes	**162**	**196**	**–**	**–**	**358**
	212	99	–	–	311
Income taxes	**(44)**	**(53)**	**–**	**–**	**(97)**
	(57)	(27)	–	–	(84)
Earnings for the period	**118**	**143**	**–**	**–**	**261**
	155	72	–	–	227
Adjusted earnings	**176**	**125**	**–**	**–**	**301**
	174	116	–	–	290
Total assets [2]	**9,986**	**5,299**	**135**	**(151)**	**15,269**
	9,883	5,157	134	(81)	15,093
Capital expenditures [3]	**188**	**253**	**–**	**–**	**441**
	231	232	–	–	463

(1) Includes total costs and expenses, excluding depreciation and amortization expense.
(2) 2016 comparatives are at December 31, 2016.
(3) Includes additions to property, plant and equipment and intangibles and $5 million and $9 million of interest capitalized during construction for the three and six months ended June 30, 2017 (2016 - $4 million and $8 million).

ADJUSTED EARNINGS

Adjusted earnings are earnings for the period after adjusting for:

- the timing of revenues and expenses for rate-regulated activities,
- dividends on equity preferred shares of the Company,
- one-time gains and losses,
- significant impairments, and
- items that are not in the normal course of business or a result of day-to-day operations.

Adjusted earnings are a key measure of segment earnings used by the Chief Operating Decision Maker (CODM) to assess segment performance and allocate resources. Other accounts in the consolidated financial statements have not been adjusted as they are not used by the CODM for those purposes.

The reconciliation of adjusted earnings and earnings for the three months ended June 30 is shown below.

2017 **2016**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Adjusted earnings	**81**	**27**	**–**	**–**	**108**
	86	24	–	–	110
Rate-regulated activities	**(22)**	**(2)**	**–**	**–**	**(24)**
	(15)	(20)	–	–	(35)
Dividends on equity preferred shares of the Company	**1**	**1**	**–**	**–**	**2**
	1	2	–	–	3
Earnings for the period	**60**	**26**	**–**	**–**	**86**
	72	6	–	–	78

The reconciliation of adjusted earnings and earnings for the six months ended June 30 is shown below.

2017 **2016**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Adjusted earnings	**176**	**125**	**–**	**–**	**301**
	174	116	–	–	290
Rate-regulated activities	**(61)**	**16**	**–**	**–**	**(45)**
	(22)	(47)	–	–	(69)
Dividends on equity preferred shares of the Company	**3**	**2**	**–**	**–**	**5**
	3	3	–	–	6
Earnings for the period	**118**	**143**	**–**	**–**	**261**
	155	72	–	–	227

Rate-regulated activities

ATCO Electric and its subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife), as well as ATCO Gas and ATCO Pipelines are collectively referred to in the consolidated financial statements as utilities.

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. In the absence of this guidance, the utilities do not recognize assets and liabilities from rate-regulated activities as may be directed by regulatory decisions. Instead, the utilities recognize revenues in earnings when amounts are billed to customers, consistent with the regulator-approved rate design. Operating costs and expenses are recorded when incurred. Costs incurred in constructing an asset that meet the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

The Company uses standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of generally accepted accounting principles to account for rate-regulated activities in its internal reporting provided to the CODM. The CODM believes that earnings presented in accordance with the FASB standards are a better representation of the operating results of the Company's rate-regulated activities. Therefore, the Company presents adjusted earnings as part of its segmented disclosures on this basis. Rate-regulated accounting (RRA) standards impact the timing of how certain revenues and expenses are recognized when compared to non-rate regulated activities, to appropriately reflect the economic impact of a regulators' decisions on revenues.

Rate-regulated accounting differs from IFRS in the following ways:

	Timing Adjustment	Items	RRA Treatment	IFRS Treatment
1.	Additional revenues billed in current period	Future removal and site restoration costs.	The Company defers the recognition of cash received in advance of future expenditures.	The Company recognizes revenues when amounts are billed to customers and costs when they are incurred.
2.	Revenues to be billed in future periods	Deferred income taxes and impact of warmer temperatures.	The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company recognizes costs when they are incurred, but does not recognize their recovery until customer rates are changed and amounts are collected through future billings.
3.	Regulatory decisions received	Regulatory decisions received which relate to current and prior periods.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company does not recognize earnings from a regulatory decision when it is received as regulatory assets and liabilities are not recorded under IFRS.
4.	Settlement of regulatory decisions and other items	Settlement of amounts receivable or payable to customers and other items.	The Company recognizes the amount receivable or payable to customers as a reduction in its regulatory assets and liabilities when collected or refunded through future billings.	The Company recognizes earnings when customer rates are changed and amounts are recovered or refunded to customers through future billings.

The significant timing adjustments as a result of the differences between rate-regulated accounting and IFRS are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	**2016**	**2017**	**2016**
Additional revenues billed in current period				
Future removal and site restoration costs (1)	**19**	18	**38**	35
Revenues to be billed in future periods				
Deferred income taxes (2)	**(25)**	(23)	**(54)**	(51)
Impact of warmer temperatures (3)	**(3)**	(10)	**(3)**	(27)
Regulatory decisions received	**7**	–	**7**	–
Settlement of regulatory decisions and other items	**(22)**	(20)	**(33)**	(26)
	(24)	(35)	**(45)**	(69)

(1) *Removal and site restoration costs are billed to customers over the estimated useful life of the related assets based on forecast costs to be incurred in future periods.*

(2) *Income taxes are billed to customers when paid by the Company.*

(3) *ATCO Gas' customer rates are based on a forecast of normal temperatures. Fluctuations in temperatures may result in more or less revenue being recovered from customers than forecast. Revenues above or below the normal in the current period are refunded to or recovered from customers in future periods.*

Regulatory decisions received

Under rate-regulated accounting, the Company recognizes earnings from a regulatory decision pertaining to current and prior periods when the decision is received.

In June 2017, the Alberta Utilities Commission issued a decision on ATCO Electric's Compliance Filing relating to its 2015 to 2017 General Tariff Application. The decision adjusted ATCO Electric's 2016 and 2017 forecast allocation of labour costs between operating and maintenance expense and capital, which resulted in a decrease in adjusted earnings of $7 million.

4. PROPERTY, PLANT AND EQUIPMENT

A reconciliation of the changes in the carrying amount of property, plant and equipment is as follows:

	Utility Transmission & Distribution	Land and Buildings	Construction Work-in-Progress	Other	Total
Cost					
December 31, 2016	16,290	580	476	624	17,970
Additions	**90**	**1**	**322**	**–**	**413**
Transfers	**286**	**2**	**(292)**	**4**	**–**
Retirements and disposals	**(32)**	**(1)**	**(15)**	**(4)**	**(52)**
June 30, 2017	**16,634**	**582**	**491**	**624**	**18,331**
Accumulated depreciation					
December 31, 2016	3,567	130	–	233	3,930
Depreciation	**196**	**18**	**–**	**6**	**220**
Retirements and disposals	**(32)**	**(1)**	**–**	**(4)**	**(37)**
June 30, 2017	**3,731**	**147**	**–**	**235**	**4,113**
Net book value					
December 31, 2016	12,723	450	476	391	14,040
June 30, 2017	**12,903**	**435**	**491**	**389**	**14,218**

The additions to property, plant and equipment included $9 million of interest capitalized during construction for the six months ended June 30, 2017 (2016 - $8 million).

5. EQUITY PREFERRED SHARES AND EQUITY PREFERRED SHARES TO PARENT COMPANY

Cash dividends declared and paid per share are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(dollars per share)	2017	2016	2017	2016
Equity preferred shares				
Cumulative Redeemable Preferred Shares				
4.60% Series 1	**0.2875**	0.2875	**0.5750**	0.5750
2.243% Series 4 (1)	**0.1402**	0.2375	**0.2804**	0.4750
Equity preferred shares to parent company				
Perpetual Cumulative Second Preferred Shares				
4.00% Series V	**0.2500**	0.2500	**0.5000**	0.5000

(1) Effective June 1, 2016, the annual dividend rate for the Series 4 Preferred Shares was reset to 2.243 per cent for the next five years. Prior to June 1, 2016, the annual dividend rate was 3.80 per cent.

The payment of dividends is at the discretion of the Board and depends on the financial condition of the Company and other factors.

6. CLASS A AND CLASS B SHARES

DIVIDENDS

The Company declared and paid cash dividends of $20.84 per Class A non-voting share and Class B common share during the three and six months ended June 30, 2017 (2016 - nil). The payment of dividends is at the discretion of the Board and depends on the financial condition of the Company and other factors.

7. CASH FLOW INFORMATION

ADJUSTMENTS TO RECONCILE EARNINGS TO CASH FLOWS FROM OPERATING ACTIVITIES

Adjustments to reconcile earnings to cash flows from operating activities are summarized below.

	Three Months Ended June 30		Six Months Ended June 30	
	2017	**2016**	**2017**	**2016**
Depreciation and amortization	**118**	112	**237**	226
Income taxes	**31**	29	**97**	84
Contributions by utility customers for extensions to plant	**19**	21	**34**	48
Amortization of customer contributions	**(12)**	(12)	**(24)**	(24)
Net finance costs	**83**	81	**167**	162
Income taxes paid	**(11)**	(7)	**(21)**	(14)
Other	**16**	3	**19**	3
	244	227	**509**	485

CASH POSITION

Cash position in the consolidated statement of cash flow at June 30 is comprised of:

	2017	**2016**
Cash	**69**	43
Bank indebtedness	**–**	(23)
	69	20

8. FINANCIAL INSTRUMENTS

FAIR VALUE MEASUREMENT

Financial instruments are measured at amortized cost or fair value. Fair value represents the estimated amounts at which financial instruments could be exchanged between knowledgeable and willing parties in an arm's length transaction. Determining fair value requires management judgment. The valuation methods used to determine the fair value of each financial instrument and its associated level in the fair value hierarchy is described below.

Financial Instruments	Fair Value Method
Measured at Amortized Cost	
Cash, accounts receivable, accounts receivable from parent and affiliate companies, bank indebtedness, accounts payable and accrued liabilities and accounts payable to parent and affiliate companies	Assumed to approximate carrying value due to their short-term nature.
Long-term advances to affiliate company and long-term debt	Determined using quoted market prices for the same or similar issues. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on the Company's current borrowing rate for similar borrowing arrangements (Level 2).

The fair values of the Company's financial instruments measured at amortized cost are as follows:

	June 30, 2017		December 31, 2016	
Recurring Measurements	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Long-term advances to affiliate company	**130**	**161**	130	166
Financial Liabilities				
Long-term debt	**7,290**	**8,562**	7,289	8,193