CU INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2021

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CONSOLIDATED STATEMENTS OF EARNINGS

(millions of Canadian Dollars)	Note	Three Months Ended March 31 2021	Three Months Ended March 31 2020
Revenues	4	**743**	754
Costs and expenses			
Salaries, wages and benefits		**(49)**	(52)
Energy transmission and transportation		**(64)**	(53)
Plant and equipment maintenance		**(33)**	(36)
Fuel costs		**(3)**	(4)
Purchased power		**(27)**	(27)
Depreciation and amortization		**(133)**	(127)
Franchise fees		**(81)**	(81)
Property and other taxes		**(17)**	(16)
Other		**(72)**	(66)
		(479)	(462)
Operating profit		**264**	292
Interest expense		**(91)**	(91)
Earnings before income taxes		**173**	201
Income tax expense		**(40)**	(49)
Earnings for the period		**133**	152

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31	
(millions of Canadian Dollars)	**2021**	**2020**
Earnings for the period	**133**	152
Other comprehensive income, net of income taxes		
Items that will not be reclassified to earnings:		
Re-measurement of retirement benefits [(1)]	**14**	17
Comprehensive income for the period	**147**	169

(1) Net of income taxes of $(4) million for the three months ended March 31, 2021 (2020 - $(4) million).

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(millions of Canadian Dollars)	Note	March 31 2021	December 31 2020
ASSETS			
Current assets			
Cash		**127**	13
Short-term advances to parent company		**65**	65
Accounts receivable and contract assets		**347**	380
Trade accounts receivable from parent and affiliate companies		**7**	13
Inventories		**17**	14
Prepaid expenses and other current assets		**13**	16
		576	501
Non-current assets			
Property, plant and equipment	5	**15,871**	15,815
Intangibles		**617**	602
Right-of-use assets		**10**	11
Other assets		**23**	23
Total assets		**17,097**	16,952
LIABILITIES			
Current liabilities			
Bank indebtedness		**1**	3
Short-term advances from parent company		**–**	97
Accounts payable and accrued liabilities		**461**	405
Accounts payable to parent and affiliate companies		**21**	11
Lease liabilities		**2**	2
Provisions and other current liabilities		**75**	93
Long-term debt		**160**	160
		720	771
Non-current liabilities			
Deferred income tax liabilities		**1,398**	1,368
Retirement benefit obligations		**157**	176
Customer contributions		**1,765**	1,727
Lease liabilities		**9**	9
Other liabilities		**13**	11
Long-term debt		**7,942**	7,941
Total liabilities		**12,004**	12,003
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		**3,771**	3,627
		4,827	4,683
Total equity		**5,093**	4,949
Total liabilities and equity		**17,097**	16,952

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS 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, 2019		1,056	266	3,664	–	4,986
Earnings for the period		–	–	152	–	152
Other comprehensive income		–	–	–	17	17
Gains on retirement benefits transferred to retained earnings		–	–	17	(17)	–
Dividends	6	–	–	(3)	–	(3)
March 31, 2020		1,056	266	3,830	–	5,152
December 31, 2020		1,056	266	3,627	–	4,949
Earnings for the period		–	–	**133**	–	**133**
Other comprehensive income		–	–	–	**14**	**14**
Gains on retirement benefits transferred to retained earnings		–	–	**14**	**(14)**	–
Dividends	6	–	–	**(3)**	–	**(3)**
March 31, 2021		**1,056**	**266**	**3,771**	–	**5,093**

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian Dollars)	Note	Three Months Ended March 31 2021	2020
Operating activities			
Earnings for the period		**133**	152
Adjustments to reconcile earnings to cash flows from operating activities	7	**279**	279
Changes in non-cash working capital		**61**	36
Cash flows from operating activities		**473**	467
Investing activities			
Additions to property, plant and equipment		**(176)**	(217)
Additions to intangibles		**(25)**	(16)
Changes in non-cash working capital		**22**	22
Cash flows used in investing activities		**(179)**	(211)
Financing activities			
Repayment of lease liabilities		**(1)**	(1)
Dividends paid on equity preferred shares	6	**(3)**	(3)
Interest paid		**(77)**	(75)
Cash flows used in financing activities		**(81)**	(79)
Increase in cash position		**213**	177
Beginning of period		**(22)**	71
End of period	7	**191**	248

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

MARCH 31, 2021

(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 4th Floor, West Building, 5302 Forand Street SW, Calgary, Alberta T3E 8B4. 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 transmission and distribution); and
- Natural gas (natural gas transmission and distribution).

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 and IFRS Interpretations Committee (IFRIC). 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, 2020, 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 consolidated 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 April 28, 2021.

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.

SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Use of judgments and estimates around the COVID-19 pandemic

For the three months ended March 31, 2021, the Company performed an assessment of the impacts of uncertainties around the COVID-19 pandemic on its consolidated financial position, financial performance and cash flows. The assessment required use of judgements and estimates and resulted in no material impacts.

3. SEGMENTED INFORMATION

SEGMENTED RESULTS

Results by operating segment for the three months ended March 31 are shown below.

2021 2020	Electricity	Natural Gas	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues	**334**	**410**	**–**	**(1)**	**743**
	320	435	–	(1)	754
Operating expenses [1]	**(124)**	**(223)**	**–**	**1**	**(346)**
	(122)	(214)	–	1	(335)
Depreciation and amortization	**(78)**	**(55)**	**–**	**–**	**(133)**
	(77)	(50)	–	–	(127)
Interest expense	**(57)**	**(33)**	**(1)**	**–**	**(91)**
	(58)	(31)	(2)	–	(91)
Earnings (loss) before income taxes	**75**	**99**	**(1)**	**–**	**173**
	63	140	(2)	–	201
Income tax expense	**(17)**	**(23)**	**–**	**–**	**(40)**
	(15)	(34)	–	–	(49)
Earnings (loss) for the period	**58**	**76**	**(1)**	**–**	**133**
	48	106	(2)	–	152
Adjusted earnings (loss)	**85**	**100**	**(1)**	**–**	**184**
	78	104	(2)	–	180
Total assets [2]	**10,312**	**6,716**	**78**	**(9)**	**17,097**
	10,272	6,645	47	(12)	16,952
Capital expenditures [3]	**88**	**116**	**–**	**–**	**204**
	108	130	–	–	238

(1) Includes total costs and expenses, excluding depreciation and amortization expense.

(2) 2020 comparatives are at December 31, 2020.

(3) Includes additions to property, plant and equipment and intangibles and $3 million of interest capitalized during construction for the three months ended March 31, 2021 (2020 - $5 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 unaudited interim 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 March 31 is shown below.

2021 **2020**	**Electricity**	**Natural Gas**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Adjusted earnings (loss)	**85**	**100**	**(1)**	**–**	**184**
	78	104	(2)	–	180
Transition of managed IT services	**(3)**	**(3)**	**–**	**–**	**(6)**
	–	–	–	–	–
Rate-regulated activities	**(24)**	**(20)**	**–**	**–**	**(44)**
	(29)	2	–	–	(27)
IT Common Matters decision	**(2)**	**(2)**	**–**	**–**	**(4)**
	(2)	(2)	–	–	(4)
Dividends on equity preferred shares of the Company	**2**	**1**	**–**	**–**	**3**
	1	2	–	–	3
Earnings (loss) for the period	**58**	**76**	**(1)**	**–**	**133**
	48	106	(2)	–	152

Transition of managed IT services

In 2020, the Company's parent, Canadian Utilities Limited, signed a Master Services Agreement (MSA) with IBM Canada Ltd. (IBM) to provide managed information technology (IT) services. These services are currently provided by Wipro Ltd. (Wipro) under a ten-year MSA expiring in December 2024. The transition of the managed IT services from Wipro to IBM commenced on February 1, 2021 and is expected to be completed by the third quarter of 2021.

In 2020, the Company recognized an onerous contract provision of $66 million ($52 million after-tax), which represents management's best estimate of the costs to exit the Wipro MSA. The provision is included in provisions and other current liabilities in the consolidated balance sheets and the actual costs are expected to be finalized later in 2021.

In addition, for the three months ended March 31, 2021, the Company recognized transition costs of $8 million ($6 million after-tax). The transition costs relate to activities to transfer the managed IT services from Wipro to IBM. As these costs are not in the normal course of business, they have been excluded from Adjusted Earnings.

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 as the 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 regulator's 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, and impact of colder temperatures.	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.

For the three months ended March 31, the significant timing adjustments as a result of the differences between rate-regulated accounting and IFRS are as follows:

	2021	2020
Additional revenues billed in current period		
Future removal and site restoration costs (1)	**29**	22
Impact of colder temperatures (2)	–	5
Revenues to be billed in future periods		
Deferred income taxes (3)	**(25)**	(34)
Distribution rate relief (4)	**(41)**	–
Impact of warmer temperatures (2)	**(2)**	–
Settlement of regulatory decisions and other items (5)	**(5)**	(20)
	(44)	(27)

(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) Natural Gas Distribution's 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.

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

(4) In the first quarter of 2021,Electricity Distribution and Natural Gas Distribution recorded a decrease in earnings of $41 million related to interim rate relief for customers as applied for by the Company and approved by the AUC to hold current distribution base rates in place. This will be recovered from customers in future periods.

(5) In the first quarter of 2020, Electricity Distribution, recorded a decrease in earnings of $27 million related to payment of transmission costs. This is being recovered from customers in future periods.

IT Common Matters decision

Consistent with the treatment of the gain on sale in 2014 from the IT services business by CU Inc.'s parent, Canadian Utilities Limited, financial impacts associated with the IT Common Matters decision are excluded from adjusted earnings. The amount excluded from adjusted earnings for the three months ended March 31, 2021 was $4 million (2020 - $4 million).

4. REVENUES

The Company disaggregates revenues based on the nature of revenue streams. The disaggregation of revenues by each operating segment for the three months ended March 31 is shown below:

2021 2020	Electricity [1]	Natural Gas [1]	Corporate & Other	Intersegment Eliminations	Total
Revenue Streams					
Rendering of Services					
Distribution services	**130**	**254**	**–**	**–**	**384**
	119	275	–	–	394
Transmission services	**173**	**76**	**–**	**–**	**249**
	173	72	–	–	245
Customer contributions	**9**	**5**	**–**	**–**	**14**
	8	5	–	–	13
Franchise fees	**9**	**72**	**–**	**–**	**81**
	8	73	–	–	81
Total rendering of services	**321**	**407**	**–**	**–**	**728**
	308	425	–	–	733
Other	**13**	**3**	**–**	**(1)**	**15**
	12	10	–	(1)	21
Total	**334**	**410**	**–**	**(1)**	**743**
	320	435	–	(1)	754

(1) For the three months ended March 31 2021, Electricity and Natural Gas segments include $108 million of unbilled revenue (2020 - $105 million). At March 31, 2021, $108 million of the unbilled trade accounts receivables are included in trade accounts receivable and contract assets (December 31, 2020 - $115 million).

5. 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, 2020	19,500	603	338	669	21,110
Additions	**–**	**–**	**181**	**–**	**181**
Transfers	**113**	**3**	**(121)**	**5**	**–**
Retirements and disposals	**(14)**	**(1)**	**–**	**(2)**	**(17)**
March 31, 2021	**19,599**	**605**	**398**	**672**	**21,274**
Accumulated depreciation					
December 31, 2020	4,823	154	–	318	5,295
Depreciation	**111**	**4**	**–**	**10**	**125**
Retirements and disposals	**(14)**	**(1)**	**–**	**(2)**	**(17)**
March 31, 2021	**4,920**	**157**	**–**	**326**	**5,403**
Net book value					
December 31, 2020	14,677	449	338	351	15,815
March 31, 2021	**14,679**	**448**	**398**	**346**	**15,871**

The additions to property, plant and equipment included $3 million of interest capitalized during construction for the three months ended March 31, 2021 (2020 - $5 million).

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

Cash dividends declared and paid per share for three months ended March 31 are as follows:

(dollars per share)	2021	2020
Equity preferred shares		
Cumulative Redeemable Preferred Shares		
4.60% Series 1	**0.2875**	0.2875
2.243% Series 4	**0.1402**	0.1402
Equity preferred shares to parent company		
Perpetual Cumulative Second Preferred Shares		
4.60% Series V	**0.2875**	0.2875

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 for three months ended March 31 are summarized below.

	2021	2020
Depreciation and amortization	**133**	127
Income tax expense	**40**	49
Contributions by utility customers for extensions to plant	**52**	26
Amortization of customer contributions	**(14)**	(13)
Interest expense	**91**	91
Income taxes paid	**(22)**	(1)
Other	**(1)**	–
	279	279

CASH POSITION

Cash position in the unaudited interim consolidated statements of cash flows at March 31 is comprised of:

	2021	2020
Cash	**127**	152
Short-term advances to parent company	**65**	96
Cash and cash equivalents	**192**	248
Bank indebtedness	**(1)**	–
	191	248

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, short-term advances to parent company, accounts receivable and contract assets, accounts receivable from parent and affiliate companies, bank indebtedness, short-term advances from parent company, 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 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:

	March 31, 2021		December 31, 2020	
Recurring Measurements	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities				
Long-term debt	**8,102**	**9,302**	8,101	10,435