



An **ATCO** Company

CU INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2015

CU INC.

CONSOLIDATED STATEMENT OF EARNINGS

	Three Months Ended March 31	
<i>(millions of Canadian Dollars)</i>	2015	2014
Revenues	662	654
Costs and expenses		
Salaries, wages and benefits	(68)	(71)
Energy transmission and transportation	(44)	(37)
Plant and equipment maintenance	(43)	(27)
Fuel costs	(3)	(6)
Purchased power	(20)	(18)
Depreciation and amortization	(95)	(86)
Franchise fees	(68)	(76)
Property and other taxes	(16)	(14)
Other	(46)	(44)
	(403)	(379)
Operating profit	259	275
Interest income	3	3
Interest expense	(59)	(52)
Net finance costs	(56)	(49)
Earnings before income taxes	203	226
Income taxes	(51)	(57)
Earnings for the period	152	169

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

**CU INC.
CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME**

	Three Months Ended March 31	
<i>(millions of Canadian Dollars)</i>	2015	2014
Earnings for the period	152	169
Other comprehensive loss, net of income taxes:		
Items that will not be reclassified to earnings:		
Re-measurement of retirement benefits ⁽¹⁾	(3)	(6)
Comprehensive income for the period	149	163

(1) Net of income taxes of \$1 million for the three months ended March 31, 2015 (2014 – \$2 million).

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CU INC.

CONSOLIDATED BALANCE SHEET

<i>(millions of Canadian Dollars)</i>	Note	March 31 2015	December 31 2014
ASSETS			
Current assets			
Cash and cash equivalents		70	44
Accounts receivable		287	314
Accounts receivable from parent and affiliate companies		10	30
Inventories		64	60
Prepaid expenses and other current assets		9	13
		440	461
Non-current assets			
Property, plant and equipment	4	12,749	12,536
Intangibles		386	383
Long-term advances to affiliate company		130	130
Other assets		14	12
Total assets		13,719	13,522
LIABILITIES			
Current liabilities			
Bank indebtedness		-	4
Short-term advances from parent company		20	18
Accounts payable and accrued liabilities		589	659
Accounts payable to parent and affiliate companies		13	12
		622	693
Non-current liabilities			
Deferred income tax liabilities		781	743
Retirement benefit obligations		146	141
Deferred revenues		1,533	1,454
Other liabilities		4	4
Long-term debt		6,269	6,269
Total liabilities		9,355	9,304
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		3,042	2,896
		4,098	3,952
Total equity		4,364	4,218
Total liabilities and equity		13,719	13,522

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CU INC.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>(millions of Canadian Dollars)</i>	Note	Class A and Class B Shares	Equity Preferred Shares	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
December 31, 2013		930	422	2,522	-	3,874
Earnings for the period		-	-	169	-	169
Dividends	6	-	-	(6)	-	(6)
Other comprehensive loss		-	-	-	(6)	(6)
Losses on retirement benefits transferred to retained earnings		-	-	(6)	6	-
March 31, 2014		930	422	2,679	-	4,031
December 31, 2014		1,056	266	2,896	-	4,218
Earnings for the period		-	-	152	-	152
Dividends	6	-	-	(3)	-	(3)
Other comprehensive loss		-	-	-	(3)	(3)
Losses on retirement benefits transferred to retained earnings		-	-	(3)	3	-
March 31, 2015		1,056	266	3,042	-	4,364

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CU INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Three Months Ended	
	March 31	
<i>(millions of Canadian Dollars)</i>	2015	2014
Operating activities		
Earnings for the period	152	169
Adjustments for:		
Depreciation and amortization	95	86
Income taxes	51	57
Contributions by utility customers for extensions to plant	90	71
Amortization of customer contributions	(10)	(10)
Net finance costs	56	49
Income taxes paid	(9)	(7)
Other	(2)	-
	423	415
Changes in non-cash working capital	39	5
Cash flow from operations	462	420
Investing activities		
Additions to property, plant and equipment	(275)	(469)
Proceeds on disposal of property, plant and equipment	1	-
Additions to intangibles	(12)	(18)
Changes in non-cash working capital	(72)	44
Other	(1)	-
	(359)	(443)
Financing activities		
Issue of short-term debt	-	11
Dividends paid on equity preferred shares	(3)	(6)
Interest paid	(73)	(53)
Interest received from affiliate company	2	2
Other	(1)	-
	(75)	(46)
Cash position ⁽¹⁾		
Increase (decrease)	28	(69)
Beginning of period	22	6
End of period	50	(63)

(1) Cash position consists of cash and cash equivalents less current bank indebtedness and short-term advances from parent company.

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CU INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

MARCH 31, 2015

(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, R.D. Southern.

CU Inc. is engaged in utilities (pipelines, natural gas and electricity 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. 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, 2014, 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 and accounting policies that have changed as disclosed below. 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, 2015.

BASIS OF MEASUREMENT

The unaudited interim consolidated financial statements are prepared on a historic cost basis, except for derivative financial instruments, employee retirement benefit liabilities and cash-settled share-based compensation liabilities.

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.

CHANGE IN ACCOUNTING POLICIES

Financial Instruments

The Company adopted IFRS 9 (2013) *Financial Instruments* effective January 1, 2015. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and previous versions of IFRS 9. It includes revised guidance on the classification and measurement of financial assets and liabilities and adds guidance on general hedge accounting.

Previously, the Company classified financial assets when they were first recognized as fair value through profit or loss, available for sale, held to maturity investments or loans and receivables. Under IFRS 9 (2013), the Company classifies financial assets under the same two measurement categories as financial liabilities; amortized cost or fair value through profit and loss. Financial assets are classified as amortized cost if the purpose of the Company's business model is to hold the financial assets for collecting cash flows and the contractual terms give rise to cash flows that are solely payments of principal and interest. All other financial assets are classified as fair value through profit or loss. All of the Company's financial assets and financial liabilities as at December 31, 2014 will continue to be classified and measured at amortized cost. The adoption of this standard has not resulted in any changes to comparative figures.

The Company has not yet adopted IFRS 9 (2014) *Financial Instruments* that incorporates the new impairment model that assesses financial assets based on expected losses rather than incurred losses as applied in IAS 39. This final standard will replace IFRS 9 (2013) and is effective for annual periods on or after January 1, 2018.

3. SEGMENTED INFORMATION

ADJUSTED EARNINGS

Adjusted earnings are earnings after adjusting for the timing of revenues and expenses for rate-regulated activities and dividends on equity preferred shares of the Company. Adjusted earnings also exclude 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 March 31 is shown below.

	Three Months Ended	
	March 31	
	2015	2014
Adjusted earnings	116	139
Adjustments for rate-regulated activities	33	24
Dividends on equity preferred shares of the Company	3	6
Earnings for the period	152	169

Adjustments for rate-regulated activities

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. Consequently, the Company does not recognize assets and liabilities arising from rate-regulated activities under IFRS.

Before adopting IFRS, the Company used standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of generally accepted accounting principles (GAAP) to account for rate-regulated activities. 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 segment disclosures on this basis.

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

Rate-Regulated Accounting Treatment	IFRS Treatment
1. The Company defers the recognition of cash received in advance of future expenditures.	The Company records revenues when amounts are billed to customers and recognizes costs when they are incurred.
2. The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company records costs when incurred, but does not recognize their recovery until changes to customer rates are reflected in future customer billings.
3. The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company recognizes earnings when customer rates are changed and amounts are billed to customers.
4. Intercompany profits on the manufacture or construction of facilities for a regulated public utility in the consolidated group are deemed to have been realized to the extent that the transfer price on such facilities is recognized for rate-making purposes by a regulator.	Intercompany profits are eliminated upon consolidation. The Company then recognizes those profits in earnings as amounts are billed to customers over the life of the related asset.

Timing adjustments for rate-regulated activities are as follows:

	Three Months Ended March 31	
	2015	2014
Additional revenues billed in current period:		
Future removal and site restoration costs ⁽¹⁾	11	15
Finance costs on major transmission capital projects ⁽²⁾	15	12
Impact of colder temperatures on revenues ⁽³⁾	–	8
Other	1	6
	27	41
Revenues to be billed in future period:		
Deferred income taxes ⁽⁴⁾	(21)	(26)
Transmission access payments ⁽⁵⁾	(3)	(1)
Transmission capital deferral ⁽⁶⁾	(13)	(2)
Impact of warmer temperatures on revenues ⁽³⁾	(9)	–
Other	(4)	(1)
	(50)	(30)
Regulatory decisions related to current and prior periods:		
Generic cost of capital and capital tracker decisions ⁽⁷⁾	46	–
Transmission access payments recoveries ⁽⁷⁾	7	14
Weather refunds ⁽³⁾	(4)	–
Other	7	(1)
	56	13
	33	24

Descriptions of the adjustments, and the timing of recovery or refund for each, are as follows:

Description	Timing of Recovery or Refund
1. Removal and site restoration costs billed to customers are based on the costs forecast to be incurred in future periods. Customers fund these expected costs over the estimated useful life of the related assets. Under rate-regulated accounting, billings to customers in excess of costs incurred in the current period are deferred.	The deferred revenues will be recognized in adjusted earnings when removal and site restoration costs are incurred.
2. Finance costs incurred by ATCO Electric during construction of major transmission capital projects are billed to customers when incurred. Under rate-regulated accounting, the finance costs billed to customers are deferred.	The deferred revenues will be recognized in adjusted earnings over the service life of the related assets.
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. Under rate-regulated accounting, revenues above or below the norm in the current period are deferred and refunded to or recovered from customers in future periods.	ATCO Gas may apply to the Alberta Utilities Commission (AUC) for recoveries from or refunds to customers when the net revenue variances exceed \$7 million at April 30th of any year for either of its North or South systems.
4. Deferred income taxes are a non-cash expense resulting from temporary differences between the book value and the tax value of assets and liabilities. Income taxes are billed to customers when paid by the Company. Deferred income taxes are not billed to customers unless directed to do so by the regulator. Under rate-regulated accounting, revenues are recognized in the current period for the deferred income taxes to be billed to customers in future periods.	The revenues will reverse when the temporary differences that gave rise to the deferred income taxes reverse in future periods.
5. Transmission access payments billed to customers by ATCO Electric are based on the forecast payments to be incurred. Under rate-regulated accounting, differences between actual costs incurred and forecast costs billed to customers are deferred for collection from or refund to customers in future periods.	Recoveries from or refunds to customers of the differences between transmission access payments billed to customers and paid by ATCO Electric are expected to occur in the next 6 to 12 months.
6. For major transmission capital projects, ATCO Electric's billings to customers include a return on forecast rate base. When actual capital costs vary from forecast capital costs, the return on rate base, and the resulting billings to the Alberta Electric System Operator (AESO), will be higher or lower than expected. Under rate-regulated accounting, differences between billings to the AESO and the return on actual rate base are deferred.	Recoveries from or refunds to the AESO of variances between forecast and actual returns on rate base are expected to occur in the following year.

Description	Timing of Recovery or Refund
<p>7. The utilities recognize revenues from regulatory decisions when customer rates are changed and amounts are billed to customers. Under rate-regulated accounting, revenues from regulatory decisions that affect current and prior periods are recognized when the decision is received.</p>	<p>Generic Cost of Capital and Capital Tracker Decisions The Utilities recorded a reduction in adjusted earnings of \$36 million in the first quarter of 2015 for an AUC decision which reduced the Return on Equity and deemed common equity ratios for 2013 to 2015. Of the \$36 million recorded in the first quarter, \$31 million related to 2013 and 2014.</p> <p>Also in the first quarter of 2015, ATCO Gas and the distribution operations of ATCO Electric recorded a reduction in adjusted earnings of \$10 million for the AUC Performance Based Regulation Capital Tracker decisions for 2013 to 2015. Of the \$10 million, \$8 million related to 2013 and 2014. Although these decisions included approval of the Company's applied for Capital Tracker programs, the decisions resulted in lower Capital Tracker rates than previously approved due to the AUC requiring the utilities to use the actual cost of debt in the rate determinations, which was lower than the forecast cost of debt that was previously being used.</p> <p>Under IFRS, earnings will be adjusted when the AUC approves revised customer rates and the amount payable to customers is refunded through future billings.</p> <p>Transmission Access Payment Recoveries In the years 2014 and 2013, actual payments for transmission access paid by ATCO Electric exceeded forecast costs included in billings to customers. These excess costs are subsequently recovered from customers.</p>

4. PROPERTY, PLANT AND EQUIPMENT

The Company continues to make significant investment in utility infrastructure in Alberta, particularly in electricity transmission facilities.

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, 2014	12,479	547	2,305	565	15,896
Additions	221	2	66	14	303
Disposals	(10)	–	(1)	(1)	(12)
March 31, 2015	12,690	549	2,370	578	16,187
Accumulated depreciation:					
December 31, 2014	3,034	122	–	204	3,360
Depreciation	77	1	–	11	89
Disposals	(10)	–	–	(1)	(11)
March 31, 2015	3,101	123	–	214	3,438
Net book value:					
December 31, 2014	9,445	425	2,305	361	12,536
March 31, 2015	9,589	426	2,370	364	12,749

The additions of property, plant and equipment included \$24 million (March 31, 2014 – \$19 million) of interest capitalized.

Construction work-in-progress additions are net of transfers of \$200 million (March 31, 2014 – \$87 million) to other property, plant and equipment categories.

5. FAIR VALUE MEASUREMENTS

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. Fair value is based on quoted market prices when available; models using observable market data and transaction specific factors are also used to estimate fair value.

Fair value measurements are categorized into levels within a fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. The hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

FAIR VALUE OF NON-DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of cash and cash equivalents, accounts receivable, 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 approximate carrying value due to their short-term nature.

The fair values of the Company's non-derivative financial instruments measured at other than fair value are as follows:

Recurring Measurements	Fair Value Hierarchy Level	March 31, 2015		December 31, 2014	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets					
Amortized Cost:					
Long-term advances to affiliate company ⁽¹⁾	Level 2	130	182	130	178
Financial Liabilities					
Amortized Cost:					
Long-term debt ⁽¹⁾	Level 2	6,269	7,755	6,269	7,271

(1) Recorded at amortized cost. Fair values are 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.

6. DIVIDENDS

Cash dividends declared and paid per share are as follows:

(dollars per share)	Three Months Ended March 31	
	2015	2014
Equity preferred shares:		
4.60% Cumulative Redeemable Preferred Shares, Series 1	0.28750	0.28750
6.70% Cumulative Redeemable Preferred Shares, Series 2 ⁽¹⁾	—	0.41875
3.80% Cumulative Redeemable Preferred Shares, Series 4	0.23750	0.23750
Equity preferred shares to parent company:		
4.00% Perpetual Cumulative Second Preferred Shares, Series V	0.25000	0.25000
Class A and Class B shares	—	—

(1) On June 1, 2014, the Company redeemed all outstanding 6.70% Cumulative Redeemable Preferred Shares, Series 2.

The payment of dividends on the Company's Class A and Class B shares and equity preferred shares is at the discretion of the Board of Directors and depends on the financial condition of the Company and other factors.