CU INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2016

CU INC.
CONSOLIDATED STATEMENT OF EARNINGS

(millions of Canadian Dollars)	Three Months Ended March 31 2016	2015
Revenues	**686**	662
Costs and expenses		
Salaries, wages and benefits	**(60)**	(68)
Energy transmission and transportation	**(49)**	(44)
Plant and equipment maintenance	**(31)**	(43)
Fuel costs	**(3)**	(3)
Purchased power	**(19)**	(20)
Depreciation and amortization	**(114)**	(95)
Franchise fees	**(65)**	(68)
Property and other taxes	**(15)**	(16)
Other	**(45)**	(46)
	(401)	(403)
Operating profit	**285**	259
Interest income	**4**	3
Interest expense	**(85)**	(59)
Net finance costs	**(81)**	(56)
Earnings before income taxes	**204**	203
Income taxes	**(55)**	(51)
Earnings for the period	**149**	152

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CU INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three Months Ended March 31	
(millions of Canadian Dollars)	**2016**	**2015**
Earnings for the period	**149**	152
Other comprehensive loss, net of income taxes		
Items that will not be reclassified to earnings:		
Re-measurement of retirement benefits (1)	**(4)**	(3)
Comprehensive income for the period	**145**	149

(1) Net of income taxes of $1 million for the three months ended March 31, 2016 (2015 - $1 million).

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CU INC.
CONSOLIDATED BALANCE SHEET

(millions of Canadian Dollars)	Note	March 31 2016	December 31 2015
ASSETS			
Current assets			
Cash and cash equivalents		**43**	18
Accounts receivable		**269**	292
Accounts receivable from parent and affiliate companies		**26**	23
Inventories		**32**	31
Prepaid expenses and other current assets		**13**	18
		383	382
Non-current assets			
Property, plant and equipment	4	**13,565**	13,475
Intangibles		**459**	457
Long-term advances to affiliate company		**130**	130
Other assets		**14**	13
Total assets		**14,551**	14,457
LIABILITIES			
Current liabilities			
Bank indebtedness		**–**	1
Short-term advances from parent company		**–**	26
Accounts payable and accrued liabilities		**483**	562
Accounts payable to parent and affiliate companies		**11**	12
Other current liabilities		**8**	8
		502	609
Non-current liabilities			
Deferred income tax liabilities		**973**	934
Retirement benefit obligations		**146**	141
Deferred revenues		**1,602**	1,587
Other liabilities		**4**	4
Long-term debt		**6,916**	6,916
Total liabilities		**10,143**	10,191
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		**3,086**	2,944
		4,142	4,000
Total equity		**4,408**	4,266
Total liabilities and equity		**14,551**	14,457

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CU INC.
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, 2014		1,056	266	2,896	–	4,218
Earnings for the period		–	–	152	–	152
Other comprehensive loss		–	–	–	(3)	(3)
Losses on retirement benefits transferred to retained earnings		–	–	(3)	3	–
Dividends	6	–	–	(3)	–	(3)
March 31, 2015		1,056	266	3,042	–	4,364
December 31, 2015		1,056	266	2,944	–	4,266
Earnings for the period		**–**	**–**	**149**	**–**	**149**
Other comprehensive loss		**–**	**–**	**–**	**(4)**	**(4)**
Losses on retirement benefits transferred to retained earnings		**–**	**–**	**(4)**	**4**	**–**
Dividends	6	**–**	**–**	**(3)**	**–**	**(3)**
March 31, 2016		**1,056**	**266**	**3,086**	**–**	**4,408**

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CU INC.
CONSOLIDATED STATEMENT OF CASH FLOW

(millions of Canadian Dollars)	Note	Three Months Ended March 31 2016	2015
Operating activities			
Earnings for the period		**149**	152
Adjustments to reconcile earnings to cash flows from operating activities	7	**258**	271
Changes in non-cash working capital		**(13)**	39
Cash flows from operating activities		**394**	462
Investing activities			
Additions to property, plant and equipment		**(190)**	(275)
Proceeds on disposal of property, plant and equipment		**3**	1
Additions to intangibles		**(12)**	(12)
Changes in non-cash working capital		**(60)**	(72)
Other		**–**	(1)
Cash flows used in investing activities		**(259)**	(359)
Financing activities			
Dividends paid on equity preferred shares		**(3)**	(3)
Interest paid		**(82)**	(73)
Interest received from affiliate company		**2**	2
Other		**–**	(1)
Cash flows used in financing activities		**(83)**	(75)
Increase in cash position (1)		**52**	28
Beginning of period		**(9)**	22
End of period		**43**	50

(1) Cash position consists of cash and cash equivalents less 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, 2016

(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 (distributed generation, 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, 2015, 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 April 26, 2016.

BASIS OF MEASUREMENT

The unaudited interim consolidated financial statements are prepared on a historic cost basis, except for 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.

3. SEGMENTED INFORMATION

SEGMENTED RESULTS

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

2016 **2015 (Restated)** [1]	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**346**	**340**	**–**	**–**	**686**
	322	340	–	–	662
Operating expenses [2]	**(106)**	**(181)**	**–**	**–**	**(287)**
	(131)	(177)	–	–	(308)
Depreciation and amortization	**(72)**	**(42)**	**–**	**–**	**(114)**
	(57)	(38)	–	–	(95)
Net finance costs	**(55)**	**(26)**	**–**	**–**	**(81)**
	(31)	(25)	–	–	(56)
Earnings before income taxes	**113**	**91**	**–**	**–**	**204**
	103	100	–	–	203
Income taxes	**(30)**	**(25)**	**–**	**–**	**(55)**
	(26)	(25)	–	–	(51)
Earnings for the period	**83**	**66**	**–**	**–**	**149**
	77	75	–	–	152
Adjusted earnings	**88**	**92**	**–**	**–**	**180**
	45	71	–	–	116
Total assets [3]	**9,699**	**4,770**	**134**	**(52)**	**14,551**
	9,612	4,715	131	(1)	14,457
Capital expenditures [4]	**105**	**101**	**–**	**–**	**206**
	224	87	–	–	311

(1) During the fourth quarter of 2015, the Company reorganized its operating subsidiaries into the segments above. Comparative amounts for prior periods have been restated to reflect the realigned segments.

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

(3) Total assets do not reflect adjustments for rate-regulated activities included in adjusted earnings. 2015 comparatives are at December 31, 2015.

(4) Includes additions to property, plant and equipment and intangibles and $4 million (2015 - $24 million) of interest capitalized during construction for the three months ended March 31, 2016.

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.

2016 **2015 (Restated)**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Adjusted earnings	**88**	**92**	**–**	**–**	**180**
	45	71	–	–	116
Rate-regulated activities	**(7)**	**(27)**	**–**	**–**	**(34)**
	30	3	–	–	33
Dividends on equity preferred shares of the Company	**2**	**1**	**–**	**–**	**3**
	2	1	–	–	3
Earnings for the period	**83**	**66**	**–**	**–**	**149**
	77	75	–	–	152

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.

The Company uses 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	
	2016	**2015**
Additional revenues billed in current period:		
Future removal and site restoration costs (1)	**17**	11
Finance costs on major transmission capital projects (2)	**1**	15
Transmission capital deferral (3)	**6**	–
Other	**1**	1
	25	27
Revenues to be billed in future periods:		
Deferred income taxes (4)	**(28)**	(21)
Transmission access payments (5)	**–**	(3)
Transmission capital deferral (3)	**–**	(13)
Impact of warmer temperatures on revenues (6)	**(17)**	(9)
Other	**(1)**	(4)
	(46)	(50)
Regulatory decisions related to current and prior periods:		
Generic cost of capital decision (7)	**–**	36
Capital tracker decision (7)	**–**	10
Transmission access payment recoveries (7)	**–**	7
General rate application (7)	**(6)**	–
Other	**(7)**	3
	(13)	56
	(34)	33

Descriptions of the adjustments, and the timing of recovery or refund, 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.	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
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.	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.
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.	**Generic Cost of Capital Decision** 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. Under IFRS, earnings will be adjusted when the AUC approves revised customer rates and the amount payable to customers is refunded through future billings.

Description	Timing of Recovery or Refund
	Capital Tracker Decision ATCO Gas and the distribution operations of ATCO Electric recorded a reduction in adjusted earnings of $10 million in the first quarter of 2015 for the AUC Performance Based Regulation Capital Tracker decisions for 2013 to 2015. Of the $10 million recorded in the first quarter, $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 primarily 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. Under IFRS, earnings will be adjusted when the AUC approves revised customer rates and the amount payable to customers is refunded through future billings. **Transmission Access Payment Recoveries** In 2015 and 2016, 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. **General Rate Application** In the first quarter of 2016, ATCO Pipelines received its 2015 - 2016 general rate application decision. Under IFRS, the $6 million will be recognized when the amount receivable from customers is collected through future billings.

4. PROPERTY, PLANT AND EQUIPMENT

The Company continues to invest 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, 2015	15,401	580	523	599	17,103
Additions	**32**	**–**	**167**	**–**	**199**
Transfers	**205**	**–**	**(208)**	**3**	**–**
Disposals	**(14)**	**(3)**	**–**	**(1)**	**(18)**
March 31, 2016	**15,624**	**577**	**482**	**601**	**17,284**
Accumulated depreciation					
December 31, 2015	3,288	122	–	218	3,628
Depreciation	**92**	**5**	**–**	**9**	**106**
Disposals	**(11)**	**(3)**	**–**	**(1)**	**(15)**
March 31, 2016	**3,369**	**124**	**–**	**226**	**3,719**
Net book value					
December 31, 2015	12,113	458	523	381	13,475
March 31, 2016	**12,255**	**453**	**482**	**375**	**13,565**

The additions of property, plant and equipment included $4 million of interest capitalized (2015 - $24 million).

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.

Financial instruments are measured at amortized cost or fair value. 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 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	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:

	March 31, 2016		December 31, 2015	
Recurring Measurements	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Long-term advances to affiliate company	**130**	**172**	130	173
Financial Liabilities				
Long-term debt	**6,916**	**7,962**	6,916	7,638

6. DIVIDENDS

Cash dividends declared and paid per share are as follows:

	Three Months Ended March 31	
(dollars per share)	2016	2015
Equity preferred shares		
4.60% Cumulative Redeemable Preferred Shares, Series 1	**0.2875**	0.2875
3.80% Cumulative Redeemable Preferred Shares, Series 4	**0.2375**	0.2375
Equity preferred shares to parent company		
4.00% Perpetual Cumulative Second Preferred Shares, Series V	**0.2500**	0.2500
Class A and Class B shares	**–**	–

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 and depends on the financial condition of the Company and other factors.

7. CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Three Months Ended March 31	
	2016	2015
Adjustments to reconcile earnings to cash flows from operating activities		
Depreciation and amortization	**114**	95
Income taxes	**55**	51
Contributions by utility customers for extensions to plant	**27**	90
Amortization of customer contributions	**(12)**	(10)
Net finance costs	**81**	56
Income taxes paid	**(7)**	(9)
Other	**–**	(2)
	258	271