CU INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

CU INC.
CONSOLIDATED STATEMENT OF EARNINGS

(millions of Canadian Dollars)	Three Months Ended September 30 2016	Three Months Ended September 30 2015	Nine Months Ended September 30 2016	Nine Months Ended September 30 2015
Revenues	**578**	504	**1,835**	1,712
Costs and expenses				
Salaries, wages and benefits	**(58)**	(72)	**(183)**	(210)
Energy transmission and transportation	**(49)**	(44)	**(148)**	(132)
Plant and equipment maintenance	**(41)**	(48)	**(105)**	(128)
Fuel costs	**(2)**	(4)	**(8)**	(11)
Purchased power	**(15)**	(16)	**(49)**	(51)
Depreciation and amortization	**(118)**	(98)	**(344)**	(289)
Franchise fees	**(37)**	(36)	**(145)**	(150)
Property and other taxes	**(17)**	(12)	**(48)**	(43)
Other	**(46)**	(45)	**(137)**	(137)
	(383)	(375)	**(1,167)**	(1,151)
Operating profit	**195**	129	**668**	561
Interest income	**3**	4	**11**	10
Interest expense	**(85)**	(59)	**(255)**	(175)
Net finance costs	**(82)**	(55)	**(244)**	(165)
Earnings before income taxes	**113**	74	**424**	396
Income taxes	**(31)**	(19)	**(115)**	(165)
Earnings for the period	**82**	55	**309**	231

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CU INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three Months Ended September 30		Nine Months Ended September 30	
(millions of Canadian Dollars)	**2016**	**2015**	**2016**	**2015**
Earnings for the period	**82**	55	**309**	231
Other comprehensive (loss) income, net of income taxes				
Items that will not be reclassified to earnings:				
Re-measurement of retirement benefits (1)	**(4)**	–	**(6)**	2
Comprehensive income for the period	**78**	55	**303**	233

(1) Net of income taxes of $1 million and $2 million for the three and nine months ended September 30, 2016, respectively (2015 - nil and $(1) million).

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CU INC.
CONSOLIDATED BALANCE SHEET

(millions of Canadian Dollars)	Note	September 30 2016	December 31 2015
ASSETS			
Current assets			
Cash and cash equivalents		**63**	18
Accounts receivable		**245**	292
Accounts receivable from parent and affiliate companies		**21**	23
Inventories		**29**	31
Prepaid expenses and other current assets		**39**	18
		397	382
Non-current assets			
Property, plant and equipment	4	**13,842**	13,475
Intangibles		**469**	457
Long-term advances to affiliate company		**130**	130
Other assets		**14**	13
Total assets		**14,852**	14,457
LIABILITIES			
Current liabilities			
Bank indebtedness		**–**	1
Short-term advances from parent company		**125**	26
Accounts payable and accrued liabilities		**422**	562
Accounts payable to parent and affiliate companies		**16**	12
Other current liabilities		**2**	8
		565	609
Non-current liabilities			
Deferred income tax liabilities		**1,035**	934
Retirement benefit obligations		**155**	141
Deferred revenues		**1,616**	1,587
Other liabilities		**4**	4
Long-term debt		**6,916**	6,916
Total liabilities		**10,291**	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		**3,239**	2,944
		4,295	4,000
Total equity		**4,561**	4,266
Total liabilities and equity		**14,852**	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		–	–	231	–	231
Other comprehensive income		–	–	–	2	2
Gains on retirement benefits transferred to retained earnings		–	–	2	(2)	–
Dividends	7	–	–	(8)	–	(8)
September 30, 2015		1,056	266	3,121	–	4,443
December 31, 2015		1,056	266	2,944	–	4,266
Earnings for the period		**–**	**–**	**309**	**–**	**309**
Other comprehensive loss		**–**	**–**	**–**	**(6)**	**(6)**
Losses on retirement benefits transferred to retained earnings		**–**	**–**	**(6)**	**6**	**–**
Dividends	7	**–**	**–**	**(8)**	**–**	**(8)**
September 30, 2016		**1,056**	**266**	**3,239**	**–**	**4,561**

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CU INC.
CONSOLIDATED STATEMENT OF CASH FLOW

		Three Months Ended September 30		Nine Months Ended September 30	
(millions of Canadian Dollars)	**Note**	**2016**	**2015**	**2016**	**2015**
Operating activities					
Earnings for the period		**82**	55	**309**	231
Adjustments to reconcile earnings to cash flows from operating activities	8	**229**	190	**714**	724
Changes in non-cash working capital		**(37)**	16	**(20)**	40
Cash flows from operating activities		**274**	261	**1,003**	995
Investing activities					
Additions to property, plant and equipment		**(234)**	(289)	**(667)**	(836)
Proceeds on disposal of property, plant and equipment		**–**	–	**3**	–
Additions to intangibles		**(23)**	(13)	**(45)**	(34)
Changes in non-cash working capital		**(17)**	5	**(90)**	(157)
Other		**–**	(1)	**(1)**	(1)
Cash flows used in investing activities		**(274)**	(298)	**(800)**	(1,028)
Financing activities					
Net repayment of short-term debt		**–**	(145)	**–**	–
Issue of long-term debt	5	**–**	400	**–**	400
Dividends paid on equity preferred shares		**(2)**	(2)	**(8)**	(8)
Interest paid		**(82)**	(73)	**(256)**	(234)
Interest received from affiliate company		**2**	2	**8**	8
Other		**–**	(6)	**–**	(6)
Cash flows (used in) from financing activities		**(82)**	176	**(256)**	160
(Decrease) increase in cash position [(1)]		**(82)**	139	**(53)**	127
Beginning of period		**20**	10	**(9)**	22
End of period		**(62)**	149	**(62)**	149

(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)

SEPTEMBER 30, 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 October 25, 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 September 30 is shown below.

2016 **2015 (Restated)** [1]	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues - external	**335**	**243**	**–**	**–**	**578**
	280	224	–	–	504
Operating expenses [2]	**(102)**	**(163)**	**–**	**–**	**(265)**
	(116)	(161)	–	–	(277)
Depreciation and amortization	**(74)**	**(44)**	**–**	**–**	**(118)**
	(59)	(39)	–	–	(98)
Net finance costs	**(55)**	**(27)**	**–**	**–**	**(82)**
	(30)	(25)	–	–	(55)
Earnings before income taxes	**104**	**9**	**–**	**–**	**113**
	75	(1)	–	–	74
Income taxes	**(28)**	**(3)**	**–**	**–**	**(31)**
	(19)	–	–	–	(19)
Earnings for the period	**76**	**6**	**–**	**–**	**82**
	56	(1)	–	–	55
Adjusted earnings	**66**	**3**	**–**	**–**	**69**
	72	(2)	–	–	70
Capital expenditures [4]	**113**	**149**	**–**	**–**	**262**
	173	156	–	–	329

Results by operating segment for the nine months ended September 30 is shown below.

2016 2015 (Restated) [1]	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues - external	**1,004**	**831**	**–**	**–**	**1,835**
	903	809	–	–	1,712
Revenues - intersegment	**–**	**–**	**–**	**–**	**–**
	–	1	–	(1)	–
Revenues	**1,004**	**831**	**–**	**–**	**1,835**
	903	810	–	(1)	1,712
Operating expenses [2]	**(308)**	**(515)**	**–**	**–**	**(823)**
	(362)	(501)	–	1	(862)
Depreciation and amortization	**(216)**	**(128)**	**–**	**–**	**(344)**
	(174)	(115)	–	–	(289)
Net finance costs	**(164)**	**(80)**	**–**	**–**	**(244)**
	(91)	(74)	–	–	(165)
Earnings before income taxes	**316**	**108**	**–**	**–**	**424**
	276	120	–	–	396
Income taxes	**(85)**	**(30)**	**–**	**–**	**(115)**
	(112)	(53)	–	–	(165)
Earnings for the period	**231**	**78**	**–**	**–**	**309**
	164	67	–	–	231
Adjusted earnings	**240**	**119**	**–**	**–**	**359**
	204	85	–	–	289
Total assets [3]	**9,907**	**4,927**	**150**	**(132)**	**14,852**
	9,612	4,715	131	(1)	14,457
Capital expenditures [4]	**344**	**381**	**–**	**–**	**725**
	585	361	–	–	946

(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 $5 million and $13 million of interest capitalized during construction for the three and nine months ended September 30, 2016 (2015 - $27 million and $76 million).

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 September 30 is shown below.

2016 2015 (Restated)	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Adjusted earnings	**66**	**3**	**–**	**–**	**69**
	72	(2)	–	–	70
Restructuring costs	**–**	**–**	**–**	**–**	**–**
	(2)	–	–	–	(2)
Rate-regulated activities	**9**	**2**	**–**	**–**	**11**
	(15)	–	–	–	(15)
Dividends on equity preferred shares of the Company	**1**	**1**	**–**	**–**	**2**
	1	1	–	–	2
Earnings for the period	**76**	**6**	**–**	**–**	**82**
	56	(1)	–	–	55

The reconciliation of adjusted earnings and earnings for the nine months ended September 30 is shown below.

2016 2015 (Restated)	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Adjusted earnings	**240**	**119**	**–**	**–**	**359**
	204	85	–	–	289
Restructuring costs	**–**	**–**	**–**	**–**	**–**
	(4)	–	–	–	(4)
Rate-regulated activities	**(13)**	**(45)**	**–**	**–**	**(58)**
	(40)	(22)	–	–	(62)
Dividends on equity preferred shares of the Company	**4**	**4**	**–**	**–**	**8**
	4	4	–	–	8
Earnings for the period	**231**	**78**	**–**	**–**	**309**
	164	67	–	–	231

Restructuring costs

For the three and nine months ended September 30, 2015, the Company recorded restructuring costs of $2 million and $4 million, after-tax, that were not in the normal course of business. These costs were primarily related to staff reductions and associated severance costs.

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 September 30		Nine Months Ended September 30	
	2016	2015	**2016**	2015
Additional revenues billed in current period:				
Future removal and site restoration costs (1)	**16**	6	**51**	27
Finance costs on major transmission capital projects (2)	**–**	17	**–**	49
Transmission capital deferral (3)	**(1)**	–	**9**	–
Other	**(2)**	4	**1**	7
	13	27	**61**	83
Revenues to be billed in future periods:				
Deferred income taxes (4)	**(17)**	(22)	**(68)**	(73)
Deferred income taxes due to increase in provincial corporate tax rate (4)	**–**	(1)	**–**	(64)
Transmission access payments (5)	**(2)**	(3)	**(6)**	(13)
Transmission capital deferral (3)	**–**	(5)	**–**	(15)
Impact of warmer temperatures on revenues (6)	**(1)**	–	**(28)**	(12)
Other	**(2)**	(1)	**(20)**	(3)
	(22)	(32)	**(122)**	(180)
Regulatory decisions related to current and prior periods:				
ATCO Electric general tariff application (7)	**15**	–	**15**	–
2016-2017 Generic cost of capital decision (7)	**(1)**	–	**(1)**	–
2013-2015 Generic cost of capital decision (7)	**–**	3	**–**	44
Capital tracker decision (7)	**–**	–	**–**	12
Transmission capital deferral refunds (7)	**–**	(20)	**–**	(20)
Other	**6**	7	**(11)**	(1)
	20	(10)	**3**	35
	11	(15)	**(58)**	(62)

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.
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. In the second quarter of 2015, the Government of Alberta announced an increase in the provincial corporate tax rate from 10 per cent to 12 per cent effective July 1, 2015. As a result of this change, the Company increased income taxes and reduced earnings for the nine months ended September 30, 2015 by $65 million. Of the $65 million increase in income taxes, $64 million relates to deferred income taxes relating to the Alberta Utilities.	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.

	Description	Timing of Recovery or Refund
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.	**ATCO Electric General Tariff Application** In the third quarter of 2016, the transmission operations of ATCO Electric recorded a reduction in adjusted earnings of \$15 million for an AUC decision associated with its 2015 to 2017 general tariff application. The AUC approved final rates that were lower than the interim rates. Of the \$15 million recorded in the third quarter of 2016, \$12 million relates to prior quarters. Under IFRS, earnings will be adjusted when the AUC approved revised customer rates are refunded to customers through future billings. **2016-2017 Generic Cost of Capital Decision** In the third quarter of 2016, the utilities recorded an increase to adjusted earnings of \$1 million for an AUC decision which established the allowed return on equity (ROE) and deemed common equity ratios for 2016 to 2017. Under IFRS, earnings will be adjusted when the AUC approves revised customer rates and the amount receivable from customers is collected through future billings. **2013-2015 Generic Cost of Capital Decision** The utilities recorded a reduction in adjusted earnings of \$46 million in 2015 for an AUC decision which reduced the ROE and deemed common equity ratios for 2013 to 2015. Of the \$46 million recorded in 2015, \$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; \$2 million has been refunded as at the end of the third quarter of 2015.

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 $14 million in 2015 for the AUC Performance Based Regulation Capital Tracker decisions for 2013 to 2015. Of the $14 million recorded in 2015, $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; $2 million has been refunded as at the end of the third quarter of 2015. **Transmission Capital Deferral Refunds** In 2015, ATCO Electric refunded amounts to customers over-collected in 2012 for major transmission capital projects.

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	**244**	**1**	**492**	**–**	**737**
Transfers	**432**	**1**	**(449)**	**16**	**–**
Retirements and disposals	**(115)**	**(4)**	**–**	**(8)**	**(127)**
September 30, 2016	**15,962**	**578**	**566**	**607**	**17,713**
Accumulated depreciation					
December 31, 2015	3,288	122	–	218	3,628
Depreciation	**281**	**13**	**–**	**23**	**317**
Retirements and disposals	**(62)**	**(4)**	**–**	**(8)**	**(74)**
September 30, 2016	**3,507**	**131**	**–**	**233**	**3,871**
Net book value					
December 31, 2015	12,113	458	523	381	13,475
September 30, 2016	**12,455**	**447**	**566**	**374**	**13,842**

The additions to property, plant and equipment included $13 million of interest capitalized during construction for the nine months ended September 30, 2016 (2015 - $76 million).

As part of the integration of natural gas transmission service in Alberta, ATCO Pipelines and NOVA Gas Transmission Ltd. exchanged ownership of certain natural gas pipelines and related facilities during 2016. The net book value of assets transferred was $51 million compared to assets received of $65 million, resulting in an increase in the net book value of utility, transmission and distribution assets of $14 million. The net assets acquired were settled in cash.

5. LONG-TERM DEBT

On July 27, 2015, the Company issued $400 million of 3.964 per cent debentures maturing on July 27, 2045.

6. 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:

	September 30, 2016		December 31, 2015	
Recurring Measurements	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Long-term advances to affiliate company	**130**	**170**	130	173
Financial Liabilities				
Long-term debt	**6,916**	**8,372**	6,916	7,638

7. DIVIDENDS

Cash dividends declared and paid per share are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(dollars per share)	**2016**	**2015**	**2016**	**2015**
Equity preferred shares				
Cumulative Redeemable Preferred Shares				
4.60% Series 1	**0.2875**	0.2875	**0.8625**	0.8625
2.24% Series 4	**0.1402**	0.2375	**0.6152**	0.7125
Equity preferred shares to parent company				
Perpetual Cumulative Second Preferred Shares				
4.00% Series V	**0.2500**	0.2500	**0.7500**	0.7500
Class A and Class B shares	**–**	–	**–**	–

Effective June 1, 2016, the annual dividend rate for the Series 4 Preferred Shares was reset to 2.24 per cent for the five-year period commencing June 1, 2016. Prior to June 1, 2016, the annual dividend rate was 3.80 per cent.

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.

8. CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	**2015**	**2016**	**2015**
Adjustments to reconcile earnings to cash flows from operating activities				
Depreciation and amortization	**118**	98	**344**	289
Income taxes	**31**	19	**115**	165
Contributions by utility customers for extensions to plant	**16**	30	**64**	151
Amortization of customer contributions	**(11)**	(12)	**(35)**	(33)
Net finance costs	**82**	55	**244**	165
Income taxes paid	**(6)**	(3)	**(20)**	(15)
Other	**(1)**	3	**2**	2
	229	190	**714**	724