CU INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2020

TABLE OF CONTENTS

CONSOLIDATED STATEMENTS OF EARNINGS

		Three Months Ended March 31	
(millions of Canadian Dollars)	**Note**	**2020**	**2019**
Revenues	4	**754**	759
Costs and expenses			
Salaries, wages and benefits		**(52)**	(49)
Energy transmission and transportation		**(53)**	(50)
Plant and equipment maintenance		**(36)**	(32)
Fuel costs		**(4)**	(4)
Purchased power		**(27)**	(24)
Depreciation and amortization		**(127)**	(127)
Franchise fees		**(81)**	(74)
Property and other taxes		**(16)**	(16)
Other		**(66)**	(56)
		(462)	(432)
Operating profit		**292**	327
Interest income		**–**	4
Interest expense		**(91)**	(92)
Net finance costs		**(91)**	(88)
Earnings before income taxes		**201**	239
Income taxes		**(49)**	(65)
Earnings for the period		**152**	174

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(millions of Canadian Dollars)	Three Months Ended March 31 **2020**	**2019**
Earnings for the period	**152**	174
Other comprehensive income (loss), net of income taxes		
Items that will not be reclassified to earnings:		
Re-measurement of retirement benefits [1]	**17**	(9)
Comprehensive income for the period	**169**	165

(1) Net of income taxes of $(4) million for the three months ended March 31, 2020 (2019 - $3 million).

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(millions of Canadian Dollars)	Note	March 31 2020	December 31 2019
ASSETS			
Current assets			
Cash		**152**	1
Short-term advances to parent company		**96**	70
Accounts receivable and contract assets		**356**	356
Accounts receivable from parent and affiliate companies		**12**	14
Inventories		**15**	14
Prepaid expenses and other current assets		**12**	14
		643	469
Non-current assets			
Property, plant and equipment	5	**15,662**	15,550
Intangibles		**578**	577
Right-of-use assets		**5**	6
Other assets		**10**	10
Total assets		**16,898**	16,612
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**450**	379
Accounts payable to parent and affiliate companies		**31**	28
Lease liabilities		**2**	2
Other current liabilities		**35**	8
Long-term debt		**100**	100
		618	517
Non-current liabilities			
Deferred income tax liabilities		**1,300**	1,276
Retirement benefit obligations		**140**	157
Customer contributions		**1,718**	1,705
Lease liabilities		**4**	4
Other liabilities		**15**	16
Long-term debt		**7,951**	7,951
Total liabilities		**11,746**	11,626
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		**3,830**	3,664
		4,886	4,720
Total equity		**5,152**	4,986
Total liabilities and equity		**16,898**	16,612

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, 2018		1,056	266	3,323	–	4,645
Earnings for the period		–	–	174	–	174
Other comprehensive loss		–	–	–	(9)	(9)
Losses on retirement benefits transferred to retained earnings		–	–	(9)	9	–
Dividends	6	–	–	(3)	–	(3)
March 31, 2019		1,056	266	3,485	–	4,807
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**

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian Dollars)	Note	Three Months Ended March 31 2020	2019
Operating activities			
Earnings for the period		**152**	174
Adjustments to reconcile earnings to cash flows from operating activities	7	**279**	294
Changes in non-cash working capital		**36**	(36)
Cash flows from operating activities		**467**	432
Investing activities			
Additions to property, plant and equipment		**(217)**	(178)
Additions to intangibles		**(16)**	(14)
Changes in non-cash working capital		**22**	(13)
Cash flows used in investing activities		**(211)**	(205)
Financing activities			
Repayment of short-term debt		–	(25)
Repayment of long-term debt		–	(180)
Repayment of lease liabilities		**(1)**	(1)
Dividends paid on equity preferred shares	6	**(3)**	(3)
Interest paid		**(75)**	(81)
Interest received from parent and affiliate companies		–	1
Cash flows used in financing activities		**(79)**	(289)
Increase (decrease) in cash position		**177**	(62)
Beginning of period		**71**	21
End of period	7	**248**	(41)

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

MARCH 31, 2020

(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, 2019, 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 30, 2020.

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.

3. SEGMENTED INFORMATION

SEGMENT DESCRIPTIONS AND PRINCIPAL OPERATING ACTIVITIES

In the first quarter of 2020, the Company changed the title of its Pipelines & Liquids operating segment to Natural Gas operating segment.

Management has determined that the operating subsidiaries in the reportable segments below share similar economic characteristics, as such, they have been aggregated.

Electricity	The Electricity segment includes ATCO Electric Transmission and ATCO Electric Distribution. These business provide regulated electricity transmission, distribution and related infrastructure solutions in northern and central east Alberta, the Yukon, the Northwest Territories.
Natural Gas	The Natural Gas segment includes ATCO Gas and ATCO Pipelines. These businesses provide integrated natural gas transmission, distribution and related infrastructure development throughout Alberta and in the Lloydminster area of Saskatchewan.

SEGMENTED RESULTS

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

2020 **2019**	**Electricity**	**Natural Gas**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**320**	**435**	**–**	**(1)**	**754**
	359	400	–	–	759
Operating expenses [(1)]	**(122)**	**(214)**	**–**	**1**	**(335)**
	(114)	(192)	–	1	(305)
Depreciation and amortization	**(77)**	**(50)**	**–**	**–**	**(127)**
	(77)	(50)	–	–	(127)
Net finance costs	**(58)**	**(31)**	**(2)**	**–**	**(91)**
	(57)	(32)	1	–	(88)
Earnings (loss) before income taxes	**63**	**140**	**(2)**	**–**	**201**
	111	126	1	1	239
Income tax expense	**(15)**	**(34)**	**–**	**–**	**(49)**
	(30)	(34)	–	(1)	(65)
Earnings (loss) for the period	**48**	**106**	**(2)**	**–**	**152**
	81	92	1	–	174
Adjusted earnings	**78**	**104**	**(2)**	**–**	**180**
	83	88	1	–	172
Total assets [(2)]	**10,314**	**6,553**	**43**	**(12)**	**16,898**
	10,211	6,377	75	(51)	16,612
Capital expenditures [(3)]	**108**	**130**	**–**	**–**	**238**
	108	89	–	–	197

(1) Includes total costs and expenses, excluding depreciation and amortization expense.
(2) 2019 comparatives are at December 31, 2019.
(3) Includes additions to property, plant and equipment and intangibles and $5 million of interest capitalized during construction for the three months ended March 31, 2020 (2019 - $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 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.

2020 **2019**	**Electricity**	**Natural Gas**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Adjusted earnings	**78**	**104**	**(2)**	–	**180**
	83	88	1	–	172
Rate-regulated activities	**(29)**	**2**	–	–	**(27)**
	(3)	2	–	–	(1)
IT Common Matters decision	**(2)**	**(2)**	–	–	**(4)**
	–	–	–	–	–
Dividends on equity preferred shares of the Company	**1**	**2**	–	–	**3**
	1	2	–	–	3
Earnings (loss) for the period	**48**	**106**	**(2)**	–	**152**
	81	92	1	–	174

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 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:

	2020	2019
Additional revenues billed in current period		
Future removal and site restoration costs (1)	**22**	20
Impact of colder temperatures (2)	**5**	12
Revenues to be billed in future periods		
Deferred income taxes (3)	**(34)**	(28)
Settlement of regulatory decisions and other items (4)	**(20)**	(5)
	(27)	(1)

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

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

(4) *In the first quarter of 2020, ATCO Electric Distribution recorded a decrease in earnings of $27 million related to payment of transmission costs. This will be recovered from customers in future periods.*

Information Technology (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 in the first quarter of 2020 was $4 million (2019 - nil).

4. REVENUES

The Company disaggregates revenues from contracts with customers based on the revenue streams of the operating segments.

The disaggregation of revenues by revenue streams by each operating segment for the three months ended March 31 is shown below:

2020 2019	Electricity	Natural Gas	Corporate & Other	Intersegment Eliminations	Total
Revenue Streams					
Rendering of Services					
Distribution services	**119**	**275**	**–**	**–**	**394**
	155	261	–	–	416
Transmission services	**173**	**72**	**–**	**–**	**245**
	169	66	–	–	235
Customer contributions	**8**	**5**	**–**	**–**	**13**
	10	5	–	–	15
Franchise fees	**8**	**73**	**–**	**–**	**81**
	8	66	–	–	74
Total rendering of services	**308**	**425**	**–**	**–**	**733**
	342	398	–		740
Other	**12**	**10**	**–**	**(1)**	**21**
	17	2	–	–	19
Total	**320**	**435**	**–**	**(1)**	**754**
	359	400	–	–	759

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, 2019	18,725	614	484	660	20,483
Additions	–	–	**225**	–	**225**
Transfers	**123**	**2**	**(129)**	**4**	–
Retirements and disposals	**(10)**	–	–	**(4)**	**(14)**
March 31, 2020	**18,838**	**616**	**580**	**660**	**20,694**
Accumulated depreciation					
December 31, 2019	4,477	158	–	298	4,933
Depreciation	**105**	**4**	–	**4**	**113**
Retirements and disposals	**(10)**	–	–	**(4)**	**(14)**
March 31, 2020	**4,572**	**162**	–	**298**	**5,032**
Net book value					
December 31, 2019	14,248	456	484	362	15,550
March 31, 2020	**14,266**	**454**	**580**	**362**	**15,662**

The additions to property, plant and equipment included $5 million of interest capitalized during construction for the three months ended March 31, 2020 (2019 - $5 million).

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

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

(dollars per share)	2020	2019
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.

On March 31, 2020, the Company declared second quarter eligible dividends of $0.2875 per Series 1 Preferred Share and $0.1402 per Series 4 Preferred Share.

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 the three months ended March 31 are summarized below.

	2020	2019
Depreciation and amortization	**127**	127
Income taxes	**49**	65
Contributions by utility customers for extensions to plant	**26**	25
Amortization of customer contributions	**(13)**	(15)
Net finance costs	**91**	88
Income taxes paid	**(1)**	(2)
Other	**–**	6
	279	294

CASH POSITION

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

	2020	2019
Cash	**152**	7
Short-term advances to parent company	**96**	–
Short-term advances from parent company	**–**	(48)
	248	(41)

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, 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, 2020		December 31, 2019	
Recurring Measurements	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Financial Liabilities				
Long-term debt	**8,051**	**9,134**	8,051	9,685

9. COVID-19 PANDEMIC

At the end of 2019, a novel strain of coronavirus (COVID-19) emerged and spread globally. The World Health Organization has since declared the state of a global pandemic. The COVID-19 outbreak and related measures taken by the authorities in the jurisdictions of the Company's operations are disrupting financial and commodity markets, supply chains, and affecting production and sales across different industries in private and public sectors.

The Company has introduced measures, procedures and protocols to foster the health and safety of its employees, vendors and customers. These measures are based on the Company's health and safety policies as well as the recommendations from public health authorities, other designated government institutions and medical experts. These enhanced protocols include travel restrictions, workplace hygiene practices, employee absence tracking, additional personal protective equipment for essential workers, limiting access to facilities, and alternative work options for employees where possible (i.e. working from home).

The Company's operations are exposed to a variety of business and financial risks as a result of a public health threat, such as COVID-19. These risks include, but are not limited to, decline in customer demand, increase in operating costs, interruption of project work, credit risk associated with customer non-payment, access to financing and change in the timing of cash flows.

In the first quarter of 2020, the Company’s operations, financial position and performance have not been significantly impacted. This is primarily due to the nature of the Company’s operations which are considered to be essential services. However, the extent to which COVID-19 may further impact the Company’s operations, its consolidated financial position and performance remains uncertain, and will depend on further developments, including the duration and spread of the outbreak, its impact on the Company’s customers, suppliers and employees and actions taken by governments. Management continues to closely monitor the situation in the jurisdictions in which the Company operates.