CU INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2023

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CONSOLIDATED STATEMENTS OF EARNINGS

		Three Months Ended March 31	
(millions of Canadian Dollars)	**Note**	**2023**	**2022**
Revenues	4	**877**	917
Costs and expenses			
Salaries, wages and benefits		**(49)**	(57)
Energy transmission and transportation		**(71)**	(66)
Plant and equipment maintenance		**(46)**	(34)
Fuel costs		**(5)**	(4)
Purchased power		**(15)**	(29)
Depreciation and amortization		**(141)**	(138)
Franchise fees		**(108)**	(111)
Property and other taxes		**(18)**	(17)
Other		**(64)**	(72)
		(517)	(528)
Operating profit		**360**	389
Interest income		**2**	–
Interest expense		**(90)**	(92)
Net finance costs		**(88)**	(92)
Earnings before income taxes		**272**	297
Income tax expense		**(63)**	(75)
Earnings for the period		**209**	222

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31	
(millions of Canadian Dollars)	**2023**	**2022**
Earnings for the period	**209**	222
Other comprehensive (loss) income, net of income taxes		
Items that will not be reclassified to earnings:		
Re-measurement of retirement benefits [1]	**(2)**	17
Comprehensive income for the period	**207**	239

(1) Net of income taxes of $nil million for the three months ended March 31, 2023 (2022 - $(5) million).

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(millions of Canadian Dollars)	Note	March 31 2023	December 31 2022
ASSETS			
Current assets			
Cash		**238**	7
Accounts receivable and contract assets		**437**	531
Trade accounts receivable from parent and affiliate companies		**6**	6
Inventories		**22**	17
Prepaid expenses and other current assets		**13**	15
		716	576
Non-current assets			
Property, plant and equipment	5	**16,620**	16,533
Intangibles		**768**	755
Right-of-use assets		**16**	15
Investment in joint venture		**17**	17
Other assets		**54**	54
Total assets		**18,191**	17,950
LIABILITIES			
Current liabilities			
Short-term advances from parent company		**–**	19
Accounts payable and accrued liabilities		**558**	588
Accounts payable to parent and affiliate companies		**86**	57
Lease liabilities		**1**	1
Provisions and other current liabilities	3	**33**	61
Long-term debt		**220**	100
		898	826
Non-current liabilities			
Deferred income tax liabilities		**1,701**	1,659
Retirement benefit obligations		**117**	115
Customer contributions		**1,948**	1,911
Lease liabilities		**15**	14
Other liabilities		**11**	11
Long-term debt		**8,266**	8,385
Total liabilities		**12,956**	12,921
EQUITY			
Equity preferred shares		**187**	187
Class A and Class B share owner's equity			
Class A and Class B shares		**1,056**	1,056
Retained earnings		**3,992**	3,786
		5,048	4,842
Total equity		**5,235**	5,029
Total liabilities and equity		**18,191**	17,950

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, 2021		1,056	187	3,651	–	4,894
Earnings for the period		–	–	222	–	222
Other comprehensive income		–	–	–	17	17
Gains on retirement benefits transferred to retained earnings		–	–	17	(17)	–
Dividends	6	–	–	(2)	–	(2)
March 31, 2022		1,056	187	3,888	–	5,131
December 31, 2022		1,056	187	3,786	–	5,029
Earnings for the period		–	–	**209**	–	**209**
Other comprehensive loss		–	–	–	**(2)**	**(2)**
Losses on retirement benefits transferred to retained earnings		–	–	**(2)**	**2**	–
Dividends	6	–	–	**(2)**	–	**(2)**
Other		–	–	**1**	–	**1**
March 31, 2023		**1,056**	**187**	**3,992**	–	**5,235**

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian Dollars)	Note	Three Months Ended March 31 2023	2022
Operating activities			
Earnings for the period		**209**	222
Adjustments to reconcile earnings to cash flows from operating activities	8	**330**	324
Changes in non-cash working capital	3	**30**	74
Cash flows from operating activities		**569**	620
Investing activities			
Additions to property, plant and equipment		**(213)**	(167)
Proceeds on disposal of property, plant and equipment		**1**	–
Additions to intangibles		**(24)**	(29)
Proceeds on sale of ownership interest in a subsidiary company, net of cash disposed	3	**–**	8
Changes in non-cash working capital		**9**	19
Other	5	**(3)**	64
Cash flows used in investing activities		**(230)**	(105)
Financing activities			
Net repayment of short-term debt		**–**	(154)
Dividends paid on equity preferred shares	6	**(2)**	(2)
Interest paid		**(89)**	(85)
Other		**2**	–
Cash flows used in financing activities		**(89)**	(241)
Increase in cash position		**250**	274
Beginning of period		**(12)**	52
End of period	8	**238**	326

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

MARCH 31, 2023

(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., its subsidiaries and a proportionate share of the Company's investment in joint venture. In these financial statements, "the Company" means CU Inc., its subsidiaries and joint venture.

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, 2022, 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 26, 2023.

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

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

2023 2022	Electricity	Natural Gas	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues - external	**368**	**509**	**–**	**–**	**877**
	392	525	–	–	917
Revenues - intersegment	**1**	**–**	**–**	**(1)**	**–**
	1	–	–	(1)	–
Revenues	**369**	**509**	**–**	**(1)**	**877**
	393	525	–	(1)	917
Operating expenses [1]	**(127)**	**(250)**	**–**	**1**	**(376)**
	(147)	(244)	–	1	(390)
Depreciation and amortization	**(80)**	**(61)**	**–**	**–**	**(141)**
	(79)	(59)	–	–	(138)
Net finance costs	**(54)**	**(33)**	**(1)**	**–**	**(88)**
	(58)	(33)	(1)	–	(92)
Earnings (loss) before income taxes	**108**	**165**	**(1)**	**–**	**272**
	109	189	(1)	–	297
Income tax expense	**(25)**	**(38)**	**–**	**–**	**(63)**
	(31)	(44)	–	–	(75)
Earnings (loss) for the period	**83**	**127**	**(1)**	**–**	**209**
	78	145	(1)	–	222
Adjusted earnings (loss)	**82**	**113**	**(1)**	**–**	**194**
	90	122	(1)	–	211
Total assets [2]	**10,591**	**7,529**	**160**	**(89)**	**18,191**
	10,516	7,451	66	(83)	17,950
Capital expenditures [3]	**145**	**96**	**–**	**–**	**241**
	121	77	–	–	198

(1) Includes total costs and expenses, excluding depreciation and amortization expense.
(2) 2022 comparatives are at December 31, 2022.
(3) Includes additions to property, plant and equipment, intangibles and $4 million of interest capitalized during construction for the three months ended March 31, 2023 (2022 - $2 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;
- impairments; and
- items that are not in the normal course of business or a result of day-to-day operations.

Adjusted earnings are a key measure of segment earnings used by the Chief Operating Decision Maker (CODM) to assess segment performance and allocate resources. Other accounts in the unaudited interim consolidated financial statements have not been adjusted as they are not used by the CODM for those purposes.

The reconciliation of adjusted earnings and earnings for the three months ended March 31 is shown below.

2023 **2022**	**Electricity**	**Natural Gas**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Adjusted earnings (loss)	**82**	**113**	**(1)**	**–**	**194**
	90	122	(1)	–	211
Transition of managed IT services	**(1)**	**(1)**	**–**	**–**	**(2)**
	–	–	–	–	–
Rate-regulated activities	**4**	**16**	**–**	**–**	**20**
	14	29	–	–	43
IT Common Matters decision	**(3)**	**(2)**	**–**	**–**	**(5)**
	(2)	(2)	–	–	(4)
AUC enforcement proceeding	**–**	**–**	**–**	**–**	**–**
	(27)	–	–	–	(27)
Workplace COVID-19 vaccination standard	**–**	**–**	**–**	**–**	**–**
	(3)	(5)	–	–	(8)
Gain on sale of ownership interest in a subsidiary company	**–**	**–**	**–**	**–**	**–**
	5	–	–	–	5
Dividends on equity preferred shares of the Company	**1**	**1**	**–**	**–**	**2**
	1	1	–	–	2
Earnings (loss) for the period	**83**	**127**	**(1)**	**–**	**209**
	78	145	(1)	–	222

Transition of managed IT services

In the three months ended March 31, 2023, the Company recognized additional legal and other costs of $2 million (after-tax) related to the Wipro Ltd. master services agreements matter that was concluded on February 26, 2023. The impact was recorded in other expenses in the consolidated statements of earnings, provisions and other current liabilities in the consolidated balance sheets, and in changes in non-cash working capital in the consolidated statements of cash flows. As these costs are not in the normal course of business, they have been excluded from adjusted earnings.

Rate-regulated activities

ATCO Electric Transmission, ATCO Electric Distribution, ATCO Electric Yukon, Northland Utilities (NWT), Northland Utilities (Yellowknife), ATCO Gas and ATCO Pipelines are collectively referred to as the Utilities.

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. In the absence of this guidance, the Utilities do not recognize assets and liabilities from rate-regulated activities as may be directed by regulatory decisions. Instead, the Utilities recognize revenues in earnings when amounts are billed to customers, consistent with the regulator-approved rate design. Operating costs and expenses are recorded when incurred. Costs incurred in constructing an asset that meet the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

The Company uses standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of generally accepted accounting principles to account for rate-regulated activities in its internal reporting provided to the CODM. The CODM believes that earnings presented in accordance with the FASB standards are a better representation of the operating results of the Company’s rate-regulated activities. Therefore, the Company presents adjusted earnings as part of its segmented disclosures on this basis. Rate-regulated accounting (RRA) standards impact the timing of how certain revenues and expenses are recognized when compared to non-rate regulated activities, to appropriately reflect the economic impact of a regulator's decisions on revenues.

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

	Timing Adjustment	Items	RRA Treatment	IFRS Treatment
1.	Additional revenues billed in current period	Future removal and site restoration costs, and impact of colder temperatures.	The Company defers the recognition of cash received in advance of future expenditures.	The Company recognizes revenues when amounts are billed to customers and costs when they are incurred.
2.	Revenues to be billed in future periods	Deferred income taxes and impact of warmer temperatures.	The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company recognizes costs when they are incurred, but does not recognize their recovery until customer rates are changed and amounts are collected through future billings.
3.	Regulatory decisions received	Regulatory decisions received which relate to current and prior periods.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company does not recognize earnings from a regulatory decision when it is received as regulatory assets and liabilities are not recorded under IFRS.
4.	Settlement of regulatory decisions and other items	Settlement of amounts receivable or payable to customers and other items.	The Company recognizes the amount receivable or payable to customers as a reduction in its regulatory assets and liabilities when collected or refunded through future billings.	The Company recognizes earnings when customer rates are changed and amounts are recovered or refunded to customers through future billings.

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

	2023	2022
Additional revenues billed in current period		
Future removal and site restoration costs [(1)]	**30**	31
Impact of colder temperatures [(2)]	**2**	–
Revenues to be billed in future periods		
Deferred income taxes [(3)]	**(34)**	(22)
Impact of warmer temperatures [(2)]	**–**	(6)
Settlement of regulatory decisions and other items		
Distribution rate relief [(4)]	**5**	35
Other [(5)]	**17**	5
	20	43

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

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

(4) In 2021, in response to the ongoing COVID-19 Pandemic, ATCO Electric Distribution and ATCO Gas Distribution applied for interim rate relief for customers to hold current distribution base rates in place. This was approved by the AUC in 2021. Based on direction from the AUC, collection of 2021 deferred rate amounts commenced in 2022 and for the three months ended March 31, 2023, $5 million (after-tax) (2022 - $35 million (after-tax)) was billed to customers.

(5) For the three months ended March 31, 2023, ATCO Electric Distribution recorded an increase in earnings $16 million (after- tax) related to payments of electricity transmission costs.

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 three months ended March 31, 2023 was $5 million (after-tax) (2022 - $4 million (after-tax)).

Alberta Utilities Commission (AUC) enforcement proceeding

For the three months ended March 31, 2022, the Company recognized costs of $27 million (after-tax) related to the AUC enforcement proceeding. As this proceeding is not in the normal course of business, these costs have been excluded from adjusted earnings.

Workplace COVID-19 vaccination standard

To safeguard the health and safety of employees, business partners, customers and communities, the Company required its employees, subject to certain exemptions, to be vaccinated against COVID-19 effective January 1, 2022. Employees who did not demonstrate they were vaccinated or did not have an approved exemption were placed on unpaid leave. These employees were subsequently offered severance and in the three months ended March 31, 2022, the Company incurred $8 million (after-tax) related to amounts paid and accrued. As these costs were not in the normal course of business and were a one-time item, they have been excluded from adjusted earnings.

Gain on sale of ownership interest in a subsidiary company

On March 31, 2022, the Company and Denendeh Investments Incorporated (DII) entered into a share purchase agreement to increase DII's ownership interest in Northland Utilities Enterprises Ltd. (NUE) from 14 per cent to 50 per cent. NUE is an electric utility company operating in the Northwest Territories, Canada and was a subsidiary of ATCO Electric Ltd. The change in ownership interest was accomplished through the Company's sale to DII of a 36 per cent ownership interest in NUE for proceeds, net of cash disposed, of $8 million. The transaction resulted in the Company and DII each having a 50 per cent ownership interest in NUE. The sale of ownership interest resulted in a gain on sale of $5 million (after-tax). As the gain on sale was not in the normal course of business, it was excluded from adjusted earnings.

4. REVENUES

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

2023 2022	Electricity [1]	Natural Gas [1]	Total
Revenue Streams			
Rendering of Services			
Distribution services	**167**	**315**	**482**
	176	329	505
Transmission services	**167**	**87**	**254**
	184	87	271
Customer contributions	**9**	**5**	**14**
	8	6	14
Franchise fees	**10**	**98**	**108**
	10	101	111
Total rendering of services	**353**	**505**	**858**
	378	523	901
Other	**15**	**4**	**19**
	14	2	16
Total	**368**	**509**	**877**
	392	525	917

(1) For the three months ended March 31, 2023, Electricity and Natural Gas segments include $118 million of unbilled revenue (2022 - $120 million). At March 31, 2023, $118 million of the unbilled revenue is included in accounts receivable and contract assets (2022 - $120 million).

5. PROPERTY, PLANT AND EQUIPMENT

A reconciliation of the changes in the carrying amount of property, plant and equipment is as follows:

	Utility Transmission & Distribution	Land and Buildings	Construction Work-in-Progress	Other	Total
Cost					
December 31, 2022	20,723	620	489	690	22,522
Additions	–	–	**219**	–	**219**
Transfers	**144**	**2**	**(149)**	**3**	–
Retirements and disposals	**(23)**	–	–	**(2)**	**(25)**
March 31, 2023	**20,844**	**622**	**559**	**691**	**22,716**
Accumulated depreciation					
December 31, 2022	5,451	182	–	356	5,989
Depreciation	**115**	**4**	–	**11**	**130**
Retirements and disposals	**(21)**	–	–	**(2)**	**(23)**
March 31, 2023	**5,545**	**186**	–	**365**	**6,096**
Net book value					
December 31, 2022	15,272	438	489	334	16,533
March 31, 2023	**15,299**	**436**	**559**	**326**	**16,620**

The additions to property, plant and equipment included $2 million of interest capitalized during construction for the three months ended March 31, 2023 (2022 - $2 million).

PIONEER NATURAL GAS PIPELINE

On February 25, 2022, ATCO Gas and Pipelines Ltd., a wholly owned subsidiary of the Company, closed a transaction to transfer a 30 kilometre segment of the Pioneer Natural Gas Pipeline to Nova Gas Transmission Ltd. for $63 million. This asset was previously recorded as assets held-for-sale in prepaid expenses and other current assets in the consolidated balance sheets. The proceeds from sale are included in other investing activities in the unaudited interim consolidated statements of cash flows.

6. EQUITY PREFERRED SHARES

DIVIDENDS

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

(dollars per share)	**2023**	**2022**
Equity preferred shares		
Cumulative Redeemable Preferred Shares		
4.60% Series 1	**0.2875**	0.2875
2.292% Series 4	**0.14325**	0.14325

The payment of any dividend is at the discretion of the Board and depends on the financial condition of the Company and other factors.

On April 13, 2023, the Company declared second quarter eligible dividends of $0.2875 per Series 1 Preferred Share and $0.14325 per Series 4 Preferred Share, payable on June 1, 2023 to share owners of record as of May 4, 2023.

7. CLASS A AND CLASS B SHARES

DIVIDENDS

On April 13, 2023, the Company declared dividends of $31.22 per Class A non-voting and Class B voting share, payable on June 1, 2023 to share owners of record as of May 4, 2023.

8. 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.

	2023	**2022**
Depreciation and amortization	**141**	138
Income tax expense	**63**	75
Contributions by customers for extensions to plant	**51**	42
Amortization of customer contributions	**(14)**	(14)
Net finance costs	**88**	92
Income taxes recovered (paid)	**2**	(4)
Other	**(1)**	(5)
	330	324

CASH POSITION

Cash position at March 31 is comprised of:

	2023	2022
Cash	**238**	261
Short-term advances to parent company	–	65
Cash and cash equivalents	**238**	326

9. FINANCIAL INSTRUMENTS

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, accounts receivable and contract assets, trade accounts receivable from parent and affiliate companies, short-term advances from parent company, accounts payable and accrued liabilities, and accounts payable to parent and affiliate companies.	Assumed to approximate carrying value due to their short-term nature.
Long-term debt and long-term advances due from joint venture	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, 2023		December 31, 2022	
Recurring Measurements	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Long-term advances due from joint venture [(1)]	**33**	**31**	33	30
Financial Liabilities				
Long-term debt	**8,486**	**7,868**	8,485	7,567

(1) Long-term advances due from joint venture are recorded in other assets on the consolidated balance sheets.