CU INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2024

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CONSOLIDATED STATEMENTS OF EARNINGS

(millions of Canadian Dollars)	Note	Three Months Ended March 31 2024	2023
Revenues	4	**880**	877
Costs and expenses			
Salaries, wages and benefits		**(54)**	(49)
Energy transmission and transportation		**(77)**	(71)
Plant and equipment maintenance		**(42)**	(46)
Fuel costs		**(5)**	(5)
Purchased power		**(19)**	(15)
Depreciation and amortization		**(145)**	(141)
Franchise fees		**(99)**	(108)
Property and other taxes		**(18)**	(18)
Other		**(64)**	(64)
		(523)	(517)
Operating profit		**357**	360
Interest income		**2**	2
Interest expense		**(99)**	(90)
Net finance costs		**(97)**	(88)
Earnings before income taxes		**260**	272
Income tax expense		**(60)**	(63)
Earnings for the period		**200**	209

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31	
(millions of Canadian Dollars)	**2024**	**2023**
Earnings for the period	**200**	209
Other comprehensive income (loss), net of income taxes		
Items that will not be reclassified to earnings:		
Re-measurement of retirement benefits [(1)]	**2**	(2)
Comprehensive income for the period	**202**	207

(1) Net of income taxes of $(1) million for the three months ended March 31, 2024 (2023 - $nil).

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(millions of Canadian Dollars)	Note	March 31 2024	December 31 2023
ASSETS			
Current assets			
Cash		**36**	36
Accounts receivable and contract assets		**517**	511
Trade accounts receivable from parent and affiliate companies		**13**	17
Inventories		**23**	21
Prepaid expenses and other current assets		**18**	31
		607	616
Non-current assets			
Property, plant and equipment	5	**17,130**	17,003
Intangibles		**810**	800
Right-of-use assets		**17**	18
Investment in joint venture		**13**	14
Other assets		**50**	49
Total assets		**18,627**	18,500
LIABILITIES			
Current liabilities			
Short-term advances from parent company		**125**	107
Accounts payable and accrued liabilities		**498**	535
Accounts payable to parent and affiliate companies		**45**	34
Lease liabilities		**1**	1
Provisions and other current liabilities		**15**	–
Long-term debt	6	**–**	120
		684	797
Non-current liabilities			
Deferred income tax liabilities		**1,817**	1,783
Retirement benefit obligations		**123**	125
Customer contributions		**1,975**	1,968
Lease liabilities		**16**	16
Other liabilities		**27**	27
Long-term debt	6	**8,606**	8,605
Total liabilities		**13,248**	13,321
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		**4,136**	3,936
		5,192	4,992
Total equity		**5,379**	5,179
Total liabilities and equity		**18,627**	18,500

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, 2022		1,056	187	3,786	–	5,029
Earnings for the period		–	–	209	–	209
Other comprehensive loss		–	–	–	(2)	(2)
Loss on retirement benefits transferred to retained earnings		–	–	(2)	2	–
Dividends	7	–	–	(2)	–	(2)
Other		–	–	1	–	1
March 31, 2023		1,056	187	3,992	–	5,235
December 31, 2023		1,056	187	3,936	–	5,179
Earnings for the period		–	–	**200**	–	**200**
Other comprehensive income		–	–	–	**2**	**2**
Gain on retirement benefits transferred to retained earnings		–	–	**2**	**(2)**	–
Dividends	7	–	–	**(2)**	–	**(2)**
March 31, 2024		**1,056**	**187**	**4,136**	–	**5,379**

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian Dollars)	Note	Three Months Ended March 31 2024	2023
Operating activities			
Earnings for the period		**200**	209
Adjustments to reconcile earnings to cash flows from operating activities	9	**308**	330
Changes in non-cash working capital		**(9)**	30
Cash flows from operating activities		**499**	569
Investing activities			
Additions to property, plant and equipment		**(257)**	(213)
Proceeds on disposal of property, plant and equipment		**–**	1
Additions to intangibles		**(21)**	(24)
Changes in non-cash working capital		**(17)**	9
Other		**4**	(3)
Cash flows used in investing activities		**(291)**	(230)
Financing activities			
Repayment of long-term debt	6	**(120)**	–
Repayment of lease liabilities		**(1)**	–
Dividends paid on equity preferred shares	7	**(2)**	(2)
Interest paid		**(103)**	(89)
Other		**–**	2
Cash flows used in financing activities		**(226)**	(89)
(Decrease) increase in cash position		**(18)**	250
Beginning of period		**(71)**	(12)
End of period	9	**(89)**	238

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

MARCH 31, 2024

(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 (IFRS Accounting Standards). 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, 2023 prepared according to IFRS Accounting Standards.

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 May 1, 2024.

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.

ADOPTION OF AMENDED ACCOUNTING STANDARDS

The Company has adopted amendments to IAS 1 *Presentation of Financial Statements* that are effective January 1, 2024. The amendments clarified the requirements for classifying current or non-current liabilities and introduced additional disclosures to assist users of financial statements in understanding the risk that non-current liabilities with covenants may become payable within the next twelve months after the balance sheet date. The adoption of the amendments did not have an impact to the Company's unaudited interim consolidated financial statements.

3. SEGMENTED INFORMATION

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

2024 **2023**	**Electricity**	**Natural Gas**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues - external	**356**	**524**	**–**	**–**	**880**
	368	509	–	–	877
Revenues - intersegment	**3**	**–**	**–**	**(3)**	**–**
	1	–	–	(1)	–
Revenues	**359**	**524**	**–**	**(3)**	**880**
	369	509	–	(1)	877
Operating expenses [1]	**(132)**	**(249)**	**–**	**3**	**(378)**
	(127)	(250)	–	1	(376)
Depreciation and amortization	**(83)**	**(62)**	**–**	**–**	**(145)**
	(80)	(61)	–	–	(141)
Net finance costs	**(56)**	**(36)**	**(5)**	**–**	**(97)**
	(54)	(33)	(1)	–	(88)
Earnings (loss) before income taxes	**88**	**177**	**(5)**	**–**	**260**
	108	165	(1)	–	272
Income tax expense	**(20)**	**(41)**	**1**	**–**	**(60)**
	(25)	(38)	–	–	(63)
Earnings (loss) for the period	**68**	**136**	**(4)**	**–**	**200**
	83	127	(1)	–	209
Adjusted earnings (loss)	**88**	**121**	**(4)**	**–**	**205**
	82	113	(1)	–	194
Total assets [2]	**10,889**	**7,767**	**56**	**(85)**	**18,627**
	10,875	7,630	87	(92)	18,500
Capital expenditures [3]	**150**	**131**	**–**	**–**	**281**
	145	96	–	–	241

(1) Includes total costs and expenses, excluding depreciation and amortization expense.
(2) 2023 comparatives are at December 31, 2023.
(3) Includes additions to property, plant and equipment, intangibles and $3 million of interest capitalized during construction for the three months ended March 31, 2024 (2023 - $4 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.

2024 **2023**	**Electricity**	**Natural Gas**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Adjusted earnings (loss)	**88**	**121**	**(4)**	**–**	**205**
	82	113	(1)	–	194
Rate-regulated activities	**(18)**	**17**	**–**	**–**	**(1)**
	4	16	–	–	20
IT Common Matters decision	**(3)**	**(3)**	**–**	**–**	**(6)**
	(3)	(2)	–	–	(5)
Transition of managed IT services	**–**	**–**	**–**	**–**	**–**
	(1)	(1)	–	–	(2)
Dividends on equity preferred shares of the Company	**1**	**1**	**–**	**–**	**2**
	1	1	–	–	2
Earnings (loss) for the period	**68**	**136**	**(4)**	**–**	**200**
	83	127	(1)	–	209

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 Accounting Standards 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 Accounting Standards in the following ways:

	Timing Adjustment	Items	RRA Treatment	IFRS Accounting Standards 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 Accounting Standards.
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 Accounting Standards are as follows:

	2024	2023
Additional revenues billed in current period		
Future removal and site restoration costs (1)	**31**	30
Impact of colder temperatures (2)	**5**	2
Revenues to be billed in future periods		
Deferred income taxes (3)	**(33)**	(34)
Settlement of regulatory decisions and other items		
Distribution rate relief (4)	**–**	5
Other (5)	**(4)**	17
	(1)	20

(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 and received approval from the AUC for interim rate relief for customers to hold current distribution base rates in place. 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) was billed to customers.

(5) For the three months ended March 31, 2023, ATCO Electric Distribution recorded an increase in earnings of $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, 2024 was $6 million (after-tax) (2023 - $5 million (after-tax)).

Transition of managed IT services

For 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 service agreements matter that was concluded on February 26, 2023. The impact was recorded in other expenses in the consolidated statements of earnings and in changes in non-cash working capital (operating activities) 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.

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:

2024 **2023**	**Electricity** [(1)]	**Natural Gas** [(1)]	**Total**
Revenue Streams			
Rendering of Services			
Distribution services	**153**	**337**	**490**
	167	315	482
Transmission services	**167**	**90**	**257**
	167	87	254
Customer contributions	**9**	**6**	**15**
	9	5	14
Franchise fees	**10**	**89**	**99**
	10	98	108
Total rendering of services	**339**	**522**	**861**
	353	505	858
Other	**17**	**2**	**19**
	15	4	19
Total	**356**	**524**	**880**
	368	509	877

(1) For the three months ended March 31, 2024, Electricity and Natural Gas segments include $126 million of unbilled revenue (2023 - $118 million). At March 31, 2024, $126 million of the unbilled revenue is included in accounts receivable and contract assets (2023 - $118 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, 2023	21,709	624	368	697	23,398
Additions	–	–	**268**	–	**268**
Transfers	**145**	**12**	**(163)**	**6**	–
Retirements and disposals	**(27)**	–	–	**(6)**	**(33)**
March 31, 2024	**21,827**	**636**	**473**	**697**	**23,633**
Accumulated depreciation					
December 31, 2023	5,833	191	–	371	6,395
Depreciation	**126**	**4**	–	**11**	**141**
Retirements and disposals	**(27)**	–	–	**(6)**	**(33)**
March 31, 2024	**5,932**	**195**	–	**376**	**6,503**
Net book value					
December 31, 2023	15,876	433	368	326	17,003
March 31, 2024	**15,895**	**441**	**473**	**321**	**17,130**

The additions to property, plant and equipment included $2 million of interest capitalized during construction for the three months ended March 31, 2024 (2023 - $2 million).

6. LONG-TERM DEBT

On March 6, 2024, the Company repaid $120 million of 6.215 per cent debentures.

7. EQUITY PREFERRED SHARES

DIVIDENDS

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

(dollars per share)	2024	2023
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 11, 2024, 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, 2024 to share owners of record as of May 2, 2024.

8. CLASS A AND CLASS B SHARES

DIVIDENDS

On April 11, 2024, the Company declared a dividend of $29.89 per Class A and Class B share, payable on June 1, 2024 to share owners of record as of May 2, 2024.

9. 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.

	2024	2023
Depreciation and amortization	**145**	141
Income tax expense	**60**	63
Contributions by customers for extensions to plant	**22**	51
Amortization of customer contributions	**(15)**	(14)
Net finance costs	**97**	88
Income taxes (paid) recovered	**(1)**	2
Other	**–**	(1)
	308	330

CASH POSITION

Cash position at March 31 is comprised of:

	2024	2023
Cash	**36**	238
Short-term advances from parent company	**(125)**	–
	(89)	238

10. 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, 2024		December 31, 2023	
Recurring Measurements	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Long-term advances due from joint venture [(1)]	**30**	**28**	33	32
Financial Liabilities				
Long-term debt	**8,606**	**7,981**	8,725	8,408

(1) *Long-term advances due from joint venture are recorded in prepaid expenses and other current assets, nil (December 31, 2023 - $3 million), and other assets, $30 million (December 31, 2023 - $30 million), in the consolidated balance sheets.*