



**CU INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED  
JUNE 30, 2010**

**CU Inc.**  
**Consolidated Statement of Earnings and Retained Earnings**  
*(Millions of Canadian Dollars)*

	Note	Three Months Ended June 30		Six Months Ended June 30	
		<b>2010</b>	2009	<b>2010</b>	2009
		<i>(Unaudited)</i>		<i>(Unaudited)</i>	
<b>Revenues</b>	2	<b>\$ 400.7</b>	\$ 388.0	<b>\$ 894.7</b>	\$ 864.1
<b>Costs and expenses</b>					
Natural gas supply		<b>0.4</b>	0.2	<b>0.8</b>	0.6
Purchased power		<b>12.4</b>	12.3	<b>27.4</b>	28.0
Operation and maintenance		<b>118.8</b>	107.8	<b>232.5</b>	221.7
Selling and administrative		<b>68.8</b>	67.0	<b>130.8</b>	127.6
Depreciation and amortization		<b>65.9</b>	62.1	<b>131.3</b>	121.7
Interest	2	<b>48.6</b>	50.4	<b>98.9</b>	97.4
Franchise fees		<b>36.1</b>	33.1	<b>97.1</b>	95.4
		<b>351.0</b>	332.9	<b>718.8</b>	692.4
		<b>49.7</b>	55.1	<b>175.9</b>	171.7
<b>Interest and other income</b>		<b>8.1</b>	6.0	<b>16.3</b>	10.8
<b>Earnings before income taxes</b>		<b>57.8</b>	61.1	<b>192.2</b>	182.5
<b>Income taxes</b>		<b>10.6</b>	5.9	<b>32.5</b>	34.0
		<b>47.2</b>	55.2	<b>159.7</b>	148.5
<b>Dividends on equity preferred shares</b>		<b>4.0</b>	4.0	<b>8.0</b>	5.5
<b>Dividends on equity preferred shares to parent corporation</b>		<b>1.5</b>	1.5	<b>3.0</b>	3.0
<b>Earnings attributable to Class A and Class B shares</b>		<b>41.7</b>	49.7	<b>148.7</b>	140.0
<b>Retained earnings at beginning of period</b>		<b>1,732.9</b>	1,492.8	<b>1,625.9</b>	1,402.5
<b>Retained earnings at end of period</b>		<b>\$1,774.6</b>	\$1,542.5	<b>\$1,774.6</b>	\$1,542.5

**CU Inc.**  
**Consolidated Balance Sheet**  
*(Millions of Canadian Dollars)*

	Note	June 30 2010	2009	December 31 2009
<i>(Unaudited)</i>				
<b>ASSETS</b>				
<b>Current assets</b>				
Short term advances to parent corporation		\$ 77.0	\$ 279.5	\$ 69.5
Accounts receivable		210.1	213.6	260.9
Accounts receivable from parent and affiliate corporations		4.9	10.2	7.7
Inventories		75.3	81.6	71.6
Income taxes recoverable		12.6	13.4	8.8
Future income taxes		1.7	7.9	6.2
Regulatory assets		18.9	44.2	37.4
Prepaid expenses		9.3	9.0	8.6
		<b>409.8</b>	659.4	470.7
<b>Property, plant and equipment</b>		<b>5,643.0</b>	5,258.3	5,468.4
<b>Intangibles</b>		<b>225.5</b>	200.9	225.3
<b>Regulatory assets</b>		<b>445.9</b>	367.9	407.6
<b>Other assets</b>		<b>23.3</b>	17.0	20.2
		<b>\$6,747.5</b>	\$6,503.5	\$6,592.2
<b>LIABILITIES AND SHARE OWNER'S EQUITY</b>				
<b>Current liabilities</b>				
Bank indebtedness		\$ 20.0	\$ 7.6	\$ 5.4
Accounts payable and accrued liabilities	2	235.3	204.9	267.0
Accounts payable to parent and affiliate corporations		30.2	24.7	32.1
Regulatory liabilities		6.1	40.1	26.1
		<b>291.6</b>	277.3	330.6
<b>Future income taxes</b>		<b>365.5</b>	292.3	332.8
<b>Regulatory liabilities</b>		<b>475.8</b>	431.0	450.3
<b>Deferred credits</b>		<b>194.2</b>	190.5	207.3
<b>Long term debt</b>		<b>2,827.9</b>	2,952.0	2,827.4
<b>Equity preferred shares</b>		<b>275.0</b>	275.0	275.0
<b>Equity preferred shares to parent corporation</b>		<b>130.0</b>	130.0	130.0
<b>Class A and Class B share owner's equity</b>				
Class A and Class B shares		412.9	412.9	412.9
Retained earnings		1,774.6	1,542.5	1,625.9
		<b>2,187.5</b>	1,955.4	2,038.8
		<b>\$6,747.5</b>	\$6,503.5	\$6,592.2

**CU Inc.**  
**Consolidated Statement of Cash Flows**  
*(Millions of Canadian Dollars)*

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
<b>Operating activities</b>				
Earnings attributable to Class A and Class B shares	\$ 41.7	\$ 49.7	\$ 148.7	\$ 140.0
Adjustments for:				
Depreciation and amortization	65.9	62.1	131.3	121.7
Future income taxes	7.4	0.6	5.7	(2.4)
Deferred availability incentives	(18.1)	(1.2)	(22.0)	(1.7)
Changes in non-current regulatory assets and liabilities	10.0	(12.9)	12.5	7.6
Allowance for funds used during construction	(1.9)	(1.9)	(3.9)	(3.7)
Other	5.6	(4.5)	1.3	(5.3)
	110.6	91.9	273.6	256.2
Changes in non-cash working capital	(30.9)	(45.5)	37.5	(7.4)
<b>Cash flow from operations</b>	<b>79.7</b>	<b>46.4</b>	<b>311.1</b>	<b>248.8</b>
<b>Investing activities</b>				
Purchase of property, plant and equipment	(182.2)	(172.3)	(339.9)	(356.7)
Proceeds on disposal of property, plant and equipment	15.3	-	15.4	0.1
Contributions by utility customers for extensions to plant	16.4	22.2	35.0	52.8
Purchase of intangibles	(8.8)	(8.2)	(12.7)	(15.4)
Changes in non-cash working capital	(2.4)	(4.6)	(20.7)	(74.6)
Other	2.1	(0.7)	4.7	1.5
	(159.6)	(163.6)	(318.2)	(392.3)
<b>Financing activities</b>				
Issue of long term debt	-	-	-	270.0
Issue of equity preferred shares	-	-	-	160.0
Changes in non-cash working capital	-	(0.2)	-	-
Other	(0.1)	(0.2)	-	(5.6)
	(0.1)	(0.4)	-	424.4
<b>Cash position <sup>(1)</sup></b>				
Increase (decrease)	(80.0)	(117.6)	(7.1)	280.9
Beginning of period	137.0	389.5	64.1	(9.0)
<b>End of period</b>	<b>\$ 57.0</b>	<b>\$ 271.9</b>	<b>\$ 57.0</b>	<b>\$ 271.9</b>

<sup>(1)</sup> Cash position consists of short term advances to parent corporation less current bank indebtedness.

**CU Inc.**  
**Consolidated Statement of Comprehensive Income**  
*(Millions of Canadian Dollars)*

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	<b>2010</b>	2009	<b>2010</b>	2009
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
<b>Earnings attributable to Class A and Class B shares and comprehensive income</b>	<b>\$41.7</b>	\$49.7	<b>\$148.7</b>	\$140.0

**CU Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010**

*(Unaudited, tabular amounts in millions of Canadian dollars)*

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Financial Statement Presentation and Consolidation***

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and should be read in conjunction with the Corporation’s December 31, 2009 consolidated financial statements and related notes. These interim consolidated financial statements have been prepared using the same accounting policies as used in the consolidated financial statements for the year ended December 31, 2009.

**2. REGULATORY MATTERS**

***Benchmarking***

On March 8, 2010, the Alberta Utilities Commission (“AUC”) issued a decision on the hearing held in December 2009 which addressed the 2003 – 2007 placeholder amounts for the pricing of services provided by ATCO I-Tek to ATCO Gas, ATCO Electric and ATCO Pipelines. The AUC decision approved the adjustments to the placeholder amounts as filed based on fair market value resulting in no material change to earnings. In April 2010 the City of Calgary filed a leave to appeal this decision with the Alberta Court of Appeal and in May 2010 the City of Calgary also filed a Review and Variance application of the AUC’s March 8, 2010, decision.

***Pension Hearing***

In July 2009, ATCO Electric, ATCO Gas, and ATCO Pipelines (collectively referred to as the ATCO Utilities) submitted an application to the AUC requesting recovery of the expected 2010 contributions to the Canadian Utilities pension plan. Prior to 2010, there had been no required contributions since 1996. The ATCO Utilities also requested the establishment of deferral accounts due to projected funding requirements and the potential for fluctuations in pension asset values and resulting funding requirements. A hearing was held in January 2010 and an AUC decision was issued on April 30, 2010, approving the requested funding and establishing deferral accounts for funding fluctuations beyond the control of ATCO Utilities. This decision did not result in a significant change in earnings of ATCO Utilities.

***ATCO Gas – Carbon Natural Gas Storage Facility***

On April 20, 2010, ATCO Gas received a decision from the AUC approving, on an interim refundable basis, the implementation of Carbon recovery riders resulting in an increase in ATCO Gas’ revenues and earnings of \$15.7 million and \$11.3 million, respectively. The financial impact of this decision was recorded in the first quarter of 2010. The final decision on the amount to be recovered from customers is expected in the fourth quarter of 2010.

The City of Calgary and the Utilities Consumer Advocate have filed a joint Leave to Appeal application with the Alberta Court of Appeal regarding the AUC’s December 16, 2009 decision which confirmed the

## **2. REGULATORY MATTERS (continued)**

effective date of removing the Carbon Facility from regulation to be April 1, 2005. This Leave to Appeal was heard on April 28, 2010, and on May 12, 2010, the Alberta Court of Appeal issued its decision denying the Leave to Appeal.

### ***ATCO Gas – Deferred Gas Account***

ATCO Gas filed an application with the AUC to address, among other things, corrections required to historical transportation imbalances (the process whereby third party natural gas supplies are reconciled to amounts actually shipped in the Corporation's pipelines) that have impacted ATCO Gas' deferred gas account. In April 2005, the AUC issued a decision resulting in a 15% decrease in the transportation imbalance adjustments sought by ATCO Gas. The decision resulted in ATCO Gas recovering \$9.2 million in natural gas supply costs from customers. This decision has been the subject of a number of legal appeal proceedings initiated by the City of Calgary. The City of Calgary's current appeal with respect to this decision was heard by the Alberta Court of Appeal on January 13, 2010. On April 23, 2010, the Alberta Court of Appeal issued a decision allowing the appeal and vacating orders under appeal and returned the matter to the AUC for consideration. Pending final resolution of this matter, ATCO Gas has recorded a contingent liability of \$11.6 million, including interest, in the first quarter of 2010 resulting in a decrease to ATCO Gas' earnings of \$8.4 million. The AUC has initiated a process to address the Alberta Court of Appeal decision. A decision is expected in the fourth quarter of 2010.

### ***ATCO Pipelines – Alberta System Integration***

On June 26, 2009, ATCO Pipelines filed an application with the AUC for the integration of ATCO Pipelines' and NOVA Gas Transmission Ltd.'s (NOVA) gas transmission systems in Alberta (Integration Application). The Integration Application requested the AUC to approve that (i) integration is in the public interest, (ii) ATCO Pipelines approved revenue requirements be charged to NOVA, (iii) ATCO Pipelines customers be transitioned to NOVA, with NOVA as the customer commercial point of contact, and (iv) ATCO Pipelines and NOVA swap assets in order to establish operating areas. A negotiated settlement on ATCO Pipelines' 2010, 2011 and 2012 revenue requirements was a condition precedent of the Integration Application. A settlement on ATCO Pipelines' 2010, 2011 and 2012 revenue requirements was successfully negotiated with interested parties on October 28, 2009. On November 12, 2009, ATCO Pipelines filed a request with the AUC to approve its 2010, 2011 and 2012 Revenue Requirement Settlement Application as part of its Integration Application.

On May 27, 2010, the AUC issued a decision approving the 2010, 2011 and 2012 Revenue Requirement Settlement Application and the Integration Application. The 2010 Final Revenue Requirement arising from the decision is subject to certain volume limitations that if exceeded during the year, are to be refunded to customers. As a result of the decision and the amount of volumes shipped to date this year, ATCO Pipelines adjusted revenues resulting in decreased earnings of \$0.9 million in the second quarter of 2010.

The AUC requested ATCO Pipelines to submit subsequent applications to address the transition of ATCO Pipelines' customers to NOVA and the asset swap between ATCO Pipelines and NOVA. On July 16, 2010, an application addressing customer contract transitioning was submitted to the AUC. An application to address the asset swap will be made after NOVA receives regulatory approval for the integration which is expected in the third quarter of 2010.

### 3. EMPLOYEE FUTURE BENEFITS

In the three months ended June 30, 2010, net expense of \$12.3 million (2009 – \$1.7 million) was recognized for pension benefit plans and net expense of \$0.3 million (2009 – \$0.3 million) was recognized for other post employment benefit plans. The net expense for the pension benefit plans includes a cash expense of \$10.7 million related to the utility operations.

In the six months ended June 30, 2010, net expense of \$21.5 million (2009 – \$3.7 million) was recognized for pension benefit plans and net expense of \$0.6 million (2009 – \$0.7 million) was recognized for other post employment benefit plans. The net expense for the pension benefit plans includes a cash expense of \$19.7 million related to the utility operations.

#### *Funding*

The Corporation has begun making funding contributions for the pension benefit plans during the six months ended June 30, 2010. Based on actuarial valuations which were completed in May 2010, the employer contributions relating to the defined contribution and the defined benefit plan for 2010 will be approximately \$54 million.

For the purposes of any funding requirements pertaining to the ATCO Utilities, the Corporation includes the cost of funding in its rate applications to the AUC. Refer to Regulatory Matters (see Note 2) regarding the AUC's decision with respect to the pension application.

### 4. SEGMENTED INFORMATION

#### *Segmented results – Three months ended June 30*

2010 2009	Utilities	Energy	Corporate & Other	Intersegment Eliminations	Consolidated
<i>(Unaudited)</i>					
Revenues – external	\$ 326.0	\$ 74.7	\$ -	\$ -	\$ 400.7
	\$ 312.0	\$ 76.0	\$ -	\$ -	\$ 388.0
Revenues – intersegment <sup>(1)</sup>	-	-	-	-	-
	-	-	-	-	-
Revenues	\$ 326.0	\$ 74.7	\$ -	\$ -	\$ 400.7
	\$ 312.0	\$ 76.0	\$ -	\$ -	\$ 388.0
Earnings attributable to Class A and Class B shares	\$ 32.8	\$ 8.8	\$ 0.1	\$ -	\$ 41.7
	\$ 38.8	\$ 10.8	\$ 0.1	\$ -	\$ 49.7

#### 4. SEGMENTED INFORMATION (continued)

##### *Segmented results – Six months ended June 30*

2010 2009	Utilities	Energy	Corporate & Other	Intersegment Eliminations	Consolidated
<i>(Unaudited)</i>					
Revenues – external	<b>\$ 745.3</b>	<b>\$149.4</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 894.7</b>
	\$ 709.1	\$155.0	\$ -	\$ -	\$ 864.1
Revenues – intersegment <sup>(1)</sup>	-	-	-	-	-
	-	-	-	-	-
Revenues	<b>\$ 745.3</b>	<b>\$149.4</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 894.7</b>
	\$ 709.1	\$155.0	\$ -	\$ -	\$ 864.1
Earnings attributable to Class A and Class B shares	<b>\$ 129.7</b>	<b>\$ 19.0</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 148.7</b>
	\$ 119.3	\$ 20.7	\$ -	\$ -	\$ 140.0
Total assets	<b>\$6,016.7</b>	<b>\$684.0</b>	<b>\$46.8</b>	<b>\$ -</b>	<b>\$6,747.5</b>
	\$5,757.6	\$695.8	\$50.1	\$ -	\$6,503.5

<sup>(1)</sup> *Intersegment revenues are recognized on the basis of prevailing market or regulated prices.*