



CU INC.

CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE THREE MONTHS ENDED
MARCH 31, 2010**

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

		Three Months Ended March 31	
	Note	2010	2009
<i>(Unaudited)</i>			
Revenues	2	\$ 494.0	\$ 476.1
Costs and expenses			
Natural gas supply		0.4	0.4
Purchased power		15.0	15.7
Operation and maintenance		113.7	113.9
Selling and administrative		62.0	60.6
Depreciation and amortization		65.4	59.6
Interest	2	50.3	47.0
Franchise fees		61.0	62.3
		367.8	359.5
		126.2	116.6
Interest and other income		8.2	4.8
Earnings before income taxes		134.4	121.4
Income taxes		21.9	28.1
		112.5	93.3
Dividends on equity preferred shares		4.0	1.5
Dividends on equity preferred shares to parent corporation		1.5	1.5
Earnings attributable to Class A and Class B shares		107.0	90.3
Retained earnings at beginning of period		1,625.9	1,402.5
Retained earnings at end of period		\$1,732.9	\$1,492.8

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

	Note	March 31 2010	2009	December 31 2009
<i>(Unaudited)</i>				
ASSETS				
Current assets				
Cash and short term investments		\$ -	\$ 6.5	\$ -
Short term advances to parent corporation		152.5	383.0	69.5
Accounts receivable		237.8	237.7	260.9
Accounts receivable from parent and affiliate corporations		5.9	9.6	7.7
Inventories		76.6	79.4	71.6
Income taxes recoverable		7.0	3.2	8.8
Future income taxes		3.7	6.9	6.2
Regulatory assets		23.1	41.8	37.4
Prepaid expenses		5.5	3.4	8.6
		512.1	771.5	470.7
Property, plant and equipment		5,549.1	5,162.0	5,468.4
Intangibles		223.2	199.4	225.3
Regulatory assets		428.8	347.7	407.6
Other assets		23.9	17.7	20.2
		\$6,737.1	\$6,498.3	\$6,592.2
LIABILITIES AND SHARE OWNER'S EQUITY				
Current liabilities				
Bank indebtedness		\$ 15.5	\$ -	\$ 5.4
Accounts payable and accrued liabilities	2	290.1	270.7	267.0
Accounts payable to parent and affiliate corporations		27.6	26.0	32.1
Regulatory liabilities		14.2	28.1	26.1
		347.4	324.8	330.6
Future income taxes		347.6	278.3	332.8
Regulatory liabilities		460.0	433.6	450.3
Deferred credits		203.7	199.2	207.3
Long term debt		2,827.6	2,951.7	2,827.4
Equity preferred shares		275.0	275.0	275.0
Equity preferred shares to parent corporation		130.0	130.0	130.0
Class A and Class B share owner's equity				
Class A and Class B shares		412.9	412.9	412.9
Retained earnings		1,732.9	1,492.8	1,625.9
		2,145.8	1,905.7	2,038.8
		\$6,737.1	\$6,498.3	\$6,592.2

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

	Three Months Ended March 31	
	2010	2009
	<i>(Unaudited)</i>	
Operating activities		
Earnings attributable to Class A and Class B shares	\$ 107.0	\$ 90.3
Adjustments for:		
Depreciation and amortization	65.4	59.6
Future income taxes	(1.7)	(3.0)
Deferred availability incentives	(3.9)	(0.5)
Changes in non-current regulatory assets and liabilities	2.5	20.5
Allowance for funds used during construction	(2.0)	(1.8)
Other	(4.3)	(0.8)
	163.0	164.3
Changes in non-cash working capital	68.4	38.1
Cash flow from operations	231.4	202.4
Investing activities		
Purchase of property, plant and equipment	(157.7)	(184.4)
Proceeds on disposal of property, plant and equipment	0.1	0.1
Contributions by utility customers for extensions to plant	18.6	30.6
Purchase of intangibles	(3.9)	(7.2)
Changes in non-cash working capital	(18.3)	(70.0)
Other	2.6	2.2
	(158.6)	(228.7)
Financing activities		
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	(5.4)
	0.1	424.8
Cash position ⁽¹⁾		
Increase	72.9	398.5
Beginning of period	64.1	(9.0)
End of period	\$ 137.0	\$ 389.5

⁽¹⁾ Cash position consists of cash and short term investments and short term advances to parent corporation less bank indebtedness.

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

	Three Months Ended March 31	
	2010	2009
	<i>(Unaudited)</i>	
Earnings attributable to Class A and Class B shares and comprehensive income	\$107.0	\$90.3

CU Inc.
Notes to Consolidated Financial Statements
March 31, 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.

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, Review and Variance decision which confirmed the effective date of removing the Carbon Facility from regulation to be April 1, 2005. As a result of the Leave to Appeal, the effective removal date of the Carbon assets of April 1, 2005 could be impacted, which could affect the amount ATCO Gas is seeking to recover from customers. A hearing for the Leave to Appeal application was held on April 28, 2010.

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

2. REGULATORY MATTERS (continued)

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, the timing of which is uncertain, 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.

3. EMPLOYEE FUTURE BENEFITS

In the three months ended March 31, 2010, net expense of \$9.2 million (2009 – \$2.0 million) was recognized for pension benefit plans and net expense of \$0.3 million (2009 – \$0.4 million) was recognized for other post employment benefit plans. The net expense for the pension benefit plans includes a cash expense of \$9.0 million related to the utility operations.

Funding

The Corporation has begun making funding contributions for the pension benefit plans during the three months ended March 31, 2010. Based on the information currently available, the funding contributions for 2010 are expected to be in the range of \$60.0 million to \$70.0 million. Actuarial valuations are expected to be completed by May 2010.

For the purposes of any funding requirements pertaining to utility operations the Corporation includes the cost of funding in its rate applications to the AUC and has filed a pension common matters application with the AUC requesting deferral accounts for 2010. Based on the assumption that the AUC will allow full recovery of these costs, these funding contributions are not expected to have a significant impact on the Corporation, on a net basis.

4. SEGMENTED INFORMATION

Segmented results – Three months ended March 31

2010 2009	Utilities	Energy	Corporate & Other	Intersegment Eliminations	Consolidated
<i>(Unaudited)</i>					
Revenues – external	\$ 419.3	\$ 74.7	\$ -	\$ -	\$ 494.0
	\$ 397.1	\$ 79.0	\$ -	\$ -	\$ 476.1
Revenues – intersegment ⁽¹⁾	-	-	-	-	-
	-	-	-	-	-
Revenues	\$ 419.3	\$ 74.7	\$ -	\$ -	\$ 494.0
	\$ 397.1	\$ 79.0	\$ -	\$ -	\$ 476.1
Earnings attributable to Class A and Class B shares	\$ 96.9	\$ 10.2	\$ (0.1)	\$ -	\$ 107.0
	\$ 80.5	\$ 9.9	\$ (0.1)	\$ -	\$ 90.3
Total assets	\$6,030.6	\$685.8	\$ 20.7	\$ -	\$6,737.1
	\$5,772.9	\$704.4	\$ 35.7	\$(14.7)	\$6,498.3

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