



## **CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED  
MARCH 31, 2005**

**CU INC.**  
**CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS**  
*(Millions of Canadian Dollars)*

|   | Note | Three Months Ended<br>March 31 |           |
|---|------|--------------------------------|-----------|
|   |      | 2005                           | 2004      |
|   |      | <i>(Unaudited)</i>             |           |
| <b>Revenues</b>   | 2    | <b>\$ 505.7</b>                | \$ 960.0  |
| <b>Costs and expenses</b>   |      |                                |           |
| Natural gas supply  | 2    | <b>123.6</b>                   | 536.1     |
| Purchased power   | 2    | <b>12.5</b>                    | 45.6      |
| Operation and maintenance   |      | <b>75.7</b>                    | 74.8      |
| Selling and administrative  |      | <b>44.8</b>                    | 52.1      |
| Depreciation and amortization                                     |      | <b>63.0</b>                    | 59.4      |
| Interest  |      | <b>38.5</b>                    | 36.9      |
| Franchise fees  |      | <b>52.6</b>                    | 49.8      |
|   |      | <b>410.7</b>                   | 854.7     |
|   |      | <b>95.0</b>                    | 105.3     |
| <b>Interest and other income</b>                                  |      | <b>2.4</b>                     | 1.6       |
| <b>Earnings before income taxes</b>                               |      | <b>97.4</b>                    | 106.9     |
| <b>Income taxes</b>   |      | <b>35.6</b>                    | 39.6      |
|   |      | <b>61.8</b>                    | 67.3      |
| <b>Dividends on equity preferred shares to parent corporation</b> |      | <b>3.5</b>                     | 3.5       |
| <b>Earnings attributable to Class A and Class B shares</b>        |      | <b>58.3</b>                    | 63.8      |
| <b>Retained earnings at beginning of period</b>                   |      | <b>1,036.3</b>                 | 1,003.4   |
|   |      | <b>1,094.6</b>                 | 1,067.2   |
| Dividends on Class A and Class B shares                           |      | <b>25.1</b>                    | 20.2      |
| <b>Retained earnings at end of period</b>                         |      | <b>\$1,069.5</b>               | \$1,047.0 |

**CU INC.**  
**CONSOLIDATED BALANCE SHEET**  
*(Millions of Canadian Dollars)*

|  | March 31           |           | December 31      |
|--|--------------------|-----------|------------------|
|  | 2005               | 2004      | 2004             |
|  | <i>(Unaudited)</i> |           | <i>(Audited)</i> |
| <b>ASSETS</b>  |                    |           |                  |
| <b>Current assets</b>                                      |                    |           |                  |
| Cash and short term investments                            | \$ 146.0           | \$ 122.4  | \$ 64.0          |
| Short term advance to parent corporation                   | 22.3               | -         | -                |
| Accounts receivable  | 221.2              | 414.8     | 230.3            |
| Accounts receivable from parent and affiliate corporations | 22.3               | 3.6       | 12.2             |
| Inventories  | 40.3               | 41.3      | 157.7            |
| Future income taxes  | 0.3                | 0.9       | 0.3              |
| Prepaid expenses   | 11.1               | 11.5      | 12.9             |
|  | <b>463.5</b>       | 594.5     | 477.4            |
| <b>Property, plant and equipment</b>                       | <b>3,659.0</b>     | 3,462.6   | 3,644.6          |
| <b>Other assets</b>  | <b>64.6</b>        | 75.3      | 63.0             |
|  | <b>\$4,187.1</b>   | \$4,132.4 | \$4,185.0        |
| <b>LIABILITIES AND SHARE OWNER'S EQUITY</b>                |                    |           |                  |
| <b>Current liabilities</b>                                 |                    |           |                  |
| Short term advances from parent and affiliate corporations | \$ 2.0             | \$ 1.6    | \$ 9.6           |
| Accounts payable and accrued liabilities                   | 159.5              | 262.4     | 164.4            |
| Accounts payable to parent and affiliate corporations      | 17.6               | 47.5      | 23.3             |
| Income taxes payable                                       | 11.3               | 13.7      | 24.6             |
| Deferred natural gas cost recoveries                       | 0.9                | 10.1      | 0.9              |
| Deferred electricity cost recoveries                       | 8.3                | 28.5      | 11.7             |
|  | <b>199.6</b>       | 363.8     | 234.5            |
| <b>Future income taxes</b>                                 | <b>64.8</b>        | 80.5      | 64.8             |
| <b>Deferred credits</b>                                    | <b>126.6</b>       | 114.5     | 122.8            |
| <b>Long term debt</b>                                      | <b>2,062.5</b>     | 1,862.5   | 2,062.5          |
| <b>Equity preferred shares to parent corporation</b>       | <b>256.5</b>       | 256.5     | 256.5            |
| <b>Class A and Class B share owner's equity</b>            |                    |           |                  |
| Class A and Class B shares                                 | 407.6              | 407.6     | 407.6            |
| Retained earnings  | 1,069.5            | 1,047.0   | 1,036.3          |
|  | <b>1,477.1</b>     | 1,454.6   | 1,443.9          |
|  | <b>\$4,187.1</b>   | \$4,132.4 | \$4,185.0        |

**CU INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
*(Millions of Canadian Dollars)*

|  | Three Months Ended<br>March 31 |                 |
|--|--------------------------------|-----------------|
|  | 2005                           | 2004            |
|  | <i>(Unaudited)</i>             |                 |
| <b>Operating activities</b>                                |                                |                 |
| Earnings attributable to Class A and Class B shares        | \$ 58.3                        | \$ 63.8         |
| Adjustments for:   |                                |                 |
| Depreciation and amortization                              | 63.0                           | 59.4            |
| Future income taxes  | -                              | 0.7             |
| Deferred availability incentives                           | 6.1                            | 8.1             |
| Other  | 1.3                            | 2.4             |
| Cash flow from operations                                  | 128.7                          | 134.4           |
| Changes in non-cash working capital                        | 115.3                          | 167.3           |
|  | <b>244.0</b>                   | <b>301.7</b>    |
| <b>Investing activities</b>                                |                                |                 |
| Purchase of property, plant and equipment                  | (84.7)                         | (97.5)          |
| Costs on disposal of property, plant and equipment         | -                              | (0.6)           |
| Contributions by utility customers for extensions to plant | 9.4                            | 16.8            |
| Non-current deferred electricity costs                     | (6.3)                          | (9.7)           |
| Changes in non-cash working capital                        | (24.2)                         | (3.9)           |
| Other  | (0.8)                          | (2.6)           |
|  | <b>(106.6)</b>                 | <b>(97.5)</b>   |
| <b>Financing activities</b>                                |                                |                 |
| Issue of long term debt                                    | -                              | 180.0           |
| Dividends paid to Class A and Class B share owner          | (25.1)                         | (20.2)          |
| Changes in non-cash working capital                        | (0.3)                          | -               |
| Other  | (0.1)                          | (1.0)           |
|  | <b>(25.5)</b>                  | <b>158.8</b>    |
| <b>Cash position <sup>(1)</sup></b>                        |                                |                 |
| Increase   | 111.9                          | 363.0           |
| Beginning of period  | 54.4                           | (242.2)         |
| <b>End of period</b>                                       | <b>\$ 166.3</b>                | <b>\$ 120.8</b> |

<sup>(1)</sup> Cash position includes cash and short term investments and short term advance to parent corporation less short term advances from parent and affiliate corporations.

**CU INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2005**  
*(Unaudited, Tabular Amounts in Millions of Canadian Dollars)*

**1. Financial statement presentation**

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, 2004 consolidated financial statements and related notes. These interim financial statements have been prepared using the same accounting policies as used in the financial statements for the year ended December 31, 2004, except as described below.

Effective January 1, 2005, the Corporation prospectively adopted the Canadian Institute of Chartered Accountants (“CICA”) guideline pertaining to the consolidation of variable interest entities. The guideline requires the Corporation to identify variable interest entities in which it has an interest, determine whether it is the primary beneficiary of such entities, and, if so, to consolidate them. This change in accounting had no effect on the consolidated financial statements for the three months ended March 31, 2005.

Due to the seasonal nature of the Corporation’s operations and the timing of rate decisions, the consolidated statements of earnings and retained earnings for the three months ended March 31, 2005 and March 31, 2004 are not necessarily indicative of operations on an annual basis.

**2. Transfer of retail energy supply businesses**

On May 4, 2004, ATCO Gas and ATCO Electric transferred their retail energy supply businesses to Direct Energy Marketing Limited and one of its affiliates (collectively “DEML”), a subsidiary of Centrica plc. Proceeds of the transfer were \$90 million, of which \$45 million was paid at closing, with the remainder to be paid on May 4, 2005. Net proceeds, after adjustments related to legal, transition and other deferred costs pertaining to the transfer of the retail energy supply businesses, resulted in a gain of \$63.3 million before income taxes of \$8.2 million and increased earnings by \$55.1 million for the three months ended June 30, 2004 and for the year ended December 31, 2004.

The Corporation’s revenues and natural gas supply and purchased power costs after May 4, 2004 were reduced accordingly for 2004 and thereafter. Subsequent to May 4, 2004, ATCO Gas continued to purchase natural gas on behalf of DEML until the transfer of the relevant ATCO Gas natural gas purchase contracts to DEML was completed in September 2004. There will be no ongoing impact on earnings resulting from the transfer of these businesses as natural gas and electricity have historically been sold to customers on a “no-margin” basis. ATCO Gas and ATCO Electric continue to own and operate the natural gas and electricity distribution systems used to deliver energy.

**3. Employee future benefits**

In the three months ended March 31, 2005, net expense of \$0.8 million (2004 – \$0.5 million) was recognized for pension benefit plans and net expense of \$0.5 million (2004 – \$0.3 million) was recognized for other post employment benefit plans.

#### 4. Segmented information

##### *Segmented results – Three months ended March 31*

| <b>2005</b>  |                  | Power          | Corporate     | Intersegment   |                  |
|--|------------------|----------------|---------------|----------------|------------------|
| 2004   | Utilities        | Generation     | and Other     | Eliminations   | Consolidated     |
| Revenues – external                                    | <b>\$ 431.8</b>  | <b>\$ 73.9</b> | <b>\$ -</b>   | <b>\$ -</b>    | <b>\$ 505.7</b>  |
|  | \$ 883.1         | \$ 76.9        | \$ -          | \$ -           | \$ 960.0         |
| Revenues – intersegment                                | <b>0.1</b>       | -              | -             | <b>(0.1)</b>   | -                |
|  | 1.0              | -              | -             | (1.0)          | -                |
| Revenues   | <b>\$ 431.9</b>  | <b>\$ 73.9</b> | <b>\$ -</b>   | <b>\$(0.1)</b> | <b>\$ 505.7</b>  |
|  | \$ 884.1         | \$ 76.9        | \$ -          | \$(1.0)        | \$ 960.0         |
| Earnings attributable to Class A<br>and Class B shares | <b>\$ 44.4</b>   | <b>\$ 13.9</b> | <b>\$ -</b>   | <b>\$ -</b>    | <b>\$ 58.3</b>   |
|  | \$ 49.9          | \$ 13.6        | \$ 0.3        | \$ -           | \$ 63.8          |
| Total assets   | <b>\$3,373.3</b> | <b>\$790.4</b> | <b>\$23.4</b> | <b>\$ -</b>    | <b>\$4,187.1</b> |
|  | \$3,324.1        | \$809.3        | \$ 0.9        | \$(1.9)        | \$4,132.4        |