



CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2006**

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

	Note	Three Months Ended September 30		Nine Months Ended September 30	
		2006	2005	2006	2005
		<i>(Unaudited)</i>		<i>(Unaudited)</i>	
Revenues		\$ 292.7	\$ 294.4	\$1,010.1	\$1,107.8
Costs and expenses					
Natural gas supply		0.7	0.8	1.8	125.4
Purchased power		10.0	10.4	33.6	33.2
Operation and maintenance		82.7	82.9	250.5	241.2
Selling and administrative		45.6	46.7	139.2	139.5
Depreciation and amortization		53.4	51.7	194.9	169.9
Interest	3	39.9	36.6	124.4	112.9
Franchise fees		18.4	20.9	108.0	102.8
		250.7	250.0	852.4	924.9
		42.0	44.4	157.7	182.9
Interest and other income		6.5	2.5	12.8	7.9
Earnings before income taxes		48.5	46.9	170.5	190.8
Income taxes	3	20.1	18.5	60.7	69.8
		28.4	28.4	109.8	121.0
Dividends on equity preferred shares to parent corporation		3.5	3.5	10.5	10.5
Earnings attributable to Class A and Class B shares		24.9	24.9	99.3	110.5
Retained earnings at beginning of period		1,077.4	1,042.9	1,051.4	1,036.3
		1,102.3	1,067.8	1,150.7	1,146.8
Dividends on Class A and Class B shares		24.7	23.6	73.1	102.6
Retained earnings at end of period		\$1,077.6	\$1,044.2	\$1,077.6	\$1,044.2

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

	Note	September 30 2006 <i>(Unaudited)</i>	September 30 2005 <i>(Unaudited)</i>	December 31 2005 <i>(Audited)</i>
ASSETS				
Current assets				
Cash and short term investments		\$ 11.1	\$ 46.1	\$ 35.3
Accounts receivable		145.1	146.9	194.9
Accounts receivable from parent and affiliate corporations		14.4	13.1	3.2
Inventories		69.9	65.6	65.9
Income taxes recoverable		2.6	3.8	-
Future income taxes		-	0.1	-
Regulatory assets		12.2	8.1	19.1
Prepaid expenses		11.1	11.8	7.2
		266.4	295.5	325.6
Property, plant and equipment		4,016.7	3,770.0	3,878.0
Regulatory assets		46.2	48.0	49.0
Other assets		27.8	40.8	38.2
		\$4,357.1	\$4,154.3	\$4,290.8
LIABILITIES AND SHARE OWNER'S EQUITY				
Current liabilities				
Short term advances from parent and affiliate corporations		\$ 117.4	\$ 151.9	\$ 0.2
Accounts payable and accrued liabilities		122.7	122.8	173.7
Accounts payable to parent and affiliate corporations		18.8	19.4	26.4
Income taxes payable		-	-	12.4
Future income taxes		0.2	-	4.5
Regulatory liabilities		2.0	1.4	6.4
		261.1	295.5	223.6
Future income taxes	3	46.4	69.9	64.5
Regulatory liabilities		30.0	19.3	22.5
Deferred credits		155.4	123.8	142.2
Long term debt		2,122.5	1,937.5	2,122.5
Equity preferred shares to parent corporation		256.5	256.5	256.5
Class A and Class B share owner's equity				
Class A and Class B shares		407.6	407.6	407.6
Retained earnings		1,077.6	1,044.2	1,051.4
		1,485.2	1,451.8	1,459.0
		\$4,357.1	\$4,154.3	\$4,290.8

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

	Note	Three Months Ended September 30		Nine Months Ended September 30	
		2006	2005	2006	2005
		<i>(Unaudited)</i>		<i>(Unaudited)</i>	
Operating activities					
Earnings attributable to Class A and Class B shares		\$ 24.9	\$ 24.9	\$ 99.3	\$ 110.5
Adjustments for:					
Depreciation and amortization		53.4	51.7	194.9	169.9
Future income taxes		(1.2)	5.8	(9.6)	8.1
Deferred availability incentives		12.2	(2.0)	20.8	(0.8)
Other		(8.9)	2.6	(4.8)	5.3
Cash flow from operations		80.4	83.0	300.6	293.0
Changes in non-cash working capital		(43.6)	(18.0)	(27.1)	62.5
		36.8	65.0	273.5	355.5
Investing activities					
Purchase of property, plant and equipment		(130.5)	(127.4)	(363.4)	(324.9)
Proceeds on transfer of retail energy supply businesses					
- net of income taxes		-	-	-	43.4
Costs on disposal of property, plant and equipment		(3.7)	(1.0)	(7.3)	(2.2)
Contributions by utility customers for extensions					
to plant		20.4	16.1	61.2	37.4
Non-current deferred electricity costs		(2.2)	(1.7)	13.2	(10.0)
Changes in non-cash working capital		(21.1)	(0.1)	(27.9)	(25.7)
Income tax reassessment	3	4.2	-	(12.8)	-
Other		(3.1)	(2.7)	(4.1)	(5.1)
		(136.0)	(116.8)	(341.1)	(287.1)
Financing activities					
Repayment of long term debt		-	-	-	(125.0)
Dividends paid to Class A and Class B share owner		(24.7)	(23.6)	(73.1)	(102.6)
Changes in non-cash working capital		-	(0.5)	-	(0.4)
Other		(0.2)	(0.4)	(0.7)	(0.6)
		(24.9)	(24.5)	(73.8)	(228.6)
Cash position ⁽¹⁾					
Decrease		(124.1)	(76.3)	(141.4)	(160.2)
Beginning of period		17.8	(29.5)	35.1	54.4
End of period		\$(106.3)	\$(105.8)	\$(106.3)	\$(105.8)

⁽¹⁾ Cash position includes cash and short term investments less short term advances from parent and affiliate corporations.

CU INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006
(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 and should be read in conjunction with the Corporation's December 31, 2005 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, 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 and nine months ended September 30, 2006 and September 30, 2005 are not necessarily indicative of operations on an annual basis.

Certain comparative figures have been reclassified to conform to the current presentation.

2. Regulatory matters

On March 17, 2006, ATCO Electric received a decision on its general tariff application for 2005 and 2006 which was filed with the Alberta Energy and Utilities Board ("AEUB") in May 2005. The decision establishes the amount of revenue ATCO Electric can recover through its rates for electric distribution and transmission service provided to its customers for 2005 and 2006. In July and September 2005, the AEUB had approved interim refundable rates for distribution and transmission operations, respectively; revenues associated with these interim refundable rates were recorded in 2005. The impact of the decision for 2005 reduced earnings by \$2.5 million and was recorded in the first quarter of 2006. The impact of the decision for the full year 2006, as compared to the decision for the full year 2005, will further reduce earnings by \$3.2 million. The decision also confirmed the return on common equity as determined by the AEUB's standardized rate of return methodology. The rate of return on common equity was 9.5% in 2005 and is 8.93% in 2006.

On January 27, 2006, ATCO Gas received a decision on its general rate application which was filed with the AEUB in May 2005 for the 2005, 2006 and 2007 test years. The decision establishes the amount of revenue ATCO Gas can recover through distribution rates for natural gas distribution service to its customers over the period of 2005 to 2007. The decision also approved the return on common equity as determined by the AEUB's standardized rate of return methodology. The rate of return on common equity was 9.5% in 2005, is 8.93% in 2006, and is yet to be determined for 2007. The final impact of the decision will not be known until a subsequent regulatory process is finalized. A decision from the AEUB with respect to a second regulatory process that was pending at the end of the second quarter was received on October 11, 2006; the effect of this decision on the earnings of the Corporation will not be material.

The Corporation has a number of other regulatory filings and regulatory hearing submissions before the AEUB for which decisions have not been received. The outcome of these matters cannot be determined at this time.

3. H.R. Milner income tax reassessment

In the third quarter of 2006, the Canada Revenue Agency ("CRA") issued a reassessment for Alberta Power (2000)'s 2001 taxation year. The CRA's reassessment treats the proceeds received from the sale of the H.R. Milner generating plant to the Alberta Balancing Pool as income rather than as a sale of an asset. The Corporation has made submissions to the CRA opposing the CRA's position. The impact of the reassessment is a \$12.4 million increase in interest and income tax expense, a \$12.4 million decrease in earnings and a \$28.8 million payment in July 2006 associated with the tax and interest assessed. It is expected that \$16.4 million of this cash payment will be recovered by reducing income taxes payable through higher capital cost allowance claims, of which \$3.6 million is expected to be recovered in the current year and \$12.8 million will be recovered in future years. Due to the uncertainty as to whether the reassessment will ultimately be resolved in the Corporation's favour, the Corporation reduced earnings by \$12.4 million in 2006, of which \$8.0 million was recorded in the second quarter.

4. Employee future benefits

In the three months ended September 30, 2006, net expense of \$0.7 million (2005 – \$0.6 million) was recognized for pension benefit plans and net expense of \$0.5 million (2005 – \$0.5 million) was recognized for other post employment benefit plans.

In the nine months ended September 30, 2006, net expense of \$2.2 million (2005 – \$2.0 million) was recognized for pension benefit plans and net expense of \$1.7 million (2005 – \$1.5 million) was recognized for other post employment benefit plans.

5. Segmented information

Segmented results – Three months ended September 30

2006		Power	Corporate	Intersegment	
2005	Utilities	Generation	and Other	Eliminations	Consolidated
<i>(Unaudited)</i>					
Revenues – external	\$216.7	\$76.0	\$ -	\$ -	\$292.7
	\$221.6	\$72.8	\$ -	\$ -	\$294.4
Revenues – intersegment	0.1	-	-	(0.1)	-
	-	-	-	-	-
Revenues	\$216.8	\$76.0	\$ -	\$(0.1)	\$292.7
	\$221.6	\$72.8	\$ -	\$ -	\$294.4
Earnings attributable to Class A and Class B shares	\$ 18.8	\$ 6.0	\$0.1	\$ -	\$ 24.9
	\$ 13.4	\$11.5	\$ -	\$ -	\$ 24.9

Segmented results – Nine months ended September 30

2006		Power	Corporate	Intersegment	
2005	Utilities	Generation	and Other	Eliminations	Consolidated
Revenues – external	\$ 790.0	\$220.1	\$ -	\$ -	\$1,010.1
	\$ 889.5	\$218.3	\$ -	\$ -	\$1,107.8
Revenues – intersegment	0.1	-	-	(0.1)	-
	0.1	-	-	(0.1)	-
Revenues	\$ 790.1	\$220.1	\$ -	\$(0.1)	\$1,010.1
	\$ 889.6	\$218.3	\$ -	\$ (0.1)	\$1,107.8
Earnings attributable to Class A and Class B shares	\$ 76.9	\$ 22.3	\$0.1	\$ -	\$ 99.3
	\$ 73.5	\$ 36.9	\$0.1	\$ -	\$ 110.5
Total assets	\$3,635.2	\$750.1	\$0.6	\$(28.8)	\$4,357.1
	\$3,402.3	\$751.3	\$0.8	\$ (0.1)	\$4,154.3