



**CANADIAN UTILITIES LIMITED**  
An **ATCO** Company

**CANADIAN UTILITIES LIMITED**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
*(UNAUDITED)*

**FOR THE NINE MONTHS ENDED**  
**SEPTEMBER 30, 2011**

**Canadian Utilities Limited**  
**Consolidated Statement of Earnings**  
*(Millions of Canadian Dollars except per share data)*

|  | Note | Three Months Ended<br>September 30 |         | Nine Months Ended<br>September 30 |          |
|--|------|------------------------------------|---------|-----------------------------------|----------|
|  |      | 2011                               | 2010    | 2011                              | 2010     |
| <b>Revenues</b>  | 9    | \$ 696                             | \$ 562  | \$ 2,168                          | \$ 1,977 |
| <b>Costs and expenses</b>  |      |                                    |         |                                   |          |
| Salaries, wages and benefits                                       | 15   | (106)                              | (103)   | (312)                             | (280)    |
| Energy transmission and transportation                             |      | (6)                                | (3)     | (23)                              | (7)      |
| Plant and equipment maintenance                                    |      | (59)                               | (36)    | (140)                             | (120)    |
| Fuel costs   |      | (98)                               | (61)    | (311)                             | (201)    |
| Purchased power  |      | (12)                               | (13)    | (40)                              | (40)     |
| Materials and consumables  |      | (18)                               | (10)    | (45)                              | (164)    |
| Depreciation and amortization                                      | 8    | (94)                               | (83)    | (268)                             | (248)    |
| Franchise fees   |      | (30)                               | (29)    | (132)                             | (126)    |
| Other  | 4    | (123)                              | (63)    | (278)                             | (208)    |
|  |      | (546)                              | (401)   | (1,549)                           | (1,394)  |
|  |      | 150                                | 161     | 619                               | 583      |
| <b>Earnings from investment in ATCO Structures &amp; Logistics</b> |      | 6                                  | 5       | 17                                | 15       |
| <b>Other income (expense)</b>                                      |      | 6                                  | 1       | 4                                 | (9)      |
| <b>Operating profit</b>  |      | 162                                | 167     | 640                               | 589      |
| Interest income  |      | 4                                  | 6       | 14                                | 13       |
| Interest expense   |      | (59)                               | (53)    | (166)                             | (167)    |
| <b>Net finance costs</b>   |      | (55)                               | (47)    | (152)                             | (154)    |
| <b>Earnings before income taxes</b>                                |      | 107                                | 120     | 488                               | 435      |
| <b>Income taxes</b>  |      | (35)                               | (29)    | (133)                             | (109)    |
| <b>Earnings for the period</b>                                     |      | \$ 72                              | \$ 91   | \$ 355                            | \$ 326   |
| <b>Earnings attributable to:</b>                                   |      |                                    |         |                                   |          |
| Equity owners of the Corporation                                   |      | \$ 66                              | \$ 87   | \$ 340                            | \$ 314   |
| Equity preferred share owners of subsidiary                        |      | 6                                  | 4       | 15                                | 12       |
|  |      | \$ 72                              | \$ 91   | \$ 355                            | \$ 326   |
| <b>Earnings per Class A and Class B share</b>                      | 12   | \$ 0.47                            | \$ 0.64 | \$ 2.51                           | \$ 2.34  |
| <b>Diluted earnings per Class A and Class B share</b>              | 12   | \$ 0.47                            | \$ 0.64 | \$ 2.51                           | \$ 2.33  |

**Canadian Utilities Limited**  
**Consolidated Statement of Comprehensive Income**  
*(Millions of Canadian Dollars)*

|  | Note | Three Months Ended<br>September 30 |        | Nine Months Ended<br>September 30 |        |
|--|------|------------------------------------|--------|-----------------------------------|--------|
|  |      | 2011                               | 2010   | 2011                              | 2010   |
| <b>Earnings for the period</b>                                 |      | \$ 72                              | \$ 91  | \$ 355                            | \$ 326 |
| <b>Other comprehensive income (loss), net of income taxes:</b> |      |                                    |        |                                   |        |
| Actuarial gain (loss) on retirement benefits <sup>(1)</sup>    | 15   | (141)                              | 59     | (118)                             | (50)   |
| Cash flow hedges <sup>(2)</sup>                                |      | (13)                               | 2      | (14)                              | (2)    |
| Foreign currency translation adjustment <sup>(3)</sup>         |      | -                                  | 16     | 4                                 | (1)    |
|  |      | (154)                              | 77     | (128)                             | (53)   |
| <b>Comprehensive income (loss) for the period</b>              |      | \$ (82)                            | \$ 168 | \$ 227                            | \$ 273 |
| <b>Comprehensive income (loss) attributable to:</b>            |      |                                    |        |                                   |        |
| Equity owners of the Corporation                               |      | \$ (88)                            | \$ 164 | \$ 212                            | \$ 261 |
| Equity preferred share owners of subsidiary                    |      | 6                                  | 4      | 15                                | 12     |
|  |      | \$ (82)                            | \$ 168 | \$ 227                            | \$ 273 |

<sup>(1)</sup> Net of income taxes of \$31 million and \$39 million for the three and nine months ended September 30, 2011, respectively (2010 - \$(20) million and \$16 million).

<sup>(2)</sup> Net of income taxes of \$4 million and \$4 million for the three and nine months ended September 30, 2011, respectively (2010 - less than \$1 million).

<sup>(3)</sup> Net of income taxes of nil.

**Canadian Utilities Limited**  
**Consolidated Balance Sheet**  
*(Millions of Canadian Dollars)*

|   | Note | September 30<br>2011 | December 31<br>2010 |
|---|------|----------------------|---------------------|
| <b>ASSETS</b>                                     |      |                      |                     |
| <b>Current assets</b>                             |      |                      |                     |
| Cash and cash equivalents                         |      | \$ 237               | \$ 540              |
| Accounts receivable                               |      | 358                  | 356                 |
| Finance lease receivables                         | 9    | 14                   | 11                  |
| Inventories                                       |      | 88                   | 82                  |
| Prepaid expenses and other current assets         |      | 52                   | 50                  |
|   |      | <b>749</b>           | 1,039               |
| <b>Non-current assets</b>                         |      |                      |                     |
| Property, plant and equipment                     | 4,8  | 9,025                | 7,357               |
| Intangibles                                       |      | 269                  | 255                 |
| Investment in ATCO Structures & Logistics         |      | 145                  | 137                 |
| Finance lease receivables                         | 9    | 529                  | 479                 |
| Other assets                                      |      | 79                   | 50                  |
| <b>Total assets</b>                               |      | <b>\$ 10,796</b>     | <b>\$ 9,317</b>     |
| <b>LIABILITIES</b>                                |      |                      |                     |
| <b>Current liabilities</b>                        |      |                      |                     |
| Accounts payable and accrued liabilities          |      | \$ 459               | \$ 406              |
| Provisions  |      | 38                   | -                   |
| Other current liabilities                         |      | 23                   | 22                  |
| Long term debt                                    | 4    | 257                  | 103                 |
| Non-recourse long term debt                       |      | 37                   | 38                  |
|   |      | <b>814</b>           | 569                 |
| <b>Non-current liabilities</b>                    |      |                      |                     |
| Deferred income tax liabilities                   |      | 420                  | 374                 |
| Provisions  |      | 170                  | 112                 |
| Retirement benefit obligations                    | 15   | 419                  | 282                 |
| Long term debt                                    | 4    | 3,374                | 2,960               |
| Non-recourse long term debt                       |      | 350                  | 303                 |
| Other liabilities                                 |      | 1,108                | 1,000               |
| <b>Total liabilities</b>                          |      | <b>6,655</b>         | 5,600               |
| <b>EQUITY</b>                                     |      |                      |                     |
| Equity preferred shares                           | 11   | 824                  | 505                 |
| Equity preferred shares of subsidiary corporation |      | 343                  | 343                 |
| <b>Class A and Class B share owners' equity</b>   |      |                      |                     |
| Class A and Class B shares                        | 12   | 620                  | 533                 |
| Contributed surplus                               |      | -                    | 1                   |
| Retained earnings                                 |      | 2,374                | 2,345               |
| Accumulated other comprehensive income            |      | (20)                 | (10)                |
|   |      | <b>2,974</b>         | 2,869               |
| <b>Total equity</b>                               |      | <b>4,141</b>         | 3,717               |
| <b>Total liabilities and equity</b>               |      | <b>\$ 10,796</b>     | <b>\$ 9,317</b>     |

**Canadian Utilities Limited**  
**Consolidated Statement of Changes in Equity**

*(Millions of Canadian Dollars)*

|   | Note | Class A and<br>Class B<br>Shares | Equity<br>Preferred<br>Shares <sup>(1)</sup> | Contributed<br>Surplus | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total<br>Equity |
|---|------|----------------------------------|--|------------------------|----------------------|---|-----------------|
| At January 1, 2010 <i>(as restated)</i>                           |      | \$ 528                           | \$ 775                                       | \$ 3                   | \$ 2,337             | \$ (3)  | \$ 3,640        |
| Earnings for the period   |      | -                                | -  | -                      | 326                  | -   | 326             |
| Shares purchased and cancelled                                    |      | -                                | -  | -                      | (4)                  | -   | (4)             |
| Dividends   |      | -                                | -  | -                      | (175)                | -   | (175)           |
| Share based compensation  |      | 2                                | -  | (2)                    | -                    | -   | -               |
| Other comprehensive income  |      | -                                | -  | -                      | -                    | (53)  | (53)            |
| Actuarial gain (loss) transferred to<br>retained earnings         |      | -                                | -  | -                      | (50)                 | 50  | -               |
| <b>At September 30, 2010</b>                                      |      | <b>\$ 530</b>                    | <b>\$ 775</b>                                | <b>\$ 1</b>            | <b>\$ 2,434</b>      | <b>\$ (6)</b>                                   | <b>\$ 3,734</b> |
| <b>At December 31, 2010</b>                                       |      | <b>\$ 533</b>                    | <b>\$ 848</b>                                | <b>\$ 1</b>            | <b>\$ 2,345</b>      | <b>\$ (10)</b>                                  | <b>\$ 3,717</b> |
| <b>Earnings for the period</b>                                    |      | -                                | -  | -                      | <b>355</b>           | -   | <b>355</b>      |
| <b>Shares issued</b>  |      | <b>83</b>                        | <b>319</b>                                   | -                      | -                    | -   | <b>402</b>      |
| <b>Dividends</b>  |      | -                                | -  | -                      | <b>(189)</b>         | -   | <b>(189)</b>    |
| <b>Share based compensation</b>                                   |      | <b>4</b>                         | -  | <b>(1)</b>             | <b>(2)</b>           | -   | <b>1</b>        |
| <b>Other comprehensive income</b>                                 |      | -                                | -  | -                      | -                    | <b>(128)</b>                                    | <b>(128)</b>    |
| <b>Actuarial gain (loss) transferred to<br/>retained earnings</b> |      | -                                | -  | -                      | <b>(118)</b>         | <b>118</b>                                      | -               |
| <b>Other</b>  | 6    | -                                | -  | -                      | <b>(17)</b>          | -   | <b>(17)</b>     |
| <b>At September 30, 2011</b>                                      |      | <b>\$ 620</b>                    | <b>\$ 1,167</b>                              | <b>\$ -</b>            | <b>\$ 2,374</b>      | <b>\$ (20)</b>                                  | <b>\$ 4,141</b> |

<sup>(1)</sup> Includes equity preferred shares and equity preferred shares of subsidiary corporation.

**Canadian Utilities Limited**  
**Consolidated Statement of Cash Flows**  
*(Millions of Canadian Dollars)*

|  | Note | Three Months Ended<br>September 30 |               | Nine Months Ended<br>September 30 |               |
|--|------|------------------------------------|---------------|-----------------------------------|---------------|
|  |      | 2011                               | 2010          | 2011                              | 2010          |
| <b>Operating activities</b>                                |      |                                    |               |                                   |               |
| Earnings for the period                                    |      | \$ 72                              | \$ 91         | \$ 355                            | \$ 326        |
| Adjustments for:   |      |                                    |               |                                   |               |
| Depreciation and amortization                              |      | 94                                 | 83            | 268                               | 248           |
| Earnings from investment in ATCO Structures & Logistics    |      | (6)                                | (5)           | (17)                              | (15)          |
| Dividends received from ATCO Structures & Logistics        |      | 1                                  | 1             | 5                                 | 2             |
| Income taxes   |      | 35                                 | 34            | 131                               | 107           |
| Unearned availability incentives                           |      | -                                  | -             | 16                                | (22)          |
| Contributions by utility customers for extensions to plant |      | 30                                 | 13            | 75                                | 48            |
| Amortization of customer contributions                     |      | (8)                                | (8)           | (24)                              | (23)          |
| Net finance costs  |      | 55                                 | 47            | 152                               | 154           |
| Income taxes paid  |      | (11)                               | (22)          | (64)                              | (87)          |
| Other  |      | (2)                                | 7             | 17                                | 9             |
|  |      | <b>260</b>                         | <b>241</b>    | <b>914</b>                        | <b>747</b>    |
| Changes in non-cash working capital                        | 14   | <b>33</b>                          | <b>(27)</b>   | <b>42</b>                         | <b>43</b>     |
| <b>Cash flow from operations</b>                           |      | <b>293</b>                         | <b>214</b>    | <b>956</b>                        | <b>790</b>    |
| <b>Investing activities</b>                                |      |                                    |               |                                   |               |
| Purchase of property, plant and equipment                  |      | <b>(357)</b>                       | <b>(187)</b>  | <b>(814)</b>                      | <b>(549)</b>  |
| Acquisition, net of cash acquired                          | 4    | <b>(315)</b>                       | <b>-</b>      | <b>(315)</b>                      | <b>-</b>      |
| Proceeds on disposal of property, plant and equipment      |      | <b>2</b>                           | <b>(1)</b>    | <b>2</b>                          | <b>15</b>     |
| Purchase of intangibles                                    |      | <b>(9)</b>                         | <b>(10)</b>   | <b>(27)</b>                       | <b>(26)</b>   |
| Changes in non-cash working capital                        | 14   | <b>28</b>                          | <b>2</b>      | <b>29</b>                         | <b>(16)</b>   |
| Other  |      | <b>(3)</b>                         | <b>-</b>      | <b>3</b>                          | <b>2</b>      |
|  |      | <b>(654)</b>                       | <b>(196)</b>  | <b>(1,122)</b>                    | <b>(574)</b>  |
| <b>Financing activities</b>                                |      |                                    |               |                                   |               |
| Issue of long term debt                                    |      | <b>5</b>                           | <b>-</b>      | <b>5</b>                          | <b>-</b>      |
| Repayment of long term debt                                |      | <b>(3)</b>                         | <b>(172)</b>  | <b>(108)</b>                      | <b>(173)</b>  |
| Repayment of non-recourse long term debt                   |      | <b>(8)</b>                         | <b>(15)</b>   | <b>(31)</b>                       | <b>(47)</b>   |
| Issue of equity preferred shares                           | 11   | <b>325</b>                         | <b>-</b>      | <b>325</b>                        | <b>-</b>      |
| Net issue (purchase) of Class A shares                     |      | <b>4</b>                           | <b>(1)</b>    | <b>5</b>                          | <b>(3)</b>    |
| Dividends paid on equity preferred shares of subsidiary    |      | <b>(12)</b>                        | <b>(10)</b>   | <b>(35)</b>                       | <b>(32)</b>   |
| Dividends paid to Class A and Class B share owners         |      | <b>(51)</b>                        | <b>(48)</b>   | <b>(154)</b>                      | <b>(143)</b>  |
| Interest paid  |      | <b>(42)</b>                        | <b>(39)</b>   | <b>(150)</b>                      | <b>(150)</b>  |
| Other  |      | <b>(7)</b>                         | <b>(1)</b>    | <b>(5)</b>                        | <b>(2)</b>    |
|  |      | <b>211</b>                         | <b>(286)</b>  | <b>(148)</b>                      | <b>(550)</b>  |
| <b>Foreign currency translation</b>                        |      | <b>9</b>                           | <b>5</b>      | <b>11</b>                         | <b>(5)</b>    |
| <b>Cash position <sup>(1)</sup></b>                        |      |                                    |               |                                   |               |
| Decrease   |      | <b>(141)</b>                       | <b>(263)</b>  | <b>(303)</b>                      | <b>(339)</b>  |
| Beginning of period  |      | <b>378</b>                         | <b>720</b>    | <b>540</b>                        | <b>796</b>    |
| <b>End of period</b>                                       |      | <b>\$ 237</b>                      | <b>\$ 457</b> | <b>\$ 237</b>                     | <b>\$ 457</b> |

<sup>(1)</sup> Cash position includes \$38 million (2010 - \$69 million) which is only available for use in joint arrangements.

**CANADIAN UTILITIES LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011**

*(tabular amounts in millions of Canadian dollars)*

**1. CORPORATE INFORMATION**

Alberta-based Canadian Utilities Limited is engaged in Utilities (pipelines, natural gas and electricity transmission and distribution), Energy (power generation, natural gas gathering, processing, storage and liquids extraction) and Technologies (business systems solutions). Canadian Utilities Limited is domiciled in Canada, and is listed on the Toronto Stock Exchange. Its registered office is at 1400, 909-11<sup>th</sup> Avenue SW, Calgary, Alberta, T2R 1N6. The Corporation is principally controlled by ATCO Ltd. and its controlling share owner, R.D. Southern.

These consolidated financial statements include the accounts of Canadian Utilities Limited and its subsidiaries, including a proportionate share of joint venture investments and an equity accounted for investment in ATCO Structures & Logistics (“the Corporation”). The consolidated financial statements were authorized for issue by the Audit Committee of the Board of Directors on October 27, 2011.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Financial Statement Presentation and Consolidation***

The accompanying condensed interim consolidated financial statements have been prepared in accordance with 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 (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”). These interim consolidated financial statements also comply with IFRS 1 *First-time Adoption of IFRS*. They should be read in conjunction with the Corporation’s consolidated financial statements and related notes included in the Corporation’s Financial Information contained in its 2010 Annual Report, and interim consolidated financial statements for the three months ended March 31, 2011 prepared in accordance with IFRS applicable to interim consolidated financial statements. In this context, the term “Canadian GAAP” refers to generally accepted accounting principles before the adoption of IFRS.

Subject to certain transition elections, the Corporation has consistently applied the same accounting policies in its opening IFRS consolidated balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. In addition, the accounting policies followed in these interim consolidated financial statements are the same as those applied in the Corporation’s interim consolidated financial statements for the three months ended March 31, 2011. Previously, the Corporation prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian GAAP. Note 3 discloses reconciliations to IFRS from the previously published Canadian GAAP primary financial statements, including the nature and effect of significant changes in accounting policies from those used in the Corporation’s consolidated financial statements for the nine months ended September 30, 2010. Comparative figures for 2010 in these consolidated financial statements have been restated to give effect to these changes.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of October 27, 2011. Any subsequent changes to IFRS that are given effect in the

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Corporation's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on transition to IFRS.

Due to certain factors, revenues, earnings and adjusted earnings for any quarter are not necessarily indicative of operations on an annual basis.

### *Significant Judgments and Estimates*

The preparation of the Corporation's consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. On an on-going basis, management reviews its estimates, particularly those related to revenue recognition, depreciation and amortization methods, useful lives and impairment of long-lived assets, duration of interest capitalization for qualifying assets, amortization of unearned availability incentives, asset retirement obligations and other provisions, retirement benefits, the fair value of financial instruments, and the fair value of identifiable assets acquired and the liabilities assumed in business combinations, using currently available information. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### *Business Combinations*

Business combinations are accounted for using the acquisition method. Assets and liabilities acquired are measured at their fair value at the acquisition date and acquisition-related costs are expensed in the period incurred.

### *Accounting Changes Not Yet Adopted*

Certain new or amended standards have been issued by the IASB that are not required to be adopted in the current period. The Corporation has not early adopted these standards. The standards which the Corporation anticipates will have a material effect on the consolidated financial statements or note disclosures are described below:

IFRS 11 *Joint Arrangements* classifies joint arrangements into two types: joint operations and joint ventures.

- A joint operation is a joint arrangement where the owners directly own a share of the individual assets and are directly responsible for paying a share of the individual liabilities of the joint arrangement. A joint operator is required to recognize its share of assets, liabilities, revenues and expenses. The Corporation will continue to proportionately consolidate its joint operations.
- A joint venture is where the joint arrangement itself (and not the owners) directly owns the assets and is directly responsible for paying the liabilities of the arrangement. A joint venturer is required to account for its investment using the equity method of accounting where only the net investment in the joint venture and net earnings of the joint venture are recognized. Consequently, the Corporation will change its method of accounting for its joint ventures from proportionate consolidation to the equity method.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

This change in accounting policy would not have an impact on net earnings or equity, but it would impact individual assets, liabilities, revenues and expenses along with capitalization and coverage ratios. The new standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 12 *Disclosure of Interests in Other Entities* sets out the required disclosures for entities reporting under the consolidation and joint arrangements standards. The standard describes the disclosures required for entities reporting under IFRS 10 *Consolidation* and IFRS 11 *Joint Arrangements*. The disclosure is designed to help users to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates and joint arrangements. The standard includes disclosure about significant judgments and assumptions made in determining whether the entity controls, jointly controls or has significant influence over other entities. The new standard is effective for annual periods beginning on or after January 1, 2013, and will result in additional disclosures.

IFRS 13 *Fair Value Measurement* explains how to measure fair value and aims to enhance fair value disclosures. Under this new standard, a company would maximize the use of quoted prices for the same or similar assets in active markets in determining fair value. For non financial assets where there is no active market, a company would consider the best use that another market participant would have for the asset even though that is not what the company currently uses it for. The effect of any changes for the Corporation is limited to fair value disclosures for financial instruments, the fair value of defined benefit pension assets and in asset impairment calculations. This IFRS is effective for financial statements beginning on and after January 1, 2013.

IAS 19 *Employee Benefits* has been amended to change the recognition and measurement of defined benefit pension expense and termination benefits and increase disclosures. The only significant change for the Corporation is that the expected return on assets and interest cost on pension obligations will be combined into a net interest cost calculated using a single discount rate on net pension assets or liabilities. As the expected return on assets, which includes an equity and management premium, is currently higher than the liability discount rate, the change in the calculation will result in higher pension expense. The new standard is effective for annual periods beginning on or after January 1, 2013.

There are no other standards and interpretations that have been issued, but are not yet effective, that the Corporation anticipates will have a material effect on the consolidated financial statements once adopted.

## 3. ADOPTION OF IFRS

The Corporation's consolidated financial statements for the year ended December 31, 2011 will be the first annual financial statements that comply with IFRS. These interim consolidated financial statements have been prepared as described in Note 2, including the application of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, with a date of transition of January 1, 2010 ("Transition Date"). The first time adoption of IFRS is disclosed in the interim consolidated financial statements for the three months ended March 31, 2011.

The following tables reconcile the consolidated financial statements previously reported under Canadian GAAP to the consolidated financial statements prepared in accordance with IFRS. Explanations of the effect of the transition to IFRS follow the reconciliations.

### 3. ADOPTION OF IFRS (continued)

#### *Reconciliation of the Consolidated Statement of Earnings for the Three Months Ended September 30, 2010*

**Canadian Utilities Limited**  
**Three Months Ended September 30, 2010**  
*(Millions of Canadian Dollars)*

|  | Notes     | Canadian<br>GAAP | Effect of<br>Transition<br>to IFRS | IFRS         |
|--|-----------|------------------|------------------------------------|--------------|
| <b>Revenues</b>  | l,m,n     | <b>\$551</b>     | \$ 11                              | <b>\$562</b> |
| <b>Costs and expenses</b>  |           |                  |                                    |              |
| Natural gas supply   | s         | 16               | (16)                               | -            |
| Purchased power  |           | 13               | -                                  | 13           |
| Operation and maintenance  | s         | 192              | (192)                              | -            |
| Selling and administrative   | s         | 69               | (69)                               | -            |
| Depreciation and amortization                                      | d,e,l,m,n | 85               | (2)                                | 83           |
| Interest   | s,t       | 60               | (60)                               | -            |
| Franchise fees   |           | 29               | -                                  | 29           |
| Salaries, wages and benefits                                       | f,s       | -                | 103                                | 103          |
| Energy transmission and transportation                             | s         | -                | 3                                  | 3            |
| Plant and equipment maintenance                                    | e,m,s     | -                | 36                                 | 36           |
| Fuel costs   | s         | -                | 61                                 | 61           |
| Materials and consumables  | s         | -                | 10                                 | 10           |
| Other  | s         | -                | 63                                 | 63           |
|  |           | <b>464</b>       | (63)                               | <b>401</b>   |
|  |           | <b>87</b>        | 74                                 | <b>161</b>   |
| <b>Earnings from investment in ATCO Structures &amp; Logistics</b> |           | <b>6</b>         | (1)                                | <b>5</b>     |
| <b>Other income (expense)</b>                                      | s,t       | <b>15</b>        | (14)                               | <b>1</b>     |
| <b>Operating profit</b>  |           | <b>108</b>       | 59                                 | <b>167</b>   |
| Interest income  | s,t       | -                | 6                                  | 6            |
| Interest expense   | s,t       | -                | 53                                 | 53           |
| <b>Net finance costs</b>   | s,t       | -                | 47                                 | <b>47</b>    |
| <b>Earnings before income taxes</b>                                |           | <b>108</b>       | 12                                 | <b>120</b>   |
| <b>Income taxes</b>  |           | <b>14</b>        | 15                                 | <b>29</b>    |
| <b>Earnings for the period</b>                                     |           | <b>\$ 94</b>     | \$ (3)                             | <b>\$ 91</b> |
| <b>Earnings attributable to:</b>                                   |           |                  |                                    |              |
| Equity owners of the Corporation                                   |           | <b>\$ 90</b>     | \$ (3)                             | <b>\$ 87</b> |
| Equity preferred share owners of subsidiary                        |           | 4                | -                                  | 4            |
| <b>Earnings for the period</b>                                     |           | <b>\$ 94</b>     | \$ (3)                             | <b>\$ 91</b> |

### 3. ADOPTION OF IFRS (continued)

#### *Reconciliation of the Consolidated Statement of Earnings for the Nine Months Ended September 30, 2010*

**Canadian Utilities Limited**  
**Nine Months Ended September 30, 2010**  
*(Millions of Canadian Dollars)*

|  | Notes     | Canadian<br>GAAP | Effect of<br>Transition<br>to IFRS | IFRS           |
|--|-----------|------------------|------------------------------------|----------------|
| <b>Revenues</b>  | l,m,n     | <b>\$1,948</b>   | \$ 29                              | <b>\$1,977</b> |
| <b>Costs and expenses</b>  |           |                  |                                    |                |
| Natural gas supply   | s         | 37               | (37)                               | -              |
| Purchased power  |           | 40               | -                                  | 40             |
| Operation and maintenance  | s         | 757              | (757)                              | -              |
| Selling and administrative   | s         | 186              | (186)                              | -              |
| Depreciation and amortization                                      | d,e,l,m,n | 253              | (5)                                | 248            |
| Interest   | s,t       | 180              | (180)                              | -              |
| Franchise fees   |           | 126              | -                                  | 126            |
| Salaries, wages and benefits                                       | f,s       | -                | 280                                | 280            |
| Energy transmission and transportation                             | s         | -                | 7                                  | 7              |
| Plant and equipment maintenance                                    | e,m,s     | -                | 120                                | 120            |
| Fuel costs   | s         | -                | 201                                | 201            |
| Materials and consumables  | s         | -                | 164                                | 164            |
| Other  | s         | -                | 208                                | 208            |
|  |           | <b>1,579</b>     | <b>(185)</b>                       | <b>1,394</b>   |
|  |           | <b>369</b>       | <b>214</b>                         | <b>583</b>     |
| <b>Earnings from investment in ATCO Structures &amp; Logistics</b> |           | <b>15</b>        | <b>-</b>                           | <b>15</b>      |
| <b>Other income (expense)</b>                                      | s,t       | <b>31</b>        | <b>(40)</b>                        | <b>(9)</b>     |
| <b>Operating profit</b>  |           | <b>415</b>       | <b>174</b>                         | <b>589</b>     |
| Interest income  | s,t       | -                | 13                                 | 13             |
| Interest expense   | s,t       | -                | 167                                | 167            |
| <b>Net finance costs</b>   | s,t       | <b>-</b>         | <b>154</b>                         | <b>154</b>     |
| <b>Earnings before income taxes</b>                                |           | <b>415</b>       | <b>20</b>                          | <b>435</b>     |
| <b>Income taxes</b>  |           | <b>76</b>        | <b>33</b>                          | <b>109</b>     |
| <b>Earnings for the period</b>                                     |           | <b>\$ 339</b>    | <b>\$ (13)</b>                     | <b>\$ 326</b>  |
| <b>Earnings attributable to:</b>                                   |           |                  |                                    |                |
| Equity owners of the Corporation                                   |           | \$ 327           | \$ (13)                            | \$ 314         |
| Equity preferred share owners of subsidiary                        |           | 12               | -                                  | 12             |
| <b>Earnings for the period</b>                                     |           | <b>\$ 339</b>    | <b>\$ (13)</b>                     | <b>\$ 326</b>  |

### 3. ADOPTION OF IFRS (continued)

#### *Reconciliation of the Consolidated Statement of Changes in Equity as at September 30, 2010*

|  | September 30<br>2010 |
|--|----------------------|
| Equity under Canadian GAAP   | \$3,984              |
| IFRS adjustments increase (decrease):  |                      |
| Fair value as deemed cost for certain items of property, plant and equipment | (117)                |
| Retirement benefits – actuarial gains and losses                             | (184)                |
| Assets and liabilities from rate regulated activities                        | 158                  |
| Lease accounting treatment for certain power generation assets               | (9)                  |
| Asset retirement obligations   | (18)                 |
| Rate regulated property, plant and equipment                                 | (75)                 |
| Major overhauls  | (6)                  |
| Other  | 1                    |
| Equity under IFRS  | \$3,734              |

#### *Reconciliation of Comprehensive Income for the Three and Nine Months Ended September 30, 2010*

|   | Three Months<br>Ended<br>September 30<br>2010 | Nine Months<br>Ended<br>September 30<br>2010 |
|---|---|--|
| Comprehensive income under Canadian GAAP                                      | \$ 100  | \$ 300                                       |
| Increase (decrease) in earnings for the period:                               |   |  |
| Depreciation on revaluation of certain items of property, plant and equipment | 2   | 6  |
| Retirement benefits – amortization of actuarial gains and losses              | 1   | 8  |
| Assets and liabilities from rate regulated activities                         | (8)   | (20)   |
| Lease accounting treatment for certain power generation assets                | 1   | 4  |
| Asset retirement obligations  | -   | 1  |
| Major overhauls   | -   | (1)  |
| Share based compensation  | 1   | 1  |
| Other   | 12  | 21   |
|   | 9   | 20   |
| Increase (decrease) in other comprehensive income for the period:             |   |  |
| Cash flow hedges  | 2   | (1)  |
| Foreign currency translation  | (2)   | 4  |
| Retirement benefits – actuarial gains and losses                              | 59  | (50)   |
|   | 59  | (47)   |
| Comprehensive income under IFRS   | \$ 168  | \$ 273                                       |

### 3. ADOPTION OF IFRS (continued)

#### *Reconciliation of Cash Flows for the Three and Nine Months Ended September 30, 2010*

|  | Three Months Ended<br>September 30, 2010 |                         |        | Nine Months Ended<br>September 30, 2010 |                         |        |
|--|--|-------------------------|--------|---|-------------------------|--------|
|  | Canadian<br>GAAP                         | Effect of<br>Transition | IFRS   | Canadian<br>GAAP                        | Effect of<br>Transition | IFRS   |
| Cash flow from operations              | \$ 157                                   | \$ 57                   | \$ 214 | \$ 574                                  | \$ 216                  | \$ 790 |
| Cash flow from investing<br>activities | (190)                                    | (6)                     | (196)  | (542)                                   | (32)                    | (574)  |
| Cash flow from financing<br>activities | (235)                                    | (51)                    | (286)  | (366)                                   | (184)                   | (550)  |
| Foreign currency<br>translation        | 5  | -                       | 5      | (5)                                     | -                       | (5)    |

The changes in classifications of cash flows under IFRS are mainly due to:

- Separate presentation of interest paid of \$39 million and \$150 million for the three and nine months ended September 30, 2010, respectively, in financing activities as required by IFRS. Canadian GAAP only required interest paid to be disclosed in the notes to the financial statements.
- Reclassification of contributions by utility customers for extensions to plant from investing activities to operating activities of \$13 million and \$48 million for the three and nine months ended September 30, 2010, respectively. Under IFRS, the Corporation treats customer contributions as deferred revenue and classifies the associated cash flows as operating activities. Under Canadian GAAP, customer contributions were treated as a reduction of property, plant and equipment and associated cash flows were classified as investing activities.

#### *Explanations of the Effect of the Transition to IFRS*

The following explanations accompany the preceding reconciliations and describe the effect of the transition to IFRS, including: mandatory exceptions and optional exemptions from retrospective application of IFRS under IFRS 1 and items requiring retrospective application.

#### **Mandatory Exceptions From Retrospective Application**

IFRS 1 requires certain mandatory exceptions from full retrospective application of all accounting standards effective at the reporting date. The following mandatory exceptions were applicable to the Corporation at the Transition Date:

##### *a) Non-Controlling Interests*

Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests prospectively.

##### *b) Hedge Accounting*

Hedge accounting can only be applied prospectively from the Transition Date to transactions that satisfy the hedge accounting criteria at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively. This exception did not result in change for the Corporation.

### 3. ADOPTION OF IFRS (continued)

#### c) *Estimates*

The Corporation followed the mandatory exception and did not use hindsight to create or revise estimates. The estimates previously made by the Corporation under Canadian GAAP were not revised for IFRS, except to reflect any difference in accounting policies.

#### **Optional IFRS 1 Exemptions From Retrospective Application**

In general, IFRS requires an entity to comply with all of the accounting standards effective at the end of the first reporting period after adopting IFRS. This means restating accounting transactions as if the standards had been in place when the transactions occurred. IFRS 1 gives limited optional exemptions from retrospectively applying the standards where the costs of doing so would likely exceed the benefits to users of the financial statements. Significant IFRS 1 exemptions used by the Corporation are as follows:

#### d) *Fair Value as Deemed Cost*

IFRS 1 allows an entity to measure items of property, plant and equipment at fair value at the date of transition to IFRS and to deem the fair value as cost. The Corporation elected to reduce the carrying value of certain items of property, plant and equipment, primarily power generation assets, to fair value at the Transition Date, and used that fair value as the deemed cost of those assets at that date. A revaluation of these assets was not required under Canadian GAAP. Adopting this exemption reduced property, plant and equipment by \$169 million, deferred income tax liabilities by \$44 million and retained earnings by \$125 million. As a result of this change, depreciation and amortization decreased by \$3 million and \$8 million for the three and nine months ended September 30, 2010, respectively.

#### e) *Rate Regulated Property, Plant and Equipment*

For operations subject to rate regulation, other than the regulated generating plants owned by ATCO Power, the Corporation has used the carrying amount of property, plant and equipment determined under Canadian GAAP as deemed cost on transition to IFRS. The carrying amount of these assets are included in rate base and applying IFRS retrospectively would have been onerous.

For the regulated generating plants owned by ATCO Power that are governed by PPAs, the Corporation reduced property, plant and equipment by \$102 million, deferred income tax liabilities by \$27 million and retained earnings by \$75 million for costs that cannot be capitalized under IFRS. As a result of this change, depreciation and amortization decreased by \$4 million and \$10 million, and plant and equipment maintenance increased by \$2 million and \$10 million, for the three and nine months ended September 30, 2010, respectively.

#### f) *Retirement Benefits*

At the Transition Date, rather than continue to amortize the cumulative actuarial gains and losses, the Corporation elected to charge all cumulative unamortized actuarial gains and losses for all defined benefit pension and other post employment benefit (“OPEB”) plans to retained earnings.

### 3. ADOPTION OF IFRS (continued)

The adoption of IFRS reduced retirement benefit assets by \$142 million, retirement benefit liabilities by \$6 million, deferred income tax liabilities by \$34 million and retained earnings by \$103 million at the Transition Date. As a result of this change, salaries, wages and benefits expense decreased by \$2 million and \$12 million for the three and nine months ended September 30, 2010, respectively.

Actuarial gains and losses incurred during the three and nine months ended September 30, 2010 have been recognized in other comprehensive income.

#### g) *Asset Retirement Obligations*

The Corporation elected to use an exemption allowing asset retirement obligation (“ARO”) liabilities and related assets to be re-measured on a simplified approach at the Transition Date rather than perform full detailed ARO calculations.

At the Transition Date, the re-measurement increased ARO liabilities by \$19 million and reduced property, plant and equipment by \$7 million, deferred income tax liabilities by \$7 million and retained earnings by \$19 million. The ARO liabilities have been reclassified from other liabilities to provisions on the consolidated balance sheet.

#### h) *Cumulative Translation Differences*

The Corporation elected to recognize all cumulative translation gains and losses included in accumulated other comprehensive income in opening retained earnings at the Transition Date. As a result, accumulated other comprehensive income increased by \$51 million and retained earnings decreased by \$51 million.

#### i) *Business Combinations*

The Corporation elected not to restate business combinations that occurred before the Transition Date. Any goodwill arising on such business combinations before the Transition Date was not adjusted from the carrying value previously determined under Canadian GAAP.

#### j) *Share Based Payment Transactions*

The Corporation elected to apply the IFRS requirements only to equity instruments granted after November 7, 2002 that had not vested as of the Transition Date, and to all liabilities arising from share based payment transactions that existed at the Transition Date.

### **Retrospective Treatments on Transition**

In the absence of an IFRS 1 exemption, IFRS requires retrospective application at the Transition Date. The Corporation applied retrospective treatment to the following items at the Transition Date.

#### k) *Assets and Liabilities from Rate Regulated Activities*

At the Transition Date, the Corporation derecognized all assets and liabilities relating to rate regulated activities. This change reduced total assets by \$442 million, total liabilities by \$580 million and equity preferred shares by \$5 million, and increased retained earnings by \$143 million. Refer to Note 5 for information regarding the effect on earnings.

### 3. ADOPTION OF IFRS (continued)

#### l) *Leases*

Certain power generation assets as well as certain electric transmission assets that were exempt from lease treatment under Canadian GAAP have been reclassified from property, plant and equipment to finance lease receivables under IFRS as these assets have been deemed finance leases. These assets were grandfathered under the Canadian GAAP guidelines and did not need to be recognized as leases. At the Transition Date, this change increased finance lease receivables by \$294 million and reduced property, plant and equipment by \$310 million, deferred income tax liabilities by \$4 million and retained earnings by \$12 million. In addition, depreciation and amortization expense decreased by \$4 million and \$11 million, and revenues decreased by \$2 million and \$5 million, for the three and nine months ended September 30, 2010, respectively.

#### m) *Major Overhauls*

Under IFRS, major overhaul expenses are capitalized when incurred and depreciated until the next overhaul. Overhaul costs that do not relate to the replacement of components or the installation of new assets are expensed when incurred. Under Canadian GAAP, costs of major overhauls that are included in long term service agreements as variable costs over and above fixed costs were expensed in equal proportions over the life of the agreement. At the Transition Date, this change increased total assets by \$7 million and total liabilities by \$11 million and decreased retained earnings by \$5 million. As a result of this change, earnings decreased by nil and \$1 million for the three and nine months ended September 30, 2010, respectively.

### **Reclassifications**

The following reclassifications were made due to differences in presentation between Canadian GAAP and IFRS:

#### n) *Customer Contributions*

Under IFRS, customer contributions for the acquisition or construction of property, plant and equipment are consideration for a future service and are, therefore, considered to be deferred revenues to be amortized over the period in which the service is provided.

Under Canadian GAAP, these customer contributions netted against property, plant and equipment and were amortized on the same basis as, and offset against the depreciation charge of, the assets to which they related.

At the Transition Date, property, plant and equipment and other liabilities increased by \$887 million. Revenues and depreciation and amortization expense increased by \$8 million and \$23 million in the three and nine months ended September 30, 2010, respectively.

#### o) *Deferred Income Taxes*

IFRS does not permit deferred tax assets or liabilities as current assets or liabilities. As a result, current deferred income tax assets of \$7 million as at the Transition Date were reclassified to non-current deferred income tax assets on the consolidated balance sheet.

### **3. ADOPTION OF IFRS (continued)**

*p) Long Term Debt Due Within One Year*

Long term debt due within one year, that under Canadian GAAP was classified as long term due to the ability and intention to refinance, must be disclosed as a current liability under IFRS. IFRS does not contain the same guidelines allowing long term debt that is to be refinanced to be shown as non-current. Consequently, long term debt of \$125 million at the Transition Date has been reclassified to current liabilities on the consolidated balance sheet.

*q) Provisions*

Provisions of \$82 million as at the Transition Date that were previously included in deferred credits have been separately disclosed as provisions on the consolidated balance sheet as required by IFRS.

*r) Equity Preferred Shares*

Under IFRS, equity preferred shares are presented as components of equity separate from the Class A and Class B owners' equity. Under Canadian GAAP, equity preferred shares were presented as equity preferred shares outside of share owners' equity. Equity preferred shares of \$750 million as at the Transition Date have been included in the total equity section of the consolidated balance sheet.

*s) Nature of Expenses*

IFRS requires expenses to be classified on the statement of earnings by either nature or function, not as a combination of both. If classified by function, the classification by nature is required to be disclosed in the notes to the financial statements. Therefore, the Corporation has elected to present costs and expenses on the consolidated statement of earnings by nature. Under Canadian GAAP, the Corporation presented costs and expenses in a combination of both nature and function. As a result, operation and maintenance and selling and administrative expenses were reclassified to separate categories by nature as identified in the consolidated statement of earnings.

*t) Net Finance Costs*

Under IFRS, interest income and expense are presented in the consolidated statement of earnings as net finance costs below operating profit.

### **4. BUSINESS COMBINATION**

On July 29, 2011, the Corporation acquired 100% of WA Gas Networks Pty Ltd (WAGN), a Western Australia based natural gas distribution utility company for cash consideration of \$327 million (AUD \$312 million), from WestNet Infrastructure Group and the DUET Group, including the settlement of \$84 million (AUD \$80 million) of debt held by one of the owners. The acquisition included WestNet Infrastructure Group's information technology division.

The acquisition, which expands the Corporation's presence in Australia and complements its existing portfolio of energy infrastructure assets, is reported in the ATCO Australia segment. WAGN has since been rebranded as ATCO Gas Australia and the information technology division as ATCO I-Tek Australia.

#### 4. BUSINESS COMBINATION (continued)

The acquisition was accounted for using the acquisition method; the estimated fair values of the identifiable assets acquired and the liabilities assumed are as follows:

| <b>Fair values of identifiable assets acquired and liabilities assumed</b> |               |
|--|---------------|
| Cash and cash equivalents  | \$ 12         |
| Accounts receivable  | 33            |
| Prepaid expenses and other current assets                                  | 7             |
| Property, plant and equipment  | 986           |
| Intangibles  | 14            |
| Other assets   | 7             |
| Accounts payable and accrued liabilities                                   | (23)          |
| Deferred income tax liabilities  | (3)           |
| Long term debt   | (689)         |
| Other liabilities  | (17)          |
| <b>Total identifiable net assets acquired</b>                              | <b>\$ 327</b> |

The fair value of the acquired accounts receivable approximated the carrying value due to their short term nature. None of the accounts receivable acquired were impaired and the full contractual amount is expected to be collected.

The long term debt assumed of \$689 million (AUD \$657 million) is comprised of amounts drawn on a \$472 million (AUD \$450 million) unsecured loan facility and \$262 million (AUD \$250 million) of floating rate notes. The drawings on the \$472 million facility includes \$346 million (AUD \$330 million) on a term tranche facility and \$81 million (AUD \$77 million) on a revolving tranche facility, and are at Bank Bill rates plus a margin and are due in June 2014. The \$262 million floating rate notes are at Bank Bill rates plus a margin and are due in September 2012. The interest rate exposure has been hedged through the use of interest rate swaps of \$629 million (AUD \$600 million) at a weighted average interest rate of 5.68% maturing in June 2014.

From the date of acquisition, revenues of \$36 million and a loss of \$43 million have been included in the consolidated statement of earnings for the three and nine months ended September 30, 2011, respectively, as a result of the acquisition. Transaction costs of \$50 million for estimated stamp duty and incremental legal and advisory services were expensed in 2011 and included in other costs and expenses on the consolidated statement of earnings.

The Corporation's unaudited pro-forma consolidated revenues and earnings for the nine months ended September 30, 2011, would have been \$2,255 million and \$352 million, respectively, if the acquisition had occurred on January 1, 2011. These unaudited pro-forma amounts reflect adjustments for depreciation and other costs associated with the acquisition along with estimated income taxes assuming the fair values attributed in the purchase price allocation occurred on January 1, 2011.

No contingent consideration arose from this transaction.

## 5. SEGMENTED INFORMATION

Starting in the first quarter of 2011, the results of operations and financial position of the Corporation's energy, power generation and infrastructure business in Australia are reported in a separate segment called ATCO Australia. This new segment includes the Corporation's interests in three existing power generation plants located in Australia, which were previously reported in the Energy Segment, as well as the recently acquired natural gas distribution utility and information technology businesses. Comparative figures for the Energy Segment have been restated to confirm to the current presentation.

### *Segmented Results – Three Months Ended September 30*

| 2011<br>2010                           | Utilities | Energy | ATCO<br>Australia | Corporate<br>and Other | Intersegment<br>Eliminations | Consolidated |
|--|-----------|--------|-------------------|------------------------|------------------------------|--------------|
| Revenues – external                    | \$ 338    | \$ 280 | \$ 60             | \$ 18                  | \$ -                         | \$ 696       |
|  | \$ 326    | \$ 206 | \$ 13             | \$ 17                  | \$ -                         | \$ 562       |
| Revenues – intersegment <sup>(1)</sup> | -         | 3      | -                 | 35                     | (38)                         | -            |
|  | 6         | 4      | -                 | 32                     | (42)                         | -            |
| Revenues                               | \$ 338    | \$ 283 | \$ 60             | \$ 53                  | \$ (38)                      | \$ 696       |
|  | \$ 332    | \$ 210 | \$ 13             | \$ 49                  | \$ (42)                      | \$ 562       |
| Adjusted Earnings                      | \$ 34     | \$ 50  | \$ 11             | \$ 9                   | \$ 2                         | \$ 106       |
|  | \$ 43     | \$ 30  | \$ 4              | \$ 8                   | \$ 3                         | \$ 88        |

### *Segmented Results – Nine Months Ended September 30*

| 2011<br>2010                           | Utilities | Energy  | ATCO<br>Australia | Corporate<br>and Other | Intersegment<br>Eliminations | Consolidated |
|--|-----------|---------|-------------------|------------------------|------------------------------|--------------|
| Revenues – external                    | \$1,172   | \$ 834  | \$ 105            | \$ 57                  | \$ -                         | \$ 2,168     |
|  | \$1,079   | \$ 665  | \$ 178            | \$ 55                  | \$ -                         | \$ 1,977     |
| Revenues – intersegment <sup>(1)</sup> | 18        | 7       | -                 | 98                     | (123)                        | -            |
|  | 18        | 10      | -                 | 93                     | (121)                        | -            |
| Revenues                               | \$1,190   | \$ 841  | \$ 105            | \$ 155                 | \$ (123)                     | \$ 2,168     |
|  | \$1,097   | \$ 675  | \$ 178            | \$ 148                 | \$ (121)                     | \$ 1,977     |
| Adjusted Earnings                      | \$ 178    | \$ 132  | \$ 17             | \$ 33                  | \$ 3                         | \$ 363       |
|  | \$ 173    | \$ 94   | \$ 13             | \$ 27                  | \$ 5                         | \$ 312       |
| Total assets <sup>(2)</sup>            | \$7,366   | \$2,220 | \$1,006           | \$ 316                 | \$ (112)                     | \$10,796     |
|  | \$6,825   | \$1,743 | \$ 260            | \$ 581                 | \$ (92)                      | \$ 9,317     |

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

<sup>(2)</sup> 2010 comparative total assets are as at December 31, 2010.

## 5. SEGMENTED INFORMATION (continued)

### *Reconciliation of Adjusted Earnings and Earnings for the Three Months Ended September 30*

| 2011<br>2010   | Utilities | Energy | ATCO<br>Australia | Corporate<br>and Other | Intersegment<br>Eliminations | Consolidated |
|--|-----------|--------|-------------------|------------------------|------------------------------|--------------|
| Adjusted Earnings  | \$ 34     | \$ 50  | \$ 11             | \$ 9                   | \$ 2                         | \$ 106       |
|  | \$ 43     | \$ 30  | \$ 4              | \$ 8                   | \$ 3                         | \$ 88        |
| Adjustments for rate<br>regulated activities                               | 2<br>(7)  | -      | (2)               | -                      | 1<br>(1)                     | 1<br>(8)     |
| Acquisition transaction costs  | -         | -      | (47)              | -                      | -                            | (47)         |
|  | -         | -      | -                 | -                      | -                            | -            |
| Dividends on equity preferred<br>shares of Canadian<br>Utilities Limited   | -         | 1<br>1 | -                 | 5<br>6                 | -                            | 6<br>7       |
| Earnings attributable to equity<br>owners of the Corporation               | \$ 36     | \$ 51  | \$(38)            | \$ 14                  | \$ 3                         | \$ 66        |
|  | \$ 36     | \$ 31  | \$ 4              | \$ 14                  | \$ 2                         | \$ 87        |
| Earnings attributable to equity<br>preferred share owners of<br>subsidiary |           |        |                   |                        |                              | 6<br>4       |
|  |           |        |                   |                        |                              | \$ 72        |
| Earnings for the period  |           |        |                   |                        |                              | \$ 91        |

### *Reconciliation of Adjusted Earnings and Earnings for the Nine Months Ended September 30*

| 2011<br>2010   | Utilities | Energy | ATCO<br>Australia | Corporate<br>and Other | Intersegment<br>Eliminations | Consolidated |
|--|-----------|--------|-------------------|------------------------|------------------------------|--------------|
| Adjusted Earnings  | \$ 178    | \$ 132 | \$ 17             | \$ 33                  | \$ 3                         | \$ 363       |
|  | \$ 173    | \$ 94  | \$ 13             | \$ 27                  | \$ 5                         | \$ 312       |
| Adjustments for rate<br>regulated activities                               | 6<br>(21) | -      | (2)               | -                      | 3<br>3                       | 7<br>(18)    |
| Acquisition transaction costs  | -         | -      | (50)              | -                      | -                            | (50)         |
|  | -         | -      | -                 | -                      | -                            | -            |
| Dividends on equity preferred<br>shares of Canadian<br>Utilities Limited   | 3<br>3    | 1<br>1 | -                 | 16<br>16               | -                            | 20<br>20     |
| Earnings attributable to equity<br>owners of the Corporation               | \$ 187    | \$ 133 | \$(35)            | \$ 49                  | \$ 6                         | \$ 340       |
|  | \$ 155    | \$ 95  | \$ 13             | \$ 43                  | \$ 8                         | \$ 314       |
| Earnings attributable to equity<br>preferred share owners of<br>subsidiary |           |        |                   |                        |                              | 15<br>12     |
|  |           |        |                   |                        |                              | \$ 355       |
| Earnings for the period  |           |        |                   |                        |                              | \$ 326       |

### *Adjusted Earnings*

Adjusted Earnings are earnings attributable to equity owners of the Corporation after adjusting for the timing of revenues and expenses associated with rate regulated activities and dividends on equity

## 5. SEGMENTED INFORMATION (continued)

preferred shares of the Corporation, as well as one-time gains and losses 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”) for purposes of assessing segment performance and allocating resources. Other accounts in the consolidated financial statements have not been adjusted as they are not used by the CODM for those purposes.

### *Adjustments for Rate Regulated Activities*

With respect to the accounting for rate regulated activities, prior to the adoption of IFRS, the Corporation had, as permitted by Canadian GAAP, utilized standards issued by the Financial Accounting Standards Board (“FASB”) in the United States (“U.S.”) as another source of GAAP. The FASB standards provided guidance on the recognition and measurement of assets and liabilities arising from rate regulation where Canadian GAAP no longer provided such guidance. Adjusted Earnings will present earnings from rate regulated activities on the same basis as was used prior to adopting IFRS.

There is currently no specific guidance under IFRS for rate regulated entities. Consequently, the Corporation does not recognize assets and liabilities from rate regulated activities under IFRS.

While the accounting for rate regulated activities has changed, the economics of rate regulation have not changed (see Nature and Economic Effects of Rate Regulation in Note 2 in the Corporation’s interim consolidated financial statements for the three months ended March 31, 2011). The CODM is of the belief that earnings adjusted in accordance with the FASB standards are a better representation of the results of operations of its rate regulated activities. Furthermore, Adjusted Earnings will facilitate comparability of the Corporation’s financial results with rate regulated peer companies that have deferred the adoption of IFRS by one year to 2012 as permitted by the Canadian Accounting Standards Board, as well as with entities that utilize U.S. accounting principles for rate regulated entities.

With the WAGN acquisition on July 29, 2011, the Corporation now has rate regulated activities, as defined by FASB, in Australia. The Corporation will calculate Adjusted Earnings retrospectively from the date of acquisition using standards issued by FASB as guidance for recognition and measurement of the assets and liabilities arising from rate regulated activities.

Rate regulated accounting differs from IFRS in the following ways:

| Rate Regulated Accounting Treatment   | IFRS Treatment  |
|---|---|
| (1) The Corporation was able to defer the recognition of cash received in advance of future expenditures.   | The Corporation records revenues when amounts are billed to customers and recognizes costs when they are incurred.  |
| (2) The Corporation was able to recognize revenues associated with recoverable costs in advance of future billings to customers.                            | The Corporation records costs when incurred, but does not recognize their recovery until changes to customer rates are reflected in future customer billings. |
| (3) The Corporation recognized the earnings that arose from a regulatory decision that pertained to current and prior periods upon receipt of the decision. | The Corporation recognizes earnings when customer rates are changed and amounts are billed to customers.  |

## 5. SEGMENTED INFORMATION (continued)

| Rate Regulated Accounting Treatment   | IFRS Treatment   |
|---|--|
| (4) Intercompany profits on the manufacture or construction of facilities for a regulated public utility in the consolidated group were deemed to have been realized to the extent that the transfer price on such facilities was recognized for rate-making purposes by a regulator. | Intercompany profits are eliminated upon consolidation. The Corporation then recognizes those profits in earnings as amounts are billed to customers over the life of the related asset. |

Timing adjustments for rate regulated activities are as follows:

|  | Three Months Ended |               | Nine Months Ended |               |
|--|--------------------|---------------|-------------------|---------------|
|  | September 30       |               | September 30      |               |
|  | 2011               | 2010          | 2011              | 2010          |
| <i>Additional revenues billed in current period:</i>   |                    |               |                   |               |
| Future removal and site restoration costs <sup>(1)</sup>   | \$ 6               | \$ 8          | \$ 26             | \$ 27         |
| Retirement benefits <sup>(2)</sup>   | 9                  | 3             | 22                | 15            |
| Transmission and distribution system load balancing <sup>(5)</sup>   | 3                  | -             | 3                 | 2             |
| Impact of colder temperatures on revenues <sup>(6)</sup>   | (2)                | -             | 8                 | -             |
| Other  | 10                 | 17            | 22                | 29            |
|  | <b>26</b>          | <b>28</b>     | <b>81</b>         | <b>73</b>     |
| <i>Revenues to be billed in future period:</i>   |                    |               |                   |               |
| Deferred income taxes <sup>(3)</sup>   | (3)                | (16)          | (29)              | (36)          |
| Transmission access payments <sup>(4)</sup>  | (20)               | (5)           | (34)              | (15)          |
| Transmission and distribution system load balancing <sup>(5)</sup>   | (2)                | -             | (4)               | -             |
| Impact of warmer temperatures on revenues <sup>(6)</sup>   | -                  | 2             | -                 | (3)           |
| Impact of inflation on rate base for ATCO Gas Australia <sup>(7)</sup>                                       | (3)                | -             | (3)               | -             |
| Other  | (1)                | -             | (5)               | -             |
|  | <b>(29)</b>        | <b>(19)</b>   | <b>(75)</b>       | <b>(54)</b>   |
| <i>Regulatory decisions:</i>   |                    |               |                   |               |
| Decisions related to current and prior periods <sup>(8)</sup>  | 6                  | (15)          | 6                 | (32)          |
| <i>Intercompany profits:</i>   |                    |               |                   |               |
| Intercompany profits related to construction of property, plant and equipment and intangibles <sup>(9)</sup> | (2)                | (2)           | (5)               | (5)           |
|  | <b>\$ 1</b>        | <b>\$ (8)</b> | <b>\$ 7</b>       | <b>\$(18)</b> |

## 5. SEGMENTED INFORMATION (continued)

Descriptions of the adjustments and the timing of recovery or refund for each are as follows:

| Description   | Timing of Recovery or Refund   |
|---|--|
| (1) Forecast future removal and site restoration costs are billed to customers over the life of the associated assets in advance of future expenditures. Revenues are recorded when forecast costs are billed to customers. Costs will be expensed in future periods when incurred. | Differences between revenues received and costs incurred to date will reverse in future periods as actual removal and site restoration costs are incurred.   |
| (2) The Corporation accrues for its obligations under defined benefit pension plans and other post employment benefit plans, whereas the costs of retirement benefits are recovered from customers when paid.   | Variances between the amounts paid and accrued for the retirement benefit plans will vary depending on the performance of plan assets and the actuarial valuations of plan obligations. These variances will remain until the plans are paid, settled or terminated. |
| (3) Deferred income taxes are a non-cash expense incurred by the Corporation related to temporary differences between the book value and the tax value of assets and liabilities.   | Deferred income taxes are not recovered from customers until the temporary differences reverse and current income taxes are paid by the utilities.   |
| (4) ATCO Electric expenses transmission access payments when incurred, whereas the amount included in customer rates is based on forecast cost. Actual payments may vary from forecast due to changes in tariffs charged by the Alberta Electric System Operator (“AESO”).          | Recoveries from or refunds to customers of differences between transmission access payments billed to customers and paid by ATCO Electric are expected to occur in the following year.   |
| For major transmission capital projects in Alberta, ATCO Electric’s revenues include a return on forecast rate base. When actual capital costs vary from forecast capital costs, variances may arise between the returns on forecast versus actual rate base.                       | Recoveries from or refunds to the AESO of variances between forecast and actual returns on rate base are expected to occur in the following year.  |
| Variances between ATCO Electric’s actual and forecast income tax expense may arise due to changes in enacted and substantively enacted tax rates. The amount included in customer rates is based on forecast tax rates.   | Recoveries from or refunds to customers of variances between forecast and actual income taxes arising from changes in enacted or substantively enacted tax rates are expected to occur in the following year.  |

## 5. SEGMENTED INFORMATION (continued)

| Description   | Timing of Recovery or Refund  |
|---|---|
| <p>(5) ATCO Gas and ATCO Pipelines engage in the purchase or sale of natural gas to maintain appropriate operating pressures on their distribution and transmission pipeline systems. The purchases and sales of natural gas are recorded as revenues when incurred.</p>  | <p>The utilities may apply to the AUC for recoveries from or refunds to customers of the net purchases and sales when they exceed certain thresholds: for ATCO Gas, \$5 million over six successive months or \$10 million for one month for either of its North or South systems; for ATCO Pipelines, \$7 million for its North system and \$5 million for its South system.</p> |
| <p>(6) ATCO Gas' 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 norm are refunded to or recovered from customers in future periods.</p>   | <p>ATCO Gas may apply to the AUC for recoveries from or refunds to customers when the net revenue variances exceed \$7 million at April 30<sup>th</sup> of any year for either of its North or South systems.</p>   |
| <p>(7) Under the current access arrangement (January 1, 2010 to June 30, 2014), ATCO Gas Australia's rate base is adjusted by the rate of inflation measured by the Australian Consumer Price Index. The impact of inflation on rate base is reflected in customer rates in future periods through the recovery of depreciation, whereas the inflation component is recognized in adjusted earnings at the time it is added to rate base.</p> | <p>The inflation-indexed portion of rate base will be recovered from customers over the life of the assets comprising rate base.</p>  |

## 5. SEGMENTED INFORMATION (continued)

| Description  | Timing of Recovery or Refund   |
|--|--|
| <p><sup>(8)</sup> The Canadian and Australian utilities recognize revenues from regulatory decisions when customer rates are changed and amounts are billed to customers. Under Canadian GAAP, the utilities recognized the earnings that affected current and prior periods upon receipt of the decision.</p> | <p>In the first quarter of 2010, ATCO Gas recorded earnings of \$11 million for the partial recovery from customers of amounts previously paid to customers in regard to the Carbon storage facility. Under IFRS, these earnings were recognized over a period of 8 months commencing in the second quarter of 2010. In the third quarter of 2010, ATCO Gas recorded an additional \$14 million of earnings pertaining to Carbon. Under IFRS, these earnings will be recognized over a period of 14 months commencing in the fourth quarter of 2010.</p> <p>In the first quarter of 2010, ATCO Gas recorded a contingent liability regarding amounts previously recovered from customers for historical transportation imbalances which reduced its earnings by \$8 million. The AUC's final decision resulted in a reversal of \$1 million of the contingent liability in the third quarter of 2010. Under IFRS, the net \$7 million reduction in earnings was recorded in the fourth quarter of 2010 when it was refunded to customers.</p> <p>In 2007, ATCO Electric was directed to refund to customers the federal deferred income taxes previously recovered from customers. A portion of the total liability to customers was to be refunded over a five year period commencing in 2008. Under IFRS, revenues are reduced when the refund occurs. Consequently, earnings in 2010 and 2011 were reduced by \$12 million and \$2 million, respectively.</p> |
| <p><sup>(9)</sup> Intercompany profits included in property, plant and equipment and computer software by the utilities is eliminated upon consolidation.</p>  | <p>The Corporation will recognize those intercompany profits in earnings as amounts are billed to customers over the life of the related asset.</p>  |

### *Acquisition Transaction Costs*

The Corporation has adjusted for transaction costs incurred in the three and nine months ended September 30, 2011, associated with the acquisition of WAGN (see Note 4). These costs consist of estimated stamp duty and incremental legal and advisory services directly related to the acquisition.

## 6. TRANSFER OF ATCO RESOURCES

On January 1, 2011, ATCO Ltd., the Corporation's parent, transferred its wholly owned subsidiary, ATCO Resources, to ATCO Power, a wholly owned subsidiary of the Corporation. The fair value of the common shares of ATCO Resources, net of its existing debt obligations, was \$82.5 million, as estimated by an independent financial advisor and supported by management.

ATCO Ltd. transferred its common shares of ATCO Resources to the Corporation in exchange for 1,059,658 Class A non-voting shares and 489,171 Class B common shares of the Corporation, having a value of \$82.5 million. This is a related party transaction between entities under common control and was measured at the carrying amount. The excess of the fair value of the shares and the carrying value of the investment was recorded in equity.

## 7. DIVIDENDS

Cash dividends declared and paid per share for all series and classes of preferred and common shares are as follows:

|  | Three Months Ended<br>September 30 |           | Nine Months Ended<br>September 30 |           |
|--|------------------------------------|-----------|-----------------------------------|-----------|
|  | 2011                               | 2010      | 2011                              | 2010      |
| <i>Equity preferred shares:</i>                              |                                    |           |                                   |           |
| 5.8% Cumulative Redeemable Second Preferred Shares, Series W | \$ 0.3625                          | \$ 0.3625 | \$ 1.0875                         | \$ 1.0875 |
| 6.0% Cumulative Redeemable Second Preferred Shares, Series X | 0.3750                             | 0.3750    | 1.1250                            | 1.1250    |
| 4.35% Perpetual Cumulative Second Preferred Shares, Series O | 0.271875                           | 0.271875  | 0.815625                          | 0.815625  |
| 4.35% Perpetual Cumulative Second Preferred Shares, Series T | 0.271875                           | 0.271875  | 0.815625                          | 0.815625  |
| 4.35% Perpetual Cumulative Second Preferred Shares, Series U | 0.271875                           | 0.271875  | 0.815625                          | 0.815625  |
| 4.70% Perpetual Cumulative Second Preferred Shares, Series V | 0.29375                            | 0.29375   | 0.88125                           | 0.88125   |
| 4.00% Perpetual Cumulative Second Preferred Shares, Series Y | -                                  | -         | -                                 | -         |
| Class A and Class B shares                                   | \$ 0.4025                          | \$ 0.3775 | \$ 1.2075                         | \$ 1.1325 |

It is the policy of the Corporation to pay dividends quarterly on its Class A and Class B Shares. The matter of an increase in the quarterly dividend is addressed by the Board of Directors in the first quarter of each year. The payment of any dividend is at the discretion of the Board of Directors and depends on the financial condition of the Corporation and other factors.

## 8. PROPERTY, PLANT AND EQUIPMENT

|                                    | Utility<br>Transmission<br>& Distribution | Power<br>Generation | Land and<br>buildings | Construction<br>Work-in-<br>Progress | Other        | Total           |
|------------------------------------|---|---------------------|-----------------------|--------------------------------------|--------------|-----------------|
| <i>Cost:</i>                       |   |                     |                       |                                      |              |                 |
| At December 31, 2010               | \$7,848                                   | \$2,077             | \$295                 | \$305                                | \$700        | \$11,225        |
| <b>Additions</b>                   | <b>332</b>                                | <b>18</b>           | <b>13</b>             | <b>441</b>                           | <b>75</b>    | <b>879</b>      |
| <b>Transfer of ATCO Resources</b>  | -   | <b>135</b>          | -                     | -                                    | -            | <b>135</b>      |
| <b>Acquisition</b>                 | <b>959</b>                                | -                   | <b>4</b>              | <b>11</b>                            | <b>12</b>    | <b>986</b>      |
| <b>Disposals</b>                   | <b>(18)</b>                               | <b>(9)</b>          | <b>(1)</b>            | -                                    | <b>(13)</b>  | <b>(41)</b>     |
| <b>Foreign exchange adjustment</b> | <b>(34)</b>                               | <b>8</b>            | -                     | -                                    | -            | <b>(26)</b>     |
| <b>At September 30, 2011</b>       | <b>\$9,087</b>                            | <b>\$2,229</b>      | <b>\$311</b>          | <b>\$757</b>                         | <b>\$774</b> | <b>\$13,158</b> |
| <i>Accumulated depreciation:</i>   |   |                     |                       |                                      |              |                 |
| At December 31, 2010               | \$2,258                                   | \$1,134             | \$ 82                 | \$ -                                 | \$394        | \$ 3,868        |
| <b>Depreciation</b>                | <b>160</b>                                | <b>55</b>           | <b>9</b>              | -                                    | <b>37</b>    | <b>261</b>      |
| <b>Transfer of ATCO Resources</b>  | -   | <b>38</b>           | -                     | -                                    | -            | <b>38</b>       |
| <b>Disposals</b>                   | <b>(18)</b>                               | <b>(8)</b>          | -                     | -                                    | <b>(13)</b>  | <b>(39)</b>     |
| <b>Foreign exchange adjustment</b> | -   | <b>5</b>            | -                     | -                                    | -            | <b>5</b>        |
| <b>At September 30, 2011</b>       | <b>\$2,400</b>                            | <b>\$1,224</b>      | <b>\$ 91</b>          | <b>\$ -</b>                          | <b>\$418</b> | <b>\$ 4,133</b> |
| <i>Net book value:</i>             |   |                     |                       |                                      |              |                 |
| At December 31, 2010               | \$5,590                                   | \$ 943              | \$213                 | \$305                                | \$306        | \$ 7,357        |
| <b>At September 30, 2011</b>       | <b>\$6,687</b>                            | <b>\$ 1,005</b>     | <b>\$220</b>          | <b>\$757</b>                         | <b>\$356</b> | <b>\$ 9,025</b> |

## 9. LEASES

### *Finance Leases*

The total net investment in finance leases (with the Corporation as the lessor) is shown below. Finance lease income from these agreements is recognized in revenue.

|   | <b>September 30<br/>2011</b> | December 31<br>2010 |
|---|------------------------------|---------------------|
| <i>Net investment in finance leases:</i>            |                              |                     |
| Finance lease - gross investment                    | <b>\$1,199</b>               | \$1,128             |
| Unearned finance income                             | <b>(656)</b>                 | (638)               |
|   | <b>\$ 543</b>                | \$ 490              |
| <hr/>   |                              |                     |
| Current portion                                     | <b>\$ 14</b>                 | \$ 11               |
| Non-current portion                                 | <b>529</b>                   | 479                 |
|   | <b>\$ 543</b>                | \$ 490              |
| <hr/>   |                              |                     |
| <i>Gross receivables from finance leases:</i>       |                              |                     |
| In one year or less                                 | <b>\$ 72</b>                 | \$ 64               |
| In more than one year, but not more than five years | <b>311</b>                   | 318                 |
| In more than five years                             | <b>816</b>                   | 746                 |
|   | <b>\$1,199</b>               | \$1,128             |
| <hr/>   |                              |                     |
| <i>Net investment in finance leases:</i>            |                              |                     |
| In one year or less                                 | <b>\$ 14</b>                 | \$ 11               |
| In more than one year, but not more than five years | <b>76</b>                    | 77                  |
| In more than five years                             | <b>453</b>                   | 402                 |
|   | <b>\$ 543</b>                | \$ 490              |
| <hr/>   |                              |                     |

## 10. LINES OF CREDIT

Short-term committed credit facilities totaling \$600 million were renewed by the Corporation and its wholly owned subsidiary, CU Inc., in September 2011 and extended for two years. These credit facilities will expire in September 2013, unless extended further by the lender.

## 11. EQUITY PREFERRED SHARES

On September 21, 2011, the Corporation issued \$325 million Cumulative Redeemable Second Preferred Shares Series Y at a price of \$25.00 per share under its base shelf prospectus. Holders will be entitled to receive fixed cumulative preferential cash dividends, as and when declared by the Board of Directors, payable quarterly for an initial period of five and a half years at a rate of \$1.00 per share to yield 4.00% annually. Thereafter the dividend rate will reset every five years to the then current 5-Year Government of Canada bond yield plus 2.40%. On June 1, 2017, and on June 1 of every fifth year thereafter, the Corporation may redeem the Series Y Preferred Shares in whole or in part at par.

Holders may elect to convert any or all of their Series Y Preferred Shares into an equal number of Cumulative Redeemable Second Preferred Shares Series Z on June 1, 2017, and on June 1 of every fifth year thereafter. Holders of the Series Z Preferred Shares will be entitled to receive floating rate cumulative preferential cash dividends, as and when declared by the Board of Directors, payable quarterly for an initial period of five years at a rate equal to the then current 3-month Government of Canada Treasury Bill yield plus 2.40%. On June 1, 2022, and on June 1 of every fifth year thereafter (“Series Z Conversion Date”), holders of the Series Z Preferred Shares may elect to convert any or all of their Series Z Preferred Shares back into an equal number of Series Y Preferred Shares. On June 1, 2017, or thereafter, the Corporation may redeem the Series Z Preferred Shares in whole or in part at \$25.00 on a Series Z Conversion Date or at \$25.50 on any other date.

Issuance costs of \$6 million, net of income taxes, were recorded in equity (as a reduction of equity preferred shares) in three and nine months ended September 30, 2011.

## 12. CLASS A AND CLASS B SHARES AND EARNINGS PER SHARE

There were 87,230,983 (2010 – 85,830,928) Class A non-voting shares and 40,375,349 (2010 – 40,005,642) Class B common shares outstanding on September 30, 2011. In addition, there were 599,200 options to purchase Class A non-voting shares outstanding at September 30, 2011 under the Corporation's stock option plan. From October 1, 2011, to October 26, 2011, no stock options were granted or cancelled, 1,500 stock options were exercised, no Class B common shares were converted to Class A non-voting shares and no Class A non-voting shares were purchased under the Corporation's normal course issuer bid.

The earnings and average number of shares used to calculate earnings per share are as follows:

|   | Three Months Ended<br>September 30 |             | Nine Months Ended<br>September 30 |             |
|---|------------------------------------|-------------|-----------------------------------|-------------|
|   | 2011                               | 2010        | 2011                              | 2010        |
| <i>Average shares:</i>  |                                    |             |                                   |             |
| Weighted average shares outstanding                                     | <b>127,536,121</b>                 | 125,823,129 | <b>127,497,535</b>                | 125,836,800 |
| Effect of dilutive stock options  | <b>173,429</b>                     | 178,286     | <b>151,715</b>                    | 159,408     |
| Weighted average dilutive shares<br>outstanding                         | <b>127,709,550</b>                 | 126,001,415 | <b>127,649,250</b>                | 125,996,208 |
| <i>Earnings for earnings per share<br/>calculation:</i>                 |                                    |             |                                   |             |
| Earnings for the period   | <b>\$72</b>                        | \$91        | <b>\$355</b>                      | \$326       |
| Dividends on equity preferred shares<br>of the Corporation              | <b>6</b>                           | 7           | <b>20</b>                         | 20          |
| Dividends on equity preferred shares<br>of subsidiary                   | <b>6</b>                           | 4           | <b>15</b>                         | 12          |
|   | <b>\$ 60</b>                       | \$80        | <b>\$320</b>                      | \$294       |
| <i>Earnings and diluted earnings per<br/>Class A and Class B share:</i> |                                    |             |                                   |             |
| Earnings per Class A and Class B<br>share                               | <b>\$0.47</b>                      | \$0.64      | <b>\$2.51</b>                     | \$2.34      |
| Diluted earnings per Class A and<br>Class B share                       | <b>0.47</b>                        | 0.64        | <b>2.51</b>                       | 2.33        |

### *Normal course issuer bid*

On March 1, 2011, Canadian Utilities Limited commenced a new normal course issuer bid for the purchase of up to 3% of the outstanding Class A non-voting shares. The bid will expire on February 29, 2012. From March 1, 2011 to October 26, 2011, 8,767 shares have been purchased.

### 13. CAPITAL DISCLOSURES

The Corporation's key measures of capital structure are as follows:

|  | September 30<br>2011 | December 31<br>2010 |
|--|----------------------|---------------------|
| Class A and Class B shares             | \$ 620               | \$ 533              |
| Contributed surplus                    | -                    | 1                   |
| Retained earnings                      | 2,374                | 2,345               |
| Accumulated other comprehensive income | (20)                 | (10)                |
| Equity preferred shares                | 1,167                | 848                 |
| Total equity                           | 4,141                | 3,717               |
| Long term debt                         | 3,631                | 3,063               |
| Non-recourse long term debt            | 387                  | 341                 |
| Total debt                             | 4,018                | 3,404               |
| Total capitalization                   | \$8,159              | \$7,121             |
| Equity capitalization                  | 51%                  | 52%                 |

The equity capitalization is in line with the Corporation's objectives. Equity capitalization decreased 3% at December 31, 2010 from that reported under Canadian GAAP as a result of the transitional adjustments to IFRS (see Note 3).

### 14. CHANGES IN NON-CASH WORKING CAPITAL

|  | Three Months Ended<br>September 30 |         | Nine Months Ended<br>September 30 |         |
|--|------------------------------------|---------|-----------------------------------|---------|
|  | 2011                               | 2010    | 2011                              | 2010    |
| <i>Operating activities, changes related to:</i> |                                    |         |                                   |         |
| Accounts receivable                              | \$ (52)                            | \$ (62) | \$ 32                             | \$ 32   |
| Inventories                                      | (3)                                | (3)     | -                                 | (4)     |
| Prepaid expenses and other current assets        | -                                  | (7)     | (4)                               | (10)    |
| Accounts payable and accrued liabilities         | 43                                 | 38      | (33)                              | 18      |
| Other current liabilities                        | 45                                 | 7       | 47                                | 7       |
|  | \$ 33                              | \$ (27) | \$ 42                             | \$ 43   |
| <i>Investing activities, changes related to:</i> |                                    |         |                                   |         |
| Accounts receivable                              | \$ 1                               | \$ 1    | \$ 1                              | \$ 3    |
| Inventories                                      | (3)                                | -       | (6)                               | -       |
| Accounts payable and accrued liabilities         | 29                                 | 1       | 30                                | (19)    |
| Other current liabilities                        | 1                                  | -       | 4                                 | -       |
|  | \$ 28                              | \$ 2    | \$ 29                             | \$ (16) |

## 15. RETIREMENT BENEFITS

Information about the Corporation's benefit plans, in aggregate, is as follows:

|  | Nine Months Ended<br>September 30, 2011 |  | Year Ended<br>December 31, 2010 |  |
|--|---|--|---------------------------------|--|
|  | Pension<br>Benefit<br>Plans             | Other Post<br>Employment<br>Benefit<br>Plans | Pension<br>Benefit<br>Plans     | Other Post<br>Employment<br>Benefit<br>Plans |
| <b><i>Benefit plan assets, obligations and funded status</i></b> |   |  |                                 |  |
| <i>Market value of plan assets:</i>                              |   |  |                                 |  |
| Beginning of period  | \$1,704                                 | \$ -   | \$1,531                         | \$ -   |
| Return on plan assets  | 83                                      | -  | 101                             | -  |
| Employee contributions   | 2                                       | -  | 3                               | -  |
| Employer contributions   | 41                                      | -  | 55                              | -  |
| Benefit payments   | (44)                                    | -  | (51)                            | -  |
| Experience gains (losses)  | (79)                                    | -  | 65                              | -  |
| End of period  | \$1,707                                 | \$ -   | \$1,704                         | \$ -   |
| <i>Accrued benefit obligations:</i>                              |   |  |                                 |  |
| Beginning of period  | \$1,907                                 | \$ 79  | \$1,521                         | \$ 68  |
| Current service cost   | 28                                      | 1  | 31                              | 2  |
| Interest cost  | 80                                      | 3  | 104                             | 4  |
| Employee contributions   | 2                                       | -  | 3                               | -  |
| Benefit payments from plan assets <sup>(1)</sup>                 | (44)                                    | -  | (51)                            | -  |
| Benefit payments by employer                                     | (4)                                     | (2)  | (5)                             | (2)  |
| Actuarial losses (gains) <sup>(2)</sup>                          | 79                                      | (3)  | 304                             | 7  |
| End of period <sup>(3)</sup>                                     | \$2,048                                 | \$ 78  | \$1,907                         | \$ 79  |
| <i>Funded status:</i>  |   |  |                                 |  |
| Accrued liability  | \$ (341)                                | \$ (78)                                      | \$ (203)                        | \$ (79)                                      |

<sup>(1)</sup> Pension plan benefit payments are indexed to increases in the Canadian Consumer Price Index to a maximum increase of 3% per annum.

<sup>(2)</sup> A decrease in the liability discount rate assumption at September 30 resulted in the actuarial loss in 2011 (2010 - a decrease in the liability discount rate resulted in the actuarial loss).

<sup>(3)</sup> The non-registered, non-funded defined benefit pension plans accrued benefit obligations increased to \$96 million at September 30, 2011 (December 31, 2010 - \$90 million) due to current service and interest costs.

## 15. RETIREMENT BENEFITS (continued)

|   | Three Months Ended<br>September 30 |  |                             |  |
|---|------------------------------------|--|-----------------------------|--|
|   | 2011                               |  | 2010                        |  |
|   | Pension<br>Benefit<br>Plans        | Other Post<br>Employment<br>Benefit<br>Plans | Pension<br>Benefit<br>Plans | Other Post<br>Employment<br>Benefit<br>Plans |
| <b><i>Benefit plan cost</i></b>         |                                    |  |                             |  |
| <i>Components of benefit plan cost:</i> |                                    |  |                             |  |
| Current service cost                    | \$ 8                               | \$ -   | \$ 7                        | \$ 1   |
| Interest cost                           | 27                                 | 1  | 26                          | 1  |
| Expected return on plan assets          | (28)                               | -  | (25)                        | -  |
| Defined benefit plans cost              | 7                                  | 1  | 8                           | 2  |
| Defined contribution plans cost         | 6                                  | -  | 4                           | -  |
| Total cost                              | 13                                 | 1  | 12                          | 2  |
| Less: Capitalized                       | 6                                  | -  | 6                           | -  |
| Net cost recognized                     | \$ 7                               | \$ 1   | \$ 6                        | \$ 2   |

|   | Nine Months Ended<br>September 30 |  |                             |  |
|---|-----------------------------------|--|-----------------------------|--|
|   | 2011                              |  | 2010                        |  |
|   | Pension<br>Benefit<br>Plans       | Other Post<br>Employment<br>Benefit<br>Plans | Pension<br>Benefit<br>Plans | Other Post<br>Employment<br>Benefit<br>Plans |
| <b><i>Benefit plan cost</i></b>         |                                   |  |                             |  |
| <i>Components of benefit plan cost:</i> |                                   |  |                             |  |
| Current service cost                    | \$ 28                             | \$ 1   | \$ 23                       | \$ 2   |
| Interest cost                           | 80                                | 3  | 78                          | 3  |
| Expected return on plan assets          | (83)                              | -  | (77)                        | -  |
| Defined benefit plans cost              | 25                                | 4  | 24                          | 5  |
| Defined contribution plans cost         | 14                                | -  | 12                          | -  |
| Total cost                              | 39                                | 4  | 36                          | 5  |
| Less: Capitalized                       | 12                                | 1  | 11                          | 1  |
| Net cost recognized                     | \$ 27                             | \$ 3   | \$ 25                       | \$ 4   |

## 15. RETIREMENT BENEFITS (continued)

### Weighted average assumptions

|  | Nine Months Ended<br>September 30 |  |                             |  |
|--|-----------------------------------|--|-----------------------------|--|
|  | 2011                              |  | 2010                        |  |
|  | Pension<br>Benefit<br>Plans       | Other Post<br>Employment<br>Benefit<br>Plans | Pension<br>Benefit<br>Plans | Other Post<br>Employment<br>Benefit<br>Plans |
| <i>Assumptions regarding benefit plan cost:</i>                    |                                   |  |                             |  |
| Expected long term rate of return on plan assets<br>for the period | <b>6.8%</b>                       | -  | 7.0%                        | -  |
| Liability discount rate for the period                             | <b>5.6%</b>                       | <b>5.6%</b>                                  | 6.4%                        | 6.4%   |
| Average compensation increase for the period                       | <b>(1)</b>                        | -  | (1)                         | -  |
| <i>Assumptions regarding accrued benefit obligations:</i>          |                                   |  |                             |  |
| Liability discount rate at September 30                            | <b>5.3%</b>                       | <b>5.3%</b>                                  | 6.4%                        | 6.4%   |
| Long term inflation rate   | <b>2.25%</b>                      | <b>(2)</b>                                   | 2.25%                       | (2)  |

<sup>(1)</sup> The assumed average compensation increases are 3.75% until 2012 and 3.25% thereafter (2010 - 3.75% until 2011 and 3.25% thereafter).

<sup>(2)</sup> The assumed annual health care cost trend rate increases used in measuring the accumulated post employment benefit obligation are as follows: for drug costs, 6.2% for 2011 grading down over 13 years to 4.5% (2010 - 6.4% for 2010 grading down over 14 years to 4.5%), for other medical costs, 4.5% for 2011 and thereafter (2010 - 4.5% for 2010), and for dental costs, 4.0% for 2011 and thereafter (2010 - 4.0% for 2010 and thereafter).

## 15. RETIREMENT BENEFITS (continued)

The sensitivities of key assumptions used in measuring accrued benefit obligations and benefit plan cost for 2011 are outlined in the following table. The sensitivities of each key assumption have been calculated independently of changes in other key assumptions. Actual experience may result in changes in a number of assumptions simultaneously.

|  | 2011 Pension<br>Benefit Plans    |                      | 2011 Other Post<br>Employment<br>Benefit Plans |                      |
|--|----------------------------------|----------------------|--|----------------------|
|  | Accrued<br>Benefit<br>Obligation | Benefit Plan<br>Cost | Accrued<br>Benefit<br>Obligation               | Benefit Plan<br>Cost |
| Expected long term rate of return on plan assets |                                  |                      |  |                      |
| 1% increase                                      | -                                | \$(11)               | -  | -                    |
| 1% decrease                                      | -                                | \$ 11                | -  | -                    |
| Liability discount rate                          |                                  |                      |  |                      |
| 1% increase                                      | \$(250)                          | \$ (3)               | \$ (9)   | -                    |
| 1% decrease                                      | \$ 312                           | \$ 2                 | \$12   | -                    |
| Future compensation rate                         |                                  |                      |  |                      |
| 1% increase                                      | \$ 45                            | \$ 3                 | -  | -                    |
| 1% decrease                                      | \$ (43)                          | \$ (3)               | -  | -                    |
| Long term inflation rate                         |                                  |                      |  |                      |
| 1% increase <sup>(1) (2)</sup>                   | \$ 190                           | \$ 10                | \$ 9   | \$ 1                 |
| 1% decrease <sup>(2)</sup>                       | \$(217)                          | \$(11)               | \$(7)  | \$(1)                |

<sup>(1)</sup> The long term inflation rate for pension plans reflects the fact that pension plan benefit payments are indexed to increases in the Canadian Consumer Price Index to a maximum increase of 3.0% per annum.

<sup>(2)</sup> The long term inflation rate for other post employment benefit plans is the assumed annual health care cost trend rate described in the weighted average assumptions.

## 16. CARBON NATURAL GAS STORAGE FACILITY TRANSFER

Effective June 1, 2011, ATCO Gas, a wholly-owned subsidiary of the Corporation's wholly-owned subsidiary, CU Inc., transferred ownership of its Carbon natural gas storage facility (Carbon Storage Facility) to ATCO Midstream, a wholly-owned subsidiary of the Corporation. This was a related party transaction by entities under common control and was accounted for at the carrying amount. Carbon Storage Facility assets of \$43 million and related liabilities of \$6 million were transferred for cash consideration of \$37 million. The Carbon Storage Facility was previously recognized in the Utilities Segment and from June 1, 2011, onward is recognized in the Energy Segment.

## **17. SUBSEQUENT EVENTS**

On October 24, 2011, CU Inc., a wholly owned subsidiary of Canadian Utilities Limited, issued \$500 million of 4.543% debentures maturing on October 24, 2041 and \$200 million of 4.593% debentures maturing on October 24, 2061.

On October 25, 2011, the Corporation announced its intention to redeem all outstanding Series O, T and U Perpetual Cumulative Second Preferred Shares totaling \$100 million. The redemption will occur on December 2, 2011 and will be financed with available cash reserves.

On October 26, 2011, Canadian Utilities Limited extended its \$200 million credit facility and increased the amount to \$400 million; this facility will expire in October 2015, unless it is extended by the lender. CU Inc. established a new \$600 million credit facility; this facility will expire in October 2014, unless it is extended by the lender. As a result of these changes, total committed credit facilities for these entities have increased \$800 million to \$1.6 billion.