



CANADIAN UTILITIES LIMITED
An **ATCO** Company

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

CANADIAN UTILITIES LIMITED
Management's Discussion and Analysis (MD&A)
For the Six Months Ended June 30, 2010

This MD&A should be read in conjunction with the Corporation's unaudited interim consolidated financial statements for the six months ended June 30, 2010, and the audited consolidated financial statements and unaudited MD&A for the year ended December 31, 2009 (2009 MD&A). **Information contained in the 2009 MD&A that is not discussed in this document remains substantially unchanged.** This MD&A is dated July 29, 2010. Additional information relating to the Corporation, including the Corporation's annual information form, is available on SEDAR at www.sedar.com.

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Glossary

Adjusted Earnings means earnings attributable to Class A and Class B Shares after adjustment for items that are not in the normal course of business or day-to-day operations. These items are usually of a non-recurring or one-time nature. Refer to Reconciliation of Earnings Attributable to Class A and Class B Shares and Adjusted Earnings section for a description of these items (non-GAAP item).

Adjusted Earnings per Class A and Class B Share is calculated by dividing Adjusted Earnings for a period by the weighted average number of Class A and Class B Shares outstanding during the period (non-GAAP item).

AESO means the Alberta Electric System Operator.

Alberta Power Pool means the market for electricity in Alberta operated by AESO.

ASL means ATCO Structures & Logistics Ltd., the company formed on July 1, 2009, through the amalgamation of ATCO Structures Inc. and ATCO Frontec.

ATCO Frontec means ATCO Frontec Corp., the wholly owned subsidiary of Canadian Utilities Limited that amalgamated with ATCO Structures Inc. on July 1, 2009, to form ATCO Structures & Logistics Ltd.

ATCO Noise Management means ATCO Noise Management Ltd., the wholly owned subsidiary of ATCO Ltd. that became a wholly owned subsidiary of ATCO Structures & Logistics Ltd. on July 1, 2009, and was subsequently amalgamated with ATCO Structures & Logistics Ltd. on January 1, 2010.

ATCO Structures means ATCO Structures Inc., the wholly owned subsidiary of ATCO Ltd. that amalgamated with ATCO Frontec on July 1, 2009 to form ATCO Structures & Logistics Ltd.

AUC means the Alberta Utilities Commission.

Availability is a measure of time, expressed as a percentage of continuous operation, that a generating unit is capable of producing electricity, regardless of whether the unit is actually generating electricity.

Class A Shares means Class A non-voting shares of the Corporation.

Class B Shares means Class B common shares of the Corporation.

Corporation means Canadian Utilities Limited and, unless the context otherwise requires, includes its subsidiaries.

Frac Spread means the premium or discount between the purchase price of natural gas and the selling price of extracted natural gas liquids on a heat content equivalent basis.

GAAP means Canadian generally accepted accounting principles.

Gigajoule (GJ) means a unit of energy equal to approximately 948.2 thousand British thermal units.

GHG means any greenhouse gas which has the potential to retain heat in the atmosphere, including water vapour, carbon dioxide, methane, nitrous oxide and hydrofluorocarbons.

IFRS means International Financial Reporting Standards.

Mark-to-market means assigning a value to a contract or financial instrument based on the current market prices for that contract or instrument or similar contracts or instruments.

Megawatt (MW) is a measure of electric power equal to 1,000,000 watts.

Megawatt hour (MWh) means a measure of electricity consumption equal to the use of 1,000,000 watts of power over a one-hour period.

NGL means natural gas liquids, such as ethane, propane, butane and pentanes plus, that are extracted from natural gas and sold as distinct products or as a mix.

Petajoule (PJ) means a unit of energy equal to approximately 948.2 billion British thermal units.

Placeholder means an AUC approved interim cost which has been included in utility customer rates pending an AUC review in a separate or future proceeding. This cost is subject to adjustment once the separate or future proceeding is completed and may result in refunds to or recoveries from customers.

PPA means Power Purchase Arrangements that became effective on January 1, 2001, as part of the process of restructuring the electric utility business in Alberta. The PPAs are legislatively mandated and approved by the AUC.

Propane Plus means propane, butane, pentane and other hydrocarbons other than methane and ethane.

Shrinkage gas means the natural gas which is used to replace, on a heat equivalent basis, the NGL extracted during NGL extraction operations.

Spark Spread means the difference between the selling price of electricity and the marginal cost of producing electricity from natural gas. In this MD&A, Spark Spreads are based on an approximate industry heat rate of 7.5 GJ per MWh.

U.K. means United Kingdom.

U.S. means United States of America.

Company Overview

Alberta-based Canadian Utilities Limited, an ATCO Company, with more than 5,700 employees and assets of approximately \$9.2 billion, delivers service excellence and innovative business solutions worldwide with leading companies 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).

The consolidated financial statements include the accounts of Canadian Utilities Limited and all of its subsidiaries. The consolidated financial statements have been prepared in accordance with GAAP and the reporting currency is the Canadian dollar.

The Corporation operates in the following segments:

The **Utilities** Segment includes:

- the regulated distribution of natural gas by ATCO Gas;
- the regulated transmission of natural gas by ATCO Pipelines; and
- the regulated distribution and transmission of electric energy by ATCO Electric and its subsidiaries, Northland Utilities (NWT), Northland Utilities (Yellowknife) and Yukon Electrical.

The **Energy** Segment includes:

- the non-regulated supply of electricity and cogeneration steam by ATCO Power;
- the regulated supply of electricity by Alberta Power (2000); and
- the non-regulated natural gas gathering, processing, storage and natural gas liquids extraction by ATCO Midstream.

The **Corporate & Other** Segment includes:

- the Corporation's 24.5% equity investment in ATCO Structures & Logistics Ltd.;
- the development, operation and support of information systems and technologies, and the provision of billing services, payment processing, credit, collection and call centre services by ATCO I-Tek; and
- cash balances and commercial real estate owned by the Corporation in Alberta.

Transactions between segments are eliminated in all reporting of the Corporation's consolidated financial information. For additional information on the Corporation's segments, refer to Note 6 to the unaudited interim consolidated financial statements for the six months ended June 30, 2010.

TRANSACTION TO COMBINE ATCO FRONTEC, ATCO STRUCTURES AND ATCO NOISE MANAGEMENT

On July 1, 2009, the Corporation and its parent, ATCO Ltd., finalized a transaction combining ATCO Frontec, a wholly owned subsidiary of the Corporation, with ATCO Structures and ATCO Noise Management, both wholly owned subsidiaries of ATCO Ltd. (ASL Transaction). As a result of this transaction, the Corporation and ATCO Ltd. have direct ownership interests of 24.5% and 75.5%, respectively, in the new company named ATCO Structures & Logistics Ltd. The ownership interests reflect the proportion of the respective valuations of the combined entities. The valuations were based on analysis prepared by independent financial advisors retained by the special committees of the Boards of Directors of the Corporation and ATCO Ltd.

This was a related party transaction by entities under common control and has been accounted for at the exchange amount by the Corporation, with an after tax gain for accounting purposes of \$29.6 million recorded on closing.

For the three and six months ended June 30, 2009, the Corporation consolidated ATCO Frontec, its wholly owned subsidiary. Therefore, ATCO Frontec's revenues, expenses, assets and liabilities were recognized on a line-by-line basis in the consolidated financial statements of the Corporation.

For the three and six months ended June 30, 2010, the Corporation accounted for its 24.5% interest in ASL on the equity basis of accounting. Earnings are recorded in "Earnings from investment in ATCO Structures & Logistics" on the consolidated statement of earnings and the equity investment is recorded in "Investment in ATCO Structures & Logistics" on the consolidated balance sheet.

The financial results of ATCO Frontec for the three and six months ended June 30, 2009 and the Corporation's 24.5% investment in ASL for the three and six months ended June 30, 2010 are reported in the Corporate & Other segment.

ATCO POWER'S KARRATHA GENERATING PLANT

On February 14, 2010, the first unit of a two unit 86 MW natural gas-fired simple cycle generating plant in Karratha, Western Australia ("the Karratha plant") commenced commercial operations. The second unit followed on April 9, 2010. Due to the nature of the contract governing the Karratha plant's revenues, GAAP requires that this agreement is accounted for as a capital lease (with the Corporation as the lessor). The total net investment in the capital lease is equal to the present value of the minimum lease payments receivable.

As this lease is considered a sales-type lease for accounting purposes, during the three and six months ended June 30, 2010, \$64.9 million and \$129.8 million, respectively, were recorded in revenues to recognize the fair value of the lease receivable. These revenues were offset by \$62.5 million and \$124.8 million in operation and maintenance expense for the three and six months, respectively, ended June 30, 2010 associated with the construction costs of the two units which were removed from construction work in progress. This resulted in an increase in earnings of \$1.7 million and \$3.5 million for the three and six months, respectively, ended June 30, 2010.

Forward-Looking Information

Certain statements contained in this MD&A constitute forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "will", "intend", "should", and similar expressions. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Corporation believes that the expectations reflected in the forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information should not be unduly relied upon.

Non-GAAP Measures

The Corporation uses the measures "funds generated by operations", "Adjusted Earnings" and "Adjusted Earnings per Class A and Class B Share" in this MD&A. These measures do not have any standardized meaning under GAAP and might not be comparable to similar measures presented by other companies.

Funds generated by operations is defined as cash flow from operations before changes in non-cash working capital. In management's opinion, funds generated by operations is a significant performance indicator of the Corporation's ability to generate cash during a period to fund its capital expenditures without regard to changes in non-cash working capital during the period.

Adjusted Earnings is defined as earnings attributable to Class A and Class B Shares after adjustment for items that are not in the normal course of business or day-to-day operations. These items are usually of a non-recurring or one-time nature. Management believes Adjusted Earnings allow for a more effective analysis of operating performance and trends. A reconciliation of Adjusted Earnings to earnings attributable to Class A and Class B Shares is presented in the Results of Operations – Reconciliation of Earnings Attributable to Class A and Class B Shares and Adjusted Earnings section.

Internal Control Over Financial Reporting

There was no change in the Corporation's internal control over financial reporting that occurred during the period beginning on April 1, 2010, and ended on June 30, 2010, that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Results of Operations

SELECTED QUARTERLY INFORMATION

(\$ millions except per share data)	For the Three Months Ended ^{(1) (2) (3)}			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31
2010				
Revenues	748.6	648.6	-	-
Earnings attributable to Class A and Class B Shares	148.0	76.2	-	-
Earnings per Class A and Class B Share	1.18	0.60	-	-
Diluted earnings per Class A and Class B Share	1.17	0.60	-	-
Adjusted Earnings ⁽⁴⁾	152.0	76.3	-	-
Adjusted Earnings per Class A and Class B Share ⁽⁴⁾	1.21	0.61	-	-
2009				
Revenues	768.6	602.7	537.1	675.6
Earnings attributable to Class A and Class B Shares	145.4	73.2	120.9	127.1
Earnings per Class A and Class B Share	1.16	0.58	0.96	1.01
Diluted earnings per Class A and Class B Share	1.16	0.58	0.96	1.01
Adjusted Earnings ⁽⁴⁾	148.3	73.5	76.7	129.1
Adjusted Earnings per Class A and Class B Share ⁽⁴⁾	1.18	0.59	0.61	1.02
2008				
Revenues	-	-	638.4	744.3
Earnings attributable to Class A and Class B Shares	-	-	67.0	114.5
Earnings per Class A and Class B Share	-	-	0.53	0.91
Diluted earnings per Class A and Class B Share	-	-	0.53	0.91
Adjusted Earnings ⁽⁴⁾	-	-	71.6	110.8
Adjusted Earnings per Class A and Class B Share ⁽⁴⁾	-	-	0.57	0.88

Notes:

⁽¹⁾ There were no discontinued operations or extraordinary items during these periods.

⁽²⁾ Due to certain factors, revenues, earnings and Adjusted Earnings for any quarter are not necessarily indicative of operations on an annual basis. These factors include the seasonal nature of the Corporation's operations, changes in electricity prices in Alberta and the U.K., the timing and demand of natural gas storage capacity sold, changes in natural gas storage fees, changes in NGL prices and natural gas costs and the timing of rate decisions.

⁽³⁾ The above data (other than Adjusted Earnings and Adjusted Earnings per Class A and Class B Share) has been extracted from the consolidated financial statements, which have been prepared in accordance with GAAP, and the reporting currency is the Canadian dollar.

⁽⁴⁾ Refer to Significant Non-Operating Financial Items section for a description of the adjustments made to earnings attributable to Class A and Class B Shares to obtain Adjusted Earnings.

The principal factors that caused variations in **financial condition** and **results of operations** over the past eight quarters necessary to understand general trends that have developed and the seasonality of the businesses disclosed in the 2009 MD&A remain substantially unchanged.

RECONCILIATION OF EARNINGS ATTRIBUTABLE TO CLASS A AND CLASS B SHARES AND ADJUSTED EARNINGS

Adjusted Earnings are referred to in various sections of this MD&A. The following table reconciles Adjusted Earnings, which are earnings attributable to Class A and Class B Shares after adjustments for items that are not in the normal course of business or day-to-day operations. These items are usually of a non-recurring or one-time nature. A description of each adjustment is provided in the Significant Non-Operating Financial Items section.

(\$ millions)	For the Three Months Ended June 30			For the Six Months Ended June 30		
	2010	2009	Change to 2010 (2010-2009)	2010	2009	Change to 2010 (2010-2009)
Earnings attributable to Class A and Class B Shares	76.2	73.2	4%	224.2	218.6	3%
Mark-to-Market Adjustment ⁽¹⁾	0.1	0.3	(67%)	4.1	3.2	28%
Adjusted Earnings	76.3	73.5	4%	228.3	221.8	3%

SIGNIFICANT NON-OPERATING FINANCIAL ITEMS

Consolidated and segmented financial results include the following significant non-operating financial item.

(1) Natural Gas Purchase Contracts and Associated Power Generation Revenue Contract Liability (Mark-to-Market Adjustment)

ATCO Power has long term contracts for the supply of natural gas for certain of its power generation projects. Under the terms of certain of these contracts, the volume of natural gas that the Corporation is entitled to take is in excess of the natural gas required to generate power. As the excess volume of natural gas can be sold, the Corporation is required to designate these entire contracts as derivative instruments. The Corporation recognized a non-current derivative asset and records mark-to-market adjustments through earnings as the fair values of these contracts change with changes in future natural gas prices. These natural gas purchase contracts expire in November 2014.

As all but the excess volume of natural gas is committed to the Corporation's power generation obligations, the Corporation does not recognize the entire fair values of these natural gas purchase contracts in its revenues. Consequently, the Corporation has recognized a provision for a power generation revenue contract and records adjustments to the power generation revenue contract liability concurrently with the mark-to-market adjustments for the natural gas purchase contracts derivative asset. This power generation revenue contract liability is included in deferred credits in the consolidated balance sheet.

The mark-to-market adjustment for the derivative asset and the corresponding adjustment for the associated power generation revenue contract liability decreased earnings by \$0.1 million, net of income taxes, for the three months ended June 30, 2010 (2009 – \$0.3 million) and decreased earnings by \$4.1 million, net of income taxes, for the six months ended June 30, 2010 (2009 – \$3.2 million). At June

30, 2010, the natural gas purchase contracts derivative asset was \$5.0 million (2009 – \$45.7 million) and the power generation revenue contract liability was \$4.8 million (2009 – \$34.4 million).

CONSOLIDATED REVENUES AND EARNINGS

Revenues for the three months ended June 30, 2010, **increased** by \$45.9 million (8%) over 2009. This increase was primarily attributable to a \$100.7 million (48%) increase in the Energy Segment due to the lease accounting treatment on the completion of the second unit of ATCO Power's Karratha plant (refer to Company Overview – ATCO Power's Karratha Generating Plant section) and higher merchant performance in ATCO Power's Alberta generating plants as a result of higher prices in the Alberta electricity market. These increases in revenues were partially offset by decreased storage revenues in ATCO Midstream due to the timing and demand for natural gas storage and a \$67.7 million (57%) decrease in the Corporate & Other Segment due to the impact of the ASL Transaction.

Revenues for the six months ended June 30, 2010, **increased** by \$25.9 million (2%) over 2009. This increase was primarily attributable to a \$132.5 million (26%) increase in the Energy Segment due to the lease accounting treatment on the completion of the first and second units of ATCO Power's Karratha plant and higher merchant performance in ATCO Power's Alberta generating plants as a result of higher prices in the Alberta electricity market. These increases in revenues were partially offset by a \$142.7 million (59%) decrease in the Corporate & Other Segment due to the impact of the ASL Transaction.

Adjusted Earnings for the three months ended June 30, 2010, **increased** by \$2.8 million (4%) over the same period in 2009. This increase was primarily attributable to an \$11.1 million (44%) increase in the Energy Segment due to higher merchant performance in ATCO Power's Alberta generating plants resulting from higher Spark Spreads in the Alberta electricity market. This increase was partially offset by decreased storage revenues in ATCO Midstream due to the timing and demand for natural gas storage and a \$6.0 million (15%) decrease in the Utilities Segment due to the impact of recording ATCO Electric's 2009 and 2010 General Tariff Application Decision in the second quarter of 2009.

Adjusted Earnings for the six months ended June 30, 2010, **increased** by \$6.5 million (3%) over the same period in 2009. This increase was primarily attributable to a \$10.4 million (9%) increase in the Utilities Segment due to increased rate base in ATCO Electric and the impact of the AUC approved interim Carbon recovery riders (Interim Carbon Recovery Riders) (refer to Segmented Information – Utilities section) in ATCO Gas. These increases are partially offset by the impact of the deferred gas account decision by the Alberta Court of Appeal (Deferred Gas Account Decision) in ATCO Gas.

Interest and other income for the three and six months ended June 30, 2010, increased by \$1.2 million (12%) to \$11.1 million, and by \$0.8 million (5%) to \$16.3 million, respectively, over the corresponding periods in 2009 mainly due to increased gains on disposal of property, plant and equipment in the Utilities Segment.

CONSOLIDATED EXPENSES

(\$ millions)	For the Three Months Ended June 30			For the Six Months Ended June 30		
	2010	2009	Change to 2010 (2010-2009)	2010	2009	Change to 2010 (2010-2009)
Operating expenses:						
Natural gas supply	13.8	6.4	116%	21.0	12.8	64%
Purchased power	12.4	12.3	1%	27.4	28.0	(2%)
Operation and maintenance	280.9	253.0	11%	565.2	541.6	4%
Selling and administrative	65.3	64.4	1%	116.9	119.0	(2%)
Franchise fees	36.1	33.1	9%	97.1	95.4	2%
	408.5	369.2	11%	827.6	796.8	4%
Depreciation and amortization	84.2	84.8	(1%)	167.5	169.6	(1%)
Interest	60.0	59.9	0%	120.3	117.9	2%
Income taxes	24.8	14.7	69%	61.8	64.8	(5%)
Dividends on equity preferred shares	10.8	10.8	0%	21.6	19.1	13%

Operating expenses for the three months ended June 30, 2010, **increased** by \$39.3 million (11%) over the same period in 2009. Operation and maintenance expenses were higher due to the lease accounting treatment on the completion of the second unit of ATCO Power's Karratha plant (refer to Company Overview – ATCO Power's Karratha Generating Plant section), increased maintenance costs at ATCO Power's Alberta generating plants and increased fuel costs at ATCO Power's U.K. generating plants. These increases in operating expenses were partially offset by the impact of the ASL Transaction.

Operating expenses for the six months ended June 30, 2010, **increased** by \$30.8 million (4%) over the same period in 2009. Operation and maintenance expenses were higher due to the lease accounting treatment on the completion of the first and second units of ATCO Power's Karratha plant partially offset by the impact of the ASL Transaction.

For the three and six months ended June 30, 2010, **depreciation and amortization expenses decreased** by \$0.6 million (1%) and by \$2.1 million (1%), respectively, compared to the same periods in 2009, primarily due to the impact of the ASL Transaction, partially offset by capital additions in 2009 and 2010 in the Utilities Segment.

For the three months ended June 30, 2010, **interest expense** was essentially **unchanged** at \$60.0 million compared to \$59.9 million in 2009.

Interest expense for the six months ended June 30, 2010, **increased** by \$2.4 million (2%) over the same period in 2009. This increase was primarily attributable to the impact of the Deferred Gas Account Decision in ATCO Gas.

For the three months ended June 30, 2010, **income taxes increased** by \$10.1 million (69%) over the same period in 2009, primarily due to higher earnings before income taxes and lower income tax deductions in the Utilities Segment resulting from the flow-through method of income tax accounting.

For the six months ended June 30, 2010, **income taxes decreased** by \$3.0 million (5%) compared to the same period in 2009, primarily due to lower income tax rates and the impact of a \$3.0 million tax benefit related to ATCO Pipelines successful negotiation with the Canada Revenue Agency on the tax classification of certain assets for the years 2000 to 2004. These decreases in income taxes were partially

offset by the 2009 impact of a \$2.6 million favourable income tax adjustment relating to the purchase of tax losses in the U.K. and higher earnings before income taxes.

Dividends on equity preferred shares for the three months ended June 30, 2010 were **unchanged** at \$10.8 million compared to the corresponding period in 2009.

Dividends on equity preferred shares for the six months ended June 30, 2010, **increased** by \$2.5 million (13%) over the same period in 2009, as a result of the issue by CU Inc. of \$160.0 million of 6.70% Cumulative Redeemable Preferred Shares Series 2 on March 27, 2009.

SEGMENTED INFORMATION

(\$ millions)	For the Three Months Ended				Total
	Utilities	Energy	Corporate & Other	Intersegment Eliminations	
2010					
Revenues	326.0	312.6	50.1	(40.1)	648.6
Earnings attributable to Class A and Class B Shares	32.8	36.1	6.6	0.7	76.2
Mark-to-Market Adjustment ⁽¹⁾	-	0.1	-	-	0.1
Adjusted Earnings	32.8	36.2	6.6	0.7	76.3
2009					
Revenues	312.0	211.9	117.8	(39.0)	602.7
Earnings attributable to Class A and Class B Shares	38.8	24.8	9.4	0.2	73.2
Mark-to-Market Adjustment ⁽¹⁾	-	0.3	-	-	0.3
Adjusted Earnings	38.8	25.1	9.4	0.2	73.5

Note:

⁽¹⁾ Refer to Significant Non-Operating Financial Items section for a description of the adjustment.

**For the Six Months Ended
June 30**

(\$ millions)	Utilities	Energy	Corporate & Other	Intersegment Eliminations	Total
2010					
Revenues	745.3	632.6	98.4	(79.1)	1,397.2
Earnings attributable to Class A and Class B Shares	129.7	76.1	19.2	(0.8)	224.2
Mark-to-Market Adjustment ⁽¹⁾	-	4.1	-	-	4.1
Adjusted Earnings	129.7	80.2	19.2	(0.8)	228.3
2009					
Revenues	709.1	500.1	241.1	(79.0)	1,371.3
Earnings attributable to Class A and Class B Shares	119.3	75.9	22.9	0.5	218.6
Mark-to-Market Adjustment ⁽¹⁾	-	3.2	-	-	3.2
Adjusted Earnings	119.3	79.1	22.9	0.5	221.8

Note:

⁽¹⁾ Refer to Significant Non-Operating Financial Items section for a description of the adjustment.

Utilities

Utilities **revenues** for the three months ended June 30, 2010, **increased** by \$14.0 million (4%) over the same period in 2009. This increase in revenues was primarily attributable to increased rate base in ATCO Electric (refer to Regulatory Developments – ATCO Electric section) and the impact of pension plan contributions in ATCO Electric, ATCO Gas and ATCO Pipelines (the ATCO Utilities) which commenced in 2010 and are recoverable from customers. These increases in revenues were partially offset by the impact of recording ATCO Electric’s 2009 and 2010 General Tariff Application Decision in the second quarter of 2009 (refer to Regulatory Developments – ATCO Electric section).

Utilities **revenues** for the six months ended June 30, 2010, **increased** by \$36.2 million (5%) over the same period in 2009. This increase was primarily attributable to the impact of increased rate base in ATCO Electric, the Interim Carbon Recovery Riders in ATCO Gas and the pension plan contributions in the ATCO Utilities which commenced in 2010 and are recoverable from customers. These increases in revenues were partially offset by the Deferred Gas Account Decision in ATCO Gas and the impact of recognizing the 2008 portion of the ATCO Pipelines 2008 and 2009 Negotiated Settlement (refer to Regulatory Developments – ATCO Pipelines section) in 2009.

For the three months ended June 30, 2010, **Adjusted Earnings** were \$32.8 million, a **decrease** of \$6.0 million (15%) compared to the same period of 2009. The primary reason for decreased Adjusted Earnings was the impact of recording ATCO Electric’s 2009 and 2010 General Tariff Application Decision in the second quarter of 2009, partially offset by increased rate base in ATCO Electric.

For the six months ended June 30, 2010, **Adjusted Earnings** were \$129.7 million, an **increase** of \$10.4 million (9%) over the same period of 2009. The primary reasons for higher Adjusted Earnings were the impact of the Interim Carbon Recovery Riders in ATCO Gas and increased rate base in ATCO Electric, partially offset by the Deferred Gas Account Decision in ATCO Gas.

Regulatory Developments

AUC Initiative to Reform Rate Regulation

On February 26, 2010, the AUC advised that it was beginning an initiative to reform utility rate regulation in Alberta and invited interested parties to participate in a round table discussion to determine scheduling and scope issues. The rate regulation initiative will begin with the reform of rate regulation for electricity and natural gas distribution services. The reform of rate regulation for electricity and natural gas transmission is excluded from this initiative at this time. The intent of this initiative is to move to a form of rate regulation referred to as “performance based regulation” in which prevailing rates are adjusted annually by a formula that recognizes inflation and productivity improvements. The AUC has advised that the target date for the implementation of performance based regulation will be July 1, 2012, based on applications filed by the utilities in the first quarter of 2011. The impact of this initiative on ATCO Gas’ and ATCO Electric’s distribution operations cannot be determined at this time.

Pension Hearing

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

Benchmarking

The ATCO Utilities purchase information technology services from ATCO I-Tek. ATCO Electric and ATCO Gas also purchase customer care and billing services from ATCO I-Tek. The recovery of these costs in customer rates is subject to AUC approval. Since 2003, the costs have been approved on a Placeholder basis, and were subject to final AUC approval after completion of a collaborative benchmarking process.

The benchmarking report, dealing with the period of 2003-2007, was received on January 23, 2008. In February 2008, the benchmarking report along with an application to adjust the Placeholder rates was filed with the AUC. A hearing was held in December 2009 and an AUC decision was issued on March 8, 2010, which addressed the 2003-2007 Placeholder amounts for the ATCO Utilities. The AUC decision approved the adjustments to the Placeholder amounts as filed based on fair market value resulting in no material changes to earnings. In April 2010 the City of Calgary filed a Leave to Appeal this decision with the Alberta Court of Appeal and in May 2010 the City of Calgary also filed a Review and Variance application of the AUC’s March 8, 2010, decision.

For the 2008 and 2009 period, a separate regulatory process has been established to approve rates for information technology and customer care and billing services provided by ATCO I-Tek that can be included in customer rates. The 2008-2009 proceeding is scheduled to be completed in the third quarter of 2010 and a decision is expected in the fourth quarter of 2010.

A further regulatory process to deal with rates for information technology and customer care and billing services provided by ATCO I-Tek for 2010 and beyond has been established and the AUC is expected to set a schedule for this regulatory process after the completion of the 2008-2009 process.

In addition to the rates, this process included the review of three options for the future provision of information technology and customer care and billing services. The options are (i) the repatriation of these services back into the ATCO Utilities; (ii) moving to a third party service provider; or (iii) renewing with ATCO I-Tek, the current service provider. On December 11, 2009, the AUC issued a decision approving the implementation of the new Master Service Agreements (excluding the rates therein) with ATCO I-Tek for information technology and customer care and billing services effective January 1, 2010 for an interim period, the term of which will be determined in the upcoming regulatory process.

ATCO Electric

2009 and 2010 General Tariff Application

In July 2008, ATCO Electric filed a general tariff application with the AUC for 2009 and 2010 requesting, among other things, increased revenues to recover increased financing, depreciation and operating costs associated with increased rate base in Alberta. In December 2008, ATCO Electric received a decision approving interim refundable rate increases relating to 50% of the requested increase for transmission operations and 25% of the requested increase for distribution operations. Furthermore, in April 2009, ATCO Electric received a subsequent decision increasing the interim refundable rates for distribution operations to 67% of the requested increase. Finally, on July 2, 2009, the AUC issued a decision on ATCO Electric's 2009 and 2010 general tariff application.

The July 2009 decision was recorded in the second quarter of 2009; revenues and earnings of \$7.8 million and \$6.6 million, respectively, attributable to the first quarter of 2009 were recorded in the second quarter. For 2010, increased rate base resulted in higher revenues and earnings of \$18.8 million and \$3.3 million, respectively, for the three months ended June 30, 2010 compared to the same period in 2009. Therefore, on a net basis, ATCO Electric's revenues increased \$11.0 million in the second quarter of 2010 compared to 2009, whereas earnings decreased \$3.3 million for the same period.

For the six month periods ended June 30, 2010 and June 30, 2009, ATCO Electric was operating under rates approved in the July 2009 decision. As a result, increased rate base in ATCO Electric contributed to higher revenues and earnings of \$37.6 million and \$6.6 million, respectively.

ATCO Gas

Carbon Natural Gas Storage Facility

ATCO Gas owns a 43.5 petajoule natural gas storage facility located at Carbon, Alberta (Carbon Facility). Since April 1, 2005, ATCO Gas has leased the entire storage capacity of the Carbon Facility to ATCO Midstream. Due to the deregulation of the natural gas market, ATCO Gas notified the AUC that the Carbon Facility was no longer required for the provision of utility service as of April 1, 2005. As a result of numerous regulatory and legal proceedings, ATCO Gas has received approval from the AUC to remove the Carbon Facility from regulation. On December 16, 2009, a Review and Variance decision issued by the AUC confirmed the effective date of removing the Carbon Facility from regulation to be April 1, 2005.

Through its Carbon Compliance application, ATCO Gas is seeking to recover total revenues from customers of \$45.5 million, excluding interest, which would increase ATCO Gas' earnings by a total of \$32.7 million. Through numerous regulatory processes, ATCO Gas recorded revenues and earnings of \$13.8 million and \$9.9 million, respectively, in 2009. On April 20, 2010, ATCO Gas received a further decision from the AUC approving, on an interim adjustable basis, the implementation of Carbon recovery riders resulting in an increase in ATCO Gas' revenues and earnings of \$15.7 million and \$11.3 million, respectively. The financial impact of this decision was recorded in the first quarter of 2010 bringing the

total revenues and earnings recorded to date to \$29.5 million and \$21.2 million, respectively. The final decision on the amounts to be recovered from customers is expected in the fourth quarter of 2010.

The City of Calgary and the Utilities Consumer Advocate filed a joint Leave to Appeal application with the Alberta Court of Appeal regarding the December 16, 2009 decision which confirmed the effective date of removal of the Carbon Facility from regulation to be April 1, 2005. This Leave to Appeal was heard on April 28, 2010, and on May 12, 2010, the Alberta Court of Appeal issued its decision denying the Leave to Appeal.

Deferred Gas Account

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

2005, 2006, and 2007 General Rate Application

In May 2006, the City of Calgary filed a review and variance application with the AUC, alleging that the AUC made errors in ATCO Gas' 2005-2007 general rate application decision related to the calculation of working capital needed by ATCO Gas to operate the Carbon Facility. The AUC issued a decision on January 17, 2007, denying the City of Calgary's application. On February 15, 2007, the City of Calgary filed for a Leave to Appeal this decision with the Alberta Court of Appeal. On June 19, 2007, the appeal was heard with the Court granting the City of Calgary leave to appeal on August 3, 2007. A hearing was held on March 11, 2010 and a decision dismissing the appeal was issued by the Alberta Court of Appeal on March 24, 2010.

ATCO Pipelines

Alberta System Integration

On September 8, 2008, ATCO Pipelines and NOVA Gas Transmission Ltd. (NOVA) announced a proposed agreement to provide natural gas transmission service to their customers. The proposal will allow ATCO Pipelines and NOVA to utilize their physical assets under a single rates and services structure with a single commercial interface for Alberta customers. Each company would separately manage assets within distinct operating territories within Alberta. This proposal, if approved by the AUC, is expected to end duplicate tolling and operational activities and result in more efficient regulatory processes.

On June 26, 2009, ATCO Pipelines filed an application with the AUC for the integration of ATCO Pipelines' and NOVA's gas transmission systems in Alberta (Integration Application). The Integration Application requested the AUC to approve that (i) integration is in the public interest, (ii) ATCO Pipelines approved revenue requirements be charged to NOVA, (iii) ATCO Pipelines customers be

transitioned to NOVA, with NOVA as the customer commercial point of contact, and (iv) ATCO Pipelines and NOVA swap assets in order to establish operating areas. A negotiated settlement on ATCO Pipelines' 2010, 2011 and 2012 revenue requirements was a condition precedent of the Integration Application. A settlement on ATCO Pipelines' 2010, 2011 and 2012 revenue requirements was successfully negotiated with interested parties on October 28, 2009. On November 12, 2009, ATCO Pipelines filed a request with the AUC to approve its 2010, 2011 and 2012 Revenue Requirement Settlement Application as part of its Integration Application.

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

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

2008 and 2009 General Rate Application

In November 2008, ATCO Pipelines filed an application requesting the AUC approve a negotiated settlement with its customers of ATCO Pipelines' 2008 and 2009 revenue requirements. On March 18, 2009, the AUC issued a decision approving the negotiated settlement, including, among other things, a rate of return on common equity of 8.75% and a common equity ratio of 43% for each of 2008 and 2009. As a result of the decision, ATCO Pipelines recognized additional earnings over existing interim rates of \$4.5 million in the first quarter of 2009, of which \$3.7 million related to 2008.

Other Matters

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

Energy

Energy **revenues** for the three months ended June 30, 2010, **increased** by \$100.7 million (48%) over the same period in 2009. This increase was primarily attributable to the lease accounting treatment on the completion of the second unit of ATCO Power's Karratha plant (refer to Company Overview – ATCO Power's Karratha Generating Plant section), higher merchant performance in ATCO Power's Alberta generating plants due to higher prices in the Alberta electricity market and higher NGL prices in ATCO Midstream. These increases in revenues were partially offset by decreased storage revenues in ATCO Midstream due to the timing and demand for natural gas storage.

Energy **revenues** for the six months ended June 30, 2010, **increased** by \$132.5 million (26%) over the same period in 2009. This increase was primarily attributable to the lease accounting treatment on the completion of the first and second units of ATCO Power's Karratha plant and higher merchant performance in ATCO Power's Alberta generating plants due to higher prices in the Alberta electricity market. These increases in revenues were partially offset by lower exchange rates on conversion of U.K.

revenues into Canadian dollars, lower generation at ATCO Power's Barking generating plant due to a planned outage and unfavourable U.K. merchant conditions.

For the three months ended June 30, 2010, **Adjusted Earnings** were \$36.2 million, an **increase** of \$11.1 million (44%) over the same period of 2009. This increase was primarily attributable to higher merchant performance in ATCO Power's Alberta generating plants due to higher Spark Spreads in the Alberta electricity market and higher margins for NGL extraction in ATCO Midstream. These increases in Adjusted Earnings were partially offset by decreased storage revenues in ATCO Midstream due to the timing and demand for natural gas storage.

For the six months ended June 30, 2010, **Adjusted Earnings** were \$80.2 million, an **increase** of \$1.1 million (1%) over the same period of 2009. This was primarily attributable to higher merchant performance in ATCO Power's Alberta generating plants due to higher Spark Spreads in the Alberta electricity market and higher margins for NGL extraction in ATCO Midstream. These increases in Adjusted Earnings were partially offset by unfavourable U.K. merchant conditions, lower exchange rates on the conversion of U.K. earnings to Canadian dollars in ATCO Power's U.K. operations and decreased storage revenues in ATCO Midstream due to the timing and demand for natural gas storage.

Power Generation

Availability of the generating plants by geographic region is set forth below:

	For the Three Months Ended			For the Six Months Ended		
	June 30			June 30		
	2010	2009	Change to 2010 (2010-2009)	2010	2009	Change to 2010 (2010-2009)
ATCO Power ⁽¹⁾						
Canada	90.8%	92.7%	(1.9%)	93.8%	95.4%	(1.6%)
U.K. ⁽²⁾	71.2%	87.0%	(15.8%)	77.7%	93.7%	(16.0%)
Australia	99.7%	94.6%	5.1%	96.8%	95.4%	1.4%
Alberta Power (2000) ⁽¹⁾						
Canada	85.0%	92.2%	(7.2%)	84.4%	89.0%	(4.6%)

Notes:

⁽¹⁾ *Generating plant availability will fluctuate due to the timing and duration of outages.*

⁽²⁾ *A planned outage commenced in March 2010 to repair a generator (refer to Unplanned Outage at Barking Generating Plant section).*

Unplanned Outage at Barking Generating Plant

On October 25, 2007, ATCO Power's Barking generating plant in the U.K. experienced an unplanned outage due to a failure in a steam turbine generator. Temporary repairs were completed and, on March 6, 2008, ATCO Power announced that the plant had returned to service. In May 2010, a planned outage to finish the repairs to the generator was completed. ATCO Power is receiving insurance proceeds associated with the business interruption and the cost of the repairs. Consequently, there was no significant impact to ATCO Power's 2010 year-to-date earnings relating to this outage.

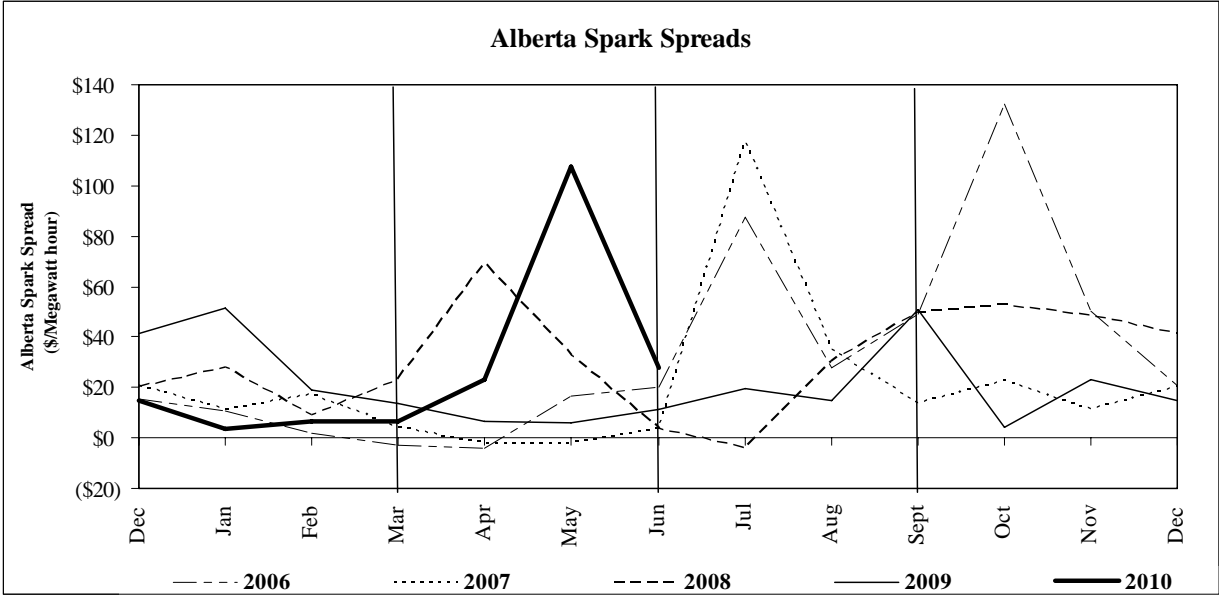
Other Power Generation Developments

In November 2008, ATCO Power announced it would design, build, own and operate a two unit 86 MW natural gas-fired simple cycle generating plant in Karratha, Western Australia. On February 14, 2010, the first unit commenced commercial operations followed by the second unit on April 9, 2010.

The majority of ATCO Power’s electricity sales to the Alberta Power Pool are from natural gas-fired generating plants and, as a result, earnings are affected by natural gas prices and Alberta Power Pool prices. Alberta Power Pool electricity prices averaged \$81.15 per MWh and \$61.08 per MWh for the three and six months, respectively, ended June 30, 2010, compared to average prices of \$32.30 per MWh and \$47.74 per MWh in the corresponding periods of 2009. Natural gas prices averaged \$3.69 per GJ and \$4.19 per GJ for the three and six months, respectively, ended June 30, 2010, compared to average prices of \$3.27 per GJ and \$3.96 per GJ in the corresponding periods of 2009. These electricity and natural gas prices resulted in an average Spark Spread of \$53.47 per MWh and \$29.68 per MWh for the three and six months, respectively, ended June 30, 2010, compared to \$7.78 per MWh and \$18.00 per MWh for the corresponding periods of 2009.

Changes in Spark Spread currently affect the results of approximately 437 MW of plant capacity owned in Alberta by ATCO Power and Alberta Power (2000) out of a total Alberta-owned capacity of approximately 1,738 MW and approximately 70 MW of plant capacity owned in the U.K. by ATCO Power out of a total U.K.-owned capacity of approximately 262 MW and a worldwide owned capacity by ATCO Power and Alberta Power (2000) of approximately 2,589 MW.

The following chart demonstrates the volatility of Alberta Spark Spreads experienced by ATCO Power for the period of December 2005 to June 2010.



The Corporation’s merchant power sales are affected by volatility in power and natural gas prices caused by market forces such as fluctuating supply and demand for electricity. The Corporation manages this volatility through its adoption of asset optimization strategies in accordance with its risk management policy for bidding its merchant power into both the Alberta and U.K. power markets.



Alberta Power (2000)

Under the terms of the PPAs, Alberta Power (2000) is subject to an incentive/penalty regime related to generating unit availability. Incentives are payable by the PPA counterparties for availability in excess of predetermined targets, and penalties are payable by Alberta Power (2000) when the availability targets are not achieved. These amounts are amortized based on estimates of future generating unit availability and future electricity prices over the term of the PPAs.

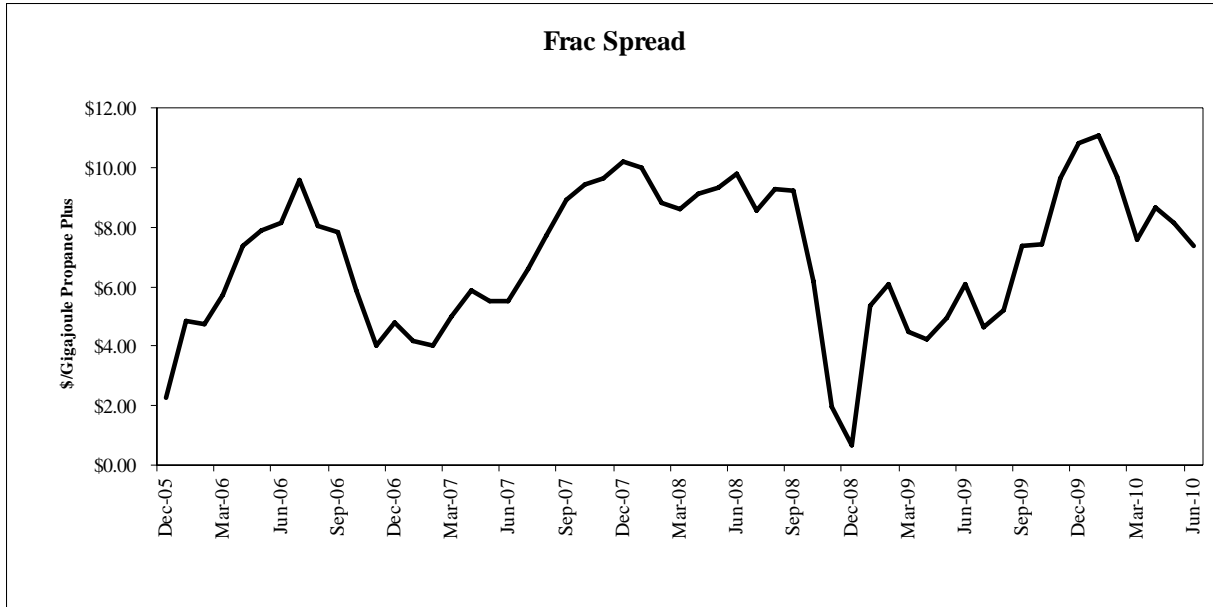
During the three and six months ended June 30, 2010, the **deferred availability incentive** account **decreased** by \$18.1 million and \$22.0 million, respectively, to \$45.1 million. This decrease was mainly due to availability penalties paid associated with the planned outage in the second quarter of 2010 for the Battle River generating plant which, occurred during a period of high Alberta Power Pool electricity prices, as well as normal amortization. During the three and six months ended June 30, 2010, the amortization of deferred availability incentives, recorded in revenues, decreased by \$0.7 million to \$3.5 million, and by \$1.1 million to \$7.6 million, respectively, primarily as a result of the impact of 2010 planned outages and lower forecast prices for electricity.

ATCO Midstream

NGL Extraction Operations

A portion of ATCO Midstream's revenues is derived from the extraction of NGL from natural gas and the marketing of NGL products under supply or marketing contracts. ATCO Midstream owns a net working interest of 411 million cubic feet per day of processing capacity in its NGL extraction plants.

ATCO Midstream's NGL extraction operations involve the extraction of NGL from natural gas and the replacement (on a heat content equivalent basis) of the NGL extracted with shrinkage gas. For Propane Plus, the difference between the price of natural gas and the value of the liquids extracted is commonly referred to as the Frac Spread. Frac Spreads vary with fluctuations in the price of natural gas and the prices of the applicable liquids extracted. Frac Spreads can be volatile, as shown in the following graph, which illustrates monthly Frac Spreads during the period of December 2005 to June 2010.



Note:

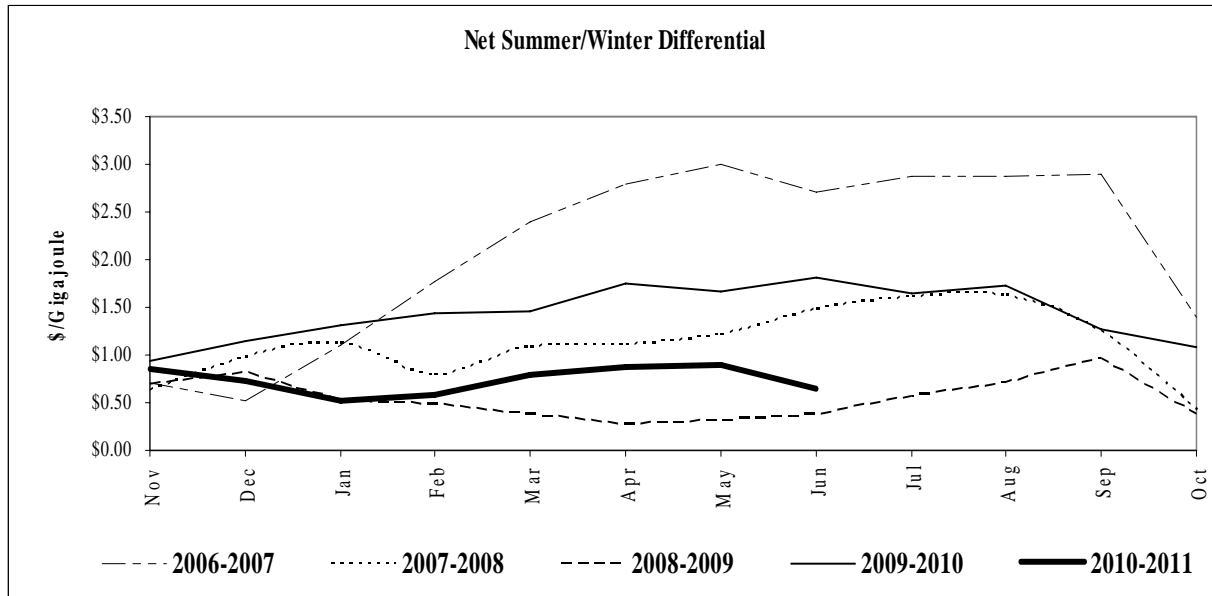
⁽¹⁾ The above chart represents measurements of industry Frac Spreads in Alberta, as reported by an independent consultant.

Fluctuations in Frac Spreads affect ATCO Midstream’s earnings and cash flow from operations. At current values, a \$1.00 change in the average annual Frac Spread impacts ATCO Midstream’s annual earnings by approximately \$6.0 million.

Storage Operations

The majority of ATCO Midstream’s natural gas storage revenues come from seasonal differences (summer/winter) in the price of natural gas (price differentials).

Summer/winter natural gas price differentials can be volatile, as shown in the following graph, which illustrates a range of seasonal differentials experienced during the storage periods from the 2006-2007 storage year to the 2010-2011 storage year. Price differentials at any point in time may not always be indicative of the storage revenue and earnings for the same period due to the types of contracts and the timing of the revenue recognition associated with these contracts.



ATCO Midstream faces risks associated with changes to seasonal natural gas price differentials. To mitigate this risk, ATCO Midstream maintains portfolios of varied contracts, delivery terms, capacities and customers for its storage operations.

Corporate & Other

Adjusted Earnings for the three months ended June 30, 2010, were \$6.6 million, a **decrease** of \$2.8 million (30%), compared to the corresponding period of 2009. The primary reason for the decrease was increased corporate costs.

Adjusted Earnings for the six months ended June 30, 2010, were \$19.2 million, a **decrease** of \$3.7 million (16%), compared to the corresponding period of 2009. The primary reasons for the decrease were higher share appreciation rights expense resulting from changes in Canadian Utilities Class A non-voting share prices since January 1, 2010 and the impact of the ASL Transaction. Adjusted Earnings for the Corporation's 24.5% share of equity earnings in ASL for the six months ended June 30, 2010 were lower than the Adjusted Earnings for ATCO Frontec over the corresponding period in 2009.

Liquidity and Capital Resources

A major portion of the Corporation's operating income and funds generated by operations is generated from its utility operations. Canadian Utilities and its wholly owned subsidiary, CU Inc., use short term bank loans and commercial paper borrowings to provide flexibility in the timing and amounts of long term financing.

SUMMARY OF CASH FLOW

(\$ millions)	For the Three Months Ended June 30			For the Six Months Ended June 30		
	2010	2009	Change to 2010 (2010-2009)	2010	2009	Change to 2010 (2010-2009)
Cash position, beginning of period	837.2	1,135.0	(26%)	796.0	726.6	10%
Cash provided by (used in)						
Operating activities:						
Funds generated by operations	157.8	136.2	16%	371.0	382.8	(3%)
Changes in non-cash working capital	(36.3)	(34.6)	(5%)	46.5	(7.0)	764%
Cash flow from operations	121.5	101.6	20%	417.5	375.8	11%
Investing activities	(171.5)	(234.2)	27%	(352.8)	(488.0)	28%
Financing activities	(70.0)	(4.9)	(1,329%)	(130.8)	381.2	(134%)
Foreign currency impact on cash balances	3.2	7.8	(59%)	(9.5)	9.7	(198%)
Cash position, end of period	720.4	1,005.3	(28%)	720.4	1,005.3	(28%)

OPERATING ACTIVITIES

For the three months ended June 30, 2010, **funds generated by operations** were \$157.8 million, an **increase** of \$21.6 million (16%) over the corresponding period of 2009. This increase was primarily due to higher earnings, as well as regulatory deferral amounts in the ATCO Utilities which vary from quarter to quarter and are, therefore, not comparable or indicative of funds generated by operations on an annual basis. This increase was partially offset by availability penalties paid by Alberta Power (2000) due to a planned outage in the Battle River generating plant.

For the six months ended June 30, 2010, **funds generated by operations** were \$371.0 million, a **decrease** of \$11.8 million (3%) compared to the corresponding period of 2009. This decrease was primarily due to availability penalties paid by Alberta Power (2000) due to a planned outage in the Battle River generating plant, partially offset by higher earnings. For the six months ended June 30, 2010, **changes in non-cash working capital** were \$46.5 million, an **increase** of \$53.5 million (764%) over the corresponding period of 2009. This increase was primarily due to increased changes in non-cash working capital in Alberta Power (2000) due to lower accounts receivable and higher accounts payable as a result of planned plant outages.

INVESTING ACTIVITIES

For the three months ended June 30, 2010, **cash used in investing activities decreased** by 27% compared to the corresponding period of 2009, primarily due to lower capital expenditures and increased proceeds on disposal of property, plant and equipment.

Capital expenditures for the three months ended June 30, 2010, **decreased** by \$48.5 million compared to the corresponding period of 2009. This decrease was primarily due to lower investment in non-regulated electric transmission projects by ATCO Energy Solutions and decreased costs incurred by ATCO Power in the second quarter of 2010 to complete the construction of the Karratha generating plant. These decreases in capital expenditures were partially offset by increased investment in natural gas distribution projects in ATCO Gas.

For the six months ended June 30, 2010, **cash used in investing activities decreased** by 28% compared to the corresponding period of 2009, primarily due to changes in non-cash working capital and lower capital expenditures.

Capital expenditures for the six months ended June 30, 2010, **decreased** by \$72.0 million compared to the corresponding period of 2009. This decrease was primarily due to lower investment in non-regulated electric transmission projects by ATCO Energy Solutions, decreased investment in regulated transmission and distribution projects in ATCO Electric and decreased costs incurred by ATCO Power in the first half of 2010 to complete the construction of the Karratha generating plant.

FINANCING ACTIVITIES

For the three months ended June 30, 2010, the Corporation had **net debt decreases** of \$20.9 million. There was no **issuance** of debt. **Redemptions** were comprised of \$0.2 million of other long term debt and \$20.7 million of non-recourse long term debt.

For the six months ended June 30, 2010, the Corporation had **net debt decreases** of \$32.7 million. There was no **issuance** of debt. **Redemptions** were comprised of \$0.5 million of other long term debt and \$32.2 million of non-recourse long term debt.

For the three and six months ended June 30, 2010, the Corporation had no **issue** of equity preferred shares compared to the issue of \$160.0 million of 6.70% Cumulative Redeemable Preferred Shares Series 2 on March 27, 2009.

For the three and six months ended June 30, 2010, there were **purchases** of \$1.8 million and \$2.9 million, respectively, of Class A Shares under the Corporation's normal course issuer bid compared to nil in the corresponding periods of 2009. For the three and six months ended June 30, 2010, **issues** of Class A Shares due to stock option exercises were \$0.6 million and \$0.7 million, respectively, compared to \$0.2 million and \$2.1 million, respectively, for the corresponding periods of 2009.

On March 1, 2010, the Corporation commenced a **normal course issuer bid** for the purchase of up to 3% of the outstanding Class A Shares. The bid will expire on February 28, 2011. From March 1, 2010, to July 28, 2010, 63,250 shares have been purchased.

Total **dividends** for the three and six months ended June 30, 2010, **increased** by 7% to \$47.5 million and by 7% to \$95.0 million, respectively, over the corresponding periods of 2009. For the three and six months ended June 30, 2010, the **quarterly dividend** payment on the Corporation's Class A and Class B Shares was **increased** by \$0.025 to \$0.3775 per share over the corresponding periods of 2009. On July 15, 2010, the Board of Directors declared the third quarter dividend of \$0.3775 per share. The Corporation has increased its annual common share dividend each year since its inception as a holding company in 1972. 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.

FOREIGN CURRENCY TRANSLATION

For the three months ended June 30, 2010, **foreign currency translation increased** the Corporation's cash position by \$3.2 million due to changes in the U.K. and Australian exchange rates used for balance sheet translations.

For the six months ended June 30, 2010, **foreign currency translation decreased** the Corporation's cash position by \$9.5 million due to changes in the U.K. and Australian exchange rates used for balance sheet translations.

SHORT TERM INVESTMENT POLICY

The Corporation has a long-standing policy not to invest any of its cash balances in asset-backed securities. Cash and short term investment credit risk is reduced by investing approximately 84% in short term money market instruments of Canadian financial institutions and Government of Canada treasury bills as at June 30, 2010.

LINES OF CREDIT

At June 30, 2010, the Corporation had the following credit lines that enable it to obtain funding for general corporate purposes.

	Total	Used	Available
(\$ millions)			
Long term committed	326.0	47.0	279.0
Short term committed	600.0	15.1	584.9
Uncommitted	53.2	11.7	41.5
Total	979.2	73.8	905.4

Short term committed credit facilities totaling \$600.0 million were renewed in July 2010 by the Corporation and CU Inc., a wholly owned subsidiary of the Corporation. Unless extended at the option of the lender, these credit facilities will expire in July 2011.

The amount and timing of future financings will depend on market conditions and the specific needs of the Corporation.

CONTRACTUAL OBLIGATIONS

Contractual obligations disclosed in the 2009 MD&A remain substantially unchanged as at June 30, 2010.

BASE SHELF PROSPECTUS

On May 28, 2010, CU Inc. filed a **base shelf prospectus** that permits CU Inc. to issue up to an aggregate of \$1,700.0 million of debentures over the twenty-five month life of the prospectus. As of July 28, 2010, no debentures have been issued.

Share Capital

The equity securities of the Corporation consist of Class A Shares and Class B Shares.

At July 28, 2010, the Corporation had outstanding 85,822,878 Class A Shares, 40,005,642 Class B Shares and options to purchase 889,900 Class A Shares.

Business Risks

Information contained in the 2009 MD&A related to Business Risks which is not discussed in this section remains substantially unchanged.

PENSION PLANS

Employees are required to contribute a percentage of their salary to registered pension plans. The Corporation is required to contribute its share of contributions on behalf of the members of the defined contribution pension plans and to provide the balance of the funding necessary to ensure that benefits will be fully provided for at retirement for the members of the defined benefit pension plans.

Declines in stock and bond markets, changes in actuarial assumptions and additional employee service have created funding deficits in the Corporation's defined benefit pension plans. Prior to 2010, the Corporation had not made material contributions since April 1, 1996, as a result of the defined benefit plans' surplus position. In addition the Corporation had obtained regulatory approval to fund the employer's contributions to the defined contribution component of the pension plan from the defined benefit plan surplus.

Based on these changes, material current service and deficit funding contributions have resumed in 2010. The actual funding contributions for 2010 have now been established based on actuarial valuations for funding purposes that were completed in May 2010. Based on these final actuarial valuations, the employer contributions relating to both the defined contribution and the defined benefit components of the plan for 2010 will be approximately \$70 million. Contributions commenced during the first quarter of 2010.

For purposes of any pension funding requirements pertaining to utility operations, the AUC has directed that the cash basis of accounting be used in customer rate applications. Accordingly, the Corporation includes the cost of funding in its rate applications to the AUC, thereby, with the consent of the AUC, recovering approximately 77% of the costs of funding its pension plans from utility customers (refer to Segmented Information – Utilities section). Amounts approved by the AUC may vary from the amounts requested. Based on the assumption that the full amounts requested in filed rate applications are approved by the AUC, the net funding contribution amounts (actual funding contributions less recovery from utility customers) are expected to be approximately \$16 million. Pension funding contributions do not equate to pension expense for accounting purposes. A description of pension expense can be found in Note 23 of the Corporation's audited financial statements for the year ended December 31, 2009 which are filed on SEDAR at www.sedar.com.

ENVIRONMENTAL MATTERS

Battle River Water Levels

In the first quarter of 2010 the water level in the cooling reservoir used by the Battle River generating plant in its production of electricity had fallen below normal. This condition did not result in significant curtailments of production of electricity. Significant precipitation in the second quarter of 2010 has resulted in water levels in the reservoir returning to normal.

Greenhouse Gas Emissions

In June 2010, the Federal Government announced plans to propose regulations to impose stringent GHG performance standards on new coal-fired electricity generation units and those coal-fired units that have reached the end of their economic life, suggested as 45 years. Additional detail is expected in the coming months. ATCO Power will continue to monitor and actively engage the Federal Government in this area to manage the associated risks and potential impacts of these plans.

REGULATED OPERATIONS

Benchmarking

The ATCO Utilities purchase information technology services from ATCO I-Tek. ATCO Electric and ATCO Gas also purchase customer care and billing services from ATCO I-Tek. The recovery of these costs in customer rates is subject to AUC approval. Since 2003, the costs have been approved on a Placeholder basis, and were subject to final AUC approval after completion of a collaborative benchmarking process.

The benchmarking report, dealing with the period of 2003-2007, was received on January 23, 2008. In February 2008, the benchmarking report along with an application to adjust the Placeholder rates was filed with the AUC. A hearing was held in December 2009 and an AUC decision was issued on March 8, 2010, which addressed the 2003-2007 Placeholder amounts for the ATCO Utilities. The AUC decision approved the adjustments to the Placeholder amounts as filed based on fair market value resulting in no material changes to earnings. In April 2010 the City of Calgary filed a Leave to Appeal this decision with the Alberta Court of Appeal and in May 2010 the City of Calgary also filed a Review and Variance application of the AUC's March 8, 2010, decision.

For the 2008 and 2009 period, a separate regulatory process has been established to approve rates for information technology and customer care and billing services provided by ATCO I-Tek that can be included in customer rates. The 2008-2009 proceeding is scheduled to be completed in the third quarter of 2010 and a decision is expected in the fourth quarter of 2010.

A further regulatory process to deal with rates for information technology and customer care and billing services provided by ATCO I-Tek for 2010 and beyond has been established and the AUC is expected to set a schedule for this regulatory process after the completion of the 2008-2009 process.

In addition to the rates, this process included the review of three options for the future provision of information technology and customer care and billing services. The options are (i) the repatriation of these services back into the ATCO Utilities; (ii) moving to a third party service provider; or (iii) renewing with ATCO I-Tek, the current service provider. On December 11, 2009, the AUC issued a decision approving the implementation of the new Master Service Agreements (excluding the rates therein) with ATCO I-Tek for information technology and customer care and billing services effective January 1, 2010 for an interim period, the term of which will be determined in the upcoming regulatory process.

NON-REGULATED OPERATIONS

ATCO Power's Barking Generating Plant

The revenue contract for the Barking power plant will expire on September 30, 2010. Although the owners of the plant are reviewing options to recontract a portion of the plant's capacity, it is expected that some or all of the plant's currently contracted capacity will be sold into the merchant market commencing in October 2010.

Future Accounting Changes

International Financial Reporting Standards

The Canadian Accounting Standards Board confirmed in 2008 that the use of International Financial Reporting Standards (IFRS) by publicly accountable enterprises will be required in 2011. The Corporation will need to begin reporting under IFRS in the first quarter of 2011 with comparative data for the prior year. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures.

On July 28, 2010, the Canadian Accounting Standards Board issued an exposure draft which will permit, but not require, entities with rate regulated activities to defer the transition to IFRS for two years, to 2013. The exposure draft is currently being reviewed to determine what effect, if any, it will have on the Corporation's IFRS Conversion Project.

The Corporation has established a Steering Committee, a project team, and working groups to review the adoption of IFRS. The project team and working groups provide position papers and regular updates to the Steering Committee and the Audit Committee. Education sessions have been, and will continue to be, provided for employees, senior management and the Audit Committee to increase knowledge and awareness of IFRS and its impacts.

IFRS Conversion Project Status

The Corporation completed the Assessment and Diagnostic and Design and Planning phases of its IFRS Conversion Project in 2009 and is currently in the Implementation and Review phase. The Implementation and Review phase involves making changes to accounting policies and procedures and financial information systems and training staff on the implementation of the new standards. Financial information in accordance with IFRS is being collected in 2010 to allow for comparative reporting in 2011. The Corporation has completed the necessary changes to its financial reporting computer systems, except for any changes that may be required from rate regulated accounting.

Position papers on issue-specific accounting differences between Canadian GAAP and IFRS and the impact on financial reporting computer systems are complete and they have been discussed with the Corporation's external auditor. As a number of the IFRS standards are changing, the position papers will be updated to reflect any changes resulting from final standards or directives issued by the International Accounting Standards Board (IASB).

The Corporation has completed an initial review of the impact of IFRS on financial covenants. This review will be updated for changes in standards. Based on the work performed to date, the Corporation believes it will be in compliance with covenant terms using IFRS financial information.

The Corporation has evaluated the impact of IFRS on internal control over financial reporting (ICFR) and disclosure controls and procedures (DC&P). The Corporation has not identified any changes that would individually or in aggregate materially affect, or are reasonably likely to materially affect, ATCO's ICFR or DC&P.

IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") requires entities to prepare and present an opening balance sheet at the date of transition to IFRS. The transition date for the Corporation is January 1, 2010. The Corporation is evaluating the optional exemptions available under IFRS 1 but has not made final determinations at this time.

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. The IFRS 1 exemptions give limited exemptions from retroactively applying the standards where the cost of complying with this requirement would be likely to exceed the benefits to users of financial statements. Significant exemptions for the Corporation are:

Description of IFRS 1 Exemption	Project Status
<p><i>Business Combinations</i></p> <p>An entity may elect not to restate business combinations that occurred before the date of transition to IFRS.</p>	<p>The Corporation intends to adopt this exemption, thereby resulting in no changes to the accounting for prior business combinations.</p>
<p><i>Employee Benefits</i></p> <p>An entity may elect to recognize all cumulative actuarial gains and losses at the date of transition as an adjustment to retained earnings.</p>	<p>The Corporation intends to adopt this exemption.</p>
<p><i>Fair Value as Deemed Cost</i></p> <p>An entity may elect to measure items of property, plant and equipment at fair value at the date of transition to IFRS and use that fair value as deemed cost.</p>	<p>The Corporation is currently evaluating the effect of adopting this exemption.</p>
<p><i>Rate Regulated Property, Plant and Equipment</i></p> <p>An entity that is subject to rate regulation may elect to use the carrying amount of property, plant and equipment determined under previous GAAP as initial cost on transition to IFRS.</p>	<p>The Corporation intends to adopt this exemption, with the result that there will be no change in the regulated operations' transitional balances for property, plant and equipment.</p>
<p><i>Cumulative Translation Differences</i></p> <p>For all of its foreign operations, an entity may elect to recognize its cumulative translation adjustments at the date of transition as an adjustment to retained earnings.</p>	<p>The Corporation intends to adopt this exemption, thereby resulting in a decrease to retained earnings of approximately \$50.0 million.</p>
<p><i>Decommissioning Liabilities – Asset Retirement Obligations</i></p> <p>An entity may elect to estimate the amount that would have been included in the cost of the related asset when the liability first arose by discounting the liability back to that date and calculating the accumulated depreciation at the transition date using the current estimated useful life.</p>	<p>The Corporation intends to adopt this exemption but has not yet finalized the amount to be recorded on transition to IFRS.</p>

On July 23, 2009, the IASB issued an exposure draft on rate regulated activities (the Exposure Draft). Subsequently, the IASB staff issued a summary of their analysis of the responses to the Exposure Draft. The IASB will continue to research and analyse this project with a focus on whether the existence of regulatory assets and liabilities is consistent with other international standards. A date for issuing a standard was not identified by the IASB. The Corporation is continuing to monitor the situation but cannot determine the impact that the possible changes to the Exposure Draft and the timeline for issuing a final standard will have on the Corporation. In the absence of a rate regulated activities standard, the Corporation will follow the existing IFRS standards and framework to determine the appropriate accounting treatment for these assets and liabilities.

Summary of Significant Accounting Differences between Canadian GAAP and IFRS

The Corporation has identified that the following areas have the greatest potential impact on the Corporation's accounting: joint arrangements, leases, employee benefits and customer contributions.

Joint Arrangements

Under Canadian GAAP, the Corporation's numerous joint arrangements are accounted for using proportionate consolidation. Under proportionate accounting, the Corporation records its proportionate share of the assets, liabilities, revenues and expenses of the joint arrangement. Under the recent IFRS exposure draft on joint arrangements, if the joint arrangement (and not the Corporation) has indirect interests to share in the 'net' common outcome expected to be generated from a group of underlying assets and liabilities under the joint control of all of the venturers, the Corporation would account for those joint arrangements using equity accounting and report the investment in joint venture on the balance sheet and equity earnings on the statement of earnings.

The IASB has not yet issued a new joint arrangements standard and it is likely that its effective date will be subsequent to the IFRS conversion date of January 1, 2011. Pending issuance of the standard, the Corporation will adopt the option under the existing IFRS standard for Interests in Joint Ventures to account for jointly controlled entities using proportionate accounting. As a result, there will effectively be no change to the Corporation's financial results from the accounting for joint ventures under Canadian GAAP.

Leases

The Corporation is party to a number of project contracts that IFRS requires be reassessed to determine if they are to be accounted for as leases. The Corporation's assessment is that several contracts will be deemed to be finance leases under IFRS with the Corporation as the lessor. Lease treatment was not required under Canadian GAAP as the contracts were entered into prior to the effective date of the Canadian GAAP standard.

For a deemed finance lease under IFRS, the project property, plant and equipment will be replaced with a present value finance lease receivable for the lease payments to be received over the remaining life of the arrangement. Payments received from the customer are allocated between revenue and principal payment based on a mortgage style calculation. The Corporation has not yet finalized the amount to be recorded on transition to IFRS.

Employee Benefits

Employee benefits consist of pensions and other retirement benefits, including life insurance and medical care. Under Canadian GAAP, the Corporation amortizes experience gains and losses and other adjustments in excess of 10% of the greater of the accrued benefit obligation or the market value of plan

assets to earnings over the remaining average service life of employees. This method is known as the corridor approach.

IFRS allows an entity to recognize the experience gains and losses on plan assets and liabilities in a number of ways:

- recognize 100% of annual gains and losses directly in earnings;
- amortize cumulative unamortized gains and losses exceeding the greater of 10% of plan assets or liabilities over the estimated average remaining service life of employees; or
- recognize 100% of annual gains and losses directly in other comprehensive income and then transfer them directly to retained earnings.

The Corporation intends to record all experience gains and losses in other comprehensive income.

Customer Contributions

The Corporation obtains contributions from utility customers to construct assets in situations where it is not economic to provide service to the customer at the approved rate charged to other customers. Under Canadian GAAP, the contributions are deducted from property, plant and equipment and amortized over the life of the related asset. Under IFRS, this contribution will be accounted for as deferred revenue on the basis that there is no stand-alone value for utility customers who provide these contributions without ongoing service by the Corporation. The deferred revenue will be amortized over the life of the related asset. The transition to IFRS will result in an increase to assets and liabilities of approximately \$880.0 million as unamortized customer contributions are reclassified from an offset to Property, Plant and Equipment to Other Liabilities on the Consolidated Balance Sheet.