



CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2007**

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

| | Note | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|------|------------------------------------|-----------|-----------------------------------|-----------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | <i>(Unaudited)</i> | | <i>(Unaudited)</i> | |
| Revenues | 2 | \$ 262.9 | \$ 292.7 | \$1,020.0 | \$1,010.1 |
| Costs and expenses | | | | | |
| Natural gas supply | | 0.4 | 0.7 | 1.7 | 1.8 |
| Purchased power | | 11.1 | 10.0 | 36.3 | 33.6 |
| Operation and maintenance | | 95.0 | 82.7 | 277.0 | 250.5 |
| Selling and administrative | | 48.9 | 45.6 | 146.3 | 139.2 |
| Depreciation and amortization | | 58.8 | 53.4 | 197.3 | 194.9 |
| Interest | 3 | 41.8 | 39.9 | 123.2 | 124.4 |
| Franchise fees | | 20.6 | 18.4 | 113.8 | 108.0 |
| | | 276.6 | 250.7 | 895.6 | 852.4 |
| | | (13.7) | 42.0 | 124.4 | 157.7 |
| Interest and other income | | 4.4 | 6.5 | 11.4 | 12.8 |
| Earnings before income taxes | | (9.3) | 48.5 | 135.8 | 170.5 |
| Income taxes | 2, 3 | (37.8) | 20.1 | 1.7 | 60.7 |
| | | 28.5 | 28.4 | 134.1 | 109.8 |
| Dividends on equity preferred shares | | 1.3 | - | 2.4 | - |
| Dividends on equity preferred shares to parent corporation | | 1.8 | 3.5 | 7.8 | 10.5 |
| Earnings attributable to Class A and Class B shares | | 25.4 | 24.9 | 123.9 | 99.3 |
| Retained earnings at beginning of period as restated | 4 | 1,183.9 | 1,077.4 | 1,085.4 | 1,051.4 |
| | | 1,209.3 | 1,102.3 | 1,209.3 | 1,150.7 |
| Dividends on Class A and Class B shares | | - | 24.7 | - | 73.1 |
| Retained earnings at end of period | | \$1,209.3 | \$1,077.6 | \$1,209.3 | \$1,077.6 |

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

| | | September 30 | December 31 |
|--|------|--------------------|------------------|
| | Note | 2007 | 2006 |
| | | <i>(Unaudited)</i> | <i>(Audited)</i> |
| ASSETS | | | |
| Current assets | | | |
| Cash and short term investments | | \$ 7.2 | \$ 11.1 |
| Accounts receivable | | 189.4 | 224.4 |
| Accounts receivable from parent and affiliate corporations | | 14.8 | 8.5 |
| Inventories | | 74.5 | 70.3 |
| Income taxes recoverable | 2 | 11.0 | 2.0 |
| Future income taxes | | 2.2 | - |
| Regulatory assets | 2 | 7.3 | 13.3 |
| Prepaid expenses | | 15.3 | 10.2 |
| | | 321.7 | 266.4 |
| Property, plant and equipment | | 4,288.1 | 4,106.5 |
| Regulatory assets | 2 | 84.2 | 60.2 |
| Other assets | | 15.5 | 28.3 |
| | | \$4,709.5 | \$4,523.7 |
| LIABILITIES AND SHARE OWNER'S EQUITY | | | |
| Current liabilities | | | |
| Bank indebtedness | | \$ - | \$ 3.3 |
| Short term advances from parent and affiliate corporations | | 149.9 | 94.2 |
| Accounts payable and accrued liabilities | 2 | 200.2 | 169.7 |
| Accounts payable to parent and affiliate corporations | | 20.5 | 28.1 |
| Future income taxes | | - | 0.7 |
| Regulatory liabilities | | 9.7 | 0.5 |
| | | 380.3 | 261.1 |
| Future income taxes | 2, 3 | 24.0 | 54.6 |
| Regulatory liabilities | | 32.4 | 30.1 |
| Deferred credits | 2 | 155.1 | 125.5 |
| Long term debt | 5 | 2,255.7 | 2,267.5 |
| Equity preferred shares | 6 | 115.0 | - |
| Equity preferred shares to parent corporation | 6 | 130.0 | 256.5 |
| Class A and Class B share owner's equity | | | |
| Class A and Class B shares | | 407.6 | 407.6 |
| Retained earnings | | 1,209.3 | 1,085.4 |
| Accumulated other comprehensive income | 8 | 0.1 | - |
| | | 1,617.0 | 1,485.2 |
| | | \$4,709.5 | \$4,523.7 |

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|------------------------------------|------------------|-----------------------------------|------------------|
| | 2007 | 2006 | 2007 | 2006 |
| | <i>(Unaudited)</i> | | <i>(Unaudited)</i> | |
| Operating activities | | | | |
| Earnings attributable to Class A and Class B shares | \$ 25.4 | \$ 24.9 | \$ 123.9 | \$ 99.3 |
| Adjustments for: | | | | |
| Depreciation and amortization | 58.8 | 53.4 | 197.3 | 194.9 |
| Future income taxes | 2 (0.3) | (1.2) | 1.2 | (9.6) |
| Deferred availability incentives | (5.3) | 12.2 | (2.3) | 20.8 |
| Other | (0.2) | (8.9) | 3.9 | (4.8) |
| Funds generated by operations | 78.4 | 80.4 | 324.0 | 300.6 |
| Changes in non-cash working capital | (42.6) | (43.6) | 28.4 | (27.1) |
| Cash flow from operations | 35.8 | 36.8 | 352.4 | 273.5 |
| Investing activities | | | | |
| Purchase of property, plant and equipment | (170.0) | (130.5) | (426.8) | (363.4) |
| Costs on disposal of property, plant and equipment | (4.2) | (3.7) | (8.2) | (7.3) |
| Contributions by utility customers for extensions to plant | 28.7 | 20.4 | 65.4 | 61.2 |
| Non-current deferred electricity costs | (2.7) | (2.2) | (5.1) | 13.2 |
| Changes in non-cash working capital | 19.5 | (21.1) | 4.3 | (27.9) |
| Income tax reassessment | 3 - | 4.2 | - | (12.8) |
| Other | (4.4) | (3.1) | (13.9) | (4.1) |
| | (133.1) | (136.0) | (384.3) | (341.1) |
| Financing activities | | | | |
| Issue of equity preferred shares | 6 - | - | 115.0 | - |
| Redemption of equity preferred shares to parent corporation | 6 - | - | (126.5) | - |
| Dividends paid to Class A and Class B share owner | - | (24.7) | - | (73.1) |
| Other | 0.8 | (0.2) | (1.8) | (0.7) |
| | 0.8 | (24.9) | (13.3) | (73.8) |
| Cash position ⁽¹⁾ | | | | |
| Decrease | (96.5) | (124.1) | (45.2) | (141.4) |
| Beginning of period | (46.2) | 17.8 | (97.5) | 35.1 |
| End of period | \$(142.7) | \$(106.3) | \$(142.7) | \$(106.3) |

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

CU INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Millions of Canadian Dollars)

| | Note | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|------|------------------------------------|--------|-----------------------------------|--------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | <i>(Unaudited)</i> | | <i>(Unaudited)</i> | |
| Earnings attributable to Class A and Class B shares | | \$25.4 | \$24.9 | \$123.9 | \$99.3 |
| Other comprehensive income, net of income taxes | 8 | - | - | - | - |
| Comprehensive income | | \$25.4 | \$24.9 | \$123.9 | \$99.3 |

CU INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Unaudited, Tabular Amounts in Millions of Canadian Dollars)

1. Summary of significant accounting policies

Financial Statement Presentation

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and should be read in conjunction with the Corporation's December 31, 2006 consolidated financial statements and related notes. These interim financial statements have been prepared using the same accounting policies as used in the financial statements for the year ended December 31, 2006, except as described below.

Effective January 1, 2007, the Corporation prospectively adopted the Canadian Institute of Chartered Accountants ("CICA") recommendations pertaining to financial instruments, which establish standards for the recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. These recommendations require that fair value be used to measure financial assets that are held for trading or available for sale, financial liabilities that are held for trading and all derivative financial instruments. Other financial assets, such as loans and receivables and investments that are held to maturity, and other financial liabilities are measured at their carrying value. This change in accounting had the following effect on the consolidated financial statements for the three and nine months ended September 30, 2007:

- (a) Restatement of opening retained earnings at January 1, 2007 associated with the recognition of certain financial assets and financial liabilities at amortized cost using the effective interest method (see Note 4).
- (b) Reclassification of deferred financing charges from other assets to long term debt (see Note 5).

Effective January 1, 2007, the Corporation prospectively adopted the CICA recommendations pertaining to hedges, which establish standards for the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. The purpose of hedge accounting is to ensure that gains, losses, revenues and expenses from effective hedging relationships are recorded in earnings in the same period. This change in accounting had no effect on the consolidated financial statements for the three and nine months ended September 30, 2007.

Effective January 1, 2007, the Corporation prospectively adopted the CICA recommendations regarding the reporting and disclosure of comprehensive income. Comprehensive income consists of changes in the equity of the Corporation from sources other than the Corporation's share owners, and includes earnings of the Corporation and unrealized gains and losses on changes in fair values of available-for-sale assets and effective cash flow hedging instruments. Other comprehensive income comprises revenues, expenses, gains and losses that are recognized in comprehensive income but are excluded from earnings of the period. Comprehensive income is disclosed in a separate statement in the consolidated financial statements.

Effective January 1, 2007, the Corporation prospectively adopted the CICA recommendations regarding the presentation of equity and changes in equity. These recommendations require separate presentation of the components of equity, including retained earnings, accumulated other comprehensive income, contributed surplus, share capital and reserves, and the changes therein. As a result of this change in accounting, the Corporation has included disclosure regarding accumulated other comprehensive income in the notes to the consolidated financial statements (see Note 8).

Effective January 1, 2007, the Corporation adopted the CICA recommendations that prescribe the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. Adoption of these recommendations had no effect on the consolidated financial statements for the three and nine months ended September 30, 2007, except for the disclosure of accounting changes that have been issued by the CICA but have not yet been adopted by the Corporation because they are not effective until a future date (see Future Accounting Changes below).

1. Summary of significant accounting policies (continued)

Due to the seasonal nature of the Corporation's operations and the timing of rate decisions, the consolidated statements of earnings and retained earnings for the three and nine months ended September 30, 2007 and September 30, 2006 are not necessarily indicative of operations on an annual basis.

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

Cash and Short Term Investments

Short term investments consist of certificates of deposit and bankers' acceptances with maturities generally of 90 days or less at purchase.

Deferred Financing Charges

Issue costs of long term debt are amortized over the life of the debt using the effective interest method and issue costs of preferred shares relating to regulated operations are amortized over the expected life of the issue. Unamortized premiums and issue costs of redeemed long term debt and preferred shares relating to regulated operations are amortized over the life of the issue funding the redemption. The Corporation's deferred financing charges pertaining to long term debt have been reclassified from other assets to long term debt in accordance with the CICA recommendations for financial instruments (see Note 5).

Derivative Financial Instruments

In conducting its business, the Corporation uses various instruments, including forward contracts, swaps and options, to manage the risks arising from fluctuations in exchange rates, interest rates and commodity prices. All such instruments are used only to manage risk and not for trading purposes.

CICA recommendations require the recognition and measurement of derivative instruments embedded in host contracts that were issued, acquired or substantively modified on or after January 1, 2003. Derivative instruments embedded in host contracts that were issued, acquired or substantively modified prior to January 1, 2003 have not been identified and recognized in the consolidated financial statements as permitted by the recommendations.

The Corporation designates each derivative instrument as either a hedging instrument or a non-hedge derivative:

- (a) A hedging instrument is designated as either:
 - (i) a fair value hedge of a recognized asset or liability or,
 - (ii) a cash flow hedge of either:
 - a specific firm commitment or anticipated transaction or,
 - the variable future cash flows arising from a recognized asset or liability.

At inception of a hedge, the Corporation documents the relationship between the hedging instrument and the hedged item, including the method of assessing retrospective and prospective hedge effectiveness. At the end of each period, the Corporation assesses whether the hedging instrument has been highly effective in offsetting changes in fair values or cash flows of the hedged item and measures the amount of any hedge ineffectiveness. The Corporation also assesses whether the hedging instrument is expected to be highly effective in the future.

A hedging instrument is recorded on the consolidated balance sheet at fair value. Payments or receipts on a hedging instrument that is determined to be highly effective as a hedge are recognized concurrently with, and in the same financial category as, the hedged item. Subsequent changes in the fair value of a fair value hedge are recognized in earnings concurrently with the hedged item. For a cash flow hedge, the effective portion of changes in fair value is recognized in other comprehensive income and is subsequently transferred to earnings concurrently with the hedged item, whereas the portion of the changes in fair value that is not effective at offsetting the hedged exposure is recognized in earnings.

If a hedging instrument ceases to be highly effective as a hedge, is de-designated as a hedging instrument or is settled prior to maturity, then the Corporation ceases hedge accounting prospectively for that instrument; for a cash flow hedge, the gain or loss deferred to that date remains in accumulated other comprehensive income and

1. Summary of significant accounting policies (continued)

is transferred to earnings concurrently with the hedged item. Subsequent changes in the fair value of that derivative instrument are recognized in earnings.

If the hedged item is sold, extinguished or matures prior to the termination of the related hedging instrument, or if it is probable that an anticipated transaction will not occur in the originally specified time frame, then the gain or loss deferred to that date for the related hedging instrument is immediately transferred from accumulated other comprehensive income to earnings.

Hedge gains or losses that were recognized in other comprehensive income are added to the initial carrying amount of a non-financial asset or non-financial liability when:

- (i) an anticipated transaction for a non-financial asset or non-financial liability becomes a specific firm commitment for which fair value hedge accounting is applied or,
 - (ii) a cash flow hedge of an anticipated transaction subsequently results in the recognition of the non-financial asset or non-financial liability.
- (b) A non-hedge derivative instrument is recorded on the consolidated balance sheet at fair value and subsequent changes in fair value are recorded in earnings.

The Corporation applies settlement date accounting to the purchases and sales of financial assets. Settlement date accounting implies the recognition of an asset on the day it is received by the Corporation and the recognition of the disposal of an asset on the day that it is delivered by the Corporation. Any gain or loss on disposal is also recognized on that day.

Transaction costs that are directly attributable to the acquisition or issue of financial assets or financial liabilities that are not held for trading are added to the fair value of such assets or liabilities at time of initial recognition.

Future Accounting Changes

The CICA has issued new accounting recommendations for capital disclosures which require disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital. These recommendations are effective for the Corporation beginning January 1, 2008.

The CICA has also issued new accounting recommendations for disclosure and presentation of financial instruments which require disclosures of both qualitative and quantitative information that enables users of financial statements to evaluate the nature and extent of risks arising from financial instruments to which the Corporation is exposed. These recommendations are effective for the Corporation beginning January 1, 2008.

The CICA has also issued new accounting recommendations for measurement and disclosure of inventories which provide guidance on the determination of cost and its subsequent recognition as an expense, including any writedown to net realizable value, and on the cost formulas that are used to assign costs to inventories. The Corporation is evaluating the effect of these recommendations on earnings and assets of the Corporation. These recommendations are effective for the Corporation beginning January 1, 2008.

The CICA has decided to remove a temporary exemption in its accounting recommendations that permitted assets and liabilities arising from rate regulation to be recognized and measured on a basis other than in accordance with the primary sources of GAAP. The CICA has also decided to amend its accounting recommendations pertaining to regulated income taxes to require the recognition of future regulated income tax assets and liabilities as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to future customers. The Corporation is evaluating the possibility of using standards issued by the Financial Accounting Standards Board in the United States as another source of Canadian GAAP. Once issued, these recommendations will be effective for the Corporation beginning January 1, 2009, and are to be applied prospectively.

2. Regulatory matters

On September 22, 2007, ATCO Electric received a decision on its General Tariff Application for 2007 and 2008 which was filed with the Alberta Energy and Utilities Board (“AEUB”) in November 2006. The decision established the amount of revenue ATCO Electric can recover through its rates for electric distribution and transmission service provided to its customers for 2007 and 2008. The effect of the decision on the earnings of ATCO Electric was not material, as higher revenues primarily resulting from increased investment in capital expenditures and previously approved interim customer rates were offset by lower allowed rate of return on common equity (8.51% in 2007 versus 8.93% in 2006) and other adjustments. The decision also directed ATCO Electric to change its income tax methodology for federal purposes, whereby, effective January 1, 2007, ATCO Electric no longer recognizes future income taxes, and will refund to customers the \$34.4 million of future income taxes collected under the previously allowed tax methodology.

The reversal of these recorded future income taxes as at January 1, 2007, was reflected in the third quarter of 2007. The adjustment does not affect earnings as ATCO Electric’s revenues and income tax expense were reduced by similar amounts. The adjustment does not affect cash flow from operations for the three and nine months ended September 30, 2007. The timing of the cash refund to customers is subject to a further regulatory process at which time ATCO Electric intends to propose a five year repayment period. Accordingly, at September 30, 2007, ATCO Electric has recorded a reduction in future income tax liabilities of \$34.4 million and a liability to customers of \$49.3 million, offset by a regulatory asset of \$14.9 million which represents current income tax savings to be realized in future periods. Unrecorded future income tax liabilities have increased by \$34.4 million as a result of this decision.

On March 17, 2006, ATCO Electric received a decision on its General Tariff Application for 2005 and 2006 which was filed with the AEUB in May 2005. The decision established the amount of revenue ATCO Electric can recover through its rates for electric distribution and transmission service provided to its customers for 2005 and 2006. The impact of the decision for 2005 reduced ATCO Electric’s earnings by \$1.3 million and was recorded in the first quarter of 2006. The impact of the decision for the full year 2006, as compared to the decision for the full year 2005, further reduced ATCO Electric’s earnings by \$1.6 million. The decision also confirmed the return on common equity as determined by the AEUB’s standardized rate of return methodology. The rate of return on common equity was 8.93% in 2006.

On January 27, 2006, ATCO Gas received a decision on its general rate application which was filed with the AEUB in May 2005 for the 2005, 2006 and 2007 test years. The decision established the amount of revenue ATCO Gas can recover through distribution rates for natural gas distribution service to its customers over the period of 2005 to 2007. The decision also approved the return on common equity as determined by the AEUB’s standardized rate of return methodology. The rate of return on common equity was 8.93% in 2006 and is 8.51% for 2007. The final impact of the decision is subject to the outcome of an existing process regarding the pricing of services provided by ATCO I-Tek.

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

3. Income taxes

On June 15, 2007, an amendment to tax legislation pertaining to the taxation of preferred share dividends paid by corporations received third reading in the House of Commons. The Canada Revenue Agency (“CRA”) has been assessing corporate tax returns based on this proposed change since January 1, 2003, resulting in a reduction of taxes paid to the CRA. As this change is now considered to have been substantively enacted, the Corporation recorded a reduction to current income tax expense of \$5.8 million in the second quarter of 2007. Funds generated by operations increased by \$5.8 million, offset by a similar reduction in changes in non-cash working capital, leaving the Corporation's cash position unchanged.

In the third quarter of 2006, the CRA issued a reassessment for Alberta Power (2000)’s 2001 taxation year. The CRA’s reassessment treats the proceeds received from the sale of the H.R. Milner generating plant to the Alberta Balancing Pool as income rather than as a sale of an asset. The Corporation has appealed the reassessment to the Tax Court of Canada. The full impact of the reassessment was a \$12.4 million increase in interest and income tax expense, a \$12.4 million decrease in earnings (\$8.0 million recorded in the second quarter of 2006 and \$4.4 million recorded in the third quarter of 2006), and a \$28.8 million payment associated with the tax and interest assessed, paid in the third quarter of 2006. It is expected that \$16.4 million of this cash payment will be recovered by reducing income taxes payable through higher capital cost allowance claims in future years.

4. Retained earnings at beginning of period as restated

| | January 1 | |
|---|-----------|-----------|
| | 2007 | 2006 |
| Retained earnings at beginning of period as previously reported | \$1,085.4 | \$1,051.4 |
| Adjustments to retained earnings to recognize the prior years’ effect of: | | |
| (a) the change in method of accounting for long term debt at amortized cost using the effective interest method (net of income taxes) | 0.5 | - |
| (b) the fair value of receivables (net of income taxes) | (0.5) | - |
| Retained earnings at beginning of period as restated | \$1,085.4 | \$1,051.4 |

5. Long term debt

The CICA recommendations regarding the measurement of financial liabilities require the financial liabilities to be measured at initial recognition, including transaction costs, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, minus any reduction for impairment. Accordingly, deferred financing charges have been recalculated using the effective interest method. Commencing January 1, 2007, in accordance with CICA recommendations regarding the presentation of financial liabilities, long term debt has been reduced by the cumulative unamortized balance of deferred financing charges.

5. Long term debt (continued)

| | Effective Interest Rate | September 30 | |
|---|----------------------------|------------------|------------------|
| | | 2007 | 2006 |
| Long term debt | | | |
| Debentures – unsecured | | | |
| 2001 4.84% due November 2006 | 4.977% | \$ - | \$ 175.0 |
| 2002 4.801% due November 2007 | 4.913% | 50.0 | 50.0 |
| 2000 6.97% due June 2008 | 7.062% | 100.0 | 100.0 |
| 1989 Series 10.20% due November 2009 | 10.331% | 125.0 | 125.0 |
| 1990 Series 11.40% due August 2010 | 11.537% | 125.0 | 125.0 |
| 2000 7.05% due June 2011 | 7.130% | 100.0 | 100.0 |
| 2004 5.096% due November 2014 | 5.162% | 100.0 | 100.0 |
| 2002 6.145% due November 2017 | 6.217% | 150.0 | 150.0 |
| 2004 5.432% due January 2019 | 5.492% | 180.0 | 180.0 |
| 1999 6.8% due August 2019 | 6.861% | 300.0 | 300.0 |
| 1990 Second Series 11.77% due November 2020 | 11.903% | 100.0 | 100.0 |
| 2006 4.801% due November 2021 | 4.854% | 160.0 | - |
| 1991 Series 9.92% due April 2022 | 10.063% | 125.0 | 125.0 |
| 1992 Series 9.40% due May 2023 | 9.511% | 100.0 | 100.0 |
| 2004 5.896% due November 2034 | 5.939% | 200.0 | 200.0 |
| 2005 5.183% due November 2035 | 5.226% | 185.0 | 185.0 |
| 2006 5.032% due November 2036 | 5.072% | 160.0 | - |
| Other long term obligation, due June 2009, unsecured | 6.000% | 4.5 | 4.5 |
| Less: Deferred financing charges | | (11.8) | - |
| | | 2,252.7 | 2,119.5 |
| Long term debt to parent corporation | | | |
| Non-interest bearing promissory note, unsecured | | 3.0 | 3.0 |
| | | \$2,255.7 | \$2,122.5 |

6. Equity preferred shares and equity preferred shares to parent corporation

Equity preferred shares

Authorized and issued

Authorized: An unlimited number of Series Preferred Shares, issuable in series.

Issued:

| | Stated Value (dollars) | Redemption Dates | September 30 | | | |
|--|------------------------------|---------------------|--------------|----------|--------|--------|
| | | | 2007 | | 2006 | |
| | | | Shares | Amount | Shares | Amount |
| Cumulative Redeemable Preferred Shares | | | | | | |
| 4.60% Series 1 | \$25.00 | See below | 4,600,000 | \$ 115.0 | - | \$ - |

On April 18, 2007, CU Inc. issued \$115.0 million Cumulative Redeemable Preferred Shares Series 1 at a price of \$25.00 per share for cash. The dividend rate has been fixed at 4.60%. The net proceeds of the issue were used in part to redeem the \$91.8 million of outstanding Cumulative Redeemable Second Preferred Shares Series Q, R and S of ATCO Electric, ATCO Gas and ATCO Pipelines on May 18, 2007. In addition, on May 18, 2007, Alberta Power (2000) redeemed the \$34.7 million of outstanding Series Q, R and S Preferred shares. All of the Series Q, R and S Preferred Shares were held by Canadian Utilities Limited, CU Inc.'s parent corporation.

6. Equity preferred shares and equity preferred shares to parent corporation (continued)

Fair values

Fair values for preferred shares determined using quoted market prices for the same or similar issues are \$99.3 million (2006 - nil).

Redemption privileges

The Series 1 preferred shares are redeemable at the option of the Corporation commencing on June 1, 2012, at the stated value plus a 4% premium per share for the next 12 months plus accrued and unpaid dividends. The redemption premium declines by 1% in each succeeding twelve month period until June 1, 2016.

Equity preferred shares to parent corporation

Authorized and issued

Authorized: An unlimited number of Series Second Preferred Shares, issuable in series.

Issued:

| | Stated Value (dollars) | Redemption Dates | September 30 | | | |
|--|------------------------------|---------------------|------------------|----------------|-----------|----------------|
| | | | 2007 | | 2006 | |
| | | | Shares | Amount | Shares | Amount |
| Cumulative Redeemable Second Preferred Shares | | | | | | |
| 5.9% Series Q | \$25.00 | Open | - | \$ - | 2,277,675 | \$ 56.9 |
| 5.3% Series R | \$25.00 | Open | - | - | 2,146,730 | 53.7 |
| 6.6% Series S | \$25.00 | Open | - | - | 635,700 | 15.9 |
| Perpetual Cumulative Second Preferred Shares | | | | | | |
| 4.35% Series U | \$25.00 | December 2, 2011 | 800,000 | 20.0 | 800,000 | 20.0 |
| 5.25% Series V | \$25.00 | October 3, 2007 | 4,400,000 | 110.0 | 4,400,000 | 110.0 |
| | | | | \$130.0 | | \$256.5 |

The dividends payable on the Series U and V preferred shares are fixed until the redemption dates specified above, at which time a new dividend rate may be established by negotiations between the Corporation and Canadian Utilities Limited.

Effective October 3, 2007, the dividend rate on Series V preferred shares has been reset to 4.70% with a redemption date of October 3, 2012.

Fair values

Fair values for preferred shares determined using quoted market prices for the same or similar issues are \$129.8 million (2006 - \$261.4 million).

Redemption privileges

The preferred shares are redeemable on the dates specified above at the option of the Corporation at the stated value plus accrued and unpaid dividends.

7. Risk management and financial instruments

The Corporation is exposed to changes in interest rates, commodity prices and foreign currency exchange rates. In conducting its business, the Corporation may use various instruments, including forward contracts, swaps and options, to manage the risks arising from fluctuations in exchange rates, interest rates and commodity prices. All such instruments are used only to manage risk and not for trading purposes.

7. Risk management and financial instruments (continued)

Foreign currency exchange rate risk

The Corporation has entered into foreign currency forward contracts in order to fix the exchange rate on certain planned equipment expenditures and operational cash flows denominated in U.S. dollars and U.K. pounds sterling (“£”). At September 30, 2007, the contracts consist of purchases of \$0.7 million U.S. (2006 – \$0.6 million U.S.) and £1.4 million (2006 – nil).

Credit risk

For cash and short term investments and accounts receivable, credit risk represents the carrying amount on the consolidated balance sheet. Accounts receivable credit risk is reduced by a large and diversified customer base, requirement of letters of credit, and, for regulated operations other than Alberta Power (2000), the ability to recover an estimate for doubtful accounts through approved customer rates.

Derivative credit risk arises from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. Derivative credit risk is minimized by dealing with large, credit-worthy counterparties in accordance with established credit approval policies.

Fair value of non-derivative financial instruments

The carrying values and fair values of the Corporation’s non-derivative financial instruments are as follows:

| | September 30 | | | |
|---|-------------------|---------------|-------------------|---------------|
| | 2007 | | 2006 | |
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| <i>Assets</i> | | | | |
| Cash and short term investments ⁽¹⁾ | \$ 7.2 | \$ 7.2 | \$ 11.1 | \$ 11.1 |
| Accounts receivable ⁽¹⁾ | 189.4 | 189.4 | 145.1 | 145.1 |
| Accounts receivable from parent and affiliate corporations ⁽¹⁾ | 14.8 | 14.8 | 14.4 | 14.4 |
| <i>Liabilities</i> | | | | |
| Short term advances from parent and affiliate corporations ⁽²⁾ | 149.9 | 149.9 | 117.4 | 117.4 |
| Accounts payable and accrued liabilities ⁽²⁾ | 200.2 | 200.2 | 122.7 | 122.7 |
| Accounts payable to parent and affiliate corporations ⁽²⁾ | 20.5 | 20.5 | 18.8 | 18.8 |
| Long term debt ⁽³⁾ | 2,252.7 | 2,494.4 | 2,119.5 | 2,505.0 |
| Long term debt to parent corporation ⁽⁴⁾ | 3.0 | 3.0 | 3.0 | 3.0 |

⁽¹⁾ Recorded at cost. Fair value approximates the carrying amounts due to the short term nature of the financial instruments and negligible credit losses.

⁽²⁾ Recorded at cost. Fair value approximates the carrying amounts due to the short term nature of the financial instruments.

⁽³⁾ Recorded at amortized cost. Fair values are determined using quoted market prices for the same or similar issues. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on the Corporation’s current borrowing rate for similar borrowing arrangements.

⁽⁴⁾ Recorded at carrying amount. The long term debt to parent corporation is repayable on demand; therefore, the fair value is equal to carrying amount.

7. Risk management and financial instruments (continued)

Fair value of derivative financial instruments

The fair values of the Corporation's derivative financial instruments are as follows:

| | September 30 | | | | | |
|---------------------------------------|--------------------------------------|--|-----------|--------------------------------------|--|-----------|
| | 2007 | | | 2006 | | |
| | Notional Principal ⁽¹⁾ | Fair Value Receivable (Payable) ⁽²⁾ | Maturity | Notional Principal ⁽¹⁾ | Fair Value Receivable (Payable) ⁽²⁾ | Maturity |
| Foreign currency forward contracts | \$3.5 | Nil | 2007-2008 | \$0.6 | Nil | 2006-2007 |

⁽¹⁾ The notional principal is not recorded in the consolidated financial statements as it does not represent amounts that are exchanged by the counterparties.

⁽²⁾ Fair values for the foreign currency forward contracts have been estimated using period-end market rates. These fair values approximate the amount that the Corporation would either pay or receive to settle the contract at September 30.

8. Other comprehensive income

Other comprehensive income ("OCI") of the Corporation is comprised of unrealized gains and losses on financial assets available for sale. The change in the method of accounting for financial assets available for sale resulted in an increase to accumulated OCI at January 1, 2007 of \$0.1 million, net of income taxes of nil. There was no change in the fair value of those financial assets in the three and nine months ended September 30, 2007.

9. Employee future benefits

In the three months ended September 30, 2007, net expense of \$1.6 million (2006 – \$0.7 million) was recognized for pension benefit plans and net expense of \$0.2 million (2006 – \$0.5 million) was recognized for other post employment benefit plans.

In the nine months ended September 30, 2007, net expense of \$4.7 million (2006 – \$2.2 million) was recognized for pension benefit plans and net expense of \$1.4 million (2006 – \$1.7 million) was recognized for other post employment benefit plans.

10. Segmented information

Segmented results – Three months ended September 30

| | 2007 2006 | Utilities | Power Generation | Corporate and Other | Intersegment Eliminations | Consolidated |
|--|--------------|-----------|---------------------|------------------------|------------------------------|--------------|
| <i>(Unaudited)</i> | | | | | | |
| Revenues – external | \$ 187.5 | \$ 187.5 | \$ 75.4 | \$ - | \$ - | \$ 262.9 |
| | \$ 216.7 | \$ 216.7 | \$ 76.0 | \$ - | \$ - | \$ 292.7 |
| Revenues – intersegment ⁽¹⁾ | 0.1 | 0.1 | - | - | (0.1) | - |
| | 0.1 | 0.1 | - | - | (0.1) | - |
| Revenues | \$ 187.6 | \$ 187.6 | \$ 75.4 | \$ - | \$ (0.1) | \$ 262.9 |
| | \$ 216.8 | \$ 216.8 | \$ 76.0 | \$ - | \$ (0.1) | \$ 292.7 |
| Earnings attributable to Class A and Class B shares | \$ 14.2 | \$ 14.2 | \$ 11.1 | \$0.1 | \$ - | \$ 25.4 |
| | \$ 18.8 | \$ 18.8 | \$ 6.0 | \$0.1 | \$ - | \$ 24.9 |

10. Segmented information (continued)

Segmented results – Nine months ended September 30

| 2007 | | Power | Corporate | Intersegment | |
|--|-----------|------------|-----------|--------------|--------------|
| 2006 | Utilities | Generation | and Other | Eliminations | Consolidated |
| <i>(Unaudited)</i> | | | | | |
| Revenues – external | \$ 802.0 | \$218.0 | \$ - | \$ - | \$1,020.0 |
| | \$ 790.0 | \$220.1 | \$ - | \$ - | \$1,010.1 |
| | | - | | | |
| Revenues – intersegment ⁽¹⁾ | 0.1 | - | - | (0.1) | - |
| | 0.1 | - | - | (0.1) | - |
| Revenues | \$ 802.1 | \$218.0 | \$ - | \$ (0.1) | \$1,020.0 |
| | \$ 790.1 | \$220.1 | \$ - | \$ (0.1) | \$1,010.1 |
| Earnings attributable to Class A and Class B shares | \$ 90.9 | \$ 33.0 | \$ - | \$ - | \$ 123.9 |
| | \$ 76.9 | \$ 22.3 | \$0.1 | \$ - | \$ 99.3 |
| Total assets | \$3,972.9 | \$735.7 | \$0.9 | \$ - | \$4,709.5 |
| | \$3,635.2 | \$750.1 | \$0.6 | \$(28.8) | \$4,357.1 |

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