



**CU INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED  
SEPTEMBER 30, 2010**

**CU Inc.**  
**Consolidated Statement of Earnings and Retained Earnings**  
*(Millions of Canadian Dollars)*

	Three Months Ended September 30		Nine Months Ended September 30	
	<b>2010</b>	2009	<b>2010</b>	2009
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
<b>Revenues</b>	<b>\$ 394.1</b>	\$ 368.9	<b>\$1,288.8</b>	\$1,233.0
<b>Costs and expenses</b>				
Natural gas supply	<b>0.3</b>	0.1	<b>1.1</b>	0.7
Purchased power	<b>12.1</b>	11.8	<b>39.5</b>	39.8
Operation and maintenance	<b>115.7</b>	102.8	<b>348.2</b>	324.5
Selling and administrative	<b>65.8</b>	65.9	<b>196.6</b>	193.5
Depreciation and amortization	<b>66.8</b>	61.6	<b>198.1</b>	183.3
Interest	<b>48.3</b>	52.0	<b>147.2</b>	149.4
Franchise fees	<b>28.8</b>	24.2	<b>125.9</b>	119.6
	<b>337.8</b>	318.4	<b>1,056.6</b>	1,010.8
	<b>56.3</b>	50.5	<b>232.2</b>	222.2
<b>Interest and other income</b>	<b>11.9</b>	17.3	<b>28.2</b>	28.1
<b>Earnings before income taxes</b>	<b>68.2</b>	67.8	<b>260.4</b>	250.3
<b>Income taxes</b>	<b>6.8</b>	5.8	<b>39.3</b>	39.8
	<b>61.4</b>	62.0	<b>221.1</b>	210.5
<b>Dividends on equity preferred shares</b>	<b>4.0</b>	4.0	<b>12.0</b>	9.5
<b>Dividends on equity preferred shares to parent corporation</b>	<b>1.5</b>	1.5	<b>4.5</b>	4.5
<b>Earnings attributable to Class A and Class B shares</b>	<b>55.9</b>	56.5	<b>204.6</b>	196.5
<b>Retained earnings at beginning of period</b>	<b>1,774.6</b>	1,542.5	<b>1,625.9</b>	1,402.5
<b>Retained earnings at end of period</b>	<b>\$1,830.5</b>	\$1,599.0	<b>\$1,830.5</b>	\$1,599.0

**CU Inc.**  
**Consolidated Balance Sheet**  
*(Millions of Canadian Dollars)*

	September 30		December 31
	2010	2009	2009
	<i>(Unaudited)</i>		
<b>ASSETS</b>			
<b>Current assets</b>			
Short term advances to parent corporation	\$ -	\$ 267.5	\$ 69.5
Accounts receivable	256.8	221.3	260.9
Accounts receivable from parent and affiliate corporations	9.5	10.1	7.7
Inventories	76.1	81.6	71.6
Income taxes recoverable	14.8	29.0	8.8
Future income taxes	0.2	7.1	6.2
Regulatory assets	20.1	38.0	37.4
Prepaid expenses	15.4	12.2	8.6
	<b>392.9</b>	<b>666.8</b>	<b>470.7</b>
<b>Property, plant and equipment</b>	<b>5,762.3</b>	<b>5,339.5</b>	<b>5,468.4</b>
<b>Intangibles</b>	<b>228.1</b>	<b>203.6</b>	<b>225.3</b>
<b>Regulatory assets</b>	<b>451.6</b>	<b>381.8</b>	<b>407.6</b>
<b>Other assets</b>	<b>22.1</b>	<b>17.4</b>	<b>20.2</b>
	<b>\$6,857.0</b>	<b>\$6,609.1</b>	<b>\$6,592.2</b>
<b>LIABILITIES AND SHARE OWNER'S EQUITY</b>			
<b>Current liabilities</b>			
Bank indebtedness	\$ 4.6	\$ 0.4	\$ 5.4
Short term advances from parent corporation	158.5	-	-
Accounts payable and accrued liabilities	250.3	241.6	267.0
Accounts payable to parent and affiliate corporations	27.4	27.2	32.1
Regulatory liabilities	5.6	32.5	26.1
	<b>446.4</b>	<b>301.7</b>	<b>330.6</b>
<b>Future income taxes</b>	<b>377.5</b>	<b>311.9</b>	<b>332.8</b>
<b>Regulatory liabilities</b>	<b>503.3</b>	<b>429.3</b>	<b>450.3</b>
<b>Deferred credits</b>	<b>178.3</b>	<b>197.7</b>	<b>207.3</b>
<b>Long term debt</b>	<b>2,703.1</b>	<b>2,951.6</b>	<b>2,827.4</b>
<b>Equity preferred shares</b>	<b>275.0</b>	<b>275.0</b>	<b>275.0</b>
<b>Equity preferred shares to parent corporation</b>	<b>130.0</b>	<b>130.0</b>	<b>130.0</b>
<b>Class A and Class B share owner's equity</b>			
Class A and Class B shares	412.9	412.9	412.9
Retained earnings	1,830.5	1,599.0	1,625.9
	<b>2,243.4</b>	<b>2,011.9</b>	<b>2,038.8</b>
	<b>\$6,857.0</b>	<b>\$6,609.1</b>	<b>\$6,592.2</b>

**CU Inc.**  
**Consolidated Statement of Cash Flows**  
*(Millions of Canadian Dollars)*

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2010	2009	2010	2009
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
<b>Operating activities</b>				
Earnings attributable to Class A and Class B shares	\$ 55.9	\$ 56.5	\$ 204.6	\$ 196.5
Adjustments for:				
Depreciation and amortization	66.8	61.6	198.1	183.3
Future income taxes	(2.6)	9.4	3.1	7.0
Deferred availability incentives	(0.2)	3.9	(22.2)	2.2
Changes in non-current regulatory assets and liabilities	25.4	(5.0)	37.9	2.6
Allowance for funds used during construction	(1.1)	(1.8)	(5.0)	(5.5)
Other	(2.5)	5.3	(1.2)	-
	141.7	129.9	415.3	386.1
Changes in non-cash working capital	(56.5)	6.4	(19.0)	(1.0)
<b>Cash flow from operations</b>	<b>85.2</b>	<b>136.3</b>	<b>396.3</b>	<b>385.1</b>
<b>Investing activities</b>				
Purchase of property, plant and equipment	(191.9)	(177.8)	(531.8)	(534.5)
Proceeds on disposal of property, plant and equipment	-	-	15.4	0.1
Contributions by utility customers for extensions to plant	13.3	40.6	48.3	93.4
Purchase of intangibles	(9.3)	(8.2)	(22.0)	(23.6)
Changes in non-cash working capital	6.7	2.1	(14.0)	(72.5)
Other	1.1	2.2	5.8	3.7
	(180.1)	(141.1)	(498.3)	(533.4)
<b>Financing activities</b>				
Issue of long term debt	-	-	-	270.0
Repayment of long term debt	(125.0)	-	(125.0)	-
Issue of equity preferred shares	-	-	-	160.0
Other	(0.2)	-	(0.2)	(5.6)
	(125.2)	-	(125.2)	424.4
<b>Cash position <sup>(1)</sup></b>				
Increase (decrease)	(220.1)	(4.8)	(227.2)	276.1
Beginning of period	57.0	271.9	64.1	(9.0)
<b>End of period</b>	<b>\$(163.1)</b>	<b>\$ 267.1</b>	<b>\$(163.1)</b>	<b>\$ 267.1</b>

<sup>(1)</sup> Cash position consists of short term advances to parent corporation less current bank indebtedness and short term advances from parent corporation.

**CU Inc.**  
**Consolidated Statement of Comprehensive Income**  
*(Millions of Canadian Dollars)*

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	<b>2010</b>	2009	<b>2010</b>	2009
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
<b>Earnings attributable to Class A and Class B shares and comprehensive income</b>	<b>\$55.9</b>	\$56.5	<b>\$204.6</b>	\$196.5

**CU Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2010**

*(Unaudited, tabular amounts in millions of Canadian dollars)*

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### ***Financial Statement Presentation and Consolidation***

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and should be read in conjunction with the Corporation’s December 31, 2009 consolidated financial statements and related notes. These interim consolidated financial statements have been prepared using the same accounting policies as used in the consolidated financial statements for the year ended December 31, 2009, except as described below.

### ***Business Combinations, Consolidated Financial Statements and Non-controlling Interests***

Effective January 1, 2010, the Corporation adopted the Canadian Institute of Chartered Accountants’ recommendations for Business Combinations, Consolidated Financial Statements and Non-Controlling Interests.

- *Business Combinations* requires assets and liabilities acquired in a business combination, including contingent consideration and certain acquired contingencies, to be measured at their fair value at the acquisition date and require acquisition related and restructuring costs to be expensed in the period incurred.
- *Consolidated Financial Statements* establishes the requirements for the preparation of consolidated financial statements.
- *Non-controlling Interests* establishes the accounting for a non-controlling interest in the consolidated financial statements. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity and to attribute earnings and other comprehensive income to both the parent and non-controlling interest.

Adoption of these standards did not change the recognition, measurement and presentation of the amounts in the consolidated financial statements.

## **2. REGULATORY MATTERS**

### ***Benchmarking***

On March 8, 2010, the Alberta Utilities Commission (“AUC”) issued a decision on the hearing held in December 2009 which addressed the 2003 – 2007 placeholder amounts for the pricing of services provided by ATCO I-Tek to ATCO Gas, ATCO Electric and ATCO Pipelines (collectively referred to as the ATCO Utilities). The AUC decision approved the adjustments to the placeholder amounts as filed based on fair market value resulting in no material change 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. On July 29, 2010, the AUC issued a decision dismissing the City of Calgary’s review and variance application and on August 23, 2010, the City of Calgary withdrew its leave to appeal with the Alberta Court of Appeal. The process to adjust the 2008 and 2009 placeholders which was scheduled to be completed in 2010 was

## **2. REGULATORY MATTERS (continued)**

suspended on October 14, 2010, as the AUC reviews a request by the City of Calgary to revise the existing process and schedule. The process to adjust the 2010 placeholders is expected to occur after the completion of the 2008 and 2009 process.

### ***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.

### ***ATCO Gas – Carbon Natural Gas Storage Facility***

On October 19, 2010 the AUC released the Carbon Compliance Decision, approving a recovery from customers of \$43.7 million plus interest in the amount of \$5.9 million to September 30, 2010. Through numerous regulatory processes, ATCO Gas has previously recorded revenues and earnings of \$13.8 million and \$9.9 million, respectively, in 2009. Additionally, on April 20, 2010, ATCO Gas received a 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. As such, in the third quarter of 2010, ATCO Gas is recognizing the remaining amounts pertaining to the Carbon Compliance application and related decision issued by the AUC resulting in an increase in ATCO Gas' revenues, interest income and earnings of \$14.2 million, \$5.9 million, and \$14.5 million, respectively.

The City of Calgary and the Utilities Consumer Advocate filed a joint Leave to Appeal application with the Alberta Court of Appeal regarding the AUC's 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.

### ***ATCO Gas – 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. In the first quarter of 2010, ATCO Gas recorded a contingent liability of \$11.6 million, including interest, resulting in a decrease to ATCO Gas' earnings of \$8.4 million. The AUC completed a process to address the Alberta Court of Appeal decision and on October 15, 2010, issued a decision requiring ATCO Gas to refund to customers

## **2. REGULATORY MATTERS (continued)**

approximately 85% of the transportation imbalance adjustment amounts in question resulting in a refund of approximately \$9.7 million, including interest. ATCO Gas reversed the remaining contingent liability of \$1.9 million, resulting in increased earnings of \$1.3 million in the third quarter of 2010.

### ***ATCO Pipelines – Alberta System Integration***

On June 26, 2009, ATCO Pipelines filed an application with the AUC for the integration of ATCO Pipelines' and NOVA Gas Transmission Ltd.'s (NOVA) 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 first and second elements of the Integration Application in full and the third and fourth elements in principle, as well as approving the 2010, 2011 and 2012 Revenue Requirement Settlement Application. The AUC requested ATCO Pipelines to submit subsequent applications to address specifics of 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 submitted to the AUC in the fourth quarter of 2010.

## **3. EMPLOYEE FUTURE BENEFITS**

In the three months ended September 30, 2010, net expense of \$10.2 million (2009 – \$1.7 million) was recognized for pension benefit plans and net expense of \$0.2 million (2009 – \$0.3 million) was recognized for other post employment benefit plans. The net expense for the pension benefit plans includes a cash expense of \$8.9 million related to the ATCO Utilities which is in accordance with the AUC decision to recover funding costs from customers.

In the nine months ended September 30, 2010, net expense of \$31.7 million (2009 – \$5.4 million) was recognized for pension benefit plans and net expense of \$0.8 million (2009 – \$1.0 million) was recognized for other post employment benefit plans. The net expense for the pension benefit plans includes a cash expense of \$28.6 million related to the ATCO Utilities which is in accordance with the AUC decision to recover funding costs from customers.

### ***Funding***

The Corporation has begun making funding contributions for the pension benefit plans during the nine months ended September 30, 2010. Based on actuarial valuations which were completed in May 2010, the employer contributions relating to the defined contribution and the defined benefit plan for 2010 will be approximately \$54 million.

### 3. EMPLOYEE FUTURE BENEFITS (continued)

For the purposes of any funding requirements pertaining to the ATCO Utilities, the Corporation includes the cost of funding in its rate applications to the AUC. Refer to Regulatory Matters (see Note 2) regarding the AUC's decision with respect to the pension application.

### 4. SEGMENTED INFORMATION

#### *Segmented results – Three months ended September 30*

2010 2009	Utilities	Energy	Corporate & Other	Intersegment Eliminations	Consolidated
<i>(Unaudited)</i>					
Revenues – external	\$ 319.4	\$ 74.7	\$ -	\$ -	\$ 394.1
	\$ 290.4	\$ 78.5	\$ -	\$ -	\$ 368.9
Revenues – intersegment <sup>(1)</sup>	0.1	-	-	(0.1)	-
	0.1	-	-	(0.1)	-
Revenues	\$ 319.5	\$ 74.7	\$ -	\$ (0.1)	\$ 394.1
	\$ 290.5	\$ 78.5	\$ -	\$ (0.1)	\$ 368.9
Earnings attributable to Class A and Class B shares	\$ 43.4	\$ 12.5	\$ -	\$ -	\$ 55.9
	\$ 23.3	\$ 33.2	\$ -	\$ -	\$ 56.5

#### *Segmented results – Nine months ended September 30*

2010 2009	Utilities	Energy	Corporate & Other	Intersegment Eliminations	Consolidated
<i>(Unaudited)</i>					
Revenues – external	\$1,064.7	\$224.1	\$ -	\$ -	\$1,288.8
	\$ 999.5	\$233.5	\$ -	\$ -	\$1,233.0
Revenues – intersegment <sup>(1)</sup>	0.1	-	-	(0.1)	-
	0.1	-	-	(0.1)	-
Revenues	\$1,064.8	\$224.1	\$ -	\$ (0.1)	\$1,288.8
	\$ 999.6	\$233.5	\$ -	\$ (0.1)	\$1,233.0
Earnings attributable to Class A and Class B shares	\$ 173.1	\$ 31.5	\$ -	\$ -	\$ 204.6
	\$ 142.6	\$ 53.9	\$ -	\$ -	\$ 196.5
Total assets	\$6,203.7	\$653.3	\$ -	\$ -	\$6,857.0
	\$5,808.6	\$737.3	\$63.2	\$ -	\$6,609.1

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

### 5. SUBSEQUENT EVENT

#### **Transfer of Alberta Power (2000) Ltd. to ATCO Power Ltd.**

Effective October 1, 2010, the Corporation transferred ownership of its wholly-owned subsidiary, Alberta Power (2000) Ltd., to ATCO Power Ltd., a wholly-owned subsidiary of Canadian Utilities Limited, the Corporation's parent. As this is a related party transaction by entities under common control, it will be accounted for by the Corporation at the carrying amount. Commencing October 1, 2010, the Corporation will no longer recognize Alberta Power (2000) Ltd.'s financial position, results of operations and cash

## **5. SUBSEQUENT EVENT (continued)**

flows in its consolidated financial statements. The Energy segment will no longer include any balance sheet amounts and will include earnings and cash flows up to the nine months ended September 30, 2010.

ATCO Electric, ATCO Gas and ATCO Pipelines will continue to be owned and financed by the Corporation. As a result of this transfer, the Corporation will be comprised of rate regulated utility operations in natural gas and electricity transmission and distribution, and the power generation assets formerly owned by the Corporation will be owned by ATCO Power Ltd.