

## FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

### TO THE SHARE OWNERS:

**Canadian Utilities reported earnings of \$82.2 million (\$0.66 per share) for the three months ended September 30, 2010**, compared to \$120.9 million (\$0.96 per share) for the same period in 2009. Excluding one-time gains, Adjusted Earnings <sup>(1)</sup> in the third quarter of 2010 were \$82.0 million (\$0.66 per share) compared to \$76.7 million (\$0.61 per share) in 2009, an increase of \$5.3 million.

Last year's third quarter earnings included \$46.4 million in one-time gains: \$29.6 million from the creation of ATCO Structures & Logistics, and \$16.8 million from a Tax Court of Canada decision.

**Earnings for the nine months ended September 30, 2010, were \$306.4 million (\$2.44 per share)** compared to \$339.5 million (\$2.70 per share) for the same period in 2009. Adjusted Earnings for the nine months were \$310.3 million (\$2.48 per share) compared to \$298.5 million (\$2.38 per share) in 2009, an increase of \$11.8 million.

Adjusted Earnings in the third quarter and in the first nine months of 2010 increased in the Utilities Segment due to higher infrastructure investment in the regulated rate base and regulatory decisions received by ATCO Gas for the Carbon storage facility, partially offset by lower prices for natural gas storage in the Energy Segment. Nine month Adjusted Earnings were also reduced by the net impact of the court and regulatory decisions received by ATCO Gas in regards to the deferred gas account.

In 2009 the third quarter amalgamation of Canadian Utilities Limited subsidiary, ATCO Frontec, with ATCO Ltd. subsidiaries, ATCO Structures and ATCO Noise Management, to form ATCO Structures and Logistics (ASL Transaction) resulted in a one-time gain. Canadian Utilities now owns 24.5% of the more efficient and focused new company created to better serve global customers.

In 2009 Canadian Utilities also benefited from the court decision that overturned a Canada Revenue Agency reassessment dealing with the sale of the H.R. Milner generating plant (H.R. Milner Tax Reassessment).

### RECENT DEVELOPMENTS

- ATCO Electric energized a new 240 kV transmission line in the Peace River area of northwest Alberta in September. The Wesley Creek to Meikle transmission project completes phase II of the three-phase Northwest Transmission Development Project and is a critical addition to the province's interconnected electric system.
- ATCO I-Tek was awarded the prestigious Payment Card Industry Data Security Standard certification. The internationally recognized certification demonstrates the company's ongoing commitment to proactively protect customer credit card information.
- To improve efficiencies and align ownership of power generation assets within Canadian Utilities, CU Inc., a wholly-owned subsidiary of Canadian Utilities, transferred Alberta Power (2000) Ltd. to ATCO Power Ltd., another wholly-owned subsidiary of Canadian Utilities, on October 1, 2010.

Financial Summary and Reconciliation of Adjusted Earnings	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2010	2009	2010	2009
(\$ Millions except per share data)			Unaudited	
Reported Earnings	<b>82.2</b>	120.9	<b>306.4</b>	339.5
ATCO Power Mark-to-Market Adjustment	<b>(0.2)</b>	2.2	<b>3.9</b>	5.4
ASL Transaction	-	(29.6)	-	(29.6)
H.R. Milner Tax Reassessment	-	(16.8)	-	(16.8)
Adjusted Earnings <sup>(1)</sup>	<b>82.0</b>	76.7	<b>310.3</b>	298.5
Earnings Per Share	<b>0.66</b>	0.96	<b>2.44</b>	2.70
Adjusted Earnings Per Share <sup>(1)</sup>	<b>0.66</b>	0.61	<b>2.48</b>	2.38
Revenues	<b>550.7</b>	537.1	<b>1,947.9</b>	1,908.4
Funds Generated By Operations <sup>(1)(2)</sup>	<b>181.0</b>	181.5	<b>552.0</b>	564.3

<sup>(1)</sup> These measures are not defined by Generally Accepted Accounting Principles and may not be comparable to similar measures used by other companies.

<sup>(2)</sup> This measure is cash flow from operations before changes in non-cash working capital.

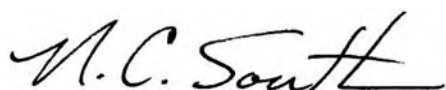
**Revenues** for the third quarter are relatively unchanged.

The increase in **Revenues** for the nine months ended September 30, 2010, after removing the impact of the ASL Transaction, is primarily due to the lease of ATCO Power's Karratha generating plant in Australia that commenced commercial operations in the first half of 2010. Revenues also increased in the Utilities Segment due to higher infrastructure investment in regulated rate base.

**Funds Generated by Operations** for the third quarter and for the nine months ended September 30, 2010 are relatively unchanged.

Canadian Utilities' consolidated financial statements and management's discussion and analysis of financial condition and results of operations for the three and nine months ended September 30, 2010, will be available on Canadian Utilities' website ([www.canadian-utilities.com](http://www.canadian-utilities.com)) or via SEDAR ([www.sedar.com](http://www.sedar.com)) or can be requested from the Company.

Alberta-based Canadian Utilities Limited, an ATCO company, with more than 5,700 employees and assets of approximately \$9 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). More information can be found at [www.canadian-utilities.com](http://www.canadian-utilities.com).



N.C. Southern  
President & Chief Executive Officer  
Deputy Chair



R.D. Southern  
Chairman of the Board

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

This MD&A should be read in conjunction with the Corporation's unaudited interim consolidated financial statements for the nine months ended September 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 October 28, 2010. Additional information relating to the Corporation, including the Corporation's annual information form, is available on SEDAR at [www.sedar.com](http://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 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
- short term investments 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 7 to the unaudited interim consolidated financial statements for the nine months ended September 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 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.

From July 1, 2009, 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 six months ended June 30, 2009, and the Corporation's 24.5% investment in ASL for the three and nine months ended September 30, 2010, and the three months ended September 30, 2009, 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 nine months ended September 30, 2010, \$129.8 million was recorded in revenues to recognize the fair value of the lease receivable. These revenues were offset by \$124.8 million in operation and maintenance expense for the nine months ended September 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 \$3.5 million for the nine months ended September 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 July 1, 2010, and ended on September 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 <sup>(1) (2) (3)</sup>			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31
<b>2010</b>				
Revenues	748.6	648.6	550.7	-
Earnings attributable to Class A and Class B Shares	148.0	76.2	82.2	-
Earnings per Class A and Class B Share	1.18	0.60	0.66	-
Diluted earnings per Class A and Class B Share	1.17	0.60	0.66	-
Adjusted Earnings <sup>(4)</sup>	152.0	76.3	82.0	-
Adjusted Earnings per Class A and Class B Share <sup>(4)</sup>	1.21	0.61	0.66	-
<b>2009</b>				
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 <sup>(4)</sup>	148.3	73.5	76.7	129.1
Adjusted Earnings per Class A and Class B Share <sup>(4)</sup>	1.18	0.59	0.61	1.02
<b>2008</b>				
Revenues	-	-	-	744.3
Earnings attributable to Class A and Class B Shares	-	-	-	114.5
Earnings per Class A and Class B Share	-	-	-	0.91
Diluted earnings per Class A and Class B Share	-	-	-	0.91
Adjusted Earnings <sup>(4)</sup>	-	-	-	110.8
Adjusted Earnings per Class A and Class B Share <sup>(4)</sup>	-	-	-	0.88

Notes:

<sup>(1)</sup> There were no discontinued operations or extraordinary items during these periods.

<sup>(2)</sup> 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.

<sup>(3)</sup> 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.

<sup>(4)</sup> 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 September 30			For the Nine Months Ended September 30		
	2010	2009	Change to 2010 (2010-2009)	2010	2009	Change to 2010 (2010-2009)
Earnings attributable to Class A and Class B Shares	<b>82.2</b>	120.9	(32%)	<b>306.4</b>	339.5	(10%)
Mark-to-Market Adjustment <sup>(1)</sup>	<b>(0.2)</b>	2.2	(109%)	<b>3.9</b>	5.4	(28%)
H.R. Milner Income Tax Reassessment <sup>(2)</sup>	-	(16.8)	(100%)	-	(16.8)	(100%)
Gain on transaction to combine ATCO Frontec, ATCO Structures and ATCO Noise Management <sup>(3)</sup>	-	(29.6)	(100%)	-	(29.6)	(100%)
Adjusted Earnings	<b>82.0</b>	76.7	7%	<b>310.3</b>	298.5	4%

## SIGNIFICANT NON-OPERATING FINANCIAL ITEMS

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

### (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 increased earnings by \$0.2 million, net of income taxes, for the three months ended September 30, 2010 (2009 – decrease of \$2.2 million) and decreased earnings by \$3.9 million, net of income taxes, for the nine months ended September 30, 2010 (2009 – decrease of \$5.4 million). At September 30, 2010, the natural gas purchase contracts derivative asset was \$1.9 million (2009 – \$34.6 million) and the power generation revenue contract liability was \$1.9 million (2009 – \$26.2 million).

## **(2) H.R. Milner Income Tax Reassessment**

In 2006, Canada Revenue Agency (CRA) issued an income tax reassessment for Alberta Power (2000)'s 2001 taxation year which treated the proceeds received from the sale of the H.R. Milner generating plant to the Balancing Pool as income rather than as a sale of an asset. The Corporation disagreed with CRA's position and appealed the reassessment to the Tax Court of Canada. Due to the uncertainty as to whether the reassessment would ultimately be resolved in the Corporation's favour, the Corporation made a \$28.8 million payment and reduced earnings by \$12.4 million in 2006.

On August 21, 2009, Alberta Power (2000) received a judgment from the Tax Court of Canada ordering CRA to reverse its 2006 reassessment of Alberta Power (2000)'s 2001 tax return. On September 30, 2009, the appeal period for the judgment elapsed without an appeal from CRA.

The impact of the judgment was a \$13.7 million recovery of income tax and related interest expense reassessed by CRA in 2006. In addition, Alberta Power (2000) received interest income of approximately \$3.1 million earned on such amounts paid to CRA. These adjustments resulted in a \$16.8 million increase in earnings for the three and nine months ended September 30, 2009. In total, Alberta Power (2000) received refunds of approximately \$28.0 million, including interest, and net of consequential adjustments to other taxation years arising from the judgment.

## **(3) Gain on Transaction to Combine ATCO Frontec, ATCO Structures and ATCO Noise Management**

On July 1, 2009, the Corporation finalized the ASL Transaction which resulted in an after tax gain of \$29.6 million (refer to Company Overview – Transaction To Combine ATCO Frontec, ATCO Structures and ATCO Noise Management section).

## **CONSOLIDATED REVENUES AND ADJUSTED EARNINGS**

**Revenues** for the three months ended September 30, 2010, **increased** by \$13.6 million (3%) over 2009. This increase was primarily attributable to a \$29.0 million (10%) increase in the Utilities Segment due to increased rate base in ATCO Electric and the AUC decision received on the Carbon Compliance Application in ATCO Gas, partially offset by Carbon decisions recorded in 2009, (Carbon Decisions) in ATCO Gas (refer to Segmented Information – Utilities section). These increases were partially offset by an \$11.4 million (5%) decrease in the Energy Segment mainly due to lower summer/winter natural gas price differentials for storage (Storage Price Differentials) in ATCO Midstream, lower merchant performance in ATCO Power's Alberta generating plants due to lower prices in the Alberta electricity market, and lower exchange rates on conversion of U.K. revenues into Canadian dollars.

**Revenues** for the nine months ended September 30, 2010, **increased** by \$39.5 million (2%) over 2009. Of this increase, \$129.8 million related to the fair value of the lease for the Karratha plant, which is offset by \$124.8 million of operation and maintenance costs. In addition revenues increased due to a \$65.2 million (7%) increase in the Utilities Segment due to increased rate base in ATCO Electric and the Carbon Decisions in ATCO Gas, partially offset by the deferred gas account decision by the Alberta Court of Appeal (Deferred Gas Account Decision) in ATCO Gas (refer to Segmented Information – Utilities section). These increases in revenues were partially offset by a \$144.2 million (49%) decrease in the Corporate & Other Segment due to the impact of the ASL Transaction.

**Adjusted Earnings** for the three months ended September 30, 2010, **increased** by \$5.3 million (7%) over 2009. This increase was primarily due to a \$20.1 million (86%) increase in the Utilities Segment due to the Carbon Decisions in ATCO Gas and increased rate base in ATCO Electric. This increase was partially offset by a \$16.2 million (35%) decrease in the Energy Segment mainly due to lower Storage Price Differentials in ATCO Midstream and lower merchant performance in ATCO Power’s Alberta generating plants due to lower Spark Spreads in the Alberta electricity market.

**Adjusted Earnings** for the nine months ended September 30, 2010, **increased** by \$11.8 million (4%) over 2009. This increase was primarily attributable to a \$30.5 million (21%) increase in the Utilities Segment due to the Carbon Decisions in ATCO Gas and increased rate base in ATCO Electric, partially offset by the Deferred Gas Account Decision in ATCO Gas. These increases were partially offset by a \$15.1 million (12%) decrease in the Energy Segment mainly due to lower Storage Price Differentials in ATCO Midstream and unfavourable U.K. merchant conditions in ATCO Power.

**Interest and other income** for the three and nine months ended September 30, 2010, decreased by \$3.4 million (19%) to \$14.8 million, and by \$2.6 million (8%) to \$31.1 million, respectively, compared to the corresponding periods in 2009 mainly due to interest income recognized in 2009 on the H.R. Milner Income Tax Reassessment in Alberta Power (2000), partially offset by interest income recognized on ATCO Gas’ Carbon Compliance Decision (refer to Segmented Information – Utilities section).

## CONSOLIDATED EXPENSES

(\$ millions)	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2010	2009	Change to 2010 (2010-2009)	2010	2009	Change to 2010 (2010-2009)
Operating expenses:						
Natural gas supply	<b>16.3</b>	6.1	167%	<b>37.3</b>	18.9	97%
Purchased power	<b>12.1</b>	11.8	3%	<b>39.5</b>	39.8	(1%)
Operation and maintenance	<b>191.4</b>	190.4	1%	<b>756.6</b>	732.0	3%
Selling and administrative	<b>69.2</b>	59.5	16%	<b>186.1</b>	178.5	4%
Franchise fees	<b>28.8</b>	24.2	19%	<b>125.9</b>	119.6	5%
	<b>317.8</b>	292.0	9%	<b>1,145.4</b>	1,088.8	5%
Depreciation and amortization	<b>85.6</b>	79.7	7%	<b>253.1</b>	249.3	2%
Interest	<b>59.9</b>	63.0	(5%)	<b>180.2</b>	180.9	0%
Income taxes	<b>14.5</b>	26.5	(45%)	<b>76.3</b>	91.3	(16%)
Dividends on equity preferred shares	<b>10.8</b>	10.8	0%	<b>32.4</b>	29.9	8%

**Operating expenses** for the three months ended September 30, 2010, **increased** by \$25.8 million (9%) over the same period in 2009. Natural gas supply expenses were higher due to increased natural gas purchased by ATCO Midstream on a flow-through basis for NGL extraction. Selling and administrative expenses were higher mainly due to increased personnel costs.

**Operating expenses** for the nine months ended September 30, 2010, **increased** by \$56.6 million (5%) over the same period in 2009. Operation and maintenance expenses were higher due to the lease accounting treatment on the completion of ATCO Power's Karratha plant, pension contributions which commenced in 2010 in the Utilities Segment, and higher line maintenance costs in ATCO Electric. These increases in operating expenses were partially offset by the impact of the ASL Transaction.

For the three months ended September 30, 2010, **depreciation and amortization expenses increased** by \$5.9 million (7%) over 2009, primarily due to capital additions in 2009 and 2010 in the Utilities Segment.

For the nine months ended September 30, 2010, **depreciation and amortization expenses increased** by \$3.8 million (2%) over 2009, primarily due to capital additions in 2010 in the Utilities Segment, partially offset by the impact of the ASL Transaction.

For the three months ended September 30, 2010, **interest expense decreased** by \$3.1 million (5%) compared to the same period in 2009, primarily due to the repayment of non-recourse long term debt in ATCO Power.

For the nine months ended September 30, 2010, **interest expense decreased** by \$0.7 million (0%) compared to the same period in 2009, primarily due to the repayment of non-recourse long term debt in ATCO Power. This decrease was partially offset by interest on long term debt related to the Karratha plant in ATCO Power and the impact of the Deferred Gas Account Decision in ATCO Gas.

For the three and nine months ended September 30, 2010, **income taxes decreased** by \$12.0 million (45%), and by \$15.0 million (16%), respectively, compared to the same periods in 2009. This was primarily due to lower earnings before income taxes and lower income tax rates. In addition, income tax expense in the third quarter of 2009 had been reduced by \$1.7 million, which is the net of the \$7.8 million income tax benefit that resulted from the H.R. Milner Income Tax Reassessment in Alberta Power (2000), partially offset by the \$6.1 million income tax expense that resulted from the removal of the Carbon Natural Gas Storage Facility (Carbon Facility) from regulation in ATCO Gas (refer to Segmented Information – Utilities section).

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

**Dividends on equity preferred shares** for the nine months ended September 30, 2010, **increased** by \$2.5 million (8%) 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

### For the Three Months Ended September 30

(\$ millions)	Utilities	Energy	Corporate & Other	Intersegment Eliminations	Total
<b>2010</b>					
Revenues	<b>319.5</b>	<b>223.8</b>	<b>49.6</b>	<b>(42.2)</b>	<b>550.7</b>
Earnings attributable to Class A and Class B Shares	<b>43.4</b>	<b>30.5</b>	<b>8.5</b>	<b>(0.2)</b>	<b>82.2</b>
Mark-to-Market Adjustment <sup>(1)</sup>	-	<b>(0.2)</b>	-	-	<b>(0.2)</b>
Adjusted Earnings	<b>43.4</b>	<b>30.3</b>	<b>8.5</b>	<b>(0.2)</b>	<b>82.0</b>
<b>2009</b>					
Revenues	290.5	235.2	51.1	(39.7)	537.1
Earnings attributable to Class A and Class B Shares	23.3	61.1	36.2	0.3	120.9
Mark-to-Market Adjustment <sup>(1)</sup>	-	2.2	-	-	2.2
H.R. Milner Income Tax Reassessment <sup>(2)</sup>	-	(16.8)	-	-	(16.8)
Gain on transaction to combine ATCO Frontec, ATCO Structures and ATCO Noise Management <sup>(3)</sup>	-	-	(29.6)	-	(29.6)
Adjusted Earnings	23.3	46.5	6.6	0.3	76.7

### For the Nine Months Ended September 30

(\$ millions)	Utilities	Energy	Corporate & Other	Intersegment Eliminations	Total
<b>2010</b>					
Revenues	<b>1,064.8</b>	<b>856.4</b>	<b>148.0</b>	<b>(121.3)</b>	<b>1,947.9</b>
Earnings attributable to Class A and Class B Shares	<b>173.1</b>	<b>106.6</b>	<b>27.7</b>	<b>(1.0)</b>	<b>306.4</b>
Mark-to-Market Adjustment <sup>(1)</sup>	-	<b>3.9</b>	-	-	<b>3.9</b>
Adjusted Earnings	<b>173.1</b>	<b>110.5</b>	<b>27.7</b>	<b>(1.0)</b>	<b>310.3</b>
<b>2009</b>					
Revenues	999.6	735.3	292.2	(118.7)	1,908.4
Earnings attributable to Class A and Class B Shares	142.6	137.0	59.1	0.8	339.5
Mark-to-Market Adjustment <sup>(1)</sup>	-	5.4	-	-	5.4
H.R. Milner Income Tax Reassessment <sup>(2)</sup>	-	(16.8)	-	-	(16.8)
Gain on transaction to combine ATCO Frontec, ATCO Structures and ATCO Noise Management <sup>(3)</sup>	-	-	(29.6)	-	(29.6)
Adjusted Earnings	142.6	125.6	29.5	0.8	298.5

*Note:*

<sup>(1)(2)(3)</sup> Refer to Significant Non-Operating Financial Items section for a description of the adjustments.

## **Utilities**

Utilities **revenues** for the three months ended September 30, 2010, **increased** by \$29.0 million (10%) over 2009. This increase in revenues was primarily attributable to increased rate base in ATCO Electric and the Carbon Decisions in ATCO Gas.

Utilities **revenues** for the nine months ended September 30, 2010, **increased** by \$65.2 million (7%) over 2009. This increase in revenues was primarily attributable to increased rate base in ATCO Electric and the Carbon Decisions in ATCO Gas, partially offset by the Deferred Gas Account Decision in ATCO Gas.

For the three months ended September 30, 2010, **Adjusted Earnings** were \$43.4 million, an **increase** of \$20.1 million (86%) over 2009. The primary reasons for higher Adjusted Earnings were the impact of the Carbon Decisions in ATCO Gas and increased rate base in ATCO Electric.

For the nine months ended September 30, 2010, **Adjusted Earnings** were \$173.1 million, an **increase** of \$30.5 million (21%) over 2009. The primary reasons for higher Adjusted Earnings were the impact of the Carbon Decisions 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, ATCO Electric, ATCO Gas and ATCO Pipelines (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. 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.

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. On October 12, 2010 the City of Calgary requested that the AUC revise the existing process and schedule to hold an oral proceeding to complete discovery of the evidence provided by ATCO Utilities. On October 14, 2010 the AUC suspended the 2008-2009 proceeding while it reviews the City of Calgary's request.

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**

On July 2, 2009, the AUC issued a decision on ATCO Electric's 2009 and 2010 general tariff application approving, among other things, increased revenues to recover increased financing, depreciation and operating costs associated with increased rate base in Alberta. The impact of increased rate base for the three and nine months ended September 30, 2010, resulted in additional revenues of approximately \$19 million and \$56 million, respectively, and increased earnings of approximately \$3 million and \$10 million, respectively, compared to the corresponding periods in 2009.

## **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 sought 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. 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 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. 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 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 earnings of \$1.3 million in the third 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 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 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.

## **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 September 30, 2010, **decreased** by \$11.4 million (5%) compared to the same period in 2009. This decrease was primarily attributable to decreased Storage Price Differentials in ATCO Midstream, lower merchant performance in ATCO Power's Alberta generating plants due to lower prices in the Alberta electricity market and lower exchange rates on conversion of U.K. revenues into Canadian dollars. These decreases in revenues were partially offset by higher NGL prices in ATCO Midstream and finance lease revenues from ATCO Power's Karratha plant which commenced operations in 2010.

Energy **revenues** for the nine months ended September 30, 2010, **increased** by \$121.1 million (16%) over the same period in 2009. This increase was primarily attributable to the lease accounting treatment on the completion and commencement of operation of ATCO Power's Karratha plant, 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 Price Differentials in ATCO Midstream, lower generation at ATCO Power's Barking generating plant due to a planned outage and unfavourable U.K. merchant conditions and lower exchange rates on conversion of U.K. revenues into Canadian dollars.

For the three months ended September 30, 2010, **Adjusted Earnings** were \$30.3 million, a **decrease** of \$16.2 million (35%) compared to the same period of 2009. This was primarily attributable to lower Storage Price Differentials in ATCO Midstream and lower merchant performance in ATCO Power's Alberta generating plants due to lower Spark Spreads in the Alberta electricity market. These decreases in Adjusted Earnings were partially offset by higher margins for NGL extraction in ATCO Midstream and earnings from ATCO Power's Karratha plant which commenced operations in 2010.

For the nine months ended September 30, 2010, **Adjusted Earnings** were \$110.5 million, a **decrease** of \$15.1 million (12%) compared to the same period of 2009. This was primarily attributable to lower Storage Price Differentials in ATCO Midstream and unfavourable U.K. merchant conditions and lower exchange rates on conversion of U.K. earnings into Canadian dollars in ATCO Power. These decreases in Adjusted Earnings were partially offset by higher margins for NGL extraction in ATCO Midstream, higher merchant performance in ATCO Power's Alberta generating plants due to higher Spark Spreads in the Alberta electricity market, and earnings attributable to the lease accounting treatment on the completion and commencement of operations of ATCO Power's Karratha plant.

## Power Generation

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

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2010	2009	Change to 2010 (2010-2009)	2010	2009	Change to 2010 (2010-2009)
ATCO Power <sup>(1)</sup>						
Canada	<b>95.8%</b>	95.1%	0.7%	<b>94.4%</b>	96.2%	(1.8%)
U.K. <sup>(2)</sup>	<b>98.8%</b>	92.2%	6.6%	<b>85.8%</b>	93.8%	(8.0%)
Australia	<b>96.6%</b>	94.0%	2.6%	<b>96.9%</b>	95.9%	1.0%
Alberta Power (2000) <sup>(1)</sup>						
Canada	<b>92.8%</b>	92.7%	0.1%	<b>87.2%</b>	91.3%	(4.1%)

### Notes:

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

<sup>(2)</sup> *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.

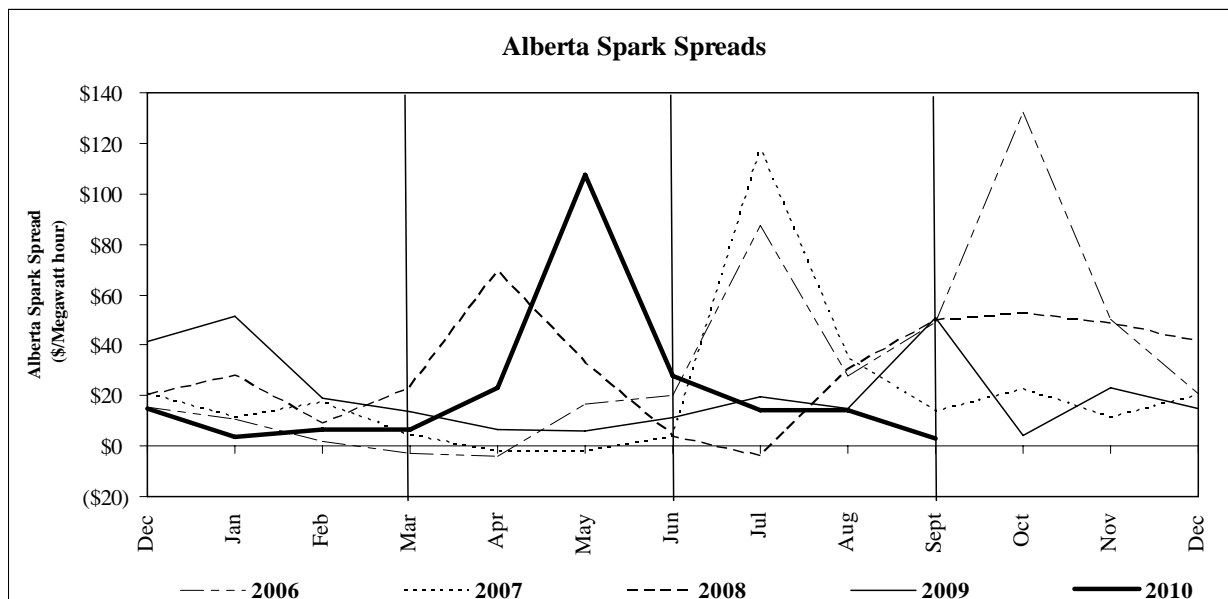
On January 30, 2008, the 150 MW Unit 4 at Alberta Power (2000)'s Battle River generating plant experienced an unplanned outage due to a failure in the unit's generator. The unit returned to service on March 27, 2008. The cash impact in 2008 resulting from this outage was approximately \$11.8 million; however, due to Alberta Power (2000)'s availability incentive pool deferral account, there was no material earnings impact in 2008. Alberta Power (2000) claimed relief under the force majeure provisions of its PPA. On July 11, 2008, the Balancing Pool notified Alberta Power (2000) that it disagreed with the claim. As settlement on the claim could not be reached with the PPA counterparty, the claim proceeded to arbitration. On October 25, 2010, the arbitrator issued a decision which denied Alberta Power (2000)'s force majeure claim. The arbitrator's decision had no effect on the financial results for the three and nine months ended September 30, 2010. Alberta Power (2000) is reviewing its options with respect to the decision.

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 \$35.77 per MWh and \$52.55 per MWh for the three and nine months, respectively, ended September 30, 2010, compared to average prices of \$49.49 per

MWh and \$48.33 per MWh in the corresponding periods of 2009. Natural gas prices averaged \$3.35 per GJ and \$3.90 per GJ for the three and nine months, respectively, ended September 30, 2010, compared to average prices of \$2.82 per GJ and \$3.58 per GJ in the corresponding periods of 2009. These electricity and natural gas prices resulted in an average Spark Spread of \$10.64 per MWh and \$23.27 per MWh for the three and nine months, respectively, ended September 30, 2010, compared to \$28.34 per MWh and \$21.49 per MWh for the corresponding periods of 2009.

At September 30, 2010, changes in Spark Spread affected 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 255 MW and a worldwide owned capacity by ATCO Power and Alberta Power (2000) of approximately 2,582 MW. Commencing October 1, 2010, 255 MW of plant capacity owned in the U.K. will be impacted by Spark Spreads, of which 45 MW has been contracted for a one year term commencing October 1, 2010.

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

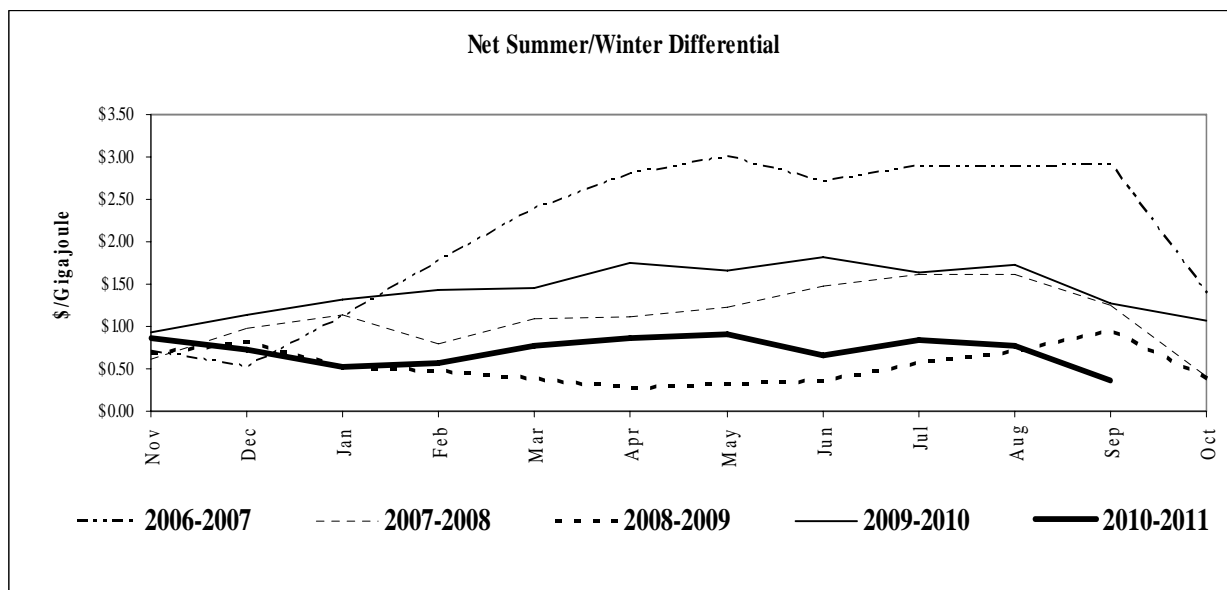
During the three and nine months ended September 30, 2010, the **deferred availability incentive** account **decreased** by \$0.1 million and \$22.1 million, respectively, to \$45.0 million. The nine month decrease was mainly due to availability penalties paid associated with the planned outage in the 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 nine months ended September 30, 2010, the amortization of deferred availability incentives, recorded in revenues, decreased by \$0.7 million to \$3.2 million, and by \$1.8 million to \$10.8 million, respectively, primarily as a result of the impact of 2010 planned outages and lower forecast prices for electricity.

## ATCO Midstream

### Storage Operations

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

Storage 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. Storage 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.

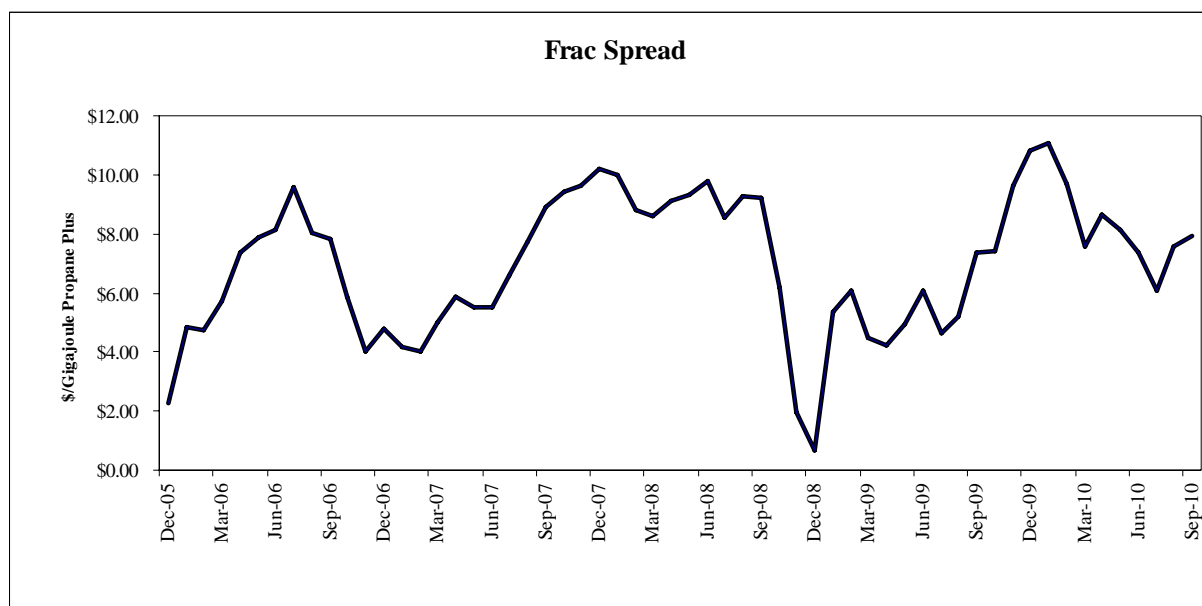


Fluctuations in Storage Price Differentials affect ATCO Midstream’s earnings and cash flow from operations. At current values, a \$0.25 change in the Storage Price Differentials impacts ATCO Midstream’s annual earnings by approximately \$8.0 million.

### 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 September 2010.



Note:

<sup>(1)</sup> 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.

### Corporate & Other

**Adjusted Earnings** for the three months ended September 30, 2010, were \$8.5 million, an **increase** of \$1.9 million (29%) over 2009 mainly due to cost efficiencies in ATCO I-Tek and increased equity earnings from the Corporation's 24.5% investment in ASL. These increases in Adjusted Earnings were partially offset by higher share appreciation rights expense resulting from changes in Class A non-voting share prices since July 1, 2010.

**Adjusted Earnings** for the nine months ended September 30, 2010, were \$27.7 million, a **decrease** of \$1.8 million (6%) 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 ASL Transaction. Adjusted earnings for the Corporation's 24.5% share of the equity earnings in ASL for the nine months ended September 30, 2010 were lower than the Adjusted Earnings for ATCO Frontec for the six months ended June 30, 2009 and the Corporation's 24.5% share of the equity earnings in ASL for the three months ended September 30, 2010. These decreases in Adjusted Earnings were partially offset by cost efficiencies in ATCO I-Tek.

## 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 September 30			For the Nine Months Ended September 30		
	2010	2009	Change to 2010 (2010-2009)	2010	2009	Change to 2010 (2010-2009)
<b>Cash position, beginning of period</b>	<b>720.4</b>	1,005.3	(28%)	<b>796.0</b>	726.6	(10%)
Cash provided by (used in):						
Operating activities:						
Funds generated by operations	<b>181.0</b>	181.5	(0%)	<b>552.0</b>	564.3	(2%)
Changes in non-cash working capital	<b>(24.6)</b>	17.8	(238%)	<b>21.9</b>	10.8	103%
Cash flow from operations	<b>156.4</b>	199.3	(22%)	<b>573.9</b>	575.1	0%
Investing activities	<b>(188.7)</b>	(167.9)	(12%)	<b>(541.5)</b>	(655.9)	17%
Financing activities	<b>(235.5)</b>	(30.8)	(665%)	<b>(366.3)</b>	350.4	(205%)
Foreign currency impact on cash balances	<b>4.2</b>	(13.2)	132%	<b>(5.3)</b>	(3.5)	(51%)
Decrease in cash on ASL transaction	-	(8.9)	(100%)	-	(8.9)	(100%)
<b>Cash position, end of period</b>	<b>456.8</b>	983.8	(54%)	<b>456.8</b>	983.8	(54%)

### OPERATING ACTIVITIES

For the three months ended September 30, 2010, **funds generated by operations** were \$181.0 million, a **decrease** of \$0.5 million (0%) compared to the corresponding period of 2009. This decrease was primarily due to lower earnings, partially offset by changes in non-current 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. For the three months ended September 30, 2010, **changes in non-cash working capital** were \$(24.6) million, a **decrease** of \$42.4 million (238%) compared to the corresponding period of 2009. This decrease was primarily due to a higher reduction in accounts payable in ATCO Electric due to increased payments to customers for the settlement of deferral accounts, partially offset by an increase in Alberta Power (2000) as the prior year had higher accounts receivable and lower income taxes payable due to the H.R. Milner Income Tax Reassessment.

For the nine months ended September 30, 2010, **funds generated by operations** were \$552.0 million, a **decrease** of \$12.3 million (2%) compared to the corresponding period of 2009. This decrease was primarily due to lower earnings and availability penalties paid by Alberta Power (2000) due to a planned outage in the Battle River generating plant. This decrease was partially offset by changes in non-current 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. For the nine months ended September 30, 2010, **changes in non-cash working capital** were \$21.9 million, an **increase** of \$11.1 million (103%) over the corresponding period of 2009. This increase was primarily due to an increase in Alberta Power (2000) as the prior year had higher accounts receivable and lower income taxes

payable due to the H.R. Milner Income Tax Reassessment. This increase was partially offset by lower accounts payable in ATCO Electric due to the timing of payments to customers for the settlement of deferral accounts.

## INVESTING ACTIVITIES

For the three months ended September 30, 2010, **cash used in investing activities increased** by 12% over the corresponding period of 2009, primarily due to lower contributions by utility customers for extensions to plant.

**Capital expenditures** for the three months ended September 30, 2010, **decreased** by \$1.8 million compared to the corresponding period of 2009. This decrease was primarily due to lower costs incurred by ATCO Power due to the completion of the Karratha generating plant in the second quarter of 2010, partially offset by increased investment in natural gas transmission projects in ATCO Pipelines.

For the nine months ended September 30, 2010, **cash used in investing activities decreased** by 17% compared to the corresponding period of 2009, primarily due to changes in non-cash working capital and lower capital expenditures, partially offset by lower contributions by utility customers for extensions to plant.

**Capital expenditures** for the nine months ended September 30, 2010, **decreased** by \$73.8 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 lower costs incurred by ATCO Power due to the completion of the Karratha generating plant in the second quarter of 2010.

## FINANCING ACTIVITIES

For the three months ended September 30, 2010, the Corporation had **net debt decreases** of \$186.9 million. There was no **issuance** of debt. **Redemptions** were comprised of \$125 million of 11.40% Debentures due August 15, 2010, \$47.3 million of other long term debt and \$14.6 million of non-recourse long term debt.

For the nine months ended September 30, 2010, the Corporation had **net debt decreases** of \$219.6 million. There was no **issuance** of debt. **Redemptions** were comprised of \$125 million of 11.40% Debentures due August 15, 2010, \$47.8 million of other long term debt and \$46.8 million of non-recourse long term debt.

For the three and nine months ended September 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 nine months ended September 30, 2010, there were **purchases** of \$2.1 million and \$4.9 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 nine months ended September 30, 2010, **issues** of Class A Shares due to stock option exercises were \$1.3 million and \$1.9 million, respectively, compared to \$0.6 million and \$2.7 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 October 27, 2010, 106,950 shares have been purchased.

Total **dividends** for the three and nine months ended September 30, 2010, **increased** by 7% to \$47.5 million and by 7% to \$142.5 million, respectively, over the corresponding periods of 2009. For the three and nine months ended September 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 October 22, 2010, the Board of Directors declared the fourth 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 September 30, 2010, **foreign currency translation increased** the Corporation's cash position by \$4.2 million due to changes in the U.K. and Australian exchange rates used for balance sheet translations.

For the nine months ended September 30, 2010, **foreign currency translation decreased** the Corporation's cash position by \$5.3 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 67% in short term money market instruments of Canadian financial institutions and Government of Canada treasury bills as at September 30, 2010.

## LINES OF CREDIT

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

	<b>Total</b>	<b>Used</b>	<b>Available</b>
(\$ millions)			
Long term committed	326.0	-	326.0
Short term committed	600.0	12.8	587.2
Uncommitted	53.2	12.1	41.1
<b>Total</b>	<b>979.2</b>	<b>24.9</b>	<b>954.3</b>

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 September 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 October 27, 2010, no debentures have been issued.

## **Share Capital**

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

At October 27, 2010, the Corporation had outstanding 85,851,228 Class A Shares, 39,999,342 Class B Shares and options to purchase 822,150 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). 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](http://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. 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.

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. On October 12, 2010 the City of Calgary requested that the AUC revise the existing process and schedule to hold an oral proceeding to complete discovery of the evidence provided by ATCO Utilities. On October 14, 2010 the AUC suspended the 2008-2009 proceeding while it reviews the City of Calgary's request.

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 expired on September 30, 2010. During the quarter a new tolling contract for 178 MW (ATCO Power's share 45 MW) of the plant's capacity was entered into for a one year term commencing October 1, 2010. The remaining 822 MW of the plant's capacity (ATCO Power's share 210 MW) will be sold into the merchant market commencing 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 October 1, 2010, the Canadian Accounting Standards Board issued guidance to permit, but not require, entities with rate regulated activities to defer the transition to IFRS for one year, to 2012. The Corporation has decided to adopt IFRS effective January 1, 2011 and not to take the one year deferral for the following reasons:

- Adopting IFRS allows comparability to other non-regulated entities that will be adopting IFRS in 2011.
- Comparability to other regulated entities, whether or not they choose to take the one year deferral, may be accomplished by showing the impacts of rate regulated accounting as previously permitted by Canadian GAAP as an Adjusted Earnings item in the MD&A.
- There is no certainty that the International Accounting Standards Board (IASB) will issue specific guidance in regards to rate regulated accounting before the end of 2011. Therefore, waiting an additional year to adopt IFRS may not result in any greater clarity with respect to rate regulated accounting.

### **IFRS Conversion Project Status**

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.

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.

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 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, its ICFR or DC&P.

### **Rate Regulated Accounting**

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 discussed various IASB staff papers in July 2010 and again in September 2010, but did not reach a conclusion on the recognition of assets and liabilities subject to rate regulation. The IASB has indicated that it will evaluate future steps for the rate regulated activities project following the public consultation on its future agenda.

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. The amount to be recorded on transition to IFRS has yet to be finalized, pending further discussions with the Corporation's external auditor.

### **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: leases, employee benefits and joint arrangements.

#### *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 transition to IFRS will result in an increase to finance lease receivable of approximately \$350 million and corresponding adjustments to Property, Plant and Equipment and Other Assets on the Consolidated Balance Sheet.

### *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 adopt this method.

### *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 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.

### **IFRS 1 Exemptions**

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:

<b>Description of IFRS 1 Exemption</b>	<b>Project Status</b>
<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 but has not yet finalized the amount to be recorded on transition to IFRS pending further discussions with the Corporation's actuaries and external auditor to determine the acceptable method of measuring certain defined benefit pension plan assets and liabilities.</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 intends to adopt this exemption but has not yet finalized the amount to be recorded on transition to IFRS.</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, except for the reclassification of customer contributions to other liabilities (see Financial Statement Reclassifications below), there will be no change in the Utilities' transitional balances for property, plant and equipment.</p> <p>The Corporation does not intend to adopt this exemption for Alberta Power (2000) but has not yet finalized the amount to be recorded on transition to IFRS.</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>

Description of IFRS 1 Exemption	Project Status
<p data-bbox="183 260 792 327"><i>Decommissioning Liabilities – Asset Retirement Obligations</i></p> <p data-bbox="183 361 792 562">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 data-bbox="816 361 1385 457">The Corporation intends to adopt this exemption but has not yet finalized the amount to be recorded on transition to IFRS.</p>

### Financial Statement Reclassifications

There are a number of reclassifications that will be required under IFRS. Significant reclassifications for the Corporation are:

#### *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 million as unamortized customer contributions are reclassified from an offset to Property, Plant and Equipment to Other Liabilities on the consolidated balance sheet.

#### *Long Term Debt Due Within One Year:*

Under Canadian GAAP, when the Corporation intended to refinance long term debt within one year on a long term basis and there was a written undertaking from an underwriter to act on the Corporation's behalf with respect thereto, or sufficient capacity existed under long term bank loan agreements to issue commercial paper or assume bank loans, then long term debt due within one year was classified as long term. This treatment is not permitted under IFRS. The transition to IFRS will result in the reclassification of approximately \$125 million of long term debt due within one year from long term liabilities to current liabilities.

#### *Provisions:*

Under IFRS, provisions must be separately disclosed on the consolidated balance sheet. The transition to IFRS will result in the reclassification of approximately \$80 million from deferred credits to provisions.

The provision for the power generation revenue contract liability, which under Canadian GAAP had to be shown separately as a liability, will under IFRS be netted against the natural gas purchase contracts derivative asset to show a net position for the gas contracts on the consolidated balance sheet.

*Nature vs. Function Presentation of the Statement of Earnings:*

IFRS requires expenses on the statement of earnings to be classified either by nature or function, whereas Canadian GAAP allows a combination of the two. The Corporation has chosen to classify expenses on the statement of earnings according to their nature as salaries, wages and benefits, energy transmission and transportation, plant and equipment maintenance, fuel costs, manufacturing raw materials and consumables used and other expenses. The classifications operation and maintenance and selling and administration will no longer appear on the statement of earnings.

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

	Note	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>Revenues</b>	4	<b>\$ 550.7</b>	\$ 537.1	<b>\$1,947.9</b>	\$1,908.4
<b>Costs and expenses</b>					
Natural gas supply		<b>16.3</b>	6.1	<b>37.3</b>	18.9
Purchased power		<b>12.1</b>	11.8	<b>39.5</b>	39.8
Operation and maintenance	4	<b>191.4</b>	190.4	<b>756.6</b>	732.0
Selling and administrative		<b>69.2</b>	59.5	<b>186.1</b>	178.5
Depreciation and amortization		<b>85.6</b>	79.7	<b>253.1</b>	249.3
Interest		<b>53.1</b>	54.4	<b>159.1</b>	156.2
Interest on non-recourse long term debt		<b>6.8</b>	8.6	<b>21.1</b>	24.7
Franchise fees		<b>28.8</b>	24.2	<b>125.9</b>	119.6
		<b>463.3</b>	434.7	<b>1,578.7</b>	1,519.0
		<b>87.4</b>	102.4	<b>369.2</b>	389.4
<b>Gain on ATCO Structures &amp; Logistics transaction</b>	2	-	33.9	-	33.9
<b>Earnings from investment in ATCO Structures &amp; Logistics</b>		<b>5.3</b>	3.7	<b>14.8</b>	3.7
<b>Interest and other income</b>		<b>14.8</b>	18.2	<b>31.1</b>	33.7
<b>Earnings before income taxes</b>		<b>107.5</b>	158.2	<b>415.1</b>	460.7
<b>Income taxes</b>		<b>14.5</b>	26.5	<b>76.3</b>	91.3
		<b>93.0</b>	131.7	<b>338.8</b>	369.4
<b>Dividends on equity preferred shares</b>		<b>10.8</b>	10.8	<b>32.4</b>	29.9
<b>Earnings attributable to Class A and Class B shares</b>		<b>82.2</b>	120.9	<b>306.4</b>	339.5
<b>Retained earnings at beginning of period</b>		<b>2,695.2</b>	2,409.2	<b>2,568.6</b>	2,279.1
		<b>2,777.4</b>	2,530.1	<b>2,875.0</b>	2,618.6
Dividends on Class A and Class B shares		<b>47.5</b>	44.3	<b>142.5</b>	132.8
Purchase of Class A shares		<b>1.9</b>	-	<b>4.5</b>	-
<b>Retained earnings at end of period</b>		<b>\$2,728.0</b>	\$2,485.8	<b>\$2,728.0</b>	\$2,485.8
<b>Earnings per Class A and Class B share</b>	5	<b>\$ 0.66</b>	\$ 0.96	<b>\$ 2.44</b>	\$ 2.70
<b>Diluted earnings per Class A and Class B share</b>	5	<b>\$ 0.66</b>	\$ 0.96	<b>\$ 2.43</b>	\$ 2.70
<b>Dividends paid per Class A and Class B share</b>	5	<b>\$ 0.3775</b>	\$ 0.3525	<b>\$ 1.1325</b>	\$ 1.0575

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

	Note	September 30 2010	2009	December 31 2009
<i>(Unaudited)</i>				
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and short term investments		\$ 456.8	\$ 983.8	\$ 796.0
Accounts receivable		358.9	306.2	366.4
Inventories		82.0	89.9	79.8
Income taxes recoverable		21.8	29.8	8.5
Future income taxes		0.7	7.4	6.6
Regulatory assets		20.1	38.0	37.4
Derivative assets		0.9	-	1.2
Prepaid expenses and other assets		45.5	35.9	32.0
		<b>986.7</b>	1,491.0	1,327.9
<b>Property, plant and equipment</b>		<b>6,882.7</b>	6,584.6	6,732.7
<b>Intangibles</b>		<b>246.8</b>	217.3	241.8
<b>Investment in ATCO Structures &amp; Logistics</b>		<b>135.8</b>	123.8	121.9
<b>Regulatory assets</b>		<b>428.2</b>	359.0	383.9
<b>Derivative assets</b>		<b>5.3</b>	41.2	31.4
<b>Other assets</b>	4	<b>424.2</b>	239.8	244.0
		<b>\$9,109.7</b>	\$9,056.7	\$9,083.6
<b>LIABILITIES AND SHARE OWNERS' EQUITY</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		\$ 396.0	\$ 368.4	\$ 382.1
Regulatory liabilities		5.6	32.5	26.1
Derivative liabilities		2.5	4.1	2.9
Long term debt due within one year		3.1	1.0	2.8
Non-recourse long term debt due within one year		39.1	44.8	49.0
		<b>446.3</b>	450.8	462.9
<b>Future income taxes</b>		<b>525.0</b>	456.1	478.1
<b>Regulatory liabilities</b>		<b>663.9</b>	547.8	571.2
<b>Derivative liabilities</b>		<b>5.6</b>	7.7	5.9
<b>Deferred credits</b>		<b>233.1</b>	271.2	277.3
<b>Long term debt</b>		<b>2,934.2</b>	3,205.7	3,102.3
<b>Non-recourse long term debt</b>		<b>318.2</b>	371.1	354.8
<b>Equity preferred shares</b>		<b>785.0</b>	785.0	785.0
<b>Class A and Class B share owners' equity</b>				
Class A and Class B shares	5	529.7	524.6	528.3
Contributed surplus		0.8	3.1	3.2
Retained earnings		2,728.0	2,485.8	2,568.6
Accumulated other comprehensive income		(60.1)	(52.2)	(54.0)
Retained earnings and accumulated other comprehensive income		<b>2,667.9</b>	2,433.6	2,514.6
		<b>3,198.4</b>	2,961.3	3,046.1
		<b>\$9,109.7</b>	\$9,056.7	\$9,083.6

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

	Note	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		\$ 82.2	\$ 120.9	\$ 306.4	\$ 339.5
Adjustments for:					
Depreciation and amortization		85.6	79.7	253.1	249.3
Future income taxes		(3.7)	13.3	4.2	6.1
Gain on ATCO Structures & Logistics transaction	2	-	(33.9)	-	(33.9)
Earnings from investment in ATCO Structures & Logistics		(5.3)	(3.7)	(14.8)	(3.7)
Dividends received from ATCO Structures & Logistics		1.2	0.8	2.4	0.8
TXU Europe settlement - net of income taxes		(1.9)	(2.3)	(6.0)	(6.8)
Mark to market of natural gas purchase and power generation revenue contracts		0.2	2.9	5.6	7.2
Deferred availability incentives		(0.2)	3.9	(22.2)	2.2
Changes in non-current regulatory assets and liabilities		25.4	2.6	37.9	10.2
Allowance for equity funds used during construction		(1.1)	(1.8)	(5.0)	(5.5)
Other		(1.4)	(0.9)	(9.6)	(1.1)
		181.0	181.5	552.0	564.3
Changes in non-cash working capital		(24.6)	17.8	21.9	10.8
<b>Cash flow from operations</b>		<b>156.4</b>	<b>199.3</b>	<b>573.9</b>	<b>575.1</b>
<b>Investing activities</b>					
Purchase of property, plant and equipment		(198.4)	(200.1)	(572.4)	(643.7)
Proceeds (costs) on disposal of property, plant and equipment		(0.1)	1.2	15.5	0.2
Contributions by utility customers for extensions to plant		13.3	40.6	48.3	93.4
Purchase of intangibles		(10.3)	(10.4)	(26.2)	(28.7)
Changes in non-cash working capital		2.3	(1.4)	(16.0)	(82.3)
Other		4.5	2.2	9.3	5.2
		(188.7)	(167.9)	(541.5)	(655.9)
<b>Financing activities</b>					
Issue of long term debt		-	23.0	-	376.0
Repayment of long term debt		(172.3)	(0.2)	(172.8)	(8.8)
Repayment of non-recourse long term debt		(14.6)	(12.0)	(46.8)	(43.6)
Issue of equity preferred shares by subsidiary		-	-	-	160.0
Net issue (purchase) of Class A shares		(0.8)	0.6	(3.0)	2.7
Dividends paid to Class A and Class B share owners		(47.5)	(44.3)	(142.5)	(132.8)
Other		(0.3)	2.1	(1.2)	(3.1)
		(235.5)	(30.8)	(366.3)	350.4
<b>Foreign currency translation</b>		<b>4.2</b>	<b>(13.2)</b>	<b>(5.3)</b>	<b>(3.5)</b>
<b>Cash position <sup>(1)</sup></b>					
Increase (decrease)		(263.6)	(12.6)	(339.2)	266.1
Decrease in cash on ATCO Structures & Logistics transaction	2	-	(8.9)	-	(8.9)
Beginning of period		720.4	1,005.3	796.0	726.6
<b>End of period</b>		<b>\$ 456.8</b>	<b>\$ 983.8</b>	<b>\$ 456.8</b>	<b>\$ 983.8</b>

<sup>(1)</sup> Cash position consists of cash and short term investments and includes \$69.1 million (2009 - \$87.2 million) which is only available for use in joint ventures.

**Canadian Utilities Limited**  
**Consolidated Statement of Comprehensive Income**  
*(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>Earnings attributable to Class A and Class B shares</b>	<b>\$ 82.2</b>	\$ 120.9	<b>\$306.4</b>	\$339.5
<b>Other comprehensive income, net of income taxes:</b>				
Cash flow hedges	-	0.9	<b>(1.1)</b>	7.0
Foreign currency translation adjustment	<b>18.0</b>	(27.4)	<b>(5.0)</b>	(3.0)
	<b>18.0</b>	(26.5)	<b>(6.1)</b>	4.0
<b>Comprehensive income</b>	<b>\$ 100.2</b>	\$ 94.4	<b>\$300.3</b>	\$343.5

**Canadian Utilities Limited**  
**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 consolidated financial statements and related notes included in the Corporation’s Financial Information contained in its 2009 Annual Report. 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.

**2. 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. (“ATCO Structures & Logistics 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. 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 was accounted for at the exchange amount by the Corporation, with an after tax gain for accounting purposes of \$29.6 million recorded on closing. Prior to the ATCO Structures & Logistics Transaction, the Corporation consolidated ATCO Frontec as it was a wholly-owned subsidiary. Therefore, all revenues, expenses, assets and liabilities were recognized on a line-by-line basis in the consolidated financial statements of the Corporation for the period up to June 30, 2009. From July 1, 2009, the Corporation has recorded an equity accounted for investment for its 24.5% interest in ATCO Structures & Logistics as it retains significant influence. This is reflected as a single line item called “Earnings from investment in ATCO Structures & Logistics” on the consolidated statement of earnings and a single line item called “Investment in ATCO Structures & Logistics” on the consolidated balance sheet. The Investment in ATCO Structures & Logistics is increased or decreased to include the Corporation’s share of earnings and capital transactions from July 1, 2009 onward.

**3. 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

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

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 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

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

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 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.

### **4. OTHER ASSETS**

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 nine months ended September 30, 2010, \$129.8 million was recorded in revenues to recognize the fair value of the lease receivable. These revenues were offset by \$124.8 million in operation and maintenance expense for the nine months ended September 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 \$3.5 million for the nine months ended September 30, 2010.

## 5. CLASS A AND CLASS B SHARES

There were 85,830,928 (2009 – 83,930,710) Class A non-voting shares and 40,005,642 (2009 – 41,725,560) Class B common shares outstanding on September 30, 2010. In addition, there were 836,150 options to purchase Class A non-voting shares outstanding at September 30, 2010 under the Corporation's stock option plan. From October 1, 2010, to October 27, 2010, 14,000 stock options were exercised, no stock options were granted or forfeited, 6,300 Class B common shares were converted to Class A non-voting shares and no Class A non-voting shares were purchased under the Corporation's normal course issuer bid.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Weighted average shares outstanding	<b>125,823,129</b>	125,635,690	<b>125,836,800</b>	125,598,175
Effect of dilutive stock options	<b>178,286</b>	231,678	<b>159,408</b>	236,016
Weighted average dilutive shares outstanding	<b>126,001,415</b>	125,867,368	<b>125,996,208</b>	125,834,191

### *Normal course issuer bid*

On March 1, 2010, Canadian Utilities Limited commenced a new normal course issuer bid for the purchase of up to 3% of the outstanding Class A non-voting Shares. The bid will expire on February 28, 2011. From March 1, 2010 to September 30, 2010, 106,950 shares have been purchased.

## 6. EMPLOYEE FUTURE BENEFITS

In the three months ended September 30, 2010, net expense of \$11.1 million (2009 – \$1.8 million) was recognized for pension benefit plans and net expense of \$0.6 million (2009 – \$0.6 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 \$35.4 million (2009 – \$6.8 million) was recognized for pension benefit plans and net expense of \$1.8 million (2009 – \$2.2 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 \$70 million.

## 6. 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 3) regarding the AUC's decision with respect to the pension application. The net funding contribution amounts (actual funding contributions less recovery from utility customers) are expected to be approximately \$16 million.

## 7. SEGMENTED INFORMATION

### Segmented results – Three months ended September 30

2010 2009	Utilities	Energy	Corporate & Other <sup>(2)</sup>	Intersegment Eliminations	Consolidated
<i>(Unaudited)</i>					
Revenues – external	\$ 313.3	\$ 219.4	\$ 18.0	\$ -	\$ 550.7
	\$ 284.4	\$ 232.5	\$ 20.2	\$ -	\$ 537.1
Revenues – intersegment <sup>(1)</sup>	6.2	4.4	31.6	(42.2)	-
	6.1	2.7	30.9	(39.7)	-
Revenues	\$ 319.5	\$ 223.8	\$ 49.6	\$ (42.2)	\$ 550.7
	\$ 290.5	\$ 235.2	\$ 51.1	\$ (39.7)	\$ 537.1
Earnings attributable to Class A and Class B shares	\$ 43.4	\$ 30.5	\$ 8.5	\$ (0.2)	\$ 82.2
	\$ 23.3	\$ 61.1	\$ 36.2	\$ 0.3	\$ 120.9

### Segmented results – Nine months ended September 30

2010 2009	Utilities	Energy	Corporate & Other <sup>(2)</sup>	Intersegment Eliminations	Consolidated
<i>(Unaudited)</i>					
Revenues – external	\$1,046.4	\$ 845.9	\$ 55.6	\$ -	\$1,947.9
	\$ 981.0	\$ 727.2	\$ 200.2	\$ -	\$1,908.4
Revenues – intersegment <sup>(1)</sup>	18.4	10.5	92.4	(121.3)	-
	18.6	8.1	92.0	(118.7)	-
Revenues	\$1,064.8	\$ 856.4	\$ 148.0	\$ (121.3)	\$1,947.9
	\$ 999.6	\$ 735.3	\$ 292.2	\$ (118.7)	\$1,908.4
Earnings attributable to Class A and Class B shares	\$ 173.1	\$ 106.6	\$ 27.7	\$ (1.0)	\$ 306.4
	\$ 142.6	\$ 137.0	\$ 59.1	\$ 0.8	\$ 339.5
Total assets	\$6,208.3	\$2,313.1	\$ 468.9	\$ 119.4	\$9,109.7
	\$5,794.7	\$2,383.5	\$ 971.8	\$ (93.3)	\$9,056.7

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

<sup>(2)</sup> Earnings in Corporate & Other in 2009 include an after tax gain of \$29.6 million relating to the ATCO Structures & Logistics Transaction (see Note 2).