CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2007

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

		Three Months Ended March 31	
	Note	**2007**	2006
		(Unaudited)	
Revenues		**$ 415.7**	$ 400.8
Costs and expenses			
Natural gas supply		**0.7**	0.7
Purchased power		**13.8**	13.0
Operation and maintenance		**87.9**	83.2
Selling and administrative		**48.8**	47.7
Depreciation and amortization		**73.7**	68.8
Interest		**40.7**	38.5
Franchise fees		**58.5**	61.9
		324.1	313.8
		91.6	87.0
Interest and other income		**3.4**	2.2
Earnings before income taxes		**95.0**	89.2
Income taxes		**31.3**	32.7
		63.7	56.5
Dividends on equity preferred shares to parent corporation		**3.5**	3.5
Earnings attributable to Class A and Class B shares		**60.2**	53.0
Retained earnings at beginning of period as restated	3	**1,085.4**	1,051.4
		1,145.6	1,104.4
Dividends on Class A and Class B shares		**-**	24.0
Retained earnings at end of period		**$1,145.6**	$1,080.4

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

	Note	March 31 **2007**	March 31 2006	December 31 2006
		(Unaudited)		*(Audited)*
ASSETS				
Current assets				
Cash and short term investments		**$ 16.5**	$ 81.5	$ -
Accounts receivable		**179.5**	167.3	224.4
Accounts receivable from parent and affiliate corporations		**12.2**	3.5	8.5
Inventories		**72.2**	66.8	70.3
Income taxes recoverable		**-**	-	2.0
Regulatory assets		**8.3**	19.7	13.3
Prepaid expenses		**8.1**	5.8	10.2
		296.8	344.6	328.7
Property, plant and equipment		**4,136.0**	3,894.1	4,106.5
Regulatory assets		**63.7**	43.7	60.2
Other assets		**15.8**	33.2	28.3
		$4,512.3	$4,315.6	$4,523.7
LIABILITIES AND SHARE OWNER'S EQUITY				
Current liabilities				
Bank indebtedness		**$ -**	$ -	$ 3.3
Short term advances from parent and affiliate corporations		**3.9**	5.5	94.2
Accounts payable and accrued liabilities		**179.4**	157.9	169.7
Accounts payable to parent and affiliate corporations		**23.0**	19.1	28.1
Income taxes payable		**17.3**	16.8	-
Future income taxes		**0.7**	4.5	0.7
Regulatory liabilities		**4.8**	2.6	0.5
		229.1	206.4	296.5
Future income taxes		**53.8**	66.3	54.6
Regulatory liabilities		**27.9**	23.7	30.1
Deferred credits		**136.4**	152.2	125.5
Long term debt	4	**2,255.3**	2,122.5	2,267.5
Equity preferred shares to parent corporation		**256.5**	256.5	256.5
Class A and Class B share owner's equity				
Class A and Class B shares		**407.6**	407.6	407.6
Retained earnings		**1,145.6**	1,080.4	1,085.4
Accumulated other comprehensive income	6	**0.1**	-	-
		1,553.3	1,488.0	1,493.0
		$4,512.3	$4,315.6	$4,523.7

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

	Three Months Ended March 31	
	2007	2006
	(Unaudited)	
Operating activities		
Earnings attributable to Class A and Class B shares	**$ 60.2**	$ 53.0
Adjustments for:		
Depreciation and amortization	**73.7**	68.8
Future income taxes	**(0.8)**	1.8
Deferred availability incentives	**6.6**	12.4
Other	**1.7**	2.7
Funds generated by operations	**141.4**	138.7
Changes in non-cash working capital	**88.7**	24.3
Cash flow from operations	**230.1**	163.0
Investing activities		
Purchase of property, plant and equipment	**(120.4)**	(108.3)
Costs on disposal of property, plant and equipment	**(0.6)**	(1.1)
Contributions by utility customers for extensions to plant	**19.8**	25.7
Non-current deferred electricity costs	**(1.4)**	5.3
Changes in non-cash working capital	**(14.1)**	(19.8)
Other	**(3.6)**	0.1
	(120.3)	(98.1)
Financing activities		
Dividends paid to Class A and Class B share owner	**-**	(24.0)
Other	**0.3**	-
	0.3	(24.0)
Cash position [1]		
Increase	**110.1**	40.9
Beginning of period	**(97.5)**	35.1
End of period	**$ 12.6**	$ 76.0

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

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

		Three Months Ended March 31	
	Note	**2007**	2006
		(Unaudited)	
Earnings attributable to Class A and Class B shares		**$60.2**	$53.0
Other comprehensive income, net of income taxes	6	**-**	-
Comprehensive income		**$60.2**	$53.0

CU INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(Unaudited, Tabular Amounts in Millions of Canadian Dollars)

1. Summary of significant accounting policies

Financial Statement Presentation

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

Effective January 1, 2007, the Corporation prospectively adopted the Canadian Institute of Chartered Accountants ("CICA") recommendations pertaining to financial instruments, which establish standards for the recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. These recommendations require that fair value be used to measure financial assets that are held for trading or available for sale, financial liabilities that are held for trading and all derivative financial instruments. Other financial assets, such as loans and receivables and investments that are held to maturity, and other financial liabilities are measured at their carrying value. This change in accounting had the following effect on the consolidated financial statements for the three months ended March 31, 2007:

(a) Restatement of opening retained earnings at January 1, 2007 associated with the recognition of certain financial assets and financial liabilities at amortized cost using the effective interest method (see Note 3).
(b) Reclassification of deferred financing charges from other assets to long term debt (see Note 4).

Effective January 1, 2007, the Corporation prospectively adopted the CICA recommendations pertaining to hedges, which establish standards for the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. The purpose of hedge accounting is to ensure that gains, losses, revenues and expenses from effective hedging relationships are recorded in earnings in the same period. This change in accounting had no effect on the consolidated financial statements for the three months ended March 31, 2007.

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

Effective January 1, 2007, the Corporation prospectively adopted the CICA recommendations regarding the presentation of equity and changes in equity. These recommendations require separate presentation of the components of equity, including retained earnings, accumulated other comprehensive income, contributed surplus, share capital and reserves, and the changes therein. As a result of this change in accounting, the Corporation has included disclosure regarding accumulated other comprehensive income in the notes to the consolidated financial statements (see Note 6).

Effective January 1, 2007, the Corporation adopted the CICA recommendations that prescribe the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. Adoption of these recommendations had no effect on the consolidated financial statements for the three months ended March 31, 2007, except for the disclosure of accounting changes that have been issued by the CICA but have not yet been adopted by the Corporation because they are not effective until a future date (see Future Accounting Changes below).

1. Summary of significant accounting policies (continued)

Due to the seasonal nature of the Corporation's operations and the timing of rate decisions, the consolidated statements of earnings and retained earnings for the three months ended March 31, 2007 and March 31, 2006 are not necessarily indicative of operations on an annual basis.

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

Cash and Short Term Investments

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

Deferred Financing Charges

Issue costs of long term debt are amortized over the life of the debt using the effective interest method and issue costs of preferred shares relating to regulated operations are amortized over the expected life of the issue. Unamortized premiums and issue costs of redeemed long term debt and preferred shares relating to regulated operations are amortized over the life of the issue funding the redemption. The Corporation's deferred financing charges, which pertain solely to long term debt, have been reclassified from other assets to long term debt in accordance with the CICA recommendations for financial instruments (see Note 4).

Derivative Financial Instruments

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

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

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

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

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

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

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

1. Summary of significant accounting policies (continued)

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

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

Hedge gains or losses that were recognized in other comprehensive income are added to the initial carrying amount of a non-financial asset or non-financial liability when:
(i) an anticipated transaction for a non-financial asset or non-financial liability becomes a specific firm commitment for which fair value hedge accounting is applied or,
(ii) a cash flow hedge of an anticipated transaction subsequently results in the recognition of the non-financial asset or non-financial liability.

(b) A non-hedge derivative instrument is recorded on the consolidated balance sheet at fair value and subsequent changes in fair value are recorded in earnings.

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

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

Future Accounting Changes

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

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

2. Regulatory matters

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

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

2. **Regulatory matters** (continued)

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

3. Retained earnings at beginning of period as restated

	March 31	
	2007	2006
Retained earnings at beginning of period as previously reported	**$1,085.4**	$1,051.4
Adjustments to retained earnings to recognize the prior years' effect of:		
(a) the change in method of accounting for long term debt at amortized cost using the effective interest method (net of income taxes)	**0.5**	-
(b) the fair value of receivables (net of income taxes)	**(0.5)**	-
Retained earnings at beginning of period as restated	**$1,085.4**	$1,051.4

4. Long term debt

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

	Effective	March 31	
	Interest Rate	**2007**	2006
Long term debt			
Debentures – unsecured			
2001 4.84% due November 2006	4.977%	**$ -**	$ 175.0
2002 4.801% due November 2007	4.913%	**50.0**	50.0
2000 6.97% due June 2008	7.062%	**100.0**	100.0
1989 Series 10.20% due November 2009	10.331%	**125.0**	125.0
1990 Series 11.40% due August 2010	11.537%	**125.0**	125.0
2000 7.05% due June 2011	7.130%	**100.0**	100.0
2004 5.096% due November 2014	5.162%	**100.0**	100.0
2002 6.145% due November 2017	6.217%	**150.0**	150.0
2004 5.432% due January 2019	5.492%	**180.0**	180.0
1999 6.8% due August 2019	6.861%	**300.0**	300.0
1990 Second Series 11.77% due November 2020	11.903%	**100.0**	100.0
2006 4.801% due November 2021	4.854%	**160.0**	-
1991 Series 9.92% due April 2022	10.063%	**125.0**	125.0
1992 Series 9.40% due May 2023	9.511%	**100.0**	100.0
2004 5.896% due November 2034	5.939%	**200.0**	200.0
2005 5.183% due November 2035	5.226%	**185.0**	185.0
2006 5.032% due November 2036	5.072%	**160.0**	-
Other long term obligation, due December 2008, unsecured	6.000%	**4.5**	4.5
Less: Deferred financing charges		**(12.2)**	-
		2,252.3	2,119.5
Long term debt to parent corporation			
Non-interest bearing promissory note, unsecured		**3.0**	3.0
		$2,255.3	$2,122.5

5. Risk management and financial instruments

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

Foreign currency exchange rate risk

The Corporation has entered into foreign currency forward contracts in order to fix the exchange rate on certain planned equipment expenditures denominated in U.S. dollars. At March 31, 2007, the contracts consist of purchases of $0.7 million U.S. (2006 ─ $0.8 million U.S.).

Credit risk

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

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

Fair value of non-derivative financial instruments

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

	March 31			
	2007		2006	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Assets				
Cash and short term investments [1]	**$ 16.5**	**$ 16.5**	$ 81.5	$ 81.5
Accounts receivable [1]	**179.5**	**179.5**	167.3	167.3
Accounts receivable from parent and affiliate corporations [1]	**12.2**	**12.2**	3.5	3.5
Liabilities				
Short term advances from parent and affiliate corporations [2]	**3.9**	**3.9**	5.5	5.5
Accounts payable and accrued liabilities [2]	**179.4**	**179.4**	157.9	157.9
Accounts payable to parent and affiliate corporations [2]	**23.0**	**23.0**	19.1	19.1
Long term debt [3]	**2,252.3**	**2,618.6**	2,119.5	2,480.0
Long term debt to parent corporation [4]	**3.0**	**3.0**	3.0	3.0

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

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

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

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

5. Risk management and financial instruments (continued)

Fair value of derivative financial instruments

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

	March 31					
	2007			2006		
	Notional Principal [1]	**Fair Value Receivable (Payable) [2]**	**Maturity**	Notional Principal [1]	Fair Value Receivable (Payable) [2]	Maturity
Foreign currency forward contracts	**$0.8**	**Nil**	**2007**	$0.9	Nil	2006

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

[2] *Fair values for the foreign currency forward contracts have been estimated using period-end market rates. These fair values approximate the amount that the Corporation would either pay or receive to settle the contract at March 31.*

6. Other comprehensive income

Other comprehensive income ("OCI") of the Corporation is comprised of unrealized gains and losses on financial assets available for sale. The change in the method of accounting for financial assets available for sale resulted in an increase to accumulated OCI at January 1, 2007 of $0.1 million, net of income taxes of nil. There was no change in the fair value of those financial assets in the three months ended March 31, 2007.

7. Employee future benefits

In the three months ended March 31, 2007, net expense of $1.4 million (2006 – $0.8 million) was recognized for pension benefit plans and net expense of $0.5 million (2006 – $0.6 million) was recognized for other post employment benefit plans.

8. Segmented information

Segmented results – Three months ended March 31

2007 2006 *(Unaudited)*	Utilities	Power Generation	Corporate and Other	Intersegment Eliminations	Consolidated
Revenues – external	**$ 343.9**	**$ 71.8**	**$ -**	**$ -**	**$ 415.7**
	$ 328.3	$ 72.5	$ -	$ -	$ 400.8
Revenues – intersegment [1]	**-**	**-**	**-**	**-**	**-**
	-	-	-	-	-
Revenues	**$ 343.9**	**$ 71.8**	**$ -**	**$ -**	**$ 415.7**
	$ 328.3	$ 72.5	$ -	$ -	$ 400.8
Earnings attributable to Class A and Class B shares	**$ 48.4**	**$ 11.8**	**$ -**	**$ -**	**$ 60.2**
	$ 40.3	$ 12.6	$ 0.1	$ -	$ 53.0
Total assets	**$3,801.7**	**$710.0**	**$ 0.6**	**$ -**	**$4,512.3**
	$3,536.4	$778.5	$ 0.7	$ -	$4,315.6

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

9. Subsequent event

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