



**CANADIAN UTILITIES LIMITED**  
An **ATCO** Company

**CANADIAN UTILITIES LIMITED**

**CONSOLIDATED FINANCIAL STATEMENTS**

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

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

	Note	Three Months Ended June 30		Six Months Ended June 30	
		2010	2009	2010	2009
		<i>(Unaudited)</i>		<i>(Unaudited)</i>	
<b>Revenues</b>	2, 3	<b>\$ 648.6</b>	\$ 602.7	<b>\$1,397.2</b>	\$1,371.3
<b>Costs and expenses</b>					
Natural gas supply		13.8	6.4	21.0	12.8
Purchased power		12.4	12.3	27.4	28.0
Operation and maintenance	3	280.9	253.0	565.2	541.6
Selling and administrative		65.3	64.4	116.9	119.0
Depreciation and amortization		84.2	84.8	167.5	169.6
Interest	2	52.9	51.6	106.0	101.8
Interest on non-recourse long term debt		7.1	8.3	14.3	16.1
Franchise fees		36.1	33.1	97.1	95.4
		<b>552.7</b>	513.9	<b>1,115.4</b>	1,084.3
		<b>95.9</b>	88.8	<b>281.8</b>	287.0
<b>Earnings from investment in ATCO Structures &amp; Logistics</b>		<b>4.8</b>	-	<b>9.5</b>	-
<b>Interest and other income</b>		<b>11.1</b>	9.9	<b>16.3</b>	15.5
<b>Earnings before income taxes</b>		<b>111.8</b>	98.7	<b>307.6</b>	302.5
<b>Income taxes</b>		<b>24.8</b>	14.7	<b>61.8</b>	64.8
		<b>87.0</b>	84.0	<b>245.8</b>	237.7
<b>Dividends on equity preferred shares</b>		<b>10.8</b>	10.8	<b>21.6</b>	19.1
<b>Earnings attributable to Class A and Class B shares</b>		<b>76.2</b>	73.2	<b>224.2</b>	218.6
<b>Retained earnings at beginning of period</b>		<b>2,668.1</b>	2,380.3	<b>2,568.6</b>	2,279.1
		<b>2,744.3</b>	2,453.5	<b>2,792.8</b>	2,497.7
Dividends on Class A and Class B shares		47.5	44.3	95.0	88.5
Purchase of Class A shares		1.6	-	2.6	-
<b>Retained earnings at end of period</b>		<b>\$2,695.2</b>	\$2,409.2	<b>\$2,695.2</b>	\$2,409.2
<b>Earnings per Class A and Class B share</b>	4	<b>\$ 0.60</b>	\$ 0.58	<b>\$ 1.78</b>	\$ 1.74
<b>Diluted earnings per Class A and Class B share</b>	4	<b>\$ 0.60</b>	\$ 0.58	<b>\$ 1.77</b>	\$ 1.74
<b>Dividends paid per Class A and Class B share</b>	4	<b>\$ 0.3775</b>	\$ 0.3525	<b>\$ 0.755</b>	\$ 0.705

## Canadian Utilities Limited Consolidated Balance Sheet

(Millions of Canadian Dollars)

		June 30	December 31
	Note	2010	2009
		(Unaudited)	
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and short term investments		\$ 720.4	\$ 1,014.3
Accounts receivable		299.2	330.1
Inventories		81.0	102.0
Income taxes recoverable		23.0	10.7
Future income taxes		3.5	8.2
Regulatory assets		18.9	44.2
Derivative assets		0.7	-
Prepaid expenses and other assets		39.2	38.1
		<b>1,185.9</b>	<b>1,547.6</b>
<b>Property, plant and equipment</b>	3	<b>6,768.3</b>	<b>6,581.5</b>
<b>Intangibles</b>		<b>243.9</b>	<b>213.9</b>
<b>Investment in ATCO Structures &amp; Logistics</b>		<b>128.5</b>	<b>-</b>
<b>Regulatory assets</b>		<b>421.7</b>	<b>345.2</b>
<b>Derivative assets</b>		<b>7.8</b>	<b>51.7</b>
<b>Other assets</b>	3	<b>397.8</b>	<b>244.5</b>
		<b>\$9,153.9</b>	<b>\$8,984.4</b>
<b>LIABILITIES AND SHARE OWNERS' EQUITY</b>			
<b>Current liabilities</b>			
Bank indebtedness		\$ -	\$ 9.0
Accounts payable and accrued liabilities	2	354.0	331.0
Regulatory liabilities		6.1	40.1
Derivative liabilities		2.4	4.3
Long term debt due within one year		2.0	17.9
Non-recourse long term debt due within one year		46.8	45.3
		<b>411.3</b>	<b>447.6</b>
<b>Future income taxes</b>		<b>512.9</b>	<b>434.2</b>
<b>Regulatory liabilities</b>		<b>622.8</b>	<b>547.0</b>
<b>Derivative liabilities</b>		<b>5.1</b>	<b>8.5</b>
<b>Deferred credits</b>		<b>250.3</b>	<b>276.6</b>
<b>Long term debt</b>		<b>3,097.5</b>	<b>3,190.2</b>
<b>Non-recourse long term debt</b>		<b>322.9</b>	<b>383.8</b>
<b>Equity preferred shares</b>		<b>785.0</b>	<b>785.0</b>
<b>Class A and Class B share owners' equity</b>			
Class A and Class B shares	4	528.6	524.0
Contributed surplus		0.4	2.9
Retained earnings		2,695.2	2,409.2
Accumulated other comprehensive income		(78.1)	(24.6)
Retained earnings and accumulated other comprehensive income		<b>2,617.1</b>	<b>2,384.6</b>
		<b>3,146.1</b>	<b>2,911.5</b>
		<b>\$9,153.9</b>	<b>\$8,984.4</b>

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2010	2009	2010	2009
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
<b>Operating activities</b>				
Earnings attributable to Class A and Class B shares	\$ 76.2	\$ 73.2	\$ 224.2	\$ 218.6
Adjustments for:				
Depreciation and amortization	84.2	84.8	167.5	169.6
Future income taxes	12.8	(3.1)	7.9	(7.2)
Earnings from investment in ATCO Structures & Logistics less dividends received	(3.6)	-	(8.3)	-
TXU Europe settlement - net of income taxes	(2.1)	(2.3)	(4.1)	(4.5)
Mark to market of natural gas purchase and power generation revenue contracts	0.1	0.4	5.4	4.3
Deferred availability incentives	(18.1)	(1.2)	(22.0)	(1.7)
Changes in non-current regulatory assets and liabilities	8.9	(12.9)	12.5	7.6
Allowance for equity funds used during construction	(1.9)	(1.9)	(3.9)	(3.7)
Other	1.3	(0.8)	(8.2)	(0.2)
	157.8	136.2	371.0	382.8
Changes in non-cash working capital	(36.3)	(34.6)	46.5	(7.0)
<b>Cash flow from operations</b>	<b>121.5</b>	<b>101.6</b>	<b>417.5</b>	<b>375.8</b>
<b>Investing activities</b>				
Purchase of property, plant and equipment	(192.3)	(240.8)	(374.0)	(443.6)
Proceeds (costs) on disposal of property, plant and equipment	15.3	0.1	15.6	(1.0)
Contributions by utility customers for extensions to plant	16.4	22.2	35.0	52.8
Purchase of intangibles	(10.5)	(10.5)	(15.9)	(18.3)
Changes in non-cash working capital	(2.2)	(5.2)	(18.3)	(80.9)
Other	1.8	-	4.8	3.0
	(171.5)	(234.2)	(352.8)	(488.0)
<b>Financing activities</b>				
Issue of long term debt	-	62.1	-	353.0
Repayment of long term debt	(0.2)	(4.4)	(0.5)	(8.6)
Repayment of non-recourse long term debt	(20.7)	(18.3)	(32.2)	(31.6)
Issue of equity preferred shares by subsidiary	-	-	-	160.0
Net issue (purchase) of Class A shares	(1.2)	0.2	(2.2)	2.1
Dividends paid to Class A and Class B share owners	(47.5)	(44.3)	(95.0)	(88.5)
Changes in non-cash working capital	-	(0.2)	-	-
Other	(0.4)	-	(0.9)	(5.2)
	(70.0)	(4.9)	(130.8)	381.2
<b>Foreign currency translation</b>	<b>3.2</b>	<b>7.8</b>	<b>(9.5)</b>	<b>9.7</b>
<b>Cash position <sup>(1)</sup></b>				
Increase (decrease)	(116.8)	(129.7)	(75.6)	278.7
Beginning of period	837.2	1,135.0	796.0	726.6
<b>End of period</b>	<b>\$ 720.4</b>	<b>\$1,005.3</b>	<b>\$ 720.4</b>	<b>\$1,005.3</b>

<sup>(1)</sup> Cash position consists of cash and short term investments less current bank indebtedness, and includes \$66.9 million (2009 - \$96.8 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 June 30		Six Months Ended June 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>\$ 76.2</b>	\$ 73.2	<b>\$224.2</b>	\$218.6
<b>Other comprehensive income, net of income taxes:</b>				
Cash flow hedges	<b>(1.9)</b>	6.5	<b>(1.1)</b>	6.1
Foreign currency translation adjustment	<b>2.6</b>	18.2	<b>(23.0)</b>	24.4
	<b>0.7</b>	24.7	<b>(24.1)</b>	30.5
<b>Comprehensive income</b>	<b>\$ 76.9</b>	\$ 97.9	<b>\$200.1</b>	\$249.1

**Canadian Utilities Limited**  
**Notes to Consolidated Financial Statements**  
**June 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. 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. 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.

***Pension Hearing***

In July 2009, ATCO Electric, ATCO Gas, and ATCO Pipelines (collectively referred to as 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 ATCO Utilities. This decision did not result in a significant change in earnings of ATCO Utilities.

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

On April 20, 2010, ATCO Gas received a decision from the AUC approving, on an interim refundable basis, the implementation of Carbon recovery riders resulting in an increase in ATCO Gas’ revenues and earnings of \$15.7 million and \$11.3 million, respectively. The financial impact of this decision was recorded in the first quarter of 2010. The final decision on the amount to be recovered from customers is expected in the fourth quarter of 2010.

The City of Calgary and the Utilities Consumer Advocate have filed a joint Leave to Appeal application with the Alberta Court of Appeal regarding the AUC’s December 16, 2009 decision which confirmed the

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

effective date of removal of the Carbon Facility from regulation to be April 1, 2005. This Leave to Appeal was heard on April 28, 2010, and on May 12, 2010, the Alberta Court of Appeal issued its decision denying the Leave to Appeal.

### ***ATCO Gas – Deferred Gas Account***

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

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

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

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

### 4. CLASS A AND CLASS B SHARES

There were 85,820,078 (2009 – 83,877,960) Class A non-voting shares and 40,005,642 (2009 – 41,745,960) Class B common shares outstanding on June 30, 2010. In addition, there were 893,900 options to purchase Class A non-voting shares outstanding at June 30, 2010 under the Corporation’s stock option plan. From July 1, 2010, to July 28, 2010, 2,800 stock options were exercised, no stock options were granted, 1,200 stock options were forfeited, no 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 June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Weighted average shares outstanding	<b>125,829,921</b>	125,613,460	<b>125,843,742</b>	125,579,111
Effect of dilutive stock options	<b>174,309</b>	232,164	<b>175,219</b>	254,943
Weighted average dilutive shares outstanding	<b>126,004,230</b>	125,845,624	<b>126,018,961</b>	125,834,054

#### *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 June 30, 2010, 63,250 shares have been purchased.

### 5. EMPLOYEE FUTURE BENEFITS

In the three months ended June 30, 2010, net expense of \$12.6 million (2009 – \$2.3 million) was recognized for pension benefit plans and net expense of \$0.6 million (2009 – \$0.7 million) was recognized for other post employment benefit plans. The net expense for the pension benefit plans includes a cash expense of \$10.7 million related to the utility operations.

## 5. EMPLOYEE FUTURE BENEFITS (continued)

In the six months ended June 30, 2010, net expense of \$24.3 million (2009 – \$5.0 million) was recognized for pension benefit plans and net expense of \$1.2 million (2009 – \$1.6 million) was recognized for other post employment benefit plans. The net expense for the pension benefit plans includes a cash expense of \$19.7 million related to the utility operations.

### *Funding*

The Corporation has begun making funding contributions for the pension benefit plans during the six months ended June 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.

For the purposes of any funding requirements pertaining to the ATCO Utilities, the Corporation includes the cost of funding in its rate applications to the AUC. Refer to Regulatory Matters (see Note 2) regarding the AUC's decision with respect to the pension application. Based on the assumption that the full amounts requested in filed rate applications are approved by the AUC, the net funding contribution amounts (actual funding contributions less recovery from utility customers) are expected to be approximately \$16 million.

## 6. SEGMENTED INFORMATION

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

2010 2009	Utilities	Energy	Corporate & Other	Intersegment Eliminations	Consolidated
<i>(Unaudited)</i>					
Revenues – external	<b>\$ 319.8</b>	<b>\$ 309.6</b>	<b>\$ 19.2</b>	<b>\$ -</b>	<b>\$ 648.6</b>
	\$ 305.9	\$ 210.2	\$ 86.6	\$ -	\$ 602.7
Revenues – intersegment <sup>(1)</sup>	<b>6.2</b>	<b>3.0</b>	<b>30.9</b>	<b>(40.1)</b>	-
	6.1	1.7	31.2	(39.0)	-
Revenues	<b>\$ 326.0</b>	<b>\$ 312.6</b>	<b>\$ 50.1</b>	<b>\$ (40.1)</b>	<b>\$ 648.6</b>
	\$ 312.0	\$ 211.9	\$ 117.8	\$ (39.0)	\$ 602.7
Earnings attributable to Class A and Class B shares	<b>\$ 32.8</b>	<b>\$ 36.1</b>	<b>\$ 6.6</b>	<b>\$ 0.7</b>	<b>\$ 76.2</b>
	\$ 38.8	\$ 24.8	\$ 9.4	\$ 0.2	\$ 73.2

## 6. SEGMENTED INFORMATION (continued)

### Segmented results – Six months ended June 30

2010 2009	Utilities	Energy	Corporate & Other	Intersegment Eliminations	Consolidated
<i>(Unaudited)</i>					
Revenues – external	\$ 733.1	\$ 626.5	\$ 37.6	\$ -	\$1,397.2
	\$ 696.6	\$ 494.7	\$ 180.0	\$ -	\$1,371.3
Revenues – intersegment <sup>(1)</sup>	12.2	6.1	60.8	(79.1)	-
	12.5	5.4	61.1	(79.0)	-
Revenues	\$ 745.3	\$ 632.6	\$ 98.4	\$ (79.1)	\$1,397.2
	\$ 709.1	\$ 500.1	\$ 241.1	\$ (79.0)	\$1,371.3
Earnings attributable to Class A and Class B shares	\$ 129.7	\$ 76.1	\$ 19.2	\$ (0.8)	\$ 224.2
	\$ 119.3	\$ 75.9	\$ 22.9	\$ 0.5	\$ 218.6
Total assets	\$6,045.9	\$2,305.7	\$ 747.7	\$ 54.6	\$9,153.9
	\$5,744.8	\$2,348.4	\$1,012.5	\$(121.3)	\$8,984.4

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