



An **ATCO** Company

MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOR THE YEAR ENDED
DECEMBER 31, 2011**

CU Inc.
Management's Discussion and Analysis (MD&A)
For the Year Ended December 31, 2011

This MD&A should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended December 31, 2011 (2011 Annual Financial Statements). This MD&A is dated February 21, 2012. Additional information relating to the Corporation, including the Corporation's annual information form, is available on SEDAR at www.sedar.com.

Terms used throughout this MD&A are defined in the Glossary located at the end of the document.

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Company Overview

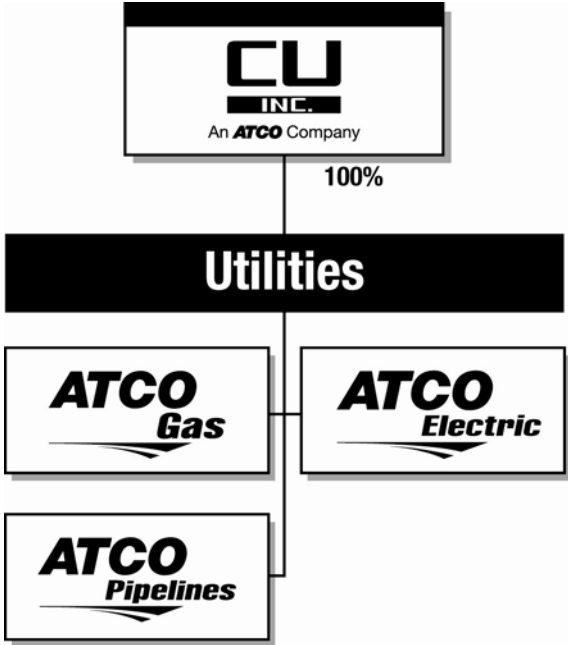
CU Inc. was incorporated under the laws of Canada on March 12, 1999. The Corporation has assets of approximately \$8 billion and more than 4,700 employees.

The consolidated financial statements include the accounts of CU Inc. and all of its subsidiaries. The consolidated financial statements have been prepared in accordance with IFRS and the reporting currency is the Canadian dollar.

The Corporation operates in the following utility businesses:

- 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.

Simplified Organizational Structure



International Financial Reporting Standards

The Corporation has adopted IFRS as the basis of financial reporting commencing with the interim financial statements for the three months ended March 31, 2011. The transition date from Canadian GAAP to IFRS was January 1, 2010 (Transition Date), and comparative data for 2010 has been restated in accordance with IFRS.

The adoption of IFRS has affected the Corporation’s financial position and operating results in that it no longer recognizes regulatory assets and liabilities associated with its rate regulated activities, thereby resulting in increased volatility of earnings under IFRS. This significant effect is further described below.

Accounting for Rate Regulated Activities

Prior to the adoption of IFRS, the Corporation used accounting principles generally accepted in Canada to recognize and measure assets and liabilities arising from rate regulation on its balance sheet. Because there is currently no specific guidance under IFRS for rate regulated entities, the Corporation does not recognize regulatory assets and liabilities under IFRS. At the Transition Date, all assets and liabilities arising from rate regulation were charged to retained earnings. The Corporation has disclosed the impacts of rate regulation as an Adjusted Earnings item in this MD&A (see Importance of Adjusted Earnings section) and in Note 5 to the 2011 Annual Financial Statements.

Other

The transition to IFRS involved a number of other adjustments that did not have a significant effect on the financial position or future earnings of the Corporation. A number of the exemptions taken on transition to IFRS resulted in adjustments being recorded in retained earnings. The adjustments reduced retained earnings by \$91 million. This reduction in retained earnings does not affect the Corporation's ability to pay dividends. A full description of these items is provided in Note 4 to the 2011 Annual Financial Statements.

Results of Operations

FOURTH QUARTER HIGHLIGHTS

The following highlights have occurred since the third quarter MD&A dated October 27, 2011. These events are discussed in more detail throughout this MD&A:

- Adjusted Earnings for the quarter ended December 31, 2011, were \$59 million compared to \$72 million in the corresponding period in 2010, a decrease of \$13 million (18%).
- Adjusted Earnings were lower mainly due to higher income taxes in ATCO Electric and the impact of the two AUC decisions described below.
- On December 5, 2011, the AUC issued a decision on ATCO Gas' 2011 and 2012 general rate application approving, among other things, increased revenues to recover increased financing, depreciation, and operating costs associated with increased rate base in Alberta. The AUC also disallowed certain operating and maintenance programs and excluded certain capital expenditures from rate base resulting in a decrease to Adjusted Earnings of \$10 million.
- On December 8, 2011, the AUC released the 2011 Generic Cost of Capital Decision, which established a generic return on equity for the Utilities of 8.75% for 2011 and 2012, a reduction of 0.25% from the previous return on equity of 9%. For 2011, all of the Utilities common equity ratios remained unchanged, with the exception of ATCO Electric's transmission operations which increased by 1% to 37%. This decision decreased Adjusted Earnings by \$5 million.

SELECTED QUARTERLY INFORMATION

The following table shows the quarterly financial information for each of the eight quarters ended March 31, 2010 through December 31, 2011.

(\$ millions)	For the Three Months Ended ^{(2) (7)}			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31
2011 ^{(3) (4)} (IFRS)				
Revenues	474	378	338	500
Earnings for the period	109	51	41	103
Adjusted Earnings ⁽⁶⁾	100	43	33	59
2010 ⁽⁵⁾ (IFRS)				
Revenues	431	334	332	424
Earnings for the period:				
Continuing Operations	92	35	40	67
Discontinued Operations ⁽¹⁾	11	7	15	-
Total	103	42	55	67
Adjusted Earnings: ⁽⁶⁾				
Continuing Operations	96	32	43	72
Discontinued Operations ⁽¹⁾	11	7	14	-
Total	107	39	57	72

⁽¹⁾ Discontinued operations consist of Alberta Power (2000), which was transferred to ATCO Power, a wholly owned subsidiary of the Corporation's parent, Canadian Utilities, on October 1, 2010.

⁽²⁾ 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 and the timing of rate decisions.

⁽³⁾ Quarterly information for the first, second and third quarters of 2011 has been extracted from the interim consolidated financial statements, which have been prepared in accordance with IFRS.

⁽⁴⁾ Refer to Appendix 1 for quarterly information for the fourth quarter of 2011, which has been prepared in accordance with IFRS.

⁽⁵⁾ Quarterly information for 2010 has been restated in accordance with IFRS.

⁽⁶⁾ Refer to the Importance of Adjusted Earnings section for a reconciliation of Adjusted Earnings to Earnings for the period.

⁽⁷⁾ The reporting currency is the Canadian dollar

The interim results will fluctuate due to the seasonal nature of natural gas and electricity demand, as well as the timing of regulatory decisions.

The organic growth has come primarily from continued investment in rate base by the Utilities driven mainly by electricity transmission projects in Alberta.

In 2010, ATCO Gas received two decisions related to the Carbon Facility (Carbon Decisions). ATCO Gas recorded increased Adjusted Earnings of \$11 million and \$14 million in the first and third quarters of 2010, respectively.

In 2011, ATCO Electric received an AUC decision on its 2011 and 2012 General Tariff Application. The AUC approved the inclusion in rate base of construction work in progress for projects that are directly assigned from the AESO and the recovery from customers of federal deferred income taxes relating to transmission operations. These two items did not impact Adjusted Earnings, but did contribute to an increase in Earnings for the period in the fourth quarter of 2011 as recoveries from customers increased.

SELECTED ANNUAL INFORMATION

	For the Year Ended December 31		
(\$ millions, except per share data and return on equity) ^{(1) (10)}	IFRS ⁽²⁾ 2011	IFRS ⁽²⁾ 2010	Canadian GAAP ⁽³⁾ 2009
Revenues ⁽¹⁾	1,690	1,521	1,367
Earnings for the period ⁽¹⁾			
Attributable to continuing operations	304	234	196
Attributable to discontinued operations	-	33	67
Total	304	267	263
Adjusted Earnings ^{(1) (4)}			
Attributable to continuing operations	235	243	196
Attributable to discontinued operations	-	32	50
Total	235	275	246
Cash position	27	(56)	64
Total assets	8,071	6,970	6,592
Long term debt	3,389	2,728	2,827
Equity preferred shares	422	442	405
Class A and Class B Share owner's equity	2,288	2,021	2,039
Return on equity (%)	14.1	13.5	13.6
Cash flow from operations ⁽¹⁾			
Continuing operations	848	703	404
Discontinued operations	-	56	104
Total	848	759	508
Funds Generated by Operations	845	708	410
Capital expenditures	1,288	770	776
Cash dividends declared per share (\$):			
Series Preferred Shares:			
Series 1	1.15	1.15	1.15
Series 2 ⁽⁶⁾	1.68	1.68	1.14
Series 4 ⁽⁷⁾	0.94	-	-
Series Second Preferred Shares:			
Series U ⁽⁸⁾	1.09	1.09	1.09
Series V ⁽⁹⁾	1.18	1.18	1.18

⁽¹⁾ Discontinued operations consist of Alberta Power (2000), which was transferred to ATCO Power, a wholly owned subsidiary of the Corporation's parent, Canadian Utilities, on October 1, 2010.

⁽²⁾ The above data for 2011 and 2010 (other than Funds Generated by Operations and Return on equity) has been extracted from the 2011 Annual Financial Statements which have been prepared in accordance with IFRS.

⁽³⁾ Securities regulations require the presentation of selected annual information for the three most recently completed financial years. IFRS does not require the restatement of financial information prior to the Transition Date, which was January 1, 2010. Therefore, information for 2009 is as reported in the 2010 MD&A under Canadian GAAP and does not conform to current presentation under IFRS.

⁽⁴⁾ As all the Class A and Class B Shares are owned by Canadian Utilities, the disclosure of earnings per share is not provided as it is not considered to be meaningful.

⁽⁵⁾ For 2011 and 2010, refer to the Importance of Adjusted Earnings section for a reconciliation of Adjusted Earnings to Earnings for the period. For 2009, refer to the Significant Non-Operating Financial Item section of the 2010 MD&A.

- (6) Series 2 Preferred Shares were issued on March 27, 2009.
- (7) Series 4 Preferred Shares were issued on December 2, 2010.
- (8) The dividend rate was reset to \$1.09 (from 5.05% to 4.35%) for the period between December 2, 2006, and December 2, 2011. On December 2, 2011, the Corporation redeemed all outstanding Series U preferred shares.
- (9) The dividend rate was reset to \$1.18 (from 5.25% to 4.70%) for the period between October 3, 2007, and October 3, 2012.
- (10) The reporting currency is the Canadian dollar.

IMPORTANCE OF ADJUSTED EARNINGS

Adjusted Earnings are earnings for the period after adjusting for the timing of revenues and expenses associated with rate regulated activities and dividends on equity preferred shares of the Corporation. Adjusted Earnings also exclude one-time gains and losses and items that are not in the normal course of business or day-to-day operations.

Adjusted Earnings are a key measure of earnings used by management for purposes of assessing performance and allocating resources. Furthermore, it is management's view that Adjusted Earnings allows a better assessment of the economics of rate regulation in Canada and facilitates comparability of the Corporation's financial results with peer companies that have either deferred the adoption of IFRS by one year to 2012 as permitted in Canada or utilize U.S. generally accepted accounting principles for rate regulated entities.

The following table reconciles Adjusted Earnings to Earnings for the period.

(\$ millions)	For the Three Months Ended December 31			For the Year Ended December 31		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
2011						
Adjusted Earnings	59	-	59	235	-	235
Adjustments for rate regulated activities ⁽¹⁾	38	-	38	45	-	45
Dividends on equity preferred shares	6	-	6	24	-	24
Earnings for the period	103	-	103	304	-	304
2010						
Adjusted Earnings	72	-	72	243	32	275
Adjustments for rate regulated activities ⁽¹⁾	(11)	-	(11)	(30)	-	(30)
Dividends on equity preferred shares	6	-	6	21	1	22
Earnings for the period	67	-	67	234	33	267

(1) Adjustments for Rate Regulated Activities

Rate regulated accounting reduced the volatility of earnings, firstly, because the Corporation was able to defer the recognition of cash received in advance of future expenditures. Under IFRS, the Corporation records revenues when amounts are billed to customers and recognizes costs when they are incurred.

Secondly, under rate regulated accounting, the Corporation was able to recognize revenues associated with recoverable costs in advance of future billings to customers. Under IFRS, the Corporation records costs when incurred, but does not recognize their recovery until changes to customer rates are reflected in future customer billings. Thirdly, under rate regulated accounting, the Corporation recognized the earnings that arose from a regulatory decision that pertained to current and prior periods upon receipt of the decision. Under IFRS, the Corporation recognizes earnings when customer rates are changed and amounts are billed to customers.

The adjustments for rate regulated activities, which are strictly timing in nature, generally fall into the three following categories. Certain adjustments may transfer from one category to another depending upon whether more or less revenue has been billed to customers than expected. The adjustments for the three months and year ended December 31, 2011, are shown in the following table:

(\$ millions)	For the Three Months Ended December 31			For the Year Ended December 31		
	2011	2010	Change (2011-2010)	2011	2010	Change (2011-2010)
(i) Additional revenues billed in current period	(2)	4	(6)	72	71	1
(ii) Revenues to be billed in future period	(37)	(21)	(16)	(109)	(75)	(34)
(iii) Regulatory decisions related to current and prior periods	77	6	71	82	(26)	108
	38	(11)	49	45	(30)	75

(i) Additional revenues billed in current period

These adjustments are primarily comprised of future removal and site restoration costs, where customers are billed over the life of the associated assets in advance of future expenditures, and retirement benefits where the Corporation recovers the amounts paid under defined benefit pension plans, which are currently higher than the accrued costs expensed and capitalized.

(ii) Revenues to be billed in future period

Deferred income taxes and ATCO Electric's transmission access payments are the most significant items in this category. Deferred income taxes are not recovered from customers until income taxes are paid, with the exception of federal deferred income taxes for ATCO Electric's transmission operations beginning in 2011. ATCO Electric's transmission access payments represent amounts paid that are in excess of forecast recoveries from customers. ATCO Electric then applies to the AUC to recover the excess amounts from customers. The recovery is shown in the regulatory decisions category.

(iii) Regulatory decisions

The change in this category was mainly the result of the following decisions: ATCO Gas' 2010 Carbon Decisions and ATCO Electric decisions in 2011 to recover higher transmission access payments from customers.

Under rate regulated accounting, in the first and third quarters of 2010, ATCO Gas recorded Adjusted Earnings of \$11 million and \$14 million, respectively, pertaining to the Carbon Decisions. Under IFRS,

these earnings, as well as \$10 million from earlier AUC decisions related to the Carbon Facility, were recognized starting in the second quarter of 2010 and continuing in 2011 as they were billed to customers.

ATCO Electric received two AUC decisions approving the recovery of approximately \$40 million over the period August 2011 to December 2011 associated with higher than forecasted 2011 transmission access payments. Under Adjusted Earnings, the recovery of higher 2011 transmission access payments is recognized as the costs are incurred, whereas under IFRS, the revenues are recognized as customers are billed.

CONSOLIDATED REVENUES AND ADJUSTED EARNINGS

Utilities **revenues** for the three months ended December 31, 2011, were \$500 million, an **increase** of \$76 million (18%) over 2010. This increase was primarily attributable to increased rate base in the Utilities and recoveries from customers of federal deferred income taxes relating to ATCO Electric's transmission operations. These increases were partially offset by the effect of warmer weather in ATCO Gas.

Utilities **revenues** for the year ended December 31, 2011, **increased** by \$169 million (11%) over 2010. This increase was primarily attributable to increased rate base in the Utilities and recoveries from customers of federal deferred income taxes relating to ATCO Electric's transmission operations and the Carbon Decisions in ATCO Gas that commenced in the second quarter of 2010.

Adjusted Earnings for each of the Utilities are shown in the following table:

(\$ millions)	For the Three Months Ended December 31			For the Year Ended December 31		
	2011	2010	Change (2011-2010)	2011	2010	Change (2011-2010)
ATCO Electric	30	33	(9%)	135	115	17%
ATCO Gas	22	26	(15%)	60	88	(32%)
ATCO Pipelines	8	11	(27%)	46	44	5%
Eliminations and Other	(1)	2	(150%)	(6)	(4)	(50%)
	59	72	(18%)	235	243	(3%)

Adjusted Earnings for the three months ended December 31, 2011, were \$59 million, a **decrease** of \$13 million (18%) compared to the corresponding period in 2010. The primary reasons for lower Adjusted Earnings were a favourable tax adjustment recorded in the fourth quarter of 2010 in ATCO Electric, ATCO Gas' 2011 and 2012 General Rate Application decision and the impact of the 2011 Generic Cost of Capital decision. These decreases were partially offset by increased rate base in the Utilities.

Adjusted Earnings for the year ended December 31, 2011, were \$235 million, a **decrease** of \$8 million (3%) compared to 2010. The primary reason for lower Adjusted Earnings was \$25 million recorded in 2010 related to ATCO Gas' 2010 Carbon Decisions, partially offset by earnings from increased rate base in the Utilities.

CONSOLIDATED EXPENSES

(\$ millions)	For the Three Months Ended December 31			For the Year Ended December 31		
	2011	2010	Change (2011-2010)	2011	2010	Change (2011-2010)
Costs and expenses:						
Salaries, wages and benefits	68	68	-	264	248	6%
Energy transmission and transportation	26	4	550%	41	10	310%
Plant and equipment maintenance	45	39	15%	123	106	16%
Fuel costs	6	4	50%	16	15	7%
Purchased power	15	14	7%	55	54	2%
Franchise fees	43	47	(9%)	175	173	1%
Other expenses	62	57	9%	221	208	6%
	265	233	14%	895	814	10%
Depreciation and amortization	61	62	(2%)	249	243	2%
Interest expense	37	40	(8%)	158	173	(9%)
Dividends on equity preferred shares	6	6	-	24	21	14%
Income taxes	37	30	23%	104	86	21%

Costs and expenses for the three months and year ended December 31, 2011, **increased** by \$32 million (14%) and \$81 million (10%), respectively, over 2010. Energy transmission and transportation costs increased resulting from the transition of ATCO Pipelines' customers to NOVA Gas Transmission Ltd. (NGTL) effective October 1, 2011, ATCO Gas pays NGTL for transmission costs and ATCO Pipelines receives revenues for transmission services from NGTL. Plant and equipment maintenance increased mainly due to higher removal costs in ATCO Gas and increased brushing and dismantling costs in ATCO Electric.

Interest expense in 2011 **decreased** by \$15 million (9%) compared to 2010, primarily due to the refinancing of \$125 million of 11.4% debentures, which were repaid on August 15, 2010, with \$125 million of 4.947% debentures issued on November 18, 2010. This decrease was partially offset by the issuance of \$700 million of debentures on October 24, 2011.

Income taxes increased by \$7 million (23%) and \$18 million (21%) for the three months and year ended December 31, 2011, respectively, over the comparable periods in 2010, primarily due to higher earnings before taxes, partially offset by lower tax rates.

UTILITIES INFORMATION

The Utilities are regulated primarily by the AUC, which administers acts and regulations covering such matters as rates, financing and service area. The Utilities are subject to a cost of service regulatory mechanism under which the AUC establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization and income taxes, of providing the regulated service, and (ii) to provide a fair return on utility investment, or rate base. Rate base for each utility is the aggregate of the AUC approved investment in property, plant and equipment and intangible assets, less accumulated depreciation and amortization, reserves for future removal and site restoration, and unamortized contributions by utility customers for extensions to plant, plus an allowance for working capital. The Utilities earn a return on rate base intended to meet the cost of the debt and preferred share components of rate base and to provide share owners with a fair return on the common equity component of rate base. The determination of a fair return to the common shareholders involves an assessment by the regulator of many factors, including returns on alternative investment opportunities of comparable risk and the level

of return which will enable a utility to attract the necessary capital to fund its operations and to maintain financial integrity.

Regulatory Developments

Generic Cost of Capital

On December 8, 2011, the AUC issued its decision on the 2011 Generic Cost of Capital proceeding. In this decision, the AUC set the 2011 and 2012 generic return on equity (ROE) at 8.75%. The AUC continued the concept of a single generic ROE for all utilities, with differences in utility or sector specific risk to be recognized through the adjustments of individual common equity ratios. The common equity ratio for ATCO Electric's transmission operations was increased by 1% to 37% effective 2011. The AUC reduced ATCO Pipelines' common equity ratio by 7% to 38% effective 2012 in consideration of the reduced risk associated with the integration with NGTL. The common equity ratio for ATCO Electric's distribution operations and ATCO Gas was unchanged at 39%. The reduction in the generic ROE and increase in ATCO Electric's common equity ratio for transmission operations resulted in an overall decrease to Adjusted Earnings of \$5 million in 2011. There was no impact on IFRS earnings in 2011.

In February 2012, the Utilities filed a review and variance application with the AUC and applied to the Alberta Court of Appeal for leave to appeal the decision pending the outcome of the review and variance application. The application is focused on challenging statements made by the AUC regarding cost responsibility for stranded assets.

Pension Hearing

On September 27, 2011, the AUC issued its decision on the Utilities' pension methodology, specifically on the determination of the cost of living allowance (COLA) used in the determination of pension costs included in 2011 and future years' revenue requirements. There was no impact in 2011; the Utilities recovered 100% of the consumer price index (CPI). For future years the AUC decided that the appropriate level for annual COLA adjustments is 50% of CPI subject to a maximum COLA adjustment of 3%. This decision affects current service funding requirements starting in 2012 and current service and deficit funding requirements starting in 2013. Consequently, pension cost recoveries from customers will be reduced in 2012 with a potential further reduction commencing in 2013. The potential reduction in 2013 will depend on the results of the next actuarial valuation for funding purposes, which is required to be completed as of December 31, 2012.

The Utilities filed a review and variance application on this decision with the AUC in the fourth quarter of 2011, and have applied to the Alberta Court of Appeal for leave to appeal the decision pending the outcome of the review and variance application.

Information Technology and Customer Care and Billing Services (Evergreen Application)

The Utilities purchase information technology services, and 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.

On May 26, 2011, the AUC approved final rates for information technology and customer care and billing services provided by ATCO I-Tek that can be included in customer rates for 2008 and 2009. The adjustments to placeholder amounts previously included in customer rates did not have a significant impact on Adjusted Earnings.

A further regulatory process to deal with rates for information technology and customer care and billing services provided by ATCO I-Tek for 2010-2012 has been established and a decision is expected in the fourth quarter of 2012.

ATCO Electric

2011 and 2012 General Tariff Application

On April 13, 2011, the AUC issued a decision on ATCO Electric's 2011 and 2012 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 decision also approved ATCO Electric's request that construction work in progress for projects that are directly assigned from the AESO be included in rate base and that the recovery of federal deferred income taxes for transmission operations be included in customer rates. The inclusion of construction work in progress and federal deferred income taxes in customer rates does not significantly impact Adjusted Earnings but does result in an improvement to reported earnings under IFRS and cash flows during the construction of the major transmission projects currently being undertaken. As the AUC had previously approved an interim adjustable rate increase, there was no significant impact to Adjusted Earnings as a result of this decision.

Eastern Alberta Transmission Line (EATL) Project

In 2009, the Alberta government deemed ATCO Electric's EATL project to be Critical Transmission Infrastructure (CTI) and the AESO directed ATCO Electric to: (i) prepare a facility application to build and operate a new 500kV high voltage direct current transmission line along a corridor on the east side of the province between Edmonton and Calgary, and (ii) undertake pre-construction activities, including engineering and ordering of long lead-time materials, to achieve a mid to late 2014 in-service date.

On March 29, 2011, ATCO Electric filed its facility application with the AUC, with an estimated project cost, excluding capitalized interest during construction, of \$1.6 billion, \$120 million of which has been incurred and included in the financial statements for the year ended December 31, 2011. On October 21, 2011, the AUC, in response to a request from the Alberta government, suspended the regulatory process for both the EATL project and AltaLink's Western Alberta Transmission Line (WATL) project, pending a government review of its approach to these two CTI projects in the province. On December 6, 2011, the Alberta government announced its appointment of a Critical Transmission Review Committee (CTRC) comprised of an independent panel of experts to review plans for EATL and WATL, as well as to consider and recommend changes to the associated legislation. On February 13, 2012, the government released the CTRC's report in which the CTRC confirmed that the AESO's plans for EATL were reasonable and that the project should proceed as planned. The government has indicated that it will respond to the CTRC's report by the end of February. The achievement of an in-service date in 2014 for EATL is dependent upon the government deciding to proceed with the project and the timing of receiving final regulatory approvals from the AUC.

Hanna Region Transmission Development ("HRTD") Project

In 2010, the AUC approved the need for major transmission reinforcement in the Hanna area located in the southeast region of the province. ATCO Electric's share of the HRTD project is comprised of six distinct developments comprising approximately 380 kilometres of transmission line projects, the construction of nine new substations and modifications and expansions to a further 14 existing substations. The majority of the six developments are anticipated to be in-service by the end of the second quarter of 2013. The estimated total project cost, excluding capitalized interest during construction, for the HRTD project is approximately \$765 million, \$170 million of which has been

incurred and included in the financial statements for the year ended December 31, 2011. ATCO Electric has received approval from the AUC to proceed with the construction of four developments for an estimated cost of \$50 million and is awaiting approval of one facility application filed with the AUC with an estimated cost of \$700 million. The facility application for the remaining development with an estimated cost of \$15 million was filed with the AUC on February 13, 2012. Final approvals are expected in the second quarter of 2012. It is anticipated that the majority of the remaining costs of approximately \$595 million will be incurred in 2012.

ATCO Gas

2011 and 2012 General Rate Application

On December 5, 2011, the AUC issued a decision on ATCO Gas' 2011 and 2012 general rate application approving, among other things, increased revenues to recover increased financing, depreciation, and operating costs associated with increased rate base in Alberta. The decision resulted in a decrease to 2011 Adjusted Earnings of \$10 million resulting primarily from disallowances of certain operating and maintenance programs and the exclusion of certain capital expenditures from rate base.

There was no impact on IFRS earnings as a result of the December 5, 2011, decision as the decision will not affect rates billed to customers until 2012 when the AUC approves final rates. However, as the AUC had previously issued a decision in April 2011 approving an interim adjustable rate increase pending its decision on the rate application, 2011 earnings under IFRS increased by \$5 million in the fourth quarter of 2011 and by \$10 million for the year ended December 31, 2011, as billing of interim rates to customers commenced May 1, 2011.

In February 2012, ATCO Gas filed a review and variance application with the AUC. The application is focused on challenging the AUC's denial of ATCO Gas' right to recover prudently incurred costs previously approved by the AUC in prior regulatory decisions or associated with assets that were fully consumed in the provision of utility service. ATCO Gas has applied to the Alberta Court of Appeal for leave to appeal the decision pending the outcome of the review and variance application.

Carbon Natural Gas Storage Facility

ATCO Gas owned a 43.5 petajoule natural gas storage facility located at Carbon, Alberta. The Carbon Facility was not used by ATCO Gas for the provision of utility service and the entire storage capacity was leased to ATCO Midstream. On March 29, 2011, ATCO Gas received approval from the AUC for the internal transfer of the Carbon Facility from ATCO Gas to ATCO Midstream. The transfer, which was measured at the carrying value of assets of \$43 million and liabilities of \$6 million, was completed for cash consideration of \$37 million on June 1, 2011.

ATCO Pipelines

Alberta System Integration

ATCO Pipelines and NGTL entered into an agreement with respect to natural gas transmission service that will allow ATCO Pipelines and NGTL to utilize their physical assets under a single rates and services structure with a single commercial interface for Alberta customers. Each company will separately manage assets within distinct operating territories within Alberta. This integration will end duplicate tolling and operational activities and result in more efficient regulatory processes.

The AUC issued a decision on May 27, 2010, approving the integration, but requested ATCO Pipelines to submit subsequent applications to address the specific details of (i) the transition of ATCO Pipelines'

customers to NGTL, and (ii) the asset swap between ATCO Pipelines and NGTL in order to establish operating areas. On April 20, 2011, the AUC approved ATCO Pipelines' application to address the transition of customers, which took place on October 1, 2011. An application to address the asset swap was submitted to the AUC on February 15, 2012.

Utilities Business Risks

Regulated Operations

The Utilities are subject to the normal risks faced by companies that are regulated. These risks include the approval by the regulator of customer rates that permit a reasonable opportunity to recover on a timely basis the estimated costs of providing service, including a fair return on rate base. In addition, these risks include the potential for disallowance by the regulator of costs incurred. The ability to recover the actual costs of providing service and to earn the approved rates of return depends on achieving the forecasts established in the rate-setting process. The determination of fair rate of return on the common equity component of rate base is an earnings and cash flow risk.

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. 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 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 AUC has advised that the target date for the implementation of performance based regulation for ATCO Gas and ATCO Electric will be January 1, 2013, based on applications filed with the AUC on July 22, 2011. The impact of this initiative on ATCO Gas' and ATCO Electric's distribution operations cannot be determined at this time.

Pipeline Integrity

Pipeline ruptures in the U.S. in recent years have highlighted the risks associated with pipeline integrity. Although the probability of an occurrence is very low, the consequences of a failure can be extreme. ATCO Pipelines and ATCO Gas, by the nature of their businesses, have significant pipeline infrastructure that has operated safely and effectively for decades. The Corporation has programs in place to monitor the integrity of its pipeline infrastructure and to replace pipelines as required.

Measurement Inaccuracies in Metering Facilities

Measurement inaccuracies occur from time to time with respect to the Utilities' metering facilities. The Utilities' measurement adjustments are settled between parties based on the requirements of the Electricity and Gas Inspections Act (Canada) and applicable regulations issued pursuant thereto. There is a risk of disallowance of the recovery of a measurement adjustment. For the Utilities this may occur if controls and timely follow up are found to be inadequate by the AUC.

Transfer of the Retail Energy Supply Businesses

In 2004, ATCO Gas and ATCO Electric transferred their retail energy supply businesses to Direct Energy and one of its affiliates (collectively, Direct Energy), a subsidiary of Centrica plc. ATCO Gas and ATCO

Electric continue to own and operate the natural gas and electricity distribution systems used to deliver energy.

Although ATCO Gas and ATCO Electric transferred to Direct Energy certain retail functions, including the supply of natural gas and electricity to customers and billing and customer care functions, the legal obligations of ATCO Gas and ATCO Electric remain if Direct Energy fails to perform. In certain events (including where Direct Energy fails to supply natural gas and/or electricity and ATCO Gas and/or ATCO Electric are ordered by the AUC to do so), the functions will revert to ATCO Gas and/or ATCO Electric with no refund of the transfer proceeds to Direct Energy by ATCO Gas and/or ATCO Electric.

Centrica plc, Direct Energy's parent, has provided a \$300 million guarantee, supported by a \$235 million letter of credit in respect of Direct Energy's obligations to ATCO Gas, ATCO Electric and ATCO I-Tek in respect of the ongoing relationships contemplated under the transaction agreements. However, there can be no assurance that the coverage under these agreements will be adequate to cover all of the costs that could arise in the event of a reversion of such functions.

Canadian Utilities has provided a guarantee of ATCO Gas', ATCO Electric's and ATCO I-Tek's payment and indemnity obligations to Direct Energy contemplated under the transaction agreements.

Liquidity and Capital Resources

A major portion of the Corporation's operating income and Funds Generated by Operations is generated from its operations. The Corporation uses 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 December 31			For the Year Ended December 31		
	2011	2010	Change (2011-2010)	2011	2010	Change (2011-2010)
Cash position, beginning of period	(417)	(163)	(156%)	(56)	64	188%
Cash provided by (used in):						
Operating activities:						
Funds Generated by Operations	266	192	39%	845	708	19%
Changes in non-cash working capital	(9)	(1)	(800%)	3	(5)	160%
Cash flow from continuing operations	257	191	35%	848	703	21%
Cash flow from discontinued operations	-	-	-	-	56	(100%)
Cash flow from operations	257	191	35%	848	759	12%
Investing activities	(411)	(218)	(89%)	(1,152)	(747)	(54%)
Financing activities	598	134	346%	387	(132)	393%
Cash position, end of period	27	(56)	148%	27	(56)	148%

OPERATING ACTIVITIES

For the three months ended December 31, 2011, **Funds Generated by Operations** and **cash flow from operations increased** by \$74 million (39%), and by \$66 million (35%), respectively, over 2010. These increases were primarily due to higher earnings for the period and higher contributions by utility customers for extensions to plant.

For the year ended December 31, 2011, **Funds Generated by Operations** and **cash flow from operations increased** by \$137 million (19%) and \$89 million (12%), respectively, over 2010. These increases were primarily due to higher earnings and higher contributions by utility customers for extensions to plant. Cash flow from discontinued operations relates to Alberta Power (2000) which was transferred to ATCO Power, a wholly owned subsidiary of the Corporation's parent, Canadian Utilities, on October 1, 2010. The increase in cash flow from operations was primarily due to Funds Generated by Operations partially offset by the effect of cash flow from discontinued operations.

INVESTING ACTIVITIES

For the three months and year ended December 31, 2011, **cash used in investing activities increased** by \$193 million (89%) and \$405 million (54%), respectively, compared to the corresponding period of 2010. This was mainly due to the increased capital investment in regulated distribution and transmission infrastructure projects in ATCO Electric and regulated natural gas distribution projects in ATCO Gas, partially offset by higher capital accounts payable in ATCO Electric.

Capital expenditures for the year ended December 31, 2011, are shown in the following table:

(\$ millions)	For the Year Ended December 31		
	2011	2010	Change (2011-2010)
Electric Transmission and Distribution	892	492	81%
Gas Distribution	286	195	47%
Pipeline Transmission	110	83	33%
	1,288	770	67%

Capital expenditures to maintain capacity, meet planned growth, and fund future development activities are expected to be approximately \$1.9 billion in 2012, an increase of \$0.6 billion over 2011. Capital expenditures are expected to be up to \$2.0 billion in each of 2013 and 2014 (refer to Utilities Information – Regulatory Developments – ATCO Electric section). These expenditures are expected to be financed by a combination of Funds Generated by Operations and capital market financings.

The planned capital expenditures for the Utilities are based on the following significant assumptions:

- the projects identified by the AESO, excluding EATL, will proceed as currently scheduled;
- EATL will proceed with an estimated in-service date of late 2014. The achievement of an in-service date in 2014 for EATL is dependent upon the government deciding to proceed with the project and the timing of receiving final regulatory approvals from the AUC;
- the remaining planned capital expenditures in the Utilities are required to maintain safe and reliable capacity and meet planned growth in the Utilities' service areas. These expenditures are consistent with the anticipated growth in the Alberta economy and in the Utilities' service areas;
- the regulatory system in Alberta will remain substantially unchanged; and
- continued access to capital market financings.

In the opinion of the Corporation, these assumptions are reasonable, but no assurance can be given that these assumptions will prove to be correct.

The Corporation is subject to the normal risks associated with major capital projects, including delays and cost overruns. Although the Corporation attempts to mitigate these risks by careful planning and entering into long term contracts when possible, there can be no assurance against significant cost overruns or delays.

FINANCING ACTIVITIES

In 2011, the Corporation had **net issuances** of long term debt of \$600 million. Issuances of long term debt were comprised of \$500 million of 4.543% debentures maturing on October 24, 2041, and \$200 million of 4.593% debentures maturing on October 24, 2061. These issuances were partially offset by the redemption of \$100 million of 7.05% debentures due June 1, 2011.

LINES OF CREDIT

At December 31, 2011, the Corporation had approximately \$928 million in credit lines, of which \$905 was available.

	Total	Used	Available
(\$ millions)			
Long term committed	900	21	879
Uncommitted	28	2	26
Total	928	23	905

Of the \$928 million in total credit lines, \$28 million is in the form of uncommitted credit facilities with no set maturity date. The other \$900 million in credit lines are committed with maturities between September 2013 and October 2014, unless extended at the option of the lenders. The majority of the credit lines are provided by Canadian banks either individually or as a syndicate. The amount and timing of future financings will depend on market conditions and the specific needs of the Corporation.

BASE SHELF PROSPECTUS

On May 18, 2010, the Corporation filed a base shelf prospectus that permits it to issue up to an aggregate of \$1.7 billion of debentures over the twenty-five month life of the prospectus. On October 24, 2011, the Corporation issued \$500 million of 4.543% debentures due October 24, 2041, and \$200 million of 4.593% debentures due October 24, 2061.

The proceeds of these issues were advanced to ATCO Electric, ATCO Gas and ATCO Pipelines to be used to fund capital expenditures, to repay indebtedness and for other general corporate purposes.

Share Capital

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

At February 17, 2012, the Corporation had outstanding 3,286,124 Class A Shares and 2,014,076 Class B Shares, all of which are owned by Canadian Utilities.

Pension Plans

With respect to the registered defined benefit pension plans, the Corporation is required to provide the balance of the funding not provided by employees necessary to ensure that benefits will be fully provided for at retirement for the members of those pension plans.

Declines in stock markets and bond yields, changes in actuarial assumptions, and additional employee service have created funding deficits in the defined benefit components of the pension plans. In 2010, the Corporation commenced current service and deficit funding contributions.

The actual funding contributions for 2010 and 2011 were established based on actuarial valuations for funding purposes as of December 31, 2009. Based on these final actuarial valuations, the employer contributions relating to both the defined contribution and the defined benefit components of the plan for 2011 were \$56 million. The next actuarial valuations for funding purposes are required to be completed as of December 31, 2012.

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 100% of the costs of funding its pension plans from utility customers. A description of pension expense can be found in Note 22 to the 2011 Annual Financial Statements.

The AUC's September 27, 2011, decision on the pension hearing (refer to Utilities Information section) has the potential to reduce the amount of pension funding that is recovered from utility customers. This decision is effective for current service funding requirements starting in 2012 and for current service and deficit funding requirements starting in 2013. The Utilities filed a review and variance application on this decision with the AUC in the fourth quarter of 2011, and have applied to the Alberta Court of Appeal for leave to appeal the decision pending the outcome of the review and variance application.

Risk Management and Financial Instruments

The Corporation's Board of Directors is responsible for understanding the principal risks of the business in which the Corporation is engaged, achieving a proper balance between risks incurred and the potential return to share owners, and confirming that there are systems in place that effectively monitor and manage those risks with a view to the long-term viability of the Corporation. The Board of Directors has established a Risk Review Committee, which reviews significant risks associated with future performance, growth and lost opportunities identified by management that could materially affect the Corporation's ability to achieve its strategic or operational targets. This committee is responsible for confirming that management has procedures in place to mitigate identified risks.

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. There are no derivative instruments outstanding at December 31, 2011.

Interest rate risk

The Corporation's interest-bearing assets and liabilities include cash and short-term investments, bank indebtedness and long term debt. At December 31, 2011, the Corporation has fixed interest rates on all of its long term debt.

The Corporation's cash and short term investments include fixed rate instruments with maturities of 90 days or less that are reinvested as they mature. The Corporation has exposure to interest rate movements that occur beyond the term of maturity of the fixed rate investments.

Credit risk

For short term advances to parent corporation and accounts receivable, credit risk represents the carrying amount on the consolidated balance sheet. Credit risk on cash and cash equivalents (when held by the Corporation) is reduced by investing in instruments issued by credit worthy financial institutions and in federal government issued short term instruments.

Accounts receivable credit risk is reduced by a large and diversified customer base, requirement for credit security such as letters of credit, the ability to recover an estimate for doubtful accounts through approved customer rates and the ability to request recovery through customer rates for any losses from retailers beyond that covered by the retailer security provided in accordance with provincial regulations.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations associated with financial liabilities. Cash flow from operations provides a substantial portion of the Corporation's cash requirements. Additional cash requirements are met with the use of existing cash balances and externally through bank borrowings and the issuance of long term debt, non-recourse long term debt and preferred shares. Commercial paper borrowings and short term bank loans are used under available credit lines to provide flexibility in the timing and amounts of long term financing. The Corporation has a policy not to invest any of its cash balances in asset backed securities.

As at December 31, 2011, the Corporation had available committed and uncommitted lines of credit of approximately \$0.9 billion which can be utilized for general corporate purposes.

Contractual obligations for the next five years and thereafter are as follows:

(\$ millions)	Total	Payments Due by Period			
		Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Accounts payable and accrued liabilities	364	364	-	-	-
Accounts payable to parent and affiliate corporations	33	33	-	-	-
Operating leases	27	6	10	7	4
Long term debt	3,443	35	105	-	3,303
Interest expense	3,869	202	401	392	2,874
Purchase obligations:					
Operating and maintenance agreements ⁽¹⁾	232	125	107	-	-
Capital expenditures ⁽²⁾	209	209	-	-	-
Total	8,177	974	623	399	6,181

⁽¹⁾ As of October 2011, ATCO Gas receives all required transmission service from NGTL. The contract with NGTL is annual with an expiry date of December 31. Prior to the ATCO Pipelines/NGTL integration, this service was provided by ATCO Pipelines.

⁽²⁾ Various contracts to purchase goods and services with respect to capital expenditure programs

Financing risk

The Corporation's financing risk relates to the price volatility and availability of external financing to fund the capital expenditure program and refinance existing debt maturities. Financing risk is directly influenced by market factors. As financial market conditions change, this can affect the availability of capital and also the relevant financing costs.

To address this risk, the Corporation manages its capital structure to maintain strong credit ratings which allows the Corporation continued access to the capital markets. The Corporation also maintains sufficient liquidity through cash balances and committed credit facilities to ensure that obligations are paid when due.

Transactions with Related Parties

Transactions with related parties consisted of the following:

Entity	Relationship	Transaction	Recorded As	2011	2010
Canadian Utilities Limited	Parent	Rent and aircraft usage	Other expense	10	7
			Property, plant and equipment	7	6
ATCO Ltd. and ATCO Investments Ltd.	Ultimate Parent and Subsidiary of Ultimate Parent	Corporate signature rights and rent	Other expense	5	4
ASHCOR Technologies Ltd., ATCO I-Tek Inc., ATCO Midstream Ltd., ATCO Power (2010) Ltd., ATCO Energy Solutions Ltd., ATCO Structures & Logistics Ltd. and ATCO Travel	Subsidiaries of Parent	Natural gas storage, transportation and other gas services, sale of ash, rent and office services, payroll and accounting services	Revenues	11	26
			Earnings from discontinued operations	-	3
		Purchase and storage of natural gas	Fuel costs	5	10
			Earnings from discontinued operations	-	(4)
		Interest on long term advances	Interest income	14	5
		Computer operations and systems development, call centre and customer billing services	Other expense	74	71
			Prepays and other current assets	6	-
		Purchase and construction of equipment	Earnings from discontinued operations	-	(20)
			Property, plant and equipment	47	10
		Capitalized software	Intangibles	-	8

The Corporation incurred less than \$1 million (2010 - less than \$1 million) in advertising and promotion expenses from an entity related through common control.

In transactions with the Corporation's group pension plans, the Corporation paid occupancy costs of \$4 million (2010 - \$5 million) relating to property owned by the pension plans.

Effective June 1, 2011, ATCO Gas transferred ownership of its Carbon Facility to ATCO Midstream, a wholly owned subsidiary of Canadian Utilities, the Corporation's parent. This related party transaction by entities under common control was accounted for at the carrying amount. Carbon Facility assets of \$43 million and related liabilities of \$6 million were transferred for cash consideration of \$37 million. (refer to Utilities Information – Regulatory Developments – ATCO Gas – Carbon Natural Gas Storage Facility section).

Except for the transfer of the Carbon Facility to ATCO Midstream these transactions are in the normal course of business and under normal commercial terms, measured at the exchange amount.

Off-Balance Sheet Arrangements

The Corporation does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition, including, without limitation, such considerations as liquidity and capital resources.

Contingencies

The Corporation is party to a number of disputes and lawsuits in the normal course of business. The Corporation believes that the ultimate liability arising from these matters will have no material impact on the consolidated financial statements.

Critical Accounting Estimates

The preparation of the Corporation's consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. On an on-going basis, management reviews its estimates, particularly those related to depreciation and amortization methods and useful lives and impairment of long-lived assets, using currently available information. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates.

Future Accounting Changes

Certain new or amended standards have been issued by the International Accounting Standards Board that are not required to be adopted in the current period. The Corporation has not early adopted these standards. There are no standards which the Corporation anticipates will have a material effect on the consolidated financial statements or note disclosures.

Controls and Procedures

DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2011, the Corporation's management evaluated the effectiveness of the Corporation's disclosure controls and procedures, as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO).

Disclosure controls and procedures are controls and other procedures designed to provide reasonable assurance that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis and is accumulated and communicated to the Corporation's management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure.

The Corporation's management, inclusive of the CEO and the CFO, does not expect that the Corporation's disclosure controls and procedures will prevent or detect all errors. The inherent limitations

in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of error, if any, within the Corporation have been detected.

Based on this evaluation, the CEO and the CFO have concluded that the Corporation's disclosure controls and procedures were effective at December 31, 2011.

INTERNAL CONTROL OVER FINANCIAL REPORTING

As of December 31, 2011, the Corporation's management evaluated the effectiveness of the Corporation's internal control over financial reporting, as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the CEO and the CFO.

The Corporation's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

Based on this evaluation, the CEO and the CFO have concluded that the Corporation's internal control over financial reporting was effective at December 31, 2011.

There was no change in the Corporation's internal control over financial reporting that occurred during the period beginning on October 1, 2011, and ended on December 31, 2011, that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Non-GAAP and Additional GAAP Measures

The Corporation uses the measures "Funds Generated by Operations" and "Adjusted Earnings" in this MD&A. These measures do not have any standardized meaning under IFRS 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. Funds Generated by Operations is a non-GAAP measure because it is not presented in the 2011 Annual Financial Statements.

Adjusted Earnings are defined as earnings for the period after adjusting for the timing of revenues and expenses associated with rate regulated activities and dividends on equity preferred shares of the Corporation. Adjusted Earnings present earnings from rate regulated activities on the same basis as was used prior to adopting IFRS – that basis being the U.S. accounting principles for rate regulated activities currently used by rate regulated companies in Canada. Adjusted Earnings also exclude one-time gains and losses and items that are not in the normal course of business or day-to-day operations. It is management's view that Adjusted Earnings allow for a more effective analysis of operating performance and trends. A reconciliation of Adjusted Earnings to earnings for the period is presented in the Results of Operations section. Adjusted Earnings is an additional GAAP measure because it is presented in Note 5 to the 2011 Annual Financial Statements.

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.

Glossary

Adjusted Earnings means earnings for the period after adjusting for the timing of revenues and expenses associated with rate regulated activities and dividends on equity preferred shares of the Corporation. Adjusted Earnings also exclude 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 Importance of Adjusted Earnings section for a description of these items.

AESO means the Alberta Electric System Operator.

Alberta Power (2000) means Alberta Power (2000) Ltd., the wholly owned subsidiary of ATCO Power Ltd. that was transferred from CU Inc on October 1, 2010.

ATCO I-Tek means ATCO I-Tek Inc., a wholly owned subsidiary of Canadian Utilities.

ATCO Midstream means ATCO Midstream Ltd., a wholly owned subsidiary of Canadian Utilities.

AUC means the Alberta Utilities Commission.

Canadian Utilities means Canadian Utilities Limited.

Carbon Facility means ATCO Midstream’s natural gas storage facility located at Carbon, Alberta.

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 CU Inc. and, unless the context otherwise requires, includes its subsidiaries.

GAAP means Canadian generally accepted accounting principles.

IFRS means International Financial Reporting Standards.

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.

U.S. means United States of America.

Appendix 1 – Fourth Quarter Financial Information

CU Inc. Consolidated Statement of Earnings

(Millions of Canadian Dollars)

	Three Months Ended December 31	
	2011	2010
Revenues		
Rendering of services	500	424
Costs and expenses		
Salaries, wages and benefits	(68)	(68)
Energy transmission and transportation	(26)	(4)
Plant and equipment maintenance	(45)	(39)
Fuel costs	(6)	(4)
Purchased power	(15)	(14)
Depreciation and amortization	(61)	(62)
Franchise fees	(43)	(47)
Other	(62)	(57)
	(326)	(295)
Operating profit	174	129
Interest income	3	8
Interest expense	(37)	(40)
Net finance costs	(34)	(32)
Earnings before income taxes	140	97
Income taxes	(37)	(30)
Earnings for the period	103	67

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

	Three Months Ended	
	December 31	
	2011	2010
Operating activities		
Earnings from continuing operations	103	67
Adjustments for:		
Depreciation and amortization	61	62
Income taxes	37	25
Contributions by utility customers for extensions to plant	40	18
Amortization of customer contributions	(7)	(8)
Net finance costs	34	32
Income taxes paid	(2)	(8)
Other	-	4
	266	192
Changes in non-cash working capital	(9)	(1)
Cash flow from operations	257	191
Investing activities		
Purchase of property, plant and equipment	(470)	(231)
Proceeds on transfer of Carbon Storage Facility	(2)	-
Proceeds on disposal of property, plant and equipment	1	1
Purchase of intangibles	(20)	(19)
Changes in non-cash working capital	80	12
Other	-	19
	(411)	(218)
Financing activities		
Issue of long term debt	700	125
Issue of equity preferred shares	-	75
Redemption of equity preferred shares	(20)	-
Dividends paid on equity preferred shares from continuing operations	(6)	(6)
Dividends paid to Class A and Class B share owner	(13)	-
Interest paid	(63)	(63)
Interest received from affiliate corporation	5	5
Other	(5)	(2)
	598	134
Cash position		
Increase (decrease)	444	107
Beginning of period	(417)	(163)
End of period	27	(56)