



CANADIAN UTILITIES LIMITED
An **ATCO** Company

2010

ANNUAL INFORMATION FORM

FOR THE YEAR ENDED DECEMBER 31, 2010

February 22, 2011

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1. FORWARD-LOOKING INFORMATION

Certain statements contained in this annual information form (AIF) 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.

2. DEFINED TERMS

AESO means the Alberta Electric System Operator;

AGP means ATCO Gas and Pipelines Ltd.;

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

Ancillary Services means those services purchased by the AESO from Alberta generating stations to ensure that electricity can be transmitted reliably, efficiently, and securely across Alberta's interconnected transmission system;

ASL means ATCO Structures & Logistics Ltd., the company formed on July 1, 2009, through the amalgamation of ATCO Structures and ATCO Frontec;

ATCO means ATCO Ltd.;

ATCO Electric means ATCO Electric Ltd.;

ATCO Frontec means ATCO Frontec Corp., the wholly owned subsidiary of Canadian Utilities Limited which amalgamated with ATCO Structures on July 1, 2009, to form ATCO Structures & Logistics Ltd.;

ATCO Gas means the natural gas distribution division of AGP;

ATCO I-Tek means ATCO I-Tek Inc.;

ATCO Midstream means ATCO Midstream Ltd. together with its subsidiaries;

ATCO Noise Management means ATCO Noise Management Ltd., the wholly owned subsidiary of ATCO that became a wholly owned subsidiary of ATCO Structures & Logistics Ltd. on July 1, 2009, and was subsequently amalgamated with ATCO Structures & Logistics Ltd. on January 1, 2010;

ATCO Pipelines means the natural gas transmission division of AGP;

ATCO Power means ATCO Power Ltd. together with its subsidiaries;

ATCO Resources means ATCO Resources Ltd.;

ATCO Structures means ATCO Structures Inc., the wholly owned subsidiary of ATCO Ltd. which amalgamated with ATCO Frontec on July 1, 2009, to form ATCO Structures & Logistics Ltd.;

AUC means the Alberta Utilities Commission;

Canadian Utilities means Canadian Utilities Limited;

Class A Shares means Class A non-voting shares of the Corporation;

Class B Shares means Class B common shares of the Corporation;

Corporation means Canadian Utilities Limited and, unless the context otherwise requires, includes its subsidiaries;

EUA means the Electric Utilities Act (Alberta);

Frac Spread means the premium or discount between the purchase price of natural gas and the selling price of extracted natural gas liquids on a heat content equivalent basis;

Gigawatt hour (GWh) means a measure of electricity consumption equal to the use of 1 billion watts of power over a one-hour period, and

megawatt hour (MWh) means a measure of electricity consumption equal to the use of 1 million watts of power over a one-hour period;

Interruptible means the natural gas transmission service volumes that are subject to interruption at anytime at the sole discretion of ATCO Pipelines if ATCO Pipelines determines that those service volumes would in any way interfere with or restrict its ability to transport higher priority service volumes;

MD&A means the Corporation's Management's Discussion and Analysis for the year ended December 31, 2010;

Megawatt (MW) is a measure of electric power equal to 1,000,000 watts;

Merchant means uncontracted generating plant capacity that is offered into the spot electricity market in which the generating plant is located;

Negotiated Settlement means an agreement related to a revenue requirement and/or customer rates for a specific period of time resulting from direct negotiations between a utility and its customers. A negotiated settlement avoids the need for a general rate application for the duration of the agreement. All negotiated settlements must be approved by the AUC;

NGL means natural gas liquids, such as ethane, propane, butane and pentanes plus, that are extracted from natural gas and sold as distinct products or as a mix;

NLD means Northland Utilities (NWT) Limited;

NUY means Northland Utilities (Yellowknife) Limited;

Overrun means volumes of natural gas transported in excess of contracted volumes. These volumes are subject to interruption at the sole discretion of ATCO Pipelines;

Petajoule (PJ) means a unit of energy equal to approximately 948.2 billion British thermal units, **terajoule (TJ)** means a unit of energy equal to approximately 948.2 million British thermal units, and **gigajoule (GJ)** means a unit of energy equal to approximately 948.2 thousand British thermal units;

Placeholder means an AUC approved interim cost which has been included in utility customer rates pending an AUC review in a separate or future proceeding. This cost is subject to adjustment once the separate or future proceeding is completed and may result in refunds to or recoveries from customers;

PPA means Power Purchase Arrangements that became effective on January 1, 2001, as part of the process of restructuring the electric utility business in Alberta. The PPAs are legislatively mandated and approved by the AUC;

REA means Rural Electrification Association. REAs are constituted under the Rural Utilities Act (Alberta) by groups of persons carrying on farming operations. Each REA purchases electric power for distribution to its members through a distribution system owned by that REA;

Spark Spread means the difference between the selling price of electricity and the marginal cost of producing electricity from natural gas. In this AIF, Spark Spreads are based on an approximate industry heat rate of 7.5 GJ per MWh;

TMR means Transmission Must Run and represents an arrangement between a group of generators and the AESO whereby transmission constraints around the location of the facility require the generators to generate a required level of electricity at all times. Compensation is provided to the generators through a TMR contract;

U.K. means United Kingdom;

U.S. means United States of America;

Variable Volumes means volumes of natural gas transported for customers who are charged non-standard rates;

YECL means The Yukon Electrical Company Limited.

3. CORPORATE STRUCTURE

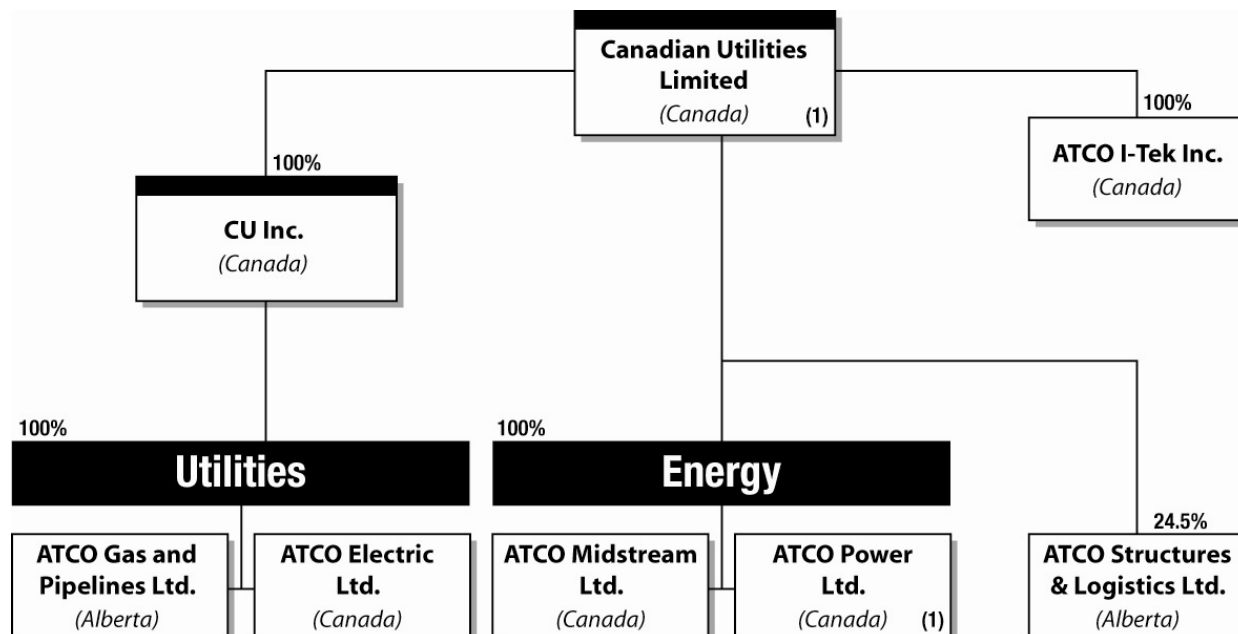
Canadian Utilities Limited was incorporated under the laws of Canada on May 18, 1927, and was continued under the Canada Business Corporations Act on August 15, 1979. The common share capital of the Corporation was reorganized on September 10, 1982. The address of the head office of the Corporation is 1600 ATCO Centre, 909 – 11th Avenue S.W., Calgary, Alberta T2R 1N6 and the registered office of the Corporation is 20th Floor, 10035 – 105 Street, Edmonton, Alberta, T5J 2V6.

In March 1999, CU Inc. was created as a subsidiary of Canadian Utilities to separate its regulated businesses from its non-regulated businesses and to hold all of the common shares and debt of its regulated subsidiaries. The reorganization was implemented by the transfer of the common shares and debt of the regulated subsidiaries from Canadian Utilities to CU Inc. in return for common shares of CU Inc. As a result of the reorganization, the Corporation's regulated operations, which had previously been financed by Canadian Utilities, are now primarily financed by CU Inc.

3.1. Intercorporate Relationships

Alberta-based Canadian Utilities Limited, an ATCO Company, with more than 5,700 employees and assets of approximately \$9 billion, delivers service excellence and innovative business solutions worldwide with leading companies engaged in Utilities (pipelines, natural gas and electricity transmission and distribution), Energy (power generation, natural gas gathering, processing, storage and liquids extraction) and Technologies (business systems solutions).

The following chart includes the names of the principal operating subsidiaries of the Corporation, the jurisdictions under the laws of which they are organized, and the percentages of their shares beneficially owned, or controlled or directed, directly or indirectly, by the Corporation.



⁽¹⁾ In 2010, ATCO Power's Australian operations were reported under the Energy Segment. In 2011, these operations will be reported in a separate segment.

4. BUSINESS DESCRIPTION

ATCO Australia Initiative

On January 1, 2011, Steven J. Landry was appointed Managing Director & Chief Operating Officer of ATCO Australia Pty Ltd. Based in Perth, Western Australia, Mr. Landry will oversee the Corporation's energy, power generation and infrastructure business, including the three generating plants already in operation in that country. While the existing generating plants were reported in the Energy segment in 2010, effective January 1, 2011 the operations of ATCO Australia will be reported in a separate segment.

Utilities Segment

The Utilities Segment is focused on regulated activities including transmission and delivery of natural gas and electricity. Located mainly in Alberta and the Canadian north, this segment serves more than 1.2 million customers in nearly 300 communities. The Utilities Segment includes ATCO Electric and its subsidiaries (NLD, NUY and YECL) and the ATCO Gas and ATCO Pipelines divisions of AGP.

Energy Segment

The Energy Segment, through ATCO Power, owns and operates both regulated and non-regulated generating plants, including coal, natural gas-fired, and hydroelectric generating plants in Canada, the U.K. and Australia. ATCO Midstream is involved in non-regulated natural gas gathering, processing, storage and NGL extraction.

Corporate & Other Segment

The Corporate & Other Segment includes ATCO I-Tek, commercial real estate owned by the Corporation in Alberta and the Corporation's 24.5% equity investment in ASL. ATCO I-Tek is engaged in the development, operation and support of information systems and technologies, and the provision of billing, payment processing, credit, collection and call centre services.

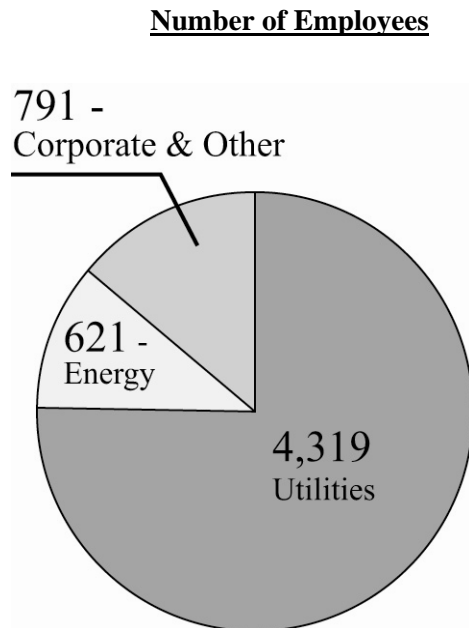
Comparison of Segmented Revenue and Earnings

Each segment's contribution to the consolidated revenue and earnings of the Corporation is as follows:

(\$ millions)	2010		2009		2008	
	Revenue	Earnings	Revenue	Earnings	Revenue	Earnings
Utilities	1,476.8	244.6	1,367.5	195.4	1,260.9	148.6
Energy	1,143.4	150.7	1,031.4	209.5	1,242.7	223.0
Corporate & Other and Eliminations	37.0	39.7	185.1	61.7	275.3	42.9
Total	2,657.2	435.0	2,584.0	466.6	2,778.9	414.5
	%	%	%	%	%	%
Utilities	55.6	56.2	52.9	41.9	45.4	35.9
Energy	43.0	34.7	39.9	44.9	44.7	53.8
Corporate & Other and Eliminations	1.4	9.1	7.2	13.2	9.9	10.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Employee Information

At December 31, 2010, the Corporation had 5,731 employees. The following chart represents the employee numbers of the Corporation:



Not included in the chart are 255 employees in Energy Segment joint ventures.

4.1. Three Year History

Internal Transfer of Subsidiaries

On January 1, 2011, ATCO, the Corporation's parent, transferred its wholly owned subsidiary, ATCO Resources, to ATCO Power, a wholly owned subsidiary of the Corporation. The fair value of the common shares of ATCO Resources, net of its existing debt obligations, was \$82.5 million, as estimated by an independent financial advisor and supported by management.

ATCO transferred its common shares of ATCO Resources to the Corporation in exchange for 1,059,658 Class A Shares and 489,171 Class B Shares of the Corporation, having a value of \$82.5 million. This is a related party transaction between entities under common control and will be measured at the carrying amount.

In addition, effective October 1, 2010, the ownership of Alberta Power (2000) was transferred from CU Inc. to ATCO Power. Both CU Inc. and ATCO Power are wholly owned subsidiaries of the Corporation.

On July 1, 2009, the Corporation and its parent, ATCO, finalized a transaction combining ATCO Frontec, a wholly owned subsidiary of the Corporation, with ATCO Structures and ATCO Noise Management,

both wholly owned subsidiaries of ATCO. As a result of this transaction, the Corporation and ATCO have direct ownership interests of 24.5% and 75.5%, respectively, in the new corporation named ATCO Structures & Logistics Ltd. The ownership interests reflect the proportion of the respective valuations of the combined entities. The valuations were based on analysis prepared by independent financial advisors retained by the special committees of the Boards of Directors of the Corporation and ATCO.

In July 2009, the Corporation announced it had reorganized its operating subsidiaries into the following segments: Utilities, Energy and Corporate & Other. The Utilities Segment includes ATCO Gas, ATCO Pipelines and ATCO Electric. The Energy Segment includes ATCO Power and ATCO Midstream. The Corporate & Other Segment includes ATCO I-Tek and the Corporation's 24.5% equity investment in ASL.

The significant events that have influenced the general development of the business attributable to a particular segment over the past three years are as follows:

4.1.1. Utilities Segment

Earnings in the Utilities Segment have increased due to substantial capital expenditures, primarily in ATCO Electric and ATCO Gas, which have increased the asset base on which the Corporation earns a return on equity (ROE). Total capital expenditures in the Utilities Segment for the previous three years were approximately \$2.4 billion.

In 2009, the AUC issued its decision on the 2009 Generic Cost of Capital proceeding, setting the 2009 and 2010 generic ROE at 9.0% for all Alberta utilities which it regulates. The AUC has maintained the concept of a single generic ROE for all utilities, with differences in utility or sector specific risk to be recognized through adjustments of individual common equity ratios. As part of the same decision, the AUC also set the 2011 generic return on equity at 9.0% on an interim basis subject to change following a subsequent generic proceeding. The common equity ratios were determined by the AUC to be 36% for ATCO Electric's transmission operations, 39% for both ATCO Electric's distribution operations and ATCO Gas' operations and 45% for ATCO Pipelines' operations.

In December 2010, the AUC initiated a 2011 Generic Cost of Capital proceeding, the scope of which includes, among other things, a full review of cost of capital matters including capital structure and the ROE for 2011. It will also include consideration of whether a formula approach to ROE can be reinstated for 2012. In the absence of a formula approach to ROE, the AUC will then consider how the ROE will be set for 2012. The proceeding is scheduled to be completed in the third quarter of 2011 and a decision is expected in the fourth quarter of 2011.

In 2010, ATCO Electric and ATCO Gas filed general rate applications with the AUC for 2011 and 2012. Decisions on these rate applications are expected in the second and fourth quarters of 2011, respectively.

The table below details mid-year rate base, ROE and the common equity ratio for the Utilities during the previous three years:

	Year	Date of Decision ⁽¹⁾	Mid-Year Rate Base (\$ Millions)		Rate of Return on Common Equity ⁽²⁾		Common Equity Ratio ⁽³⁾	
<u>ATCO Electric</u>								
Transmission	2008	Dec 21/07	888.4		8.75%		33.0%	
	2009	Jul. 2/09	965.2		9.00%	(4)	36.0%	(4)
	2010	Jul. 2/09	1,275.1		9.00%	(4)	36.0%	(4)
Distribution	2008	Dec 21/07	883.7		8.75%		37.0%	
	2009	Jul. 2/09	972.8		9.00%	(4)	39.0%	(4)
	2010	Jul. 2/09	1,104.3		9.00%	(4)	39.0%	(4)
<u>ATCO Pipelines</u>								
	2008	Mar 18/09	711.1	(6)	8.75%	(5)	43.0%	(5)
	2009	Mar 18/09	745.7	(6)	8.75%	(5)	43.0%	(5)
	2010	Oct. 1/10	758.6		9.00%	(4)	45.0%	(4)
<u>ATCO Gas</u>								
	2008	Nov. 13/08	1,229.8		8.75%	(4)	39.0%	(4)
	2009	Nov. 13/08	1,386.6		9.00%	(4)	39.0%	(4)
	2010	(7)	1,421.4	(7)	9.00%	(4)	39.0%	(4)

⁽¹⁾ The information shown reflects the most recent amending or varying orders issued subsequent to the original date of decision.

⁽²⁾ Common equity rate of return is the rate of return on the portion of rate base considered to be financed by common equity.

⁽³⁾ The common equity ratio is the percentage of rate base considered to be financed by common equity.

⁽⁴⁾ The rate of return on common equity for 2009 and 2010 and common equity ratio were approved in the AUC's Generic Cost of Capital decision dated November 12, 2009. The return on common equity for 2008 was approved in an AUC decision dated November 30, 2007.

⁽⁵⁾ The rate of return on common equity and common equity ratio were approved by the AUC in ATCO Pipelines' 2008/2009 Negotiated Settlement.

⁽⁶⁾ The mid-year rate base amounts shown in the table for ATCO Pipelines are the forecast amounts provided in its 2008-2009 General Rate Application Phase I as refiled on December 18, 2007. These amounts were not specifically identified or approved in the ATCO Pipelines' 2008/2009 Negotiated Settlement.

⁽⁷⁾ The 2010 mid-year rate base amounts shown in the table for ATCO Gas are amounts provided in its 2011-2012 General Rate Application for which a decision from the AUC is expected in the fourth quarter of 2011.

Carbon Natural Gas Storage Facility

ATCO Gas owns a 43.5 petajoule natural gas storage facility located at Carbon, Alberta (Carbon Facility). Since April 1, 2005, ATCO Gas has leased the entire storage capacity of the Carbon Facility to ATCO Midstream. As a result of numerous regulatory and legal proceedings, ATCO Gas received approval from the AUC to remove the Carbon Facility from regulation effective April 1, 2005. Removal of the Carbon Facility from regulation, and the associated recovery from customers of net revenues that had previously been refunded to customers, resulted in increased earnings of \$35.7 million, including interest. Of this amount, \$9.9 million was recorded in 2009 and \$25.8 million was recorded in 2010 as AUC decisions related to the Carbon Facility were received.

On December 1, 2010, Canadian Utilities and CU Inc. announced that an application has been filed with the AUC to approve the internal transfer of the Carbon Facility from ATCO Gas to ATCO Midstream. A decision on this application is expected in the second quarter of 2011.

Deferred Gas Account

In April 2005, the AUC had 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 was appealed to the Alberta Court of Appeal which issued a decision allowing the appeal and vacating orders under appeal and returned the matter to the AUC for consideration. The AUC completed a process to address the Alberta Court of Appeal decision and on October 15, 2010 issued a decision requiring ATCO Gas to refund to customers approximately 85% of the transportation imbalance adjustment amounts in question, resulting in a refund of approximately \$9.7 million, including interest of \$1.7 million, and a decrease in ATCO Gas' 2010 earnings of \$7.1 million.

ATCO Pipelines' Integration Application

In 2008, ATCO Pipelines and NOVA Gas Transmission Ltd. (NOVA) announced a proposed agreement to provide natural gas transmission service to their customers. This proposal will allow ATCO Pipelines and NOVA to utilize their physical assets under a single rates and services structure with a single commercial interface for Alberta customers. Each company would separately manage assets within distinct operating territories within Alberta. If approved by the AUC, this proposal is expected to end duplicate tolling and operational activities and result in more efficient regulatory processes.

In 2009, ATCO Pipelines filed an application with the AUC for the integration of ATCO Pipelines' and NOVA's gas transmission systems in Alberta (Integration Application), and filed a second application with the AUC to approve its 2010, 2011 and 2012 negotiated settlement, which was a condition precedent of the Integration Application.

The AUC issued a decision on May 27, 2010 approving integration and the 2010, 2011 and 2012 negotiated settlement but requested ATCO Pipelines to submit subsequent applications to address the specific details on: (i) the transition of ATCO Pipelines' customers to NOVA, and (ii) the asset swap

between ATCO Pipelines and NOVA in order to establish operating areas. ATCO Pipelines has submitted an application to the AUC to address the transition of customers and a decision is expected in the second quarter of 2011. An application to address the asset swap will be submitted to the AUC in the first quarter of 2011.

4.1.2. Energy Segment

The results of the Energy Segment are significantly influenced by generating plant availability, Spark Spreads and volatility in the Alberta and U.K. electricity markets relating to power generation activities, and from seasonal differences (summer/winter) in the price of natural gas (Storage Price Differentials) and Frac Spreads relating to midstream operations.

During the previous three years the earnings of the Energy Segment have decreased from \$223.0 million in 2008 to \$150.7 million in 2010, mainly due to lower Alberta Spark Spreads in ATCO Power and lower Storage Price Differentials in ATCO Midstream in 2010.

A combination of an increasing power reserve margin (the amount of power supply in excess of demand) and low natural gas prices has led to a decrease in Alberta and U.K. power prices and commensurate Spark Spreads.

ATCO Midstreams's Storage Price Differentials have been volatile during the previous three years due to the supply/demand variability in the natural gas marketplace. Frac Spreads in ATCO Midstream's NGL operations have generally been strong and are affected by the price of oil and natural gas, inventories and demand.

Graphs summarizing the market spot prices for Alberta and U.K. Spark Spreads, Storage Price Differentials and Frac Spreads are shown in the Annual Results of Operations - Segmented Information – Energy section of the MD&A.

Power Generation

In the U.K., the revenue contract for the 1,000 MW (ATCO Power's share 255 MW) Barking power plant expired on September 30, 2010. A new tolling contract for 178 MW (ATCO Power's share 45 MW) of the plant's capacity was entered into for a one-year term commencing October 1, 2010. The remaining 822 MW of the plant's capacity (ATCO Power's share 210 MW) is being sold into the merchant market commencing October 2010.

During the previous three years, the Corporation has constructed an 86 MW natural gas-fired simple cycle generating plant in Karratha, Western Australia and a 45 MW natural gas-fired simple cycle generating plant located at Valleyview, Alberta. The Karratha plant commenced operations in 2010 and the Valleyview unit commenced operations in 2008.

In 2006, Canada Revenue Agency (CRA) issued an income tax reassessment for Alberta Power (2000)'s 2001 taxation year which treated the proceeds received from the sale of the H.R. Milner generating plant

to the Balancing Pool as income rather than as a sale of an asset. The Corporation disagreed with CRA's position. The Tax Court of Canada heard an appeal from Alberta Power (2000) and ordered CRA to reverse its 2006 reassessment of Alberta Power (2000)'s 2001 tax return.

On January 30, 2008, the 150 MW Unit 4 at ATCO Power's Battle River generating plant experienced an unplanned outage due to a failure in the unit's generator. The unit returned to service on March 27, 2008. ATCO Power claimed relief under the force majeure provisions of its PPA. The Balancing Pool notified ATCO Power that it disagreed with the claim and the claim proceeded to arbitration. On October 25, 2010, the arbitrator issued a decision which denied ATCO Power's force majeure claim. The cash impact resulting from this outage was approximately \$11.8 million which was recorded in 2008. However, due to ATCO Power's availability incentive pool deferral account, there was no material earnings impact.

4.1.3. Corporate & Other Segment

The Corporate & Other Segment includes ATCO I-Tek, commercial real estate owned by the Corporation in Alberta and the Corporation's 24.5% equity investment in ASL.

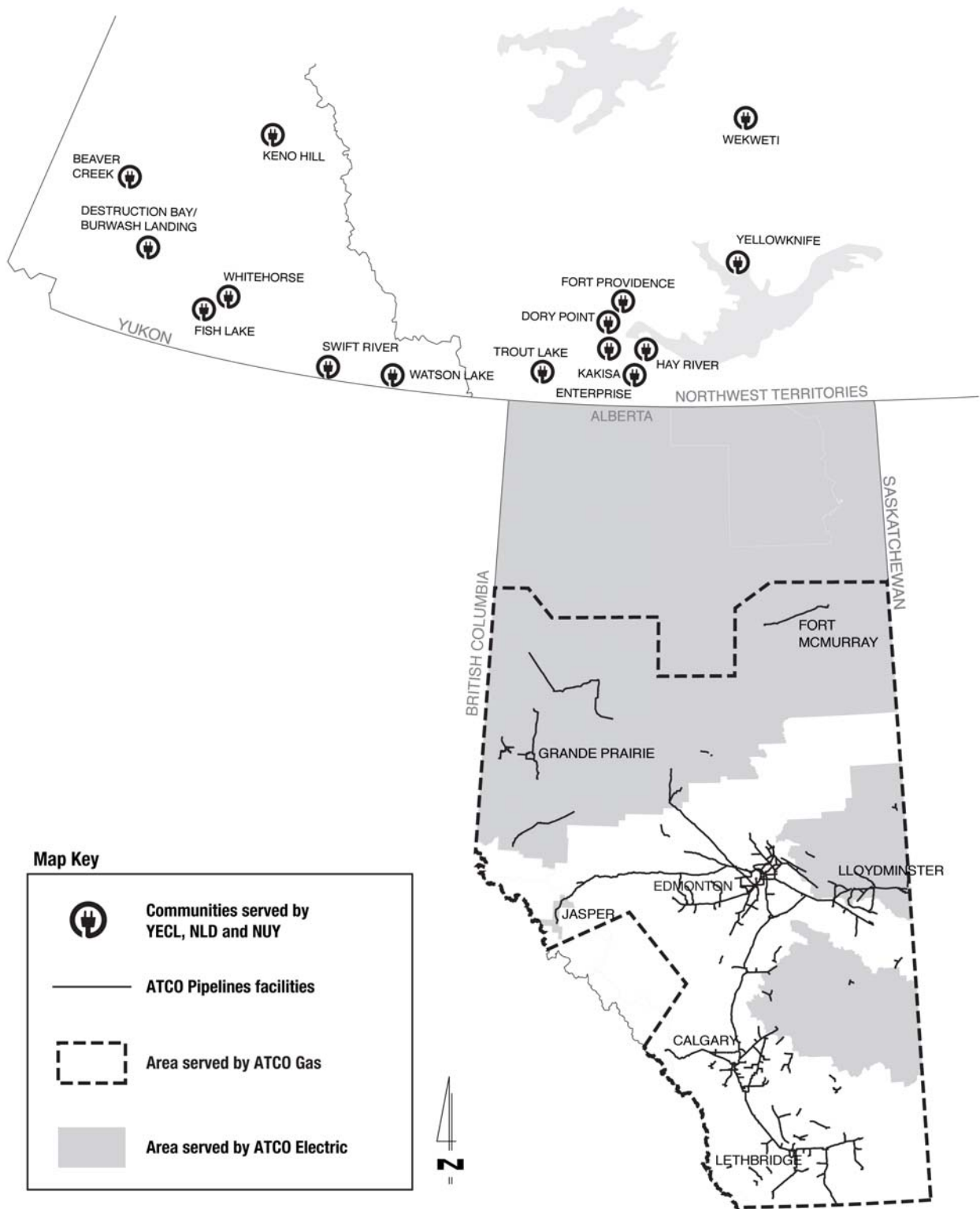
4.2. Detailed Business Description

Following is a general description of the nature of the activities within each of the Corporation's segments.

4.2.1. Utilities Segment

The activities of the Utilities Segment are conducted primarily through ATCO Electric, ATCO Gas and ATCO Pipelines within western Canada as shown in the following map:

Location of Utilities Segment Operations



Government Regulation

ATCO Electric, ATCO Gas and ATCO Pipelines are regulated primarily by the AUC, which administers acts and regulations covering such matters as rates, financing, accounting and service area. These 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.

The regulated operations of the Corporation in the Yukon Territory (YECL) and the Northwest Territories (NUY and NLD) are subject to regulation similar to that in effect in Alberta by regulatory authorities in those jurisdictions.

The competitive conditions in the areas and industry where the Utilities Segment participates are limited and therefore are subject to regulation by the relevant authorities. Under the regulated environment, the ability to grow is generally subject to additional approved capital expenditures within existing operating areas or the ability to secure additional regulated areas for operation.

On November 12, 2009, the AUC issued its decision on the 2009 Generic Cost of Capital proceeding. In this decision, the AUC set the 2009 and 2010 generic return on equity at 9.0% for all Alberta utilities which it regulates. On December 16, 2010, the AUC initiated the 2011 Generic Cost of Capital proceeding. Refer to Three Year History – Utilities Segment section for a more detailed description of these Generic Cost of Capital Proceedings.

ATCO Electric

ATCO Electric is engaged in the regulated business of transmitting and distributing electric energy to 245 communities as well as rural areas in east-central and northern Alberta. Included are the communities of Drumheller, Lloydminster, Grande Prairie and Fort McMurray as well as the oil sands areas near Fort McMurray and the heavy oil areas near Cold Lake and Peace River. ATCO Electric is headquartered in Edmonton and has 38 offices throughout its service area. Electric utility service is also provided to one community in British Columbia and to two communities in Saskatchewan. YECL serves 19 communities in the Yukon Territory, including the capital city of Whitehorse. NUY and NLD serve 9 communities in the Northwest Territories, including the capital city of Yellowknife.

The population of the principal markets for electric utility service by ATCO Electric, NUY, NLD and YECL is approximately 502,800 and service is provided to approximately 237,200 customers. ATCO Electric has been assigned approximately 65% of the designated service area within Alberta which contains approximately 14% of the existing provincial electrical load and 12% of the existing population.

The number of customers served by ATCO Electric, NUY, NLD and YECL as at the end of each of the last two years was as follows:

	2010		2009	
	Number	%	Number	%
Industrial	11,311	5	11,229	5
Commercial	31,342	13	30,946	13
Residential	164,004	69	160,611	69
Rural, REAs and other	30,502	13	30,355	13
Total	237,159	100	233,141	100

Electricity distributed to the various classes of customers for each of the last two years was as follows:

	2010		2009	
	GWh	%	GWh	%
Industrial	6,630	63	6,552	63
Commercial	2,156	20	2,132	20
Residential	1,239	12	1,232	12
Rural, REAs and other	507	5	515	5
Total	10,532	100	10,431	100

ATCO Electric, NUY, NLD and YECL own and operate extensive electric transmission and distribution systems. The systems consist of approximately 10,000 km of main transmission lines and 63,000 km of distribution lines. In addition, ATCO Electric delivers power to and operates approximately 11,800 km of REA-owned distribution lines.

ATCO Electric, NUY, NLD and YECL own and operate 28 diesel, natural gas turbine and hydro generating plants having an aggregate nameplate capacity of 60 MW in Alberta and in the Yukon and Northwest Territories. The maximum peak load demand for these plants during the year ended December 31, 2010, was 28 MW.

ATCO Electric, YECL, NUY and NLD distribute electricity to incorporated communities under the authority of franchises or by-laws and in rural areas under approvals, permits or orders issued pursuant to applicable statutes.

The franchises under which service is provided in incorporated communities in Alberta and in the Northwest Territories have been granted for periods of up to 20 years. These franchises are exclusive to ATCO Electric, NUY or NLD and are renewable by agreement for further periods not exceeding 10

years. If any franchise is not renewed, it remains in effect until such time as either party, with the approval of the prevailing regulatory authority, terminates it on six months written notice. Upon termination of a franchise the municipality may purchase the facilities used in connection with that franchise at a price to be agreed upon or, failing agreement, to be fixed by the prevailing regulatory authority. The franchise under which service is provided in the Yukon Territory was granted under the Public Utilities Act (Yukon Territory) and has no set expiry date.

Under the EUA, wholesale tariffs for transmission of electricity must be approved by the AUC. The transmission tariffs allow any owner of a generating unit to have access to the transmission system in Alberta and thus facilitate the sale of its power. The same transmission tariff is charged to each distribution utility or customer directly connected to the transmission system regardless of location.

The equalization of transmission costs is achieved by having each owner of transmission facilities charge its costs to the AESO. The AESO then aggregates these costs and charges a common transmission rate to all who use the transmission system.

The AESO has developed and approved rules as mandated in the Transmission Regulation as amended from time to time. These rules stipulate that new transmission projects will be assigned to the Transmission Facility Owners based on the service areas of the distribution companies they have been historically affiliated with. Ownership of facilities will change at service area boundaries except where, in the opinion of the AESO, only a small portion of the project is in another service area. The rule applies to all transmission projects except those projects deemed as “critical” by the Government of Alberta.

The Electric Statutes Amendment Act enacted in 2009 creates a category of transmission projects known as Critical Transmission Infrastructure (CTI). A key feature of CTI is that these projects will not necessarily be assigned to the Transmission Facility Owners based on service area. Instead, CTI ownership may be determined through a competitive process or through assignment by the Minister of Energy. CTI facilities do not include all future transmission projects, but are limited to projects which the Government of Alberta determines are critical to the safe, reliable and economic operation of the interconnected electric system. An important feature of CTI is that the government, rather than the AUC, has the authority to approve the need for the facilities. The Act names certain immediately required CTI projects, including the Edmonton to Calgary 500 kV high-voltage direct current project on the east side of the province which has been assigned to ATCO Electric. ATCO Electric expects to complete and file the facility application with the AUC seeking final approval to construct and operate the facility in the first quarter of 2011. Final approval is not anticipated until late 2011.

Under the EUA, separate retail rates for distribution must be approved by the AUC. Costs of distribution are not equalized across distribution utilities within the province. The distribution utility provides the distribution services for its customers under AUC approved tariffs which provide for the recovery of the cost of service, including a fair return on rate base.

ATCO Gas

ATCO Gas is engaged in the business of distributing natural gas throughout Alberta and in the Lloydminster area of Saskatchewan. ATCO Gas serves more than one million customers in nearly 300 Alberta communities and is headquartered in Edmonton, with more than 60 district offices across the province. ATCO Gas provides service to municipal, residential, business and industrial customers.

ATCO Gas' principal markets for the distribution of natural gas are in the communities of Edmonton, Calgary, Airdrie, Fort McMurray, Grande Prairie, Lethbridge, Lloydminster, Red Deer, Spruce Grove, St. Albert and Sherwood Park, which have a combined population of approximately 2,358,000. Also served are 279 smaller communities as well as rural areas having a combined population of approximately 631,000. As of December 31, 2010, ATCO Gas provided over one million customers with natural gas service, of whom approximately 75% were located in the 11 communities named above.

The number of customers served by ATCO Gas as at the end of each of the last two years was as follows:

	2010		2009	
	Number	%	Number	%
Residential	968,459	92	949,473	92
Commercial	88,547	8	87,561	8
Industrial	353	-	351	-
Other	10	-	27	-
Total	1,057,369	100	1,037,412	100

The quantities of natural gas distributed by ATCO Gas for each of the last two years were as follows:

	2010		2009	
	PJ	%	PJ	%
Residential	115.5	49	122.0	49
Commercial	107.9	45	113.7	45
Industrial	13.9	6	13.7	6
Other	0.1	-	0.4	-
Total	237.4	100	249.8	100

ATCO Gas owns and operates approximately 38,000 km of distribution mains. In addition, ATCO Gas owns service and maintenance facilities in major centres in Alberta.

ATCO Gas owns a 43.5 petajoule natural gas storage facility at Carbon, Alberta. Since April 1, 2005, ATCO Gas has leased the entire storage capacity of the Carbon Facility to ATCO Midstream. On December 1, 2010, Canadian Utilities and CU Inc. announced that an application had been filed with the AUC to approve the internal transfer of the Carbon Facility to ATCO Midstream. Refer to the Annual Results of Operations – Segmented Information – Utilities section of the MD&A, which may be found on SEDAR at www.sedar.com, for additional information about the Carbon Facility.

ATCO Gas distributes natural gas in incorporated communities under the authority of franchises or by-laws and in rural areas under approvals, permits or orders issued pursuant to applicable statutes. ATCO Gas currently has 166 franchise agreements with communities throughout Alberta.

In Edmonton, distribution of natural gas is carried on under the authority of an exclusive franchise. In 2010, ATCO Gas entered into an agreement with the City of Edmonton for a 20 year renewal of the franchise to July 21, 2030. The franchises under which service is provided in other incorporated communities in Alberta have been granted for periods of up to 20 years. All franchises are exclusive to ATCO Gas and are renewable by agreement for further periods not exceeding 20 years. If any franchise is not renewed, it remains in effect until such time as either party, with the approval of the prevailing regulatory authority, terminates it on six months written notice. Upon termination of a franchise the municipality may purchase the facilities used in connection with that franchise at a price to be agreed upon or, failing agreement, to be fixed by the prevailing regulatory authority.

In Calgary, distribution of natural gas is carried on under the authority of a municipal by-law. The rights of ATCO Gas under this by-law, while not exclusive, are unrestricted as to time. The by-law does not confer any right on the City of Calgary to acquire the facilities used in providing the service.

ATCO Pipelines

ATCO Pipelines is a regulated business engaged in the transmission of natural gas throughout Alberta. It is headquartered in Calgary and has 217 customers including producers, industrial users and gas distribution companies located in Edmonton, Calgary, Red Deer, Lethbridge, Lloydminster, Grande Prairie, Fort McMurray and nearly 300 smaller communities.

ATCO Pipelines receives natural gas on its pipeline system at various gas processing plants throughout Alberta and transports it to end users within the province or other pipeline systems for export out of the province. Higher demand allows ATCO Pipelines to bring on additional gas volumes to its system from producers to maintain the balance between supply and demand.

ATCO Pipelines' revenues are based primarily on contractual arrangements for access to its transmission systems. Contract demand for access, and Interruptible (IT), Overrun (OR) and Variable Volumes for each of the last two years were as follows:

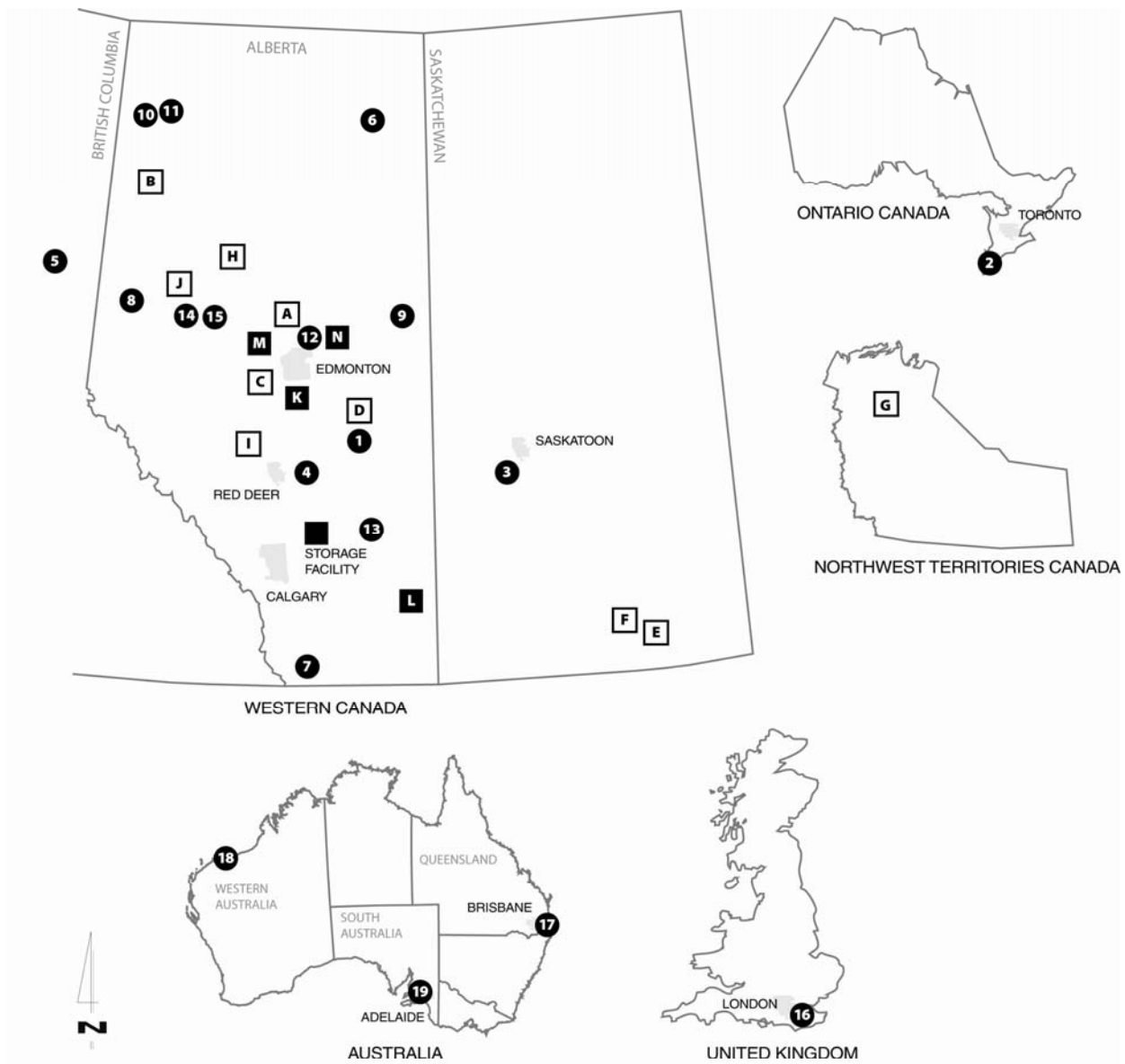
	2010		2009	
	TJ/day	%	TJ/day	%
Contract Demand:				
Producer	1,074	21	1,244	24
Industrial	929	18	913	17
Distribution	116	2	110	2
Affiliates	2,638	51	2,610	49
Sub-total	4,757	92	4,877	92
IT/OR/Variable Volumes:				
Producer	113	2	135	2
Industrial	291	6	301	6
Sub-total	404	8	436	8
Total Contract Demand and IT/OR/Variable Volumes	5,161	100	5,313	100

ATCO Pipelines owns and operates extensive natural gas transmission systems. The systems consist of approximately 8,486 km of pipelines, 22 compressor sites and a connection to the salt cavern storage peaking facility located near Fort Saskatchewan, Alberta. The systems have 170 producer receipt points, 48 interconnections with TransCanada Pipelines Limited, five interconnections with Alliance Pipeline, and one interconnection with Many Islands Pipelines. The peak delivery capability of the ATCO Pipelines system is 3.8 billion cubic feet per day.

4.2.2. Energy Segment

The activities of the Energy Segment are conducted through ATCO Power and ATCO Midstream. Effective January 1, 2011, ATCO Power's Australian operations will be reported in a separate segment. The Energy Segment has operations in Canada, U.K. and Australia as shown in the following map:

Location of Energy Segment Operations



Map Key

Canadian Utilities Generating Plant sites			ATCO Midstream Plant sites	Extraction Sites	Processing Sites
1 - Battle River	3, 4, 5	9 - Primrose	A - Carbondale Gas Plant	■	□
2 - Brighton Beach	10 - Rainbow Lake 1, 2 & 3	18 - Karratha	B - Cranberry Gas Plant		
3 - Cory	11 - Rainbow Lake 4 & 5	19 - Osborne	C - Golden Spike Gas Plant		
4 - Joffre	12 - Scotford		D - Kinsella Gathering and Compression Facility		
5 - McMahon	13 - Sheerness 1 & 2		E - Nottingham Gas Plant		
6 - Muskeg River	14 - Sturgeon		F - Kisbey Gas Plant		
7 - Oldman River	15 - Valleyview 1 & 2		G - Ikhil Gas Plant		
8 - Poplar Hill	16 - Barking		H - Puskwaskau Gas Plant		
			I - Watelet Gas Plant		
			J - Widewater Gas Plant		
			K - Edmonton Ethane Extraction Plant		
			L - Empress Gas Liquids Straddle Plant		
			M - Villeneuve Ethane Extraction Plant		
			N - Fort Saskatchewan Ethane Extraction Plant		

Power Generation

Power generation activities within the Energy Segment are focused on owning, operating and developing generating plants in the U.K., Australia and Canada.

The Corporation is exposed to merchant market for power generation in Alberta, Canada and in the U.K. The Alberta power market serves a population of 3.8 million. Total consumption for 2010 was approximately 71,000 GWh. Peak demand for the province reached a high of 10,215 MW on December 7, 2010. Installed electricity generating capacity at December 31, 2010 was approximately 13,500 MW and consisted of 46% coal, 39% gas, 7% hydro, 7% wind and 1% other.

Serving a population of 60 million, the U.K. electricity market is served by a total of 70,000 MW of electricity generating installed firm capacity of various kinds but principally made up of 34% combined-cycle gas turbines, 28% coal and 13% nuclear. In addition, the U.K. has the capacity to import from and export to France and Ireland the equivalent of 2,500 MW. Demand in 2010 was approximately 345,000 GWh.

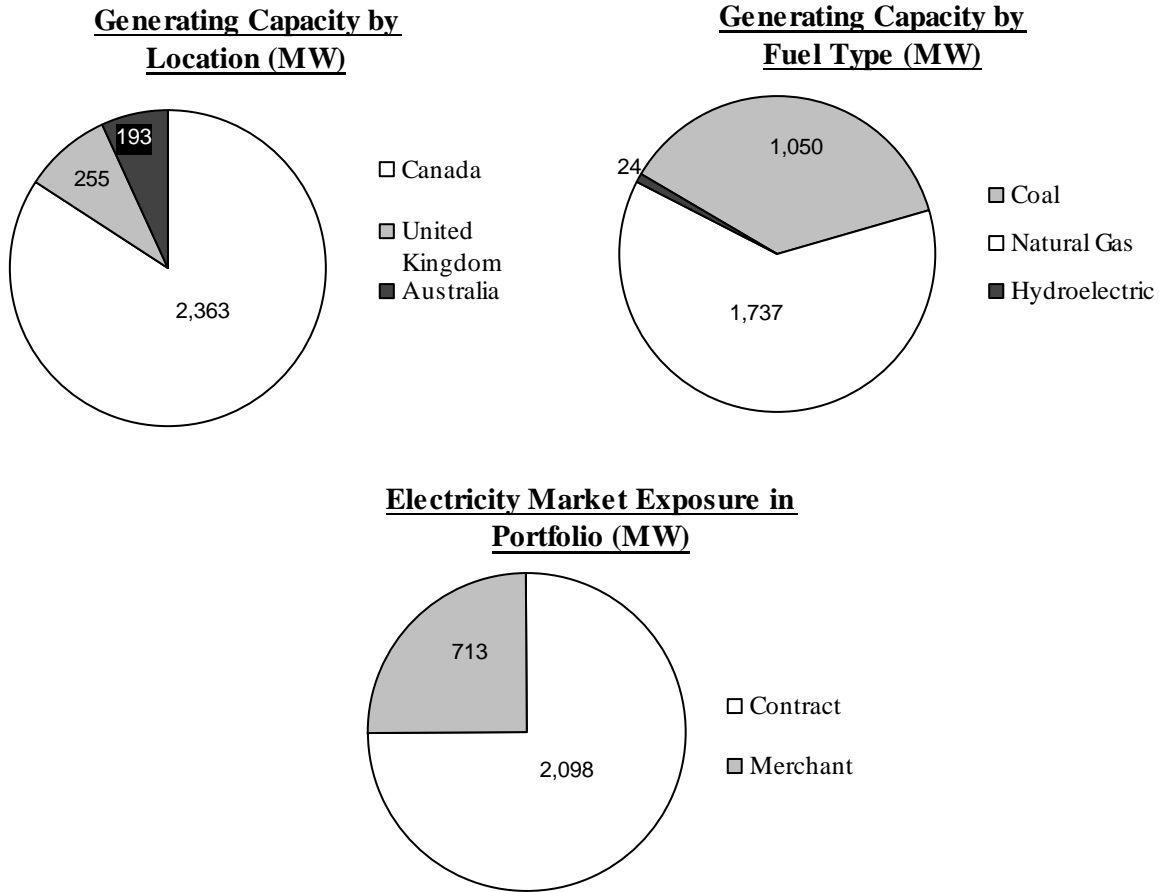
Following deregulation of the electricity market in Alberta, certain regulated assets of ATCO Electric were transferred to ATCO Power. The assets transferred included the generating plants at Battle River, Sturgeon, Rainbow Lake units 1, 2 & 3 and a 50% share in Sheerness. The Rainbow Lake and Sturgeon assets are no longer regulated.

At December 31, 2010, the Energy Segment has an ownership position in generating plants with a total capacity, including partners' interests, of 4,957 MW. The Corporation operates 4,837 MW of this capacity and owns 2,582 MW. On January 1, 2011, the capacity owned increased to 2,811 MW as a result of the transfer of ATCO Resources to ATCO Power (refer to Business Description - Three Year History section).

The Corporation is involved in joint ventures with a wide range of partners, including other generators, distribution companies, oil and gas companies and steam hosts. The ownership of these ventures includes municipally and state-owned utilities, and public and private companies in three countries. The Corporation's role in each venture is tailored to the specific needs of each project. The Corporation generally provides the operation of the power and steam generation facilities ensuring secure supply with, in the case of some projects, the opportunity to sell uncontracted electricity into the electricity market or uncontracted capacity into the market in the form of Ancillary Services.

Details of the generating plants at December 31, 2010, are shown in Appendix 1.

The following charts illustrate the approximate proportion of owned generating capacity displayed by the location of the facilities, the fuel types in the portfolio and contract versus merchant portions of owned capacity. These charts include the impact of the transfer of ATCO Resources to ATCO Power as of January 1, 2011.



Foreign operations in the power generation activities of the Energy Segment represent 16% of the owned capacity.

Within the Energy Segment’s portfolio of power generation projects, 62% of capacity is fueled by natural gas, 37% by coal and 1% is from a hydroelectric facility. The natural gas used to supply generation plants is procured in a variety of manners. There are tolling arrangements for the Brighton Beach and Cory generating plants whereby the customers supply gas at their own cost and the combined-cycle facilities convert the gas to electricity on behalf of the customer. At the cogeneration and remaining combined-cycle plants, gas is procured either through the terms of a long-term gas supply agreement or directly through the site host. The terms of revenue contracts on these sites result in gas cost recovery being built into the tariff charged to the customer. For the remainder of facilities and for the merchant portion of the combined-cycle and cogeneration plants, gas is procured from the Alberta and U.K. markets.

Regulated Generating Plants

The Battle River and Sheerness generating plants of ATCO Power were regulated by the AUC until December 31, 2000, but are now governed by legislatively mandated PPAs that were approved by the AUC. These plants are considered to be regulated operations primarily because the PPAs are designed to allow the owners of generating plants constructed before January 1, 1996 to recover their forecast fixed and variable costs and to earn a return at the rate specified in the PPAs. Each generating plant will become deregulated upon the earlier of one year after the expiry of its PPA or a decision to continue to operate the plant. For PPAs expiring prior to 2019, ATCO Power has one year after the expiry of a PPA to determine whether to decommission the generating plant in order to fully recover plant decommissioning costs or to continue to operate the plant and be responsible for the decommissioning costs. For PPAs expiring after 2018, decommissioning costs are the responsibility of the plant owner. Each PPA is to remain in effect until the earlier of the last day of the estimated life of the related generating plant or December 31, 2020.

The electricity generated by the Battle River and Sheerness generating plants is sold pursuant to PPAs. Under the PPAs, ATCO Power is required to make the generating capacity for each generating unit available to the purchaser of the PPA for that unit. In return, ATCO Power is entitled to recover its forecast fixed and variable costs for that unit from the PPA purchaser, including a return on common equity equal to the long term Government of Canada bond rate plus 4.5% based on a deemed common equity ratio of 45%. Many of the forecast costs will be determined by indices, formulae or other means for the entire period of the PPA. ATCO Power's actual results will vary and depend on performance compared to the forecasts on which the PPAs were based. The return on common equity rate used in its PPA tariff calculations for ATCO Power was 8.44% in 2010 and 8.64% for 2009. The rate of return on common equity for 2011 is 7.90%.

All the coal fuel requirements relate to the Battle River and Sheerness generating plants which have a coal supply agreement with Prairie Mines & Royalties Limited (PMRL). PMRL operates the mining leases adjacent to the generating plants. The coal reserves of the mine are owned, leased or controlled jointly by the generating plant owners and PMRL. The coal supply agreement for Battle River extends until 2012 and includes extension rights in five year increments. ATCO Power is currently negotiating the extension of the agreement. The coal supply agreement for Sheerness extends to the earlier of 2026 or the exhaustion of the coal supply.

ATCO Midstream

ATCO Midstream provides management services for ATCO Gas' Carbon natural gas storage facility and markets storage services. ATCO Midstream owns and operates a portfolio of non-regulated natural gas gathering, processing and NGL extraction facilities in Alberta, Saskatchewan and the Northwest Territories. ATCO Midstream also provides natural gas procurement and load balancing services for other ATCO subsidiaries.

Natural Gas Storage Operations

ATCO Midstream manages ATCO Gas' natural gas storage facility at Carbon, Alberta. The facility is a natural gas reservoir with a storage capacity of 43.5 petajoules, a maximum injection rate of 400 terajoules per day and a maximum withdrawal rate of 600 terajoules per day. The facility is connected to multiple transmission pipeline systems and has been in service for more than 40 years, making it one of the more established and reliable gas storage facilities in western Canada. Since April 1, 2005, ATCO Midstream has leased from ATCO Gas the full storage capacity of the facility.

ATCO Midstream provides customized storage, natural gas procurement and transportation services that are individually tailored to each customer's specific needs. Services offered range in terms from a daily to a multi-year basis and are offered to financial institutions, marketing companies, pipelines, retail energy providers and producers.

On December 1, 2010, Canadian Utilities and CU Inc. announced that an application has been filed with the AUC to approve the internal transfer of the Carbon Facility from ATCO Gas to ATCO Midstream. A decision on this application is expected in the second quarter of 2011.

Natural Gas Liquids Extraction Operations

ATCO Midstream owns or has an interest in four NGL extraction facilities, three of which ATCO Midstream operates. The NGL facilities extract ethane and other NGLs from natural gas flowing through contracted pipelines. ATCO Midstream's net ownership in the processing capacity of the facilities is over 411 million cubic feet per day of natural gas which produces approximately 17,900 barrels per day of NGLs.

Facility	Date in Service	NGL Extracted	Licensed Capacity (mmcf/day)	Ownership	Net Ownership (mmcf/day)	Operator
Edmonton Ethane Extraction Plant	1978	(1)	390	51.3%	200	No
Empress Gas Liquids Straddle Plant	1983	(1)	1,100	12.2%	134	Yes
Fort Saskatchewan Ethane Extraction Plant	1984	(2)	37	100.0%	37	Yes
Villeneuve Ethane Extraction Plant	1997	(2)	40	100.0%	40	Yes
			1,567		411	

⁽¹⁾ Ethane and a mixture of propane, butane and pentanes plus.

⁽²⁾ A mixture of ethane, propane, butane and pentanes plus.

Natural Gas Gathering and Processing Operations

ATCO Midstream owns or has an interest in ten natural gas gathering and processing facilities, seven of which ATCO Midstream operates, with a net gathering and processing capacity of 225 million cubic feet per day. In addition, ATCO Midstream owns approximately 1,075 km of field gathering lines. Natural gas production connected to ATCO Midstream's natural gas gathering systems is processed for a fee or

purchased, processed and sold in accordance with third party contractual arrangements. Approximately 68% of ATCO Midstream's net processing capacity is capable of processing sour gas.

The gas gathering and processing assets are in close proximity to customers and potential new customers. ATCO Midstream provides a unique network of reliable, proven facilities that provide gathering and processing services to producers.

ATCO Midstream's natural gas processing plants, with their respective licensed capacities, are shown below:

Facility	Date in Service	Licensed Capacity (mmcf/day)	Ownership	Net Ownership (mmcf/day)	Operator
Carbondale Gas Plant	1991	56	100.0%	56	Yes
Cranberry Gas Plant	1981	36	100.0%	36	Yes
Golden Spike Gas Plant	1999	65	100.0%	65	Yes
Ikhil Gas Plant	1999	8	33.3%	3	No
Kinsella Gathering and Compression Facility	1996	20	100.0%	20	Yes
Kisbey Gas Plant	2000	5	50.0%	3	Yes
Nottingham Gas Plant	1985	18	8.0%	1	No
Puskwaskau Gas Plant	1996	21	41.0%	9	No
Watelet Gas Plant	1998	20	100.0%	20	Yes
Widewater Gas Plant	2001	12	100.0%	12	Yes
		261		225	

4.2.3. Corporate & Other Segment

The activities of the Corporate & Other Segment are conducted through ATCO I-Tek, commercial real estate owned by the Corporation in Fort McMurray, Alberta and the Corporation's 24.5% equity investment in ASL. For more information about the Corporation's 24.5% equity investment in ASL refer to ATCO's 2010 Annual Information Form which may be found on SEDAR at www.sedar.com.

ATCO I-Tek

ATCO I-Tek is engaged in the development, operation and support of information systems and technologies.

ATCO I-Tek provides billing, payment processing, credit, collection and call centre services to its clients. ATCO I-Tek currently provides such services to Direct Energy for its regulated retail and competitive energy supply businesses in Alberta. In addition, ATCO I-Tek also supplies distribution-related billing and customer care services to ATCO Gas and ATCO Electric.

Direct Energy entered into a 10 year contract effective May 4, 2004, with ATCO I-Tek to provide billing and call centre services to ensure continued quality customer service. Direct Energy has the ability to terminate this contract after the fifth anniversary, which occurred on May 4, 2009, upon immediate payment of termination fees which decline over the remaining term of the contract. As a result of negotiations in 2010, the contract was extended to December 31, 2014.

5. BUSINESS RISKS

The business risks section located in the MD&A is hereby incorporated by reference and may be found on SEDAR at www.sedar.com.

6. DIVIDENDS

Cash dividends declared during the past three years for all series and classes of shares are as follows:

<i>(Canadian dollars per share)</i>	2010	2009	2008
Cash dividends declared per share:			
Series Second Preferred Shares:			
Series O (1)	1.09	1.09	1.09
Series T (1)	1.09	1.09	1.09
Series U (1)	1.09	1.09	1.09
Series V (2)	1.18	1.18	1.18
Series W	1.45	1.45	1.45
Series X	1.50	1.50	1.50
 Class A and Class B Shares	 1.51	 1.41	 1.33

⁽¹⁾ The dividend was reset to \$1.09 (from 5.05% to 4.35%) for dividend periods between December 2, 2006 and December 2, 2011.

⁽²⁾ The dividend was reset to \$1.18 (from 5.25% to 4.70%) for dividend periods between October 3, 2007 and October 3, 2012.

It is the policy of the Corporation to pay dividends quarterly on its Class A and Class B Shares. In the first quarter of 2010, the Corporation increased the dividends on Class A and Class B Shares by \$0.025 to \$0.3775 per share. The Corporation has increased its annual common share dividend each year since its inception as a holding corporation in 1972. The matter of an increase in the quarterly dividend is addressed by the Board of Directors in the first quarter of each year. For the first quarter of 2011, the quarterly dividend payment has been increased by \$0.025 to \$0.4025 per share. The payment of any dividend is at the discretion of the Board of Directors and depends on the financial condition of the Corporation and other factors.

7. DESCRIPTION OF CAPITAL STRUCTURE

Share Capital

The share capital of the Corporation as at February 18, 2011, was as follows:

Share Description	Authorized	Outstanding
Series Preferred Shares	150,000	-
Series Second Preferred Shares	unlimited	20,400,000
Class A Shares	unlimited	87,075,850
Class B Shares	unlimited	40,409,949

Series Preferred Shares

The Series Preferred Shares are entitled, in priority to the Series Second Preferred Shares and the Class A Shares and Class B Shares, to fixed cumulative preferential cash dividends and, in the event of the liquidation, dissolution or winding-up of the Corporation, or other distribution of assets of the Corporation among its share owners for the purpose of winding up its affairs, to the amount paid up thereon and accrued and unpaid dividends and, if such action is voluntary, the premiums payable on redemption, if any.

The Series Preferred Shares are subject to redemption on 30 days' notice and are non-voting except upon the failure of the Corporation to pay dividends on any such shares for a period of 18 months, in which case the owners of all such shares are entitled to one vote per share and to elect at meetings of share owners at which directors are elected just under one-half of the directors of the Corporation.

The provisions attaching to the Series Preferred Shares stipulate that no shares ranking junior to the Series Preferred Shares may be retired unless all dividends then payable on the Series Preferred Shares shall have been declared and paid.

Two series of Series Preferred Shares aggregating 65,000 shares have been designated and issued to date, all of which have been redeemed and cancelled.

Series Second Preferred Shares

An unlimited number of Series Second Preferred Shares are issuable in series, each series consisting of such number of shares and having such provisions attaching thereto as may be determined by the directors. The Series Second Preferred Shares as a class have, among others, provisions to the following effect:

- (i) The Series Second Preferred Shares rank junior to the Series Preferred Shares but are, with respect to priority in payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding up of the Corporation, entitled to preference over the

Class A Shares and the Class B Shares and any other shares of the Corporation ranking junior to the Series Second Preferred Shares. The Series Second Preferred Shares may also be given such other preference over the Class A Shares and the Class B Shares and any other junior shares as may be determined for any series authorized to be issued.

- (ii) The Series Second Preferred Shares of each series rank equally with the Series Second Preferred Shares of every other series with respect to priority in payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding up of the Corporation.
- (iii) The owners of the Series Second Preferred Shares are not entitled as such (except as provided in any series) to any voting rights nor to receive notice of or to attend share owners' meetings unless dividends on the Series Second Preferred Shares of any series are in arrears to the extent of eight quarterly dividends or four half-yearly dividends, as the case may be, whether or not consecutive. Until all arrears of dividends have been paid, such owners will be entitled to receive notice of and to attend all share owners' meetings at which directors are to be elected (other than separate meetings of owners of another class of shares) and to one vote in respect of each Series Second Preferred Share held.

The following Series Second Preferred Shares are currently outstanding:

	Stated Value (dollars)	Redemption Dates (1)	Shares	Amount (\$ millions)
Cumulative Redeemable Second Preferred Shares				
5.8% Series W (2)	\$25.00	See below	6,000,000	\$150.0
6.0% Series X (3)	\$25.00	See below	6,000,000	150.0
Perpetual Cumulative Second Preferred Shares				
4.35% Series O (4)	\$25.00	December 2, 2011	1,600,000	40.0
4.35% Series T (4)	\$25.00	December 2, 2011	1,600,000	40.0
4.35% Series U (4)	\$25.00	December 2, 2011	800,000	20.0
4.70% Series V (4)	\$25.00	October 3, 2012	4,400,000	110.0
				<u>\$510.0</u>

⁽¹⁾ The preferred shares, except for the Series W and X, are redeemable on the dates specified above at the option of the Corporation at the stated value per share plus accrued and unpaid dividends.

⁽²⁾ The Series W preferred shares are redeemable commencing on March 1, 2008 at the stated value per share plus a 4% premium for the next 12 months plus accrued and unpaid dividends. The redemption premium declines by 1% in each succeeding 12 month period until March 1, 2012.

⁽³⁾ The Series X preferred shares are redeemable commencing June 1, 2008 at the stated value per share plus a 4% premium for the next 12 months plus accrued and unpaid dividends. The redemption premium declines by 1% in each succeeding 12 month period until June 1, 2012.

⁽⁴⁾ *The dividends payable on the Series O, T, U and V preferred shares are fixed until the redemption dates specified above, at which time a new dividend rate may be established by negotiations between the Corporation and the owners of the shares.*

Class A Shares and Class B Shares

The owners of the Class A Shares and the Class B Shares are entitled to share equally, on a share for share basis, in all dividends declared by the Corporation on either of such classes of shares as well as the remaining property of the Corporation upon dissolution. The owners of the Class B Shares are entitled to vote and to exchange at any time each share held for one Class A Share.

If a take-over bid is made for the Class B Shares, which would result in the offeror owning more than 50% of the outstanding Class B Shares and which would constitute a change in control of the Corporation, owners of Class A Shares are entitled, for the duration of the bid, to exchange their Class A Shares for Class B Shares and to tender such Class B Shares pursuant to the terms of the take-over bid. Such right of exchange is conditional upon the completion of the take-over bid giving rise to the right of exchange, and if the take-over bid is not completed, then the right of exchange shall be deemed never to have existed. In addition, owners of Class A Shares are entitled to exchange their shares for Class B Shares of the Corporation if ATCO Ltd., the present controlling share owner of the Corporation, ceases to own or control, directly or indirectly, more than 10,000,000 of the issued and outstanding Class B Shares of the Corporation. In either case, each Class A Share is exchangeable for one Class B Share, subject to changes in the exchange ratio for certain events such as a stock split or rights offering.

8. CREDIT RATINGS

The following table shows the current credit ratings on the Corporation's and CU Inc.'s securities which have been rated by DBRS Limited (DBRS) and Standard and Poor's (S&P):

	DBRS	S&P
Canadian Utilities Limited:		
Debentures	A	A
Commercial paper	R-1 (low)	A-1 (mid)
Preferred shares	Pfd-2 (high)	P-2 (high)
CU Inc.:		
Debentures	A (high)	A
Commercial paper	R-1 (low)	A-1 (mid)
Preferred shares	Pfd-2 (high)	P-2 (high)

Both rating agencies maintain a stable trend on the above securities.

Long Term Debt Credit Ratings

An A rating by DBRS is the third highest of eight categories. Long term debt rated A is of satisfactory credit quality. Protection of interest and principal is still substantial, but the degree of strength is less than that of higher rated entities. While A is a respectable rating, entities in this category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher-rated securities. Each rating category is denoted by the subcategories “high” and “low”. The absence of either a “high” or “low” designation indicates the rating is in the “middle” of the category.

An A rating by S&P is the third highest of ten categories. Obligations rated A by S&P are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor’s capacity to meet its financial commitment on the obligations is still strong. The addition of a plus or minus sign shows relative standing within the major rating categories.

Commercial Paper and Short Term Debt Credit Ratings

An R-1 (low) rating by DBRS is the third highest of ten categories and is granted to short term debt of satisfactory credit quality. The overall strength and outlook for key liquidity, debt, and profitability ratios is not normally as favourable as with higher rating categories, but these considerations are still respectable. Any qualifying negative factors that exist are considered manageable, and the entity is normally of sufficient size to have some influence in its industry.

An A-1 (mid) rating by S&P is the second highest of eight categories in its Canadian commercial paper ratings scale and is granted where the obligor’s capacity to meet its financial commitment on the obligation is strong.

Preferred Share Credit Ratings

A Pfd-2 rating by DBRS is the second highest of six categories granted by DBRS. Preferred shares rated Pfd-2 are of satisfactory credit quality. Protection of dividends and principal is still substantial, but earnings, the balance sheet, and coverage ratios are not as strong as higher rated companies. Each rating category is denoted by the subcategories “high” and “low”. The absence of either a “high” or “low” designation indicates the rating is in the “middle” of the category.

A P-2 rating by S&P is the second highest of seven categories S&P uses in its Canadian preferred share rating scale. An obligation rated P-2 exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. A plus or minus sign shows relative standing within a rating category.

Credit Ratings Generally

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization.

9. MARKET FOR SECURITIES OF THE CORPORATION

The Corporation's Class A shares, Class B shares and Cumulative Redeemable Second Preferred Shares, Series W and X are listed on the Toronto Stock Exchange. The Perpetual Cumulative Second Preferred Shares Series O, T, U and V are not listed.

The following table sets forth the high and low prices and the volume of shares traded on the Toronto Stock Exchange during 2010 for the Corporation's listed shares.

	Class A Shares			Class B Shares		
	High \$	Low \$	Volume	High \$	Low \$	Volume
January	44.95	42.00	2,303,642	44.78	42.25	11,036
February	44.79	41.77	3,910,045	44.50	41.56	11,494
March	49.44	44.36	2,831,556	49.30	45.00	15,587
April	49.43	44.01	3,188,887	49.52	44.50	13,312
May	45.71	41.69	3,951,289	45.38	41.55	50,355
June	45.59	42.78	2,613,573	45.49	42.72	13,332
July	49.65	44.93	4,117,453	49.50	45.02	20,965
August	49.25	45.79	3,701,933	49.20	46.50	9,146
September	49.95	47.11	2,909,283	49.50	47.03	7,205
October	49.99	48.35	1,858,153	49.50	48.75	12,248
November	52.28	48.79	5,154,600	52.00	49.00	12,077
December	55.62	51.19	2,332,794	55.44	51.00	15,113

Cumulative Redeemable Second Preferred Shares						
	Series X			Series W		
	High	Low	Volume	High	Low	Volume
	\$	\$		\$	\$	
January	26.00	25.25	54,902	25.40	25.11	45,603
February	25.92	25.52	71,690	25.55	24.97	69,848
March	25.94	25.00	115,856	25.10	24.20	105,310
April	25.15	24.66	53,489	24.55	23.60	87,470
May	24.70	23.72	65,827	24.00	23.30	63,350
June	25.29	24.38	34,168	24.79	23.90	34,520
July	25.76	25.30	16,008	25.08	24.57	25,067
August	25.52	25.10	43,896	25.24	24.65	37,659
September	26.08	25.25	43,328	25.50	24.94	64,704
October	26.00	25.60	69,188	25.75	25.29	73,881
November	26.10	25.66	53,871	25.93	25.19	82,485
December	26.09	25.65	56,608	25.40	25.00	39,207

10. DIRECTORS AND OFFICERS

Directors

Name, Province or State and Country of Residence	Position	Principal Occupation	Director Since
R.T. Booth, Q.C. Alberta, Canada	Director	Partner, Bennett Jones LLP (barristers and solicitors)	1998
L.M. Charlton (3) (4) Alberta, Canada	Director	Vice President, Lintus Resources Limited	2006
D.A. Dodge, O.C., LL.D., Ph.D. (5) Ontario, Canada	Director	Senior Business Advisor, Bennett Jones LLP (barristers and solicitors)	2008
D.M. Ellard (3) (4) Alberta, Canada	Director	Corporate Director	2008
L.A. Heathcott (5) Alberta, Canada	Director	Chairman of the Board, Akita Drilling Ltd. and President & Chief Executive Officer, Spruce Meadows	2000

Name, Province or State and Country of Residence	Position	Principal Occupation	Director Since
R.J. Normand (3) (4) Alberta, Canada	Director	Corporate Director	2008
R.J. Routs, Ph.D. (5) Brunnen, Switzerland	Director	Corporate Director	2008
J.W. Simpson (2) (3) (4) Alberta, Canada	Lead Director	Corporate Director	2004
N.C. Southern Alberta, Canada	Director	Deputy Chair, President & Chief Executive Officer, Canadian Utilities Limited and ATCO Ltd.	1990
R.D. Southern, C.B.E., C.C., LL.D. Alberta, Canada	Director and Chairman of the Board	Chairman of the Board, Canadian Utilities Limited and ATCO Ltd.	1977 to 1979 1980 to date
R.J. Urwin, C.B.E., Ph.D. (2) (3) London, England	Director	Corporate Director	2007
C.W. Wilson (2) Colorado, U.S.A.	Director	Corporate Director	2000

⁽¹⁾ All directors hold office until the close of the annual meeting of share owners of the Corporation or until their successors are elected or appointed.

⁽²⁾ Member of the Corporate Governance – Nomination, Compensation and Succession Committee.

⁽³⁾ Member of the Audit Committee.

⁽⁴⁾ Member of the Risk Review Committee.

⁽⁵⁾ Member of the Pension Fund Committee.

Officers (in Alphabetical Order)

Name, Province or State and Country of Residence	Position Held and Principal Occupation
C.J. Ackroyd Alberta, Canada	Vice President, Marketing & Communications, Canadian Utilities Limited and ATCO Ltd.
B.R. Bale Alberta, Canada	Senior Vice President & Chief Financial Officer, Canadian Utilities Limited and ATCO Ltd.
D.E. Belsheim Alberta, Canada	Vice President, Operational Audit, Canadian Utilities Limited and ATCO Ltd.
K.J. Cumming Alberta, Canada	Senior Vice President, Northern Development, Canadian Utilities Limited and ATCO Ltd., and President, ATCO Midstream Ltd.
C. Gear Alberta, Canada	Assistant Corporate Secretary, Canadian Utilities Limited and ATCO Ltd.
K.P. Hunt Alberta, Canada	Vice President, Internal Audit & Risk Management, Canadian Utilities Limited and ATCO Ltd.
E.M. Kiefer Alberta, Canada	Group Vice President, Human Resources & Corporate Services, Canadian Utilities Limited and ATCO Ltd.
S.W. Kiefer Alberta, Canada	Managing Director, Utilities, Canadian Utilities Limited and ATCO Ltd.
R.J. Myles Alberta, Canada	Senior Vice President, Corporate Development & Planning, Canadian Utilities Limited and ATCO Ltd.
R.C. Neumann Alberta, Canada	Vice President, Controller, Canadian Utilities Limited and ATCO Ltd.
N.C. Southern Alberta, Canada	Deputy Chair, President & Chief Executive Officer, Canadian Utilities Limited and ATCO Ltd.
R.D. Southern, C.B.E., C.C., LL.D. Alberta, Canada	Chairman of the Board, Canadian Utilities Limited and ATCO Ltd.

Name, Province or State and Country of Residence	Position Held and Principal Occupation
P. Spruin Alberta, Canada	Vice President, Administration & Corporate Secretary, Canadian Utilities Limited and ATCO Ltd.
S.R. Werth Alberta, Canada	Senior Vice President & Chief Administration Officer, Canadian Utilities Limited and ATCO Ltd.
P.G. Wright Alberta, Canada	Vice President, Finance & Treasury, Canadian Utilities Limited and ATCO Ltd.

Positions Held by Directors and Officers within Preceding Five Years

All of the directors and officers have been engaged for the last five years in the indicated principal occupations, or in other capacities with the companies or firms referred to, or with affiliates or predecessors thereof, with the exception of Mr. Ackroyd, who was Director of Advertising, The Calgary Sun (a newspaper); Ms. Charlton, who has been the Vice President of Lintus Resources Limited (an oil and gas exploration and production company) since 2010, and prior thereto, a Business Consultant; Dr. Dodge, who was Governor and Chairman, Bank of Canada until 2008; Mr. Normand, who was President and Chief Executive Officer, Alberta Treasury Branches (a financial institution) until 2008; Dr. Routs, who was Executive Director Downstream, Royal Dutch Shell plc until 2008; and Dr. Urwin, who was Chairman, Alfred McAlpine plc (a business services firm) from 2006 to 2008 and prior thereto was Group Chief Executive of National Grid plc (an international gas and electric utility).

Directors' and Officers' Interests in the Corporation

At December 31, 2010, the directors and officers of the Corporation, as a group, beneficially owned, or controlled or directed, directly or indirectly (via corporate holdings or otherwise), 32,786,701 shares (82.0%) of the outstanding Class B Shares of the Corporation.

11. TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Class A Shares, Class B Shares and the Cumulative Redeemable Second Preferred Shares Series W and X is CIBC Mellon Trust Company at its principal offices in Calgary, Vancouver, Toronto and Montreal. The transfer agent and registrar for the Perpetual Cumulative Second Preferred Shares Series O, T, U and V is the Corporation at its principal office in Calgary. The trustee, transfer agent and registrar for the debentures of the Corporation is BNY Trust Company of Canada at its principal offices in Calgary and Toronto.

12. INTERESTS OF EXPERTS

PricewaterhouseCoopers LLP has prepared the auditor's report with respect to the Corporation's annual financial statements. PricewaterhouseCoopers LLP is independent in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

13. ADDITIONAL INFORMATION

Additional information relating to the Corporation may be found on SEDAR at www.sedar.com.

Additional information, including directors' and officers' remuneration, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans, is contained in the Corporation's management proxy circular dated March 8, 2010. Additional financial information is provided in the Corporation's financial statements and MD&A for the financial year ended December 31, 2010.

Information relating to ATCO Ltd. or CU Inc. may be obtained upon request from the Corporate Secretary of each corporation at 1400 ATCO Centre, 909 – 11th Avenue S.W., Calgary, Alberta T2R 1N6 (telephone (403) 292-7500 or fax (403) 292-7623). Corporate information is also available on the Corporation's website: www.canadian-utilities.com.

APPENDIX 1 – DETAILS OF GENERATING PLANTS

Name, Location & Type	Date in Service	MW (1)	Ownership % (2)	Capacity Share (2)	Partner/s (3)	Customer/s (3)	Contract Expiry Date
<u>Generating Plants in Canada:</u>							
Battle River 3, 4 & 5, Forestburg, AB Coal-Fired Thermal	1969 to 1981	670	100.0%	670	-	ENMAX	2013, 2013 & 2020
Brighton Beach, Windsor, ON Gas-Fired Combined-Cycle	2004	580	50.0%	290	OPG	CoralEnergy	2024
Cory, Saskatoon, SK Gas-Fired Cogeneration/ Combined-Cycle	2003	260	50.0%	130	SPI	SPC/PCS	2028
Joffre, Red Deer, AB Gas-Fired Cogeneration	2000	480	40.0%	192	Capital Power/ Nova	Nova/ Merchant	2020
McMahon, Taylor, BC Gas-Fired Cogeneration	1993	120	50.0%	60	Spectra Energy	BCHydro	2014
Muskeg River, Ft. McMurray, AB Gas-Fired Cogeneration	2003	170	70.0%	119	SPI	AOSP/ Merchant	2042
Oldman River, Pincher Creek, AB Hydroelectric	2003	32	75%	24	Piikani First Nation	Merchant	-
Poplar Hill, Grande Prairie, AB Gas-Fired Open-Cycle	1998	45	100.0%	45	-	Merchant/ TMR contract	2018
Primrose, Primrose, AB Gas-Fired Cogeneration	1998	85	50.0%	42	CNRL	CNRL/ Merchant	2028
Rainbow Lake 1, 2 & 3, Rainbow Lake, AB Gas-Fired Open-Cycle	1968	88	100.0%	88	-	Merchant	-
Rainbow Lake 4 & 5, Rainbow Lake, AB Gas-Fired Cogeneration/ Open-Cycle	1999	90	50.0%	45	Husky Energy	TMR Contract/ Merchant	2010
Scotford, Ft. Saskatchewan, AB Gas-Fired Cogeneration	2003	170	100.0%	170	-	AOSP/ Merchant	2043

Name, Location & Type	Date in Service	MW (1)	Ownership %	Capacity Share	Partner/s (4)	Customer/s (4)	Contract Expiry Date
Generating Plants in Canada: (cont'd)							
Sheerness 1 & 2, Hanna, AB Coal-Fired Thermal	1986 & 1990	760	50.0%	380	TransAlta	Trans Canada	2020
Sturgeon, Valleyview, AB Gas-Fired Open-Cycle	1957	18	100.0%	18	-	Merchant	-
Valleyview 1 & 2, Valleyview, AB Gas-Fired Open-Cycle	2001 & 2008	90	100.0%	90	-	Merchant	-
Sub-total (A)		3,658		2,363			

(1) Name plate capacity.

(2) The Corporation's ownership and capacity share in the generating plants are stated as of January 1, 2011, and include the transfer of ATCO Resources to ATCO Power (refer to Business Description – Three Year History section).

(3) Full names of Customers and Partners:

- AOSP means Athabasca Oil Sands Project;
- Capital Power means Capital Power (Alberta) Limited Partnership;
- CNRL means Canadian Natural Resources Limited;
- ENMAX means Enmax Corporation;
- Nova means Nova Chemicals;
- OPG means Ontario Power Generation Inc.;
- PCS means Potash Corporation of Saskatchewan;
- SPC means SaskPower Corporation;
- SPI means Saskpower International Inc.;
- TransAlta means TransAlta Corporation; and
- TransCanada means TransCanada Corporation.

Name, Location & Type	Date in Service	MW (1)	Ownership %	Capacity Share	Partner/s (5)	Customer/s (5)	Contract Expiry Date
Generating Plants Outside Canada:							
Barking, London, UK Gas-Fired Combined-Cycle	1995	1,000	25.5% (2)	255	BB/EDF/ SSE	Merchant	-
Bulwer Island, Queensland Australia Gas-Fired Cogeneration	2001	33	50.0% (3)	17	Origin Energy	BP	2021
Karratha, Western Australia (4) Gas-Fired Open-Cycle	2010	86	100.0% (3)	86	-	Horizon Power	2030
Osborne, South Australia Gas-Fired Cogeneration/ Combined-Cycle	1998	180	50.0% (3)	90	Origin Energy	Origin Electricity/ Penrice	2018
Sub-total (B)		1,299		448			
Total (A+B)		4,957		2,811			

(1) Name plate capacity.

(2) Canadian Utilities' ownership in this plant is held 100% by ATCO Power.

(3) Effective January 1, 2011, Canadian Utilities' ownership in this plant is held 100% by ATCO Australia. In 2011 the operations of these three plants will be reported in a separate segment.

(4) The Karratha generating plant was commissioned in 2010. The first unit commenced commercial operations on February 14, 2010 followed by the second unit on April 9, 2010.

(5) Full names of Customers and Partners:

- BB means Balfour Beatty plc.;
- BP means BP plc.;
- EDF means EDF Energy plc.;
- Origin Electricity means Origin Energy Electricity Limited;
- Origin Energy means Origin Energy Limited;
- Penrice means Penrice Soda Holdings Limited;
- SSE means Scottish & Southern Energy;

APPENDIX 2 – AUDIT COMMITTEE INFORMATION

Audit Committee Mandate

Purpose

The purpose of this mandate is to establish the terms of reference of the Audit Committee (the “Committee”) of the Corporation. The Committee is appointed by the Board of Directors of the Corporation (the “Board”). The Committee is responsible for contributing to the effective stewardship of the Corporation by assisting the Board in fulfilling its oversight of:

- (i) the integrity of the Corporation’s financial statements;
- (ii) the Corporation’s compliance with applicable legal and regulatory requirements;
- (iii) the independence, qualifications and appointment of the Corporation’s external auditor;
- (iv) the performance of the Corporation’s internal auditor and external auditor;
- (v) the accounting and financial reporting processes of the Corporation; and
- (vi) audits of the financial statements of the Corporation.

Composition

The Board shall elect annually from among its members an Audit Committee comprised of not less than 3 directors. Each member of the Committee must be:

- a director of the Corporation;
- independent (within the meaning of sections 1.4 and 1.5 of National Instrument 52-110); and
- financially literate (within the meaning of section 1.6 of National Instrument 52-110).

In order to be considered to be independent for the purposes of membership on the Committee, a director must have been determined by the Board to have no direct or indirect material relationship with the Corporation and must satisfy all other applicable legal and regulatory requirements.

The Board will appoint one member of the Committee as Chairman. Any member of the Committee may be removed or replaced at any time by the Board, and a member shall cease to be a member of the Committee upon ceasing to be a director of the Corporation or upon ceasing to be independent.

Meetings

The Committee shall meet at least four times per year and whenever deemed necessary by the Chairman of the Committee or at the request of a Committee member or the Corporation’s external or internal auditor.

The Chairman of the Committee shall prepare and/or approve an agenda in advance of each meeting. Reasonable notification of meetings, which may be held in person, by telephone or other communication device, shall be sent to the members of the Committee, the external auditor and any additional attendees

as determined by the Chairman of the Committee. The external auditor has the right to appear before and be heard at any meeting of the Committee. Upon the request of the external auditor, the Chairman of the Committee shall convene a meeting of the Committee to consider any matters which the external auditor believes should be brought to the attention of the directors or shareholders of the Corporation. Meetings will be scheduled to permit timely review of Committee materials. A majority of the Committee will constitute a quorum. Minutes of each meeting will be prepared by the person designated by the Committee to act as secretary and will be kept by the Corporate Secretarial Department.

Reporting

The Committee shall report to the Board on such matters and questions relating to the financial position of the Corporation as the Board may from time to time refer to the Committee. A summary of all meetings will be provided to the Board by the Chairman of the Committee. Supporting schedules and information reviewed by the Committee will be available for examination by any director upon request. The external auditor and the Vice President, Internal Audit of the Corporation shall report directly to the Committee. The Committee is expected to maintain free and open communication with the Corporation's external auditor, internal auditor and management. This communication shall include private sessions, at least annually, with each of these parties.

Responsibilities and Authority

The Committee relies on the expertise and knowledge of management and the internal and external auditors in carrying out its responsibilities. Management of the Corporation is responsible for determining that the Corporation's financial statements are complete, accurate and in accordance with generally accepted accounting principles. The external auditor is responsible for auditing the Corporation's financial statements.

The Committee shall have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The Committee shall have the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties, to set and pay the compensation for any advisors employed by the Committee, and to communicate directly with the internal and external auditors.

The Committee shall:

- Recommend to the Board:
 - (a) the external auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attestation services for the Corporation;
 - (b) the compensation of the external auditor; and
 - (c) the approval of the Corporation's annual financial statements, AIF and annual MD&A.
- be directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attestation services for

the Corporation, including the resolution of disagreements between management and the external auditor regarding financial reporting.

- pre-approve all non-audit services to be provided to the Corporation or its subsidiaries by the external auditor of the Corporation (“Non-audit Services”). The Committee may delegate to one or more of its members the authority to pre-approve Non-audit Services, and each pre-approval of Non-audit Services by a member to whom such authority has been delegated must be presented in writing to the Committee at its first scheduled meeting following such pre-approval. The Committee shall adopt and periodically review policies and procedures for the engagement of Non-audit Services that are detailed as to the particular service, that do not include delegation of the Committee’s responsibilities to management, and that are designed to manage the pre-approval process and comply with all applicable legal and regulatory requirements.
- review the Corporation’s annual and interim financial statements, AIF, MD&A and annual and interim earnings press releases before the Corporation publicly discloses this information.
- if delegated by the Board, approve the interim financial statements, interim MD&A and interim earnings press releases before the Corporation publicly discloses this information.
- be satisfied that adequate procedures are in place for the review of the Corporation’s public disclosure of financial information extracted or derived from the Corporation’s financial statements, and periodically assess the adequacy of these procedures. This would include an annual review of the Corporation’s Disclosure Policy.
- ensure that the Corporation has appropriate procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters.
- provide a means for confidential and anonymous submission by employees of the Corporation of concerns regarding accounting or auditing matters.
- be satisfied that the Corporation has implemented appropriate systems of internal control over financial reporting and that these systems are operating effectively.
- be satisfied that the internal audit function has been effectively carried out and the internal auditor has adequate resources.
- review and approve the Corporation’s hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation.
- review and reassess annually the adequacy of this mandate and recommend any proposed changes to the Board for approval.

The members of the Committee, for the purpose of performing their duties, have the right to inspect all the books and records of the Corporation and its subsidiary entities and to discuss such books and records in any manner relating to the financial position of the Corporation and its subsidiary entities with the officers, employees and external auditors of the Corporation and its subsidiary entities.

The Committee will inquire into any other matters referred to it by the Board.

Composition of the Audit Committee

The following are the members of the Corporation's Audit Committee, all of whom are independent and financially literate:

- L.M. Charlton
- D.M. Ellard
- R.J. Normand
- J.W. Simpson (Chairman)
- R.J. Urwin

Relevant Education and Experience

L.M. Charlton - Ms. Charlton has a Bachelor of Commerce degree in Finance. Ms. Charlton has held positions of increasing financial responsibility ranging from Financial Analyst to Chief Financial Officer during her 22 year career at Investors' Petroleum Consultants Ltd. In April 2006, Ms. Charlton completed the Institute of Corporate Directors "Financial Literacy for Directors and Executives Course".

D.M. Ellard - Mr. Ellard has an M.B.A. with a major in Finance from the University of Alberta. He has held several senior executive positions with the Corporation and ATCO Ltd. where he was responsible for financial performance of several companies within the ATCO Group.

R.J. Normand - Mr. Normand has an M.B.A. and a B.A. (Economics) and has completed studies leading to the Fellow of the Institute of Canadian Bankers designation. Over the past 30 years, Mr. Normand has filled senior executive roles in the financial and banking sectors, most recently as President and Chief Executive Officer of Alberta Treasury Branches.

J.W. Simpson - Mr. Simpson graduated from an Executive Accounting/Finance Program at M.I.T's Sloan School of Business. During Mr. Simpson's career at Chevron Corporation various financial positions reported to him. In his capacity as General Manager, the accounting department reported to him and as President of Chevron Canada Resources, the Vice President Finance directly reported to Mr. Simpson. In addition, Mr. Simpson was Chairman of the Internal Audit Committee of Chevron Canada Resources.

R.J. Urwin - Dr. Urwin has been the Chief Executive Officer of major public companies since 1990. He was the Group Chief Executive of National Grid plc from 2001 until his retirement in 2006, and was responsible for compliance with the U.S. Sarbanes-Oxley requirements. Dr. Urwin has been a member of the Audit Committees of a number of U.K. public companies and is currently on the Audit Committee of Utilico Limited.

Pre-Approval Policies and Procedures

The Audit Committee and the Board of Directors of the Corporation have adopted a policy for approval of external auditor services. The policy prohibits the external auditor from providing specified services to the Corporation and its subsidiaries.

The engagement of the external auditor for a range of services defined in the policy has been pre-approved by the Audit Committee. If an engagement of the external auditor is contemplated for a particular service that is neither prohibited nor covered under the range of pre-approved services, such engagement must be pre-approved. The Audit Committee has delegated the authority to grant such pre-approval to the Chairman of the Audit Committee.

Services provided by the external auditor are subject to an engagement letter. The policy mandates that the Audit Committee receive regular reports of all new pre-approved engagements of the external auditor.

External Auditor Service Fees

The aggregate fees incurred by the Corporation and its subsidiaries for professional services provided by PricewaterhouseCoopers LLP for each of the past two years were as follows:

<i>(\$ Millions)</i>	2010	2009
Audit fees (1)	1.5	1.5
Audit related fees (2)	0.8	0.1
Tax fees (3)	0.2	0.6
All other fees	0.1	-
Total	2.6	2.2

⁽¹⁾ *Audit fees are the aggregate professional fees paid to the external auditor for the audit of the annual consolidated financial statements and other regulatory audits and filings.*

⁽²⁾ *Audit related fees are the aggregate fees paid to the external auditor for services related to special purpose audits and audit services including consultations regarding International Financial Reporting Standards and Canadian financial reporting and accounting standards.*

⁽³⁾ *Tax fees are the aggregate fees paid to the external auditor for tax compliance, tax advice, tax planning and advisory services relating to the preparation of corporate tax, capital tax and sales tax returns.*