Corporate Head Office: 1500, 909 - 11th Ave S.W., Calgary, AB, Canada T2R 1N6 Tel (403) 292-7500 Fax (403) 292 -7532 www.canadian-utilities.com

FOR THE THREE MONTHS ENDED
MARCH 31, 2006

TO THE SHARE OWNERS:

Canadian Utilities Limited reported increased earnings for the three months ended March 31, 2006, of $86.9 million ($0.68 per share) compared to earnings for the same three months in 2005 of $80.0 million ($0.63 per share).

Earnings for the three months ended March 31, 2006, increased primarily due to:
- higher natural gas storage earnings due to increased capacity leased, the timing and demand of storage capacity sold and higher average fees received by ATCO Midstream;
- improved prices for ATCO Power's U.K. merchant electricity; and
- decreased share appreciation rights expense due to lower share prices.

This increase was partially offset by:
- higher transmission costs in ATCO Pipelines;
- one-time impact of the ATCO Electric Alberta Energy and Utilities Board ("AEUB") General Tariff Application Decision ("ATCO Electric Decision") related to 2005 earnings recorded in the first quarter of 2006; and
- warmer temperatures in ATCO Gas.

Revenues for the three months ended March 31, 2006, were $642.0 million compared to $745.2 million in 2005. This decrease was primarily due to:
- reduced recoveries of natural gas costs in 2006 as ATCO Gas ceased selling natural gas from its natural gas storage facilities on March 31, 2005, in accordance with AEUB directives; and
- lower business activity in ATCO Frontec.

This decrease was partially offset by:
- impact of customer rate increases resulting from the ATCO Electric Decision and the ATCO Gas General Rate Application Decision ("ATCO Gas Decision") received from the AEUB in the first quarter of 2006. The impact of the ATCO Electric Decision and the ATCO Gas Decision on the first quarter revenues are positive as ATCO Electric and ATCO Gas had lower rates for customers during the first quarter of 2005; and
- higher natural gas storage revenues due to increased capacity leased, the timing and demand of storage capacity sold and higher average fees received by ATCO Midstream.

Cash flow from operations for the three months ended March 31, 2006, was $205.7 million compared to $229.2 million in 2005. This decrease was primarily due to the impact of the previously announced TXU Europe Settlement. This decrease was partially offset by increased earnings.

First Quarter Other Highlights Include:

- ATCO Gas received a decision from the Supreme Court of Canada that ATCO Gas is the sole owner of its assets. In its decision regarding the sale of property owned by the utility, the Supreme Court reiterated the important role of the AEUB to determine fair, equitable and reasonable rates for customers while balancing the property rights retained by owners, as recognized in a free market economy.
- ATCO Gas officially opened a new 55,000 square foot facility in Edmonton, which incorporates some of the most advanced equipment for testing and certifying natural gas detection and metering equipment.

Canadian Utilities Limited is a part of the ATCO Group of companies. ATCO Group is an Alberta based, worldwide organization of companies with more than 7,000 employees actively engaged in Power Generation, Utilities and Global Enterprises. More information about Canadian Utilities can be found on its website, www.canadian-utilities.com.

N.C. Southern
President & Chief Executive Officer

R.D. Southern
Chairman of the Board

CANADIAN UTILITIES LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ("MD&A")

The following discussion and analysis of financial condition and results of operations of Canadian Utilities Limited (the "Corporation") should be read in conjunction with the Corporation's unaudited interim consolidated financial statements for the three months ended March 31, 2006, and the audited consolidated financial statements and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2005 ("2005 MD&A"). Information contained in the 2005 MD&A that is not discussed in this document remains substantially unchanged. Additional information relating to the Corporation, including the Corporation's Annual Information Form, is available on SEDAR at www.sedar.com.

The common share capital of the Corporation consists of Class A non-voting shares ("Class A shares") and Class B common shares ("Class B shares").

TABLE OF CONTENTS

FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A constitute forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "will", "intend", "should", and similar expressions. These statements involve 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 statements. The Corporation believes that the expectations reflected in the forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon.

In particular, this MD&A contains forward-looking statements pertaining to purchase obligations, planned capital expenditures, the impact of changes in government regulation and non-regulated generating capacity subject to long term contracts. The Corporation's actual results could differ materially from those anticipated in these forward-looking statements as a result of regulatory decisions, competitive factors in the industries in which the Corporation operates, prevailing economic conditions, and other factors, many of which are beyond the control of the Corporation.

BUSINESS OF THE CORPORATION

The Corporation's financial statements are consolidated from three Business Groups: Utilities, Power Generation and Global Enterprises. For the purposes of financial disclosure, corporate transactions are accounted for as Corporate and Other (refer to Note 6 to the unaudited interim consolidated financial statements for the three months ended March 31, 2006). Transactions between Business Groups are eliminated in all reporting of the Corporation's consolidated financial information.

In 2006, ASHCOR Technologies was transferred from the Global Enterprises Business Group to the Power Generation Business Group. 2005 segmented figures have been reclassified to conform to the current basis of segmentation.

TXU EUROPE SETTLEMENT

On November 19, 2002, an administration order was issued by an English Court against TXU Europe Energy Trading Limited ("TXU Europe") for breach of its contract to purchase 27.5% of the power produced by the 1,000 megawatt Barking generating plant, in which the Corporation owns a 25.5% equity interest. In 2005, the Corporation received $83.1 million as its share of the partial settlement of the claim for damages related to TXU Europe's breach of this contract. An additional payment of $16.6 million was received on January 19, 2006 and a final installment of approximately $1.6 million is expected in the second quarter of 2006. The settlement is expected to generate earnings after income taxes of approximately $69 million, based on foreign currency exchange rates in effect on March 30, 2005, which will be recognized over the remaining term of the TXU Europe contract from October 1, 2004, to September 30, 2010, at approximately $11 million per year. These earnings will be dependent upon the foreign currency exchange rates in effect at the time the earnings are recognized. For a description of the settlement, refer to Note 3 to the unaudited interim consolidated financial statements for the three months ended March 31, 2006.

SELECTED QUARTERLY INFORMATION

	For the Three Months Ended			
($ Millions except per share data)	**Mar. 31**	**Jun. 30**	**Sep. 30**	**Dec. 31**
		(unaudited)		
2006				
Revenues (1) (2)	642.0	....	....	....
Earnings attributable to Class A and Class B shares (3) (4)	86.9	....	....	....
Earnings per Class A and Class B share (3) (4)	0.68	....	....	....
Diluted earnings per Class A and Class B share (3) (4)	0.68	....	....	....
2005				
Revenues (1) (2)	745.2	552.9	537.4	680.3
Earnings attributable to Class A and Class B shares (3) (4)	80.0	50.0	46.5	89.1
Earnings per Class A and Class B share (3) (4)	0.63	0.39	0.37	0.70
Diluted earnings per Class A and Class B share (3) (4)	0.63	0.39	0.37	0.69
2004				
Revenues (1)	....	674.7	530.5	637.0
Earnings attributable to Class A and Class B shares (3) (4) (5)	....	100.2	44.0	90.3
Earnings per Class A and Class B share (3) (4) (5)	....	0.79	0.35	0.71
Diluted earnings per Class A and Class B share (3) (4) (5)	....	0.78	0.35	0.71

Notes:

(1) *On May 4, 2004, ATCO Gas and ATCO Electric transferred their retail energy supply businesses to Direct Energy Marketing Limited and one of its affiliates (collectively "DEML"), a subsidiary of Centrica plc. Prior to the transfer, the cost of natural gas and electricity purchased for ATCO Gas' and ATCO Electric's customers was included in revenues. As ATCO Gas and ATCO Electric no longer purchase natural gas and electricity for their customers, revenues since May 4, 2004, have decreased accordingly.*

(2) *Reduced recoveries of natural gas costs in revenues in 2006 as ATCO Gas ceased selling natural gas from its natural gas storage facilities on March 31, 2005, in accordance with Alberta Energy and Utilities Board directives.*

(3) *There were no discontinued operations or extraordinary items during these periods.*

(4) *Due to the seasonal nature of the Corporation's operations, changes in electricity prices in Alberta and the timing of rate decisions, earnings for any quarter are not necessarily indicative of operations on an annual basis.*

(5) *Includes earnings of $55.1 million, earnings per share of $0.44 and diluted earnings per share of $0.43 on the transfer of the retail energy supply businesses on May 4, 2004, to DEML, for the three months ended June 30, 2004.*

(6) *The above data has been extracted from the financial statements which have been prepared in accordance with Canadian generally accepted accounting principles and the reporting currency is the Canadian dollar.*

RESULTS OF OPERATIONS

The principal factors that have caused variations in **revenues** and **earnings** over the eight most recently completed quarters necessary to understand general trends that have developed and the seasonality of the businesses disclosed in the 2005 MD&A remain substantially unchanged.

Consolidated Operations

Revenues for the three months ended March 31, 2006, decreased by $103.2 million to $642.0 million, primarily due to:

- reduced recoveries of natural gas costs in revenues in 2006 as ATCO Gas ceased selling natural gas from its natural gas storage facilities on March 31, 2005, in accordance with Alberta Energy and Utilities Board ("AEUB") directives; and
- lower business activity in ATCO Frontec.

This decrease was partially offset by:

- impact of customer rate increases for ATCO Electric and ATCO Gas (refer to Regulatory Matters - ATCO Electric and ATCO Gas sections). The impact of the ATCO Electric GTA Decision and the ATCO Gas GRA Decision on the first quarter of 2006 is positive as ATCO Electric and ATCO Gas had lower customer rates for 2005 during the first quarter of 2005;
- higher storage revenues due to higher capacity leased, the timing and demand of storage capacity sold and higher average fees received by ATCO Midstream; and
- higher franchise fees collected by ATCO Gas on behalf of cities and municipalities.

Earnings attributable to Class A and Class B shares for the three months ended March 31, 2006, increased by $6.9 million ($0.05 per share) to $86.9 million ($0.68 per share), primarily due to:

- higher storage earnings due to higher capacity leased, the timing and demand of storage capacity sold and higher average fees received by ATCO Midstream;
- improved merchant performance in ATCO Power's U.K. operations; and
- decreased share appreciation rights expense due to changes in Canadian Utilities Limited Class A share and ATCO Ltd. Class I Non-Voting share prices since December 31, 2005.

This increase was partially offset by:

- higher transmission costs in ATCO Pipelines;

- one-time impact of the ATCO Electric GTA Decision related to 2005 earnings recorded in the first quarter of 2006 (refer to Regulatory Matters - ATCO Electric section); and
- warmer temperatures in ATCO Gas.

Operating expenses (consisting of natural gas supply, purchased power, operation and maintenance, selling and administrative and franchise fee costs) for the three months ended March 31, 2006, decreased by $116.2 million to $359.6 million, primarily due to:

- reduced natural gas supply costs in 2006 as ATCO Gas ceased selling natural gas from its natural gas storage facilities on March 31, 2005, in accordance with AEUB directives; and
- lower business activity in ATCO Frontec.

This decrease was partially offset by:

- higher franchise fees collected by ATCO Gas on behalf of cities and municipalities.

Depreciation and amortization expenses for the three months ended March 31, 2006, increased by $5.8 million to $87.7 million, primarily due to:

- capital additions in 2006 and 2005.

Interest expense for the three months ended March 31, 2006, decreased by $0.9 million to $53.3 million, primarily due to:

- repayment of non-recourse financings in 2006 and 2005.

Interest and other income for the three months ended March 31, 2006, increased by $1.4 million to $9.1 million, primarily due to:

- increased interest income due to higher short term interest rates on larger cash balances.

Income taxes for the three months ended March 31, 2006, increased by $2.6 million to $54.7 million, primarily due to:

- higher earnings.

Segmented Information

Segmented revenues and earnings attributable to Class A and Class B shares for the three months ended March 31, 2006, were as follows:

	For the Three Months Ended March 31			
($ Millions)	**Revenues**		**Earnings**	
	2006	2005	**2006**	2005
	(unaudited)			
Utilities (1)	**328.7**	432.2	**40.4**	44.4
Power Generation	**189.8**	185.4	**27.4**	23.5
Global Enterprises	**154.1**	156.4	**23.0**	17.4
Corporate and Other	**3.0**	3.0	**(2.5)**	(5.1)
Intersegment eliminations	**(33.6)**	(31.8)	**(1.4)**	(0.2)
Total	**642.0**	745.2	**86.9**	80.0

Note:

(1) Reduced recoveries of natural gas costs in revenues in 2006 as ATCO Gas ceased selling natural gas from its natural gas storage facilities on March 31, 2005, in accordance with AEUB directives.

Utilities

Revenues from the Utilities Business Group for the three months ended March 31, 2006, decreased by $103.5 million to $328.7 million, primarily due to:

- reduced recoveries of natural gas costs in revenues in 2006 as ATCO Gas ceased selling natural gas from its natural gas storage facilities on March 31, 2005, in accordance with AEUB directives; and
- lower natural gas volumes purchased for ATCO Pipelines' customers as a result of customers moving from sales service (commodity and transportation revenues) to transportation service only contracts (transportation revenue).

This decrease was partially offset by:

- impact of customer rate increases for ATCO Electric and ATCO Gas (refer to Regulatory Matters - ATCO Electric and ATCO Gas sections). The impact of the ATCO Electric GTA Decision and the ATCO Gas GRA Decision on the first quarter of 2006 is positive as ATCO Electric and ATCO Gas had lower customer rates for 2005 during the first quarter of 2005; and
- higher franchise fees collected by ATCO Gas on behalf of cities and municipalities.

Temperatures in ATCO Gas for the three months ended March 31, 2006, were 6.8% warmer than normal, compared to 4.4% warmer than normal for the corresponding period in 2005.

Earnings for the three months ended March 31, 2006, decreased by $4.0 million to $40.4 million, primarily due to:

- higher transmission costs in ATCO Pipelines;
- one-time impact of the ATCO Electric GTA Decision related to 2005 earnings recorded in the first quarter of 2006 (refer to Regulatory Matters - ATCO Electric section); and
- warmer temperatures in ATCO Gas.

This decrease was partially offset by:

- impact of higher customer rates for ATCO Electric in the first quarter of 2006. While the impact of the ATCO Electric GTA Decision (refer to Regulatory Matters - ATCO Electric section) is expected to decrease 2006 earnings, the impact of the ATCO Electric GTA Decision on the first quarter of 2006 is positive as ATCO Electric had lower customer rates for 2005 during the first quarter of 2005.

Power Generation

Revenues from the Power Generation Business Group for the three months ended March 31, 2006, increased by $4.4 million to $189.8 million, primarily due to:

- improved merchant performance in ATCO Power's U.K. operations; and
- higher natural gas fuel purchases recovered on a "no margin" basis at ATCO Power's Barking generating plant.

This increase was partially offset by:

- impact of lower U.K. and Australia exchange rates on conversion of revenues to Canadian dollars;
- lower revenues at ATCO Power's Joffre generating plant due to the addition of a boiler in October 2005 which allows the plant to generate electricity only when it is economical to do so while still meeting the plant's requirement to supply steam at all times; and
- the Power Purchase Arrangement ("PPA") for Alberta Power (2000)'s Rainbow generating plant expired December 31, 2005.

Earnings for the three months ended March 31, 2006, increased by $3.9 million to $27.4 million, primarily due to:

- improved merchant performance in ATCO Power's U.K. operations.

Alberta Power Pool electricity prices for the three months ended March 31, 2006, averaged $56.85 per megawatt hour, compared to average prices of $46.00 per megawatt hour for the corresponding period in 2005. Natural gas prices for the three months ended March 31, 2006, averaged $7.13 per gigajoule, compared to average prices of $6.54 per gigajoule for the corresponding period in 2005. The consequence of these changes in electricity and natural gas prices was an average spark spread of $3.35 per megawatt hour for the three months ended March 31, 2006, compared to ($3.05) per megawatt hour for the corresponding period in 2005.

Spark spread is related to the difference between Alberta Power Pool electricity prices and the marginal cost of producing electricity from natural gas. These spark spreads are based on an approximate industry heat rate of 7.5 gigajoules per megawatt hour.

Changes in spark spread affect the results of approximately 406 megawatts of plant capacity owned in Alberta by ATCO Power and Alberta Power (2000) out of a total world wide owned capacity of approximately 2,474 megawatts.

During the three months ended March 31, 2006, Alberta Power (2000)'s **deferred availability incentive** account increased by $12.4 million to $72.1 million. The increase was due to additional availability incentives received for improved plant availability. During the three months ended March 31, 2006, the amortization of deferred availability incentives, recorded in revenues, increased by $0.6 million to $2.6 million as compared to the same period in 2005.

Global Enterprises

Revenues from the Global Enterprises Business Group for the three months ended March 31, 2006, decreased by $2.3 million to $154.1 million, primarily due to:

- lower business activity in ATCO Frontec.

This decrease was partially offset by:

- higher storage revenues due to higher capacity leased, the timing and demand of storage capacity sold and higher average fees received by ATCO Midstream; and
- higher prices for natural gas liquids in ATCO Midstream.

Earnings for the three months ended March 31, 2006, increased by $5.6 million to $23.0 million, primarily due to:

- higher storage earnings due to higher capacity leased, the timing and demand of storage capacity sold and higher average fees received by ATCO Midstream; and
- higher margins for natural gas liquids in ATCO Midstream.

Corporate and Other

Earnings for the three months ended March 31, 2006, increased by $2.6 million to ($2.5) million, primarily due to:

- decreased share appreciation rights expense due to changes in Canadian Utilities Limited Class A share and ATCO Ltd. Class I Non-Voting share prices since December 31, 2005.

REGULATORY MATTERS

Regulated operations are conducted by ATCO Electric and its subsidiaries, Northland Utilities (NWT), Northland Utilities (Yellowknife) and Yukon Electrical, the ATCO Gas and ATCO Pipelines divisions of ATCO Gas and Pipelines Ltd. and the generating plants of Alberta Power (2000), all of which are wholly owned subsidiaries of the Corporation's wholly owned subsidiary, CU Inc.

In July 2004, the AEUB issued its generic cost of capital decision. The decision established a standardized approach for each utility company regulated by the AEUB for determining the rate of return on common equity based upon a return of 9.60% on common equity. This rate of return is adjusted annually by 75% of the change in long term Government of Canada bond yield as forecast in the November Consensus Forecast, adjusted for the average difference between the 10 year and 30 year Government of Canada bond yields for the month of October as reported in the National Post. This adjustment mechanism is similar to the method the National Energy Board uses in determining its formula based rate of return. The AEUB will undertake a review of this mechanism for the year 2009 or if the rate of return resulting from the formula is less than 7.6% or greater than 11.6%. The AEUB also noted that any party, at any time, could petition for a review of the adjustment formula if that party can demonstrate a material change in facts or circumstances.

The decision also established the appropriate capital structure for each utility regulated by the AEUB. The AEUB determined that any proposed changes to the approved capital structure which result from a material change in the investment risk of a utility will be addressed at utility specific rate applications.

In November 2005, the AEUB announced a generic return on common equity of 8.93% for 2006. In January 2006, the AEUB clarified that the generic return on equity determined on an annual basis in accordance with the generic cost of capital decision should apply to each year of the test period in the companies' applications. If no rate applications are filed for a particular year, then there will be no adjustment to the common equity rate of return for that year.

In June 2005, as part of their rate applications, ATCO Electric and ATCO Gas submitted a filing to the AEUB that addressed certain common matters. ATCO Pipelines is also a party to this filing as the concerns are common to all three utilities. This filing included evidence regarding the appropriate ratemaking approach in the determination of utility revenue requirements as well as treatment of pension costs, executive compensation, head office rent expense and the continued use of preferred shares as a form of financing for the three utilities. The AEUB is expected to hear this filing in May 2006 and a decision is expected in the fourth quarter of 2006.

ATCO Electric

On March 17, 2006, ATCO Electric received a decision on its General Tariff Application for 2005 and 2006 ("ATCO Electric GTA Decision") which was filed with the AEUB in May 2005. The decision establishes the amount of revenue ATCO Electric can recover through its rates for electric distribution and transmission service provided to its customers for 2005 and 2006. In July and September 2005, the AEUB had approved interim refundable rates for distribution and transmission operations, respectively; revenues associated with these interim refundable rates were recorded in 2005. The impact of the decision for 2005 reduced earnings by $2.5 million and was recorded in the first quarter of 2006. The impact of the decision for the full year 2006, as compared to the decision for the full year 2005, will further reduce earnings by $3.2 million. The decision also confirmed the return on common equity as determined by the AEUB's standardized rate of return methodology. The rate of return on common equity was 9.5% in 2005 and is 8.93% in 2006.

ATCO Gas

On January 27, 2006, ATCO Gas received a decision on its general rate application which was filed with the AEUB in May 2005 for the 2005, 2006 and 2007 test years ("ATCO Gas GRA Decision"). The decision establishes the amount of revenue ATCO Gas can recover through distribution rates for natural gas distribution service to its customers over the period of 2005 to 2007. In August 2005, the AEUB approved interim refundable rates which recognized only 28% of the increased operating costs and rate base additions requested in the original application. On January 27, 2006, ATCO Gas received an AEUB decision which did not materially change the earnings based on the 2005 interim rates. The final impact of the decision will not be known until two subsequent regulatory processes are finalized. The decision also approved the return on common equity as determined by the AEUB's standardized rate of return methodology. The rate of return on common equity was 9.5% in 2005, is 8.93% in 2006, and is yet to be determined for 2007.

In October 2001, the AEUB approved the sale by ATCO Gas of certain properties in the City of Calgary, known as the Calgary Stores Block, for $6.6 million (excluding costs of disposition) and allocated $4.1 million of the proceeds to customers and $1.8 million to ATCO Gas. In January 2004, the Alberta Court of Appeal overturned this decision and directed the AEUB to allocate $5.4 million of the proceeds to ATCO Gas. The City of Calgary appealed this decision to the Supreme Court of Canada, which also granted ATCO Gas leave to cross-appeal the decision. The Supreme Court of Canada heard the appeal on May 11, 2005 and on February 9, 2006 rendered its decision. The Supreme Court dismissed the City of Calgary's appeal and allowed ATCO Gas' cross-appeal. The Supreme Court of Canada has directed the AEUB to issue a new decision in accordance with the Supreme Court's ruling. ATCO Gas has requested the AEUB to address the Supreme Court of Canada decision. Net proceeds totaling $4.1 million from the sale are being held pending AEUB approval.

In July 2004, the AEUB initiated a written process to consider its role in regulating the operations of the Carbon natural gas storage facility. On June 15, 2005, the AEUB issued a decision with respect to this process. In addition to addressing other matters, the decision found that the AEUB has the authority, when necessary in the public interest, to direct a utility to utilize a particular asset in a specific manner, even over the objection of the utility. ATCO Gas has filed for leave to appeal the decision with the Alberta Court of Appeal. On October 3, 2005, the AEUB established processes to review the use of the Carbon natural gas storage facility for utility purposes. A hearing to review the use of the facility for revenue generation is scheduled for April 2006 and a hearing to review the use of the facility for load balancing is scheduled for June 2006.

ATCO Gas' position is that the Carbon natural gas storage facility is no longer required for utility service. Accordingly, in March 2005, ATCO Gas filed a letter with the AEUB in which it withdrew all evidence previously filed by it with respect to the 2005/2006 Carbon Storage Plan, thus providing notice that none of the related costs and revenues will form part of regulated operations on or after April 1, 2005. On March 23, 2005, the AEUB issued an interim order directing ATCO Gas to maintain the Carbon natural gas storage facility in rate base and confirming a lease of the entire storage capacity to ATCO Midstream at a placeholder rate of $0.45 per gigajoule until otherwise determined by the AEUB. ATCO Gas filed for leave to appeal the interim order on April 15, 2005.

ATCO Gas has filed an application with the AEUB to address, among other things, corrections required to historical transportation imbalances that have impacted ATCO Gas' deferred gas account. In April 2005, the AEUB issued a decision resulting in a 15% decrease in the transportation imbalance adjustments sought by ATCO Gas. The decision resulted in a decrease to 2005 revenues and earnings of $1.8 million and $1.2 million, respectively. The City of Calgary has filed for leave to appeal the AEUB's decision. ATCO Gas has filed a cross appeal of the AEUB's decision. The cross appeal is contingent upon the granting of the City of Calgary's leave to appeal which has been rescheduled to be heard on April 18, 2006.

In October 2005, ATCO Gas filed an application with the AEUB to approve the sale of its Red Deer Operating Centre. In December 2005, the AEUB approved the sale and deferred its decision on the distribution of net proceeds of $1.0 million until the Supreme Court of Canada rendered a judgment in the appeal regarding the Calgary Stores Block disposition and allocation of proceeds discussed above. The Supreme Court of Canada rendered its decision on the Calgary Stores Block matter on February 9, 2006. In February 2006, ATCO Gas submitted a filing to the AEUB to approve the allocation of the net proceeds. On March 16, 2006, the AEUB suspended the process convened to approve allocation of the net proceeds pending resolution of certain issues arising in connection with the Supreme Court's Calgary Stores Block decision. The net proceeds of the sale remain in trust pending AEUB approval.

ATCO Pipelines

The AEUB has announced that it will hold a hearing to address competitive issues between ATCO Pipelines and NOVA Gas Transmission Ltd. This hearing is expected to take place in 2006.

Other Matters

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

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations provides a substantial portion of the Corporation's cash requirements. Additional cash requirements are met externally through bank borrowings and the issuance of long term and non-recourse debt and preferred shares. Commercial paper borrowings and short term bank loans are used to provide flexibility in the timing and amounts of long term financing.

Cash flow from operations for the three months ended March 31, 2006, decreased by $23.5 million to $205.7 million, primarily due to:

- impact of the TXU Europe Settlement (refer to TXU Europe Settlement section).

This decrease was partially offset by:

- increased earnings; and
- increased availability incentives in Alberta Power (2000), primarily due to availability incentive payments received for improved plant availability.

Investing for the three months ended March 31, 2006, decreased by $8.8 million to $103.7 million, primarily due to:

- increased contributions by utility customers for extensions to plant; and
- changes in non-current deferred electricity costs.

This decrease was partially offset by:

- increased capital expenditures.

Capital expenditures for the three months ended March 31, 2006, increased by $21.1 million to $112.2 million, primarily due to:

- increased investment in ATCO Pipelines' regulated natural gas transportation projects.

During the three months ended March 31, 2006, the Corporation **issued**:

- $35.5 million of long term debt.

During the three months ended March 31, 2006, the Corporation **redeemed**:

- $19.8 million of non-recourse long term debt.

These changes resulted in a **net debt increase** of $15.7 million.

At March 31, 2006, the Corporation had the following credit lines that enable it to obtain funding for general corporate purposes.

($ Millions)	**Total**	**Used**	**Available**
Long term committed	326.0	47.4	278.6
Short term committed	600.0	-	600.0
Uncommitted	69.0	13.7	55.3
Total	995.0	61.1	933.9

The amount and timing of future financings will depend on market conditions and the specific needs of the Corporation.

Contractual obligations disclosed in the 2005 MD&A remain substantially unchanged as at March 31, 2006.

Current and long term future income tax liabilities of $203.7 million at March 31, 2006, are attributable to differences between the financial statement carrying amounts of assets and liabilities and their tax bases. These differences result primarily from recognizing revenue and expenses in different years for financial and tax reporting purposes. Future income taxes will become payable when such differences are reversed through the settlement of liabilities and realization of assets.

On May 20, 2004, the Corporation commenced a **normal course issuer bid** for the purchase of up to 3% of the outstanding Class A shares. The bid expired on May 19, 2005. Over the life of the bid, 289,800 shares were purchased, of which 256,800 were purchased in 2004 and 33,000 were purchased in 2005. On May 20, 2005, the Corporation commenced a normal course issuer bid for the purchase of up to 3% of the outstanding Class A shares.

The bid will expire on May 19, 2006. From May 20, 2005, to April 25, 2006, 225,100 shares have been purchased, of which 195,600 were purchased in 2005 and 29,500 were purchased in 2006.

For the first quarter of 2006, the **quarterly dividend** payment on the Corporation's Class A and Class B shares increased by $0.01 to $0.285 per share. The Corporation has increased its annual common share dividend each year since its inception as a holding company in 1972. The payment of any dividend is at the discretion of the Board of Directors and depends on the financial condition of the Corporation and other factors.

On April 12, 2006, CU Inc. filed a **base shelf prospectus** which permits CU Inc. to issue up to an aggregate of $850.0 million of debentures over the twenty-five month life of the prospectus.

OUTSTANDING SHARE DATA

At April 25, 2006, the Corporation had outstanding 82,919,486 Class A shares and 44,016,284 Class B shares and options to purchase 2,628,800 Class A shares.

BUSINESS RISKS

On February 16, 2005, the Kyoto Protocol came into effect. The Corporation is unable to determine what impact the protocol may have on its operations as the Government of Canada has not yet provided industry specific details for its 2005 Climate Change Plan. It is anticipated that the Corporation's PPA's relating to its coal-fired generating plants will allow the Corporation to recover any increased costs associated with the implementation of the protocol.

Regulated Operations

ATCO Electric, ATCO Gas and ATCO Pipelines are regulated primarily by the AEUB, which administers acts and regulations covering such matters as rates, financing, accounting, construction, operation and service area. The AEUB may approve interim rates, subject to final determination. These subsidiaries are subject to the normal risks faced by companies that are regulated. These risks include the approval by the AEUB 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. The Corporation's 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.

Weather

Weather fluctuations have a significant impact on throughput in ATCO Gas. Since approximately 50% of ATCO Gas' delivery charge is recovered based on throughput, ATCO Gas' revenues and earnings are sensitive to weather. Weather that is 10% warmer or colder than normal temperatures impacts annual earnings by approximately $11.4 million.

Transfer of the Retail Energy Supply Businesses

On May 4, 2004, ATCO Gas and ATCO Electric transferred their retail energy supply businesses to Direct Energy Marketing Limited and one of its affiliates (collectively "DEML"), a subsidiary of Centrica plc.

Although ATCO Gas and ATCO Electric have transferred to DEML 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 DEML fails to perform. In certain events (including where DEML fails to supply natural gas and/or electricity and ATCO Gas and/or ATCO Electric are ordered by the AEUB to do so), the functions will revert to ATCO Gas and/or ATCO Electric with no refund of the transfer proceeds to DEML by ATCO Gas and/or ATCO Electric.

Centrica plc, DEML's parent, has provided a $300 million guarantee, supported by a $235 million letter of credit in respect of DEML's obligations to ATCO Gas, ATCO Electric and ATCO I-Tek Business Services 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.

The Corporation has provided a guarantee of ATCO Gas', ATCO Electric's and ATCO I-Tek Business Services' payment and indemnity obligations in respect of the ongoing relationships to DEML contemplated under the transaction agreements.

Late Payment Penalties on Utility Bills

As a result of decisions of the Supreme Court of Canada in Garland vs. Consumers' Gas Co., the imposition of late payment penalties on utility bills has been called into question. The Corporation is unable to determine at this time the impact, if any, that these decisions will have on the Corporation.

Alberta Power (2000)

Alberta Environment plans to implement mercury emission standards for coal-fired generating plants through a new provincial regulation that came into force in March 2006. Owners of coal-fired generating plants are required to submit proposals on capturing at least 70% of the mercury in the coal burned in their plants by March 2007. The proposals for mercury emission reduction must be implemented by 2010. It is anticipated that the Corporation's PPA's relating to its coal-fired generating plants will allow the Corporation to recover most of the costs associated with complying with the new regulation.

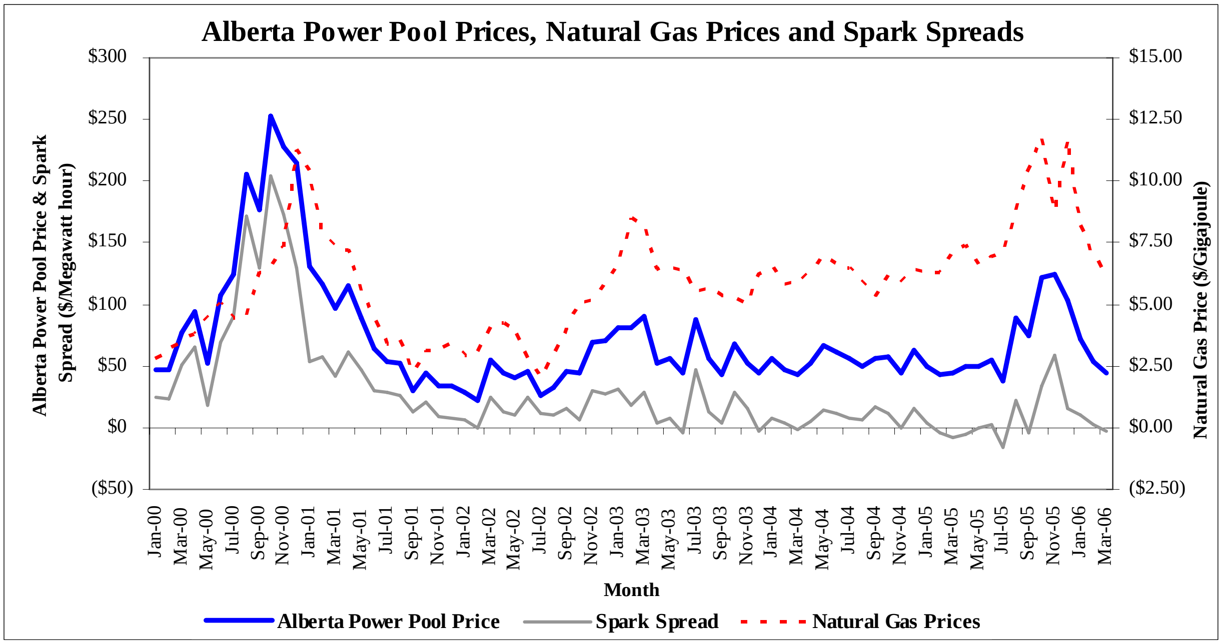
Measurement Inaccuracies in Metering Facilities

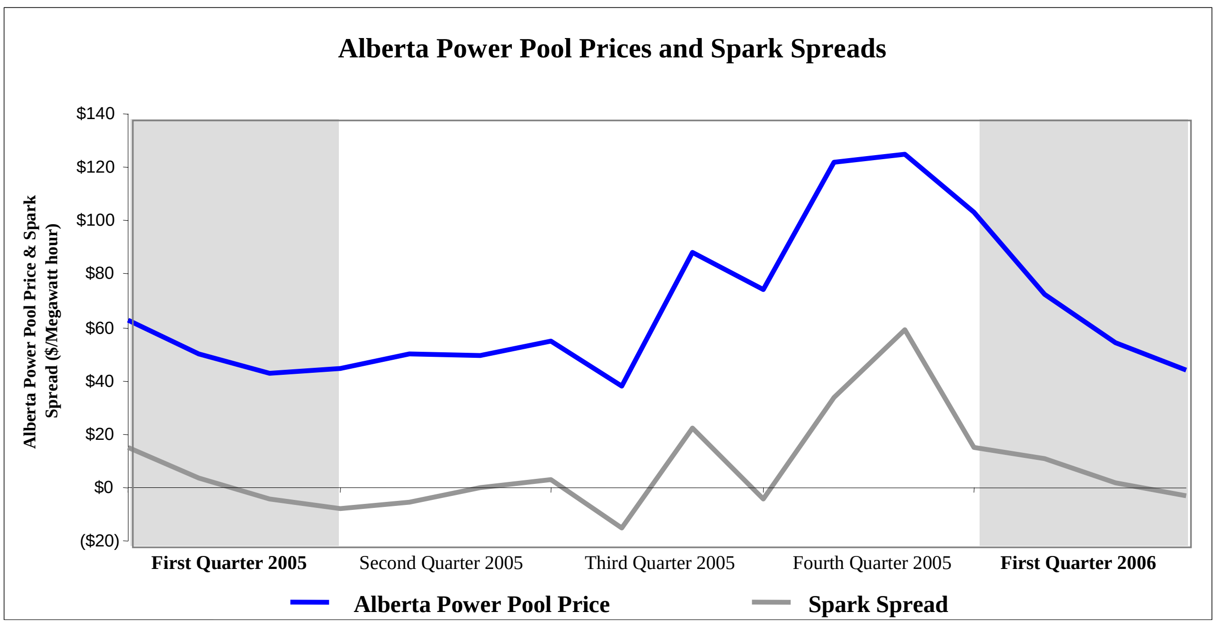
Measurement inaccuracies occur from time to time with respect to ATCO Electric's, ATCO Gas' and ATCO Pipelines' metering facilities. Measurement adjustments are settled between the parties based on the requirements of the Electricity and Gas Inspections Act (Canada) and applicable regulations issued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

Non-Regulated Operations

ATCO Power

Alberta Power Pool electricity prices, natural gas prices and related spark spreads can be very volatile, as shown in the following graph, which illustrates a range of prices experienced during the period January 2000 to March 2006.





Changes in Alberta Power Pool electricity prices, natural gas prices and related spark spreads may have a significant impact on the Corporation's earnings and cash flow from operations in the future. It is the Corporation's policy to continually monitor the status of its non-regulated electrical generating capacity that is not subject to long term commitments.

Since October 2004, the output from ATCO Power's Barking generating plant previously sold to TXU Europe (refer to TXU Europe Settlement section) has been sold into the U.K. power exchange market. In the U.K., electricity generators, on average, sell over 90% of their output to electricity suppliers in bilateral contracts, use power exchanges for approximately 7% of their output, and sell the remaining 2-3% via the Balancing Mechanism. Approximately 40% of the electricity generated is supplied from natural gas-fired generating plants, and the market has experienced an increase in electricity prices due to the increased world prices for natural gas. The Barking generating plant has a long term, fixed price gas purchase agreement and, as a result, has been able to experience increased margins due to rising market prices for electricity. Changes in the U.K. market electricity prices may have an impact on the Corporation's earnings and cash flow from operations in the future.

ATCO Midstream

Timing, capacity and demand of ATCO Midstream's storage business as well as changes in market conditions may impact the Corporation's earnings and cash flow from storage operations.

ATCO Midstream extracts ethane and other natural gas liquids from natural gas streams at its extraction plants. These products are sold under either long term cost of service arrangements or market based arrangements. Changes in market conditions may impact the Corporation's earnings and cash flow from natural gas liquids extraction operations.

ATCO Frontec

ATCO Frontec's operations include providing support to military agencies in foreign locations which may be subject to political risk.

On December 23, 2005, the Government of Canada filed a claim in the amount of $70 million which alleges that the Corporation is liable for the destruction of property owned by the Governments of Canada and the United States. The Corporation believes that the claim is without merit and, in any event, has sufficient insurance coverage in place to cover any material amounts that might become payable as a result of the claim. Accordingly, the claim is not expected to have any material impact on the financial position of the Corporation.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Corporation's consolidated financial statements in accordance with generally accepted accounting principles requires management to make 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, useful lives and impairment of long-lived assets, amortization of deferred availability incentives, asset retirement obligations and employee future benefits, using currently available information. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates. The Corporation's critical accounting estimates are discussed below.

Deferred Availability Incentives

As noted in the Business Risks section, Alberta Power (2000) is subject to an incentive/penalty regime related to generating unit availability. As at March 31, 2006, the Corporation had recorded $72.1 million of deferred availability incentives. The amortization of deferred availability incentives, which was recorded in revenues, amounted to $2.6 million for the three months ended March 31, 2006.

The amount to be amortized is dependent upon estimates of future generating unit availability and future electricity prices over the term of the PPA's. Each quarter, the Corporation uses these estimates to forecast high case, low case and most likely scenarios for the incentives to be received from, less penalties to be paid to, the PPA counterparties. These forecasts are added to the accumulated unamortized deferred availability incentives outstanding at the end of the quarter; the resulting total is divided by the remaining term of the PPA to arrive at the amortization for the quarter.

Compared to the most likely scenario recorded in revenues for the year, the high case scenario would have resulted in higher revenues of approximately $4.3 million, whereas the low case scenario would have resulted in lower revenues of approximately $2.2 million.