



CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE THREE MONTHS ENDED
MARCH 31, 2008**

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

	Note	Three Months Ended March 31	
		2008	2007
		<i>(Unaudited)</i>	
Revenues		\$ 443.4	\$ 415.7
Costs and expenses			
Natural gas supply		0.7	0.7
Purchased power		15.3	13.8
Operation and maintenance		92.8	87.9
Selling and administrative		55.3	48.8
Depreciation and amortization	1	69.7	73.7
Interest		43.6	40.7
Franchise fees		62.7	58.5
		340.1	324.1
		103.3	91.6
Interest and other income		4.1	3.4
Earnings before income taxes		107.4	95.0
Income taxes		26.9	31.3
		80.5	63.7
Dividends on equity preferred shares		1.3	-
Dividends on equity preferred shares to parent corporation		1.5	3.5
Earnings attributable to Class A and Class B shares		77.7	60.2
Retained earnings at beginning of period		1,262.7	1,085.4
		1,340.4	1,145.6
Dividends on Class A and Class B shares		15.0	-
Retained earnings at end of period		\$1,325.4	\$1,145.6

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

	Note	March 31 2008 <i>(Unaudited)</i>	2007 <i>(Audited)</i>	December 31 2007 <i>(Audited)</i>
ASSETS				
Current assets				
Cash and short term investments		\$ 6.8	\$ 16.5	\$ -
Short term advances to parent corporation		50.7	-	8.0
Accounts receivable		212.6	179.5	241.3
Accounts receivable from parent and affiliate corporations		8.8	12.2	2.9
Inventories	1, 3	71.3	72.2	73.0
Income taxes recoverable		-	-	9.8
Regulatory assets		22.1	8.3	10.2
Prepaid expenses		6.9	8.1	11.3
		379.2	296.8	356.5
Property, plant and equipment		4,438.8	4,136.0	4,388.0
Regulatory assets		87.0	63.7	95.6
Other assets		24.1	15.8	20.0
		\$4,929.1	\$4,512.3	\$4,860.1
LIABILITIES AND SHARE OWNER'S EQUITY				
Current liabilities				
Bank indebtedness		\$ -	\$ -	\$ 6.9
Short term advances from parent and affiliate corporations		1.7	3.9	0.8
Accounts payable and accrued liabilities		213.6	179.4	205.1
Accounts payable to parent and affiliate corporations		22.8	23.0	35.6
Income taxes payable		6.9	17.3	-
Future income taxes		0.6	0.7	2.1
Regulatory liabilities		7.5	4.8	-
Derivative liabilities		-	-	0.1
		253.1	229.1	250.6
Future income taxes		26.6	53.8	26.2
Regulatory liabilities		31.1	27.9	36.7
Deferred credits		175.3	136.4	166.7
Long term debt		2,459.7	2,255.3	2,459.4
Equity preferred shares		115.0	-	115.0
Equity preferred shares to parent corporation		130.0	256.5	130.0
Class A and Class B share owner's equity				
Class A and Class B shares		412.9	407.6	412.9
Retained earnings		1,325.4	1,145.6	1,262.7
Accumulated other comprehensive income		-	0.1	(0.1)
Retained earnings and accumulated other comprehensive income		1,325.4	1,145.7	1,262.6
		1,738.3	1,553.3	1,675.5
		\$4,929.1	\$4,512.3	\$4,860.1

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

	Note	Three Months Ended March 31	
		2008	2007
		<i>(Unaudited)</i>	
Operating activities			
Earnings attributable to Class A and Class B shares		\$ 77.7	\$ 60.2
Adjustments for:			
Depreciation and amortization	1	69.7	73.7
Future income taxes		(1.1)	(0.8)
Deferred availability incentives		0.9	6.6
Other		0.9	1.7
Funds generated by operations		148.1	141.4
Changes in non-cash working capital		24.5	88.7
Cash flow from operations		172.6	230.1
Investing activities			
Purchase of property, plant and equipment		(165.0)	(120.4)
Costs on disposal of property, plant and equipment		(1.0)	(0.6)
Contributions by utility customers for extensions to plant		48.7	19.8
Non-current deferred electricity costs		6.9	(1.4)
Changes in non-cash working capital		11.1	(14.1)
Other		(3.7)	(3.6)
		(103.0)	(120.3)
Financing activities			
Dividends paid to Class A and Class B share owner		(15.0)	-
Changes in non-cash working capital		0.1	-
Other		0.8	0.3
		(14.1)	0.3
Cash position ⁽¹⁾			
Increase		55.5	110.1
Beginning of period		0.3	(97.5)
End of period		\$ 55.8	\$ 12.6

⁽¹⁾ Cash position consists of cash and short term investments and short term advances to parent corporation less current bank indebtedness and short term advances from parent and affiliate corporations.

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

	Three Months Ended March 31	
	2008	2007
	<i>(Unaudited)</i>	
Earnings attributable to Class A and Class B shares	\$77.7	\$60.2
Other comprehensive income, net of income taxes:		
Cash flow hedges	0.1	-
Comprehensive income	\$77.8	\$60.2

CU INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008
(Unaudited, Tabular Amounts in Millions of Canadian Dollars)

1. Summary of significant accounting policies

Financial Statement Presentation

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and should be read in conjunction with the Corporation’s December 31, 2007 consolidated financial statements and related notes. These interim financial statements have been prepared using the same accounting policies as used in the financial statements for the year ended December 31, 2007, except as described below.

Effective January 1, 2008, the Corporation adopted the Canadian Institute of Chartered Accountants (“CICA”) recommendations for capital disclosures which require disclosure of qualitative and quantitative information regarding the Corporation’s objectives, policies and processes for managing capital (see Note 4).

Effective January 1, 2008, the Corporation adopted the CICA recommendations pertaining to disclosure and presentation of financial instruments which require disclosure of the classification of the Corporation’s financial instruments (as described in the Financial Instruments section below) and additional qualitative and quantitative information regarding the nature and extent of risks arising from financial instruments to which the Corporation is exposed (see Note 5).

Effective January 1, 2008, the Corporation prospectively adopted the CICA recommendations for measurement and disclosure of inventories which provide guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value, and on the cost formulas that are used to assign costs to inventories. The recommendations also clarified that major spare parts are to be included in property, plant and equipment. As a result of adopting these recommendations, the Corporation reclassified \$1.8 million of inventories to property, plant, and equipment related to major spare parts on January 1, 2008.

Due to the seasonal nature of the Corporation’s operations and the timing of rate decisions, the consolidated statements of earnings, retained earnings and comprehensive income for the three months ended March 31, 2008 and March 31, 2007 are not necessarily indicative of operations on an annual basis.

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

Inventories

Inventories are valued at the lower of cost or net realizable value. The cost of inventories is assigned using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The cost of inventories is comprised of all costs of purchase, costs of conversion and other costs to bring the inventories to their present condition and location. The costs of purchase comprise the purchase price, import duties and non-recoverable taxes, and transport, handling and other costs directly attributable to the acquisition of finished goods, materials or services. The costs of conversion include direct material and labour costs and a systematic allocation of fixed and variable overheads incurred in converting materials into finished goods.

1. Summary of significant accounting policies

Property, Plant and Equipment

Effective January 1, 2008, ATCO Gas prospectively changed the allocation of annual depreciation and amortization expense on a quarterly basis. The method of quarterly allocation has been changed from an estimate based on the timing of revenues to the straight line basis. The annual depreciation and amortization expense continues to be on the straight line basis and, therefore, this change does not affect the total depreciation and amortization expense recognized for the year. This change in allocation resulted in an increase to consolidated earnings after income taxes of \$4.9 million for the three months ended March 31, 2008.

Financial Instruments

The Corporation establishes the classification of financial instruments at their initial recognition. Financial assets are classified as held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities are classified as held for trading or other liabilities.

Financial instruments classified as held for trading, other than derivative instruments that are effective hedging instruments, are measured at fair value with changes in fair value recognized in earnings. Derivatives that are designated as, and continue to be, effective cash flow hedging instruments have gains and losses in fair values recognized through other comprehensive income. Derivatives that are designated as fair value hedging instruments have gains and losses recognized in earnings.

Financial instruments classified as available for sale are measured at fair value using quoted prices in an active market. Changes in fair value are recognized in other comprehensive income until the item is derecognized or determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is recognized in earnings. When actively quoted prices are not available, fair value is determined using other valuation techniques. If fair value cannot be reliably estimated, the item is carried at cost.

Financial instruments classified as held to maturity, loans and receivable or other liabilities are measured at fair value upon initial recognition but are subsequently measured at their amortized cost using the effective interest method.

Future Accounting Changes

The following new accounting recommendations are in addition to those future accounting changes disclosed in the December 31, 2007 consolidated financial statements.

The CICA has issued new accounting recommendations for goodwill and intangible assets which establish standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets (including internally developed intangible assets). These recommendations are effective for the Corporation beginning January 1, 2009. Goodwill and intangible assets that are not assets as defined by GAAP will be derecognized and charged to the equity of the Corporation at that date. The Corporation is evaluating the effect of these recommendations on its financial statements.

2. Regulatory matters

In September 2007, ATCO Electric received a decision on its General Tariff Application for 2007 and 2008 which approved a return on common equity of 8.75% for 2008 and 8.51% for 2007. ATCO Gas' and ATCO Pipelines' General Rate Applications for 2008 and 2009 contain placeholder returns on common equity of 8.75% for 2008. 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.

A process continues with respect to the pricing of services provided by ATCO I-Tek to the utilities. A benchmarking report was received in January 2008 and filed with the Alberta Utilities Commission ("AUC") in February 2008, along with an application to adjust placeholders. In April 2008 an agreement with the customer group concerning the adjustment to placeholders was submitted to the AUC for approval. Should this agreement be

2. Regulatory matters (continued)

approved by the AUC, the agreement is not expected to have a material impact on consolidated earnings. A decision from the AUC is expected before the end of the second quarter of 2008.

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

3. Inventories

	March 31	
	2008	2007
Natural gas in storage	\$17.7	\$21.5
Raw materials and consumables	53.6	50.7
	<u>\$71.3</u>	<u>\$72.2</u>

For the three months ended March 31, 2008, the amount of inventories recognized as an expense was \$20.6 million (2007 – \$20.8 million) and there have been no write-downs or reversals of previous write-downs to net realizable value.

No inventories are pledged as security for liabilities.

4. Capital disclosures

The Corporation's objectives when managing capital are:

1. to safeguard the ability to continue as a going concern, so that it can continue to provide returns to its share owner and benefits for other stakeholders;
2. to maintain an appropriate credit rating in order to provide efficient and cost effective access to funds required for operations and growth; and
3. to remain within the capital structure approved by the AUC.

The Corporation includes share owner's equity, equity preferred shares, equity preferred shares to parent corporation, and long term debt in its determination of capitalization. In managing its capital, the Corporation considers the impact of the AUC's decisions with respect to the Corporation's subsidiaries. In maintaining or adjusting its capital structure, the Corporation may adjust the amount of dividends paid to the share owner, issue or purchase Class A and Class B shares and issue or redeem preferred shares and long term debt.

The Corporation's utility operations are regulated primarily by the AUC, which, through the generic cost of capital decision issued in 2004, established the capital structure for each utility. The utility operations are, therefore, capitalized consistent with the generic cost of capital decision. The capitalization involves the use of long term debt and preferred share financings; the AUC approved the continued use of the latter in a decision issued in 2006.

While the Corporation's utility operations are capitalized consistent with the AUC decisions, the Corporation itself is not restricted in its capital structure. However, management chooses to maintain the capital structure of the Corporation according to the structure approved by the AUC for its utility operations.

Decisions on the level and type of financing are based on assessments by management in line with the Corporation's objectives. In determining the type of financing to be undertaken by a given operation, the Corporation has a goal of managing the financial risk to the Corporation as a whole.

Capital is monitored through an equity capitalization measure which is calculated as total equity divided by total capitalization. Total equity is comprised of Class A and Class B shares, retained earnings, accumulated other comprehensive income, equity preferred shares and equity preferred shares to parent corporation. Total capitalization is comprised of long term debt and total equity. The Corporation's strategy, which is unchanged from 2007, is to maintain the equity capitalization allowed by the regulator. The Corporation looks to maintain an equity capitalization in the range of 40% to 50%.

4. Capital disclosures (continued)

Other measures that are taken into consideration are interest coverage and interest and preferred dividend coverage. Interest coverage is calculated by dividing earnings before income taxes, interest expense and dividends on equity preferred shares by total interest expense. Interest and preferred dividend coverage is calculated by dividing earnings before income taxes, interest expense and dividends on equity preferred shares by interest expense and dividends on equity preferred shares (grossed up to pre-tax equivalents). The Corporation looks to maintain interest coverage of at least 1.8 and interest and preferred dividend coverage of at least 1.5; these objectives are unchanged from 2007.

Equity capitalization, interest coverage and interest and preferred dividend coverage do not have any standardized meaning under GAAP and might not be comparable to similar measures presented by other companies.

The Corporation's key measures of capital structure are as follows:

	March 31	
	2008	2007
Class A and Class B shares	\$ 412.9	\$ 407.6
Retained earnings	1,325.4	1,145.6
Accumulated other comprehensive income	-	0.1
Equity preferred shares	115.0	-
Equity preferred shares to parent corporation	130.0	256.5
Total equity	1,983.3	1,809.8
Long term debt	2,459.7	2,255.3
Total capitalization	\$4,443.0	\$4,065.1
Equity capitalization	45%	45%

The equity capitalization is consistent with the Corporation's objectives and consistent with the prior year. Total equity increased primarily due to higher earnings of the Corporation reflected in increased retained earnings. Total debt increased primarily due to financings for utility capital expenditures.

Interest coverage and interest and preferred dividend coverage are managed on an annual basis by the Corporation. Due to the seasonal nature of the Corporation's operations and the timing of rate decisions, revenues and earnings for any quarter are not necessarily indicative of operations on an annual basis. Therefore, quarterly coverage ratios are not presented as they are not necessarily indicative of the annual performance. The amounts presented below are the most recent annual coverage ratios:

	December 31 2007
Interest coverage ⁽¹⁾	2.2
Interest and preferred dividend coverage ⁽¹⁾	2.0

⁽¹⁾ The coverage ratios for 2007 were negatively impacted by the AUC decision that directed ATCO Electric to refund future income taxes to customers. The total reduction in revenues and income taxes recorded in 2007 was \$39.6 million. If the reduction in revenues had not occurred, interest coverage would have been 2.4 and interest and preferred dividend coverage would have been 2.2.

For the three months ended March 31, 2008, the Corporation was in compliance with externally imposed requirements on its capital (including debt covenants). The Corporation has a number of regulatory filings and regulatory hearing submissions before the AUC for which decisions have not been received, the outcome of which could affect the capital structure of the Corporation.

5. Risk management and financial instruments

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

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

Foreign currency exchange rate risk

Foreign currency exchange rate risk arises from financial instruments denominated in a currency other than the functional currency. The Corporation has no outstanding foreign currency forward contracts at March 31, 2008 (2007 — purchases of \$0.7 million U.S. to fix the exchange rate on certain planned equipment expenditures denominated in U.S. dollars).

Credit risk

For cash and short term investments, short term advances to parent corporation and accounts receivable, credit risk represents the carrying amount on the consolidated balance sheet. Cash and short term investments credit risk is reduced by investing in instruments issued by credit worthy financial institutions and in federal government issued short term instruments. Accounts receivable credit risk is reduced by a large and diversified customer base, requirement of letters of credit, and, for regulated operations other than Alberta Power (2000), the ability to recover an estimate for doubtful accounts through approved customer rates.

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

The maximum exposure to credit risk is the carrying value of loans and receivables on the balance sheet. The Corporation does not have a concentration of credit risk with any counterparties. Substantially all of the loans and receivables arise from the Corporation's operations in Alberta.

Accounts receivable are non-interest bearing and are generally due in 30 to 90 days. At March 31, 2008, the provision for impairment of credit losses was \$0.3 million; this provision is unchanged from December 31, 2007.

At March 31, 2008, the aging analysis of trade receivables that are past due but not impaired is as follows:

	2008
30 to 90 days	\$2.5
Greater than 90 days	0.7
	\$3.2

No other impairments have been identified within accounts receivable.

5. Risk management and financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations associated with financial liabilities. Funds generated by operations provide a substantial portion of the Corporation's cash requirements. Additional cash requirements are met externally through bank borrowings and the issuance of long term debt and preferred shares. Commercial paper borrowings and short term bank loans are used under available credit lines to provide flexibility in the timing and amounts of long term financing. The Corporation has a policy not to invest any of its cash balances in asset backed securities; consequently, the recent turmoil in the asset-backed commercial paper market has had no impact on the Corporation.

Contractual obligations have not changed substantially from those disclosed in the Corporation's December 31, 2007 consolidated financial statements.

Fair value of non-derivative financial instruments

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

	March 31			
	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>Financial Assets</i>				
<i>Held For Trading:</i>				
Cash ⁽¹⁾	\$ 6.8	\$ 6.8	\$ 0.5	\$ 0.5
<i>Held to Maturity:</i>				
Short term investments ⁽¹⁾	-	-	16.0	16.0
<i>Loans and Receivables:</i>				
Short term advances to parent corporation ⁽²⁾	50.7	50.7	-	-
Accounts receivable ⁽¹⁾	212.6	212.6	179.5	179.5
Accounts receivable from parent and affiliate corporations ⁽¹⁾	8.8	8.8	12.2	12.2
<i>Financial Liabilities</i>				
<i>Other Liabilities:</i>				
Short term advances from parent and affiliate corporations ⁽²⁾	1.7	1.7	3.9	3.9
Accounts payable and accrued liabilities ⁽²⁾	213.6	213.6	179.4	179.4
Accounts payable to parent and affiliate corporations ⁽²⁾	22.8	22.8	23.0	23.0
Long term debt ⁽³⁾	2,456.7	2,769.7	2,252.3	2,618.6
Long term debt to parent corporation ⁽⁴⁾	3.0	3.0	3.0	3.0

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

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

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

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

5. Risk management and financial instruments (continued)

Fair value of derivative financial instruments

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

	March 31					
	2008			2007		
	Notional Principal ⁽¹⁾	Fair Value Receivable (Payable) ⁽²⁾	Maturity	Notional Principal ⁽¹⁾	Fair Value Receivable (Payable) ⁽²⁾	Maturity
<i>Held For Trading:</i>						
Foreign currency forward contracts	Nil	Nil	N/A	\$0.8	Nil	2007

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

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

6. Employee future benefits

In the three months ended March 31, 2008, net expense of \$1.5 million (2007 – \$1.4 million) was recognized for pension benefit plans and net expense of \$0.5 million (2007 – \$0.5 million) was recognized for other post employment benefit plans.

7. Segmented information

Segmented results – Three months ended March 31

	2008	Power Generation	Corporate and Other	Intersegment Eliminations	2007	Consolidated
		Utilities				
<i>(Unaudited)</i>						
Revenues – external	\$ 369.2	\$ 74.2	\$ -	\$ -	\$ 443.4	
	\$ 343.9	\$ 71.8	\$ -	\$ -	\$ 415.7	
Revenues – intersegment ⁽¹⁾	-	-	-	-	-	-
	-	-	-	-	-	-
Revenues	\$ 369.2	\$ 74.2	\$ -	\$ -	\$ 443.4	
	\$ 343.9	\$ 71.8	\$ -	\$ -	\$ 415.7	
Earnings attributable to Class A and Class B shares	\$ 66.4	\$ 11.3	\$ -	\$ -	\$ 77.7	
	\$ 48.4	\$ 11.8	\$ -	\$ -	\$ 60.2	
Total assets	\$4,216.6	\$723.3	\$51.1	\$(61.9)	\$4,929.1	
	\$3,801.7	\$710.0	\$ 0.6	\$ -	\$4,512.3	

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