



## **CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED  
MARCH 31, 2006**

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

	Three Months Ended March 31	
	<b>2006</b>	2005
	<i>(Unaudited)</i>	
<b>Revenues</b>	<b>\$ 400.8</b>	\$ 505.7
<b>Costs and expenses</b>		
Natural gas supply	0.7	123.6
Purchased power	13.0	12.5
Operation and maintenance	83.2	75.7
Selling and administrative	47.7	44.8
Depreciation and amortization	68.8	63.0
Interest	38.5	38.5
Franchise fees	61.9	52.6
	<b>313.8</b>	410.7
<b>Interest and other income</b>	<b>2.2</b>	2.4
<b>Earnings before income taxes</b>	<b>89.2</b>	97.4
<b>Income taxes</b>	<b>32.7</b>	35.6
	<b>56.5</b>	61.8
<b>Dividends on equity preferred shares to parent corporation</b>	<b>3.5</b>	3.5
<b>Earnings attributable to Class A and Class B shares</b>	<b>53.0</b>	58.3
<b>Retained earnings at beginning of period</b>	<b>1,051.4</b>	1,036.3
	<b>1,104.4</b>	1,094.6
Dividends on Class A and Class B shares	24.0	25.1
<b>Retained earnings at end of period</b>	<b>\$1,080.4</b>	\$1,069.5

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

	March 31		December 31
	2006	2005	2005
	<i>(Unaudited)</i>		<i>(Audited)</i>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and short term investments	\$ 81.5	\$ 146.0	\$ 35.3
Short term advance to parent corporation	-	22.3	-
Accounts receivable	167.3	221.2	194.9
Accounts receivable from parent and affiliate corporations	3.5	22.3	3.2
Inventories	66.8	40.3	65.9
Future income taxes	-	0.3	-
Regulatory assets	19.7	3.2	19.1
Prepaid expenses	5.8	7.9	7.2
	<b>344.6</b>	463.5	325.6
<b>Property, plant and equipment</b>	<b>3,894.1</b>	3,659.0	3,878.0
<b>Regulatory assets</b>	<b>43.7</b>	46.8	49.0
<b>Other assets</b>	<b>33.2</b>	35.8	38.2
	<b>\$4,315.6</b>	\$4,205.1	\$4,290.8
<b>LIABILITIES AND SHARE OWNER'S EQUITY</b>			
<b>Current liabilities</b>			
Short term advances from parent and affiliate corporations	\$ 5.5	\$ 2.0	\$ 0.2
Accounts payable and accrued liabilities	157.9	158.0	173.7
Accounts payable to parent and affiliate corporations	19.1	17.6	26.4
Income taxes payable	16.8	11.3	12.4
Future income taxes	4.5	-	4.5
Regulatory liabilities	2.6	10.7	6.4
	<b>206.4</b>	199.6	223.6
<b>Future income taxes</b>	<b>66.3</b>	64.8	64.5
<b>Regulatory liabilities</b>	<b>23.7</b>	23.4	22.5
<b>Deferred credits</b>	<b>152.2</b>	121.2	142.2
<b>Long term debt</b>	<b>2,122.5</b>	2,062.5	2,122.5
<b>Equity preferred shares to parent corporation</b>	<b>256.5</b>	256.5	256.5
<b>Class A and Class B share owner's equity</b>			
Class A and Class B shares	407.6	407.6	407.6
Retained earnings	1,080.4	1,069.5	1,051.4
	<b>1,488.0</b>	1,477.1	1,459.0
	<b>\$4,315.6</b>	\$4,205.1	\$4,290.8

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

	Three Months Ended March 31	
	2006	2005
	<i>(Unaudited)</i>	
<b>Operating activities</b>		
Earnings attributable to Class A and Class B shares	\$ 53.0	\$ 58.3
Adjustments for:		
Depreciation and amortization	68.8	63.0
Future income taxes	1.8	-
Deferred availability incentives	12.4	6.1
Other	2.7	1.3
Cash flow from operations	138.7	128.7
Changes in non-cash working capital	24.3	115.3
	<b>163.0</b>	<b>244.0</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(108.3)	(84.7)
Costs on disposal of property, plant and equipment	(1.1)	-
Contributions by utility customers for extensions to plant	25.7	9.4
Non-current deferred electricity costs	5.3	(6.3)
Changes in non-cash working capital	(19.8)	(24.2)
Other	0.1	(0.8)
	<b>(98.1)</b>	<b>(106.6)</b>
<b>Financing activities</b>		
Dividends paid to Class A and Class B share owner	(24.0)	(25.1)
Changes in non-cash working capital	-	(0.3)
Other	-	(0.1)
	<b>(24.0)</b>	<b>(25.5)</b>
<b>Cash position <sup>(1)</sup></b>		
Increase	40.9	111.9
Beginning of period	35.1	54.4
<b>End of period</b>	<b>\$ 76.0</b>	<b>\$ 166.3</b>

<sup>(1)</sup> Cash position includes cash and short term investments and short term advance to parent corporation less short term advances from parent and affiliate corporations.

**CU INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2006**  
*(Unaudited, Tabular Amounts in Millions of Canadian Dollars)*

**1. Financial statement presentation**

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and should be read in conjunction with the Corporation's December 31, 2005 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, 2005.

Due to the seasonal nature of the Corporation's operations and the timing of rate decisions, the consolidated statements of earnings and retained earnings for the three months ended March 31, 2006 and March 31, 2005 are not necessarily indicative of operations on an annual basis.

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

**2. Regulatory matters**

On March 17, 2006, ATCO Electric received a decision on its General Tariff Application for 2005 and 2006 which was filed with the Alberta Energy and Utilities Board ("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.

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. 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.

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.

**3. Employee future benefits**

In the three months ended March 31, 2006, net expense of \$0.8 million (2005 – \$0.8 million) was recognized for pension benefit plans and net expense of \$0.6 million (2005 – \$0.5 million) was recognized for other post employment benefit plans.

#### 4. Segmented information

##### *Segmented results – Three months ended March 31*

<b>2006</b>		Power	Corporate	Intersegment	
<b>2005</b>	Utilities	Generation	and Other	Eliminations	Consolidated
<i>(Unaudited)</i>					
Revenues – external	\$ 328.3	\$ 72.5	\$ -	\$ -	\$ 400.8
	\$ 431.8	\$ 73.9	\$ -	\$ -	\$ 505.7
Revenues – intersegment	-	-	-	-	-
	0.1	-	-	(0.1)	-
Revenues	\$ 328.3	\$ 72.5	\$ -	\$ -	\$ 400.8
	\$ 431.9	\$ 73.9	\$ -	\$(0.1)	\$ 505.7
Earnings attributable to Class A and Class B shares	\$ 40.3	\$ 12.6	\$ 0.1	\$ -	\$ 53.0
	\$ 44.4	\$ 13.9	\$ -	\$ -	\$ 58.3
Total assets	\$3,536.4	\$778.5	\$ 0.7	\$ -	\$4,315.6
	\$3,391.3	\$790.4	\$23.4	\$ -	\$4,205.1