



An **ATCO** Company

CU INC.

CONSOLIDATED FINANCIAL STATEMENTS

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



Independent Auditor's Report

To the Share Owner of CU Inc.

We have audited the accompanying consolidated financial statements of CU Inc., which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP, Chartered Accountants
111 5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825, www.pwc.com/ca



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CU Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta

February 21, 2012

CU Inc.
Consolidated Statement of Earnings
(Millions of Canadian Dollars)

	Year Ended December 31	
	2011	2010
	Note	
Revenues		
Rendering of services	1,690	1,521
Costs and expenses		
Salaries, wages and benefits	(264)	(248)
Energy transmission and transportation	(41)	(10)
Plant and equipment maintenance	(123)	(106)
Fuel costs	(16)	(15)
Purchased power	(55)	(54)
Depreciation and amortization	(249)	(243)
Franchise fees	(175)	(173)
Other	7 (221)	(208)
	(1,144)	(1,057)
Operating profit	546	464
Interest income	20	29
Interest expense	13 (158)	(173)
Net finance costs	(138)	(144)
Earnings before income taxes	408	320
Income taxes	8 (104)	(86)
Earnings from continuing operations	304	234
Earnings from discontinued operations	-	33
Earnings for the year	304	267

CU Inc.
Consolidated Statement of Comprehensive Income
(Millions of Canadian Dollars)

	Year Ended December 31	
	2011	2010
Note		
Earnings for the year	304	267
Other comprehensive income (loss), net of income taxes:		
Losses on retirement benefits obligations	22	(8)
Comprehensive income for the year	304	259

⁽¹⁾ Net of income taxes of nil for the year ended December 31, 2011 (2010 – \$2 million).

CU Inc.
Consolidated Balance Sheet
(Millions of Canadian Dollars)

	Note	December 31 2011	December 31 2010 (Note 4)	January 1 2010 (Note 4)
ASSETS				
Current assets				
Short term advances to parent corporation		50	-	70
Accounts receivable		229	214	244
Accounts receivable from parent and affiliate corporations		3	4	8
Inventories	9	61	56	72
Long term advances to affiliate corporation due within one year		35	10	-
Prepaid expenses and other current assets		26	12	20
		404	296	414
Non-current assets				
Property, plant and equipment	10	7,271	6,263	6,246
Intangibles	11	257	240	226
Long term advances to affiliate corporation		130	165	-
Other assets		9	6	10
Total assets		8,071	6,970	6,896
LIABILITIES				
Current liabilities				
Bank indebtedness	12	23	16	6
Short term advances from parent corporation		-	40	-
Accounts payable and accrued liabilities		364	241	279
Accounts payable to parent and affiliate corporations		33	26	32
Income taxes payable		4	15	4
Long term debt	13	35	100	125
		459	438	446
Non-current liabilities				
Deferred income tax liabilities	8	427	345	298
Retirement benefit obligations	22	99	91	72
Long term debt	13	3,389	2,728	2,702
Other liabilities	15	987	905	1,030
Total liabilities		5,361	4,507	4,548
EQUITY				
Equity preferred shares	18	343	343	270
Equity preferred shares to parent corporation	18	79	99	130
Class A and Class B share owner's equity				
Class A and Class B shares		413	413	413
Retained earnings		1,875	1,608	1,535
		2,288	2,021	1,948
Total equity		2,710	2,463	2,348
Total liabilities and equity		8,071	6,970	6,896

[Original signed by B.R. Bale]

DIRECTOR

[Original signed by R.J. Urwin]

DIRECTOR

CU Inc.
Consolidated Statement of Changes in Equity
(Millions of Canadian Dollars)

	Note	Class A and Class B Shares	Equity Preferred Shares	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
At January 1, 2010		413	400	1,535	-	2,348
Earnings for the year		-	-	267	-	267
Shares issued, net of issue costs	18	-	73	-	-	73
Dividends		-	-	(22)	-	(22)
Transfer of Alberta Power (2000)	6,23	-	(31)	(164)	-	(195)
Other comprehensive income		-	-	-	(8)	(8)
Losses on retirement benefits obligations transferred to retained earnings	22	-	-	(8)	8	-
At December 31, 2010		413	442	1,608	-	2,463
Earnings for the year		-	-	304	-	304
Shares redeemed	18	-	(20)	-	-	(20)
Dividends		-	-	(37)	-	(37)
At December 31, 2011		413	422	1,875	-	2,710

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

	Note	Year Ended December 31 2011	2010
Operating activities			
Earnings from continuing operations		304	234
Adjustments for:			
Depreciation and amortization		249	243
Income taxes		102	75
Contributions by utility customers for extensions to plant		115	66
Amortization of customer contributions		(31)	(31)
Net finance costs		138	144
Income taxes paid		(37)	(30)
Other		5	7
		845	708
Changes in non-cash working capital	21	3	(5)
Cash flow from continuing operations		848	703
Cash flow from discontinued operations		-	56
Cash flow from operations		848	759
Investing activities			
Purchase of property, plant and equipment		(1,250)	(729)
Proceeds on transfer of Carbon Storage Facility		37	-
Proceeds on disposal of property, plant and equipment		1	16
Purchase of intangibles		(38)	(41)
Changes in non-cash working capital	21	102	(4)
Other		(4)	21
Investing activities cash flow from discontinued operations		-	(10)
		(1,152)	(747)
Financing activities			
Issue of long term debt		700	125
Repayment of long term debt		(100)	(125)
Issue of equity preferred shares		-	75
Redemption of equity preferred shares to parent corporation		(20)	-
Dividends paid on equity preferred shares from continuing operations		(24)	(21)
Dividends paid on equity preferred shares from discontinued operations		-	(1)
Dividends paid to Class A and Class B share owner		(13)	-
Interest paid		(175)	(188)
Interest received from affiliate corporation		14	5
Other		5	(2)
		387	(132)
Cash position ⁽¹⁾			
Increase (decrease)		83	(120)
Beginning of year		(56)	64
End of year		27	(56)

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

CU INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011

(Tabular amounts in millions of Canadian dollars, except as otherwise noted)

1. CORPORATE INFORMATION

Alberta-based CU Inc. is engaged in utilities (pipelines, natural gas and electricity transmission and distribution). CU Inc. is domiciled in Canada, and its debt and equity preferred shares are listed on the Toronto Stock Exchange. Its registered office is at 1400, 909-11th Avenue SW, Calgary, Alberta, T2R 1N6. The Corporation is controlled by Canadian Utilities Limited, which in turn is principally controlled by ATCO Ltd. and its controlling share owner, R.D. Southern.

The consolidated financial statements include the accounts of CU Inc. and its subsidiaries (the “Corporation”). The consolidated financial statements were authorized for issue by the Board of Directors on February 21, 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation and Consolidation

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”). These consolidated financial statements also comply with IFRS 1 *First-time Adoption of IFRS*. In this context, the term “Canadian GAAP” refers to generally accepted accounting principles before the adoption of IFRS.

Subject to certain transition elections disclosed in Note 4, the Corporation has consistently applied the same accounting policies in its opening IFRS consolidated balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Previously, the Corporation prepared its consolidated financial statements in accordance with Canadian GAAP. Note 4 discloses reconciliations to IFRS from the previously published Canadian GAAP primary financial statements, including the nature and effect of significant changes in accounting policies from those used in the Corporation’s consolidated financial statements for the year ended December 31, 2010. Comparative figures for 2010 in these consolidated financial statements have been restated to give effect to these changes.

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

Unless otherwise noted, tabular amounts are presented in millions of Canadian dollars.

Principal operating subsidiaries, all of which are wholly-owned, are listed below.

Principal Operating Subsidiaries	Principal Activity
ATCO Electric	Electric transmission and distribution
ATCO Gas	Natural gas distribution
ATCO Pipelines	Natural gas transmission

Effective October 1, 2010, the 100% ownership interest in Alberta Power (2000) Ltd. was transferred from CU Inc. to ATCO Power, a wholly-owned subsidiary of Canadian Utilities Limited, the Corporation’s parent.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Rate Regulation

ATCO Electric and its subsidiaries, Northland Utilities (NWT), Northland Utilities (Yellowknife) and Yukon Electrical, and the ATCO Gas and ATCO Pipelines divisions of ATCO Gas and Pipelines Ltd., are wholly owned subsidiaries of CU Inc. and are collectively referred to in these consolidated financial statements as the “utilities”.

Nature and economic effects of rate regulation

ATCO Electric, ATCO Gas and ATCO Pipelines are regulated by the Alberta Utilities Commission (“AUC”). Yukon Electrical is regulated by the Yukon Energy Board, and Northland Utilities (Yellowknife) and Northland Utilities (NWT) are regulated by the Northwest Territories Public Utilities Board. The regulators administer acts and regulations covering such matters as rates, financing, and service area.

The utilities are subject to a cost of service regulatory mechanism under which the regulators establish 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 and reasonable return on utility investment, or rate base. Whereas actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

Rate base for each utility is the aggregate of the regulator 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 regulator approves rates of return for the debt and preferred share components of rate base based on the actual or forecast weighted average cost of each utility’s debt and preferred shares and establishes the capital structure for each utility.

Under the cost of service methodology, the utility seeks approval for its revenue requirement either through submission of general rate applications to the regulator or a negotiated settlement process with interested parties. In the latter case, the regulator monitors the negotiated settlement process and any agreement that is reached is subject to the regulator’s approval. The regulator may approve interim rates or approve the recovery of costs on a placeholder basis, subject to final determination.

Financial statement effects of rate regulation

In the absence of a rate regulated standard under IFRS, the utilities do not recognize assets and liabilities from rate regulated activities as may be directed by regulatory decisions. Instead, the utilities record revenues in earnings when amounts are billed to customers through customer rates consistent with the underlying rate design as mandated by the regulator (see revenue recognition policy below). Operating costs and expenses are recorded when incurred. When the costs are incurred in the construction of an asset and the benefits received meet the recognition criteria of an asset, the costs are included as part of the related property, plant and equipment or intangible asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment Information

Financial information that adjusts IFRS results to show the effect of rate regulation is used by the Corporation's Board of Directors and Office of the Chairman to evaluate the performance of operating segments and determine resource allocation between operating segments. The Office of the Chairman, comprised of the Chairman of the Board, the President and Chief Executive Officer and four other senior executives, is determined to be the Chief Operating Decision Maker and it assesses performance of operations principally on the basis of earnings adjusted for regulatory items as shown in the segment information disclosed in Note 5.

Accounting Estimates

The preparation of the Corporation's consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses. Such estimates primarily relate to unsettled transactions and events as at the date of the consolidated financial statements. Accordingly, facts and circumstances may change and actual results could differ from those estimates. Management uses judgment and currently available information to make these estimates and these estimates are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Note 3 outlines the significant judgments and estimates made by the Corporation.

Revenue Recognition

Revenues from the regulated distribution of natural gas and the regulated distribution of electricity include variable charges, which are recognized on the basis of meter readings upon delivery of the respective commodity to customers and include an estimate of usage not yet billed, and fixed charges, based on the provision of the distribution service during the period.

Revenues for the use of regulated transmission facilities are based on an annual tariff and are recognized evenly throughout the year.

Effective October 1, 2011, revenues from the regulated transmission of natural gas are recognized on the basis of an AUC approved revenue requirement (cost of service) as a result of the Alberta system integration with Nova Gas Transmission Limited ("NGTL"). Prior to October 1, 2011, revenues were recognized on the basis of contractual arrangements. For certain services, revenues were recognized on the basis of meter readings upon delivery of natural gas to customers and included an estimate of usage not yet billed.

Certain additions to property, plant and equipment, primarily in the utilities, are made with the assistance of non-refundable cash contributions from customers when the estimated revenue is less than the cost of providing service or where special equipment is needed to supply the customers' specific requirements. Since the contributions will provide customers with ongoing access to the supply of natural gas or electricity, these contributions are classified as deferred revenue and are recognized as revenue over the life of the related asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Short Term Employee Benefits

The cost of short term employee benefits, which includes wages, salaries, social security contributions, short term compensated absences, incentives and non-monetary benefits such as medical care, is recognized as an expense in salaries, wages and benefits as employees render service. When the services of employees are used in the construction of an asset and the benefits received meet the recognition criteria of an asset, the cost of short term employee benefits is included as part of the related property, plant and equipment or intangible asset.

Franchise Fees

Franchise fees are charged to the utilities by municipal governments for the exclusive right to provide service in their community. These costs are charged to the related customers through rates that must first be approved by the regulator. Franchise fee revenues and expenses are, therefore, recognized separately and are not recorded on a net basis.

Income Taxes

Income taxes represent the sum of current and deferred taxes. Income taxes are recognized in earnings or in equity to the extent that equity items are affected.

Current taxes are based on taxable earnings, which differ from earnings as reported in the consolidated statement of earnings because it excludes items that are taxable or deductible in other years and items that are neither taxable nor deductible. The Corporation's liability for current tax is calculated using rates that have been enacted or substantively enacted as of the balance sheet date.

The Corporation includes penalties related to income taxes in income tax expense and interest on unpaid tax in interest expense.

Deferred income taxes are provided, using the liability method, on differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for accounting purposes ("temporary differences").

Deferred income tax liabilities are generally recognized on all taxable temporary differences. Deferred income tax assets are recognized on deductible temporary differences and carry forward balances of unused tax losses or credits only to the extent that it is probable that taxable earnings will be available against which these items can be applied. Deferred income tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction (other than a business combination) that, at the time of the transaction, affects neither accounting earnings nor taxable earnings.

Deferred income taxes are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates that have been enacted or substantively enacted by the balance sheet date. If the expected tax rates change, deferred income taxes are adjusted to the new rates and the adjustment is booked to either earnings or equity, depending on the nature of the underlying temporary difference.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

of the deferred income tax asset to be realized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable earnings will allow the deferred income tax assets to be realized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities, and when they relate to income taxes levied by the same taxation authority.

Cash and Cash Equivalents

Cash equivalents consist of bankers' acceptances, certificates of deposit issued or guaranteed by credit worthy financial institutions and federal government issued short term investments with maturities generally of 90 days or less at purchase.

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.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses and include capitalized interest incurred during construction. Cost includes expenditures that are directly attributable to the acquisition or construction of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. A gain or loss arising from the derecognition of an asset is recorded in earnings when the asset is derecognized.

Major overhaul costs are capitalized and depreciated on a straight-line basis to the next major overhaul. Other repair and maintenance costs are charged to earnings during the period in which they are incurred.

The Corporation allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant components and depreciates separately each such component. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Interest on the funding attributable to qualifying assets is capitalized during construction and is depreciated as part of the total cost over the useful life of the asset. Capitalized interest is calculated using the effective interest rate method based on specified rates for specific borrowings and a weighted average rate for general borrowings. Interest capitalization commences when borrowing costs and expenditures are incurred at the onset of construction on assets of substantial duration. Interest capitalization ceases when construction of the asset is substantially complete.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation is provided on assets primarily on a straight-line basis over their estimated useful lives. No depreciation is provided on land and construction work-in-progress. Depreciation periods for the principal categories of property, plant and equipment are shown in the table below:

	Useful Life	Average Depreciation Rate
Utility transmission and distribution:		
Electricity transmission equipment	40 to 75 years	2.0 %
Electricity distribution equipment	15 to 75 years	2.6 %
Gas transmission equipment	2 to 77 years	2.8 %
Gas distribution plant and equipment	10 to 57 years	2.6 %
Buildings	5 to 55 years	2.9 %
Other plant, equipment and machinery	4 to 74 years	4.8 %

Intangibles

Intangible assets, which consist mainly of computer software not directly attributable to the operation of property, plant and equipment and land rights, are recorded at cost less accumulated amortization. The assets are amortized on a straight-line basis over their useful lives, which are not longer than 10 years for computer software and between 75 and 100 years for land rights based on the contractual life of the underlying agreements.

Impairment of Property, Plant and Equipment and Intangibles

Property, plant and equipment and intangible assets with finite lives are tested for recoverability whenever events or changes in circumstances indicate a possible impairment. Impairment is assessed and tested at the cash-generating unit (“CGU”) level (or groups of CGUs), which is the smallest identifiable group of assets that generates independent cash inflows. An impairment of property, plant and equipment and intangible assets with finite lives is recognized in earnings when the asset’s carrying value exceeds its recoverable amount. The recoverable amount is the higher of the asset’s fair value less costs to sell and its value in use. Where fair value less costs to sell is not reliably available, value in use is used as the recoverable amount. Value in use is the present value of the future cash flows expected to be derived from an asset, CGU or group of CGUs.

An impairment charge may be reversed only if there is objective evidence that a change in the estimate used to determine the asset’s recoverable amount since the last impairment was recognized is warranted. Where an impairment charge is subsequently reversed, the carrying amount of the asset (or CGU) is increased to the revised recoverable amount to the extent that it does not exceed the carrying amount that would have been determined had no impairment charge been recognized in previous periods. A reversal of an impairment charge is recognized immediately in earnings. After such a reversal, the depreciation or amortization charge, where relevant, is adjusted in future periods to allocate the asset’s revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Provisions and Contingencies

The Corporation recognizes provisions when there is a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The evaluation of the likelihood of the contingent events requires judgment by management as to the probability of exposure to potential loss. Actual results could differ from these estimates.

A contingent asset is not recognized in the consolidated financial statements. However, a contingent asset is disclosed where an inflow of economic benefits is probable.

Financial Instruments

The Corporation establishes the classification of financial instruments at their initial recognition. Financial assets are classified as fair value through profit or loss, available for sale, held to maturity investments or loans and receivables. Financial liabilities are classified as fair value through profit or loss or amortized cost.

Financial instruments classified as fair value through profit or loss, 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, highly 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 receivables or other liabilities are measured at fair value upon initial recognition but are subsequently measured at their amortized cost using the effective interest method. Investments in equity instruments that do not have an actively quoted price and whose fair value cannot be reliably measured are measured at cost.

Transaction costs that are directly attributable to the acquisition or issue of financial assets or financial liabilities that are not fair value through profit or loss are added to the fair value of such assets or liabilities at time of initial recognition. Transactions costs for long term debt and preferred shares, classified as liabilities, are amortized over the life of the respective financial liability using the effective interest method. The Corporation's long term debt, non-recourse long term debt and preferred shares are presented net of their respective transaction costs.

In estimating fair value, the Corporation utilizes quoted market prices when available. Models incorporating observable market data along with transaction specific factors are also utilized in estimating fair value. Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect placement within the fair value hierarchy levels. The hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Corporation applies settlement date accounting to the purchases and sales of financial assets. Settlement date accounting implies the recognition of an asset on the day it is received by the Corporation and the recognition of the disposal of an asset on the day that it is delivered by the Corporation. Any gain or loss on disposal is also recognized on that day.

Impairment of Financial Instruments

An impairment of loans and receivables or held-to-maturity investments carried at amortized cost is recognized in earnings when the asset's carrying amount exceeds the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. A reduction in an impairment charge may be reversed if the decrease is related to an event occurring after the impairment was recognized.

An impairment of financial assets carried at amortized cost is recognized in earnings when the asset's carrying amount exceeds the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses can be reversed.

When an available for sale financial asset is determined to be impaired, the cumulative gain or loss previously reported in other comprehensive income is recognized in earnings. An impairment charge for an investment in an equity instrument classified as available for sale is not reversed. A reduction in an impairment charge for a debt instrument classified as available for sale may be reversed if the decrease is related objectively to an event occurring after the impairment was recognized.

Where an impairment charge is subsequently reversed, the carrying amount of the asset is increased to the revised recoverable amount to the extent that it does not exceed the carrying amount that would have been determined had no impairment charge been recognized in previous periods. A reversal of an impairment charge is recognized immediately in earnings.

Derivative Financial Instruments

In conducting its business, the Corporation uses 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.

Retirement Benefits

The Corporation participates, together with Canadian Utilities Limited and its subsidiary corporations, in a registered group defined benefit pension plan ("the Group Plan"). The assets of the Group Plan are not segregated for each participating entity and are used to provide pensions to all members of this plan. In this circumstance, the Corporation is required to account for the Group Plan as a defined contribution plan whereby contributions are expensed as paid.

The Corporation participates, together with Canadian Utilities Limited and its subsidiary corporations, in other post employment benefit ("OPEB") and non-registered group defined benefit pension plans. These plans are administered on a combined basis, and the Corporation accrues for its obligations under these plans. Costs of these benefits are determined using the projected unit credit method and reflect management's best estimates of wage and salary increases, age at retirement and expected health care costs. The assumptions in relation to the estimated benefit obligations and the cost of providing retirement benefits during the period are set after consultation with qualified actuaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For non-registered defined benefit pensions, the Corporation is assessed a percentage of the total cost of the plans.

For the OPEB and non-registered defined benefit pension plans, gains and losses resulting from changes in assumptions, including the liability discount rate and future compensation increases, used to measure the accrued benefit obligations are recognized in other comprehensive income in the period in which they occur. Immediately thereafter, those gains and losses are transferred directly to retained earnings.

Employer contributions to the defined contribution pension plan are expensed as paid.

The cost of retirement benefits for defined benefit pension plans, defined contribution pension plans and OPEB plans is recognized as an expense in salaries, wages and benefits as employees render service. Past service costs are recognized immediately in earnings to the extent that benefits are vested, and otherwise are amortized on a straight-line basis over the period until the benefits are vested. When the services of employees are used in the construction of an asset and the benefits received meet the recognition criteria of an asset, the cost of retirement benefits is included as part of the related property, plant and equipment or intangible asset.

Share Based Compensation Plans

Share appreciation rights are cash-settled and are measured at fair value using the Black-Scholes option pricing model by applying graded vesting, adjusted for estimated forfeitures. Share appreciation rights are recognized in salaries, wages and benefits expense over the vesting period, with corresponding liabilities recognized in accounts payable and accrued liabilities and other liabilities on the balance sheet. The liability is re-measured at each reporting period.

Related Party Transactions

Transactions with related parties that are in the normal course of business and under normal commercial terms are measured at the exchange amount. Transfers between entities under common control are measured at the carrying amount.

Accounting Changes Not Yet Adopted

Certain new or amended standards have been issued by the IASB that are not required to be adopted in the current period. The Corporation has not early adopted these standards. The standards which the Corporation anticipates will have a material effect on the consolidated financial statements or note disclosures are described below:

IFRS 12 *Disclosure of Interests in Other Entities* sets out the required disclosures for entities reporting under the consolidation and joint arrangements standards. The standard describes the disclosures required for entities reporting under IFRS 10 *Consolidation* and IFRS 11 *Joint Arrangements*. The disclosure is designed to help users to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates and joint arrangements. The standard includes disclosure about significant judgments and assumptions made in determining whether the entity controls, jointly controls or has significant influence over other entities. The new standard is effective for annual periods beginning on or after January 1, 2013, and will result in additional disclosures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 13 *Fair Value Measurement* explains how to measure fair value and aims to enhance fair value disclosures. Under this new standard, a company would maximize the use of quoted prices for the same or similar assets in active markets in determining fair value. For non financial assets where there is no active market, a company would consider the best use that another market participant would have for the asset even though that is not what the company currently uses it for. The effect of any changes for the Corporation is limited to fair value disclosures for financial instruments and in asset impairment calculations. This IFRS is effective for financial statements beginning on and after January 1, 2013.

There are no other standards and interpretations that have been issued, but are not yet effective, that the Corporation anticipates will have a material effect on the consolidated financial statements once adopted.

3. SIGNIFICANT JUDGMENTS AND ESTIMATES

The application of several accounting policies described above requires judgments made by management that could significantly affect the amounts recognized in the consolidated financial statements. The timely preparation of the consolidated financial statements also requires that management make a number of estimates and assumptions regarding matters that are uncertain at the date of estimate. Estimates of key variables used in the calculations, or changes to estimates, could have a material impact on the Corporation's financial position or performance. The most critical of these judgments and key sources of estimation uncertainty are described below.

Revenue recognition

Measurement of the estimate of usage not yet billed, which is included in revenues from the regulated distribution of natural gas and electricity, is based on an assessment of unbilled gas and electricity distribution services supplied to customers between the date of the last meter reading and the year end and is based on historical consumption patterns. Management applies judgment to the measurement of the estimated consumption and to the valuation of that consumption.

Depreciation and amortization methods

Significant components of property, plant and equipment and intangible assets are depreciated and amortized over their estimated useful lives. Useful lives are determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset, existing long-term sales agreements and contracts, current and forecasted demand and the potential for technological obsolescence. While these useful life estimates are reviewed on a regular basis and depreciation calculations are revised accordingly, actual lives may differ from the estimates. As such, assets may continue in use after being fully depreciated, or may be retired or disposed of before being fully depreciated. The latter could result in additional depreciation expense in the period of disposition.

Impairment of long-lived assets

An evaluation of whether or not an asset is impaired involves consideration of whether indicators of impairment exist. Factors which could indicate that an impairment exists include: significant underperformance relative to historical or projected operating results, significant changes in the manner in which an asset is used or in the Corporation's overall business strategy, or significant negative industry or economic trends. Events indicating an impairment may be clearly identifiable or based on an

3. SIGNIFICANT JUDGMENTS AND ESTIMATES (continued)

accumulation of individually insignificant events over a period of time. Management continually monitors the Corporation's operating facilities, the markets, and the business environment, and make judgments and assessments about conditions and events in order to conclude whether a possible impairment exists.

Management necessarily applies judgment in allocating assets that do not generate independent cash flows to appropriate CGUs. The allocation of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, similar exposure to market risks, shared infrastructures, and the way in which management monitors the operations.

If indicators of impairment exist for a CGU to which an asset belongs, an estimate of the recoverable amount must be made in order to determine whether an impairment loss is to be recognized. The calculations used in determining recoverable amount include assumptions such as the price that the asset could be obtained for, or the future cash flows that will be generated by the asset or group of assets, together with an appropriate discount rate to apply to those cash flows. Subsequent changes to these estimates or judgments may significantly impact the carrying value of the assets within the respective CGU or group of CGUs.

Retirement benefits

The Corporation accrues for its obligations under non-registered defined benefit pension and OPEB plans using actuarial and other assumptions to estimate the projected benefit obligation and the associated expense related to the current period. The key assumptions utilized include the long-term rate of inflation, rates of future compensation and health-care cost increases, and liability discount rates. Changes in these assumptions give rise to gains and losses which are recognized in other comprehensive income as incurred. The obligations are measured by discounting the Corporations' share of future payments under these plans. In addition, actual payments may vary from the estimates used to project the obligations and the net expense.

Fair value of financial instruments

The fair value measurement of financial assets and liabilities are based on three levels of input. The assessment of the significance of a particular input to the fair value measurement requires judgment in the determination of fair value and the placement within the fair value hierarchy. The fair value hierarchy is outlined in Note 2 and includes fair value inputs such as: quoted unadjusted prices in active markets for identical assets or liabilities, observable inputs for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices), and inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Income taxes

Management periodically evaluates positions taken in tax filings with respect to situations where applicable tax legislation is subject to interpretation, and establishes provisions where appropriate. The provisions are management's best estimates of the expenditures required to settle the present obligations at the balance sheet date measured on the basis of a probability weighting of possible outcomes. Accounting for income taxes requires the Corporation to make judgments with respect to the application of changing tax legislation, regulations and interpretations thereof in the various jurisdictions in which the Corporation operates. Judgment is also applied in estimating probable outcomes, when temporary differences will reverse and whether tax assets are realizable.

4. ADOPTION OF IFRS

These consolidated financial statements are the first annual financial statements that comply with IFRS. These consolidated financial statements have been prepared as described in Note 2, including the application of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, with a date of transition of January 1, 2010 (“Transition Date”).

The following tables reconcile the consolidated financial statements previously reported under Canadian GAAP to the consolidated financial statements prepared in accordance with IFRS. Explanations of the effect of the transition to IFRS follow the reconciliations.

Reconciliation of the Consolidated Balance Sheet as at January 1, 2010 (Transition Date)

	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
ASSETS				
Current assets				
Accounts receivable	e	261	(17)	244
Deferred income tax asset	h	6	(6)	-
Regulatory assets	e	37	(37)	-
Other current assets		167	3	170
		471	(57)	414
Property, plant and equipment	b,d,f,g	5,468	778	6,246
Regulatory assets	e	408	(408)	-
Other assets	e	245	(9)	236
Total assets		6,592	304	6,896
LIABILITIES AND SHARE OWNER'S EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	e	267	12	279
Regulatory liabilities	e	26	(26)	-
Long term debt	i	-	125	125
Other current liabilities	e	38	4	42
		331	115	446
Deferred income tax liabilities	b,c,d,e,f	333	(35)	298
Regulatory liabilities	e	450	(450)	-
Other liabilities	c,d,g	207	895	1,102
Long term debt	i	2,827	(125)	2,702
Total liabilities		4,148	400	4,548
Equity				
Equity preferred shares	j	275	(5)	270
Equity preferred shares to parent corporation	j	130	-	130
Class A and Class B share owner's equity				
Class A and Class B shares		413	-	413
Retained earnings	b,c,d,e,f	1,626	(91)	1,535
Total equity		2,444	(96)	2,348
Total liabilities and equity		6,592	304	6,896

4. ADOPTION OF IFRS (continued)

Reconciliation of the Consolidated Balance Sheet as at December 31, 2010

CU Inc.
As at December 31, 2010
(Millions of Canadian Dollars)

	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
ASSETS				
Current assets				
Accounts receivable	e	263	(49)	214
Deferred income tax asset	h	2	(2)	-
Regulatory assets	e	17	(17)	-
Other current assets		76	6	82
		358	(62)	296
Property, plant and equipment	b,d,f,g	5,364	899	6,263
Regulatory assets	e	486	(486)	-
Other assets	e	429	(18)	411
Total assets		6,637	333	6,970
LIABILITIES AND SHARE OWNER'S EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	e	239	2	241
Regulatory liabilities	e	17	(17)	-
Long term debt	i	-	100	100
Other current liabilities	e	92	5	97
		348	90	438
Deferred income tax liabilities	b,c,d,e,f	364	(19)	345
Regulatory liabilities	e	494	(494)	-
Other liabilities	c,d,g	87	909	996
Long term debt	i	2,828	(100)	2,728
Total liabilities		4,121	386	4,507
Equity				
Equity preferred shares	j	350	(7)	343
Equity preferred shares of subsidiary corporation	j	99	-	99
Class A and Class B share owner's equity				
Class A and Class B shares		413	-	413
Retained earnings	b,c,d,e,f	1,654	(46)	1,608
Total equity		2,516	(53)	2,463
Total liabilities and equity		6,637	333	6,970

4. ADOPTION OF IFRS (continued)

Reconciliation of the Consolidated Statement of Earnings for the Year Ended December 31, 2010

CU Inc.				
Year Ended December 31, 2010				
(Millions of Canadian Dollars)				
	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
Revenues	g	1,477	44	1,521
Costs and expenses				
Natural gas supply	k	1	(1)	-
Purchased power		54	-	54
Operation and maintenance	k	340	(340)	-
Selling and administrative	k	251	(251)	-
Depreciation and amortization	b,d,f,g	212	31	243
Interest	l	192	(192)	-
Franchise fees		173	-	173
Salaries, wages and benefits	c,k	-	248	248
Energy transmission and transportation	k	-	10	10
Plant and equipment maintenance	f,k	-	106	106
Fuel costs	k	-	15	15
Other expenses	k	-	208	208
		1,223	(166)	1,057
		254	210	464
Other income	k	51	(51)	-
Operating profit		305	159	464
Interest income	l	-	29	29
Interest expense	l	-	173	173
Net finance costs	l	-	144	144
Earnings before income taxes		305	15	320
Income taxes		39	47	86
Earnings from continuing operations		266	(32)	234
Earnings from discontinued operations	b,d	33	-	33
Earnings for the year		299	(32)	267

4. ADOPTION OF IFRS (continued)

Reconciliations of the Consolidated Statement of Changes in Equity as at January 1, 2010 and December 31, 2010

	December 31 2010	January 1 2010
Equity under Canadian GAAP	2,516	2,444
IFRS adjustments increase (decrease):		
Retirement benefits gains and losses	(11)	(4)
Assets and liabilities from rate regulated activities	(40)	(6)
Asset retirement obligations	-	(11)
Rate regulated property, plant and equipment	(2)	(75)
Equity under IFRS	2,463	2,348

Reconciliation of Comprehensive Income for the Year Ended December 31, 2010

	Year Ended December 31 2010
Comprehensive income under Canadian GAAP	299
Decrease in earnings for the year:	
Assets and liabilities from rate regulated activities	(31)
Other	(1)
	(32)
Decrease in other comprehensive income for the year:	
Retirement benefit obligations gains and losses	(8)
Comprehensive income under IFRS	259

Reconciliation of Cash Flows for the Year Ended December 31, 2010

	Year Ended December 31, 2010		
	Canadian GAAP	Effect of Transition	IFRS
Cash flow from continuing operations	459	244	703
Cash flow from discontinued operations	51	5	56
Cash flow from investing activities	(681)	(56)	(737)
Investing activities cash flow from discontinued operations	(20)	10	(10)
Cash flow from financing activities	72	(203)	(131)
Financing activities from discontinued operations	(1)	-	(1)

4. ADOPTION OF IFRS (continued)

The changes in classifications of cash flows under IFRS are mainly due to:

- Separate presentation of interest paid and received of \$183 million for year ended December 31, 2010 in financing. Canadian GAAP only required interest paid to be disclosed in the notes to the financial statements.
- Reclassification of contributions by customers for extensions to plant from investing activities to operating activities of \$66 million for year ended December 31, 2010. Under IFRS, the Corporation treats customer contributions as deferred revenue and classifies the associated cash flows as operating activities. Under Canadian GAAP, customer contributions were treated as a reduction of property, plant and equipment and associated cash flows were classified as investing activities.

Explanations of the Effect of the Transition to IFRS

The following explanations accompany the preceding reconciliations and describe the effect of the transition to IFRS, including: mandatory exceptions and optional exemptions from retrospective application of IFRS under IFRS 1 and items requiring retrospective application.

Mandatory Exceptions From Retrospective Application

IFRS 1 requires certain mandatory exceptions from full retrospective application of all accounting standards effective at the reporting date. The following mandatory exceptions were applicable to the Corporation at the Transition Date:

a) Estimates

The Corporation followed the mandatory exception and did not use hindsight to create or revise estimates. The estimates previously made by the Corporation under Canadian GAAP were not revised for IFRS, except to reflect any difference in accounting policies.

Optional IFRS 1 Exemptions From Retrospective Application

In general, IFRS requires an entity to comply with all of the accounting standards effective at the end of the first reporting period after adopting IFRS. This means restating accounting transactions as if the standards had been in place when the transactions occurred. IFRS 1 gives limited optional exemptions from retrospectively applying the standards where the costs of doing so would likely exceed the benefits to users of the financial statements. Significant IFRS 1 exemptions used by the Corporation are as follows:

b) Rate Regulated Property, Plant and Equipment

For operations subject to rate regulation, other than the regulated generating plants owned by ATCO Power, the Corporation has used the carrying amount of property, plant and equipment determined under Canadian GAAP as deemed cost on transition to IFRS. The carrying amount of these assets are included in rate base and applying IFRS retrospectively would have been onerous.

For the regulated generating plants owned by ATCO Power that are governed by PPAs, the Corporation reduced property, plant and equipment by \$102 million, deferred income tax liabilities by \$27 million and retained earnings by \$75 million for costs that cannot be capitalized under IFRS. As a result of this change, depreciation and amortization decreased by \$10 million, and plant and equipment maintenance increased by \$10 million for the discontinued operations for the year ended December 31, 2010.

4. **ADOPTION OF IFRS** (continued)

c) *Retirement Benefits*

At the Transition Date, rather than continue to amortize the cumulative unamortized gains and losses for all defined benefit pension and other post employment benefit (“OPEB”) plans, the Corporation elected to charge all cumulative unamortized gains and losses to retained earnings.

The adoption of IFRS increased retirement benefit liabilities by \$5 million, and reduced deferred income tax liabilities by \$1 million and retained earnings by \$4 million, at the Transition Date. As a result of this change, salaries, wages and benefits expense decreased by \$2 million for the year ended December 31, 2010.

Gains and losses incurred during the year ended December 31, 2010 have been recognized in other comprehensive income.

d) *Asset Retirement Obligations*

The Corporation elected to use an exemption allowing asset retirement obligations (“ARO”) and related assets to be re-measured on a simplified approach at the Transition Date rather than perform full detailed ARO calculations.

At the Transition Date, the re-measurement increased AROs by \$11 million and reduced property, plant and equipment by \$4 million, deferred income tax liabilities by \$4 million and retained earnings by \$11 million, using pre-tax, risk free discount rates ranging from 2.35% to 3.77%.

Retrospective Treatments on Transition

In the absence of an IFRS 1 exemption, IFRS requires retrospective application at the Transition Date. The Corporation applied retrospective treatment to the following items at the Transition Date.

e) *Assets and Liabilities from Rate Regulated Activities*

At the Transition Date, the Corporation derecognized all assets and liabilities relating to rate regulated activities. This change reduced total assets by \$466 million, total liabilities by \$459 million, equity preferred shares by \$5 million and retained earnings by \$2 million. Refer to Note 6 for information regarding the effect on earnings.

f) *Major Overhauls*

Under IFRS, major overhaul expenses are capitalized when incurred and depreciated until the next overhaul. Overhaul costs that do not relate to the replacement of components or the installation of new assets are expensed when incurred. Under Canadian GAAP, costs of major overhauls that are included in long term service agreements as variable costs over and above fixed costs were expensed in equal proportions over the life of the agreement. At the Transition Date, this change increased total assets by \$1 million and increased retained earnings by \$1 million. As a result of this change, earnings increased \$3 million for the year ended December 31, 2010.

4. ADOPTION OF IFRS (continued)

Reclassifications

The following reclassifications were made due to differences in presentation between Canadian GAAP and IFRS:

g) Customer Contributions

Under IFRS, customer contributions for the acquisition or construction of property, plant and equipment are consideration for a future service and are, therefore, considered to be deferred revenues to be amortized over the period in which the service is provided.

Under Canadian GAAP, these customer contributions netted against property, plant and equipment and were amortized on the same basis as, and offset against the depreciation charge of, the assets to which they related.

At the Transition Date, property, plant and equipment and other liabilities increased by \$881 million. Revenues and depreciation and amortization expense increased by \$31 million in the year ended December 31, 2010.

h) Deferred Income Taxes

IFRS does not permit deferred tax assets or liabilities as current assets or liabilities. As a result, current deferred income tax assets of \$6 million as at the Transition Date and \$2 million as at December 31, 2010, were reclassified to non-current deferred income tax assets on the consolidated balance sheet.

i) Long Term Debt Due Within One Year

Long term debt due within one year, that under Canadian GAAP was classified as long term due to the ability and intention to refinance, must be disclosed as a current liability under IFRS. IFRS does not contain the same guidelines allowing long term debt that is to be refinanced to be shown as non-current. Consequently, long term debt of \$125 million at the Transition Date and \$100 million at December 31, 2010 have been re-classified to current liabilities on the consolidated balance sheet.

j) Equity Preferred Shares

Under IFRS, equity preferred shares are presented as components of equity separate from the parent share owner's equity. Under Canadian GAAP, equity preferred shares were presented as equity preferred shares outside of share owners' equity. Equity preferred shares of \$405 million as at the Transition Date and \$449 million as at December 31, 2010 have been included in the total equity section of the consolidated balance sheet.

k) Nature of Expenses

IFRS states that expenses shall be classified on the statement of earnings by either nature or function. If classified by function, the classification by nature is required to be disclosed in the notes to the financial statements. Therefore, the Corporation has elected to present costs and expenses on the consolidated statement of earnings by nature. Under Canadian GAAP, the Corporation presented costs and expenses in a combination of both nature and function. As a

4. ADOPTION OF IFRS (continued)

result, operation and maintenance and selling and administrative expenses were reclassified to separate categories by nature as identified in the consolidated statement of earnings and comprehensive income.

l) *Net Finance Costs*

Under IFRS, interest income and expense are presented in the consolidated statement of earnings as net finance costs below operating profit.

5. SEGMENT INFORMATION

Reconciliation of Adjusted Earnings and Earnings for the Year Ended December 31

2011 2010	Continuing Operations ⁽¹⁾	Discontinued Operations	Consolidated
Adjusted Earnings	235 243	- 32	235 275
Adjustments for rate regulated activities	45 (30)	- -	45 (30)
Dividends on equity preferred shares of the Corporation	24 21	- 1	24 22
Earnings for the year	304 234	- 33	304 267

⁽¹⁾ *Adjusted Earnings and Earnings from Continuing Operations include a loss from corporate activities of \$1 million for the year ended December 31, 2011 (2010 – earnings of \$1 million).*

Adjusted Earnings

Adjusted Earnings are earnings for the year after adjusting for the timing of revenues and expenses associated with rate regulated activities and dividends on equity preferred shares of the Corporation, as well as one-time gains and losses and items that are not in the normal course of business or a result of day to day operations. Adjusted Earnings are a key measure of segment earnings used by the Chief Operating Decision Maker (“CODM”) for purposes of assessing segment performance and allocating resources. Other accounts in the consolidated financial statements have not been adjusted as they are not used by the CODM for those purposes.

Adjustments for Rate Regulated Activities

With respect to the accounting for rate regulated activities, prior to the adoption of IFRS, the Corporation had, as permitted by Canadian GAAP, utilized standards issued by the Financial Accounting Standards Board (“FASB”) in the United States (“U.S.”) as another source of GAAP. The FASB standards provided guidance on the recognition and measurement of assets and liabilities arising from rate regulation where Canadian GAAP no longer provided such guidance. Adjusted Earnings will present earnings from rate regulated activities on the same basis as was used prior to adopting IFRS.

5. SEGMENT INFORMATION (continued)

There is currently no specific guidance under IFRS for rate regulated entities. Consequently, the Corporation does not recognize assets and liabilities arising from rate regulated activities under IFRS.

While the accounting for rate regulated activities has changed, the economics of rate regulation have not changed (see Nature and Economic Effects of Rate Regulation in Note 2). The CODM is of the belief that earnings adjusted in accordance with the FASB standards are a better representation of the results of operations of its rate regulated activities. Furthermore, Adjusted Earnings will facilitate comparability of the Corporation's financial results with rate regulated peer companies that have deferred the adoption of IFRS by one year to 2012 as permitted by the Canadian Accounting Standards Board, as well as with entities that utilize U.S. accounting principles for rate regulated activities.

Rate regulated accounting differs from IFRS in the following ways:

Rate Regulated Accounting Treatment	IFRS Treatment
(1) The Corporation was able to defer the recognition of cash received in advance of future expenditures.	The Corporation records revenues when amounts are billed to customers and recognizes costs when they are incurred.
(2) The Corporation was able to recognize revenues associated with recoverable costs in advance of future billings to customers.	The Corporation records costs when incurred, but does not recognize their recovery until changes to customer rates are reflected in future customer billings.
(3) The Corporation recognized the earnings that arose from a regulatory decision that pertained to current and prior periods upon receipt of the decision.	The Corporation recognizes earnings when customer rates are changed and amounts are billed to customers.
(4) Intercompany profits on the manufacture or construction of facilities for a regulated public utility in the consolidated group were deemed to have been realized to the extent that the transfer price on such facilities was recognized for rate-making purposes by a regulator.	Intercompany profits are eliminated upon consolidation. The Corporation then recognizes those profits in earnings as amounts are billed to customers over the life of the related asset.

5. SEGMENT INFORMATION (continued)

Timing adjustments for rate regulated activities are as follows:

	Year Ended December 31	
	2011	2010
<i>Additional revenues billed in current period:</i>		
Future removal and site restoration costs ⁽¹⁾	25	30
Retirement benefits ⁽²⁾	11	16
Transmission and distribution system load balancing ⁽⁵⁾	3	7
Impact of colder temperatures on revenues ⁽⁶⁾	3	1
Other	30	17
	72	71
<i>Revenues to be billed in future period:</i>		
Deferred income taxes ⁽³⁾	(48)	(50)
Transmission access payments ⁽⁴⁾	(51)	(17)
Transmission and distribution system load balancing ⁽⁵⁾	(5)	(8)
Other	(5)	-
	(109)	(75)
<i>Regulatory decisions:</i>		
Decisions related to current and prior periods ⁽⁷⁾	82	(26)
	45	(30)

Descriptions of the adjustments and the timing of recovery or refund for each are as follows:

Description	Timing of Recovery or Refund
(1) Forecast future removal and site restoration costs are billed to customers over the life of the associated assets in advance of future expenditures. Revenues are recorded when forecast costs are billed to customers. Costs will be expensed in future periods when incurred.	Differences between revenues received and costs incurred to date will reverse in future periods as actual removal and site restoration costs are incurred.
(2) The Corporation accrues for its obligations under defined benefit pension plans and other post employment benefit plans, whereas the costs of retirement benefits are recovered from customers when paid.	Variances between the amounts paid and accrued for the retirement benefit plans will vary depending on the performance of plan assets and the actuarial valuations of plan obligations. These variances will remain until the plans are paid, settled or terminated.
(3) Deferred income taxes are a non-cash expense incurred by the Corporation related to temporary differences between the book value and the tax value of assets and liabilities.	Deferred income taxes are not recovered from customers until the temporary differences reverse and current income taxes are paid by the Utilities, with the exception of federal deferred income taxes for ATCO Electric's transmission operations, which are recovered from customers effective January 1, 2011.

5. SEGMENT INFORMATION (continued)

Description	Timing of Recovery or Refund
<p>(4) ATCO Electric expenses transmission access payments when incurred, whereas the amount included in customer rates is based on forecast cost. Actual payments may vary from forecast due to changes in tariffs charged by the Alberta Electric System Operator (“AESO”).</p>	<p>Recoveries from or refunds to customers of differences between transmission access payments billed to customers and paid by ATCO Electric are expected to occur in the following year.</p>
<p>For major transmission capital projects in Alberta, ATCO Electric’s revenues include a return on forecast rate base. When actual capital costs vary from forecast capital costs, variances may arise between the returns on forecast versus actual rate base.</p>	<p>Recoveries from or refunds to the AESO of variances between forecast and actual returns on rate base are expected to occur in the following year.</p>
<p>Variances between ATCO Electric’s actual and forecast income tax expense may arise due to changes in enacted and substantively enacted tax rates. The amount included in customer rates is based on forecast tax rates.</p>	<p>Recoveries from or refunds to customers of variances between forecast and actual income taxes arising from changes in enacted or substantively enacted tax rates are expected to occur in the following year.</p>
<p>(5) ATCO Gas and ATCO Pipelines engage in the purchase or sale of natural gas to maintain appropriate operating pressures on their distribution and transmission pipeline systems. The purchases and sales of natural gas are recorded as revenues when incurred. Effective October 1, 2011, ATCO Pipelines no longer purchases or sells natural gas to maintain operating pressures, as a result of Alberta System integration with NGTL. This is now the responsibility of NGTL.</p>	<p>The utilities may apply to the AUC for recoveries from or refunds to customers of the net purchases and sales when they exceed certain thresholds: for ATCO Gas, \$5 million over six successive months or \$10 million for one month for either of its North or South systems; for ATCO Pipelines, \$7 million for its North system and \$5 million for its South system.</p>
<p>(6) ATCO Gas’ customer rates are based on a forecast of normal temperatures. Fluctuations in temperatures may result in more or less revenue being recovered from customers than forecast. Revenues above or below the norm are refunded to or recovered from customers in future periods.</p>	<p>ATCO Gas may apply to the AUC for recoveries from or refunds to customers when the net revenue variances exceed \$7 million at April 30th of any year for either of its North or South systems.</p>

5. SEGMENT INFORMATION (continued)

Description	Timing of Recovery or Refund
<p>(7) The utilities recognize revenues from regulatory decisions when customer rates are changed and amounts are billed to customers. Under Canadian GAAP, the utilities recognized the earnings that affected current and prior periods upon receipt of the decision.</p>	<p>In the first quarter of 2010, ATCO Gas recorded earnings of \$11 million for the partial recovery from customers of amounts previously paid to customers in regard to the Carbon storage facility. Under IFRS, these earnings were recognized over a period of 8 months commencing in the second quarter of 2010. In the third quarter of 2010, ATCO Gas recorded an additional \$14 million of earnings pertaining to Carbon. Under IFRS, these earnings were recognized over a period of 14 months commencing in the fourth quarter of 2010 and ending December 31, 2011.</p> <p>In 2007, ATCO Electric was directed to refund to customers the federal deferred income taxes previously recovered from customers. A portion of the total liability to customers was to be refunded over a five year period commencing in 2008. Under IFRS, revenues are reduced when the refund occurs. Consequently, earnings in 2010 and 2011 were reduced by \$12 million and \$2 million, respectively.</p> <p>In 2011 ATCO Electric received two decisions approving the recovery of approximately \$40 million over the period August 2011 to December 2011 associated with higher than forecast transmission access payments. The recovery of higher transmission access payments is recognized as the costs are incurred. Under IFRS, these earnings are recognized as customers are billed.</p>

6. DISCONTINUED OPERATIONS

Discontinued operations as reported on the Consolidated Statement of Earnings and Comprehensive Income are as follows:

	Year Ended December 31 2010
Revenues	228
Costs and expenses	(167)
Net finance costs	(15)
Earnings from discontinued operations before income taxes	46
Income taxes	(13)
Earnings from discontinued operations	33

Discontinued operations as reported on the Consolidated Balance Sheet at the Transition Date are as follows:

	January 1, 2010
ASSETS	
Current assets	100
Property, plant and equipment	485
Other assets	2
Total assets	587
LIABILITIES	
Accounts payable and accrued liabilities	35
Accounts payable to parent and affiliate corporations	10
Provisions	58
Other liabilities	87
Long term debt ⁽¹⁾	220
Total liabilities	410
EQUITY	
Equity preferred shares to parent corporation	30
Class A and Class B share owner's equity	
Class A and Class B shares	313
Retained earnings	(166)
Total equity	177
Total liabilities and equity	587

⁽¹⁾ Intercompany amounts with CU Inc. that were eliminated upon consolidation prior to the Alberta Power (2000) transfer.

Cash flows relating to discontinued operations have been reported as separate line items of cash flow from operating, investing and financing activities on the Consolidated Statement of Cash Flows, and comparative period balances have been restated.

7. OTHER COSTS AND EXPENSES

	2011	2010
Goods and services ⁽¹⁾	165	151
Property and other taxes	40	37
Rent and utilities	16	20
	221	208

⁽¹⁾ Goods and services include professional fees, contractor costs, technology related expenses, advertising, and other general and administrative expenses.

8. INCOME TAXES

The components of income tax expense are summarized below:

	2011	2010
<i>Current income tax expense:</i>		
Expense for the year	23	44
Adjustment in respect of prior years	(6)	(8)
	17	36
<i>Deferred income tax expense:</i>		
Reversal of temporary differences	82	43
Adjustment in respect of prior years	5	7
	87	50
	104	86

The reconciliation of statutory and effective income tax expense is as follows:

	2011		2010	
Earnings before income taxes	408	%	320	%
Income taxes, at statutory rates	108	26.5	90	28.0
Deferred income taxes recorded at less than current statutory rates	(6)	(1.5)	(7)	(2.2)
Other	2	0.5	3	1.1
	104	25.5	86	26.9

The combined Federal and Alberta statutory Canadian income tax rate changed from 28.0% in 2010 to 26.5% in 2011.

8. INCOME TAXES (continued)

The changes in deferred income tax assets and liabilities are analyzed as follows:

	Property, Plant and Equipment	Intangibles	Reserves	Tax Loss Carryforwards and Tax Credits	Retirement Benefit Obligations	Other	Total
<i>Deferred income tax assets:</i>							
At January 1, 2010 <i>(as restated)</i>	(35)	-	39	-	-	-	4
Transfer of Alberta Power (2000) Ltd.	35	-	(39)	-	-	-	(4)
At December 31, 2010	-	-	-	-	-	-	-
At December 31, 2011	-	-	-	-	-	-	-
<i>Deferred income tax liabilities:</i>							
At January 1, 2010 <i>(as restated)</i>	290	42	-	-	(13)	(21)	298
Charge (credit) to earnings	57	(5)	-	(5)	1	2	50
Charge (credit) to other comprehensive income	-	-	-	-	(3)	-	(3)
At December 31, 2010	347	37	-	(5)	(15)	(19)	345
Charge (credit) to earnings	73	3	-	(3)	(5)	19	87
Other	(5)	-	-	-	-	-	(5)
At December 31, 2011	415	40	-	(8)	(20)	-	427

The Corporation does not expect any of its deferred income tax assets or liabilities to reverse within the next 12 months.

8. INCOME TAXES (continued)

As at the balance sheet date, the Corporation had \$34 million in tax losses and credits which, if unused, expire on the following dates:

	Non-Capital Losses	Capital Losses
2015	1	-
2016	1	-
2030	19	-
2031	13	-
Do not expire	-	-

In respect of these tax losses and credits, the Corporation has recorded deferred income tax assets of \$8 million.

The Corporation has recorded deferred income tax assets of nil (2010 - \$1 million) directly to equity.

The Corporation incurred current income tax of nil (2010 - \$10 million) and deferred income tax of nil (2010 - \$3 million) in respect of discontinued operations.

Income taxes paid amounted to \$37 million (2010 – \$30 million).

9. INVENTORIES

	2011	2010	January 1 2010
Natural gas and fuel in storage	21	20	20
Raw materials and consumables	39	36	52
Work in progress	1	-	-
	61	56	72

For the year ended December 31, 2011, the amount of inventories recognized as an expense was \$4 million (2010 – \$52 million). There have been less than \$1 million write-downs to net realizable value (2010 – less than \$1 million) and there have been no reversals of previous write-downs to net realizable value.

No inventories are pledged as security for liabilities.

10. PROPERTY, PLANT AND EQUIPMENT

	Utility Transmission & Distribution	Power Generation	Land and buildings	Construction Work-in- Progress	Other	Total
<i>Cost:</i>						
At January 1, 2010 (<i>as restated</i>)	7,290	1,196	256	261	385	9,388
Additions	641	1	30	54	39	765
Disposals	(83)	-	(1)	-	(7)	(91)
Transfer of Alberta Power (2000) Ltd.	-	(1,197)	(14)	(19)	(12)	(1,242)
At December 31, 2010	7,848	-	271	296	405	8,820
Additions	779	-	17	441	48	1,285
Disposals	(40)	-	(1)	-	(5)	(46)
Transfer of Carbon Storage Facility	-	-	-	-	(92)	(92)
At December 31, 2011	8,587	-	287	737	356	9,967
<i>Accumulated depreciation:</i>						
At January 1, 2010 (<i>as restated</i>)	2,149	733	74	-	186	3,142
Depreciation	198	25	7	-	19	249
Disposals	(56)	-	(1)	-	(8)	(65)
Transfer of Alberta Power (2000) Ltd.	-	(758)	-	-	(11)	(769)
At December 31, 2010	2,291	-	80	-	186	2,557
Depreciation	209	-	7	-	18	234
Disposals	(38)	-	-	-	(8)	(46)
Transfer of Carbon Storage Facility	-	-	-	-	(49)	(49)
At December 31, 2011	2,462	-	87	-	147	2,696
<i>Net book value:</i>						
At January 1, 2010 (<i>as restated</i>)	5,141	463	182	261	199	6,246
At December 31, 2010	5,557	-	191	296	219	6,263
At December 31, 2011	6,125	-	200	737	209	7,271

Included in the cost of property, plant and equipment is \$28 million (2010 – \$18 million) of interest capitalized. Interest has been capitalized at the rate of interest applicable to the specific borrowings financing the assets under construction or, where financed through general borrowings, at a capitalization rate representing the average interest rate on such borrowing, ranging from 5.95% to 6.58% (2010 - 6.01% to 6.85%).

11. INTANGIBLES

	Computer Software	Land Rights	Other	Total
<i>Cost:</i>				
At January 1, 2010 <i>(as restated)</i>	278	114	5	397
Additions	24	17	1	42
Disposals	(11)	-	-	(11)
At December 31, 2010	291	131	6	428
Additions	24	14	1	39
At December 31, 2011	315	145	7	467
<i>Accumulated amortization:</i>				
At January 1, 2010 <i>(as restated)</i>	147	22	2	171
Amortization	25	2	-	27
Disposals	(10)	-	-	(10)
At December 31, 2010	162	24	2	188
Amortization	20	2	-	22
At December 31, 2011	182	26	2	210
<i>Net book value:</i>				
At January 1, 2010 <i>(as restated)</i>	131	92	3	226
At December 31, 2010	129	107	4	240
At December 31, 2011	133	119	5	257

12. BANK INDEBTEDNESS AND LINES OF CREDIT

At December 31, 2011, bank indebtedness consists of \$23 million (2010 – \$16 million, January 1, 2010 – \$6 million), which represents cheques outstanding in excess of cash in bank.

At December 31, 2011, the Corporation has the following lines of credit that enable it to obtain financing for general business purposes:

	2011			2010		
	Total	Used	Available	Total	Used	Available
Long term committed	900	21	879	-	-	-
Short term committed	-	-	-	300	36	264
Uncommitted	28	2	26	29	2	27
	928	23	905	329	38	291

All of the \$23 million used at December 31, 2011, represents outstanding letters of credit.

13. LONG TERM DEBT

<i>Long term debt</i>	Effective Interest Rate	2011	2010	January 1 2010
Debentures – unsecured				
1990 Series 11.40% due August 2010	11.537%	-	-	125
2000 7.05% due June 2011	7.130%	-	100	100
2007 4.883% due November 2012	4.990%	35	35	35
2004 5.096% due November 2014	5.162%	100	100	100
2002 6.145% due November 2017	6.217%	150	150	150
2004 5.432% due January 2019	5.492%	180	180	180
1999 6.8% due August 2019	6.861%	300	300	300
1990 Second Series 11.77% due November 2020	11.903%	100	100	100
2006 4.801% due November 2021	4.854%	160	160	160
1991 Series 9.92% due April 2022	10.063%	125	125	125
1992 Series 9.40% due May 2023	9.511%	100	100	100
2009 6.215% due March 2024	6.278%	120	120	120
2008 5.563% due May 2028	5.614%	125	125	125
2004 5.896% due November 2034	5.939%	200	200	200
2005 5.183% due November 2035	5.226%	185	185	185
2006 5.032% due November 2036	5.072%	160	160	160
2007 5.556% due October 2037	5.598%	220	220	220
2008 5.580% due May 2038	5.622%	200	200	200
2009 6.500% due March 2039	6.550%	150	150	150
2011 4.543% due October 2041	4.580%	500	-	-
2010 4.947% due November 2050	4.988%	125	125	-
2011 4.593% due October 2061	4.624%	200	-	-
CU Inc. other long term obligation, due June 2013, unsecured	3.000%	5	5	5
Less: Deferred financing charges		(19)	(15)	(16)
		3,421	2,825	2,824
<i>Long term debt to parent corporation</i>				
Non-interest bearing promissory note, unsecured		3	3	3
		3,424	2,828	2,827
Less: Amounts due within one year		(35)	(100)	(125)
		3,389	2,728	2,702

Contractual maturities of debt

The undiscounted contractual maturities of long term debt are as follows:

	Principal	Interest
2012	35	202
2013	5	201
2014	100	200
2015	-	196
2016	-	196
2017 and thereafter	3,303	2,874
	3,443	3,869

13. LONG TERM DEBT (continued)

Interest expense

Interest expense is as follows:

	2011	2010
Long term debt	180	186
Bank indebtedness	2	3
Amortization of deferred financing charges	1	1
Other	3	1
	186	191
Less: Interest capitalized (Note 10)	(28)	(18)
	158	173

14. CONTINGENCIES

Measurement inaccuracies occur from time to time with respect to the utilities' 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 AUC.

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

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

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

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

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

15. OTHER LIABILITIES

	2011	2010	January 1 2010
Deferred revenues	984	901	884
Unearned availability incentives	-	-	67
Other	3	4	79
	987	905	1,030

Customer contributions

Customer contributions for extensions to plant are included in deferred revenues and are recognized as revenue over the life of the related asset. Changes in deferred customer contribution revenues are summarized below.

	2011	2010
At beginning of year	900	881
Receipt of customer contributions	115	66
Amortization	(31)	(31)
Disposals	-	(14)
Transfer of Alberta Power (2000)	-	(2)
At end of year	984	900

16. 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. There are no derivative instruments outstanding at December 31, 2011 and 2010.

Credit risk

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

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

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

Accounts receivable are non-interest bearing and are generally due in 30 to 90 days. At December 31, 2011, the provision for impairment of credit losses was less than \$1 million (2010 – less than \$1 million).

The aging analysis of trade receivables that are past due but not impaired is as follows:

	2011	2010
30 to 90 days	4	2
Greater than 90 days	2	1
	6	3

No other impairments have been identified within accounts receivable.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations associated with financial liabilities. Cash flow from operations provides a substantial portion of the Corporation’s cash requirements. Additional cash requirements are met with the use of existing cash balances and externally through bank borrowings and the issuance of long term debt 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.

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

The Corporation has contractual obligations in the normal course of business; future minimum undiscounted contractual maturities are as follows:

	2012	2013	2014	2015	2016	2017 and thereafter
Accounts payable and accrued liabilities	364	-	-	-	-	-
Accounts payable to parent and affiliate corporations	33	-	-	-	-	-
Operating leases ⁽¹⁾	6	5	5	4	3	4
Long term debt (Note 13)	35	5	100	-	-	3,303
Interest expense (Note 13)	202	201	200	196	196	2,874
Purchase obligations:						
Operating and maintenance agreements ⁽²⁾	125	107	-	-	-	-
Capital expenditures ⁽³⁾	209	-	-	-	-	-
	974	318	305	200	199	6,181

⁽¹⁾ Operating leases are comprised primarily of long term leases for office premises and equipment.

⁽²⁾ As of October 2011, ATCO Gas receives all required transmission service from NGTL. The contract with NGTL is annual with an expiry date of December 31 each year. Prior to October 2011, this service was provided by ATCO Pipelines.

⁽³⁾ Various contracts to purchase goods and services with respect to capital expenditures.

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

Fair value of non-derivative financial instruments

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

	2011		2010		January 1, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>Financial Assets</i>						
<i>Loans and Receivables:</i>						
Short term advances to parent corporation ⁽¹⁾	50	50	-	-	70	70
Accounts receivable ⁽¹⁾	229	229	214	214	244	244
Accounts receivable from parent and affiliate corporations ⁽¹⁾	3	3	4	4	8	8
Long term advances to affiliate corporation ⁽²⁾	165	225	175	228	-	-
<i>Financial Liabilities</i>						
<i>Amortized Cost:</i>						
Bank indebtedness ⁽¹⁾	23	23	16	16	6	6
Short term advances from parent corporation ⁽¹⁾	-	-	40	40	-	-
Accounts payable and accrued liabilities ⁽³⁾	364	364	241	241	279	279
Accounts payable to parent and affiliate corporation ⁽³⁾	33	33	26	26	32	32
Long term debt ⁽⁴⁾	3,421	4,242	2,825	3,286	2,824	3,286
Long term debt to parent corporation ⁽⁵⁾	3	3	3	3	3	3

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

⁽²⁾ 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.

⁽³⁾ Recorded at cost. Fair value approximates the carrying amounts due to the short term nature of the financial instruments.

⁽⁴⁾ 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.

⁽⁵⁾ Recorded at carrying amount. The long term debt to parent corporation is repayable on demand; therefore, the fair value is equal to carrying amount.

Fair value of financial instruments

The Corporation does not have any financial instruments recorded at fair value at December 31, 2011.

17. DIVIDENDS

Cash dividends declared and paid per share for all series and classes of preferred and common shares are as follows:

	2011	2010
	(dollars per share)	
<i>Equity preferred shares:</i>		
4.60% Cumulative Redeemable Preferred Shares, Series 1	1.15	1.15
6.70% Cumulative Redeemable Preferred Shares, Series 2	1.675	1.675
3.80% Cumulative Redeemable Preferred Shares, Series 4	0.9441	-
<i>Equity preferred shares to parent corporation:</i>		
4.35% Perpetual Cumulative Second Preferred Shares, Series U	1.0875	1.0875
4.70% Perpetual Cumulative Second Preferred Shares, Series V	1.175	1.175
Class A and Class B shares	-	-

The payment of dividends on the Corporation's Class A and Class B shares and equity preferred shares is at the discretion of the Board of Directors and depends on the financial condition of the Corporation and other factors.

18. EQUITY PREFERRED SHARES AND EQUITY PREFERRED SHARES TO PARENT CORPORATION

Equity preferred shares

Authorized and issued

Authorized: An unlimited number of Preferred Shares, issuable in series.

Issued:

	Stated Value	Redemption Dates	2011		2010		January 1 2010
			Shares	Amount	Shares	Amount	Amount
	(dollars)						
Cumulative Redeemable Preferred Shares							
4.60% Series 1	25.00	See below	4,600,000	115	4,600,000	115	115
6.70% Series 2	25.00	See below	6,400,000	160	6,400,000	160	160
3.80% Series 4	25.00	See below	3,000,000	75	3,000,000	75	-
Issuance costs				(7)		(7)	(5)
				343		343	270

18. EQUITY PREFERRED SHARES AND EQUITY PREFERRED SHARES TO PARENT CORPORATION (continued)

Fair values

Fair values for preferred shares determined using quoted market prices for the same or similar issues are \$370 million (2010 - \$358 million, January 1, 2010 - \$278 million).

Redemption privileges

The Series 1 Preferred Shares are redeemable at the option of the Corporation commencing on June 1, 2012, at the stated value plus a 4% premium per share for the next 12 months plus accrued and unpaid dividends. The redemption premium declines by 1% in each succeeding twelve month period until June 1, 2016.

On June 1, 2014, and on June 1 of every fifth year thereafter, the Corporation may redeem the Series 2 Preferred Shares in whole or in part at the stated value plus all accrued and unpaid dividends. Holders may elect to convert any or all of their Series 2 Preferred Shares into an equal number of Cumulative Redeemable Preferred Shares Series 3 on June 1, 2014, and on June 1 of every fifth year thereafter. Holders of the Series 3 Preferred Shares will be entitled to receive, as and when declared by the Board of Directors of the Corporation, floating rate cumulative preferential cash dividends, payable quarterly at a rate equal to the then current 3-month Government of Canada Treasury Bill yield plus 4.81%. On June 1, 2019, and on June 1 of every fifth year thereafter (“Series 3 Conversion Date”), holders of the Series 3 Preferred Shares may elect to convert any or all of their Series 3 Preferred Shares back into an equal number of Series 2 Preferred Shares. The Corporation may redeem the Series 3 Preferred Shares in whole or in part at \$25.00 on a Series 3 Conversion Date or at \$25.50 on any other date.

On June 1, 2016, and on June 1 of every fifth year thereafter, the Corporation may redeem the Series 4 Preferred Shares in whole or in part at the stated value plus all accrued and unpaid dividends. Holders may elect to convert any or all of their Series 4 Preferred Shares into an equal number of Cumulative Redeemable Preferred Shares Series 5 on June 1, 2016, and on June 1 of every fifth year thereafter. Holders of the Series 5 Preferred Shares will be entitled to receive, as and when declared by the Board of Directors of the Corporation, floating rate cumulative preferential cash dividends, payable quarterly at a rate equal to the then current 3-month Government of Canada Treasury Bill yield plus 1.36%. On June 1, 2021, and on June 1 of every fifth year thereafter (“Series 5 Conversion Date”), holders of the Series 5 Preferred Shares may elect to convert any or all of their Series 5 Preferred Shares back into an equal number of Series 4 Preferred Shares. The Corporation may redeem the Series 5 Preferred Shares in whole or in part at \$25.00 on a Series 5 Conversion Date or at \$25.50 on any other date.

18. EQUITY PREFERRED SHARES AND EQUITY PREFERRED SHARES TO PARENT CORPORATION (continued)

Equity preferred shares to parent corporation

Authorized and issued

Authorized: An unlimited number of Series Second Preferred Shares, issuable in series.

Issued:

	Stated Value	Redemption Dates	2011		2010		January 1 2010 ⁽¹⁾
			Shares	Amount	Shares	Amount	Amount
	(dollars)						
Perpetual Cumulative Second Preferred Shares							
4.35% Series U	25.00	December 2, 2011	-	-	800,000	20	20
4.70% Series V	25.00	October 3, 2012	3,176,578	79	3,176,578	79	110
				79		99	130

⁽¹⁾ There were 4,400,000 Series V Second Preferred Shares outstanding at January 1, 2010.

On December 2, 2011, the Corporation redeemed all outstanding Series U Perpetual Cumulative Second Preferred Shares totaling \$20 million. The redemption was financed with available cash reserves.

The dividends payable on the Series V preferred shares are fixed until the redemption date specified above, at which time a new dividend rate may be established by negotiations between the Corporation and Canadian Utilities Limited.

Fair values

Fair values for preferred shares determined using quoted market prices for the same or similar issues are \$79 million (2010 – \$101 million, January 1, 2010 - \$130 million).

Redemption privileges

The preferred shares are redeemable on the dates specified above at the option of the Corporation at the stated value plus accrued and unpaid dividends.

19. CLASS A AND CLASS B SHARES

	Class A Non-Voting		Class B Common		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
Authorized:	Unlimited		Unlimited			
Issued and outstanding:	3,286,124	256	2,014,076	157	5,300,200	413

Class A and B shares have no par value.

20. CAPITAL DISCLOSURES

The Corporation's objectives when managing capital have been:

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 for the utilities.

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 as well as changes in economic conditions and risks impacting the Corporation's operations. 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 equity preferred shares and long term debt.

The utilities are regulated primarily by the AUC, which, through the generic cost of capital decisions issued in 2009 and 2011, established the capital structure for each utility. The utilities are capitalized consistent with the generic cost of capital decisions. 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 utilities have had an objective of being capitalized consistent with the AUC decisions, the Corporation itself is not restricted in its capital structure. The capital structure for the Corporation is set relative to risk and to meet the financial and operational objectives of the Corporation (while considering the decisions of the regulator).

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, 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 has been to maintain the equity capitalization allowed by the regulator for the regulated operations. The Corporation looks to maintain an equity capitalization in the range of 40% to 50%.

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 2010.

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

20. CAPITAL DISCLOSURES (continued)

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

	2011	2010	January 1 2010
Class A and Class B shares	413	413	413
Retained earnings	1,875	1,608	1,535
Equity preferred shares	343	343	270
Equity preferred shares to parent corporation	79	99	130
Total equity	2,710	2,463	2,348
Long term debt	3,424	2,828	2,827
Total capitalization	6,134	5,291	5,175
Equity capitalization	44%	47%	45%

The equity capitalization is in line with the Corporation's objectives. Equity capitalization decreased 1% at January 1, 2010, and remained unchanged at December 31, 2010 from that reported under Canadian GAAP as a result of the transitional adjustments to IFRS (see Note 4).

	2011	2010
Interest coverage	3.6	2.8
Interest and preferred dividend coverage	3.0	2.4

For the year ended December 31, 2011, the Corporation was in compliance with externally imposed requirements on its capital (including debt covenants and credit facilities). The Corporation will continue to assess its capital structure and objectives in light of decisions received from the AUC.

21. CHANGES IN NON-CASH WORKING CAPITAL

	2011	2010
<i>Operating activities, changes related to:</i>		
Accounts receivable	(15)	(31)
Accounts receivable from parent and affiliate corporations	1	12
Inventories	-	(1)
Prepaid expenses and other current assets	(6)	1
Accounts payable and accrued liabilities	16	20
Accounts payable to parent and affiliate corporations	7	(1)
Income taxes recoverable and payable	-	(5)
	3	(5)
<i>Investing activities, changes related to:</i>		
Inventories	(5)	(3)
Accounts payable and accrued liabilities	107	(1)
	102	(4)

22. RETIREMENT BENEFITS

The Corporation, together with Canadian Utilities Limited and its subsidiary corporations, maintains registered defined benefit and defined contribution pension plans for most of its employees and provides other post employment benefits, principally health, dental and life insurance, for retirees and their dependants. The defined benefit pension plans provide for pensions based on employees' length of service and final average earnings. As of 1997, new employees automatically participate in the defined contribution pension plan and employees participating in the defined benefit pension plans may transfer to the defined contribution pension plan at any time. Upon transfer, further accumulation of benefits under the defined benefit pension plans ceases. The Corporation, together with Canadian Utilities Limited and its subsidiary corporations, also maintains non-registered, non-funded defined benefit pension plans for certain officers and key employees.

Contributions to the Group Plan, which is accounted for as a defined contribution pension plan, are expensed as paid. Other post employment benefit and non-registered defined benefit pension plans, which the Corporation funds out of general revenues, are administered on a combined basis with Canadian Utilities Limited and its subsidiary corporations. For non-registered defined benefit pensions, the Corporation is assessed a percentage of the total cost of the plans.

Information about the Corporation's benefit plans, in aggregate, is as follows:

	2011		2010	
	Pension Benefit Plans	Other Post Employment Benefit Plans	Pension Benefit Plans	Other Post Employment Benefit Plans
<i>Components of benefit plan cost:</i>				
Defined benefit plans cost	52	4	55	6
Defined contribution plans cost	14	-	11	-
Total cost	66	4	66	6
Less: Capitalized	30	2	25	3
Net cost recognized	36	2	41	3
<i>Accrued benefit obligations:</i>				
Beginning of year	26	65	17	55
Defined benefit plan cost	52	4	55	6
Benefit payments	(3)	(2)	(4)	(2)
Contributions to defined benefit plans	(43)	-	(46)	-
Losses (gains) on accrued benefit obligations	1	(1)	4	6
End of year ⁽³⁾	33	66	26	65

Historical information

	2011	2010	January 1 2010
Accrued benefit obligation	99	91	72
Gains (losses) recognized in other comprehensive income	-	(10)	-
Cumulative gains (losses) recognized in other comprehensive income	(10)	(10)	-

22. RETIREMENT BENEFITS (continued)

Weighted average assumptions

	2011		2010	
	Pension Benefit Plans	Other Post Employment Benefit Plans	Pension Benefit Plans	Other Post Employment Benefit Plans
<i>Assumptions regarding benefit plan cost:</i>				
Liability discount rate for the period	5.6%	5.6%	6.4%	6.4%
Average compensation increase for the period	(1)	-	(1)	-
<i>Assumptions regarding accrued benefit obligations:</i>				
Liability discount rate at December 31	5.2%	5.2%	5.6%	5.6%
Long term inflation rate	2.25%	(2)	2.25%	(2)

(1) The assumed average compensation increases are 3.75% until the end of 2012 and 3.25% thereafter (2010 - 3.75% until the end of 2011 and 3.25% thereafter).

(2) The assumed annual health care cost trend rate increases used in measuring the accumulated post employment benefit obligation are as follows: for drug costs, 6.2% for 2011 grading down over 13 years to 4.5% (2010 - 6.4% for 2010 grading down over 14 years to 4.5%), for other medical costs, 4.5% for 2011 and thereafter (2010 - 4.5% for 2010 and thereafter), and for dental costs, 4.0% for 2011 and thereafter (2010 - 4.0% for 2010 and thereafter).

Funding

Employees are required to contribute a percentage of their salary to registered pension plans. The Corporation is required to contribute its share of contributions on behalf of the defined contribution members of the pension plans and to provide the balance of the funding necessary to ensure that benefits will be fully provided for at retirement for the members of the defined benefit pension plans.

The actual funding contributions for 2010 and 2011 were established based on actuarial valuations for funding purposes as of December 31, 2009. Based on these final actuarial valuations, the employer contributions relating to both the defined contribution and the defined benefit components of the plan for 2011 were approximately \$56 million (2010 - \$58 million). The Corporation expects to make contributions of \$44 million to the registered defined benefit plans in 2012. The next actuarial valuation for funding purposes is required to be completed as of December 31, 2012.

For purposes of any pension funding requirements pertaining to utility operations, the AUC has directed that the cash basis of accounting be used in customer rate applications. Accordingly, the Corporation includes the cost of funding in its rate applications to the AUC, thereby, with the consent of the AUC, recovering approximately 100% of the costs of funding its pension plans from utility customers.

23. RELATED PARTY TRANSACTIONS

Transactions between the Corporation and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in this note.

23. RELATED PARTY TRANSACTIONS (continued)

During the year, the Corporation entered into the following transactions with related parties:

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

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

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

At December 31, 2011, there were \$50 million in short term advances to parent corporation (2010 – nil), accounts receivable from related parties of \$3 million (2010 – \$4 million), long term advances to entities related through common control of \$165 million (2010-\$175 million), short term advances from parent corporation of nil (2010 – \$40 million), accounts payable to parent and entities related through common control of \$33 million (2010 – \$26 million) and equity preferred shares to parent corporation of \$79 million (2010 – \$99 million).

23. RELATED PARTY TRANSACTIONS (continued)

Long term advances to entities related through common control are as follows:

	Effective Interest Rate	2011	2010	January 1 2010
2000 7.05% due June 2011	7.130%	-	10	-
2007 4.883% due November 2012	4.990%	35	35	-
1999 6.8% due August 2019	6.861%	51	51	-
1990 Second Series 11.77% due November 2020	11.903%	27	27	-
1991 Series 9.92% due April 2022	10.063%	35	35	-
1992 Series 9.40% due May 2023	9.511%	17	17	-
		165	175	-

These transactions are in the normal course of business and under normal commercial terms, measured at the exchange amount.

Effective June 1, 2011, ATCO Gas, a wholly-owned subsidiary of the Corporation, transferred ownership of its Carbon natural gas storage facility (“Carbon Storage Facility”) to ATCO Midstream, a wholly-owned subsidiary of Canadian Utilities Limited, the Corporation’s parent. This related party transaction by entities under common control was accounted for at the carrying amount. Carbon Storage Facility assets of \$43 million and related liabilities of \$6 million were transferred for cash consideration of \$37 million. Commencing June 1, 2011, the Corporation no longer recognizes the Carbon Storage Facility in its financial position, results of operations and cash flows in its consolidated financial statements.

On October 1, 2010, the Corporation transferred ownership of its wholly-owned subsidiary, Alberta Power (2000) Ltd., to ATCO Power Ltd., a wholly-owned subsidiary of Canadian Utilities Limited, the Corporation’s parent. As this was a related party transaction by entities under common control, it was accounted for by the Corporation at the carrying amount (see Note 6).

Key Management Compensation

	2011	2010
Salaries and short term employee benefits	4	3
Retirement benefits	1	1
Share based compensation	3	5
	8	9

Key management personnel comprise members of executive management and the board of directors, a total of 10 individuals (2010 – 9 individuals).

24. SUBSEQUENT EVENT

On January 12, 2012, the Corporation declared eligible dividends of \$0.28750 per share on the Series 1 Preferred Shares, \$0.41875 per share on the Series 2 Preferred Shares and \$0.23750 on the Series 4 Preferred Shares.