



An **ATCO** Company

**CU INC.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
*(UNAUDITED)*

**FOR THE SIX MONTHS ENDED**  
**JUNE 30, 2011**

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

	Note	Three Months Ended June 30		Six Months Ended June 30	
		2011	2010	2011	2010
<b>Revenues</b>		<b>\$ 378</b>	<b>\$ 334</b>	<b>\$ 852</b>	<b>\$ 765</b>
<b>Costs and expenses</b>					
Salaries, wages and benefits		(68)	(65)	(136)	(122)
Energy transmission and transportation		(4)	(2)	(12)	(4)
Plant and equipment maintenance		(19)	(16)	(34)	(31)
Fuel costs		(3)	(3)	(7)	(7)
Purchased power		(12)	(12)	(28)	(27)
Depreciation and amortization	7	(63)	(60)	(124)	(120)
Franchise fees		(40)	(36)	(102)	(97)
Other		(63)	(60)	(121)	(113)
		<b>(272)</b>	<b>(254)</b>	<b>(564)</b>	<b>(521)</b>
		<b>106</b>	<b>80</b>	<b>288</b>	<b>244</b>
<b>Other income</b>		<b>-</b>	<b>2</b>	<b>-</b>	<b>2</b>
<b>Operating profit</b>		<b>106</b>	<b>82</b>	<b>288</b>	<b>246</b>
Interest income		6	6	12	13
Interest expense		(40)	(44)	(82)	(91)
<b>Net finance costs</b>		<b>(34)</b>	<b>(38)</b>	<b>(70)</b>	<b>(78)</b>
<b>Earnings before income taxes</b>		<b>72</b>	<b>44</b>	<b>218</b>	<b>168</b>
<b>Income taxes</b>		<b>(21)</b>	<b>(9)</b>	<b>(58)</b>	<b>(41)</b>
<b>Earnings from continuing operations</b>		<b>51</b>	<b>35</b>	<b>160</b>	<b>127</b>
<b>Earnings from discontinued operations</b>	5	<b>-</b>	<b>7</b>	<b>-</b>	<b>18</b>
<b>Earnings and comprehensive income for the period</b>		<b>\$ 51</b>	<b>\$ 42</b>	<b>\$ 160</b>	<b>\$ 145</b>

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

	Note	June 30 2011	December 31 2010
<b>ASSETS</b>			
<b>Current assets</b>			
Accounts receivable		\$ 149	\$ 214
Accounts receivable from parent and affiliate corporations		4	4
Inventories		58	56
Long term advances to affiliate corporation due within one year		-	10
Prepaid expenses and other current assets		18	12
		<b>229</b>	<b>296</b>
<b>Non-current assets</b>			
Property, plant and equipment	7	6,556	6,263
Intangibles		238	240
Long term advances to affiliate corporation		165	165
Other assets		7	6
<b>Total assets</b>		<b>\$ 7,195</b>	<b>\$ 6,970</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Bank indebtedness		\$ 15	\$ 16
Short term advances from parent corporation		189	40
Accounts payable and accrued liabilities		218	241
Accounts payable to parent and affiliate corporations		22	26
Income taxes payable		7	15
Long term debt		-	100
		<b>451</b>	<b>438</b>
<b>Non-current liabilities</b>			
Deferred income tax liabilities		379	349
Retirement benefit obligations		82	77
Long term debt		2,729	2,728
Other liabilities		932	904
<b>Total liabilities</b>		<b>4,573</b>	<b>4,496</b>
<b>EQUITY</b>			
Equity preferred shares		350	350
Equity preferred shares to parent corporation		92	92
<b>Class A and Class B share owner's equity</b>			
Class A and Class B shares		413	413
Retained earnings		1,767	1,619
		<b>2,180</b>	<b>2,032</b>
<b>Total equity</b>		<b>2,622</b>	<b>2,474</b>
<b>Total liabilities and equity</b>		<b>\$ 7,195</b>	<b>\$ 6,970</b>

**CU Inc.**  
**Consolidated Statement of Changes in Equity**

*(Millions of Canadian Dollars)*

	Class A and Class B Shares	Equity Preferred Shares	Retained Earnings	Total Equity
At January 1, 2010 <i>(as restated)</i>	\$ 413	\$ 400	\$ 1,539	\$ 2,352
Earnings for the period	-	-	145	145
Dividends	-	-	(11)	(11)
At June 30, 2010	\$ 413	\$ 400	\$ 1,673	\$ 2,486
<b>At December 31, 2010</b>	<b>\$ 413</b>	<b>\$ 442</b>	<b>\$ 1,619</b>	<b>\$ 2,474</b>
<b>Earnings for the period</b>	<b>-</b>	<b>-</b>	<b>160</b>	<b>160</b>
<b>Dividends</b>	<b>-</b>	<b>-</b>	<b>(12)</b>	<b>(12)</b>
<b>At June 30, 2011</b>	<b>\$ 413</b>	<b>\$ 442</b>	<b>\$ 1,767</b>	<b>\$ 2,622</b>

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

	Note	Three Months Ended		Six Months Ended	
		2011	2010	2011	2010
		June 30	June 30	June 30	June 30
<b>Operating activities</b>					
Earnings from continuing operations		\$ 51	\$ 35	\$ 160	\$ 127
Adjustments for:					
Depreciation and amortization		63	60	124	120
Income taxes		19	7	56	36
Contributions by utility customers for extensions to plant		23	16	45	35
Net finance costs		34	38	70	78
Income taxes paid		(10)	(7)	(26)	(20)
Other		(9)	(10)	(9)	(13)
		171	139	420	363
Changes in non-cash working capital	9	6	(23)	31	14
Cash flow from continuing operations		177	116	451	377
Cash flow from discontinued operations		-	34	-	62
<b>Cash flow from operations</b>		<b>177</b>	<b>150</b>	<b>451</b>	<b>439</b>
<b>Investing activities</b>					
Purchase of property, plant and equipment		(253)	(161)	(439)	(315)
Proceeds on transfer of Carbon Storage Facility		37	-	37	-
Proceeds on disposal of property, plant and equipment		-	15	-	15
Purchase of intangibles		(6)	(8)	(11)	(12)
Changes in non-cash working capital	9	3	(6)	(3)	(26)
Other		-	1	-	1
Investing activities cash flow from discontinued operations		-	(4)	-	(5)
		(219)	(163)	(416)	(342)
<b>Financing activities</b>					
Repayment of long term debt		(100)	-	(100)	-
Repayment of long term advances to affiliate corporation		10	-	10	-
Dividends paid on equity preferred shares from continuing operations		(6)	(5)	(12)	(10)
Dividends paid on equity preferred shares from discontinued operations		-	(1)	-	(1)
Interest paid		(59)	(62)	(81)	(93)
Other		-	1	-	-
		(155)	(67)	(183)	(104)
<b>Cash position <sup>(1)</sup></b>					
Decrease		(197)	(80)	(148)	(7)
Beginning of period		(7)	137	(56)	64
<b>End of period</b>		<b>\$ (204)</b>	<b>\$ 57</b>	<b>\$ (204)</b>	<b>\$ 57</b>

<sup>(1)</sup> Cash position consists of bank indebtedness and short term advances from parent corporation.

**CU INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

*(tabular amounts in millions of Canadian dollars)*

**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, 909-11<sup>th</sup> 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.

These consolidated financial statements include the accounts of CU Inc. and its subsidiaries (“the Corporation”). The consolidated financial statements were authorized for issue by the Audit Committee of the Board of Directors on July 28, 2011.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Financial Statement Presentation and Consolidation***

The accompanying condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”). These interim consolidated financial statements also comply with IFRS 1 *First-time Adoption of IFRS*. They should be read in conjunction with the Corporation’s consolidated financial statements and related notes for the year ended December 31, 2010, and the interim consolidated financial statements for the three months ended March 31, 2011 prepared in accordance with IFRS applicable to interim consolidated financial statements. In this context, the term “Canadian GAAP” refers to generally accepted accounting principles before the adoption of IFRS.

Subject to certain transition elections, 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. In addition, the accounting policies followed in these interim consolidated financial statements are the same as those applied in the Corporation’s interim consolidated financial statements for the three months ended March 31, 2011. Previously, the Corporation prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian GAAP. Note 3 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 six months ended June 30, 2010. Comparative figures for 2010 in these consolidated financial statements have been restated to give effect to these changes.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of July 28, 2011. Any subsequent changes to IFRS that are given effect in the Corporation’s annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on transition to IFRS.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Due to certain factors, revenues, earnings and Adjusted Earnings for any quarter are not necessarily indicative of operations on an annual basis.

### *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.

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. ADOPTION OF IFRS

The Corporation's consolidated financial statements for the year ended December 31, 2011 will be the first annual financial statements that comply with IFRS. These interim 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 first time adoption of IFRS is disclosed in the interim consolidated financial statements for the three months ended March 31, 2011.

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.

### 3. ADOPTION OF IFRS (continued)

#### *Reconciliation of the Consolidated Statement of Earnings and Comprehensive Income for the Three Months Ended June 30, 2010*

**CU Inc.**  
**Three Months Ended June 30, 2010**  
*(Millions of Canadian Dollars)*

	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>Revenues</b>	e,f	<b>\$326</b>	<b>\$8</b>	<b>\$334</b>
<b>Costs and expenses</b>				
Natural gas supply	j	<b>1</b>	(1)	-
Purchased power		<b>12</b>	-	<b>12</b>
Operation and maintenance	j	<b>82</b>	(82)	-
Selling and administrative	j	<b>62</b>	(62)	-
Depreciation and amortization	b,c,e,f	<b>52</b>	8	<b>60</b>
Interest	j,k	<b>49</b>	(49)	-
Franchise fees		<b>36</b>	-	<b>36</b>
Salaries, wages and benefits	j	-	65	<b>65</b>
Energy transmission and transportation	j	-	2	<b>2</b>
Plant and equipment maintenance	e,j	-	16	<b>16</b>
Fuel costs	j	-	3	<b>3</b>
Other	j	-	60	<b>60</b>
		<b>294</b>	(40)	<b>254</b>
		<b>32</b>	48	<b>80</b>
<b>Other income</b>	j,k	<b>13</b>	(11)	<b>2</b>
<b>Operating profit</b>		<b>45</b>	37	<b>82</b>
Interest income	j,k	-	6	<b>6</b>
Interest expense	j,k	-	44	<b>44</b>
<b>Net finance costs</b>	j,k	-	38	<b>38</b>
<b>Earnings before income taxes</b>		<b>45</b>	(1)	<b>44</b>
<b>Income taxes</b>		<b>7</b>	2	<b>9</b>
<b>Earnings from continuing operations</b>		<b>38</b>	(3)	<b>35</b>
<b>Earnings from discontinued operations</b>	b	<b>9</b>	(2)	<b>7</b>
<b>Earnings and comprehensive income for the period</b>		<b>\$47</b>	\$ (5)	<b>\$42</b>

### 3. ADOPTION OF IFRS (continued)

#### *Reconciliation of the Consolidated Statement of Earnings and Comprehensive Income for the Six Months Ended June 30, 2010*

CU Inc.  
Six Months Ended June 30, 2010  
(Millions of Canadian Dollars)

	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>Revenues</b>	e,f	<b>\$745</b>	\$20	<b>\$765</b>
<b>Costs and expenses</b>				
Natural gas supply	j	1	(1)	-
Purchased power		27	-	27
Operation and maintenance	j	161	(161)	-
Selling and administrative	j	117	(117)	-
Depreciation and amortization	b,c,e,f	104	16	120
Interest	j,k	99	(99)	-
Franchise fees		97	-	97
Salaries, wages and benefits	j	-	122	122
Energy transmission and transportation	j	-	4	4
Plant and equipment maintenance	e,j	-	31	31
Fuel costs	j	-	7	7
Other expenses	j	-	113	113
		<b>606</b>	(85)	<b>521</b>
		<b>139</b>	105	<b>244</b>
<b>Other income</b>	j,k	<b>26</b>	(24)	<b>2</b>
<b>Operating profit</b>		<b>165</b>	81	<b>246</b>
Interest income	j,k	-	13	13
Interest expense	j,k	-	91	91
<b>Net finance costs</b>	j,k	<b>-</b>	78	<b>78</b>
<b>Earnings before income taxes</b>		<b>165</b>	3	<b>168</b>
<b>Income taxes</b>		<b>25</b>	16	<b>41</b>
<b>Earnings from continuing operations</b>		<b>140</b>	(13)	<b>127</b>
<b>Earnings from discontinued operations</b>	b	<b>20</b>	(2)	<b>18</b>
<b>Earnings and comprehensive income for the period</b>		<b>\$160</b>	\$ (15)	<b>\$145</b>

### 3. ADOPTION OF IFRS (continued)

#### *Reconciliation of the Consolidated Statement of Changes in Equity as at June 30, 2010*

	June 30 2010
Equity under Canadian GAAP	\$2,593
IFRS adjustments:	
Assets and liabilities from rate regulated activities	(19)
Asset retirement obligations	(10)
Rate regulated property, plant and equipment	(77)
Other	(1)
Equity under IFRS	\$2,486

#### *Reconciliation of Comprehensive Income for the Three and Six Months Ended June 30, 2010*

	Three Months Ended June 30 2010	Six Months Ended June 30 2010
Comprehensive income under Canadian GAAP	\$47	\$160
Decrease for the period:		
Assets and liabilities from rate regulated activities	(2)	(12)
Other	(3)	(3)
	(5)	(15)
Comprehensive income under IFRS	\$42	\$145

#### *Reconciliation of Cash Flows for the Three and Six Months Ended June 30, 2010*

	Three Months Ended June 30, 2010			Six Months Ended June 30, 2010		
	Canadian GAAP	Effect of Transition	IFRS	Canadian GAAP	Effect of Transition	IFRS
Cash flow from continuing operations	\$ 44	\$ 72	\$ 116	\$ 250	\$ 127	\$ 377
Cash flow from discontinued operations	35	(1)	34	61	1	62
Cash flow from investing activities	(150)	(9)	(159)	(305)	(32)	(337)
Investing activities cash flow from discontinued operations	(9)	5	(4)	(13)	8	(5)
Cash flow from financing activities	-	(67)	(67)	-	(104)	(104)

### 3. ADOPTION OF IFRS (continued)

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

- Separate presentation of interest paid of \$62 million and \$93 million for the three and six months ended June 30, 2010, respectively, in financing activities as required by IFRS. Canadian GAAP only required interest paid to be disclosed in the notes to the financial statements.
- Reclassification of contributions by utility customers for extensions to plant from investing activities to operating activities of \$16 million and \$35 million for the three and six months ended June 30, 2010, respectively. 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.

### 3. ADOPTION OF IFRS (continued)

As a result of this change, depreciation and amortization decreased by \$3 million and \$6 million and plant and equipment maintenance increased by \$6 million and \$8 million for the discontinued operations for the three and six months ended June 30, 2010, respectively.

#### c) *Asset Retirement Obligations*

The Corporation elected to use an exemption allowing ARO liabilities 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 ARO liabilities 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.

#### **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.

#### d) *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 4 for information regarding the effect on earnings.

#### e) *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 total liabilities by \$1 million and increased retained earnings by \$1 million. As a result of this change, earnings decreased by nil and \$1 million for the three and six months ended June 30, 2010, respectively.

#### **Reclassifications**

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

#### f) *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.

### 3. ADOPTION OF IFRS (continued)

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 \$883 million. Revenues and depreciation and amortization expense increased by \$7 million and \$15 million in the three and six months ended June 30, 2010, respectively.

#### g) *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 \$4 million as at the Transition Date were reclassified to non-current deferred income tax assets on the consolidated balance sheet.

#### h) *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 has been reclassified to current liabilities on the consolidated balance sheet.

#### i) *Equity Preferred Shares*

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

#### j) *Nature of Expenses*

IFRS requires expenses to be classified on the statement of earnings by either nature or function, not as a combination of both. 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 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.

#### k) *Net Finance Costs*

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

#### 4. SEGMENT INFORMATION

##### *Reconciliation of Adjusted Earnings and Earnings for the Three and Six Months Ended June 30, 2010*

2011 2010	Three Months Ended June 30			Six Months Ended June 30		
	Continuing Operations	Discontinued Operations	Consolidated	Continuing Operations	Discontinued Operations	Consolidated
Adjusted Earnings	\$ 44	\$ -	\$ 44	\$ 144	\$ -	\$ 144
	\$ 33	\$ 7	\$ 40	\$ 130	\$ 18	\$ 148
Adjustments for rate regulated activities	1	-	1	4	-	4
	(4)	-	(4)	(14)	-	(14)
Adjustment for dividends on equity preferred shares of the Corporation	6	-	6	12	-	12
	6	-	6	11	-	11
Earnings for the period	\$ 51	\$ -	\$ 51	\$ 160	\$ -	\$ 160
	\$ 35	\$ 7	\$ 42	\$ 127	\$ 18	\$ 145

##### *Adjusted Earnings*

Adjusted Earnings are earnings for the period after adjusting for the timing of revenues and expenses associated with rate regulated activities and dividends on equity preferred shares of the Corporation charged to retained earnings, 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.

There is currently no specific guidance under IFRS for rate regulated entities. Consequently, the Corporation does not recognize assets and liabilities 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 in the Corporation’s interim consolidated financial statements for the three months ended March 31, 2011). 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 entities.

#### 4. SEGMENT INFORMATION (continued)

Rate regulated accounting under Canadian GAAP differs from IFRS in the following ways:

Canadian GAAP 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, but does not recognize the associated costs until 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.

Timing adjustments for rate regulated activities are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
<i>Additional revenues billed in current period:</i>				
Future removal and site restoration costs <sup>(1)</sup>	\$ 8	\$ 8	\$ 20	\$ 19
Retirement benefits <sup>(2)</sup>	4	5	9	5
Transmission and distribution system load balancing <sup>(5)</sup>	-	(3)	-	2
Impact of colder temperatures on revenues <sup>(6)</sup>	1	-	10	-
Other	5	5	11	12
	<b>18</b>	<b>15</b>	<b>50</b>	<b>38</b>
<i>Revenues to be billed in future period:</i>				
Deferred income taxes <sup>(3)</sup>	(14)	(6)	(26)	(20)
Transmission access payments <sup>(4)</sup>	(10)	(10)	(14)	(10)
Transmission and distribution system load balancing <sup>(5)</sup>	4	-	(2)	-
Impact of warmer temperatures on revenues <sup>(6)</sup>	-	1	-	(5)
Other	(3)	4	(4)	-
	<b>(23)</b>	<b>(11)</b>	<b>(46)</b>	<b>(35)</b>
<i>Regulatory decisions:</i>				
Decisions related to current and prior periods <sup>(7)</sup>	6	(8)	-	(17)
	<b>\$ 1</b>	<b>\$ (4)</b>	<b>\$ 4</b>	<b>\$ (14)</b>

#### 4. SEGMENT INFORMATION (continued)

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.
(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.
(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”).	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.
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.	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.
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.	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.
(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.	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.

#### 4. SEGMENT INFORMATION (continued)

Description	Timing of Recovery or Refund
<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>
<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 will be recognized over a period of 14 months commencing in the fourth quarter of 2010.</p> <p>In the first quarter of 2010, ATCO Gas recorded a contingent liability regarding amounts previously recovered from customers for historical transportation imbalances which reduced its earnings by \$8 million. The AUC's final decision resulted in a reversal of \$1 million of the contingent liability in the third quarter of 2010. Under IFRS, the net \$7 million reduction in earnings was recorded in the fourth quarter of 2010 when it was refunded to customers.</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 were reduced by \$12 million and the remaining amount of \$2 million is expected to be refunded in 2011.</p>

## 5. DISCONTINUED OPERATIONS

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

	Three Months Ended June 30 2010	Six Months Ended June 30 2010
Revenues	\$ 76	\$ 152
Costs and expenses	(60)	(116)
Net finance costs	(6)	(11)
Earnings from discontinued operations before income taxes	10	25
Income taxes	(3)	(7)
<b>Earnings from discontinued operations</b>	<b>\$ 7</b>	<b>\$ 18</b>

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.

## 6. DIVIDENDS

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

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
<i>Equity preferred shares:</i>				
4.60% Cumulative Redeemable Preferred Shares, Series 1	<b>\$ 0.28750</b>	\$0.28750	<b>\$0.5750</b>	\$0.5750
6.70% Cumulative Redeemable Preferred Shares, Series 2	<b>0.41875</b>	0.41875	<b>0.83750</b>	0.8375
3.80% Cumulative Redeemable Preferred Shares, Series 4	<b>0.23750</b>	-	<b>0.46914</b>	-
<i>Equity preferred shares to parent corporation:</i>				
4.35% Perpetual Cumulative Second Preferred Shares, Series U	<b>\$0.271875</b>	\$0.271875	<b>\$0.54375</b>	\$0.54375
4.70% Perpetual Cumulative Second Preferred Shares, Series V	<b>0.29375</b>	0.29375	<b>0.58750</b>	0.58750
Class A and Class B shares	-	-	-	-

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

## 7. PROPERTY, PLANT AND EQUIPMENT

	Utility Transmission & Distribution	Land and buildings	Construction Work-in- Progress	Other	Total
<i>Cost:</i>					
At December 31, 2010	\$7,848	\$271	\$297	\$404	\$8,820
<b>Additions</b>	<b>191</b>	<b>3</b>	<b>246</b>	<b>10</b>	<b>450</b>
<b>Disposals</b>	<b>(11)</b>	<b>-</b>	<b>-</b>	<b>(2)</b>	<b>(13)</b>
<b>Transfer of Carbon Storage Facility</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(92)</b>	<b>(92)</b>
<b>At June 30, 2011</b>	<b>\$8,028</b>	<b>\$274</b>	<b>\$543</b>	<b>\$320</b>	<b>\$9,165</b>
<i>Accumulated depreciation:</i>					
At December 31, 2010	\$2,258	\$ 80	-	\$219	\$2,557
<b>Depreciation</b>	<b>103</b>	<b>3</b>	<b>-</b>	<b>8</b>	<b>114</b>
<b>Disposals</b>	<b>(11)</b>	<b>-</b>	<b>-</b>	<b>(2)</b>	<b>(13)</b>
<b>Transfer of Carbon Storage Facility</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(49)</b>	<b>(49)</b>
<b>At June 30, 2011</b>	<b>\$2,350</b>	<b>\$ 83</b>	<b>\$ -</b>	<b>\$176</b>	<b>\$2,609</b>
<i>Net book value:</i>					
At December 31, 2010	\$5,590	\$191	\$297	\$185	\$6,263
<b>At June 30, 2011</b>	<b>\$5,678</b>	<b>\$191</b>	<b>\$543</b>	<b>\$144</b>	<b>\$6,556</b>

## 8. CAPITAL DISCLOSURES

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

	June 30 2011	December 31 2010
Class A and Class B shares	\$ 413	\$ 413
Retained earnings	1,767	1,619
Equity preferred shares	350	350
Equity preferred shares to parent corporation	92	92
Total equity	2,622	2,474
Long term debt	2,729	2,828
Total capitalization	\$5,351	\$5,302
Equity capitalization	49%	47%

The equity capitalization is in line with the Corporation's objectives. Equity capitalization remained unchanged from that reported under Canadian GAAP as a result of the transitional adjustments to IFRS (see Note 3).

## 9. CHANGES IN NON-CASH WORKING CAPITAL

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
<i>Operating activities, changes related to:</i>				
Accounts receivable	\$ 44	\$ 20	\$ 65	\$ 46
Accounts receivable from parent and affiliate corporations	5	14	-	3
Inventories	1	-	-	(2)
Prepaid expenses and other current assets	(10)	(2)	(9)	(1)
Accounts payable and accrued liabilities	(34)	(53)	(21)	(23)
Accounts payable to parent and affiliate corporations	(1)	(1)	(4)	(7)
Income taxes recoverable and payable	1	(1)	-	(2)
	\$ 6	\$(23)	\$ 31	\$ 14
<i>Investing activities, changes related to:</i>				
Inventories	\$ (3)	\$ 2	\$ (2)	\$ -
Accounts payable and accrued liabilities	6	(8)	(1)	(26)
	\$ 3	\$(6)	\$ (3)	\$(26)

## 10. CARBON GAS STORAGE FACILITY TRANSFER

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.