



CANADIAN UTILITIES LIMITED
An **ATCO** Company

MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2011**

CANADIAN UTILITIES LIMITED
Management's Discussion and Analysis (MD&A)
For the Nine Months Ended September 30, 2011

This MD&A should be read in conjunction with the Corporation's unaudited interim consolidated financial statements for the nine months ended September 30, 2011 (2011 Interim Financial Statements), and the audited consolidated financial statements and unaudited MD&A for the year ended December 31, 2010 (2010 MD&A). **Information contained in the 2010 MD&A that is not discussed in this document remains substantially unchanged.** This MD&A is dated October 27, 2011. Additional information relating to the Corporation, including the Corporation's annual information form, is available on SEDAR at www.sedar.com.

Terms used throughout this MD&A are defined in the Glossary located at the end of the document.

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Third Quarter Highlights

The following highlights have occurred since the second quarter MD&A dated July 28, 2011. These events are discussed in more detail throughout this MD&A:

- On July 29, 2011, the Corporation acquired WA Gas Networks (WAGN) of Western Australia from WestNet Infrastructure Group along with that Group's information technology division. WAGN is the natural gas distribution utility company that serves the City of Perth and surrounding areas. The acquisition complements the Corporation's existing portfolio of energy infrastructure assets in Australia. WAGN was subsequently rebranded as ATCO Gas Australia and the information technology division as ATCO I-Tek Australia. For the period July 29, 2011 to September 30, 2011, Adjusted Earnings for ATCO Gas Australia were \$9 million.
- Adjusted Earnings for the quarter ended September 30, 2011, were \$106 million compared to \$88 million in the corresponding period in 2010, an increase of \$18 million (20%).
- Adjusted Earnings per share for the quarter ended September 30, 2011, were \$0.83 compared to \$0.70 in the corresponding period in 2010.
- Adjusted Earnings were higher mainly due to higher power pool prices and related Spark Spreads in Alberta in ATCO Power, partially offset by decreased earnings due to the expiry of the Barking generating plant's revenue contract in ATCO Power at the end of September 2010.
- On September 21, 2011, the Corporation issued \$325 million of 4.00% Cumulative Redeemable Second Preferred Shares Series Y under its recently filed base shelf prospectus.
- On October 24, 2011, CU Inc., a wholly owned subsidiary of the Corporation, issued \$500 million of 4.543% debentures maturing on October 24, 2041, and \$200 million of 4.593% debentures maturing on October 24, 2061.
- On October 25, 2011, the Corporation announced its intention to redeem all of the outstanding Series O, T and U Perpetual Cumulative Second Preferred Shares totaling \$100 million. The redemption will occur on December 2, 2011 and will be financed with available cash reserves.
- On October 26, 2011, Canadian Utilities extended its \$200 million credit facility and increased the amount to \$400 million; this facility will expire in October 2015 unless it is extended by the lender. CU Inc. established a new \$600 million credit facility; this facility will expire in October 2014 unless it is extended by the lender. As a result of these changes, total committed credit facilities for these entities have increased \$800 million to \$1.6 billion.

Company Overview

Alberta-based Canadian Utilities Limited, an ATCO Company, with more than 6,000 employees and assets of approximately \$11 billion, delivers service excellence and innovative business solutions worldwide with leading companies engaged in Utilities (pipelines, natural gas and electricity transmission and distribution), Energy (power generation, natural gas gathering, processing, storage and liquids extraction), and Technologies (business systems solutions).

The consolidated financial statements include the accounts of Canadian Utilities Limited and all of its subsidiaries. The 2011 Interim Financial Statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* using policies consistent with IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the IFRS Interpretations Committee. The reporting currency is the Canadian dollar.

Acquisition of WA Gas Networks of Western Australia (WAGN)

On July 29, 2011, the Corporation's subsidiary, Canadian Utilities, acquired 100 per cent of WA Gas Networks from WestNet Infrastructure Group and the DUET Group. Included in the acquisition was WestNet Infrastructure Group's information technology division. WAGN is the natural gas distribution utility company that serves the City of Perth and surrounding areas. It connects more than 620,000 customers through 12,800 km of natural gas pipelines and associated infrastructure. The acquisition complements the Corporation's existing portfolio of energy infrastructure assets in Australia. WAGN was subsequently rebranded as ATCO Gas Australia and the information technology division as ATCO I-Tek Australia.

The aggregate purchase price of the acquisition, including transaction costs of \$50 million (AUD \$48 million), was approximately \$1.1 billion (AUD \$1.0 billion), including the assumption of approximately \$689 million (AUD \$657 million) of debt. The balance of the aggregate purchase price was funded with \$327 million (AUD \$312 million) of existing cash reserves. The transaction costs, which include an estimate of Australian stamp duty, as well as legal and consulting services, were expensed as incurred and reported as an Adjusted Earnings item.

The aggregate purchase price of AUD \$1.0 billion represents a premium of 1.16 times rate base of AUD \$861 million.

Financial results for ATCO Gas Australia and ATCO I-Tek Australia are reflected in the third quarter from the date of acquisition.

ATCO Gas Australia Regulatory Environment

ATCO Gas Australia is regulated primarily by the Economic Regulation Authority (ERA) of Western Australia. Rates are generally set for a five year Access Arrangement (or General Rate Application) period, although the current period, which began on January 1, 2010, and ends on June 30, 2014, is only four and a half years in length because the year end for rate making purposes was switched from December 31 to June 30. ATCO Gas Australia is subject to a cost of service regulatory mechanism under which the ERA establishes the revenues for each year of the access arrangement period to recover (1) a return on projected rate base, including income taxes; (2) depreciation on the projected rate base; and (3) projected operating costs.

Financial information may be expressed on either a nominal (current dollar including inflation) or a real (constant dollar) basis or other recognized basis for dealing with inflation. ATCO Gas Australia uses the real method to determine revenue requirement and customer rates. Under this method, the impact of inflation on rate base is reflected in customer rates in future periods through the recovery of depreciation. Customer rates are adjusted annually through a mechanism which adjusts the approved rates in real dollars for actual inflation.

In the rate decision released by the ERA on February 28, 2011, for the current access period, the real return, which excludes forecast inflation of 2.6%, was approved at 7.4%. The real return is based on a deemed capital structure of 60% debt and 40% equity. The cost of debt is based on market rates for BBB rated companies, while the cost of equity is based on a capital asset pricing model. Income taxes are included in the return component of the revenue requirement.

Internal Transfer of Subsidiary

On January 1, 2011, ATCO Ltd., the Corporation's parent, transferred its wholly owned subsidiary, ATCO Resources, to ATCO Power, a wholly owned subsidiary of the Corporation (the ATCO Resources Transfer). The fair value of the common shares of ATCO Resources, net of its existing debt obligations, was \$82.5 million, as estimated by an independent financial advisor and supported by management.

ATCO Ltd. transferred its common shares of ATCO Resources to the Corporation in exchange for 1,059,658 Class A Shares and 489,171 Class B Shares of the Corporation, having a value of \$82.5 million. This was a related party transaction between entities under common control and was measured at the carrying amount.

Prior to the transfer, the Corporation's ownership interest in certain of its Canadian independent power plants was 80%, held by ATCO Power. The ATCO Resources Transfer increased the Corporation's ownership in these power plants to 100%. Consequently, 2011 Adjusted Earnings for the three and nine months ended September 30, 2011, were increased by \$7 million and \$14 million, respectively, as a result of this transfer.

Segments

Starting in the first quarter of 2011, the results of operations and financial position of the Corporation's energy, power generation and infrastructure business in Australia are reported in a separate segment called ATCO Australia. This new segment includes the Corporation's interests in three existing power generation plants located in Australia, which were previously reported in the Energy segment, as well as the recently acquired natural gas distribution utility and information technology businesses. Comparative figures for the Energy segment have been restated to conform to the current presentation.

The Corporation operates in the following business segments.

The **Utilities** segment includes:

- the regulated distribution of natural gas by ATCO Gas;
- the regulated transmission of natural gas by ATCO Pipelines; and
- the regulated distribution and transmission of electric energy by ATCO Electric and its subsidiaries, Northland Utilities (NWT), Northland Utilities (Yellowknife) and Yukon Electrical.

The **Energy** segment includes:

- the non-regulated supply of electricity and cogeneration steam by ATCO Power;
- the regulated supply of electricity by ATCO Power; and
- the non-regulated natural gas gathering, processing, storage and natural gas liquids extraction by ATCO Midstream.

The **ATCO Australia** segment includes:

- the regulated distribution of natural gas by ATCO Gas Australia;
- the non-regulated supply of electricity and cogeneration steam by ATCO Power Australia; and
- the non-regulated provision of information technology services by ATCO I-Tek Australia.

The **Corporate & Other** segment includes:

- the Corporation's 24.5% equity investment in ATCO Structures & Logistics Ltd.;
- the development, operation and support of information systems and technologies, and the provision of billing, payment processing, credit, collection and call centre services by ATCO I-Tek; and
- short term investments and commercial real estate owned by the Corporation in Alberta.

Transactions between segments are eliminated in all reporting of the Corporation's consolidated financial information. For additional information on the Corporation's segments, refer to Note 5 to the 2011 Interim Financial Statements.

Non-GAAP Measures

The Corporation uses the measures "Funds Generated by Operations", "Adjusted Earnings" and "Adjusted Earnings per Class A and Class B Share" in this MD&A. These measures do not have any standardized meaning under IFRS and might not be comparable to similar measures presented by other companies.

Funds Generated by Operations is defined as cash flow from operations before changes in non-cash working capital. In management's opinion, Funds Generated by Operations is a significant performance indicator of the Corporation's ability to generate cash during a period to fund its capital expenditures without regard to changes in non-cash working capital during the period.

Adjusted Earnings are defined as earnings attributable to equity owners of the Corporation after adjusting for the timing of revenues and expenses associated with rate regulated activities and dividends on equity preferred shares of the Corporation. Adjusted Earnings present earnings from rate regulated activities on the same basis as was used prior to adopting IFRS – that basis being the U.S. accounting principles for rate regulated activities commonly used by rate regulated companies in Canada. Adjusted Earnings also exclude one-time gains and losses and items that are not in the normal course of business or day-to-day operations. It is management's view that Adjusted Earnings allow for a more effective analysis of operating performance and trends. A reconciliation of Adjusted Earnings to earnings attributable to equity owners of the Corporation is presented in the Results of Operations section.

International Financial Reporting Standards

The Corporation has adopted IFRS as the basis of financial reporting commencing with the interim financial statements for the three months ended March 31, 2011. The transition date from Canadian GAAP to IFRS is January 1, 2010 (Transition Date), and comparative data for 2010 has been restated in accordance with IFRS.

The adoption of IFRS has affected the Corporation's financial position and operating results in two significant ways: (1) the Corporation no longer recognizes regulatory assets and liabilities associated with its rate regulated activities, thereby resulting in increased volatility of earnings under IFRS, and (2) the carrying value of certain property, plant and equipment was reduced, and the unamortized gains and losses associated with the Corporation's retirement benefit plans were eliminated, thereby resulting in improved earnings in subsequent periods. These two significant effects are further described below.

IFRS requires expenses to be classified either by nature or by function on the statement of earnings, not as a combination of both. If classified by function on the statement of earnings, the classification by nature is still required to be disclosed in the notes to the financial statements. Therefore, the Corporation elected to present costs and expenses solely by their nature as identified in the Results of Operations section in this MD&A.

Accounting for Rate Regulated Activities

Prior to the adoption of IFRS, the Corporation used accounting principles generally accepted in Canada to recognize and measure assets and liabilities arising from rate regulation on its balance sheet. Because there is currently no specific guidance under IFRS for rate regulated entities, the Corporation does not recognize regulatory assets and liabilities under IFRS. At the Transition Date, all assets and liabilities arising from rate regulation were charged to retained earnings.

Rate regulated accounting reduced the volatility of earnings because the Corporation was able to defer the recognition of cash received in advance of future expenditures. Under IFRS, the Corporation records revenues when amounts are billed to customers and recognizes costs when they are incurred. Secondly, under rate regulated accounting, the Corporation was able to recognize revenues associated with recoverable costs in advance of future billings to customers. Under IFRS, the Corporation records costs when incurred, but does not recognize their recovery until changes to customer rates are reflected in future customer billings. Thirdly, under rate regulated accounting, the Corporation recognized the earnings that arose from a regulatory decision that pertained to current and prior periods upon receipt of the decision. Under IFRS, the Corporation recognizes earnings when customer rates are changed and amounts are billed to customers. Finally, under rate regulated accounting, amounts relating to intercompany profits that were recognized in rate base by a regulator were not eliminated upon consolidation. Under IFRS, intercompany profits included in property, plant and equipment and intangible assets 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.

These differences between rate regulated accounting and IFRS for rate regulated activities are strictly timing in nature. While rate regulated accounting followed closely the direction of the regulator in terms of deferral accounts and regulatory decisions, IFRS simply recognizes revenues as they are billed through the earnings statement. It is more volatile, but it is all timing.

Adjusted Earnings are a key measure of segment earnings used by management for purposes of assessing segment performance and allocating resources. Furthermore, it is management's view that Adjusted Earnings will allow a better assessment of the economics of rate regulation in Canada and Australia and will facilitate comparability of the Corporation's financial results with peer companies that have either deferred the adoption of IFRS by one year to 2012 as permitted in Canada or utilize U.S. generally accepted accounting principles for rate regulated entities.

The Corporation has disclosed the impacts of rate regulation as an Adjusted Earnings item in this MD&A and in Note 5, Segmented Information, to the 2011 Interim Financial Statements.

Property, Plant and Equipment and Retirement Benefit Plans

On transition to IFRS, the Corporation reduced the carrying value of certain property, plant and equipment, mainly power generation assets, to fair value as permitted by IFRS. A revaluation of these assets was not required under Canadian GAAP. The reduction to property, plant and equipment amounted to \$169 million. Consequently, under IFRS, depreciation and amortization expense decreased by \$3 million and \$8 million for the three and nine months ended September 30, 2010, respectively, and by \$9 million for the year ended December 31, 2010, as compared to Canadian GAAP.

At the Transition Date, rather than continue to amortize the cumulative unamortized gains and losses associated with the Corporation's defined benefit pension plans and other post employment benefit plans to earnings, the Corporation elected to charge all cumulative unamortized gains and losses to retained earnings. Because cumulative unamortized losses exceeded unamortized gains at the Transition Date, subsequent earnings will be improved. On transition to IFRS, \$103 million was charged to retained

earnings. Under IFRS, retirement benefits expense decreased by \$2 million and \$12 million for the three and nine months ended September 30, 2010, respectively, and by \$16 million for the year ended December 31, 2010, as compared to Canadian GAAP. Furthermore, under IFRS, the Corporation will record all actuarial gains and losses associated with pension plan assets and retirement benefit obligations in other comprehensive income as permitted by IFRS. These gains and losses will not be recorded in earnings but will be transferred directly to retained earnings.

Other

The transition to IFRS involved a number of other adjustments that did not have a significant effect on the financial position or future earnings of the Corporation. A number of the exemptions taken on transition to IFRS resulted in adjustments being recorded in retained earnings. The adjustments reduced retained earnings by \$4 million. This reduction in retained earnings does not affect the Corporation's ability to pay dividends. A full description of these items was provided in Note 3 to the interim financial statements for the three months ended March 31, 2011.

Internal Control Over Financial Reporting

There was no change in the Corporation's internal control over financial reporting that occurred during the period beginning July 1, 2011, and ended on September 30, 2011, that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Results of Operations

SELECTED QUARTERLY INFORMATION

Prepared In Accordance with IFRS

(\$ millions except per share data)	For the Three Months Ended ^{(1) (2) (6)}			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31
2011 ⁽³⁾ (IFRS)				
Revenues	809	663	696	-
Earnings attributable to equity owners of the Corporation	176	98	66	-
Earnings per Class A and Class B Share	1.34	0.71	0.47	-
Diluted earnings per Class A and Class B Share	1.33	0.70	0.47	-
Adjusted Earnings ⁽⁵⁾	166	91	106	-
Adjusted Earnings per Class A and Class B Share ⁽⁵⁾	1.30	0.71	0.84	-
2010 ⁽⁴⁾ (IFRS)				
Revenues	759	656	562	722
Earnings attributable to equity owners of the Corporation	150	77	87	120
Earnings per Class A and Class B Share	1.14	0.56	0.64	0.90
Diluted earnings per Class A and Class B Share	1.14	0.55	0.64	0.90
Adjusted Earnings ⁽⁵⁾	154	70	88	124
Adjusted Earnings per Class A and Class B Share ⁽⁵⁾	1.22	0.55	0.70	0.99

⁽¹⁾ There were no discontinued operations or extraordinary items during these periods.

⁽²⁾ Due to certain factors, revenues, earnings and Adjusted Earnings for any quarter are not necessarily indicative of operations on an annual basis. These factors include the seasonal nature of the Corporation's operations, changes in electricity prices in Alberta and the U.K., the timing and demand of natural gas storage capacity sold, changes in natural gas storage fees, changes in NGL prices and natural gas costs and the timing of rate decisions.

⁽³⁾ Quarterly information for 2011 (other than Adjusted Earnings per Class A and Class B Share) has been extracted from the consolidated financial statements, which have been prepared in accordance with IFRS.

⁽⁴⁾ Quarterly information for 2010 has been restated in accordance with IFRS.

⁽⁵⁾ Refer to the Reconciliation of Adjusted Earnings and Earnings Attributable to Equity Owners of the Corporation section for a description of the reconciling adjustments.

⁽⁶⁾ The reporting currency is the Canadian dollar.

Prepared in Accordance with Canadian GAAP

Securities regulations require the presentation of selected financial information for the most recent eight quarters. IFRS does not require the restatement of financial information prior to the Transition Date, which was January 1, 2010. Therefore, quarterly information for 2009 is as reported in the 2010 MD&A under Canadian GAAP and does not conform to current presentation under IFRS.

(\$ millions except per share data)	For the Three Months Ended ^{(1) (2) (5)}			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31
2009 ⁽³⁾ (Canadian GAAP)				
Revenues	-	-	-	676
Earnings attributable to Class A and Class B Shares	-	-	-	127
Earnings per Class A and Class B Share	-	-	-	1.01
Diluted earnings per Class A and Class B Share	-	-	-	1.01
Adjusted Earnings ⁽⁴⁾	-	-	-	129
Adjusted Earnings per Class A and Class B Share ⁽⁴⁾	-	-	-	1.02

⁽¹⁾ There were no discontinued operations or extraordinary items during this period.

⁽²⁾ Due to certain factors, revenues, earnings and Adjusted Earnings for any quarter were not necessarily indicative of operations on an annual basis. These factors included the seasonal nature of the Corporation's operations, changes in electricity prices in Alberta and the U.K., the timing and demand of natural gas storage capacity sold, changes in natural gas storage fees, changes in NGL prices and natural gas costs, and the timing of rate decisions.

⁽³⁾ Quarterly information for 2009 (other than Adjusted Earnings and Adjusted Earnings per Class A and Class B Share) was extracted from the consolidated financial statements, which were prepared in accordance with Canadian GAAP.

⁽⁴⁾ Adjusted Earnings were defined in the 2010 MD&A. Please refer to the Significant Non-Operating Financial Items section of that document for a description of the reconciling adjustments.

⁽⁵⁾ The reporting currency is the Canadian dollar.

Principal Factors Affecting Financial Condition and Results of Operations

The principal factors that caused variations in **financial condition** and **results of operations** over the past eight quarters necessary to understand general trends that have developed and the seasonality of the businesses disclosed in the 2010 MD&A remain substantially unchanged except for:

- The adoption of IFRS in 2011 with a transition date of January 1, 2010. Financial information for 2010 has been restated in accordance with IFRS. Financial information for 2009 was prepared in accordance with Canadian GAAP and has not been restated;
- The WAGN acquisition on July 29, 2011; and
- The transfer on January 1, 2011, of ATCO Resources from the Corporation's parent, ATCO Ltd., to ATCO Power.

RECONCILIATION OF ADJUSTED EARNINGS AND EARNINGS ATTRIBUTABLE TO EQUITY OWNERS OF THE CORPORATION

Adjusted Earnings are earnings attributable to equity owners of the Corporation after adjusting for the timing of revenues and expenses associated with rate regulated activities and dividends on equity preferred shares of the Corporation. Adjusted Earnings also exclude one-time gains and losses and items that are not in the normal course of business or day-to-day operations. The following table reconciles Adjusted Earnings to earnings attributable to equity owners of the Corporation:

(\$ millions)	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2011	2010	Change (2011-2010)	2011	2010	Change (2011-2010)
Adjusted Earnings	106	88	20%	363	312	16%
Adjustments for rate regulated activities ⁽¹⁾	1	(8)	113%	7	(18)	139%
Acquisition transaction costs ⁽²⁾	(47)	-	-	(50)	-	-
Dividends on equity preferred shares of the Corporation	6	7	(14%)	20	20	-
Earnings attributable to equity owners of the Corporation	66	87	(24%)	340	314	8%

(1) Adjustments for Rate Regulated Activities

(\$ millions)	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2011	2010	Change (2011-2010)	2011	2010	Change (2011-2010)
<i>Additional revenues billed in current period:</i>						
Future removal and site restoration costs	6	8	(25%)	26	27	(4%)
Retirement benefits	9	3	200%	22	15	47%
Transmission and distribution system load balancing	3	-	-	3	2	50%
Impact of colder temperatures on revenues	(2)	-	-	8	-	-
Other	10	17	(41%)	22	29	(24%)
	26	28	(7%)	81	73	11%
<i>Revenues to be billed in future period:</i>						
Deferred income taxes	(3)	(16)	81%	(29)	(36)	19%
Transmission access payments	(20)	(5)	(300%)	(34)	(15)	(127%)
Transmission and distribution system load balancing	(2)	-	-	(4)	-	-
Impact of warmer temperatures on revenues	-	2	(100%)	-	(3)	100%
Impact of inflation on rate base in ATCO Gas Australia	(3)	-	-	(3)	-	-
Other	(1)	-	-	(5)	-	-
	(29)	(19)	(53%)	(75)	(54)	(39%)
<i>Regulatory decisions:</i>						
Regulatory decisions related to current and prior periods	6	(15)	140%	6	(32)	119%
<i>Intercompany profits:</i>						
Elimination of intercompany profits related to the construction of property, plant and equipment and intangible assets	(2)	(2)	-	(5)	(5)	-
	1	(8)	113%	7	(18)	139%

The adjustments for rate regulated activities, which are strictly timing in nature, generally fall into the four following categories. Certain adjustments may transfer from one category to another depending upon whether more or less revenue has been billed to customers than expected.

(i) Additional revenues billed in current period

These adjustments reflect the situation where the Corporation records revenues when amounts are billed to customers and recognizes costs when they are incurred. This category includes:

- Future removal and site restoration costs, where customers are billed over the life of the associated assets in advance of future expenditures;
- Retirement benefits, where the Corporation recovers the amounts paid under defined benefit pension plans and other post employment benefit plans, which are currently higher than the accrued costs expensed and capitalized;

- ATCO Gas' and ATCO Pipelines' net sales of natural gas to maintain appropriate operating pressures on their distribution and transmission pipeline systems (Load Balancing), which are refunded to customers in future periods; and
- The impact of colder temperatures on ATCO Gas' revenues, where customer rates are based on a forecast of normal temperatures, but colder than normal temperatures will result in more revenue being recovered from customers than forecast. Colder temperatures will result in a refund to customers of excess revenues.

(ii) Revenues to be billed in future period

These adjustments reflect the situation where the Corporation records costs when incurred, but does not recognize their recovery or refund until changes to customer rates are reflected in future customer billings. This category includes:

- Deferred income taxes, which are not recovered from customers until income taxes are paid;
- ATCO Electric's transmission access payments, where actual costs that vary from the forecast costs included in customer rates are recovered from or refunded to customers in future periods;
- ATCO Gas' and ATCO Pipelines' net purchases of natural gas for Load Balancing, which are recovered from customers in future periods;
- The impact of warmer temperatures on ATCO Gas' revenues, where customer rates are based on a forecast of normal temperatures, but warmer than normal temperatures will result in less revenue being recovered from customers than forecast. Warmer temperatures will result in a recovery from customers of revenue shortfall; and
- ATCO Gas Australia uses the real method to determine revenue requirement and customer rates. Under this method, the impact of inflation on rate base is reflected in customer rates in future periods through the recovery of depreciation, whereas the inflation component is recognized in Adjusted Earnings at the time it is added to rate base.

(iii) Regulatory decisions

These adjustments reflect the situation where the Corporation recognizes in Adjusted Earnings the impact related to current and prior periods upon receipt of a decision in Canada or Australia, but IFRS requires that such revenues not be recognized until customer rates are changed and amounts are billed to customers in future periods. For example, the AUC issued decisions in 2010 for ATCO Gas' Carbon Storage Facility (refer to the 2010 MD&A). As these decisions related to prior periods, the Corporation recognized Adjusted Earnings in full in 2010. However, under IFRS, earnings are not recognized upon receipt of the decisions, but instead are recognized when the amounts to be collected from customers are billed in 2010 and 2011.

The change in this category was mainly the result of two significant decisions: the 2010 Carbon decisions described above and a decision regarding ATCO Gas' deferred gas account.

Under rate regulated accounting, in the first and third quarters of 2010, ATCO Gas recorded Adjusted Earnings of \$11 million and \$14 million, respectively, pertaining to decisions for the Carbon Storage Facility. Under IFRS, these earnings are being recognized starting in the second quarter of 2010 and continuing in 2011 as they are being billed to customers.

Also in the first quarter of 2010 under rate regulated accounting, ATCO Gas recorded a contingent liability and a reduction in Adjusted Earnings of \$8 million for a decision regarding amounts previously recovered from customers for historical transportation imbalances. 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 earnings reduction was recorded in the fourth quarter of 2010 when it was refunded to customers.

(iv) Intercompany profits

This adjustment reflects the situation where, under rate regulated accounting, amounts relating to intercompany profits that were recognized in rate base by a regulator were not eliminated upon consolidation. Under IFRS, intercompany profits included in property, plant and equipment and intangible assets 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.

(2) Acquisition Transaction Costs

The Corporation incurred approximately \$50 million of transaction costs associated with the WAGN acquisition. These costs included an estimate of Australian stamp duty as well as other incremental legal and advisory services directly related to the acquisition. As these transaction costs are one-time items that are not a result of day-to-day operations, the Corporation has adjusted for them in the three and nine months ended September 30, 2011.

CONSOLIDATED REVENUES AND ADJUSTED EARNINGS

Revenues for the three months ended September 30, 2011, **increased** by \$134 million (24%) over 2010. Increased Alberta power pool prices in ATCO Power, higher flow through natural gas sales in ATCO Midstream and the addition of ATCO Gas Australia as of July 29, 2011 were the principal contributors to increased revenues. Partially offsetting these increases was the expiry of the Barking generating plant's revenue contract in ATCO Power.

Revenues for the nine months ended September 30, 2011, **increased** by \$191 million (10%) over 2010. The primary drivers for increased revenues were higher flow through natural gas sales in ATCO Midstream, higher Alberta power pool prices in ATCO Power and increased rate base in the Utilities. These increases were partially offset by the expiry of the Barking generating plant's revenue contract in ATCO Power. In addition, revenues were lower in ATCO Power Australia as 2010 included one-time revenues of \$130 million for the lease of the first and second units of the Karratha plant.

Adjusted Earnings for the three months ended September 30, 2011, **increased** by \$18 million (20%) over 2010. This was primarily attributable to higher Alberta power pool prices and related Spark Spreads in ATCO Power, the impact of the ATCO Resources Transfer and increased rate base in the Utilities. These increases were partially offset by the expiry of the Barking generating plant's revenue contract in ATCO Power. In addition, earnings in the third quarter of 2010 included \$14 million related to the final AUC decision on ATCO Gas' Carbon Compliance Application.

Adjusted Earnings for the nine months ended September 30, 2011, **increased** by \$51 million (16%) over 2010. The primary contributors to the increase were higher Alberta power pool prices and related Spark Spreads in ATCO Power, the impact of the ATCO Resources Transfer and increased rate base in the Utilities. These increases were partially offset by the expiry of the Barking generating plant's revenue contract in ATCO Power and \$25 million recorded in the first and third quarters of 2010, related to the ATCO Gas Carbon Compliance decision.

CONSOLIDATED EXPENSES

(\$ millions)	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2011	2010	Change (2011-2010)	2011	2010	Change (2011-2010)
Costs and expenses:						
Salaries, wages and benefits	106	103	3%	312	280	11%
Energy transmission and transportation	6	3	100%	23	7	229%
Plant and equipment maintenance	59	36	64%	140	120	17%
Fuel costs	98	61	61%	311	201	55%
Purchased power	12	13	(8%)	40	40	-
Materials and consumables	18	10	80%	45	164	(73%)
Franchise fees	30	29	3%	132	126	5%
Other expenses	123	63	95%	278	208	34%
	452	318	42%	1,281	1,146	12%
Depreciation and amortization	94	83	13%	268	248	8%
Interest expense	59	53	11%	166	167	(1%)
Income taxes	35	29	21%	133	109	22%

Costs and expenses for the three months ended September 30, 2011, **increased** by \$134 million (42%) over the same period in 2010. Other expenses increased by \$60 million mainly due to \$47 million of acquisition transaction costs comprised of an estimate for Australian stamp duty, as well as legal and consulting services. Fuel costs increased by \$37 million primarily due to higher flow through natural gas purchases for NGL extraction in ATCO Midstream. Plant and equipment maintenance costs increased by \$23 million mainly due to a Battle River generating plant turnaround that was completed in the third quarter of 2011; in 2010, a turnaround at the same plant occurred in the second quarter.

Costs and expenses for the nine months ended September 30, 2011, **increased** by \$135 million (12%) over the same period in 2010. Excluding \$125 million of one-time cost of sales in the first half of 2010 related to the lease of the first and second units of the Karratha plant that were included in materials and consumables expense, costs and expenses for the nine months ended September 30, 2011, increased by \$260 million (25%). Fuel costs increased by \$110 million as a result of higher flow through natural gas purchases for NGL extraction in ATCO Midstream. Other expenses increased by \$70 million mainly due to \$50 million of acquisition transaction costs which comprised of an estimate for Australian stamp duty, as well as legal and consulting services. Salaries, wages and expenses increased by \$32 million mainly due to salary escalation and more employees.

For the three and nine months ended September 30, 2011, **income taxes increased** by \$6 million (21%) and by \$24 million (22%), respectively, over 2010. After adjusting for acquisition transaction costs related to the WAGN acquisition, which are not deductible for income tax purposes, the increased income tax expense is mainly due to higher earnings before income taxes.

SEGMENTED INFORMATION

For the Three Months Ended September 30						
(\$ millions)	Utilities	Energy	ATCO Australia	Corporate & Other	Intersegment Eliminations	Total
2011						
Revenues	338	283	60	53	(38)	696
Adjusted Earnings	34	50	11	9	2	106
Adjustments for rate regulated activities ⁽¹⁾	2	-	(2)	-	1	1
Adjustment for acquisition transaction costs ⁽²⁾	-	-	(47)	-	-	(47)
Dividends on equity preferred shares of the Corporation	-	1	-	5	-	6
Earnings attributable to equity owners of the Corporation	36	51	(38)	14	3	66
2010						
Revenues	332	210	13	49	(42)	562
Adjusted Earnings	43	30	4	8	3	88
Adjustments for rate regulated activities ⁽¹⁾	(7)	-	-	-	(1)	(8)
Dividends on equity preferred shares of the Corporation	-	1	-	6	-	7
Earnings attributable to equity owners of the Corporation	36	31	4	14	2	87

⁽¹⁾ ⁽²⁾ Refer to the Reconciliation of Adjusted Earnings and Earnings Attributable to Equity Owners of the Corporation section for a description of the adjustments.

For the Nine Months Ended September 30

(\$ millions)	Utilities	Energy	ATCO Australia	Corporate & Other	Intersegment Eliminations	Total
2011						
Revenues	1,190	841	105	155	(123)	2,168
Adjusted Earnings	178	132	17	33	3	363
Adjustments for rate regulated activities ⁽¹⁾	6	-	(2)	-	3	7
Adjustment for acquisition transaction costs ⁽²⁾	-	-	(50)	-	-	(50)
Dividends on equity preferred shares	3	1	-	16	-	20
Earnings attributable to equity owners of the Corporation	187	133	(35)	49	6	340
2010						
Revenues	1,097	675	178	148	(121)	1,977
Adjusted Earnings	173	94	13	27	5	312
Adjustments for rate regulated activities ⁽¹⁾	(21)	-	-	-	3	(18)
Dividends on equity preferred shares	3	1	-	16	-	20
Earnings attributable to equity owners of the Corporation	155	95	13	43	8	314

⁽¹⁾ ⁽²⁾ Refer to the Reconciliation of Adjusted Earnings and Earnings Attributable to Equity Owners of the Corporation section for a description of the adjustments.

Utilities

Utilities **revenues** for the three months ended September 30, 2011, were relatively **unchanged** compared to the corresponding period in 2010.

Utilities **revenues** for the nine months ended September 30, 2011, **increased** by \$93 million (8%) over the corresponding period in 2010. This increase was primarily attributable to increased rate base in the Utilities, colder weather and recoveries from customers that commenced in the second quarter of 2010 resulting from the Carbon Storage Facility decisions in ATCO Gas. Also contributing to the increase in revenues were net sales of natural gas by ATCO Gas and ATCO Pipelines to maintain appropriate operating pressures in their distribution and transmission pipeline systems.

For the three months ended September 30, 2011, **Adjusted Earnings decreased** by \$9 million (21%) compared to the corresponding period of 2010. This decrease was mainly due to \$14 million recorded in the third quarter of 2010 related to the final AUC decision on ATCO Gas' Carbon Compliance Application. This decrease in Adjusted Earnings was partially offset by increased rate base in the Utilities.

For the nine months ended September 30, 2011, **Adjusted Earnings increased** by \$5 million (3%) compared to the corresponding period of 2010. This was mainly due to increased rate base in the Utilities and a \$6 million favourable tax reassessment in ATCO Gas and ATCO Pipelines that permitted the deduction of certain capital costs for 2005 to 2007 for tax purposes. These increases in Adjusted Earnings were partially offset by the impact of two ATCO Gas decisions which were recorded in 2010:

\$25 million of higher earnings related to the 2010 Carbon decisions, partially offset by \$7 million lower earnings related to the deferred gas account decision.

Northern Alberta Fires

In May 2011, wildfires in northern Alberta, including the Slave Lake region, resulted in the destruction of ATCO Electric and ATCO Gas assets. The Corporation estimates that it will incur approximately \$26 million to repair and replace the assets. This is not expected to have a significant effect on Adjusted Earnings since ATCO Electric and ATCO Gas will apply to the AUC to recover these costs from customers. Under IFRS, the majority of costs will be capitalized to property, plant and equipment and depreciated. Revenues will not be recorded until amounts are approved by the AUC and billed to customers.

Regulatory Developments

Generic Cost of Capital

On December 16, 2010, the AUC initiated a 2011 Generic Cost of Capital proceeding, the scope of which includes, among other things, a full review of cost of capital matters including capital structure and the return on equity (ROE) for 2011. It will also include consideration of whether a formula approach to ROE can be reinstated for 2012. In the absence of a formula approach to ROE, the AUC will consider how the ROE will be set for 2012. The scope also includes consideration of a management fee on customer contributed assets and how such a fee would be accounted for. The proceeding concluded on September 9, 2011, and a decision is expected in the fourth quarter of 2011.

Pension Hearing

On September 27, 2011, the AUC issued its decision on the Utilities' pension methodology, specifically on the determination of the cost of living allowance (COLA) used in the determination of pension costs included in 2011 and future years' revenue requirements. The AUC decided that the appropriate level for annual COLA adjustments is 50% of the consumer price index (CPI) subject to a maximum COLA adjustment of 3%. This decision is effective for current service funding requirements starting in 2012 and for current service and deficit funding requirements starting in 2013. There is no impact to Adjusted Earnings in 2011. The Utilities intend to file a review and variance application on this decision with the AUC in the fourth quarter of 2011, and have applied to the Alberta Court of Appeal for leave to appeal pending the outcome of the review and variance application.

Information Technology and Customer Care and Billing Services (Evergreen Application)

The Utilities purchase information technology services, and ATCO Electric and ATCO Gas also purchase customer care and billing services, from ATCO I-Tek. The recovery of these costs in customer rates is subject to AUC approval.

On May 26, 2011, the AUC approved final rates for information technology and customer care and billing services provided by ATCO I-Tek that can be included in customer rates for 2008 and 2009. The adjustments to placeholder amounts previously included in customer rates did not have a significant impact on Adjusted Earnings.

A further regulatory process to deal with rates for information technology and customer care and billing services provided by ATCO I-Tek for 2010 and beyond has been established and a decision is expected in the second quarter of 2012.

ATCO Electric

2011 and 2012 General Tariff Application

On April 13, 2011, the AUC issued a decision on ATCO Electric's 2011 and 2012 general tariff application approving, among other things, increased revenues to recover increased financing, depreciation, and operating costs associated with increased rate base in Alberta. The decision also approved ATCO Electric's request that construction work in progress for projects that are directly assigned from the AESO be included in rate base and that the recovery of Federal deferred income taxes for transmission operations be included in customer rates. The inclusion of construction work in progress and Federal deferred income taxes in customer rates does not significantly impact Adjusted Earnings but does result in an improvement to reported earnings under IFRS and cash flows during the construction of the major transmission projects currently being undertaken. As the AUC had previously approved an interim adjustable rate increase, there was no significant impact to Adjusted Earnings as a result of this decision.

Transmission Infrastructure Projects

Eastern Alberta Transmission Line (EATL) Project

In 2009, the Alberta government deemed ATCO Electric's EATL project to be Critical Transmission Infrastructure (CTI) and the AESO directed ATCO Electric to: (i) prepare a facility application to build and operate a new 500kV high voltage direct current transmission line along a corridor on the east side of the province between Edmonton and Calgary, and (ii) undertake pre-construction activities, including engineering and ordering of long lead-time materials, to achieve a mid to late 2014 in-service date.

On March 29, 2011, ATCO Electric filed its facility application with the AUC, with an estimated project cost, excluding capitalized interest during construction, of \$1.6 billion. On October 21, 2011, the AUC, in response to a request from the Alberta government, suspended the regulatory process for both the Eastern Alberta Transmission Line project, as well as the Western Alberta Transmission Line project, pending a government review of its approach to these two CTI projects in the province. It is too early to determine what, if any, changes will be made to the government's approach or how ATCO Electric's EATL project could be affected.

Hanna Region Transmission Development (HRTD) Project

In 2010, the AUC approved the need for major transmission reinforcement in the Hanna area located in the southeast region of the province. ATCO Electric's share of the HRTD project is comprised of six distinct developments comprising approximately 380 kilometres of transmission line projects, the construction of nine new substations and modifications and expansions to a further 14 existing substations. All of the six developments are anticipated to be in-service by the end of the second quarter of 2013 with an estimated project cost, excluding capitalized interest during construction, for the HRTD of approximately \$765 million. ATCO Electric has received approval from the AUC to proceed with the construction of three developments for an estimated cost of \$15 million and is awaiting approval of facility applications filed with the AUC for two further developments with an estimated cost of \$735 million. The facility application for the remaining development with an estimated cost of \$15 million is expected to be filed with the AUC in the fourth quarter of 2011. Final approvals are expected in the first quarter of 2012. It is anticipated that the majority of these costs will be incurred in 2012.

ATCO Gas

2011 and 2012 General Rate Application

In December 2010, ATCO Gas filed a general rate application with the AUC for 2011 and 2012 requesting, among other things, increased revenues to recover increased financing, depreciation, and operating costs associated with increased rate base in Alberta. A decision is expected in the fourth quarter of 2011. ATCO Gas also filed an application requesting interim adjustable rates pending the AUC's decision on the general rate application. A decision was received in April 2011, approving interim adjustable rates effective May 1, 2011, equal to 60% of ATCO Gas' requested revenue increase. As a result of this decision, ATCO Gas recorded increased Adjusted Earnings of \$2 million in the third quarter of 2011 and \$7 million for the nine months ended September 30, 2011. Earnings under IFRS increased by \$3 million in the third quarter of 2011 and by \$5 million for the nine months ended September 30, 2011, as billing of interim rates to customers commenced May 1, 2011.

Carbon Natural Gas Storage Facility

ATCO Gas owned a 43.5 petajoule natural gas storage facility located at Carbon, Alberta. The Carbon Storage Facility was not used by ATCO Gas for the provision of utility service and the entire storage capacity was leased to ATCO Midstream. On March 29, 2011, ATCO Gas received approval from the AUC for the internal transfer of the Carbon Storage Facility from ATCO Gas to ATCO Midstream. The transfer, which was measured at the carrying value of assets of \$43 million and liabilities of \$6 million, was completed for cash consideration of \$37 million on June 1, 2011.

ATCO Pipelines

Alberta System Integration

ATCO Pipelines and NOVA Gas Transmission Ltd. (NOVA) entered into an agreement with respect to natural gas transmission service that will allow ATCO Pipelines and NOVA to utilize their physical assets under a single rates and services structure with a single commercial interface for Alberta customers. Each company will separately manage assets within distinct operating territories within Alberta. This integration will end duplicate tolling and operational activities and result in more efficient regulatory processes.

The AUC issued a decision on May 27, 2010, approving the integration, but requested ATCO Pipelines to submit subsequent applications to address the specific details of (i) the transition of ATCO Pipelines' customers to NOVA, and (ii) the asset swap between ATCO Pipelines and NOVA in order to establish operating areas. On April 20, 2011, the AUC approved ATCO Pipelines' application to address the transition of customers, which took place on October 1, 2011. An application to address the asset swap is expected to be submitted to the AUC in the fourth quarter of 2011.

Other Matters

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

Energy

Effective January 1, 2011, the Corporation separately reports current and comparative segmented information for the ATCO Australia segment. As a result, the Energy segment no longer reports revenues and Adjusted Earnings from its interest in three Australian generating plants, which are now reported within the ATCO Australia segment.

Energy **revenues** for the three months ended September 30, 2011, **increased** by \$73 million (35%) over 2010. This increase was primarily attributable to higher flow through natural gas sales in ATCO Midstream, higher power pool prices in ATCO Power's independent power plants in Alberta and the impact of the ATCO Resources Transfer. Partially offsetting these increases was decreased revenues at ATCO Power's Barking generating plant in the U.K. due to the expiry of the revenue contract on September 30, 2010.

Energy **revenues** for the nine months ended September 30, 2011, **increased** by \$166 million (25%) over 2010. This increase was primarily attributable to higher flow through natural gas sales in ATCO Midstream, higher power pool prices in ATCO Power's independent power plants in Alberta, the impact of the ATCO Resources Transfer and higher generation and availability at ATCO Power's Sheerness and Battle River regulated plants. Partially offsetting these increases was decreased revenues at ATCO Power's Barking generating plant in the U.K. due to the expiry of the revenue contract on September 30, 2010.

Adjusted Earnings for ATCO Power and ATCO Midstream are shown in the following chart:

(\$ millions)	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2011	2010	Change (2011-2010)	2011	2010	Change (2011-2010)
Adjusted Earnings						
ATCO Power						
Independent Power Plants	33	14	136%	70	41	71%
Regulated Power Plants	12	14	(14%)	44	32	38%
	45	28	61%	114	73	56%
ATCO Midstream	3	1	300%	15	18	(17%)
Other	2	1	200%	3	3	0%
	50	30	67%	132	94	40%

Adjusted Earnings for the three months ended September 30, 2011, **increased** by \$20 million (67%) over 2010. The increase was primarily attributable to higher power pool prices and related Spark Spreads in ATCO Power's independent power plants in Alberta and the impact of the ATCO Resources Transfer, partially offset by decreased earnings from ATCO Power's Barking generating plant in the U.K. due to the expiry of the revenue contract on September 30, 2010.

Adjusted Earnings for the nine months ended September 30, 2011, **increased** by \$38 million (40%) over 2010. The increase was primarily attributable to higher power pool prices and related Spark Spreads in ATCO Power's independent power plants in Alberta, the impact of the ATCO Resources Transfer and higher availability incentive amortization and excess energy sales due to higher generation in ATCO Power's Sheerness and Battle River regulated plants due to higher availability. These increases were partially offset by decreased earnings from ATCO Power's Barking generating plant in the U.K. due to

the expiry of the revenue contract on September 30, 2010, and lower summer/winter natural gas price differentials for storage (Storage Price Differentials) in ATCO Midstream.

Power Generation

Availability of the generating plants by geographic region:

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2011	2010	Change (2011-2010)	2011	2010	Change (2011-2010)
Independent Power Plants ⁽¹⁾						
Canada	97.0%	95.8%	1.2%	92.3%	94.4%	(2.1%)
U.K. ⁽²⁾	79.9%	98.8%	(18.9%)	86.2%	85.8%	0.4%
Regulated Plants ⁽¹⁾						
Canada	91.7%	92.8%	(1.1%)	94.5%	87.2%	7.3%

⁽¹⁾ *Generating plant availability will fluctuate due to the timing and duration of outages.*

⁽²⁾ *The Barking generating plant commenced a planned outage on one of its gas turbines in the second quarter. The gas turbine failed upon its return to service in July and the repairs are expected to be completed in the fourth quarter.*

Plant Curtailment at Brighton Beach Generating Plant

On February 4, 2011, ATCO Power's Brighton Beach generating plant curtailed its output for preventative maintenance based on input from one of its equipment manufacturers. Examination of the plant's steam turbine revealed cracking associated with the turbine blades. The outage to make an interim repair extended to April 26, 2011, with a permanent repair to be undertaken at a date yet to be determined. This curtailment did not have a material impact on the Corporation's 2011 earnings.

Merchant Operations

At September 30, 2011, changes in Spark Spread affect the results of approximately 713 MW of plant capacity out of a total worldwide capacity owned by ATCO Power of 2,618 MW. This capacity is comprised of approximately 503 MW in Alberta out of a total Alberta-owned capacity of 1,883 MW and 210 MW in the U.K. out of a total U.K.-owned capacity of 255 MW. Commencing October 1, 2011, all 255 MW of plant capacity owned in the U.K. is affected by changes in Spark Spread as a result of the expiry of the Barking revenue contract on September 30, 2011.

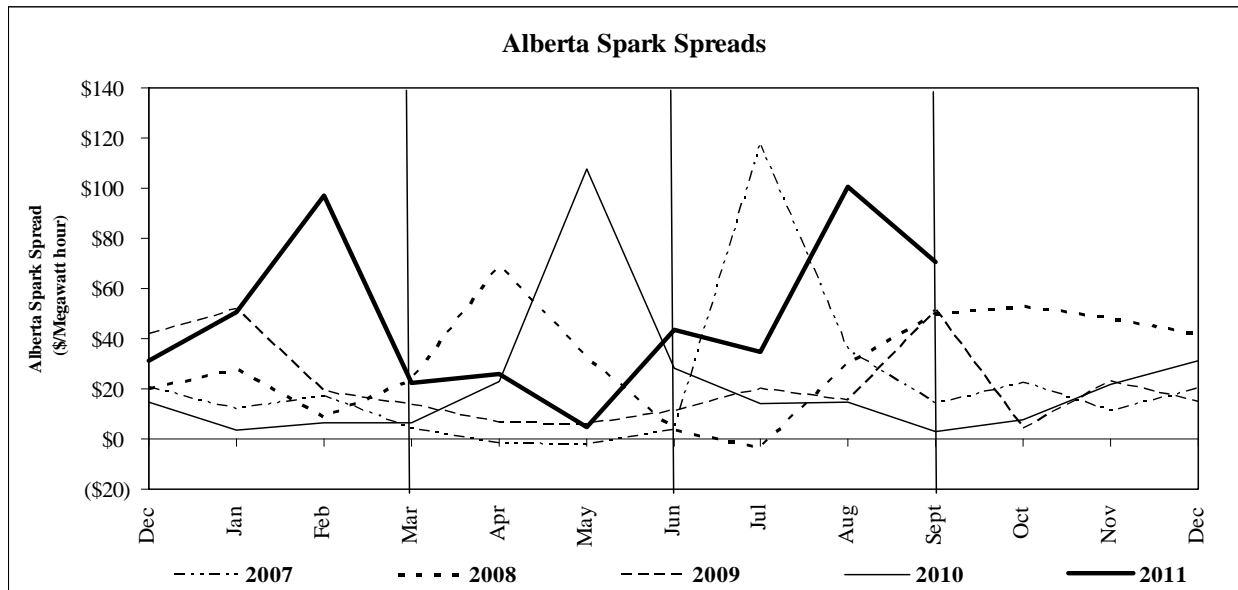
The Corporation's merchant power sales are affected by volatility in power and natural gas prices caused by market forces such as fluctuating supply and demand for electricity. The Corporation manages this volatility through its adoption of asset optimization strategies in accordance with its risk management policy for bidding its merchant power into both the Alberta and U.K. power markets.

Alberta Merchant Operations

The majority of ATCO Power's electricity sales to the Alberta Power Pool are from natural gas-fired generating plants and, as a result, earnings are affected by natural gas prices and Alberta Power Pool prices. The average Alberta Power Pool electricity prices, natural gas prices and resulting Spark Spreads for the three and nine months ended September 30, 2011, are shown in the following table:

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2011	2010	Change (2011-2010)	2011	2010	Change (2011-2010)
Average Alberta Power Pool electricity price (\$/MWh)	94.69	35.77	165%	76.26	52.55	45%
Average natural gas price (\$/GJ)	3.47	3.35	4%	3.57	3.90	(8%)
Average Spark Spread (\$/MWh)	68.68	10.64	545%	49.44	23.27	112%

The following chart demonstrates the volatility of Alberta Spark Spreads experienced by ATCO Power for the period of December 2006 to September 2011:



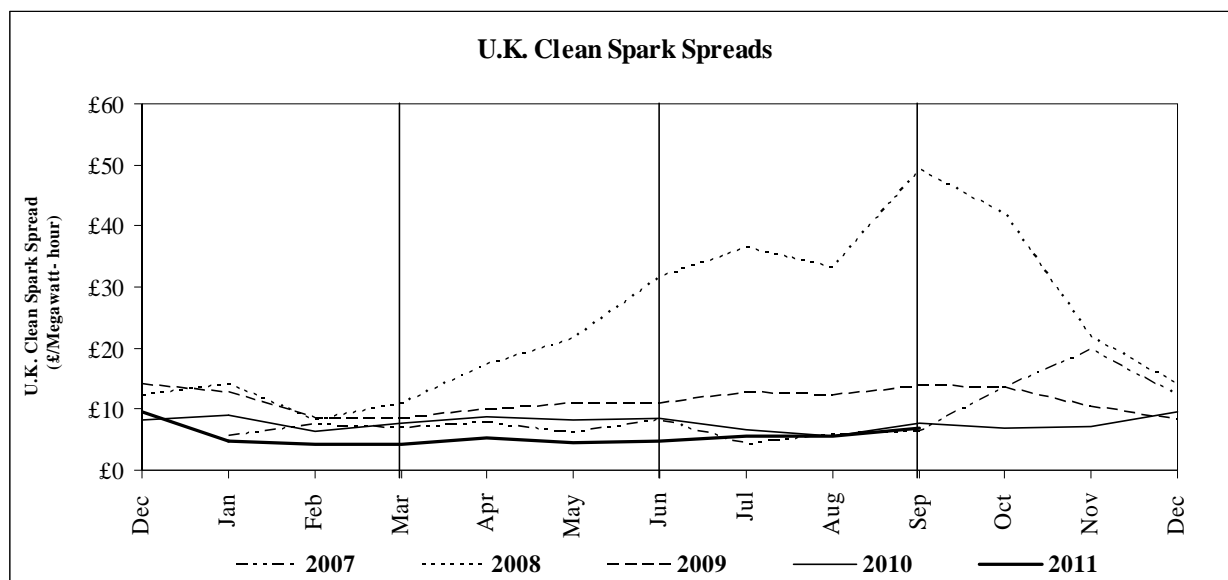
U.K. Merchant Operations

As of October 1, 2010, the majority of ATCO Power's Barking generating plant capacity is exposed to market prices for electricity, natural gas and emissions allowances. ATCO Power owns 255 MW of the plant's capacity, of which 45 MW was contracted for a one-year term which ended on September 30, 2011. As of October 1, 2011, all of ATCO Power's Barking generating plant capacity is exposed to market prices for electricity, natural gas and emissions allowances.

The average U.K. power prices, natural gas prices, emissions allowances and resulting Spark Spreads for the three and nine months ended September 30, 2011, are shown in the following table:

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2011	2010	Change (2011-2010)	2011	2010	Change (2011-2010)
Average U.K. power price (£/MWh)	47.45	40.84	16%	48.65	38.78	25%
Average natural gas price (£/GJ)	5.15	4.08	26%	5.34	3.67	46%
Average emissions allowance price (£/tonne of CO ₂)	10.77	12.36	(13%)	12.84	12.28	5%
Average Spark Spread (£/MWh)	6.01	6.66	(10%)	5.13	7.62	(33%)

Barking's actual merchant sales are not necessarily sold using the same Spark Spread indicator used in the table above and the graph below. The table and graph depict the spot market, whereas the Barking generating plant generally utilizes forward power sales. The following chart demonstrates the volatility of U.K. Spark Spreads since the beginning of 2007:



Regulated Generating Plants

Unearned Availability Incentives

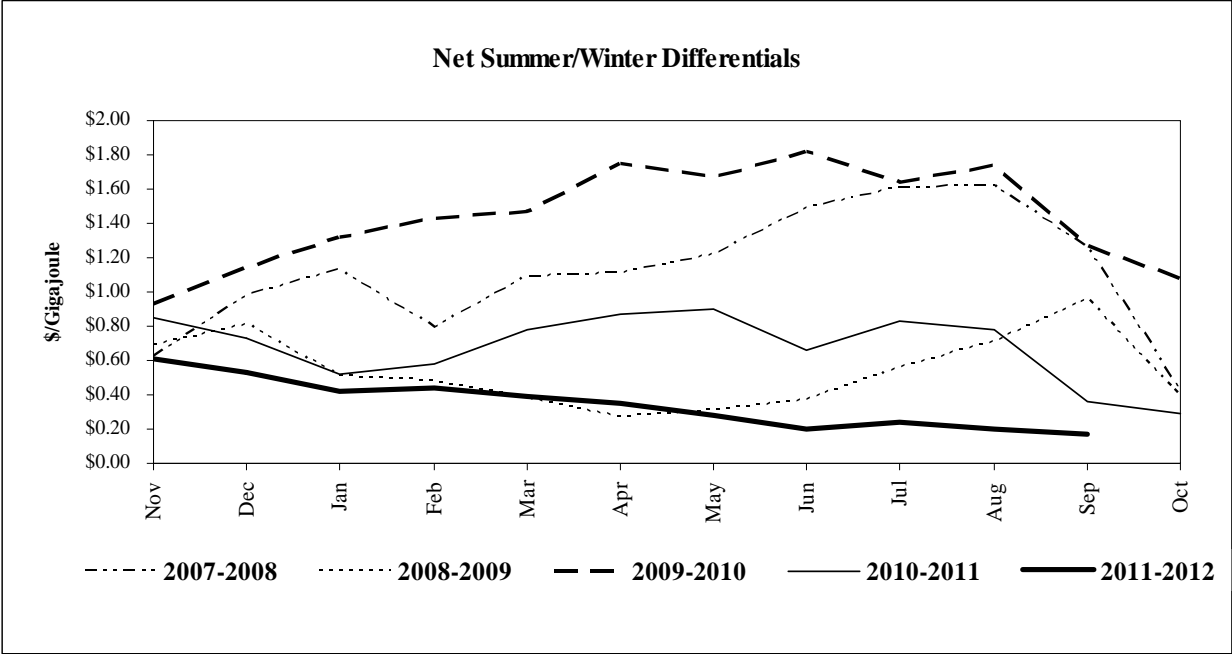
During the three months ended September 30, 2011, the **unearned availability incentives** account **increased** by \$1 million to \$65 million due to higher incentives from higher power pool prices offset by amortization. The amortization of unearned availability incentives, recorded in revenues, increased by \$1 million to \$6 million over the previous quarter primarily as a result of higher actual and forecast power pool prices. For the nine months ended September 30, 2011, the unearned availability incentive account has increased by \$17 million to \$65 million due to high availability during a period of high power pool prices, partially offset by amortization.

ATCO Midstream

Storage Operations

The majority of ATCO Midstream’s natural gas storage revenues come from seasonal differences (summer/winter) in the price of natural gas (Storage Price Differentials).

Storage Price Differentials can be volatile, as shown in the following graph, which illustrates a range of seasonal differentials experienced during the storage periods from the 2007-2008 storage year to the 2011-2012 storage year. The graph shows the storage differentials for the upcoming storage season (April to October injection and November to March withdrawal). For example, the Storage Price Differential for the remaining months of the April 2011 to March 2012 storage season was \$0.24/GJ in July 2011, \$0.20/GJ in August 2011 and \$0.17/GJ in September 2011. Storage Price Differentials at any point in time may not be indicative of the storage revenue and earnings for the same period due to the types of contracts and the timing of the revenue recognition associated with these contracts.



Fluctuations in Storage Price Differentials affect ATCO Midstream’s earnings and cash flow from operations. At current values, a \$0.25 change in the Storage Price Differentials impacts the Corporation’s



annual consolidated earnings attributable to equity owners of the Corporation by approximately \$8 million.

Transfer of Carbon Storage Facility

The AUC approved the internal transfer of the Carbon Storage Facility from ATCO Gas to ATCO Midstream. The transfer, which was measured at the carrying value of assets of \$43 million and liabilities of \$6 million, was completed for cash consideration of \$37 million on June 1, 2011.

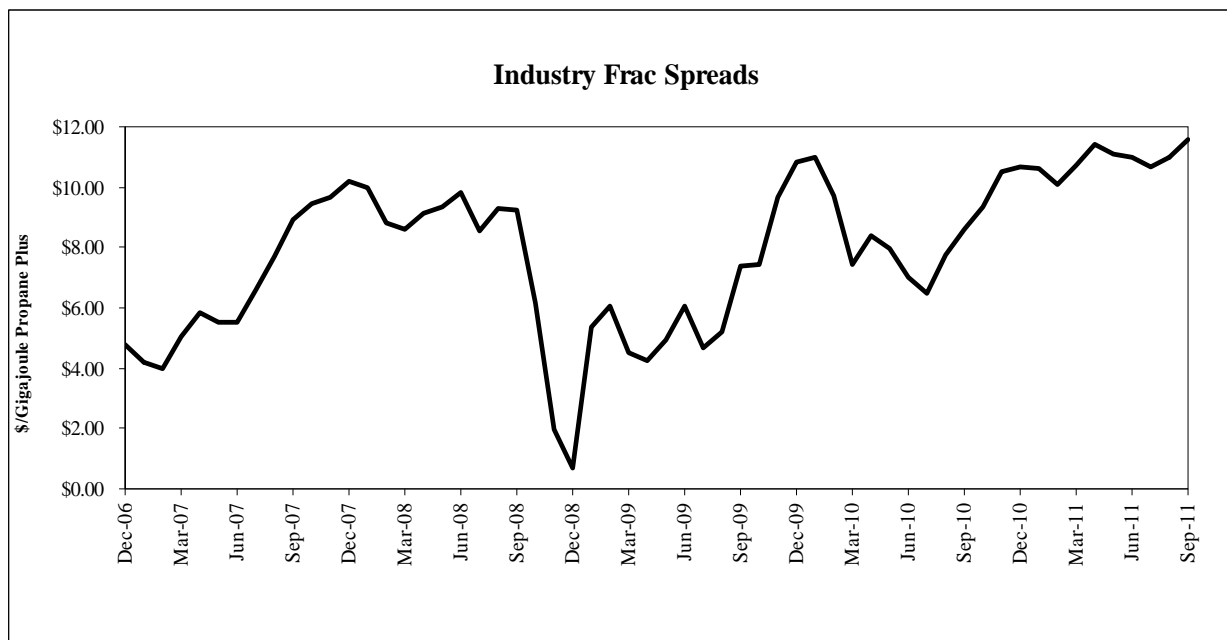
Compressor Failure at the Carbon Storage Facility

On May 24, 2011, one of the five compressors at the Carbon Storage Facility experienced damage due to mechanical failure. Approximately 28% of the Carbon Storage Facility's physical gas deliverability has been compromised, but all existing contractual commitments will be met. The cost of repairs is expected to be recovered through insurance. It is estimated that the unit will return to service in early 2012. At current Storage Price Differentials, the impact on ATCO Midstream's 2011 earnings is not expected to be material.

NGL Extraction Operations

A portion of ATCO Midstream's revenues is derived from the extraction of NGL from natural gas and the marketing of NGL products under supply or marketing contracts. ATCO Midstream owns a net working interest of 411 million cubic feet per day of processing capacity in its NGL extraction plants.

The majority of ATCO Midstream's NGL extraction operations involve the extraction of NGL from natural gas and the replacement (on a heat content equivalent basis) of the NGL extracted with shrinkage gas. For Propane Plus, the difference between the price of natural gas and the value of the liquids extracted is commonly referred to as the Frac Spread. Frac Spreads vary with fluctuations in the price of natural gas and the prices of the applicable liquids extracted. Frac Spreads can be volatile, as shown in the following graph, which illustrates monthly Frac Spreads during the period of December 2006 to September 2011.



⁽¹⁾ The above chart represents measurements of industry Frac Spreads in Alberta, as reported by an independent consultant. The average Frac Spreads for the three and nine months ended September 30, 2011, were \$11.08 and \$10.91 per gigajoule, respectively, compared to \$7.60 and \$8.26 per gigajoule for the three and nine months ended September 30, 2010, respectively.

Historically, fluctuations in Frac Spreads directly affected ATCO Midstream’s earnings and cash flow from operations. More recently, owing to increased competition, the positive effect from higher Frac Spreads is being partially offset by increased costs of obtaining natural gas for extraction. Therefore, a pure correlation of Frac Spreads to earnings cannot be made. Earnings from ATCO Midstream’s NGL operations in the first nine months of 2011 were approximately the same as 2010.

Ikhil Natural Gas Supply

In December 2010, Inuvik Gas Ltd., a distribution company serving the Town of Inuvik in the Northwest Territories, and the Ikhil Joint Venture, holding natural gas reserves and related assets at Ikhil near the Town of Inuvik, in each of which ATCO Midstream has a one-third interest, announced their intention to perform repairs on a natural gas well as a result of natural gas deliverability issues. Repair work, which was concluded in March 2011, was not successful and the well was shut in.

Natural gas production from the second well at Ikhil currently meets the demands of the Northwest Territories Power Corporation, a power supplier for areas of the Northwest Territories, and of Inuvik Gas Ltd., the gas supplier for the Town of Inuvik. The Ikhil Joint Venture operator, Utility Group Facilities Inc. (a subsidiary of AltaGas Ltd.) on behalf of the joint venture partners, continues to work with consultants and other parties to evaluate the reservoir and production options for meeting future requirements. A preliminary reserve analysis undertaken as part of that process indicates that remaining reserves are significantly less than originally anticipated.

The Ikhil Joint Venture and Inuvik Gas Ltd. are evaluating other short and long term strategies for maintaining gas supply and are currently taking steps to mitigate the impact of a shortage of gas supplies from the currently producing well. These steps include discussions with Northwest Territories Power Corporation to switch from natural gas to diesel generation which would reduce the demand for natural gas.

ATCO Australia

ATCO Australia's revenues **increased** by \$47 million (362%) for the three months ended September 30, 2011, over 2010, primarily due to the addition of ATCO Gas Australia as of July 29, 2011.

ATCO Australia's revenues **decreased** by \$73 million (41%) for the nine months ended September 30, 2011, compared to the corresponding period in 2010. The first nine months of 2010 included one-time revenues of \$130 million related to the lease of the first and second units of the Karratha plant. Operations commenced on February 14, 2010, for the first unit and April 9, 2010, for the second unit. Excluding these one-time revenues, operating revenues for the nine months ended September 30, 2011, increased by \$57 million, primarily due to the addition of ATCO Gas Australia as of July 29, 2011, the fact that both Karratha units were fully operational in 2011 and higher exchange rates on conversion of Australian revenues into Canadian dollars.

Adjusted Earnings for ATCO Australia are shown in the following chart:

(\$ millions)	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2011	2010	Change (2011-2010)	2011	2010	Change (2011-2010)
Adjusted Earnings						
ATCO Gas Australia	9	-	-	9	-	-
Other ⁽¹⁾	2	4	(50%)	8	13	(38%)
	11	4	175%	17	13	31%

⁽¹⁾ Other includes ATCO Power Australia, ATCO I-Tek Australia and ATCO Australia's Corporate Office.

Adjusted Earnings increased by \$7 million (175%) for the three months ended September 30, 2011, over 2010 mainly due to the addition of ATCO Gas Australia.

Adjusted Earnings increased by \$4 million (31%) for the nine months ended September 30, 2011, over 2010 mainly due to the addition of ATCO Gas Australia and higher earnings at the Karratha plant as both units were fully operational in 2011. These increases were partially offset by lease accounting gains recognized in the first and second quarters of 2010 on the completion of the first and second units of the Karratha plant, as well as higher costs for the establishment of the Perth head office.

ATCO Gas Australia

In the third quarter of 2011, ATCO Gas Australia lodged an application to the Australian Competition Tribunal seeking leave to appeal a number of key elements of the ERA's February 28, 2011 rate decision. The key issue under appeal is regarding the calculation of the rate of return on capital. The hearing for the leave to appeal is scheduled in December 2011.

ATCO Power Australia

Availability of the generating plants in Australia for the three months ended September 30, 2011, was 94.0% compared to 96.6% in the corresponding period in 2010, a decrease of 2.6%. Availability of the generating plants in Australia for the nine months ended September 30, 2011, was 97.1% compared to 96.9% in the corresponding period in 2010, an increase of 0.2%. Generating plant availability will fluctuate due to the timing and duration of outages.

Corporate & Other

Adjusted Earnings for the three months ended September 30, 2011, were relatively unchanged.

Adjusted Earnings for the nine months ended September 30, 2011, **increased** by \$6 million (22%) compared to the corresponding period of 2010. This increase was mainly due to increased business activity in ATCO I-Tek.

Liquidity and Capital Resources

A major portion of the Corporation's earnings attributable to equity owners of the Corporation and Funds Generated by Operations is generated from its utility operations. Canadian Utilities and its wholly owned subsidiary, CU Inc., have access to short term bank loans and commercial paper borrowings to provide flexibility in the timing and amounts of long term financing.

SUMMARY OF CASH FLOW

(\$ millions)	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2011	2010	Change (2011-2010)	2011	2010	Change (2011-2010)
Cash position, beginning of period	378	720	(48%)	540	796	(32%)
Cash provided by (used in)						
Operating activities:						
Funds Generated by Operations	260	241	8%	914	747	22%
Changes in non-cash working capital	33	(27)	222%	42	43	(2%)
Cash flow from operations	293	214	37%	956	790	21%
Investing activities	(654)	(196)	(234%)	(1,122)	(574)	(95%)
Financing activities	211	(286)	174%	(148)	(550)	73%
Foreign currency impact on cash balances	9	5	80%	11	(5)	320%
Cash position, end of period	237	457	(48%)	237	457	(48%)

OPERATING ACTIVITIES

For the three months ended September 30, 2011, **Funds Generated by Operations increased** by \$19 million (8%) over the corresponding period of 2010. The increase was primarily due to higher contributions by utility customers for extensions to plant and lower income tax payments. For the three months ended September 30, 2011, **cash flow from operations increased** by \$79 million (37%) over the corresponding period of 2010. The increase was primarily due to increased Funds Generated by Operations and changes in non-cash working capital. The increase in changes in non-cash working capital was primarily due to the liability for Australian stamp duty associated with the WAGN acquisition.

For the nine months ended September 30, 2011, **Funds Generated by Operations and cash flow from operations increased** by \$167 million (22%) and by \$166 million (21%), respectively, over the corresponding period of 2010. These increases were primarily due to higher earnings, increased availability incentive receipts in ATCO Power, higher contributions by utility customers for extensions to plant and lower income tax payments.

INVESTING ACTIVITIES

For the three and nine months ended September 30, 2011, **cash used in investing activities increased** by \$458 million (234%) and by \$548 million (95%) respectively, compared to the corresponding periods of 2010. These increases were mainly due to the \$315 million (net of cash acquired) for the WAGN acquisition and increased capital investment in regulated distribution and transmission infrastructure projects in ATCO Electric and regulated natural gas distribution projects in ATCO Gas.

FINANCING ACTIVITIES

For the nine months ended September 30, 2011, the Corporation had net **repayments** of long term debt of \$134 million mainly as a result of the redemption of \$100 million of 7.05% debentures due June 1, 2011, and repayments of non-recourse long term debt in ATCO Power of \$31 million.

On September 21, 2011, Canadian Utilities **issued** \$325 million of 4.00% Cumulative Redeemable Second Preferred Shares Series Y under its base shelf prospectus (refer to Base Shelf Prospectus section).

On March 1, 2010, the Corporation commenced a normal course issuer bid for the purchase of up to 3% of the outstanding Class A Shares. The bid expired on February 28, 2011. From March 1, 2010, to February 28, 2011, 138,850 shares were purchased, all of which were purchased in 2010. On March 1, 2011, the Corporation commenced a new normal course issuer bid for the purchase of up to 3% of the outstanding Class A Shares. The bid will expire on February 29, 2012. From March 1, 2011, to October 27, 2011, 8,767 shares have been purchased.

Total **dividends paid to Class A and Class B Share owners** for the nine months ended September 30, 2011, **increased** by 8% to \$154 million over the corresponding period of 2010. For the nine months ended September 30, 2011, the **quarterly dividend** payment on the Corporation's Class A and Class B Shares was **increased** by \$0.025 to \$0.4025 per share. On October 20, 2011, the Board of Directors declared the fourth quarter dividend of \$0.4025 per share. The Corporation has increased its annual common share dividend each year since its inception as a holding company in 1972. The payment of any dividend is at the discretion of the Board of Directors and depends on the financial condition of the Corporation and other factors.

On October 24, 2011, CU Inc., a wholly owned subsidiary of the Corporation, issued \$500 million of 4.543% debentures maturing on October 24, 2041, and \$200 million of 4.593% debentures maturing on October 24, 2061.

On October 25, 2011, the Corporation announced its intention to redeem all of the outstanding Series O, T and U Perpetual Cumulative Second Preferred Shares totaling \$100 million. The redemption will occur on December 2, 2011 and will be financed with available cash reserves.

FOREIGN CURRENCY TRANSLATION

For the three and nine months ended September 30, 2011, **foreign currency translation increased** the Corporation's cash position by \$9 million and \$11 million, respectively, due to changes in the U.K. and Australian exchange rates used for balance sheet translations.

SHORT TERM INVESTMENT POLICY

The Corporation has a long-standing policy not to invest any of its cash balances in asset-backed securities. Cash and short term investment credit risk is reduced by investing approximately 67% in short term money market instruments of Canadian financial institutions and Government of Canada treasury bills as at September 30, 2011. The Corporation had approximately 86% invested in Canadian short term money market instruments at June 30, 2011. The reduction was caused by additional Australian dollar cash balances in ATCO Australia due to the cash acquired as part of the WAGN acquisition.

LINES OF CREDIT

At September 30, 2011, the Corporation had the following credit lines that enable it to obtain funding for general corporate purposes.

	Total	Used	Available
(\$ millions)			
Long term committed	1,384	433	951
Uncommitted	53	7	46
Total	1,437	440	997

Committed credit facilities totaling \$600 million, which were previously reported under short term commitments, were renewed in September 2011 by the Corporation and its wholly owned subsidiary, CU Inc. These facilities will expire in September 2013, unless extended by the lender. These credit facilities are now reported as long term commitments.

Long term committed lines of credit also include a \$455 million (AUD \$450 million) unsecured credit facility, which was assumed as part of the WAGN acquisition, with an Australian bank. At September 30, 2011, \$417 million (AUD \$412 million) was drawn on this facility. This credit facility will expire in June 2014.

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

Changes to Lines of Credit Subsequent to September 30, 2011

On October 26, 2011, Canadian Utilities extended its \$200 million credit facility and increased the amount to \$400 million; this facility will expire in October 2015 unless it is extended by the lender. CU Inc. established a new \$600 million credit facility; this facility will expire in October 2014 unless it is extended by the lender. As a result of these changes, total committed credit facilities for these entities have increased \$800 million to \$1.6 billion.

CONTRACTUAL OBLIGATIONS

Additional contractual obligations as at September 30, 2011 associated with ATCO Gas Australia are as follows:

(\$ millions)	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long term debt	670	253	417	-	-
Interest expense ⁽¹⁾	134	41	93	-	-
Other	13	1	7	5	-
Total	817	295	517	5	-

⁽¹⁾ Interest payments on floating rate debt that has not been hedged have been estimated using rates in effect at September 30, 2011. Interest payments on debt that has been hedged have been estimated using the hedged rates.

Other contractual obligations disclosed in the 2010 MD&A remain substantially unchanged as at September 30, 2011.

BASE SHELF PROSPECTUS

On September 12, 2011, the Corporation filed a base shelf prospectus that permits the issuance up to \$2.0 billion of Preferred Shares and Debt Securities over the twenty-five month life of the prospectus.

On September 21, 2011, the Corporation issued \$325 million of Cumulative Redeemable Second Preferred Shares Series Y at a price of \$25.00 per share under its base shelf prospectus. Holders will be entitled to receive fixed cumulative preferential cash dividends, as and when declared by the Board of Directors of the Corporation, payable quarterly for an initial period of five and a half years at a rate of \$1.00 per share to yield 4.00% annually. Thereafter the dividend rate will reset every five years to the then current 5-Year Government of Canada bond yield plus 2.40%. On June 1, 2017, and on June 1 of every fifth year thereafter, the Corporation may redeem the Series Y Preferred Shares in whole or in part at par.

Holdings may elect to convert any or all of their Series Y Preferred Shares into an equal number of Cumulative Redeemable Second Preferred Shares Series Z on June 1, 2017, and on June 1 of every fifth year thereafter. Holders of the Series Z Preferred Shares will be entitled to receive floating rate cumulative preferential cash dividends, as and when declared by the Board of Directors of the Corporation, payable quarterly for an initial period of five years at a rate equal to the then current 3-month Government of Canada Treasury Bill yield plus 2.40%. On June 1, 2022, and on June 1 of every fifth year thereafter ("Series Z Conversion Date"), holders of the Series Z Preferred Shares may elect to convert any or all of their Series Z Preferred Shares back into an equal number of Series Y Preferred Shares. On June 1, 2017, or thereafter, the Corporation may redeem the Series Z Preferred Shares in whole or in part at \$25.00 on a Series Z Conversion Date or at \$25.50 on any other date.

Share Capital

The equity securities of the Corporation consist of Class A Shares and Class B Shares.

At October 26, 2011, the Corporation had outstanding 87,232,483 Class A Shares, 40,375,349 Class B Shares and options to purchase 597,700 Class A Shares.

Business Risks

Information contained in the 2010 MD&A related to Business Risks remains substantially unchanged, except for environmental matters.

ENVIRONMENTAL MATTERS

Greenhouse Gas Emissions

The Government of Canada published the draft *Reduction of Carbon Dioxide Emissions from Coal-Fired Generation of Electricity Regulations* on August 27, 2011. The proposed regulations will apply a “clean as gas” performance standard to new coal-fired generation units and units that have reached the end of their economic life. If enacted, the regulations will limit the life of ATCO Power’s Battle River and Sheerness conventional coal-fired units to 45 years or three years after the expiry of the PPA, whichever is later. The Government of Canada has provided a 60-day public consultation period. Final regulations are expected to be published in 2012 and are scheduled to come into effect on July 1, 2015.

In October 2011, the Australian House of Representatives passed legislation intended to, among other things, regulate carbon emissions and introduce a tax on carbon for the approximately 500 largest emitters in the country. If, as expected, the Senate passes the legislation in November 2011, the tax will come into effect in July 2012. ATCO Power Australia’s generating plants will be regulated by this new legislation. All of these generating plants have long term contractual power purchase agreements allowing full recovery of costs associated with complying with this new law.

ATCO Gas Australia’s gas distribution system may also be regulated by the new carbon emission regulations due to its unaccounted for gas being classified as fugitive emissions under the act. There is a provision in ATCO Gas Australia’s Access Arrangement to pass any cost associated with this legislation on to end use customers.

Critical 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 reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. On an on-going basis, management reviews its estimates, particularly those related to depreciation and amortization methods, useful lives and impairment of long-lived assets, amortization of deferred availability incentives, asset retirement obligations and other provisions, employee future benefits and the fair value of financial instruments and the fair value of identifiable assets acquired and the liabilities assumed in business combinations, using currently available information. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates.

Future Accounting Changes

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 11 *Joint Arrangements* classifies joint arrangements into two types: joint operations and joint ventures.

- A joint operation is a joint arrangement where the owners directly own a share of the individual assets and are directly responsible for paying a share of the individual liabilities of the joint arrangement. A joint operator is required to recognize its share of assets, liabilities, revenues and expenses. The Corporation will continue to proportionately consolidate its joint operations.
- A joint venture is where the joint arrangement itself (and not the owners) directly owns the assets and is directly responsible for paying the liabilities of the arrangement. A joint venturer is required to account for its investment using the equity method of accounting where only the net investment in the joint venture and net earnings of the joint venture are recognized. Consequently, the Corporation will change its method of accounting for its joint ventures from proportionate consolidation to the equity method.

This change in accounting policy would not have an impact on net earnings or equity, but it would impact individual assets, liabilities, revenues and expenses along with capitalization and coverage ratios. The new standard is effective for annual periods beginning on or after January 1, 2013.

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, the fair value of defined benefit pension assets and in asset impairment calculations. This IFRS is effective for financial statements beginning on and after January 1, 2013.

IAS 19 *Employee Benefits* has been amended to change the recognition and measurement of defined benefit pension expense and termination benefits and increase disclosures. The only significant change for the Corporation is that the expected return on assets and interest cost on pension obligations will be combined into a net interest cost calculated using a single discount rate on net pension assets or liabilities. As the expected return on assets, which includes an equity and management premium, is currently higher than the liability discount rate, the change in the calculation will result in higher pension expense. The new standard is effective for annual periods beginning on or after January 1, 2013.

Forward-Looking Information

Certain statements contained in this MD&A constitute forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as “anticipate”, “plan”, “estimate”, “expect”, “may”, “will”, “intend”, “should”, and similar expressions. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Corporation believes that the expectations reflected in the forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information should not be unduly relied upon.

Glossary

Adjusted Earnings means earnings attributable to equity owners of the Corporation after adjusting for the timing of revenues and expenses associated with rate regulated activities and dividends on equity preferred shares of the Corporation. Adjusted Earnings present earnings from rate regulated activities on the same basis as was used prior to adopting IFRS – that basis being the U.S. accounting principles for rate regulated activities commonly used by rate regulated companies in Canada. Adjusted Earnings also exclude one-time gains and losses and items that are not in the normal course of business or day-to-day operations. Refer to the Reconciliation of Adjusted Earnings and Earnings Attributable to Equity Owners of the Corporation section for a description of all adjustments.

Adjusted Earnings per Class A and Class B Share is calculated by dividing Adjusted Earnings for a period by the weighted average number of Class A and Class B Shares outstanding during the period.

AESO means the Alberta Electric System Operator.

Alberta Power Pool means the market for electricity in Alberta operated by AESO.

AUC means the Alberta Utilities Commission.

Availability is a measure of time, expressed as a percentage of continuous operation, that a generating unit is capable of producing electricity, regardless of whether the unit is actually generating electricity.

Canadian GAAP means Canadian generally accepted accounting principles that were in effect prior to the adoption of IFRS effective January 1, 2010.

Class A Shares means Class A non-voting shares of the Corporation.

Class B Shares means Class B common shares of the Corporation.

Corporation means Canadian Utilities Limited and, unless the context otherwise requires, includes its subsidiaries.

Frac Spread means the premium or discount between the purchase price of natural gas and the selling price of extracted natural gas liquids on a heat content equivalent basis.

Gigajoule (GJ) means a unit of energy equal to approximately 948.2 thousand British thermal units.

IFRS means International Financial Reporting Standards.

Megawatt (MW) is a measure of electric power equal to 1,000,000 watts.

Megawatt hour (MWh) means a measure of electricity consumption equal to the use of 1,000,000 watts of power over a one-hour period.

NGL means natural gas liquids, such as ethane, propane, butane and pentanes plus, that are extracted from natural gas and sold as distinct products or as a mix.

Petajoule (PJ) means a unit of energy equal to approximately 948.2 billion British thermal units.

PPA means Power Purchase Arrangements that became effective on January 1, 2001, as part of the process of restructuring the electric utility business in Alberta. The PPAs are legislatively mandated and approved by the AUC.

Propane Plus means propane, butane, pentane and other hydrocarbons other than methane and ethane.

Shrinkage gas means the natural gas which is used to replace, on a heat equivalent basis, the NGL extracted during NGL extraction operations.

Spark Spread means the difference between the selling price of electricity and the marginal cost of producing electricity from natural gas. In this MD&A, Spark Spreads are based on an approximate industry heat rate of 7.5 GJ per MWh.

U.K. means United Kingdom.

U.S. means United States of America.

Additional Information

ATCO Ltd. has published its unaudited consolidated interim financial statements and its MD&A for the nine months ended September 30, 2011. Copies of these documents may be obtained upon request from the Corporate Secretary of ATCO Ltd. at 1400 ATCO Centre, 909-11th Avenue S.W., Calgary, Alberta, T2R 1N6, telephone 403-292-7500 or fax 403-292-7623.