



CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE SIX MONTHS ENDED
JUNE 30, 2005**

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

	Note	Three Months Ended June 30		Six Months Ended June 30	
		2005	2004	2005	2004
		<i>(Unaudited)</i>		<i>(Unaudited)</i>	
Revenues	2	\$ 307.7	\$ 480.7	\$ 813.4	\$1,440.7
Costs and expenses					
Natural gas supply	2	1.0	171.5	124.6	707.6
Purchased power	2	10.3	26.0	22.8	71.6
Operation and maintenance		82.6	75.4	158.3	150.2
Selling and administrative		48.0	49.5	92.8	101.6
Depreciation and amortization		55.2	51.3	118.2	110.7
Interest		37.8	36.0	76.3	72.9
Franchise fees		29.3	27.2	81.9	77.0
		264.2	436.9	674.9	1,291.6
Gain on transfer of retail energy supply businesses	2	43.5	43.8	138.5	149.1
Interest and other income		3.0	1.6	5.4	3.2
Earnings before income taxes		46.5	108.7	143.9	215.6
Income taxes		15.7	24.9	51.3	64.5
		30.8	83.8	92.6	151.1
Dividends on equity preferred shares to parent corporation		3.5	3.5	7.0	7.0
Earnings attributable to Class A and Class B shares	2	27.3	80.3	85.6	144.1
Retained earnings at beginning of period		1,069.5	1,047.0	1,036.3	1,003.4
		1,096.8	1,127.3	1,121.9	1,147.5
Dividends on Class A and Class B shares		53.9	21.1	79.0	41.3
Retained earnings at end of period		\$1,042.9	\$1,106.2	\$1,042.9	\$1,106.2

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

	June 30	December 31	
	2005	2004	2004
	<i>(Unaudited)</i>	<i>(Audited)</i>	
ASSETS			
Current assets			
Cash and short term investments	\$ 50.5	\$ 58.7	\$ 64.0
Accounts receivable	138.8	238.2	230.3
Accounts receivable from parent and affiliate corporations	8.3	6.6	12.2
Inventories	63.2	103.7	157.7
Income taxes recoverable	3.7	-	-
Future income taxes	0.1	-	0.3
Deferred electricity costs	6.3	-	-
Prepaid expenses	10.9	11.4	12.9
	281.8	418.6	477.4
Property, plant and equipment	3,708.6	3,515.1	3,644.6
Other assets	61.9	56.7	63.0
	\$4,052.3	\$3,990.4	\$4,185.0
LIABILITIES AND SHARE OWNER'S EQUITY			
Current liabilities			
Short term advances from parent and affiliate corporations	\$ 80.0	\$ 60.3	\$ 9.6
Accounts payable and accrued liabilities	121.0	143.9	164.4
Accounts payable to parent and affiliate corporations	20.5	41.7	23.3
Income taxes payable	-	11.1	24.6
Future income taxes	-	17.0	-
Deferred natural gas cost recoveries	-	2.4	0.9
Deferred electricity cost recoveries	-	32.8	11.7
	221.5	309.2	234.5
Future income taxes	66.8	63.4	64.8
Deferred credits	119.5	85.0	122.8
Long term debt	1,937.5	1,762.5	2,062.5
Equity preferred shares to parent corporation	256.5	256.5	256.5
Class A and Class B share owner's equity			
Class A and Class B shares	407.6	407.6	407.6
Retained earnings	1,042.9	1,106.2	1,036.3
	1,450.5	1,513.8	1,443.9
	\$4,052.3	\$3,990.4	\$4,185.0

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

	Note	Three Months Ended June 30		Six Months Ended June 30	
		2005 <i>(Unaudited)</i>	2004	2005 <i>(Unaudited)</i>	2004
Operating activities					
Earnings attributable to Class A and Class B shares		\$ 27.3	\$ 80.3	\$ 85.6	\$ 144.1
Adjustments for:					
Depreciation and amortization		55.2	51.3	118.2	110.7
Future income taxes		2.3	0.6	2.3	1.3
Gain on transfer of retail energy supply businesses - net of income taxes	2	-	(55.1)	-	(55.1)
Deferred availability incentives		(4.9)	(29.2)	1.2	(21.1)
Other		1.4	0.9	2.7	3.3
Cash flow from operations		81.3	48.8	210.0	183.2
Changes in non-cash working capital		(34.8)	21.5	80.5	188.8
		46.5	70.3	290.5	372.0
Investing activities					
Purchase of property, plant and equipment		(112.8)	(114.4)	(197.5)	(211.9)
Proceeds on transfer of retail energy supply businesses - net of income taxes	2	43.4	22.5	43.4	22.5
Proceeds (costs) on disposal of property, plant and equipment		(1.2)	0.5	(1.2)	(0.1)
Contributions by utility customers for extensions to plant		11.9	12.6	21.3	29.4
Non-current deferred electricity costs		(2.0)	(2.2)	(8.3)	(11.9)
Changes in non-cash working capital		(1.4)	9.5	(25.6)	5.6
Other		(1.6)	(0.1)	(2.4)	(2.7)
		(63.7)	(71.6)	(170.3)	(169.1)
Financing activities					
Issue of long term debt		-	-	-	180.0
Repayment of long term debt		(125.0)	(100.0)	(125.0)	(100.0)
Dividends paid to Class A and Class B share owner		(53.9)	(21.1)	(79.0)	(41.3)
Changes in non-cash working capital		0.4	-	0.1	-
Other		(0.1)	-	(0.2)	(1.0)
		(178.6)	(121.1)	(204.1)	37.7
Cash position ⁽¹⁾					
Increase (decrease)		(195.8)	(122.4)	(83.9)	240.6
Beginning of period		166.3	120.8	54.4	(242.2)
End of period		\$ (29.5)	\$ (1.6)	\$ (29.5)	\$ (1.6)

⁽¹⁾ Cash position includes cash and short term investments less short term advances from parent and affiliate corporations.

CU INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005
(Unaudited, Tabular Amounts in Millions of Canadian Dollars)

1. Financial statement presentation

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and should be read in conjunction with the Corporation’s December 31, 2004 consolidated financial statements and related notes. These interim financial statements have been prepared using the same accounting policies as used in the financial statements for the year ended December 31, 2004, except as described below.

Effective January 1, 2005, the Corporation prospectively adopted the Canadian Institute of Chartered Accountants (“CICA”) guideline pertaining to the consolidation of variable interest entities. The guideline requires the Corporation to identify variable interest entities in which it has an interest, determine whether it is the primary beneficiary of such entities, and, if so, to consolidate them. This change in accounting had no effect on the consolidated financial statements for the three and six months ended June 30, 2005.

Due to the seasonal nature of the Corporation’s operations and the timing of rate decisions, the consolidated statements of earnings and retained earnings for the three and six months ended June 30, 2005 and June 30, 2004 are not necessarily indicative of operations on an annual basis.

2. Transfer of retail energy supply businesses

On May 4, 2004, ATCO Gas and ATCO Electric transferred their retail energy supply businesses to Direct Energy Marketing Limited and one of its affiliates (collectively “DEML”), a subsidiary of Centrica plc. Proceeds of the transfer were \$90 million, of which \$45 million was paid at closing, and the remainder was paid on May 4, 2005. Net proceeds, after adjustments related to legal, transition and other deferred costs pertaining to the transfer of the retail energy supply businesses, resulted in a gain of \$63.3 million before income taxes of \$8.2 million and increased earnings by \$55.1 million for the three and six months ended June 30, 2004.

The Corporation’s revenues and natural gas supply and purchased power costs after May 4, 2004 were reduced accordingly for 2004 and thereafter. Subsequent to May 4, 2004, ATCO Gas continued to purchase natural gas on behalf of DEML until the transfer of the relevant ATCO Gas natural gas purchase contracts to DEML was completed in September 2004. There will be no ongoing impact on earnings resulting from the transfer of these businesses as natural gas and electricity have historically been sold to customers on a “no-margin” basis. ATCO Gas and ATCO Electric continue to own and operate the natural gas and electricity distribution systems used to deliver energy.

3. Employee future benefits

In the three months ended June 30, 2005, net expense of \$0.6 million (2004 – \$0.5 million) was recognized for pension benefit plans and net expense of \$0.5 million (2004 – \$0.6 million) was recognized for other post employment benefit plans.

In the six months ended June 30, 2005, net expense of \$1.4 million (2004 – \$1.0 million) was recognized for pension benefit plans and net expense of \$1.0 million (2004 – \$0.9 million) was recognized for other post employment benefit plans.

4. Segmented information

Segmented results – Three months ended June 30

2005		Power	Corporate	Intersegment	
2004	Utilities	Generation	and Other	Eliminations	Consolidated
Revenues – external	\$236.1	\$71.6	\$ -	\$ -	\$307.7
	\$412.0	\$68.7	\$ -	\$ -	\$480.7
Revenues – intersegment	-	-	-	-	-
	1.3	-	-	(1.3)	-
Revenues	\$236.1	\$71.6	\$ -	\$ -	\$307.7
	\$413.3	\$68.7	\$ -	\$(1.3)	\$480.7
Earnings attributable to Class A and Class B shares	\$ 15.7	\$11.5	\$0.1	\$ -	\$ 27.3
	\$ 70.0	\$10.0	\$0.3	\$ -	\$ 80.3

Segmented results – Six months ended June 30

2005		Power	Corporate	Intersegment	
2004	Utilities	Generation	and Other	Eliminations	Consolidated
Revenues – external	\$ 667.9	\$145.5	\$ -	\$ -	\$ 813.4
	\$1,295.1	\$145.6	\$ -	\$ -	\$1,440.7
Revenues – intersegment	0.1	-	-	(0.1)	-
	2.3	-	-	(2.3)	-
Revenues	\$ 668.0	\$145.5	\$ -	\$(0.1)	\$ 813.4
	\$1,297.4	\$145.6	\$ -	\$(2.3)	\$1,440.7
Earnings attributable to Class A and Class B shares	\$ 60.1	\$ 25.4	\$0.1	\$ -	\$ 85.6
	\$ 119.9	\$ 23.6	\$0.6	\$ -	\$ 144.1
Total assets	\$3,301.1	\$749.9	\$1.3	\$ -	\$4,052.3
	\$3,238.1	\$752.4	\$0.4	\$(0.5)	\$3,990.4