



# **CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED  
SEPTEMBER 30, 2005**

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

	Note	Three Months Ended September 30		Nine Months Ended September 30	
		<b>2005</b>	2004	<b>2005</b>	2004
		<i>(Unaudited)</i>		<i>(Unaudited)</i>	
<b>Revenues</b>	2	<b>\$ 294.4</b>	\$ 266.3	<b>\$1,107.8</b>	\$1,707.0
<b>Costs and expenses</b>					
Natural gas supply	2	<b>0.8</b>	(4.6)	<b>125.4</b>	703.0
Purchased power	2	<b>10.4</b>	8.8	<b>33.2</b>	80.4
Operation and maintenance		<b>82.9</b>	77.6	<b>241.2</b>	227.8
Selling and administrative		<b>46.7</b>	43.9	<b>139.5</b>	145.5
Depreciation and amortization		<b>51.7</b>	48.2	<b>169.9</b>	158.9
Interest		<b>36.6</b>	34.9	<b>112.9</b>	107.8
Franchise fees		<b>20.9</b>	18.9	<b>102.8</b>	95.9
		<b>250.0</b>	227.7	<b>924.9</b>	1,519.3
		<b>44.4</b>	38.6	<b>182.9</b>	187.7
<b>Gain on transfer of retail energy supply businesses</b>	2	-	-	-	63.3
<b>Interest and other income</b>		<b>2.5</b>	1.8	<b>7.9</b>	5.0
<b>Earnings before income taxes</b>		<b>46.9</b>	40.4	<b>190.8</b>	256.0
<b>Income taxes</b>		<b>18.5</b>	12.9	<b>69.8</b>	77.4
		<b>28.4</b>	27.5	<b>121.0</b>	178.6
<b>Dividends on equity preferred shares to parent corporation</b>		<b>3.5</b>	3.5	<b>10.5</b>	10.5
<b>Earnings attributable to Class A and Class B shares</b>	2	<b>24.9</b>	24.0	<b>110.5</b>	168.1
<b>Retained earnings at beginning of period</b>		<b>1,042.9</b>	1,106.2	<b>1,036.3</b>	1,003.4
		<b>1,067.8</b>	1,130.2	<b>1,146.8</b>	1,171.5
Dividends on Class A and Class B shares		<b>23.6</b>	59.5	<b>102.6</b>	100.8
<b>Retained earnings at end of period</b>		<b>\$1,044.2</b>	\$1,070.7	<b>\$1,044.2</b>	\$1,070.7

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

	September 30	December 31	
	2005	2004	2004
	<i>(Unaudited)</i>	<i>(Audited)</i>	
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and short term investments	\$ 46.1	\$ 22.2	\$ 64.0
Accounts receivable	146.9	204.6	230.3
Accounts receivable from parent and affiliate corporations	13.1	8.9	12.2
Inventories	65.6	149.5	157.7
Income taxes recoverable	3.8	-	-
Future income taxes	0.1	-	0.3
Deferred electricity costs	3.4	-	-
Prepaid expenses	16.5	16.4	12.9
	<b>295.5</b>	401.6	477.4
<b>Property, plant and equipment</b>	<b>3,770.0</b>	3,572.5	3,644.6
<b>Other assets</b>	<b>68.5</b>	57.4	63.0
	<b>\$4,134.0</b>	\$4,031.5	\$4,185.0
<b>LIABILITIES AND SHARE OWNER'S EQUITY</b>			
<b>Current liabilities</b>			
Short term advances from parent and affiliate corporations	\$ 151.9	\$ 62.3	\$ 9.6
Accounts payable and accrued liabilities	124.2	136.2	164.4
Accounts payable to parent and affiliate corporations	19.4	16.7	23.3
Income taxes payable	-	9.9	24.6
Future income taxes	-	12.8	-
Deferred natural gas cost recoveries	-	0.2	0.9
Deferred electricity cost recoveries	-	25.2	11.7
Notes payable	-	96.0	-
	<b>295.5</b>	359.3	234.5
<b>Future income taxes</b>	<b>69.9</b>	66.7	64.8
<b>Deferred credits</b>	<b>122.8</b>	108.2	122.8
<b>Long term debt</b>	<b>1,937.5</b>	1,762.5	2,062.5
<b>Equity preferred shares to parent corporation</b>	<b>256.5</b>	256.5	256.5
<b>Class A and Class B share owner's equity</b>			
Class A and Class B shares	407.6	407.6	407.6
Retained earnings	1,044.2	1,070.7	1,036.3
	<b>1,451.8</b>	1,478.3	1,443.9
	<b>\$4,134.0</b>	\$4,031.5	\$4,185.0

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

	Note	Three Months Ended		Nine Months Ended	
		September 30		September 30	
		2005	2004	2005	2004
		<i>(Unaudited)</i>		<i>(Unaudited)</i>	
<b>Operating activities</b>					
Earnings attributable to Class A and Class B shares		\$ 24.9	\$ 24.0	\$ 110.5	\$ 168.1
Adjustments for:					
Depreciation and amortization		51.7	48.2	169.9	158.9
Future income taxes		5.8	(1.2)	8.1	0.1
Gain on transfer of retail energy supply businesses					
- net of income taxes	2	-	-	-	(55.1)
Deferred availability incentives		(2.0)	15.8	(0.8)	(5.3)
Other		2.6	0.7	5.3	4.0
Cash flow from operations		83.0	87.5	293.0	270.7
Changes in non-cash working capital		(18.0)	(54.0)	62.5	134.8
		65.0	33.5	355.5	405.5
<b>Investing activities</b>					
Purchase of property, plant and equipment		(127.4)	(110.3)	(324.9)	(322.2)
Proceeds on transfer of retail energy supply businesses					
- net of income taxes	2	-	-	43.4	22.5
Costs on disposal of property, plant and equipment		(1.0)	(3.5)	(2.2)	(3.6)
Contributions by utility customers for extensions to plant		16.1	11.2	37.4	40.6
Non-current deferred electricity costs		(1.7)	2.0	(10.0)	(9.9)
Changes in non-cash working capital		(0.1)	(8.6)	(25.7)	(3.0)
Other		(2.7)	0.6	(5.1)	(2.1)
		(116.8)	(108.6)	(287.1)	(277.7)
<b>Financing activities</b>					
Change in notes payable		-	96.0	-	96.0
Issue of long term debt		-	-	-	180.0
Repayment of long term debt		-	-	(125.0)	(100.0)
Dividends paid to Class A and Class B share owner		(23.6)	(59.5)	(102.6)	(100.8)
Changes in non-cash working capital		(0.5)	-	(0.4)	-
Other		(0.4)	0.1	(0.6)	(0.9)
		(24.5)	36.6	(228.6)	74.3
<b>Cash position <sup>(1)</sup></b>					
Increase (decrease)		(76.3)	(38.5)	(160.2)	202.1
Beginning of period		(29.5)	(1.6)	54.4	(242.2)
<b>End of period</b>		<b>\$(105.8)</b>	<b>\$ (40.1)</b>	<b>\$(105.8)</b>	<b>\$ (40.1)</b>

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

**CU INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 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 nine months ended September 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 nine months ended September 30, 2005 and September 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 nine months ended September 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 September 30, 2005, net expense of \$0.6 million (2004 – \$0.6 million) was recognized for pension benefit plans and net expense of \$0.5 million (2004 – \$0.4 million) was recognized for other post employment benefit plans.

In the nine months ended September 30, 2005, net expense of \$2.0 million (2004 – \$1.6 million) was recognized for pension benefit plans and net expense of \$1.5 million (2004 – \$1.3 million) was recognized for other post employment benefit plans.

#### 4. Regulatory matters

In May 2005, ATCO Electric filed a general tariff application with the Alberta Energy and Utilities Board (“AEUB”) for the 2005 and 2006 test years requesting, among other things, increased revenues to recover increased financing, depreciation and operating costs associated with increased rate base in Alberta. A decision from the AEUB on the general tariff application is not expected until early in 2006. In May and June 2005, ATCO Electric filed applications requesting interim refundable rates for distribution and transmission operations, pending the AEUB’s decision on the general tariff application. On July 14, 2005, ATCO Electric received a decision from the AEUB approving its requested interim refundable rates for distribution operations. On September 7, 2005, ATCO Electric received a decision from the AEUB approving an interim refundable rate increase of \$5.0 million for transmission operations. Revenues associated with the interim refundable rates for the nine months ended September 30, 2005 were recognized in the third quarter.

In May 2005, ATCO Gas filed a general rate application with the AEUB for the 2005, 2006 and 2007 test years requesting, among other things, increased revenues to recover increased financing, depreciation and operating costs associated with increased rate base in Alberta. A decision from the AEUB on the general tariff application is not expected until early in 2006. In June 2005, ATCO Gas filed an application requesting interim refundable rates pending the AEUB’s decision on the general rate application. On August 28, 2005, ATCO Gas received a decision from the AEUB approving an interim refundable rate increase, to be collected from northern customers, of \$7.0 million. Revenues associated with the interim refundable rates for the nine months ended September 30, 2005 were recognized in the third quarter.

#### 5. Segmented information

##### *Segmented results – Three months ended September 30*

<b>2005</b> 2004	Utilities	Power Generation	Corporate and Other	Intersegment Eliminations	Consolidated
Revenues – external	<b>\$221.6</b>	<b>\$72.8</b>	\$ -	\$ -	<b>\$294.4</b>
	\$193.7	\$72.6	\$ -	\$ -	\$266.3
Revenues – intersegment	-	-	-	-	-
	-	-	-	-	-
Revenues	<b>\$221.6</b>	<b>\$72.8</b>	\$ -	\$ -	<b>\$294.4</b>
	\$193.7	\$72.6	\$ -	\$ -	\$266.3
Earnings attributable to Class A and Class B shares	<b>\$ 13.4</b>	<b>\$11.5</b>	\$ -	\$ -	<b>\$ 24.9</b>
	\$ 10.1	\$13.5	\$0.4	\$ -	\$ 24.0

##### *Segmented results – Nine months ended September 30*

<b>2005</b> 2004	Utilities	Power Generation	Corporate and Other	Intersegment Eliminations	Consolidated
Revenues – external	<b>\$ 889.5</b>	<b>\$218.3</b>	\$ -	\$ -	<b>\$1,107.8</b>
	\$1,488.8	\$218.2	\$ -	\$ -	\$1,707.0
Revenues – intersegment	<b>0.1</b>	-	-	<b>(0.1)</b>	-
	2.3	-	-	(2.3)	-
Revenues	<b>\$ 889.6</b>	<b>\$218.3</b>	\$ -	<b>\$(0.1)</b>	<b>\$1,107.8</b>
	\$1,491.1	\$218.2	\$ -	\$(2.3)	\$1,707.0
Earnings attributable to Class A and Class B shares	<b>\$ 73.5</b>	<b>\$ 36.9</b>	<b>\$0.1</b>	\$ -	<b>\$ 110.5</b>
	\$ 130.0	\$ 37.1	\$1.0	\$ -	\$ 168.1
Total assets	<b>\$3,382.0</b>	<b>\$751.3</b>	<b>\$0.8</b>	<b>\$(0.1)</b>	<b>\$4,134.0</b>
	\$3,256.0	\$774.5	\$1.2	\$(0.2)	\$4,031.5