

## FOR THE THREE MONTHS ENDED MARCH 31, 2009

### TO THE SHARE OWNERS:

**Earnings of \$94.6 million (\$1.64 per share) for the three months ended March 31, 2009**, compared to earnings of \$92.5 million (\$1.60 per share) for the same three months in 2008, were reported by ATCO Ltd.

ATCO Ltd. also reported an increase in “adjusted earnings” <sup>(1)</sup> for the first quarter, which excludes certain items not in the normal course of business or day to day operations. Adjusted earnings for the three months ended March 31, 2009 were \$96.1 million (\$1.66 per share) compared to adjusted earnings of \$92.3 million (\$1.60 per share) for the same three months in 2008.

### RECENT DEVELOPMENTS DURING THE FIRST QUARTER

- ATCO Power along with the Government of Western Australia announced the start of construction of a new 86 megawatt power station in Karratha which will be the most efficient gas-fired power station in the region.
- ATCO I-Tek announced that it entered into a strategic relationship with Wipro, a large, multi-national service provider to provide joint delivery of some customer care services and to pursue new opportunities to the utility business process outsourcing market.
- ATCO Gas announced that along with the Town of Viking and Beaver County, Alberta, they opened the new geothermal Viking Operations Centre.
- ATCO Electric, ATCO Gas, ATCO Power and ATCO Midstream, announced that they are providing support to a much-needed fire-rescue training centre in High Prairie. The centre will provide hands-on and practical training for emergency rescue personnel throughout Northwestern Alberta.

### Financial Summary and Reconciliation of Adjusted Earnings

### For the Three Months Ended March 31

	2009	2008
(\$ Millions except per share data)	Unaudited	
Reported Earnings	<b>94.6</b>	92.5
ATCO Power Mark-to-Market Adjustment	<b>1.5</b>	(0.2)
Adjusted Earnings <sup>(1)</sup>	<b>96.1</b>	92.3
Earnings Per Share	<b>1.64</b>	1.60
Adjusted Earnings Per Share <sup>(1)</sup>	<b>1.66</b>	1.60
Revenues	<b>875.1</b>	834.5
Funds Generated By Operations <sup>(1)(2)</sup>	<b>279.0</b>	280.6

<sup>(1)</sup> This measure is not defined by Generally Accepted Accounting Principles and may not be comparable to similar measures used by other companies.

<sup>(2)</sup> This measure is cash flow from operations before changes in non-cash working capital.

**Adjusted earnings for the three months ended March 31, 2009**, increased primarily due to increased international operations and the impact of a settlement completed in the first quarter of 2009 relating to the cancellation of a workforce housing camp for the Fort Hills Energy Limited Partnership in ATCO Structures (Fort Hills Settlement). Also contributing to higher Adjusted Earnings was the impact of higher earnings associated with increased investment in transmission infrastructure in Alberta in ATCO Electric, the impact of the 2008/2009 general rate application decision in ATCO Gas (ATCO Gas GRA), the impact of the ATCO Pipelines' negotiated settlement decision for 2008 and 2009 (ATCO Pipelines Negotiated Settlement), increased generation due to favourable merchant conditions in ATCO Power's United Kingdom (U.K.) operations, the end of the 2007/2008 Barking outage in March 2008 and increased business activity in ATCO Frontec's operations. These increases were partially offset by decreased Canadian manufacturing operations in ATCO Structures, the 2008 recognition of insurance proceeds from the 2007/2008 Barking outage in ATCO Power's U.K. operations, the timing and demand for natural gas storage resulting in lower storage fees and lower margins for natural gas liquids (NGL) extraction in ATCO Midstream.

**Revenues for the three months ended March 31, 2009**, increased primarily due to increased international operations and the impact of the Fort Hills Settlement in ATCO Structures, increased business activity in ATCO Frontec's operations, Alberta Utilities Commission (AUC) approved interim customer rates in ATCO Electric, the impact of the ATCO Gas GRA, and the ATCO Pipelines Negotiated Settlement. Also contributing to increased revenues were higher natural gas fuel purchases recovered on a "no-margin" basis, higher generation and higher availability resulting from the return to service of the Barking generating plant in March 2008 and favourable merchant conditions in ATCO Power's U.K. operations. These increases were partially offset by decreased Canadian manufacturing operations in ATCO Structures, the timing and demand for natural gas storage resulting in lower storage fees and lower NGL prices in ATCO Midstream, the 2008 recognition of insurance proceeds from the 2007/2008 Barking outage in ATCO Power's U.K. operations, and the impact of applying new accounting standards in ATCO Electric, ATCO Gas and ATCO Pipelines relating to the recognition of revenues for rate regulated assets. These new accounting standards pertain to the recognition of revenues, and depreciation expense and had no impact on earnings.

**Funds generated by operations for the three months ended March 31, 2009**, were essentially unchanged from the prior year.

ATCO Ltd., an Alberta-based worldwide organization of companies with assets of approximately \$9.8 billion and more than 7,700 employees, is comprised of three main business divisions: Power Generation, Utilities (natural gas and electricity transmission and distribution) and Global Enterprises (industrial manufacturing, technology, logistics and energy services).



N.C. Southern  
President & Chief Executive Officer  
Deputy Chair



R.D. Southern  
Chairman of the Board

**ATCO Ltd.**  
**Management’s Discussion and Analysis (MD&A)**  
**For the Three Months Ended March 31, 2009**

This MD&A should be read in conjunction with the Company’s unaudited interim consolidated financial statements for the three months ended March 31, 2009, and the audited consolidated financial statements and MD&A for the year ended December 31, 2008 (2008 MD&A). **Information contained in the 2008 MD&A that is not discussed in this document remains substantially unchanged.** This MD&A is dated April 30, 2009. Additional information relating to the Company, including the Company’s annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

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**Glossary**

**Adjusted Earnings** means earnings attributable to Class I and Class II Shares after adjustment for items that are not in the normal course of business or day-to-day operations. These items are usually of a non-

recurring or one-time nature. Refer to Reconciliation of Earnings Attributable to Class I and Class II Shares and Adjusted Earnings section for a description of these items (non-GAAP item).

**Adjusted Earnings per Class I and Class II Share** is calculated by dividing Adjusted Earnings for a period by the weighted average number of Class I and Class II Shares outstanding during the period (non-GAAP item).

**AESO** means the Alberta Electric System Operator.

**AFUDC** means an allowance for funds used during construction at rates approved by the AUC for debt and equity capital. AFUDC is included in interest and other income.

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

**AUC** means the Alberta Utilities Commission and its predecessor, the Alberta Energy and Utilities Board.

**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.

**Class I Shares** means Class I Non-Voting Shares of the Company.

**Class II Shares** means Class II Voting Shares of the Company.

**Company** means ATCO Ltd. 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.

**GAAP** means Canadian generally accepted accounting principles.

**GHG** means any greenhouse gas which has the potential to retain heat in the atmosphere, including water vapour, carbon dioxide, methane, nitrous oxide and hydrofluorocarbons.

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

**Mark-to-market** means assigning a value to a contract or financial instrument based on the current market prices for that contract or instrument or similar contracts or instruments.

**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.

**Placeholder** means an AUC approved interim cost which has been included in utility customer rates pending an AUC review in a separate or future proceeding. This cost is subject to adjustment once the separate or future proceeding is completed and may result in refunds to or recoveries from customers.

**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.

## Company Overview

The consolidated financial statements include the accounts of ATCO Ltd. and all of its subsidiaries. The principal subsidiaries are Canadian Utilities Limited (Canadian Utilities), of which ATCO Ltd. owns 52.3% (39.4% of the Class A non-voting shares and 78.2% of the Class B common shares), and ATCO Structures Inc., ATCO Noise Management Ltd., and ATCO Resources Ltd., of which ATCO Ltd. owns 100% of the Class A non-voting shares and Class B common shares. The consolidated financial statements have been prepared in accordance with GAAP and the reporting currency is the Canadian dollar.

The Company operates in the following business segments:

The **Utilities** Business Group includes:

- the regulated distribution of natural gas by ATCO Gas;
- the regulated transmission and distribution of water by CU Water;
- the regulated transmission of natural gas by ATCO Pipelines;
- the regulated distribution and transmission of electric energy by ATCO Electric and its subsidiaries, Northland Utilities (NWT), Northland Utilities (Yellowknife) and Yukon Electrical; and
- the provision of non-regulated projects by ATCO Energy Solutions.

The **Power Generation** Business Group includes:

- the non-regulated supply of electricity and cogeneration steam by ATCO Power and ATCO Resources;
- the regulated supply of electricity by Alberta Power (2000); and
- the sale of fly ash and other combustion byproducts produced in coal-fired electrical generating plants by ASHCOR Technologies.

The **Global Enterprises** Business Group includes:

- the non-regulated gathering, processing, storage, purchase and sale of natural gas by ATCO Midstream;
- the provision of project management and technical services for customers in the resource, defence and telecommunications sectors by ATCO Frontec;

- the development, operation and support of information systems and technologies, and the provision of billing services, payment processing, credit, collection and call centre services by ATCO I-Tek;
- the sale of travel services to both business and consumer sectors by ATCO Travel;
- the manufacture, sale and lease of transportable workforce shelter and space rentals products by ATCO Structures (Industrials segment); and
- the design, supply and construction of noise abatement solutions for industrial facilities by ATCO Noise Management (Industrials segment).

For financial reporting purposes ATCO Midstream, ATCO Frontec, ATCO I-Tek and ATCO Travel are included in the Global Enterprises segment and ATCO Structures and ATCO Noise Management are included in the Industrials segment.

The **Corporate and Other** segment includes cash balances and commercial real estate owned by ATCO Ltd., ATCO Investments and Canadian Utilities in Alberta.

Transactions between business segments are eliminated in all reporting of the Company's consolidated financial information. For additional information on the Company's business segments, refer to Note 10 to the unaudited interim consolidated financial statements for the three months ended March 31, 2009.

## **POTENTIAL TRANSACTION COMBINING ATCO STRUCTURES AND ATCO FRONTTEC**

The Company's Board of Directors has established a special committee of independent directors of the Board to review a transaction that would combine the operations of ATCO Structures, a wholly owned subsidiary of the Company, and of ATCO Frontec Corp., a wholly-owned subsidiary of Canadian Utilities. The mandate of the special committee is to investigate, review, assess and evaluate the proposed transaction with the assistance of independent legal and financial advisors. The proposed transaction is subject to Board of Directors', regulatory and other applicable approvals and there can be no assurance that acceptable terms will be concluded or that this transaction will be completed. It is now expected that the committee will make a recommendation to the Board of Directors in the first six months of 2009.

The proposed transaction would allow ATCO Frontec and ATCO Ltd.'s wholly-owned subsidiary, ATCO Structures, to pursue a more efficient working relationship in response to a changing global market. ATCO Structures manufactures, sells and leases workforce housing and modular buildings around the world. ATCO Frontec specializes in the rapid mobilization and delivery of site support and camp services to the resource, defence and telecommunications sectors.

## **FINANCIAL MARKETS**

Significant challenges are currently being experienced in domestic and international financial markets. These challenges are having an impact on the ability of certain borrowers to finance existing operations and capital expenditure programs. As discussed elsewhere in this MD&A, the Utilities Business Group has a capital expenditure program of \$2.0 billion and, depending on infrastructure spending, could be as much as \$4.0 billion over the next three years. The Company completed a \$270 million debenture issue and a \$160 million preferred share issue in March 2009 to fund the 2009 portion of the Utilities Business Group's capital expenditure program and to fund scheduled maturities of previous debenture issues. On January 28, 2009, ATCO Power entered into an Australian \$100 million credit facility with the Commonwealth Bank of Australia to finance the design and construction of the Karratha generating plant located in Western Australia (Karratha Financing). In addition, the Company has cash balances of approximately \$1.3 billion and available committed and uncommitted lines of credit of approximately \$1.2 billion which can be utilized for general corporate purposes.

While the current financial situation has not directly impacted the Company's ability to fund capital projects and ongoing operations, future borrowing may be impacted by these financial markets through increased carrying costs and the ability to raise debt and equity capital. The Company is unable to determine what future changes in the financial markets could occur and how these changes could affect the Company. Deterioration in domestic and international economic activity may impact the operations of the Company.

## **COMMODITY PRICES**

Commodity prices, particularly oil and natural gas prices, have fallen significantly since September 2008. These lower prices have had an impact on the Company's operations, particularly the lower frac spreads on ATCO Midstream's NGL business and the decline in the resource sector on ATCO Structures. The Company is unable to determine what future changes in commodity markets could occur and how these changes could affect the Company.

## **PENSION PLANS**

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

Recent declines in stock and bond markets have resulted in a reduction in the value of the defined benefit pension plans' assets, creating funding deficits. The Company has not made material contributions since April 1, 1996, as a result of the defined benefit plans' surplus positions which have been used to fund the employer's contributions to the defined contribution component of the pension plans. Based on the most recent actuarial valuations for funding purposes dated December 31, 2006, and December 31, 2007, and recent changes in government regulations resulting from the white paper issued by the government of Alberta in 2008, the Company does not anticipate that it will be required to make material contributions to its pension plans in 2009.

Depending on the outcome of future actuarial valuations, material current service and deficit funding contributions will likely be required to resume in 2010. The amounts are not known at this time. For purposes of any funding requirements pertaining to utility operations, the AUC has directed that the cash basis of accounting be used in customer rate applications. Accordingly, the Company includes the cost of funding in its rate applications to the AUC, thereby, with the consent of the AUC, recovering the costs of funding its pension plans for utility operations from utility customers.

## **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 Company 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.

## **Non-GAAP Measures**

The Company uses the measures “funds generated by operations”, “Adjusted Earnings” and “Adjusted Earnings per Class I and Class II Share” in this MD&A. These measures do not have any standardized meaning under GAAP 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 Company’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 is defined as earnings attributable to Class I and Class II Shares after adjustment for items that are not in the normal course of business or day-to-day operations. These items are usually of a non-recurring or one-time nature. Management believes Adjusted Earnings allow for a more effective analysis of operating performance and trends. A reconciliation of Adjusted Earnings to earnings attributable to Class I and Class II Shares is presented in the Results of Operations – Reconciliation of Earnings Attributable to Class I and Class II Shares and Adjusted Earnings section.

## **Internal Control Over Financial Reporting**

There was no change in the Company’s internal control over financial reporting that occurred during the period beginning on January 1, 2009, and ended on March 31, 2009, that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

# Results of Operations

## SELECTED QUARTERLY INFORMATION

(\$ millions except per share data)	For the Three Months Ended <sup>(1) (2) (3)</sup>			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31
<b>2009</b>				
Revenues	875.1	-	-	-
Earnings attributable to Class I and Class II Shares	94.6	-	-	-
Earnings per Class I and Class II Share	1.64	-	-	-
Diluted earnings per Class I and Class II Share	1.63	-	-	-
Adjusted Earnings <sup>(4)</sup>	96.1	-	-	-
Adjusted Earnings per Class I and Class II Share <sup>(4)</sup>	1.66	-	-	-
<b>2008 <sup>(5)</sup></b>				
Revenues	834.5	761.3	763.4	906.4
Earnings attributable to Class I and Class II Shares	92.5	52.4	52.5	74.8
Earnings per Class I and Class II Share	1.60	0.91	0.91	1.29
Diluted earnings per Class I and Class II Share	1.58	0.90	0.90	1.29
Adjusted Earnings <sup>(4)</sup>	92.3	46.3	54.9	72.8
Adjusted Earnings per Class I and Class II Share <sup>(4)</sup>	1.60	0.80	0.95	1.26
<b>2007 <sup>(5)</sup></b>				
Revenues	-	691.7	605.1	775.4
Earnings attributable to Class I and Class II Shares	-	55.0	48.7	64.0
Earnings per Class I and Class II Share	-	0.94	0.84	1.11
Diluted earnings per Class I and Class II Share	-	0.93	0.83	1.09
Adjusted Earnings <sup>(4)</sup>	-	45.1	47.8	47.3
Adjusted Earnings per Class I and Class II Share <sup>(4)</sup>	-	0.77	0.82	0.82

### Notes:

- <sup>(1)</sup> There were no discontinued operations or extraordinary items during these periods.
- <sup>(2)</sup> 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 Company's operations, changes in electricity prices in Alberta, the timing and demand of natural gas storage capacity sold, changes in natural gas storage fees, changes in NGL prices and natural gas costs, the timing of rate decisions and changes in market conditions impacting ATCO Structures' workforce housing and space rentals operations.
- <sup>(3)</sup> The above data (other than Adjusted Earnings and Adjusted Earnings per Class I and Class II Share) has been extracted from the financial statements, which have been prepared in accordance with GAAP, and the reporting currency is the Canadian dollar.
- <sup>(4)</sup> Refer to Significant Non-Operating Financial Items section for a description of the adjustments made to earnings attributable to Class I and Class II Shares to obtain Adjusted Earnings.
- <sup>(5)</sup> Certain numbers have been restated to reflect changes in accounting policies relating to goodwill and intangible assets (refer to Changes in Accounting Policies - Goodwill and Intangible Assets section).

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 2008 MD&A remain substantially unchanged, except for:

- the impact of adopting new accounting standards for the recognition of revenues and expenses for regulated assets in ATCO Electric, ATCO Gas and ATCO Pipelines (refer to Changes in Accounting Policies – Rate Regulated Operations section).

## RECONCILIATION OF EARNINGS ATTRIBUTABLE TO CLASS I AND CLASS II SHARES AND ADJUSTED EARNINGS

**Adjusted Earnings** are referred to in various sections of this MD&A. The following table reconciles Adjusted Earnings, which are earnings attributable to Class I and Class II Shares after adjustments for items that are not in the normal course of business or day-to-day operations. These items are usually of a non-recurring or one-time nature. A description of each adjustment is provided in the Significant Non-Operating Financial Items section.

(\$ millions)	For the Three Months Ended March 31		
	2009	2008	Change to 2009 (2009-2008)
Earnings attributable to Class I and Class II Shares	94.6	92.5	2%
Mark-to-Market Adjustment <sup>(1)</sup>	1.5	(0.2)	850%
Adjusted Earnings	96.1	92.3	4%

## SIGNIFICANT NON-OPERATING FINANCIAL ITEMS

Consolidated and segmented financial results include the following significant non-operating financial items.

### (1) Natural Gas Purchase Contracts and Associated Power Generation Revenue Contract Liability (Mark-to-Market Adjustment)

ATCO Power has long term contracts for the supply of natural gas for certain of its power generation projects. Under the terms of certain of these contracts, the volume of natural gas that the Company is entitled to take is in excess of the natural gas required to generate power. As the excess volume of natural gas can be sold, the Company is required to designate these entire contracts as derivative instruments. The Company recognized a non-current derivative asset and records mark-to-market adjustments through earnings as the fair values of these contracts change with changes in future natural gas prices. These natural gas purchase contracts mature in November 2014.

As all but the excess volume of natural gas is committed to the Company's power generation obligations, the Company could not recognize the entire fair values of these natural gas purchase contracts in its revenues. Consequently, the Company has recognized a provision for a power generation revenue contract and records adjustments to the power generation revenue contract liability concurrently with the mark-to-market adjustments for the natural gas purchase contracts derivative asset. This power generation revenue contract liability is included in deferred credits in the consolidated balance sheet.

The mark-to-market adjustment for the derivative asset and the corresponding adjustment for the associated power generation revenue contract liability decreased earnings by \$1.5 million, net of non-controlling interests, for the three months ended March 31, 2009 (2008 – increase of \$0.2 million). At March 31, 2009, the natural gas purchase contracts derivative asset was \$45.3 million (2008 – \$71.9 million) and the power generation revenue contract liability was \$33.7 million (2008 – \$53.2 million).

## CONSOLIDATED REVENUES AND EARNINGS

**Revenues** for the three months ended March 31, 2009, **increased** by \$40.6 million (5%) compared to the same period in 2008. This increase was primarily attributable to a \$26.7 million (7%) increase in revenues in the Utilities segment, a \$16.4 million (8%) increase in revenues in the Power Generation segment and a \$4.3 million (5%) increase in revenues in the Industrials segment. These increases were partially offset by a \$19.9 million (9%) decrease in the Global Enterprises segment.

The **increase in revenues** was primarily attributable to increased international operations and the impact of the Fort Hills Settlement in ATCO Structures (refer to Segmented Information – Industrials – ATCO Structures – Fort Hills Settlement section), increased business activity in ATCO Frontec's operations, AUC approved interim customer rates in ATCO Electric (ATCO Electric GTA), the impact of the ATCO Gas 2008/2009 general rate application decision (ATCO Gas GRA) and higher AUC approved customer rates resulting from ATCO Pipelines' negotiated settlement decision for 2008 and 2009 (ATCO Pipelines Negotiated Settlement). Also contributing to increased revenues were higher natural gas fuel purchases recovered on a "no-margin" basis, higher generation and higher availability resulting from the return to service of the Barking generating plant in March 2008 (refer to Segmented Information – Power Generation – Unplanned Outage at Barking Generating Plant section), and favourable merchant conditions in ATCO Power's U.K. operations. These increases were partially offset by decreased Canadian manufacturing operations in ATCO Structures, the timing and demand for natural gas storage and lower NGL prices in ATCO Midstream, the impact of applying new accounting standards in ATCO Electric, ATCO Gas and ATCO Pipelines relating to the recognition of revenues for rate regulated assets (refer to Changes in Accounting Policies – Rate Regulated Operations section), and the 2008 recognition of insurance proceeds from the 2007/2008 Barking outage in ATCO Power's U.K. operations.

**Earnings** for the three months ended March 31, 2009, were \$94.6 million, an **increase** of \$2.1 million (2%) over the same period of 2008, including the impact of the adjustments identified in the Significant Non-Operating Financial Items section.

For the three months ended March 31, 2009, **Adjusted Earnings** were \$96.1 million, an **increase** of \$3.8 million (4%) over the same period of 2008. The primary reasons for the increased Adjusted Earnings were increased international operations and the impact of the Fort Hills Settlement in ATCO Structures. Also contributing to higher Adjusted Earnings was the impact of higher AFUDC associated with increased investment in transmission infrastructure in Alberta in ATCO Electric, the impact of the ATCO Gas GRA, and the impact of the ATCO Pipelines Negotiated Settlement. Increased generation due to favourable merchant conditions in ATCO Power's U.K. operations, the end of the 2007/2008 Barking outage in March 2008 and increased business activity in ATCO Frontec's operations also contributed to higher adjusted earnings. These increases were partially offset by decreased Canadian manufacturing operations in ATCO Structures, the 2008 recognition of insurance proceeds from the 2007/2008 Barking outage in ATCO Power's U.K. operations, and the timing and demand for natural gas storage resulting in lower storage fees, and lower margins for NGL extraction in ATCO Midstream.

**Interest and other income** for the three months ended March 31, 2009, **decreased** by \$5.9 million to \$9.3 million, mainly due to the mark-to-market adjustment in ATCO Power and lower rates of interest earned on lower cash balances, partially offset by increased equity earnings in international operations in ATCO Structures and higher AFUDC associated with increased investment in transmission infrastructure in Alberta in ATCO Electric.

## CONSOLIDATED EXPENSES

(\$ millions)	For the Three Months Ended March 31		
	2009	2008	Change to 2009 (2009-2008)
Operating expenses:			
Natural gas supply	4.7	13.7	(66%)
Purchased power	15.7	15.3	3%
Operation and maintenance	350.9	301.2	17%
Selling and administrative	62.5	56.2	11%
Franchise fees	62.3	62.7	(1%)
	<b>496.1</b>	<b>449.1</b>	<b>10%</b>
Depreciation and amortization	93.7	98.8	(5%)
Interest	60.5	59.0	3%
Dividends on preferred shares	2.2	2.2	0%
Income taxes	59.5	68.4	(13%)
Non-controlling interests	77.8	79.7	(2%)

**Operating expenses** for the three months ended March 31, 2009, **increased** by \$47.0 million (10%) over the same period in 2008. Natural gas supply expense decreased primarily as a result of lower purchases of natural gas for ATCO Midstream's customers, partially offset by increased flow-through purchases of natural gas in NGL extraction operations in ATCO Midstream. Operation and maintenance expenses were higher primarily as a result of increased business activity in ATCO Structures' South American operations, growth in ATCO Electric, ATCO Gas and ATCO Pipelines, higher operating and fuel costs on a "no-margin" basis in ATCO Power, and increased business activity in ATCO Frontec. These increases were partially offset by decreased Canadian manufacturing activities in ATCO Structures and lower natural gas prices and volumes in NGL extraction operations in ATCO Midstream. Selling and administrative expenses increased primarily as a result of the impact of inflation and increased employment costs resulting from increased growth, partially offset by lower share appreciation rights expense resulting from changes in ATCO Class I Share prices since December 31, 2008.

For the three months ended March 31, 2009, **depreciation and amortization expenses decreased** by \$5.1 million (5%) over the same period in 2008, primarily due to the impact of applying new accounting standards in ATCO Electric, ATCO Gas and ATCO Pipelines relating to the treatment of future removal and site restoration costs for rate regulated assets (refer to Changes in Accounting Policies – Rate Regulated Operations section). These decreases were partially offset by capital additions in 2008 and 2009 in the Utilities segment and in ATCO Frontec.

**Interest expense** for the three months ended March 31, 2009, **increased** by \$1.5 million (3%) over the same period in 2008, primarily due to increased amounts of debt outstanding (net of redemptions) resulting from new financings issued in 2008 and 2009 to fund capital expenditures in the Utilities segment, partially offset by the repayment of ATCO Power's and ATCO Resources' non-recourse financings in 2008 and 2009.

For the three months ended March 31, 2009, **income taxes decreased** by \$8.9 million (13%) over the same period in 2008, primarily due to a \$2.6 million income tax adjustment relating to the purchase of tax losses in the U.K., higher tax deductions in Utilities operations resulting from the flow-through method of income tax accounting, lower earnings before taxes, and lower corporate tax rates in 2009.

## SEGMENTED INFORMATION

### For the Three Months Ended March 31

(\$ millions)	Utilities	Power Generation	Global Enterprises	Industrials	Corporate & Other	Intersegment Eliminations	Total
<b>2009</b>							
Revenues	<b>396.2</b>	<b>228.7</b>	<b>194.2</b>	<b>97.2</b>	<b>5.7</b>	<b>(46.9)</b>	<b>875.1</b>
Earnings attributable to Class I and Class II Shares	<b>42.1</b>	<b>19.3</b>	<b>18.5</b>	<b>15.2</b>	<b>(0.5)</b>	-	<b>94.6</b>
Mark-to-Market Adjustment <sup>(1)</sup>	-	<b>1.5</b>	-	-	-	-	<b>1.5</b>
Adjusted Earnings	<b>42.1</b>	<b>20.8</b>	<b>18.5</b>	<b>15.2</b>	<b>(0.5)</b>	-	<b>96.1</b>
<b>2008</b>							
Revenues	369.5	212.3	214.1	92.9	4.3	(58.6)	834.5
Earnings attributable to Class I and Class II Shares	34.8	20.2	25.8	8.9	3.2	(0.4)	92.5
Mark-to-Market Adjustment <sup>(1)</sup>	-	(0.2)	-	-	-	-	(0.2)
Adjusted Earnings	34.8	20.0	25.8	8.9	3.2	(0.4)	92.3

*Note:*

<sup>(1)</sup> Refer to Significant Non-Operating Financial Items section for a description of the adjustments.

### Utilities

ATCO Electric, ATCO Gas and ATCO Pipelines are regulated primarily by the AUC, which administers acts and regulations covering such matters as rates, financing, accounting, construction, operation and service area. These utilities are subject to a cost of service regulatory mechanism under which the AUC establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization and income taxes, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment, or rate base. Rate base for each utility is the aggregate of the AUC approved investment in property, plant and equipment, less accumulated depreciation, and contributions by utility customers for extensions to plant, plus an allowance for working capital. The utilities earn a return on rate base intended to meet the cost of the debt and preferred share components of rate base and to provide share owners with a fair return on the common equity component of rate base.

Utilities **revenues** for the three months ended March 31, 2009, **increased** by \$26.7 million (7%) over the same period in 2008. The increase was primarily due to AUC approved interim customer rates associated with the ATCO Electric GTA, the impact of the ATCO Gas GRA, and higher AUC approved customer rates resulting from the ATCO Pipelines Negotiated Settlement. These increases were partially offset by the impact of applying new accounting standards in ATCO Electric, ATCO Gas and ATCO Pipelines relating to the recognition of revenues for rate regulated assets (refer to Changes in Accounting Policies – Rate Regulated Operations section).

For the three months ended March 31, 2009, **earnings** and **Adjusted Earnings** were \$42.1 million, an **increase** of \$7.3 million (21%) over the same period of 2008. The primary reasons for higher Adjusted Earnings were the impact of higher AFUDC associated with increased investment in transmission

infrastructure in Alberta in ATCO Electric, and the impact of the ATCO Gas GRA and the ATCO Pipelines Negotiated Settlement.

## **Regulatory Developments**

### **Generic Cost of Capital**

In February 2008, the AUC initiated a generic proceeding to determine whether the standardized rate of return methodology and the utility capital structures should be reviewed. A regulatory process has been established by the AUC with a hearing rescheduled for May 19, 2009, to review the generic return on equity formula as well as to review the capital structure for each of the Alberta utilities. The AUC also indicated that any changes which result from this proceeding would be applied beginning in 2009. As ATCO Gas filed a general rate application for 2008 and 2009, a separate module within the generic proceeding will address 2008 cost of capital issues relating to the capital structure for ATCO Gas, as inclusion of these issues was removed from its 2008/2009 general rate application. The changes for 2008 and 2009 will not apply to ATCO Pipelines since cost of capital issues were included in the ATCO Pipelines Negotiated Settlement (refer to ATCO Pipelines – 2008 and 2009 General Rate Application section).

### **ATCO Electric**

#### **2009 and 2010 General Tariff Application**

In July 2008, ATCO Electric filed a general tariff application with the AUC for 2009 and 2010 requesting, among other things, increased revenues to recover increased financing, depreciation and operating costs associated with increased rate base in Alberta. ATCO Electric filed an application requesting interim refundable rates pending the AUC's decision on the application. In December 2008, ATCO Electric received a decision from the AUC approving interim refundable rate increases amounting to 50% of the requested increase for transmission operations and 25% of the requested increase for distribution operations. A hearing was held in February 2009, with a decision expected by the third quarter of 2009.

On March 11, 2009, ATCO Electric filed an application requesting an increase to its approved interim refundable rates for its distribution operations. A decision from the AUC was received on April 22, 2009, which resulted in an increase to the interim refundable rates to 67% of the requested rate increase.

### **ATCO Gas**

#### **2008 and 2009 General Rate Application**

In November 2007, ATCO Gas filed a general rate application with the AUC for 2008 and 2009 requesting, among other things, increased revenues to recover increased financing, depreciation and operating costs associated with increased rate base in Alberta. ATCO Gas also filed an application requesting interim adjustable rates pending the AUC's decision on the general rate application. In December 2007, ATCO Gas received a decision from the AUC approving interim adjustable rate increases amounting to 50% of ATCO Gas' requested revenue increase. On November 13, 2008, the AUC issued a decision on ATCO Gas' 2008 and 2009 general rate application. The decision resulted in an increase to ATCO Gas' 2009 annual earnings of approximately \$3 million as a result of an increase in rate base. In the decision, the AUC used placeholders for common equity capitalization ratios, 2009 information and technology and customer care and billing costs and income tax amounts. The final amounts for these placeholders will be determined by the AUC in subsequent proceedings.

### **Deferred Gas Account**

ATCO Gas filed an application with the AUC to address, among other things, corrections required to historical transportation imbalances (the process whereby third party natural gas supplies are reconciled to amounts actually shipped in the Company's pipelines) that have impacted ATCO Gas' deferred gas account. In April 2005, the AUC issued a decision resulting in a 15% decrease in the transportation imbalance adjustments sought by ATCO Gas. The decision resulted in ATCO Gas recovering \$9.2 million in natural gas supply costs from customers. The City of Calgary filed a leave to appeal the AUC's decision and ATCO Gas filed a cross appeal of the AUC's decision. On July 7, 2006, the Alberta Court of Appeal issued its decision granting the City of Calgary's leave to appeal on the question of whether the AUC erred in law or jurisdiction in assuming that it had the authority to allow recovery in 2005 of costs relating to prior years. At a hearing on April 13, 2007, the Alberta Court of Appeal declined to consider the City of Calgary's appeal and referred the jurisdictional question back to the AUC. On January 3, 2008, the AUC issued a decision confirming its jurisdiction to approve the prior period adjustment it had approved previously. In February 2008, the City of Calgary filed a leave to appeal the AUC's January 3, 2008, decision with the Alberta Court of Appeal. The hearing for this leave to appeal occurred on December 16, 2008 and on April 21, 2009, the Alberta Court of Appeal issued a decision granting the City of Calgary's leave to appeal.

### **Carbon Natural Gas Storage Facility**

ATCO Gas owns a 43.5 petajoule natural gas storage facility located at Carbon, Alberta. ATCO Gas has leased the entire storage capacity of the facility to ATCO Midstream. ATCO Gas has taken the position that the facility is no longer required for utility service and should be removed from regulation.

In the process of obtaining AUC approval, a number of significant events have occurred. In July 2004, the AUC initiated a written process to consider its role in regulating the operations of the facility. In June 2005, the AUC issued a decision with respect to this process. In addition to addressing other matters, the decision found that the AUC has the authority, when necessary in the public interest, to direct a utility to utilize a particular asset in a specific manner, even over the objection of the utility. ATCO Gas filed for leave to appeal the decision with the Alberta Court of Appeal.

In October 2005, the AUC established processes to review the use of the facility for utility purposes. A hearing to review the use of the facility for revenue generation was held in April 2006, and a hearing to review the use of the facility for load balancing was held in June 2006. On October 11, 2006, the AUC issued a decision confirming ATCO Gas' position that the facility is no longer required for utility service with respect to the use of the facility for load balancing purposes. The City of Calgary then filed a leave to appeal and a review and variance application of this decision. On November 3, 2008, the AUC denied the City of Calgary's request that it review and vary its decision that the facility is no longer required for utility service with respect to the use of the facility for load balancing purposes.

On February 5, 2007, the AUC issued a decision in which it determined that a legitimate utility use for the facility is that it be used for purposes of generating revenues to offset customer rates. This decision required ATCO Gas to maintain the status quo with respect to the use of the facility including the lease of the entire facility to ATCO Midstream.

On February 26, 2007, ATCO Gas filed for leave to appeal this decision with the Alberta Court of Appeal. The Alberta Court of Appeal granted ATCO Gas' leave to appeal on October 24, 2007. On May 9, 2008, the Alberta Court of Appeal heard the appeal and subsequently issued a decision on May 27, 2008. The Court found that the AUC had erred in law or jurisdiction when it included the Carbon storage facility in rate base for the purpose of generating revenues to offset customer rates. On August 22, 2008, the City of Calgary filed a leave to appeal this decision with the Supreme Court of Canada. On December

4, 2008, the Supreme Court of Canada dismissed the City of Calgary's application for leave to appeal, thus upholding the Alberta Court of Appeal's May 27, 2008 decision.

As a result of the Alberta Court of Appeal's May 27, 2008 decision, ATCO Gas requested and received approval from the AUC to suspend rate riders to customer rates on an interim basis effective July 1, 2008. These riders were approved by the AUC in the past to distribute net revenues related to the facility to customers. As a result of the suspension of the rate riders, ATCO Gas recognized revenues of \$1.0 million and earnings of \$0.7 million in 2009 for the period January 1, 2009 to March 31, 2009. Due to certain factors, revenues and earnings from this matter for this period are not necessarily indicative of revenues or earnings on an annual basis.

On July 11, 2008, ATCO Gas filed a compliance application with the AUC requesting removal of the facility from the utility rate base and revenue requirement effective April 1, 2005, consistent with the Alberta Court of Appeal decision. Certain aspects of the application were updated on January 15, 2009. This application, in addition to the amounts recognized above, is seeking to recover from customers an additional \$30.3 million, excluding interest, related to those amounts refunded to customers over the April 1, 2005, to June 30, 2008, period. This additional \$30.3 million and related interest has not been recorded in ATCO Gas' earnings and is pending an AUC decision on the compliance application. On September 29, 2008, the AUC suspended ATCO Gas' compliance application pending the completion of the Utility Asset Disposition Rate Review Proceeding. On October 15, 2008, ATCO Gas filed an application with the Alberta Court of Appeal to direct the AUC to comply with its May 27, 2008, decision. ATCO Gas has withdrawn its October 15, 2008, application to the Alberta Court of Appeal as a result of the AUC recommencing the Carbon proceeding. A pre-hearing conference occurred on December 16, 2008, and on January 9, 2009, the AUC issued a decision establishing a final issues list to remove the Carbon facility from rate base. The AUC set a proceeding schedule with a hearing scheduled to commence on March 16, 2009. On March 6, 2009, the AUC suspended the proceeding schedule as previously established due to unanticipated delays in the process. The AUC determined that it would instead consider written submissions on three preliminary questions related to the removal of the Carbon assets from regulation. Once a determination on those questions has been made by the AUC, it will establish a further process to address the remaining outstanding matters. At this time it is unknown what the final outcome of these processes will be.

As part of the 2008-2009 general rate application, in a compliance application submitted to the AUC on January 19, 2009, ATCO Gas reduced its rate increase applicable to its south customers by \$7.6 million related to the production and storage charge that was included in ATCO Gas' rates from January through June 2008 as a result of excluding any costs for the Carbon facility in its general rate application. The impact of this \$7.6 million reduction to revenues could be a \$5.3 million decrease to ATCO Gas' earnings when a decision on the Carbon compliance application is received.

## **ATCO Pipelines**

### **2008 and 2009 General Rate Application**

In November 2008, ATCO Pipelines filed an application requesting the AUC approve a negotiated settlement with its customers of ATCO Pipelines' 2008 and 2009 revenue requirements. On March 18, 2009, the AUC issued a decision approving the negotiated settlement, including, among other things, a rate of return on common equity of 8.75% and a common equity ratio of 43% for each of 2008 and 2009. As a result of the decision, ATCO Pipelines recognized additional earnings over existing interim rates of \$4.5 million in the first quarter of 2009, of which \$3.7 million related to 2008.

## 2010, 2011 and 2012 Negotiated Settlement

On January 29, 2009, ATCO Pipelines filed a request with the AUC to negotiate with customers the settlement of the revenue requirements for the years 2010, 2011 and 2012.

### Other Matters

The Company has a number of other 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.

### Power Generation

Power Generation **revenues** for the three months ended March 31, 2009, **increased** by \$16.4 million (8%) over the corresponding period in 2008, primarily as a result of higher natural gas fuel purchases recovered on a “no-margin” basis, higher generation and higher availability resulting from the return to service of the Barking generating plant in March 2008, and favourable merchant conditions in ATCO Power’s U.K. operations. These increases were partially offset by the 2008 recognition of insurance proceeds from the 2007/2008 Barking outage and lower exchange rates on conversion of U.K. revenues to Canadian dollars in ATCO Power’s U.K. operations.

**Earnings** for the three months ended March 31, 2009, were \$19.3 million, a **decrease** of \$0.9 million (4%) over the corresponding period in 2008, including the impact of the adjustments identified in the Significant Non-Operating Financial Items section.

**Adjusted Earnings** for the three months ended March 31, 2009, were \$20.8 million, an **increase** of \$0.8 million (4%) over the corresponding period in 2008, primarily due to increased generation resulting from the end of the Barking outage in March 2008, favourable merchant conditions in ATCO Power’s U.K. operations, a \$2.6 million one-time income tax adjustment relating to the purchase of tax losses in the U.K., and improved merchant performance in ATCO Power’s and ATCO Resources’ Alberta generating plants. These increases were partially offset by the 2008 recognition of insurance proceeds from the 2007/2008 Barking outage and lower exchange rates on conversion of U.K. earnings to Canadian dollars in ATCO Power’s U.K. operations.

Availability of the Power Generation generating plants by geographic region is set forth below:

	For the Three Months Ended		
	March 31		
	2009	2008	Change to 2009 (2009-2008)
ATCO Power and ATCO Resources <sup>(1)</sup> :			
Canada	<b>98.0%</b>	98.6%	(0.6%)
U.K. <sup>(2)</sup>	<b>99.3%</b>	67.6%	31.7%
Australia	<b>96.2%</b>	99.9%	(3.7%)
Alberta Power (2000) <sup>(1)(3)</sup> :			
Canada	<b>85.9%</b>	92.0%	(6.1%)

Notes:

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

- <sup>(2)</sup> *The higher availability for the three months ended March 31, 2009, reflects the unplanned outage at the Barking generating plant which commenced on October 25, 2007. The plant returned to service in the first quarter of 2008.*
- <sup>(3)</sup> *The lower availability for the three months ended March 31, 2009, reflects a planned outage at the Sheerness generating plant.*

### **Unplanned Outage at Barking Generating Plant**

On October 25, 2007, ATCO Power's 1,000 MW Barking generating plant in the U.K. experienced an unplanned outage due to failure in a steam turbine generator. On March 6, 2008, ATCO Power announced that the plant had returned to service. This outage reduced the plant capacity to approximately 400 MWs during this period. The financial impact of the failure, prior to the recognition of insurance proceeds, was a decrease to ATCO Power's earnings of \$13.4 million (2007 earnings were decreased by \$8.6 million and 2008 first quarter earnings were reduced by \$4.8 million). Additionally, during the first quarter of 2008, \$8.1 million of business interruption and property damage insurance proceeds were recorded (\$3.3 million related to 2007 and \$4.8 million related to the first quarter of 2008).

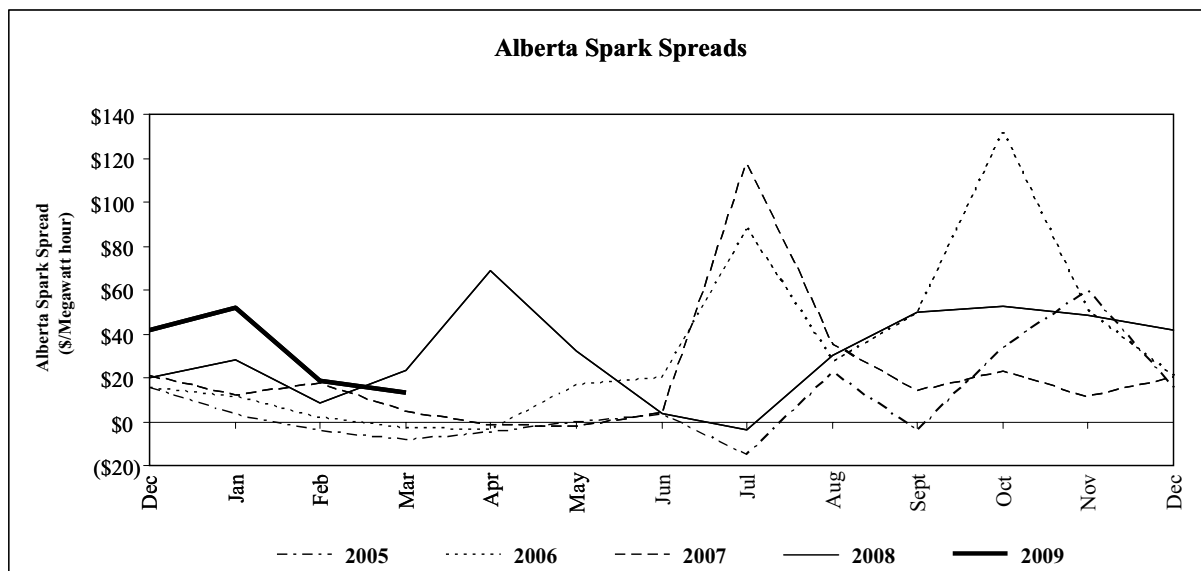
The financial impact of the failure, including the recognition of the insurance proceeds, was a decrease to the Company's consolidated earnings after non-controlling interests of \$4.5 million in 2007 and an increase to earnings of \$1.7 million for 2008, which was recorded in the first quarter of 2008. The final insurance settlement will be determined once repairs associated with the outage are complete, which is expected to be in the fourth quarter of 2009.

### **Other Power Generation Developments**

The majority of ATCO Power's and ATCO Resources' 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. Alberta Power Pool electricity prices averaged \$63.28 per MWh for the three months ended March 31, 2009, compared to average prices of \$76.95 per MWh in the corresponding period of 2008. Natural gas prices averaged \$4.67 per GJ for the three months ended March 31, 2009, compared to average prices of \$7.56 per GJ in the corresponding period of 2008. These electricity and natural gas prices resulted in an average spark spread of \$28.25 per MWh for the three months ended March 31, 2009, compared to \$20.23 per MWh for the corresponding period of 2008.

Changes in spark spread affect the results of approximately 520 MW of plant capacity owned in Alberta by ATCO Power, ATCO Resources and Alberta Power (2000) out of a total Alberta-owned capacity of approximately 1,883 MW and approximately 70 MW of plant capacity owned in the U.K. by ATCO Power out of a total U.K.-owned capacity of approximately 262 MW and a worldwide owned capacity by ATCO Power, ATCO Resources and Alberta Power (2000) of approximately 2,732 MW.

The following chart demonstrates the volatility of Alberta spark spreads experienced by ATCO Power and ATCO Resources for the period of December 2004 to March 2009.



The Company'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 Company manages this volatility through its adoption of asset optimization strategies for bidding its merchant power into both the Alberta and U.K. power markets.

### **Alberta Power (2000)**

Under the terms of the PPAs, Alberta Power (2000) is subject to an incentive/penalty regime related to generating unit availability. Incentives are payable by the PPA counterparties for availability in excess of predetermined targets, and penalties are payable by Alberta Power (2000) when the availability targets are not achieved. These amounts are amortized based on estimates of future generating unit availability and future electricity prices over the term of the PPAs.

During the three months ended March 31, 2009, the **deferred availability incentive** account **decreased** by \$0.5 million to \$60.8 million, mainly due to a planned outage at the Sheerness generating plant. During the three months ended March 31, 2009, the amortization of deferred availability incentives, recorded in revenues, increased by \$1.5 million to \$4.5 million, primarily as a result of changes in assumptions related to the terms of the PPAs. Previous assumptions were based on a single term for the PPAs at the Battle River generating plant. These assumptions have been revised to coincide with the term of the Battle River individual unit PPAs. The change is expected to increase 2009 revenues by approximately \$3 million.

### **Global Enterprises**

Global Enterprises **revenues decreased** for the three months ended March 31, 2009, by \$19.9 million (9%), as compared with the corresponding period in 2008. Items that decreased revenues included lower storage revenues due to the timing and demand for natural gas storage and lower NGL prices in ATCO Midstream. These decreases were partially offset by increased business activity in ATCO Frontec's operations.

**Earnings and Adjusted Earnings** for the three months ended March 31, 2009, were \$18.5 million, a **decrease** of \$7.3 million (28%) over the corresponding period in 2008, primarily due to the timing and demand for natural gas storage resulting in lower storage fees, and lower margins for NGL extraction in

ATCO Midstream. These decreases were partially offset by increased business activity in ATCO Frontec's operations.

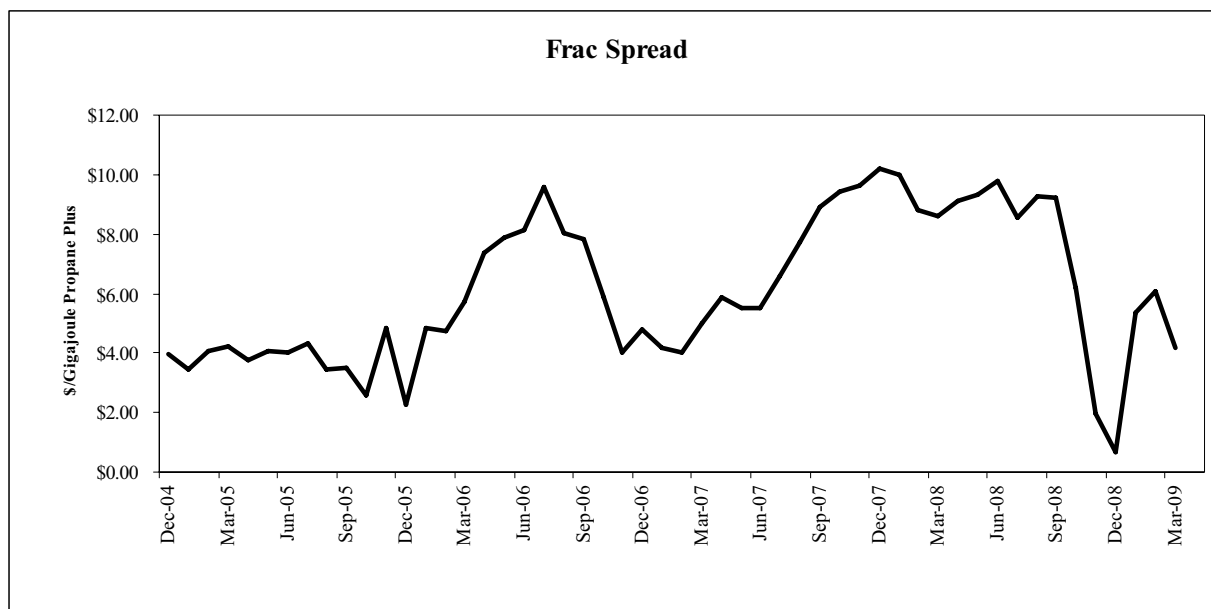
### **ATCO Midstream**

ATCO Midstream provides non-regulated natural gas gathering and processing, NGL extraction, and natural gas storage services to natural gas producers.

### **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 in its NGL extraction plants.

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 liquid extracted. Frac spreads can be volatile, as shown in the following graph, which illustrates monthly frac spreads during the period of December 2004 to March 2009.



*Note:*

<sup>(1)</sup> The above chart represents measurements of frac spreads in Alberta, as reported by an independent consultant.

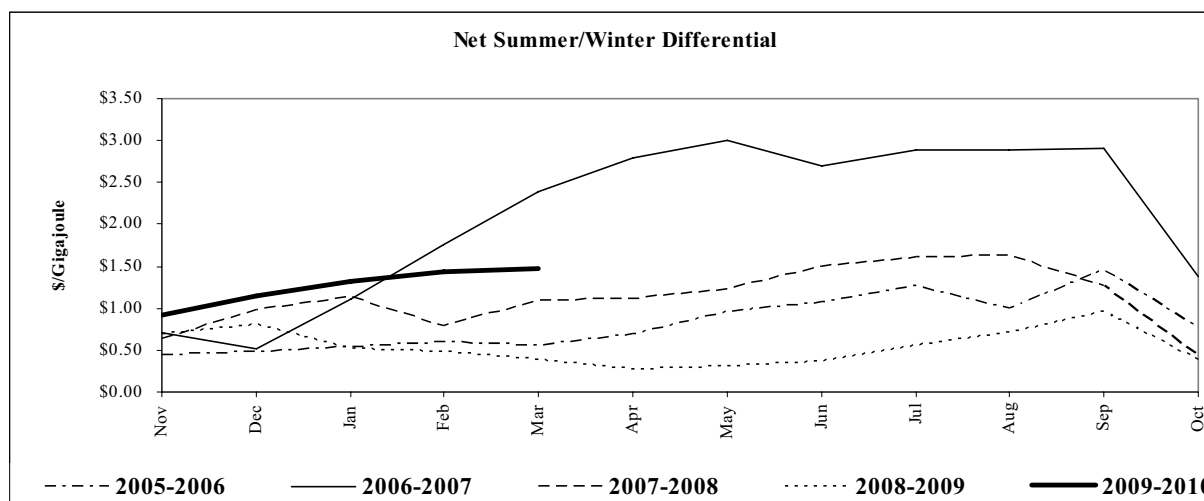
Lower prices for natural gas liquids were the primary cause of the lower frac spread in the first quarter of 2009, compared to the first quarter of 2008. Natural gas liquids prices are impacted by oil prices and the significant decrease in oil prices was the primary cause for lower NGL prices.

Fluctuations in frac spreads affect ATCO Midstream's earnings and cash flow from operations. A \$1.00 change in the average annual frac spread impacts ATCO Midstream's annual earnings by approximately \$6 million and impacts the Company's consolidated earnings by \$3.2 million after non-controlling interests.

## Storage Operations

The majority of ATCO Midstream's natural gas storage revenues come from seasonal differences (summer/winter) in the price of natural gas (price differentials). Recognition of ATCO Midstream's revenues is determined through the terms of the contractual arrangements.

Summer/winter natural gas price differentials can be volatile, as shown in the following graph, which illustrates a range of seasonal spreads experienced during the storage periods from 2005-2006 to 2009-2010. Price differentials at any point in time may not always 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.



ATCO Midstream faces risks associated with changes to seasonal natural gas commodity price differentials. To mitigate this risk, ATCO Midstream maintains portfolios of varied contracts, delivery terms, capacities and customers for its storage operations.

## ATCO Frontec

### Recent Developments

In the first quarter of 2009, ATCO Frontec completed negotiations pertaining to its Barge Landing Lodge joint venture (Barge Landing Lodge) with Suncor Energy Inc. (Suncor) to better match Suncor's short term camp accommodation needs. Under the original contract, Suncor was to utilize 1,148 rooms at the Barge Landing Lodge until June 30, 2009. Under the revised agreement, effective March 1, 2009, Suncor will utilize the remaining contractual commitment of rooms until June 30, 2010.

## Industrials

**Revenues** from the Industrials segment for the three months ended March 31, 2009, **increased** by \$4.3 million (5%) compared to the corresponding period in 2008, primarily due to increased international operations and the impact of the Fort Hills Settlement in ATCO Structures. This increase was partially offset by decreased Canadian manufacturing operations in ATCO Structures.

**Earnings and Adjusted Earnings** for the three months ended March 31, 2009, were \$15.2 million, an **increase** of \$6.3 million (71%) over the corresponding period in 2008, primarily due to increased

international operations and the impact of the Fort Hills Settlement in ATCO Structures. This increase was partially offset by decreased Canadian manufacturing operations in ATCO Structures.

## **ATCO Structures**

	<b>For the Three Months Ended March 31</b>		
	<b>2009</b>	2008	Change to 2009 (2009-2008)
Manufacturing hours	<b>155,220</b>	307,213	(49%)
<u>Space Rentals Fleet</u>			
Number of units	<b>12,956</b>	11,729	10%
Utilization (%)	<b>74</b>	82	(8%)
Average rental rate (\$ per month)	<b>560</b>	498	12%
<u>Workforce Housing Fleet</u>			
Number of units	<b>2,387</b>	2,153	11%
Utilization (%)	<b>80</b>	82	(2%)
Average rental rate (\$ per month)	<b>1,700</b>	1,771	(4%)

## **Fort Hills Settlement**

On December 2, 2008, ATCO Structures announced that its contract to design, manufacture and install the 2,000-person workforce housing camp for the Fort Hills Energy Limited Partnership (FHELP) oil sands project north of Fort McMurray had been cancelled. ATCO Structures had completed approximately 25 per cent of the contract and further construction is now stopped. In February 2009, ATCO Structures reached a cancellation settlement with FHELP.

## **Corporate and Other**

**Earnings** and **Adjusted Earnings** for the three months ended March 31, 2009, were \$(0.5) million, a **decrease** of \$3.7 million (116%) over the corresponding period in 2008. The primary reasons for the decrease were lower short term interest rates on cash investments and higher share appreciation rights expense resulting from changes in ATCO Class I Share prices since December 31, 2008.

## **Liquidity and Capital Resources**

A major portion of the Company's operating income and funds generated by operations is generated from its utility operations. Canadian Utilities and its wholly owned subsidiary, CU Inc., use short term bank loans and commercial paper borrowings to provide flexibility in the timing and amounts of long term financing. ATCO Ltd. has received dividends from Canadian Utilities which have been more than sufficient to service debt requirements and pay dividends.

## SUMMARY OF CASH FLOW

(\$ millions)	For the Three Months Ended March 31		
	2009	2008	Change to 2009 (2009-2008)
<b>Cash position, beginning of period</b>	<b>848.1</b>	822.3	3%
Cash provided by (used in)			
Operating activities:			
Funds generated by operations	<b>279.0</b>	280.6	(1%)
Changes in non-cash working capital	<b>54.4</b>	9.2	491%
Cash flow from operations	<b>333.4</b>	289.8	15%
Investing activities	<b>(258.7)</b>	(134.3)	93%
Financing activities	<b>372.2</b>	(72.6)	613%
Foreign currency impact on cash balances	<b>2.1</b>	1.5	40%
<b>Cash position, end of period</b>	<b>1,297.1</b>	906.7	43%

### OPERATING ACTIVITIES

For the three months ended March 31, 2009, **funds generated by operations** were \$279.0 million, a **decrease** of \$1.6 million (1%) over the same period in 2008. This decrease was primarily due to lower cash earnings. For the three months ended March 31, 2009, **cash flow from operations** was \$333.4 million, an **increase** of \$43.6 million (15%) over the same period in 2008. This increase was primarily due to changes in non-cash working capital.

### INVESTING ACTIVITIES

For the three months ended March 31, 2009, **cash used in investing activities increased** by 93%, primarily due to changes in non-cash working capital, higher capital expenditures, and lower contributions by utility customers for extensions to plant. **Capital expenditures increased** by \$18.9 million, primarily due to increased investment in regulated electric projects.

**Capital expenditures** to maintain capacity, meet planned growth, and fund future development activities are expected to be approximately \$1.1 billion in 2009, **unchanged** from 2008. The majority of these expenditures relate to the Utilities segment. For the 2009 to 2011 period, capital expenditures in the Utilities segment are expected to be \$2.0 billion and, depending on infrastructure spending, could be as much as \$4.0 billion.

The planned capital expenditures for the Utilities segment are based on the following assumptions:

- the AESO projects approved in principle by the AUC will proceed as currently scheduled;
- the remaining planned capital expenditures in the Utilities segment are required to maintain capacity and meet planned growth in the Company's service areas. These expenditures are consistent with the anticipated growth in the Alberta economy and in the Company's service areas; and
- the regulatory system in Alberta will remain substantially unchanged.

In the opinion of the Company, these assumptions are reasonable, but no assurance can be given that these assumptions will prove to be correct.

ATCO Electric, ATCO Gas and ATCO Pipelines are regulated primarily by the AUC, which administers acts and regulations covering such matters as rates, financing, accounting, construction, operation and service area. The AUC approves customer rates based on the revenue required to recover estimated costs of service, including a fair return on rate base, estimated operating expenses, depreciation and taxes, all in respect of a future test year. Return on rate base is designed to meet the cost of interest on long term debt and dividends on preferred shares and to provide the shareowners with a reasonable opportunity to earn a fair return on their investment.

ATCO Electric, ATCO Gas and ATCO Pipelines are subject to the normal risks faced by companies that are regulated. These risks include the approval by the AUC of customer rates that permit a reasonable opportunity to recover on a timely basis the estimated costs of providing service, including a fair return on rate base. In addition, these risks include the disallowance of capital expenditures incurred if the AUC determines that such costs were not prudently incurred. This risk is mitigated by the inclusion of capital expenditures in general rate applications approved by the AUC. Furthermore, all major electric transmission projects assigned by the AESO to ATCO Electric are required to be approved by the AUC prior to commencing construction.

Tightness in labour and materials markets in Alberta in recent years has resulted in substantial growth in costs of many construction projects, and while the Company attempts to mitigate the risk of delays and cost overruns by careful planning and entering into long term contracts when possible, there can be no assurance that significant cost overruns or delays will not occur.

On September 9, 2008, ATCO Electric announced it had entered into an agreement with UK-based Balfour Beatty and Australia-based United Group Limited for engineering, construction, procurement and project management services to provide these services for required capital projects in the extremely tight labour market for such services available in Alberta. Individual projects assigned pursuant to this agreement will be jointly estimated and a target project cost agreed to before construction commences. The agreement provides ATCO Electric full discretion to assign or remove projects on an individual basis. Projects will be undertaken with a full disclosure to the AUC of actual costs, with any savings or overruns relative to target project costs shared equally.

## **FINANCING ACTIVITIES**

For the three months ended March 31, 2009, the Company had **net debt increases** of \$256.2 million. Issuance of debt included \$150.0 million of 6.50% Debentures due March 7, 2039, \$120.0 million of 6.215% Debentures due March 6, 2024, and \$20.9 million of Karratha Financing long term debt. Redemptions were comprised of \$20.1 million of long term debt and \$14.6 million of non-recourse long term debt.

For the three months ended March 31, 2009, the Company **issued** \$160.0 million of 6.70% Cumulative Redeemable Preferred Shares Series 2 (for additional details on these shares, refer to Note 6 to the unaudited interim consolidated financial statements for the three months ended March 31, 2009). The Company had no issues or redemptions of equity preferred shares in the corresponding period of 2008.

For the three months ended March 31, 2009, and for the corresponding period of 2008, there were **no purchases** of Canadian Utilities' Class A non-voting shares under its normal course issuer bids. For the three months ended March 31, 2009, **issues** of Canadian Utilities Class A non-voting shares due to stock option exercises were \$1.9 million, compared to nil for the corresponding period in 2008.

For the three months ended March 31, 2009, there were **no purchases** of Class I Shares under the Company's normal course issuer bids, compared to purchases of \$5.2 million for the corresponding period in 2008. For the three months ended March 31, 2009, **issues** of Class I Shares due to stock option

exercises were \$1.1 million, compared to nil for the corresponding period in 2008. For the three months ended March 31, 2009, **net issues** were \$1.1 million, an increase of \$6.3 million over the corresponding period in 2008.

On May 29, 2007, the Company commenced a **normal course issuer bid** for the purchase of up to 5% of the outstanding Class I Shares. The bid expired on May 28, 2008. From May 29, 2007, to May 28, 2008, 722,900 shares were purchased, of which 493,500 were purchased in 2007 and 229,400 were purchased in 2008. On May 29, 2008, the Company commenced a new **normal course issuer bid** for the purchase of up to 3% of the outstanding Class I Shares. The bid will expire on May 28, 2009. From May 29, 2008, to April 29, 2009, no shares have been purchased.

Total **dividends paid to Class I and Class II share owners** for the three months ended March 31, 2009, **increased** by 7% to \$14.5 million over the same period in 2008. For the three months ended March 31, 2009, the **quarterly dividend** payment on the Class I and Class II Shares was **increased** by \$0.015 to \$0.25 per share over the corresponding period in 2008. The Company has increased its annual common share dividend each year since 1993. The payment of any dividend is at the discretion of the Board of Directors and depends on the financial condition of the Company and other factors.

**Dividends paid to non-controlling interests** for the three months ended March 31, 2009, **increased** 5% to \$29.4 million due to higher per share dividends paid by Canadian Utilities.

## FOREIGN CURRENCY TRANSLATION

For the three months ended March 31, 2009, **foreign currency translation** increased the Company's cash position by \$2.1 million due to changes in U.K. and Australian exchange rates used for balance sheet translations.

## SHORT TERM INVESTMENT POLICY

The Company has a long-standing policy not to invest any of its cash balances in asset-backed securities; consequently, the recent turmoil in the asset-backed commercial paper market has had no impact on the Company. Cash and short term investment credit risk is reduced by investing approximately 90% in short term money market instruments of Canadian financial institutions and Government of Canada treasury bills as at March 31, 2009.

## LINES OF CREDIT

At March 31, 2009, the Company had the following credit lines that enable it to obtain funding for general corporate purposes.

	Total	Used	Available
(\$ millions)			
Long term committed	609.1	73.1	536.0
Short term committed	600.0	39.0	561.0
Uncommitted	197.8	69.5	128.3
<b>Total</b>	<b>1,406.9</b>	<b>181.6</b>	<b>1,225.3</b>

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

## **CONTRACTUAL OBLIGATIONS**

Contractual obligations disclosed in the 2008 MD&A remain substantially unchanged as at March 31, 2009.

## **NET CURRENT AND LONG TERM FUTURE INCOME TAXES**

**Net current and long term future income taxes** at March 31, 2009, were \$448.6 million, an increase of \$254.3 million (131%) over the same period of 2008. This increase was primarily due to changes in accounting policies relating to rate regulated operations (refer to Changes in Accounting Policies – Rate Regulated Operations section).

Future income taxes are attributable to differences between the financial statement carrying amounts of assets and liabilities and their tax bases. These differences result primarily from recognizing revenue and expenses in different years for financial and tax reporting purposes. Future income taxes will become payable when such differences are reversed through the settlement of liabilities and realization of assets.

## **BASE SHELF PROSPECTUS**

On May 16, 2008, CU Inc. filed a **base shelf prospectus** that permits CU Inc. to issue up to an aggregate of \$1,500.0 million of debentures over the twenty-five month life of the prospectus. During the three months ended March 31, 2009, the following debentures were issued:

- on March 6, 2009, CU Inc. issued \$150.0 million of 6.50% Debentures due March 7, 2039, and
- on March 6, 2009, CU Inc. issued \$120.0 million of 6.215% Debentures due March 6, 2024.

The proceeds of these issues were advanced to ATCO Electric, ATCO Gas and ATCO Pipelines to be used to fund capital expenditures, to repay indebtedness and for other general corporate purposes.

Under its base shelf prospectus, CU Inc. has issued \$0.6 billion of debentures to date, leaving \$0.9 billion remaining.

## **Share Capital**

The equity securities of the Company consist of Class I Shares and Class II Shares.

At April 29, 2009, the Company had outstanding 50,973,656 Class I Shares, 6,861,658 Class II Shares and options to purchase 1,112,750 Class I Shares.

## **Business Risks**

**Information contained in the 2008 MD&A related to Business Risks which is not discussed in this section remains substantially unchanged.**

## **FINANCIAL MARKETS**

Significant challenges are currently being experienced in domestic and international financial markets. These challenges are having an impact on the ability of certain borrowers to finance existing operations and capital expenditure programs. As discussed elsewhere in this MD&A, the Utilities Business Group has a capital expenditure program of \$2.0 billion and, depending on infrastructure spending, could be as

much as \$4.0 billion over the next three years. The Company completed a \$270 million debenture issue and a \$160 million preferred share issue in March 2009 to fund the 2009 portion of the Utilities Business Group's capital expenditure program and to fund scheduled maturities of previous debenture issues. On January 28, 2009, ATCO Power entered into the Karratha Financing. In addition, the Company has cash balances of approximately \$1.3 billion and available committed and uncommitted lines of credit of approximately \$1.2 billion which can be utilized for general corporate purposes.

While the current financial situation has not directly impacted the Company's ability to fund capital projects and ongoing operations, future borrowing may be impacted by these financial markets through increased carrying costs and the ability to raise debt and equity capital. The Company is unable to determine what future changes in the financial markets could occur and how these changes could affect the Company. Deterioration in domestic and international economic activity may impact the operations of the Company.

## **COMMODITY PRICES**

Commodity prices, particularly oil and natural gas prices, have fallen significantly since September 2008. These lower prices have had an impact on the Company's operations, particularly the lower frac spreads on ATCO Midstream's NGL business and the decline in the resource sector on ATCO Structures. The Company is unable to determine what future changes in commodity markets could occur and how these changes could affect the Company.

## **PENSION PLANS**

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

Recent declines in stock and bond markets have resulted in a reduction in the value of the defined benefit pension plans' assets, creating funding deficits. The Company has not made material contributions since April 1, 1996, as a result of the defined benefit plans' surplus positions which have been used to fund the employer's contributions to the defined contribution component of the pension plans. Based on the most recent actuarial valuations for funding purposes dated December 31, 2006, and December 31, 2007, and recent changes in government regulations resulting from the white paper issued by the government of Alberta in 2008, the Company does not anticipate that it will be required to make material contributions to its pension plans in 2009.

Depending on the outcome of future actuarial valuations, material current service and deficit funding contributions will likely be required to resume in 2010. The amounts are not known at this time. For purposes of any funding requirements pertaining to utility operations, the AUC has directed that the cash basis of accounting be used in customer rate applications. Accordingly, the Company includes the cost of funding in its rate applications to the AUC, thereby, with the consent of the AUC, recovering the costs of funding its pension plans for utility operations from utility customers.

## **ENVIRONMENTAL MATTERS**

The Company's operating subsidiaries and the industries in which they operate are subject to extensive federal, provincial and local environmental protection laws concerning emissions to the air, discharges to surface and subsurface waters, land use activities and the handling, manufacturing, processing, use, emission and disposal of materials and waste products.

Alberta legislation requires most large emitters to reduce GHG emission intensities by 12% annually. For cogeneration and combined cycle facilities, steam production GHG emissions are subjected to the 12% reduction target and electricity production emissions are compared to a deemed emission baseline. Compliance reports with true-up amounts for any obligations must be submitted annually to Alberta Environment by March 31. The compliance reports and obligation amounts for the 2008 reporting year have been submitted to Alberta Environment. PPA counterparties have reimbursed Alberta Power (2000) for amounts paid for their GHG obligations. Due to lower emissions per unit of output, ATCO Power's and ATCO Resources' gas-fired generating units have minimal exposure to Alberta GHG regulation.

Alberta regulation requires coal-fired generating plant operators, including Alberta Power (2000), to monitor mercury emissions and target a capture of at least 70% of the mercury in the coal commencing January 1, 2011. Proposals to monitor and install control equipment on the Battle River and Sheerness generating plants have been submitted to Alberta Environment for approval. Once approval is received, installation of the equipment will be scheduled.

The Clean Air Strategic Alliance (CASA) is conducting a review of air emissions standards (sulphur dioxide, nitrogen oxides, mercury, and particulate matter) for the electricity sector in Alberta. The Power Generation Business Group participates in this process which will develop new air emissions standards for new units and units at the end of their design life (40 years or the end of their PPA term for coal-fired units and 30 years for natural gas-fired units). The new standards are expected to be adopted by Alberta Environment by 2010, and to be effective January 1, 2011.

On March 10, 2008, the federal government released details of its regulatory framework for its "Turning the Corner" legislation originally announced in April 2007. Electricity sector companies must achieve an initial GHG reduction in 2010 of 18% from their company-wide emission intensity, with a 2% continuous improvement required annually thereafter. New facilities (2004 or later) are allowed a three year grace period after which they must improve emission intensity by 2% per year below the clean fuel standard. For cogeneration and combined cycle facilities, GHG emissions are subjected to the 18% reduction target and electricity production emissions are compared to a deemed emission baseline similar to Alberta's legislation. Compliance may be achieved by reduction of emissions intensity, limited investment in a technology fund, emission credit trading, purchase of offset credits, *Kyoto Protocol Clean Development Mechanisms* (maximum 10%) and very limited opportunity for early action credits. A draft regulation has yet to be released.

In May 2008, the federal government and the Canadian Council of Environment Ministers (CCME) sanctioned a tripartite group (federal, provincial and territorial governments, industry and non-government organizations) to develop a new air management system for sulphur dioxide, nitrogen oxides, particulate matter, volatile organic compounds, mercury, and ground level ozone. They propose to have regulations in place by 2010 with implementation by 2015 for new and existing facilities. The three key elements of this proposal are: national ambient air quality standards set by the federal government, base level equipment performance standards and geographically based air quality management zones. No details have been provided on emissions targets.

The Power Generation Business Group continues to monitor these developments and the impact of complying with any resulting regulations.

It is anticipated that the PPAs will allow Alberta Power (2000) to recover most of the costs associated with complying with both the federal and Alberta regulations during the PPA term.

# Critical Accounting Estimates

## Employee Future Benefits

The expected long term rate of return on pension plan assets is determined at the beginning of the year on the basis of the long bond yield rate plus an equity and management premium that reflects the plan asset mix. Recent actuarial guidance suggests that this premium is about 0.5%, which, when added to the long bond yield rate of 7.0% at the beginning of 2009, resulted in an expected long term rate of return of 7.5% for 2009. This methodology is supported by actuarial guidance on long term asset return assumptions for the Company's defined benefit pension plans, taking into account asset class returns, normal equity risk premiums, and asset diversification effect on portfolio returns, and a recent change in the Company's portfolio asset mix policy.

Expected return on plan assets for the year is calculated by applying the expected long term rate of return to the market related value of plan assets, which is the average of the market value of plan assets at the end of the preceding three years. The expected long term rate of return has declined over the past seven years, from 8.1% in 2001 to 7.0% in the year ended December 31, 2008. The result has been a decrease in the expected return on plan assets and a corresponding increase in the cost of pension benefits. In addition, the actual return on plan assets over the same period has been lower than expected (i.e., an experience loss), which is also contributing to an increase in the cost of pension benefits as losses are amortized to earnings.

Accrued benefit obligations at the end of the year are determined using a discount rate that reflects market interest rates that match the timing and amount of expected benefit payments. Due to the recent, unprecedented events in the financial markets associated with the current credit environment which has resulted in significantly higher yields than normal, the current discount rate selection methodology has been refined to include high quality corporate bonds and quasi-government organizations. The liability discount rate has also declined over the same period, from 6.9% at the end of 2001 to 5.5% at the end of 2007, but has since increased to 7.0% for 2008, and has remained at 7.0% for the three months ended March 31, 2009. The result has been a decrease in benefit obligations (i.e., an experience gain), which is contributing to a decrease in the cost of pension benefits as gains are amortized to earnings.

In accordance with the Company's accounting policy to amortize cumulative experience gains and losses in excess of 10% of the greater of the accrued benefit obligations or the market value of plan assets, the Company began amortizing a portion of the net cumulative experience losses on plan assets and accrued benefit obligations in 2003 for both pension benefit plans and other post employment benefit plans and continued this amortization for the three months ended March 31, 2009.

The assumed annual health care cost trend rate increases used in measuring the accumulated post employment benefit obligations in the three months ended March 31, 2009, are as follows: for drug costs, 6.5% starting in 2009 grading down over 20 years to 4.5%, and for other medical and dental costs, 4.5% and 4.0%, respectively, for 2009 and thereafter. Combined with lower recent claims experience, the effect of these changes has been to decrease the costs of other post employment benefits.

The effect of changes in these estimates and assumptions is mitigated by an AUC decision to record the costs of employee future benefits when paid rather than accrued. Therefore, a significant portion of the benefit plans expense or income is unrecognized by the regulated operations, excluding Alberta Power (2000).

# Changes in Accounting Policies

## Rate Regulated Operations

Effective January 1, 2009, the Canadian Institute of Chartered Accountants (CICA) removed a temporary exemption in its accounting recommendations that permitted assets and liabilities arising from rate regulation to be recognized and measured on a basis other than in accordance with the primary sources of GAAP. Previously, the Company followed Canadian GAAP recommendations, which were similar to standards issued by the Financial Accounting Standards Board (“FASB”) in the United States, which provide guidance on the recognition and measurement of assets and liabilities arising from rate regulation. As permitted by Canadian GAAP, the Company has applied standards issued by FASB as another source of Canadian GAAP. This change in accounting policy has been adopted prospectively with changes identified below.

The reserves for future removal and site restoration costs for the utility operations, which were previously netted against property plant and equipment, have been reclassified to non-current regulatory liabilities, resulting in an increase to the Company’s total assets and total liabilities. The Company reclassified \$376.2 million at January 1, 2009, corresponding to these reserves.

Previously, depreciation expense for property, plant and equipment included a provision for future removal and site restoration costs for the utility operations. An amount corresponding to this provision is incorporated into rates charged to customers and was previously recognized in revenues. Under the new method of accounting, the Company does not recognize this amount in depreciation and amortization expense and revenues. The Company now recognizes operation and maintenance expense and revenues as actual removal and site restoration costs are incurred. As a result of the change in accounting, depreciation and amortization expense and revenues for the three months ended March 31, 2009, were \$13.9 million lower, resulting in no change in earnings.

Effective January 1, 2009, the Company also adopted the CICA recommendations requiring the recognition of future income tax assets and liabilities as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to future customers in the Company’s utility operations. As a result of adopting these recommendations, the Company recorded future income tax liabilities and non-current regulatory assets of \$255.6 million at January 1, 2009.

Concurrent with the changes in accounting for rate regulated operations noted above, the Company changed its presentation of changes in regulatory accounts within the statement of cash flows. Certain items relating to changes in rate regulated assets and liabilities that were previously included in investing and financing activities are now reported in operating activities. The inclusion of changes in the non-current regulatory assets and liabilities in operating activities provides more relevant information on the activities of the Company.

## Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted the CICA recommendations for goodwill and intangible assets which established standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets (including internally developed intangible assets).

This change in accounting has been adopted retrospectively and had the following effect on the consolidated financial statements for the three months ended March 31, 2009 and March 31, 2008:

- (a) Restatement of opening retained earnings at January 1, 2008, to recognize the prior years’ earnings effect of amounts capitalized prior to 2008 that do not meet the definition of intangible

assets as now defined by GAAP (refer to Note 2 to the unaudited interim consolidated financial statements for the three months ended March 31, 2009).

- (b) Restatement of depreciation and amortization expense, future income taxes and non-controlling interests for 2008 for the effect of amounts capitalized and amortized in 2008 and prior periods that do not meet the definition of assets as now defined by GAAP. The amounts are not material.
- (c) Restatement of opening accumulated other comprehensive income at January 1, 2008, for the effect of amounts capitalized prior to 2008 that do not meet the definition of assets as now defined by GAAP. The amounts are not material.
- (d) Reclassification of \$189.6 million included in property, plant and equipment and other assets to intangible assets on the balance sheet at March 31, 2008.
- (e) Restatement of operating activities in the statement of cash flows for the impact of changes resulting from (b) above and a reclassification within investing activities of \$8.2 million from purchases of property, plant and equipment to purchases of intangibles for 2008.

Intangible assets mainly include computer software not directly attributable to the operation of property, plant and equipment and land rights and are recorded at cost less accumulated amortization and unamortized contributions by utility customers. The assets are amortized over their useful lives; which are not longer than 10 years for computer software and between 75 and 100 years for land rights. Intangible assets with finite lives are tested for recoverability whenever events or changes in circumstances indicate a possible impairment. An impairment of intangible assets with finite lives is recognized in earnings when the asset's carrying value exceeds the total cash flows expected from its use and eventual disposition. The impairment loss is then calculated as the difference between the asset's carrying value and its fair value, which is determined using discounted future cash flows.

## **FUTURE ACCOUNTING CHANGES**

### **International Financial Reporting Standards**

The Canadian Accounting Standards Board confirmed in 2008 that the use of International Financial Reporting Standards (IFRS) by publicly accountable enterprises will be required in 2011. The Company will need to begin reporting under IFRS in the first quarter of 2011 with comparative data for the prior year. IFRS uses a conceptual framework similar to Canadian GAAP, but there could be significant differences in recognition, measurement and disclosures that will need to be addressed.

The Company has established a Steering Committee, a project team, and working groups to review the adoption of IFRS. The project team and working groups provide position papers and regular updates to management, the Steering Committee and the Audit Committee. Education sessions have been, and will continue to be, provided for employees, senior management and the Audit Committee to increase knowledge and awareness of IFRS and its impacts.

The Company is participating in various industry groups, including the Canadian Energy Pipeline Association, the Canadian Gas Association and the Canadian Electricity Association. The Company participated in a collaborative process which culminated in the AUC issuing a draft document that summarizes the rate making accounting procedures and requirements to be used by utilities as a result of adopting IFRS. The direction provided in the AUC document will allow the Company to proceed with cost efficient changes to its financial reporting computer systems. This document has not yet been approved by the AUC. The AUC announced that it will periodically review and amend the material contained in this document as circumstances warrant.

The Company's IFRS Conversion Project consists of three phases: Assessment and Diagnostic; Design and Planning; and Implementation and Review. Position papers are being prepared on issue-specific accounting differences between Canadian GAAP and IFRS and the impact on financial reporting

computer systems. These position papers are currently being reviewed with the Company's auditor. As a number of the IFRS standards are changing, the position papers will be updated to reflect any changes resulting from the final standards. The Company has developed a plan to make changes to its financial reporting computer systems. The Company is also evaluating the potential impact of IFRS on financial covenants, business contracts and internal control over financial reporting.

The Company reviews discussion papers, exposure drafts and standards released by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee. The Company will continue to assess the impact of the proposed standards on its financial statements and disclosure as additional information becomes available. Financial impacts cannot be reasonably determined at this time.

Based on initial assessments, the Company has identified that the following areas have the greatest potential impact to the Company's accounting: property, plant and equipment, joint arrangements, leases, rate regulated operations, deferred availability incentives, and employee benefits. There will also be a significant amount of effort to comply with the IFRS' requirements for initial adoption of IFRS.

A more detailed analysis and evaluation of the financial impact of the issues identified in the assessment and diagnostic phase and the impact on and implementation of financial reporting computer systems will be completed in 2009.

## **Additional Information**

Canadian Utilities has published its unaudited consolidated financial statements and its MD&A for the three months ended March 31, 2009. Copies of these documents may be obtained upon request from the Corporate Secretary of Canadian Utilities at 1400 ATCO Centre, 909-11th Avenue S.W., Calgary, Alberta, T2R 1N6, telephone 403-292-7500 or fax 403-292-7623.

**ATCO Ltd.**  
**Consolidated Statement of Earnings and Retained Earnings**

*(Millions of Canadian Dollars except per share data)*

		Three Months Ended March 31	
	Note	2009	2008
		<i>(Unaudited)</i>	
<b>Revenues</b>	1	<b>\$ 875.1</b>	<b>\$ 834.5</b>
<b>Costs and expenses</b>			
Natural gas supply		4.7	13.7
Purchased power		15.7	15.3
Operation and maintenance		350.9	301.2
Selling and administrative		62.5	56.2
Depreciation and amortization	1	93.7	98.8
Interest		50.9	47.4
Interest on non-recourse long term debt		9.6	11.6
Dividends on preferred shares		2.2	2.2
Franchise fees		62.3	62.7
		<b>652.5</b>	<b>609.1</b>
		<b>222.6</b>	<b>225.4</b>
<b>Interest and other income</b>		<b>9.3</b>	<b>15.2</b>
<b>Earnings before income taxes and non-controlling interests</b>		<b>231.9</b>	<b>240.6</b>
<b>Income taxes</b>	1	<b>59.5</b>	<b>68.4</b>
		<b>172.4</b>	<b>172.2</b>
<b>Non-controlling interests</b>		<b>77.8</b>	<b>79.7</b>
<b>Earnings attributable to Class I and Class II shares</b>	1	<b>94.6</b>	<b>92.5</b>
<b>Retained earnings at beginning of period as restated</b>	2	<b>1,651.4</b>	<b>1,444.0</b>
		<b>1,746.0</b>	<b>1,536.5</b>
Dividends on Class I and Class II shares		14.5	13.6
Purchase of Class I shares		-	4.8
<b>Retained earnings at end of period</b>		<b>\$1,731.5</b>	<b>\$1,518.1</b>
<b>Earnings per Class I and Class II share</b>	7	<b>\$ 1.64</b>	<b>\$ 1.60</b>
<b>Diluted earnings per Class I and Class II share</b>	7	<b>\$ 1.63</b>	<b>\$ 1.58</b>
<b>Dividends paid per Class I and Class II share</b>	7	<b>\$ 0.25</b>	<b>\$ 0.235</b>

**ATCO Ltd.**  
**Consolidated Balance Sheet**  
*(Millions of Canadian Dollars)*

	Note	March 31 2009	2008	December 31 2008
<b>ASSETS</b>				
<i>(Unaudited)</i>				
<b>Current assets</b>				
Cash and short term investments		<b>\$1,336.0</b>	\$ 964.8	\$ 887.2
Accounts receivable		<b>456.4</b>	443.9	481.1
Inventories		<b>120.8</b>	125.9	128.3
Future income taxes		<b>7.7</b>	-	5.9
Regulatory assets		<b>41.8</b>	22.1	55.8
Derivative assets		<b>1.1</b>	0.1	1.8
Prepaid expenses		<b>23.8</b>	27.5	32.6
		<b>1,987.6</b>	1,584.3	1,592.7
<b>Property, plant and equipment</b>	1	<b>6,952.8</b>	6,036.2	6,480.8
<b>Intangibles</b>	1, 4	<b>218.6</b>	189.6	217.1
<b>Goodwill</b>		<b>71.2</b>	71.2	71.2
<b>Regulatory assets</b>	1	<b>324.8</b>	66.3	65.3
<b>Derivative assets</b>		<b>45.3</b>	72.6	60.4
<b>Other assets</b>	1	<b>188.0</b>	179.7	181.7
		<b>\$9,788.3</b>	\$8,199.9	\$8,669.2
<b>LIABILITIES AND SHARE OWNERS' EQUITY</b>				
<b>Current liabilities</b>				
Bank indebtedness		<b>\$ 38.9</b>	\$ 58.1	\$ 39.1
Accounts payable and accrued liabilities		<b>499.0</b>	453.8	580.3
Income taxes payable		<b>17.8</b>	32.2	12.1
Future income taxes		<b>-</b>	0.3	-
Regulatory liabilities		<b>28.1</b>	7.5	29.3
Derivative liabilities		<b>5.8</b>	3.6	6.7
Long term debt due within one year		<b>18.3</b>	1.7	18.8
Non-recourse long term debt due within one year		<b>51.0</b>	52.7	52.5
		<b>658.9</b>	609.9	738.8
<b>Future income taxes</b>	1	<b>456.3</b>	194.0	202.2
<b>Regulatory liabilities</b>	1	<b>546.9</b>	141.3	148.6
<b>Derivative liabilities</b>		<b>16.1</b>	7.9	15.2
<b>Deferred credits</b>		<b>287.3</b>	315.5	302.2
<b>Long term debt</b>	5	<b>3,156.9</b>	2,656.2	2,886.4
<b>Non-recourse long term debt</b>		<b>495.7</b>	576.3	507.8
<b>Preferred shares</b>		<b>150.0</b>	150.0	150.0
<b>Non-controlling interests</b>	1, 6	<b>2,161.1</b>	1,891.8	1,947.9
<b>Class I and Class II share owners' equity</b>				
Class I and Class II shares	7	<b>153.5</b>	148.9	152.4
Contributed surplus		<b>3.0</b>	2.3	2.9
Retained earnings	1	<b>1,731.5</b>	1,518.1	1,651.4
Accumulated other comprehensive income	1	<b>(28.9)</b>	(12.3)	(36.6)
Retained earnings and accumulated other comprehensive income		<b>1,702.6</b>	1,505.8	1,614.8
		<b>1,859.1</b>	1,657.0	1,770.1
		<b>\$9,788.3</b>	\$8,199.9	\$8,669.2

**ATCO Ltd.**  
**Consolidated Statement of Cash Flows**  
*(Millions of Canadian Dollars)*

		Three Months Ended March 31	
	Note	2009	2008
<i>(Unaudited)</i>			
<b>Operating activities</b>			
Earnings attributable to Class I and Class II shares		\$ 94.6	\$ 92.5
Adjustments for:			
Depreciation and amortization	1	93.7	98.8
Future income taxes	1	(4.8)	3.7
Non-controlling interests		77.8	79.7
TXU Europe settlement - net of income taxes		(2.2)	(2.5)
Mark to market of natural gas purchase and power generation revenue contracts		3.9	(0.5)
Deferred availability incentives		(0.5)	0.9
Changes in non-current regulatory assets and liabilities	1	20.5	3.8
Other		(4.0)	4.2
Funds generated by operations		279.0	280.6
Changes in non-cash working capital		54.4	9.2
<b>Cash flow from operations</b>		<b>333.4</b>	<b>289.8</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment	1	(208.6)	(189.7)
Proceeds on disposal of other property, plant and equipment		1.0	3.7
Contributions by utility customers for extensions to plant		30.6	48.7
Purchase of intangibles	1, 4	(8.0)	(8.2)
Changes in non-cash working capital		(76.7)	9.9
Other		3.0	1.3
		<b>(258.7)</b>	<b>(134.3)</b>
<b>Financing activities</b>			
Issue of long term debt	5	290.9	9.0
Repayment of long term debt		(20.1)	(0.4)
Repayment of non-recourse long term debt		(14.6)	(36.4)
Issue of equity preferred shares by subsidiary	6	160.0	-
Net issue of Class A shares by subsidiary		1.9	-
Net issue (purchase) of Class I shares		1.1	(5.2)
Dividends paid to Class I and Class II share owners		(14.5)	(13.6)
Dividends paid to non-controlling interests in subsidiary		(29.4)	(27.9)
Changes in non-cash working capital		2.1	(0.2)
Other		(5.2)	2.1
		<b>372.2</b>	<b>(72.6)</b>
<b>Foreign currency translation</b>		<b>2.1</b>	<b>1.5</b>
<b>Cash position <sup>(1)</sup></b>			
Increase		449.0	84.4
Beginning of period		848.1	822.3
<b>End of period</b>		<b>\$1,297.1</b>	<b>\$ 906.7</b>

<sup>(1)</sup> Cash position consists of cash and short term investments less current bank indebtedness, and includes \$108.9 million (2008 - \$144.8 million) which is only available for use in joint ventures.

**ATCO Ltd.**  
**Consolidated Statement of Comprehensive Income**

*(Millions of Canadian Dollars)*

	Three Months Ended March 31	
	<b>2009</b>	2008
	<i>(Unaudited)</i>	
<b>Earnings attributable to Class I and Class II shares</b>	<b>\$ 94.6</b>	<b>\$ 92.5</b>
<b>Other comprehensive income, net of income taxes and non-controlling interests:</b>		
Cash flow hedges	-	(2.7)
Foreign currency translation adjustment	7.7	14.7
	7.7	12.0
<b>Comprehensive income</b>	<b>\$102.3</b>	<b>\$104.5</b>

**ATCO Ltd.**  
**Notes to Consolidated Financial Statements**  
**March 31, 2009**

*(Unaudited, tabular amounts in millions of Canadian dollars)*

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***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 consolidated financial statements and related notes included in the Corporation’s Financial Information contained in its 2008 Annual Report. These interim financial statements have been prepared using the same accounting policies as used in the financial statements for the year ended December 31, 2008, except as described below.

***Accounting for Rate Regulated Operations***

Effective January 1, 2009, the Canadian Institute of Chartered Accountants (“CICA”) removed a temporary exemption in its accounting recommendations that permitted assets and liabilities arising from rate regulation to be recognized and measured on a basis other than in accordance with the primary sources of GAAP. Previously, the Corporation followed Canadian GAAP recommendations, which were similar to standards issued by the Financial Accounting Standards Board (“FASB”) in the United States, which provide guidance on the recognition and measurement of assets and liabilities arising from rate regulation. As permitted by Canadian GAAP, the Corporation has applied standards issued by FASB as another source of Canadian GAAP. This change in accounting policy has been adopted prospectively with changes identified below.

The reserves for future removal and site restoration costs for the utility operations, which were previously netted against property plant and equipment, have been reclassified to non-current regulatory liabilities, resulting in an increase to the Corporation’s total assets and total liabilities. The Corporation reclassified \$376.2 million at January 1, 2009, corresponding to these reserves.

Previously, depreciation expense for property, plant and equipment included a provision for future removal and site restoration costs for the utility operations. An amount corresponding to this provision is incorporated into rates charged to customers and was previously recognized in revenues. Under the new method of accounting, the Corporation does not recognize this amount in depreciation and amortization expense and revenues. The Corporation now recognizes operation and maintenance expense and revenues as actual removal and site restoration costs are incurred. As a result of the change in accounting, depreciation and amortization expense and revenues for the three months ended March 31, 2009, were \$13.9 million lower, resulting in no change in earnings.

Effective January 1, 2009, the Corporation also adopted the CICA recommendations requiring the recognition of future income tax assets and liabilities as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to future customers in the utility operations. As a result of adopting these recommendations, the Corporation recorded future income tax liabilities and non-current regulatory assets of \$255.6 million at January 1, 2009.

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

Concurrent with the changes in accounting for rate regulated operations noted above, the Corporation changed its presentation of changes in regulatory accounts within the statement of cash flows. Certain items relating to changes in rate regulated assets and liabilities that were previously included in investing and financing activities are now reported in operating activities. The inclusion of changes in the non-current regulatory assets and liabilities in operating activities provides more relevant information on the activities of the Corporation. Comparative figures have been restated as follows:

	Three Months Ended		
	March 31, 2008		
	Amount Previously Reported	Amount Reclassified	Amount Restated
Cash flow from operations	\$ 286.0	\$ 3.8	\$ 289.8
Investing activities	(131.4)	(2.9)	(134.3)
Financing activities	(71.7)	(0.9)	(72.6)

### *Intangible Assets*

Effective January 1, 2009, the Corporation adopted the CICA recommendations for goodwill and intangible assets which established standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets (including internally developed intangible assets).

This change in accounting has been adopted retrospectively and had the following effect on the consolidated financial statements for the three months ended March 31, 2009 and March 31, 2008:

- Restatement of opening retained earnings at January 1, 2008, to recognize the prior years' earnings effect of amounts capitalized prior to 2008 that do not meet the definition of intangible assets as now defined by GAAP (see Note 2).
- Restatement of depreciation and amortization expense, future income taxes and non-controlling interests for 2008 for the effect of amounts capitalized and amortized in 2008 and prior periods that do not meet the definition of assets as now defined by GAAP. The amounts are not material.
- Restatement of opening accumulated other comprehensive income at January 1, 2008, for the effect of amounts capitalized prior to 2008 that do not meet the definition of assets as now defined by GAAP. The amounts are not material.
- Reclassification of \$189.6 million included in property, plant and equipment and other assets to intangible assets on the balance sheet at March 31, 2008.
- Restatement of operating activities in the statement of cash flows for the impact of changes resulting from (b) above and a reclassification within investing activities of \$8.2 million from purchases of property, plant and equipment to purchases of intangibles for 2008.

Intangible assets mainly include computer software not directly attributable to the operation of property, plant and equipment and land rights and are recorded at cost less accumulated amortization and unamortized contributions by utility customers. The assets are amortized over their useful lives; which are not longer than 10 years for computer software and between 75 and 100 years for land rights. Intangible assets with finite lives are tested for recoverability whenever events or changes in

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

circumstances indicate a possible impairment. An impairment of intangible assets with finite lives is recognized in earnings when the asset's carrying value exceeds the total cash flows expected from its use and eventual disposition. The impairment loss is then calculated as the difference between the asset's carrying value and its fair value, which is determined using discounted future cash flows.

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

## 2. RETAINED EARNINGS AT BEGINNING OF PERIOD AS RESTATED

	January 1	
	2009	2008
Retained earnings at beginning of period as previously reported	\$1,653.1	\$1,446.4
Cumulative adjustments to retained earnings to recognize the prior years' effect of the change in the method of accounting for intangible assets (net of income taxes and non-controlling interests)	(1.7)	(2.4)
Retained earnings at beginning of period as restated	\$1,651.4	\$1,444.0

## 3. REGULATORY MATTERS

In July 2008, ATCO Electric filed a general tariff application with the Alberta Utilities Commission ("AUC") for 2009 and 2010 requesting, among other things, increased revenues to recover increased financing, depreciation and operating costs associated with increased rate base in Alberta. ATCO Electric filed an application requesting interim refundable rates pending the AUC's decision on the application. In December 2008, ATCO Electric received a decision from the AUC approving interim refundable rate increases amounting to 50% of the requested increase for transmission operations and 25% of the requested increase for distribution operations. A hearing was held in February 2009, with a decision expected in the third quarter of 2009.

In March 2009, ATCO Electric filed an application requesting an increase to its approved interim refundable rates for its distribution operations. A decision from the AUC was received in April 2009, which resulted in an increase to the interim refundable rates to 67% of the requested rate increase.

In November 2008, ATCO Gas received a decision on its general rate application for 2008 and 2009. The decision established the amount of revenue requirement ATCO Gas can recover through distribution rates for natural gas distribution service to its customers for 2008 and 2009. The effect of the decision on ATCO Gas' 2009 annual earnings was an increase of approximately \$3 million over 2008 resulting from an increase in rate base.

In November 2008, ATCO Pipelines filed an application requesting the AUC approve a negotiated settlement with its customers of ATCO Pipelines' 2008 and 2009 revenue requirements. In March 2009, the AUC issued a decision approving the negotiated settlement, including, among other things, a rate of return on common equity of 8.75% and a common equity ratio of 43% for each of 2008 and 2009. As a result of the decision, ATCO Pipelines recognized additional earnings over existing interim rates of \$4.5 million in the first quarter of 2009, of which \$3.7 million related to 2008.

In January 2009, ATCO Pipelines filed an application requesting AUC approval to commence negotiations with its customers to settle ATCO Pipelines' revenue requirements for each of the years 2010, 2011, and 2012.

### 3. REGULATORY MATTERS (continued)

In February 2008, the AUC initiated a generic proceeding to determine whether the standardized rate of return methodology and the utility capital structures should be reviewed. A regulatory process has been established by the AUC with a hearing currently scheduled for May 19, 2009, to review the generic return on equity formula as well as to review the capital structure for each of the Alberta utilities. The AUC also indicated that any changes which result from this proceeding would be applied beginning in 2009. As ATCO Gas filed a general rate application for 2008 and 2009, a separate module within the generic proceeding will address 2008 cost of capital issues relating to the capital structure for ATCO Gas, as inclusion of these issues was removed from its 2008/2009 general rate application. The changes for 2008 and 2009 will not apply to ATCO Pipelines since cost of capital issues were included in the 2008/2009 negotiated settlement approved by the AUC in March 2009.

The Corporation has a number of other 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.

### 4. INTANGIBLES

	March 31			
	2009		2008	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer Software	\$291.9	\$159.4	\$237.3	\$130.6
Land Rights	102.0	20.9	96.5	19.5
Other	10.9	5.5	11.6	5.1
	<b>\$404.8</b>	<b>185.8</b>	<b>\$345.4</b>	<b>155.2</b>
Intangible assets less accumulated amortization		<b>219.0</b>		190.2
Unamortized contributions by utility customers		<b>0.4</b>		0.6
		<b>\$218.6</b>		<b>\$189.6</b>

### 5. LONG TERM DEBT

On January 28, 2009, ATCO Power executed a credit facility agreement with the Commonwealth Bank of Australia to borrow AUD\$100 million to fund the construction and operations of ATCO Power's new project located in Karratha, Western Australia. The new financing facility has a term that covers the project's construction period plus five years of operations. ATCO Power has swapped the variable interest rate in the facility to a fixed rate of 5.71% during the construction period and 6.16% during the operations period. At March 31, 2009, \$22.1 million (AUD\$25 million) was outstanding under the facility.

On March 6, 2009, CU Inc. issued \$150.0 million of 6.50% Debentures maturing March 7, 2039 and \$120.0 million of 6.215% Debentures maturing March 6, 2024.

## 6. NON-CONTROLLING INTERESTS

On March 27, 2009, CU Inc. issued \$160.0 million Cumulative Redeemable Preferred Shares Series 2 at a price of \$25.00 per share. Holders will be entitled to receive fixed cumulative preferential cash dividends, payable quarterly for an initial period of five years at a rate of \$1.675 per share to yield 6.70% annually. Thereafter the dividend rate will reset every five years to the then current 5-Year Government of Canada bond yield plus 4.81%. On June 1, 2014, and on June 1 of every fifth year thereafter, CU Inc. may redeem the Series 2 Preferred Shares in whole or in part at par.

Holder may elect to convert any or all of their Series 2 Preferred Shares into an equal number of Cumulative Redeemable Preferred Shares Series 3 on June 1, 2014, and on June 1 of every fifth year thereafter. Holders of the Series 3 Preferred Shares will be entitled to receive floating rate cumulative preferential cash dividends, 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 4.81%. On June 1, 2019, and on June 1 of every fifth year thereafter ("Series 3 Conversion Date"), holders of the Series 3 Preferred Shares may elect to convert any or all of their Series 3 Preferred Shares back into an equal number of Series 2 Preferred Shares. On June 1, 2014, or thereafter, CU Inc. may redeem the Series 3 Preferred Shares in whole or in part at \$25.00 on a Series 3 Conversion Date or at \$25.50 on any other date.

## 7. CLASS I AND CLASS II SHARES

There were 50,973,656 (2008 – 50,774,196) Class I Non-Voting Shares and 6,861,658 (2008 – 6,917,068) Class II Voting Shares outstanding on March 31, 2009. In addition, there were 1,112,750 options to purchase Class I Non-Voting Shares outstanding at March 31, 2009 under the Corporation's stock option plan. From April 1, 2009, to April 29, 2009, no stock options were granted or cancelled, no stock options were exercised, no Class II Voting Shares were converted to Class I Non-Voting Shares and no Class I Non-Voting Shares were purchased under the Corporation's normal course issuer bid.

The average number of shares used to calculate earnings per share are as follows:

	Three Months Ended March 31	
	2009	2008
Weighted average shares outstanding	57,782,715	57,782,528
Effect of dilutive stock options	344,168	659,247
Weighted average dilutive shares outstanding	58,126,883	58,441,775

## 8. CAPITAL DISCLOSURES

The Corporation's equity capitalization is as follows:

	March 31	
	2009	2008
Class I and Class II shares	\$ 153.5	\$ 148.9
Contributed surplus	3.0	2.3
Retained earnings	1,731.5	1,518.1
Accumulated other comprehensive income	(28.9)	(12.3)
Preferred shares <sup>(1)</sup>	150.0	150.0
Non-controlling interests	2,161.1	1,891.8
Total equity	4,170.2	3,698.8
Long term debt	3,156.9	2,656.2
Non-recourse long term debt	495.7	576.3
Total debt	3,652.6	3,232.5
Total capitalization	\$7,822.8	\$6,931.3
Equity capitalization	53%	53%

<sup>(1)</sup> The Corporation's preferred shares are classified as debt on the balance sheet but are included in equity for purposes of determining equity capitalization.

The equity capitalization is consistent with the Corporation's objectives. Total equity increased primarily due to higher earnings of the Corporation reflected in increased retained earnings and non-controlling interests along with an increase in non-controlling interests due to the preferred share financing for utility capital expenditures offset by decreased accumulated other comprehensive income resulting from the impact of foreign currency translation of self-sustaining foreign operations. Total debt increased primarily due to financings for utility capital expenditures, ATCO Frontec's European operations and ATCO Power's Karratha project, partially offset by redemptions of long term debt and non-recourse long term debt.

For the three months ended March 31, 2009, the Corporation was in compliance with externally imposed requirements on its capital (including debt covenants). The Corporation has a number of regulatory filings and regulatory hearing submissions before the AUC for which decisions have not been received, the outcome of which could affect the capital structure of the Corporation.

## 9. EMPLOYEE FUTURE BENEFITS

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

Recent declines in stock and bond markets have resulted in a reduction in the value of the defined benefit pension plans' assets, creating funding deficits. The Corporation has not made material contributions since April 1, 1996, as a result of the defined benefit plans' surplus positions which have been used to fund the employer's contributions to the defined contribution component of the pension plans. Based on the most recent actuarial valuations for funding purposes dated December 31, 2006, and December 31, 2007, and recent changes in government regulations resulting from the white paper issued

## 9. EMPLOYEE FUTURE BENEFITS (continued)

by the government of Alberta in 2008, the Corporation does not anticipate that it will be required to make material contributions to its pension plans in 2009.

Contributions in future periods depend on the outcome of the future actuarial valuations.

In the three months ended March 31, 2009, net expense of \$3.4 million (2008 – \$3.9 million) was recognized for pension benefit plans and net expense of \$1.0 million (2008 – \$1.4 million) was recognized for other post employment benefit plans.

## 10. SEGMENTED INFORMATION

### *Segmented results – Three months ended March 31*

2009 2008	Utilities	Power Generation	Global Enterprises	Industrials	Corporate and Other	Intersegment Eliminations	Consolidated
<i>(Unaudited)</i>							
Revenues – external	\$ 389.7	\$ 228.7	\$160.6	\$ 94.6	\$ 1.5	\$ -	\$ 875.1
	\$ 363.2	\$ 212.3	\$175.4	\$ 82.5	\$ 1.1	\$ -	\$ 834.5
Revenues – intersegment <sup>(1)</sup>	6.5	-	33.6	2.6	4.2	(46.9)	-
	6.3	-	38.7	10.4	3.2	(58.6)	-
Revenues	\$ 396.2	\$ 228.7	\$194.2	\$ 97.2	\$ 5.7	\$ (46.9)	\$ 875.1
	\$ 369.5	\$ 212.3	\$214.1	\$ 92.9	\$ 4.3	\$ (58.6)	\$ 834.5
Earnings attributable to Class I and Class II shares	\$ 42.1	\$ 19.3	\$ 18.5	\$ 15.2	\$ (0.5)	\$ -	\$ 94.6
	\$ 34.8	\$ 20.2	\$ 25.8	\$ 8.9	\$ 3.2	\$ (0.4)	\$ 92.5
Total assets	\$5,777.4	\$2,334.3	\$365.5	\$372.7	\$741.3	\$197.1	\$9,788.3
	\$4,223.9	\$2,428.5	\$355.0	\$335.9	\$733.5	\$123.1	\$8,199.9
Allocation of goodwill	\$ 46.5	\$ 23.1	\$ 1.6	\$ -	\$ -	\$ -	\$ 71.2
	\$ 46.5	\$ 23.1	\$ 1.6	\$ -	\$ -	\$ -	\$ 71.2

<sup>(1)</sup> *Intersegment revenues are recognized on the basis of prevailing market or regulated prices.*

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