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# Financial Information



**CANADIAN  
UTILITIES LIMITED**  
An **ATCO** Company

## Consolidated Financial Statements

### Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Year Ended December 31, 2004

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## **CANADIAN UTILITIES LIMITED FINANCIAL ACHIEVEMENT IN 2004**

- Earnings per share increased to \$4.88 from \$4.09 in 2003.
- Dividends paid per Class A and Class B share increased by \$0.08 to \$2.12 from \$2.04 in 2003 – dividends have increased each year since 1972 – 32 years!
- Earnings increased by \$49.9 million to \$309.0 million compared to \$259.1 million in 2003.
- Return on common equity was 15.2% compared to 13.7% in 2003.
- Total assets increased by \$366 million to \$6.5 billion compared to \$6.1 billion in 2003.
- Long term debt increased by \$366 million to \$2.2 billion.
- Non-recourse long term debt decreased by \$45 million to \$761 million.
- Share owners' equity increased by \$169 million to \$2.1 billion compared to \$1.9 billion in 2003.
- Cash flow from operations increased by \$12.5 million to \$538.3 million.
- Capital expenditures were \$536 million in 2004 compared to \$496 million in 2003. Over the previous five years, capital expenditures averaged \$558 million per year.
- CU issued \$480 million of debentures and \$60 million of other debt in 2004. CU redeemed \$100 million of debentures and \$69 million of other debt in 2004.
- Non-recourse long term debt of \$10 million was issued in 2004 for the Brighton Beach Power Project; CU redeemed \$49 million of non-recourse long-term debt in 2004.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation of the consolidated financial statements, management's discussion and analysis of financial condition and results of operations and other financial information relating to the Corporation contained in this annual report. The consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles using methods appropriate for the industries in which the Corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in the annual report is consistent with that in the consolidated financial statements.

Management has established internal accounting control systems to meet its responsibility for reliable and accurate reporting. These control systems are subject to periodic review by the Corporation's internal auditors.

PricewaterhouseCoopers, our independent auditors, are engaged to express a professional opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee comprised entirely of outside Directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management, the internal auditors and the independent auditors to discuss auditing and reporting on financial matters, to assure that management is carrying out its responsibilities and to review and approve the consolidated financial statements. The auditors have full and free access to the Audit Committee and management.



K.M. Watson  
Senior Vice President and Chief Financial Officer



P.G. Wright  
Vice President, Finance and Controller

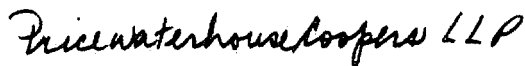
## AUDITORS' REPORT

### TO THE SHARE OWNERS OF CANADIAN UTILITIES LIMITED

We have audited the consolidated balance sheets of Canadian Utilities Limited as at December 31, 2004 and 2003 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Calgary, Alberta

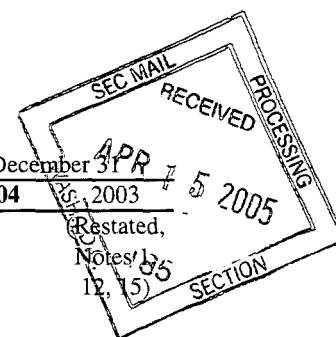
February 11, 2005

**CANADIAN UTILITIES LIMITED**  
**CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS**  
*(Millions of Canadian Dollars except per share data)*

	Note	Three Months Ended December 31		Year Ended December 31	
		2004	2003	2004	2003
			(Restated, Notes 1, 12, 15)		(Restated, Notes 1, 12, 15)
		<i>(Unaudited)</i>			
<b>Revenues</b>	3	<b>\$ 662.6</b>	\$ 950.3	<b>\$3,089.5</b>	\$3,742.6
<b>Costs and expenses</b>					
Natural gas supply	3	<b>65.3</b>	368.6	<b>925.9</b>	1,519.8
Purchased power	3	<b>15.4</b>	46.8	<b>95.8</b>	209.8
Operation and maintenance		<b>235.2</b>	216.1	<b>872.3</b>	858.2
Selling and administrative		<b>43.5</b>	52.8	<b>158.2</b>	158.3
Depreciation and amortization		<b>81.2</b>	72.8	<b>291.5</b>	269.2
Interest	11	<b>52.9</b>	47.1	<b>203.7</b>	190.3
Franchise fees		<b>37.5</b>	30.5	<b>133.4</b>	122.6
		<b>531.0</b>	834.7	<b>2,680.8</b>	3,328.2
		<b>131.6</b>	115.6	<b>408.7</b>	414.4
<b>Gain on transfer of retail energy supply businesses</b>	3	-	-	<b>63.3</b>	-
<b>Interest and other income</b>	4	<b>10.4</b>	9.5	<b>30.8</b>	33.4
<b>Earnings before income taxes</b>		<b>142.0</b>	125.1	<b>502.8</b>	447.8
<b>Income taxes</b>	5	<b>42.8</b>	29.7	<b>158.0</b>	155.6
		<b>99.2</b>	95.4	<b>344.8</b>	292.2
<b>Dividends on equity preferred shares</b>		<b>8.9</b>	8.9	<b>35.8</b>	33.1
<b>Earnings attributable to Class A and Class B shares</b>	3	<b>90.3</b>	86.5	<b>309.0</b>	259.1
<b>Retained earnings at beginning of period as restated</b>	6	<b>1,548.3</b>	1,382.1	<b>1,435.4</b>	1,311.7
		<b>1,638.6</b>	1,468.6	<b>1,744.4</b>	1,570.8
Dividends on Class A and Class B shares		<b>33.6</b>	32.3	<b>134.4</b>	129.3
Direct charges	7	<b>1.6</b>	0.9	<b>6.6</b>	6.1
<b>Retained earnings at end of period</b>		<b>\$1,603.4</b>	\$1,435.4	<b>\$1,603.4</b>	\$1,435.4
<b>Earnings per Class A and Class B share</b>	14	<b>\$ 1.43</b>	\$ 1.37	<b>\$ 4.88</b>	\$ 4.09
<b>Diluted earnings per Class A and Class B share</b>	14	<b>\$ 1.42</b>	\$ 1.36	<b>\$ 4.86</b>	\$ 4.07
<b>Dividends paid per Class A and Class B share</b>		<b>\$ 0.53</b>	\$ 0.51	<b>\$ 2.12</b>	\$ 2.04



**CANADIAN UTILITIES LIMITED**  
**CONSOLIDATED BALANCE SHEET**  
(Millions of Canadian Dollars)



	Note	December 31, 2004	December 31, 2003
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and short term investments	17	\$ 699.5	\$ 328.1
Accounts receivable		372.8	540.6
Inventories		172.9	171.3
Income taxes recoverable		-	10.2
Future income taxes	5	0.3	-
Deferred natural gas costs		-	27.2
Prepaid expenses		24.5	25.6
		<b>1,270.0</b>	<b>1,103.0</b>
<b>Property, plant and equipment</b>	8	<b>5,045.3</b>	<b>4,835.4</b>
<b>Security deposits for debt</b>		<b>23.1</b>	<b>23.1</b>
<b>Other assets</b>	9	<b>124.7</b>	<b>135.0</b>
		<b>\$6,463.1</b>	<b>\$6,096.5</b>
<b>LIABILITIES AND SHARE OWNERS' EQUITY</b>			
<b>Current liabilities</b>			
Bank indebtedness	10	\$ 1.2	\$ -
Accounts payable and accrued liabilities		284.3	478.8
Income taxes payable		42.6	-
Future income taxes	5	-	11.5
Deferred natural gas cost recoveries		0.9	-
Deferred electricity cost recoveries		11.7	1.0
Long term debt due within one year	11	5.3	-
Non-recourse long term debt due within one year	11	50.6	46.3
		<b>396.6</b>	<b>537.6</b>
<b>Future income taxes</b>	5	<b>222.4</b>	<b>227.4</b>
<b>Deferred credits</b>	12	<b>158.0</b>	<b>135.1</b>
<b>Long term debt</b>	11	<b>2,171.0</b>	<b>1,805.3</b>
<b>Non-recourse long term debt</b>	11	<b>760.9</b>	<b>806.1</b>
<b>Equity preferred shares</b>	13	<b>636.5</b>	<b>636.5</b>
<b>Class A and Class B share owners' equity</b>			
Class A and Class B shares	14	514.3	510.5
Contributed surplus	1, 15	0.4	0.3
Retained earnings		1,603.4	1,435.4
Foreign currency translation adjustment		(0.4)	2.3
		<b>2,117.7</b>	<b>1,948.5</b>
		<b>\$6,463.1</b>	<b>\$6,096.5</b>

*M.C. South*  
N.C. SOUTHERN  
DIRECTOR

*B.K. French*  
B.K. FRENCH  
DIRECTOR

**CANADIAN UTILITIES LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
*(Millions of Canadian Dollars)*

	Note	Three Months Ended December 31		Year Ended December 31	
		2004	2003	2004	2003
			(Restated, Notes 1, 12, 15)		(Restated, Notes 1, 12, 15)
		<i>(Unaudited)</i>			
<b>Operating activities</b>					
Earnings attributable to Class A and Class B shares		\$ 90.3	\$ 86.5	\$ 309.0	\$ 259.1
Adjustments for:					
Depreciation and amortization		81.2	72.8	291.5	269.2
Future income taxes		(16.0)	(6.3)	(18.5)	(0.4)
Gain on transfer of retail energy supply businesses					
- net of income taxes	3	-	-	(55.1)	-
Deferred availability incentives		8.1	(1.5)	2.8	(1.7)
Other		0.8	1.8	8.6	(0.4)
Cash flow from operations		164.4	153.3	538.3	525.8
Changes in non-cash working capital	16	(31.0)	(82.8)	102.3	(52.8)
		133.4	70.5	640.6	473.0
<b>Investing activities</b>					
Purchase of property, plant and equipment		(149.1)	(176.7)	(535.5)	(495.7)
Proceeds on transfer of retail energy supply businesses					
- net of income taxes	3	-	-	22.5	-
Proceeds (costs) on disposal of property, plant and equipment		(0.7)	11.3	(2.6)	23.8
Contributions by utility customers for extensions to plant		10.3	13.8	50.9	48.1
Non-current deferred electricity costs		4.0	10.3	(5.9)	19.1
Changes in non-cash working capital	16	8.3	15.3	3.4	(30.0)
Other		2.0	1.0	(2.1)	0.7
		(125.2)	(125.0)	(469.3)	(434.0)
<b>Financing activities</b>					
Change in notes payable		(96.0)	(42.0)	-	-
Deferred electricity cost obligation		-	-	-	(51.0)
Issue of long term debt		300.0	12.0	539.8	25.5
Issue of non-recourse long term debt		-	-	10.0	40.7
Repayment of long term debt		(36.8)	(66.8)	(168.6)	(139.1)
Repayment of non-recourse long term debt		(8.8)	(5.5)	(49.2)	(38.0)
Issue of equity preferred shares		-	-	-	150.0
Issue (purchase) of Class A shares		0.2	0.1	(3.0)	(2.4)
Dividends paid to Class A and Class B share owners		(33.6)	(32.3)	(134.4)	(129.3)
Income tax reassessment	5	12.9	-	12.9	-
Changes in non-cash working capital	16	(1.9)	1.7	(1.8)	7.9
Other		(5.3)	(2.4)	(6.3)	(4.2)
		130.7	(135.2)	199.4	(139.9)
<b>Foreign currency translation</b>		(0.1)	0.6	(0.5)	(4.9)
<b>Cash position <sup>(1)</sup></b>					
Increase (decrease)		138.8	(189.1)	370.2	(105.8)
Beginning of period		559.5	517.2	328.1	433.9
<b>End of period</b>		<b>\$ 698.3</b>	<b>\$ 328.1</b>	<b>\$ 698.3</b>	<b>\$ 328.1</b>

<sup>(1)</sup> Cash position includes cash and short term investments less current bank indebtedness.

**CANADIAN UTILITIES LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

*(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 include the accounts of Canadian Utilities Limited and its subsidiaries, including a proportionate share of joint venture investments (the "Corporation"). Principal operations are Utilities (ATCO Electric, ATCO Gas, ATCO Pipelines), Power Generation (ATCO Power, Alberta Power (2000)) and Global Enterprises (ATCO Midstream, ATCO Frontec, ATCO I-Tek). Significant joint venture investments consist principally of power generation plants.

Effective January 1, 2004, the Corporation prospectively adopted the Canadian Institute of Chartered Accountants ("CICA") recommendations that define the primary sources of GAAP. Adoption of these recommendations had no effect on earnings for the three months and year ended December 31, 2004.

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

***Rate Regulation***

ATCO Electric and its subsidiaries, Northland Utilities (NWT), Northland Utilities (Yellowknife) and Yukon Electrical, the ATCO Gas and ATCO Pipelines divisions of ATCO Gas and Pipelines Ltd. and the generating plants of Alberta Power (2000), all of which are wholly owned subsidiaries of Canadian Utilities Limited's wholly owned subsidiary, CU Inc., are collectively referred to in these consolidated financial statements as the "regulated operations".

ATCO Electric, ATCO Gas and ATCO Pipelines are regulated primarily by the Alberta Energy and Utilities Board ("AEUB"), which administers acts and regulations covering such matters as rates, financing, accounting, construction, operation and service area. The AEUB may approve interim rates, subject to final determination.

The generating plants of Alberta Power (2000) were regulated by the AEUB until December 31, 2000 but are now governed by legislatively mandated Power Purchase Arrangements ("PPA") that were approved by the AEUB. These plants are included in regulated operations primarily because the PPA's are designed to allow the owners of generating plants constructed before January 1, 1996 to recover their forecast fixed and variable costs and to earn a return at the rate specified in the PPA's. The plants will become deregulated upon the expiry of the PPA's. Each PPA is to remain in effect until the earlier of the last day of the estimated life of the related generating plant and December 31, 2020.

On May 4, 2004, ATCO Gas and ATCO Electric closed the transfer of their retail energy supply businesses to Direct Energy Marketing Limited and one of its affiliates (see Note 3). The Corporation's revenues and natural gas supply and purchased power costs after May 4, 2004 will be reduced accordingly for 2004 and thereafter. ATCO Pipelines, Northland Utilities (NWT), Northland Utilities (Yellowknife) and Yukon Electrical did not participate in this transfer and continue to purchase natural gas and electricity for sale to customers. In addition, the AEUB issued a decision that directed ATCO Gas to continue to reserve for the benefit of utility customers 16.7 petajoules of storage capacity at its Carbon storage facility for the 2004/2005 storage year, which ends on March 31, 2005. Accordingly, ATCO Gas has entered into certain energy contracts for the forward purchase and sale of natural gas for storage purposes (see Note 20).

Accounting for regulated operations is described in Note 2.

## 1. Summary of significant accounting policies (continued)

### *Use of Estimates*

The preparation of the Corporation's consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. On an on-going basis, management reviews its estimates, particularly those related to depreciation and amortization methods, useful lives and impairment of long-lived assets, amortization of deferred availability incentives, asset retirement obligations and employee future benefits, using currently available information. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates.

### *Revenue Recognition*

For regulated operations, revenues are recognized in a manner that is consistent with the underlying rate design as mandated by the regulator.

Prior to the transfer of retail energy supply businesses (see Note 3), revenues from regulated sales of natural gas and electricity by ATCO Gas and ATCO Electric were recognized upon delivery, primarily on the basis of meter readings, and included an estimate of usage not yet billed.

Revenues from ATCO Gas' regulated distribution of natural gas include variable charges, which are recognized on the basis of meter readings upon delivery of natural gas to customers and include an estimate of usage not yet billed, and fixed charges, based on the provision of the distribution service during the period. Revenues from the sale of natural gas by ATCO Gas from storage are recognized upon delivery.

Revenues from ATCO Electric's regulated distribution of electricity include variable charges, which are recognized on the basis of meter readings upon delivery of electricity to customers and include an estimate of usage not yet billed, and fixed charges, based on the provision of the distribution service during the period. Revenues for the use of ATCO Electric's regulated transmission facilities are based on an annual tariff and are recognized evenly throughout the year.

Revenues from ATCO Pipelines' regulated transportation of natural gas are recognized on the basis of contractual arrangements.

Revenues from regulated sales and distribution of natural gas and electricity by other regulated operations, excluding Alberta Power (2000), are recognized upon delivery, primarily on the basis of meter readings, and include an estimate of usage not yet billed.

Revenues from generating plants are recognized upon delivery of output or upon availability of delivery as prescribed by contractual arrangements. PPA incentives and penalties are recognized as described under the accounting policy for deferred availability incentives.

Revenues from ATCO Midstream's natural gas storage and processing capacity are recognized on the basis of contractual arrangements, and revenues from the sale of natural gas liquids are recognized upon delivery.

Revenues from the supply of contracted services are recorded by the percentage of completion method. Full provision is made for any anticipated loss. Other revenues are recognized when products are delivered or services are provided.

## **1. Summary of significant accounting policies (continued)**

### ***Natural Gas Supply***

Natural gas supply expense includes purchases of natural gas for regulated operations (see Note 3 regarding the transfer of retail energy supply businesses) and other subsidiaries. Natural gas supply expense for other subsidiaries consists of natural gas volumes purchased for natural gas liquids extraction and sales to third parties.

Prior to the transfer of retail energy supply businesses (see Note 3), natural gas supply expense for the regulated operations was based on the forecast cost of natural gas included in customer rates. Variances from forecast costs were deferred until such time as approval from the AEUB was obtained for refund to or collection from customers and revenues and natural gas supply expense were adjusted accordingly.

Subsequent to the transfer of retail energy supply businesses, natural gas supply expense for the regulated operations is based on actual costs incurred.

### ***Purchased Power***

Prior to the transfer of retail energy supply businesses (see Note 3), purchased power expense in ATCO Electric was based on the actual cost of electricity purchased, whereas the amount included in customer rates was based on forecast cost. Revenues were adjusted for variances from forecast cost, and the variances were deferred until such time as approval from the AEUB was obtained for refund to or collection from customers.

Purchased power expense in the Yukon Territory and the Northwest Territories is based on the actual cost of electricity purchased. The amount included in customer rates in the Yukon Territory is based on actual costs and in the Northwest Territories is based on forecast cost. Revenues are adjusted for variances from forecast cost, and the variances are deferred until such time as approval from the regulator is obtained for refund to or collection from customers.

### ***Income Taxes***

The regulated operations follow the method of accounting for income taxes that is consistent with the method of determining the income tax component of their rates. When future income taxes are not provided in the income tax component of current rates, such future income taxes are not recognized to the extent that it is expected that they will be recovered from customers through inclusion in future rates.

Other subsidiaries follow the liability method of accounting for income taxes. Under this method, future tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax liabilities and assets are measured using enacted and substantively enacted tax rates. The effect on future tax liabilities and assets of a change in tax rates is recognized in income in the period that the change occurs.

### ***Inventories***

Inventories are valued at the lower of average cost or net realizable value.

### ***Property, Plant and Equipment***

Property, plant and equipment are recorded at cost less accumulated depreciation and unamortized contributions by utility customers for extensions to plant.

Regulated operations include in property, plant and equipment an allowance for funds used during construction at rates approved by the AEUB for debt and equity capital. Property, plant and equipment in the other subsidiaries include capitalized interest incurred during construction.

## **1. Summary of significant accounting policies (continued)**

Certain regulated additions are made with the assistance of non-refundable cash contributions from customers when the estimated revenue is less than the cost of providing service or where special equipment is needed to supply the customers' specific requirements. These contributions are amortized on the same basis as, and offset the depreciation charge of, the assets to which they relate.

Depreciation is provided on assets on a straight-line basis over their estimated useful lives. Depreciation rates for regulated assets, excluding Alberta Power (2000)'s generating plants, are approved by the AEUB and include a provision for future removal costs and site restoration costs (see the accounting policy for asset retirement obligations below). On retirement of these depreciable regulated assets, the accumulated depreciation is charged with the cost of the retired unit, net disposal costs and site restoration costs.

Effective January 1, 2004, the Corporation prospectively adopted the CICA recommendations on accounting for asset impairment. These recommendations require an impairment of property, plant and equipment, intangible assets with finite lives, deferred operating costs and long term prepaid expenses to be 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 present value techniques. This change in accounting had no effect on earnings for the three months and year ended December 31, 2004.

### ***Deferred Financing Charges***

Issue costs of long term debt are amortized over the weighted average life of the debt, issue costs of preferred shares relating to regulated operations are amortized over the expected life of the issue and issue costs of preferred shares relating to other subsidiaries are charged to retained earnings. Unamortized premiums and issue costs of redeemed long term debt and preferred shares relating to regulated operations are amortized over the life of the issue funding the redemption.

### ***Deferred Availability Incentives***

Under the terms of the PPA's, the Corporation is subject to an incentive/penalty regime related to generating unit availability. Incentives are paid to the Corporation by the PPA counterparties for availability in excess of predetermined targets, whereas penalties are paid by the Corporation to the PPA counterparties when the availability targets are not achieved.

Accumulated incentives in excess of accumulated penalties are deferred. For any of the individual PPA's, should accumulated incentives plus estimated future incentives exceed accumulated penalties plus estimated future penalties, the excess will be amortized to revenues on a straight-line basis over the remaining term of the PPA's. Should accumulated penalties plus estimated future penalties exceed accumulated incentives plus estimated future incentives, the shortfall will be expensed in the year the shortfall occurs.

### ***Asset Retirement Obligations***

Effective January 1, 2004, the Corporation retroactively adopted the CICA recommendations on accounting for asset retirement obligations as described in Note 12. The CICA recommendations require the Corporation to identify legal obligations associated with the retirement of tangible long lived assets. To the extent that they can be quantified, these obligations are measured and recognized at fair value, which is determined using present value techniques. The prior year's financial statements have been restated for the change in the method of accounting for asset retirement obligations.

An asset retirement obligation is recorded as a liability in deferred credits, with a corresponding increase to property, plant and equipment. The liability is accreted over the estimated time period until settlement of the obligation, with the accretion expense included in depreciation and amortization. The asset is depreciated over its estimated useful life. Prior to January 1, 2004, site restoration and removal costs that are now accounted for as asset retirement obligations were accrued over the estimated remaining useful lives of the assets.

## **1. Summary of significant accounting policies (continued)**

Asset retirement obligations for regulated natural gas and electric transmission and distribution assets were not recognized as the Corporation expects to use the assets in service for an indefinite period. As such, no final removal date can be determined and, consequently, a reasonable estimate of the related retirement obligations cannot be made at this time. Asset retirement obligations have been recorded for the regulated generating plants of Alberta Power (2000) and other generating plants and natural gas liquids extraction and processing plants.

### ***Long Term Debt Due Within One Year***

When the Corporation intends to refinance long term debt due within one year on a long term basis and there is a written undertaking from an underwriter to act on the Corporation's behalf with respect thereto, or sufficient capacity exists under long term bank loan agreements to issue commercial paper or assume bank loans, then long term debt due within one year is classified as long term.

### ***Hedging***

In conducting its business, the Corporation uses various instruments, including forward contracts, swaps and options, to manage the risks arising from fluctuations in exchange rates, interest rates and commodity prices. All such instruments are used only to manage risk and not for trading purposes.

The Corporation designates each derivative instrument as a hedge of specific assets or liabilities on the balance sheet or specific firm commitments or anticipated transactions. The Corporation also assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of the hedged items.

Payments or receipts on derivative instruments that are designated and effective as hedges are recognized concurrently with, and in the same financial category as, the hedged item.

If a derivative instrument is terminated or ceases to be effective as a hedge prior to maturity, the gain or loss at that date is deferred and recognized in income concurrently with the hedged item. Subsequent changes in the value of the derivative instrument are reflected in income. If the designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, the gain or loss at that date on such derivative instrument is recognized in income.

### ***Employee Future Benefits***

The Corporation accrues for its obligations under defined benefit pension and other post employment benefit plans. Costs of these benefits are determined using the projected benefits method prorated on service and reflects management's best estimates of investment returns, wage and salary increases, age at retirement and expected health care costs.

Pension plan assets at the end of the year are reported at market value. The expected long term rate of return on plan assets is determined at the beginning of the year on the basis of the long bond yield rate at the beginning of the year plus an equity and management premium that reflects the plan asset mix. 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.

Accrued benefit obligations at the end of the year are determined using a discount rate that reflects market interest rates on high quality corporate bonds that match the timing and amount of expected benefit payments.

Experience gains and losses and the effect of changes in assumptions in excess of 10% of the greater of the accrued benefit obligations or the market value of plan assets, adjustments resulting from plan amendments and the transitional liability or asset, which arose upon the adoption in 2000 of the current accounting standard, are amortized over the estimated average remaining service life of employees.

## **1. Summary of significant accounting policies (continued)**

Pursuant to an AEUB decision effective January 1, 2000, the regulated operations, excluding Alberta Power (2000), are required to expense contributions for other post employment benefit and certain other defined benefit pension plans as paid. The differences between the amounts accrued and paid are deferred in other assets.

Employer contributions to the defined contribution pension plans are expensed as paid.

### ***Stock Based Compensation Plans***

Effective January 1, 2004, the Corporation retroactively adopted the CICA recommendations on accounting for stock based compensation as described in Note 15. These recommendations require the expensing of stock options granted on and after January 1, 2002. The Corporation determines the fair value of the options on the date of grant using an option pricing model and recognizes the fair value over the vesting period of the options granted as compensation expense and contributed surplus. Contributed surplus is reduced as the options are exercised and the amount initially recorded in contributed surplus is credited to Class A and Class B share capital. No compensation expense is recorded for stock options granted prior to January 1, 2002 as permitted by the recommendations. The prior year's financial statements have been restated for the change in the method of accounting for stock options.

No compensation expense is recognized when share appreciation rights are granted. Prior to vesting, compensation expense arising from an increase or decrease in the market price of the shares over the base value of the rights is accrued equally over the remaining months to the date of vesting. After that date, compensation expense arising from an increase or decrease in the market price of the shares is recognized monthly in earnings.

### ***Foreign Currency Translation***

Assets and liabilities of self-sustaining foreign operations are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date and revenues and expenses are translated at the average monthly rates of exchange during the year. Gains or losses on translation of self-sustaining foreign operations are included in the foreign currency translation adjustment in share owners' equity.

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Monetary assets and liabilities of integrated foreign operations are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date, non-monetary assets and liabilities are translated at rates of exchange in effect when the assets were acquired or liabilities incurred, and revenues and expenses are translated at the average monthly rates of exchange during the year. Gains or losses on translation of integrated foreign operations are recognized in earnings.

## **2. Accounting for regulated operations**

While CICA recommendations encourage the application of the primary sources of GAAP to all operations, the recommendations do not require that assets and liabilities arising from rate regulation be recognized and measured in accordance with the primary sources of GAAP.

Where regulatory decisions dictate, the Corporation defers certain costs or revenues as assets or liabilities in the balance sheet and records them as expenses or revenues in the earnings statement as it collects or refunds amounts through future customer rates. Any adjustments to these deferred amounts are recognized in earnings in the period that the regulator renders a subsequent decision. The Corporation anticipates that there would be no material differences between the amounts approved by the regulator for collection or refund and the amounts included in assets or liabilities on the balance sheet.

The Corporation has chosen to retain the following existing accounting policies, as permitted by CICA recommendations that define the primary sources of GAAP, pertaining to regulatory decisions that give rise to deferred assets or liabilities:



## 2. Accounting for regulated operations (continued)

- a) *Purchased power* – Purchased power expense for the regulated operations in the Yukon Territory and the Northwest Territories is based on the actual cost of electricity purchased. The amount included in customer rates in the Yukon Territory is based on actual costs and in the Northwest Territories is based on forecast cost. Revenues are adjusted for variances from forecast cost, and the variances are deferred until such time as approval from the regulator is obtained for refund to or collection from customers.
- b) *Future removal and site restoration costs* – Depreciation rates for regulated assets, excluding Alberta Power (2000)'s generating plants, include a provision for future removal costs and site restoration costs (see Note 1 regarding the accounting policy for asset retirement obligations). On retirement of these depreciable regulated assets, the accumulated depreciation is charged with the cost of the retired unit, net disposal costs and site restoration costs.
- c) *Employee future benefits* – Costs of employee future benefits in the regulated operations, excluding Alberta Power (2000), are recognized in earnings when paid rather than accrued. The differences between the amounts accrued on an actuarial basis and paid are deferred in other assets.
- d) Certain costs as required or permitted by the AEUB are deferred for recovery through future rates.

Similar accounting policies that pertained to the retail energy supply businesses that were transferred as of May 4, 2004 (see Note 3) included:

- a) *Natural gas supply* – Natural gas supply expense was based on the forecast cost of natural gas included in customer rates. Variances from forecast costs were deferred until such time as approval from the AEUB was obtained for refund to or collection from customers and revenues and natural gas supply expense was adjusted accordingly.
- b) *Purchased power* – Purchased power expense in ATCO Electric was based on the actual cost of electricity purchased, whereas the amount included in customer rates was based on forecast cost. Revenues were adjusted for variances from forecast cost, and the variances were deferred until such time as approval from the AEUB was obtained for refund to or collection from customers.

## 3. Transfer of retail energy supply businesses

On May 4, 2004, ATCO Gas and ATCO Electric closed the transfer of their retail energy supply businesses to Direct Energy Marketing Limited and one of its affiliates (collectively "DEML"), a subsidiary of Centrica plc. Proceeds of the transfer were \$90 million, of which \$45 million was paid at closing, with the remainder to be paid 12 months following closing. Net proceeds, after adjustments related to legal, transition and other deferred costs pertaining to the transfer of the retail energy supply businesses, resulted in a gain of \$63.3 million before income taxes of \$8.2 million. This transfer increased 2004 earnings by \$55.1 million.

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

Under the various transaction agreements, ATCO Gas and ATCO Electric have transferred to DEML certain retail functions, including the supply of natural gas and electricity to customers and billing and customer care functions ("the transferred functions").

On May 4, 2004, DEML commenced supplying natural gas and electricity at regulated rates to residential, farm, commercial and small industrial customers in the ATCO Gas and ATCO Electric service areas and billing customers for their natural gas and electricity service.

### 3. Transfer of retail energy supply businesses (continued)

If DEML fails to perform all or part of the transferred functions, ATCO Gas and ATCO Electric will be required under existing legislation to perform such functions in the interim until DEML is able to perform such functions. In certain events (including where DEML fails to supply natural gas and/or electricity and ATCO Gas and/or ATCO Electric are ordered by the AEUB to do so), the agreements will terminate and the functions will revert to ATCO Gas and/or ATCO Electric with no refund of the transfer proceeds to DEML by ATCO Gas and/or ATCO Electric.

Centrica plc, DEML's parent, has provided a \$300 million guarantee supported by a \$235 million letter of credit in respect of DEML's obligations to ATCO Gas, ATCO Electric and ATCO I-Tek Business Services in respect of the ongoing relationships contemplated under the transaction agreements. The Centrica guarantee and letter of credit include limits for certain categories of claims, which limits cease to apply if the agreements are terminated. If the amount available to be drawn under the letter of credit at any time falls below \$200 million, the agreements with DEML will terminate and the functions will revert to ATCO Gas and ATCO Electric with no refund of the transfer proceeds to DEML by ATCO Gas and ATCO Electric.

Canadian Utilities Limited has provided a guarantee of ATCO Gas', ATCO Electric's and ATCO I-Tek Business Services' payment and indemnity obligations in respect of the ongoing relationships contemplated under the transaction agreements.

DEML has entered into a 10 year contract effective May 4, 2004, with ATCO I-Tek Business Services to provide billing and call centre services to ensure continued quality customer service. DEML has the ability to terminate this contract after the fifth anniversary upon immediate payment of termination fees which decline over the remaining term of the contract. Based upon current customer counts and service levels and a 10 year contract, revenues are estimated to be between \$400-\$500 million over the term of the contract.

ATCO Gas and ATCO Electric have also agreed not to compete in the regulated and unregulated retail energy business in Alberta for a period of ten years.

In December 2003, the AEUB issued a decision approving the transfer of the retail operations of ATCO Gas and ATCO Electric to DEML. The City of Calgary filed for leave to appeal the AEUB decision, including the allocation of proceeds to ATCO Gas and ATCO Electric. On June 30, 2004, the Alberta Court of Appeal dismissed the City of Calgary's application for leave to appeal.

### 4. Interest and other income

	2004	2003
Interest	\$22.0	\$24.3
Allowance for funds used by regulated operations	6.2	4.4
Other	2.6	4.7
	<b>\$30.8</b>	<b>\$33.4</b>

## 5. Income taxes

The income tax provision differs from that computed using the statutory tax rates for the following reasons:

	2004		2003	
Earnings before income taxes	\$502.8	%	\$447.8	%
Income taxes, at statutory rates	\$205.5	40.9	\$186.9	41.7
Federal general tax reduction <sup>(1)</sup>	(18.4)	(3.7)	(10.9)	(2.4)
Manufacturing and processing tax credit	(7.7)	(1.6)	(8.1)	(1.8)
Resource allowance	(3.3)	(0.7)	(3.5)	(0.8)
Crown royalties and other non-deductible Crown payments	0.7	0.1	1.1	0.3
Large Corporations Tax	7.8	1.6	8.1	1.8
Foreign tax rate variance	(4.6)	(0.9)	(2.6)	(0.6)
Non-deductible interest on foreign financing	1.8	0.4	1.5	0.3
Change in future income taxes resulting from reduction in tax rates	(2.6)	(0.5)	(2.1)	(0.5)
Unrecorded future income taxes relating to regulated operations	4.4	0.9	7.1	1.6
Natural gas and other property disposals	-	-	(0.6)	(0.1)
Transfer of retail energy supply businesses	(12.1)	(2.4)	-	-
Reduction in future income taxes resulting from a change in tax legislation in Australia	-	-	(8.9)	(2.0)
Change in method of accounting for future income taxes in certain regulated operations	(15.8)	(3.1)	(6.8)	(1.5)
Other	2.3	0.4	(5.6)	(1.2)
	<b>158.0</b>	<b>31.4</b>	155.6	34.8
Current income taxes	<b>187.6</b>		158.6	
Future income taxes (recoveries)	<b>\$ (29.6)</b>		\$ (3.0)	

<sup>(1)</sup> The federal general tax reduction of 7% (2003 – 5%) is applicable to earnings that have not otherwise benefited from the manufacturing and processing tax credit and/or the resource allowance. An additional federal tax reduction of 2% (2003 – 1%) is applicable to earnings that have benefited from the resource allowance.

The future income tax liabilities (assets) comprise the following:

	2004	2003
Property, plant and equipment	\$216.7	\$216.8
Deferred assets and liabilities	5.5	35.7
Tax loss carryforwards	(0.9)	(1.2)
Income tax reassessment	-	(12.9)
Other	0.8	0.5
	<b>222.1</b>	238.9
Less: Amounts included in current future income taxes	<b>(0.3)</b>	11.5
	<b>\$222.4</b>	\$227.4

Unrecorded future income tax liabilities of the regulated operations amounted to \$165.3 million at December 31, 2004. This balance includes \$38.8 million in respect of Alberta Power (2000)'s generating plants, which will be recovered through future payments received in respect of the PPA's.

Expected future recoveries relating to tax loss carryforwards have been recorded in the amount of \$0.9 million, of which \$0.1 million begins to expire in 2007 and \$0.8 million does not expire. In addition, there are tax loss carryforwards of \$1.2 million for which no tax benefit has been recorded. These losses begin to expire in 2006.

Income taxes paid amounted to \$134.5 million (2003 – \$147.2 million).

## 5. Income taxes (continued)

In 2001, the Corporation received and paid an income tax reassessment of \$12.9 million relating to the 1996 disposal of ATCOR Resources Ltd. The Corporation did not agree with this reassessment and contested the matter with tax authorities. Accordingly, the payment was recorded as a reduction of future income tax liabilities.

During 2003, the Corporation was successful in appealing the reassessment to the Tax Court of Canada. The Federal Government appealed the Tax Court's decision to the Federal Court of Appeal, which issued a decision on June 18, 2004 in favor of the Corporation. The Federal Government did not appeal the Federal Court of Appeal's decision to the Supreme Court of Canada. The Corporation has received a refund of \$15.1 million, including interest, and has reversed the future income tax reduction of \$12.9 million.

## 6. Retained earnings at beginning of period as restated

	Three Months Ended December 31		Year Ended December 31	
	2004	2003	2004	2003
	<i>(Unaudited)</i>			
Retained earnings at beginning of period as previously reported	\$1,548.3	\$1,385.3	\$1,438.8	\$1,314.9
Adjustment to retained earnings for prior years' effect of change in method of accounting for asset retirement obligations (after income taxes)	-	(3.0)	(3.1)	(3.1)
Adjustment to retained earnings for prior years' effect of change in method of accounting for stock options	-	(0.2)	(0.3)	(0.1)
<b>Retained earnings at beginning of period as restated</b>	<b>\$1,548.3</b>	<b>\$1,382.1</b>	<b>\$1,435.4</b>	<b>\$1,311.7</b>

## 7. Direct charges to retained earnings

	Three Months Ended December 31		Year Ended December 31	
	2004	2003	2004	2003
	<i>(Unaudited)</i>			
Purchase of Class A shares	\$1.6	\$0.9	\$6.6	\$3.4
Issue costs of equity preferred shares (after income taxes of \$1.3 million)	-	-	-	2.7
	<b>\$1.6</b>	<b>\$0.9</b>	<b>\$6.6</b>	<b>\$6.1</b>

## 8. Property, plant and equipment

	2004			2003	
	Composite Depreciation Rates	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Utilities	3.6%	\$5,593.1	\$2,082.1	\$5,191.9	\$1,927.2
Power Generation	3.4%	2,770.5	849.6	2,703.2	768.7
Global Enterprises	8.2%	260.5	123.5	249.3	105.6
Other	4.8%	27.0	4.7	11.4	4.3
		<b>\$8,651.1</b>	<b>3,059.9</b>	<b>\$8,155.8</b>	<b>2,805.8</b>
Property, plant and equipment less accumulated depreciation			<b>5,591.2</b>		<b>5,350.0</b>
Unamortized contributions by utility customers for extensions to plant			<b>545.9</b>		<b>514.6</b>
			<b>\$5,045.3</b>		<b>\$4,835.4</b>

## 8. Property, plant and equipment (continued)

Accumulated depreciation includes amounts provided for future removal and site restoration costs, net of salvage value, of \$297.9 million (2003 – \$285.7 million).

Composite depreciation rates reflect total depreciation in the year as a percentage of mid-year cost, excluding construction work-in-progress of \$75.7 million (2003 – \$265.8 million) and non-depreciable assets of \$40.4 million (2003 – \$39.3 million).

## 9. Other assets

	2004	2003
Net accrued pension asset (Note 19)	\$ 55.9	\$ 52.5
Costs deferred for recovery through future regulated rates <sup>(1)</sup>	25.0	25.7
Deferred costs related to the transfer of retail energy supply businesses	-	10.8
Deferred financing charges <sup>(2)</sup>	27.6	27.9
Other <sup>(1)</sup>	16.2	18.1
	<b>\$124.7</b>	<b>\$135.0</b>

<sup>(1)</sup> Amortization of certain other assets, which was recorded in depreciation and amortization, amounted to \$12.2 million in 2004 (2003 – \$5.2 million).

<sup>(2)</sup> Amortization of deferred financing charges, which was recorded in interest expense, amounted to \$3.1 million in 2004 (2003 – \$2.5 million).

## 10. Bank indebtedness and credit lines

At December 31, 2004, bank indebtedness consists of \$1.2 million (2003 – nil), all of which has been borrowed under joint venture operating credit facilities, at an interest rate of 5.4%, secured by a general assignment of accounts receivable, inventories and property, plant and equipment of a foreign subsidiary corporation.

At December 31, 2004, the Corporation has the following credit lines that enable it to obtain financing for general business purposes:

	2004			2003		
	Total	Used	Available	Total	Used	Available
Long term committed	\$ 326.0	\$12.0	\$314.0	\$ 350.0	\$16.2	\$ 333.8
Short term committed	614.1	22.3	591.8	624.3	49.8	574.5
Uncommitted	69.0	11.4	57.6	178.5	14.1	164.4
	<b>\$1,009.1</b>	<b>\$45.7</b>	<b>\$963.4</b>	<b>\$1,152.8</b>	<b>\$80.1</b>	<b>\$1,072.7</b>

Of the \$45.7 million used at December 31, 2004, \$16.8 million is included in long term debt and \$28.9 million represents outstanding letters of credit.

## 11. Long term debt and non-recourse long term debt

### Long term debt

	2004	2003
CU Inc. debentures – unsecured		
1994 Series 8.73% due June 2004	\$ -	\$ 100.0
1995 Series 8.43% due June 2005	125.0	125.0
2001 4.84% due November 2006	175.0	175.0
2002 4.801% due November 2007	50.0	50.0
2000 6.97% due June 2008	100.0	100.0
1989 Series 10.20% due November 2009	125.0	125.0
1990 Series 11.40% due August 2010	125.0	125.0
2000 7.05% due June 2011	100.0	100.0
2004 5.096% due November 2014	100.0	-
2002 6.145% due November 2017	150.0	150.0
2004 5.432% due January 2019	180.0	-
1999 Series 6.8% due August 2019	300.0	300.0
1990 Second Series 11.77% due November 2020	100.0	100.0
1991 Series 9.92% due April 2022	125.0	125.0
1992 Series 9.40% due May 2023	100.0	100.0
2004 5.896% due November 2034	200.0	-
Canadian Utilities Limited debentures – unsecured		
2002 6.14% due November 2012	100.0	100.0
	<b>2,155.0</b>	1,775.0
ATCO Power Australia Pty Ltd. credit facility, at Bank Bill rates, due July 2005, payable in Australian dollars, unsecured <sup>(1)</sup>	5.3	13.8
ATCO Power Canada Ltd. credit facility, at BA rates, due March 2007, secured by a pledge of cash <sup>(1)</sup>	11.5	12.0
Other long term obligation, at 4.25%, due June 2006, unsecured	4.5	4.5
	<b>2,176.3</b>	1,805.3
Less: Amounts due within one year	5.3	-
	<b>\$2,171.0</b>	\$1,805.3

### Non-recourse long term debt

	2004	2003
Barking Power Limited project financing, payable in British pounds:		
At fixed rates averaging 7.95%, due to 2010	\$ 72.2	\$ 80.8
At LIBOR, due to 2010 <sup>(1)</sup>	118.4	132.5
Osborne Cogeneration Pty Ltd. project financing, payable in Australian dollars:		
At Bank Bill rates, due to 2013 <sup>(1)</sup>	2.3	0.1
At 7.3325%, due to 2013 <sup>(1)</sup>	42.6	51.6
ATCO Power Alberta Limited Partnership (“APALP”) project financing:		
At 7.54% to 2008, at LIBOR thereafter, due to 2016 <sup>(1)</sup>	5.1	6.4
At 7.317% to 2008, at LIBOR thereafter, due to 2016 <sup>(1)</sup>	8.1	9.0
At 7.50% to 2011, at LIBOR thereafter, due to 2016 <sup>(1)</sup>	89.7	93.1
Joffre project financing:		
At 6.435% to 2004, at BA rates thereafter, due to 2012 <sup>(1)</sup>	-	2.3
At 7.286%, due to 2012 <sup>(1)</sup>	31.9	33.4
At 8.59%, due to 2020	32.0	32.0

## 11. Long term debt and non-recourse long term debt (continued)

### Non-recourse long term debt (continued)

	2004	2003
Scotford project financing:		
At 5.202%, due to 2008, at BA rates thereafter, due to 2014 <sup>(1)</sup>	50.4	53.7
At 5.202%, due to 2008, at LIBOR thereafter, due to 2014 <sup>(1)</sup>	12.6	13.9
At 7.93%, due to 2022	27.6	28.2
Muskeg River project financing:		
At 5.247%, due 2007, at BA rates thereafter, due to 2014 <sup>(1)</sup>	47.8	51.0
At BA rates, due to 2014 <sup>(1)</sup>	0.4	0.6
At 7.56%, due to 2022	33.1	34.9
Brighton Beach project financing:		
At 5.8367%, due 2009, at BA or Canadian Eurodollar rates thereafter, due to 2019 <sup>(1)</sup>	9.8	-
At BA or Canadian Eurodollar rates, due to 2019 <sup>(1)</sup>	1.3	-
At 6.575%, due to 2019 <sup>(1)</sup>	39.5	40.7
At 6.924%, due to 2024	110.6	110.6
Cory project financing:		
At BA rates, due to 2011 <sup>(1)</sup>	0.3	0.1
At 6.461%, due to 2011 <sup>(1)</sup>	3.9	4.7
At 7.586%, due to 2025	38.2	38.8
At 7.601%, due to 2026	33.7	34.0
	<b>811.5</b>	<b>852.4</b>
Less: Amounts due within one year	<b>50.6</b>	<b>46.3</b>
	<b>\$760.9</b>	<b>\$806.1</b>

BA – Bankers' Acceptance

LIBOR – London Interbank Offered Rate

<sup>(1)</sup> The above interest rates have additional margin fees at a weighted average rate of 1.1% (2003 – 0.9%).

The Corporation has fixed interest rates, either directly or through interest rate swap agreements, on 95% (2003 – 92%) of total long term debt and non-recourse long term debt.

The non-recourse long term debt is secured by charges on the projects' assets and by an assignment of the projects' bank accounts, outstanding contracts and agreements. The book value of the pledged assets and bank accounts at December 31, 2004 was \$1,342.5 million (2003 – \$1,248.2 million).

### Guarantees

Canadian Utilities Limited has provided a number of guarantees related to ATCO Power's obligations under non-recourse loans associated with certain of its projects. These guarantees cover the following items:

- a) **Equity contributions** – Represents equity funding requirements needed to complete construction of the project being built. At December 31, 2004, the maximum value of the obligation under this guarantee for the Brighton Beach project financing is anticipated to be \$8.7 million.
- b) **Project cash flows** – Represents annual payments related to maintaining base case margins for electricity prices on the merchant power component of the project, being 24 megawatts ("MW") for the Scotford project and 48 MW for the Muskeg River project. These guarantees became effective upon the commercial operation of the plants and exist until 2022, when the project debt is to be fully repaid. The amounts payable under these guarantees will vary each year depending on the pool price received for the merchant power generated. Any payments made to maintain the project base case margins will either be available for distribution to the owners or be applied to mandatory prepayment of the project debt in accordance with the terms of the project financing

## 11. Long term debt and non-recourse long term debt (continued)

agreement depending upon the specific operating results of the plant. At December 31, 2004, no amounts were outstanding under the guarantee.

- c) **Reserve amounts** — Represents amounts to be set aside for major maintenance and debt service reserves as stipulated in the project's financing agreement. These reserves are intended to be funded with project cash flows. To the extent that project cash flows are insufficient to meet reserve requirements, Canadian Utilities Limited may choose to provide guarantees in lieu of ATCO Power providing security. At December 31, 2004, the amount of the obligations under these guarantees is:

Project	Major Maintenance	Debt Service
APALP project financing	Nil <sup>(1)</sup>	\$13.7
Joffre project financing	Nil <sup>(2)</sup>	\$ 4.2
Muskeg River project financing	Nil <sup>(1)</sup>	\$ 5.1
Scotford project financing	Nil <sup>(1)</sup>	\$ 5.6

<sup>(1)</sup> No major maintenance reserve required for this financing.

<sup>(2)</sup> Reserve requirements of \$2.7 million met with project cash flows.

- d) **Prepaid operating and maintenance fee** — Should ATCO Power cease to be operator of the APALP generating plants as a result of a termination of the operating agreement, Canadian Utilities Limited has guaranteed the payment of the unamortized portion of the prepaid operating and maintenance fee to APALP, the proceeds of which are to be used to repay project debt in accordance with the project financing agreements. This guarantee, which declines by \$1.2 million per year, remains in effect until 2016, when the project debt is to be fully repaid. At December 31, 2004, the maximum value of the guarantee is \$32.4 million.
- e) **Purchase project assets** — Represents an obligation to purchase the Scotford and Muskeg River projects at a price sufficient to repay any outstanding project debt upon the occurrence of any one of the following very limited events:
- where all of the following events have occurred:
    - the insolvency of ATCO Power;
    - the failure of the project debt lenders to complete a sale of the project pursuant to their security within a fixed period of time; and
    - the project purchaser of electricity and steam elects to terminate its purchase contracts due to the insolvency of ATCO Power;
  - where the project purchaser of electricity and steam does not remove ATCO Power as operator of the project after an event of default under the project financing agreements in circumstances where such default is either:
    - a deliberate or willful breach of a project financing agreement; or
    - where ATCO Power has failed to co-operate with the lenders in a sale of the project; and
  - where the project purchaser of electricity and steam terminates its purchase contracts for the project as a result of a default by ATCO Power's project minority joint venturers. ATCO Power has the right to cure any such default by acquiring the minority interest which is in default.

These guarantees remain in effect until the project debt is fully repaid. At December 31, 2004, no such events have occurred.

Canadian Utilities Limited has also guaranteed ATCO Power's duties to operate the Barking Power, Scotford and Muskeg River generating plants in accordance with acceptable industry operating standards under the relevant project contracts. In addition, Canadian Utilities Limited has posted acceptable credit support in the amount of \$2.2 million with respect to builders' liens filed against the Cory project.

ATCO Power (80%) and ATCO Resources (20%), a wholly owned subsidiary of Canadian Utilities Limited's parent corporation, ATCO Ltd., have a joint venture in the above projects subject to guarantees, excluding Barking Power.



## 11. Long term debt and non-recourse long term debt (continued)

The foregoing guaranteed amounts represent ATCO Power's 80% interest. Canadian Utilities Limited has also guaranteed similar obligations in respect of ATCO Resources' 20% interest. ATCO Ltd. has indemnified and agreed to reimburse Canadian Utilities Limited for any amounts it may be required to pay under these guarantees in respect of ATCO Resources' 20% interest.

To date, Canadian Utilities Limited has not been required to pay any of its guaranteed obligations.

### *Minimum debt repayments*

The minimum annual debt repayments for each of the next five years are as follows:

	Long Term Debt	Non-Recourse Long term Debt	Total
2005	\$130.3	\$ 50.6	\$180.9
2006	179.5	64.9	244.4
2007	61.5	56.0	117.5
2008	100.0	82.5	182.5
2009	125.0	75.5	200.5
	<b>\$596.3</b>	<b>\$329.5</b>	<b>\$925.8</b>

Of the \$180.9 million due in 2005, \$125.0 million is to be refinanced and is, therefore, excluded from long term debt due within one year in the balance sheet.

### *Interest expense*

Interest on debt is as follows:

	2004	2003
Long term debt	<b>\$147.3</b>	\$144.2
Non-recourse long term debt	<b>55.6</b>	55.9
Notes payable	<b>0.7</b>	0.6
Current bank indebtedness	<b>2.8</b>	5.3
Amortization of financing charges	<b>3.1</b>	2.5
Less: Capitalized on non-regulated projects	<b>(5.8)</b>	(18.2)
	<b>\$203.7</b>	\$190.3

Interest paid amounted to \$201.2 million (2003 – \$207.8 million).

### *Fair values*

Fair values for the above debt, determined using quoted market prices for the same or similar issues, are shown below. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on the Corporation's current borrowing rate for similar borrowing arrangements.

	2004	2003
<i>Long term debt</i>		
Fixed rate	<b>\$2,536.6</b>	\$2,093.3
Floating rate	<b>16.8</b>	25.8
	<b>\$2,553.4</b>	\$2,119.1
<i>Non-recourse long term debt</i>		
Fixed rate	<b>\$ 735.3</b>	\$ 757.8
Floating rate	<b>122.8</b>	133.5
	<b>\$ 858.1</b>	\$ 891.3

## 12. Deferred credits

	2004	2003
Deferred availability incentives	\$ 46.1	\$ 43.3
Asset retirement obligations	34.7	32.3
Deferred electricity cost recoveries	10.3	16.2
Deferred royalty credits	14.1	10.3
Accrued equipment repairs and maintenance	10.1	8.5
Net accrued post employment benefits (Note 19)	11.6	8.7
Deferred revenues	6.4	0.9
Other	24.7	14.9
	<b>\$158.0</b>	<b>\$135.1</b>

### *Deferred availability incentives*

Amortization of deferred availability incentives, which was recorded in revenues, amounted to \$7.6 million in 2004 (2003 – \$7.5 million).

The amount to be amortized is dependent upon estimates of future generating unit availability and future electricity prices over the term of the PPA's. Each quarter, the Corporation uses these estimates to forecast the incentives to be received from, less penalties to be paid to, the PPA counterparties. These forecasts are added to the accumulated unamortized deferred availability incentives outstanding at the end of the quarter; the resulting total is divided by the remaining term of the PPA to arrive at the amortization for the quarter.

### *Asset retirement obligations*

The CICA recommendations on accounting for asset retirement obligations require the Corporation to identify legal obligations associated with the retirement of tangible long lived assets. To the extent that they can be quantified, these obligations are measured and recognized at fair value, which is determined using present value techniques.

Asset retirement obligations for regulated natural gas and electric transmission and distribution assets were not recognized as the Corporation expects to use the assets in service for an indefinite period. As such, no final removal date can be determined and, consequently, a reasonable estimate of the related retirement obligations cannot be made at this time. Asset retirement obligations have been recorded for the regulated generating plants of Alberta Power (2000) and other generating plants and natural gas liquids extraction and processing plants.

The effect of adopting these recommendations is presented as increases (decreases) below:

	Three Months Ended December 31		Year Ended December 31	
	2004	2003	2004	2003
	<i>(Unaudited)</i>			
<i>Statement of earnings</i>				
Site restoration and removal costs, included in operation and maintenance	\$ -	\$ -	\$ -	\$(0.2)
Depreciation and amortization	(0.2)	(0.3)	(0.8)	(1.5)
Accretion expense, included in depreciation and amortization	0.5	0.4	1.9	1.8
Income taxes	(0.1)	-	(0.2)	(0.1)
<b>Earnings attributable to Class A and Class B shares</b>	<b>\$(0.2)</b>	<b>\$(0.1)</b>	<b>\$(0.9)</b>	<b>\$ -</b>

## 12. Deferred credits (continued)

January 1  
2003

### Balance sheet

Retirement assets and site restoration and removal costs, included in property, plant and equipment	\$24.2
Asset retirement obligations, included in deferred credits	30.1
Accrual for future removal and site restoration costs, included in deferred credits	(3.3)
Future income tax liabilities	0.5
Retained earnings at beginning of period	(3.1)

Changes in asset retirement obligations are summarized below:

	Three Months Ended December 31		Year Ended December 31	
	2004	2003	2004	2003
	<i>(Unaudited)</i>			
Obligations at beginning of period	\$34.2	\$31.5	\$32.3	\$30.1
Obligations incurred	-	0.4	0.5	0.4
Accretion expense	0.5	0.4	1.9	1.8
Obligations at end of period	\$34.7	\$32.3	\$34.7	\$32.3

The Corporation estimates the undiscounted amount of cash flow required to settle the asset retirement obligations is approximately \$93 million, which will be incurred between 2005 and 2052. A weighted average discount rate of 5.9% was used to calculate the fair value of the asset retirement obligations.

## 13. Equity preferred shares

### Authorized and issued

Authorized: An unlimited number of Series Second Preferred Shares, issuable in series.

Issued:

	Stated Value (dollars)	Redemption Dates	2004		2003	
			Shares	Amount	Shares	Amount
Cumulative Redeemable Second Preferred Shares						
5.9% Series Q	\$25.00	Open	2,277,675	\$ 56.9	2,277,675	\$ 56.9
5.3% Series R	\$25.00	Open	2,146,730	53.7	2,146,730	53.7
6.6% Series S	\$25.00	Open	635,700	15.9	635,700	15.9
5.8% Series W	\$25.00	See below	6,000,000	150.0	6,000,000	150.0
6.0% Series X	\$25.00	See below	6,000,000	150.0	6,000,000	150.0
Perpetual Cumulative Second Preferred Shares						
5.05% Series O	\$25.00	December 2, 2006	1,600,000	40.0	1,600,000	40.0
5.05% Series T	\$25.00	December 2, 2006	1,600,000	40.0	1,600,000	40.0
5.05% Series U	\$25.00	December 2, 2006	800,000	20.0	800,000	20.0
5.25% Series V	\$25.00	October 3, 2007	4,400,000	110.0	4,400,000	110.0
				\$636.5		\$636.5

The dividends payable on the Series O, T, U, and V preferred shares are fixed until the redemption dates specified above, at which time a new dividend rate may be established by negotiations between Canadian Utilities Limited and the owners of the shares.

### 13. Equity preferred shares (continued)

#### *Fair values*

Fair values for preferred shares determined using quoted market prices for the same or similar issues are \$669.2 million (2003 — \$665.1 million).

#### *Redemption privileges*

The preferred shares, except for Series W and X, are redeemable on the dates specified above at the option of Canadian Utilities Limited at the stated value plus accrued and unpaid dividends.

The Series W preferred shares are redeemable commencing on March 1, 2008 at the stated value plus a 4% premium for the next 12 months plus accrued and unpaid dividends. The redemption premium declines by 1% in each succeeding 12 month period until March 1, 2012.

The Series X preferred shares are redeemable commencing June 1, 2008 at the stated value plus a 4% premium for the next 12 months plus accrued and unpaid dividends. The redemption premium declines by 1% in each succeeding 12 month period until June 1, 2012.

### 14. Class A and Class B shares

#### *Authorized and issued*

	Class A Non-Voting		Class B Common		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
Authorized:	Unlimited		Unlimited			
Issued and outstanding:						
December 31, 2002	40,121,794	\$362.1	23,290,391	\$147.5	63,412,185	\$509.6
Purchased	(73,900)	(0.7)	-	-	(73,900)	(0.7)
Stock options exercised	45,350	1.6	-	-	45,350	1.6
Converted: Class B to Class A	1,040,465	6.6	(1,040,465)	(6.6)	-	-
<b>December 31, 2003</b>	<b>41,133,709</b>	<b>369.6</b>	<b>22,249,926</b>	<b>140.9</b>	<b>63,383,635</b>	<b>510.5</b>
Purchased	(145,400)	(1.3)	-	-	(145,400)	(1.3)
Stock options exercised	153,300	5.1	-	-	153,300	5.1
Converted: Class B to Class A	228,684	1.4	(228,684)	(1.4)	-	-
<b>December 31, 2004</b>	<b>41,370,293</b>	<b>\$374.8</b>	<b>22,021,242</b>	<b>\$139.5</b>	<b>63,391,535</b>	<b>\$514.3</b>

From January 1, 2005 to February 11, 2005, 52,900 Class A non-voting shares were issued with respect to the exercises of stock options and 2,800 Class B common shares were converted to Class A non-voting shares.

#### *Earnings per share*

Earnings per Class A non-voting and Class B common share is calculated by dividing the earnings attributable to Class A and Class B shares by the weighted average shares outstanding. Diluted earnings per share is calculated using the treasury stock method, which reflects the potential exercise of stock options on the weighted average Class A non-voting and Class B common shares outstanding. The average number of shares used to calculate earnings per share are as follows:

#### 14. Class A and Class B shares (continued)

	Three Months Ended December 31		Year Ended December 31	
	2004	2003	2004	2003
	<i>(Unaudited)</i>			
Weighted average shares outstanding	<b>63,373,283</b>	63,371,535	<b>63,382,521</b>	63,389,192
Effect of dilutive stock options	<b>265,413</b>	310,985	<b>249,489</b>	275,855
Weighted average diluted shares outstanding	<b>63,638,696</b>	63,682,520	<b>63,632,010</b>	63,665,047

#### *Share owner rights*

The owners of the Class A non-voting shares and the Class B common shares are entitled to share equally, on a share for share basis, in all dividends declared by Canadian Utilities Limited on either of such classes of shares as well as the remaining property of Canadian Utilities Limited upon dissolution. The owners of the Class B common shares are entitled to vote and to exchange at any time each share held for one Class A non-voting share.

If a take-over bid is made for the Class B common shares which would result in the offeror owning more than 50% of the outstanding Class B common shares and which would constitute a change in control of Canadian Utilities Limited, owners of Class A non-voting shares are entitled, for the duration of the bid, to exchange their Class A non-voting shares for Class B common shares and to tender such Class B common shares pursuant to the terms of the take-over bid. Such right of exchange is conditional upon the completion of the take-over bid giving rise to the right of exchange, and if the take-over bid is not completed, then the right of exchange shall be deemed never to have existed. In addition, owners of the Class A non-voting shares are entitled to exchange their shares for Class B common shares of Canadian Utilities Limited if ATCO Ltd., the present controlling share owner of Canadian Utilities Limited, ceases to own or control, directly or indirectly, more than 10,000,000 of the issued and outstanding Class B common shares of Canadian Utilities Limited. In either case, each Class A non-voting share is exchangeable for one Class B common share, subject to changes in the exchange ratio for certain events such as a stock split or rights offering.

#### *Normal course issuer bid*

On May 20, 2003, Canadian Utilities Limited commenced a normal course issuer bid for the purchase of up to 3% of the outstanding Class A non-voting shares. The bid expired on May 19, 2004. Over the life of the bid, 73,600 shares were purchased, of which 56,600 were purchased in 2003 and 17,000 were purchased in 2004. On May 20, 2004, Canadian Utilities Limited commenced a normal course issuer bid for the purchase of up to 3% of the outstanding Class A non-voting shares. The bid will expire on May 19, 2005. From May 20, 2004, to February 11, 2005, 128,400 shares have been purchased, all of which were purchased in 2004.

#### 15. Stock based compensation plans

##### *Stock option plan*

Of the 3,200,000 Class A non-voting shares reserved for issuance in respect of options under Canadian Utilities Limited's stock option plan, 1,467,350 Class A non-voting shares are available for issuance at December 31, 2004. Options may be granted to directors, officers and key employees of Canadian Utilities Limited and its subsidiaries at an exercise price equal to the weighted average of the trading price of the shares on the Toronto Stock Exchange for the five trading days immediately preceding the date of grant. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the time of grant.

**15. Stock based compensation plans (continued)**

Changes in shares under option are summarized below:

	2004		2003	
	Class A Shares	Weighted Average Exercise Price	Class A Shares	Weighted Average Exercise Price
Options at beginning of year	944,450	\$37.88	947,800	\$37.15
Granted	3,000	52.90	42,000	51.74
Exercised	(153,300)	32.66	(45,350)	35.60
Cancelled	(16,350)	41.13	-	-
Options at end of year	777,800	\$38.89	944,450	\$37.88

Information about stock options outstanding at December 31, 2004 is summarized below:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Class A Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Class A Shares	Weighted Average Exercise Price
\$23.76 - \$30.08	181,350	1.3	\$27.73	181,350	\$27.73
\$34.46 - \$37.74	251,300	4.9	35.66	249,300	35.64
\$41.29 - \$57.29	345,150	5.3	47.12	265,300	46.37
\$23.76 - \$57.29	777,800	4.2	\$38.89	695,950	\$37.67

In 2004, Canadian Utilities Limited granted 3,000 options to purchase Class A non-voting shares to officers and certain key employees at an exercise price of \$52.90 per share. The options have a term of ten years and vest over the first five years.

On January 1, 2005, Canadian Utilities Limited granted 100,000 options to purchase Class A non-voting shares at an exercise price of \$60.49 per share. The options have a term of ten years and vest over the first five years.

Effective January 1, 2004, the Corporation retroactively adopted the CICA recommendations on accounting for stock based compensation. These recommendations require the expensing of stock options granted on and after January 1, 2002. This retroactive change in accounting had no effect on earnings for the three months ended December 31, 2004 and reduced earnings for the year ended December 31, 2004 by \$0.1 million, with no effect on earnings per share in either period, reduced earnings for the three months and year ended December 31, 2003 by \$0.1 million and \$0.2 million, respectively, with no effect on earnings per share in either period, and resulted in a charge of \$0.1 million to retained earnings at January 1, 2003. The prior year's financial statements have been restated for the change in the method of accounting for stock options.

The Corporation uses the Black-Scholes option pricing model, which estimated the weighted average fair value of the options granted during 2004 at \$5.67 per option (2003 — \$4.68 per option) using the following assumptions:

	2004	2003
Risk free interest rate	4.2%	4.3%
Expected holding period prior to exercise	6.5 years	5.5 years
Share price volatility	12.7%	12.1%
Estimated annual Class A share dividend	4.0%	4.0%

## 15. Stock based compensation plans (continued)

### *Share appreciation rights*

Directors, officers and key employees of the Corporation may be granted share appreciation rights that are based on Class A non-voting shares of Canadian Utilities Limited or Class I Non-Voting shares of ATCO Ltd. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the time of grant. The base value of the share appreciation rights is equal to the weighted average of the trading price of the Class A non-voting shares and the Class I Non-Voting shares, respectively, on the Toronto Stock Exchange for the five trading days immediately preceding the date of grant. The holder is entitled on exercise to receive a cash payment equal to any increase in the market price of the Class A non-voting shares and Class I Non-Voting shares, respectively, over the base value of the share appreciation rights exercised.

Share appreciation rights expense amounted to \$0.9 million (2003 — \$2.4 million).

## 16. Changes in non-cash working capital

	2004	2003
<i>Operating activities, changes related to:</i>		
Accounts receivable	\$ 217.9	\$(92.0)
Inventories	(1.3)	(50.8)
Deferred natural gas costs	28.1	4.0
Deferred electricity costs	10.7	21.7
Prepaid expenses	1.4	(0.8)
Accounts payable and accrued liabilities	(187.3)	60.6
Income taxes	41.8	9.8
Future income taxes	(9.0)	(5.3)
	<u>\$ 102.3</u>	<u>\$(52.8)</u>
<i>Investing activities, changes related to:</i>		
Inventories	\$ (0.2)	\$ 0.5
Prepaid expenses	(0.1)	0.3
Accounts payable and accrued liabilities	(4.5)	(30.8)
Income taxes	11.0	-
Future income taxes	(2.8)	-
	<u>\$ 3.4</u>	<u>\$(30.0)</u>
<i>Financing activities, changes related to:</i>		
Accounts receivable	\$ (1.8)	\$ 7.9

## 17. Joint ventures

The Corporation's interest in joint ventures is summarized below:

	2004	2003
<i>Statement of earnings</i>		
Revenues	\$ 452.6	\$ 420.9
Operating expenses	311.5	291.7
Depreciation and amortization	39.2	34.7
Interest	39.3	34.5
	62.6	60.0
Interest and other income	6.8	5.7
Earnings from joint ventures before income taxes	\$ 69.4	\$ 65.7
<i>Balance sheet</i>		
Current assets	\$ 241.7	\$ 143.1
Current liabilities	(138.7)	(115.3)
Property, plant and equipment	990.0	997.5
Deferred items – net	(140.8)	(60.0)
Non-recourse long term debt	(579.6)	(612.6)
Investment in joint ventures	\$ 372.6	\$ 352.7
<i>Statement of cash flows</i>		
Operating activities	\$ 40.4	\$ 80.7
Investing activities	(46.6)	(105.6)
Financing activities	0.6	4.5
Foreign currency translation	(0.4)	(4.7)
Decrease in cash position	\$ (6.0)	\$ (25.1)

Current assets include cash of \$48.7 million (2003 – \$54.4 million) which is only available for use within the joint ventures.

## 18. Related party transactions

In transactions with ATCO Ltd. and its wholly owned subsidiary corporations, the Corporation sold fuel in the amount of \$1.8 million (2003 – \$2.8 million), recovered administrative expenses totaling \$2.7 million (2003 – \$3.0 million) and incurred administrative expenses and corporate signature rights totaling \$7.1 million (2003 – \$6.8 million). The Corporation also incurred advertising and promotion expenses from an entity related through common control totaling \$1.1 million (2003 – \$1.1 million). These transactions are in the normal course of business and under normal commercial terms.

## 19. Employee future benefits

The Corporation maintains defined benefit and defined contribution pension plans for most of its employees and provides other post employment benefits, principally health, dental and life insurance, for retirees and their dependants. The defined benefit pension plans provide for pensions based on employees' length of service and final average earnings. As of 1997, new employees automatically participate in the defined contribution pension plans and employees participating in the defined benefit pension plans may transfer to the defined contribution pension plans at any time. Upon transfer, further accumulation of benefits under the defined benefit pension plans ceases.



## 19. Employee future benefits (continued)

Information about the Corporation's benefit plans, in aggregate, is as follows:

	2004		2003	
	Pension Benefit Plans	Other Post Employment Benefit Plans	Pension Benefit Plans	Other Post Employment Benefit Plans
<i>Benefit plan assets, obligations and funded status</i>				
<i>Market value of plan assets:</i>				
Beginning of year	\$1,322.5	\$ -	\$1,195.0	\$ -
Actual return on plan assets	115.8	-	159.1	-
Employee contributions	5.0	-	5.1	-
Benefit payments	(36.1)	-	(33.4)	-
Payments to defined contribution plans	(5.1)	-	(3.3)	-
<b>End of year</b>	<b>\$1,402.1</b>	<b>\$ -</b>	<b>\$1,322.5</b>	<b>\$ -</b>
<i>Accrued benefit obligations:</i>				
Beginning of year	\$1,092.6	\$ 62.5	\$ 952.0	\$ 47.9
Current service cost	23.6	2.0	20.9	1.9
Interest cost	69.5	3.8	65.3	3.8
Employee contributions	5.0	-	5.1	-
Benefit payments from plan assets <sup>(1)</sup>	(36.1)	-	(33.4)	-
Benefit payments by employer	(4.1)	(2.0)	(3.6)	(1.7)
Experience losses <sup>(2)</sup>	82.2	0.7	86.3	10.6
<b>End of year</b>	<b>\$1,232.7</b>	<b>\$ 67.0</b>	<b>\$1,092.6</b>	<b>\$ 62.5</b>
<i>Funded status:</i>				
Excess (deficiency) of assets over obligations	\$ 169.4	\$(67.0)	\$ 229.9	\$(62.5)
Amounts not yet recognized in financial statements:				
Unrecognized net cumulative experience losses on plan assets and accrued benefit obligations	310.3	14.0	270.1	13.6
Unrecognized net transitional liability (asset)	(286.2)	25.3	(319.0)	27.6
Accrued asset (liability)	193.5	(27.7)	181.0	(21.3)
Regulatory asset (liability) <sup>(3)</sup>	(137.6)	16.1	(128.5)	12.6
<b>Net accrued asset (liability) recognized (Notes 9, 12)</b>	<b>\$ 55.9</b>	<b>\$(11.6)</b>	<b>\$ 52.5</b>	<b>\$ (8.7)</b>

<sup>(1)</sup> Pension plan benefit payments are indexed to increases in the Canadian Consumer Price Index to a maximum increase of 3% per annum.

<sup>(2)</sup> A change in the liability discount rate assumption resulted in experience losses in 2004 of approximately \$70.0 million for the pension benefit plans.

<sup>(3)</sup> The regulatory asset (liability) reflects an AEUB decision to record costs of employee future benefits in the regulated operations, excluding Alberta Power (2000), when paid rather than accrued.

19. Employee future benefits (continued)

	2004		2003	
	Pension Benefit Plans	Other Post Employment Benefit Plans	Pension Benefit Plans	Other Post Employment Benefit Plans
<b>Benefit plan cost (income)</b>				
<i>Components of benefit plan cost (income):</i>				
Current service cost	\$ 23.6	\$ 2.0	\$ 20.9	\$ 1.9
Interest cost	69.5	3.8	65.3	3.8
Actual return on plan assets	(115.8)	-	(159.1)	-
Experience losses on accrued benefit obligations	82.2	0.7	86.3	10.6
	<b>59.5</b>	<b>6.5</b>	<b>13.4</b>	<b>16.3</b>
Adjustments to recognize long term nature of employee future benefits:				
Unrecognized portion of actual return on plan assets	29.4	-	68.1	-
Unrecognized portion of experience losses on accrued benefit obligations	(82.2)	(0.7)	(86.3)	(10.6)
Amortization of net cumulative experience losses on plan assets and accrued benefit obligations	12.7	0.3	13.5	0.4
Amortization of net transitional liability (asset)	(32.8)	2.3	(32.8)	2.3
	<b>(72.9)</b>	<b>1.9</b>	<b>(37.5)</b>	<b>(7.9)</b>
Defined benefit plans cost (income)	(13.4)	8.4	(24.1)	8.4
Defined contribution plans cost	6.4	-	4.5	-
Total cost (income)	(7.0)	8.4	(19.6)	8.4
Less: Capitalized	1.2	2.0	1.0	2.0
Less: Unrecognized defined benefit plans cost (income) <sup>(1)</sup>	(10.2)	2.5	(19.5)	2.5
Net cost (income) recognized	\$ 2.0	\$ 3.9	\$ (1.1)	\$ 3.9

<sup>(1)</sup> The unrecognized defined benefit plans cost (income) reflects an AEUB decision to record costs of employee future benefits in the regulated operations, excluding Alberta Power (2000), when paid rather than accrued.

In the unaudited three months ended December 31, 2004, net cost of \$0.6 million (2003 – \$0.7 million income) was recognized for pension benefit plans and net cost of \$1.0 million (2003 – \$1.3 million) was recognized for other post employment benefit plans.

19. Employee future benefits (continued)

Weighted average assumptions

	2004		2003	
	Pension Benefit Plans	Other Post Employment Benefit Plans	Pension Benefit Plans	Other Post Employment Benefit Plans
<i>Assumptions regarding benefit plan cost (income):</i>				
Expected long term rate of return on plan assets for the year	7.25%	-	7.5%	-
Liability discount rate for the year	6.25%	6.25%	6.5%	6.5%
Average compensation increase for the year	3.0%	-	2.75%	-
<i>Assumptions regarding accrued benefit obligations:</i>				
Liability discount rate at December 31	5.9%	5.9%	6.25%	6.25%
Long term inflation rate	2.5%	(1)	2.5%	(1)

(1) The assumed annual health care cost trend rate increases used in measuring the accumulated post employment benefit obligation are as follows: for drug costs, 9.9% for 2004 grading down over 9 years to 4.5% (2003 – 10.5% for 2003 grading down over 10 years to 4.5%), and, for other medical and dental costs, 4.0% for 2004 and thereafter (2003 – 4.0% for 2003 and thereafter).

The sensitivities of key assumptions used in measuring accrued benefit obligations and benefit plan cost (income) for 2004 are outlined in the following table. The sensitivities of each key assumption have been calculated independently of changes in other key assumptions. Actual experience may result in changes in a number of assumptions simultaneously.

	2004 Pension Benefit Plans		2004 Other Post Employment Benefit Plans	
	Accrued Benefit Obligation	Benefit Plan Cost (Income)	Accrued Benefit Obligation	Benefit Plan Cost (Income)
Expected long term rate of return on plan assets				
1% increase <sup>(1)</sup>	-	\$(3.3)	-	-
1% decrease <sup>(1)</sup>	-	\$ 3.3	-	-
Liability discount rate				
1% increase <sup>(1)</sup>	\$(51.8)	\$(4.8)	\$(2.6)	\$(0.2)
1% decrease <sup>(1)</sup>	\$ 65.3	\$ 5.9	\$ 3.3	\$ 0.3
Future compensation rate				
1% increase <sup>(1)</sup>	\$ 17.9	\$ 2.6	-	-
1% decrease <sup>(1)</sup>	\$(13.8)	\$(2.0)	-	-
Long term inflation rate				
1% increase <sup>(1) (2) (3)</sup>	\$ 21.5	\$ 2.8	\$ 2.9	\$ 0.5
1% decrease <sup>(1) (3)</sup>	\$(38.0)	\$(5.0)	\$(2.4)	\$(0.4)

(1) Sensitivities are net of the associated regulatory asset (liability) and unrecognized defined benefit plans cost (income), which reflect an AEUB decision to record costs of employee future benefits in the regulated operations, excluding Alberta Power (2000), when paid rather than accrued.

(2) The long term inflation rate for pension plans reflects the fact that pension plan benefit payments are indexed to increases in the Canadian Consumer Price Index to a maximum increase of 3.0% per annum.

(3) The long term inflation rate for other post employment benefit plans is the assumed annual health care cost trend rate described in the weighted average assumptions.

## 19. Employee future benefits (continued)

### *Pension benefit plan assets*

	2004		2003	
	Amount	%	Amount	%
<i>Plan asset mix:</i>				
Equity securities <sup>(1)</sup>	\$ 809.2	57.7	\$ 817.3	61.8
Fixed income securities <sup>(2)</sup>	507.2	36.2	442.4	33.4
Real estate <sup>(3)</sup>	34.4	2.4	31.1	2.4
Cash and other assets <sup>(4)</sup>	51.3	3.7	31.7	2.4
	<b>\$1,402.1</b>	<b>100.0</b>	<b>\$1,322.5</b>	<b>100.0</b>

(1) Equity securities consist of investments in domestic and foreign preferred and common shares. At December 31, 2004 the market values of investments in United States' securities and international equities, denominated in a number of different currencies, are \$134.4 million and \$151.6 million, respectively (2003 – \$134.4 million and \$148.7 million, respectively).

(2) Fixed income securities consist of investments in federal and provincial government and corporate bonds and debentures.

(3) Real estate consists of investments in closed-end real estate funds.

(4) Cash and other assets consist of cash, short term notes and money market funds.

At December 31, 2004, plan assets include long term debt of CU Inc. having a market value of \$5.3 million (2003 – \$1.8 million), Class A non-voting and Class B common shares of Canadian Utilities Limited having a market value of \$12.4 million (2003 – \$11.6 million) and Class I Non-Voting shares of ATCO Ltd. having a market value of \$10.6 million (2003 – \$8.7 million).

### *Funding*

Employees are required to contribute a percentage of their salary to the defined benefit pension plans. The Corporation is required to provide the balance of the funding, based on triennial actuarial valuations, necessary to ensure that benefits will be fully provided for at retirement. Based on the most recent actuarial valuation for funding purposes as of December 31, 2002, the Corporation is continuing a contribution holiday that began on April 1, 1996. The next actuarial valuation for funding purposes is required as of December 31, 2005.

Included in the accrued benefit obligations are certain supplementary defined benefit pension plans that are paid by the Corporation out of general revenues. These supplementary plans had accrued benefit obligations of \$71.5 million at December 31, 2004 (2003 – \$70.9 million).

## 20. Risk management and financial instruments

The Corporation is exposed to changes in interest rates, commodity prices and foreign currency exchange rates. The Power Generation segment is affected by the cost of natural gas and the price of electricity in the Province of Alberta and the United Kingdom and the Global Enterprises segment is affected by the cost of natural gas and the price of natural gas liquids. In conducting its business, the Corporation uses various instruments, including forward contracts, swaps and options, to manage the risks arising from fluctuations in exchange rates, interest rates and commodity prices. All such instruments are used only to manage risk and not for trading purposes.

## 20. Risk management and financial instruments (continued)

### *Interest rate risk*

Long term debt and non-recourse long term debt have variable interest rates that have been hedged through the following interest rate swap agreements:

Swap Fixed Interest Rate <sup>(1)</sup>	Variable Debt Interest Rate	Completion Date	Principal/Face Value	
			2004	2003
6.435%	90 day BA	December 2004	\$ -	\$ 2.3
5.247%	90 day BA	December 2007	47.8	51.0
5.202%	90 day BA	September 2008	63.7	67.6
7.54%	90 day BA	November 2008	5.1	6.4
7.317%	90 day BA	December 2008	8.1	9.0
5.837%	90 day BA	June 2009	9.8	-
6.461%	90 day BA	June 2011	3.9	4.7
7.50%	6 month LIBOR	December 2011	90.6	93.1
7.286%	90 day BA	September 2012	32.5	34.3
7.3325%	Bank Bill Rate in Australia	December 2013	42.6	51.6
6.575%	90 day BA	March 2019	39.5	40.7
			<b>\$343.6</b>	<b>\$360.7</b>

BA – Bankers' Acceptance

LIBOR – London Interbank Offered Rate

<sup>(1)</sup> The above swap fixed interest rates include any long term debt margin fees (Note 11).

### *Foreign exchange rate risk*

The Corporation has exposure to changes in the carrying values of its foreign operations, including assets and liabilities, as a result of changes in exchange rates.

The Corporation has entered into foreign exchange forward contracts in order to fix the exchange rate on certain planned equipment expenditures denominated in U.S. dollars. At December 31, 2004, there were no contracts outstanding to purchase U.S. dollars (2003 – \$0.5 million U.S.).

### *Energy commodity price risk*

In March 2004, the AEUB issued a decision respecting the operation of ATCO Gas' Carbon storage facility for the 2004/2005 storage year, which ends on March 31, 2005. The decision directed ATCO Gas to continue to reserve 16.7 petajoules of storage capacity for the benefit of utility customers. As a result of an AEUB approved storage plan, ATCO Gas has entered into certain energy contracts for the forward purchase and sale of natural gas for storage purposes. All associated costs and benefits of these contracts are passed to customers through regulated rates, and accordingly, ATCO Gas does not bear any risk for price fluctuations provided that the contracts are in accordance with the storage plan. At December 31, 2004, the contracts consist of natural gas sales of 12,802 terajoules ("TJ") for \$76.3 million (2003 – 151 TJ for \$1.0 million) and natural gas purchases of 107 TJ for \$0.6 million (2003 – 151 TJ for \$1.0 million).

## 20. Risk management and financial instruments (continued)

### *Fair values*

The fair values of derivatives have been estimated using year-end market rates. These fair values approximate the amount that the Corporation would either pay or receive to settle the contract at December 31.

	2004			2003		
	Notional Principal	Fair Value (Payable) Receivable	Maturity	Notional Principal	Fair Value (Payable) Receivable	Maturity
Interest rate swaps	\$343.6	\$(16.0)	2007-2019	\$360.7	\$(14.0)	2004-2019
Foreign exchange forward contracts	-	-	-	\$ 0.7	Nil	2004

### *Credit risk*

Derivative credit risk arises from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. Derivative credit risk is minimized by dealing with large, credit-worthy counterparties in accordance with established credit approval policies. Accounts receivable credit risk is reduced by a large and diversified customer base, requirement of letters of credit, and, for regulated operations other than Alberta Power (2000), the ability to recover an estimate for doubtful accounts through approved customer rates.

## 21. Commitments and contingencies

### *Commitments*

The Corporation has contractual obligations in the normal course of business, including long term operating leases for office premises and equipment. Future minimum lease payments are as follows:

2005	2006	2007	2008	2009	Total of All Subsequent Years
\$15.0	\$14.0	\$12.7	\$11.9	\$4.9	\$9.4

### *Contingencies*

The Corporation is party to a number of disputes and lawsuits in the normal course of business. The Corporation believes that the ultimate liability arising from these matters will have no material impact on the consolidated financial statements.

As a result of recent decisions of the Supreme Court of Canada in *Garland vs. Consumers' Gas Co.*, the imposition of late payment penalties on utility bills has been called into question. The Corporation is unable to determine at this time the impact, if any, that these decisions will have on the Corporation.

## 22. Regulatory matters

In a decision dated October 2, 2003, the AEUB approved, among other things, a rate of return on common equity of 9.40% and a common equity ratio of 32% for ATCO Electric's transmission operations and 35% for its distribution operations for 2003. These reductions in the common equity ratios reduced the common equity that ATCO Electric was allowed to earn a return on by \$83.0 million for 2003. The decision also set aside certain transactions with affiliates that will be addressed in a separate proceeding, currently in progress. In a decision dated July 2, 2004, the AEUB issued its Generic Cost of Capital decision (as described below) which approved, among other things, a return on common equity of 9.60% for 2004 and a common equity ratio of 33% for ATCO Electric's transmission operations and 37% for its distribution operations beginning in 2004. These increases in the common equity ratios increased the common equity that ATCO Electric was allowed to earn a return on by \$22.3 million for 2004 as compared to 2003.

In a decision dated October 1, 2003, the AEUB approved for ATCO Gas, among other things, a rate of return on common equity of 9.50% for 2003 and 2004 and a common equity ratio of 37% for 2003 and 2004. The decision also set aside certain transactions with affiliates that will be addressed in a separate proceeding, currently in progress. In a decision dated July 2, 2004, the AEUB issued its Generic Cost of Capital decision which approved, among other things, ATCO Gas' common equity ratio of 38% beginning in 2005. As ATCO Gas' return on common equity for 2004 was already established, the standardized approach approved by the AEUB in its Generic Cost of Capital decision for determining the return on common equity will be applied beginning in 2005.

In a decision dated December 2, 2003, the AEUB approved for ATCO Pipelines, among other things, a rate of return on common equity of 9.50% and a common equity ratio of 43.5% for 2003. In a decision dated July 13, 2004, the AEUB awarded additional revenue with respect to the revenue forecasts of certain industrial customers. The decision also set aside certain transactions with affiliates that will be addressed in a separate proceeding, currently in progress. In a decision dated July 2, 2004, the AEUB issued its Generic Cost of Capital decision which approved, among other things, ATCO Pipelines' return on common equity of 9.60% for 2004 and a common equity ratio of 43% beginning in 2004.

The Generic Cost of Capital decision established a standardized approach for each utility company regulated by the AEUB for determining the rate of return on common equity based upon a return of 9.60% on common equity. This rate of return will be adjusted annually by 75% of the change in long term Canada bond yield as forecast in the November Consensus Forecast, adjusted for the average difference between the 10 year and 30 year Canada bond yields for the month of October as reported in the National Post. This adjustment mechanism is the same as the National Energy Board uses in determining its formula based rate of return. The AEUB will undertake a review of this mechanism for the year 2009 or if the rate of return resulting from the formula is less than 7.6% or greater than 11.6%. The AEUB also noted that any party, at any time, could petition for a review of the adjustment formula if that party can demonstrate a material change in facts or circumstances.

The decision also established the appropriate capital structure for each utility regulated by the AEUB. The AEUB determined that any proposed changes to the approved capital structure which result from a material change in the investment risk of a utility will be addressed at utility specific rate applications.

In November 2004, the AEUB announced a generic return on common equity of 9.50% for 2005. The AEUB also announced that the 2005 generic return on equity would only apply to utilities which file rate applications in 2005. If no rate applications are filed, then existing return on common equity rates will continue to apply.

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

## 23. Segmented information

### *Description of segments*

In August 2004, the Corporation reorganized its management reporting structure into the following business segments:

The **Utilities** Business Group includes the regulated distribution of natural gas by ATCO Gas, the regulated distribution and transmission of electric energy by ATCO Electric and its subsidiaries, Northland Utilities (NWT), Northland Utilities (Yellowknife) and Yukon Electrical, the regulated transportation of natural gas by ATCO Pipelines, the regulated transmission and distribution of water by CU Water, and the provision of non-regulated complementary projects by ATCO Utility Services.

The **Power Generation** Business Group includes the non-regulated supply of electricity and cogeneration steam by ATCO Power and the regulated supply of electricity by Alberta Power (2000).

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 industrial, defence and transportation sectors by ATCO Frontec, the development, operation and support of information systems and technologies by ATCO I-Tek, the provision of billing services, payment processing, credit, collection and call centre services by ATCO I-Tek's subsidiary, ATCO I-Tek Business Services, the sale of fly ash and other combustion byproducts produced in coal fired electrical generating plants by ASHCOR Technologies, the manufacture of wood preservation products by Genics and the sale of travel services to both business and consumer sectors by ATCO Travel.

The Corporate and Other segment includes commercial real estate owned by the Corporation in Fort McMurray, Alberta.

2003 segmented figures have been restated to conform to the current basis of segmentation.

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

2004 2003	Utilities	Power Generation	Global Enterprises	Corporate and Other	Intersegment Eliminations	Consolidated
<i>(Unaudited)</i>						
Revenues – external	<b>\$293.8</b> \$650.0	<b>\$183.9</b> \$171.9	<b>\$184.5</b> \$128.0	<b>\$ 0.4</b> \$ 0.4	<b>\$ -</b> \$ -	<b>\$662.6</b> \$950.3
Revenues – intersegment <sup>(1)</sup>	<b>4.1</b> 6.2	<b>-</b> -	<b>29.3</b> 195.2	<b>3.5</b> 2.6	<b>(36.9)</b> (204.0)	<b>-</b> -
Revenues	<b>\$297.9</b> \$656.2	<b>\$183.9</b> \$171.9	<b>\$213.8</b> \$323.2	<b>\$ 3.9</b> \$ 3.0	<b>\$ (36.9)</b> \$(204.0)	<b>\$662.6</b> \$950.3
Earnings attributable to Class A and Class B shares	<b>\$ 38.5</b> \$ 41.1	<b>\$ 24.1</b> \$ 35.7	<b>\$ 30.8</b> \$ 14.4	<b>\$(3.6)</b> \$(5.0)	<b>\$ 0.5</b> \$ 0.3	<b>\$ 90.3</b> \$ 86.5

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



### 23. Segmented information (continued)

#### Segmented results – Year ended December 31

	Utilities	Power Generation	Global Enterprises	Corporate and Other	Intersegment Eliminations	Consolidated
<b>2004</b>						
<b>2003</b>						
Revenues – external	\$1,771.6 \$2,525.6	\$ 653.2 \$ 643.4	\$ 663.5 \$ 572.6	\$ 1.2 \$ 1.0	\$ - \$ -	\$3,089.5 \$3,742.6
Revenues – intersegment <sup>(1)</sup>	18.2 23.0	- -	334.7 653.0	10.4 11.2	(363.3) (687.2)	- -
Revenues	<b>1,789.8</b> 2,548.6	<b>653.2</b> 643.4	<b>998.2</b> 1,225.6	<b>11.6</b> 12.2	<b>(363.3)</b> (687.2)	<b>3,089.5</b> 3,742.6
Operating expenses	<b>1,328.6</b> 2,077.5	<b>346.7</b> 351.8	<b>867.2</b> 1,118.0	<b>11.2</b> 14.6	<b>(368.1)</b> (693.2)	<b>2,185.6</b> 2,868.7
Depreciation and amortization	<b>178.9</b> 166.1	<b>89.5</b> 78.3	<b>22.0</b> 24.3	<b>1.1</b> 0.5	- -	<b>291.5</b> 269.2
Interest expense	<b>118.8</b> 114.0	<b>84.5</b> 75.2	<b>2.4</b> 2.7	<b>148.0</b> 145.6	<b>(150.0)</b> (147.2)	<b>203.7</b> 190.3
Gain on transfer of retail energy supply businesses	<b>(63.3)</b> -	- -	- -	- -	- -	<b>(63.3)</b> -
Interest and other income	<b>(8.6)</b> (8.8)	<b>(7.9)</b> (7.5)	<b>(2.4)</b> (5.9)	<b>(161.9)</b> (158.4)	<b>150.0</b> 147.2	<b>(30.8)</b> (33.4)
Earnings before income taxes	<b>235.4</b> 199.8	<b>140.4</b> 145.6	<b>109.0</b> 86.5	<b>13.2</b> 9.9	<b>4.8</b> 6.0	<b>502.8</b> 447.8
Income taxes	<b>56.3</b> 68.1	<b>56.8</b> 49.2	<b>36.9</b> 30.4	<b>6.2</b> 5.8	<b>1.8</b> 2.1	<b>158.0</b> 155.6
	<b>179.1</b> 131.7	<b>83.6</b> 96.4	<b>72.1</b> 56.1	<b>7.0</b> 4.1	<b>3.0</b> 3.9	<b>344.8</b> 292.2
Dividends on equity preferred shares	<b>10.4</b> 10.4	<b>3.6</b> 3.6	- -	<b>21.8</b> 19.1	- -	<b>35.8</b> 33.1
Earnings attributable to Class A and Class B shares	<b>\$ 168.7</b> \$ 121.3	<b>\$ 80.0</b> \$ 92.8	<b>\$ 72.1</b> \$ 56.1	<b>\$ (14.8)</b> \$ (15.0)	<b>\$ 3.0</b> \$ 3.9	<b>\$ 309.0</b> \$ 259.1
Total assets	<b>\$3,405.6</b> \$3,418.5	<b>\$2,210.3</b> \$2,215.7	<b>\$ 307.8</b> \$ 320.9	<b>\$528.3</b> \$185.7	<b>\$ 11.1</b> \$ (44.3)	<b>\$6,463.1</b> \$6,096.5
Purchase of property, plant and equipment	<b>\$ 426.3</b> \$ 347.9	<b>\$ 77.0</b> \$ 131.7	<b>\$ 14.5</b> \$ 15.5	<b>\$ 17.7</b> \$ 0.6	<b>\$ -</b> \$ -	<b>\$ 535.5</b> \$ 495.7

<sup>(2)</sup> Intersegment revenues are recognized on the basis of prevailing market or regulated prices.

#### Geographic segments

	Domestic		Foreign		Consolidated	
	2004	2003	2004	2003	2004	2003
Revenues	<b>\$2,868.7</b>	\$3,504.3	<b>\$220.8</b>	\$238.3	<b>\$3,089.5</b>	\$3,742.6
Property, plant and equipment	<b>\$4,690.9</b>	\$4,462.3	<b>\$354.4</b>	\$373.1	<b>\$5,045.3</b>	\$4,835.4

#### **24. TXU Europe settlement**

On November 19, 2002, an administration order was issued by an English Court against TXU Europe Energy Trading Limited which had a long term "off take" agreement for 27.5% of the power produced by the 1,000 megawatt Barking generating plant in London, England, in which the Corporation, through Barking Power, has a 25.5% equity interest. Barking Power filed a claim for damages for breach of contract related to TXU Europe's obligations to purchase 27.5% of the power produced by the Barking generating plant. Following negotiations with the administrators, an agreement has now been reached with respect to Barking Power's claim. This agreement is reflected in the company voluntary arrangements ("CVA's") which were approved on January 28, 2005.

On February 3, 2005, the Corporation announced that at TXU creditors' and members' meetings on January 28, 2005, CVA's under the United Kingdom Insolvency Act were approved in respect of certain TXU companies, including TXU Europe Energy Trading Limited and TXU Europe Group plc.

The CVA's will not become effective until on or about February 28, 2005, and any additional creditors are entitled to make claims until on or about March 15, 2005. The impact of the CVA's on the Corporation's financial condition and results cannot be determined at this time, but is expected to be positive.

# CANADIAN UTILITIES LIMITED

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ("MD&A")

The following discussion and analysis of financial condition and results of operations of Canadian Utilities Limited (the "Corporation") should be read in conjunction with the Corporation's unaudited comparative interim financial statements for the three months ended December 31, 2004, and the audited comparative financial statements for the year ended December 31, 2004. Additional information relating to the Corporation, including the Corporation's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

All quarterly information in this document is shaded to differentiate it from the annual information.

The common share capital of the Corporation consists of Class A non-voting shares ("Class A shares") and Class B common shares ("Class B shares").

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### FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A constitute forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "will", "intend", "should", and similar expressions. These statements involve 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 statements. The Corporation believes that the expectations reflected in the forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon.

In particular, this MD&A contains forward-looking statements pertaining to purchase obligations, planned capital expenditures, anticipated completion dates and construction costs of major projects, the impact of changes in government regulation and non-regulated generating capacity subject to long term contracts. The Corporation's actual results could differ materially from those anticipated in these forward-looking statements as a result of regulatory decisions, competitive factors in the industries in which the Corporation operates, prevailing economic conditions, and other factors, many of which are beyond the control of the Corporation.

## **BUSINESS OF THE CORPORATION**

The Corporation's financial statements are consolidated from three Business Groups: Utilities, Power Generation and Global Enterprises. For the purposes of financial disclosure, corporate transactions are accounted for as Corporate and Other (refer to Note 23 to the comparative financial statements). Transactions between Business Groups are eliminated in all reporting of the Corporation's consolidated financial information.

In August 2004, the Corporation reorganized its management reporting structure into the following business segments:

The **Utilities** Business Group includes the regulated distribution of natural gas by ATCO Gas, the regulated distribution and transmission of electric energy by ATCO Electric and its subsidiaries, Northland Utilities (NWT), Northland Utilities (Yellowknife) and Yukon Electrical, the regulated transportation of natural gas by ATCO Pipelines, the regulated transmission and distribution of water by CU Water, and the provision of non-regulated complementary projects by ATCO Utility Services.

The **Power Generation** Business Group includes the non-regulated supply of electricity and cogeneration steam by ATCO Power and the regulated supply of electricity by Alberta Power (2000).

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 industrial, defence and transportation sectors by ATCO Frontec, the development, operation and support of information systems and technologies by ATCO I-Tek, the provision of billing services, payment processing, credit, collection and call centre services by ATCO I-Tek's subsidiary, ATCO I-Tek Business Services, the sale of fly ash and other combustion byproducts produced in coal fired electrical generating plants by ASHCOR Technologies, the manufacture of wood preservation products by Genics and the sale of travel services to both business and consumer sectors by ATCO Travel.

The Corporate and Other segment includes commercial real estate owned by the Corporation in Fort McMurray, Alberta.

## **TRANSFER OF THE RETAIL ENERGY SUPPLY BUSINESSES**

On May 4, 2004, ATCO Gas and ATCO Electric closed the transfer of their retail energy supply businesses to Direct Energy Marketing Limited and one of its affiliates (collectively "DEML"), a subsidiary of Centrica plc ("Transfer of the Retail Energy Supply Businesses"). Proceeds of the transfer were \$90 million, of which \$45 million was paid at closing, with the remainder to be paid 12 months following closing. Net proceeds, after adjustments related to legal, transition and other deferred costs pertaining to the transfer of the retail energy supply businesses, resulted in a gain of \$63.3 million before income taxes of \$8.2 million. This transfer increased 2004 earnings by \$55.1 million.

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

Under the various transaction agreements, ATCO Gas and ATCO Electric transferred to DEML certain retail functions, including the supply of natural gas and electricity to customers and billing and customer care functions (the "transferred functions").

On May 4, 2004, DEML commenced supplying natural gas and electricity at regulated rates to residential, farm, commercial and small industrial customers in the ATCO Gas and ATCO Electric service areas and billing customers for their natural gas and electricity service.

If DEML fails to perform all or part of the transferred functions, ATCO Gas and ATCO Electric will be required under existing legislation to perform such functions in the interim until DEML is able to perform such functions. In certain events (including where DEML fails to supply natural gas and/or electricity and ATCO Gas and/or ATCO Electric are ordered by the Alberta Energy and Utilities Board ("AEUB") to do so), the agreements will terminate and the functions will revert to ATCO Gas and/or ATCO Electric with no refund of the transfer proceeds to DEML by ATCO Gas and/or ATCO Electric.

Centrica plc, DEML's parent, has provided a \$300 million guarantee supported by a \$235 million letter of credit in respect of DEML's obligations to ATCO Gas, ATCO Electric and ATCO I-Tek Business Services in respect of the ongoing relationships contemplated under the transaction agreements. The Centrica guarantee and letter of credit include limits for certain categories of claims, which limits cease to apply if the agreements are terminated. If the amount available to be drawn under the letter of credit at any time falls below \$200 million, the agreements with DEML will terminate and the functions will revert to ATCO Gas and ATCO Electric with no refund of the transfer proceeds to DEML by ATCO Gas and ATCO Electric.

The Corporation has provided a guarantee of ATCO Gas', ATCO Electric's and ATCO I-Tek Business Services' payment and indemnity obligations in respect of the ongoing relationships contemplated under the transaction agreements.

DEML has entered into a 10 year contract effective May 4, 2004, with ATCO I-Tek Business Services to provide billing and call centre services to ensure continued quality customer service. DEML has the ability to terminate this contract after the fifth anniversary upon immediate payment of termination fees which decline over the remaining term of the contract. Based upon current customer counts and service levels and a 10 year contract, revenues are estimated to be between \$400-\$500 million over the term of the contract.

ATCO Gas and ATCO Electric have also agreed not to compete in the regulated and unregulated retail energy business in Alberta for a period of ten years.

In December 2003, the AEUB issued a decision approving the transfer of the retail operations of ATCO Gas and ATCO Electric to DEML. The City of Calgary filed for leave to appeal the AEUB decision, including the allocation of proceeds to ATCO Gas and ATCO Electric. On June 30, 2004, the Alberta Court of Appeal dismissed the City of Calgary's application for leave to appeal.

**SELECTED ANNUAL AND QUARTERLY INFORMATION**

(\$ Millions except per share data)	For the Three Months Ended				Year Ended
	Mar. 31	Jun. 30	Sep. 31	Dec. 31	Dec. 31
	<i>(unaudited)</i>				
<b>2004</b>					
Revenues (1) .....	1,185.9	690.2	550.8	662.6	3,089.5
Earnings attributable to Class A and Class B shares (2) (5) (6) .....	74.5	100.2	44.0	90.3	309.0
Earnings per Class A and Class B share (2) (5) (6) .....	1.17	1.58	0.70	1.43	4.88
Diluted earnings per Class A and Class B share (2) (5) (6) .....	1.16	1.58	0.70	1.42	4.86
<b>2003</b>					
Revenues .....	1,372.2	797.5	622.6	950.3	3,742.6
Earnings attributable to Class A and Class B shares (3) (5) (6) .....	85.9	43.5	43.2	86.5	259.1
Earnings per Class A and Class B share (3) (5) (6) .....	1.35	0.69	0.68	1.37	4.09
Diluted earnings per Class A and Class B share (3) (5) (6) .....	1.34	0.69	0.68	1.36	4.07
<b>2002</b>					
Revenues .....					2,975.9
Earnings attributable to Class A and Class B shares (3) (4) (5) (6) .....					306.1
Earnings per Class A and Class B share (3) (4) (5) (6) .....					4.83
Diluted earnings per Class A and Class B share (3) (4) (5) (6) .....					4.81

Notes:

- (1) Includes the reduction in revenues from the Transfer of the Retail Energy Supply Businesses for the three months ended June 30, 2004, September 30, 2004 and December 31, 2004.
- (2) Includes earnings of \$55.1 million, earnings per share of \$0.87 per share and diluted earnings per share of \$0.87 on the Transfer of the Retail Energy Supply Businesses for the three months ended June 30, 2004, and for year ended December 31, 2004.
- (3) 2003 and 2002 earnings attributable to Class A and Class B shares have been restated for retroactive changes in the methods of accounting for asset retirement obligations and stock based compensation.
- (4) Includes earnings of \$67.3 million, earnings per share of \$1.06 per share and diluted earnings per share of \$1.06 on the sale of the Viking-Kinsella natural gas producing property for the year ended December 31, 2002.
- (5) There were no discontinued operations or extraordinary items during these periods.
- (6) Due to the seasonal nature of the Corporation's operations, changes in electricity prices in Alberta and the timing of rate decisions, earnings for any quarter are not necessarily indicative of operations on an annual basis.
- (7) The above data has been prepared in accordance with Canadian generally accepted accounting principles and the reporting currency is the Canadian dollar.

	Year Ended December 31		
	2004	2003	2002
	(\$ Millions except per share data)		
<b>Cash dividends declared per share:</b>			
<b>Series Second Preferred Shares:</b>			
Series O .....	1.26	1.26	1.26
Series Q .....	1.48	1.48	1.48
Series R.....	1.33	1.33	1.33
Series S.....	1.65	1.65	1.65
Series T.....	1.26	1.26	1.26
Series U .....	1.26	1.26	1.26
Series V (1).....	1.31	1.31	1.20
Series W (2).....	1.45	1.44	-
Series X (3).....	1.50	0.93	-
<b>Class A and Class B shares .....</b>	<b>2.12</b>	<b>2.04</b>	<b>1.96</b>
<b>Total assets .....</b>	<b>6,463.1</b>	<b>6,096.5</b>	<b>5,958.6</b>
<b>Long term debt.....</b>	<b>2,171.0</b>	<b>1,805.3</b>	<b>1,916.9</b>
<b>Non-recourse long term debt .....</b>	<b>760.9</b>	<b>806.1</b>	<b>821.1</b>
<b>Equity preferred shares.....</b>	<b>636.5</b>	<b>636.5</b>	<b>486.5</b>
<b>Class A and Class B share owners' equity .....</b>	<b>2,117.7</b>	<b>1,948.5</b>	<b>1,827.0</b>

Notes:

- (1) The dividend was reset to \$1.31 (5.25%) for the period between October 3, 2002 and October 3, 2007.
- (2) Issued December 3, 2002.
- (3) Issued April 17, 2003.
- (4) The above data has been prepared in accordance with Canadian generally accepted accounting principles and the reporting currency is the Canadian dollar.

**RESULTS OF OPERATIONS**

The principal factors that have caused variations in **revenues** over the eight most recently completed quarters were:

- lower sales of electricity and natural gas purchased for customers on a “no-margin” basis by ATCO Electric and ATCO Gas due to the Transfer of the Retail Energy Supply Businesses (refer to the Transfer of the Retail Energy Supply Businesses section), and lower prices of electricity and natural gas purchased for customers on a “no-margin” basis prior to May 4, 2004 (refer to the Utilities section);
- fluctuations in electricity and natural gas prices (refer to the Power Generation section);
- fluctuations in temperatures (refer to the Utilities section);
- timing of rate decisions (refer to the Utilities and Regulatory Matters sections); and
- lower cost of service revenues in Alberta Power (2000) from the H.R. Milner generating plant which was sold by the Alberta Balancing Pool on January 29, 2004 (refer to the Power Generation section).

The principal factors that have caused variations in **earnings** over the eight most recently completed quarters were:

- the Transfer of the Retail Energy Supply Businesses (refer to the Transfer of the Retail Energy Supply Businesses and the Utilities sections);
- fluctuations in electricity prices and related spark spreads in Alberta for ATCO Power (refer to the Power Generation section);
- fluctuations in temperatures (refer to the Utilities section); and
- timing of rate decisions (refer to the Utilities and Regulatory Matters sections).

## Consolidated Operations

**Revenues** for the three months ended December 31, 2004, decreased by \$287.7 million to \$662.6 million, primarily due to:

- lower sales of electricity and natural gas purchased for customers on a “no-margin” basis by ATCO Electric and ATCO Gas due to the Transfer of the Retail Energy Supply Businesses;
- lower cost of service revenues in Alberta Power (2000) from the H.R. Milner generating plant which was sold by the Alberta Balancing Pool on January 29, 2004;
- planned maintenance outage at ATCO Power’s Osborne generating plant in Australia during the fourth quarter of 2004. This outage began in October and was completed by the end of November; and
- warmer temperatures in ATCO Gas, which were 9.8% warmer than normal, compared to 3.2% warmer than normal for the corresponding period in 2003.

This decrease was partially offset by:

- higher natural gas volumes purchased and resold for natural gas liquids extraction and higher prices received for natural gas liquids in ATCO Midstream;
- the ATCO Pipelines Decision (refer to Regulatory Matters - ATCO Pipelines section);
- increased business activity and the commencement of work for new customers by ATCO I-Tek;
- operations at ATCO Power’s new 170 megawatt Scotford generating plant commissioned in December 2003 and its new 580 megawatt Brighton Beach generating plant commissioned in July 2004; and
- improved performance in ATCO Power’s United Kingdom (“U.K.”) operations.

**Revenues** for the year ended December 31, 2004, decreased by \$653.1 million to \$3,089.5 million, primarily due to:

- lower sales of electricity and natural gas purchased for customers on a “no-margin” basis by ATCO Electric and ATCO Gas due to the Transfer of the Retail Energy Supply Businesses, and lower prices of electricity and natural gas purchased for customers on a “no-margin” basis prior to May 4, 2004;
- warmer temperatures in ATCO Gas, which were 3.0% warmer than normal, compared to 3.4% colder than normal in 2003;
- lower cost of service revenues in Alberta Power (2000) from the H.R. Milner generating plant which was sold by the Alberta Balancing Pool on January 29, 2004;
- lower natural gas volumes purchased for ATCO Pipelines’ customers as a result of customers moving from sales service (commodity and transportation revenues) to transportation service only contracts (transportation revenue); and
- lower prices received for electricity sold to the Alberta Electric System Operator (“AESO”) by ATCO Power.

This decrease was partially offset by:

- higher natural gas volumes purchased and resold for natural gas liquids extraction and higher prices received for natural gas liquids in ATCO Midstream;
- operations at ATCO Power’s new Scotford and Brighton Beach generating plants;
- customer additions in ATCO Gas;
- increased business activity and the commencement of work for new customers by ATCO I-Tek;
- the ATCO Pipelines Decision; and
- improved performance in ATCO Power’s U.K. operations.

**Earnings attributable to Class A and Class B shares** for the three months ended December 31, 2004, increased by \$3.8 million (\$0.06 per share) to \$90.3 million (\$1.43 per share), primarily due to:

- the ATCO Pipelines Decision;
- higher margins on natural gas liquids and higher earnings in storage operations in ATCO Midstream;
- increased business activity and the commencement of work for new customers by ATCO I-Tek;
- lower income tax rates; and
- improved earnings in ATCO Power’s U.K. operations.

This increase was partially offset by:

- a favourable one-time tax adjustment in Australia in 2003 for ATCO Power (\$8.9 million);
- higher transportation costs in ATCO Pipelines;



- warmer temperatures in ATCO Gas; and
- the ATCO Gas Decision (refer to Regulatory Matters - ATCO Gas section).

**Earnings attributable to Class A and Class B shares** for the year ended December 31, 2004, **including** the \$55.1 million after-tax gain on the Transfer of the Retail Energy Supply Businesses, increased by \$49.9 million (\$0.79 per share) to \$309.0 million (\$4.88 per share).

**Earnings attributable to Class A and Class B shares** for the year ended December 31, 2004, **excluding** the \$55.1 million after-tax gain on the Transfer of the Retail Energy Supply Businesses, decreased by \$5.2 million (\$0.08 per share) to \$253.9 million (\$4.01 per share), primarily due to:

- a favourable one-time tax adjustment in Australia in 2003 for ATCO Power (\$8.9 million);
- decrease in ATCO Power's earnings of \$8.0 million due to lower prices on electricity sold to the AESO and the related spark spread (as defined in the Power Generation section);
- warmer temperatures in ATCO Gas;
- the ATCO Electric Decision (refer to Regulatory Matters - ATCO Electric section); and
- higher transportation costs in ATCO Pipelines.

This decrease was partially offset by:

- lower income tax rates;
- higher margins on natural gas liquids and higher earnings in storage operations in ATCO Midstream;
- improved earnings in ATCO Power's U.K. operations;
- the ATCO Pipelines Decision;
- increased business activity and the commencement of work for new customers by ATCO I-Tek;
- customer additions in ATCO Gas; and
- operations at ATCO Power's new Scotford and Brighton Beach generating plants.

Return on common equity was 15.2% in 2004.

**Operating expenses** (consisting of natural gas supply, purchased power, operation and maintenance, selling and administrative and franchise fee costs) for the three months ended December 31, 2004, decreased by \$317.9 million to \$396.9 million, primarily due to:

- lower costs of electricity and natural gas purchased for customers on a "no-margin" basis by ATCO Electric and ATCO Gas due to the Transfer of the Retail Energy Supply Businesses;
- lower natural gas volumes purchased for ATCO Pipelines' customers as a result of customers moving from sales service (commodity and transportation costs) to transportation service only contracts (transportation costs);
- lower selling and administrative costs, primarily in ATCO Gas and ATCO Electric; and
- reduced operating and maintenance costs in Alberta Power (2000) from the H.R. Milner generating plant which was sold by the Alberta Balancing Pool on January 29, 2004.

This decrease was partially offset by:

- higher natural gas volumes purchased for natural gas liquids extraction by ATCO Midstream;
- higher franchise fees in ATCO Gas;
- higher fuel costs in ATCO Power's Alberta generating plants due to higher prices, and the commencement of operations at the new Scotford and Brighton Beach generating plants; and
- higher transportation costs in ATCO Pipelines.

**Operating expenses** for the year ended December 31, 2004, decreased by \$683.1 million to \$2,185.6 million, primarily due to:

- lower costs of electricity and natural gas purchased for customers on a "no-margin" basis by ATCO Electric and ATCO Gas due to the Transfer of the Retail Energy Supply Businesses, and lower costs of electricity and natural gas purchased for customers on a "no-margin" basis prior to May 4, 2004;
- warmer temperatures in ATCO Gas;
- reduced operating and maintenance costs in Alberta Power (2000) from the H.R. Milner generating plant which was sold by the Alberta Balancing Pool on January 29, 2004; and

- lower natural gas volumes purchased for ATCO Pipelines' customers as a result of customers moving from sales service (commodity and transportation costs) to transportation service only contracts (transportation costs).

This decrease was partially offset by:

- higher natural gas volumes purchased for natural gas liquids extraction by ATCO Midstream;
- customer additions in ATCO Gas;
- higher transportation costs in ATCO Pipelines;
- higher fuel and operating costs due to the commencement of operations at ATCO Power's new Scotford and Brighton Beach generating plants; and
- higher franchise fees in ATCO Gas.

**Depreciation and amortization expenses** for the three months ended December 31, 2004, increased by \$8.4 million to \$81.2 million, primarily due to:

- capital additions in 2004 and 2003.

**Depreciation and amortization expenses** for the year ended December 31, 2004, increased by \$22.3 million to \$291.5 million, primarily due to:

- capital additions in 2004 and 2003.

**Interest expense** for the three months ended December 31, 2004, increased by \$5.8 million to \$52.9 million, primarily due to:

- interest on non-recourse financings for ATCO Power's new Scotford and Brighton Beach generating plants commissioned in December 2003 and July 2004, respectively; and
- interest on new financings issued in 2004 to fund capital expenditures in Utilities operations.

**Interest expense** for the year ended December 31, 2004, increased by \$13.4 million to \$203.7 million, primarily due to:

- interest on non-recourse financings for ATCO Power's new Oldman River, Scotford and Brighton Beach generating plants commissioned in July 2003, December 2003 and July 2004, respectively; and
- interest on new financings issued in 2004 to fund capital expenditures in Utilities operations.

**Interest and other income** for the three months ended December 31, 2004, increased by \$0.9 million to \$10.4 million, primarily due to:

- interest income on higher cash balances.

**Interest and other income** for the year ended December 31, 2004, decreased by \$2.6 million to \$30.8 million, primarily due to:

- higher gains on disposals of property, plant and equipment in 2003.

This decrease was partially offset by:

- interest income on higher cash balances.

**Income taxes** for the three months ended December 31, 2004, increased by \$13.1 million to \$42.8 million, primarily due to:

- a favourable one-time tax adjustment in Australia in 2003 for ATCO Power; and
- a favourable one-time tax adjustment in 2003 for ATCO Pipelines, resulting from a change in income tax methodology as directed by the AEUB in the ATCO Pipelines Decision.

This increase was partially offset by:

- lower income tax rates; and
- a favourable one-time tax adjustment in 2004 for ATCO Gas, resulting from a change in income tax methodology as directed by the AEUB in the ATCO Gas Decision.

**Income taxes** for the year ended December 31, 2004, **including** the \$8.2 million of income taxes resulting from the Transfer of the Retail Energy Supply Businesses, increased by \$2.4 million to \$158.0 million.

**Income taxes** for the year ended December 31, 2004, **excluding** the \$8.2 million of income taxes resulting from the Transfer of the Retail Energy Supply Businesses, decreased by \$5.8 million to \$149.8 million, primarily due to:

- lower income tax rates; and
- a favourable one-time tax adjustment in 2004 for ATCO Gas.

This decrease was partially offset by:

- a favourable one-time tax adjustment in Australia in 2003 for ATCO Power; and
- a favourable one-time tax adjustment in 2003 for ATCO Pipelines.

**Dividends on equity preferred shares** for the year ended December 31, 2004, increased by \$2.7 million to \$35.8 million as a result of:

- issue of \$150.0 million of 6.00% Cumulative Redeemable Second Preferred Shares Series X ("Series X Preferred Shares") in April 2003.

### Segmented Information

**Segmented revenues** for the three months and for the year ended December 31, 2004, were as follows:

(\$ Millions)	For the Three Months Ended December 31		For the Year Ended December 31	
	2004	2003	2004	2003
	<i>(unaudited)</i>			
Utilities (1).....	297.9	656.2	1,789.8	2,548.6
Power Generation .....	183.9	171.9	653.2	643.4
Global Enterprises .....	213.8	323.2	998.2	1,225.6
Corporate and Other.....	3.9	3.0	11.6	12.2
Intersegment eliminations.....	(36.9)	(204.0)	(363.3)	(687.2)
<b>Total.....</b>	<b>662.6</b>	<b>950.3</b>	<b>3,089.5</b>	<b>3,742.6</b>

*Note:*

(1) Includes the reduction in revenues from the Transfer of the Retail Energy Supply Businesses for the three months and for the year ended December 31, 2004.

**Segmented earnings** attributable to Class A and Class B shares for the three months and for the year ended December 31, 2004, were as follows:

(\$ Millions)	For the Three Months Ended December 31		For the Year Ended December 31	
	2004	2003	2004	2003
	<i>(unaudited)</i>			
Utilities (1).....	38.5	41.1	168.7	121.3
Power Generation (2).....	24.1	35.7	80.0	92.8
Global Enterprises (2).....	30.8	14.4	72.1	56.1
Corporate and Other (3).....	(3.6)	(5.0)	(14.8)	(15.0)
Intersegment eliminations.....	0.5	0.3	3.0	3.9
Total.....	90.3	86.5	309.0	259.1

Notes:

- (1) The earnings for the year ended December 31, 2004, include earnings of \$55.1 million from the Transfer of the Retail Energy Supply Businesses.
- (2) 2003 earnings have been restated for a retroactive change in the method of accounting for asset retirement obligations.
- (3) 2003 earnings have been restated for a retroactive change in the method of accounting for stock based compensation.

**Utilities**

**Revenues** from the Utilities Business Group for the three months ended December 31, 2004, decreased by \$358.3 million to \$297.9 million, primarily due to:

- lower sales of electricity and natural gas purchased for customers on a “no-margin” basis by ATCO Electric and ATCO Gas due to the Transfer of the Retail Energy Supply Businesses; and
- warmer temperatures in ATCO Gas, which were 9.8% warmer than normal, compared to 3.2% warmer than normal for the corresponding period in 2003.

This decrease was partially offset by:

- the ATCO Pipelines Decision (refer to Regulatory Matters - ATCO Pipelines section).

**Revenues** for the year ended December 31, 2004, decreased by \$758.8 million to \$1,789.8 million, primarily due to:

- lower sales of electricity and natural gas purchased for customers on a “no-margin” basis by ATCO Electric and ATCO Gas due to the Transfer of the Retail Energy Supply Businesses, and lower prices of electricity and natural gas purchased for customers on a “no-margin” basis prior to May 4, 2004;
- warmer temperatures in ATCO Gas, which were 3.0% warmer than normal, compared to 3.4% colder than normal in 2003; and
- lower natural gas volumes purchased for ATCO Pipelines’ customers as a result of customers moving from sales service (commodity and transportation revenues) to transportation service only contracts (transportation revenue).

This decrease was partially offset by:

- customer additions in ATCO Gas; and
- the ATCO Pipelines Decision.

**Earnings** for the three months ended December 31, 2004, decreased by \$2.6 million to \$38.5 million, primarily due to:

- higher transportation costs in ATCO Pipelines;
- warmer temperatures in ATCO Gas; and
- the ATCO Gas Decision (refer to Regulatory Matters - ATCO Gas section).

This decrease was partially offset by:

- the ATCO Pipelines Decision.

**Earnings** for the year ended December 31, 2004, **including** the \$55.1 million after-tax gain on the Transfer of the Retail Energy Supply Businesses, increased by \$47.4 million to \$168.7 million.

**Earnings** for the year ended December 31, 2004, **excluding** the \$55.1 million after-tax gain on the Transfer of the Retail Energy Supply Businesses, decreased by \$7.7 million to \$113.6 million, primarily due to:

- warmer temperatures in ATCO Gas;
- the ATCO Electric Decision (refer to Regulatory Matters - ATCO Electric section); and
- higher transportation costs in ATCO Pipelines.

This decrease was partially offset by:

- the ATCO Pipelines Decision;
- customer additions in ATCO Gas; and
- lower income tax rates.

**Operating expenses** for the year ended December 31, 2004, decreased by \$748.9 million to \$1,328.6 million, primarily due to:

- lower costs of electricity and natural gas purchased for customers on a “no-margin” basis by ATCO Electric and ATCO Gas due to the Transfer of the Retail Energy Supply Businesses, and lower costs of electricity and natural gas purchased for customers on a “no-margin” basis prior to May 4, 2004;
- warmer temperatures in ATCO Gas; and
- lower natural gas volumes purchased for ATCO Pipelines’ customers as a result of customers moving from sales service (commodity and transportation costs) to transportation service only contracts (transportation costs).

This decrease was partially offset by:

- customer additions in ATCO Gas;
- higher transportation costs in ATCO Pipelines; and
- higher franchise fees in ATCO Gas.

In the first quarter of 2003, ATCO Gas commenced the first phase of a \$278 million project to relocate natural gas meters currently inside homes to the outside. The project will make the distribution system safer by relocating and replacing aging infrastructure, improve metering accuracy and accessibility, and facilitate more efficient meter reading. The ATCO Gas Decision approved a program which will result in meters with underground entries being relocated over 10 years and all other inside meters moved as part of the existing meter recall program. The decision also allows ATCO Gas to move meters at any time if they are deemed unsafe.

On August 30, 2004, ATCO Electric completed construction of a \$99.0 million, 350 kilometre 240 kilovolt transmission line between Fort McMurray and Whitefish Lake. The project included three substations and the expansion of an existing substation. Construction was completed in 10 months. Typically, a project of this scale and complexity is constructed over two years.

### Power Generation

**Revenues** from the Power Generation Business Group for the three months ended December 31, 2004, increased by \$12.0 million to \$183.9 million, primarily as a result of:

- operations at ATCO Power’s new 170 megawatt Scotford generating plant commissioned in December 2003 and its new 580 megawatt Brighton Beach generating plant commissioned in July 2004;
- improved performance in ATCO Power’s United Kingdom (“U.K.”) operations; and
- higher capacity and energy charges in Alberta Power (2000).

This increase was partially offset by:

- lower cost of service revenues in Alberta Power (2000) for the H.R. Milner generating plant which was sold by the Alberta Balancing Pool on January 29, 2004; and

- planned maintenance outage at ATCO Power's Osborne generating plant in Australia during the fourth quarter of 2004. This outage began in October and was completed by the end of November.

**Revenues** for the year ended December 31, 2004, increased by \$9.8 million to \$653.2 million, primarily as a result of:

- operations at ATCO Power's new Scotford and Brighton Beach generating plants;
- improved performance in ATCO Power's U.K. operations; and
- higher capacity and energy charges in Alberta Power (2000).

This increase was partially offset by:

- lower cost of service revenues in Alberta Power (2000) for the H.R. Milner generating plant which was sold by the Alberta Balancing Pool on January 29, 2004; and
- lower prices received for electricity sold to the AESO by ATCO Power.

**Earnings** for the three months ended December 31, 2004, decreased by \$11.6 million to \$24.1 million, primarily due to:

- a favourable one-time tax adjustment in Australia in 2003 for ATCO Power (\$8.9 million); and
- planned maintenance outage at ATCO Power's Osborne generating plant in Australia.

This decrease was partially offset by:

- improved earnings in ATCO Power's U.K. operations; and
- operations at ATCO Power's new Scotford and Brighton Beach generating plants.

AESO electricity prices for the three months ended December 31, 2004, averaged \$55.07 per megawatt hour, compared to average prices of \$54.71 per megawatt hour for the corresponding period in 2003. Natural gas prices for the three months ended December 31, 2004, averaged \$6.16 per gigajoule, compared to average prices of \$5.60 per gigajoule for the corresponding period in 2003. The consequence of stable electricity prices and slightly higher natural gas prices was an average spark spread of \$8.87 per megawatt hour for the three months ended December 31, 2004, compared to \$13.46 per megawatt hour for the corresponding period in 2003.

Spark spread is related to the difference between AESO electricity prices and the marginal cost of producing electricity from natural gas.

Changes in spark spread affect the results of operation of approximately 300 megawatts of plant capacity owned in Alberta by ATCO Power out of a total world wide owned capacity of approximately 1,318 megawatts.

**Earnings** for the year ended December 31, 2004, decreased by \$12.8 million to \$80.0 million, primarily due to:

- a favourable one-time tax adjustment in Australia in 2003 for ATCO Power (\$8.9 million);
- decrease in ATCO Power's earnings of \$8.0 million due to lower prices on electricity sold to the AESO and the related spark spread.

AESO electricity prices in 2004 averaged \$54.59 per megawatt hour, compared to average prices of \$62.99 per megawatt hour in 2003. Natural gas prices in 2004 averaged \$6.19 per gigajoule, compared to average prices of \$6.31 per gigajoule in 2003. The consequence of relatively weaker electricity prices was an average spark spread of \$8.16 per megawatt hour in 2004, compared to \$15.69 per megawatt hour in 2003; and

- lower earnings from the transmission must run ("TMR") contracts that were not renewed in May 2004 at the Rainbow Lake IV and V generating plants. The TMR service was conscripted at reduced load levels by the AESO under AEUB regulated terms and conditions up until December 17, 2004, at which time the AESO and ATCO Power agreed to a contract under which the service would be dispatched at full load until December 31, 2005. Compensation under this contract is subject to the AEUB's decision on the AESO's pending application to amend the regulated terms and conditions for conscripted service.

This decrease was partially offset by:

- improved earnings in ATCO Power's U.K. operations; and
- operations at ATCO Power's new Scotford and Brighton Beach generating plants.

**Operating expenses** for the year ended December 31, 2004, decreased by \$5.1 million to \$346.7 million, primarily due to:

- reduced operating and maintenance costs in Alberta Power (2000) from the H.R. Milner generating plant which was sold by the Alberta Balancing Pool on January 29, 2004.

This decrease was partially offset by:

- higher fuel and operating costs due to the commencement of operations at ATCO Power's new Scotford and Brighton Beach generating plants.

During the three months ended December 31, 2004, Alberta Power (2000)'s **deferred availability incentive** account increased by \$8.1 million to \$46.1 million. The increase was primarily due to additional availability incentive payments received for improved plant availability. During the three months ended December 31, 2004, the amortization of deferred availability incentives, recorded in revenues, increased by \$0.2 million to \$2.0 million.

During the year ended December 31, 2004, the **deferred availability incentive** account increased by \$2.8 million to \$46.1 million. The increase was primarily due to the Battle River arbitration decision (refer to Business Risks-Alberta Power (2000) section), partially offset by amortization of deferred availability incentives, recorded in revenues, of \$7.6 million.

On January 29, 2004, the H.R. Milner generating plant was sold by the Alberta Balancing Pool to a third party and the contract under which Alberta Power (2000) had operated the plant on a cost of service basis since January 2001 was terminated. As part of the sale, Alberta Power (2000) was relieved of all decommissioning and reclamation obligations, including any environmental liabilities.

A partnership formed by ATCO Power, ATCO Resources and Ontario Power Generation owns and operates the Brighton Beach power plant, a 580 megawatt natural gas-fired combined cycle generating plant in Windsor, Ontario. Commercial operation of the plant commenced in July 2004.

ATCO Power and SaskPower International Inc. announced in September 2004 that they would not proceed with their joint venture to build 150 megawatts of wind generation in Saskatchewan.

On November 19, 2002, an administration order was issued by an English Court against TXU Europe Energy Trading Limited which had a long term "off take" agreement for 27.5% of the power produced by the 1,000 megawatt Barking generating plant in London, England, in which the Corporation, through Barking Power, has a 25.5% equity interest. Barking Power filed a claim for damages for breach of contract related to TXU Europe's obligations to purchase 27.5% of the power produced by the Barking generating plant. Following negotiations with the administrators, an agreement has now been reached with respect to Barking Power's claim. This agreement is reflected in the company voluntary arrangements ("CVAs") which were approved on January 28, 2005.

On February 3, 2005, the Corporation announced that at TXU creditors' and members' meetings on January 28, 2005, CVAs under the United Kingdom Insolvency Act were approved in respect of certain TXU companies, including TXU Europe Energy Trading Limited and TXU Europe Group plc.

The CVAs will not become effective until on or about February 28, 2005, and any additional creditors are entitled to make claims until on or about March 15, 2005. The impact of the CVAs on the Corporation's financial condition and results cannot be determined at this time, but is expected to be positive.

The Barking generating plant has continued to supply 725 megawatts of power under long term contracts with other purchasers. The 275 megawatts of power previously supplied to TXU Europe is currently being sold into the United Kingdom ("U.K.") electricity market on a merchant basis under a one year marketing agreement.

At December 31, 2004, all of ATCO Power's non-regulated independent generating plants were in service.

## Global Enterprises

**Revenues** from the Global Enterprises Business Group for the three months ended December 31, 2004, decreased by \$109.4 million to \$213.8 million, primarily due to:

- lower volumes of natural gas purchased in ATCO Midstream for ATCO Gas as a result of the Transfer of the Retail Energy Supply Businesses.

This decrease was partially offset by:

- higher natural gas volumes purchased and resold for natural gas liquids extraction and higher prices received for natural gas liquids in ATCO Midstream; and
- increased business activity and the commencement of work for new customers by ATCO I-Tek.

**Revenues** for the year ended December 31, 2004, decreased by \$227.4 million to \$998.2 million, primarily due to:

- lower volumes of natural gas purchased in ATCO Midstream for ATCO Gas as a result of the Transfer of the Retail Energy Supply Businesses.

This decrease was partially offset by:

- higher natural gas volumes purchased and resold for natural gas liquids extraction and higher prices received for natural gas liquids in ATCO Midstream; and
- increased business activity and the commencement of work for new customers by ATCO I-Tek.

**Earnings** for the three months ended December 31, 2004, increased by \$16.4 million to \$30.8 million, primarily due to:

- higher margins on natural gas liquids and higher earnings in storage operations in ATCO Midstream; and
- increased business activity and the commencement of work for new customers by ATCO I-Tek.

**Earnings** for the year ended December 31, 2004, increased by \$16.0 million to \$72.1 million, primarily due to:

- higher margins on natural gas liquids and higher earnings in storage operations in ATCO Midstream; and
- increased business activity and the commencement of work for new customers by ATCO I-Tek.

**Operating expenses** for the year ended December 31, 2004, decreased by \$250.8 million to \$867.2 million, primarily due to:

- lower volumes of natural gas purchased in ATCO Midstream for ATCO Gas as a result of the Transfer of the Retail Energy Supply Businesses.

This decrease was partially offset by:

- higher natural gas volumes purchased for natural gas liquids extraction by ATCO Midstream.

## Corporate and Other

**Earnings** for the three months ended December 31, 2004, increased by \$1.4 million to \$(3.6) million, primarily due to:

- lower income taxes; and
- interest income on higher cash balances.

**Earnings** for the year ended December 31, 2004, increased by \$0.2 million to \$(14.8) million, primarily due to:

- decreased share appreciation rights expense due to changes in Canadian Utilities Limited Class A share and ATCO Ltd. Class I Non-Voting share prices since December 31, 2003.

This increase was partially offset by:

- increased dividends on equity preferred shares, net of investment income, due to the issue in April 2003 of the Series X Preferred Shares.



## **ATCOR Resources Ltd. Tax Reassessment**

In 2001, the Corporation received and paid an income tax reassessment of \$12.9 million relating to the 1996 disposal of ATCOR Resources Ltd. The Corporation did not agree with this reassessment and contested the matter with tax authorities. Accordingly, the payment was recorded as a reduction of future income tax liabilities.

During 2003, the Corporation was successful in appealing the reassessment to the Tax Court of Canada. The Federal Government appealed the Tax Court's decision to the Federal Court of Appeal, which issued a decision on June 18, 2004 in favor of the Corporation. The Federal Government did not appeal the Federal Court of Appeal's decision to the Supreme Court of Canada. The Corporation has received a refund of \$15.1 million, including interest, and has reversed the future income tax reduction of \$12.9 million

## **REGULATORY MATTERS**

Regulated operations are conducted by ATCO Electric and its subsidiaries, Northland Utilities (NWT), Northland Utilities (Yellowknife) and Yukon Electrical, the ATCO Gas and ATCO Pipelines divisions of ATCO Gas and Pipelines Ltd. and the generating plants of Alberta Power (2000), all of which are wholly owned subsidiaries of the Corporation's wholly owned subsidiary, CU Inc.

In July 2004, the AEUB issued its generic cost of capital decision. The decision established a standardized approach for each utility company regulated by the AEUB for determining the rate of return on common equity based upon a return of 9.60% on common equity. This rate of return will be adjusted annually by 75% of the change in long term Canada bond yield as forecast in the November Consensus Forecast, adjusted for the average difference between the 10 year and 30 year Canada bond yields for the month of October as reported in the National Post. This adjustment mechanism is the same as the National Energy Board uses in determining its formula based rate of return. The AEUB will undertake a review of this mechanism for the year 2009 or if the rate of return resulting from the formula is less than 7.6% or greater than 11.6%. The AEUB also noted that any party, at any time, could petition for a review of the adjustment formula if that party can demonstrate a material change in facts or circumstances.

The decision also established the appropriate capital structure for each utility regulated by the AEUB. The AEUB determined that any proposed changes to the approved capital structure which result from a material change in the investment risk of a utility will be addressed at utility specific rate applications.

In November 2004, the AEUB announced a generic return on common equity of 9.50% for 2005. The AEUB also announced that the 2005 generic return on equity would only apply to utilities which file rate applications in 2005. If no rate applications are filed, then existing return on common equity rates will continue to apply.

### **ATCO Electric**

In a decision dated October 2, 2003, the AEUB approved, among other things, a rate of return on common equity of 9.40% and a common equity ratio of 32% for ATCO Electric's transmission operations and 35% for its distribution operations for 2003. These reductions in the common equity ratios reduced the common equity that ATCO Electric was allowed to earn a return on by \$83.0 million for 2003. The decision also set aside certain transactions with affiliates that will be addressed in a separate proceeding, currently in progress.

In a decision dated July 2, 2004, the AEUB issued its generic cost of capital decision which approved, among other things, a return on common equity of 9.60% and a common equity ratio of 33% for ATCO Electric's transmission operations and 37% for its distribution operations beginning in 2004. These increases in the common equity ratios increased the common equity that ATCO Electric was allowed to earn a return on by \$22.3 million for 2004 as compared to 2003.

ATCO Electric's October 2, 2003, and July 2, 2004, decisions are referred to in this MD&A as the "ATCO Electric Decision".

## **ATCO Gas**

In a decision dated October 1, 2003, the AEUB approved for ATCO Gas, among other things, a rate of return on common equity of 9.50% for 2003 and 2004 and a common equity ratio of 37% for 2003 and 2004. The decision also set aside certain transactions with affiliates that will be addressed in a separate proceeding, currently in progress.

In a decision dated July 2, 2004, the AEUB issued its generic cost of capital decision which approved, among other things, ATCO Gas' common equity ratio of 38% beginning in 2005. As ATCO Gas' return on common equity for 2004 was already established, the standardized approach approved by the AEUB in its generic cost of capital decision (as described above) for determining the return on common equity will be applied beginning in 2005.

ATCO Gas' October 1, 2003, and July 2, 2004, decisions are referred to in this MD&A as the "ATCO Gas Decision".

In October 2001, the AEUB approved the sale by ATCO Gas of certain properties in the City of Calgary, known as the Calgary Stores Block, for \$6.6 million (excluding costs of disposition) and allocated \$4.1 million of the proceeds to customers and \$1.8 million to ATCO Gas. In January 2004, the Alberta Court of Appeal overturned this decision and directed the AEUB to allocate \$5.4 million of the proceeds to ATCO Gas. The City of Calgary has appealed this decision to the Supreme Court of Canada, which has also granted ATCO Gas leave to cross-appeal the decision. Accordingly, ATCO Gas has not yet recorded the impact of the Alberta Court of Appeal decision.

In March 2004, the AEUB directed ATCO Gas to continue to reserve for the benefit of utility customers 16.7 petajoules of storage capacity at its Carbon storage facility for the 2004/2005 storage year, which ends on March 31, 2005, and allowed ATCO Midstream to continue to utilize the remaining uncontracted capacity at a rate of \$0.45 per gigajoule, up from \$0.41 per gigajoule. ATCO Gas has been granted leave to appeal this AEUB decision to the Alberta Court of Appeal. A hearing date has not yet been determined.

In July 2004, the AEUB initiated a written process to consider its role in regulating the operations of the Carbon storage facility.

ATCO Gas has filed an application with the AEUB to address, among other things, corrections required to historical transportation imbalances that have impacted ATCO Gas' deferred gas account. The application requests a recovery of approximately \$11.3 million from ATCO Gas' south customers, and a refund of approximately \$2.0 million to ATCO Gas' north customers. A decision from the AEUB is expected in the second quarter of 2005.

## **ATCO Pipelines**

In a decision dated December 2, 2003, the AEUB approved for ATCO Pipelines, among other things, a rate of return on common equity of 9.50% and a common equity ratio of 43.5% for 2003. In a decision dated July 13, 2004, the AEUB awarded additional revenue with respect to the revenue forecasts of certain industrial customers. The decision also set aside certain transactions with affiliates that will be addressed in a separate proceeding, currently in progress.

In a decision dated July 2, 2004, the AEUB issued its generic cost of capital decision which approved, among other things, ATCO Pipelines' return on common equity of 9.60% for 2004 and a common equity ratio of 43% beginning in 2004.

ATCO Pipelines' December 2, 2003, July 2, 2004, and July 13, 2004, decisions are referred to in this MD&A as the "ATCO Pipelines Decision".

The AEUB has announced that it will hold a hearing to address competitive issues between ATCO Pipelines and NOVA Gas Transmission Ltd. This hearing is not expected to be held until 2006.

## LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations provides a substantial portion of the Corporation's cash requirements. Additional cash requirements are met externally through bank borrowings and the issuance of long term and non-recourse debt and preferred shares. Commercial paper borrowings and short term bank loans are used to provide flexibility in the timing and amounts of long term financing.

**Cash flow from operations** for the three months ended December 31, 2004, increased by \$11.1 million to \$164.4 million, primarily due to:

- increased availability incentives in Alberta Power (2000), primarily due to availability incentive payments received for improved plant availability; and
- a refund to customers by ATCO Pipelines as a result of a change in income tax methodology as directed by the AEUB in the ATCO Pipelines Decision, which reduced cash flow from operations in 2003 by \$5.4 million (the "ATCO Pipelines Refund").

This increase was partially offset by:

- a refund to customers by ATCO Gas as a result of a change in income tax methodology as directed by the AEUB in the ATCO Gas Decision, which reduced cash flow from operations in 2004 by \$16.5 million (the "ATCO Gas Refund").

**Cash flow from operations** for the year ended December 31, 2004, increased by \$12.5 million to \$538.3 million, primarily due to:

- increased availability incentives in Alberta Power (2000);
- the ATCO Pipelines Refund.

This increase was partially offset by:

- the ATCO Gas Refund.

**Investing** for the three months ended December 31, 2004, increased by \$0.2 million to \$125.2 million, primarily due to:

- decreased proceeds on disposal of property, plant and equipment;
- changes in non-cash working capital; and
- reductions in non-current deferred electricity costs.

This increase was partially offset by:

- lower capital expenditures.

**Capital expenditures** for the three months ended December 31, 2004, decreased by \$27.6 million to \$149.1 million, primarily due to:

- lower investment in regulated electric transmission and non-regulated power generation projects.

This decrease was partially offset by:

- increased investment in regulated natural gas transportation and distribution projects.

**Investing** for the year ended December 31, 2004, increased by \$35.3 million to \$469.3 million, primarily due to:

- higher capital expenditures;
- decreased proceeds on disposal of property, plant and equipment; and
- reductions in non-current deferred electricity costs.

This increase was partially offset by:

- changes in non-cash working capital; and
- proceeds from the Transfer of the Retail Energy Supply Businesses.

**Capital expenditures** for the year ended December 31, 2004, increased by \$39.8 million to \$535.5 million, primarily due to:

- increased investment in regulated electric transmission projects.

This increase was partially offset by:

- lower investment in non-regulated power generation projects.

During the three months ended December 31, 2004, the Corporation **issued**:

- \$100.0 million of 5.096% Debentures due November 18, 2014; and
- \$200.0 million of 5.896% Debentures due November 20, 2034.

During the three months ended December 31, 2004, the Corporation **redeemed**:

- \$96.0 million of notes payable;
- \$36.8 million of long term debt; and
- \$8.8 million of non-recourse long term debt.

These changes resulted in a **net debt increase** of \$158.4 million.

During the year ended December 31, 2004, the Corporation **issued**:

- \$180.0 million of 5.432% Debentures due January 23, 2019;
- \$100.0 million of 5.096% Debentures due November 18, 2014;
- \$200.0 million of 5.896% Debentures due November 20, 2034;
- \$59.8 million of other long term debt; and
- \$10.0 million of non-recourse long term debt.

During the year ended December 31, 2004, the Corporation **redeemed**:

- \$100.0 million of 8.73% Debentures 1994 Series due June 1, 2004;
- \$68.6 million of other long term debt; and
- \$49.2 million of non-recourse long term debt.

These changes resulted in a **net debt increase** of \$332.0 million.

A planned issue of \$180.0 million of debentures by CU Inc. in 2003 was deferred until January 2004 pending clarification of one of the Corporation's credit ratings. As a result of the uncertainty surrounding the timing of the receipt of the credit rating, the Corporation utilized its cash resources in late 2003 to temporarily pay down outstanding debt.

Capital expenditures to maintain capacity, meet planned growth and fund future development activities are expected to be approximately \$475 million in 2005. These expenditures are uncommitted and relate primarily to utility operations.

Contractual obligations for the next five years and thereafter are as follows:

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
	(\$ Millions)				
Long term debt.....	2,176.3	130.3	241.0	225.0	1,580.0
Non-recourse long term debt .....	811.5	50.6	120.9	158.0	482.0
Operating leases.....	67.9	15.0	26.7	16.8	9.4
Purchase obligations:					
ATCO Gas natural gas purchase contracts (1) .....	7.0	1.4	1.4	1.4	2.8
Alberta Power (2000) coal purchase contracts (2) .	881.7	43.5	90.6	96.1	651.5
Alberta Power (2000) capital expenditures (3) .....	9.7	9.7	-	-	-
ATCO Power natural gas fuel supply contracts (4) .....	367.0	49.0	111.3	110.9	95.8
ATCO Power operating and maintenance agreements (5).....	175.1	16.4	30.3	34.0	94.4
ATCO Power capital expenditures (6) .....	6.4	6.4	-	-	-
ATCO Electric capital expenditures (7).....	17.8	17.8	-	-	-
Other .....	16.8	16.8	-	-	-
<b>Total.....</b>	<b>4,537.2</b>	<b>356.9</b>	<b>622.2</b>	<b>642.2</b>	<b>2,915.9</b>

Notes:

- (1) ATCO Gas has ongoing obligations to purchase fixed quantities of natural gas from various gas producers at market prices that are in effect at the time the quantities are purchased. These obligations relate mostly to storage purchases and operational contracts pertaining to the Carbon storage facility, which was not included in the Transfer of the Retail Energy Supply Businesses to DEML and continues to be subject to AEUB regulation. Some of these obligations are for the life of the gas reserves. The estimated value of these purchase obligations is based on the market price of natural gas in effect on December 31, 2004, and assumes a remaining life of 10 years for the gas reserves commencing January 1, 2004. The cost of natural gas purchased under these obligations is recoverable from ATCO Gas' customers.
- (2) Alberta Power (2000) has fixed price long term contracts to purchase coal for its coal-fired generating plants. These costs are recoverable pursuant to the power purchase arrangements.
- (3) Alberta Power (2000) has entered into contracts with suppliers to improve operating efficiency at certain of its generating plants.
- (4) ATCO Power has various contracts to purchase natural gas for its natural gas-fired generating plants. ATCO Power has long term offtake agreements with the purchasers of the electricity to recover 73% of these costs. The balance of 27%, related to ATCO Power's Barking generating plant, is currently being recovered through merchant sales in the U.K. electricity market.
- (5) ATCO Power has various contracts with suppliers to provide operating and maintenance services at certain of its generating plants.
- (6) ATCO Power has entered into various contracts to purchase goods and services with respect to its capital expenditure programs.
- (7) ATCO Electric has entered into various contracts to purchase goods and services with respect to its capital expenditure programs.

At December 31, 2004, the Corporation had the following credit lines that enable it to obtain funding for general corporate purposes.

	<b>Total</b>	<b>Used</b>	<b>Available</b>
		(\$ Millions)	
Long term committed.....	326.0	12.0	314.0
Short term committed .....	614.1	22.3	591.8
Uncommitted .....	69.0	11.4	57.6
<b>Total.....</b>	<b>1,009.1</b>	<b>45.7</b>	<b>963.4</b>

In the third quarter of 2004, following a review of ongoing cash requirements, the Corporation reduced its long term committed lines by \$25.0 million, its short term committed lines by \$9.6 million and its uncommitted lines by \$108.4 million. These reductions were due primarily to reduced credit needs in CU Inc. following the Transfer of the Retail Energy Supply Businesses earlier in the year.

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

**Future income tax liabilities** of \$222.4 million at December 31, 2004, 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.

On May 20, 2003, the Corporation commenced a normal course issuer bid for the purchase of up to 3% of the outstanding Class A shares. The bid expired on May 19, 2004. Over the life of the bid, 73,600 shares were purchased, of which 56,600 were purchased in 2003 and 17,000 were purchased in 2004. On May 20, 2004, the Corporation commenced a normal course issuer bid for the purchase of up to 3% of the outstanding Class A shares. The bid will expire on May 19, 2005. From May 20, 2004, to February 23, 2005, 128,400 shares have been purchased, all of which were purchased in 2004.

It is the policy of the Corporation to pay dividends quarterly on its Class A and Class B shares. In 2004, the Corporation increased the dividends on Class A and Class B shares by \$0.08 per share, the same increase as in 2003. The Corporation has increased its annual common share dividend each year since its inception as a holding company in 1972. The matter of an increase in the quarterly dividend is addressed by the Board of Directors in the first quarter of each year. For the first quarter of 2005, the **quarterly dividend** payment has been increased by \$0.02 to \$0.55 per share. The payment of any dividend is at the discretion of the Board of Directors and depends on the financial condition of the Corporation and other factors.

On January 16, 2004, CU Inc. filed a base shelf prospectus which permits CU Inc. to issue up to an aggregate of \$750.0 million of debentures over the twenty-five month life of the prospectus.

- On January 23, 2004, CU Inc. issued \$180.0 million of 5.432% Debentures due January 23, 2019, at a price of 100 to yield 5.432%. The proceeds of the issue were advanced to ATCO Electric, ATCO Gas, ATCO Pipelines and CU Water and used to fund capital expenditures, repay indebtedness and for general corporate purposes.
- On November 18, 2004, CU Inc. issued \$100.0 million of 5.096% Debentures due November 18, 2014, at a price of 100 to yield 5.096% and \$200.0 million of 5.896% Debentures due November 20, 2034, at a price of 100 to yield 5.896%. The proceeds of the issues were advanced to ATCO Electric, ATCO Gas, ATCO Pipelines and CU Water and used to fund capital expenditures, repay indebtedness and for general corporate purposes.

## **OUTSTANDING SHARE DATA**

At February 23, 2005, the Corporation had outstanding 41,430,193 Class A shares and 22,014,242 Class B shares.

The owners of the Class A shares and the Class B shares are entitled to share equally, on a share for share basis, in all dividends declared by the Corporation on either of such classes of shares as well as the remaining property of the Corporation upon dissolution. The owners of the Class B shares are entitled to vote and to exchange at any time each share held for one Class A share.

If a take-over bid is made for the Class B shares which would result in the offeror owning more than 50% of the outstanding Class B shares and which would constitute a change in control of the Corporation, owners of Class A shares are entitled, for the duration of the bid, to exchange their Class A shares for Class B shares and to tender such Class B shares pursuant to the terms of the take-over bid. Such right of exchange is conditional upon the completion of the take-over bid giving rise to the right of exchange, and if the take-over bid is not completed, then the right of exchange shall be deemed never to have existed. In addition, owners of the Class A shares are entitled to exchange their shares for Class B shares of the Corporation if ATCO Ltd., the present controlling share owner of the Corporation, ceases to own or control, directly or indirectly, more than 10,000,000 of the issued and outstanding Class B shares of the Corporation. In either case, each Class A share is exchangeable for one Class B share, subject to changes in the exchange ratio for certain events such as a stock split or rights offering.

Of the 3,200,000 Class A shares reserved for issuance in respect of options under the Corporation's stock option plan, 1,467,350 Class A shares are available for issuance at December 31, 2004. Options may be granted to directors, officers and key employees of the Corporation and its subsidiaries at an exercise price equal to the weighted average of the trading price of the shares on the Toronto Stock Exchange for the five trading days immediately preceding the date of grant. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the time of grant. As of February 23, 2005, options to purchase 824,900 Class A shares were outstanding.

## **TRANSACTIONS WITH RELATED PARTIES**

In transactions with ATCO Ltd. and its wholly owned subsidiary corporations, the Corporation sold fuel in the amount of \$1.8 million, recovered administrative expenses totaling \$2.7 million, and incurred administrative expenses and corporate signature rights totaling \$7.1 million. The Corporation also incurred advertising and promotion expenses from an entity related through common control totaling \$1.1 million. These transactions are in the normal course of business and under normal commercial terms.

## **BUSINESS RISKS**

On February 16, 2005, the Kyoto Protocol came into effect. The Corporation is unable to determine what impact, if any, the protocol will have on its operations as the Government of Canada has not yet released its implementation plan. It is anticipated that the Corporation's power purchase arrangements ("PPA's") relating to its coal-fired generating plants will allow the Corporation to recover any increased costs associated with the implementation of the protocol.

### **Regulated Operations**

ATCO Electric, ATCO Gas and ATCO Pipelines are regulated primarily by the AEUB, which administers acts and regulations covering such matters as rates, financing, accounting, construction, operation and service area. The AEUB may approve interim rates, subject to final determination. These subsidiaries are subject to the normal risks faced by companies that are regulated. These risks include the approval by the AEUB 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. The Corporation's ability to recover the actual costs of providing service and to earn the approved rates of return depends on achieving the forecasts established in the rate-setting process.

## **Transfer of the Retail Energy Supply Businesses**

Although ATCO Gas and ATCO Electric have transferred to DEML certain retail functions, including the supply of natural gas and electricity to customers and billing and customer care functions, ATCO Gas and ATCO Electric remain legally obligated to perform these functions if DEML fails to perform. If DEML fails to perform all or part of the transferred functions, ATCO Gas and ATCO Electric will be required under existing legislation to perform such functions in the interim until DEML is able to perform such functions. In certain events (including where DEML fails to supply natural gas and/or electricity and ATCO Gas and/or ATCO Electric are ordered by the AEUB to do so), the functions will revert to ATCO Gas and/or ATCO Electric with no refund of the transfer proceeds to DEML by ATCO Gas and/or ATCO Electric. In the event of a reversion of such functions, ATCO Gas and ATCO Electric could incur costs related to commodity procurement, transportation and delivery charges and various regulatory costs.

Centrica plc, DEML's parent, has provided a \$300 million guarantee, supported by a \$235 million letter of credit in respect of DEML's obligations to ATCO Gas, ATCO Electric and ATCO I-Tek Business Services in respect of the ongoing relationships contemplated under the transaction agreements. However, there can be no assurance that the coverage under these agreements will be adequate to cover all of the costs that could arise in the event of a reversion of such functions.

The Corporation has provided a guarantee of ATCO Gas', ATCO Electric's and ATCO I-Tek Business Services' payment and indemnity obligations in respect of the ongoing relationships contemplated under the transaction agreements.

As a result of the agreements with DEML, ATCO Gas and ATCO Electric are no longer involved in arranging for the supply and sale of natural gas and electricity to customers, but will continue to own the assets and provide transportation and distribution services under AEUB approved rates that provide for a recovery of costs of service and fair return.

In December 2003, the AEUB issued a decision approving the transfer of the retail operations of ATCO Gas and ATCO Electric to DEML. The City of Calgary filed for leave to appeal the AEUB decision, including the allocation of proceeds to ATCO Gas and ATCO Electric. On June 30, 2004, the Alberta Court of Appeal dismissed the City of Calgary's application for leave to appeal.

## **Late Payment Penalties on Utility Bills**

As a result of recent decisions of the Supreme Court of Canada in *Garland vs. Consumers' Gas Co.*, the imposition of late payment penalties on utility bills has been called into question. The Corporation is unable to determine at this time the impact, if any, that these decisions will have on the Corporation.

## **Alberta Power (2000)**

Included in regulated operations are the generating plants of Alberta Power (2000), which were regulated by the AEUB until December 31, 2000, but are now governed by legislatively mandated PPA's that were approved by the AEUB. These plants are included in regulated operations primarily because the PPA's are designed to allow the owners of generating plants constructed before January 1, 1996, to recover their forecast fixed and variable costs and to earn a return at the rate specified in the PPA's. The plants will become deregulated upon the expiry of the PPA's. Each PPA is to remain in effect until the earlier of the last day of the estimated life of the related generating plant and December 31, 2020.

Substantially all the electricity generated by Alberta Power (2000) is sold pursuant to PPA's. Under the PPA's, Alberta Power (2000) is required to make the generating capacity for each generating unit available to the purchaser of the PPA for that unit. In return, Alberta Power (2000) is entitled to recover its forecast fixed and variable costs for that unit from the PPA purchaser, including a return on common equity equal to the long term Canada bond rate plus 4.5% based on a deemed common equity ratio of 45%. Many of the forecast costs will be determined by indices, formulae or other means for the entire period of the PPA. Alberta Power (2000)'s actual results will vary and depend on performance compared to the forecasts on which the PPA's were based.



Under the terms of the PPA's, the Corporation is subject to an incentive/penalty regime related to generating unit availability. Incentives are paid to the Corporation by the PPA counterparties for availability in excess of predetermined targets, whereas penalties are paid by the Corporation to the PPA counterparties when the availability targets are not achieved.

Accumulated incentives in excess of accumulated penalties are deferred. For any of the individual PPA's, should accumulated incentives plus estimated future incentives exceed accumulated penalties plus estimated future penalties, the excess will be amortized to revenues on a straight-line basis over the remaining term of the PPA's. Should accumulated penalties plus estimated future penalties exceed accumulated incentives plus estimated future incentives, the shortfall will be expensed in the year the shortfall occurs.

At December 31, 2004, the Corporation had recorded \$46.1 million of deferred availability incentives.

Fuel costs in Alberta Power (2000) are mostly for coal supply. To protect against volatility in coal prices, Alberta Power (2000) owns or has sufficient coal supplies under long term contracts for the anticipated lives of its Battle River and Sheerness coal-fired generating plants. These contracts are at prices that are either fixed or indexed to inflation.

In August 2004, an arbitration tribunal appointed under the Battle River Power Purchase Arrangement ("Battle River PPA") determined that Alberta Power (2000) was entitled to recover \$10.4 million of availability penalty payments, plus interest, from EPCOR Utilities Inc. ("EPCOR"), the counterparty to the Battle River PPA, due to short term curtailed plant production during the first quarter of 2003 caused by unprecedented drought conditions. The \$10.4 million of availability penalty payments plus interest, less costs associated with the arbitration proceedings, was recorded in Alberta Power (2000)'s deferred availability incentive balance sheet account and had no effect on Alberta Power (2000)'s 2004 earnings.

In June and July 2004, the Battle River generating plant's water levels were below those of 2003, which required the Corporation to limit generation to avoid exceeding the environmental license temperature limitations. The Corporation made force majeure claims for the period June 24, 2004, to July 4, 2004, and the period July 13, 2004 to July 26, 2004. The Corporation claimed \$7 million with respect to these claims and was successful in reaching a negotiated settlement with EPCOR and the Alberta Balancing Pool in December 2004 for \$5.2 million. The remaining \$1.8 million and related costs of \$0.2 million were recorded as a reduction to Alberta Power (2000)'s deferred availability incentive balance sheet account. The settlement had no effect on Alberta Power (2000)'s 2004 earnings.

### **Non-Regulated Operations**

The Corporation's non-regulated operations are complementary to its traditional regulated businesses and are related to them in terms of skills, knowledge and experience. The Corporation accounts for its non-regulated operations separately from its regulated operations. The Corporation's non-regulated operations are subject to the risks faced by any commercial enterprise in those industries and in those countries in which they operate.

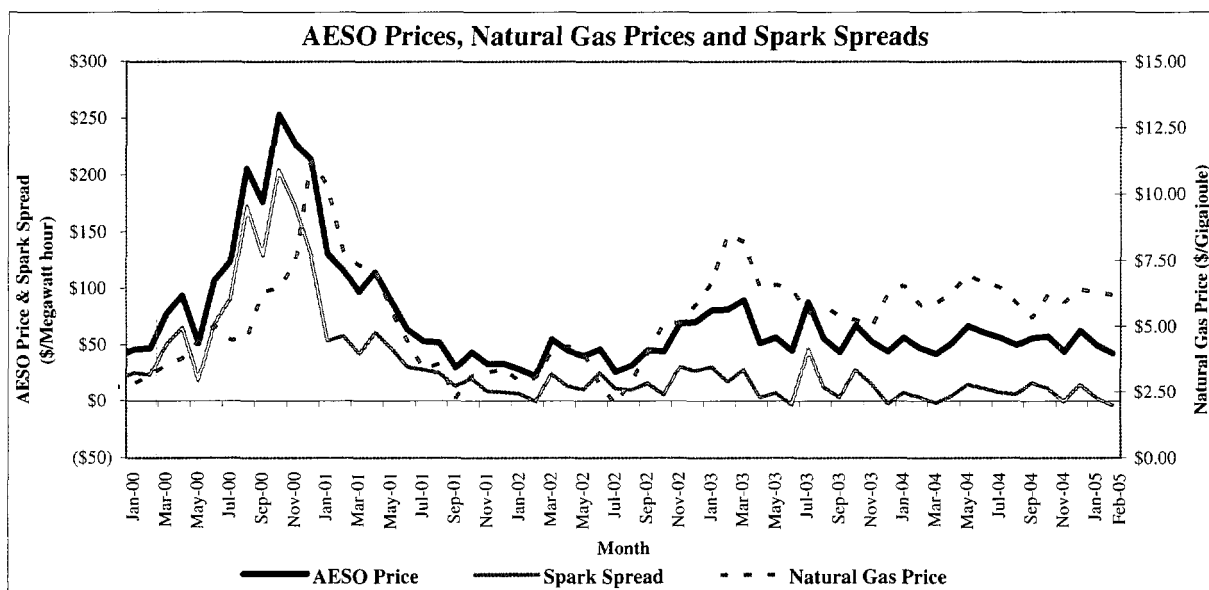
### **ATCO Power**

The Corporation's portfolio of non-regulated electric generating plants is made up of gas-fired cogeneration, gas-fired combined cycle, gas-fired simple cycle, and small hydro plants. The majority of operating income from power generation operations is derived through long term power, steam and transmission support agreements. Where long term agreements are in place, the purchaser assumes the fuel supply and price risks and the Corporation, under these agreements, assumes the operating risks.

ATCO Power's generating plants include high efficiency gas-fired cogeneration plants, with associated on-site steam and power tolling arrangements, and gas-fired peaking and hydroelectric plants with underlying transmission support agreements. In 2004, sales from approximately 72% of ATCO Power's generating capacity were subject to long term agreements, while the remaining 28% consisted primarily of sales to the AESO. In 2005, the portion of generating capacity subject to long term agreements is expected to be approximately 73%, while the remaining 27% is expected to consist primarily of sales of electricity to the AESO. These sales are dependent on prices in the Alberta electricity spot market. The majority of the electricity sales to the AESO are from gas-fired generating plants, and as a result operating income is affected by natural gas prices. During peak electricity usage hours in

Alberta, a strong correlation exists between electricity spot prices and natural gas spot prices. During off-peak hours, there is less correlation. The correlation is expected to increase in the future as customer load grows and older plants are decommissioned.

AESO electricity prices, natural gas prices and related spark spreads can be very volatile, as shown in the following graph, which illustrates a range of prices experienced during the period January 2000 to February 2005.



Changes in AESO electricity prices, natural gas prices and related spark spreads may have a significant impact on the Corporation's earnings and cash flow from operations in the future. It is the Corporation's policy to continually monitor the status of its non-regulated electrical generating capacity that is not subject to long term commitments.

ATCO Power has financed its non-regulated electrical generating capacity on a non-recourse basis. In these projects, the lender's recourse in the event of default is limited to the business and assets of the project in question, which includes the Corporation's equity therein. Canadian Utilities Limited has provided a number of guarantees related to ATCO Power's obligations under non-recourse loans associated with certain of its projects. These guarantees cover the following items:

- a) Equity contributions – Represents equity funding requirements needed to complete construction of the project being built. At December 31, 2004, the maximum value of the obligation under this guarantee for the Brighton Beach project financing is anticipated to be \$8.7 million.
- b) Project cash flows – Represents annual payments related to maintaining base case margins for electricity prices on the merchant power component of the project, being 24 megawatts for the Scotford project and 48 megawatts for the Muskeg River project. These guarantees became effective upon the commercial operation of the plants and exist until 2022, when the project debt is to be fully repaid. The amounts payable under these guarantees will vary each year depending on the pool price received for the merchant power generated. Any payments made to maintain the project base case margins will either be available for distribution to the owners or be applied to mandatory prepayment of the project debt in accordance with the terms of the project financing agreement depending upon the specific operating results of the plant. At December 31, 2004, no amounts were outstanding under the guarantee.
- c) Reserve amounts – Represents amounts to be set aside for major maintenance and debt service reserves as stipulated in the project's financing agreement. These reserves are intended to be funded with project cash flows. To the extent that project cash flows are insufficient to meet reserve requirements, Canadian Utilities Limited may choose to provide guarantees in lieu of ATCO Power providing security. At December 31, 2004, the amount of the obligations under these guarantees is:

Project	Major Maintenance	Debt Service
	(\$ Millions)	
ATCO Power Alberta Limited Partnership ("APALP") project financing .....	Nil (1)	13.7
Joffre project financing .....	Nil (2)	4.2
Muskeg River project financing .....	Nil (1)	5.1
Scotford project financing .....	Nil (1)	5.6

Notes:

- (1) No major maintenance reserve required for this financing.  
(2) Reserve requirements of \$2.7 million met with project cash flows.

- d) Prepaid operating and maintenance fee – Should ATCO Power cease to be operator of the APALP generating plants as a result of a termination of the operating agreement, Canadian Utilities Limited has guaranteed the payment of the unamortized portion of the prepaid operating and maintenance fee to APALP, the proceeds of which are to be used to repay project debt in accordance with the project financing agreements. This guarantee, which declines by \$1.2 million per year, remains in effect until 2016, when the project debt is to be fully repaid. At December 31, 2004, the maximum value of the guarantee is \$32.4 million.
- e) Purchase project assets – Represents an obligation to purchase the Scotford and Muskeg River projects at a price sufficient to repay any outstanding project debt upon the occurrence of any one of the following very limited events:
- (i) where all of the following events have occurred:
    - the insolvency of ATCO Power;
    - the failure of the project debt lenders to complete a sale of the project pursuant to their security within a fixed period of time; and
    - the project purchaser of electricity and steam elects to terminate its purchase contracts due to the insolvency of ATCO Power;
  - (ii) where the project purchaser of electricity and steam does not remove ATCO Power as operator of the project after an event of default under the project financing agreements in circumstances where such default is either:
    - a deliberate or willful breach of a project financing agreement; or
    - where ATCO Power has failed to co-operate with the lenders in a sale of the project; and
  - (iii) where the project purchaser of electricity and steam terminates its purchase contracts for the project as a result of a default by ATCO Power's project minority joint venturers. ATCO Power has the right to cure any such default by acquiring the minority interest which is in default.

These guarantees remain in effect until the project debt is fully repaid. At December 31, 2004, no such events have occurred.

Canadian Utilities Limited has also guaranteed ATCO Power's duties to operate the Barking Power, Scotford and Muskeg River generating plants in accordance with acceptable industry operating standards under the relevant project contracts. In addition, Canadian Utilities Limited has posted acceptable credit support in the amount of \$2.2 million with respect to builders' liens filed against the Cory Project.

ATCO Power (80%) and ATCO Resources Ltd. (20%), a wholly owned subsidiary of Canadian Utilities Limited's parent corporation, ATCO Ltd., have a joint venture in the above projects subject to guarantees, excluding Barking Power. The foregoing guaranteed amounts represent ATCO Power's 80% interest. Canadian Utilities Limited has also guaranteed similar obligations in respect of ATCO Resources' 20% interest. ATCO Ltd. has indemnified and agreed to reimburse Canadian Utilities Limited for any amounts it may be required to pay under these guarantees in respect of ATCO Resources' 20% interest.

To date, Canadian Utilities Limited has not been required to pay any of its guaranteed obligations.

## **Contingencies**

The Corporation is party to a number of disputes and lawsuits in the normal course of business. The Corporation believes that the ultimate liability arising from these matters will have no material impact on the consolidated financial statements.

## **Hedging**

In conducting its business, the Corporation uses various instruments, including forward contracts, swaps and options, to manage the risks arising from fluctuations in exchange rates, interest rates and commodity prices. All such instruments are used only to manage risk and not for trading purposes.

The Corporation designates each derivative instrument as a hedge of specific assets or liabilities on the balance sheet or specific firm commitments or anticipated transactions. The Corporation also assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of the hedged items.

Payments or receipts on derivative instruments that are designated and effective as hedges are recognized concurrently with, and in the same financial category as, the hedged item.

If a derivative instrument is terminated or ceases to be effective as a hedge prior to maturity, the gain or loss at that date is deferred and recognized in income concurrently with the hedged item. Subsequent changes in the value of the derivative instrument are reflected in income. If the designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, the gain or loss at that date on such derivative instrument is recognized in income.

## **Insurance Coverage**

A number of U.S. insurance companies are the subject of lawsuits and investigations into their business and accounting practices by the Attorney General of the State of New York and the U.S. Securities and Exchange Commission. Certain of these insurers provide a portion of the Corporation's insurance coverage. The Corporation is unable at this time to determine what impact, if any, these investigations may have on the ability of the insurers mentioned to pay any corporate insurance claims which may arise.

## **OFF-BALANCE SHEET ARRANGEMENTS**

Unrecorded future income tax liabilities of the regulated operations amounted to \$165.3 million at December 31, 2004. This balance includes \$38.8 million in respect of Alberta Power (2000)'s generating plants, which will be recovered through future payments received in respect of the PPA's. The remainder, amounting to \$126.5 million, is expected to be recovered from utility customers through inclusion in future rates. Expected future recoveries relating to tax loss carryforwards have been recorded in the amount of \$0.9 million, of which \$0.1 million begins to expire in 2007 and \$0.8 million does not expire. In addition, there are tax loss carryforwards of \$1.2 million for which no tax benefit has been recorded. These losses begin to expire in 2006.

In addition, the Corporation uses various derivative instruments to manage the risks arising from fluctuations in exchange rates, interest rates and commodity prices. Note 20 to the financial statements sets out the instruments in place at December 31, 2004.

Other than the foregoing, the Corporation does not have any off-balance sheet arrangements that have, or are likely to have, a current or future effect on the results of operations or financial condition, including, without limitation, such considerations as liquidity and capital resources.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the Corporation's consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. On an on-going basis, management reviews its estimates, particularly those related to depreciation and amortization methods, useful lives and impairment of long-lived assets, amortization of deferred availability incentives, asset retirement obligations and employee future benefits, using currently available information. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates. The Corporation's critical accounting estimates are discussed below.

### Deferred Availability Incentives

As noted previously in the Business Risks section, Alberta Power (2000) is subject to an incentive/penalty regime related to generating unit availability. As at December 31, 2004, the Corporation had recorded \$46.1 million of deferred availability incentives. The amortization of deferred availability incentives, which was recorded in revenues, amounted to \$7.6 million in 2004.

The amount to be amortized is dependent upon estimates of future generating unit availability and future electricity prices over the term of the PPA's. Each quarter, the Corporation uses these estimates to forecast high case, low case and most likely scenarios for the incentives to be received from, less penalties to be paid to, the PPA counterparties. These forecasts are added to the accumulated unamortized deferred availability incentives outstanding at the end of the quarter; the resulting total is divided by the remaining term of the PPA to arrive at the amortization for the quarter.

Compared to the most likely scenario recorded in revenues for the year, the high case scenario would have resulted in higher revenues of approximately \$4.1 million, whereas the low case scenario would have resulted in lower revenues of approximately \$2.9 million.

### Employee Future Benefits

The Corporation's employee future benefits disclosures are based on three critical accounting estimates: (1) the expected long term rate of return on plan assets; (2) the liability discount rate; and, (3) the long term inflation rate.

The expected long term rate of return on plan assets is determined at the beginning of the year on the basis of the long bond yield rate at the beginning of the year plus an equity and management premium that reflects the plan asset mix. Actual balanced fund performance over a longer period suggests that this premium is about 1%, which, when added to the long bond yield rate of 6.25% at the beginning of 2004, resulted in an expected long term rate of return of 7.25% for 2004. This methodology is supported by actuarial guidance on long term asset return assumptions for the Corporation's defined benefit pension plans, taking into account asset class returns, normal equity risk premiums, and asset diversification effect on portfolio returns.

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 liability discount rate reflects market interest rates on high quality corporate bonds that match the timing and amount of expected benefit payments. The liability discount rate used to calculate the cost of benefit obligations for the three months and the year ended December 31, 2004, was 6.25%, the same rate that was used at the end of 2003. The liability discount rate used to value the benefit obligations at December 31, 2004, was 5.9%, a decrease of 0.35% from the rate used to calculate the cost of benefit obligations during 2004. This lower rate will be used to calculate the cost of benefit obligations in 2005.

The expected long term rate of return has declined over the past three years, from 8.1% in 2001 to 7.25% in the year ended December 31, 2004. The result has been a decrease in the expected return on plan assets. The difference between the expected return and the actual return on plan assets results in an experience gain or loss on plan assets. The liability discount rate has also declined over the same period, from 6.9% at the end of 2001 to 5.9% at

December 31, 2004. The effect of this change has been to increase the accrued benefit obligations, resulting in experience losses in 2002, 2003 and 2004. In accordance with the Corporation's accounting policy to amortize cumulative experience gains and losses in excess of 10 percent of the greater of the accrued benefit obligations or the market value of plan assets, the Corporation began amortizing a portion of the cumulative experience losses in 2003 for both pension benefit plans and other post employment benefit plans and continued this amortization during the three months and the year ended December 31, 2004.

The assumed annual health care cost trend rate increases used in measuring the accumulated post employment benefit obligations in the three months and the year ended December 31, 2004, are as follows: for drug costs, 9.9% starting in 2004 grading down over 9 years to 4.5%, and for other medical and dental costs, 4.0% for 2004 and thereafter. Combined with higher claims experience, the effect of these changes has been to increase the costs of other post employment benefits.

The effect of changes in these estimates and assumptions is mitigated by an AEUB 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).

The sensitivities of key assumptions used in measuring accrued benefit obligations and benefit plan cost (income) for 2004 are outlined in the following table. The sensitivities of each key assumption have been calculated independently of changes in other key assumptions. Actual experience may result in changes in a number of assumptions simultaneously.

	2004 Pension Benefit Plans		2004 Other Post Employment Benefit Plans	
	Accrued Benefit Obligation	Benefit Plan Cost (Income)	Accrued Benefit Obligation	Benefit Plan Cost (Income)
	(\$ Millions)			
Expected long term rate of return on plan assets				
1% increase (1) .....	-	(3.3)	-	-
1% decrease (1).....	-	3.3	-	-
Liability discount rate				
1% increase (1) .....	(51.8)	(4.8)	(2.6)	(0.2)
1% decrease (1).....	65.3	5.9	3.3	0.3
Future compensation rate				
1% increase (1) .....	17.9	2.6	-	-
1% decrease (1).....	(13.8)	(2.0)	-	-
Long term inflation rate				
1% increase (1)(2)(3) .....	21.5	2.8	2.9	0.5
1% decrease (1) (3).....	(38.0)	(5.0)	(2.4)	(0.4)

Notes:

- (1) Sensitivities are net of the associated regulatory asset (liability) and unrecognized defined benefit plans cost (income), which reflect an AEUB decision to record costs of employee future benefits in the regulated operations, excluding Alberta Power (2000), when paid rather than accrued.
- (2) The long term inflation rate for pension plans reflects the fact that pension plan benefit payments are indexed to increases in the Canadian Consumer Price Index to a maximum increase of 3.0% per annum.
- (3) The long term inflation rate for other post employment benefits plans is the assumed annual health care cost trend rate described in the weighted average assumptions.

## CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2004, the Corporation retroactively adopted the Canadian Institute of Chartered Accountants ("CICA") recommendations on accounting for asset retirement obligations as described below. The prior year's financial statements have been restated for the change in the method of accounting for asset retirement obligations.

The CICA recommendations on accounting for asset retirement obligations require the Corporation to identify legal obligations associated with the retirement of tangible long lived assets. To the extent that they can be quantified, these obligations are measured and recognized at fair value, which is determined using present value techniques. An asset retirement obligation is recorded as a liability in deferred credits, with a corresponding increase to property, plant and equipment. The liability is accreted over the estimated time period until settlement of the obligation, with the accretion expense included in depreciation and amortization. The asset is depreciated over its estimated useful life. Prior to January 1, 2004, site restoration and removal costs that are now accounted for as asset retirement obligations were accrued over the estimated remaining useful lives of the assets.

Asset retirement obligations for regulated natural gas and electric transmission and distribution assets were not recognized as the Corporation expects to use the assets in service for an indefinite period. As such, no final removal date can be determined and, consequently, a reasonable estimate of the related retirement obligations cannot be made at this time. Asset retirement obligations have been recorded for the regulated generating plants of Alberta Power (2000) and other generating plants and natural gas liquids extraction and processing plants.

The effect of adopting these recommendations is presented as increases (decreases) below:

(\$ Millions)	For the Three Months Ended December 31		For the Year Ended December 31	
	2004	2003	2004	2003
	<i>(unaudited)</i>			
<i>Statement of earnings</i>				
Site restoration and removal costs, included in operation and maintenance .....	-	-	-	(0.2)
Depreciation and amortization .....	(0.2)	(0.3)	(0.8)	(1.5)
Accretion expense, included in depreciation and amortization.....	0.5	0.4	1.9	1.8
Income taxes .....	(0.1)	-	(0.2)	(0.1)
Earnings attributable to Class A and Class B shares.....	(0.2)	(0.1)	(0.9)	-
			<b>January 1</b>	
			<b>2003</b>	
			(\$ Millions)	
<i>Balance sheet</i>				
Retirement assets and site restoration and removal costs, included in property, plant and equipment .....				24.2
Asset retirement obligations, included in deferred credits.....				30.1
Accrual for future removal and site restoration costs, included in deferred credits.....				(3.3)
Future income tax liabilities.....				0.5
Retained earnings at beginning of period .....				(3.1)

Changes in asset retirement obligations are summarized below:

(\$ Millions)	For the Three Months Ended December 31		For the Year Ended December 31	
	2004	2003	2004	2003
	<i>(unaudited)</i>			
Obligations at beginning of period .....	34.2	31.5	32.3	30.1
Obligations incurred .....	-	0.4	0.5	0.4
Accretion expense .....	0.5	0.4	1.9	1.8
Obligations at end of period.....	34.7	32.3	34.7	32.3

The Corporation estimates the undiscounted amount of cash flow required to settle the asset retirement obligations is approximately \$93 million, which will be incurred between 2005 and 2052. A weighted average discount rate of 5.9% was used to calculate the fair value of the asset retirement obligations.

Effective January 1, 2004, the Corporation prospectively adopted the CICA recommendations on accounting for asset impairment. These recommendations require an impairment of property, plant and equipment, intangible assets with finite lives, deferred operating costs and long term prepaid expenses to be 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 present value techniques. This change in accounting had no effect on earnings for the three months and year ended December 31, 2004.

Effective January 1, 2004, the Corporation retroactively adopted the CICA recommendations on accounting for stock based compensation. These recommendations require the expensing of stock options granted on and after January 1, 2002. The Corporation determines the fair value of the options on the date of grant using an option pricing model and recognizes the fair value over the vesting period of the options granted as compensation expense and contributed surplus. Contributed surplus is reduced as the options are exercised and the amount initially recorded in contributed surplus is credited to Class A and Class B share capital. No compensation expense is recorded for stock options granted prior to January 1, 2002 as permitted by the recommendations. This retroactive change in accounting had no effect on earnings for the three months ended December 31, 2004, and reduced earnings for the year ended December 31, 2004, by \$0.1 million with no effect on earnings per share in either period, reduced earnings for the three months and year ended December 31, 2003 by \$0.1 million and \$0.2 million, respectively, with no effect on earnings per share in either period, and resulted in a charge of \$0.1 million to retained earnings at January 1, 2003. The prior year's financial statements have been restated for the change in the method of accounting for stock options.

Effective January 1, 2004, the Corporation prospectively adopted the CICA recommendations that define the primary sources of GAAP. Adoption of these recommendations had no effect on earnings for the three months and year ended December 31, 2004. While CICA recommendations encourage the application of the primary sources of GAAP to all operations, the recommendations do not require that assets and liabilities arising from rate regulation be recognized and measured in accordance with the primary sources of GAAP. Where regulatory decisions dictate, the Corporation defers certain costs or revenues as assets or liabilities in the balance sheet and records them as expenses or revenues in the earnings statement as it collects or refunds amounts through future customer rates. Any adjustments to these deferred amounts are recognized in earnings in the period that the regulator renders a subsequent decision. The Corporation anticipates that there would be no material differences between the amounts approved by the regulator for collection or refund and the amounts included in assets or liabilities on the balance sheet. The Corporation has chosen to retain its existing accounting policies, as permitted by CICA recommendations that define the primary sources of GAAP, pertaining to regulatory decisions that give rise to deferred assets or liabilities.

Effective January 1, 2005, the Corporation intends to prospectively adopt the CICA's accounting guideline on the consolidation of variable interest entities. The guideline requires the Corporation to identify variable interest entities in which it has an interest, determine whether it is the primary beneficiary of such entities and, if so, to consolidate them. The Corporation is currently evaluating the impact of the guideline.

February 23, 2005



## Consolidated Five-Year Financial Summary

(Millions of Canadian dollars, except as indicated)	2004	2003	2002	2001	2000
<b>EARNINGS</b>					
Revenues	3,089.5	3,742.6	2,975.9	3,513.6	2,924.5
Operating expenses <sup>(1)</sup>	2,185.6	2,868.7	2,169.8	2,695.4	2,087.0
Depreciation and amortization <sup>(1)</sup>	291.5	269.2	243.9	243.4	240.7
Interest	203.7	190.3	184.1	198.7	196.2
Dividends on preferred shares	-	-	-	-	0.6
Interest and other income	(94.1)	(33.4)	(136.2)	(41.4)	(23.5)
Income taxes <sup>(1)</sup>	158.0	155.6	190.0	164.2	179.9
Dividends on equity preferred shares	35.8	33.1	18.2	17.0	16.8
Earnings attributable to Class A and Class B shares <sup>(1)</sup>	309.0	259.1	306.1	236.3	226.8
<b>SEGMENTED EARNINGS</b>					
Utilities <sup>(2)</sup>	168.7	121.3	177.8	99.9	108.4
Power generation <sup>(1)</sup>	80.0	92.8	76.2	93.5	95.1
Global enterprises <sup>(1)(2)</sup>	72.1	56.1	45.5	34.8	22.7
Corporate and other/eliminations <sup>(1)(2)</sup>	(11.8)	(11.1)	6.6	8.1	0.6
Earnings attributable to Class A and Class B shares <sup>(1)</sup>	309.0	259.1	306.1	236.3	226.8
<b>BALANCE SHEET</b>					
Property, plant, and equipment	5,045.3	4,835.4	4,681.2	4,384.7	4,028.2
Total assets	6,463.1	6,096.5	5,958.6	5,425.2	5,424.7
Capitalization:					
Notes payable	-	-	-	4.6	197.1
Long term debt	2,171.0	1,805.3	1,916.9	1,855.9	1,865.5
Non-recourse long term debt	760.9	806.1	821.1	673.8	360.0
Equity preferred shares	636.5	636.5	486.5	336.5	336.5
Share owners' equity <sup>(1)(3)</sup>	2,117.7	1,948.5	1,827.0	1,639.5	1,523.0
Total capitalization <sup>(1)</sup>	5,686.1	5,196.4	5,051.5	4,510.3	4,282.1
<b>CASH FLOWS</b>					
Operations	538.3	525.8	504.6	532.2	490.2
Purchase of property, plant and equipment	535.5	495.7	569.8	735.3	451.3
Financing (excluding Class A and B dividends)	333.8	(10.6)	384.3	62.0	189.5
Class A and B dividends	134.4	129.3	124.2	119.0	114.0
<b>CLASS A &amp; B SHARES</b>					
Shares outstanding at end of year <sup>(3)</sup> (thousands)	63,392	63,384	63,412	63,317	63,306
Return on equity <sup>(3)</sup>	15.2%	13.7%	17.7%	14.9%	15.4%
Earnings per share <sup>(3)</sup> (\$)	4.88	4.09	4.83	3.73	3.58
Dividends paid per share <sup>(3)</sup> (\$)	2.12	2.04	1.96	1.88	1.80
Equity per share <sup>(3)</sup> (\$)	33.41	30.74	28.81	25.89	24.06
Stock market record - Class A non-voting shares (\$)					
High	64.00	59.60	60.10	56.05	51.45
Low	51.42	45.10	48.80	44.50	31.00
Close	60.32	57.86	51.21	49.75	51.00
Stock market record - Class B common shares (\$)					
High	63.90	58.75	60.50	54.20	51.15
Low	51.40	45.50	49.00	44.95	31.10
Close	63.90	58.00	52.65	49.00	50.55

<sup>(1)</sup> Figures for 2000-2003 have been restated for the retroactive changes in method of accounting for asset retirement obligations and stock options.

<sup>(2)</sup> Segmented earnings for 2000-2003 have been restated to reflect changes to the management reporting structure announced in August 2004.

<sup>(3)</sup> Includes Class A non-voting shares and Class B common shares.

## Consolidated Five-Year Operating Summary

(Millions of Canadian dollars, except as indicated)	2004	2003	2002	2001	2000
<b>Utilities</b>					
<u>Natural gas operations</u>					
Purchase of property, plant and equipment	154.3	141.0	103.1	84.6	87.6
Pipelines (thousands of kilometres)	34.8	34.2	33.7	33.5	33.5
Maximum daily demand (terajoules)	2,049	1,831	1,670	1,470	1,737
Natural gas sold <sup>(1)</sup> (petajoules)	103	198	201	187	209
Natural gas transported <sup>(1)</sup> (petajoules)	120	32	31	22	18
Total system throughput (petajoules)	223	230	232	209	227
Average annual use per residential customer (gigajoules)	134	134	136	131	148
Degree days - Edmonton <sup>(2)</sup>	3,985	4,245	4,274	3,661	4,210
- Calgary <sup>(3)</sup>	3,978	4,291	4,470	3,994	4,441
Customers at year-end (thousands)	914.3	887.8	862.0	837.7	816.1
<u>Electric operations</u>					
Purchase of property, plant and equipment	223.4	171.6	162.4	154.2	114.5
Power lines (thousands of kilometres)	68.0	67.0	67.1	64.2	58.6
Electricity distributed (millions of kilowatt hours)	9,910	9,768	10,224	10,108	10,392
Average annual use per residential customer (kWh)	7,475	7,261	7,445	7,270	7,444
Customers at year-end (thousands)	206.2	202.3	197.8	192.0	191.0
<u>Pipeline operations</u>					
Purchase of property, plant and equipment	47.9	33.6	47.3	77.4	63.5
Pipelines (thousands of kilometres)	8.3	8.3	8.3	8.2	7.9
Contract demand for pipelines system access (terajoules/day)	4,606	4,599	4,890	4,876	4,559
<b>Power Generation</b>					
Purchase of property, plant and equipment	77.0	131.7	236.0	384.2	155.5
Generating capacity (thousands of kilowatts)	2,474	2,397	2,036	2,036	668
<b>Global Enterprises</b>					
Purchase of property, plant and equipment	14.5	15.5	11.5	34.5	30.1
Natural gas processed (Mmcf/day)	427	399	420	429	366
Natural gas gathering lines (kilometres)	1,000	1,000	940	940	670

<sup>(1)</sup> Effective May 2004, with the transfer of the retail energy supply businesses, ATCO Gas' existing sales service customers became transportation service customers.

<sup>(2)</sup> Degree days - Edmonton - are defined as the difference of the mean daily temperature from 14.5 degrees Celsius.

<sup>(3)</sup> Degree days - Calgary - are defined as the difference of the mean daily temperature from 15.5 degrees Celsius.

## GENERAL INFORMATION

### INCORPORATION

Canadian Utilities Limited was incorporated under the laws of Canada on May 18, 1927 and was continued under the Canada Business Corporations Act by Articles of Continuance on August 15, 1979.

### ANNUAL MEETING

The Annual Meeting of Share Owners will be held at 10:00 a.m., M.D.T. Wednesday, May 5, 2005 at The Fairmont Hotel Macdonald, 10065-100 Street, Edmonton, Alberta.

### AUDITORS

PricewaterhouseCoopers LLP  
Calgary, Alberta

### COUNSEL

Bennett Jones LLP  
Calgary, Alberta

### TRANSFER AGENT AND REGISTRAR

Class A Non-Voting and  
Class B Common Shares and  
Second Preferred  
(Series Q, R, S, W and X) Shares  
CIBC Mellon Trust Company  
Montreal/Toronto/Winnipeg/Calgary/Vancouver

### TRUSTEE AND REGISTRAR

Debentures  
CIBC Mellon Trust Company  
Montreal/Toronto/Winnipeg/Calgary/Vancouver

### STOCK EXCHANGE LISTINGS

Class A non-voting Symbol CU.NV  
Class B common Symbol CU.X  
Listing: The Toronto Stock Exchange

### CUMULATIVE REDEEMABLE SECOND PREFERRED SHARES

5.90% Series Q CU.PR.T  
5.30% Series R CU.PR.V  
6.60% Series S CU.PR.D  
5.80% Series W CU.PR.A  
6.00% Series X CU.PR.B  
Listing: The Toronto Stock Exchange

### ATCO GROUP ANNUAL REPORTS

Annual Reports to Share Owners and Management's Discussion and Analysis for Canadian Utilities Limited and its parent company, ATCO Ltd., are available upon request from: ATCO Ltd. & Canadian Utilities Limited  
1400, 909 – 11<sup>th</sup> Avenue SW  
Calgary, Alberta T2R 1N6  
Telephone: (403) 292-7500  
Website: [www.canadian-utilities.com](http://www.canadian-utilities.com)

### SHARE OWNER INQUIRIES

Dividend information and other inquiries concerning shares should be directed to:  
CIBC Mellon Trust Company  
Stock Transfer Department  
600 The Dome Tower  
333 – 7<sup>th</sup> Avenue SW  
Calgary, Alberta T2P 2Z1  
Telephone: 1-800-387-0825  
e-mail: [inquiries@cibcmellon.com](mailto:inquiries@cibcmellon.com)  
Website: [www.cibcmellon.com](http://www.cibcmellon.com)

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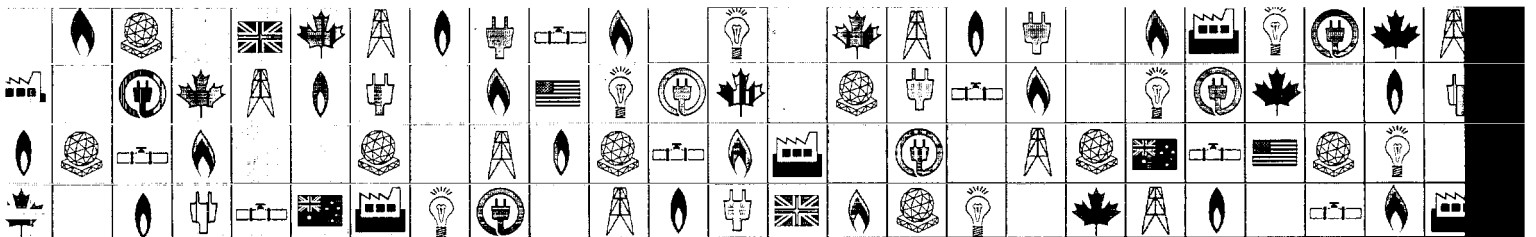
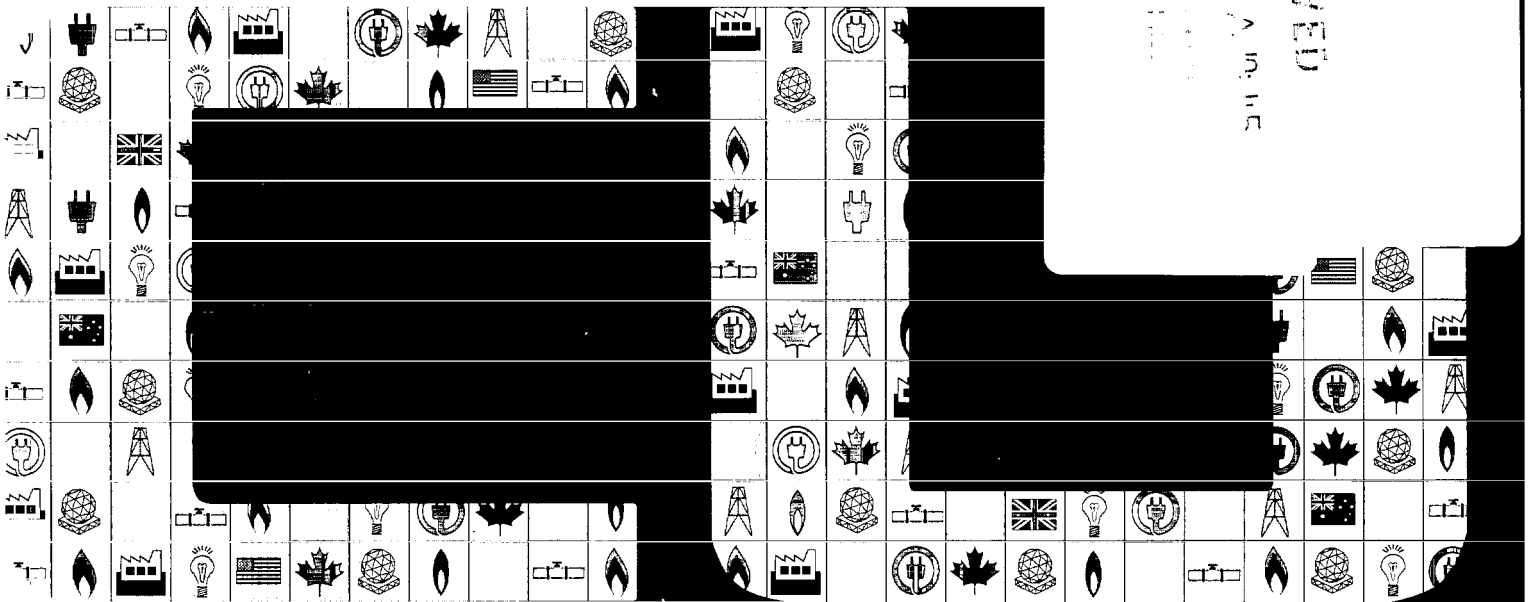
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# CANADIAN UTILITIES LIMITED

An *ATCO* Company

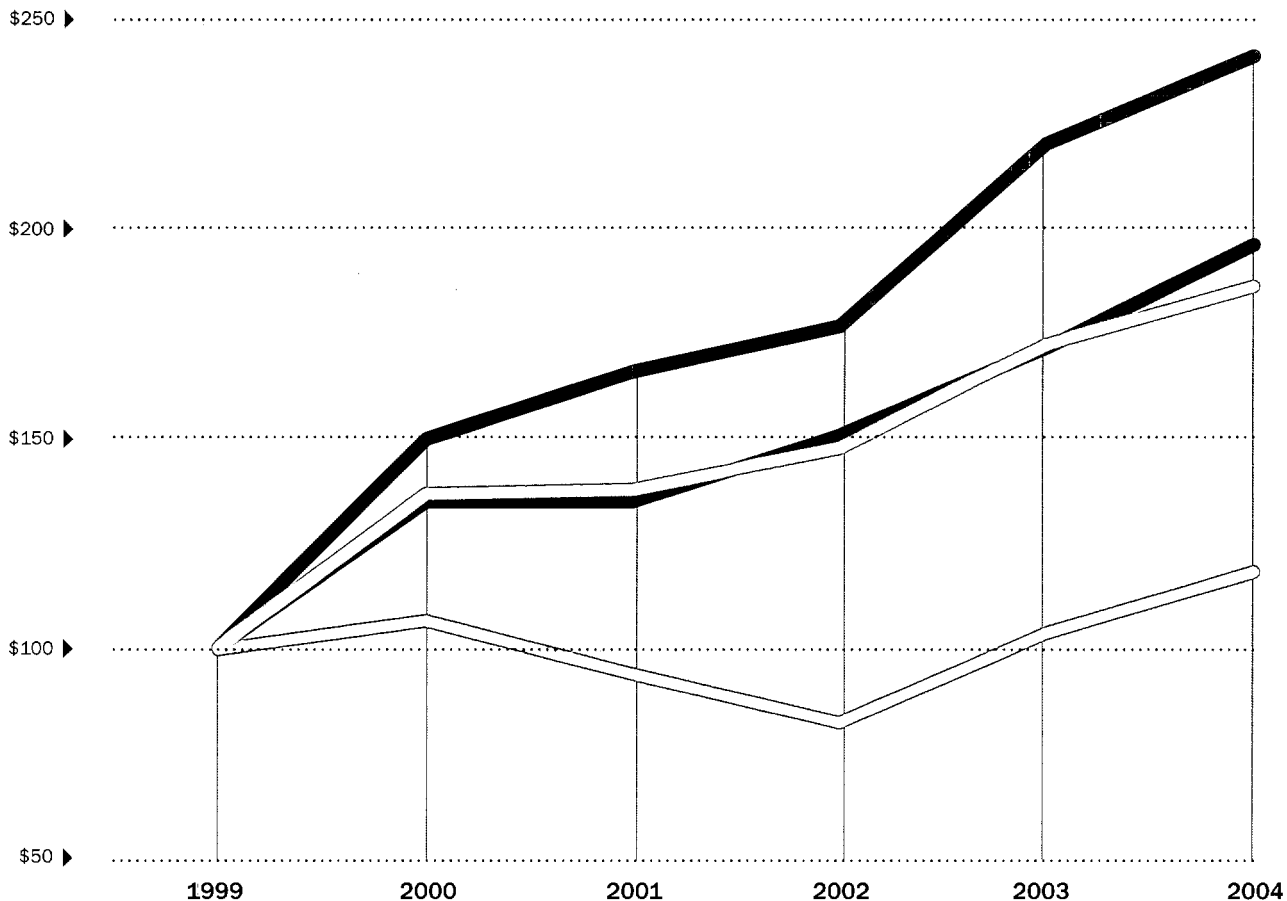
## ANNUAL REPORT 2004

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# CANADIAN UTILITIES LIMITED CLASS A NON-VOTING AND CLASS B COMMON SHARES

FIVE YEAR TOTAL RETURN ON \$100 INVESTMENT



□ Class A Non-Voting

■ Class B Common

□ S&P/TSX Composite Index

■ S&P/TSX Utilities

	Compound Growth Rate	Cumulative Return
Class A Non-Voting	13.4%	\$187
Class B Common	14.5%	\$197
S&P/TSX Composite Index	3.5%	\$119
S&P/TSX Utilities	19.3%	\$242

The graph compares the cumulative share owner return over the last five years on the Class A Non-Voting and Class B Common shares of the Corporation (assuming the reinvestment of dividends) with the cumulative total return of the S&P/TSX composite index and the S&P/TSX utilities index.

**IFC** Five Year Return on Investment **1** Financial Highlights **2** Chairman's Letter to Owners **4** President's Letter

**6** Office Of The Chairman Group Photo **7** Business Groups Organizational Chart **9** Utilities Group

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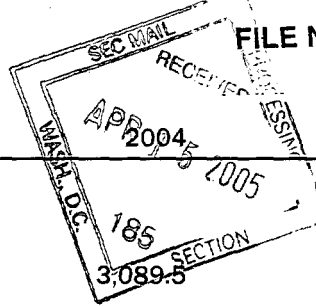
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## Consolidated Annual Results

(Millions of Canadian Dollars except per share data)

FILE NO. 82-34744



FINANCIAL HIGHLIGHTS

### Financial

Revenues	3,089.5	3,742.6
Earnings attributable to Class A and Class B shares	309.0	259.1
Total assets	6,463.1	6,096.5
Class A and Class B share owners' equity	2,117.7	1,948.5
Cash flow from operations	538.3	525.8
Purchase of property, plant and equipment	535.5	495.7

### Class A Non-Voting and Class B Common Share Data

Earnings per share	4.88	4.09
Diluted earnings per share	4.86	4.07
Dividends paid per share	2.12	2.04
Equity per share	33.41	30.74
Shares outstanding (thousands)	63,392	63,384
Weighted average shares outstanding (thousands)	63,383	63,389

### Consolidated Quarterly Results<sup>(1)</sup>

(Unaudited)

(Millions of Canadian Dollars except per share data)

Three Months Ended

		March 31	June 30	Sept 30	Dec 31	Total
Revenues	2004	1,185.9	690.2	550.8	662.6	3,089.5
	2003	1,372.2	797.5	622.6	950.3	3,742.6
Earnings attributable to Class A and Class B shares	2004	74.5	100.2	44.0	90.3	309.0
	2003	85.9	43.5	43.2	86.5	259.1
Earnings per Class A and Class B share	2004	1.17	1.58	0.70	1.43	4.88
	2003	1.35	0.69	0.68	1.37	4.09
Diluted earnings per Class A and Class B share	2004	1.16	1.58	0.70	1.42	4.86
	2003	1.34	0.69	0.68	1.36	4.07

(1) Because of seasonal fluctuations, particularly in the utility operations, quarterly earnings are not indicative of full year results.

TO THE OWNERS OF OUR CORPORATION

Ladies & Gentlemen:

2005 marks Alberta's Centenary and it is notable that Canadian Utilities Limited (CU) has been a part of building its home province for 96 of those 100 years.

Canadian Utilities' journey has been marked by many accomplishments over the decades, always guided by our definition of Excellence....

Going far beyond the call of duty .... maintaining the highest standards .... looking after the smallest detail .... doing more than others expect .... and caring.

Our Commitment to Excellence has been nurtured through the years by the leaders of your company and today it is ingrained in everything we do - from operations - to financial responsibility - to the governance of our businesses.

Your President's Message, which follows, reports on the operational and financial performance for Canadian Utilities. As Chairman of your Board of Directors, I am pleased to report on the fundamentals of our governance.

Canadian Utilities Limited is compliant with recently mandated changes for all Canadian publicly traded corporates in 2005, and will be compliant with the proposed changes required in 2006.

The workload for Officers and Directors alike has been enormous in this transitory period, but when we survey the whole, we are pleased with the outcome.

The form is what I refer to, but your Board has always understood and remains absolutely dedicated to:

- the approval of strategic directions for each of the units making up Canadian Utilities;
- the oversight of, and planning for, the succession for all key executives who provide our leadership;
- the preservation of our industry leading credit rankings;
- the protection of capital for expansion and the safeguards for high performance sustainability;
- risk management oversight;
- health, safety and environmental stewardship.

**OUR COMMITMENT  
TO EXCELLENCE HAS  
BEEN NURTURED  
THROUGH THE YEARS  
BY THE LEADERS  
OF YOUR COMPANY  
AND TODAY IT IS  
INGRAINED IN  
EVERYTHING WE DO**





Governance in CU, together with four sub group Boards, has many important facets which deliver best practices.

Our Directors, Chairman and members of our various committees, together with our Lead Director and DADs (Designated Audit Directors) have met for a total of 35 days this last year. In addition, their preparation, study and special background work, together with special assignments, consultations, and travel would match or exceed their formal days of effort.

A full reading of our management's discussion and analysis will provide you with more detail, but I would also highlight for you that CU policies have been reviewed this year from the standpoint of need, and clarity; a streamlining initiative is underway with respect to governance and procedural processes; project presentations for capital requests have been totally reviewed and appropriate policies have been issued along with a detailed manuscript on lessons learnt, spanning many decades of experience.

Canadian Utilities' statutory By-laws pertaining to the Canada Business Corporations Act have been reviewed and updated. By-laws will be presented to our Share Owners for approval at our forthcoming Annual General Meeting.

Much attention has been given to our internal controls and we will become totally compliant with the new regulations mid 2006, and our disclosure and communications policies and procedures are all in place.

I personally would like to thank our Directors on behalf of all our Owners for their dedication and caring. Individually they are outstanding, and as a group they bring formidable knowledge, experience and dedication to our governance.

We wish to thank retiring Directors, Larry Shaben and Logan Tait. They have brought the ATCO heart, mind and spirit to all their deliberations, always, on your behalf. Together they have brought 37 years of commitment to our group of Companies, and they truly have been a source of enlightenment and advice for our people.

May I also thank each and every one of the owners of our shares for your encouragement and belief in our efforts.

Respectfully submitted,

On behalf of the Board of Directors,



**R.D. Southern**

Chairman



**PRESIDENT'S LETTER TO CU SHARE OWNERS:**

Record accomplishments by many of our companies and the achievement of significant business milestones marked 2004 as Canadian Utilities Limited pursued operational efficiencies and a disciplined growth strategy that delivered:

- Increased earnings and earnings per share for the 15<sup>th</sup> consecutive year, (excluding gain on sales of retail energy services and the Viking Kinsella properties)
- An 8¢ dividend per share for the 32<sup>nd</sup> consecutive year.
- \$90 million sale of retail energy services
- \$500 million 10-year ATCO I-Tek customer care and billing services contract
- Shareowners equity of \$2.1 billion

In previous Annual Reports, I have explained part of our growth strategy is identifying, unbundling and monetizing assets that have negligible impact on earnings in both our Utility and Global Enterprises companies.

Our ongoing objective each year is to analyze, on a separate and distinct basis, the lowest performing assets and dispose of them when the opportunities present themselves. The \$90 million sale of our energy supply business in our utilities is an example of this strategy. This was the service of purchasing natural gas and electricity on behalf of industrial, commercial and residential customers in ATCO Gas and ATCO Electric. The regulator disallowed us a rate of return for performing this function, even though, on occasion, we had been required to inject significant capital on a no return basis in high energy cost periods. Deregulation has allowed us to carve out this function and complete the \$90 million sale to Direct Energy in May 2004, which contributed additional cash to our already strong balance sheet.

More importantly, the retail sale was accompanied by the \$500 million contract that Direct Energy signed with ATCO I-Tek, which will generate about \$50 million in revenue per annum and considerable earnings over the 10-year life of the contract.

Strong fundamentals in the economies where Canadian Utilities operates translated into high activity levels and good growth opportunities for each of our principal operating subsidiaries.

- ATCO Power has reached an agreement with respect to their claim against TXU's insolvent power purchase agreement at the Barking plant in London, England.
- ATCO Midstream achieved record earnings, which were attributable to a focused concentration on operational excellence, resulting in greater plant availability and increased volumes throughout the year.
- ATCO I-Tek completed the seamless transfer of the "retail sale" customers to Direct Energy.
- ATCO Frontec increased its base of operations with NATO and secured the Kabul Airport facilities management contract in Afghanistan on January 31, 2005.
- ATCO Gas, ATCO Electric and ATCO Pipelines experienced record new customer hook-ups and installations, which are forecast to continue in 2005.

For many years, we have pursued strategic initiatives in the North. In 2004, a number of our companies, lead by ATCO Frontec, made good progress, together with our aboriginal partners, in developing an initiative to assist and cooperatively work with MacKenzie Valley Pipeline Producers Group.

Canadian Utilities' aboriginal joint ventures are partnerships of mutual respect and contribution, forged with the objective of providing our customers with housing, fuel, facilities management, power generation, heating, security, gas gathering systems and transportation across the North.



I want to especially thank our joint venture partners, Panarctic Inuit Logistics (Nunavik, Nunavut, Inuvialuit, Labrador Inuit), Denedeh Development Corp., Nunasi, Inuvialuit Development Corp., Yukon Indian Development Corp., the Dogrib, Piikani and the Inupiat of Alaska as our combined efforts have created confidence and appreciation for delivering significant value to our many clients.

As we look to the future, each of our companies has good opportunities for generic growth in the jurisdictions they serve, and all have enterprising new growth prospects.

It is precisely for such opportunities that we have worked long and hard to improve our cash on hand and to strengthen our balance sheet so we can move with full force when the right opportunities come available.

Our objective is to maintain a range of 60-75% of our business mix in regulated utilities. Currently, our regulated versus non-regulated mix is about 65/35%, with the legacy power plants of Alberta Power 2000 included as regulated business under the power purchase arrangements.

As we pursue key growth opportunities in 2005, we will also launch a major corporate initiative to celebrate Alberta's centennial. We have manufactured a traveling caravan comprised of three mobile units that will be filled with artifacts, pictures, displays and exhibits that describe the role ATCO and Canadian Utilities have played in the development of Alberta.

Over a four month period, our caravans, accompanied by the Lord Strathcona's Mounted Troop and other special features, will visit 50 Alberta communities, spanning the width and length of Alberta.

Finally, as you may be aware, much of my focus for the past two years has been on leadership succession detail. Large scale recruitment and development drives to replenish and renew our people have been largely accomplished in 2004, which is why your Board and I are so happy to report that Canadian Utilities Limited, entering 2005, reflects a new generation of leaders notable for their extensive experience within our companies.

To a man and woman, they march in the first rank of competency, dedication and enthusiasm. Their great work ethic is a delight to witness as fresh and determined execution takes hold precisely because they bring with them the our definition of "Excellence".

Canadian Utilities has 6,000 people, and I would like to thank each of them, every one, for their perseverance and achievements. I would also like to thank our Board of Directors and the many owners of our shares for your confidence and support.

I hope you will find this year's annual report interesting and even more informative than in the past. As to the future, smooth courses may not always be open to us, yet if you look closely at our positioning, our people and our past record, I do believe you will agree that our prospects for a bright future are encouraging.

I look forward to seeing you at our Annual General Meeting.



**N.C. Southern**  
President & Chief Executive Officer





## OFFICE OF THE CHAIRMAN

(left to right)

**Michael M. Shaw** - Managing Director, Global Enterprises

**William L. Britton** - Vice Chairman of the Board

**Susan R. Werth** - Senior Vice President & Chief Administration Officer

**Ronald D. Southern** - Chairman of the Board

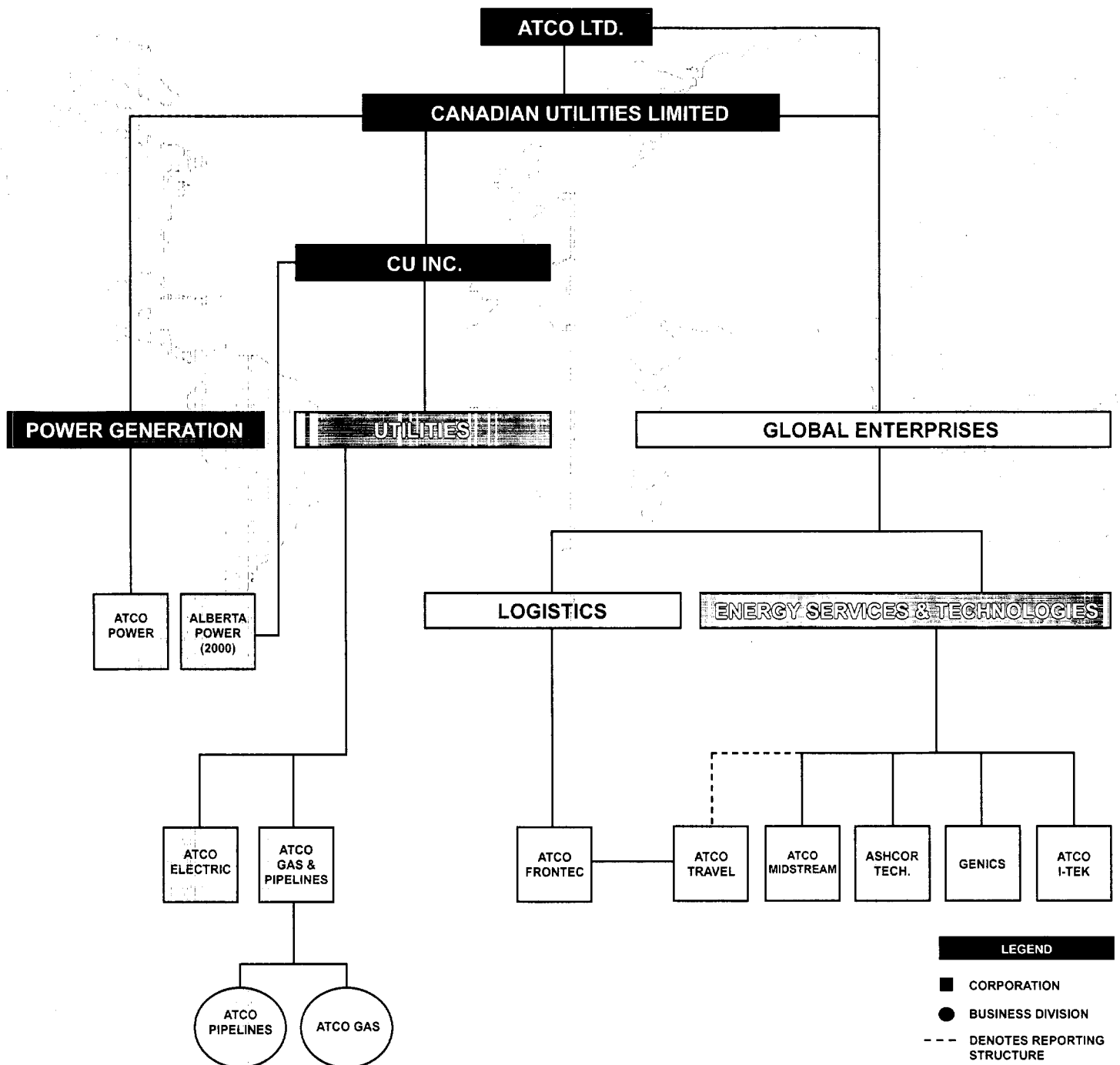
**Karen M. Watson** - Senior Vice President & Chief Financial Officer

**Nancy C. Southern** - President & Chief Executive Officer

**Siegfried W. Kiefer** - Managing Director, Utilities and Chief Information Officer

# Business Groups

Canadian Utilities Limited, a premier international corporation, Alberta based, delivers distinguished world class performance, profitable sustainable growth, community partnerships and value creation strategies through operational excellence.



**LEGEND**

- CORPORATION
- BUSINESS DIVISION
- DENOTES REPORTING STRUCTURE



Canadian Utilities' considerable investment in infrastructure ensures customers enjoy safe, reliable utility service 24 hours a day.

# Utilities Group

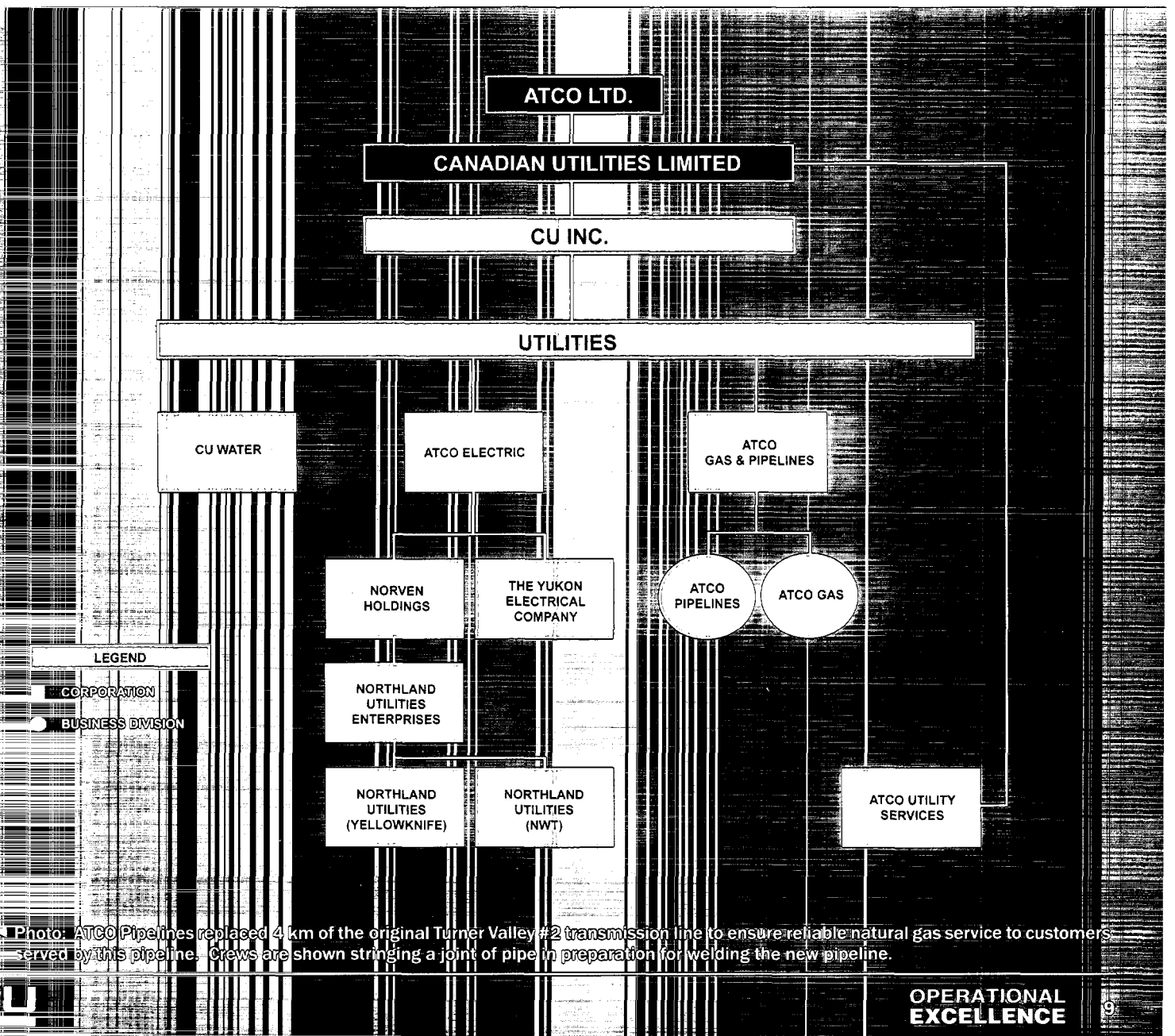


Photo: ATCO Pipelines replaced 4 km of the original Turner Valley #2 transmission line to ensure reliable natural gas service to customers served by this pipeline. Crews are shown stringing a joint of pipe in preparation for welding the new pipeline.



Photo: Grande Prairie serviceman Dave Makarenko is one of the 900 ATCO Electric employees devoted to providing safe, reliable delivery of electricity to Alberta customers. Twenty-four hours a day, 365 days a year, ATCO Electric is ready to respond.



The Utilities Group remains committed to the communities we serve by operating regional offices and service centres throughout the province.

## UTILITIES GROUP

The Utilities Group experienced record levels of capital expenditures in 2004 due to Alberta's robust economy and growing population. Significant expansion of the province's oil and gas industry is attracting large investments and new workers, particularly in the Grande Prairie, Fort McMurray and Lloydminster areas. This tremendous growth is driving the need for increased and improved natural gas, electric and water infrastructure.

A significant milestone for the Utilities Group in 2004 was the seamless transfer of more than one million retail customer accounts from ATCO Gas and ATCO Electric to Direct Energy Regulated Services. Now that responsibility for purchasing energy and billing customers has been successfully transferred, our energy utilities are focusing on their core business of building and maintaining safe, reliable natural gas and electricity delivery systems for residential, farm, commercial and industrial customers across Alberta.

Canadian Utilities' commitment to Operational Excellence and considerable investment in our utility companies to maintain and improve the reliability of the utilities' infrastructure, ensures that customers enjoy safe, reliable service every hour of the day and night.

Our companies' responsibilities continue to include efficient and dependable emergency response to service interruptions and meter reading. ATCO Gas continues to provide in-home services such as safety checks for natural gas furnaces and appliances.

## ATCO Electric

ATCO Electric's focus in 2004 was on its core business of transmission and delivery of electric energy to its customers.

The continued expansion and development of the oil and gas industry in northern Alberta, particularly in the Grande Prairie, Fort McMurray and Lloydminster areas, kept ATCO Electric very busy in 2004. The company spent a record \$214 million on capital projects to upgrade, maintain and improve our system, which includes 9,100 kilometres of transmission line and 56,000 kilometres of distribution line.

ATCO Electric delivers safe, reliable electric energy to more than 182,000 customers in more than 238 communities, Aboriginal reserves and Métis settlements across northern and east-central Alberta. In 2004 we transmitted nearly 9.9 million megawatt hours of electricity.

Above all, ATCO Electric remains committed to the highest level of customer service. The company made impressive strides towards enhancing customer service by working with the Alberta Energy and Utilities Board (EUB) to set up processes and procedures to meet EUB service quality requirements.

One of the company's more significant projects in 2004 was the completion of the \$99 million Dover-Whitefish transmission line that boosted electric energy transport capacity in northern Alberta by 250 megawatts – from 350 megawatts to 600 megawatts. In addition to being the third major line between Fort McMurray and Edmonton, three new substations were added to accommodate energy plants being built in conjunction with new oil sands projects in the region. The 350-kilometre transmission line was completed in record time amid great construction challenges including harsh temperatures, muskeg, and rugged terrain.

The project also showcased our commitment to protection of the environment. In an effort to return animals displaced by the transmission line construction, ATCO Electric built 70 furbearer houses from debris along the transmission line right-of-way. The piles of wood and branches provide shelter to wildlife affected by this project.

ATCO Electric hosted the second annual REA Conference for Rural Electrification Associations (REAs) in our service area. The conference served as an excellent forum for information sharing and relationship building. Relationships between ATCO Electric and REAs are positive.

ATCO Electric also strengthened its relationships with Aboriginal people in 2004. In addition to working closely with several Aboriginal groups and contractors on the Dover-Whitefish transmission line, the company signed a partnership letter with Concordia University College. The partnership is aimed at working more closely with their

Aboriginal University and College Entrance Program (UCEP) in Edmonton. We also signed an agreement with the Aseniwuche Winewak Nation (AWN) in the Northwest Region, outlining how we will work together in the future. AWN represents the interests of about 450 Aboriginal people who live on cooperatives north and west of Grande Cache.

The agreement paved the way for an opportunity to collaborate on an innovative, environmentally friendly solution to mechanical tree clearing. Aseniwuche Development Corporation, ATCO Electric and Parks Canada used logging horses to thin about 5.7 hectares of forest in an environmentally sensitive area in Jasper National Park. Under the direction of Parks Canada, the team cleared trees to reduce the risk of wildfire between an industrial plant and ATCO Electric's Palisades Plant. This work will help maintain the Town of Jasper's power supply in the event of uncontrolled wildfire in the area.

**Photo: Safety is the number one priority at ATCO Gas. More than 1,800 dedicated ATCO Gas employees are committed to ensuring the natural gas system is safe and reliable. Nearly one million customers depend on ATCO Gas for their natural gas service every day.**



In 2004 ATCO Electric marked the second year of a three-year project to remediate 77 operating and decommissioned isolated generation plant sites. With 21 sites now cleaned up, the project is now 70% complete. These sites will be available for future uses as they are restored to standards required for residential/parkland use, which are more stringent than requirements for commercial and industrial sites.

With most customers now receiving actual meter readings every month thanks to automated meter reading devices, ATCO Electric found an opportunity to explore a new meter technology to help customers reduce electricity use and contribute to a cleaner environment.

ATCO Electric, in partnership with Natural Resources Canada and InfoEnergy, launched a pilot project to test smart metering in Drumheller and Grande Prairie in 2005. The pilot is the first of its kind in western Canada and allows customers to pre-purchase their electricity, load their credits into the smart meter, and use an in-home display unit to know exactly how much electricity they are using at any given time.

#### □ NORTH OF 60 COMPANIES

Active economic activity was not limited to Alberta in 2004. ATCO Electric subsidiaries in Canada's North are experiencing steady growth driven largely by the diamond industry, renewed interest in gold exploration, increased government and retail activities and the potential of a Mackenzie Valley Pipeline.

#### **Northland Utilities**

Northland Utilities (NWT) in Hay River renewed its franchise agreement, while Northland Utilities (Yellowknife) Limited received a Public Utilities Board permit and license to convert Yellowknife's distribution system from 5 kV to 25 kV – an eight year, \$17 million program.

#### **Yukon Electrical**

The Yukon Electrical Company has been providing electrical service to Yukoners for over a century. Chartered in 1901, Yukon Electrical has grown to serve 13,500 customers in 20 communities from south of the Yukon border to north of the Arctic Circle.

## ATCO Gas

ATCO Gas kept pace with Alberta's expanding economy in 2004, spending a record \$154 million on capital projects, adding 564,000 metres of pipe to the distribution system, bringing natural gas service to 26,580 new customers, and operating and maintaining more than 34,800 kilometres of distribution pipelines. As at December 31, 2004, the company was serving 914,347 customers in 291 communities throughout Alberta.

Franchise renewals were a priority in 2004 and ATCO Gas successfully renewed 61 franchise agreements, including the City of Edmonton, most using a template developed with the Alberta Urban Municipalities Association.

In 2004, ATCO Gas completed 591,934 jobs and 455,163 service calls for our customers. These jobs included equipment and appliance inspections, meter installations and moves, emergency response to gas odours and carbon monoxide, and requests to re-light appliances.

As the province's growth and demand for energy distribution continues to increase, ATCO Gas has responded by finding safe, reliable and efficient ways to meet the needs of customers.

ATCO Gas was the driving force behind the development of four-party trenching – a program that allows the four utility companies to install natural gas, electricity, telephone and cable mains and services into a single trench all at the same time.

ATCO Gas piloted this construction method in Calgary in the late 1990s, and although other areas of the province have since moved to four-party trenching, Calgary is the only major centre in Alberta where this construction method is the standard.

In 2004 all of Calgary's new residential subdivisions – about 8,500 lots – were completed using four-party trenching. Another 1,500 lots throughout the province were completed this way, mostly in Fort McMurray, Lethbridge and Grande Prairie.

The housing construction boom presented other challenges for ATCO Gas that were quickly addressed. For example, in the Southeast Planning Area of Calgary, Auburn Bay required gas

service by the end of 2004 while the community of Seton will require gas service in the summer of 2005. There were no gas mains in close proximity to these communities. As a result, neither temporary nor permanent gas service was available without the construction of a significant feeder main.

ATCO Gas responded with a \$2.2 million project to extend a feeder main to Auburn Bay and Seton. The feeder main not only forms part of the long-term gas supply to the Southeast Planning Area, but provides a secondary gas supply to the community of Cranston, increasing the reliability of gas service to these customers. Construction began on October 22 and was completed on December 4, 2004.

The Meter Relocation and Replacement Program also continued in 2004. Over time the program will move 200,000 residential gas meters outside customers' homes and replace them as required in an effort to improve safety, efficiency, accessibility to meters, and meter reading accuracy.

In 2004, more than 16,000 meters were moved from inside customers' homes, bringing the total to nearly 33,000 meters moved since the program began in 2003. The program is expected to take eight more years to complete.

As ATCO Gas continued its focus on the safe, reliable delivery of natural gas, it also increased its attention on public safety programs to educate customers about the risks involved with living and working around natural gas. ATCO Gas continued its ongoing support and partnership with "Alberta One-Call" to encourage customers to "Dig a Hole Lot Smarter" and have underground utilities properly marked before they do any digging.

Customers were also reminded to have their natural gas appliances inspected annually, and to check for uncapped gas lines around their homes and garages. In addition to advertising, ATCO Gas took the added step of working with moving companies, realtors, and appliance retailers to inform customers about uncapped lines. In 2004, customers were also informed about how to respond to gas odours and carbon monoxide leaks in their homes. Employee and customer safety will continue to be a company priority in the years ahead.

Another priority for ATCO Gas is to participate in innovative projects that deliver energy more efficiently and lower greenhouse gas emissions. In 2004, ATCO Gas saw its \$1.2 million commitment to a hydrogen fuel cell research project at the Northern Alberta Institute of Technology (NAIT) make an immediate first impression.

The fuel cell is the first commercial high-voltage fuel cell in Canada. Not only does it supply 10% of NAIT's electricity requirements, and heats the swimming pool and water for showers at its main Edmonton campus, it also provides a unique learning opportunity for the next generation of electrical and mechanical engineers.

Looking ahead, ATCO Gas continues to work with communities to invest and participate in other alternative energy projects in the province that involve district energy systems, fuel cells, and thermal energy.

ATCO Gas has a long history of safe and reliable service to its customers, and with its increasing interest in partnering on innovative energy projects, the company is well-positioned to be a key player in the development of energy distribution systems of the future.

## **CU Water**

CU Water owns and operates a water transmission line from Sherwood Park, Alberta to Viking, Alberta. In addition, several lateral lines serve rural subdivisions and five intensive livestock operations. The Town of Tofield and the Town of Viking are two of the company's largest customers.

The company also owns and operates the water distribution system in the Village of Ryley and in 2004 completed the purchase of the water distribution system for the Village of Holden.

## **ATCO Pipelines**

ATCO Pipelines operates a natural gas pipeline system of more than 8,330 kilometres connecting producers with Alberta markets and providing interconnections with all major export pipelines.



Photo: ATCO Electric owns and operates a sprawling system of high and low voltage power lines that deliver electric energy to Alberta homes and businesses. ATCO Electric linemen receive specialized training to perform live-line work as a way of minimizing power interruptions for customers.

With this significant infrastructure, ATCO Pipelines is well positioned to provide shippers access to markets of their choice.

Alberta's robust economy helped ATCO Pipelines reach its highest level of capital expenditures in three years.

Continued oil sands development in the Fort McMurray region provided opportunities for ATCO Pipelines to expand its business in this market. ATCO Pipelines began supplying a new customer, Deer Creek Energy Limited, with volumes from the Muskeg River pipeline and is negotiating with other potential customers in the area.

ATCO Pipelines added new compression facilities to its system in 2004 to increase receipt transportation capacity and security of supply. Construction was completed on the

Sturgis #2 compressor on the Ranfurly transmission pipeline and at Noel Lake on the Swan Hills transmission pipeline. A new compressor was also installed on the Alliance Pipeline transmission system north of Grande Prairie.

ATCO Pipelines built three new pipeline interconnections during 2004 to facilitate access to markets. Construction of two interconnections with Alliance Pipeline transmission system, one north of Grande Prairie and another at Irma was completed. An interconnection to ATCO Pipelines' Cardston transmission pipeline was also completed.

ATCO Pipelines' Integrity Program to ensure the ongoing safe operation and service reliability of the company's pipeline system continued in 2004. A relocation of a segment of the Jasper transmission pipeline in Jasper National Park to ensure security of supply to the Town of Jasper and other



Photo: Lighting up the North – Christmas lights in downtown Yellowknife, NWT, symbolize CU's 'North of '60' companies' commitment to the north together. Northland Utilities and Yukon Electrical have over a century and a half of service to communities across the Yukon and NWT.

customers in the Park was completed. An exposed section of the Taber-Coutts transmission pipeline under the Chin Lake reservoir was replaced by directional drilling. Approximately 4 km of the Turner Valley transmission line, originally built in 1925, was replaced to ensure reliable natural gas service to customers served by this pipeline. The Grande Cache transmission pipeline required relocation work to ensure the security of gas supply to the Town of Grande Cache. A 273 mm pipeline was also installed between the Dow Hydrocarbon and Dow Chemical plants in the Fort Saskatchewan area to provide customer requested security of supply for each site.

The capital phase of the Unaccounted For Gas (UFG) meter installation projects that began in 2001 was completed late in 2004. Approximately 1,200 new flow meters were installed between ATCO Pipelines' high pressure lines to ATCO Gas' intermediate pressure regulating stations. The Meter Installation Program was undertaken to provide custody,

transfer-quality metering for the majority of loads delivered to ATCO Gas.

ATCO Pipelines received EUB approval for a new rate structure which was implemented November 1, 2004. The new rates are cost-based and provide competitive rate options to access both supply and markets on ATCO Pipelines' North and South systems. The prior rate structure was the result of negotiated agreements while the new rates represent the first extensively tested rate structure for ATCO Pipelines.

Continued strong oil and gas prices are stimulating new investment in oil sands development, conventional gas drilling and Coal Bed Methane (CBM) development, all of which provide opportunities for ATCO Pipelines. High gas prices for industrial customers, however, increase feedstock costs and reduce their competitiveness in the global marketplace, which increases ATCO Pipelines' risk of delivery market loss.

Forecast industrial growth in the Fort McMurray, Edmonton and Fort Saskatchewan regions, largely as a result of oil sands developments and associated refining requirements, will contribute to future growth in throughput on ATCO Pipelines' system.

ATCO Pipelines signed an agreement in late 2004 to build a fifth interconnection with the Alliance Pipeline at Shell Creek which will connect ATCO Pipelines' Grande Cache transmission system to the Alliance Pipeline system. This project will require installation of a new compressor station in 2005.

ATCO Pipelines also signed agreements in 2004 to construct receipt meter stations and laterals in the Red Deer and Wetaskiwin areas to connect CBM production to the ATCO Pipelines transmission system. The high level of CBM development activity in these regions is forecast to accelerate in 2005. ATCO Pipelines will continue to pursue incremental receipt volumes associated with CBM development.

Custody transfer flow computers, required for customer load balancing, will be installed at 158 gate stations on the ATCO Pipelines' north system and 30 gate stations on the ATCO Pipelines' south system in 2005.

ATCO Pipelines continues to strongly support and be involved in environmental committees and initiatives through various industry associations including the Canadian Energy Pipeline Association (CEPA) and the Canadian Gas Association (CGA).

## Utilities Group Operations

The Utilities Group remains committed to the communities we serve by operating regional offices and service centres throughout the province and through an active community involvement program. ATCO Gas built new service centres in Sherwood Park, Stony Plain and Hinton in 2004. A new service centre opened in Red Deer in March 2005.

Our commitment to operational excellence also includes two unique customer services: ATCO EnergySense and the ATCO Blue Flame Kitchen.

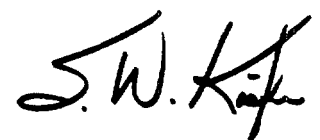
ATCO EnergySense is a well-established delivery agent for Natural Resources Canada's EnerGuide for Houses (EGH) energy audit program. The EnergySense experts also provide unbiased energy efficiency information and advice to Albertans.

In 2004, ATCO EnergySense performed 15,280 residential energy evaluations – nearly twice the number performed in 2003 and the highest of any other delivery agent in the country. They also completed 28 commercial evaluations. The EGH program is also making a positive impact on the environment. Approximately 3,030 customer homes were retrofitted in 2004 based on ATCO EnergySense recommendations, resulting in a reduction of 9,600 tonnes of greenhouse gas emissions.

The ATCO Blue Flame Kitchen had another record-breaking year for cookbook sales with more than 40,000 copies of *Romancing the Flame* and *A Holiday Collection* cookbooks sold. In addition to being a regular feature in newspapers, on radio and on a popular, weekly noon-hour television program, the Blue Flame Kitchen also responded to more than 41,600 telephone inquiries from customers seeking cooking and household advice. The Blue Flame Kitchen website now contains more than 1,000 searchable recipes and home economy tips.

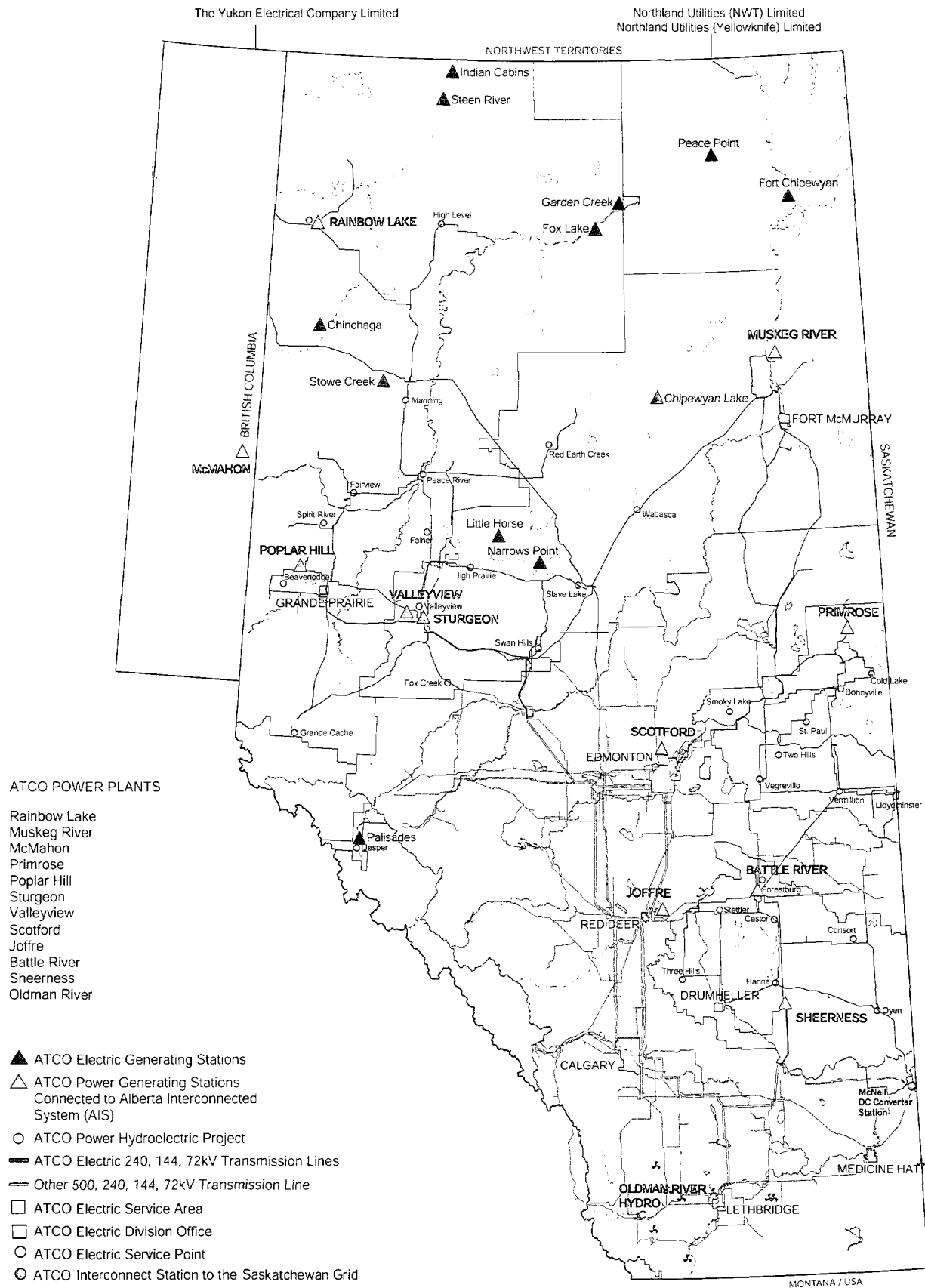
The Oracle Financials System, an integrated computer-based program, was successfully implemented in October 2004 to replace the aging legacy financial information system. Oracle will provide Utilities Group companies with greater efficiencies in managing financial information and business processes.

Moving forward, our utilities are well-positioned to focus on what they do best – safe, reliable delivery of natural gas, electricity and water.



**Siegfried W. Kiefer**  
Managing Director, Utilities

# Electric Power System



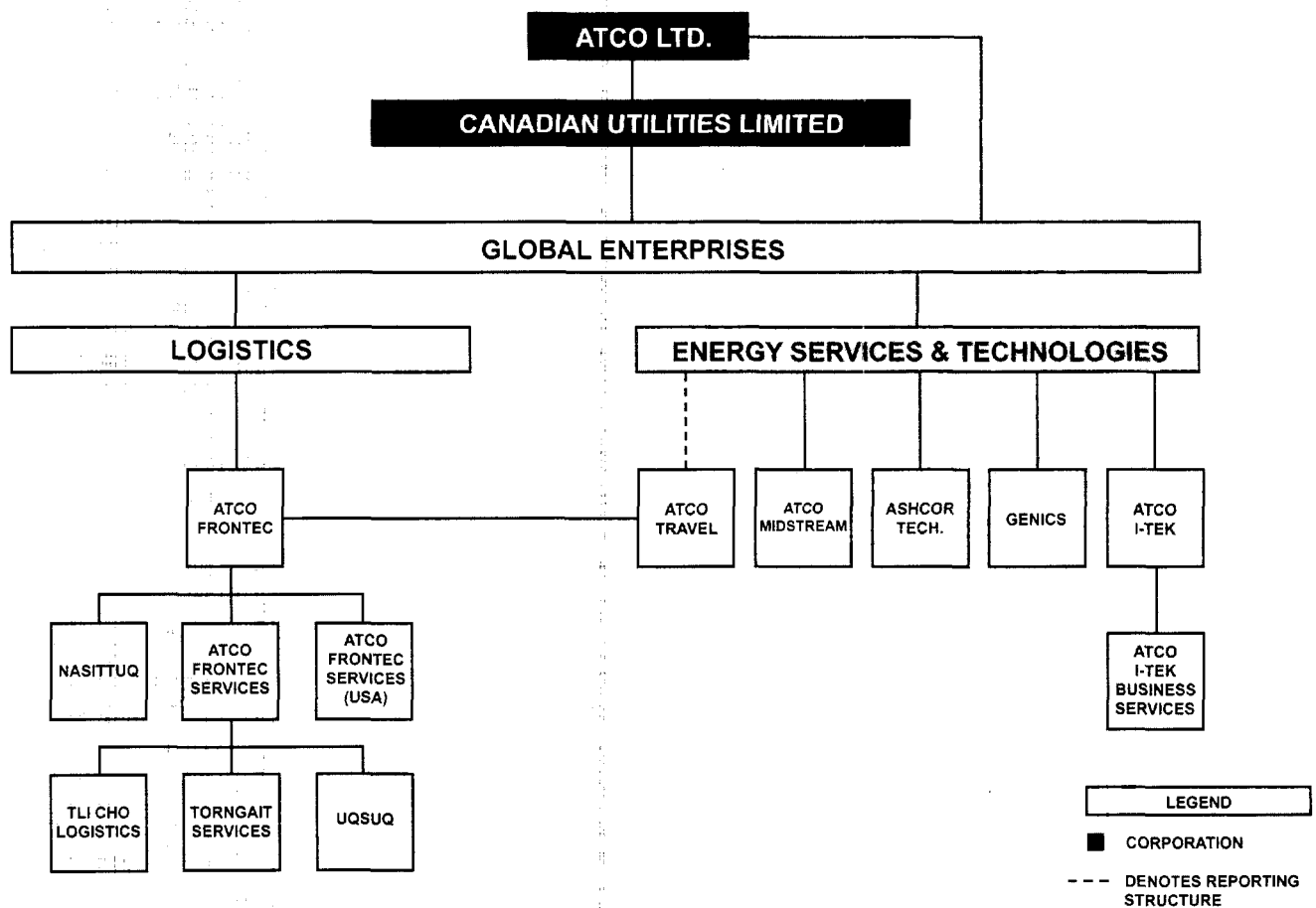






The Companies in the Global Enterprises Group focus on technologies, logistics, facilities management and energy services.

# Global Enterprises



◀ Photo: The Alaska Radar System is managed by ARCTEC Alaska, a joint venture created in 1994 between ATCO Frontec and Arctic Slope World Services. ARCTEC Alaska's contract, in place for up to ten years, is to operate and maintain 18 radar sites, ten of which are located above the Arctic Circle.

# Canadian Utilities has established many partnerships with Aboriginal groups based on mutual trust and respect.

## LOGISTICS

### ATCO Frontec

Achieving high performance ratings, expanding and strengthening existing projects, winning new business ventures and earning service excellence recognition from customers, resulted in a year of solid growth for ATCO Frontec.

Following a redefining in business focus, the company commenced 2004 with a growth strategy centred on two core competencies: site support services and facilities management.

Successful implementation centres on quality relationships. The success of those relationships was evident in May when the United States Air Force awarded ARCTEC Alaska (a ten year-joint venture partnership between ATCO Frontec and Alaska native-owned Arctic Slope World Services Inc.) the contract renewal for the Alaska Radar System. Since 1994, ARCTEC Alaska has operated and maintained 18 short and long range radars, scattered over 590,000 square miles of Alaska. The system monitors more than two million square miles for the Alaska North American Aerospace Defence Command (NORAD) region. The new contract, in place for up to ten years, is for the continued operation and maintenance of the electronics and support systems and the Maintenance Control and Communications Centre at Elmendorf Air Force Base in Alaska. Since the start, ARCTEC Alaska has consistently achieved high ratings for all evaluated areas of performance.

Since the late 1980s ATCO Frontec has established a number of partnerships with aboriginal groups throughout the North. Each of these partnerships is based on mutual respect and trust and is designed to build capacity within aboriginal communities through the transfer of technical

and managerial skills. Tli Cho Logistics, a jointly owned corporation of ATCO Frontec and the Dogrib Rae Band in Yellowknife, continued to deliver site support services to a number of facilities in the Northwest Territories including the Diavik diamond mine, the Tundra Mine and remediation of the Colomac Mine.

ATCO Frontec's Northern Operations group, based in Yellowknife, NWT, provides a wide range of services to northern businesses and government. In 2004 the group successfully re-bid airport ground handling contracts in Yellowknife and Iqaluit and building and facility maintenance services in Eureka, and successfully negotiated a new contract to provide site support services to the Resolute Bay Airport.

The Western Operations group, based in Edmonton, Alberta, provides a wide spectrum of security services for commercial, industrial and residential clients, property management services and airport services. The group had a very successful year earning new technical services and security service contracts as well as establishing a new office in Fort McMurray, Alberta.

Several initiatives in other domestic business units also met with success through the retention and expansion of responsibilities at the operations level.

Activity levels at the Voisey's Bay nickel project in Newfoundland Labrador (N.L.) accelerated during the year and Torngait Services Inc., (TSI) a joint venture between the Labrador Inuit Development Corporation and ATCO Frontec, provided permanent accommodation facilities for the project's mine and concentrator operation in Labrador. TSI sub-contracted ATCO Kent Inc., a joint venture between ATCO Structures and Kent Homes, to manufacture the 115,000

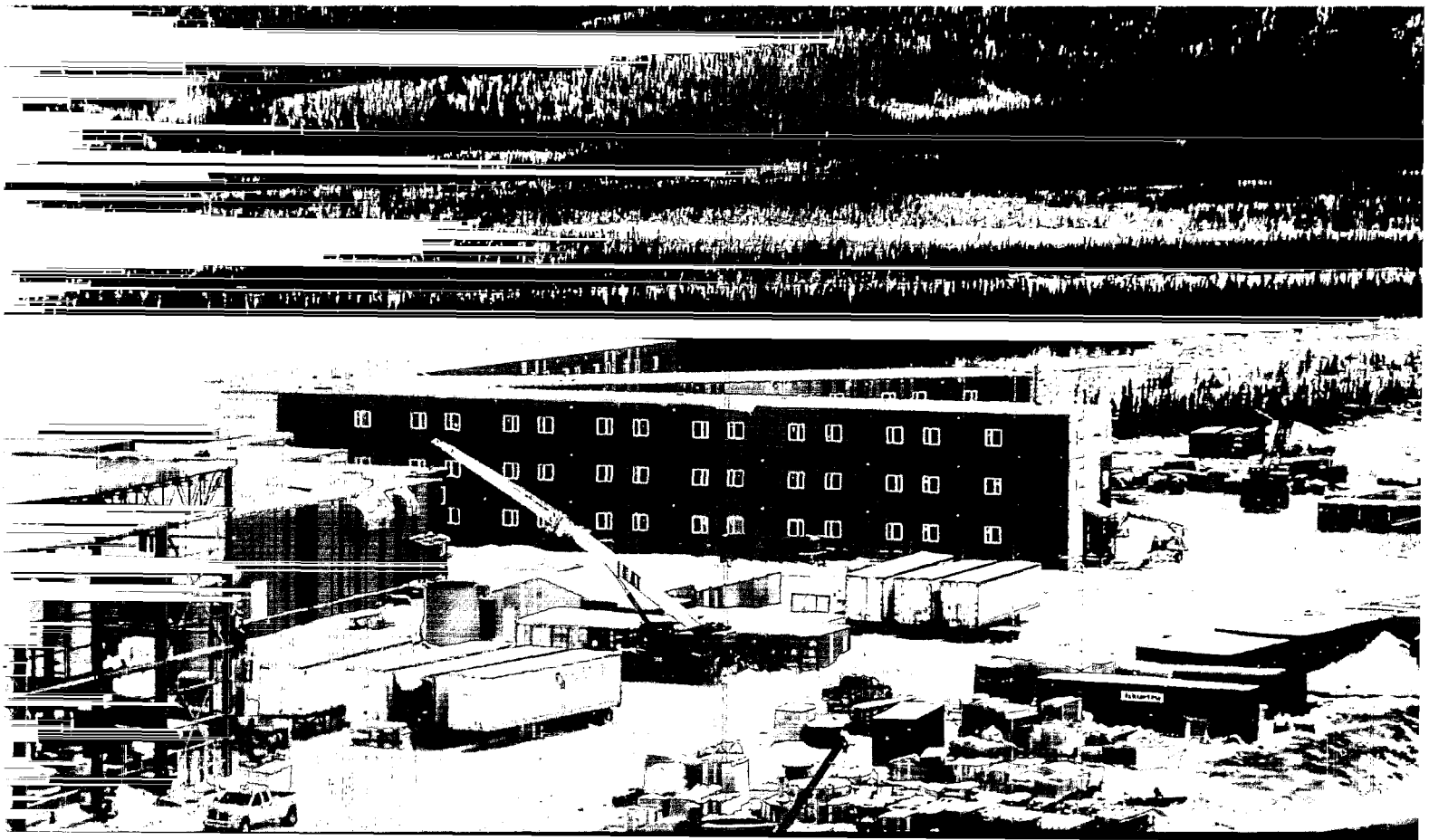


Photo: Jorgalt Services Inc. (TSI) a joint venture between ATCO Frontec and the Labrador Inuit Development Corporation was awarded the contract to build the 115,000 square foot state-of-the-art facility for 255 employees working at the Voisey's Bay site. The \$23 million facility includes deluxe employee accommodation, kitchen and dining areas, recreation and lounge facilities as well as a gymnasium and squash court.

square foot permanent facility. During the peak construction period at the mine site, TSI had up to 200 employees working on both the permanent accommodation project and the site services contract, including transporting personnel and material, operating and maintaining facilities, building construction camps, off-loading ships, maintaining roads and grounds, removing snow, and erecting the permanent camp. Deadlines were met and, in some instances, exceeded by TSI in a thorough, timely, and safe manner. Final installation of the permanent accommodation facility is expected by the end of March, 2005.

As part of an overall commitment to the Labrador Inuit Association, TSI successfully completed a summer training program to coincide with the permanent accommodation project. Eleven candidates received orientation training at manufacturing sites located at Bouctouche, N.B., and Debert, N.S., followed by on-the-job training at Voisey's Bay. TSI also formally opened a branch office in Nain, N.L., to enhance coordination and liaison with the Labrador Inuit communities.

Other TSI achievements included the successful completion, in September, of an operating camp at Saglak, N.L., in support of a two-year PCB clean-up.

Internationally, ATCO Frontec's information systems technological support contract to the NATO Stabilization Force Organization (SFOR) based in Sarajevo and four remote locations in Bosnia and Croatia, completed a very successful first year of operation. This three year contract with two one-year extensions is achieving and exceeding requirements.

#### □ FUTURE OPPORTUNITIES

As part of the Global Enterprises Group of Companies, ATCO Frontec will take an active approach to site support services opportunities with ATCO Structures. Work continues on the positioning of Canadian Utilities' companies as participants in the gas pipeline projects unfolding in the North. ATCO Frontec's experience in delivering logistical and site support services in the North, combined with proven aboriginal training programs and long term aboriginal relationships, have significant value.

ATCO Midstream's Gas Gathering and Processing Group continued to maintain a high standard in 2004 by operating its gas plants with an availability of 99%.

## ENERGY SERVICES & TECHNOLOGIES

### ATCO Midstream

ATCO Midstream provides energy services in gas gathering and processing, storage and natural gas liquids extraction to a broad customer base. The Company focuses on building long term relationships by providing customers with cost-effective, timely, integrated solutions. ATCO Midstream has ownership interest in 15 natural gas processing and compression facilities with owned or operated gross licensed processing capacity of 2,060 million cubic feet per day. The Company also owns and operates approximately 1,000 kilometres of raw natural gas pipeline. Established in 1992, ATCO Midstream has proven to be a reliable partner in today's energy industry by combining our strengths of experienced staff and commitment to meet individual needs of our customers.

#### ■ MIDSTREAM GROUP ACTIVITIES

ATCO Midstream's Gas Gathering and Processing (GG&P) Group continued to maintain a high standard in 2004 by operating its gas plants with an availability of 99%. In addition to increasing throughput at its Wolstitmor, Cranberry and Watelet facilities, the GG&P Group completed an extension of its gathering system in southeast Saskatchewan, which created another producing area to ensure a high level of throughput is maintained through ATCO Midstream's share of the Nottingham gas plant. The GG&P Group was also successful in 2004 in gaining full operatorship of the West Pembina gas plant, which significantly increased both the number of personnel within ATCO Midstream, as well as the total processing capacity for which ATCO Midstream is responsible. In 2005, the GG&P Group will focus on the

infrastructure requirements of producers drilling for Coal Bed Methane, as well as greenfield or acquisition opportunities that complement our existing asset base.

Cost control, stronger natural gas liquids extraction margins, and increased facility throughput were the main drivers in the success of the Natural Gas Liquids (NGL) Group in 2004. The NGL Group is looking forward to pursuing the acquisition of existing NGL infrastructure in Alberta, as well as the development of new NGL facilities in producing regions with liquids-rich natural gas in 2005.

Storage and Energy Services' (S&ES) had a stronger year by providing customized services/products tailored to customers' needs. S&ES continues to balance regulatory, operations, credit and market volatility within ATCO Midstream's risk profile. In 2005, ATCO Midstream is evaluating suitable locations and reservoirs for a new commercial storage facility in Alberta.

#### ■ GOING FORWARD

ATCO Midstream will continue to pursue growth opportunities in its core business areas but will also position itself for growth in new geographic areas such as the Far North, East and West coasts. The company will be expanding its expertise to pursue projects in the heavy oil and natural gas from coal industries.

ATCO Midstream is well positioned to provide gathering and processing services to the Coal Bed Methane producer industry, which is in its infancy in Alberta. With a diverse asset base, an experienced and enthusiastic staff and an extensive project lead list, ATCO Midstream has significant growth potential.

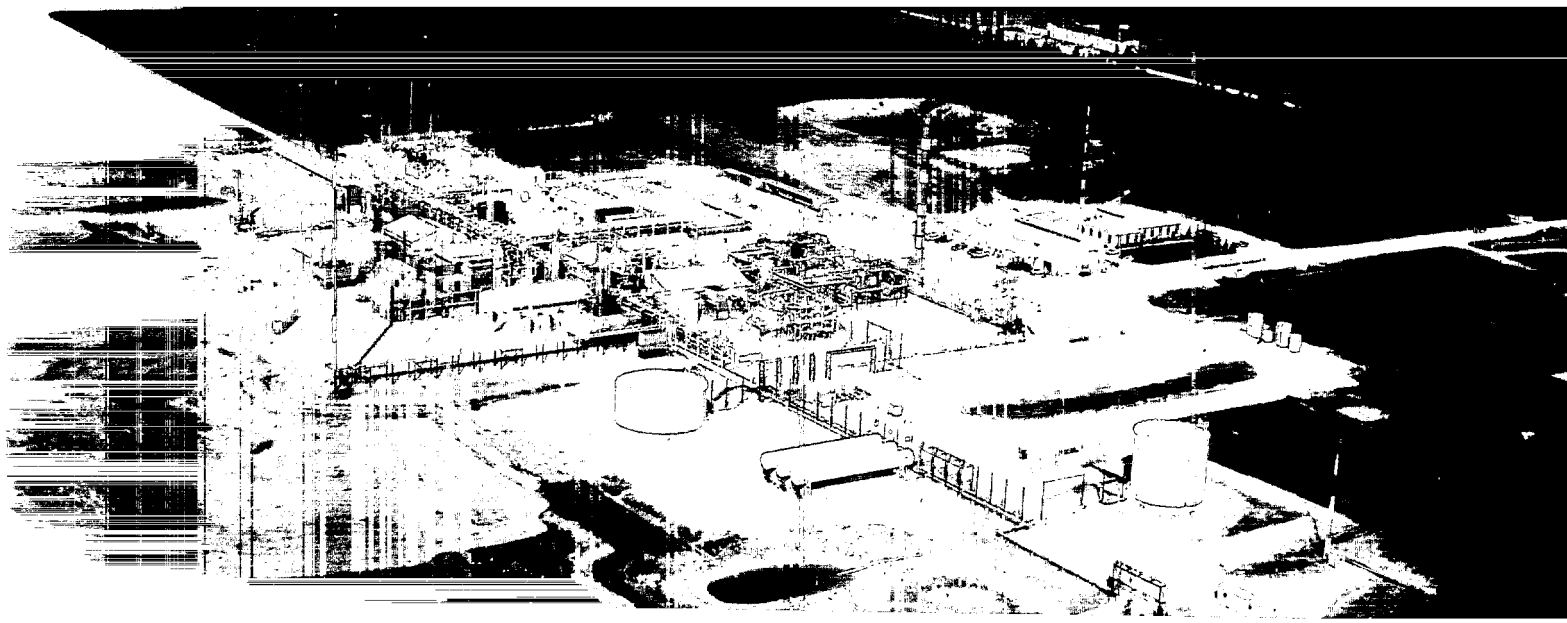


Photo: The West Pembina Gas Plant is a large sour gas processing facility located west of Drayton Valley, Alberta. Operated by ATCO Midstream, the joint venture facility is licensed to process approximately 145 mmcf of natural gas.

### ATCO I-Tek

ATCO I-Tek delivers reliable large-scale customer care and technology solutions. In 2004 – a year of unprecedented change – the company's people, processes and technology proved they have the ability and agility to meet their clients' critical business needs.

ATCO I-Tek designed and implemented call centre and billing services for Direct Energy Marketing Limited (DEML), converted more than one million retail accounts, established new distribution-only services for ATCO Gas and ATCO Electric, and launched Oracle Financials, a complete financial solution for three ATCO companies.

At the same time, ATCO I-Tek maintained a diverse suite of fully-managed technologies; provided around-the-clock Information Technology (IT) support for more than 4,000 computers; and supported more than 700 desktop and 200 specialized business applications.

ATCO I-Tek also answered almost 2.6 million customer calls, produced more than 13.5 million utility bills and processed 11.3 million payments totaling \$1.9 billion.

After signing a 10-year agreement with DEML, North America's largest energy retailer, ATCO I-Tek began providing retail customer care services for its first major external client on May 4, 2004.

To meet the requirements of Alberta's new utility model, ATCO I-Tek designed and built a new Customer Information System with retail capabilities, and re-configured the Distribution Customer Care Information System serving ATCO Gas and ATCO Electric. The world-class proprietary systems handle more than two million retail and distribution customer accounts – double what ATCO I-Tek managed before the transfer of ATCO Gas' and ATCO Electric's retail energy supply business to DEML.

ATCO I-Tek also provided retail and distribution training for more than 500 employees; created manual and automated controls to protect client data; customized hundreds of processes, policies, procedures and training resources; and expanded its call centre operations from three to five independent call centres.

In the months before and after the transition, ATCO I-Tek worked closely with DEML, ATCO Gas, and ATCO Electric to ensure a smooth, convenient conversion for customers. According to a customer satisfaction survey conducted just six months after the conversion, more than 86% of customers were satisfied or extremely satisfied with the quality of service they received when they called the regulated retail call centre.

ATCO I-Tek successfully implemented Oracle Financials for ATCO Electric, ATCO Gas and ATCO Pipelines. The largest system integration project in CU's history was delivered on time, on budget, and with no significant operational disruption.

The major undertaking involved adapting the financial software to meet the complex regulated business needs of the Utilities Group; converting 235,000 inventory items, projects, assets and general ledger codes; installing the software on more than 800 workstations and upgrading another 600 workstations. In the first six weeks using Oracle, the Utilities Group processed more than \$130 million in payments and purchase orders.

Building on a year of unprecedented change and achievements, ATCO I-Tek is well positioned for future growth and success.

## ATCO Travel

In 2004, ATCO Travel continued its leadership as a full service Travel Management Company for corporate clients, the general public, and the ATCO Group of Companies.

ATCO Travel maintained solid growth in new business opportunities, opening new offices in Fort McMurray, Alberta and Ottawa, Ontario, in addition to renewing its affiliation with

TSI Travel (a joint venture between ATCO Frontec and Labrador Inuit Development Corporation) in St. Johns, Newfoundland.

ATCO Travel also increased the number of independent vacation agents who operate under ATCO Travel's banner by 70% in 2004, bringing additional revenue to the company as well as improving our negotiating power with large industry suppliers.

Corporate account growth targets for 2004 were reached towards the end of the year with a significant contract awarded to perform both commercial and charter aircraft management on behalf of a large oil and gas company. This contract allows ATCO Travel to perform an expanded role in terms of logistical management for air and ground coordination on behalf of the customer as opposed to just commercial airline bookings. This new account bodes well for ATCO Travel's continued account expansion in the same area, complementing the opening of a travel office in Fort McMurray.

Again in 2004, ATCO Travel was able to re-sign all major accounts to new agreements prior to the end of the year, ensuring continued demand from these accounts, and delivering high-end customer service throughout 2005.

In 2005, ATCO Travel will expand its four key service delivery models, Corporate Management, Vacation Services, Groups and Meeting Planning, and Air Charter programs.

## Genics

Genics Inc. develops, manufactures and markets innovative environmentally safe wood preservation products for utility, commercial, and residential markets throughout North America. Genics serves many Canadian utility companies providing both inspection service and wood preservation treatment that extends wood pole asset life.

The utility adoption of Genics' environmentally responsible and user/public safety wood preservatives continued in North America with significant projects awarded in Alberta, in Missouri and Illinois, and throughout the United States. There has been some interest expressed in the Genics product lines



internationally and Genics will evaluate the challenges of getting preservative product labels into these jurisdictions.

Genics has also filed patents for liquid and solid wood preservatives that have attributes protecting engineered wood and lumber against attack by mold, decay, termites, and insects.

### ASHCOR Technologies

ASHCOR Technologies had a very successful year in 2004 marketing coal combustion products from ATCO Power's coal-fired generating stations in Alberta. The predominant product marketed is fly ash, the non-combustible residue remaining after coal is consumed in a power plant furnace. It is designated a supplementary cementing material by the Canadian Standards Association. Its primary use is as a partial replacement for cement powder in concrete products

and in oil well cements. Replacement of Portland Cement by fly ash, a by-product, reduces Green House Gas (GHG) emissions.

Since its inception in 1998, ASHCOR has established itself as a premier supplier to the construction and oilwell drilling markets in western Canada.

ASHCOR continues to pursue research and development of value-added products derived from coal combustion products.

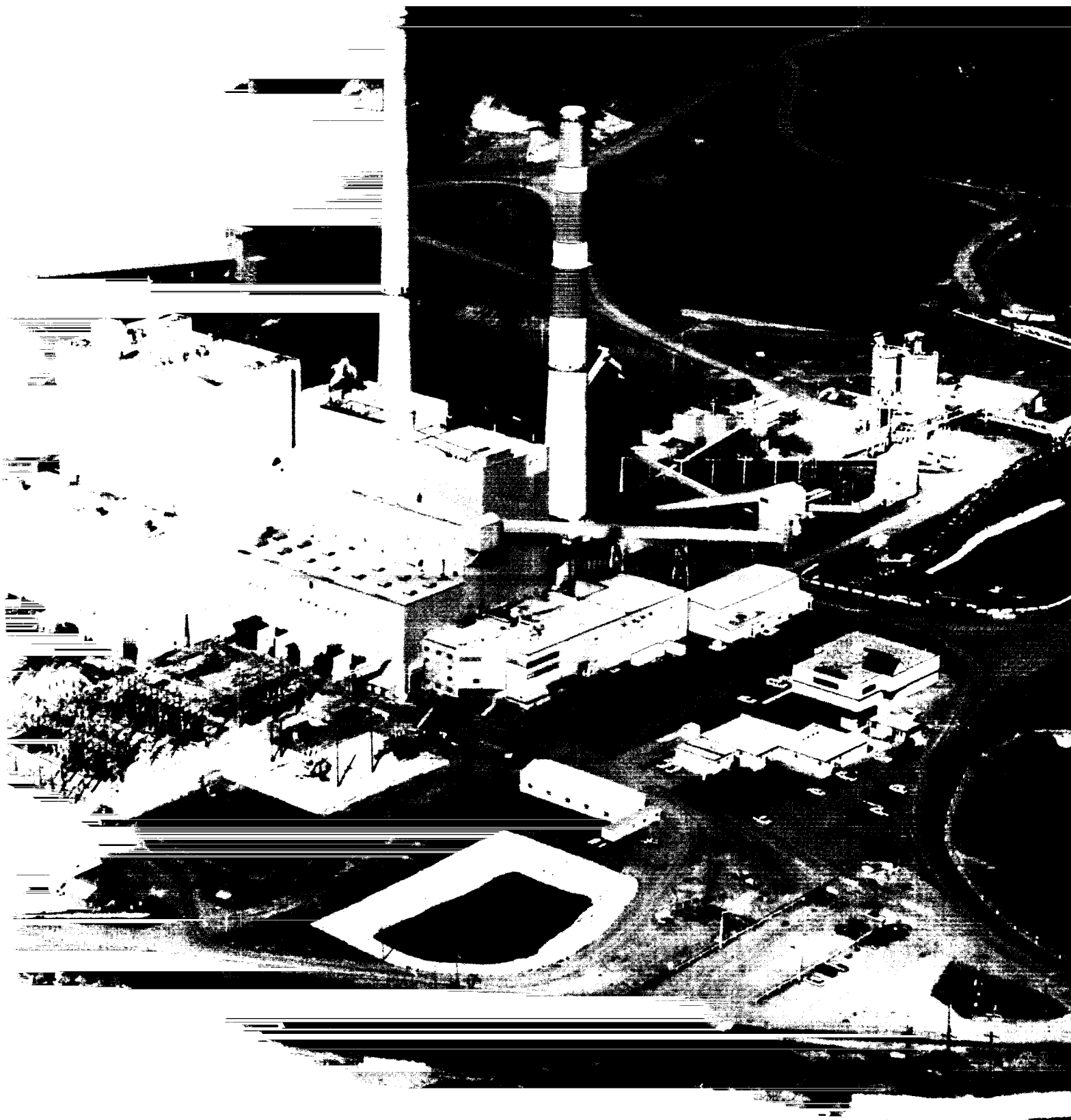


**Michael M. Shaw**

Managing Director, Global Enterprises

**Photo: In 2004 ATCO I-Tek produced more than 13.5 million utility bills, processed 11.3 million payments and answered almost 2.6 million customer calls. Katherine Dallinger, is one of the many friendly and helpful customer care specialists who assist customers in ATCO I-Tek's five call centres.**





Since 1998, ATCO Power and its partners have invested \$1.1 billion and added 1,100 MW of electricity supply to the Alberta grid.

# Power Generation

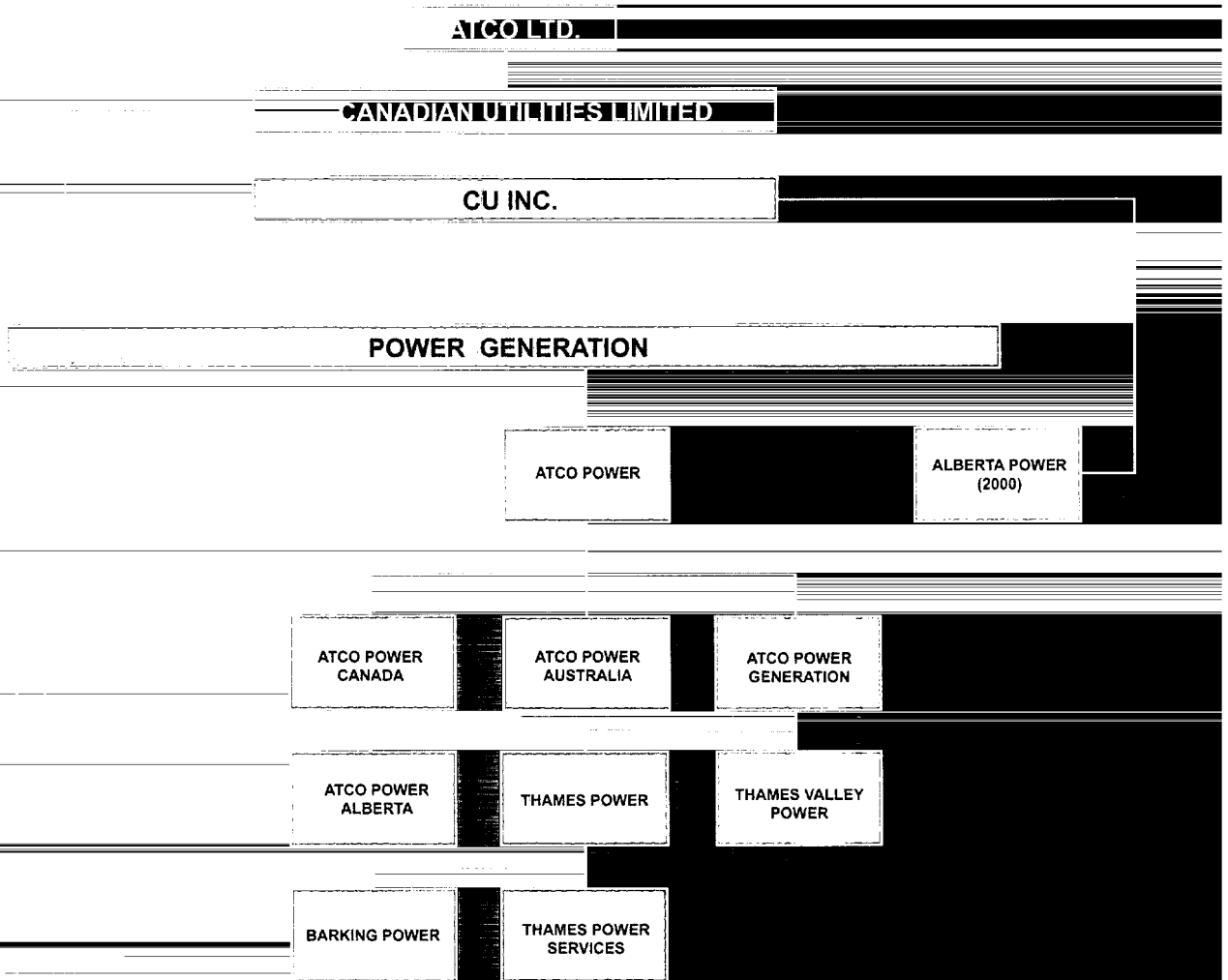


Photo: ATCO Power owns and operates the 670 MW coal-fired Battle River Power Plant located in central Alberta near Forestburg.

# The Power Generation Group combines the independent power plants built and operated by ATCO Power with the formerly regulated legacy plants in Alberta previously owned and operated by ATCO Electric.

## POWER GENERATION GROUP

### ATCO Power

The Power Generation Group has operations in Canada, the United Kingdom and Australia and is an acknowledged leader in developing, constructing and operating environmentally progressive natural gas fired plants. 2004 was a challenging year for the Power Generation Group as low power prices and drought in Alberta, the addition of five new operating plants and continued uncertainty in the United Kingdom (U.K.) related to the TXU bankruptcy counter-balanced some outstanding achievements in other areas.

### ■ ATCO Power - CANADA

ATCO Power is well positioned to maintain its rank as a leading Canadian-based independent power producer. At the end of 2004, the Power Generation Group operated a portfolio of 19 plants with a combined capacity of over 4,800 MW, and has a total ownership interest of 2,700 MW in these plants. ATCO Power has a wide portfolio of efficient generating assets, with the vast majority of electric and steam output sold under long-term contracts and financed with fully amortizing long-term non-recourse loans. Performance at the 19 power plants operated by the Power Generation Group was strong in 2004, reflecting a shift in focus from development to operational excellence as the new plants were brought to full operation.

The 580 MW natural gas-fired combined-cycle Brighton Beach generating plant in Windsor, Ontario was commissioned in July 2004. The start-up and commissioning of this plant was achieved on a very tight schedule - an outstanding achievement given the complex nature of this large power plant. ATCO Power and its partner, Ontario Power Generation Inc., sell all of the output from this plant under a long-term energy conversion agreement signed in November 2001 with Coral Energy.

2004 was the first full year of operation for four power plants commissioned in 2003. The 260 MW Cory Cogeneration Plant near Saskatoon supplies steam to the Potash Corporation of Saskatchewan and electricity to SaskPower Corp. This facility is 50% owned by ATCO Power and 50% by SaskPower International and operated efficiently throughout 2004.

The Scotford Cogeneration Plant and the Muskeg River Cogeneration Plant operated well throughout 2004. Scotford produces 170 MW and is owned 100% by ATCO Power, while the 170 MW Muskeg River plant is owned 70% by ATCO and 30% by SaskPower International. These plants supply steam and power, respectively, to the Scotford Upgrader located near Fort Saskatchewan and to the Muskeg River Mine, located near Fort McMurray. Electricity not sold on site is sold to the market through the Alberta Electricity System Operator.

The 32 MW Oldman River project, owned 100% by ATCO, produced energy throughout 2004. The Piikani Nation retains the option to purchase a 25% ownership interest in this plant.

The Power Industry in Alberta, which was deregulated in 2001, continued to function with excess supply in 2004 which created downward pressure on Power Pool Prices. The Power Generation Group has been working constructively with other industry participants and the government to address the structural issues in the Alberta Market to reduce volatility to the consumer while producing a fair return on investment for the generators. Since 1998, ATCO Power and its partners have invested \$1.1 billion and added 1,100 MW of supply to the Alberta Grid.

The Power Generation Group's largest power plants in Alberta, both coal-fired and referred to as "Legacy Plants",

are the Battle River Generating Station and the Sheerness Generating Station. The Battle River facility, located near Forestburg and owned 100% by ATCO Power, generates 670 MW of electricity. The Sheerness plant, located near Hanna and owned 50% by ATCO Power, generates 760 MW of electricity. Following deregulation in 2001, the output from these two plants is sold under long term power purchase arrangements. Both plants are operated by ATCO Power and achieved high availability during 2004 despite difficult conditions caused by severe drought conditions.

#### ■ ATCO Power - UNITED KINGDOM

ATCO Power's principal U.K. asset is the 1,000 MW gas-fired Barking Power combined-cycle plant located in east London. The company is the operator of the plant and has a 25.5% equity interest. ATCO Power continues to work to resolve the difficulties created in 2002 when one of the shareholders/offtakers of Barking Power Limited, TXU Europe, filed for bankruptcy. On January 28, 2005, TXU creditors approved the Company Voluntary Arrangements (CVA) which included Barking Power Limited's claim for compensation. The impact of the CVA will not be known until the first half of 2005.

The 100% owned Heathrow plant continued to achieve high levels of operational effectiveness in 2004.

#### ■ ATCO Power - AUSTRALIA

ATCO Power's two plants in Australia, the 180 MW Osborne cogeneration plant near Adelaide, and the 33 MW Bulwer Island cogeneration plant in Brisbane, continued to perform well and met the requirements of the long-term power supply and steam agreements. Both plants are jointly owned with Origin Energy.

In all three jurisdictions, we have strong management and operations teams dedicated to enhancing our effectiveness and capturing new expansion opportunities in the future.



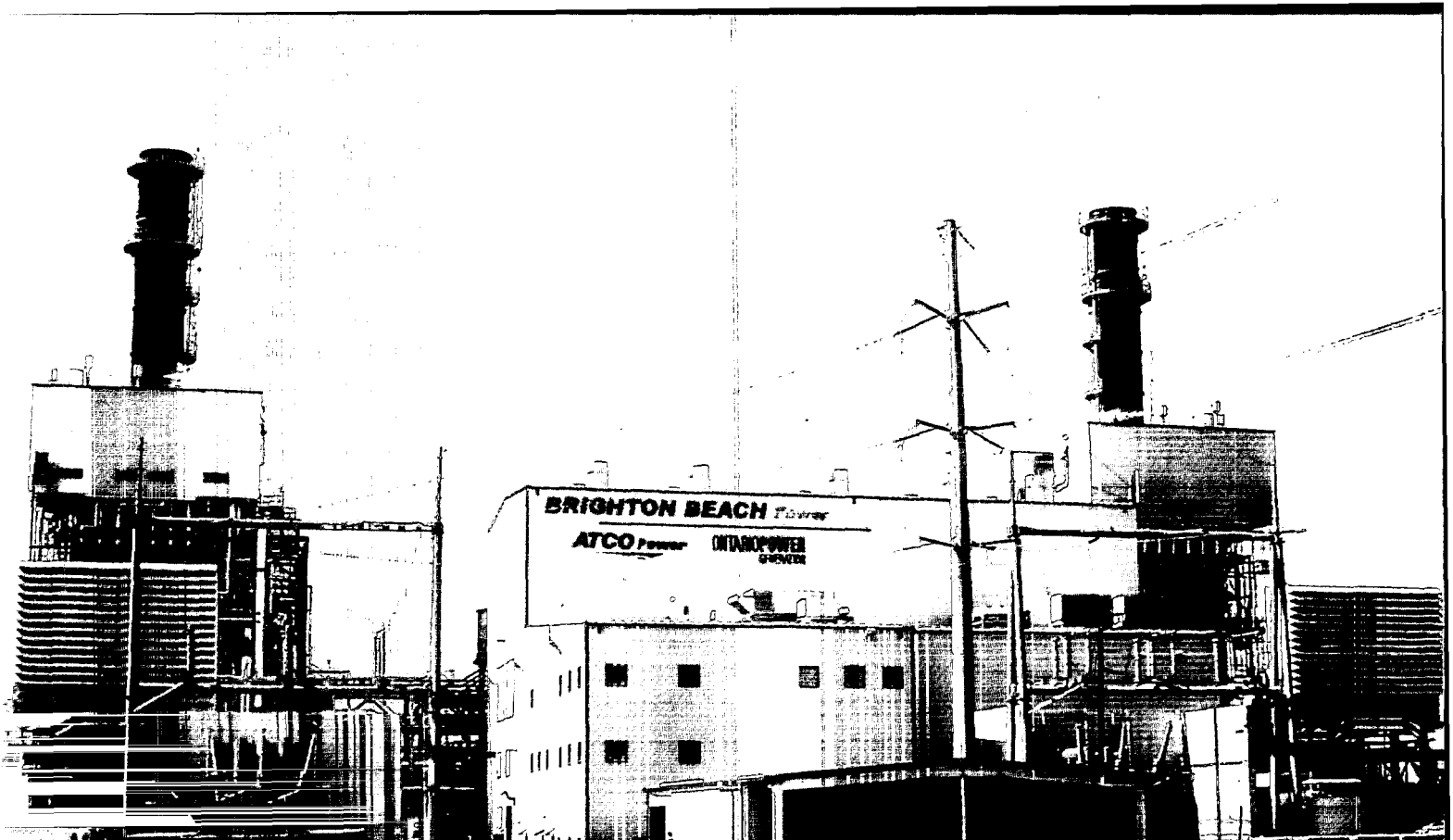
**Gerry W. Welsh**

President & Chief Operating Officer

Power Generation

(retired March 2005)

Photo: The 580 MW Brighton Beach Power Plant located in Windsor, Ontario was commissioned in July 2004.



# Environment Report



Photo: One of ATCO Electric's innovative, environmentally-friendly solutions replaced traditional mechanical tree clearing in a sensitive area of Jasper National Park. Aseniwuche Development Corporation, ATCO Electric and Parks Canada used logging horses to thin about 5.7 hectares of forest.

Canadian Utilities (CU) in 2004 again showcased environmental stewardship both through "operational excellence" within its companies and the implementation of innovative programs to reduce emissions or enhance environmental protection.

Working hand-in-hand with the diverse communities it serves, CU ensures that environmental protection and enhancement are integral to our business processes. CU companies in 2004 participated in scores of initiatives, from grassroots toxic roundups and community cleanups to the development of progressive facilities and the funding of advanced technologies.

Of special note, ATCO Gas was nationally recognized at Canada's Climate Change Seventh Annual Leadership Awards for cutting Greenhouse Gas Emissions to almost 50% below 1990 levels.

ATCO Gas also received Honourable Mention in the Oil and Gas - Pipelines and Natural Gas Distribution category for successfully reducing emissions by 6,040 tonnes or 13.3 million pounds of carbon dioxide equivalent from 1990 levels.

## ■ NAIT HYDROGEN FUEL CELL PROGRAM

ATCO Gas participates in innovative projects to deliver energy more efficiently and to lower greenhouse gas emissions, including a \$1.2 million commitment to a hydrogen fuel cell research project at the Northern Alberta Institute of Technology.

The project, the first commercial high-voltage fuel cell in Canada, now supplies 10% of the school's electricity requirements and heats the swimming pool and water for showers at its main Edmonton campus. The fuel-cell project also provides a unique learning opportunity for the next generation of engineers.

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## ■ NATURAL GAS VEHICLES

In Banff National Park, Parks Canada continued to switch some of its vehicles to low-emission natural gas fuel, taking advantage of a new refueling station built by ATCO Gas in the town of Banff.

## ■ OKOTOKS SOLAR HEATING SYSTEM

ATCO Gas is participating in North America's first large-scale solar heating system in the town of Okotoks, Alberta. The system will collect thermal energy from 800 solar panels mounted on garage roofs of residential homes and transfer it to underground storage. The storage temperature increases during the summer so that during the winter season, the thermal energy is retrieved and distributed through a central heating system to homes in the community. ATCO Gas will manage the construction of the heating system and will operate and maintain it.

## ■ ATCO ENERGYSENSE

ATCO EnergySense carries out Natural Resources Canada's EnerGuide for Houses (EGH) energy audit program, and provides unbiased energy efficiency information and advice to Albertans. In 2004 ATCO EnergySense led all Canadian EnerGuide agents in rigorously undertaking more than 15,000 residential energy evaluations to help homeowners reduce energy consumption.

The total number of residential evaluations in 2004 was almost double the number of audits performed in 2003. Approximately 3,030 homes were renovated in 2004 based on ATCO EnergySense recommendations, resulting in an additional reduction of 9,600 tonnes of Greenhouse Gas Emissions. The number of major commercial evaluations also increased by 40%.

## ■ ATCO ELECTRIC SITE REMEDIATION PROGRAM

ATCO Electric marked in 2004 the second year of a three-year project to reduce its ecological footprint and to remediate 77 operating and decommissioned isolated generation plant sites. With 21 sites now restored to natural state, the massive reclamation project is now 70% complete. These sites will be available for future use as they are restored to the stringent standards required for residential or parkland use.

ATCO Electric's 350 km Dover-Whitefish transmission line in northern Alberta showcased exceptional environment stewardship. ATCO Electric built 70 new homes for wildlife from debris along the transmission line right-of-way. Piles of wood and branches were turned into furbearer shelters, erected to enhance wildlife habitat.

ATCO Electric was able to use knowledge gained from the project to develop new initiatives, including in Jasper National Park where innovative, environmentally-friendly solutions replaced traditional mechanical tree clearing. Aseniwuche Development Corporation, ATCO Electric and Parks Canada used logging horses to thin about 5.7 hectares of forest in an environmentally-sensitive area in Jasper National Park.

## ■ ATCO POWER

The opening of the 580-megawatt Brighton Beach Power Plant near Windsor, Ontario provides access to new electricity at 65% less Greenhouse Gas emissions when compared to conventional coal-fired generation. The state-of-the-art, natural gas fired plant also produces only traces of sulphur.

## ■ ATCO FRONTEC

Significant changes to existing health, safety and environment processes are underway. A newly created team of professionals has been established to update existing programs to stringent international standards and an internal committee has developed a leading edge information toolkit which has been distributed to all project supervisors.

# Your Community



Photo: AICO Gas, the longest serving corporate sponsor at the Calgary Stampede, sponsors the Lost Kids program which tags children on the grounds. AICO Structures provides the Lost Kids unit where children can stay and play in a safe atmosphere until their parents are found.

Canadian Utilities (CU) is firmly committed to improving the quality of life in communities around the world where our employees work and live. Each year, our companies support hundreds of community initiatives, both large and small, through financial contribution and volunteer effort.

Canadian Utilities respects and supports the important role local endeavours play in creating vibrant communities. CU believes in supporting a wide variety of programs that our thousands of employees care about.

Canadian Utilities focuses support in five core areas: arts and culture, community development, youth and education, sports and recreation, and health and welfare. Many of our initiatives bridge several areas creating even more lasting impact.

Additionally, opportunities are provided for employees to designate their personal charitable donations to specific health and welfare organizations with CU matching their contributions.

Canadian Utilities also provides incentives to employees who volunteer their time to enrich community life. In 2004, employees in the Utilities Group alone volunteered more than 36,000 hours in their communities.

From capital donations to hospitals and educational institutions across Alberta, to supporting leading development programs such as the Duke of Edinburgh Awards and the ATCO Tyrrell Learning Centre in Drumheller, CU demonstrates support that enriches communities.



## ■ SPORTS AND RECREATION

Several CU companies jointly sponsored and participated in the Arctic Winter Games in Fort McMurray. ATCO Plaza was the gathering place for thousands of athletes, judges, spectators, dignitaries and entertainment for the opening and closing ceremonies, nightly medal presentations, evening concerts and cultural events.

Canadian Utilities again supported the province-wide Alberta Games program as it has done since 1988. In 2004 our companies were at the Winter Games in Peace River, and at the Summer Games in Okotoks, High River and the MD of Foothills.

## ■ YOUTH AND EDUCATION

At the National Aboriginal Achievement Foundation's Aboriginal Youth Career Fair in Edmonton, ATCO Gas, ATCO Electric, ATCO Frontec, ATCO I-Tek and Northland Utilities Limited either sponsored booths or speakers as more than 1,800 Aboriginal youth from western Canada explored career options.

ATCO I-Tek donated 1,000 computers, 843 monitors and 96 printers to the Alberta Computers for Schools program in 2004, bringing to more than 6,000 the pieces of equipment given in the last three years.

## ■ ARTS AND CULTURE

At the Northern Alberta International Children's Festival in St. Albert, ATCO Gas was a Platinum Sponsor, delivering programs such as the ATCO Gas Creative Spark Outdoor Stage and co-presenting the Optimist Blue Flame Pancake Breakfast. As it has done since 1996, CU also sponsored the Calgary International Children's Festival.

## ■ COMMUNITY DEVELOPMENT

Edmonton's Centennial Legacy Project – Sir Winston Churchill Square – was an important project for the City of Edmonton as it celebrated its 100th anniversary in October,

2004. ATCO Gas prominently supported the Sir Winston Churchill Square Redevelopment Legacy project.

The annual ATCO Gas Charity Golf Classic at the Edmonton Golf and Country Club raised \$24,000 in support of Crime Stoppers Association of Edmonton and Northern Alberta programs and services. This is the seventh year ATCO Gas has hosted this tournament and the third year we've partnered with Crime Stoppers.

ATCO Gas and the Calgary Zoo opened a new habitat for North America's smallest and scarcest wild canine – the swift fox, whose fragile and endangered existence is now making a comeback in western Canada.

## ■ HEALTH AND WELFARE

ATCO Pipelines employees volunteered time by participating in Habitat for Humanity projects in Edmonton and Calgary as well as other community organizations such as the Calgary Drop-in Centre.

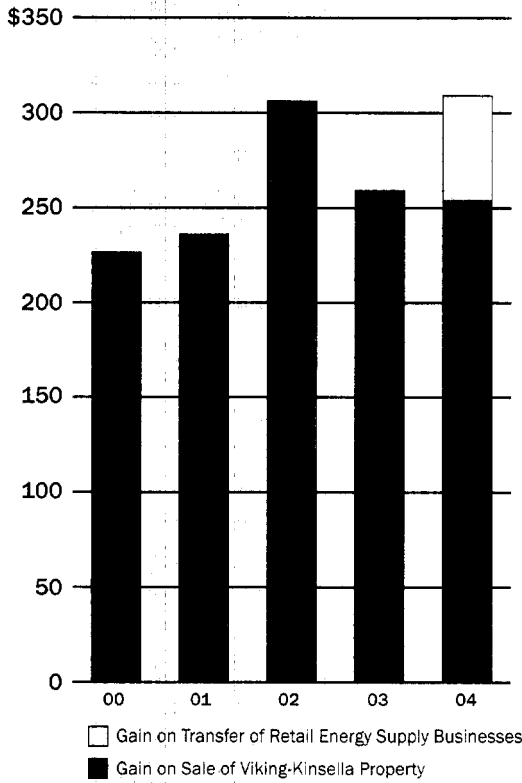
ATCO Midstream's employees have displayed an exceptional spirit of giving in the communities where the company operates – Edmonton, Medicine Hat and Calgary. Building on 2003, when the company was the recipient of the "Award of Excellence" given by the United Way, ATCO Midstream was the 2004 recipient of the United Way Platinum award of excellence for generous leadership.

ATCO I-Tek's United Way employee campaign resulted in a 28% increase over the company's 2003 total contribution.

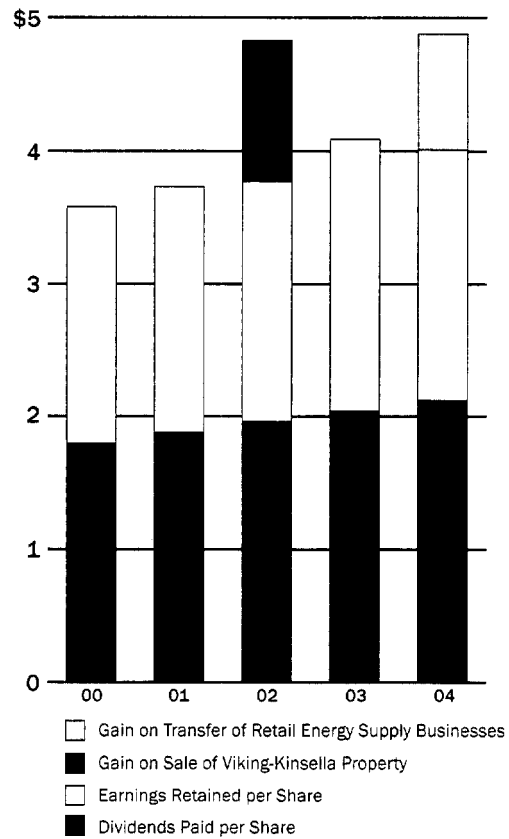
Through their employee charitable donation programs, ATCO Gas and ATCO Pipelines' Employee Community Service Fund (ECSF) and ATCO Electric's Employee Community Health and Welfare Organization (ECHO), and the companies matching dollars, ATCO Gas, ATCO Pipelines and ATCO Electric contributed more than \$1,000,000 to charities across Alberta in 2004.

- Earnings per share increased to \$4.88 from \$4.09 in 2003.
- Dividends paid per Class A and Class B share increased by \$0.08 to \$2.12 from \$2.04 in 2003 – dividends have increased each year since 1972 – 32 years!
- Earnings increased by \$49.9 million to \$309.0 million compared to \$259.1 million in 2003.
- Return on common equity was 15.2% compared to 13.7% in 2003.
- Total assets increased by \$366 million to \$6.5 billion compared to \$6.1 billion in 2003.
- Long term debt increased by \$366 million to \$2.2 billion.
- Non-recourse long term debt decreased by \$45 million to \$761 million.
- Share owners' equity increased by \$169 million to \$2.1 billion compared to \$1.9 billion in 2003.
- Cash flow from operations increased by \$12.5 million to \$538.3 million.
- Capital expenditures were \$536 million in 2004 compared to \$496 million in 2003. Over the previous five years, capital expenditures averaged \$558 million per year.
- CU issued \$480 million of debentures and \$60 million of other debt in 2004. CU redeemed \$100 million of debentures and \$69 million of other debt in 2004.
- Non-recourse long term debt of \$10 million was issued in 2004 for the Brighton Beach Power Project; CU redeemed \$49 million of non-recourse long-term debt in 2004.

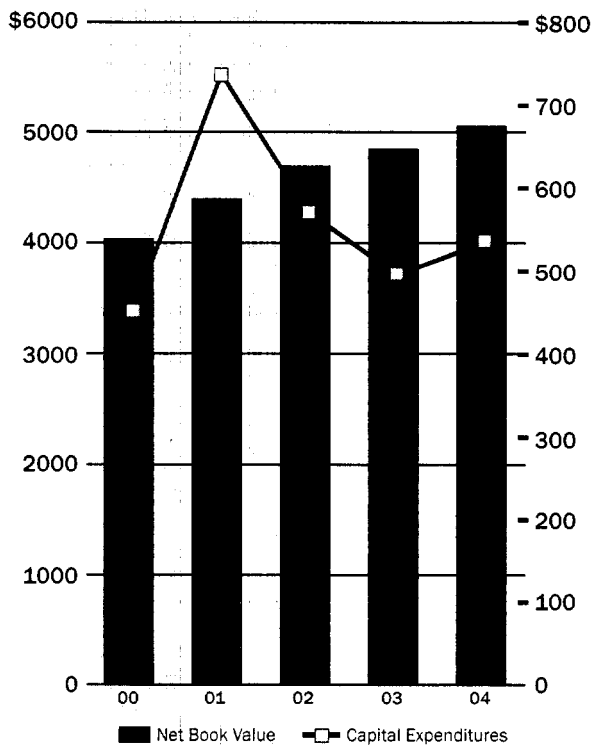
**Earnings Attributable to Class A and Class B Shares**  
(Millions of Canadian Dollars)



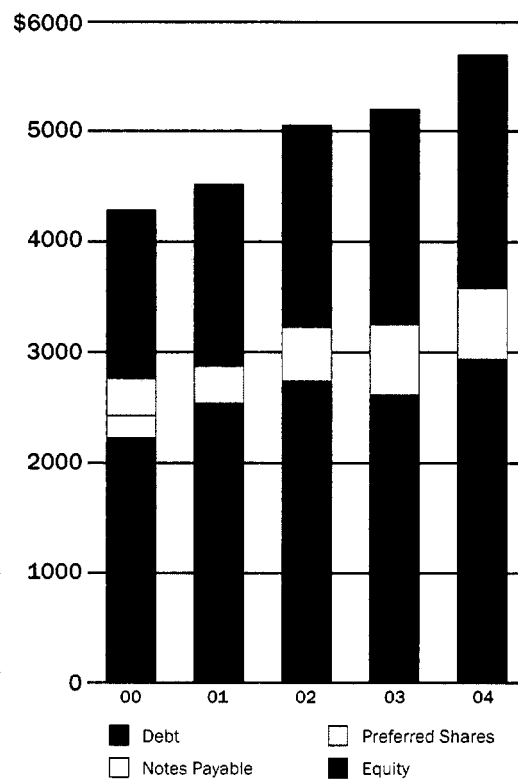
**Earnings Per Class A and Class B Share and Class B Share**  
(Canadian Dollars)



**Purchase of Property, Plant and Equipment**  
(Millions of Canadian Dollars)



**Capitalization**  
(Millions of Canadian Dollars)



CONSOLIDATED FIVE YEAR FINANCIAL SUMMARY

(Millions of Canadian dollars, except as indicated)	2004	2003	2002	2001	2000
<b>EARNINGS</b>					
Revenues	3,089.5	3,742.6	2,975.9	3,513.6	2,924.5
Operating expenses <sup>(1)</sup>	2,185.6	2,868.7	2,169.8	2,695.4	2,087.0
Depreciation and amortization <sup>(1)</sup>	291.5	269.2	243.9	243.4	240.7
Interest	203.7	190.3	184.1	198.7	196.2
Dividends on preferred shares	-	-	-	-	0.6
Interest and other income	(94.1)	(33.4)	(136.2)	(41.4)	(23.5)
Income taxes <sup>(1)</sup>	158.0	155.6	190.0	164.2	179.9
Dividends on equity preferred shares	35.8	33.1	18.2	17.0	16.8
Earnings attributable to Class A and Class B shares <sup>(1)</sup>	309.0	259.1	306.1	236.3	226.8
<b>SEGMENTED EARNINGS</b>					
Utilities <sup>(2)</sup>	168.7	121.3	177.8	99.9	108.4
Power generation <sup>(1)</sup>	80.0	92.8	76.2	93.5	95.1
Global enterprises <sup>(1)(2)</sup>	72.1	56.1	45.5	34.8	22.7
Corporate and other/eliminations <sup>(1)(2)</sup>	(11.8)	(11.1)	6.6	8.1	0.6
Earnings attributable to Class A and Class B shares <sup>(1)</sup>	309.0	259.1	306.1	236.3	226.8
<b>BALANCE SHEET</b>					
Property, plant, and equipment	5,045.3	4,835.4	4,681.2	4,384.7	4,028.2
Total assets	6,463.1	6,096.5	5,958.6	5,425.2	5,424.7
Capitalization:					
Notes payable	-	-	-	4.6	197.1
Long term debt	2,171.0	1,805.3	1,916.9	1,855.9	1,865.5
Non-recourse long term debt	760.9	806.1	821.1	673.8	360.0
Equity preferred shares	636.5	636.5	486.5	336.5	336.5
Share owners' equity <sup>(1)(3)</sup>	2,117.7	1,948.5	1,827.0	1,639.5	1,523.0
Total capitalization <sup>(1)</sup>	5,686.1	5,196.4	5,051.5	4,510.3	4,282.1
<b>CASH FLOWS</b>					
Operations	538.3	525.8	504.6	532.2	490.2
Purchase of property, plant and equipment	535.5	495.7	569.8	735.3	451.3
Financing (excluding Class A and B dividends)	333.8	(10.6)	384.3	62.0	189.5
Class A and B dividends	134.4	129.3	124.2	119.0	114.0
<b>CLASS A &amp; B SHARES</b>					
Shares outstanding at end of year <sup>(3)</sup> (thousands)	63,392	63,384	63,412	63,317	63,306
Return on equity <sup>(3)</sup>	15.2%	13.7%	17.7%	14.9%	15.4%
Earnings per share <sup>(3)</sup> (\$)	4.88	4.09	4.83	3.73	3.58
Dividends paid per share <sup>(3)</sup> (\$)	2.12	2.04	1.96	1.88	1.80
Equity per share <sup>(3)</sup> (\$)	33.41	30.74	28.81	25.89	24.06
Stock market record - Class A non-voting shares (\$)					
High	64.00	59.60	60.10	56.05	51.45
Low	51.42	45.10	48.80	44.50	31.00
Close	60.32	57.86	51.21	49.75	51.00
Stock market record - Class B common shares (\$)					
High	63.90	58.75	60.50	54.20	51.15
Low	51.40	45.50	49.00	44.95	31.10
Close	63.90	58.00	52.65	49.00	50.55

(1) Figures for 2000-2003 have been restated for the retroactive changes in method of accounting for asset retirement obligations and stock options.  
(2) Segmented earnings for 2000-2003 have been restated to reflect changes to the management reporting structure announced in August 2004.  
(3) Includes Class A non-voting shares and Class B common shares.

(Millions of Canadian dollars, except as indicated)	2004	2003	2002	2001	2000
<b>Utilities</b>					
<b><u>Natural gas operations</u></b>					
Purchase of property, plant and equipment	154.3	141.0	103.1	84.6	87.6
Pipelines (thousands of kilometres)	34.8	34.2	33.7	33.5	33.5
Maximum daily demand (terajoules)	2,049	1,831	1,670	1,470	1,737
Natural gas sold <sup>(1)</sup> (petajoules)	103	198	201	187	209
Natural gas transported <sup>(1)</sup> (petajoules)	120	32	31	22	18
Total system throughput (petajoules)	223	230	232	209	227
Average annual use per residential customer (gigajoules)	134	134	136	131	148
Degree days - Edmonton <sup>(2)</sup>	3,985	4,245	4,274	3,661	4,210
- Calgary <sup>(3)</sup>	3,978	4,291	4,470	3,994	4,441
Customers at year-end (thousands)	914.3	887.8	862.0	837.7	816.1
<b><u>Electric operations</u></b>					
Purchase of property, plant and equipment	223.4	171.6	162.4	154.2	114.5
Power lines (thousands of kilometres)	68.0	67.0	67.1	64.2	58.6
Electricity distributed (millions of kilowatt hours)	9,910	9,768	10,224	10,108	10,392
Average annual use per residential customer (kWh)	7,475	7,261	7,445	7,270	7,444
Customers at year-end (thousands)	206.2	202.3	197.8	192.0	191.0
<b><u>Pipeline operations</u></b>					
Purchase of property, plant and equipment	47.9	33.6	47.3	77.4	63.5
Pipelines (thousands of kilometres)	8.3	8.3	8.3	8.2	7.9
Contract demand for pipelines system access (terajoules/day)	4,606	4,599	4,890	4,876	4,559
<b>Power Generation</b>					
Purchase of property, plant and equipment	77.0	131.7	236.0	384.2	155.5
Generating capacity (thousands of kilowatts)	2,474	2,397	2,036	2,036	668
<b>Global Enterprises</b>					
Purchase of property, plant and equipment	14.5	15.5	11.5	34.5	30.1
Natural gas processed (Mmcfd/day)	427	399	420	429	366
Natural gas gathering lines (kilometres)	1,000	1,000	940	940	670

(1) Effective May 2004, with the transfer of the retail energy supply businesses, ATCO Gas' existing sales service customers became transportation service customers.

(2) Degree days - Edmonton - are defined as the difference of the mean daily temperature from 14.5 degrees Celsius.

(3) Degree days - Calgary - are defined as the difference of the mean daily temperature from 15.5 degrees Celsius.

**Robert T. Booth (3)**

Partner, Bennett Jones LLP  
Calgary, Alberta

Mr. Booth is a partner in the law firm Bennett Jones LLP, based in Calgary, Alberta, and brings an extensive background in energy and natural resource law to the Canadian Utilities Limited Board. A member of the Law Society of Alberta and the Canadian Bar Association, Mr. Booth obtained a Bachelor of Engineering degree from the Royal Military College of Canada, Kingston, Ontario and an LLB from Dalhousie University, Halifax, Nova Scotia.

**William L. Britton, Q.C. (1)**

Partner, Bennett Jones LLP and Vice Chairman, Canadian Utilities Limited  
Calgary, Alberta

Mr. Britton is a Partner at Bennett Jones LLP, Calgary, Alberta, and Vice Chairman of the Board for ATCO Ltd. and Canadian Utilities Limited. He was Chairman and/or Managing Partner of Bennett Jones during the period from 1981 to 1997. Mr. Britton was first elected to the Board of Directors of ATCO Ltd. in September 1975 and became a Director of Canadian Utilities Limited in June 1980. Mr. Britton is Chairman of the ATCO and CU Corporate Governance Committee (GOCOM). He is also a Director of Akita Drilling Ltd., Forest Oil Ltd., Denver Broncos Football Club, Hanzell Vineyards Ltd., Geary-Market Investment Company Ltd., The Yukon Electrical Company Limited, Barking Power Limited, Thames Power Limited, as well as numerous other organizations.

**Brian P. Drummond (1) (4)**

Corporate Director  
Montreal, Quebec

Mr. Drummond is a Corporate Director based in Montreal, Quebec and most recently was Vice Chairman, Richardson Greenshields of Canada Limited. He was also previously President and Chairman of the Executive Committee of Greenshields Incorporated. Mr. Drummond is a Director and member of the Executive Committee of the McGill University Health Centre Foundation and is a Director of the Montreal General Hospital Foundation. Mr. Drummond is a past Chairman of the Investment Dealers Association of Canada and the Montreal Exchange. Mr. Drummond was first elected to the Board of ATCO Ltd. in 1968, when the company initially went public, and to the Board of Canadian Utilities Limited in 1997. Mr. Drummond is Chairman of the ATCO Ltd. Audit Committee.

**Basil K. French (2) (3)**

President, Karusel Management Ltd.  
Calgary, Alberta

Mr. French is the President of Karusel Management Ltd., a Calgary based company specializing in management consulting and property management. Prior to the establishment of Karusel Management, Mr. French was with the firms of Buchanan, Barry, Miller and French Chartered Accountants and Price Waterhouse & Co. Mr. French is the Chairman of Canadian Utilities Audit Committee and is a Director of all ATCO and Canadian Utilities subsidiaries and the four ATCO Business Groups. Mr. French was elected to the Boards of ATCO Ltd. in November 1982 and Canadian Utilities Limited in April 1981.





**Linda A. Heathcott (4)**  
Executive Vice President, Spruce Meadows  
Calgary, Alberta

Mrs. Heathcott is Executive Vice President of Spruce Meadows. A former professional equestrian rider, Mrs. Heathcott was a member of the Canadian Equestrian Team for nine years and competed in the 1996 Olympic Summer Games in Atlanta, Georgia. On January 1, 2004, Mrs. Heathcott was elected Deputy Chairman of Akita Drilling Ltd. Mrs. Heathcott also serves on the Boards of Calgary Olympic Development Authority, Sentgraf Enterprises Ltd. and a number of ATCO Group subsidiary Boards. She was elected to the Board of Directors of Canadian Utilities Limited in May 2000.



**Helmut M. Nelder (1) (2) (3) (4)**  
Corporate Director  
Westerose, Alberta

Mr. Nelder is a Corporate Director based in Westerose, Alberta. He has extensive experience in the telecommunications industry and is the former President & Chief Executive Officer of AGT and Telus Corporation. He serves on the Boards of Directors of ATCO Ltd. and Canadian Utilities Limited, as well as the four ATCO Business Groups. He was nominated and elected to the Canadian Utilities Limited Board in May 1991 and the ATCO Ltd. Board in May 1997. Mr. Nelder is the Chairman of the ATCO and CU Risk Review Committees.



**Michael R.P. Rayfield**  
Vice Chairman, Investment & Corporate Banking, BMO Nesbitt Burns  
Toronto, Ontario

Michael Rayfield joined the Bank of Montreal in 1982, in New York, as Senior Vice-President, with responsibility for the Bank's corporate banking business in the United States, Latin America, Australia and Japan. In 1986 he was appointed Executive Vice-President, and is currently Vice Chairman, Investment and Corporate Banking. Prior to joining the Bank, he held senior executive positions with Barclays Bank in London, Chicago and New York.

Mr. Rayfield is a graduate of the Institute of Bankers, UK, the Senior Managers Program at Harvard University, Advanced Executive Program, J.L. Kellogg Graduate School of Management, Northwestern University and has studied at Cambridge University.

Mr. Rayfield is on the Boards of The Canadian Institute of International Affairs; The Toronto Symphony Orchestra's Governors Council, and the Board of Governors, Charter for Business, Duke of Edinburgh's Award Programme.



**Larry R. Shaben**  
Chairman, Western New Ventures Capital Corporation  
Edmonton, Alberta

Mr. Shaben is the Chairman of Western New Ventures Capital Corporation, based in Edmonton, Alberta, and previously was Vice Chairman, Petrovalve International Inc. In 1989, Mr. Shaben retired from active political life to resume his business activities in the private sector. During his time with the Alberta government, he held several ministerial portfolios including Minister of Economic Development & Trade, Minister of Housing, and Minister of Utilities and Telephones. Mr. Shaben was nominated and elected to the Board of Directors of Canadian Utilities Limited in May 1995.

**James W. Simpson (2)**

Corporate Director  
Danville, California

Mr. Simpson, former President of Chevron Canada Resources, retired after a career with ChevronTexaco that spanned 30 years. Some of his key management assignments included General Manager Research Services at the laboratory in Los Angeles; General Manager of the Executive Staff in San Ramon, California; Managing Director of New Ventures in the International upstream company and Vice President for Middle East and North Africa in the Business Development group. He is former Chairman of the Canadian Association of Petroleum Producers and has been active in the United Way and the World Petroleum Congress. Mr. Simpson serves on the Board of Petro-Canada and was elected to the Board of Directors of Canadian Utilities Ltd. in May 2004.



**Nancy C. Southern**

President & Chief Executive Officer, Canadian Utilities Limited  
Calgary, Alberta

Nancy Southern was appointed President & Chief Executive Officer, ATCO Ltd. and Canadian Utilities Limited, effective January 1, 2003. Previously she had been Co-Chairman & Chief Executive Officer since January 2000, Deputy Chief Executive Officer since May 1998 and Deputy Chairman since January 1996 of ATCO Group. She has been a Director of the Corporation since 1990. Ms. Southern has full responsibility for executing strategic direction and the on-going operations of the corporation, reporting to the Board of Directors. She is currently a Director of ATCO Ltd. and Canadian Utilities Limited and serves on the Boards of all the ATCO Group subsidiary companies. She is also a Director of the Bank of Montreal, Shell Canada Limited, Akita Drilling Ltd., and Sentgraf Enterprises Ltd.



**Ronald D. Southern C.B.E., O.C., LL.D.**

Chairman of the Board of Directors, Canadian Utilities Limited  
Calgary, Alberta

Ron Southern is Chairman of the Board of ATCO Ltd., Canadian Utilities and all ATCO Group subsidiary companies. Together with his late father, S.D. Southern, Mr. Southern founded ATCO Group in 1947 and served as the company's President for 48 years. He is credited with transforming the company to what it is today – one of Canada's premier corporations with assets of \$7.0 billion and employing more than 7,000 people. Mr. Southern also serves as Chairman of Akita Drilling Ltd. and Sentgraf Enterprises Ltd.



**D. Logan Tait, F.R.I., F.C.A. (3) (4)**

President, Tait Management Services Ltd.  
Lethbridge, Alberta

Mr. Tait retired as a Partner of Meyers Norris Penny LLP, Chartered Accountants and Business Advisors in the Lethbridge, Alberta, office May 2004 and now acts as a Consultant to the company. He is also President of Tait Management Services, a consulting firm which provides accounting services and tax advice. He has been active in the Canadian and Alberta Real Estate Association and Junior Achievement of Southern Alberta, and was elected a Fellow of Chartered Accountants in 1986. He was elected to the Board of Canadian Western Natural Gas in 1980, and Canadian Utilities Limited in May 1992.







**Gordon G. Tallman (2)**  
 Corporate Director  
 Calgary, Alberta

Mr. Tallman, former Senior Vice President, Royal Bank, Prairies Region, recently retired after a career spanning 42 years. Some of his key management responsibilities with the Bank included Vice President, Global Energy Group, Vice President Commercial Banking & National Accounts, and Senior Vice President, Lending – Risk Management, Group Chief Auditor. He serves on the Boards of Big Rock Brewery, P.F.B. Corporation, Investment Saskatchewan Inc. and is Chairman of the Boards of C.V. Technologies, Inc. and Enbridge Income Fund. Mr. Tallman joined the Board of Canadian Utilities Limited in May 2003.



**Charles W. Wilson (2) (3)**  
 Corporate Director  
 Evergreen, Colorado

Mr. Wilson is former President, Chief Executive Officer and Director of Shell Canada Limited and former President and Director of Shell Investments Limited (Canada). Mr. Wilson graduated from the University of New Mexico with his Master of Science in Engineering and held several senior executive positions in Refining & Marketing, Chemical, Oil & Gas Production and Corporate Planning during his career at Shell. He was elected to the Board of Canadian Utilities Limited in May 2000 and ATCO Ltd. in May 2002. He also sits on the Board for the Power Generation and Energy Services & Technologies Business Groups. Mr. Wilson was elected to the Big Rock Brewery Board in 1999 and to the Akita Drilling Board and Talisman Energy Board in 2002.

- (1) Member of the Corporate Governance (Nomination, Succession and Compensation Committee - GOCOM)
- (2) Member of the Audit Committee
- (3) Member of the Risk Review Committee
- (4) Member of the Pension Fund

**OFFICERS****Ronald D. Southern**

Chairman of the Board

**William L. Britton, Q.C.**

Vice Chairman of the Board

**Nancy C. Southern**

President &amp; Chief Executive Officer

**Karen M. Watson**Senior Vice President &  
Chief Financial Officer**Susan R. Werth**Senior Vice President &  
Chief Administration Officer**Brian M. Andrews**

Vice President

**D. Terrence Davis**

Vice President, Internal Audit

**Ian D. Hargrave**

Vice President, Project Development

**Erhard M. Kiefer**

Vice President, Human Resources

**Siegfried W. Kiefer**Managing Director,  
Utilities & Chief Information Officer**Charles S. McConnell**

Treasurer

**Michael M. Shaw**

Managing Director, Global Enterprises

**Pat Spruin**

Corporate Secretary

**Paul G. Wright**

Vice President, Finance &amp; Controller

**MANAGING DIRECTORS AND PRESIDENTS  
OF PRINCIPAL OPERATING SUBSIDIARIES****Paul F. Blaha**

President, Genics Inc.

**Richard (Rick) J. Brouwer**

President, ATCO Pipelines

**Kevin J. Cumming**

President, ATCO Midstream Ltd.

**Jerome F. Engler**

President, ATCO Gas

**Siegfried W. Kiefer**

Managing Director, Utilities

**Roberta (Bobbi) L. Lambright**

President, ATCO I-Tek Inc.

**R.L. (Vaughan) Payne**

President, ATCO Travel Ltd.

**Sett F. Policicchio**

President, ATCO Electric Ltd.

**Joseph (Joe) J. Schnitzer**

President, ASHCOR Technologies Ltd.

**Michael M. Shaw**

Managing Director, Global Enterprises

**Richard (Dick) H. Walthall**President & Chief Operating Officer,  
ATCO Power Ltd.  
(effective March 2005)**Gerry W. Welsh**President & Chief Operating Officer,  
ATCO Power Ltd.  
(retired March 2005)**Harry G. Wilmot**

President, ATCO Frontec Corp.

**INCORPORATION**

Canadian Utilities Limited was incorporated under the laws of Canada on May 18, 1927 and was continued under the Canada Business Corporations Act by Articles of Continuance on August 15, 1979.

**ANNUAL MEETING**

The Annual Meeting of Share Owners will be held at 10:00 a.m., M.D.T. Thursday, May 5, 2005 at The Fairmont Hotel Macdonald, 10065 - 100 Street, Edmonton, Alberta.

**AUDITORS**

PricewaterhouseCoopers LLP  
Calgary, Alberta

**COUNSEL**

Bennett Jones LLP  
Calgary, Alberta

**TRANSFER AGENT AND REGISTRAR**

Class A Non-Voting and  
Class B Common Shares and Second Preferred  
(Series Q, R, S, W and X) Shares  
CIBC Mellon Trust Company  
Montreal/Toronto/Winnipeg/  
Calgary/Vancouver

**TRUSTEE AND REGISTRAR**

Debentures  
CIBC Mellon Trust Company  
Montreal/Toronto/Winnipeg/  
Calgary/Vancouver

**STOCK EXCHANGE LISTINGS**

Class A non-voting Symbol CU.NV  
Class B common Symbol CU.X  
Listing Toronto Stock Exchange

**CUMULATIVE REDEEMABLE  
SECOND PREFERRED SHARES**

5.90% Series Q CU.PR.T  
5.30% Series R CU.PR.V  
6.60% Series S CU.PR.D  
5.80% Series W CU.PR.A  
6.00% Series X CU.PR.B  
Listing Toronto Stock Exchange

**ATCO GROUP  
ANNUAL REPORTS**

Annual Reports to Share Owners and Management's Discussion and Analysis for Canadian Utilities Limited and its parent company, ATCO Ltd., are available upon request from:

ATCO Ltd. & Canadian Utilities Limited  
1400, 909 - 11th Avenue SW  
Calgary, Alberta T2R 1N6  
Telephone: (403) 292-7500  
Website: [www.canadian-utilities.com](http://www.canadian-utilities.com)

**SHAREHOLDER INQUIRIES**

Dividend information and other inquiries concerning Shares should be directed to:

CIBC Mellon Trust Company  
Stock Transfer Department  
600 The Dome Tower  
333 - 7th Avenue SW  
Calgary, Alberta T2P 2Z1

Telephone: 1-800-387-0825  
e-mail: [inquiries@cibcmellon.com](mailto:inquiries@cibcmellon.com)  
Website: [www.cibcmellon.com](http://www.cibcmellon.com)



**CANADIAN UTILITIES LIMITED**

**Enbridge Company**

1100 909-11th Avenue SW  
Calgary, Alberta T2R 1N6

Telephone: (403) 292-7500  
Fax: (403) 292-7623

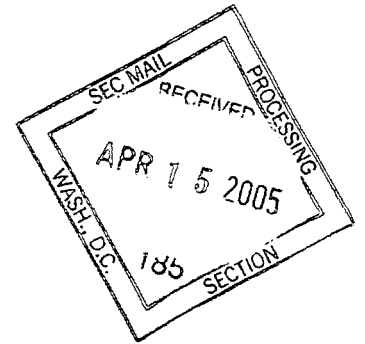
[www.canadian-utilities.com](http://www.canadian-utilities.com)



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**CU**  
**CANADIAN UTILITIES LIMITED**  
An **ATCO** Company



Dear Share Owner:

We are pleased to invite you to attend the Annual Meeting of Share Owners of Canadian Utilities Limited to be held in the Empire Ballroom, The Fairmont Hotel Macdonald, 10065 - 100th Street, Edmonton, Alberta, at 10:00 a.m. on Thursday, May 5, 2005.

The notice of the meeting, the management proxy circular for the meeting and the Corporation's 2004 annual report are enclosed for your information. For owners of Class B common shares, a form of proxy is also enclosed.

If you are an owner of Class B common shares and are unable to attend the meeting, please complete and sign the proxy and return it in the envelope provided for that purpose. May we also encourage all owners of Class A non-voting shares to attend the meeting.

We hope you will join us after the meeting for some light refreshments.

Sincerely,

R.D. Southern  
Chairman of the Board

N.C. Southern  
President and Chief Executive Officer

Calgary, Alberta  
March 2, 2005

# CANADIAN UTILITIES LIMITED

## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

The annual meeting of shareholders of Canadian Utilities Limited will be held in the Empire Ballroom, The Fairmont Hotel Macdonald, 10065 - 100th Street, Edmonton, Alberta, at 10:00 a.m. on Thursday, May 5, 2005, for the following purposes:

- (a) to receive the consolidated financial statements for the year ended December 31, 2004, accompanied by the report of the auditor;
- (b) to elect the directors;
- (c) to appoint the auditor;
- (d) to consider and, if thought advisable, to pass an ordinary resolution confirming the enactment of amended By-law No. 1 of the Corporation, as described in the accompanying management proxy circular; and
- (e) to transact such other business as may properly come before the meeting or any adjournment thereof.

All holders of Class A non-voting shares or Class B common shares are entitled to attend the meeting, but only the holders of Class B common shares are entitled to vote at the meeting or to appoint proxyholders.

Holders of Class B common shares who are unable to attend the meeting in person are requested to complete and sign the accompanying form of proxy and return it in the envelope provided to reach Canadian Utilities Limited, c/o CIBC Mellon Trust Company, P.O. Box 12005 Stn BRM B, Toronto, Ontario M7Y 2K5, not later than 5:00 p.m. Eastern Daylight Time on Tuesday, May 3, 2005.

By order of the Board of Directors.



P. Spruin  
Corporate Secretary

Calgary, Alberta  
March 2, 2005





**CANADIAN UTILITIES LIMITED**  
An **ATCO** Company

**MANAGEMENT PROXY CIRCULAR**

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**SECTION 1 VOTING INFORMATION**

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**Solicitation of Proxies**

**This management proxy circular is furnished in connection with the solicitation by the management of CANADIAN UTILITIES LIMITED (the "Corporation") of proxies to be used at the annual meeting of shareholders of the Corporation and at any adjournment thereof, for the purposes set forth in the accompanying notice. The cost of solicitation by management will be borne by the Corporation.**

**Appointment of Proxyholders and Revocation of Proxies**

The persons named in the accompanying form of proxy are directors of the Corporation. A shareholder entitled to vote at the meeting may by means of a proxy appoint a proxyholder and one or more alternate proxyholders, who are not required to be shareholders, other than the persons designated in the accompanying form of proxy, to attend and act at the meeting in the manner and to the extent authorized by the proxy and with the authority conferred by the proxy. This right may be exercised either by striking out the names of the persons designated in the accompanying form of proxy and inserting in the space provided the name of the person appointed or by completing and executing another proper form of proxy. A shareholder desiring to be represented at the meeting by a proxyholder must deposit a proxy with the Corporation at the address set forth in the accompanying notice not later than 5:00 p.m. Eastern Daylight Time on Tuesday, May 3, 2005.

A shareholder may revoke a proxy by depositing an instrument in writing executed by the shareholder or by the shareholder's attorney authorized in writing with the Corporation, c/o CIBC Mellon Trust Company, P.O. Box 12005 Stn BRM B, Toronto, Ontario M7Y 2K5, at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used, or with the Chairman of the meeting on the day of the meeting or any adjournment thereof.

**Exercise of Discretion by Proxyholders**

All shares represented by a proxy will be voted or withheld from voting in accordance with the instructions of the shareholder on any ballot that may be called for, and if the shareholder specifies a choice with respect to any matter to be acted upon, the shares will be voted accordingly. In the absence of such instructions, all of such shares will be voted in favour of the election of the directors and the appointment of the auditor and the confirmation of the amendments to By-law No. 1 of the Corporation, as described in this circular. The accompanying form of proxy confers discretionary authority upon the persons named therein with respect to any amendments to matters identified in the notice of the meeting and other matters that may properly come before the meeting. The management of the Corporation is not aware of any such amendments or other matters. If any such amendments or matters should properly come before the meeting, the persons named in the accompanying form of proxy will vote on such matters in accordance with their best judgment.

## **Class B Common Shares and Principal Holders**

The Class B common shares of the Corporation are the only shares entitled to be voted at the meeting. As at March 2, 2005, there were 22,014,242 Class B common shares outstanding. Each Class B common share entitles the holder thereof to one vote at the meeting.

The record date for the meeting is March 23, 2005. Holders of Class B common shares whose names are entered in the applicable register at the close of business on that date will be entitled to receive notice of and to attend and vote at the meeting.

To the knowledge of the directors and officers of the Corporation, the only person who beneficially owns, directly or indirectly, or exercises control or direction over shares of the Corporation carrying more than 10% of the votes attached to the Class B common shares of the Corporation is ATCO Ltd. ATCO Ltd. directly or indirectly owns 16,332,726 Class B common shares, being approximately 74% of the outstanding Class B common shares. R.D. Southern controls ATCO Ltd.

## **Class A Non-Voting Shares**

The holders of the Class A non-voting shares of the Corporation are entitled to receive notice of the meeting and to attend and participate in discussions at the meeting, but are not entitled to vote at the meeting.

If a take-over bid is made for the Class B common shares which would result in the offeror owning more than 50% of the outstanding Class B common shares and which would constitute a change in control of the Corporation, holders of Class A non-voting shares are entitled, for the duration of the bid, to exchange their Class A non-voting shares for Class B common shares and to tender such Class B common shares pursuant to the terms of the take-over bid. Such right of exchange is conditional upon the completion of the take-over bid giving rise to the right of exchange, and if the take-over bid is not completed, then the right of exchange shall be deemed never to have existed. In addition, holders of Class A non-voting shares are entitled to exchange their shares for Class B common shares of the Corporation if ATCO Ltd., the present controlling shareholder of the Corporation, ceases to own or control, directly or indirectly, more than 10,000,000 of the issued and outstanding Class B common shares. In either case, each Class A non-voting share is exchangeable for one Class B common share, subject to changes in the exchange ratio for certain events such as a stock split or a rights offering.

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## **SECTION 2 BUSINESS OF THE MEETING**

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### **FINANCIAL STATEMENTS**

The consolidated financial statements of the Corporation for the year ended December 31, 2004, along with the auditor's report will be placed before the meeting. Copies of the financial statements may be obtained from the Corporate Secretary upon request and will be available at the meeting.

### **ELECTION OF DIRECTORS**

The management of the Corporation, on behalf of the Corporate Governance, Nomination, Compensation and Succession Committee, proposes to nominate, and the persons named in the accompanying form of proxy intend to vote for the election as directors of the Corporation, the persons whose names are set forth below.

The management of the Corporation does not contemplate that any of the nominees will be unable to serve as a director. Each director elected will hold office until the close of the next annual meeting of shareholders of the Corporation.

All of the nominees are now directors and have been for the periods indicated.

Name and principal occupation	Period served as a director since	Province/State and Country of Residence	Shares of the Corporation, its subsidiaries and ATCO Ltd. beneficially owned or controlled <sup>(1)</sup>
<b>R.T. Booth</b> <sup>(3)</sup> Partner, Bennett Jones LLP (barristers and solicitors)	1998	Alberta, Canada	350 Class A non-voting shares and 700 Series X Second Preferred Shares of the Corporation; 1,000 Class I Non-Voting Shares of ATCO Ltd.
<b>W.L. Britton</b> , Q.C. <sup>(2)</sup> Vice Chairman and Lead Director of the Corporation and ATCO Ltd.	1980	Alberta, Canada	1,000 Class A non-voting shares of the Corporation; 5,114 Class I Non-Voting and 3,935 Class II Voting Shares of ATCO Ltd.
<b>B.P. Drummond</b> <sup>(2) (5)</sup> Corporate Director	1997	Quebec, Canada	1,000 Class A non-voting shares of the Corporation; 9,400 Class I Non-Voting and 3,900 Class II Voting Shares of ATCO Ltd.
<b>B.K. French</b> <sup>(3) (4) (6)</sup> President, Karusel Management Ltd. (property management and management consultants)	1981	Alberta, Canada	700 Class A non-voting and 350 Class B common shares and 1,000 Series W Second Preferred Shares and 2,000 Series X Second Preferred Shares of the Corporation; 8,400 Class I Non-Voting and 2,900 Class II Voting Shares of ATCO Ltd.
<b>L.A. Heathcott</b> <sup>(5)</sup> Executive Vice President, Spruce Meadows (international equestrian venue)	2000	Alberta, Canada	1,000 Class B common shares of the Corporation; 3,200 Class I Non-Voting and 2,100 Class II Voting Shares of ATCO Ltd.
<b>H.M. Neldner</b> <sup>(2) (3) (4) (5)</sup> Corporate Director	1991	Alberta, Canada	1,500 Class A non-voting shares of the Corporation; 8,000 Class I Non-Voting Shares of ATCO Ltd.
<b>M.R.P. Rayfield</b> Vice Chairman, BMO Nesbitt Burns (investment bank)	2004	Ontario, Canada	-
<b>J.W. Simpson</b> <sup>(3) (4) (6)</sup> Corporate Director	2004	California, USA	-
<b>N.C. Southern</b> President and Chief Executive Officer of the Corporation and ATCO Ltd.	1990	Alberta, Canada	925 Class A non-voting and 1,250 Class B common shares of the Corporation; 16,400 Class I Non-Voting and 10,650 Class II Voting Shares of ATCO Ltd.
<b>R.D. Southern</b> , C.B.E., O.C., LL.D. Chairman of the Board of the Corporation and ATCO Ltd.	1977 to 1979 1980 to date	Alberta, Canada	64,452 Class A non-voting and 72,402 Class B common shares and 20,000 Series Q Second Preferred Shares and 320,000 Series W Second Preferred Shares and 120,000 Series X Second Preferred Shares of the Corporation; 5,642,501 Class I Non-Voting and 2,862,880 Class II Voting Shares of ATCO Ltd. <sup>(7)</sup>
<b>G.G. Tallman</b> <sup>(4) (6)</sup> Corporate Director	2003	Alberta, Canada	1,100 Class A non-voting shares of the Corporation
<b>C.W. Wilson</b> <sup>(3) (4) (6)</sup> Corporate Director	2000	Colorado, USA	5,000 Class A non-voting shares of the Corporation; 4,000 Class I Non-Voting Shares of ATCO Ltd.

Notes:

- (1) The information as to shares beneficially owned or controlled has been furnished by the nominees.
- (2) Member of the Corporate Governance, Nomination, Compensation and Succession Committee.
- (3) Member of the Risk Review Committee.
- (4) Member of the Audit Committee.
- (5) Member of the Pension Fund Committee.
- (6) Designated Audit Director of an operating subsidiary of the Corporation.
- (7) R.D. Southern owns 1,000 Class II Voting Shares and 48,750 Class I Non-Voting Shares of ATCO Ltd. and is the controlling shareholder of Sentgraf Enterprises Ltd., which owns 5,593,751 Class I Non-Voting and 2,861,880 Class II Voting Shares of ATCO Ltd. The stated shareholdings of R.D. Southern include these shares. R.D. Southern controls ATCO Ltd. which owns 16,529,928 Class A non-voting and 16,332,726 Class B common shares of the Corporation. All of the remaining shares of the Corporation beneficially owned or controlled by R.D. Southern are held by Sentgraf Enterprises Ltd., except for 48,752 Class A non-voting and 2 Class B common shares.

## **APPOINTMENT OF AUDITOR**

The persons named in the accompanying form of proxy intend to vote for the appointment of PricewaterhouseCoopers LLP as the auditor of the Corporation to hold office until the next annual meeting of shareholders of the Corporation. Price Waterhouse, the predecessor of PricewaterhouseCoopers LLP, was first appointed as the auditor of the Corporation in 1981. Appointment of the auditor requires the approval of a majority of the votes cast by the holders of the Class B common shares.

### **Auditor's Fees**

The aggregate fees incurred by the Corporation and its subsidiaries for professional services provided by PricewaterhouseCoopers LLP in 2004 and 2003 were as follows:

	<b>2004</b>	<b>2003</b>
Audit	\$1,315,000	\$1,228,500
Audit Related	59,000	23,000
Tax	163,000	239,000
	<b>\$1,537,000</b>	<b>\$1,490,500</b>

To ensure the independence of the auditor, the Corporation has a policy for approval of audit and non-audit services provided by the external auditor that prohibits the external auditor from providing specified non-assurance services to the Corporation and its subsidiaries.

The Audit Committee reviews the annual audit fees and considers the issue of auditor independence in the context of all services provided to the Corporation and its subsidiaries. The determinations and recommendations of the Audit Committee are presented to the Board, which has ultimate responsibility for determining the annual audit fees and ensuring the continuing independence of the auditor.

## **CONFIRMATION OF AMENDED BY-LAW NO. 1**

The Corporation is governed by the *Canada Business Corporations Act* (the "CBCA"). By-law No. 1 of the Corporation, which regulates the business and affairs of the Corporation, was adopted in 1979 and is based on the CBCA as it was in 1979. The CBCA was amended extensively in 2001.

The Corporation reviewed By-law No. 1 and amended it to the extent considered appropriate by the Board to reflect the amendments to the provisions of the CBCA. The amendments took effect on February 23, 2005, but they will cease to be effective unless confirmed at the meeting by ordinary resolution of the shareholders.

The changes to By-law No. 1 consist of (i) changes necessary to achieve consistency with the CBCA, (ii) changes that add clarity to By-law No. 1 and (iii) changes deemed desirable by the Corporation.

By-law No. 1 as amended is attached as Schedule "A". Interested shareholders may obtain a blackline showing all of the amendments to By-law No. 1 upon request from the Corporate Secretary of the Corporation at 1400 ATCO Centre, 909 – 11<sup>th</sup> Avenue S.W., Calgary, Alberta T2R 1N6.

Pursuant to the requirements of the CBCA, the holders of the Class B common shares will be asked to confirm the amended By-law No. 1, which requires the approval of a majority of the votes cast by the holders of the Class B common shares.

## SECTION 3 COMPENSATION AND OTHER INFORMATION

### EXECUTIVE COMPENSATION

#### Summary Compensation Table

The following table sets out information concerning the compensation during the last three fiscal years of the Chief Executive Officer and the Chief Financial Officer of the Corporation and the three other executive officers of the Corporation and its subsidiaries employed at December 31, 2004, who had the highest individual aggregate salary and bonuses during 2004 (the "Named Executive Officers"). This information reflects all compensation received by the Named Executive Officers from the Corporation and its subsidiaries for their services as executive officers in all capacities.

N.C. Southern, J.A. Campbell, K.M. Watson, S.W. Kiefer and M.M. Shaw also served in 2004 in similar senior executive positions with ATCO Ltd., the parent of the Corporation. W.A. Kmet also served in 2004 as Managing Director, Industrials with ATCO Ltd. Salary and bonus amounts for these positions in ATCO Ltd. and the Corporation are determined annually on a consolidated basis. The Corporation's share of this consolidated amount is based on a number of considerations, including the portion of ATCO Ltd.'s consolidated assets which the Corporation's assets represent, the estimated portion of each executive officer's time anticipated to be spent performing services as an executive officer of the Corporation and its subsidiaries, and decisions of the Alberta Energy and Utilities Board.

The amounts set out in the table below were paid by Canadian Utilities Limited and were 89% (88.5% in 2003, 89% in 2002) of the aggregate amounts paid to these individuals by Canadian Utilities Limited and ATCO Ltd.

Name and Principal Occupation	Year Ended Dec 31	Salary (\$)	Bonus (\$)	Other Annual Compensation <sup>(1)</sup> (\$)	Securities Under Options/SARs Granted (#)	All Other Compensation (\$)
<b>N.C. Southern</b> <sup>(2)</sup> President and Chief Executive Officer	2004	756,500	Nil	Nil	Nil/15,000	Nil
	2003	708,000	265,500	Nil	10,000/15,000	Nil
	2002	623,000	31,150	Nil	Nil	Nil
<b>J.A. Campbell</b> <sup>(3)</sup> Senior Vice President, Finance and Chief Financial Officer	2004	333,750	Nil	Nil	Nil	Nil
	2003	442,500	165,938	Nil	Nil	Nil
	2002	422,750	21,138	Nil	Nil	Nil
<b>K.M. Watson</b> <sup>(4)</sup> Senior Vice President and Chief Financial Officer	2004	218,791	Nil	Nil	Nil/2,500	Nil
	2003	177,000	66,375	Nil	2,000/2,000	Nil
	2002	160,200	8,010	Nil	Nil	Nil
<b>S.W. Kiefer</b> <sup>(5)</sup> Managing Director, Utilities and Chief Information Officer	2004	311,500	89,000	Nil	Nil/5,000	Nil
	2003	265,500	116,156	Nil	5,000/10,000	Nil
	2002	200,250	129,161	Nil	Nil	Nil
<b>M.M. Shaw</b> <sup>(6)</sup> Managing Director, Global Enterprises	2004	356,000	Nil	Nil	Nil/5,000	16,500 <sup>(8)</sup>
	2003	331,875	66,376	Nil	10,000/15,000	15,500 <sup>(8)</sup>
	2002	267,000	220,275	Nil	Nil	13,500 <sup>(8)</sup>

Name and Principal Occupation	Year Ended Dec 31	Salary (\$)	Bonus (\$)	Other Annual Compensation <sup>(1)</sup> (\$)	Securities Under Options/SARs Granted (#)	All Other Compensation (\$)
W.A. Kmet <sup>(7)</sup> Vice President	2004	311,500	Nil	Nil	Nil	Nil
	2003	287,625	Nil	Nil	Nil	Nil
	2002	Nil	Nil	Nil	Nil	Nil

Notes:

- (1) The value of perquisites and other personal benefits received by each Named Executive Officer was less than the lesser of \$50,000 and 10% of the total of his or her annual salary and bonus.
- (2) N.C. Southern also serves as President and Chief Executive Officer of ATCO Ltd.
- (3) J.A. Campbell also served as Senior Vice President, Finance and Chief Financial Officer of ATCO Ltd. Mr. Campbell retired effective October 2, 2004.
- (4) K.M. Watson was appointed as Senior Vice President and Chief Financial Officer effective October 1, 2004. Mrs. Watson also serves as Senior Vice President and Chief Financial Officer of ATCO Ltd.
- (5) S.W. Kiefer also serves as Managing Director, Utilities and Chief Information Officer of ATCO Ltd.
- (6) M.M. Shaw also serves as Managing Director, Global Enterprises of ATCO Ltd.
- (7) W.A. Kmet retired from the position of Vice President effective January 1, 2005. W.A. Kmet also served as Managing Director, Industrials of ATCO Ltd.
- (8) Represents the amount contributed by the Corporation to M.M. Shaw's defined contribution pension.

### Option/SAR Grants During 2004

The following table sets out the individual grants of options to purchase or acquire securities of the Corporation or any of its subsidiaries and share appreciation rights ("SARs") made during 2004 to the Named Executive Officers.

Name	Securities Under Options/SARs Granted (#)	% of Total Options/SARs Granted to Employees in 2004 (%)	Exercise Price (\$/Security)	Market Value of Securities Underlying Options/SARs on the Date of Grant (\$/Security)	Expiration Date
N.C. Southern	15,000 <sup>(1)</sup>	38	58.12	58.12	January 2, 2014
J.A. Campbell	Nil	-	-	-	
K.M. Watson	2,500 <sup>(1)</sup>	6	58.12	58.12	January 2, 2014
S.W. Kiefer	5,000 <sup>(1)</sup>	12	58.12	58.12	January 2, 2014
M.M. Shaw	5,000 <sup>(1)</sup>	12	58.12	58.12	January 2, 2014
W.A. Kmet	Nil	-	-	-	

Notes:

- (1) Share appreciation rights based on Class A non-voting shares of the Corporation which vest as to 20% annually on each of the first five anniversaries of the date of grant.

## Aggregated Option/SAR Exercises During 2004 and Year-End Option/SAR Values

The following table sets out information regarding the exercise of options and SARs during 2004 by each of the Named Executive Officers and the financial year-end value of unexercised options and SARs on an aggregate basis.

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options/SARs at December 31, 2004		Value of Unexercised in-the-Money Options/SARs at December 31, 2004	
			Exercisable (#)	Unexercisable (#)	Exercisable (\$)	Unexercisable (\$)
N.C. Southern	6,000 <sup>(3)</sup>	139,620	100,000 <sup>(1)</sup>	12,000 <sup>(1)</sup>	2,050,080 <sup>(1)</sup>	130,880 <sup>(1)</sup>
			28,000 <sup>(2)</sup>	27,000 <sup>(2)</sup>	378,280 <sup>(2)</sup>	135,120 <sup>(2)</sup>
J.A. Campbell	50,000 <sup>(4)</sup>	982,500	39,500 <sup>(1)</sup>	1,000 <sup>(1)</sup>	702,490 <sup>(1)</sup>	15,700 <sup>(1)</sup>
K.M. Watson	5,000 <sup>(5)</sup>	150,800	9,750 <sup>(1)</sup>	2,000 <sup>(1)</sup>	169,104 <sup>(1)</sup>	19,896 <sup>(1)</sup>
			6,400 <sup>(2)</sup>	4,100 <sup>(2)</sup>	100,794 <sup>(2)</sup>	19,116 <sup>(2)</sup>
S.W. Kiefer	-	-	14,250 <sup>(1)</sup>	5,000 <sup>(1)</sup>	232,450 <sup>(1)</sup>	52,300 <sup>(1)</sup>
			9,000 <sup>(2)</sup>	13,000 <sup>(2)</sup>	112,390 <sup>(2)</sup>	79,080 <sup>(2)</sup>
M.M. Shaw	9,000 <sup>(6)</sup>	288,450	13,750 <sup>(1)</sup>	9,000 <sup>(1)</sup>	309,130 <sup>(1)</sup>	86,340 <sup>(1)</sup>
			8,000 <sup>(2)</sup>	17,000 <sup>(2)</sup>	176,730 <sup>(2)</sup>	113,120 <sup>(2)</sup>
W.A. Kmet	-	-	4,000 <sup>(1)</sup>	1,000 <sup>(1)</sup>	73,040 <sup>(1)</sup>	18,260 <sup>(1)</sup>

### Notes:

- (1) Options to acquire Class A non-voting shares of the Corporation.
- (2) Share appreciation rights based on Class A non-voting shares of the Corporation.
- (3) Represents the exercise of 6,000 share appreciation rights of the Corporation.
- (4) Represents the exercise of 10,000 options to acquire Class A non-voting shares of the Corporation and the exercise of 40,000 share appreciation rights of the Corporation.
- (5) Represents the exercise of 1,000 options to acquire Class A non-voting shares of the Corporation and the exercise of 4,000 share appreciation rights of the Corporation.
- (6) Represents the exercise of 9,000 share appreciation rights of the Corporation.

## Pension and Retirement Arrangements

Certain of the Named Executive Officers participate in The Retirement Plan for Employees of Canadian Utilities Limited and Participating Companies (the "Plan"). J.A. Campbell retired effective October 2, 2004, and is receiving a pension from the Plan.

The Corporation has undertaken to provide J.A. Campbell, K.M. Watson, S.W. Kiefer and M.M. Shaw with pensions under a supplemental arrangement to compensate for limitations on defined benefit pension benefits or on defined contribution pension contributions imposed by the Income Tax Act. The supplemental arrangement, when included with the pension payable under the Plan, the estimated Canada Pension Plan ("CPP") integration amount, and any amounts payable under pension plans or supplemental arrangements of the Corporation's affiliates, provides a pension based on 2% of the average salary, excluding bonuses, during the last five years of employment multiplied by the number of years of credited service up to a maximum of 35 years. Effective October 2, 2004, J.A. Campbell is receiving a pension under this supplemental arrangement.

*Pension Plan Table*

The following table sets forth the annual pension payable to J.A. Campbell, K.M. Watson, S.W. Kiefer and M.M. Shaw at normal retirement age 65, inclusive of all registered pension plans and supplemental arrangements and the estimated CPP integration amount based on 2% of the average salary, excluding bonuses, during the last five years of employment multiplied by the number of years of credited service up to a maximum of 35 years.<sup>(1)</sup>

Remuneration \$	Years of Service				
	15	20	25	30	35
200,000	60,000	80,000	100,000	120,000	140,000
250,000	75,000	100,000	125,000	150,000	175,000
300,000	90,000	120,000	150,000	180,000	210,000
400,000	120,000	160,000	200,000	240,000	280,000
500,000	150,000	200,000	250,000	300,000	350,000
600,000	180,000	240,000	300,000	360,000	420,000
700,000	210,000	280,000	350,000	420,000	490,000
800,000	240,000	320,000	400,000	480,000	560,000

Note:

- (1) For purposes of the supplemental arrangement, the calculation of annual pension payable assumes that the amount payable under the Plan is the same regardless of whether a participant elects the defined benefit or defined contribution provisions of the Plan. For participants of the defined contribution provisions, the actual pension payable at retirement will vary depending on the value of their investment account at retirement.

**Years of credited service under the Plan as at December 31, 2004**

Named Executive Officer	Credited Service
N.C. Southern	9.00
J.A. Campbell	14.92
K.M. Watson	26.75
S.W. Kiefer	21.00
M.M. Shaw	18.00

*Employment Agreement*

The Corporation has an employment agreement with N.C. Southern extending to February 1, 2006, and continuing from year to year thereafter. The amount of salary and the value of benefits paid under this agreement have been included in the Summary Compensation Table above. Employment of the executive officer may be terminated by the Corporation on notice equal to the greater of two years and the remaining term of the agreement or payment in lieu of notice, and may be terminated by the executive officer on 90 days notice.

Pursuant to her employment agreement with the Corporation, N.C. Southern is eligible upon retirement to receive a pension of 70% of the average of the highest 5 years of income, including salary and bonuses, during the last 10 years of employment prior to retirement.

The pension payable to N.C. Southern under her employment agreement is inclusive of the pension payable under the Plan.

N.C. Southern's employment agreement provides for the payment of certain benefits upon the death or total disability of the executive officer prior to retirement or termination. The amount of such benefits is



based on the executive officer's salary and is determined in accordance with formulas that take into account amounts payable to the executive officer under the group life insurance policies and disability income programs of the Corporation.

### **Composition of the Corporate Governance, Nomination, Compensation and Succession Committee**

The Corporate Governance, Nomination, Compensation and Succession Committee of the Board of Directors ("GOCOM") is responsible for determining the compensation of executive officers. The members of GOCOM are W.L. Britton, B.P. Drummond and H.M. Neldner.

### **Report on Executive Compensation**

The compensation programs of the Corporation and its subsidiaries are designed to reward performance and to be competitive with the compensation arrangements of other North American companies of similar size and scope of operations. These compensation programs emphasize incentive-based compensation and are an ongoing attempt to closely align the interests of officers and shareholders. A significant portion of overall compensation is tied to corporate performance and is paid only in the event that net earnings, after tax and payment of any bonuses, exceed prescribed targets. Each executive officer position is evaluated to establish skill requirements and level of responsibility. This evaluation provides a basis for internal and external comparisons of positions. GOCOM reviews information from other corporations and published data, and from time to time retains independent compensation consultants to undertake market comparisons and provide advice on developing appropriate compensation programs, with a view to setting compensation at the median of those comparator groups. However, this market data is simply one piece of information taken into consideration. Generally, a set "weighting" is not applied to each of these factors; rather, GOCOM considers them in totality, together with any other considerations it determines relevant, in making its compensation decisions.

#### *Components of Compensation*

Executive officer compensation is comprised of (i) salary, (ii) bonus and (iii) stock options and/or share appreciation rights and other incentives, with an emphasis on cash compensation.

#### Salary and Bonus

Base salary ranges are generally determined following a review of market data for similar positions in corporations of comparable size and scope of operations. Market data for other major investor-owned Canadian utilities is reviewed in determining compensation levels. The salary for each executive officer position is then determined having regard to the incumbent's responsibilities, individual performance factors, overall corporate performance, years of service, potential for advancement, performance reviews by immediate superiors, and the assessment of GOCOM of such matters as presented by management.

S.W. Kiefer, M.M. Shaw and W.A. Kmet participate in a bonus plan that provides for the payment of annual bonuses which are dependent upon the achievement of prescribed earnings targets set at the beginning of each financial year. The amount of bonus earned for a financial year is based on a percentage of the officer's salary and on the earnings attributable to the officer's business group and the consolidated earnings attributable to the Class I Non-Voting Shares and Class II Voting Shares of ATCO Ltd., each of which must meet or exceed the prescribed targets. No bonus is payable if consolidated earnings attributable to the Class I Non-Voting Shares and Class II Voting Shares of ATCO Ltd. are not increased over the previous year.

N.C. Southern, J.A. Campbell and K.M. Watson participate in an executive bonus plan of ATCO Ltd. The amount of bonus earned for a financial year is based on a percentage of the officer's salary and the

consolidated earnings attributable to the Class I Non-Voting Shares and Class II Voting Shares of ATCO Ltd. achieved in such year. No bonus is payable if earnings are not increased over the previous year. The bonus is payable only if ATCO Ltd.'s net earnings, after tax and the payment of bonuses, meet or exceed prescribed earnings targets set at the beginning of each financial year.

From time to time, GOCOM awards discretionary bonuses for extraordinary accomplishments.

#### Stock Option and Share Appreciation Rights Plans

As at December 31, 2004, 3,200,000 Class A non-voting shares (7.74% of the number of outstanding Class A non-voting shares) were reserved for issuance and options to purchase 1,749,000 Class A non-voting shares (4.23% of the number of outstanding Class A non-voting shares) had been granted, of which 393,450 had been exercised, 561,400 had been repurchased and 16,350 had been cancelled. GOCOM may designate directors, officers and key employees of the Corporation and its subsidiaries to be granted options to purchase Class A non-voting shares at an exercise price equal to the weighted average of the trading price of the shares on the Toronto Stock Exchange for the five trading days immediately preceding the date of grant. The vesting provisions and exercise period, which cannot exceed 10 years, are determined at the time of grant. The aggregate number of shares reserved for issuance to any one participant under the stock option plan or any other plan of the Corporation cannot exceed 5% of the total number of Class A non-voting shares issued and outstanding. Options are not assignable and cannot be converted into share appreciation rights. Options terminate on the earlier of their expiration or 90 days after a participant ceases to be a director, officer or employee for any reason other than death, disability or retirement.

In addition to the stock option plan, the Corporation has a share appreciation rights plan. GOCOM may designate directors, officers and key employees of the Corporation and its subsidiaries to be granted share appreciation rights based on the Class A non-voting shares. The vesting provisions and exercise period, which cannot exceed 10 years, are determined at the time of grant. The holder is entitled on exercise to receive a cash payment from the Corporation equal to any increase in the market price of the Class A non-voting shares over the base value of the share appreciation rights exercised. The base value is equal to the weighted average of the trading price of the Class A non-voting shares on the Toronto Stock Exchange for the five trading days immediately preceding the date of grant. Rights are not assignable and terminate on the earlier of their expiration or 90 days after a participant ceases to be a director, officer or employee for any reason other than death, disability or retirement.

#### Equity Compensation Plan Information

<b>Plan category</b>	<b>Number of securities to be issued upon exercise of outstanding options</b>	<b>Weighted-average exercise price of outstanding options</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding outstanding options)</b>
Equity compensation plans approved by shareholders	777,800	\$38.89	1,467,350
Equity compensation plans not approved by shareholders	Nil	Nil	Nil

#### *Compensation of the Chief Executive Officer*

The compensation of the Chief Executive Officer is determined by the same procedures used to develop compensation arrangements for other executive officers. GOCOM annually reviews the performance of the Chief Executive Officer with respect to the leadership of the Corporation based on a number of

qualitative and quantitative factors including implementing the strategic direction and achieving objectives and financial goals for the ATCO Group. As is the case for executive officer compensation, a significant portion of overall compensation is tied to corporate performance and is paid only in the event that net earnings, after tax and payment of any bonuses, exceed prescribed targets. GOCOM also reviews information from other corporations and published data. However, GOCOM considers these factors in totality rather than assigning a set "weighting" to any of them.

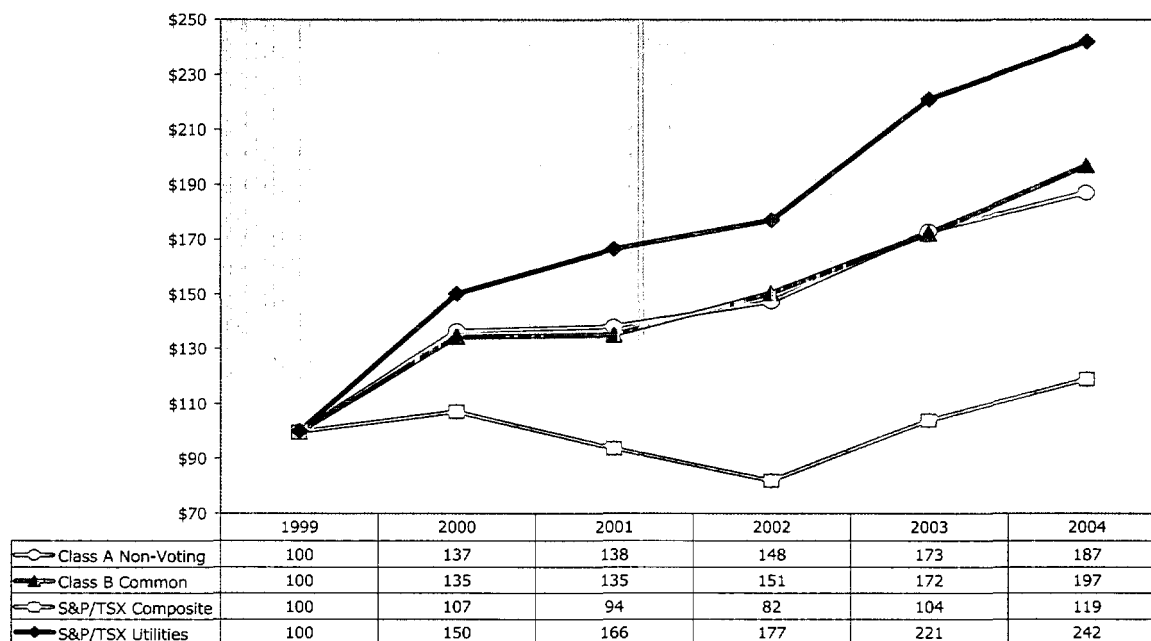
Submitted by the Corporate Governance, Nomination, Compensation and Succession Committee:

W.L. Britton, Chairman  
 B.P. Drummond  
 H.M. Neldner

### Performance Graph

The graph below compares the five-year cumulative return on the Class A non-voting shares and Class B common shares of the Corporation (assuming reinvestment of dividends) with the cumulative total return of the S&P/TSX Composite Index and the S&P/TSX Utilities Index.

**Five Year Total Return on \$100 Investment**



## Compensation of Directors

The following table sets forth the annual retainers and attendance fees paid to members of the Board of Directors during 2004:

Directors' Remuneration	(\$)
Annual Retainers	
Director <sup>(1)</sup>	65,000
Chairman <sup>(2)</sup>	222,500
Vice Chairman of the Board/Lead Director	50,000
Audit Committee Chairman	10,000
Audit Committee Members	5,000
Corporate Governance, Nomination, Compensation and Succession Committee Chairman	5,000
Risk Review Committee Chairman	5,000
Pension Committee Chairman	5,000
Meeting Fees	
Board Meeting	2,000
Meeting for routine administrative matters where nature of discussion is brief	800
Audit Committee Meeting <sup>(3)</sup>	800
Committee Meeting	800

Notes:

- (1) Effective January 1, 2004, the annual retainer was increased to \$50,000 from \$35,000. Effective July 1, 2004, the annual retainer was increased to \$65,000 from \$50,000.
- (2) Represents an allocation from ATCO Ltd. of 89% of the Corporation's share of the consolidated annual retainer for the Chairman of the Corporation and ATCO Ltd.
- (3) Effective November 1, 2004, an Audit Committee meeting fee was instituted for each meeting attended, replacing the Audit Committee meeting fee for attendance at more than five meetings annually.

From time to time, the Board forms ad hoc committees to undertake special initiatives. The Chairman and members of any such ad hoc committees receive such fees as may be determined when any such ad hoc committees are appointed. Ad hoc committees did not meet in 2004.

There were no stock options or share appreciation rights granted to non-employee directors in 2004. During 2004, the aggregate net value realized by four non-employee directors on the exercise of stock options and share appreciation rights was \$599,776.00.

## Directors' and Officers' Liability Insurance

The Corporation, ATCO Ltd. and their affiliates have purchased insurance with an annual aggregate limit of \$175,000,000 for such corporations and their directors and officers. The approximate amount of premium paid by the Corporation in the financial year ended December 31, 2004, in respect of the directors and officers of the Corporation as a group was \$74,605. No part of the premium was paid by a director or officer. The Corporation is responsible for the first \$1,000,000 of any loss and there is no deductible in respect of claims against any director or officer.

## CORPORATE GOVERNANCE

The Board of Directors of the Corporation views effective corporate governance as an essential element for the ongoing well being of the Corporation and its shareholders. The Corporation strives to ensure that its corporate governance practices provide for effective stewardship of the Corporation and evaluates

its practices on an ongoing basis. The corporate governance practices of the Corporation comply with the Guidelines of the Toronto Stock Exchange. The Corporation's Statement of Corporate Governance Practices is attached to this management proxy circular as Schedule B. Additional information regarding the Corporation's Board and its committees is set forth below.

The Board of Directors generally meets five times a year and additionally during the year as the need arises. The frequency and length of meetings and the nature of agenda items depend upon the circumstances. Meetings are generally lengthy, detailed and well attended, and are conducted in an atmosphere which encourages participation and independence. In addition to regularly scheduled board and committee meetings, the directors annually attend a comprehensive four-day strategy session. Information regarding the number of board and committee meetings held in 2004 is attached as Schedule C.

As a significant shareholder, R.D. Southern is closely identified with the Corporation by industry participants, the investment community and the Corporation's shareholders. The Corporation's business approach, strategies, practices and culture have developed and evolved under Mr. Southern's leadership.

### Board Committees

The Board of Directors of the Corporation has four committees: Audit Committee, Corporate Governance, Nomination, Compensation and Succession Committee, Risk Review Committee, and Pension Fund Committee. The Board of Directors annually appoints committee members and reviews and approves the committee mandates. The Corporation does not have an executive committee. In addition, from time to time, ad hoc committees of the Board are appointed to consider matters such as related party transactions and other issues of importance to the Board and the Corporation.

Director	Board Committees			
	Audit	GOCOM	Risk Review	Pension Fund
R.T. Booth			x	
W.L. Britton		x		
B.P. Drummond		x		x
B.K. French	x		x	
L.A. Heathcott				x
H.M. Neldner	x	x	x	x
J.W. Simpson	x		x	
G.G. Tallman	x			
C.W. Wilson	x		x	

#### *Audit Committee*

*Chairman: B.K. French*

This Committee is responsible for the oversight of the quality and integrity of the accounting, auditing, internal audit function and controls, management information systems and reporting practices of the Corporation. The Audit Committee oversees the performance and compensation of the external auditor.

#### *Corporate Governance, Nomination, Compensation and Succession Committee*

*Chairman: W.L. Britton*

This Committee is responsible for succession planning and, in conjunction with the President and Chief Executive Officer, assessing the performance of officers and determining executive compensation.

GOCOM reviews committee mandates prior to their submission to the Board and is responsible for identifying and recommending potential candidates for the Board.

*Risk Review Committee*

*Chairman: H.M. Neldner*

This Committee reviews significant risks identified by management which could materially affect the Corporation's ability to achieve its strategic or operational targets and which are associated with future performance, growth and lost opportunities. The Committee is responsible for ensuring that management has procedures in place to mitigate identified risks.

*Pension Fund Committee*

*Chairman: H.M. Neldner*

This Committee serves as an advisor on pension matters and assists in the safeguarding and investment of the pension fund.

**ADDITIONAL INFORMATION**

Additional information relating to the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com). Information regarding the business of the Corporation is provided in the Corporation's annual information form dated February 23, 2005. Financial information is provided in the Corporation's comparative consolidated financial statements and the management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2004. Copies of these documents and the Corporation's interim financial statements and additional copies of this management proxy circular may be obtained upon request from the Corporate Secretary of the Corporation at 1400 ATCO Centre, 909 - 11th Avenue S.W., Calgary, Alberta T2R 1N6.

Corporate information, including our privacy commitment, is also available on the Corporation's website: [www.canadian-utilities.com](http://www.canadian-utilities.com).

**Directors' Approval**

The Board of Directors of the Corporation has approved the contents and the sending of this management proxy circular.

**General**

December 2, 2005, is the final date by which an eligible shareholder must submit to the Corporation a proposal that is to be included in the management proxy circular for any matter at the next annual meeting of shareholders.

DATED at Calgary, Alberta, this 2nd day of March, 2005.



P. Spruin  
Corporate Secretary

**SCHEDULE A**

**BY-LAW NO. 1**

A by-law relating generally

to the transaction

of the business and affairs

of

**CANADIAN UTILITIES LIMITED**

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**CANADIAN UTILITIES LIMITED**  
**BY-LAW NO. 1**

BE IT ENACTED as a by-law of the Corporation as follows:

SECTION ONE  
INTERPRETATION

1.01 DEFINITIONS

In the by-laws, unless the context otherwise requires:

"Act" means the *Canada Business Corporations Act* and regulations thereunder and any statute or regulation that may be substituted therefor, as from time to time amended, and in the case of such substitution any references in the by-laws of the Corporation to a provision of the Act or regulations thereunder shall be read as references to the substituted provisions in the new statute, statutes or regulations;

"appoint" includes "elect" and vice versa;

"board" means the board of directors of the Corporation;

"by-laws" means this by-law and all other by-laws of the Corporation;

"Corporation" means Canadian Utilities Limited;

"meeting of shareholders" includes an annual meeting of shareholders and a special meeting of shareholders; "special meeting of shareholders" includes a meeting of any class or classes of shareholders and a special meeting of all shareholders entitled to vote at an annual meeting of shareholders;

"non-business day" means Saturday, Sunday and any other day that is a holiday as defined in the *Interpretation Act (Canada)*;

"recorded address" means, in the case of a shareholder, his address as recorded in the securities register, and, in the case of joint shareholders, the address appearing in the securities register in respect of such joint holding or the first address so appearing if there is more than one, and, in the case of a director, officer, auditor or member of a committee of the board, the latest address as recorded in the records of the Corporation;

"resident Canadian" means an individual who is

- (a) a Canadian citizen ordinarily resident in Canada;
- (b) a Canadian citizen not ordinarily resident in Canada who is a member of a prescribed class of persons; or
- (c) a permanent resident within the meaning of the *Immigration Act (Canada)* and ordinarily resident in Canada, except a permanent resident who has been ordinarily resident in Canada for more than one year after the time at which he first became eligible to apply for Canadian citizenship;

"signing officer" means, in relation to any instrument, any person authorized to sign it on behalf of the Corporation by section 2.04 or by a resolution of the board.

## 1.02 GENERAL

Except as stated above, words and expressions defined in the Act have the same meanings when used in the by-laws. Words importing the singular number include the plural and vice versa. Words importing a person include an individual, partnership, association, body corporate or personal representative. Words importing gender include the masculine, feminine and neuter genders.

## SECTION TWO BUSINESS OF THE CORPORATION

### 2.01 REGISTERED OFFICE

Until changed in accordance with the Act, the registered office of the Corporation shall be in the City of Edmonton, in the Province of Alberta, and at such location therein as the board may determine.

### 2.02 CORPORATE SEAL

The Corporation may, but need not, adopt a corporate seal and may change a corporate seal that is adopted. Any corporate seal adopted for the Corporation shall be such as the board may by resolution from time to time approve.

### 2.03 FINANCIAL YEAR

Until changed by the board, the financial year of the Corporation shall end on the 31st day of December in each year.

### 2.04 EXECUTION OF INSTRUMENTS

Deeds, transfers, mortgages, hypothecs, charges, conveyances, assignments, contracts, agreements, documents, obligations, certificates and other instruments may be signed on behalf of the Corporation by any two of the following: the chairman of the board, vice chairman of the board, deputy chairman of the board, chief executive officer, president, any vice president, secretary, treasurer, assistant secretary or assistant treasurer or any other person holding an office created by by-law or by resolution of the board. The board may from time to time appoint any director or directors, or any officer or officers, or any other person or persons, on behalf of the Corporation either to sign contracts, documents or instruments in writing generally or to sign specific contracts, documents or instruments in writing. The signature of any director, officer, or other person so authorized to sign may be engraved, lithographed or otherwise mechanically reproduced upon any negotiable instrument, bond, debenture, warrant or share certificate, and any negotiable instrument, bond, debenture, warrant or share certificate so signed shall be deemed to have been manually signed by the director, officer, or other person whose signature is so engraved, lithographed or otherwise mechanically reproduced and shall be as valid to all intents and purposes as if it had been manually signed and notwithstanding that any such director, officer, or other person whose signature is so reproduced may have ceased to hold office at the date of delivery or issue of such negotiable instrument, bond, debenture, warrant or share certificate. In addition, the board may direct the manner in which and the person or persons by whom any particular instrument or class of instruments may or shall be signed. Any signing officer may affix the corporate seal to any instrument requiring this.

## 2.05 BANKING ARRANGEMENTS

The banking business of the Corporation, including, without limitation, the borrowing of money and the giving of security, shall be transacted with such banks, trust companies and other persons as may be designated by or under the authority of the board. Such banking business or any part of it shall be transacted under such agreements, instructions and delegations of powers as the board may prescribe or authorize.

## 2.06 VOTING RIGHTS IN OTHER BODIES CORPORATE

The signing officers of the Corporation may execute and deliver proxies and arrange for the issuance of voting certificates or other evidence of the right to exercise the voting rights attaching to any securities held by the Corporation. Such proxies, certificates or other evidence shall be in favour of such person or persons as may be determined by the officers executing such proxies or arranging for the issuance of voting certificates or such other evidence of the right to exercise such voting rights. In addition, the board may direct the manner in which and the person or persons by whom any particular voting rights or class of voting rights may or shall be exercised.

## 2.07 INFORMATION AVAILABLE TO SHAREHOLDERS

Subject to any applicable legislation or regulation, including, but not limited to, the Act, no shareholder shall be entitled to any information respecting any details or conduct of the Corporation's business which, in the opinion of the board, is privileged or confidential or would not be in the best interest of the shareholders or the Corporation to communicate to the public. The board may from time to time determine whether and to what extent and at what time and place and under what conditions or regulations the accounts, records and documents of the Corporation or any of them shall be open to the inspection of shareholders, and no shareholder shall have any right of inspecting any account, record or document of the Corporation except as conferred by the Act or any other applicable legislation or regulation or authorized by the board or by resolution passed at a meeting of shareholders.

## SECTION THREE BORROWING AND SECURITIES

### 3.01 BORROWING POWER

Without limiting the borrowing powers of the Corporation as set forth in the Act, the board may from time to time on behalf of the Corporation without the authorization of shareholders

- (a) borrow money upon the credit of the Corporation;
- (b) issue, reissue, sell, hypothecate or pledge debt obligations of the Corporation;
- (c) subject to the Act, give a guarantee on behalf of the Corporation to secure performance of an obligation of any person; and
- (d) mortgage, hypothecate, pledge or otherwise create a security interest in all or any property of the Corporation, owned or subsequently acquired, to secure any obligation of the Corporation.

Nothing in this section limits or restricts the borrowing of money by the Corporation on bills of exchange or promissory notes made, drawn, accepted or endorsed by or on behalf of the Corporation.

### 3.02 DELEGATION

The board may delegate to such one or more of the directors and officers of the Corporation, or a committee of directors, as may be designated by the board all or any of the powers conferred on the board by section 3.01 or by the Act, subject to any limitations imposed by the Act.

## SECTION FOUR DIRECTORS

### 4.01 NUMBER OF DIRECTORS AND QUORUM

The board shall consist of not fewer than the minimum and not more than the maximum number of directors fixed from time to time by the articles of the Corporation. Subject to section 4.09, the quorum for the transaction of business at any meeting of the board shall consist of a majority of the directors or such greater number as the board may from time to time determine.

### 4.02 QUALIFICATION

No person shall be qualified for election as a director if he is less than 18 years of age, if he is of unsound mind and has been so found by a court in Canada or elsewhere, if he is not an individual, or if he has the status of a bankrupt. A director need not be a shareholder of the Corporation. Unless otherwise required or allowed by the Act, at least twenty-five percent of the directors shall be resident Canadians. However, subject to the Act, if the Corporation at any time has fewer than four directors, at least one director shall be a resident Canadian. At least two directors shall not be officers or employees of the Corporation or its affiliates. The board may declare vacant the office of any director who is incapacitated or unqualified.

### 4.03 ELECTION AND TERM

The election of directors shall take place at each annual meeting of shareholders and all the directors then in office shall retire but, if qualified, shall be eligible for re-election. The number of directors to be elected at any such meeting shall, if a maximum and minimum number of directors is authorized, be the number of directors then in office unless the directors or the shareholders otherwise determine, or shall, if a fixed number of directors is authorized, be such fixed number. Subject to the Act, the election shall be by ordinary resolution. If an election of directors is not held at the proper time, the incumbent directors shall continue in office until their successors are elected.

### 4.04 ELECTION OF DIRECTORS AT A MEETING THAT VARIES THE NUMBER OF DIRECTORS

If the shareholders adopt an amendment to the articles to increase the number or minimum number of directors, the shareholders may, at the meeting at which they adopt the amendment, elect the additional number of directors authorized by the amendment.

### 4.05 REMOVAL OF DIRECTORS

Subject to the Act, the shareholders may by ordinary resolution passed at a special meeting remove any director from office and the vacancy created by such removal may be filled at the same meeting, failing which it may be filled by the directors.

#### 4.06 VACATION OF OFFICE

A director ceases to hold office when he dies, when he is removed from office by the shareholders, when he ceases to be qualified for election as a director, or when his written resignation is sent or delivered to the Corporation or, if a time is specified in such resignation, at the time so specified, whichever is later.

#### 4.07 VACANCIES

Subject to the Act, a quorum of the board may fill a vacancy in the board, except a vacancy resulting from an increase in the number or the minimum or maximum number of directors or a failure to elect the number or minimum number of directors provided for in the articles. In the absence of a quorum of the board, or if the vacancy has arisen from a failure of the shareholders to elect the number or minimum number of directors provided for in the articles, the directors then in office shall without delay call a special meeting of shareholders to fill the vacancy, and if they fail to call a meeting or if there are no directors then in office, the meeting may be called by any shareholder.

#### 4.08 ACTION BY THE BOARD

The board shall supervise the management of the business and affairs of the Corporation. Subject to sections 4.09 and 4.10, the powers of the board may be exercised by a meeting at which a quorum is present or by resolution in writing signed by all the directors entitled to vote on that resolution at a meeting of the board. If there is a vacancy in the board, the remaining directors may exercise all the powers of the board so long as a quorum remains in office.

#### 4.09 CANADIAN DIRECTORS PRESENT AT MEETINGS

Unless otherwise required or allowed by the Act, the board shall not transact business at a meeting, other than filling a vacancy in the board, unless at least twenty-five percent of the directors present are resident Canadians or, if the Corporation has fewer than four directors, at least one of the directors present is a resident Canadian, except where

- (a) a resident Canadian director who is unable to be present approves in writing or by telephone, electronic or other communications facilities the business transacted at the meeting; and
- (b) the required number of resident Canadians would have been present had that director been present at the meeting.

#### 4.10 MEETING BY TELEPHONE AND OTHER MEANS

Subject to the Act and the consent of the other directors, a director may participate in a meeting of the board or of a committee of the board by means of such telephone, electronic or other communications facilities as permit all persons participating in the meeting to communicate adequately with each other, and a director participating in such a meeting by such means is deemed to be present at the meeting. Any such consent shall be effective whether given before or after the meeting to which it relates and may be given with respect to all meetings of the board and of committees of the board, and a director who attends a meeting is deemed to have so consented unless the director states otherwise.

#### 4.11 PLACE OF MEETINGS

Meetings of the board may be held at any place in or outside Canada.

#### 4.12 CALLING OF MEETINGS

Meetings of the board shall be held from time to time at such time and at such place as the board, the chairman of the board, the vice chairman of the board, the deputy chairman of the board, the chief executive officer, the president or any two directors may determine, or as may be determined by the secretary under the direction of the chairman of the board, the vice chairman of the board, the deputy chairman of the board, the chief executive officer, the president or any two directors.

#### 4.13 NOTICE OF MEETINGS

Notice of the time and place of each meeting of the board shall be given in the manner provided in section 11.01 to each director not less than 24 hours before the time when the meeting is to be held. A notice of a meeting of directors need not specify the purpose of or the business to be transacted at the meeting except where the Act requires such purpose or business to be specified, including, if required by the Act, any proposal to

- (a) submit to the shareholders any question or matter requiring approval of the shareholders;
- (b) fill a vacancy among the directors or in the office of auditor, or appoint additional directors;
- (c) issue securities;
- (d) declare dividends;
- (e) purchase, redeem or otherwise acquire shares issued by the Corporation;
- (f) pay a commission for the sale of shares;
- (g) approve a management proxy circular;
- (h) approve a take-over bid circular or directors' circular;
- (i) approve any annual financial statements; or
- (j) adopt, amend or repeal by-laws.

A director may (whether before or after a meeting) and in any manner waive notice of or otherwise consent to a meeting of the board. Attendance of a director at a meeting of directors is a waiver of notice of the meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called.

#### 4.14 FIRST MEETING OF NEW BOARD

Provided a quorum of directors is present, each newly elected board may without notice hold its first meeting immediately following the meeting of shareholders at which such board is elected.

#### 4.15 ADJOURNED MEETING

Notice of an adjourned meeting of the board is not required if the time and place of the adjourned meeting is announced at the original meeting. Any adjourned meeting shall be duly constituted if held in accordance with the terms of the adjournment and a quorum is present. The directors who formed a



quorum at the original meeting are not required to form the quorum at the adjourned meeting. If there is no quorum present at the adjourned meeting, the original meeting shall be deemed to have been terminated forthwith after its adjournment. Any business may be brought before or dealt with at any adjourned meeting which might have been brought before or dealt with at the original meeting in accordance with the notice calling the same.

#### 4.16 REGULAR MEETINGS

The board may appoint a day or days in any month or months for regular meetings of the board at a place and hour to be named. A copy of any resolution of the board fixing the place and time of such regular meetings shall be sent to each director forthwith after being passed, and no other notice shall be required for any such regular meeting except where the Act requires the purpose or the business to be transacted at the meeting to be specified.

#### 4.17 CHAIRMAN

The chairman of any meeting of the board shall be the first mentioned of the following officers who is a director and is present at the meeting: chairman of the board, vice chairman of the board, deputy chairman of the board, chief executive officer, president or a vice president. If no such officer is present, the directors present shall choose one of their number to be chairman.

#### 4.18 VOTES TO GOVERN

At all meetings of the board, every question shall be decided by a majority of the votes cast on the question. In case of an equality of votes, the chairman of the meeting shall be entitled to a second or casting vote.

#### 4.19 CONFLICT OF INTEREST

A director or officer of the Corporation who is a party to a material contract or material transaction or proposed material contract or material transaction with the Corporation, or who is a director or an officer or an individual acting in a similar capacity of, or has a material interest in, any person who is a party to a material contract or material transaction or proposed material contract or material transaction with the Corporation, shall disclose the nature and extent of such interest at the time and in the manner provided in the Act. Except as provided in the Act, no such director shall vote on any resolution to approve such contract or transaction, but each such director may be counted to determine the presence of a quorum at the meeting of directors at which such vote is being taken.

No director shall be disqualified by his office from contracting with the Corporation, nor shall any contract or arrangement entered into by or on behalf of the Corporation with any director or in which any director is in any way interested be liable to be voided, nor shall any director so contracting or being so interested be liable to account to the Corporation for any profit realized by any such contract or arrangement by reason of such director holding that office or of the fiduciary relationship thereby established, provided that the director shall have complied with the Act.

#### 4.20 REMUNERATION AND EXPENSES

The directors shall be paid such remuneration for their services as the board may determine. The directors shall also be entitled to be reimbursed for travelling and other expenses properly incurred by them in attending meetings of the board or any committee. Nothing contained in the by-laws shall preclude any director from serving the Corporation in any other capacity or from receiving remuneration for such services.

#### 4.21 RESOLUTION IN LIEU OF MEETING

A resolution in writing, signed by all of the directors entitled to vote on that resolution at a meeting of the board or of a committee of the board, is as valid as if it had been passed at meeting of the board or of a committee of the board.

### SECTION FIVE COMMITTEES

#### 5.01 COMMITTEES OF DIRECTORS

The board may appoint from its number a committee of directors, however designated, and delegate to such committee any of the powers of the board except those which pertain to items which, under the Act, a committee of directors has no authority to exercise. The board may, from time to time, remove and appoint members of any committee as it sees fit.

#### 5.02 TRANSACTION OF BUSINESS

Subject to the provisions of section 4.10, the powers of a committee of directors may be exercised by a meeting at which a quorum is present or by a resolution in writing signed by all members of such committee who would have been entitled to vote on that resolution at a meeting of the committee. Meetings of a committee may be held at any place in or outside of Canada.

#### 5.03 PROCEDURE

Unless otherwise determined by the board, each committee shall have power to fix its quorum at not less than a majority of its members, to elect its chairman, and to regulate its procedure.

### SECTION SIX OFFICERS

#### 6.01 APPOINTMENT

The board may appoint a chairman of the board, a vice chairman of the board, a deputy chairman of the board, a chief executive officer, a president, one or more vice presidents (to which title may be added words indicating seniority or function), a secretary, a treasurer and such other officers as the board may determine, including one or more assistants to any of the officers so appointed. The board may specify the duties of and, in accordance with this by-law and subject to the Act, delegate to such officers powers to manage the business and affairs of the Corporation.

#### 6.02 CHAIRMAN OF THE BOARD

If appointed, the chairman of the board shall, when present, preside at all meetings of the board and of shareholders. The chairman shall have such other powers and shall perform such other duties as may from time to time be assigned to him by resolution of the board or as are incidental to his office.

#### 6.03 VICE CHAIRMAN OF THE BOARD

If appointed, the vice chairman of the board, in the absence or non-appointment of the chairman of the board, shall preside as chairman at all meetings of the board and of shareholders.

#### 6.04 CHIEF EXECUTIVE OFFICER

If appointed, the chief executive officer shall have general supervision over the business and affairs of the Corporation, subject to the direction of the board. The chief executive officer shall have such other powers and shall perform such other duties as may from time to time be assigned to him by the board or as are incidental to his office.

#### 6.05 PRESIDENT

If appointed, the president shall have such powers and duties as the board or the chief executive officer may specify. During the absence or non-appointment of the chief executive officer, his duties may be performed and his powers may be exercised by the president, except that the president shall not preside at a meeting of the board or of shareholders if the president is not qualified to attend the meeting as a director or shareholder, as the case may be.

#### 6.06 VICE PRESIDENT

If appointed, a vice president shall have such powers and duties as the board, the chief executive officer or the president may specify or as are incidental to his office. During the absence or non-appointment of the president, his duties may be performed and his powers may be exercised by a vice president, except that no vice president shall preside at a meeting of the board or of shareholders if the vice president is not qualified to attend the meeting as a director or shareholder, as the case may be.

#### 6.07 SECRETARY

If appointed, the secretary shall attend and be the secretary of the meetings of the board and of shareholders and, where practicable, of committees of the board, and shall enter or cause to be entered in records kept for that purpose minutes of all proceedings at such meetings. He shall give or cause to be given as and when instructed all notices to shareholders, directors, officers, the auditor and members of committees of the board, and he shall be the custodian of the corporate seal of the Corporation and of all books, papers, records, documents and instruments belonging to the Corporation, except when some other officer or agent has been appointed for that purpose. The secretary shall have such other powers and duties as the board, the chief executive officer or the president may specify or as are incidental to his office.

#### 6.08 TREASURER

Subject to the discretion of the board, the treasurer, if appointed, shall have the care and custody of all the funds and securities of the Corporation and shall deposit the same in the name of the Corporation in such bank or banks or with such other depository or depositories as designated by the board. He shall prepare and maintain adequate accounting records. The treasurer shall have such other powers and shall perform such other duties as the board, the chief executive officer or president may specify or as are incidental to his office.

#### 6.09 VARIATION OF POWERS AND DUTIES

The board may, subject to the Act, vary, add to or limit the powers and duties of any officer.

#### 6.10 TERM OF OFFICE

The board, in its discretion, may remove any officer of the Corporation without prejudice to such officer's rights under any employment contract. Unless removed by the board, each officer appointed by the board shall hold office until his successor is appointed or until his earlier resignation.

#### 6.11 TERMS OF EMPLOYMENT AND REMUNERATION

The terms of employment and the remuneration of any officer appointed by the board shall be approved by the board.

#### 6.12 VACANCIES

If the office of the chairman of the board, the vice chairman of the board, the deputy chairman of the board, the chief executive officer, the president, any vice president, the secretary or the treasurer, or one or more of them, or any other office shall be or become vacant by reason of death, resignation, disqualification or otherwise, the board by resolution may elect or appoint an individual to fill such vacancy.

#### 6.13 CONFLICT OF INTEREST

An officer shall disclose his interest in any material contract or proposed material contract with the Corporation in accordance with section 4.19.

#### 6.14 AGENTS AND ATTORNEYS

The board shall have power to appoint agents or attorneys for the Corporation in or outside Canada with such powers of management or otherwise (including the power to sub-delegate) as may be thought fit.

### SECTION SEVEN PROTECTION OF DIRECTORS, OFFICERS AND OTHERS

#### 7.01 LIMITATION OF LIABILITY

Every director and officer of the Corporation, in exercising his powers and discharging his duties, shall act honestly and in good faith with a view to the best interests of the Corporation and shall exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances, including reliance in good faith on

- (a) financial statements of the Corporation represented to the director by an officer of the Corporation or in a written report of the auditor of the Corporation fairly to reflect the financial condition of the Corporation; or
- (b) a report of a person whose profession lends credibility to a statement made by the person.

Subject to the foregoing, no director or officer shall be liable for the acts, receipts, neglects or defaults of any other director, officer or employee, or for joining in any receipt or other act for conformity, or for any loss, damage or expense happening to the Corporation through the insufficiency or deficiency of title to any property acquired for or on behalf of the Corporation, or for the insufficiency or deficiency of any security in or upon which any of the moneys of the Corporation shall be invested, or for any loss or damage arising from the bankruptcy, insolvency or tortious acts of any person with whom any of the moneys, securities or effects of the Corporation shall be deposited, or for any loss occasioned by any error of judgement or oversight on his part, or for any other loss, damage or misfortune which shall happen in the execution of the duties of his office or trust or in relation thereto; provided that nothing herein shall relieve any director or officer from the duty to act in accordance with the Act or from liability for any breach thereof.

## 7.02 INDEMNITY

Subject to the Act but without limitation of the right of the Corporation to indemnify any person under the Act or otherwise, the Corporation shall indemnify a director or officer, a former director or officer, or another individual who acts or acted at the Corporation's request as a director or officer, or an individual acting in a similar capacity, of another entity, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgement, reasonably incurred by the individual in respect of any civil, criminal, administrative or investigative action or other proceeding in which the individual is involved because of that association with the Corporation or other entity if, exercising the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances,

- (a) the individual acted honestly and in good faith with a view to the best interests of the Corporation or, as the case may be, to the best interests of the other entity for which the individual acted as director or officer or in a similar capacity at the Corporation's request, and
- (b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the individual had reasonable grounds for believing that the individual's conduct was lawful.

The Corporation shall also indemnify any such person in such other circumstances as the Act or law permits or requires. Nothing in this by-law shall limit the right of any person entitled to indemnity to claim indemnity apart from the provisions of this by-law to the extent permitted by the Act or law.

## 7.03 ADVANCE OF COSTS

The Corporation may advance moneys to any director, officer or other individual for the costs, charges and expenses of a proceeding referred to in section 7.02. The individual, however, shall repay the moneys to the Corporation if the individual does not fulfil the conditions set out in subsection 7.02(a) and, if applicable, subsection 7.02(b).

## 7.04 INSURANCE

Subject to the Act, the Corporation may purchase and maintain insurance for the benefit of any person referred to in section 7.02 against any liability incurred by him in his capacity as a director or officer of the Corporation or as a director or officer, or similar capacity, of another entity if he acts or acted in that capacity at the Corporation's request.

# SECTION EIGHT SHARES

## 8.01 OPTIONS

The board may issue options to purchase the whole or any part of the authorized and unissued shares of the Corporation at such times and to such persons and for such consideration as the board shall determine, provided that no share shall be issued until it is fully paid as provided by the Act.

## 8.02 COMMISSIONS

The board may authorize the Corporation to pay a reasonable commission to any person in consideration of his purchasing or agreeing to purchase shares of the Corporation, whether from the Corporation or from any other person, or procuring or agreeing to procure purchasers for any such shares.

### 8.03 REGISTRATION OF TRANSFERS

Subject to the Act, no transfer of shares shall be registered in a securities register except upon presentation of the certificate representing such shares with an endorsement, which complies with the Act, made on the certificate or delivered with it duly executed by an appropriate person as provided by the Act, together with such reasonable assurance that the endorsement is genuine and effective as the board may prescribe, upon payment of all applicable taxes and any fees prescribed by the board.

### 8.04 SECURITIES RECORDS, TRANSFER AGENTS AND REGISTRARS

The Corporation shall maintain a securities register in which it records the securities issued by it in registered form, showing with respect to each class or series of securities those particulars that are required by the Act. The board may appoint one or more agents to maintain, in respect of each class or series of securities of the Corporation issued by it in registered form, a central securities register and one or more branch securities registers. Such a person may be designated as a transfer agent or registrar according to his functions, and one person may be designated both registrar and transfer agent. The board may at any time terminate such appointment.

### 8.05 DEALING WITH REGISTERED HOLDERS

Subject to the Act and any other applicable legislation or regulation, the Corporation may treat the registered holder of any share as the person exclusively entitled to vote, to receive notices, to receive any dividend or other payments in respect of the share, and otherwise to exercise all the rights and powers of an owner of the share.

### 8.06 SHARE CERTIFICATES

Every holder of one or more shares of the Corporation shall be entitled, at his option, to a share certificate, or to a non-transferable written acknowledgement of his right to obtain a share certificate, stating the number and class or series of shares held by him as shown on the securities register. Share certificates and acknowledgements of a shareholder's right to a share certificate shall be in such form as the board shall approve. Any share certificate shall be signed by two persons, each holding one of the offices contemplated by section 2.04, and need not be under the corporate seal; provided that, unless the board otherwise determines, certificates representing shares in respect of which a transfer agent or registrar has been appointed shall not be valid unless countersigned by or on behalf of such transfer agent or registrar. The signatures of both signing officers may be printed or mechanically reproduced in facsimile upon share certificates and every such facsimile signature shall for all purposes be deemed to be the signature of the officer whose signature it reproduces and shall be binding upon the Corporation. A share certificate executed in this manner shall be valid notwithstanding that one or both of the officers whose facsimile signature appears on it no longer holds office at the date of issue of the certificate.

### 8.07 REPLACEMENT OF SHARE CERTIFICATES

The board or any officer or agent designated by the board may in its or his discretion direct the issue of a new share certificate in lieu of and upon cancellation of a share certificate that has been mutilated or in substitution for a share certificate claimed to have been lost, apparently destroyed or wrongfully taken on payment of such fee and on such terms as to indemnity, reimbursement of expenses and evidence of loss and of title as the board may from time to time prescribe, whether generally or in any particular case.

### 8.08 JOINT SHAREHOLDERS

If two or more persons are registered as joint holders of any share, the Corporation shall not be bound to issue more than one certificate in respect of it, and delivery of such certificate to one of such persons

shall be sufficient delivery to all of them. Any one of such persons may give receipts for the certificate issued in respect of it or for any dividend, bonus, return of capital or other money payable or warrant issuable in respect of such share.

#### 8.09 DECEASED SHAREHOLDERS

The Corporation shall not be required to make any entry in the securities register by reason of the death of a holder, or of one of the joint holders, of any share or to make payment of any dividends on the share except upon production of all such documents as may be required by law and upon compliance with the reasonable requirements of the Corporation and its transfer agents.

### SECTION NINE DIVIDENDS AND RIGHTS

#### 9.01 DIVIDENDS

Subject to the Act, the board may declare dividends payable to the shareholders according to their respective rights and interests in the Corporation. The Corporation may pay a dividend by issuing fully paid shares of the Corporation and, subject to the Act, the Corporation may pay a dividend in money or property.

#### 9.02 DIVIDEND CHEQUES

A dividend payable in money shall be paid by cheque drawn on the Corporation's banks or one of them to the order of each registered holder of shares of the class or series in respect of which it has been declared and mailed by prepaid ordinary mail to such registered holder at his recorded address, or by electronic funds transfer to the bank account designated by a registered holder of shares of the class or series in respect of which it has been declared. In the case of joint holders the cheque shall, unless such joint holders otherwise direct, be made payable to the order of all of such joint holders and mailed to them at their recorded address. The mailing of such a cheque, unless the same is not paid on due presentation, or the electronic funds transfer shall satisfy and discharge the liability for the dividend to the extent of the sum represented by it plus the amount of any tax which the Corporation is required to and does withhold.

#### 9.03 NON-RECEIPT OF CHEQUES

In the event of non-receipt of any dividend cheque by the person to whom it is sent, the Corporation shall issue or cause to be issued to such person a replacement cheque for a like amount on such terms as to indemnity, reimbursement of expenses and evidence of non-receipt and of title as the board or dividend disbursing agent may prescribe, whether generally or in any particular case.

#### 9.04 RECORD DATE FOR DIVIDENDS AND RIGHTS

The board may fix in advance a date, preceding by not more than 60 days the date for the payment of any dividend or the date for the issue of any warrant or other evidence of the right to subscribe for securities of the Corporation, as a record date for the determination of the persons entitled to receive payment of such dividend or to exercise the right to subscribe for such securities, and notice of any such record date shall be given not less than 7 days before such record date in the manner provided by the Act. If no record date is so fixed, the record date for the determination of the persons entitled to receive payment of any dividend or to exercise the right to subscribe for securities of the Corporation shall be at the close of business on the day on which the resolution relating to such dividend or right to subscribe is passed by the board.

## 9.05 UNCLAIMED DIVIDENDS

Any dividend unclaimed after a period of six years from the date on which it has been declared to be payable shall be forfeited and shall revert to the Corporation.

## SECTION TEN MEETINGS OF SHAREHOLDERS

### 10.01 ANNUAL MEETINGS

The annual meeting of shareholders shall be held at such time in each year and, subject to section 10.05, at such place as the board may determine, for the purposes of considering the financial statements and reports required by the Act to be placed before the annual meeting, electing directors, and appointing the auditor, and for the transaction of such other business as may properly be brought before the meeting.

### 10.02 SPECIAL MEETINGS

The board shall have power to call a special meeting of shareholders at any time.

### 10.03 PARTICIPATION IN MEETINGS BY ELECTRONIC MEANS

Any person entitled to attend a meeting of shareholders may participate in the meeting, in accordance with the Act, by means of a telephonic, electronic or other communication facility that permits all participants to communicate adequately with each other during the meeting, if the Corporation, in its sole discretion, makes available such a communication facility. A person participating in a meeting by such means is deemed for the purposes of the Act to be present at the meeting.

### 10.04 MEETINGS HELD BY ELECTRONIC MEANS

If the directors or the shareholders of the Corporation call a meeting of shareholders pursuant to the Act, the directors may determine that the meeting shall be held, in accordance with the Act, entirely by means of a telephonic, electronic or other communication facility that permits all participants to communicate adequately with each other during the meeting.

### 10.05 PLACE OF MEETINGS

Meetings of shareholders shall be held at the registered office of the Corporation or elsewhere in the municipality in which the registered office is situate or, if the board shall so determine, at some other place in Canada.

### 10.06 NOTICE OF MEETINGS

Notice of the time and place of each meeting of shareholders shall be given in the manner provided in section 11.01 not less than 21 nor more than 60 days before the date of the meeting to each director, to the auditor and to each shareholder who at the close of business on the record date for notice (as determined by reference to section 10.08) is entered in the securities register as the holder of one or more shares carrying the right to receive notice of the meeting. Notice of a meeting of shareholders called for any purpose other than consideration of the financial statements and auditor's report, election of directors and reappointment of the incumbent auditor shall state the nature of such business in sufficient detail to permit a shareholder to form a reasoned judgement thereon and shall state the text of any special resolution to be submitted to the meeting. A shareholder or any other person entitled to attend a meeting of shareholders may in any manner waive notice of a meeting of shareholders, and



attendance of any such person at a meeting of shareholders shall constitute a waiver of notice of the meeting except where such person attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called.

#### 10.07 LIST OF SHAREHOLDERS ENTITLED TO NOTICE

For every meeting of shareholders, the Corporation shall prepare a list of shareholders entitled to receive notice of the meeting, arranged in alphabetical order and showing the number of shares held by each shareholder entitled to vote at the meeting. If a record date for the meeting is fixed pursuant to section 10.08, the shareholders listed shall be those registered at the close of business on such record date. If no record date is fixed, the shareholders listed shall be those registered at the close of business on the last business day immediately preceding the day on which notice of the meeting is given, or where no such notice is given, on the day on which the meeting is held. The list shall be available for examination by any shareholder during usual business hours at the registered office of the Corporation or at the place at which the central securities register is maintained and at the meeting for which the list was prepared. For the purposes of this section 10.07, the names of persons appearing in the securities register at the requisite time as the holder of one or more shares carrying the right to receive notice of such meeting shall be deemed to be a list of shareholders.

#### 10.08 RECORD DATE FOR NOTICE

The board may fix in advance a date, preceding the date of any meeting of shareholders by not more than 60 days and not less than 21 days, as a record date for the determination of the shareholders entitled to receive notice of the meeting, and notice of any such record date shall be given not less than 7 days before such record date by newspaper advertisement and otherwise in the manner provided in the Act and by written notice to each stock exchange in Canada on which the shares of the Corporation are listed. If no record date is so fixed, the record date for the determination of the shareholders entitled to receive notice of the meeting shall be at the close of business on the last business day immediately preceding the day on which the notice is given or, if no notice is given, the day on which the meeting is held.

#### 10.09 CHAIRMAN, SECRETARY AND SCRUTINEERS

The chairman of any meeting of shareholders shall be the first mentioned of such of the following officers who has been appointed and who is present at the meeting: chairman of the board, vice chairman of the board, deputy chairman of the board, president or a vice president. If no such officer is present within 30 minutes from the time fixed for holding the meeting, the persons present and entitled to vote shall choose one of their number to be chairman. If the secretary of the Corporation is absent, the chairman shall appoint some person, who need not be a shareholder, to act as secretary of the meeting. If desired, one or more scrutineers, who need not be shareholders, may be appointed by a resolution or by the chairman with the consent of the meeting.

#### 10.10 PERSONS ENTITLED TO BE PRESENT

The only persons entitled to be present at a meeting of shareholders shall be those entitled to receive notice of the meeting, the directors and officers and the auditor of the Corporation and others who, although not entitled to receive notice, are entitled or required under any provision of the Act or the articles or by-laws to be present at the meeting. Any other person may be admitted only on the invitation of the chairman of the meeting or with the consent of the meeting.

#### 10.11 QUORUM

A quorum for the transaction of business at any meeting of shareholders shall be two persons present in person, each being a shareholder entitled to vote at the meeting or a duly appointed proxyholder for an absent shareholder so entitled, and together holding or representing by proxy not less than 25% of the outstanding shares of the Corporation entitled to vote at the meeting. If a quorum is present at the opening of any meeting of shareholders, the shareholders present or represented by proxy may proceed with the business of the meeting notwithstanding that a quorum is not present throughout the meeting. If a quorum is not present at the opening of any meeting of shareholders, the shareholders present or represented by proxy may adjourn the meeting to a fixed time and place but may not transact any other business.

#### 10.12 RIGHT TO VOTE

Subject to applicable legislation or regulation, every person named in the list referred to in section 10.07 who holds shares carrying the right vote at a meeting shall be entitled to vote the shares shown thereon opposite his name at the meeting to which such list relates.

#### 10.13 PROXIES

Every shareholder entitled to vote at a meeting of shareholders may by means of a proxy appoint a proxyholder and one or more alternate proxyholders, who need not be shareholders, to attend and act at the meeting in the manner and to the extent authorized and with the authority conferred by the proxy. A proxy shall be executed by the shareholder or his attorney authorized in writing and shall conform with the requirements of the Act. A proxy is valid only at the meeting in respect of which it is given or any adjournment thereof.

Alternatively, every such shareholder which is a body corporate or association may authorize, by resolution of its directors or governing body, an individual to represent it at a meeting of shareholders, and such individual may exercise on the shareholder's behalf all the powers it could exercise if it were an individual shareholder. The authority of such an individual shall be established by depositing with the Corporation a certified copy of such resolution or in such other manner as may be satisfactory to the secretary of the Corporation or the chairman of the meeting.

If the shareholder of record is deceased, his personal representative, upon filing with the secretary of the meeting sufficient proof of his appointment, shall be entitled to exercise the same voting rights at any meeting of shareholders as the shareholder of record would have been entitled to exercise if he were living.

Any such proxyholder or representative need not be a shareholder.

#### 10.14 TIME FOR DEPOSIT OF PROXIES

The board may specify in a notice calling a meeting of shareholders a time not exceeding 48 hours, excluding non-business days, preceding the meeting or an adjournment of the meeting before which time proxies to be used at the meeting must be deposited with the Corporation or its agent. A proxy shall be acted upon only if, prior to the time so specified, it has been deposited with the Corporation or its agent specified in such notice or, if no such time is specified, it has been received by the secretary of the Corporation or by the chairman of the meeting or any adjourned meeting prior to the time of voting.

The board may from time to time make directives regarding the delivery of proxies at some place or places other than the place at which a meeting (or adjourned meeting) of shareholders is to be held. The board may also, from time to time, make directives regarding the particulars of such proxies to be

provided, before such meeting is to be held, to the Corporation or any agent of the Corporation for the purpose of receiving such particulars and providing that proxies so delivered may be voted upon as though the proxies themselves were produced at the meeting, and votes given in accordance with such directives shall be valid and shall be counted. The chairman of any meeting of shareholders has, subject to any direction of the board, the discretion to accept any legible form of communication as to the authority of any person claiming to vote on behalf of and to represent a shareholder notwithstanding that no proxy conferring such authority has been delivered to the Corporation, and any votes given in accordance with such communication accepted by the chairman of the meeting shall be valid and shall be counted.

#### 10.15 JOINT SHAREHOLDERS

If two or more persons hold shares jointly, any one of them present in person or represented by proxy at a meeting of shareholders may, in the absence of the other or others, vote the shares, but if two or more of those persons are present in person or represented by proxy and vote, they shall vote as one the shares jointly held by them.

#### 10.16 VOTES TO GOVERN

At any meeting of shareholders every, question shall, unless otherwise required by the articles or by-laws or by law, be determined by a majority of the votes cast on the question. In case of an equality of votes either upon a show of hands or upon a ballot, the chairman of the meeting shall be entitled to a second or casting vote.

#### 10.17 SHOW OF HANDS

Subject to the Act, any question at a meeting of shareholders shall be decided by a show of hands or by such other indication of a vote made by means of the telephonic, electronic or other communication facility, if any, that the Corporation has made available for the purpose, unless a ballot is required or demanded as provided in section 10.18. Upon a show of hands, every person who is present and entitled to vote shall have one vote. Whenever a vote by show of hands shall have been taken upon a question, unless a ballot is required or demanded, a declaration by the chairman of the meeting that the vote upon the question has been carried or carried by a particular majority or not been carried and an entry to that effect in the minutes of the meeting shall be prima facie evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against any resolution or other proceeding in respect of the said question, and the result of the vote so taken shall be the decision of the shareholders upon the question.

#### 10.18 BALLOTS

On any question proposed for consideration at a meeting of shareholders, and whether or not a show of hands has been taken, the chairman may require a ballot or any shareholder or proxyholder who is present and entitled to vote on such question at the meeting may require or demand a ballot. A ballot so required or demanded shall be taken in such manner as the chairman shall direct, including wholly or partially by indication of a vote made by means of telephonic, electronic or other communication facility, if any, that the Corporation has made available for the purpose. A requirement or demand for a ballot may be withdrawn at any time prior to the taking of the ballot. If a ballot is taken, each person present shall be entitled, in respect of the shares which he is entitled to vote at the meeting upon the question, to that number of votes provided by the Act or the articles, and the result of the ballot so taken shall be the decision of the shareholders upon the question.

## 10.19 ADJOURNMENT

The chairman may, with the consent of any meeting and subject to such conditions as the meeting may decide, adjourn the meeting for a period of up to 29 days. If a meeting of shareholders is so adjourned, it shall not be necessary to give notice of the adjourned meeting, other than by announcement at the earliest meeting that is adjourned. Any business may be brought before or dealt with at any adjourned meeting which might have been brought before or dealt with at the original meeting in accordance with the notice calling it. If a meeting of shareholders is adjourned by one or more adjournments for an aggregate of 30 days or more, notice of the adjourned meeting shall be given as for an original meeting.

## 10.20 RESOLUTION IN WRITING

A resolution in writing signed by all the shareholders entitled to vote on that resolution at a meeting of shareholders is as valid as if it had been passed at a meeting of the shareholders unless a written statement with respect to the subject matter of the resolution is submitted by a director or the auditor in accordance with the Act.

## SECTION ELEVEN NOTICES

### 11.01 METHOD OF GIVING NOTICES

Any notice (which term includes any communication or document) to be given (which term includes sent, delivered or served) pursuant to the Act, the articles, the by-laws or otherwise to a shareholder, director, officer, auditor or member of a committee of the board shall be sufficiently given if delivered personally to the person to whom it is to be given or to his recorded address, or if mailed to him at his recorded address by prepaid ordinary or air mail, or if sent to him at his recorded address by any means of prepaid transmitted or recorded communication, or if an electronic document is provided in accordance with section twelve of this by-law. A notice so delivered shall be deemed to have been given when it is delivered personally or to the recorded address as aforesaid, a notice so mailed shall be deemed to have been given when deposited in a post office or public letter box, a notice so sent by any means of transmitted or recorded communication shall be deemed to have been given when dispatched or delivered to the appropriate communication company or agency or its representative for dispatch, and a notice so sent by means of an electronic document shall be deemed to have been given upon receipt of reasonable confirmation of transmission to the designated information system indicated by the person entitled to receive such notice. The secretary may change or cause to be changed the recorded address of any shareholder, director, officer, auditor or member of a committee of the board in accordance with any information believed by him to be reliable.

### 11.02 SIGNATURES TO NOTICES

The signature to any notice contemplated by section 11.01 may be written, stamped, typewritten or printed or partly written, stamped, typewritten or printed.

### 11.03 NOTICE TO JOINT SHAREHOLDERS

If two or more persons are registered as joint holders of any share, any notice shall be addressed to all of such joint holders but notice to one of such persons shall be sufficient notice to all of them.

#### 11.04 COMPUTATION OF TIME

In computing the date when notice must be given under any provision requiring a specified number of days notice of any meeting or other event, the date of giving the notice shall be excluded and the date of the meeting or other event shall be included.

#### 11.05 UNDELIVERED NOTICES

If any notice given to a shareholder pursuant to section 11.01 is returned on two consecutive occasions because he cannot be found, the Corporation shall not be required to give any further notices to such shareholder until he informs the Corporation in writing of his new address.

#### 11.06 WAIVER OF NOTICE

Any shareholder, proxyholder, director, officer, auditor or member of a committee of the board or other person entitled to attend a meeting of shareholders may at any time waive any notice or waive or abridge the time for any notice required to be given to him under the Act, the articles, the by-laws or otherwise, and such waiver or abridgement whether given before or after the meeting or other event of which notice is required to be given shall cure any default in the giving or in the time of such notice, as the case may be. Any such waiver or abridgement shall be in writing except a waiver of notice of a meeting of shareholders or of the board or a committee of the board which may be given in any manner.

#### 11.07 PROOF OF SERVICE

With respect to every notice or other document sent by post, it shall be sufficient to prove that the envelope or wrapper containing the notice or other document was properly addressed as provided in this by-law and put into a post office or letter box. With respect to every notice or other document sent as an electronic document, it shall be sufficient to prove that the electronic document was properly addressed to the designated information system as provided in this by-law and sent by electronic means. A certificate of an officer of the Corporation or of an officer of any transfer agent or branch transfer agent of shares of any class of the Corporation as to facts in relation to the sending or delivery of any notice or other document to any shareholder, director, officer or auditor or publication of any notice or other document shall be conclusive evidence thereof and shall be binding on every shareholder, director, officer or auditor of the Corporation, as the case may be.

#### 11.08 OMISSIONS AND ERRORS

The accidental omission to give any notice to any shareholder, director, officer, auditor or member of a committee of the board or the non-receipt of any notice by any such person or any error in any notice not affecting its substance shall not invalidate any action taken at any meeting held pursuant to such notice or otherwise founded on it.

#### 11.09 PERSONS ENTITLED BY DEATH OR OPERATION OF LAW

Every person who, by operation of law, transfer, death of a shareholder or any other means whatsoever, shall become entitled to any share shall be bound by every notice in respect of such share which shall have been duly given to the shareholder from whom he derives his title to such share prior to his name and address being entered on the securities register (whether such notice was given before or after the happening of the event upon which he became so entitled) and prior to his furnishing to the Corporation the proof of authority or evidence of his entitlement prescribed by the Act.

SECTION TWELVE  
ELECTRONIC DOCUMENTS

12.01 CREATION AND PROVISION OF INFORMATION

Unless the Corporation's articles otherwise provide, and subject to and in accordance with the provisions of the Act and this section, the Corporation may satisfy any requirement under the Act to create or provide a notice, document or other information to any person by the creation or provision of an electronic document. Except as provided for in the Act, "electronic document" means any form of representation of information or of concepts fixed in any medium in or by electronic, optical or other similar means that can be read or perceived by a person by any means.

12.02 CONSENT AND OTHER REQUIREMENTS

Notwithstanding section 12.01, a requirement under the Act to provide a person with a notice, document or other information shall not be satisfied by the provision of an electronic document unless

- (a) the addressee has consented, in accordance with the Act, and has designated an information system for the receipt of the electronic document; and
- (b) the electronic document is provided to the designated information system, unless the Act provides otherwise.

The term "information system" means a system used to generate, send, receive, store, or otherwise process an electronic document.

SECTION THIRTEEN  
EFFECTIVE DATE

13.01 EFFECTIVE DATE

This by-law shall be effective as of February 23, 2005.

13.02 REPEAL

All previous by-laws of the Corporation are repealed as of the coming into force of this by-law, provided that such repeal shall not affect the previous operation of any by-law so repealed or affect the validity of any act done or right, privilege, obligation or liability acquired or incurred under or the validity of any contract or agreement made pursuant to any such by-law prior to its repeal. All officers and persons acting under any by-law so repealed shall continue to act as if appointed under the provisions of this by-law, and all resolutions of the shareholders or board with continuing effect passed under any repealed by-law shall continue to be good and valid except to the extent they are inconsistent with this by-law and until amended or repealed.

ENACTED by the board the 23<sup>rd</sup> day of February, 2005.

\_\_\_\_\_  
[signed] Nancy C. Southern  
President

\_\_\_\_\_  
[signed] Pat Spruin  
Secretary

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## SCHEDULE B STATEMENT OF CORPORATE GOVERNANCE PRACTICES

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TSX Guideline	Does CU Align?	Canadian Utilities Limited Governance Practice
1. The board should explicitly assume responsibility for stewardship of the Corporation, and specifically for	Yes	<ul style="list-style-type: none"> <li>• The mandate of the Board of Directors is to supervise the management of the business and affairs of the Corporation. The Board acts in accordance with the Canada Business Corporations Act, the Corporation's articles of incorporation and by-laws and other applicable laws and corporate policies. The Board is responsible for the stewardship of the Corporation and generally directs the business and affairs of the Corporation through consultation with management and the delegation of responsibilities to management and committees of the Board.</li> </ul>
a) Adoption of a strategic planning process	Yes	<ul style="list-style-type: none"> <li>• The Board of Directors, in conjunction with management, develops the overall strategy and long-term objectives of the Corporation. The Board also considers and, if appropriate, approves, with such revisions as it may require, business plans, budgets, corporate objectives and recommended courses of action which have been presented by management. Significant business activities, actions and communications proposed to be taken or submitted by the Corporation are subject to Board approval.</li> <li>• The Board of Directors conducts an annual four to five day comprehensive strategy session with senior management which has been held consecutively since 1981. At these sessions the Board reviews and assesses the performance of the Corporation and its subsidiaries, reviews business plans, sets short-term and long-term objectives and discusses and implements strategies to meet these objectives.</li> </ul>
b) Identification of principal risks of the Corporation's business and ensuring the implementation of appropriate systems to manage these risks	Yes	<ul style="list-style-type: none"> <li>• The Board of Directors is responsible for identification of principal business risks and implementation of appropriate systems to manage these risks.</li> <li>• The Board, through the Risk Review Committee, is responsible for reviewing areas of risk identified by management as being relevant to the Corporation and ensuring that management has procedures in place to mitigate identified risks.</li> <li>• The Risk Review Committee regularly reports to the Board.</li> </ul>
c) Succession planning, including appointing, training and monitoring senior management	Yes	<ul style="list-style-type: none"> <li>• The Board of Directors, through the Corporate Governance, Nomination, Compensation and Succession Committee ("GOCOM"), is responsible for succession planning, including appointing, professional development planning and monitoring the performance of officers. GOCOM meets a minimum of three times per year with two of the sessions 3-4 days in length. GOCOM reviews the adequacy of the Corporation's succession plan and the performance and compensation of senior management.</li> </ul>

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d) Communications policy	Yes	<ul style="list-style-type: none"> <li>• The Chairman of the Board, the President and Chief Executive Officer, and the Senior Vice President and Chief Financial Officer communicate with and respond to shareholders and the media at the annual meeting of the Corporation and on an ongoing basis, as circumstances require. The Corporate Secretary is responsible for communicating with shareholders and responding to shareholder concerns on an ongoing basis.</li> <li>• The Corporation has adopted a corporate disclosure policy based on CSA's National Policy 51-201 Disclosure Standards and the TSX's Policy Statement on Timely Disclosure and Electronic Communications Disclosure Guidelines. The policy provides direction on the accurate and timely disclosure of material information, confidentiality and the equal dissemination of information to all shareholders and the investing public. The policy is approved by the Board of Directors and is administered by a committee of senior management and is reviewed at least annually.</li> <li>• The Corporation's transfer agent, CIBC Mellon Trust Company, has a toll-free number (1-800-387-0825) to assist shareholders. Shareholders may also send comments via e-mail to <a href="mailto:investors@canadian-utilities.com">investors@canadian-utilities.com</a>. In addition, the Corporation maintains a website at <a href="http://www.canadian-utilities.com">www.canadian-utilities.com</a> that contains news releases, financial and other operating information and links to the websites of the ATCO Group companies. The Corporation's disclosure documents may also be found on the SEDAR website at <a href="http://www.sedar.com">www.sedar.com</a>.</li> </ul>
e) Integrity of internal control and management information systems	Yes	<ul style="list-style-type: none"> <li>• The Board of Directors, through the Audit Committee, is responsible for ensuring the Corporation has implemented appropriate systems of internal control and that these systems are operating effectively. The Vice President, Internal Audit regularly reports the results of internal audits conducted throughout the year to the Audit Committee.</li> </ul>



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2. Majority of directors should be "unrelated" (independent from management and free from actual or perceived conflicts of interest)	Yes	<ul style="list-style-type: none"> <li>• Seven of the twelve Directors are unrelated.</li> <li>• The Corporation is controlled by R.D. Southern, who is a significant shareholder within the meaning of the Guidelines. The Directors believe that all of the unrelated Directors are free from any interests in or relationships with the Corporation and the significant shareholder, as contemplated by the Guidelines, and that, as a result, the investment in the Corporation by the shareholders other than the significant shareholder is fairly reflected.</li> <li>• Although the Board considers independence from the significant shareholder as a factor in assessing the qualifications of potential candidates, the Board's objectives are to ensure a balance of expertise and that the Directors are the most qualified candidates available and are selected on the basis of their overall qualifications and ability to contribute to the effective governance of the Corporation. All of the Directors of the Corporation make a valuable contribution to the Board, the Corporation and its shareholders, including minority shareholders, and the Directors are at all times mindful of the interests of the minority shareholders.</li> </ul>
3. The board has responsibility for applying the definition of "unrelated" director to each individual director and for disclosing annually the analysis of the application of the principles supporting this conclusion	Yes	<ul style="list-style-type: none"> <li>• Five Directors are related within the meaning of the Guidelines. One Director is related because she is an executive officer of the Corporation; one Director is related because he is a partner of a firm which is compensated for legal services provided to the Corporation; one Director is related because he is associated with a firm which is compensated for legal services provided to the Corporation; one Director is related because she is the sister of an executive officer of the Corporation; and one Director is related because he is the father of an executive officer of the Corporation.</li> <li>• Although these Directors are considered to be related Directors as defined by the Guidelines, these Directors, like all Directors, are required by law at all times to act in good faith with a view to the best interests of the Corporation and its shareholders. As is the case with unrelated Directors, these Directors are sensitive to conflicts of interest and excuse themselves from deliberations and voting in the appropriate circumstances. Their extensive knowledge of the Corporation's business is extremely beneficial to the other Directors and the Corporation and their participation as Directors is an important element in the overall effectiveness of the Board.</li> </ul>

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4. The board should appoint a committee of directors composed exclusively of non-management directors, a majority of whom are unrelated directors, with responsibility for proposing new nominees to the board and for assessing directors on an ongoing basis	Yes	<ul style="list-style-type: none"> <li>• GOCOM is composed of three non-management Directors, one of whom is a related Director and two of whom are unrelated Directors. GOCOM is responsible for identifying and recommending potential candidates for the Board.</li> </ul>
5. The board should implement a process, to be carried out by an appropriate committee, for assessing the effectiveness of the board, its committees and the contribution of individual directors	Yes	<ul style="list-style-type: none"> <li>• GOCOM periodically reviews the overall profile of the Board of Directors to ensure that it includes members with a reasonable diversity of experience, backgrounds, skills and geographic representation and reviews the committees and their mandates, making appropriate recommendations as required. GOCOM assesses the effectiveness of the Board as a whole, the committees of the Board and the contributions of individual Directors.</li> </ul>
6. The Corporation should provide an orientation and education program for new directors	Yes	<ul style="list-style-type: none"> <li>• Newly elected non-incumbent Directors participate in an orientation and education program during which they are briefed about all aspects of the Corporation's operations by senior management of the Corporation and its subsidiaries. An information manual is also provided to newly elected Directors.</li> </ul>
7. The board should examine its size with a view to determining the impact upon effectiveness and should undertake, where appropriate, a program to reduce the number of directors to a number which facilitates more effective decision-making	Yes	<ul style="list-style-type: none"> <li>• GOCOM meets at least once a year to review the size of the Board of Directors and makes recommendations to the Board when it believes a change in size would be in the best interests of the Corporation. The Board believes that the present size of 12-14 Directors is appropriate to provide a diversity of experience and opinions and allow effective committee organization and appropriate decision making.</li> </ul>

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8. The board should review the adequacy and form of compensation of directors in light of the risks and responsibilities involved in being an effective director	Yes	<ul style="list-style-type: none"> <li>GOCOM is responsible for assessing the compensation of Directors and making recommendations to the Board. GOCOM reviews compensation on an annual basis and has determined that the compensation is appropriate for the responsibilities, time commitment and risks assumed by the Directors. Information about the compensation received by the Directors in 2004 can be found on page 12 of this circular.</li> </ul>
9. Committees of the board should generally be composed of outside directors, a majority of whom are unrelated	Yes	<ul style="list-style-type: none"> <li>The Board of Directors has four committees: Audit, GOCOM, Risk Review and Pension Fund Committees. Information pertaining to members of the committees and their areas of responsibility can be found on page 13 of this circular.</li> <li>Each committee of the Board of Directors is composed exclusively of outside Directors, and the majority of Directors on each committee are unrelated. One related Director is a member of GOCOM, one related Director is a member of the Risk Review Committee and one related Director is a member of the Pension Fund Committee. The participation of these Directors is an important element of the effectiveness of these committees.</li> </ul>
10. The board should assume responsibility for, or assign to a committee of directors responsibility for, developing the approach to corporate governance issues	Yes	<ul style="list-style-type: none"> <li>The Corporation considers corporate governance to be the ongoing responsibility of all Board members, however, GOCOM specifically addresses corporate governance issues as the need arises. GOCOM is, among other things, responsible for the Corporation's response to the governance guidelines of the Toronto Stock Exchange.</li> </ul>
11. The board, together with the chief executive officer, should develop position descriptions for the board and for the chief executive officer, involving the definition of the limits to management's responsibilities	Yes	<ul style="list-style-type: none"> <li>The Board of Directors has a legal responsibility to supervise the business and affairs of the Corporation. The Corporation and its operating subsidiaries have a number of written policies and governance practices that guide officers, including the Chief Executive Officer, in the discharge of their responsibilities. These include limits on officers' spending authority and requirements for Board approval for the commencement of new businesses or entry into new geographic markets. The Corporation is in the process of developing a Board mandate and updating the position description of the Chief Executive Officer.</li> </ul>

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The board should approve or develop the corporate objectives which the chief executive officer is responsible for meeting	Yes	<ul style="list-style-type: none"> <li>The Board of Directors is responsible for the strategic planning process, direction and objectives of the Corporation. The Board expects the Chief Executive Officer and management to provide on a regular basis all information required to properly assess the ongoing performance of the Corporation. The Chief Executive Officer together with the Board of Directors establishes the Corporation's strategy and is responsible for the formulation and execution of the Business Plan.</li> </ul>
12. The board should have in place appropriate structures and procedures to ensure that it can function <i>independently</i> of management	Yes	<ul style="list-style-type: none"> <li>The Corporation has a lead director who is responsible for ensuring the Board functions independently, acting as required by law and in the best interests of all shareholders.</li> <li>As deemed necessary, the Board of Directors and committees of the Board conduct meetings or portions of meetings without the presence of management.</li> </ul>
13. The audit committee should be composed only of outside directors	Yes	<ul style="list-style-type: none"> <li>The Audit Committee is composed of five outside Directors.</li> </ul>
The roles and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to audit committee members as to their duties	Yes	<ul style="list-style-type: none"> <li>The roles and responsibilities of the Audit Committee have been defined by the Board in a mandate. The mandate is reviewed annually by the Audit Committee and approved by the Board. The Audit Committee is responsible for reviewing the Corporation's financial reporting procedures, internal controls and management information systems and the performance of the Corporation's external auditor. The Audit Committee is also responsible for reviewing and recommending approval to the Board of annual financial statements, the annual management's discussion and analysis and the annual information form, and for approving quarterly financial statements and quarterly management's discussion and analysis. The Audit Committee reports to the Board of Directors at each scheduled meeting.</li> </ul>
The audit committee should have direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate	Yes	<ul style="list-style-type: none"> <li>The Audit Committee meets separately with the internal and external auditors to discuss and review issues as appropriate.</li> </ul>

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The audit committee duties should include oversight responsibility for management reporting on internal control. While it is management's responsibility to design and implement an effective system of internal control, it is the responsibility of the audit committee to ensure that management has done so

Yes

- The Audit Committee is responsible for ensuring that the Corporation has implemented appropriate systems of internal control, including systems of control over financial reporting, to ensure compliance with legal and regulatory requirements and the systems policies and procedures, and to ensure effective systems operations.

14. The board should implement a system to enable an individual director to engage an outside adviser at the expense of the Corporation in appropriate circumstances. The engagement of the outside adviser should be subject to the approval of an appropriate committee of the board

Yes

- Individual Directors, committees and the full Board of Directors are entitled to, and in fact do, engage outside advisers from time to time as they deem necessary, at the expense of the Corporation, subject to the approval of GOCOM.

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**SCHEDULE C MEETINGS HELD DURING 2004**

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The number of Board and Committee meetings held during the year ended December 31, 2004, was as follows:

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Board of Directors	9
Board of Directors Strategy Session <sup>(1)</sup>	1
Corporate Governance, Nomination, Compensation and Succession Committee <sup>(2)</sup>	3
Audit Committee	5
Risk Review Committee	2
Pension Fund Committee	4

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(1) Four days in length

(2) Includes two three-day meetings

Designated Audit Directors participate in six meetings per year with the management of the principal operating subsidiaries.



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