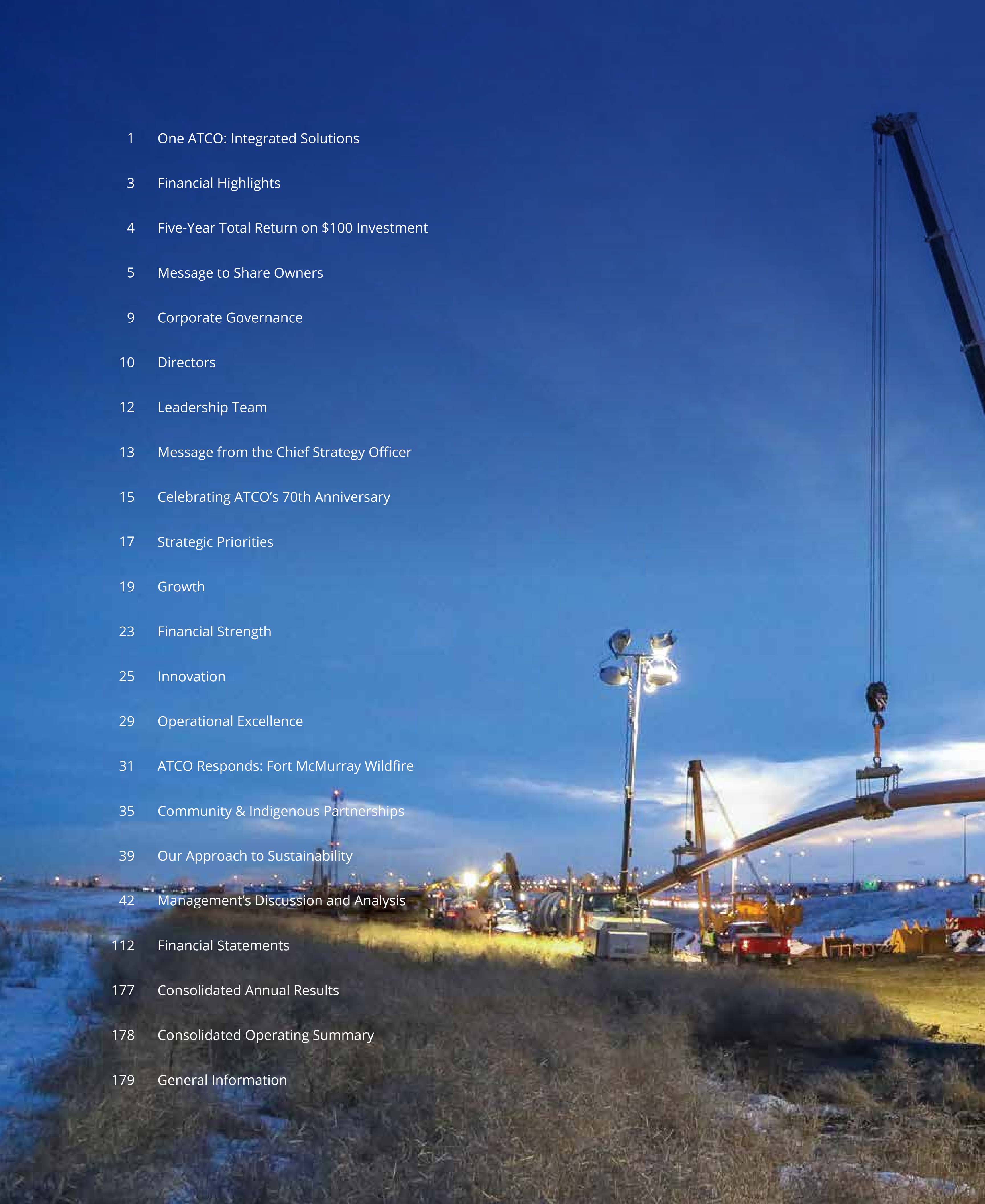
ATCO

ATCO LTD. | **2016** | ANNUAL REPORT



OUR VISION

Our core vision is to improve the lives of our customers by providing sustainable, innovative and comprehensive solutions globally.
We believe in well-managed risk and a disciplined approach to growth. We fuel the imagination of our people to drive growth over the long-term, ultimately delivering value to our customers and our share owners.

Our strong financial and operating performance reflects our approach to sales and our customers, the strength and determination of our people, a deeply embedded focus on operational excellence with its inherent cost controls, and careful consideration of the environmental and social impact of our actions — now and for the future.

Crews hoist a segment of new 30" high-pressure pipeline during pullback in East Calgary in January 2016. At 1.73 km, the installation, part of the Urban Pipeline Replacement Program, was the longest horizontal directional drilling project in ATCO's history.

ONE ATCO: INTEGRATED SOLUTIONS

ATCO is a diversified, global corporation delivering service excellence and innovative solutions in Structures & Logistics, Electricity, Pipelines & Liquids, and Retail Energy. Together, our Global Business Units provide integrated products and services that make life easier for our customers and solve their problems – big and small.

STRUCTURES & LOGISTICS

- Relocatable Structures
- Permanent Structures
- Site Services

ELECTRICITY

- Electricity Generation
- Electricity Transmission
- Electricity Distribution

PIPELINES & LIQUIDS

- Natural Gas Distribution
- Natural Gas Transmission
- Energy Storage
- Industrial Water

RETAIL ENERGY

- Retail Electricity and Natural Gas (Home & Business)

$20 BILLION IN ASSETS

2M+ GLOBAL CUSTOMERS

200,000 M³ HYDROCARBON STORAGE CAPACITY

18 POWER PLANTS WITH A COMBINED GENERATING CAPACITY SHARE OF 2,473 MW*

88,000 KMS ELECTRIC POWER LINES

*megawatts **cubic metres per day ***petajoules

APPROXIMATELY

7,000

EMPLOYEES

100+

COUNTRIES IN OUR 70-YEAR HISTORY

7

MODULAR BUILDING MANUFACTURING FACILITIES

(2 CANADA, 2 U.S., 2 AUSTRALIA, 1 CHILE)

85,200 M^3/D

WATER INFRASTRUCTURE CAPACITY**

52 PJ

NATURAL GAS STORAGE CAPACITY***

65,000 KMS

NATURAL GAS PIPELINES

ATCO LTD. FINANCIAL HIGHLIGHTS

This data (other than funds generated by operations) has been extracted from financial statements which have been prepared in accordance with International Financial Reporting Standards (IFRS) and the reporting currency is the Canadian dollar.

For further information, please see the ATCO Ltd. Consolidated Financial Statements and Management's Discussion and Analysis.

Consolidated Annual Results

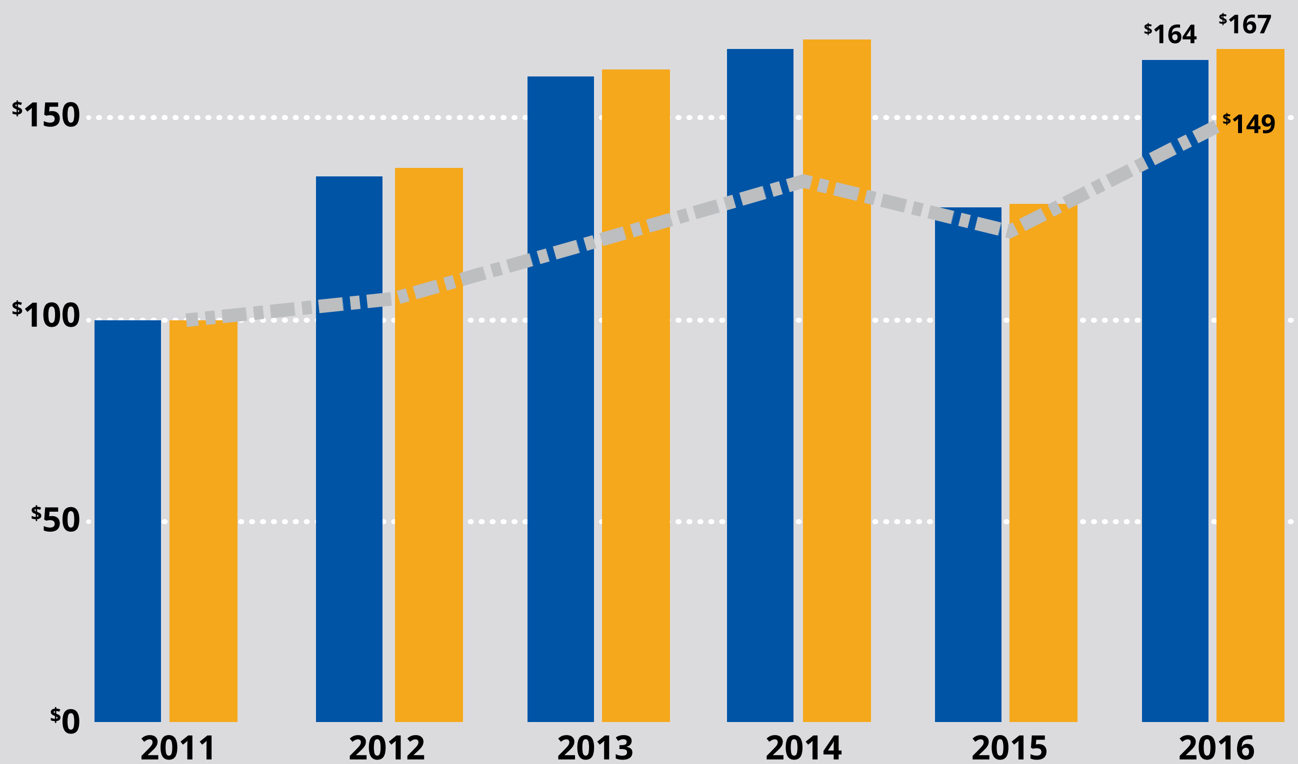
YEAR ENDED DECEMBER 31
(Millions of Canadian dollars except per share data)

	2016	2015
FINANCIAL		
Revenues	**4,045**	4,131
Earnings attributable to Class I & Class II shares	**340**	154
Adjusted earnings	**360**	293
Total assets	**19,724**	19,055
Class I & Class II share owners' equity	**3,546**	3,356
Funds generated by operations	**1,912**	1,589
Capital expenditures	**1,451**	1,868
CLASS I NON-VOTING & CLASS II VOTING SHARE DATA		
Earnings per share	**2.97**	1.34
Diluted earnings per share	**2.96**	1.33
Dividends paid per share	**1.14**	0.99
Shares outstanding (thousands)	**114,653**	115,024
Weighted average shares outstanding (thousands)	**114,411**	114,832

FORWARD-LOOKING INFORMATION:

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

FIVE-YEAR TOTAL RETURN ON $100 INVESTMENT



		Compound Growth Rate	Cumulative Return
Class I Non-Voting (ACO.X)		10.4%	$164
Class II Voting (ACO.Y)		10.8%	$167
S&P/TSX Composite		8.2%	$149

This graph compares the cumulative share owner return over the last five years of the Class I Non-Voting and Class II Voting shares of the Company (assuming reinvestment of dividends) with the cumulative total return of the S&P/TSX composite index.

ATCO SHARE OWNERSHIP FOR PRESENT & PROSPECTIVE OWNERS

It is important for prospective owners of ATCO shares to understand that ATCO is a diversified group of companies principally controlled by Sentgraf, a Southern family holding company. It is also important for present and prospective share owners to understand that the ATCO share registry has both non-voting and voting common shares.

Message to
SHARE OWNERS

Nancy Southern greets ATCO employees during the Fort McMurray wildfire.

Dear Share Owners,

2016 has been a transformative year for your Company and for the global economic and political landscape in which we operate.

Anemic economic growth globally, driven by stubbornly low commodity prices, softening trade and geopolitical upheaval, continued to give pause to investors and consumers alike. Meanwhile, a changing of the political guard in many jurisdictions captured headlines around the world, from a polarizing U.S. election, to the fracturing of the European Union and new governments provincially and federally here in Canada. To further compound those already tumultuous circumstances, in our home province of Alberta we endured a natural disaster of such enormity that it is without parallel in Canadian history.

Yet, the people of ATCO, drawing upon decades of unrivaled expertise and an all-encompassing commitment to our customers, have performed exactly as you would expect — with incredible determination, dedication, courage and imagination.

STRATEGIC FOCUS

To succeed over the long term as a global enterprise, we know that we must achieve operational excellence, ensure sustainable growth and turn new ideas into profitable realities — these principles have long been central to our method of operating.

Our vision and determination is to be our customer's choice for all their infrastructure needs around the world — One ATCO — delivering premier products and services to new and existing customers, expanding our footprint into new geographies and lines of business and re-igniting our imagination to drive innovation.

In October, we celebrated the completion of BC Hydro's Site C workforce housing facility along the Peace River in northeastern British Columbia. The lodge, which was completed on-time, on-budget and with a world-class safety performance, is a terrific example of the formidable expertise of our people in delivering superior infrastructure solutions.

Earlier in the year, we took the first step in bringing that same level of operational excellence to customers in South America, with the acquisition of 50 per cent of Sabinco Soluciones Modulares S.A., a modular structures provider in Chile. This acquisition provides a valuable foothold into the South American market, expanding our global reach and providing a springboard from which our other lines of business can grow.

We continue to explore a range of sustainable and progressive technologies throughout our operations, actively growing our expertise and positioning ATCO to thrive in a cleaner energy future. For example, in the fall we energized Western Canada's largest off-grid solar project, gaining valuable insight into the application of solar solutions in even the most remote locations. This transferrable and scalable expertise enables us to develop similar solutions for our customers in other industries.

In October, I appointed Siegfried Kiefer to the role of Chief Strategy Officer, ATCO & Canadian Utilities, in addition to his role as President, Canadian Utilities. Siegfried, drawing upon more than 34 years of unparalleled operational experience and leadership with ATCO, will play a critical role as the technological, political and economic landscape around us continues to present complex challenges while growing our enterprise.

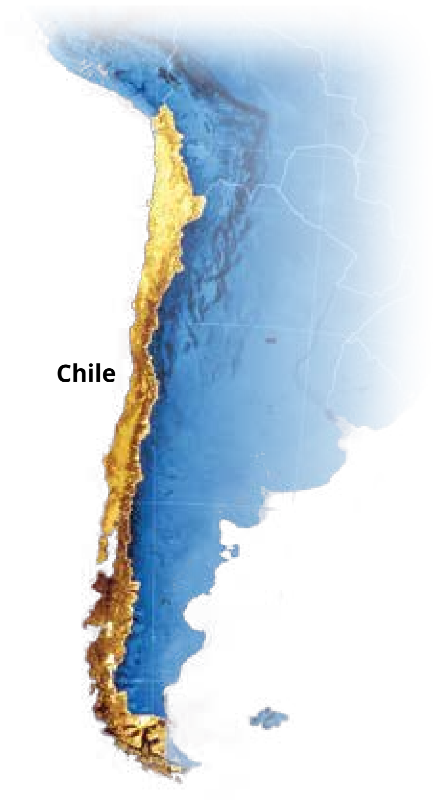
> **"To succeed over the long term as a global enterprise, we know that we must achieve operational excellence, ensure sustainable growth and turn new ideas into profitable realities — these principles have long been central to our method of operating."**

Indeed, Siegfried played a central role in reaching an agreement with the Government of Alberta that will eliminate coal-fired greenhouse gas emissions and facilitate measures to transition Alberta's electricity grid in the coming years. In the meantime, our focus remains on ensuring these measures support affordable, reliable and sustainable energy for all Albertans.

TRANSFORMATION

Throughout 2016, we continued to advance the sweeping, company-wide transformation we began in 2015. The success of this transformation has required the precise execution of a simple plan — restructuring to bring together complementary products and services; focusing our Global Business Units (GBUs) on operational improvements, growth and innovation; and elevating and centralizing our administrative functions to provide a competitive advantage for the organization.

The benefits of this transformation are already being felt broadly throughout our Company. Increased collaboration within and amongst our Structures & Logistics, Electricity and Pipelines & Liquids GBUs has further enabled a "One ATCO" approach. As a unified enterprise with a diverse yet complementary suite of products and services, we are uniquely positioned to solve the infrastructure challenges of our residential, commercial and industrial customers. This is a



In April 2016, we announced our return to the South American market with the acquisition of 50 per cent ownership of Sabinco Soluciones Modulares S.A.

world-class advantage that is already paving roads into new markets and new opportunities for your Company.

Your Company's extraordinary capacity for change and adaptation to a new global standard has in fact delivered near record earnings for you, our Share Owners. Our finest example of the "One ATCO" capability was demonstrated during Canada's largest natural disaster in our nation's history.

A REMARKABLE RESPONSE

In early May, the Regional Municipality of Wood Buffalo in northern Alberta, home to tens of thousands of ATCO customers and more than 100 of our employees, experienced a wildfire of such boundless ferocity that nearly 90,000 residents were forced to evacuate the area. The Beast, as the sprawling and unrelenting wildfire was known amongst first responders, burned nearly 6,000 km^2 and destroyed thousands of homes and buildings.

> "Never have I been more proud of the ATCO family, nor has the ATCO Heart & Mind ever been on such vivid display."

We have a significant presence in the region, operating the municipality's electrical transmission and distribution and natural gas distribution systems, maintaining power generation facilities at nearby oil sands facilities, and operating two workforce housing lodges. Accordingly, the response of our people was immediate, dynamic, and enacted with the utmost care for our customers, colleagues and community partners.

Watching as more than 650 of our employees packed their bags and marched into the heart of the crisis to support the response and recovery effort was an extremely humbling moment for me. Never have I been more proud of the ATCO family, nor has the ATCO Heart & Mind ever been on such vivid display.

Our teams acted with military precision and demonstrated incredible situational leadership, which paved the way for the return of evacuees. Their herculean efforts on the ground were made possible through the incredible support of thousands of ATCO employees who stayed behind, taking on extra work, willingly stepping in to handle the day-to-day work of their colleagues. In every corner of our business, people went far beyond the call of duty.

A LOOK TO THE FUTURE

The perseverance demonstrated by the people of ATCO in our response to the wildfire, the implementation of our corporate transformation, the execution of our strategy and the delivery of first-class earnings were

truly remarkable. The efforts on all of these fronts reflects the unbendable commitment of the people of ATCO to our customers and the communities we serve. This commitment is at the core of ATCO's success.

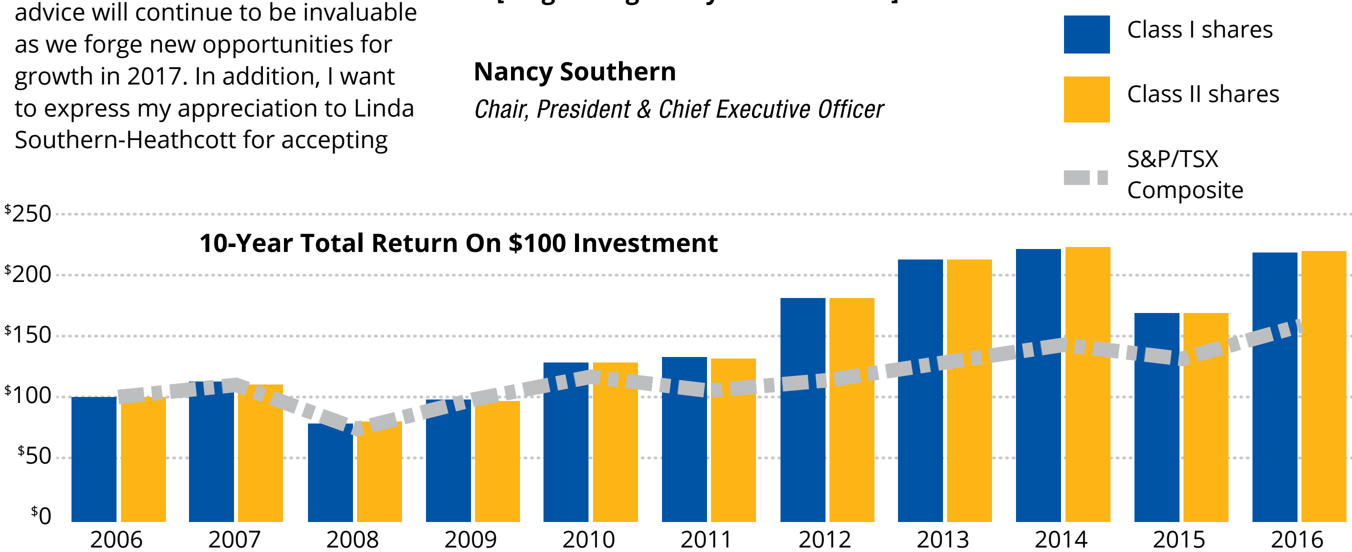
As we turn the page on 2016 and look to the future, I would like to recognize the wisdom and direction provided by our Board of Directors. Their guidance and tremendous advice will continue to be invaluable as we forge new opportunities for growth in 2017. In addition, I want to express my appreciation to Linda Southern-Heathcott for accepting the appointment to Vice Chair of the Board of Directors. I have the utmost confidence that her counsel and steady leadership will be invaluable.

On behalf of our leadership team, I would like to thank our Share Owners for their continued support and trust.

Sincerely,

[Original signed by N.C. Southern]

Nancy Southern
Chair, President & Chief Executive Officer



More than 650 ATCO employees from across the organization supported the emergency response in Fort McMurray.

CORPORATE GOVERNANCE

Ensuring that our business operates in a transparent, ethical and accountable manner is critical in creating strong and sustainable value for our share owners and in promoting the company's well-being over the long-term.

We don't believe in a one-size-fits-all approach to governance. Our Board of Directors has designed and implemented a unique and effective system of checks and balances that recognize the need to provide autonomy to our various business units, while accommodating the requirements of our regulated and non-regulated businesses.

This fit-for-purpose approach to governance has worked exceedingly well over the years, providing our Board of Directors and senior management team the foundation to drive consistently top-quartile results for our share owners.

Following are some of the highlights of our model for corporate governance. For a more complete picture, please see the Corporate Governance section of the Management Proxy Circular.

> "Much like our business operations, the strength of our Board of Directors is due in no small part to its diversity."

OUR BOARD OF DIRECTORS

The role of our Board of Directors has evolved alongside our business, providing oversight to an organization with a growing global footprint and a diverse, yet complementary suite of premier products and services. The Board strives to ensure that its corporate governance practices provide for the effective stewardship of the company, and it regularly evaluates those practices to ensure they are keeping with the highest standards.

Key elements of our corporate governance system include the oversight and diligence provided by the Board, the Lead Director, the Audit & Risk Committee and our Corporate Governance – Nomination, Compensation and Succession Committee (GOCOM). Although not required by securities laws, some of our governance tools, such as the use of Designated Audit Directors, also reinforce the effectiveness and rigour of our governance model.

Much like our business operations, the strength of our Board of Directors is due in no small part to its diversity. We are proud that our Board has historically had a higher proportion of women than many of our Canadian peers. In 2016, ATCO had three women on the Board, representing approximately 30 per cent of our directors, including our Chair, President & Chief Executive Officer, Nancy Southern.

OUR LEAD DIRECTOR

In 1995, ATCO was among the first public companies in Canada to introduce the concept of a Lead Director. Mr. Charles W. Wilson is the current Lead Director for ATCO, and was appointed to this position on April 1, 2003. The Lead Director provides the Board with the leadership necessary to ensure independent oversight of management. The Lead Director is an independent director and must be a member of GOCOM.

DESIGNATED AUDIT DIRECTORS

ATCO has identified Designated Audit Directors (DADs) who are directors of either ATCO or Canadian Utilities Limited. Each DAD is assigned to one of our Global Business Units to provide oversight based on their strengths and experience in various industry sectors.

Each DAD meets quarterly with the relevant leadership of the Global Business Unit, and holds annual meetings with internal and external auditors. In addition, they review the financial statements and operating results of their respective Global Business Unit, discuss risks with management, and report on both operating results and risks to our Audit & Risk Committee.

DIRECTORS

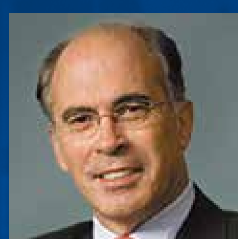
Robert T. Booth, Q.C.
Partner, Bennett Jones LLP

Denis M. Ellard
Corporate Director

C. Anthony Fountain
Chair of Sellafield Ltd.

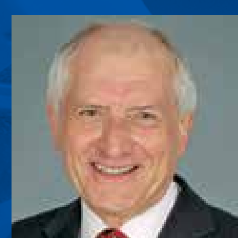
Michael R.P. Rayfield
Corporate Director

Robert J. Routs, PhD
Chair of the Supervisory Boards of AEGON N.V. and Royal DSM N.V.



Nancy C. Southern
Chair, President & Chief Executive Officer

Linda A. Southern-Heathcott
Vice Chair, ATCO Ltd. and President & Chief Executive Officer, Spruce Meadows Ltd.



Roger J. Urwin, PhD, C.B.E.
Corporate Director

Susan R. Werth
Corporate Director

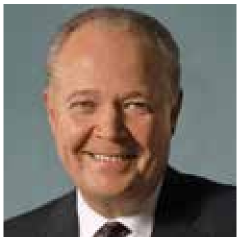
Charles W. Wilson
Lead Director

LEADERSHIP TEAM

Nancy C. Southern
Chair, President &
Chief Executive Officer

Brian R. Bale
Senior Vice President &
Chief Financial Officer

Erhard M. Kiefer
Senior Vice President &
Chief Administration Officer



Siegfried W. Kiefer
Chief Strategy Officer, ATCO Ltd.
& Canadian Utilities Limited and
President, Canadian Utilities Limited

George J. Lidgett
Managing Director,
Pipelines & Liquids

Stephen H. Lockwood
President & Chief Operating Officer,
ATCO Structures & Logistics Ltd.

Settimio F. Policicchio
Managing Director,
Shared Services

Wayne K. Stensby
Managing Director, Electricity

Message from the

CHIEF STRATEGY OFFICER

Siegfried Kiefer welcomes delegates at the 2016 Alberta Urban Municipalities Association convention in Edmonton.

Two years ago, we began a transformation that was without parallel in our history – sweeping change that established vertically integrated business units and provided them the autonomy they need to make nimble, strategic decisions. This transformative momentum continued to drive us forward in 2016, setting the stage for what would be a dynamic year not only for ATCO, but for our customers around the world.

From significant energy reform in our home province of Alberta, to the historic Paris Agreement on climate change, the global policy landscape in which we operate underwent considerable change. Meanwhile, a modest recovery in commodity prices provided beleaguered resource-based economies some respite, jump-starting a slow recovery in economic growth.

These developments have left many of our customers at a cross-roads as they seek to balance the need for economic stability with environmental sustainability. For ATCO, these trends afford us a strategic window of opportunity — one through which we can further demonstrate to the world the full scope, scale and imagination of our "One ATCO" expertise.

It has always been our mission to solve our customers' problems, big and small, anytime, anywhere. As a worldwide economic recovery takes root, global energy systems evolve, developing markets emerge and technological innovation accelerates, we are uniquely positioned to do exactly that.

VALUE CREATION FROM OUR CORE

We have worked tirelessly over the last year to find targeted opportunities for growth within our existing lines of business and geographies. Often, this involves bringing multiple ATCO solutions to bear — combining the full breadth of our expertise and delivering products and services our customers didn't realize were possible.

For example, while we have played a key role in the growth of Alberta's Industrial Heartland for more than 65 years, we continue to find opportunities to expand our customer-focused service offering. In July, we launched an innovative water treatment service in the region, which is a critical process for many of our industrial customers. The addition of water treatment broadens our already considerable suite of industrial water services and further allows our customers to focus on their core business. In fact, the Industrial Heartland has become a model of the comprehensive services ATCO can provide, ranging from power generation to energy storage, electricity transmission, industrial water, and natural gas transmission and distribution.

Internationally, we are moving to create similar scale in key geographies where we have already established a solid foundation. Our existing presence in markets like Australia and Mexico provides us with invaluable knowledge of the local operating environment, regulatory framework and community relationships, all of which are critical as we look to grow our footprint in those countries.

In Mexico, we recently energized phase one of an innovative distributed power generation solution to support the energy needs of industrial customers in the World Trade Centre Industrial Park in the state of San Luis Potosí. The project, which consists of a high-voltage substation, five modular natural gas-fired electricity generating units and an associated distribution network, is efficient and flexible, and can be expanded to meet additional demand in the years to come as the number of tenants in the park grows. This project highlights the merits of our integrated approach, combining our industry-leading expertise in power generation and distribution with strong local partnerships to deliver a single cost-effective and reliable solution.

SUSTAINABLE GROWTH

Our long-term success depends not only on our ability to anticipate our customers' requirements today, but to understand what they will need to thrive tomorrow. Accordingly, while we had tremendous success in 2016 creating value within our existing portfolio of products and services, we are continuously looking to identify the trends that are shaping the future.

As an example, we are actively positioning ourselves to play a key role in the transformation underway in the global energy industry. While disruptive technologies and new policies are taking shape around the world, nowhere is the transition more evident than in Alberta.

In November, we announced that we had successfully reached a conditional agreement to help transition the province away from its dependence on coal-fired electricity, part of a broader government-led restructuring of the electricity market. This development heralds a new era for the province's electricity producers, marking a notable shift toward lower-carbon electricity production and energy efficiency. We are working alongside the government during this process to ensure the reliability and affordability of electricity are preserved, and have agreed to collaborate on the conversion of coal-fired generation to natural gas, the exploration of hydro generation, and the development of Alberta's new capacity market.

Beyond Alberta's borders, we are also evaluating opportunities to expand into new businesses and geographies that leverage our capabilities to bring solutions to new and existing customers. For example, we are investing in a range of clean energy technologies, including solar, hydro, biomass and more. We are also working with our Indigenous communities to explore opportunities to move from diesel to renewables, and are industry leaders in highly efficient natural gas technologies. Globally, we continue to seek new markets that would benefit from our integrated capabilities to improve their environmental and energy stewardship.

PRESERVING AND CREATING MEANINGFUL COMMUNITY PARTNERSHIPS

One of the single greatest determinants of our growth strategy, whether in Canada or abroad, will be the extent to which we can maintain strong and mutually beneficial relationships with the communities, Indigenous peoples, and governments where we operate. As we've seen around the world and most notably here in North America, the failure to create strong partnerships can derail even the best laid plans.

At ATCO we will continue to focus our efforts on a long-term approach based on respect, trust and genuine openness to the needs and interests of our customers and communities that will not only create shared understanding, but shared prosperity.

Moving forward, we will continue to leverage the knowledge we have developed over our 70-year history, our pioneering spirit, and our committed approach to building long-term relationships with customers and communities to achieve sustainable and reliable growth in our enterprise.

Thank you to the people of ATCO for their tremendous efforts and commitment. Without such a great team, none of the accomplishments to-date, nor the bright prospects for the future would be possible.

[Original signed by S.W. Kiefer]

Siegfried Kiefer

Chief Strategy Officer, ATCO Ltd. & Canadian Utilities Limited and President, Canadian Utilities Limited

CELEBRATING ATCO'S 70TH ANNIVERSARY

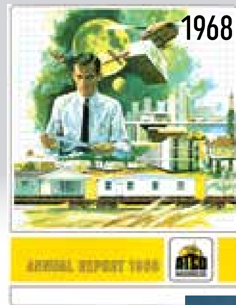
2017 marks a very special year for ATCO as we celebrate 70 years of sustainable growth, good commerce and an unwavering commitment to excellence and caring for our customers around the world.

R.D Southern was just 17 years old when ATCO was originally founded as Alberta Trailer Hire in 1947. With initial revenues of $1,077 and 15 utility trailers, R.D. Southern and his father, S.D. Southern, set a bold course to service Alberta's booming oil industry.

Seventy years later, ATCO is a diversified $20 billion enterprise with approximately 7,000 employees worldwide providing innovative and integrated solutions in Structures & Logistics, Electricity, Pipelines & Liquids and Retail Energy.

Our history has been shaped by imagination, courage, perseverance and integrity. Our achievements over the years reflect the 'Heart & Mind' of ATCO and have laid the foundation for a future that is filled with possibility and promise.

1947




1980

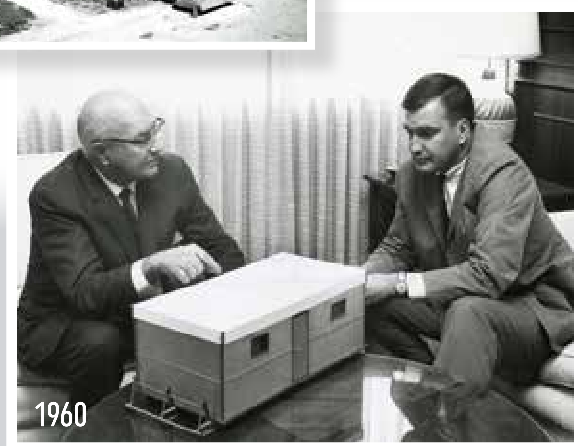
Atco wins control of Canadian Utilities

By PAUL TAYLOR

Atco Ltd. of Calgary has emerged as the apparent winner in a bid for control of Canadian Utilities Ltd of Edmonton.

agreement is subject to certain terms and conditions. Atco will have to obtain at least 14.07 million shares of IU under the tender offer. As well

vide a stable source of earnings for Atco, which is involved in the volatile business of oil and gas exploration and development, and



1947
ATCO began in 1947 in Alberta, Canada when father S.D. and son R.D. Southern started Alberta Trailer Hire to provide housing accommodations to workers in Canada's first oil boom.

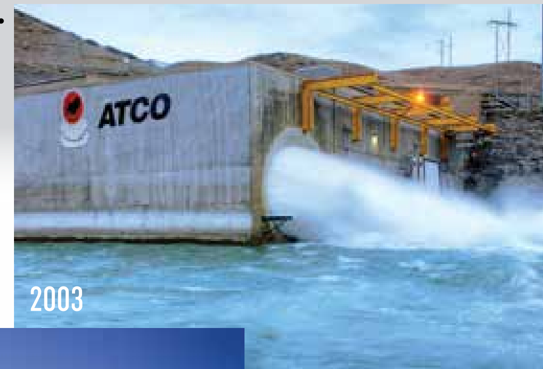
1959
The rapidly growing demand for modular housing led to the opening of ATCO's original manufacturing facility in Airdrie, Alberta, a former Royal Canadian Air Force hangar.

1960
ATCO's first large overseas contract supplied international workforce housing for the Mangla Dam project in Pakistan. This was followed by the Guri Dam project in Venezuela, both of which established ATCO on the world stage.

1961
Operations expanded to Australia with the opening of a 70,000 sq. ft. modular structures manufacturing facility in Adelaide, South Australia. This facility was expanded to 110,000 sq. ft. in 1971. Over 26 years of operation in Australia, ATCO became a leader in the supply of relocatable housing and once had a rental fleet of 6,500 units.

1968
On January 9, 1968 ATCO became a publicly traded company on the Toronto Stock Exchange with 700,000 common shares listed at $7.50 each. Only nine months later, ATCO shares had more than doubled to $20.00.

1975
From the mid to late 70s, massive housing projects for thousands of workers in the Middle East confirmed ATCO as the world leader in workforce housing.



2006

1980
ATCO purchased 58.1 per cent of Canadian Utilities Limited from Philadelphia-based International Utilities returning it to Canadian ownership. This pivotal acquisition was a turning point for the company as it introduced consistent and reliable earnings to ATCO's balance sheet and represented a long-term investment in Alberta.

1988
ATCO supplied the dramatic natural gas flare atop the Calgary Tower, as well as several major shelter and accommodation contracts for the 1988 Olympic Winter Games held in Calgary.

1988
ATCO was awarded a five-year contract worth $114.2 million to operate and maintain Canada's new North Warning System.

1991
By 1991, ATCO and its partners had secured $1.4 billion in financing for the Barking Power Station – a 1,000 MW natural gas-fired facility located in East London. To-date, this is the largest power station ATCO has ever been involved with.

1998
ATCO returned to Australia with the acquisition of a modular manufacturing and leasing company, adding two manufacturing facilities and a fleet of more than 2,000 space rental and workforce housing units, and the commencement of construction on a 180 MW cogeneration plant.

2000
ATCO provided support services to Canadian Forces in Bosnia-Herzegovina — one of many future military contracts the company would deliver in its history.

2017

2003

ATCO brought its emission-free, 32 MW Oldman River hydroelectric generating facility online. Now jointly owned with the Piikani Nation, it was ATCO's first-ever hydroelectric project and its first electricity generating facility in southern Alberta.

2006

ATCO began its unique and highly successful EPIC (Employees Participating in Communities) fundraising initiative, benefiting more than 500 charitable and non-profit organizations. Since its inception, the program's cumulative fundraising total has reached more than $31 million.

2011

ATCO expanded its business in Australia with one of the largest acquisitions in the company's history – the $1.1-billion purchase of WA Gas Networks, the largest gas distribution utility in Western Australia.

2014

ATCO entered Mexico and is awarded two major projects, marking a significant long-term commitment to the people and industries of Mexico.

2015

ATCO completed the longest transmission line in Alberta's history. The Eastern Alberta Transmission Line will play a critical role helping meet increased demand and bringing renewable energy to Albertans across the province.

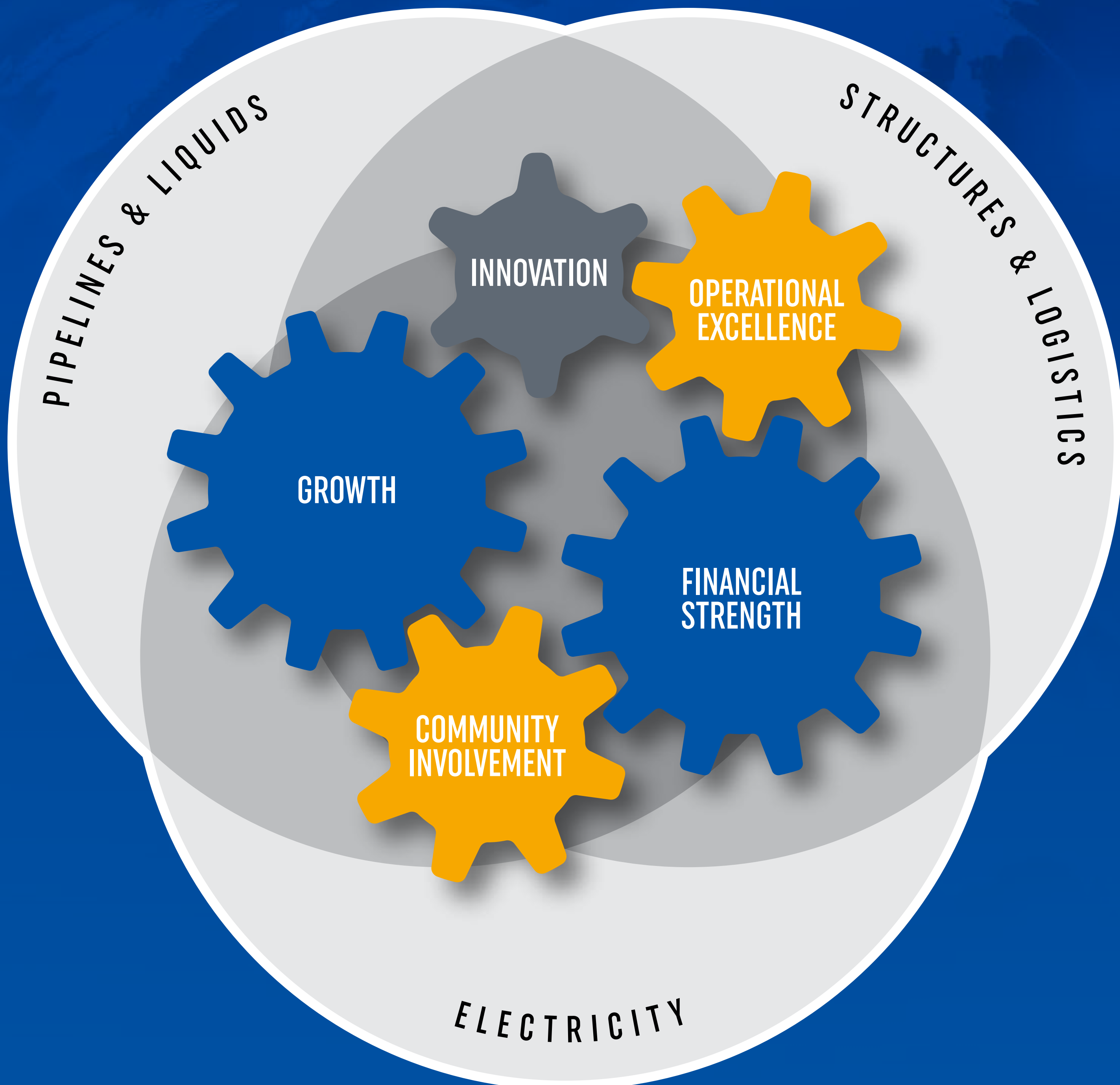
2016

In January, ATCO launched ATCOenergy, a new electricity and natural gas retail company that promises Albertans outstanding service and lower costs for their homes and businesses.

STRATEGIC PRIORITIES

Growth and financial strength are the pivotal strategies we use to build our business. Our long-term success is dependent on our ability to grow by expanding into new markets and business lines, while continuing to offer our customers comprehensive and premier products and services when and where they need them. These two critical strategies are supported by our commitment to innovation and operational excellence and meaningful engagement with our employees and the communities we have the privilege to serve.

For detailed information on our strategic priorities see pg. 51 of the Management's Discussion and Analysis.


PIPELINES & LIQUIDS
STRUCTURES & LOGISTICS
ELECTRICITY
INNOVATION
OPERATIONAL EXCELLENCE
GROWTH
FINANCIAL STRENGTH
COMMUNITY INVOLVEMENT

2016 PERFORMANCE

1 GROWTH

The 650,000 sq. ft. Site C Workforce Housing Facility was one of the largest construction projects in ATCO's history.

$1.6B*

capital investment in 2016

ATCO is focused on long-term, sustainable growth achieved through investment, geographic expansion and the development of new products and services that complement our existing business lines. We continuously evaluate opportunities to enter new markets, acquire new assets and develop new business lines so that we can better serve our global customers and provide long-term value for our share owners.

In 2016, several strides were made in delivering our long-term growth strategy.

INVESTING IN CAPITAL INFRASTRUCTURE

In 2016, we invested more than $1.6 billion*, driven largely by capital investments made by our Electricity and Pipelines & Liquids Global Business Units. Combined, investments by these two business units totalled nearly $1.4 billion and delivered strong capital growth for the company. The projects involved were numerous and diverse, including continued investment in the Urban Pipeline Replacement Program and our Steel and Plastic Mains Replacement Programs, all located in Alberta.

* For a complete definition of capital investment, please see pg. 100 of the MD&A.

PROJECT HIGHLIGHTS

In 2016, we undertook a number of significant projects across each of our Global Business Units that delivered growth for the organization.

Site C Workforce Housing Project

In October 2016, we celebrated the completion of a 757-unit, 650,000 sq. ft. workforce housing facility. This eight-year, $470 million contract was finished on-time and on-budget to support the development of BC Hydro's Site C Clean Energy Project.

Using pre-fabricated modular construction technology, the innovative facility was completed in less than 13 months with ATCO crews working nearly 1.4 million hours without a single lost-time injury.

Approximately 1,600 Site C construction workers will now live comfortably as they finish construction of the dam, enjoying the modern design and many amenities available at the facility. Featuring a hair salon, convenience store, coffee shop, gymnasium with running track and weight training area, a licensed lounge, as well as single-occupancy bedrooms with ensuite bathrooms, televisions and Wi-Fi – the facility serves as a temporary community with all the comforts of home.

With the lodge constructed, our team will remain onsite for eight years to provide operational support, including food service, janitorial, maintenance and site services.

Lake Charles Workforce Housing Facility

In October 2016, we also completed our largest-ever U.S. workforce housing construction project. The 14-month Lake Charles project is a true testament to the luxury, privacy and versatility of our modular housing units.

Nearly 1,900 workers constructing an LNG facility in Louisiana will enjoy the individual comfort built into the design of the 462-unit facility. Each room includes a bathroom, temperature controls, TV and DVD player, mini-fridge, and ample storage. The facility also includes laundry facilities, gyms, recreation spaces, a movie theatre and outdoor recreation space with BBQ areas, basketball, soccer and baseball fields.

Hydrocarbon Storage Facility

In the fourth quarter, we officially commissioned the first two of four NGL salt caverns included in a long-term partnership with Petrogas. The salt cavern facility can store propane, butane and ethylene and is connected to Petrogas' Fort Saskatchewan hydrocarbon truck and rail terminal, as well as other NGL facilities in the area. The current capacity of commissioned salt caverns is 200,000 m^3. Construction of the remaining two caverns is expected to be complete by the end of 2017 bringing total capacity to 400,000 m^3.

The 462-unit Lake Charles facility was designed for the individual comfort of its 1,900 residents.

Our salt cavern facility at the ATCO Heartland Energy Centre allows us to leverage our industrial water infrastructure in the area to wash two caverns simultaneously which shortens development time. The central location also provides our customers with transportation options to solve the logistical challenges of moving product to market or securing it to avoid processing interruptions.

200,000m^3

hydrocarbon storage capacity

Our innovative distributed power generation solution will deliver up to 20 megawatts of reliable and efficient onsite electricity in a growing industrial park in Mexico.

GLOBAL EXPANSION

From our first international project with Boeing in 1959, to our expansion into Australia in 1961, and our service with the Canadian military in the Arctic, we have a proven history of service excellence around the world. As the international community evolves in response to changing global conditions and new communities are faced with unique energy infrastructure needs, we continue to seek out new markets to offer our dependable and integrated solutions.

San Luis Potosí Distributed Generation Solution

In 2016, along with our partner RANMAN Energy, we completed the first phase of an innovative distributed power generation solution at the World Trade Centre Industrial Park in San Luis Potosí, Mexico. The project will deliver reliable and efficient onsite electricity to the 700-hectare park's industrial tenants, with excess energy being sold back to the grid.

The project, which includes a high-voltage substation, five modular natural gas-fired electricity generating units and an associated distribution network, will be completed in two phases. With four megawatts (MW) of capacity currently available, the joint-venture partners plan to expand this facility to up to 20 MW by December 2017. The project is also highly scalable, and further capacity can be added as new tenants establish operations within the industrial park.

Chile

In early 2016, we formed a new partnership in South America and expanded our modular structures business into Santiago, Chile. This was accomplished by acquiring 50 per cent of Sabinco Soluciones Modulares S.A. from Sitrans Servicios Integrados de Tranportes Ltda. and launching ATCO-Sabinco S.A. With the partnership, we are establishing a foothold in South America that will allow us to introduce the full suite of integrated service offerings available through our Global Business Units.

Our partner's diverse client base and local knowledge allow us to confidently enter the market and establish our growth strategy for the region. The agreement also included the purchase of a land position for a future manufacturing facility – setting the stage for additional opportunity in the years to come.

DIVERSIFYING OUR BUSINESS

Permanent Modular Construction

In Australia, our Structures & Logistics Global Business Unit has been successful pursuing growth opportunities through the diversification of our permanent modular business line. In 2016, we were engaged by the Department of Education and Training in the state of Victoria to design, manufacture, transport and install buildings for public schools. In 2016, we completed more than 150 projects, with more than 30 in progress for 2017. These projects delivered time and cost-savings to our customer and included energy-saving features such as automated building management systems for ventilation, air conditioning and light.

In April, ATCO was also engaged by Sydney University to design, manufacture and install six permanent health educational modular facilities in the community of Broken Hill, New South Wales, Australia. Our ability to deliver in remote locations and with tight turnaround times resulted in the successful completion of this $2.1 million project.

RETAIL ENERGY

As part of our ongoing efforts to diversify and broaden the scope of our business, in January 2016 we re-entered Alberta's retail energy market with ATCOenergy, the province's newest electricity and natural gas retailer. ATCOenergy was uniquely designed to be the premier electricity and natural gas retailer in Alberta's competitive landscape, offering exceptional service and real savings to homes and businesses – competitive advantages that have served the company well over its first year.

GROWING OUR CUSTOMER BASE

In November, in recognition of the perseverance and resilience of Albertans, our Chair, President & Chief Executive Officer, Nancy Southern, issued a special offer to all residential ATCOenergy customers – the gift of free electricity and natural gas for the month of January 2017. Over the course of the six-week campaign, we visited 15 communities, participated in 20 holiday events and festivals and engaged thousands of prospective and existing customers. Our call centres received record-breaking call volumes as Albertans from every corner of the province made the switch.

STRENGTHENING OUR CONNECTION WITH ALBERTANS

As we look to the future, strengthening our connection with customers will continue to be a major focus of our business.

The unique partnership between ATCOenergy and ATCO Blue Flame Kitchen (BFK) provides an opportunity to differentiate our organization and play a bigger role in our customers' lives.

BFK is a well-established and cherished brand that has provided recipes and trusted household advice to Albertans for more than 87 years. While ATCOenergy is new to the province, the energy retailer has quickly been embraced by Albertans eager to enjoy the positive energy we've delivered through outstanding customer service and great savings on their electricity and natural gas bills. Bringing these two customer-facing teams together creates an opportunity to enhance our retail offering.

Over the coming year, we will be launching a new online shopping platform that goes beyond retail electricity and natural gas plans, to offer products and services that will enhance our customers' lives at home. We are currently engaging Albertans to gain a better understanding of the types of products and services that meet their needs and interests. ATCO customers can look forward to additional discounts and exclusive offers once our new online store is launched.

This is an exciting new chapter in ATCO's long history of providing quality products and exceptional service to households across Alberta.

> **"I would like to thank you for your generous gift of free energy in the month of January 2017. I know this is something you do not have to do but it comes as a welcome surprise. And yes it is one of those ways of delivering positive energy to families in the province. This is surely an act of kindness."**
>
> **Joanne, ATCOenergy Customer**

443%
increase in call volume

5M+
social media impressions

Campaign Dates:
November 18 – December 31, 2016

152%
increase in web traffic

76%
increase in residential customers

2016 PERFORMANCE

2 FINANCIAL STRENGTH

Senior Vice President & Chief Financial Officer, Brian Bale, at the 2016 ATCO Annual General Meeting.

Two years ago, we began an organizational transformation to streamline our business. Championed by the highly skilled people of ATCO, this exhaustive effort to modernize our processes and drive down costs has created tangible benefits in virtually every corner of your Company. These benefits were clearly evident in 2016, as we achieved annual adjusted earnings of $360 million, compared to $293 million in 2015.

Driven by a renewed focus on our customers, our people executed with excellence, supporting continued capital investment and growth in our regulated utilities, delivering higher profit margins and occupancy levels in our modular structures business, and improving the efficiency with which we conduct our business.

GROWING A HIGH-QUALITY EARNINGS BASE

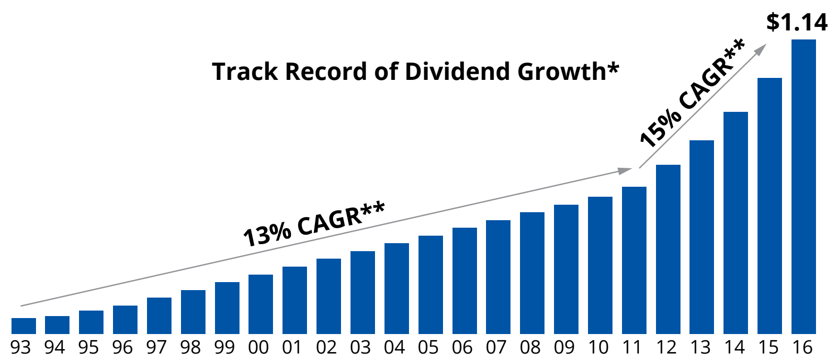
Our financial strength is the bedrock of our strategy and generating reliable, predictable cash flows is fundamental to our ability to fund the projects and initiatives necessary to achieve long-term growth. Accordingly, capital spending in our regulated utilities and long-term contracted capital assets accounted for 86 per cent, or $1.4 billion, of total capital spending in 2016.

In fact, in the last five years, the quality and reliability of our earnings has improved substantially. Over that time, we have invested nearly $10 billion in our regulated utilities, and their contribution to total adjusted earnings has grown from 39 per cent to 81 per cent. These stable investments, which earn a return under a regulatory business model, provide us with a steady platform from which we can grow our business in the future.

The remaining 14 per cent of our capital investment in 2016 was largely driven by the acquisition of the remaining interest in our Barking power company in the United Kingdom and the acquisition of 50 per cent of Sabinco Soluciones Modulares S.A., a modular structures provider in Chile. The newly formed ATCO-Sabinco S.A. pairs our significant operational expertise with our partner’s intimate knowledge of the local environment, and provides us with an important strategic foothold in the promising South American market.

DIVIDEND GROWTH

The reliable strength of our earnings underpins our continued ability to grow our dividend. With the declaration of a sixth consecutive 15 per cent increase in common share dividends over the preceding year by our Board of Directors in January 2017, we have consistently increased our common share dividend every year since 1993.



* On January 12, 2017, ATCO declared a first quarter dividend of $0.3275 per share, or $1.31 per share annualized. This is a 15 per cent increase over the quarterly dividends declared in 2016.

** Compound Annual Growth Rate

This noteworthy 24-year track record is one of which I am particularly proud, and it underscores your Company's continued commitment and ability to generate value on your behalf.

CAPITAL INVESTMENT PLANS

Drawing upon the tremendous momentum we have established over the past year, we intend to continue to grow our business by investing in strategically suitable projects throughout our global portfolio. Between 2017 and 2019, we plan to invest $5 billion in regulated utility and commercially secured capital growth projects. We expect that this capital investment will continue to create long-term value and contribute significant earnings and cash flows.

CONTINUED FINANCIAL STRENGTH

Our enduring financial strength and flexibility are true advantages for your Company, particularly in today's volatile geopolitical and macroeconomic environment. Over the past year, we continued to make prudent decisions to bolster the strength of our balance sheet and preserve the financial flexibility necessary to fund existing and future capital investments.

In 2016, Standard & Poor's Rating Services affirmed its "A" with a negative outlook corporate credit rating for ATCO Ltd. and its subsidiaries Canadian Utilities Limited and CU Inc. In August 2016, DBRS Limited affirmed its rating for the Company as "A" (low) with a stable trend. Maintaining our "A" credit ratings is fundamental to our current and future success and ensures we have access to capital markets at attractive rates.

In November 2016, ATCO's subsidiary, CU Inc., issued $375 million of 3.763 per cent 30-year debentures. Proceeds from these issuances were used to fund our capital investments in 2016. In June 2016, we reset the dividend rate from 3.80 per cent to 2.24 per cent on CU Inc.'s Series 4 Preferred Shares.

REGULATORY DEVELOPMENTS

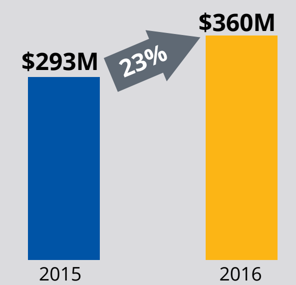
I am pleased to report that the financial impacts of the significant regulatory lag we experienced in 2015 in Alberta and Australia is now firmly in our rearview mirror, and we are well on our way to getting back to prospective regulatory rate-making. Indeed, we received a number of regulatory decisions in 2016 that provide much better clarity on the business environment going forward for all of our utilities.

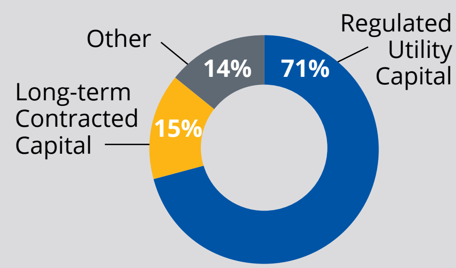
Going forward, we will be relentless in the pursuit of improved productivity and efficiency in every part of our organization; we will continue to invest in strategic assets that create stable earnings and cash flows; and we will maintain a strong balance sheet, all with a steady focus on continued value creation for you, our Share Owners.

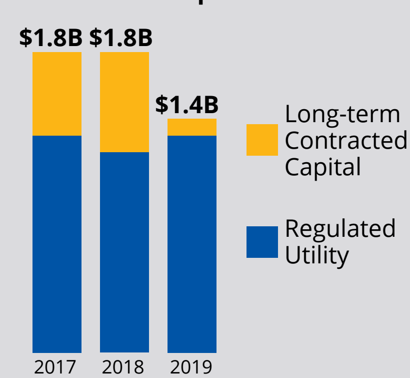
[Original signed by B.R. Bale]

Brian R. Bale
Senior Vice President &
Chief Financial Officer

> "The quality of our earnings has improved substantially, leading to greater predictability of earnings and cash flows."







2016 PERFORMANCE

3 INNOVATION

Our off-grid solar project at the Saddle Hills Telecommunications Site in northwestern Alberta is the largest in Western Canada, and is uniquely designed to provide reliable electricity in a remote northern environment.

We believe that well-focused research and development creates a lasting competitive advantage. In 2016 we completed a number of imaginative projects designed to grow our expertise, while simultaneously developing unique solutions that can meet the needs of our customers around the world.

RENEWABLES

The global energy sector is in the midst of a once-in-a-lifetime transformation as the rise of renewable technologies transforms how we generate, transmit, distribute and consume energy. ATCO will play a key role in enabling that transition. Across our operations, we are exploring ways to economically reduce our carbon footprint and pioneering innovative renewable energy solutions for our customers, including hydro, solar, biomass and others.

Saddle Hills Off-Grid Solar Solution

In October, we energized Western Canada's largest off-grid solar project at the Saddle Hills Telecommunications Site northwest of Grande Prairie. Developed in partnership with the Alternative Energy Program at the Northern Alberta Institute of Technology, the system is capable of generating 75 kilowatts and storing 250 kilowatt hours of energy, to supply 100 per cent of the power needed to run the remote site.

The Saddle Hills Site is an integral part of our telecommunication network, and requires its own energy source in order to function. The facility was previously powered by propane thermal electric generators, but as they neared the end of their life cycles and the demand for electricity increased beyond capacity, we chose to pursue a cleaner, more cost-effective solution.

The development of an efficient and entirely off-grid solar solution in such a remote, northern location – with a cooler climate and fewer hours of daylight – provided our teams with valuable insights into the application of solar technology that are directly transferrable to our customers in other sectors.

GasSola

In Australia, we began a new research and development project that combines the reliability of our natural gas network with renewable energy technologies including battery storage and rooftop solar panels. The initial stage of the GasSola project has seen nine homes with rooftop solar panels in the City of Busselton, in Western Australia's southwest region, equipped with a natural gas-fired generator, battery technology and a communications system.

The project will track energy use and examine the role of the natural gas generator at each home in providing electricity when solar panel or battery supply is insufficient and local electricity demand is peaking or unavailable. It will also test the communication systems between ATCO and the electricity network provider to automate the process of starting the natural gas generator when the electricity network is experiencing capacity issues.

The trial seeks to demonstrate how natural gas-fuelled, scalable hybrid technology in both residential and commercial market segments can assist in providing firm generation to support renewables, ultimately increasing energy security and potentially reducing the need for costly electricity network upgrades in constrained parts of the power network.

ENERGY EFFICIENCY

Energy efficiency is increasingly recognized as one of the most affordable and effective means to reduce environmental impacts while supporting economic growth. For our customers, this means lower energy costs, improved reliability and lower greenhouse gas emissions.

Across our portfolio, we are exploring a variety of novel technologies designed to improve our own operational energy efficiency while delivering environmental and financial benefits to the customers who depend on us.

Temporary Heat & Power Generation

Natural gas is safe, reliable and abundant, and increasing its use as an alternative fuel in heat and power applications can reduce emissions and improve energy efficiency.
In 2016, we worked with PCL Construction and Ivanhoe Cambridge to utilize natural gas for construction heat and power generation at the new 500,000 sq. ft. outlet mall near Edmonton's International Airport.
We installed natural gas lines prior to the building being erected to fuel natural gas space heaters and a natural gas generator for use during construction.

This solution offers our customers a number of benefits including significantly reduced fuel costs, lower labour costs and lower greenhouse gas emissions.

SADDLE HILLS OFF-GRID SOLAR SOLUTION

288
solar panels

5 DAYS
total reserve energy to keep the site fully powered

2 Hours
to charge the battery bank from 20% to 100%

MyHEAT Partnership
In September, ATCOenergy announced its support for MyHeat Inc., an innovative Alberta-based company that uses thermal infrared images to map building heat loss. The MyHEAT platform gives users the ability to visualize and compare the heat escaping from every building in a town or city, and is available free of charge online. The interactive tool provides users with the information they need to understand their energy loss, increase efficiency, reduce consumption and save money. MyHEAT is currently available for the residents of Airdrie, Calgary, Edmonton, Grande Prairie, Red Deer, Lethbridge, Okotoks, St. Albert and Sherwood Park. In the coming months, the company aims to include additional Alberta communities, with a planned roll out across major urban Canadian cities over the next year.

We are helping our customers reduce emissions and operating costs with Micro Combined Heat & Power technology, using onsite natural gas to efficiently generate heat and electricity. In 2016, we established a pilot program involving several Alberta homes and a natural gas regulating station to determine the viability of this new potential service offering.

SUSTAINABLE SOLUTIONS

Our customers increasingly expect our products and services to go beyond efficiency in order to create meaningful improvements in environmental performance. Across our portfolio, we continue to develop innovative, customer-focused solutions that pair our globally competitive costs with superior operational and environmental performance.

Integrated Multi-User Water System
Over the last seven years, we have invested more than $70 million into projects that expand our industrial water system in Alberta's Industrial Heartland and allow our customers to connect to a single integrated system. This integrated system offers a number of environmental efficiencies including reducing the need for multiple intakes by industrial operators along the river, while also increasing the opportunity for wastewater treatment and recycling.

Through our integrated multi-user water system, we offer customers:

- Water supply and return infrastructure (intakes, wells, outfalls)
- Pump stations
- Water transportation (pipeline and truck)
- Storage (tanks and ponds)
- Water and wastewater treatment
- Wastewater recycling and disposal
- Temporary water supply for hydro-testing

In 2016, we launched an innovative water treatment service in the region to provide our customers in Alberta's Industrial Heartland with the water they need and allow them to focus on their core business. Now, customers can receive treated water directly to their facility and eliminate the need to manage water treatment onsite.

Over the last seven years, we have invested more than $70 million into projects that expand our industrial water system in Alberta's Industrial Heartland.

Across Alberta, we own and maintain more than 185 substations that supply electricity to homes and businesses across the province. Our Next Generation Substation design reimagines the traditional substation by reducing its size, making it quicker to build and lowering the cost of construction.

2016 PERFORMANCE

4 OPERATIONAL EXCELLENCE

We strive to provide a healthy and safe work environment, and continually improve our safety programs to protect our employees, contractors and the communities we are privileged to serve.

92%

combined generating plant availability with minimal unplanned outages in 2016

The pursuit of operational excellence has long been at the heart of our organization. We strive to deliver reliable and exceptional products and services to our customers around the world, while ensuring the safety of our people and the communities we serve is at the forefront of all that we do.

To support our commitment to operational excellence, we have restructured our business and launched a transformation initiative designed to increase efficiencies, improve processes and support the company in achieving our strategic priorities. This work has resulted in lower operational costs in 2016 and increased collaboration between business units, ultimately leading to more holistic solutions for our customers.

RESPONDING FOR OUR CUSTOMERS

Northern Alberta Ice Storms

In May, while ATCO employees were actively responding to the Fort McMurray wildfire, our crews were also battling blazes along the British Columbia / Alberta border. Wildfires throughout the Peace Country region of northwestern Alberta were challenging emergency crews when a sudden cold snap dropped 20 inches of snow onto the area.

> “Excellence is the heart and mind of ATCO. Excellence means going far beyond the call of duty. Doing more than others expect. This is what excellence is all about. It comes from striving, maintaining the highest standards, looking after the smallest detail and going the extra mile. Excellence means caring. It means making a special effort to do more.”
>
> *R.D. Southern, Founder, ATCO*

With heavy snowfall and broken trees damaging many kilometres of power line, 11,000 customers in 17 of our northern Alberta service areas were suddenly without power. Incident Command Centres were opened in Grande Prairie, Peace River and Slave Lake and our local crews worked around the clock for three days to remove downed trees, repair lines and equipment and restore power to our customers.

Osborne Outage

The continued reliable operation of the Osborne Cogeneration facility in Adelaide, Australia saw the plant undergo the most significant overhaul of its gas and steam turbines and generators since being commissioned in 1998. With up to 117 specialist service providers onsite, close coordination and adherence to work management systems was essential to a successful outcome. Our Osborne employees managed all activities during what were at times extreme weather conditions.

The predominantly outdoor facility experienced some of the wettest and windiest conditions on record, which when combined with a ‘system black’ event in South Australia that disabled the entire state’s electricity grid, the operational expertise of our team was critical. The team persevered, and after a total of 50,000 hours, completed the seven-week overhaul allowing Osborne to re-synchronize to the national electricity grid and once again supply its critical base-load power to South Australian consumers.

SAFETY

Employee Health & Safety

Safety is the first consideration in everything we do. We are dedicated to providing a safe work environment for our employees and contractors, promoting public safety and minimizing environmental impacts in every project we undertake. We strive to continually improve our safety programs by providing training, procedures and equipment that support a “zero injury” culture.

Thanks largely due to a focus on continuous improvement, visible commitment and active participation by our management and employees, and increased sharing of lessons learned, we have been able to substantially reduce reportable injury rates since 2008.

Public Safety

We are also committed to the safety of our customers and the communities we serve. Through annual targeted safety campaigns we work to raise awareness of the importance of safe digging, the dangers of making contact with power lines, the threat of carbon monoxide in our homes, the supplies to have on-hand in case of an emergency and the steps to take to prevent fires.

SAFETY BY THE NUMBERS

In 2016, we celebrated several significant safety milestones across our company:

Fort McMurray Wildfire Emergency Response

650 employees without a lost-time incident

Camp Services

5,000,000 hours of work without a lost-time incident

Site C Workforce Housing Project

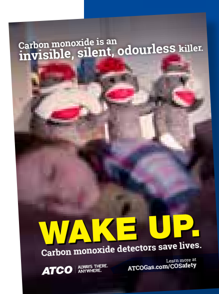
1,400,000 hours of work without a lost-time incident

Gas Transmission

14 YEARS without a lost-time incident

Electricity Generation

1,000,000+ hours of work without a lost-time incident



Carbon Monoxide Awareness

1,150 free CO detectors given to Albertans

The wildfire that engulfed Fort McMurray was the largest and costliest natural disaster Canada has ever faced – an unprecedented tragedy that forced nearly 90,000 people from their homes and burned nearly 6,000 km^2 in the heart of one of Canada's most economically vital regions.

We have a significant presence in Fort McMurray, including operating and maintaining natural gas and electricity transmission and distribution infrastructure, electricity generation, along with two workforce housing camps north of the community and a significant fleet of modular units. The community is also home to tens of thousands of our customers and more than one hundred of our employees.

That's why, as the residents began evacuating the city on May 3, our employees were already in motion. Having monitored and assessed the growing threat of the fire in in the days leading up to the evacuation, a coordinated and integrated ATCO response was already well underway by the time the first cars hit the highway. Within hours, the doors to our Creeburn Lake Lodge opened to house evacuees and hundreds of our highly skilled employees marched resolutely into the heart of the crisis to provide crucial infrastructure support.

ATCO RESPONDS

FORT MCMURRAY WILDFIRE

PROVIDING A HOME AWAY FROM HOME

For hundreds of residents fleeing the endangered community, burning highways to the south left them with nowhere else to go. Fortunately, a handful of dedicated ATCO employees were already hard at work preparing our facilities to house those seeking shelter.

At 5:45 p.m. on May 3, minutes after the mandatory evacuation order was issued, ATCO tweeted that the doors of Creeburn Lake Lodge near Fort McKay were open to evacuees. Within minutes, the tweet had been shared hundreds of times by fleeing residents desperate to find a safe place to rest. Evacuees began to arrive within the hour and by the end of the evening, all 500 rooms were filled by women, men, children, dogs, cats and even a pig — all were welcome. For weeks after this initial influx of evacuees, Creeburn Lake Lodge, and later Barge Landing Lodge, hosted hundreds of evacuated residents and first responders.

Meanwhile, in Calgary, efforts were underway to mobilize a camp to house our employees and other emergency personnel already on the ground in the region. This camp would be the first deployment of many for the Structures & Logistics team in the weeks to follow, as they mobilized assets from across Western Canada to provide tired responders with much-needed meals and well-deserved rest.

OUR RESPONSE BY THE NUMBERS

From the start, our employees were part of the recovery efforts during the **devastating wildfire** in Fort McMurray. So, what did our response look like?

90,000 people displaced

29 days of mandatory evacuation
nearly **6,000** km² burned

650+ ATCO employees on the ground

1,200 beds rapidly deployed to the region

56,000+ meals served in **8** days

2,650 kms of mains leak surveyed

22,606 natural gas customers impacted

41,202 electricity customers impacted

50 kms of power line repaired

560 poles repaired

10,000+ online service requests

60,000+ website visits to our utility restoration map and **9,300+** calls to our customer assistance centres

0 lost-time incidents

KEEPING THE LIGHTS ON AND THE GAS SYSTEM SAFE

Early on in the crisis, it became apparent that extraordinary efforts would be necessary to provide emergency responders with the natural gas and electricity they would need to respond to, and later recover from, the fires.

The decision was made quickly to shut off the natural gas distribution system feeding the city to prevent fuelling the fire any further. Shortly thereafter, the high-pressure transmission pipelines that fed the gas distribution system were shut down as well. To ensure gas was available when and where it was needed, compressed natural gas assets were quickly deployed to the evacuated city. These assets would prove essential during the early stages of the crisis. We worked closely with the Regional Emergency Operations Centre to identify crucial customers that required gas to support the restoration efforts in the rest of the community. This incredible effort marked the largest emergency deployment of portable natural gas infrastructure in our history.

While keeping the gas system safe was important, ensuring the lights stayed on was equally critical. Our electric crews were on the ground from day one, working hand-in-hand with emergency personnel to maintain and restore essential electricity service to aid in the response including water pumping stations, telecommunications facilities, the fire hall, the emergency dispatch centre and the Regional Emergency Operations Centre. During the ordeal, we met daily with the Alberta Electric System Operator as well as oil sands customers to review the ever-changing state of the transmission system and adjust operations to ensure grid stability. Just west of the city, fire tore across the Athabasca River, damaging two major electrical transmission lines spanning 1,400 metres across the river. To get to the remote site to repair these lines, crews had to traverse creeks and coulees for about eight kilometres, including building several temporary bridges across the Horse River for trucks and equipment.

WELCOME HOME

When the decision was made to finally allow residents to return on June 1, ATCO was there to greet them. The mission was simple — support the natural gas relighting efforts by ensuring that customers were entered into the dispatch system, and answer any questions customers had about their electricity and natural gas service. This was no simple task, as a steady tide of residents — more than

On May 7, 10 of our state-of-the-art modular units were loaded onto flatbed trucks and sent overnight to Fort McMurray, providing a much-needed home away from home for first responders and our employees.

42,000 in all — would pass through the seven Community Information Centres set up to greet residents and provide them with essential information.

In addition to the 20 ATCO employees who had eagerly volunteered to staff the Community Information Centres, 35 ATCO summer students and one ATCO Blue Flame Kitchen chef were also on the ground in Fort McMurray to lend a hand. The students and our chef helped staff two ATCO meal camps, which had been set up to serve hot meals to returning residents and first responders. The hardworking students certainly made their presence felt, dishing out 56,000 hot meals over just eight days. Following the evacuation period, ATCOenergy also worked closely with local distribution companies, handling hundreds of customer bills to ensure our valued customers were treated fairly during this challenging time.

THE STRENGTH OF "ONE ATCO"

From responding to the needs of more than 40,000 electricity customers and 22,000 natural gas customers, to supporting emergency responders on the ground and assessing and repairing our own infrastructure, our response to the wildfire was dynamic and complex. At the height of our response, we had more than 650 employees in the community — countless more were in our offices, dedicated full-time to supporting the response effort.

Those efforts have been recognized broadly by our industry peers and partners in government. In late January 2017, ATCO was honoured with the Alberta Emergency Management Agency's Emergency Management Achievement Award, which celebrates exemplary achievement in emergency management and recognizes groups that have made contributions toward building a better prepared and more disaster resilient province. Earlier in the month, we were recognized by the Edison Electric Institute, the trade association serving the electric power industry internationally, with an Emergency Recovery Award.

Truly, our response brought our company together in an unparalleled fashion, illustrating the formidable capabilities, unrelenting determination and impassioned commitment to our customers we have established over the last seven decades — it truly was a "One ATCO" effort.

1 *One of our employees surveys the damage to a natural gas regulating station.*

2 *Our crews were on the ground from day one, working in lockstep with first responders and our government partners.*

3 *Our line maintenance teams were mobilized early in the crisis, assessing the damage and making necessary repairs.*

4 *We were honoured to be recognized by the Alberta Emergency Management Agency for our response in Fort McMurray — an award made possible entirely by the dedication and courage of our employees.*

2016 PERFORMANCE

5 COMMUNITY & INDIGENOUS PARTNERSHIPS

Ski Fit North Alberta, led by two-time Olympic medallist Beckie Scott, empowers and educates Alberta's First Nations and Métis youth through the power of sport.

4,000

students from 29 communities participated in the 2015/16 Ski Fit North Alberta Program

As a longstanding member of hundreds of communities around the world, we place a great deal of importance on developing meaningful partnerships based on respect, trust and a genuine openness to the needs of our community and Indigenous partners.

This approach to building lasting relationships has long been the hallmark of how we conduct our business. Over the course of 2016, we continued to establish important relationships while helping create healthy and vibrant communities.

SKI FIT NORTH ALBERTA

Led by two-time Olympic medallist and Program Director, Beckie Scott, Ski Fit North Alberta travels to Indigenous communities throughout Alberta engaging, empowering and educating Alberta's First Nations and Métis children through the power of sport. In partnership with Cross Country Canada and Cross Country Alberta, Ski Fit North provides a unique opportunity for Alberta's Indigenous youth to experience the positive impact of outdoor activity, learn more about the importance of proper nutrition, and interact with former Olympic athletes.

We have had the privilege to serve as the title sponsor for the program for the last two years. Involvement in the program provides us with an invaluable opportunity to connect with Indigenous youth in many of the communities we serve. Beyond experiencing cross-country skiing, our ATCO Blue Flame Kitchen enriches the experience with recipe cards and tips on how to prepare healthy snacks at home.

PIIKANI NATION MULTI-PURPOSE CENTRE

We strive to build and maintain sincere, mutually beneficial relationships with Indigenous communities based on respect, trust, understanding and transparency. Our partnership with the Piikani Nation in southern Alberta, which dates back nearly 20 years, is one such example.

In 2007, we partnered with the Piikani Nation on a joint venture to generate hydroelectric power on the Oldman River on the Piikani Nation Reserve. In 2016, we built upon that longstanding relationship with the completion of the Piikani Nation Multi-Purpose Centre.

Hockey has long been a favourite past-time for the Piikani Nation, but their previous facility, built in 1977, was no longer functional and a replacement was sorely needed. The new 39,000 sq. ft. Sprung Performance Structure, featuring an NHL-quality rink and bleacher seating to accommodate 300 people, was engineered to withstand extreme winds and heavy snowfall in the area. The facility was pre-fabricated and assembled onsite and designed using colours chosen by the Piikani Nation to represent their culture and environment of the Foothills.

EDUCATION PROGRAMS

We are committed to breaking down employment barriers and creating a lasting legacy through programs that encourage mentorship, education and employment in Indigenous communities.

Indigenous Education Awards

Our Indigenous Education Awards Program supports Indigenous students from First Nations and Métis communities in close proximity to our facilities in Alberta. These awards, bursaries and scholarships are awarded to students who demonstrate leadership capabilities and strive to be role models in their schools and communities.

In 2016, 29 students from 11 First Nations and Métis communities were chosen to receive an award. The students were enrolled in a range of programs, including engineering, biological sciences, arts, commerce and justice studies. Since the program was launched in 2011, 161 students have received financial support from ATCO to assist in their education.

We also awarded 29 other scholarships and bursaries to Indigenous students studying at NAIT, Keyano College, the University of Alberta, Aurora College and community colleges and trade schools across Canada.

In 2016, we completed construction on a 39,000 sq. ft. Multi-Purpose Centre for the Piikani Nation.

The innovative approach to natural gas safety delivered through ATCO Blue Flame Kitchen's Schools Program at our Operations Centre in Jandakot, Western Australia, has been acknowledged with the highly regarded Kidsafe Award at the 2016 Western Australian Department of Commerce Consumer Protection Awards.

ATCO

EPIC

EMPLOYEES PARTICIPATING *in* COMMUNITIES

The charitable organizations and causes that matter the most to our employees also matter to us. Our employee-driven fundraising campaign, ATCO EPIC (Employees Participating in Communities), plays a central role in our community investment efforts by empowering our people to get involved.

Launched more than a decade ago, the program leverages the combined efforts of our employees to create an outsized positive impact in the communities where we live and work. Our employees are encouraged to donate to the charities of their choice, and we match all donations to human health and wellness organizations — effectively doubling the support those organizations receive.

In 2016, in the face of a sustained economic downturn and continued pressure on charitable organizations, our employees stepped up and raised an astounding $3.3 million, benefiting more than 500 charities. In 2016, our employees also gave generously of their personal time through our ATCO EPIC Time to Give volunteer program. Employees volunteered more than 12,000 hours in our communities.

This tremendous show of support for the hundreds of organizations working tirelessly to help our communities thrive, is a point of pride for our people, and a reminder of the pervasive nature of our commitment to our core values.

“When I started with the ATCO EPIC team, I saw a passion to give back to the communities where we live and work. Our employees truly want to give back and truly care about the communities in which we live and work. To work for ATCO, a company that not only supports that initiative, but matches their employees’ contributions, is something to be proud of.”

Dennis Gilson
Human Resources Business Partner
Structures & Logistics

During the celebration events held in February 2017, $3.3 million was raised by the company and our people for charitable causes through the 2016 campaign.

OUR APPROACH TO SUSTAINABILITY

Our long-term success depends not only on our ability to deliver value-oriented solutions for our customers, but to do so in a sustainable manner. As a global provider of essential energy and infrastructure solutions, we have a unique opportunity to solve challenges for our customers in a way that benefits the communities in which we operate, the environment and the economy.

We also have a responsibility to pursue improved operational performance and stewardship within our own operations — whether through our relationship with the environment, protecting the health and safety of our employees and the public, or by providing secure and reliable energy for our customers around the world.

Through a collaborative assessment process, the four key topics below have been identified as central to our sustainability efforts. For detailed information on how we are performing in each of these areas, please see our 2016 Sustainability Report, to be released later this year.

1 ENVIRONMENTAL STEWARDSHIP

Beyond working to minimize environmental impacts associated with our operations, we are continuously looking for opportunities to improve environmental performance on behalf of the customers and communities we are privileged to serve.

Climate Change & Energy Use

- A smooth transition to a cleaner energy future must balance reliability and affordability. We are actively involved in innovation and the development of clean, efficient, and effective energy solutions, including solar, natural gas and hydro. We incorporate energy efficiency considerations into our business activities, identify areas to improve both environmental and economic performance, and work with our customers to reduce energy demand and improve energy efficiency.

> **“As a global provider of essential energy and infrastructure solutions, we have a unique opportunity to solve challenges for our customers in a way that benefits the communities in which we operate, the environment and the economy.”**

Environmental Compliance

- Our businesses develop and maintain proactive environmental management systems, which provide the framework for environmental protection, and we regularly measure our performance and incorporate learnings into our project planning and operations.

2 ENERGY STEWARDSHIP

Access to secure, reliable and affordable energy underpins the vitality of our communities and enables economic sustainability. From meaningfully engaging with and seeking feedback from our customers, to developing and delivering affordable energy solutions and reliable, integrated energy infrastructure, we take our responsibility for energy stewardship very seriously.

Access & Affordability

- Affordable energy is fundamental to everything we do. Without it, our customers cannot sustainably power their homes, or energize the facilities that drive economic growth. We take care to provide cost-effective products and solutions to our customers, and advocate for energy efficiency as a means to reduce costs.

Customer Satisfaction

- The satisfaction of our customers has driven our business for 70 years. Through listening and engagement, we have a unique opportunity to develop innovative processes and technologies to solve challenges for our customers, as well as the wider community including first responders, regulators and others. We ensure our customers are able to share feedback on our performance, and work to incorporate those learnings into how we operate.

Security & Reliability

- To ensure a reliable and secure supply over the long-term, we must not only maintain existing infrastructure, but invest in new and replacement facilities. We continually evaluate the need for investment in order to meet evolving demand for energy in the communities where we operate.

3 SAFETY

Safety is the first consideration in everything we do, and ensuring the continued well-being of our employees, contractors, customers and the public is paramount. We actively engage in numerous public safety campaigns designed to raise awareness among customers and the public of the importance of energy safety.

Employee Health & Safety

- We strive to continually improve safety programs with the objective of providing the awareness, training, procedures, equipment and follow-up to ensure active participation by management and employees. A positive safety culture supports innovation and drives positive change, enabling employees and contractors to continuously adapt how they think and act, on and off the job.

Public Safety & Emergency Preparedness

- Our focus on safety includes the customers who use our products and services, as well as the public who live and work near our operations. We maintain comprehensive emergency response plans for each of our lines of business, and actively engage our customers on safety topics related to the products and services we provide.

4 COMMUNITY & INDIGENOUS RELATIONS

Community and Indigenous relations demand a long-term approach that is based on respect, trust and genuine openness to the needs and interests of our customers and the communities where we work and live. As a longstanding member of hundreds of communities around the world, often providing essential services, we seek to go beyond simple engagement and work to find opportunities for partnership and economic and social development.

Innovation goes beyond technology. We continue to pioneer new ways of engaging and collaborating with communities and our valued Indigenous partners. Developing mutually beneficial, long-term relationships is essential to our success.

ATCO LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2016

This Management's Discussion and Analysis (MD&A) is meant to help readers understand key operational and financial events that influenced the results of ATCO Ltd. (ATCO, our, we, or the Company) during the past year.

This MD&A was prepared as of March 2, 2017, and should be read with the Company's audited consolidated financial statements for the year ended December 31, 2016 (2016 Annual Financial Statements). Additional information, including the Company's Annual Information Form (AIF), is available on SEDAR at www.sedar.com.

The Company is controlled by Sentgraf Enterprises Ltd. and its controlling share owner, the Southern family. The Company includes controlling positions in Canadian Utilities Limited (52.8 per cent ownership) and in ATCO Structures & Logistics Ltd. (75.5 per cent ownership). Throughout this MD&A, the Company's earnings attributable to Class I and Class II Shares and adjusted earnings are presented after non-controlling interests.

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

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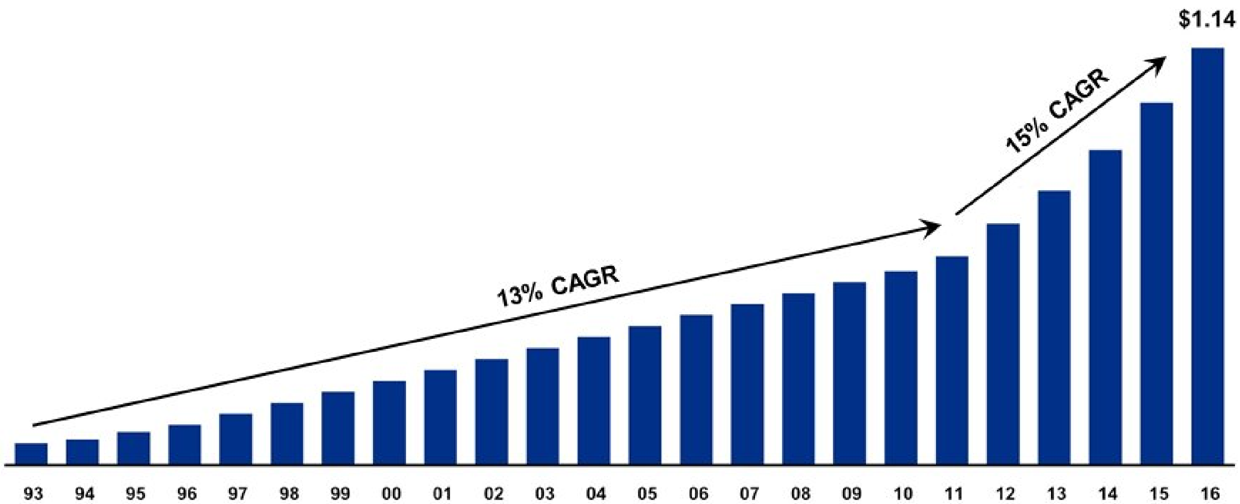
ATCO

TRACK RECORD OF DIVIDEND GROWTH

We have increased our common share dividend every year for the past 24 years, a track record we are very proud of. On January 12, 2017 we declared a first quarter dividend of 32.75 cents per share or $1.31 per share on an annualized basis, a 15 per cent increase over the 2016 annualized dividend.



GROWING A HIGH QUALITY EARNINGS BASE

Over the past five years, we have invested nearly $10 billion in Regulated Utility and long-term contracted operations. The Regulated Utility portion of our total adjusted earnings has grown from 39 per cent in 2011 to 81 per cent in 2016. Our highly contracted and regulated earnings base provides the foundation for continued dividend growth.

FUTURE CAPITAL INVESTMENT

We will continue to grow our business in the years ahead. In the period 2017 to 2019, we expect to invest $5 billion in Regulated Utility and long-term contracted assets, which will continue to strengthen ATCO's high quality earnings base. Of the $5 billion planned spend, $3.8 billion is on Regulated Utilities, and $1.2 billion is on long-term contracted assets.

FINANCIAL STRENGTH

Financial strength is fundamental to ATCO's current and future success. It ensures we have the financial capacity to fund our existing and future capital investment. We are committed to maintaining our strong, investment grade credit ratings, which allow us to access capital at attractive rates.

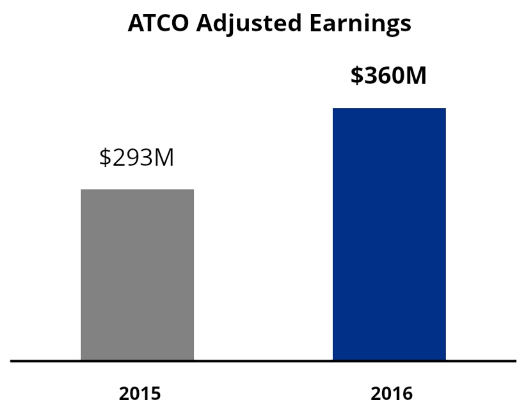
15%	81%	$5B	A
dividend CAGR 2012 - 2017	regulated earnings	3 year capital investment	credit rating

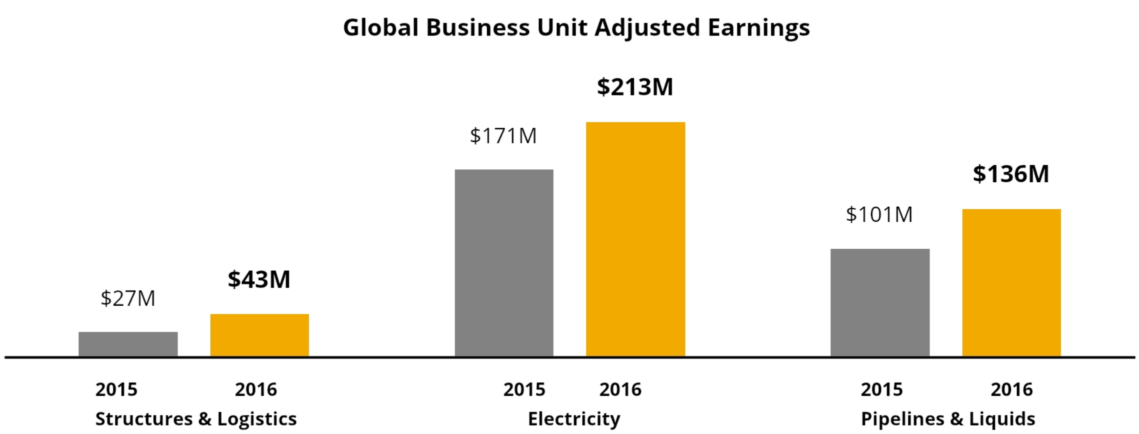
COMPANY OVERVIEW AND OPERATING ENVIRONMENT

ATCO Ltd. is a diversified global enterprise with assets of $20 billion and approximately 7,000 employees engaged in Structures & Logistics, Electricity, Pipelines & Liquids, and Retail Energy. We carefully monitor market opportunities and challenges in each of our Global Business Units to best position the Company for long-term success, while continuing to deliver value to share owners.

The long-term success of ATCO is dependent upon our ability to grow the business by expanding into new markets and into new business lines. To achieve this, we are expanding our sales and customer focus in all our activities. At the same time, we continue to pursue cost-savings and efficiencies in every part of our organization to ensure we deliver the most competitive solutions to our customers.

2016 presented several macroeconomic challenges for the Company: geopolitical uncertainty, low global economic growth and weak commodity prices impacted the business environment in all the global markets we operate in, but particularly in Alberta where the majority of our asset base is located. However, with continued investment in regulated and long-term contracted assets, a renewed sales and customer focus in all our activities, and the pursuit of cost-savings in every part of our organization, ATCO achieved strong earnings of $360 million in 2016.





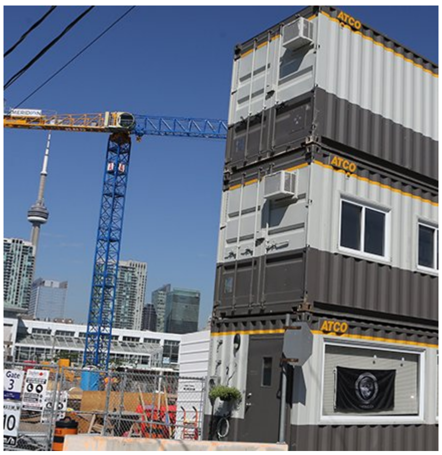
While 2017 poses some of the same geopolitical and macroeconomic challenges, there is less uncertainty in a few areas. Regulatory decisions received in 2016 mean we have much better clarity on the business environment for all of our utilities; this is discussed in more detail in the Regulatory Developments section of this MD&A. Announcements from the Government of Alberta on Electricity Market Reform and further clarity on the Climate Leadership Plan address some of the questions about the power market; these are discussed in more detail in the Electricity section, and the Sustainability, Climate Change and Environment section of this MD&A.

STRUCTURES & LOGISTICS

The Structures & Logistics Global Business Unit is made up of four diversified, complementary businesses to meet the needs of our customers and communities around the world: Modular Structures, Logistics and Facility Operations & Maintenance Services, Lodging & Support Services and Sustainable Communities. Together these businesses offer workforce housing, innovative modular facilities, construction, site support services, and logistics and operations management.

BUSINESS STRATEGY

Structures & Logistics' business strategy is to grow a stable base of earnings through its customer service-related segments, while continuing to pursue business-wide cost reduction initiatives to increase its competitive position on project-related activity.



MARKET OPPORTUNITIES

The anticipated future expansion of the LNG market, particularly in the U.S. and Canada, is expected to result in increased development of gas reserves requiring innovative modular facilities, remote workforce housing and site support services. Non-traditional modular markets such as public education facilities, high density urban residential housing and correctional facilities offer additional development opportunities.

MARKET CHALLENGES

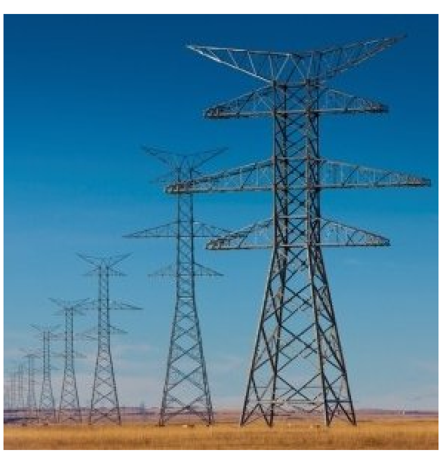
The global economic slow-down in natural resource-based economies has continued to result in decreased private sector capital investment programs, and increased competition for major modular structures projects.

ELECTRICITY

The Electricity Global Business Unit's activities are conducted through two regulated businesses; ATCO Electric Distribution and ATCO Electric Transmission, and three non-regulated businesses; ATCO Power, ATCO Power Australia and Alberta PowerLine (APL). Together these companies provide electricity distribution, transmission, and generation, and related infrastructure services.

BUSINESS STRATEGY

Electricity's strategy is to grow its businesses through continued investment and leverage of expertise in regulated electricity distribution and transmission, capitalize on the opportunity to provide renewable and firm supply electricity generation for Albertans, and expand its businesses geographically to meet the evolving needs of our global customer base through the development of innovative infrastructure solutions.



MARKET OPPORTUNITIES

The Government of Alberta's plan to eliminate emissions from coal-fired power generation by 2030 has created a need for renewable power generation and firm capacity, such as gas-fired and hydroelectric power generation, as well as energy storage, to backstop the renewable power supply. Additional electricity distribution and transmission investment opportunities may result from this changing power market in addition to ongoing investment opportunities for customer growth and system replacements.

MARKET CHALLENGES

Near term, power market challenges related to the Alberta energy-only market put downward pressure on market pricing until surplus supply and additional clarity on market design are resolved.

PIPELINES & LIQUIDS

The Pipelines & Liquids Global Business Unit activities are conducted through three regulated businesses; ATCO Gas, ATCO Pipelines, and ATCO Gas Australia, and one non-regulated business; ATCO Energy Solutions. These companies offer complementary products and services that enable them to deliver comprehensive natural gas distribution and transmission services, energy storage, and industrial water solutions to existing and new customers.

BUSINESS STRATEGY

Pipelines & Liquids' strategy is to grow its businesses through continued investment and leverage of expertise in regulated natural gas distribution and transmission, and utilize its advantaged position in the Industrial Heartland of Alberta to become a premier hydrocarbon liquids storage and industrial water infrastructure provider in Alberta. Pipelines & Liquids will continue expanding geographically to meet the evolving needs of our global customer base.

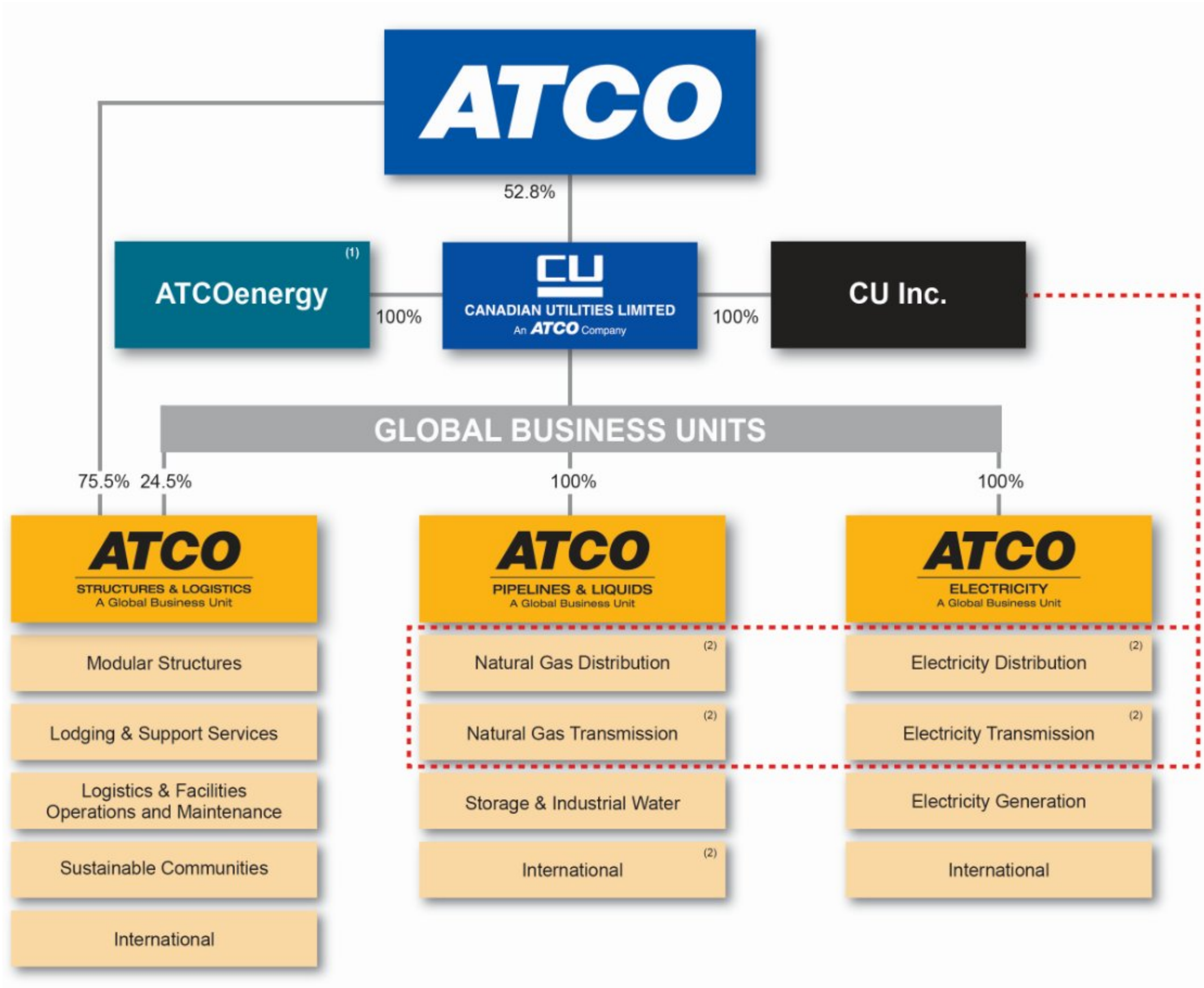
MARKET OPPORTUNITIES

The development of pipelines in Alberta is expected to increase the need for energy storage to manage supply and demand, and the industry trend toward sustainability is expected to increase demand for industrial water solutions. The regulated businesses expect to see continued growth based on projected customer growth and system replacements.

MARKET CHALLENGES

Potential changes in macroeconomic conditions could slow the growth trajectory of these businesses.

SIMPLIFIED ORGANIZATIONAL STRUCTURE



(1) *ATCOenergy was launched in January 2016 to provide retail, commercial and industrial electricity and natural gas service in Alberta.*

(2) *Regulated operations include ATCO Gas, ATCO Pipelines, ATCO Gas Australia, ATCO Electric Distribution, and ATCO Electric Transmission.*

The consolidated financial statements include the accounts of ATCO Ltd., including a proportionate share of joint venture investments. Principal subsidiaries are Canadian Utilities Limited (Canadian Utilities), of which ATCO Ltd. owns 52.8 per cent (38.9 per cent of the Class A non-voting shares and 89.3 per cent of the Class B common shares), and ATCO Structures & Logistics Ltd., of which ATCO Ltd. owns 75.5 per cent of the Common Shares.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the reporting currency is the Canadian dollar. Certain comparative figures throughout this MD&A have been reclassified to conform to the current presentation.

ATCO's website, www.atco.com, is a valuable source for the latest news of the Company's activities. Prior years' reports are also available on this website.

ATCO CORE VALUES AND VISION

EXCELLENCE: THE HEART & MIND OF ATCO

"Going far beyond the call of duty. Doing more than others expect. This is what excellence is all about. It comes from striving, maintaining the highest standards, looking after the smallest detail and going the extra mile. Excellence means caring. It means making a special effort to do more."

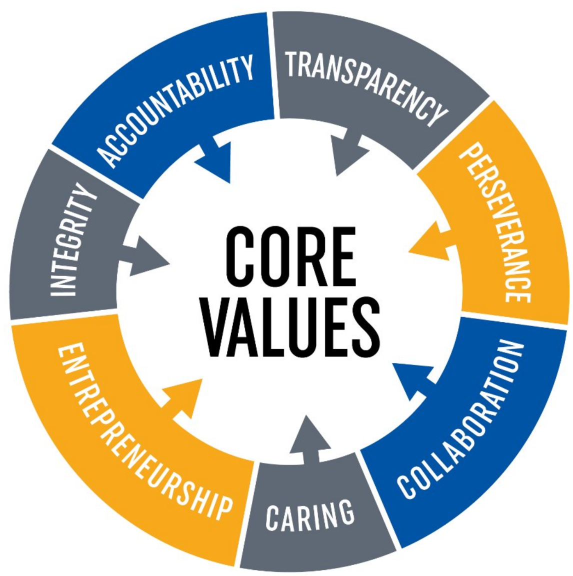
R.D. Southern, Founder, ATCO

CORE VALUES

It is ATCO's Heart and Mind that drives the Company's approach to service reliability and product quality; employee, contractor and public safety; and environmental stewardship.

Our pursuit of excellence governs the way we act and make decisions. At ATCO we strive to live by the following values:

- **Integrity**: We are honest, ethical and treat others with fairness, dignity and respect.
- **Transparency**: We are clear about our intentions and communicate openly.
- **Entrepreneurship**: We are creative, innovative and take a measured approach to opportunities, balanced with a long-term perspective.
- **Accountability**: We make good decisions, take personal ownership of tasks, are responsible for our actions and deliver on our commitments.
- **Collaboration**: We work together, share ideas and recognize the contribution of others.
- **Perseverance**: We persevere in the face of adversity with courage, a positive attitude and a fierce determination to succeed.
- **Caring**: We care about our customers, our employees, their families, our communities and the environment.



CORE VISION

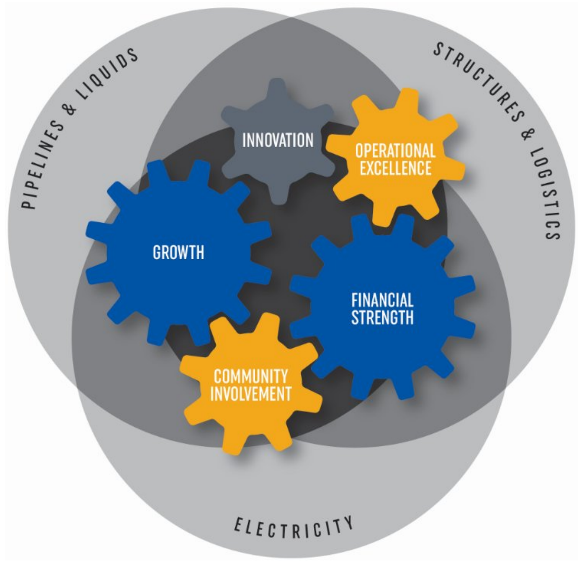
Our core vision is to improve the lives of our customers by providing sustainable, innovative and comprehensive solutions globally. We believe in well-managed risk and a disciplined approach to growth. We fuel the imagination of our people to drive growth over the long-term, ultimately delivering value to our customers and our share owners.

Our strong financial and operating performance reflects our approach to sales and our customers, the strength and determination of our people, a deeply embedded focus on operational excellence with its inherent cost controls, and careful consideration of the environmental and social impact of our actions - now and for the future.

ATCO STRATEGIES

Growth and financial strength are the pivotal strategies employed to build our enterprise. The long-term success of the Company is dependent on our ability to grow our business by expanding into new markets and business lines while offering our customers complete services and products to meet their needs.

These strategic imperatives are supported by the Company's commitment to innovation and operational excellence. We are also committed to engaging with our employees throughout their careers and to helping create healthy, vibrant communities in which the Company does business and in which our people live and work.



"Making life easier for our customers by offering vertically integrated infrastructure solutions around the world."

GROWTH

Long-term sustainable growth is paramount. The Company approaches this strategy by: expanding geographically to meet the global needs of customers; developing significant, value-creating greenfield projects; and fostering continuous improvement and innovation through research and development.

The ongoing exploration of opportunities to acquire assets provides the Company with additional growth potential. The Company will pursue the acquisition and development of complementary assets that have future growth potential and provide long-term value for share owners.

FINANCIAL STRENGTH

Financial strength is fundamental to the Company's current and future success. It ensures the Company has the financial capacity to fund existing and future capital investments through a combination of predictable cash flow from operations, cash balances on hand, committed credit facilities and access to capital markets. It enables the Company to sustain its operations and to grow through economic cycles, thereby providing long-term financial benefits.

The Company continuously reviews its holdings to evaluate opportunities to sell mature assets and redeploy the proceeds into growing areas of the Company. The viability of such opportunities depends on the outlook of each business as well as general market conditions. This ongoing focus supports the optimal allocation of capital across the Company.

INNOVATION

The Company seeks to create a work environment where employees are encouraged to take a creative and innovative approach to meeting our customers' needs. By committing to continuous improvement through research and development, the Company is able to offer our customers unique and imaginative solutions that differentiate us from our competitors.

OPERATIONAL EXCELLENCE

The Company approaches operational excellence by achieving high service, reliability, and product quality for our customers and the communities we serve. We are uncompromising about maintaining a safe work environment for employees and contractors, promoting public safety and striving to minimize environmental impact. We have long range plans for ensuring timely supply of goods and services that are critical to a company's ability to meet its core business objectives.

COMMUNITY INVOLVEMENT

ATCO maintains a respectful and collaborative community approach, where meaningful partnerships and positive relationships are built with community leaders and groups that will enhance economic and social development. Community investment involves developing partnerships with Indigenous and community groups that may be affected by projects and operations worldwide, and building ongoing, positive Indigenous relationships that contribute to economic and social development in their communities. The Company also engages with governing authorities, regulatory bodies, and landowners. We encourage partnerships throughout the organization and at all levels that will serve to benefit non-profit organizations through volunteer efforts, providing products and services in-kind, and general advice where required.

FURTHER COMMENTARY REGARDING STRATEGIES AND COMMITMENTS

ATCO's financial and operational achievements in 2016 relative to the strategies outlined above are included in the Company's MD&A, 2016 Annual Financial Statements and AIF. Further commentary regarding strategies and commitments to growth, financial strength, innovation, operational excellence, and community involvement will be provided in the forthcoming 2016 Annual Report, Management Proxy Circular and Sustainability Report. The 2016 Management Proxy Circular also contains discussion of the Company's corporate governance practices.

ATCO's website, www.atco.com, is a valuable source for the latest news of the Company's activities. Prior years' reports are also available on this website.

STRATEGIC ACHIEVEMENTS IN 2016

In 2016, ATCO achieved a number of notable successes in the Structures & Logistics, Electricity and Pipelines & Liquids Global Business Units in support of each of our principal strategic imperatives.

GROWTH

STRUCTURES & LOGISTICS BUSINESS UNIT

Wheatstone Project

In the first quarter of 2016, Structures & Logistics completed the Wheatstone modular project in Western Australia. The total value for Structures & Logistics' scope of work was AUD $384 million.

Chile Acquisition

In the second quarter of 2016, Structures & Logistics announced that it was expanding its international modular structures business by investing $25 million in Sabinco Soluciones Modulares S.A. (Sabinco) for a 50 per cent ownership interest. The new company operates under the name ATCO-Sabinco S.A.

Site C Clean Energy Workforce Housing Project

In the third quarter of 2016, Structures & Logistics completed the manufacture and install phase of the 1,600-bed workforce housing facility for workers constructing the Site C Clean Energy Project on the Peace River in northeast British Columbia. Structures & Logistics is also providing a full suite of lodge-related services including catering, janitorial, maintenance, medical and fire protection until 2022. The total value for Structures & Logistics' scope of work is $470 million.

LNG Modular Structures Project

In the third quarter of 2016, Structures & Logistics completed the manufacturing of the 462 unit, 1,900 person workforce housing facility at a major LNG project near Lake Charles, Louisiana. Under the terms of the agreement, the new workforce housing units will be leased for a 29 month period which commenced in January 2016. At the end of the lease term, the units will be returned to the Company's fleet, thereby expanding its footprint in the U.S. market.

ELECTRICITY BUSINESS UNIT

Capital Investment in Regulated Utilities

In 2016, the Electricity Business Unit invested $470 million in assets that earn a return under a regulated business model. This capital was invested mainly in new customer connections and system replacements.

Fort McMurray West 500-kilovolt (kV) Transmission Project (Fort McMurray 500 kV Project)

In December 2014, APL, a partnership between ATCO's subsidiary, Canadian Utilities Limited, and Quanta Capital Solutions Inc., was awarded a 35-year, $1.4 billion contract by the AESO to design, build, own, and operate the Fort McMurray 500 kV Project. In December 2015, APL submitted the Facilities Application for the project to the AUC. The public hearing was completed in November 2016 and a decision approving the route was received in the first quarter of 2017. The design and planning phases are underway and construction is expected to commence in 2017. The project is anticipated to be in service in 2019.

Distributed Generation

Distributed generation aligns with the Company's strategy of taking a creative and innovative approach to meeting our customers' needs by building a fleet of portable natural gas-fired units that can be deployed for temporary or permanent projects. In the first quarter of 2016, ATCO Power signed a 10-year contract to build and operate a two unit, 3 MW natural-gas fired units located southeast of Grande Prairie, Alberta with a capital investment of $8 million. In the fourth quarter of 2016, the Company and its Mexican partner, Grupo Ranman, completed the first phase of a distributed generation facility located in the World Trade Centre industrial park in San Luis Potosí, Mexico. Two 2 MW natural gas-fired units were installed to service initial customers. ATCO Power plans to expand this facility to up to 20 MW by December 2017.

Strathcona Cogeneration Plant

In September 2016, Inter Pipeline Ltd. acquired the shares of The Williams Companies Inc.'s and Williams Partners L.P's Canadian businesses, including Williams Canada Propylene ULC (now Inter Pipeline Propylene ULC following a name change). ATCO Power has been selected by Inter Pipeline Propylene ULC to build and operate a natural gas-fired cogeneration plant to meet the high pressure steam and electricity needs of Inter Pipeline Propylene ULC's proposed propane dehydrogenation facility to be located in the Alberta Industrial Heartland region. ATCO's proposed 90 MW cogeneration plant is contingent on Inter Pipeline Ltd.'s Final Investment Decision for the facility. ATCO received its AUC approvals for the cogeneration plant in September 2016.

PIPELINES & LIQUIDS BUSINESS UNIT

Capital Investment in Regulated Utilities

In 2016, the Pipelines & Liquids Business Unit invested $678 million in assets that earn a return under a regulated business model. This capital was invested mainly in the Urban Pipelines Replacement program, the Mains Replacement Programs, new customer connections and system replacements.

Urban Pipelines Replacement Program

Construction continued on ATCO Pipelines' AUC-approved UPR program in 2016. Construction will continue until 2020 and the total cost of the UPR program is estimated to be $850 million, which includes the cost to integrate the new high-pressure network with ATCO Gas' low-pressure distribution system. In 2016, ATCO Gas and ATCO Pipelines invested $185 million in the UPR program. The program will replace and relocate aging, high-pressure natural gas pipelines in densely populated areas of Calgary and Edmonton to address safety, reliability and future growth.

Mains Replacement Programs

ATCO Gas has 8,000 kms of plastic pipe and 9,000 kms of steel pipe that have been identified for replacement. The Plastic Mains Replacement program is a 20-year program aimed at replacing polyvinyl chloride (PVC) and early generation polyethylene (PE) pipe. The Steel Mains Replacement program replaces steel pipe that is generally more than 60 years old. In 2016, ATCO Gas replaced 242 kms of plastic pipe, and 41 kms of steel pipe.

Hydrocarbon Storage

ATCO Energy Solutions, together with our partner, is developing four salt caverns with capacity to store approximately 400,000 cubic metres of hydrocarbons at the ATCO Heartland Energy Centre near Fort Saskatchewan, Alberta. Long-term contracts have been secured for all four salt caverns. The total partnership investment is approximately $200 million. ATCO Energy Solutions is the facility operator and has a 60 per cent partnership interest.

Construction of the first two caverns is complete and operations are underway with earnings starting in the fourth quarter of 2016. Construction of the two remaining caverns is expected to be complete by the end of 2017. As ATCO Energy Solutions secures additional customers and develops the supporting infrastructure, the Company has the potential to develop up to 40 caverns with the mineral rights it currently has in place in Alberta's Industrial Heartland.

Industrial Water

In the fourth quarter of 2015, ATCO Energy Solutions entered into a long-term commercial agreement with Air Products Canada Ltd. (Air Products) to provide water pre-treatment services in addition to the existing water transportation services contract for Air Products' hydrogen facility near Fort Saskatchewan. Construction on this project was completed, and commercial operations commenced in the fourth quarter of 2016.

RETAIL ENERGY

As part of the Company's continued growth strategy, ATCOenergy was launched in January 2016, selling electricity and natural gas to residential and small commercial customers. ATCOenergy is a logical step in the vertically integrated growth of the Company.

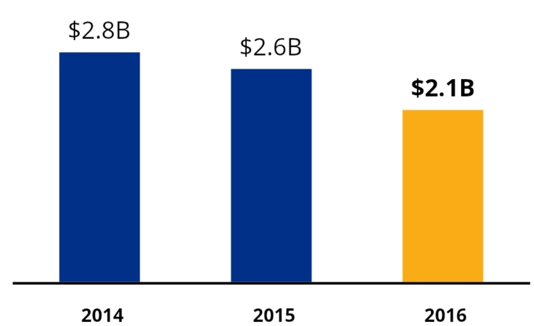
ATCOenergy is comprised of three business lines: ATCOhome, ATCObusiness and the ATCO Blue Flame Kitchen. ATCOhome intends to be a preeminent retailer of electricity and natural gas by leveraging the strength of the ATCO brand with a compelling value proposition that includes sign-up incentives, loyalty rewards, competitive rates and flexible plans for customers. ATCObusiness sells electricity and natural gas to large commercial retail customers. ATCO Blue Flame Kitchen, which has a long history in Alberta spanning more than eight decades, was integrated with ATCOenergy in 2016.

FINANCIAL STRENGTH

Cost Management

ATCO is taking a focused and disciplined approach to pursuing cost-savings and efficiencies in every part of the organization to ensure we deliver the most competitive solutions to our customers. ATCO achieved a 19 per cent reduction in operating costs in 2016 compared to the previous year. Lower operating costs were one of the primary reasons for improved earnings in 2016.

Lower Operating Costs Positively Impacted 2016 Earnings



Capital Redeployment

The Company continuously reviews opportunities to divest non-core assets. In the first quarter of 2016, ATCO Energy Solutions sold its 51.3 per cent ownership in the Edmonton Ethane Extraction Plant. The $21 million of proceeds from the sale were deployed for continued capital growth in industrial water infrastructure and hydrocarbon storage in Alberta's Industrial Heartland region.

Debt Issuance

In November 2016, the Company's subsidiary, CU Inc., issued $375 million of 3.763 per cent debentures maturing on November 19, 2046. Proceeds from these issuances were used to fund significant capital investments, to repay existing indebtedness, and for other general corporate purposes of the Alberta Utilities.

Credit Ratings

The Company has maintained strong investment grade credit ratings, which allow access to capital markets at competitive rates. In 2016, Standard & Poor's Rating Services affirmed its "A" with a negative outlook corporate credit rating for ATCO Ltd. and its subsidiaries Canadian Utilities Limited and CU Inc. In August 2016, DBRS Limited (DBRS) affirmed its rating for the Company as "A" (low) with a stable trend.

INNOVATION

Coal to Gas Conversion

In November 2016, ATCO announced it will work with the Government of Alberta on the conversion of coal-fired power generation to natural gas. This initiative is part of a broader transition in the province to cleaner sources of electricity while ensuring these measures support affordable, reliable and sustainable energy for all Albertans.

Solar

In October 2016, ATCO announced the energization of Western Canada's largest off-grid solar project, located at the Saddle Hills Telecommunication Site northwest of Grande Prairie. This groundbreaking system is capable of generating 75 kilowatts and storing 250 kilowatt hours of energy, and will provide 100 per cent of the power required at the remote site, which is an integral part of ATCO's telecommunications network.

This solar project is the latest in a growing suite of clean and innovative solutions offered by the Company. The launch of ATCOenergy in January 2016, brought more choice to Albertans, including green energy options for its customers. ATCOenergy customers can choose either 25 per cent or 100 per cent of their electricity to come from renewable sources. ATCO also continues to explore a range of renewable and low-carbon energy technologies for residential and business customers.

In Australia, ATCO began a new research and development project that combines the reliability of our natural gas network with renewable energy technologies including battery storage and rooftop solar panels. The initial stage of the GasSola project has seen nine homes with rooftop solar panels in the City of Busselton, in Western Australia's southwest region, equipped with a natural gas-fired generator, battery technology and a communications system.

The project seeks to demonstrate how natural gas and scalable hybrid technology in both residential and commercial market segments can assist in providing firm generation to support renewables, ultimately increasing energy security and potentially reducing the need for costly electricity network upgrades in constrained parts of the power network.

Energy Efficiency

In 2016, ATCO worked with PCL Construction and Ivanhoe Cambridge to utilize natural gas for construction heat and power generation at the new 500,000 sq. ft. outlet mall near Edmonton's International Airport. ATCO installed natural gas lines prior to the building being erected to fuel natural gas space heaters and a natural gas power generator for use during construction.

The use of natural gas, as opposed to propane or diesel, to provide heat and power during residential and commercial construction offers our customers a number of benefits, including significantly reduced fuel costs, lower labour costs and lower greenhouse gas emissions. ATCO continues to work with other builders and developers to pilot similar projects on multi-family and commercial sites.

Micro Combined Heat & Power

We are helping our customers reduce emissions and operating costs with Micro Combined Heat & Power (CHP) technology, using onsite natural gas to efficiently generate heat and electricity. In 2016, we invested more than $225,000 into a pilot program involving several Alberta homes and a natural gas regulating station to determine the viability of this new potential service offering. We are also investigating the effectiveness of integrating solar panels and batteries for use in isolated locations without access to the grid.

With a micro CHP unit, customers can economically meet their heat and electricity needs while reducing greenhouse gas emissions by 50 per cent to 55 per cent.

Water Treatment

ATCO is developing the industrial water treatment infrastructure to provide treated water through a multi-user water system to customers throughout Alberta's Industrial Heartland, near Edmonton. With treated water delivered directly to their facility, customers benefit from substantially improved industrial water quality and can free up land on their sites previously dedicated to water treatment.

By allowing customers to connect to an integrated single system, ATCO's multi-user system provides several environmental benefits including reducing the number of intake points required on the river and providing the ability to capture and reuse treated wastewater from customer operations.

OPERATIONAL EXCELLENCE

Generating Plant Availability

ATCO Power continued its solid performance of providing industry leading, reliable, responsible and cost-effective solutions for our customers and partners around the world in 2016. Generating plant availability was more than 90 per cent with minimal unplanned outages.

Maintenance Overhaul

The Osborne Cogeneration facility in Adelaide, Australia underwent the most significant overhaul of its gas and steam turbines and generators since being commissioned in 1998. The predominantly outdoor facility experienced some of the wettest and windiest conditions on record, which when combined with a 'system black' event in South Australia that disabled the entire state's electricity grid, the operational expertise of our team was critical. The team persevered, and after a total of 50,000 man-hours, completed the seven-week overhaul allowing Osborne to re-synchronize to the national electricity grid and again supply its critical base-load power to South Australian consumers.

Customer Response

In May 2016, a sudden cold snap dropped 20 inches of snow onto the Peace Country region of northwestern Alberta. With heavy snowfall and broken trees damaging many kilometres of power line, 11,000 customers in 17 of our Northern Alberta service areas were without power. ATCO Incident Command Centres were opened in Grande Prairie, Peace River and Slave Lake and local crews worked around the clock for three days to remove downed trees and repair lines to restore power to our customers.

Also in May, ATCO crews went above and beyond during the Fort McMurray wildfires to protect property in the community and keep important electricity services running so that firefighters could keep the flames at bay. For weeks, our employees worked in dangerous conditions, including dense smoke and heat, to repair and maintain damaged critical electrical infrastructure. Within a month of the largest evacuation and the most devastating fire in Canadian history, ATCO had restored service to Fort McMurray without a single lost-time safety incident.

In January 2017, the Edison Electric Institute (EEI), a trade association representing all North American owned electric companies, presented ATCO with an Emergency Recovery Award, recognizing the tremendous response of our employees working together during the 2016 Fort McMurray wildfire. The EEI's Emergency Recovery Awards recognizes "companies that faced difficult circumstances caused by extraordinary events" and that put forth "an outstanding effort to restore service to the public".

Health and Safety

Safety is the first consideration in everything we do. We strive to continually improve our safety programs with the objective of providing the awareness, training, procedures, equipment and follow-up to drive our "zero injury" culture. Since we launched our Sustainability Report in 2008, employee lost-time and reportable injury rates have declined substantially, largely due to a focus on continuous improvement, visible commitment and active participation by management and employees, and increased sharing of lessons learned. ATCO compares favourably with the lost-time injury rate for Alberta Occupational Health and Safety.

In May 2016, Structures & Logistics was recognized by Bechtel for safety performance on the Chevron-operated Wheatstone LNG project in Western Australia. With approximately 200 employees on-site at any one time, the Structures & Logistics team maintained focus and worked to execute safely and on-time for the project. The performance evaluation criteria include environmental safety and health, labour and employee relations, schedule, cost and quality.

In November 2016, Structures & Logistics' Camp Services team celebrated a safety milestone of achieving five million man-hours without a lost-time incident.

In September 2016, ATCO Pipeline's employees reached 14 consecutive years without a lost-time incident. This remarkable accomplishment is a credit to ATCO's ongoing efforts and focus in this area.

A more detailed report on the Company's Health and Safety performance will be provided in our Sustainability Report which is expected to be published in May 2017.

COMMUNITY INVOLVEMENT

Building and Sustaining Positive Indigenous Relationships

ATCO has more than 40 joint-venture partnerships, Memorandums of Understanding and other relationships with Indigenous communities. Some of our Indigenous partnerships are celebrating more than 25 years of working together.

In 2016, ATCO's Sustainable Communities completed the construction of a Multi-Purpose Centre, featuring an NHL size hockey rink, for the Piikani Nation of Alberta to provide the local community with a new hub to meet, play, and thrive.

In 2016, once again ATCO was the title sponsor of Ski Fit North Alberta (SFNA), bringing fun and fitness to Indigenous youth through cross-country skiing. In partnership with Cross Country Canada and Cross Country Alberta, SFNA provides a unique opportunity for Alberta's Indigenous youth to experience the positive impact of outdoor activity, learn more about the importance of proper nutrition, and interact with former Olympic athletes.

ATCO EPIC - Employees Participating in Communities

This internationally acclaimed program gives employees the opportunity to contribute to charitable organizations in the communities where they live and work. The administration of the employee-led campaign is funded by ATCO, ensuring 100 per cent of employee donations go towards employees' charities of choice.

ATCO honors employees' generosity by matching their charitable donations made to health and wellness organizations. In 2016, ATCO EPIC donated $3.6 million to more than 800 charities, and ATCO employees volunteered more than 12,000 hours to make our communities better places to work and live. Over the past 10 years, the ATCO EPIC program has raised more than $31 million.

Donated
$3.6 million
in 2016

Indigenous Education Awards

In 2016, ATCO's Indigenous Education Awards Program supported 30 students from 11 First Nations and Métis communities by providing awards, bursaries and scholarships to students who demonstrated leadership capabilities and strived to be role models in their schools and communities. Since the program was launched in 2011, 161 students have received financial support from ATCO to assist in their education. ATCO also awarded 29 other scholarships and bursaries to Indigenous students studying at NAIT, Keyano College, the University of Alberta, Aurora College and community colleges and trade schools across Canada.

STRATEGIC PRIORITIES FOR 2017

GROWTH

In 2017, ATCO intends to invest $1.8 billion in capital growth opportunities across our Regulated Utilities and in long-term contracted operations. This capital investment is expected to contribute significant earnings and cash flow and create long-term value for share owners.

FINANCIAL STRENGTH

Maintaining our strong financial position enables the Company to sustain its operations and to grow through economic cycles, thereby providing long-term financial benefits to our share owners. This is particularly important with today’s weaker global economic conditions. Our “A” credit ratings are fundamental to our current and future success. It ensures the Company has the financial capacity to fund our existing and future capital investments through access to capital markets at attractive rates.

INNOVATION

ATCO will continue to explore new technologies and ways of delivering energy to our customers. The Company's research and development focus will underpin its success in the years ahead through continuous improvement of existing products and services as well as exploring and testing new products and methods of delivery to meet our customers' future needs. For example, ATCO will work with the Government of Alberta on the conversion of coal-fired power generation to natural gas, the exploration of hydro generation potential in Alberta, and the development of Alberta’s new capacity power market.

OPERATIONAL EXCELLENCE

ATCO approaches operational excellence by achieving high service, reliability, and product quality for our customers and the communities we serve. The Company is uncompromising about maintaining a safe work environment for employees and contractors, promoting public safety and striving to minimize environmental impacts. We will focus on continually improving our safety programs and achieving lost-time injury rates that compare favourably with Alberta Occupational Health and Safety rates.

In late 2015, the Company initiated an organizational transformation to streamline and gain operational efficiencies. These transformation initiatives have created tangible benefits and will provide a competitive advantage for the organization and cost effective solutions for our customers. ATCO will continue to look for opportunities for improved productivity.

COMMUNITY INVOLVEMENT

ATCO will continue to build on and sustain positive Indigenous relationships through ongoing communication and mutual sharing of interests and ways of working together to contribute to economic and social development in their communities.

We encourage partnerships throughout the organization to benefit non-profit organizations through volunteer efforts, providing products and services in-kind, and general advice where required. ATCO will continue to administer the employee-led ATCO EPIC campaign to give employees the opportunity to contribute to charitable organizations in the communities in which they live and work.

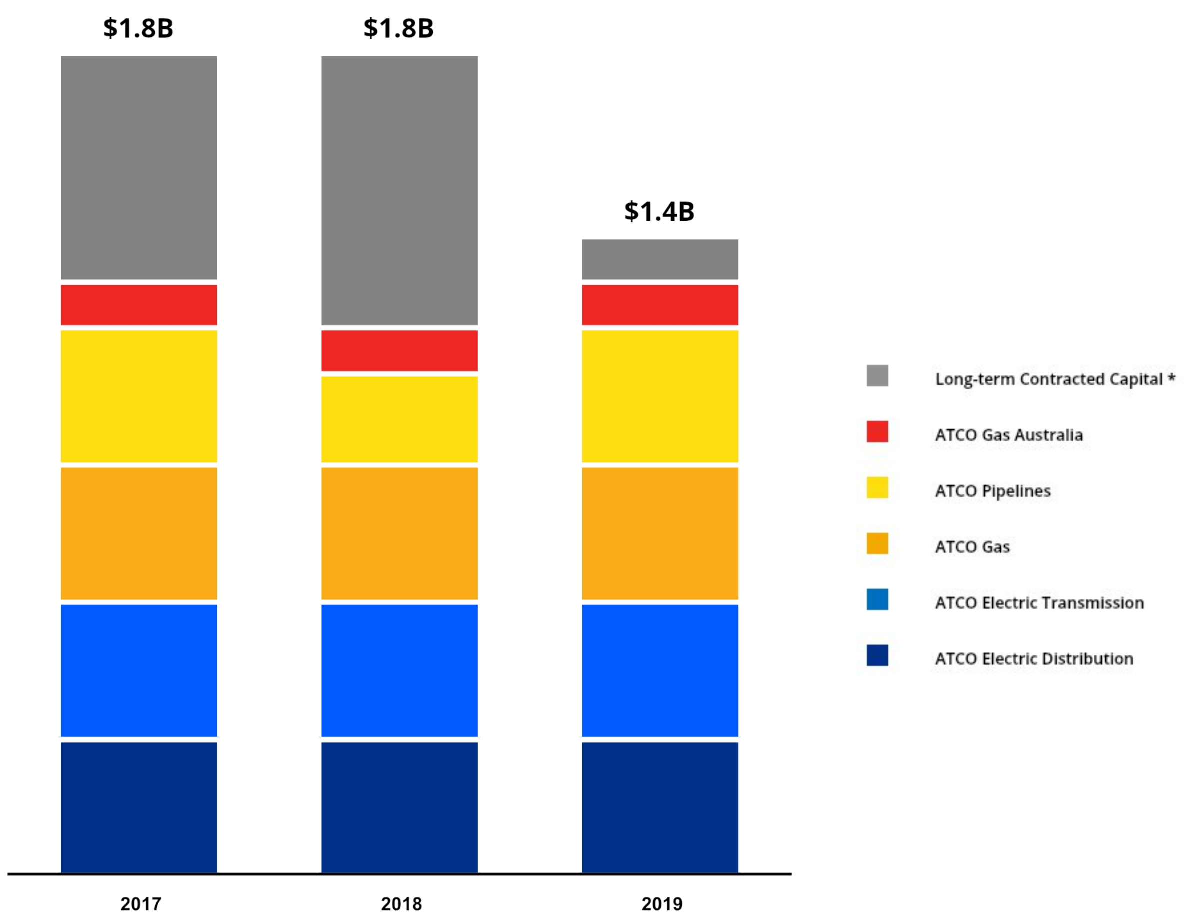
CAPITAL INVESTMENT PLANS

In the 2017 to 2019 period, ATCO expects to invest an additional $5 billion in Regulated Utility and commercially secured capital growth projects. This capital investment is expected to contribute significant earnings and cash flow and create long-term value for share owners.

This three year plan includes $3.8 billion of planned capital investment in the Regulated Utilities. ATCO Electric Distribution and ATCO Electric Transmission are planning to invest $1.8 billion, and ATCO Gas, ATCO Pipelines and ATCO Gas Australia are planning to invest $2 billion from 2017 to 2019.

In addition to capital investments in the Regulated Utilities, the Company intends to invest a further $1.2 billion in long-term contracted capital from 2017 to 2019 in the APL Fort McMurray 500 kV Project and contracted hydrocarbon storage and distributed generation in Alberta. ATCO also continues to pursue various business development opportunities with long-term potential, such as the Tula cogeneration power plant in Mexico and the Strathcona cogeneration power plant in Alberta, which are not included in these capital growth investment estimates.

Future Regulated Utility and Contracted Capital Investment



** Includes the Company's proportionate share of investment in partnership interests and cash used for service concession arrangements.*

PERFORMANCE OVERVIEW

FINANCIAL METRICS

The following chart summarizes key financial metrics associated with the Company's financial performance.

	Year Ended December 31		
($ millions, except per share data and outstanding shares)	**2016**	**2015**	**2014**
Key Financial Metrics			
Adjusted earnings [1]	**360**	293	374
Structures & Logistics	**43**	27	67
Electricity	**213**	171	195
Pipelines & Liquids	**136**	101	106
Corporate & Other	**(33)**	(7)	11
Intersegment Eliminations	**1**	1	(5)
Earnings attributable to Class I and Class II Shares	**340**	154	420
Revenues	**4,045**	4,131	4,554
Total assets	**19,724**	19,055	17,689
Long-term debt	**8,318**	8,055	7,383
Class I and Class II Share owners' equity	**3,546**	3,356	3,168
Cash dividends declared per Class I and Class II Share *(cents per share)*	**1.14**	0.99	0.86
Capital investment [1]	**1,609**	1,919	2,391
Funds generated by operations [1]	**1,912**	1,589	1,786
Other Financial Metrics			
Weighted average Class I and Class II Shares outstanding *(thousands):*			
Basic	**114,411**	114,832	114,848
Diluted	**114,846**	115,300	115,462

(1) Additional information regarding these measures is provided in the Non-GAAP and Additional GAAP Measures section.

ADJUSTED EARNINGS

The Company's adjusted earnings for 2016 were $360 million, an increase of $67 million compared to 2015. The primary drivers of earnings results were as follows:

- Structures & Logistics - Higher adjusted earnings in 2016 were mainly due to Modular Structures major project activity, increased occupancy levels in the Lodging business and business-wide cost reduction initiatives.
- Electricity - Higher adjusted earnings in 2016 were mainly due to continued capital investment and growth in rate base within Regulated Electricity and business-wide cost reduction initiatives.
- Pipelines & Liquids - Higher adjusted earnings in 2016 were primarily due to continued capital investment and growth in rate base within the Regulated Pipelines & Liquids businesses and business-wide cost reduction initiatives.
- Corporate & Other - Lower earnings were primarily attributable to dividend costs associated with Canadian Utilities' preferred share issuances in the second half of 2015 and higher business development expenses.

Additional details on the financial performance of the Company's Business Units are discussed in the Global Business Unit Performance section of this MD&A.

EARNINGS ATTRIBUTABLE TO CLASS I AND CLASS II SHARES

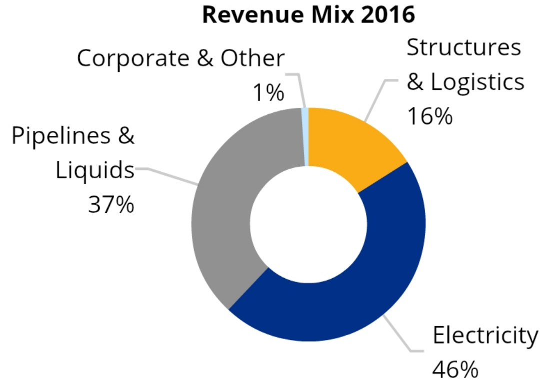
Earnings attributable to Class I and Class II Shares were $340 million in 2016, $186 million higher compared to 2015 mainly due to continued capital investment and growth in rate base in the Regulated Utilities and business-wide cost reduction initiatives. Earnings attributable to Class I and Class II Shares includes timing adjustments related to rate-regulated activities that are not included in adjusted earnings.

More information on these and other items is included in the Reconciliation of Adjusted Earnings to Earnings Attributable to Class I and Class II Shares section of this MD&A.

REVENUES

In 2016, revenues of $4,045 million were $86 million lower when compared to 2015.

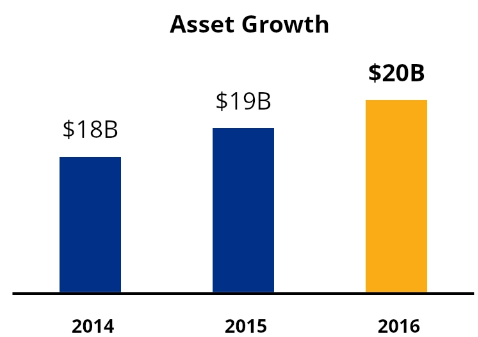
Higher revenues from the Regulated Utilities and APL were offset by lower revenues in Structures & Logistics and ATCO Energy Solutions, primarily due to decreased Modular Structures project activity and forgone revenues due to the sale of both the Emissions Management business and several of ATCO Energy Solutions' gas processing facilities in late 2015 and early 2016.



ASSETS, DEBT & EQUITY

The Company's total assets, long-term debt and Class I and Class II Share owners' equity reflect the significant growth achieved during 2016 and how that growth was financed. Total assets grew from $19 billion at the beginning of 2016 to $20 billion at year end. That growth occurred mainly in the Alberta Utilities as a result of significant capital investment.

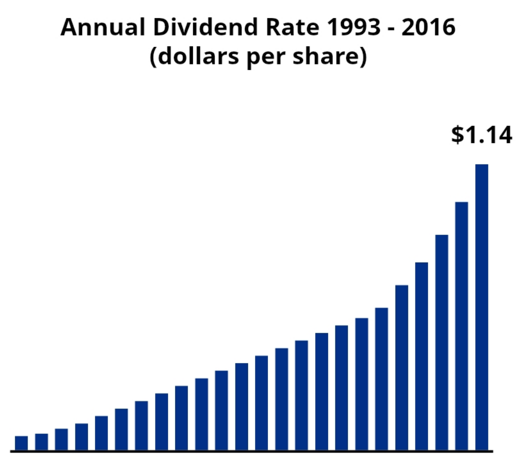
Class I and Class II Share owners' equity increased over the prior year mainly as a result of 2016 earnings, partially offset by higher dividends paid to share owners.



COMMON SHARE DIVIDENDS

In 2016, the Board of Directors increased the quarterly dividends paid per Class I and Class II Share for the four quarters of 2016 from 24.75 cents per share to 28.50 cents per share, an increase of 15 per cent over 2015. Dividends paid to Class I and Class II Share owners totaled $131 million in 2016.

On January 12, 2017, the Board of Directors declared a first quarter dividend of 32.75 cents per share. This represents a 15 per cent increase over the quarterly dividends declared in 2016. ATCO has increased its common share dividend each year since 1993. In each of the last six years, the Company has increased its quarterly dividend by 15 per cent.

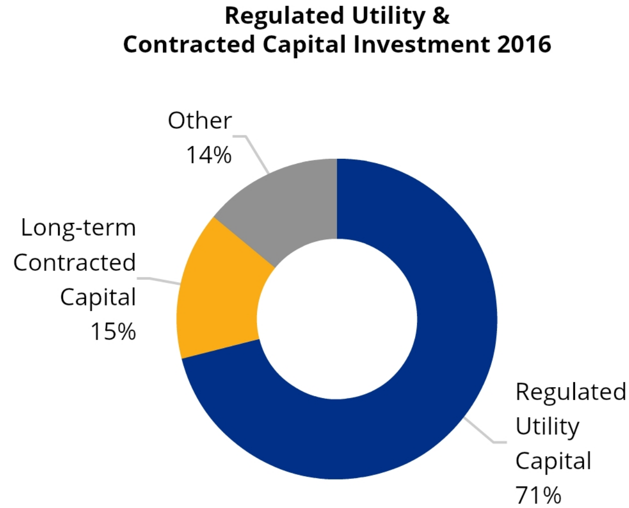


CAPITAL INVESTMENT

Capital investment includes additions to property, plant and equipment, intangibles, capital expenditures in joint ventures and service concession arrangements. Total capital investment in the fourth quarter and full year of 2016 were $467 million and $1,609 million.

Capital spending in the Company's Regulated Utilities and on long-term contracted capital assets accounted for $399 million of capital spending in the fourth quarter and $1,384 million in the full year of 2016. These investments either earn a return under a regulatory business model or are under commercially secured long-term contracts.

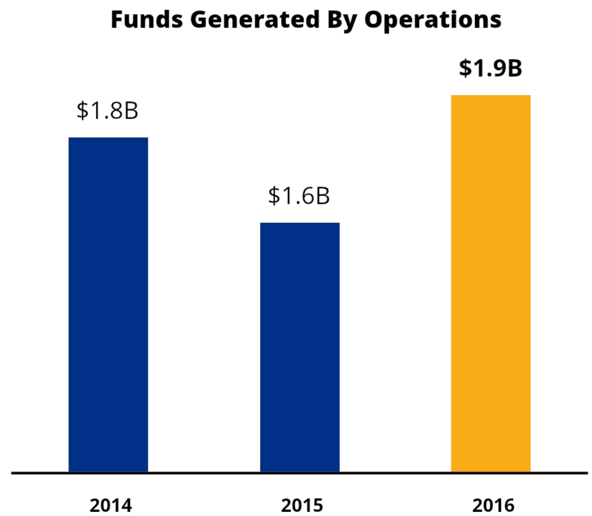
The remaining expenditures were mainly related to the Company's purchase of the remaining 49 per cent of Barking Power Limited (Barking) in the first quarter of 2016 and an investment in Sabinco for a 50 per cent ownership interest, which was completed in the second quarter of 2016. Sabinco's established presence in Chile provides a strong foundation for expansion, with potential growth opportunities in other South American markets.



FUNDS GENERATED BY OPERATIONS

Funds generated by operations in 2016 were $1,912 million, compared to $1,589 million in 2015.

Continued capital investment and growth in rate base in the Company's Regulated Utilities, and business-wide cost reduction initiatives led to higher funds generated by operations.



GLOBAL BUSINESS UNIT PERFORMANCE

REVENUES

In the fourth quarter and full year of 2016, revenues in Structures & Logistics were lower than the same periods in 2015 by $150 million and $222 million. Lower revenues were mainly due to decreased Modular Structures project activity, as well as forgone revenues due to the sale of the Emissions Management business in the fourth quarter of 2015.

ADJUSTED EARNINGS

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Modular Structures	**14**	17	(3)	**52**	44	8
Logistics and Facility O&M Services	**1**	2	(1)	**10**	10	–
Lodging & Support Services	**–**	–	–	**6**	(4)	10
Other [(1)]	**(9)**	(6)	(3)	**(25)**	(23)	(2)
Total Structures & Logistics Adjusted Earnings	**6**	13	(7)	**43**	27	16

(1) Other includes financial results for Sustainable Communities and Structures & Logistics' corporate office. Emissions Management was sold in the fourth quarter of 2015 and is included in the 2015 results.

Adjusted earnings achieved by Structures & Logistics in the fourth quarter of 2016 were $7 million lower compared to the same period of 2015. Lower adjusted earnings were due primarily to lower Modular Structures major project activity.

Adjusted earnings for the full year of 2016 were $16 million higher than 2015. This increase was primarily due to higher profit margins on Modular Structures major project activity, increased occupancy levels in the Lodging business, and business-wide cost reduction initiatives. Partially offsetting these increases were lower Space Rentals and Workforce Housing utilizations and lower Space Rental rates, and forgone earnings due to the sale of the Emissions Management business in the fourth quarter of 2015.

Detailed information about the activities and financial results of Structures & Logistics' businesses is provided in the following sections.

MODULAR STRUCTURES

Modular Structures manufactures, sells and leases transportable workforce housing and space rental products. Space Rentals sells and leases mobile office trailers in various sizes and floor plans to suit customers' needs. Workforce Housing delivers modular workforce housing worldwide, including short-term and permanent modular camps, pre-fabricated and relocatable modular buildings.

Adjusted earnings in the fourth quarter of 2016 were lower than in the same period of 2015 by $3 million. Lower adjusted earnings were due mainly to lower project activity resulting primarily from the completion of the Wheatstone project in the first quarter of 2016 and the BC Hydro Site C Clean Energy project in the third quarter of 2016, and were partially offset by increased earnings relating to the LNG Modular Structures project, which commenced in the first quarter of 2016.

For the full year of 2016 adjusted earnings were $8 million higher than 2015. Higher adjusted earnings were primarily due to the BC Hydro Site C Clean Energy project which commenced in the third quarter of 2015 and the LNG Modular Structures project which commenced in the first quarter of 2016, as well as cost reduction initiatives. Partially offsetting these increases were the completion of the Wheatstone project in the first quarter of 2016, and lower Space Rental and Workforce Housing fleet utilizations and lower Space Rental rental rates.

Major Structures & Logistics Project Updates

Wheatstone Project

In the first quarter of 2016, Structures & Logistics completed the Wheatstone modular project in Western Australia. The total value for Structures & Logistics' scope of work was AUD $384 million.

Chile Acquisition

In the second quarter of 2016, ATCO announced that it was expanding its international modular structures business by investing $25 million in Sabinco for a 50 per cent ownership interest. Sitrans Servicios Integrados de Tranportes Ltda. retained 50 per cent ownership of the company, which now operates under the name ATCO-Sabinco S.A.

Headquartered in Santiago, Chile, ATCO-Sabinco S.A.'s fleet of space rental and workforce housing units accounts for approximately 10 per cent of the Chilean market. ATCO-Sabinco S.A.'s established presence in Chile also provides a strong foundation upon which the partnership can expand, with potential growth opportunities in other South American markets.

Site C Clean Energy Workforce Housing Project

In the third quarter of 2016, Structures & Logistics completed the manufacture and install phase of the 1,600 person workforce housing facility for workers constructing the Site C Clean Energy Project on the Peace River in northeast British Columbia. Structures & Logistics is also providing a full suite of lodge-related services including catering, janitorial, maintenance, medical and fire protection until 2022. The total value for Structures & Logistics' scope of work over the term of the contract is $470 million. The earnings from the lodge-related services are being recorded in the Lodging & Support Services business.

LNG Modular Structures Project

In the third quarter of 2016, Structures & Logistics completed manufacturing 462 modular units. The installation and customer turnover of all the manufactured units occurred in the fourth quarter of 2016. This work was done under a contract to design, construct, transport, install and rent the modular units at a major LNG project near Lake Charles, Louisiana. The units are being used to provide sleeping accommodation for 1,900 persons, kitchen and dining facilities, and a recreation centre.

Under the terms of the agreement, the new workforce housing units are being leased for a 29 month period which commenced in January 2016. At the end of the lease term, the units will be returned to the Company's fleet, thereby expanding its footprint in the U.S. market. The earnings from this contract are being recorded as workforce housing rental income in the Modular Structures business.

Rental Fleet Statistics

The following table compares Structures & Logistics' manufacturing hours and rental fleet for the quarter and year ended December 31, 2016 and 2015.

	Three Months Ended December 31			Year Ended December 31		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
North America						
Manufacturing hours *(thousands)*	**34**	246	(86%)	**564**	571	(1%)
Global Space Rentals						
Number of units	**13,629**	13,302	2%	**13,629**	13,302	2%
Average utilization *(%)*	**65**	64	1%	**64**	68	(4%)
Average rental rate *($ per month)*	**455**	549	(17%)	**500**	576	(13%)
Global Workforce Housing						
Number of units	**4,974**	3,354	48%	**4,974**	3,354	48%
Average utilization *(%)*	**32**	35	(3%)	**38**	51	(13%)
Average rental rate *($ per month)*	**2,580**	1,465	76%	**1,962**	1,805	9%

Decreased manufacturing hours in the fourth quarter of 2016 were mainly attributable to the completion of major project activity at the Site C project. The decrease in the Workforce Housing and Space Rental utilization and Space Rental rates was due to overall weakened demand from customers whose business activity is exposed to commodity price declines. The change in the Workforce Housing units and rental rates is mainly due to the LNG Modular Structures Project, additions to the Australian rental fleet and additions from the acquisition of the 50 per cent interest in ATCO-Sabinco S.A.

LOGISTICS AND FACILITY O&M SERVICES

The Logistics and Facility O&M Services division delivers facilities operations and maintenance services, including end-to-end supply chain management, to clients in the resources, defense and telecommunications sectors.

Adjusted earnings for the fourth quarter and full year of 2016 were comparable to the same periods of 2015. The Company continues to pursue and bid on project opportunities to provide Logistics and Facility O&M Services.

LODGING & SUPPORT SERVICES

The Lodging & Support Services division provides lodging, catering, waste management, and maintenance services to meet the demands of major, remote resource projects.

Adjusted earnings for the fourth of 2016 were comparable to the same period in 2015. Adjusted earnings for the full year of 2016 were $10 million higher when compared to the same period of 2015. Higher earnings were primarily attributable to higher occupancy levels at Structures & Logistics' lodges, the mobilization of the main camp at the BC Hydro Site C Clean Energy Workforce Housing project, and cost reduction initiatives.

REVENUES

Electricity revenues of $551 million in the fourth quarter and $1,877 million for the full year of 2016 were $87 million and $106 million higher when compared to the same periods of 2015.

Higher revenues in the fourth quarter of 2016 were mainly due to revenue recorded for APL. Higher 2016 revenues in Regulated Electricity were attributable to growth in rate base and revenue recorded for APL, partially offset by lower revenues in ATCO Power due to lower Alberta Power Pool prices.

ADJUSTED EARNINGS

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Regulated Electricity						
ATCO Electric Distribution	**15**	12	3	**69**	50	19
ATCO Electric Transmission	**26**	11	15	**100**	82	18
Total Regulated Electricity Adjusted Earnings	**41**	23	18	**169**	132	37
Non-regulated Electricity						
ATCO Power						
Independent Power Plants	**8**	1	7	**15**	7	8
Thermal PPAs	**6**	7	(1)	**19**	22	(3)
ATCO Power Australia	**1**	2	(1)	**8**	10	(2)
Alberta PowerLine	**2**	–	2	**2**	–	2
Total Non-regulated Electricity Adjusted Earnings	**17**	10	7	**44**	39	5
Total Electricity Adjusted Earnings	**58**	33	25	**213**	171	42

In fourth quarter and full year of 2016, adjusted earnings generated by Electricity of $58 million and $213 million were $25 million and $42 million higher than in the fourth quarter and full year of 2015. Higher earnings were primarily due to continued capital investment and growth in rate base within Regulated Electricity and business-wide cost reduction initiatives.

Detailed information about the activities and financial results of Electricity's businesses is provided in the following sections.

REGULATED ELECTRICITY

Our Regulated Electricity activities are conducted by ATCO Electric Distribution and ATCO Electric Transmission and their subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife). These businesses provide regulated electricity distribution, transmission and distributed generation mainly in northern and central east Alberta, the Yukon and the Northwest Territories. The service territory includes the oil sands areas near Fort McMurray and the heavy oil areas near Cold Lake and Peace River.

Electricity Distribution

ATCO Electric Distribution’s adjusted earnings of $15 million in the fourth quarter and $69 million in the full year of 2016 were $3 million and $19 million higher when compared to the same periods of 2015. Higher earnings resulted primarily from growth in rate base, business-wide cost reduction initiatives and the adverse earnings impact associated with the Generic Cost of Capital (GCOC) and Capital Tracker regulatory decisions received in 2015.

Electricity Transmission

ATCO Electric Transmission's adjusted earnings of $26 million in the fourth quarter and $100 million in the full year of 2016 were $15 million and $18 million higher when compared to the same periods of 2015. Higher earnings resulted primarily from growth in rate base, business-wide cost reduction initiatives, and the adverse impact associated with the GCOC regulatory decision received in 2015, partially offset by the impact of the ATCO Electric Transmission GTA decision received in August 2016.

NON-REGULATED ELECTRICITY

Our non-regulated electricity activities are conducted by ATCO Power, ATCO Power Australia and Alberta PowerLine. These businesses supply electricity from natural gas, coal-fired and hydroelectric generating plants in western Canada, Ontario, Australia and Mexico and non-regulated electricity transmission in Alberta.

Generating Plant Availability

Generating availability for the quarter and year ended December 31, 2016 and 2015 is shown in the table below. Generating plant capacity fluctuates with the timing and duration of outages. Generating availability remained strong with a combined availability of 92 per cent in 2016 and minimal unplanned outages.

Independent Power Plants availability was lower in the fourth quarter and full year of 2016. Lower availability in the fourth quarter was primarily due to planned minor outages at the Cory, Muskeg, Scotford, and Battle River unit 3 plants. There was also a higher frequency of outages at the Rainbow plant due to planned capital project work during the quarter. The lower availability for the year was primarily due to planned major outages at the Joffre facility in 2016.

Thermal PPA Plant availability was higher in 2016 compared to 2015, mainly due to the planned major outage at Battle River unit 5 in the second quarter of 2015.

Lower availability in ATCO Power Australia in the fourth quarter and full year 2016 was mainly due to the planned major outage at the Osborne Cogeneration facility.

	Three Months Ended December 31			Year Ended December 31		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
Independent Power Plants	**93%**	96%	(3%)	**92%**	95%	(3%)
Thermal PPA Plants	**99%**	95%	4%	**95%**	88%	7%
ATCO Power Australia	**64%**	99%	(35%)	**88%**	98%	(10%)

Independent Power Plants

Adjusted earnings generated by Independent Power Plants in the fourth quarter and full year of 2016 were $7 million and $8 million higher than the same periods in 2015. Higher earnings were due to higher forwards sales as well as lower expenses due to cost-savings initiatives, partially offset by lower Alberta Pool Prices and spark spreads.

Average Alberta Power Pool and natural gas prices and the resulting spark spreads for the quarter and year ended December 31, 2016 and 2015 are shown in the table below.

	Three Months Ended December 31			Year Ended December 31		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
Average Alberta Power Pool electricity price *($/MWh)*	**22.03**	21.19	4%	**18.28**	33.34	(45%)
Average natural gas price *($/GJ)*	**2.94**	2.35	25%	**2.06**	2.56	(20%)
Average spark spread *($/MWh)*	**(0.02)**	3.56	(101%)	**2.84**	14.14	(80%)

Lower Alberta Power Pool prices and reduced price volatility in the full year of 2016 were primarily attributable to an increased supply of electricity and lower demand in the Alberta market compared to 2015. The transition to the current low price environment occurred in the fourth quarter of 2015. Alberta Power Pool prices for the fourth quarter of 2016 were comparable to the same period in 2015; however, natural gas prices were higher, resulting in a lower spark spread.

Thermal PPAs

The electricity generated by the Battle River unit 5 and Sheerness plants is sold through PPAs. Under the PPAs, ATCO Power must make the generating capacity for each generating unit available to the PPA purchaser of that unit. These arrangements entitle ATCO Power to recover its forecast fixed and variable costs from the PPA purchaser. Under the terms of the PPAs, ATCO Power is subject to an incentive related to the generating unit availability. Incentives are payable by the PPA counterparties for availability in excess of predetermined targets. These amounts are amortized based on estimates of future generating unit availability and future electricity prices over the term of the PPAs.

Fourth quarter and full year 2016 adjusted earnings from the Thermal PPAs were $1 million and $3 million lower than the same periods in 2015, primarily due to higher fourth quarter 2015 earnings resulting from the amortization of accumulated incentives associated with the PPAs, partly offset by lower maintenance expenses and cost reduction initiatives in 2016.

International Power Generation

The Company's international power generation activities are conducted by ATCO Power Australia. This business supplies electricity from two natural gas-fired generation plants in Adelaide, South Australia, and Karratha, Western Australia. Additionally, the Bulwer Island cogeneration plant in Brisbane formerly provided electricity and steam. As a result of British Petroleum's (BP) announcement to close its Brisbane oil refinery in mid-2015, the Bulwer Island plant was closed on June 23, 2015.

ATCO Power Australia's adjusted earnings of $1 million in the fourth quarter and $8 million in the full year of 2016 were $1 million and $2 million lower than the same periods in 2015, primarily due to the closure of the Bulwer Island plant at the end of the second quarter of 2015 and a planned maintenance outage at the Osborne generating plant in the second half of 2016.

Alberta PowerLine

APL's adjusted earnings were $2 million higher in the fourth quarter and full year of 2016 when compared to the same periods in 2015. The Fort McMurray 500 kV Project has been accounted for as a service concession arrangement under IFRS because the AESO controls the output of the transmission facilities as a part of the greater Alberta network and the ownership of the transmission facilities will transfer to the AESO at the end of the service agreement. Under a service concession arrangement, revenues and costs relating to the design, planning and construction phases of the project are recognized based on a percentage of completion, and revenues and costs relating to the operating phase will be recognized as the service is rendered. The accounting for APL is discussed further in Note 15 of the Company's 2016 Annual Financial Statements.

Major Electricity Project Updates

Alberta PowerLine Fort McMurray 500 kV Project

In December 2014, APL was awarded a 35-year, $1.4 billion contract by the AESO to design, build, own, and operate the Fort McMurray 500 kV Project. This project will increase the capacity of the electricity system in northeast Alberta and help to ensure that this economically vital area of the province has the power it needs.

In December 2015, APL submitted the Facilities Application for the project to the AUC. The public hearing was completed in November 2016 and a decision approving the route was received in the first quarter of 2017. The design and planning phases are underway and construction is expected to commence in 2017. The project is anticipated to be in service in 2019.

Distributed Generation

In 2016, ATCO Power continued to advance distributed generation projects in Alberta and Mexico. Distributed generation aligns with the Company's strategy of taking a creative and innovative approach to meeting our customers' needs by building a fleet of portable natural gas-fired units that can be deployed for temporary or permanent projects.

In the first quarter of 2016, ATCO Power signed a 10-year contract to build and operate a two unit, 3 MW natural gas-fired units located southeast of Grande Prairie, Alberta with a capital investment of $8 million. In the fourth quarter of 2016, the Company and its Mexican partner, Grupo Ranman, completed the first phase of a distributed generation facility located in the World Trade Centre industrial park in San Luis Potosí, Mexico. Two 2 MW natural gas-fired units were installed to service initial customers. ATCO Power plans to expand this facility to up to 20 MW by December 2017.

Mexico Tula Cogeneration

In October 2014, the Company and its Mexican partner, Grupo Hermes S.A. de C.V., were selected by PMX Cogeneracion S.A.P.I. de C.V., an affiliate of Mexico's state-owned petroleum company Pemex, to commence the project development and approval process for a natural gas cogeneration plant at the Miguel Hidalgo refinery near the town of Tula in the state of Hidalgo, Mexico.

During 2015 and 2016, ATCO and Grupo Hermes worked with Pemex to further the development of the plant. Commercial discussions continue with Pemex, who remains committed to the project and to working with ATCO and Grupo Hermes.

Strathcona Cogeneration Plant

In September 2016, Inter Pipeline Ltd. acquired the shares of The Williams Companies Inc.'s and Williams Partners L.P's Canadian businesses, including Williams Canada Propylene ULC (now Inter Pipeline Propylene ULC following a name change). ATCO Power has been selected by Inter Pipeline Propylene ULC to build and operate a natural gas-fired cogeneration plant to meet the high pressure steam and electricity needs of Inter Pipeline Propylene ULC's proposed propane dehydrogenation facility to be located in the Alberta Industrial Heartland region. In December 2016, the Government of Alberta announced that Inter Pipeline's project would receive $200 million in royalty credits through the Petrochemical Diversification Program. ATCO's proposed 90 MW cogeneration plant is contingent on Inter Pipeline Ltd.'s final investment decision for the facility, which is expected during the second quarter of 2017. ATCO received its AUC approvals for the cogeneration plant on September 28, 2016.

Alberta Electricity Market Reform

On November 23, 2016, the Government of Alberta announced its intention to change the existing energy-only electricity market to a capacity market in 2021. A capacity market includes a market component for the provision of capacity, or the ability to produce electricity, in addition to the market for the production of electricity. The Government of Alberta indicated that it will work closely with industry, consumer groups and other stakeholders to establish the framework and implement the capacity market by 2021.

In the near-term, ATCO will assess the economic viability of converting some of its coal-fired electricity generation to natural gas which will include participating in the development of greenhouse gas regulations for natural gas-fired electricity generation. In addition, ATCO will work alongside the Government of Alberta in exploring the potential of hydroelectric power as a means to provide reliable, emissions-free baseload generation in the province. Hydro, as the only form of renewable energy generation with dispatch control, is an optimal solution to replace coal-fired generation while supporting the reliability and sustainability of Alberta's electricity grid.

REVENUES

Pipelines & Liquids revenues of $454 million in the fourth quarter of 2016 were $42 million higher compared to the same period of 2015 mainly due to continued capital investment and growth in rate base.

Revenues of $1,496 million in 2016 were $29 million lower when compared to 2015. Revenues were lower mainly due to the divestiture and closure of several gas processing facilities in ATCO Energy Solutions in late 2015 and early 2016, partially offset by increased revenues in Regulated Pipelines & Liquids mainly due to growth in rate base.

ADJUSTED EARNINGS

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Regulated Pipelines & Liquids						
ATCO Gas	**26**	27	(1)	**65**	56	9
ATCO Pipelines	**7**	6	1	**31**	22	9
ATCO Gas Australia	**4**	4	–	**27**	15	12
Total Regulated Pipelines & Liquids Adjusted Earnings	**37**	37	–	**123**	93	30
Non-regulated Pipelines & Liquids						
ATCO Energy Solutions	**7**	8	(1)	**13**	8	5
Total Pipelines & Liquids Adjusted Earnings	**44**	45	(1)	**136**	101	35

Pipelines & Liquids' adjusted earnings of $44 million in the fourth quarter of 2016 were comparable to the same period of 2015. Adjusted earnings of $136 million in 2016 were $35 million higher than 2015. Higher adjusted earnings were primarily due to continued capital investment and growth in rate base and business-wide cost reduction initiatives.

Detailed information about the activities and financial results of Pipelines & Liquid's businesses is provided in the following sections.

REGULATED PIPELINES & LIQUIDS

Natural Gas Distribution

Our natural gas distribution activities throughout Alberta and in the Lloydminster area of Saskatchewan are conducted by ATCO Gas. It services municipal, residential, business and industrial customers.

ATCO Gas' adjusted earnings of $26 million in the fourth quarter of 2016 were $1 million lower when compared to the same period in 2015, primarily due to higher operations and maintenance costs in the quarter. Earnings of $65 million in the full year of 2016 were $9 million higher when compared to the same period of 2015. Higher earnings resulted primarily from growth in rate base and customers, business-wide cost reduction initiatives and the adverse earnings impact associated with the GCOC and Capital Tracker regulatory decisions received in the first quarter of 2015.

Natural Gas Transmission

Our natural gas transmission activities in Alberta are conducted by ATCO Pipelines. This business receives natural gas on its pipeline system at various gas processing plants as well as from other natural gas transmission systems and transports it to end users within the province or to other pipeline systems, primarily for export out of the province.

ATCO Pipelines' adjusted earnings of $7 million in the fourth quarter and $31 million in the full year of 2016 were $1 million and $9 million higher when compared to the same periods of 2015. Higher earnings were primarily due to growth in rate base and the adverse earnings impact associated with the GCOC decision received in the first quarter of 2015.

International Natural Gas Distribution

ATCO Gas Australia is part of our international natural gas distribution activities. It is a regulated provider of natural gas distribution services in Western Australia, serving metropolitan Perth and surrounding regions.

ATCO Gas Australia's adjusted earnings of $4 million in the fourth quarter of 2016 were comparable to the same period in 2015. Earnings of $27 million in the full year of 2016 were $12 million higher when compared to the same period of 2015. Higher earnings were primarily attributable to the impact of the Access Arrangement regulatory decision received in the second quarter of 2015 and the appeal decision received in the second quarter of 2016, continued growth in rate base and business-wide cost reduction initiatives.

NON-REGULATED PIPELINES & LIQUIDS

Storage & Industrial Water

Our industrial water services and non-regulated natural gas and hydrocarbon storage, processing and transmission activities are conducted by ATCO Energy Solutions.

ATCO Energy Solution's adjusted earnings of $7 million in the fourth quarter of 2016 were lower when compared to the same period in 2015. Decreased earnings were primarily due to higher sales of excess natural gas in 2015, partially offset by higher demand and prices for storage services, and earnings contributions from the commencement of additional industrial water and hydrocarbon storage projects.

Adjusted earnings of $13 million in the full year of 2016 were $5 million higher than in 2015. Increased earnings were primarily due to higher demand and prices for storage services, earnings contributions from the commencement of additional industrial water and hydrocarbon storage projects in late 2015 and 2016 and business-wide cost reductions, partially offset by higher sales of excess natural gas in 2015.

Major Pipelines & Liquids Project Updates

Urban Pipelines Replacement Program

Construction continued on ATCO Pipelines' AUC-approved UPR program in 2016. Construction will continue until 2020 and the total cost of the UPR program is estimated to be $850 million, which includes the cost to integrate the new high-pressure network with ATCO Gas' low-pressure distribution system. In 2016, ATCO Gas and ATCO Pipelines invested $185 million in the UPR program. The program will replace and relocate aging, high-pressure natural gas pipelines in densely populated areas of Calgary and Edmonton to address safety, reliability and future growth.

Mains Replacement Programs

ATCO Gas has 8,000 kms of plastic pipe and 9,000 kms of steel pipe that have been identified for replacement. The Plastic Mains Replacement program is a 20-year program aimed at replacing polyvinyl chloride (PVC) and early generation polyethylene (PE) pipe. The Steel Mains Replacement program replaces steel pipe that is generally more than 60 years old. In 2016, ATCO Gas replaced 242 kms of plastic pipe, and 41 kms of steel pipe.

Hydrocarbon Storage

ATCO Energy Solutions, together with our partner, is developing four salt caverns with capacity to store approximately 400,000 cubic metres of hydrocarbons at the ATCO Heartland Energy Centre near Fort Saskatchewan, Alberta. Long-term contracts have been secured for all four salt caverns. The total partnership investment is approximately $200 million. ATCO Energy Solutions is the facility operator and has a 60 per cent partnership interest.

Construction of the first two caverns is complete and operations are underway with earnings contributions commencing in the fourth quarter of 2016. Construction of the two remaining caverns is expected to be complete by the end of 2017.

Industrial Water

Through the ATCO Heartland Industrial Water System, ATCO Energy Solutions' multi-user water system connected to the North Saskatchewan River, ATCO provides integrated water services including pipeline transportation, water treatment, recycling and disposal to industrial customers. This industrial water system also supplies water for the development of salt caverns for the Company's hydrocarbon storage facilities in the region. The Company's river intake system and modern pump station facility has the capacity to withdraw 3,550 cubic metres per hour, with a current deliverability of 1,300 cubic metres per hour.

In the fourth quarter of 2015, ATCO Energy Solutions entered into a long-term commercial agreement with Air Products to provide water pre-treatment services in addition to the existing water transportation services contract for Air Products' hydrogen facility near Fort Saskatchewan. Construction on this project was completed, and commercial operations commenced in the fourth quarter of 2016. With the addition of this service, ATCO Energy Solutions has the potential to further grow the Company's suite of water and wastewater services for industrial customers throughout Alberta's Industrial Heartland.

Capital Redeployment

In the first quarter of 2016, ATCO Energy Solutions sold its 51.3 per cent ownership in the Edmonton Ethane Extraction Plant. Proceeds of the sale totaled $21 million. The proceeds from the sale will be deployed for continued capital growth in industrial water infrastructure and hydrocarbon storage in Alberta's Industrial Heartland region.

International Natural Gas Transmission - Mexico Tula Pipeline

In 2014, ATCO signed a 25-year Transportation Services Agreement with the Comisión Federal de Electricidad (CFE) to design, build and operate a 16 km natural gas pipeline near the town of Tula in the state of Hidalgo, Mexico. ATCO has completed the majority of construction and continues to work with the Government of Mexico regarding land access and the completion of construction.

Corporate & Other

The Corporate & Other segment includes the recent launch of retail energy through ATCOenergy to provide retail electricity and natural gas services in Alberta, the commercial real estate owned by the Company in Alberta, and the strategic investment and expansion into Mexico. Corporate & Other also includes the Company's global corporate head office in Calgary, Canada and ATCO Australia's corporate head office in Perth, Western Australia.

Corporate & Other adjusted earnings in the fourth quarter and full year of 2016 were lower when compared to the same periods in 2015. Lower earnings were primarily due to dividend costs associated with Canadian Utilities' preferred share issuances in the second half of 2015 and ATCOenergy business development expenses.

REGULATORY DEVELOPMENTS

REGULATED BUSINESS MODELS

The business operations of ATCO Electric Distribution, ATCO Electric Transmission, ATCO Gas and ATCO Pipelines are regulated mainly by the AUC. The AUC administers acts and regulations covering such matters as rates, financing and service area.

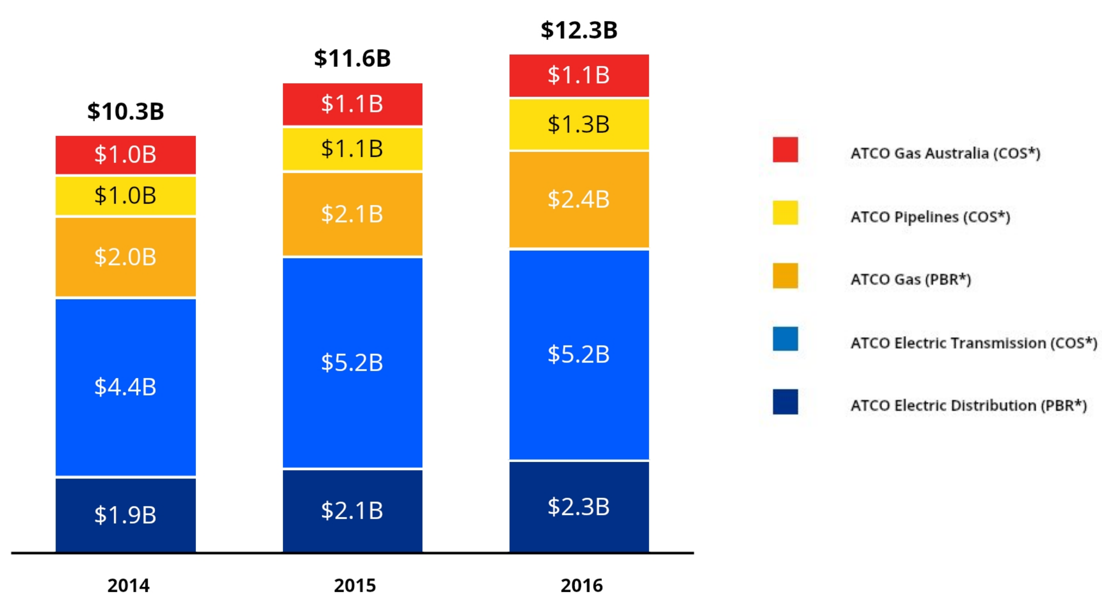
The transmission operations of ATCO Pipelines and ATCO Electric Transmission operate under a cost of service regulation. Under this model, the regulator establishes the revenues needed for a fair return on utility investment using mid-year calculations of the total investment less depreciation, otherwise known as Mid-Year Rate Base. Growth in Mid-Year Rate Base is a leading indicator of the business' earnings trend, depending on the equity ratio of the Mid-Year Rate Base and the Rate of Return on Common Equity.

The distribution operations of ATCO Gas and ATCO Electric Distribution operate under performance based regulation (PBR). Under PBR, revenue is determined by a formula that adjusts customer rates for inflation and expected productivity improvements. The AUC reviews the utilities' results annually to ensure the rate of return on common equity is within certain upper and lower boundaries. To do these calculations, the AUC reviews Mid-Year Rate Base. For this reason, growth in Mid-Year Rate Base can be a leading indicator of the business' earnings trend, depending on the ability of the business to maintain costs based mainly on the formula that adjusts rates for inflation and productivity improvements.

ATCO Gas Australia is regulated mainly by the Economic Regulation Authority (ERA) of Western Australia. ATCO Gas Australia operates under cost of service regulation under which the ERA establishes the revenues for each year to recover a return on projected Mid-Year Rate Base, including income taxes, depreciation on the projected rate base, and projected operating costs. For this reason, growth in Mid-Year Rate Base can be a leading indicator of the business' earnings trend, depending on the ability of the business to maintain costs within approved limits along with several other annual adjustments.

Further discussion of these regulations is discussed in the Company's Annual Information Form in the Government Regulation section.

Regulated Utilities Mid-Year Rate Base



** COS means Cost of Service Regulation; PBR means Performance Based Regulation*

Generic Cost of Capital (GCOC)

In October 2016, the Company received the AUC 2016 GCOC decision. The decision established the return on equity (ROE) and deemed common equity ratios for the Alberta Utilities for 2016 and 2017. The approved ROE and common equity ratios for 2017 will remain in place on an interim basis for 2018 and for subsequent years until changed by the AUC. For ATCO Electric Distribution and ATCO Gas, the 2016 GCOC decision only applies to incremental capital funding and does not apply to the base PBR formula. Based on the changes to the approved ROE and common equity ratios, the net impact is expected to be an improvement to 2017 adjusted earnings for ATCO, mainly due to the increase in the approved ROE and common equity ratio for ATCO Electric Transmission.

The following table compares the ROE and deemed common equity ratios resulting from the 2013 and 2016 GCOC decisions. The information reflects the most recent amending or varying orders issued after the original decision date.

	Year	AUC Decision	Rate of Return on Common Equity (%) [1]	Common Equity Ratio (%) [2]	Mid-Year Rate Base ($ millions)
ATCO Electric Distribution	**2017**	**2016 GCOC [3]**	**8.50**	**37.0**	–
	2016	**2016 GCOC [3]**	**8.30**	**37.0**	**2,315** [6]
	2015	2013 GCOC [4]	8.30	38.0	2,130 [7]
	2014	2013 GCOC [4]	8.30	38.0	1,949
ATCO Electric Transmission	**2017**	**2016 GCOC [3]**	**8.50** [5]	**37.0**	–
	2016	**2016 GCOC [3]**	**8.30** [5]	**37.0**	**5,218** [8]
	2015	2013 GCOC [4]	8.30	36.0	5,198 [9]
	2014	2013 GCOC [4]	8.30	36.0	4,413
ATCO Gas	**2017**	**2016 GCOC [3]**	**8.50**	**37.0**	–
	2016	**2016 GCOC [3]**	**8.30**	**37.0**	**2,352** [10]
	2015	2013 GCOC [4]	8.30	38.0	2,145 [11]
	2014	2013 GCOC [4]	8.30	38.0	1,988
ATCO Pipelines	**2017**	**2016 GCOC [3]**	**8.50**	**37.0**	–
	2016	**2016 GCOC [3]**	**8.30**	**37.0**	**1,263** [12]
	2015	2013 GCOC [4]	8.30	37.0	1,144
	2014	2013 GCOC [4]	8.30	37.0	979

(1) Rate of return on common equity is the rate of return on the portion of rate base considered to be financed by common equity.

(2) The common equity ratio is the portion of rate base considered to be financed by common equity.

(3) The AUC released its GCOC decision for the periods 2016 to 2017 on October 7, 2016.

(4) The ROE and common equity ratio were based on the last AUC GCOC decision of March 23, 2015.

(5) The ROE and common equity ratio for ATCO Electric Transmission were approved on an interim basis on October 7, 2016, and were approved on a final basis on December 16, 2016.

(6) The mid-year rate base forecast for 2016 is based of the 2016-2017 Capital Tracker Compliance application filed on April 14, 2016.

(7) The mid-year rate base for 2015 is based on the Rule 005 Actuals Package filed on May 2, 2016.

(8) The mid-year rate base forecast for 2016 is based of the 2015-2017 GTA Compliance application filed on December 14, 2016.

(9) The mid-year rate base for 2015 is based on the Rule 005 Actuals Package filed on May 2, 2016.

(10) The mid-year rate base forecast for 2016 is based on the 2016 forecast included in the 2016-2017 Capital Tracker Compliance Application filed on May 12, 2016.

(11) The mid-year rate base for 2015 is based on the Rule 005 Actuals Package filed on May 16, 2016.

(12) The mid-year rate base for 2016 is from the 2017/2018 General Rate Application (GRA) filed September 22, 2016.

NEXT GENERATION OF PERFORMANCE BASED REGULATION (PBR 2)

On December 16, 2016, the AUC released its decision on the second generation of PBR plan framework for electricity and natural gas distribution utilities in Alberta. Under the 2018 to 2022 second generation PBR framework, utility rates will continue to be adjusted by a formula that estimates inflation annually and assumes productivity improvements. The framework also contains modified provisions for supplemental funding of capital expenditures that are not recovered as part of the base inflation less productivity formula. Regulatory applications to determine going-in rates will be filed by March 31, 2017. This decision does not apply to the transmission operations of ATCO Electric and ATCO Pipelines; these continue to be regulated under Cost of Service regulation.

The following table compares the key aspects of the PBR First Generation with the PBR Second Generation based on the AUC's December 16, 2016 decision.

	PBR First Generation	**PBR Second Generation**
Timeframe	2013 to 2017	2018 to 2022
Inflation Adjuster (I Factor)	Inflation indexes (AWE and CPI) adjusted annually	Unchanged
Productivity Adjuster (X Factor)	1.16%	0.30%
O&M	Based on approved 2012 forecast O&M levels; inflated by I-X thereafter over the PBR term	Based on the lowest annual actual O&M level during 2013-2016, adjusted for anomalies, inflation and growth to 2017 dollars; inflated by I-X thereafter over the PBR term
Treatment of Capital Expenditures	• Recovered through going-in rates inflated by I-X • Significant capital expenditures not fully recovered by the I-X formula and meeting certain criteria recovered through a K Factor	• Recovered through going-in rates inflated by I-X and a K Bar that is based on inflation adjusted average historical capital expenditures for the period 2013-2016 • Significant capital expenditures that are extraordinary, not previously incurred and required by a third party recovered through a “Type I” K Factor
ROE Used for Going-in Rates	8.75%	• 8.5% • + 0.5% ROE ECM achieved from PBR First Generation added to 2018 and 2019
Efficiency Carry-over Mechanism (ECM)	ECM up to 0.5% additional ROE for the years 2018 and 2019 based on certain criteria	ECM up to 0.5% additional ROE for the years 2023 and 2024 based on certain criteria
Reopener	+/- 300 bps of the approved ROE for two consecutive years or +/- 500 bps of the approved ROE for any single year	Unchanged
ROE Used for Reopener Calculation	2013 to 2016: 8.3% 2017: 8.5%	2018 approved ROE (once known) and approved rates thereafter

ATCO Electric Transmission 2015 to 2017 General Tariff Application (GTA)

In March 2015, ATCO Electric Transmission filed a general tariff application for its operations for 2015, 2016 and 2017. The application requested, among other things, additional revenues to recover higher financing, depreciation and operating costs associated with growth in rate base in Alberta. In August 2016, the AUC issued a decision on the GTA with final rates that were lower than the approved interim rates from 2015 mainly due to lower approved O&M and G&A costs. The impact of this decision was a reduction to 2016 adjusted earnings of $10 million of which $6 million relates to 2016 and $4 million relates to 2015.

PBR Capital Tracker Applications

The Capital Tracker is a mechanism included in the 2013-2017 PBR regulatory model to allow the Company to recover capital investments that meet certain criteria and are not recoverable through the base PBR formula. The decisions for the 2014 Capital Tracker true-up and the 2016-2017 Capital Tracker applications were received by ATCO Electric Distribution in March 2016 and ATCO Gas in April 2016. These decisions included approval of incremental funding for the majority of the Company's applied-for forecast Capital Tracker programs for 2016 and 2017.

ATCO Gas Australia Access Arrangement Decision

In July 2015, the Western Australia Economic Regulation Authority (ERA) released its Final Decision for ATCO Gas Australia's next Access Arrangement period (AA4) from July 2014 to December 2019. The Australian Competition Tribunal (ACT) decision resulted in a reduced utility ROE from 10.41 per cent (AA3) to 7.21 per cent (AA4).

ATCO Gas Australia lodged an Appeal Application with the ACT on October 1, 2015 seeking leave to appeal a number of key items, including, but not limited to, ROE and the recovery of operating expenses, depreciation and corporate income tax expenses. The ACT decision was received in July 2016 resulting in an increase of approximately $3 million to 2016 adjusted earnings mainly due to an improvement in the recoverability of certain expenses.

The following table compares the ROE and deemed common equity ratios resulting from the 2016 ERA Amended Final Decision.

	Year	ERA Decision	Mid-Year Rate Base ($ millions)	Rate of Return on Common Equity (%) [1]	Common Equity Ratio (%) [2]
ATCO Gas Australia	**2016**	**2016 AA4 [3]**	**1,111**	**7.21**	**40.0**
	2015	2016 AA4 [3]	1,083	7.21	40.0
	2014	2016 AA4 [3]	953	8.81	40.0

(1) Rate of return on common equity is the rate of return on the portion of rate base considered to be financed by common equity.

(2) The common equity ratio is the portion of rate base considered to be financed by common equity.

(3) The ERA released its AA4 Amended Final Decision on September 10, 2015. This was superseded when the ERA released its AA4 Revised Final Decision on October 25, 2016.

SUSTAINABILITY, CLIMATE CHANGE AND THE ENVIRONMENT

ATCO believes that reducing its environmental impact is integral to the pursuit of operational excellence and long-term sustainable growth. ATCO's success depends on its ability to operate in a responsible and sustainable manner, today and in the future.

SUSTAINABILITY REPORTING

ATCO has been publishing external sustainability reports since 2008. Reporting is based upon the internationally recognized Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, covering a broad spectrum of metrics (i.e. Environment, Health & Safety, Employees and Communities).

Priority has been placed on reporting core non-financial indicators to provide meaningful, efficient and transparent disclosures in priority areas for “customers” of our sustainability reporting (i.e. investors, business partners, customers, communities, Indigenous groups, employees, and government).

In 2016, a more detailed key topic assessment was completed to further engage groups impacted by our operations, to take steps toward alignment with evolving international guidance (GRI Sustainability Reporting Standards), and to inform the redesign of our sustainability disclosures and communication.

The 2016 Sustainability Report, expected to be released in May 2017, will be focused on key material topics including: Environmental Stewardship (climate change and energy use, and environmental compliance), Energy Stewardship (access and affordability, security and reliability, and customer satisfaction), Safety (employee health and safety, public safety, and emergency preparedness), and Community and Indigenous Relations.

CLIMATE CHANGE AND THE ENVIRONMENT

The following is an overview of environmental regulatory developments, predominantly focused on Alberta and Canada as the majority of our assets are located within these jurisdictions.

Government of Alberta's Provincial Climate Leadership Plan

In November 2015, the Government of Alberta announced its Climate Leadership Plan, a proposed framework which includes:

1. phasing out of coal-fired generation by 2030,
2. phasing in of renewable energy,
3. an economy-wide tax on carbon emissions starting in 2017, and
4. the reduction of methane emissions.

ATCO shares the province's vision to reduce emissions and improve environmental performance. ATCO has been working closely with the Government to increase renewable power generation in the market, while maintaining the reliability of the electrical grid, protecting jobs and mitigating costs for consumers.

1. Phasing Out of Coal-fired Generation by 2030

On November 24, 2016, ATCO Power and the Government of Alberta entered into a conditional agreement for transition payments on the elimination of coal-fired emissions from the Sheerness Generating Station (Sheerness) on or before December 31, 2030. As compensation for the capital invested in Sheerness, ATCO Power will receive cash payments from the Government of $4.7 million annually for 14 years, commencing in 2017 and terminating in 2030. Sheerness units 1 and 2 were otherwise scheduled to retire in 2036 and 2040.

Thermal PPAs

On July 25, 2016, the Government of Alberta commenced legal action to determine the validity and interpretation of certain terms within the coal PPAs and related regulations. The legal action filed by the Government seeks to prevent the PPAs from being returned to the Balancing Pool. ATCO has never been a buyer of a coal PPA, and the proceeding seeks no direct relief against ATCO.

In December 2016, the Government of Alberta announced it had reached an agreement to settle the legal action against TransCanada Energy. The agreement completely removes TransCanada Energy from the court proceedings and settles the matter between the parties as well as all arbitrations with the Balancing Pool. As a result, the Sheerness units 1 and 2 PPAs have been returned to the Balancing Pool, who retains the rights and obligations under the PPAs.

A legal action remains outstanding between the Government of Alberta and Enmax for its return of certain PPAs to the Balancing Pool, including the Battle River unit 5 PPA.

ATCO continues to operate Battle River unit 5 and Sheerness units 1 and 2 under the terms of their respective PPAs. ATCO will monitor and, in its capacity as a respondent, participate in the proceeding.

2. Phasing in of Renewable Energy

As part of its Climate Leadership Plan, the Government of Alberta published a firm target that 30 per cent of electricity used in Alberta will come from renewable sources such as wind, hydro and solar by 2030. The Government will support 5,000 MW of additional renewable energy capacity. Support will be provided to projects that are based in Alberta, are new or expanded, are greater than five MW in size, and meet the definition of renewable sources as defined by Natural Resources Canada.

On November 3, 2016, the Government of Alberta appointed the AESO to administer a competitive process to procure up to 5,000 MW of renewable energy by 2030. The AESO plans to gather feedback from industry on draft commercial terms before the first auction anticipated in 2017 for delivery in 2019. ATCO continues to examine renewable opportunities that support its strategic objectives as active participants in Alberta's electricity transformation.

3. Tax on Carbon Emissions

The Government of Alberta will phase in the carbon tax across all sectors in two steps. An economy-wide carbon tax of $20 per tonne will be implemented in 2017, followed by a $30 per tonne carbon tax in 2018.

Primary impacts to ATCO from the Alberta economy-wide tax on carbon or carbon levy implemented in 2017 is to our natural gas distribution business. ATCO will calculate consumption from the meter and apply the levy to the tariff bill file for retailers to bill customers. The retailers pay ATCO and ATCO will be responsible for monthly remittance to the Government of Alberta. This is the same process ATCO carries out on behalf of the Government for collecting and remitting GST.

Regulation is under development to determine how the carbon levy will be applied to generating units with greenhouse gas emissions above a defined limit. For ATCO Power’s PPA Thermal power units, Battle River unit 5 and Sheerness units 1 and 2, the PPA allows the Company to recover costs of compliance with Alberta regulations through the term of the PPA. If the costs are for operations after the PPA term, the plant owner, not the PPA counterparty, bears the burden of these costs. Longer term, we anticipate carbon costs will be largely recovered through the Alberta power market.

4. ***Reduction of Methane Emissions***

The Government of Alberta's plan is to reduce methane emissions by 45 per cent from oil and gas operations by 2025 by applying new emissions design standards to new Alberta facilities, and developing a five-year voluntary Joint Initiative on Methane Reductions and Verification.

Future provincial regulations or reduction targets for methane emissions predominantly affect the Company's fugitive or venting emissions from natural gas pipeline-related operations. Fugitive and venting emissions typically account for less than four per cent of ATCO's direct greenhouse gas emissions, and ATCO has already implemented a number of programs to improve efficiency and reduce fugitive and venting emissions.

The Company's exposure is limited for the Alberta Utilities because requirements to upgrade equipment in order to further reduce methane emissions are expected to be included in rate base on a go-forward basis.

Government of Canada Proposals on the Environment

Phasing out Coal-fired Generation

In November 2016, the Government of Canada announced electricity regulations to phase-out coal-fired electricity by December 31, 2029. Because Alberta's Climate Leadership Plan already includes a proposal to phase out coal-fired electricity by December 31, 2030, this Government of Canada plan is unlikely to materially impact ATCO.

Tax on Carbon Emissions

In October 2016, the Government of Canada passed a motion in the House of Commons to ratify the Paris Climate Change Accord. At the same time, the Government announced a requirement for some form of carbon pricing in all jurisdictions in Canada by 2018; proposing a national benchmark requirement of $10 per tonne of CO_2 by 2018, rising by $10 each year to $50 per tonne in 2022. The Government has stated that it will work with the provinces and territories to ensure that all monies raised by the carbon tax will stay in the direct control of the respective provinces and territories.

Reduction of Methane Emissions

The Government of Canada has announced a target to reduce methane to 40 per cent below 2012 levels by 2025. The Company's exposure is limited for the Alberta Utilities because requirements to upgrade equipment in order to further reduce methane emissions are expected to be included in rate base on a go-forward basis.

OTHER EXPENSES AND INCOME

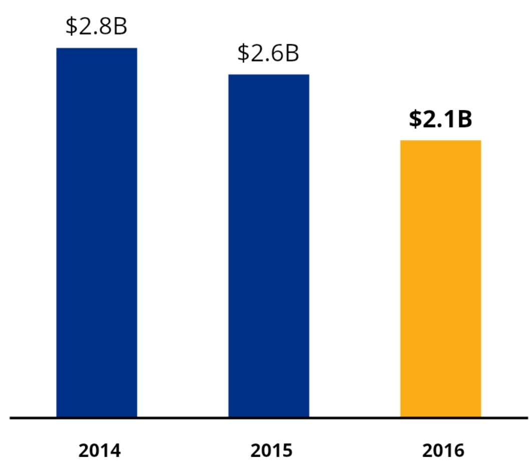
A financial summary of other consolidated expenses and income items for the quarters and years ended December 31, 2016 and 2015 is given below. These amounts are presented in accordance with IFRS accounting standards. They have not been adjusted for the timing of revenues and expenses associated with rate-regulated activities and other items that are not in the normal course of business.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Operating costs	**527**	737	(210)	**2,088**	2,584	(496)
Service concession arrangement costs	**69**	–	69	**69**	–	69
Gain on sales of operations and revaluation of joint venture	**–**	49	(49)	**18**	49	(31)
Earnings from investment in joint ventures	**9**	(3)	12	**22**	3	19
Depreciation, amortization and impairment	**153**	328	(175)	**615**	756	(141)
Net finance costs	**96**	79	17	**380**	289	91
Income taxes	**92**	(2)	94	**258**	198	60

OPERATING COSTS

Operating costs, which are total costs and expenses less service concession arrangement costs and depreciation, amortization and impairment, decreased by $210 million in the fourth quarter and $496 million in the full year of 2016 when compared to the same periods in 2015. Lower operating costs are being realized in 2016 as a result of the Company's restructuring exercise in 2015, leading to ongoing business-wide cost reduction initiatives. The decrease is also due to lower raw materials costs resulting from lower manufacturing activity in the Structures & Logistics modular structures business, and lower fuel costs resulting from the sale and closure of certain non-core NGL and gas gathering and processing assets in ATCO Energy Solutions in late 2015 and early 2016.

Lower Operating Costs Positively Impacted 2016 Earnings



SERVICE CONCESSION ARRANGEMENT COSTS

Service concession arrangement costs increased in the fourth quarter and full year of 2016 when compared to the same periods in 2015. The increase is attributable to costs APL has recorded on the design and planning phases of the Fort McMurray 500 kV Project. The accounting for APL is discussed further in Note 15 to the 2016 Annual Financial Statements.

GAIN ON SALES OF OPERATIONS AND REVALUATION OF JOINT VENTURE

The gain on sales in 2016 was due to the sale of the ATCO Energy Solutions' Edmonton Ethane Extraction Plant in the first quarter of 2016. Higher contributions in 2015 were mainly due to the gain on sales of Structures & Logistics' Emissions Management business, the revaluation of the ATCO Power's Barking investment, and the sale of certain ATCO Energy Solutions' non-core NGL and gas gathering and processing assets.

EARNINGS FROM INVESTMENT IN JOINT VENTURES

Earnings from investment in joint ventures is mainly comprised of the Company's ownership position in several power generation plants, the Strathcona Storage Limited Partnership, ATCO-Sabinco S.A., and certain lodge assets in Structures & Logistics. Lower earnings in 2015 were primarily due to an impairment recorded in the second quarter of 2015 by Structures & Logistics of $8 million as a result of challenging market conditions in its joint venture lodge business and costs associated with the acquisition of an increased ownership position in Barking in the fourth quarter of 2015.

DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In the fourth quarter and full year of 2016, depreciation, amortization and impairment expense decreased by $175 million and $141 million, when compared to the same periods in 2015. The decreased expense was mainly due to impairments recorded in 2015 as a result of challenging market conditions.

NET FINANCE COSTS

Net finance costs increased in the fourth quarter and full year of 2016 when compared to the same periods in 2015. These increases were primarily due to interest costs which were previously capitalized now being recorded as interest expense, mainly resulting from the completion of the $1.8 billion Eastern Alberta Transmission Line (EATL) project during the fourth quarter of 2015. Higher interest expense is also the result of incremental debt issued to fund the Regulated Utilities' ongoing capital investment program.

INCOME TAXES

Income taxes increased in the fourth quarter and full year of 2016 when compared to the same periods in 2015, mainly due to higher earnings before taxes driven by continued capital investment and growth in rate base within the Regulated Utilities and business-wide cost reduction initiatives.

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial position is supported by Regulated Utility and long-term contracted operations. Its business strategies, funding of operations, and planned future growth are supported by maintaining strong investment grade credit ratings and access to capital markets at competitive rates. Primary sources of capital are cash flow from operations and the debt and preferred share capital markets. An additional source of capital is the Class A non-voting shares Canadian Utilities issues under its Dividend Reinvestment Plan (DRIP).

The Company considers it prudent to maintain enough liquidity to fund approximately one full year of cash requirements to preserve strong financial flexibility. Liquidity is generated by cash flow from operations and is supported by appropriate levels of cash and available committed credit facilities.

CREDIT RATINGS

Credit ratings are important to the Company's financing costs and ability to raise funds. The Company intends to maintain strong investment grade credit ratings in order to provide efficient and cost effective access to funds required for operations and growth.

In July 2016, Standard & Poor's Rating Services (S&P) affirmed its "A" with a negative outlook corporate credit rating on ATCO Ltd. and its subsidiaries Canadian Utilities Limited and CU Inc. In August 2016, DBRS Limited (DBRS) affirmed its rating on the Company as "A" (low) with a stable trend.

In October 2016, S&P affirmed its rating on ATCO Gas Australia's debt as "A-" with a negative outlook.

LINES OF CREDIT

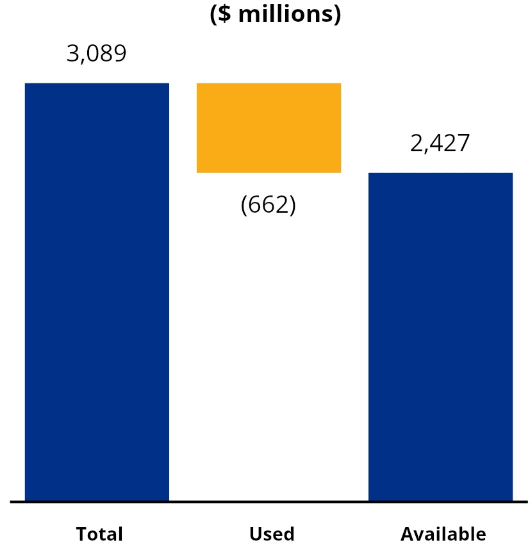
At December 31, 2016, the Company and its subsidiaries had the following lines of credit.

($ millions)	**Total**	**Used**	**Available**
Long-term committed	**2,687**	516	2,171
Short-term committed	**78**	9	69
Uncommitted	**324**	137	187
Total	**3,089**	662	2,427

Of the $3,089 million in total credit lines, $324 million was in the form of uncommitted credit facilities with no set maturity date. Of the remaining credit lines, $78 million mature in late 2017, and $2,687 million mature between 2018 and 2020 and may be extended at the option of the lenders.

The majority of the $662 million usage was associated with ATCO Gas Australia. Long-term committed credit lines are used to satisfy all of ATCO Gas Australia's term debt financing needs. Credit lines for ATCO Gas Australia are provided by Australian banks, with the majority of all other credit lines provided by Canadian banks.

Lines of Credit
($ millions)



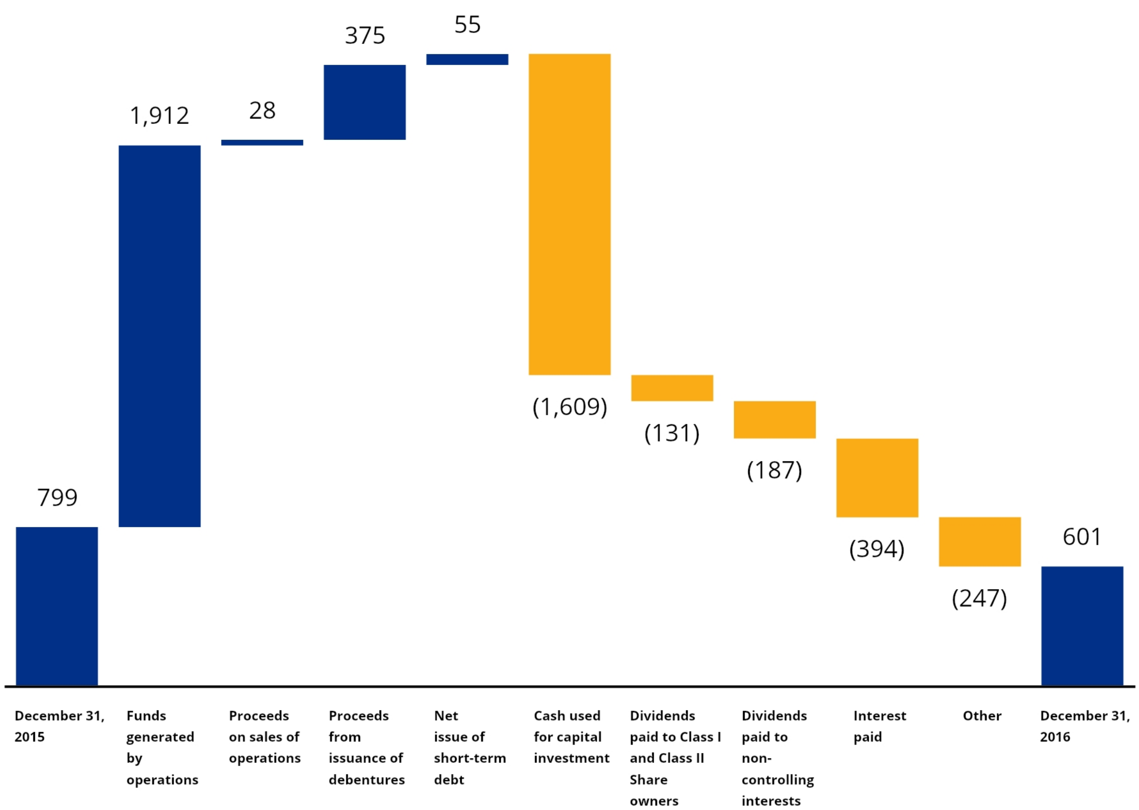
CONSOLIDATED CASH FLOW

At December 31, 2016, the Company's cash position was $601 million, a decrease of $198 million compared to 2015. Major movements are outlined in the following table:

($ millions)	Three Months Ended December 31 2016	2015	Change	Year Ended December 31 2016	2015	Change
Funds generated by operations	**600**	354	246	**1,912**	1,589	323
Proceeds on sales of operations	**–**	57	(57)	**28**	57	(29)
Proceeds from issuance of debentures	**375**	250	125	**375**	650	(275)
Net (repayment) issue of short-term debt	**(320)**	–	(320)	**55**	–	55
Cash used for capital investments	**(467)**	(641)	174	**(1,609)**	(1,919)	310
Issue of equity preferred shares by subsidiary company	**–**	–	–	**–**	375	(375)
Dividends paid to Class I and Class II Share owners	**(33)**	(28)	(5)	**(131)**	(114)	(17)
Dividends paid to non-controlling interests	**(46)**	(44)	(2)	**(187)**	(163)	(24)
Interest paid	**(107)**	(102)	(5)	**(394)**	(370)	(24)
Other [(1)]	**(101)**	95	(196)	**(247)**	104	(351)
(Decrease) increase in cash position	**(99)**	(59)	(40)	**(198)**	209	(407)

(1) Includes $18 million of Class I Shares purchased under the Company's normal course issuer bid in 2016.

Changes in Consolidated Cash Flow in 2016
($ millions)



Funds generated by operations

Funds generated by operations were $600 million in the fourth quarter and $1,912 million in the full year of 2016, compared to $354 million and $1,589 million in the same periods in 2015. The increases were mainly as a result of higher earnings attributable to Class I and Class II Shares driven by capital investment and rate base growth in the Regulated Utilities, and business-wide cost reduction initiatives.

Cash used for capital investments

Cash used for capital investments was $467 million in the fourth quarter and $1,609 million in the full year of 2016, compared to $641 million and $1,919 million in the same periods of 2015. Decreased investment was due to previously disclosed and planned lower capital spending in Electric Transmission year-over-year, mainly resulting from the completion of the EATL project during the fourth quarter of 2015.

Capital investment for the quarters and years ended December 31, 2016 and 2015 is shown in the table below.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Electricity						
ATCO Electric Distribution	**83**	100	(17)	**267**	355	(88)
ATCO Electric Transmission	**43**	141	(98)	**203**	471	(268)
ATCO Power [(1)]	**24**	23	1	**108**	85	23
Alberta PowerLine	**26**	9	17	**69**	24	45
Total Electricity	**176**	273	(97)	**647**	935	(288)
Pipelines & Liquids						
ATCO Gas	**92**	100	(8)	**336**	331	5
ATCO Pipelines	**115**	127	(12)	**252**	257	(5)
ATCO Gas Australia	**27**	23	4	**90**	80	10
Non-regulated Capital Investment [(2)]	**17**	82	(65)	**112**	207	(95)
Total Pipelines & Liquids	**251**	332	(81)	**790**	875	(85)
Structures & Logistics	**15**	15	–	**97**	61	36
Corporate & Other	**25**	21	4	**75**	48	27
Total [(3) (4)]	**467**	641	(174)	**1,609**	1,919	(310)

(1) *Includes ATCO Power Australia's capital expenditures in joint ventures of $6 million (2015 - nil) for the quarter and year ended December 31, 2016.*

(2) *Non-regulated Capital Investment includes ATCO Pipelines Mexico and ATCO Energy Solutions.*

(3) *Includes capital expenditures in joint ventures of $14 million and $89 million (2015 - $19 million and $51 million) for the quarter and year ended December 31, 2016.*

(4) *Includes additions to property, plant and equipment, intangibles and $4 million and $18 million (2015 - $20 million and $97 million) of interest capitalized during construction for the quarter and year ended December 31, 2016.*

Debt issuances and repayments

On November 19, 2016, CU Inc. issued $375 million of 3.763 per cent 30-year debentures. Proceeds from this issuance were used to fund significant capital investments, to repay existing indebtedness, and for other general corporate purposes of the Alberta Utilities.

Base Shelf Prospectuses

CU Inc. Debentures and Preferred Shares

On May 16, 2016, CU Inc. filed a base shelf prospectus that permits it to issue up to an aggregate of $1.5 billion of debentures over the 25-month life of the prospectus. As of March 1, 2017, aggregate issuances of debentures were $375 million.

Effective June 1, 2016, the annual dividend rate on CU Inc.'s Cumulative Redeemable Preferred Shares Series 4 was reset from 3.80 per cent to 2.24 per cent for the next five-year period.

Canadian Utilities Debt Securities and Preferred Shares

On April 12, 2016, Canadian Utilities filed a base shelf prospectus that permits it to issue up to an aggregate of $2 billion of debt securities and preferred shares over the 25-month life of the prospectus. No debt securities or preferred shares have been issued to date under this base shelf prospectus.

Dividends and Common Shares

The Company has increased its common share dividend each year since 1993. In each of the last six years, the Company has increased its quarterly dividend by 15 per cent. Dividends paid to Class I and Class II Share owners in the quarter and year ended December 31, 2016 totaled $33 million and $131 million. On January 12, 2017, the Board of Directors declared a first quarter dividend of 32.75 cents per share. The payment of any dividend is at the discretion of the Board of Directors and depends on the Company's financial condition and other factors.

15% increase in quarterly dividend for the sixth consecutive year

Normal Course Issuer Bid

The Company believes that, from time to time, the market price of its Class I Shares may not fully reflect the value of its business, and that purchasing its own Class I Shares represents an attractive investment opportunity and desirable use of available funds.

On March 2, 2015, ATCO commenced a normal course issuer bid to purchase up to 2,030,168 outstanding Class I Shares. The bid expired on February 29, 2016. On March 1, 2016, ATCO commenced a new normal course issuer bid to purchase up to 3,043,884 outstanding Class I Shares. The bid expired on February 28, 2017.

During the year ended December 31, 2016, 460,000 shares were purchased for $18 million.

Canadian Utilities Dividend Reinvestment Plan

In the fourth quarter of 2016, Canadian Utilities issued 395,544 Class A non-voting shares under its DRIP in lieu of cash dividend payments of $14 million.

During the year ended December 31, 2016, Canadian Utilities issued 1,484,241 (2015 - 2,792,302) Class A non-voting shares under its DRIP in lieu of cash dividend payments of $52 million (2015 - $99 million).

SHARE CAPITAL

ATCO's equity securities consist of Class I Shares and Class II Shares.

At March 1, 2017, the Company had outstanding 101,237,123 Class I Shares, 13,417,705 Class II Shares, and options to purchase 669,750 Class I Shares.

CLASS I NON-VOTING SHARES AND CLASS II VOTING SHARES

Each Class II Share may be converted into one Class I Share at any time at the share owner's option. If an offer to purchase all Class II Shares is made, and such offer is accepted and taken up by the owners of a majority of the Class II Shares, and, if at the same time, an offer is not made to the Class I Share owners on the same terms and conditions, then the Class I Shares will be entitled to the same voting rights as the Class II Shares. The two share classes rank equally in all other respects.

Of the 10,200,000 Class I Shares authorized for grant of options under ATCO's stock option plan, 2,732,750 Class I Shares were available for issuance at December 31, 2016. Options may be granted to the Company's officers and key employees 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 grant date. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the time of grant.

QUARTERLY INFORMATION

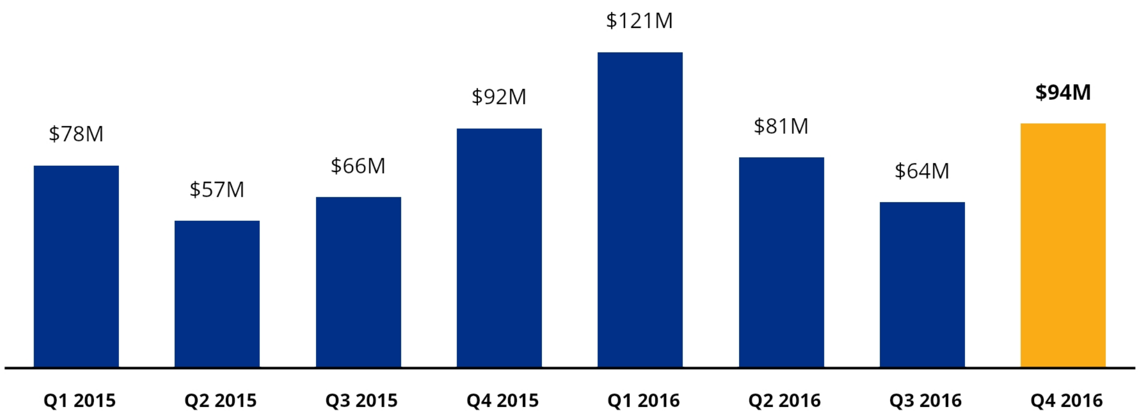
The following table shows financial information for the eight quarters ended March 31, 2015 through December 31, 2016.

($ millions except for per share data)	**Q1 2016**	**Q2 2016**	**Q3 2016**	**Q4 2016**
Revenues	1,058	932	923	**1,132**
Earnings attributable to Class I and Class II Shares	109	61	70	**100**
Earnings per Class I and Class II Share *($)*	0.95	0.53	0.61	**0.88**
Diluted earnings per Class I and Class II Share *($)*	0.95	0.53	0.61	**0.87**
Adjusted earnings				
Structures & Logistics	12	13	12	**6**
Electricity	54	55	46	**58**
Pipelines & Liquids	56	22	14	**44**
Corporate & Other and Intersegment Eliminations	(1)	(9)	(8)	**(14)**
Total adjusted earnings	121	81	64	**94**

($ millions except for per share data)	**Q1 2015**	**Q2 2015**	**Q3 2015**	**Q4 2015**
Revenues	1,072	947	985	1,127
Earnings attributable to Class I and Class II Shares	94	8	53	(1)
Earnings per Class I and Class II Share *($)*	0.82	0.07	0.46	(0.01)
Diluted earnings per Class I and Class II Share *($)*	0.82	0.06	0.46	(0.01)
Adjusted earnings				
Structures & Logistics	5	(2)	11	13
Electricity	34	53	51	33
Pipelines & Liquids	42	6	8	45
Corporate & Other and Intersegment Eliminations	(3)	–	(4)	1
Total adjusted earnings	78	57	66	92

Adjusted Earnings

The financial results for the previous eight quarters reflect continued growth in the Company's Regulated Utility operations as well as fluctuating commodity prices in electricity generation and sales, and natural gas gathering, processing, storage and liquids extraction operations. In addition, interim results will vary due to the seasonal nature of demand for electricity and natural gas, the timing of utility regulatory decisions and the cyclical demand for workforce housing and space rental products and services. Financial results in 2016 are reflective of improved earnings from business-wide cost reduction initiatives.



Structures & Logistics

Adjusted earnings in the Structures & Logistics Business Unit are reflective of the cyclical nature of large natural resource project activity in 2015 and 2016. Reduced lodging occupancy levels and room rates along with lower manufacturing activity and profit margins contributed to lower earnings in the first half of 2015. Improved earnings in the second half of 2015 and the first nine months of 2016 are associated with increased Modular Structures manufacturing activity, higher occupancy levels in the Lodging business and business-wide cost reduction initiatives. The completion of major Modular Structures projects during 2016 is reflected in lower fourth quarter 2016 earnings.

Electricity

Adjusted earnings in the Electricity Business Unit reflect the large capital investment made by Regulated Electricity in the previous eight quarters. These investments, which earn a return under a regulated business model, drive growth in adjusted earnings. Adjusted earnings have also been affected by the timing of certain major regulatory decisions, and Alberta Power Pool pricing and spark spreads. Earnings in the first quarter of 2015 include the financial impact of the GCOC and Capital Tracker decisions in Regulated Electricity. Lower earnings in the fourth quarter of 2015 were mainly due to regulatory lag which required an update to the forecast costs as compared to prospective costs originally filed in ATCO Electric Transmission's 2015 to 2017 General Tariff Application. Higher earnings in 2016 were primarily due to continued capital investment and rate base growth and business-wide cost reduction initiatives. Lower earnings in the third quarter of 2016 were due to the financial impact of the GTA decision.

Pipelines & Liquids

Adjusted earnings in the Pipelines & Liquids Business Unit reflect the large capital investments made by Regulated Pipelines & Liquids in the previous eight quarters. These investments, which earn a return under a regulated business model, drive growth in adjusted earnings. Adjusted earnings have also been affected by the timing of certain major regulatory decisions, seasonality, and commodity prices. Earnings in the first quarter of 2015 include the financial impact of the GCOC and Capital Tracker decisions in Regulated Pipelines & Liquids. Earnings in the second quarter of 2015 reflect the impact of the Access Arrangement decision on ATCO Gas Australia, and lower frac spreads and storage fees in ATCO Energy Solutions. Higher operations and maintenance costs and lower seasonal demand in ATCO Gas are reflected in third quarter earnings of 2015. Higher earnings in the fourth quarter of 2015 and first half of 2016 were primarily attributable to continued capital investment, growth in rate base and customers, and business-wide cost reduction initiatives. Higher earnings in the fourth quarter of 2016 were mainly due to continued capital investment, growth in rate base and customers, and business-wide cost reduction initiatives.

Earnings attributable to Class I and Class II Shares

Earnings attributable to Class I and Class II Shares include timing adjustments related to rate-regulated activities. They also include one-time gains and losses, significant impairments, restructuring charges and other items that are not in the normal course of business or a result of day-to-day operations recorded at various times over the past eight quarters. These items are excluded from adjusted earnings and are highlighted below:

- in the fourth quarter of 2016, the Company adjusted the deferred tax asset which was recognized as a result of the Tula Pipeline Project impairment. The adjustment of $5 million is due to a difference between the tax base currency, which is Mexican pesos, and the U.S. dollar functional currency;
- in the first quarter of 2016, ATCO recorded a gain on sale of joint operation of $7 million for the sale of ATCO Energy Solutions' 51.3 per cent interest in the Edmonton Ethane Extraction Plant;
- in the fourth quarter of 2015, ATCO recorded gains on sales of operations and a gain on a revaluation of a joint venture of $28 million for the sale of the Emissions Management business, the sale of certain non-core natural gas gathering and processing assets, and the revaluation of the Company's Barking investment;
- in the fourth quarter of 2015, impairment charges of $91 million were recorded relating to Structures & Logistics' workforce housing assets, the Battle River units 3 and 4 power generation assets, the Mexico Tula Pipeline, as well as certain gas gathering and processing facilities;
- in the fourth quarter of 2015, the Company recorded a restructuring charge of $44 million. These costs were primarily related to staff reductions and associated severance costs;
- in the third quarter of 2015, the Company recognized a restructuring charge of $3 million;
- in the second quarter of 2015, the Company recognized a restructuring charge of $3 million and an impairment of Structures & Logistics open lodge assets of $13 million; and
- in the second quarter of 2015, the Company made an adjustment of $37 million to current and deferred income taxes associated with the Government of Alberta corporate income tax rate increase from 10 to 12 per cent. $34 million of this adjustment related to deferred income taxes recorded by the Alberta Utilities that were excluded from adjusted earnings.

BUSINESS RISKS AND RISK MANAGEMENT

The Board of Directors (Board) is responsible for understanding the principal risks of the businesses in which the Company is engaged. The Board also must achieve a prudent balance between risks incurred and the potential return to share owners. It must confirm controls are in place that effectively monitor and manage those risks for the Company's long-term viability.

The Board has an Audit & Risk Committee, which reviews significant risks associated with future performance and growth. This committee is responsible for confirming that management has procedures in place to mitigate identified risks.

Business Risk: Capital Investment	
Businesses Impacted: • All businesses	**Associated Strategies:** • Growth • Financial Strength
Description and Context	***Risk Management Approach***
The Company is subject to the normal risks associated with major capital projects, including delays and cost increases.	The Company attempts to reduce the risks of project delays and cost increases by careful planning, diligent procurement practices and entering into long-term contracts when possible. ATCO Gas Australia capital investment is planned and approved by the regulator. Planned capital investments for the Alberta Utilities are based on the following significant assumptions: projects identified by the AESO will proceed as currently scheduled; the remaining planned capital investments are required to maintain safe and reliable service and meet planned growth in the Alberta Utilities' service areas; regulatory approval for capital projects can be obtained in a timely manner; and access to capital market financings can be maintained. The Company believes these assumptions are reasonable.

Business Risk: Credit Risk	
Businesses Impacted: • All businesses	**Associated Strategies:** • Financial Strength
Description and Context	***Risk Management Approach***
For cash and cash equivalents and accounts receivable, credit risk represents the carrying amount on the consolidated balance sheet. Derivative, lease receivable and receivable under service concession arrangement credit risk arises from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. The maximum exposure to credit risk is the carrying value of loans and receivables and derivative financial instruments.	Cash and cash equivalents credit risk is reduced by investing in instruments issued by credit-worthy financial institutions and in federal government issued short-term instruments. The Company minimizes these risks by dealing with large, credit-worthy counterparties with established credit-approval policies. A significant portion of loans and receivables are from the Company's operations in Alberta, except for the lease receivable for the Karratha plant in Australia. Accounts receivable credit risk is reduced by a large and diversified customer base and credit security, such as letters of credit. The Alberta Utilities are also able to recover an estimate for doubtful accounts through approved customer rates and to request recovery through customer rates for any material losses from retailers beyond the retailer security mandated by provincial regulations.

Business Risk: Cybersecurity	
Businesses Impacted: • All businesses	**Associated Strategies:** • Operational Excellence • Innovation
Description and Context	***Risk Management Approach***
The Company's reliance on technology, which supports its information and industrial control systems, is subject to potential cyberattacks including unauthorized access of confidential information and outage of critical infrastructure.	ATCO has an enterprise wide cybersecurity program that covers all technology assets and is aligned to industry best practices. The cybersecurity program includes the utilization of layered access controls, continuous monitoring, network threat detection, and coordinated incident response through a centralized information technology response centre. The Company's cybersecurity management is consolidated under a common organizational structure to increase effectiveness and compliance across the entire enterprise.

Business Risk: Energy Commodity Price Risk	
Businesses Impacted: • ATCO Power • ATCO Energy Solutions • ATCOenergy	**Associated Strategies:** • Financial Strength
Description and Context	***Risk Management Approach***
ATCO Power earnings are affected by short-term price volatility. Changes to the power reserve margin (power supply relative to demand) and natural gas prices can result in volatility in Alberta Power Pool Prices and spark spreads. A number of key factors contribute to price volatility including electricity demand and electricity supply, primarily from Alberta's coal and wind generation. ATCO Energy Solutions' natural gas storage facility in Carbon, Alberta, is also exposed to storage price differentials.	In conducting its business, the Company may use various instruments, including forward contracts, swaps, and options to manage the risks arising from fluctuations in commodity prices. The Company enters into natural gas purchase contracts and forward power sales contracts as the hedging instrument to manage the exposure to electricity and natural gas market price movements. All such instruments are used only to manage risk and optimize the available merchant capacity.

Business Risk: Financing Risk	
Businesses Impacted: • All businesses	**Associated Strategies:** • Financial Strength
Description and Context	***Risk Management Approach***
The Company's financing risk relates to the price volatility and availability of external financing to fund the capital expenditure program and refinance existing debt maturities. Financing risk is directly influenced by market factors. As financial market conditions change, these risk factors can affect the availability of capital and also the relevant financing costs.	To address this risk, the Company manages its capital structure to maintain strong credit ratings which allow continued ease of access to the capital markets. The Company also considers it prudent to maintain sufficient liquidity to fund approximately one full year of cash requirements to preserve strong financial flexibility. This liquidity is generated by cash flow from operations and supported by appropriate levels of cash and available committed credit facilities.

Business Risk: Foreign Currency Exchange Rate	
Businesses Impacted: • Structures & Logistics • ATCO Gas Australia • ATCO Power Australia • ATCO Pipelines Mexico	**Associated Strategies:** • Financial Strength
Description and Context	***Risk Management Approach***
The Company's earnings from, and carrying values of, its foreign operations are exposed to fluctuations in exchange rates. The Company is also exposed to transactional foreign exchange risk through transactions denominated in a foreign currency.	In conducting its business, the Company may use various instruments, including forward contracts, swaps, and options, to manage the risks arising from fluctuations in exchange rates. All such instruments are used only to manage risk and not for trading purposes. This foreign exchange impact is partially offset by foreign denominated financing and by hedging activities. Revenues and expenses in functional currencies other than Canadian dollars are translated at the average monthly rates of exchange during the period. Gains or losses on translation of the assets and liabilities of foreign operations are included in the foreign currency translation adjustment account in accumulated other comprehensive income in the 2016 Annual Financial Statements. The Company manages this risk through its policy of matching revenues and expenses in the same currency. When matching is not possible, the Company utilizes foreign currency forward contracts to manage the risk.

Business Risk: Generation Equipment and Technology Risk	
Businesses Impacted: • ATCO Power • ATCO Power Australia	**Associated Strategies:** • Financial Strength • Operational Excellence
Description and Context	***Risk Management Approach***
ATCO Power and ATCO Power Australia's generating plants are exposed to operational risks which can cause outages due to issues such as boiler, turbine, and generator failures. An extended outage could negatively impact earnings and cash flows. If a generating plant does not meet availability or production targets specified in a PPA or another long-term agreement, the Company may need to compensate the purchaser for the loss of production availability.	To reduce this risk, a proactive maintenance program is regularly carried out with scheduled outages for major overhauls and other maintenance. The Company also carries property and some business interruption insurance for its power plants to protect against extended outages. PPAs are designed to provide force majeure relief for regulated plant outages beyond specified time periods and certain circumstances.

Business Risk: Interest Rate Risk	
Businesses Impacted: • All businesses	**Associated Strategies:** • Financial Strength
Description and Context	***Risk Management Approach***
The interest rate risk faced by the Company is largely a result of its recourse and non-recourse long-term debt at variable rates as well as cash and cash equivalents. The Company also has exposure to interest rate movements that occur beyond the term of maturity of the fixed-rate investments.	In conducting its business, the Company may use various instruments, including forward contracts, swaps, and options to manage the risks arising from fluctuations in interest rates. All such instruments are used only to manage risk and not for trading purposes. The Company has converted certain variable rate long-term debt and non-recourse long-term debt to fixed rate debt through interest rate swap agreements. At December 31, 2016, the Company had fixed interest rates, either directly or through interest rate swap agreements, on 100 per cent (2015 - 99 per cent) of total long-term debt and non-recourse long-term debt. Consequently, the exposure to fluctuations in future cash flows, with respect to debt, from changes in market interest rates was limited. The Company's cash and cash equivalents include fixed rate instruments with maturities of generally 90 days or less that are reinvested as they mature.

Business Risk: Natural Resource Sector Cyclical Risk	
Businesses Impacted: • Structures & Logistics	**Associated Strategies:** • Growth • Financial Strength • Operational Excellence
Description and Context	***Risk Management Approach***
Demand for Structures & Logistics' products and services is directly related to capital spending cycles and levels of development activity in various industries, primarily in the natural resources sector. Several key factors influence customers' decision-making on whether or not to purchase products and services offered by the Company. These factors include expected commodity prices, global economic and political conditions, and access to debt financing and equity capital. Any adverse impact on these key decision factors for a prolonged period could affect demand for the Company's products and services.	Modular Structures' cost structure is weighted to variable costs which provides flexibility in moderating costs when project activity slows. The Structures & Logistics business is not a capital intensive business so market entry and exit costs are relatively low. A base of more stable earnings and cash flows exists within the workforce housing and space rentals business and the Logistics and O&M services contracts that provide support when Modular Structures natural resource sector customers are going through commodity cycle downturns.

Business Risk: Pipeline Integrity	
Businesses Impacted: • ATCO Gas • ATCO Gas Australia • ATCO Pipelines	**Associated Strategies:** • Operational Excellence • Community Involvement
Description and Context	***Risk Management Approach***
ATCO Gas, ATCO Pipelines and ATCO Gas Australia have significant pipeline infrastructure. Although the probability of a pipeline rupture is very low, the consequences of a failure can be severe.	Programs are in place to monitor the integrity of the pipeline infrastructure and replace pipelines as required to address safety, reliability, and future growth. These programs include ATCO Gas' and ATCO Pipelines' UPR programs and ATCO Gas' and ATCO Gas Australia's mains replacement programs. The Company also carries property and liability insurance.

Business Risk: Regulated Operations	
Businesses Impacted: • ATCO Electric Distribution • ATCO Gas • ATCO Electric Transmission • ATCO Pipelines • ATCO Gas Australia	**Associated Strategies:** • Growth • Operational Excellence • Financial Strength
Description and Context	***Risk Management Approach***
The Regulated Utilities are subject to the normal risks faced by regulated companies. These risks include the regulator's approval of customer rates that permit a reasonable opportunity to recover service costs on a timely basis, including a fair return on rate base. These risks also include the regulator's potential disallowance of costs incurred. ATCO Electric Distribution and ATCO Gas operate under a performance based regulation (PBR). Under PBR, utility revenues are formula driven, which raises the uncertainty of cost recovery.	The Regulated Utilities file forecasts in the rate-setting process to recover the costs of providing services and earn a fair rate of return. The determination of a fair rate of return on the common equity component of rate base is determined in a generic cost of capital proceeding in Alberta and an Access Arrangement proceeding in Australia. The Regulated Utilities continuously monitor various regulatory decisions and cases to assess how they might impact the Company's regulatory applications for the recovery of prudent costs. The Regulated Utilities are proactive in demonstrating prudence and continuously look for ways to lower operating costs while maintaining service levels.

Business Risk: Liquidity Risk	
Businesses Impacted: • All businesses	**Associated Strategies:** • Financial Strength
Description and Context	***Risk Management Approach***
Liquidity risk is the risk that the Company will not be able to meet its financial obligations.	Cash flow from operations provides a substantial portion of the Company's cash requirements. Additional cash requirements are met with the use of existing cash balances and externally through bank borrowings and the issuance of long-term debt, non-recourse long-term debt and preferred shares. Commercial paper borrowings and short-term bank loans under available credit lines are used to provide flexibility in the timing and amounts of long-term financing. The Company has a policy not to invest any of its cash balances in asset-backed securities. At December 31, 2016, the Company's cash position was $601 million and there were available committed and uncommitted lines of credit of approximately $2.4 billion which can be utilized for general corporate purposes.

Liquidity Risk (discussed in the Business Risks and Risk Management table above) includes contractual financial obligations which the Company will meet with cash flow from operations, existing cash balances and external financing, if necessary. These contractual obligations for the next five years and thereafter are shown below.

($ millions)	2017	2018	2019	2020	2021	2022 and thereafter
Financial Liabilities						
Bank indebtedness	5	–	–	–	–	–
Accounts payable and accrued liabilities	694	–	–	–	–	–
Short-term debt	55	–	–	–	–	–
Long-term debt:						
Principal	155	8	1,142	162	160	6,635
Interest expense (1)	392	384	367	328	310	6,336
Non-recourse long-term debt:						
Principal	14	15	15	14	11	30
Interest expense	7	6	5	4	3	4
Derivatives (2)	2	4	5	5	–	–
	1,324	417	1,534	513	484	13,005
Commitments						
Operating leases	29	25	10	10	7	1
Purchase obligations:						
Coal purchase contracts	64	66	70	71	74	145
Operating and maintenance agreements	293	290	254	108	106	337
Capital expenditures	593	564	125	7	7	–
Other	8	1	–	2	2	–
	987	946	459	198	196	483
Total	2,311	1,363	1,993	711	680	13,488

(1) Interest payments on floating rate debt have been estimated using rates in effect at December 31, 2016. Interest payments on debt that has been hedged have been estimated using hedged rates.

(2) Payments on outstanding derivatives have been estimated using exchange rates and commodity prices in effect at December 31, 2016.

NON-GAAP AND ADDITIONAL GAAP MEASURES

Funds generated by operations is defined as cash flow from operations before changes in non-cash working capital and change in receivable under service concession arrangement. In management's opinion, funds generated by operations is a significant performance indicator of the Company's ability to generate cash during a period to fund capital expenditures. Funds generated by operations does not have any standardized meaning under IFRS and might not be comparable to similar measures presented by other companies. A reconciliation of funds generated by operations to cash flows from operating activities is presented in this MD&A.

Adjusted earnings are defined as earnings attributable to Class I and Class II Shares after adjusting for the timing of revenues and expenses associated with rate-regulated activities. Adjusted earnings also exclude one-time gains and losses, significant impairments, and items that are not in the normal course of business or a result of day-to-day operations.

Adjusted earnings present earnings from rate-regulated activities on the same basis as was used prior to adopting IFRS - that basis being the U.S. accounting principles for rate-regulated activities. Management's view is that adjusted earnings allow for a more effective analysis of operating performance and trends. A reconciliation of adjusted earnings to earnings attributable to Class I and Class II Shares is presented in this MD&A. Adjusted earnings is an additional GAAP measure presented in Note 3 of the 2016 Annual Financial Statements.

Capital investments is defined as cash used for capital expenditures and service concession arrangements. Capital expenditures include additions to property, plant and equipment, intangibles and the Company's proportional share of capital expenditures in joint ventures, as well as interest capitalized during construction. In management's opinion, capital investment reflects the Company's total cash investment in assets.

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

Adjusted earnings are earnings attributable to Class I and Class II Shares after adjusting for the timing of revenues and expenses associated with rate-regulated activities. Adjusted earnings also exclude one-time gains and losses, significant impairments, and items that are not in the normal course of business or a result of day-to-day operations.

Adjusted earnings are a key measure of segment earnings that management uses to assess segment performance and allocate resources. It is management's view that adjusted earnings allow a better assessment of the economics of rate regulation in Canada and Australia than IFRS earnings.

($ millions)						**Three Months Ended December 31**
2016 **2015**	**Structures & Logistics**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**118**	**551**	**454**	**39**	**(30)**	**1,132**
	268	464	412	18	(35)	1,127
Adjusted earnings	**6**	**58**	**44**	**(14)**	**–**	**94**
	13	33	45	–	1	92
Gain on sales of operations and revaluation of joint venture	**–**	**–**	**–**	**–**	**–**	**–**
	16	10	2	–	–	28
Restructuring costs	**–**	**–**	**–**	**–**	**–**	**–**
	(6)	(13)	(19)	(6)	–	(44)
Impairment	**–**	**–**	**(5)**	**–**	**–**	**(5)**
	(42)	(14)	(35)	–	–	(91)
Rate-regulated activities	**–**	**3**	**7**	**–**	**1**	**11**
	–	18	(4)	–	–	14
Earnings attributable to Class I and Class II Shares	**6**	**61**	**46**	**(14)**	**1**	**100**
	(19)	34	(11)	(6)	1	(1)

($ millions)						Year Ended December 31
2016						
2015	**Structures & Logistics**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**647**	**1,877**	**1,496**	**114**	**(89)**	**4,045**
	869	1,771	1,525	54	(88)	4,131
Adjusted earnings	**43**	**213**	**136**	**(33)**	**1**	**360**
	27	171	101	(7)	1	293
Gain on sales of operations and	**–**	**–**	**7**	**–**	**–**	**7**
revaluation of joint venture	16	10	2	–	–	28
Restructuring costs	**–**	**–**	**–**	**–**	**–**	**–**
	(7)	(17)	(20)	(6)	–	(50)
Impairments	**–**	**–**	**(5)**	**–**	**–**	**(5)**
	(55)	(14)	(35)	–	–	(104)
Rate-regulated activities	**–**	**(4)**	**(22)**	**–**	**4**	**(22)**
	–	(5)	(9)	–	1	(13)
Earnings attributable to Class I	**43**	**209**	**116**	**(33)**	**5**	**340**
and Class II Shares	(19)	145	39	(13)	2	154

GAIN ON SALE OF OPERATIONS AND REVALUATION OF JOINT VENTURE

Structures & Logistics

In 2015, Structures & Logistics completed the sale of its Emissions Management business. Included in the sale was Emissions Management's global operations in Canada, United States and Mexico and the transfer of current contracts and employees. Proceeds on the sale were $60 million, of which $10 million was related to a working capital true-up adjustment. In 2016, $7 million of the working capital was collected, the remaining $3 million is receivable in 2017. The sale resulted in a gain of $16 million in 2016.

Electricity

In 2015, the Company increased its ownership in Thames Power Limited (TPL) from 50 per cent to 100 per cent. TPL owns a 51 per cent interest in Barking Power Limited. Cash consideration for the purchase was $25 million. This acquisition resulted in a revaluation gain of $10 million on the existing ownership interest in the Barking land. This transaction was performed to strategically position ATCO Power for future opportunities in the UK market, including the potential repowering of the existing Barking site if economically feasible in future years.

Pipelines & Liquids

In 2016, as a result of an ongoing review of economic conditions and prospects, the Company sold its 51.3 per cent interest in the Edmonton Ethane Extraction Plant. Proceeds from the sale totaled $21 million, resulting in a one-time gain of $7 million. The proceeds will be deployed for continued capital growth in industrial water infrastructure and hydrocarbon storage in Alberta's Industrial Heartland region.

In 2015, the Company sold certain non-core natural gas gathering and processing assets for proceeds of $7 million cash, resulting in a gain of $2 million.

RESTRUCTURING COSTS

In 2015, the Company recorded restructuring costs of $50 million. These costs were primarily related to staff reductions and associated severance costs as well as the restructuring of a fuel supply contract in ATCO Power. These costs were incurred in order to maintain the Company's competitive position while continuing with safe and reliable service for our customers.

IMPAIRMENTS

Structures & Logistics

In 2015, the Company recorded impairment charges of $55 million relating to Structures & Logistics' open lodge assets and workforce housing assets in North America and Australia. This charge was as a result of a sustained reduction in contracted rooms and rates and reduced utilizations and rental rates charged as a result of ongoing low commodity prices and reduced capital expenditure programs of key clients.

Electricity

In 2015, the Company recorded impairment charges of $14 million relating to the Battle River units 3 and 4 power generation assets. The Company determined that the net book value of these assets were not recoverable for accounting purposes due to new emissions performance standards and new carbon pricing announced in 2015 to phase out coal-fired electricity, which impacts emissions costs, and due to ongoing soft market conditions in the Alberta power market.

Pipelines & Liquids

In 2016, the Company adjusted the deferred tax asset which was recognized as a result of the Tula Pipeline Project impairment. The adjustment of $5 million is due to a difference between the tax base currency, which is Mexican pesos, and the U.S. dollar functional currency.

In 2015, the Company recorded an impairment of $32 million relating to the Mexico Tula Pipeline Project. The Company determined these construction work in progress assets were impaired as a result of significantly higher land access costs than originally forecast.

In 2015, the Company recorded impairment charges of $3 million relating to certain gas processing facilities. The Company determined that the carrying value of these assets exceeded the recoverable amounts due to a significant and prolonged decline in commodity prices which reduced future cash flow forecasts.

RATE-REGULATED ACTIVITIES

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. In the absence of this guidance, the utilities do not recognize assets and liabilities from rate-regulated activities as may be directed by regulatory decisions. Instead, the utilities recognize revenues in earnings when amounts are billed to customers, consistent with the regulator-approved rate design. Operating costs and expenses are recorded when incurred. Costs incurred in constructing an asset that meet the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

As a result, the Company uses standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of generally accepted accounting principles (GAAP) to account for rate-regulated activities in its internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM believes that earnings presented in accordance with the FASB standards are a better representation of the operating results of the Company's rate-regulated activities. Therefore, the Company presents adjusted earnings as part of its segmented disclosures on this basis. Rate-regulated accounting (RRA) standards impact the timing of how certain revenues and expenses are recognized when compared to non-rate regulated activities, to appropriately reflect the economic impact of a regulators' decisions on revenues.

Earnings adjustments to reflect rate-regulated accounting are shown in the following table.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Additional revenues billed in current period						
Future removal and site restoration costs [1]	**5**	3	2	**32**	18	14
Finance costs on major transmission capital projects [2]	**–**	7	(7)	**–**	33	(33)
Revenues to be billed in future periods						
Deferred income taxes [3]	**(11)**	(11)	–	**(48)**	(86)	38
Impact of temperatures on revenues [4]	**–**	(4)	4	**(15)**	(11)	(4)
Impact of inflation on rate base [5]	**–**	(1)	1	**(5)**	(6)	1
Regulatory decisions received	**2**	3	(1)	**6**	45	(39)
Settlement of regulatory decisions and other items	**15**	17	(2)	**8**	(6)	14
	11	14	(3)	**(22)**	(13)	(9)

(1) Removal and site restoration costs are billed to customers over the estimated useful life of the related assets based on forecast costs to be incurred in future periods.

(2) Finance costs incurred by ATCO Electric during construction of major transmission capital projects are billed to customers when incurred.

(3) Income taxes are billed to customers when paid by the Company.

(4) ATCO Gas' customer rates are based on a forecast of normal temperatures. Fluctuations in temperatures may result in more or less revenue being recovered from customers than forecast. Revenues above or below the normal in the current period are refunded to or recovered from customers in future periods.

(5) The inflation-indexed portion of ATCO Gas Australia's rate base is billed to customers through the recovery of depreciation in subsequent periods based on the actual rate of inflation. Under rate-regulated accounting, revenue is recognized in the current period for the inflation component of rate base when it is earned. Differences between the amounts earned and the amounts billed to customers are deferred and recognized in revenues over the service life of the related assets.

Rate-regulated accounting differs from IFRS in the following ways:

Timing Adjustment	Items	RRA Treatment	IFRS Treatment
Additional revenues billed in current period	Future removal and site restoration costs, finance costs on major transmission capital projects and impact of colder temperatures.	The Company defers the recognition of cash received in advance of future expenditures.	The Company recognizes revenues when amounts are billed to customers and costs when they are incurred.
Revenues to be billed in future periods	Deferred income taxes, transmission access payments, transmission capital deferral, impact of warmer temperatures and impact of inflation on rate base for ATCO Gas Australia.	The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company recognizes costs when they are incurred, but does not recognize their recovery until customer rates are changed and amounts are collected through future billings.
Regulatory decisions received	For further details on regulatory decisions that caused a timing adjustment financial impact, refer to the Regulatory Developments section in this MD&A as well as the Segmented Information presented in Note 3 of the 2016 Annual Financial Statements.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company does not recognize earnings from a regulatory decision when it is received as regulatory assets and liabilities are not recorded under IFRS.
Settlement of regulatory decisions and other items	Settlement of amounts receivable or payable to customers and other items.	The Company recognizes the amount receivable or payable to customers as a reduction in its regulatory assets and liabilities when collected or refunded through future billings.	The Company recognizes earnings when customer rates are changed and amounts are recovered or refunded to customers through future billings.

For further details on additional revenues billed in the current period, revenues to be billed in future periods, and settlement of regulatory decisions and other items, refer to the Segmented Information presented in Note 3 of the 2016 Annual Financial Statements.

RECONCILIATION OF FUNDS GENERATED BY OPERATIONS TO CASH FLOWS FROM OPERATING ACTIVITIES

Funds generated by operations is defined as cash flow from operations before changes in non-cash working capital and change in receivable under service concession arrangement. In management's opinion, funds generated by operations is a significant performance indicator of the Company's ability to generate cash during a period to fund capital expenditures. Funds generated by operations does not have any standardized meaning under IFRS and might not be comparable to similar measures presented by other companies.

($ millions)

2016 **2015**	**Three Months Ended December 31**	**Year Ended December 31**
Funds generated by operations	**600**	**1,912**
	354	1,589
Changes in non-cash working capital (1)	**(61)**	**(45)**
	45	91
Change in receivable under service concession arrangement (2)	**(77)**	**(77)**
	–	–
Cash flows from operating activities	**462**	**1,790**
	399	1,680

(1) Refer to Note 23 of the 2016 Annual Financial Statements for detailed descriptions of the adjustments.

(2) Refer to Note 15 of the 2016 Annual Financial Statements for a detailed description of the adjustment.

OTHER FINANCIAL INFORMATION

OFF-BALANCE SHEET ARRANGEMENTS

ATCO Ltd. does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition, including, without limitation, the Company's liquidity and capital resources.

CONTINGENCIES

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

SIGNIFICANT ACCOUNTING ESTIMATES

The Company's significant accounting estimates are described in Note 27 of the 2016 Annual Consolidated Financial Statements, which are prepared in accordance with IFRS. Management makes estimates and judgments that could significantly affect how policies are applied, amounts in the consolidated financial statements are reported, and contingent assets and liabilities are disclosed. Most often these estimates and judgments concern matters that are inherently complex and uncertain. Judgments and estimates are reviewed on an ongoing basis; changes to accounting estimates are recognized prospectively.

ACCOUNTING CHANGES

Certain new or amended standards or interpretations issued by the International Accounting Standards Board (IASB) or IFRS Interpretations Committee (IFRIC) do not have to be adopted in the current period.

The standards issued, but not yet effective, which the Company anticipates may have a material effect on the consolidated financial statements are described below:

- IFRS 15 Revenue from Contracts with Customers - this standard replaces IAS 18 *Revenue* and related interpretations and is effective on or after January 1, 2018. It provides a framework to determine when to recognize revenue and at what amount. It applies to new contracts created on or after the effective date and to existing contracts not yet completed as of the effective date. The Company is party to numerous contracts with customers that will be impacted by the new standard. Under IFRS 15, the timing of revenue recognition for certain contracts may be significantly impacted by the new revenue recognition model and transitional adjustments are currently being reviewed. The Company will not early adopt the standard.
- IFRS 16 Leases - this standard replaces IAS 17 *Leases* and related interpretations and is effective on or after January 1, 2019. It requires a lessee to recognize assets and liabilities on the balance sheet for the rights and obligations created by leases. Lessor accounting remains substantially unchanged. The Company is currently assessing the impact and will not early adopt the standard.

There are no other standards or interpretations issued, but not yet effective, that the Company anticipates may have a material effect on the consolidated financial statements once adopted.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of December 31, 2016, management evaluated the effectiveness of the Company's disclosure controls and procedures as required by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO).

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis. The controls also seek to assure this information is accumulated and communicated to management, including the CEO and the CFO, as appropriate, to allow timely decisions on required disclosure.

Management, including the CEO and the CFO, does not expect the Company's disclosure controls and procedures will prevent or detect all errors. The inherent limitations in all control systems are that they can provide only reasonable, not absolute, assurance that all control issues and instances of error, if any, within the Company have been detected.

Based on this evaluation, the CEO and the CFO have concluded that the Company's disclosure controls and procedures were effective at December 31, 2016.

Internal Control Over Financial Reporting

As of December 31, 2016, management evaluated the effectiveness of the Company's internal control over financial reporting as required by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the CEO and the CFO.

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, internal control over financial reporting can provide only reasonable assurance regarding the reliability of financial statement preparation and may not prevent or detect all misstatements.

Based on this evaluation, the CEO and the CFO have concluded that the Company's internal control over financial reporting was effective at December 31, 2016.

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on January 1, 2016, and ended on December 31, 2016, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

FORWARD LOOKING INFORMATION

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

The Company's actual results could differ materially from those anticipated in any forward-looking information contained in this MD&A as a result of regulatory decisions, competitive factors in the industries in which the Company operates, prevailing economic conditions, and other factors, many of which are beyond the control of the Company.

Any forward-looking information contained in this MD&A represents the Company's expectations as of the date hereof, and is subject to change after such date. The Company disclaims any intention or obligation to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required by applicable securities legislation.

ADDITIONAL INFORMATION

ATCO has published its audited consolidated financial statements and its MD&A for the year ended December 31, 2016. Copies of these documents may be obtained upon request from Investor Relations at 1500, 909 -11th Avenue S.W., Calgary, Alberta, T2R 1N6, telephone 403-292-7500, fax 403-292-7532 or email investorrelations@atco.com.

GLOSSARY

AESO means the Alberta Electric System Operator.

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

Alberta Utilities means ATCO Electric Distribution, ATCO Electric Transmission, ATCO Gas and ATCO Pipelines.

AUC means the Alberta Utilities Commission.

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

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

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

CODM means Chief Operating Decision Maker, and is comprised of the Chair, President and Chief Executive Officer, and five other senior executives.

Company means ATCO Ltd. and, unless the context otherwise requires, includes its subsidiaries.

DRIP means the dividend reinvestment plan of Canadian Utilities (refer to the Canadian Utilities Dividend Reinvestment Plan section of this MD&A).

Earnings means Adjusted Earnings as defined in the Non-GAAP and Additional GAAP Measures section of this MD&A.

ERA means the Economic Regulatory Authority (Western Australia).

Facilitator means Mr. Terry Boston, who was appointed as the Coal Phase-Out Facilitator to help navigate the province's transition from coal to cleaner sources of power.

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

GAAP means Canadian generally accepted accounting principles.

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

IFRS means International Financial Reporting Standards.

Km means kilometre.

LNG means liquefied natural gas.

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

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

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

PBR means Performance Based Regulation.

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

Regulated Utilities means ATCO Electric Distribution, ATCO Electric Transmission, ATCO Gas, ATCO Pipelines and ATCO Gas Australia.

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

U.K. means United Kingdom.

U.S. means United States of America.

APPENDIX 1
FOURTH QUARTER FINANCIAL INFORMATION

Financial information for the three months ended December 31, 2016 and 2015 is shown below.

CONSOLIDATED STATEMENT OF EARNINGS

	Three Months Ended December 31	
(millions of Canadian Dollars except per share data)	**2016**	**2015**
Revenues	**1,132**	1,127
Costs and expenses		
Salaries, wages and benefits	**(164)**	(218)
Energy transmission and transportation	**(51)**	(47)
Plant and equipment maintenance	**(76)**	(94)
Fuel costs	**(36)**	(50)
Purchased power	**(25)**	(21)
Service concession arrangement costs	**(69)**	–
Materials and consumables	**(44)**	(149)
Depreciation, amortization and impairment	**(153)**	(328)
Franchise fees	**(60)**	(51)
Property and other taxes	**(23)**	(19)
Other	**(48)**	(88)
	(749)	(1,065)
Gain on sales of operations and revaluation of joint venture	**–**	49
Earnings from investment in joint ventures	**9**	(3)
Operating profit	**392**	108
Interest income	**5**	4
Interest expense	**(101)**	(83)
Net finance costs	**(96)**	(79)
Earnings before income taxes	**296**	29
Income taxes	**(92)**	2
Earnings for the period	**204**	31
Earnings attributable to:		
Class I and Class II Shares	**100**	(1)
Non-controlling interests	**104**	32
	204	31
Earnings per Class I and Class II Share	**$0.88**	$(0.01)
Diluted earnings per Class I and Class II Share	**$0.87**	$(0.01)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Three Months Ended December 31	
(millions of Canadian Dollars)	**2016**	**2015**
Operating activities		
Earnings for the period	**204**	31
Adjustments to reconcile earnings to cash flows from operating activities	**396**	323
Changes in non-cash working capital	**(61)**	45
Change in receivable under service concession arrangement	**(77)**	–
Cash flows from operating activities	**462**	399
Investing activities		
Additions to property, plant and equipment	**(339)**	(513)
Proceeds on disposal of property, plant and equipment	**1**	–
Additions to intangibles	**(41)**	(89)
Acquisition of Thames Power Limited	**–**	(25)
Proceeds on sales of operations	**–**	57
Investment in joint ventures	**(12)**	(8)
Changes in non-cash working capital	**(37)**	84
Other	**2**	(17)
Cash flows used in investing activities	**(426)**	(511)
Financing activities		
Net issue of short-term debt	**(320)**	–
Issue of long-term debt	**375**	278
Repayment of long-term debt	**(3)**	(57)
Repayment of non-recourse long-term debt	**(5)**	(5)
Issue of shares by subsidiary companies	**12**	3
Net issue (purchase) of Class I Shares	**2**	(6)
Dividends paid to Class I and Class II Share owners	**(33)**	(28)
Dividends paid to non-controlling interests	**(46)**	(44)
Interest paid	**(107)**	(102)
Other	**(9)**	1
Cash flows (used in) from financing activities	**(134)**	40
Decrease in cash position	**(98)**	(72)
Foreign currency translation	**(1)**	13
Beginning of period	**700**	858
End of period	**601**	799

ATCO LTD.
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for preparing the consolidated financial statements in accordance with International Financial Reporting Standards, which include amounts based on estimates and judgments. Management is also responsible for the preparation of the Management's Discuss and Analysis and other financial information contained in the Company's Annual Report, and ensures that it is consistent with the consolidated financial statements.

Management has established internal accounting and financial reporting control systems, which are subject to periodic review by the Company's internal auditors, to meet its responsibility for reliable and accurate reporting. Integral to these control systems are a code of ethics and management policies that provide guidance and direction to employees, as well as a system of corporate governance that provides oversight to the Company's operating, reporting and risk management activities.

The consolidated financial statements are approved by the Board of Directors on the recommendation of the Audit & Risk Committee. The Audit & Risk Committee is comprised entirely of independent Directors. The Audit & Risk Committee meets regularly with management and the independent auditors to review significant accounting and financial reporting matters, to assure that management is carrying out its responsibilities and to review and approve the consolidated financial statements.

PricewaterhouseCoopers LLP, our independent auditors, are engaged to perform an audit of the consolidated financial statements and expresses a professional opinion on the results. The Independent Auditor's Report to the Share Owners appears on the following page. PricewaterhouseCoopers LLP have full and independent access to the Audit & Risk Committee and management to discuss their audit and related matters.

[Original signed by N.C. Southern]	[Original signed by B.R. Bale]
Chair, President & Chief Executive Officer	Senior Vice President & Chief Financial Officer

March 2, 2017

Independent Auditor's Report

To the Share Owners of ATCO Ltd.

We have audited the accompanying consolidated financial statements of ATCO Ltd. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flow for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ATCO Ltd. and its subsidiaries as at December 31, 2016 and December 31, 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants
Calgary, Alberta

PricewaterhouseCoopers LLP
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CONSOLIDATED STATEMENT OF EARNINGS

(millions of Canadian Dollars except per share data)	Note	Year Ended December 31 2016	2015
Revenues	4	**4,045**	4,131
Costs and expenses			
Salaries, wages and benefits		**(581)**	(696)
Energy transmission and transportation		**(216)**	(189)
Plant and equipment maintenance		**(244)**	(298)
Fuel costs		**(130)**	(244)
Purchased power		**(81)**	(78)
Service concession arrangement costs	15	**(69)**	–
Materials and consumables		**(315)**	(510)
Depreciation, amortization and impairment	12,13	**(615)**	(756)
Franchise fees		**(205)**	(201)
Property and other taxes		**(101)**	(87)
Other	5	**(215)**	(281)
		(2,772)	(3,340)
Gain on sales of operations and revaluation of joint venture	6	**18**	49
Earnings from investment in joint ventures	29	**22**	3
Operating profit		**1,313**	843
Interest income		**16**	13
Interest expense	7	**(396)**	(302)
Net finance costs		**(380)**	(289)
Earnings before income taxes		**933**	554
Income taxes	8	**(258)**	(198)
Earnings for the year		**675**	356
Earnings attributable to:			
Class I and Class II Shares		**340**	154
Non-controlling interests		**335**	202
		675	356
Earnings per Class I and Class II Share	9	**$2.97**	$1.34
Diluted earnings per Class I and Class II Share	9	**$2.96**	$1.33

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(millions of Canadian Dollars)	Note	Year Ended December 31 2016	2015
Earnings for the year		**675**	356
Other comprehensive (loss) income, net of income taxes			
Items that will not be reclassified to earnings:			
Re-measurement of retirement benefits (1)	20	**(16)**	77
Share of re-measurement of retirement benefits of joint ventures (2)	29	**–**	(2)
		(16)	75
Items that are or may be reclassified subsequently to earnings:			
Cash flow hedges (3)		**6**	–
Cash flow hedges reclassified to earnings (4)		**1**	(2)
Foreign currency translation adjustment (4)		**(49)**	92
Share of other comprehensive income of joint ventures (4)	29	**1**	1
		(41)	91
Other comprehensive (loss) income		**(57)**	166
Comprehensive income for the year		**618**	522
Comprehensive income attributable to:			
Class I and Class II Shares		**305**	259
Non-controlling interests		**313**	263
		618	522

(1) Net of income taxes of $3 million for the year ended December 31, 2016 (2015 - $(43) million).

(2) Net of income taxes of nil for the year ended December 31, 2016 (2015 - $1 million).

(3) Net of income taxes of $(3) million for the year ended December 31, 2016 (2015 - nil).

(4) Net of income taxes of nil.

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

(millions of Canadian Dollars)	Note	December 31 2016	2015
ASSETS			
Current assets			
Cash and cash equivalents	23	**606**	800
Accounts receivable		**603**	624
Finance lease receivables	10	**12**	9
Inventories	11	**56**	87
Income taxes receivable	8	**49**	33
Prepaid expenses and other current assets		**58**	58
		1,384	1,611
Non-current assets			
Property, plant and equipment	12	**16,941**	16,230
Intangibles	13	**546**	502
Goodwill	14	**71**	71
Investment in joint ventures	29	**239**	194
Finance lease receivables	10	**302**	302
Deferred income tax assets	8	**67**	82
Receivable under service concession arrangement	15	**77**	–
Other assets		**97**	63
Total assets		**19,724**	19,055
LIABILITIES			
Current liabilities			
Bank indebtedness		**5**	1
Accounts payable and accrued liabilities		**694**	847
Asset retirement obligations and other provisions	17	**48**	79
Other current liabilities		**18**	17
Short-term debt	16	**55**	–
Long-term debt	18	**155**	5
Non-recourse long-term debt	19	**14**	15
		989	964
Non-current liabilities			
Deferred income tax liabilities	8	**1,199**	1,007
Asset retirement obligations and other provisions	17	**134**	154
Retirement benefit obligations	20	**332**	307
Deferred revenues	21	**1,689**	1,649
Other liabilities		**33**	46
Long-term debt	18	**8,065**	7,938
Non-recourse long-term debt	19	**84**	97
Total liabilities		**12,525**	12,162
EQUITY			
Class I and Class II Share owners' equity			
Class I and Class II Shares	22	**167**	165
Contributed surplus		**11**	11
Retained earnings		**3,345**	3,130
Accumulated other comprehensive income		**23**	50
		3,546	3,356
Non-controlling interests	30	**3,653**	3,537
Total equity		**7,199**	6,893
Total liabilities and equity		**19,724**	19,055

See accompanying Notes to Consolidated Financial Statements.

[Original Signed by N.C. Southern]
DIRECTOR

[Original Signed by R.J. Urwin]
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(millions of Canadian Dollars)	Note	Attributable to Equity Owners of the Company: Class I and Class II Shares	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total	Non-Controlling Interests	Total Equity
December 31, 2014		161	11	3,010	(14)	3,168	3,112	6,280
Earnings for the year				154		154	202	356
Other comprehensive income		–	–	–	105	105	61	166
Gains on retirement benefits transferred to retained earnings	20	–	–	41	(41)	–	–	–
Equity preferred shares issued by subsidiary company, net of issue costs	30	–	–	–	–	–	368	368
Shares issued, purchased and cancelled	22,30	–	–	(10)	–	(10)	47	37
Dividends	22,30	–	–	(114)	–	(114)	(210)	(324)
Share-based compensation	31	4	–	3	–	7	1	8
Changes in ownership interest in subsidiary company [(1)]		–	–	46	–	46	(46)	–
Other		–	–	–	–	–	2	2
December 31, 2015		165	11	3,130	50	3,356	3,537	6,893
Earnings for the year		**–**	**–**	**340**	**–**	**340**	**335**	**675**
Other comprehensive loss		**–**	**–**	**–**	**(35)**	**(35)**	**(22)**	**(57)**
Losses on retirement benefits transferred to retained earnings	20	**–**	**–**	**(8)**	**8**	**–**	**–**	**–**
Shares issued, purchased and cancelled	22,30	**(1)**	**–**	**(17)**	**–**	**(18)**	**63**	**45**
Dividends	22,30	**–**	**–**	**(131)**	**–**	**(131)**	**(239)**	**(370)**
Share-based compensation	31	**3**	**–**	**–**	**–**	**3**	**5**	**8**
Changes in ownership interest in subsidiary company [(1)]		**–**	**–**	**31**	**–**	**31**	**(31)**	**–**
Other		**–**	**–**	**–**	**–**	**–**	**5**	**5**
December 31, 2016		**167**	**11**	**3,345**	**23**	**3,546**	**3,653**	**7,199**

(1) The changes in ownership interest in subsidiary company are due to Canadian Utilities Limited's dividend reinvestment plan and share-based compensation plans.

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOW

(millions of Canadian Dollars)	Note	Year Ended December 31 2016	 2015
Operating activities			
Earnings for the year		**675**	356
Adjustments to reconcile earnings to cash flows from operating activities	23	**1,237**	1,233
Changes in non-cash working capital	23	**(45)**	91
Change in receivable under service concession arrangement	15	**(77)**	–
Cash flows from operating activities		**1,790**	1,680
Investing activities			
Additions to property, plant and equipment		**(1,338)**	(1,637)
Proceeds on disposal of property, plant and equipment		**15**	1
Additions to intangibles		**(95)**	(134)
Acquisition of Thames Power Limited	6	**–**	(25)
Proceeds on sales of operations	6	**28**	57
Investment in joint ventures		**(85)**	(28)
Changes in non-cash working capital	23	**(137)**	(60)
Other		**1**	(27)
Cash flows used in investing activities		**(1,611)**	(1,853)
Financing activities			
Net issue of short-term debt	16	**55**	–
Issue of long-term debt		**450**	795
Repayment of long-term debt		**(144)**	(152)
Repayment of non-recourse long-term debt		**(15)**	(15)
Issue of equity preferred shares by subsidiary company	30	**–**	375
Issue of shares by subsidiary companies		**15**	4
Net purchase of Class I Shares		**(15)**	(7)
Dividends paid to Class I and Class II Share owners	22	**(131)**	(114)
Dividends paid to non-controlling interests	30	**(187)**	(163)
Interest paid		**(394)**	(370)
Other		**(1)**	(10)
Cash flows (used in) from financing activities		**(367)**	343
(Decrease) increase in cash position [(1)]		**(188)**	170
Foreign currency translation		**(10)**	39
Beginning of year		**799**	590
End of year	23	**601**	799

(1) Cash position includes $40 million which is not available for general use by the Company (2015 - $49 million).

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016

(Tabular amounts in millions of Canadian Dollars, except as otherwise noted)

1. THE COMPANY AND ITS OPERATIONS

ATCO Ltd. was incorporated under the laws of the province of Alberta and is listed on the Toronto Stock Exchange. Its head office and registered office is at 700, 909-11th Avenue SW, Calgary, Alberta, T2R 1N6. The Company is controlled by Sentgraf Enterprises Ltd. and its controlling share owner, the Southern family.

ATCO Ltd. is engaged in the following business activities:

- Structures & Logistics (workforce housing, innovative modular facilities, construction, site support services, and logistics and operations management);
- Electricity (electricity generation, distributed generation, and electricity distribution, transmission and infrastructure development); and
- Pipelines & Liquids (natural gas transmission, distribution and infrastructure development, energy storage, and industrial water solutions).

The consolidated financial statements include the accounts of ATCO Ltd. and its subsidiaries (see Note 28). The statements also include the accounts of a proportionate share of the Company's investments in joint operations and its equity-accounted investments in joint ventures. In these financial statements, "the Company" means ATCO Ltd., its subsidiaries and joint arrangements.

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

The consolidated financial statements are prepared according to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the IFRS Interpretations Committee (IFRIC).

The Board of Directors (Board) authorized these consolidated financial statements for issue on March 2, 2017.

BASIS OF MEASUREMENT

The consolidated financial statements are prepared on a historic cost basis, except for derivative financial instruments, retirement benefit obligations and cash-settled share-based compensation liabilities which are carried at remeasured amounts or fair value. The Company's significant accounting policies are described in Note 35.

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

FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Canadian dollars. Each entity within the Company determines its own functional currency based on the primary economic environment in which it operates.

USE OF ESTIMATES AND JUDGEMENTS

Management makes estimates and judgments that could significantly affect how policies are applied, amounts in the consolidated financial statements are reported, and contingent assets and liabilities are disclosed. Most often these estimates and judgments concern matters that are inherently complex and uncertain. Judgments and estimates are reviewed on an on-going basis; changes to accounting estimates are recognized prospectively. The significant judgments, assumptions and estimates are described in Note 27.

3. SEGMENTED INFORMATION

The Company's operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM is comprised of the Chair, President and Chief Executive Officer, and five other senior executives.

The accounting policies applied by the segments are the same as those applied by the Company, except for those used in the calculation of adjusted earnings. Intersegment transactions are measured at the exchange amount, as agreed to by the related parties.

Management has determined that the operating subsidiaries in the reportable segments below share similar economic characteristics, as such, they have been aggregated.

SEGMENT DESCRIPTIONS AND PRINCIPAL OPERATING ACTIVITIES

Structures & Logistics	The Structures & Logistics segment includes ATCO Structures & Logistics and ATCO Sustainable Communities. Together these companies offer workforce housing, modular facilities, site support services and logistics and operations management. The segment also included the Emissions Management business until it was sold on December 31, 2015 (see Note 6). Emissions Management provided noise and air emissions control and waste heat recovery systems for industrial facilities.
Electricity	The Electricity segment includes ATCO Electric, ATCO Power, Alberta PowerLine, and ATCO Power Australia. Together these businesses provide electricity generation, transmission, distribution and related infrastructure solutions in Western Alberta, Ontario, the Yukon, the Northwest Territories and Australia.
Pipelines & Liquids	The Pipelines & Liquids segment includes ATCO Gas, ATCO Pipelines, ATCO Gas Australia, ATCO Energy Solutions and ATCO Pipelines Mexico. These businesses provide integrated natural gas transmission, distribution and storage, industrial water solutions and related infrastructure development throughout Alberta, the Lloydminster area of Saskatchewan, Western Australia and Mexico.
Corporate & Other	The Corporate & Other segment includes commercial real estate owned by the Company in Alberta and ATCO Energy, a retail electricity and natural gas business in Alberta.

SEGMENTED RESULTS

Results by operating segment for the year ended December 31 is shown below.

2016 / 2015	Structures & Logistics	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues - external	**646**	**1,852**	**1,474**	**73**	**–**	**4,045**
	867	1,758	1,487	19	–	4,131
Revenues - intersegment	**1**	**25**	**22**	**41**	**(89)**	**–**
	2	13	38	35	(88)	–
Revenues	**647**	**1,877**	**1,496**	**114**	**(89)**	**4,045**
	869	1,771	1,525	54	(88)	4,131
Operating expenses (1)	**(545)**	**(735)**	**(829)**	**(138)**	**90**	**(2,157)**
	(796)	(874)	(960)	(46)	92	(2,584)
Depreciation, amortization and impairment	**(40)**	**(357)**	**(220)**	**(11)**	**13**	**(615)**
	(113)	(343)	(297)	(7)	4	(756)
Gain on sales of operations and revaluation of joint venture	**–**	**–**	**18**	**–**	**–**	**18**
	19	25	5	–	–	49
Earnings from investment in joint ventures	**5**	**17**	**–**	**–**	**–**	**22**
	(9)	12	–	–	–	3
Net finance costs	**(1)**	**(249)**	**(142)**	**13**	**(1)**	**(380)**
	(2)	(158)	(137)	13	(5)	(289)
Earnings before income taxes	**66**	**553**	**323**	**(22)**	**13**	**933**
	(32)	433	136	14	3	554
Income taxes	**(17)**	**(151)**	**(100)**	**14**	**(4)**	**(258)**
	10	(153)	(58)	2	1	(198)
Earnings for the year	**49**	**402**	**223**	**(8)**	**9**	**675**
	(22)	280	78	16	4	356
Adjusted earnings	**43**	**213**	**136**	**(33)**	**1**	**360**
	27	171	101	(7)	1	293
Total assets	**790**	**11,506**	**6,919**	**600**	**(91)**	**19,724**
	929	11,060	6,394	697	(25)	19,055
Capital expenditures (2)	**70**	**572**	**734**	**75**	**–**	**1,451**
	61	935	824	48	–	1,868

(1) Includes total costs and expenses, excluding depreciation, amortization and impairment expense.

(2) Includes additions to property, plant and equipment and intangibles and $18 million of interest capitalized during construction for the year ended December 31, 2016 (2015 - $97 million).

GEOGRAPHIC SEGMENTS

Financial information by geographic area is summarized below.

Revenues - external

	2016	**2015**
Canada	**3,598**	3,429
Australia	**364**	533
Other	**83**	169
Total	**4,045**	4,131

Non-current assets

	Property, Plant and Equipment		Intangible Assets		Other Assets [1]		Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Canada	**15,405**	14,863	**531**	494	**247**	173	**16,183**	15,530
Australia	**1,278**	1,282	**15**	8	**35**	37	**1,328**	1,327
Other	**258**	85	**–**	–	**31**	44	**289**	129
Total	**16,941**	16,230	**546**	502	**313**	254	**17,800**	16,986

(1) Other assets exclude financial instruments, deferred income tax assets and goodwill.

ADJUSTED EARNINGS

Adjusted earnings are earnings attributable to Class I and Class II Shares after adjusting for:

- the timing of revenues and expenses for rate-regulated activities,
- one-time gains and losses,
- significant impairments, and
- items that are not in the normal course of business or a result of day-to-day operations.

Adjusted earnings are a key measure of segment earnings used by the CODM to assess segment performance and allocate resources. Other accounts in the consolidated financial statements have not been adjusted as they are not used by the CODM for those purposes.

The reconciliation of adjusted earnings and earnings for the year ended December 31 is shown below.

2016 **2015**	Structures & Logistics	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Adjusted earnings	**43**	**213**	**136**	**(33)**	**1**	**360**
	27	171	101	(7)	1	293
Gain on sales of operations and revaluation of joint venture	**–**	**–**	**7**	**–**	**–**	**7**
	16	10	2	–	–	28
Restructuring costs	**–**	**–**	**–**	**–**	**–**	**–**
	(7)	(17)	(20)	(6)	–	(50)
Impairments	**–**	**–**	**(5)**	**–**	**–**	**(5)**
	(55)	(14)	(35)	–	–	(104)
Rate-regulated activities	**–**	**(4)**	**(22)**	**–**	**4**	**(22)**
	–	(5)	(9)	–	1	(13)
Earnings attributable to Class I and Class II Shares	**43**	**209**	**116**	**(33)**	**5**	**340**
	(19)	145	39	(13)	2	154
Earnings attributable to non-controlling interests						**335**
						202
Earnings for the year						**675**
						356

Gain on sales of operations and revaluation of joint venture

The Company adjusted for the following one-time gains and losses, after-tax and non-controlling interests (NCI), in 2016 and 2015:

	Note	Segment	2016	2015
Natural gas gathering and processing assets	6	Pipelines & Liquids	**7**	2
Emissions Management business	6	Structures & Logistics	–	16
Thames Power Limited	6	Electricity	–	10
			7	28

Restructuring costs

In 2015, the Company recorded restructuring costs of $50 million, after-tax and NCI, that were not in the normal course of business. These costs were primarily related to severance costs associated with staff reductions and lease termination costs.

Impairments

The Company adjusted for the following impairments, after-tax and NCI, in 2016 and 2015:

	Note	Segment	2016	2015
Natural gas pipeline and processing assets [(1)]	12	Pipelines & Liquids	**5**	35
Lodge and workforce housing assets	12,29	Structures & Logistics	–	55
Electricity generation assets	12	Electricity	–	14
			5	104

(1) In 2016, the Company adjusted the deferred tax asset which was recognized as a result of the Tula Pipeline Project impairment. The adjustment of $5 million is due to a difference between the tax base currency, which is Mexican pesos, and the U.S. dollar functional currency.

Rate-regulated activities

ATCO Electric and its subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife), as well as ATCO Gas, ATCO Pipelines and ATCO Gas Australia are collectively referred to in the consolidated financial statements as utilities.

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. In the absence of this guidance, the utilities do not recognize assets and liabilities from rate-regulated activities as may be directed by regulatory decisions. Instead, the utilities recognize revenues in earnings when amounts are billed to customers, consistent with the regulator-approved rate design. Operating costs and expenses are recorded when incurred. Costs incurred in constructing an asset that meet the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

The Company uses standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of generally accepted accounting principles (GAAP) to account for rate-regulated activities in its internal reporting provided to the CODM. The CODM believes that earnings presented in accordance with the FASB standards are a better representation of the operating results of the Company’s rate-regulated activities. Therefore, the Company presents adjusted earnings as part of its segmented disclosures on this basis. Rate-regulated accounting (RRA) standards impact the timing of how certain revenues and expenses are recognized when compared to non-rate regulated activities, to appropriately reflect the economic impact of a regulators' decisions on revenues.

Rate-regulated accounting differs from IFRS in the following ways:

	Timing Adjustment	Items	RRA Treatment	IFRS Treatment
1.	Additional revenues billed in current period	Future removal and site restoration costs, finance costs on major transmission capital projects and impact of colder temperatures.	The Company defers the recognition of cash received in advance of future expenditures.	The Company recognizes revenues when amounts are billed to customers and costs when they are incurred.
2.	Revenues to be billed in future periods	Deferred income taxes, transmission access payments, transmission capital deferral, impact of warmer temperatures and impact of inflation on rate base for ATCO Gas Australia.	The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company recognizes costs when they are incurred, but does not recognize their recovery until customer rates are changed and amounts are collected through future billings.
3.	Regulatory decisions received	Regulatory decisions received which relate to current and prior periods. See regulatory decisions below.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company does not recognize earnings from a regulatory decision when it is received as regulatory assets and liabilities are not recorded under IFRS.
4.	Settlement of regulatory decisions and other items	Settlement of amounts receivable or payable to customers and other items.	The Company recognizes the amount receivable or payable to customers as a reduction in its regulatory assets and liabilities when collected or refunded through future billings.	The Company recognizes earnings when customer rates are changed and amounts are recovered or refunded to customers through future billings.

The significant timing adjustments as a result of the differences between rate-regulated accounting and IFRS are as follows:

	2016	2015
Additional revenues billed in current period		
Future removal and site restoration costs (1)	**32**	18
Finance costs on major transmission capital projects (2)	**–**	33
Revenues to be billed in future periods		
Deferred income taxes (3)	**(48)**	(86)
Impact of temperatures on revenues (4)	**(15)**	(11)
Impact of inflation on rate base (5)	**(5)**	(6)
Regulatory decisions received	**6**	45
Settlement of regulatory decisions and other items	**8**	(6)
	(22)	(13)

(1) Removal and site restoration costs are billed to customers over the estimated useful life of the related assets based on forecast costs to be incurred in future periods.

(2) Finance costs incurred by ATCO Electric during construction of major transmission capital projects are billed to customers when incurred.

(3) Income taxes are billed to customers when paid by the Company.

(4) ATCO Gas' customer rates are based on a forecast of normal temperatures. Fluctuations in temperatures may result in more or less revenue being recovered from customers than forecast. Revenues above or below the normal in the current period are refunded to or recovered from customers in future periods.

(5) The inflation-indexed portion of ATCO Gas Australia's rate base is billed to customers through the recovery of depreciation in subsequent periods based on the actual rate of inflation. Under rate-regulated accounting, revenue is recognized in the current period for the inflation component of rate base when it is earned. Differences between the amounts earned and the amounts billed to customers are deferred and recognized in revenues over the service life of the related assets.

Regulatory decisions received

Under rate-regulated accounting, the Company recognizes earnings from a regulatory decision pertaining to current and prior periods when the decision is received. A description of the significant regulatory decisions recognized in adjusted earnings in 2016 and 2015 are provided below.

	Decision	Timing	Amount	Description
1.	ATCO Electric General Tariff Application (GTA)	October 2016	(10)	The GTA decision covers the operations of ATCO Electric Transmission for 2015, 2016 and 2017 and resulted in final rates that are lower than the approved interim rates from 2015, mainly due to lower approved operating costs.
2.	2016-2017 Generic Cost of Capital Decision (GCOC)	August 2016	1	The GCOC decision established the return on equity (ROE) and deemed common equity ratios for the Alberta utilities for 2016 and 2017. For ATCO Electric Distribution and ATCO Gas, the 2016 GCOC decision only applies to the K factor mechanism and does not apply to the base performance based regulation formula.
3.	ATCO Gas Australia Access Arrangement Decision	July 2016	3	An appeal application was lodged with the Australian Competition Tribunal as a result of the decision received from the Economic Regulation Authority (ERA). The appeal application decision resulted in an improvement in the recoverability of certain expenses.
		July 2015	(10)	The ERA released its final decision for ATCO Gas Australia's next Access Arrangement period from July 2014 to December 2019. The decision resulted in a reduced ROE.
4.	2013-2015 Generic Cost of Capital Decision (2013 GCOC)	March 2015	(27)	The 2013 GCOC decision established the ROE and deemed common equity ratios for the Alberta utilities for 2013 to 2015. The ROE was reduced from 8.75 per cent to 8.30 per cent and the deemed common equity ratios were reduced by one per cent from what was previously approved.
5.	Capital Tracker Decision	March 2015	(8)	Decisions for the 2013, 2014 and 2015 Capital Tracker applications included approval of incremental funding for substantially all of the Company's applied for Capital Tracker programs. However, the decisions resulted in lower Capital Tracker rates than previously approved due to the AUC requiring the utilities to use the actual cost of debt in the rate determinations, which was lower than the forecast cost of debt that was previously being used.

4. REVENUES

The significant categories of revenues recognized during the year are as follows:

	2016	2015
Sale of goods	**415**	611
Rendering of services	**3,232**	3,206
Operating lease income	**288**	283
Service concession arrangement income	**77**	–
Finance lease income	**33**	31
	4,045	4,131

5. OTHER COSTS AND EXPENSES

Other costs and expenses include rent, utilities, realized and unrealized gains and losses on derivative financial instruments, goods and services such as professional fees, contractor costs, technology related expenses, advertising, and other general and administrative expenses.

6. SALES OF OPERATIONS AND REVALUATION OF JOINT VENTURE

SALE OF NATURAL GAS GATHERING AND PROCESSING ASSETS

On January 1, 2016, the Company sold its 51.3 per cent ownership interest in the Edmonton Ethane Extraction Plant for cash proceeds of $21 million, resulting in a gain of $18 million ($7 million after-tax and NCI). Commencing January 1, 2016, the Company no longer recognizes these assets in its financial position, results of operations and cash flows in the consolidated financial statements. These assets were previously reported in the Pipelines & Liquids segment.

On December 31, 2015, the Company sold certain non-core natural gas gathering and processing assets for cash proceeds of $7 million, resulting in a gain of $5 million ($2 million after-tax and NCI). Commencing December 31, 2015, the Company no longer recognizes these assets in its financial position, results of operations and cash flows in the consolidated financial statements. These assets were previously reported in the Pipelines & Liquids segment.

REVALUATION OF EXISTING INTEREST IN JOINT VENTURE

On November 2, 2015, the Company increased its ownership in Thames Power Limited (TPL) from 50 per cent to 100 per cent. TPL owns a 51 per cent joint interest in Barking Power Limited (Barking), an entity that holds land assets in the U.K. Cash consideration for the purchase was $25 million. The transaction was accounted for as an asset acquisition and resulted in a revaluation gain of $25 million ($10 million after-tax and NCI) on the Company's existing ownership interest in TPL, and its related entities. This transaction was performed to strategically position the Company for future opportunities in the U.K. market.

TPL also has a 100 per cent ownership interest in Thames Power Services Limited, which has a defined benefit plan for employees. In 2015, trustees for the pension plan entered into a policy with Pension Insurance Corporation (PIC) and transferred the majority of plan assets to PIC in order to secure the benefits of the defined benefit plan. The pension plan assets and liabilities were included in the Company's retirement benefit obligations at December 31, 2015 (see Note 20). Individual policies were issued to members in September 2016, discharging TPL's legal obligation for benefits under the defined benefit plan. The pension plan assets and liabilities have been removed from the Company's retirement benefit obligations at December 31, 2016.

SALE OF ATCO EMISSIONS MANAGEMENT

On December 31, 2015, the Company completed the sale of its Emissions Management business. Included in the sale was all of Emissions Management's global operations in Canada, United States and Mexico and the transfer of current contracts and employees. Proceeds on the sale were $60 million, of which $10 million was related to a working capital true-up adjustment. In 2016, $7 million of the working capital was collected, the remaining $3 million is receivable in 2017. A one-time gain of $19 million was recognized as a result of this transaction ($16 million after-tax and NCI). Commencing December 31, 2015, the Company no longer recognizes ATCO Emissions Management in its financial position, results of operations and cash flows in the consolidated financial statements. ATCO Emissions Management was previously reported in the Structures & Logistics segment.

7. INTEREST EXPENSE

Interest expense primarily arises from interest on long-term debentures. The components of interest expense are summarized below.

	2016	2015
Long-term debt	**385**	365
Non-recourse long-term debt	**8**	11
Retirement benefits net interest expense	**6**	11
Amortization of deferred financing charges	**3**	3
Accretion of asset retirement obligations	**4**	3
Other	**8**	6
	414	399
Less: interest capitalized *(Note 12)*	**(18)**	(97)
	396	302

Borrowing costs capitalized to property, plant and equipment during 2016 were calculated by applying interest rates ranging from 2.90 per cent to 5.30 per cent to expenditures on qualifying assets (2015 - 2.76 per cent to 5.50 per cent).

8. INCOME TAXES

INCOME TAX EXPENSE

The components of income tax expense are summarized below.

	2016	2015
Current income tax expense		
Canada	**57**	26
Australia	**15**	30
United States	**2**	1
Other	**–**	1
Adjustment in respect of prior years	**(12)**	(4)
	62	54
Deferred income tax expense		
Reversal of temporary differences	**187**	71
Amount relating to change in tax rates	**–**	70
Adjustment in respect of prior years	**9**	3
	196	144
	258	198

The reconciliation of statutory and effective income tax expense is as follows:

		2016		2015
Earnings before income taxes	**933**	**%**	554	%
Income taxes, at statutory rates	**252**	**27.0**	144	26.0
Change in deferred income taxes resulting from increase in provincial corporate tax rate	**–**	**–**	70	12.6
International financing	**(9)**	**(1.0)**	(10)	(1.8)
Foreign tax rate variance	**4**	**0.4**	2	0.4
Foreign exchange on deferred tax asset	**9**	**1.0**	–	–
Equity earnings	**(8)**	**(0.8)**	(1)	(0.2)
Unrecognized deferred income tax assets	**6**	**0.6**	3	0.5
Disposition of investment at capital gains rate	**–**	**–**	(4)	(0.7)
Tax cost of preferred share financings	**2**	**0.2**	3	0.5
Other	**2**	**0.2**	(9)	(1.6)
	258	**27.6**	198	35.7

INCOME TAX ASSETS AND LIABILITIES

Income tax assets and liabilities in the consolidated balance sheet at December 31 are summarized below.

	Balance Sheet Presentation	2016	2015
Income tax assets			
Current	Income taxes receivable	**49**	33
Deferred	Deferred income tax assets	**67**	82
		116	115
Income tax liabilities			
Current	Other current liabilities	**16**	12
Deferred	Deferred income tax liabilities	**1,199**	1,007
		1,215	1,019

DEFERRED INCOME TAXES

The changes in deferred income tax assets are as follows:

Movements	Property, Plant and Equipment	Intangibles	Reserves	Tax Loss Carry Forwards and Tax Credits	Retirement Benefit Obligations	Other	Total
December 31, 2014	(9)	–	35	1	1	2	30
Credit (charge) to earnings	47	–	–	2	2	(1)	50
Charge to other comprehensive income	–	–	–	–	(1)	–	(1)
Other	2	–	1	(1)	–	1	3
December 31, 2015	40	–	36	2	2	2	82
(Charge) credit to earnings	**(6)**	**(3)**	**(10)**	**7**	**–**	**–**	**(12)**
Charge to other comprehensive income	**–**	**–**	**–**	**–**	**(1)**	**–**	**(1)**
Other	**(1)**	**–**	**–**	**1**	**–**	**(2)**	**(2)**
December 31, 2016	**33**	**(3)**	**26**	**10**	**1**	**–**	**67**

The Company does not expect any of its deferred income tax assets to reverse within the next twelve months.

The changes in deferred income tax liabilities are as follows:

Movements	Property, Plant and Equipment	Intangibles	Reserves	Tax Loss Carry Forwards and Tax Credits	Retirement Benefit Obligations	Other	Total
December 31, 2014	910	85	(32)	(34)	(149)	(2)	778
Charge (credit) to earnings	214	17	(10)	(58)	2	29	194
Charge to other comprehensive income	–	–	–	–	42	–	42
Acquisition of TPL *(Note 6)*	–	–	–	–	(9)	–	(9)
Other	(1)	–	(1)	1	–	3	2
December 31, 2015	1,123	102	(43)	(91)	(114)	30	1,007
Charge (credit) to earnings	**127**	**15**	**37**	**15**	**(1)**	**(9)**	**184**
Charge (credit) to other comprehensive income	–	–	**3**	–	**(4)**	–	**(1)**
Consolidation of Barking *(Note 29)*	**11**	–	–	–	–	–	**11**
Other	**(2)**	–	–	–	**2**	**(2)**	**(2)**
December 31, 2016	**1,259**	**117**	**(3)**	**(76)**	**(117)**	**19**	**1,199**

The Company expects approximately $7 million of its deferred income tax liabilities to reverse within the next twelve months.

At the end of 2016, the Company had $326 million of non-capital tax losses and credits which expire between 2029 and 2036 and $20 million of tax losses which do not expire. The Company recognized deferred income tax assets of $86 million for losses and credits that expire. No deferred income tax assets were recorded for losses that do not expire.

The Company recognized deferred income tax assets of nil directly to equity (2015 - $2 million).

The Company had $114 million of aggregate temporary differences for investments in subsidiaries, branches and joint ventures for which deferred income tax liabilities were not recognized (2015 - $124 million).

9. EARNINGS PER SHARE

Earnings per Class I Non-Voting (Class I) and Class II Voting (Class II) Share are calculated by dividing the earnings attributable to Class I and Class II Shares by the weighted average shares outstanding. Diluted earnings per share are calculated using the treasury stock method, which reflects the potential exercise of stock options and vesting of shares under the Company's mid-term incentive plan (MTIP) on the weighted average Class I and Class II Shares outstanding.

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

	2016	2015
Average shares		
Weighted average shares outstanding	**114,410,703**	114,831,792
Effect of dilutive stock options	**132,814**	154,752
Effect of dilutive MTIP	**302,359**	313,302
Weighted average dilutive shares outstanding	**114,845,876**	115,299,846
Earnings for earnings per share calculation		
Earnings for the year	**675**	356
Non-controlling interests	**(335)**	(202)
	340	154
Earnings and diluted earnings per Class I and Class II Share		
Earnings per Class I and Class II Share	**$2.97**	$1.34
Diluted earnings per Class I and Class II Share	**$2.96**	$1.33

10. LEASES

THE COMPANY AS LESSOR

The Company is party to certain arrangements that convey the right to use electricity generation and non-regulated electricity transmission assets. These arrangements are classified as finance leases, with the Company as the lessor. Certain assets under power purchase agreements (PPA) are classified as operating leases as the Company (as lessor) still retains substantially all the risks and rewards of ownership. Operating leases also include rentals of modular structures.

Finance leases

The total net investment in finance leases is shown below. Finance lease income is recognized in revenues.

	2016	2015
Net investment in finance leases		
Finance lease - gross investment	**622**	635
Unearned finance income	**(310)**	(326)
Unguaranteed residual value	**2**	2
	314	311
Current portion	**12**	9
Non-current portion	**302**	302
	314	311
Gross receivables from finance leases		
In one year or less	**45**	42
In more than one year, but not more than five years	**197**	191
In more than five years	**380**	402
	622	635
Net investment in finance leases		
In one year or less	**12**	9
In more than one year, but not more than five years	**65**	55
In more than five years	**237**	247
	314	311

During the year ended December 31, 2016, $3 million of contingent rent was recognized as income from these finance leases (2015 - $4 million).

Operating leases

The aggregate future minimum lease payments receivable under non-cancellable operating leases are:

	2016	2015
Minimum lease payments receivable		
In one year or less	**189**	202
In more than one year, but not more than five years	**671**	698
In more than five years	**3**	96
	863	996

During the year ended December 31, 2016, $16 million of contingent rent was recognized as income from these operating leases (2015 - $30 million).

THE COMPANY AS LESSEE

Operating leases

The Company has entered into long-term operating leases for office premises and equipment. During the year ended December 31, 2016, $35 million was recognized as an expense for these operating leases (2015 - $49 million).

11. INVENTORIES

Inventories at December 31 are comprised of:

	2016	2015
Natural gas and fuel in storage	**17**	20
Raw materials and consumables	**25**	40
Work-in-progress	**5**	14
Finished goods	**9**	13
	56	87

For the year ended December 31, 2016, inventories recognized as an expense were $320 million (2015 - $445 million).

Inventories with a carrying value of $7 million were pledged as security for liabilities at December 31, 2016 (2015 - $17 million).

12. PROPERTY, PLANT AND EQUIPMENT

The Company continues to invest in utility infrastructure in Alberta, particularly in electricity transmission facilities. A reconciliation of the changes in the carrying amount of property, plant and equipment is as follows:

	Utility Transmission & Distribution	Power Generation	Land and Buildings	Construction Work-in-Progress	Other	Total
Cost						
December 31, 2014	13,529	1,980	756	2,390	1,658	20,313
Additions	348	66	25	1,303	55	1,797
Transfers	2,718	38	37	(2,894)	101	–
Retirements and disposals	(73)	(54)	(18)	(14)	(131)	(290)
Changes to asset retirement costs	8	4	–	–	(42)	(30)
Foreign exchange rate adjustment	71	–	2	9	24	106
December 31, 2015	16,601	2,034	802	794	1,665	21,896
Additions	**422**	**26**	**119**	**859**	**68**	**1,494**
Transfers	**701**	**10**	**24**	**(823)**	**88**	**–**
Retirements and disposals	**(153)**	**(15)**	**(5)**	**(45)**	**(148)**	**(366)**
Changes to asset retirement costs	**–**	**(3)**	**–**	**–**	**(5)**	**(8)**
Foreign exchange rate adjustment	**(46)**	**(1)**	**(20)**	**(4)**	**(7)**	**(78)**
December 31, 2016	**17,525**	**2,051**	**920**	**781**	**1,661**	**22,938**
Accumulated depreciation and impairment						
December 31, 2014	3,136	1,208	169	–	683	5,196
Depreciation and impairment	357	106	14	85	164	726
Retirements and disposals	(73)	(53)	(16)	–	(116)	(258)
Changes to asset retirement costs	–	–	–	–	(12)	(12)
Foreign exchange adjustment	7	–	1	–	6	14
December 31, 2015	3,427	1,261	168	85	725	5,666
Depreciation	**408**	**65**	**19**	**–**	**81**	**573**
Retirements and disposals	**(101)**	**(14)**	**(5)**	**–**	**(106)**	**(226)**
Foreign exchange adjustment	**(5)**	**–**	**(2)**	**(3)**	**(6)**	**(16)**
December 31, 2016	**3,729**	**1,312**	**180**	**82**	**694**	**5,997**
Net book value						
December 31, 2015	13,174	773	634	709	940	16,230
December 31, 2016	**13,796**	**739**	**740**	**699**	**967**	**16,941**

The additions to property, plant and equipment included $18 million of interest capitalized during construction for the year ended December 31, 2016 (2015 - $97 million).

As part of the integration of natural gas transmission service in Alberta, ATCO Pipelines and NOVA Gas Transmission Ltd. exchanged ownership of certain natural gas pipelines and related facilities during 2016. The net book value of assets disposed of was $51 million compared to assets acquired of $65 million, resulting in an increase in the net book value of utility, transmission and distribution assets of $14 million. The net assets acquired were settled in cash.

Property, plant and equipment with a carrying value of $692 million were pledged as security for liabilities at December 31, 2016 (2015 - $739 million).

IMPAIRMENTS

Structures & Logistics Segment

Lodge assets

In June 2015, the Company recognized a pre-tax impairment of $9 million relating to certain lodge assets. The impairment was included in depreciation, amortization and impairment expense. The Company determined these assets were impaired due to a reduction in contracted rooms and rates charged as a result of continued and sustained decreases in key commodity prices as well as a significant reduction in the capital expenditure programs of key clients. The recoverable amount of the joint venture lodge asset was calculated based on cash flow projections expected to be derived from the lodge being operational until July 2018. The expected future cash flows were discounted at a pre-tax rate of 15.0 per cent. The remaining lodge assets were closed and are expected to be dismantled. The impairment charge decreased the carrying amount for all impaired lodge assets to nil. This amount was determined using value in use.

Workforce housing assets

In December 2015, the Company recognized a pre-tax impairment of $57 million relating to its workforce housing fleet in Canada and Australia. The impairment was included in depreciation, amortization and impairment expense. The Company determined these assets were impaired due to a reduction in utilization and rates as a result of sustained decreases in key commodity prices as well as a significant reduction in the capital expenditure programs of key clients. The Canadian and Australian expected future cash flows were discounted at pre-tax rates of 17 per cent and 12 per cent, respectively. After recognizing this impairment, the recoverable amount of these assets was $94 million at December 31, 2015. This amount was determined using value in use. If the utilization rate had decreased by 10 per cent, the impairment would have increased by $14 million.

Electricity Segment

Electricity generation assets

In December 2015, the Company recognized a pre-tax impairment of $35 million relating to the Battle River units 3 and 4 electricity generation assets. The impairment was included in depreciation, amortization and impairment expense. The Company determined that the net book value of these assets were not recoverable due to new environmental regulations which impacted emissions costs and ongoing soft market conditions in the Alberta power market. Management made assumptions about operating costs, forward Alberta power pool prices to forecast expected future cash flows. The cash flows were discounted at a pre-tax rate of 12 per cent. After recognizing this impairment, the recoverable amount of these assets was nil at December 31, 2015. This amount was determined using value in use.

Pipelines & Liquids Segment

Natural gas pipeline and processing assets

In December 2015, the Company recognized a pre-tax impairment of $85 million relating to its Tula Pipeline Project in Mexico. The impairment was included in depreciation, amortization and impairment expense. The Company determined these construction work in progress assets were impaired as a result of significantly higher land access costs than originally forecast. The expected future cash flows were discounted at an after-tax rate of 9 per cent. After recognizing this impairment, the recoverable amount of these assets was $63 million at December 31, 2015. This amount was determined using a fair value less cost to sell model. If the discount rate had increased by 1 per cent, the impairment would have increased by $10 million.

In December 2015, the Company recognized a pre-tax impairment of $9 million relating to certain natural gas processing facilities. The impairment was included in depreciation, amortization and impairment expense. The Company determined that the carrying value of these assets exceeded the recoverable amounts due to a significant and prolonged decline in commodity prices which reduced future cash flow forecasts. Management made assumptions about gas volumes, the price of natural gas, and operational capacity based on industry information and Company forecasts of expected future cash flows. The cash flows were discounted at a pre-tax rate of 10 per cent. After recognizing this impairment, the recoverable amount of these assets was $9 million at December 31, 2015. This amount was determined using value in use.

13. INTANGIBLES

Intangible assets consist mainly of computer software not directly attributable to the operation of property, plant and equipment and land rights. Goodwill is also an intangible asset (see Note 14). A reconciliation of the changes in the carrying amount of intangible assets is as follows:

	Computer Software	Land Rights	Other	Total
Cost				
December 31, 2014	483	229	27	739
Additions	56	73	7	136
Disposals	(10)	–	(2)	(12)
Foreign exchange rate adjustment	–	–	1	1
December 31, 2015	529	302	33	864
Additions	**79**	**24**	**–**	**103**
Disposals	**–**	**(2)**	**(6)**	**(8)**
December 31, 2016	**608**	**324**	**27**	**959**
Accumulated amortization				
December 31, 2014	279	32	12	323
Amortization	44	3	1	48
Disposals	(8)	–	(2)	(10)
Foreign exchange rate adjustment	–	–	1	1
December 31, 2015	315	35	12	362
Amortization	**52**	**4**	**1**	**57**
Disposals	**–**	**–**	**(6)**	**(6)**
December 31, 2016	**367**	**39**	**7**	**413**
Net book value				
December 31, 2015	214	267	21	502
December 31, 2016	**241**	**285**	**20**	**546**

14. GOODWILL

The carrying value of goodwill for the Electricity and Pipelines & Liquids segments is shown below.

	2016	2015
Electricity	**38**	38
Pipelines & Liquids	**33**	33
Carrying value	**71**	71

The recoverable amount was measured based on each segment's fair value less costs of disposal, which was calculated using publicly available enterprise values and price-to-earnings multiples of comparable, actively traded companies. Each segment's fair value less costs of disposal was compared to its carrying value and was sufficient to support the carrying value of allocated goodwill.

The Company used an average enterprise value-to-earnings before interest, taxes, depreciation, and amortization of 9.1 and 17.1 (2015 - 10.2 and 13.2) and price-to-earnings value of 16.8 and 24.3 (2015 - 16.3 and 18.7) for the Electricity and Pipelines & Liquids segments, respectively, to calculate fair value less costs of disposal.

The fair value measurements are categorized in Level 3 of the fair value hierarchy.

15. RECEIVABLE UNDER SERVICE CONCESSION ARRANGEMENT

In December 2014, Alberta PowerLine (APL), a partnership between Canadian Utilities Limited and Quanta Capital Solutions, Inc., was awarded a 35-year contract by the Alberta Electric System Operator (AESO) to design, build, own, and operate the Fort McMurray 500 kV Transmission project.

The project has been accounted for as a service concession arrangement as the AESO controls the output of the transmission facilities as a part of the greater Alberta network and the ownership of the transmission facilities will transfer to the AESO at the end of the service agreement. Under a service concession arrangement, the Company does not recognize the transmission facilities as property, plant and equipment, instead, a financial asset representing amounts due from the AESO has been recognized as a long-term receivable in the consolidated balance sheet. Revenues and costs relating to the design, planning and construction phases of the project are recognized based on percentage of completion and revenues and costs relating to the operating phase will be recognized as the service is rendered.

Design and route planning activities are in progress. Construction is expected to commence in 2017 and the project is anticipated to be in service in 2019. The receivable due from the AESO was $77 million at December 31, 2016 (2015 - nil). Payments will commence once the asset is in service. Contracted undiscounted cash flows from the project are expected to be $3.7 billion.

Revenues and operating profit for the year ended December 31, 2016, are $77 million and $8 million, respectively (2015 - nil).

16. SHORT-TERM DEBT

At December 31, 2016, the Company had $55 million of commercial paper outstanding at an interest rate of 0.89 per cent, maturing in January 2017 (2015 - nil). The commercial paper is supported by the Company's long-term committed credit facilities (Note 25).

17. ASSET RETIREMENT OBLIGATIONS AND OTHER PROVISIONS

Asset retirement obligations (AROs) represent the present value of the costs to be incurred to retire the Company's power generation plants and natural gas liquids extraction and processing plants. The other provision relates mainly to restructuring costs and expected warranty claims on modular buildings.

The changes in AROs and other provisions are as follows:

	Asset Retirement Obligations	Other	Total
December 31, 2014	198	20	218
Additions	9	64	73
Utilized in the year	(6)	(11)	(17)
Reversals of unused amounts	(16)	(3)	(19)
Accretion expense	3	–	3
Revisions in discount rate	(26)	–	(26)
Foreign exchange rate adjustment	–	1	1
December 31, 2015	162	71	233
Additions	**21**	**5**	**26**
Utilized in the year	**(1)**	**(45)**	**(46)**
Reversals of unused amounts	**(12)**	**(12)**	**(24)**
Accretion expense	**4**	**–**	**4**
Revisions in discount rate	**(9)**	**–**	**(9)**
Foreign exchange rate adjustment	**(2)**	**–**	**(2)**
December 31, 2016	**163**	**19**	**182**
Less: current portion	**31**	**17**	**48**
Long-term portion	**132**	**2**	**134**

ASSET RETIREMENT OBLIGATIONS

The Company estimates that the undiscounted amount of cash flows required to settle the AROs is approximately $5.1 billion, which will be incurred between 2017 and 2261. The weighted average pre-tax, risk-free discount rate used to calculate the fair value of the AROs at December 31, 2016 was 2.71 per cent (2015 - 2.90 per cent).

OTHER PROVISIONS

In order to maintain the Company's competitive position, a restructuring and transformation process was implemented in 2015. The Company provided for staff and other costs directly attributable to restructuring, including lease termination costs, at December 31, 2015.

The Company has provided for warranty claims based on current sales levels and information available on repair and maintenance costs for products sold. The Company expects that the majority of the warranty claims costs will be incurred in the next year.

18. LONG-TERM DEBT

Long-term debt outstanding at December 31 is as follows:

	Effective Interest Rate	2016	2015
CU Inc. debentures - unsecured	4.982% (2015 - 5.046%)	**7,325**	6,950
(Interest is the average effective interest rate weighted by principal amounts outstanding)			
CU Inc. other long-term obligation, due June 2018 - unsecured	2.700%	**3**	3
Canadian Utilities Limited debentures - unsecured 2012 3.122% due November 2022	3.187%	**200**	200
ATCO Power Australia credit facility, payable in Australian dollars, at BBSY Rates, due February 2020, secured by a pledge of project assets and contracts, $79 million AUD (2015 - $84 million AUD) (1)	Floating (2)	**77**	85
ATCO Gas Australia Limited Partnership credit facility, payable in Australian dollars, at BBSY Rates, due December 2019, $250 million AUD (2015 - $250 million AUD) (1)	Floating (2)	**243**	252
ATCO Gas Australia Limited Partnership revolving credit facility, payable in Australian dollars, at BBSY Rates, due December 2019, $427 million AUD (2015 - $427 million AUD) (1)	Floating (2)	**414**	430
ATCO Structures & Logistics credit facility, at BA Rates, due September 2018 secured by a general assignment of ATCO Structures & Logistics' present and future property, assets, undertakings and equity interests in certain of its restricted subsidiaries and joint ventures (1)	Floating	**–**	64
Less: deferred financing charges		**(42)**	(41)
		8,220	7,943
Less: amounts due within one year		**(155)**	(5)
		8,065	7,938

BBSY - Bank Bill Swap Benchmark Rate

BA - Bankers' Acceptance

(1) *The above interest rates have additional margin fees at a weighted average rate of 1.14 per cent (2015 - 1.20 per cent). The margin fees are subject to escalation.*

(2) *Floating interest rates have been partially or completely hedged with interest rate swaps (see Note 24).*

DEBENTURE ISSUANCES

During 2016, CU Inc. issued $375 million of 3.763 per cent debentures maturing on November 19, 2046 (2015 - $400 million of 3.964 per cent debentures maturing on July 27, 2045, and $250 million of 4.211 per cent debentures maturing on October 29, 2055).

PLEDGED ASSETS

The ATCO Power Australia credit facility is guaranteed by Canadian Utilities Limited and is secured by a mortgage on certain assets of the Karratha Power Plant and an assignment of certain contracts and agreements. The Karratha Power Plant is accounted for as a finance lease receivable.

The book value of assets pledged to maintain the Company's long-term credit facilities was $566 million at December 31, 2016 (2015 - $726 million).

19. NON-RECOURSE LONG-TERM DEBT

Non-recourse long-term debt outstanding at December 31 is as follows:

Project Financing	Effective Interest Rate	2016	2015
Joffre notes, at fixed rate of 8.590%, due to 2020	8.950%	**18**	24
Scotford notes, at fixed rate of 7.930%, due to 2022	8.240%	**17**	19
Muskeg River notes, at fixed rate of 7.560%, due to 2022	7.840%	**14**	16
Cory:			
Notes, at fixed rate of 7.586%, due to 2025	7.870%	**26**	28
Notes, at fixed rate of 7.601%, due to 2026	7.890%	**24**	26
Other long-term obligation, at a fixed rate of 8.160%, due to 2016		**–**	1
Less: deferred financing charges		**(1)**	(2)
		98	112
Less: amounts due within one year		**(14)**	(15)
		84	97

PLEDGED ASSETS

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 at December 31, 2016, was $381 million (2015 - $403 million). The Cory project is accounted for as a finance lease receivable.

20. RETIREMENT BENEFITS

The Company maintains registered defined benefit and defined contribution pension plans for most of its employees. It also provides other post-employment benefits (OPEB), principally health, dental and life insurance, for retirees and their dependents. The defined benefit pension plans provide for pensions based on employees' length of service and final average earnings. As of 1997, new employees of Canadian Utilities Limited and its subsidiaries, and, as of 2005, new employees of ATCO Structures & Logistics, automatically participate in the defined contribution pension plans.

The Company also maintains non-registered, non-funded defined benefit pension plans for certain officers and key employees.

The majority of benefit payments are made from trustee-administered funds; however, there are a number of unfunded plans where the Company makes the benefit payments. Plan assets held in trusts are governed by provincial and federal legislation and regulations, as is the relationship between the Company and the trustee. The Pension Committee of the Board is responsible for governance of the funded plans and policy decisions related to benefit design, liability management, and funding and investment, including selection of investment managers and investment options for the plans.

BENEFIT PLAN ASSETS, OBLIGATIONS AND FUNDED STATUS

The changes in Company's pension and OPEB plan assets and obligations are as follows:

		2016		2015
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Market value of plan assets				
Beginning of year	2,728	–	2,528	–
Interest income	**106**	–	98	–
Employee contributions	**1**	–	2	–
Employer contributions	**30**	–	44	–
Benefit payments	**(125)**	–	(97)	–
TPL *(Note 6)*	**(69)**	–	69	–
Return on plan assets, excluding amounts included in interest income	**12**	–	87	–
Foreign exchange rate adjustment	**(9)**	–	1	–
Other	–	–	(4)	–
End of year	**2,674**	–	2,728	–
Accrued benefit obligations				
Beginning of year	2,918	117	2,851	122
Current service cost	**33**	**2**	39	2
Interest cost	**114**	**4**	113	5
Employee contributions	**1**	–	2	–
Benefit payments from plan assets	**(125)**	–	(97)	–
Benefit payments by employer	**(7)**	**(4)**	(8)	(3)
Curtailment gain (1)	–	–	(23)	(1)
TPL *(Note 6)*	**(69)**	–	69	–
Actuarial losses (gains)	**33**	**(2)**	(29)	(8)
Foreign exchange rate adjustment	**(9)**	–	1	–
End of year (2)	**2,889**	**117**	2,918	117
Funded status				
Net retirement benefit obligations	**215**	**117**	190	117

(1) In 2015, the Company recorded a curtailment gain of $24 million related to significant employee reductions. The gain is reported in salaries, wages and benefits expenses.

(2) The non-registered, non-funded defined benefit pension plans accrued benefit obligations decreased to $145 million at December 31, 2016 due to experience adjustments partially offset by a decrease in the liability discount rate (2015 - increased to $149 million due to experience adjustments partially offset by an increase in the liability discount rate).

BENEFIT PLAN COST

The components of benefit plan cost are as follows:

	2016		2015	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Current service cost	**33**	**2**	39	2
Interest cost	**114**	**4**	113	5
Interest income	**(106)**	**–**	(98)	–
Curtailment gain	**–**	**–**	(23)	(1)
Defined benefit plans cost	**41**	**6**	31	6
Defined contribution plans cost	**33**	**–**	38	–
Total cost	**74**	**6**	69	6
Less: capitalized	**29**	**3**	37	3
Net cost recognized	**45**	**3**	32	3

RE-MEASUREMENT OF RETIREMENT BENEFITS

Re-measurements of the pension and OPEB plans are as follows:

	2016		2015	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Gains (losses) on plan assets from:				
Return on plan assets, excluding amounts included in net interest expense	**12**	**–**	87	–
Other	**–**	**–**	(4)	–
	12	**–**	83	–
(Losses) gains on plan obligations from:				
Changes in demographic assumptions	**–**	**5**	–	5
Changes in financial assumptions	**(54)**	**(3)**	39	2
Experience adjustments	**21**	**–**	(10)	1
	(33)	**2**	29	8
(Losses) gains recognized in other comprehensive income [(1)]	**(21)**	**2**	112	8

(1) (Losses) gains net of income taxes were $(16) million for the year ended December 31, 2016 (2015 - $77 million).

PLAN ASSETS

The market values of the Company's defined benefit pension plan assets at December 31 are as follows:

				2016				2015
Plan asset mix	**Quoted**	**Un-quoted**	**Total**	**%**	**Quoted**	**Un-quoted**	**Total**	**%**
Equity securities								
Public								
Canada	**243**	**–**	**243**		252	–	252	
United States	**352**	**–**	**352**		366	–	366	
International	**137**	**–**	**137**		201	–	201	
Private	**–**	**13**	**13**		–	20	20	
	732	**13**	**745**	**28**	819	20	839	30
Fixed income securities								
Government bonds	**862**	**–**	**862**		793	–	793	
Corporate bonds and debentures	**632**	**–**	**632**		569	–	569	
Securitizations	**51**	**–**	**51**		53	–	53	
Mortgages	**–**	**54**	**54**		–	46	46	
	1,545	**54**	**1,599**	**60**	1,415	46	1,461	54
Real estate								
Land and building [(1)]	**–**	**60**	**60**		–	70	70	
Real estate funds	**–**	**187**	**187**		–	180	180	
	–	**247**	**247**	**9**	–	250	250	9
Cash and other assets								
Cash	**35**	**–**	**35**		68	–	68	
Short-term notes and money market funds	**39**	**–**	**39**		26	–	26	
Qualifying insurance policy	**–**	**–**	**–**		–	76	76	
Accrued interest and dividends receivable	**9**	**–**	**9**		8	–	8	
	83	**–**	**83**	**3**	102	76	178	7
	2,360	**314**	**2,674**	**100**	2,336	392	2,728	100

(1) The land and building are occupied by the Company.

At December 31, 2016, plan assets include Class A non-voting shares of Canadian Utilities Limited having a market value of $8 million (2015 - Class A non-voting and Class B common shares having a market value of $32 million) and Class I Shares of the Company having a market value of $10 million (2015 - $37 million).

FUNDING

In 2016, an actuarial valuation for funding purposes as of December 31, 2015 was completed for the registered defined benefit pension plans. The estimated contribution for 2017 is $27 million. The next actuarial valuation for funding purposes must be completed as of December 31, 2018.

WEIGHTED AVERAGE ASSUMPTIONS

The significant assumptions used to determine the benefit plan cost and accrued benefit obligation are as follows:

	2016		2015	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Benefit plan cost				
Discount rate for the year	**4.10%**	**4.10%**	4.00%	4.00%
Average compensation increase for the year (1)	**1.50%**	**n/a**	3.25%	n/a
Accrued benefit obligations				
Discount rate at December 31	**3.90%**	**3.90%**	4.10%	4.10%
Long-term inflation rate	**2.00%**	**n/a**	2.00%	n/a
Health care cost trend rate:				
Drug costs (2)	**n/a**	**5.57%**	n/a	5.70%
Other medical costs	**n/a**	**4.50%**	n/a	4.50%
Dental costs	**n/a**	**4.00%**	n/a	4.00%

(1) The assumed average compensation increase is 1.50 per cent for 2016 to 2018 and 2.50 per cent thereafter.

(2) The Company uses a graded drug cost trend rate which assumes a rate of 4.50 per cent in 2024.

The weighted average duration of the defined benefit obligation is 13.7 years.

RISKS

The Company is exposed to a number of risks related to its defined benefit pension plans and OPEB plans. The most significant risks are described below.

Investment risk

The Company makes investment decisions for its funded plans using an asset-liability matching framework. Within this framework, the Company's objective over time is to increase the proportion of plan assets in fixed income securities with maturities that match the expected benefit payments as they fall due. However, due to the long-term nature of the benefit obligations, the strength of the Company, and the belief that equities offer the best returns over the long-term with an acceptable level of risk, the Company continues to invest in equity securities. This investment is an important element of the Company's long-term strategy to manage the plans efficiently. The equity securities are in a diversified portfolio of high-quality businesses. The Company has not changed the processes used to manage its risks from previous periods.

Interest rate risk

A decrease in long-term interest rates will increase accrued benefit obligations, which will be partially offset by an increase in the value of the plans' bond holdings. Other things remaining the same, a further decrease in long-term interest rates will cause the funded status to deteriorate, while increases in interest rates will result in gains.

Compensation risk

The present value of the accrued benefit obligations is calculated using the estimated future compensation of plan participants. Should future compensation be higher than estimated, benefit obligations will increase.

Inflation risk

Accrued benefit obligations are linked to inflation, and higher inflation will lead to increased obligations. For the defined benefit pension plans, inflation risk is mitigated because the indexing of benefit payments is capped at an annual increase of 3.0 per cent.

The majority of plan assets are also affected by inflation. As inflation rises, long-term interest rates will likely rise, pushing up bond yields and reducing the value of existing fixed rate bonds. The relationship between equities and inflation is not as clear, but generally speaking, high inflation has a negative impact on equity valuations. Overall, rising inflation will likely reduce a plan surplus or increase a deficit.

Life expectancy

Should pensioners live longer than assumed, benefit obligations and liabilities will be larger than expected.

SENSITIVITIES

The 2016 sensitivities of key assumptions used in measuring the Company's pension and OPEB plans are as follows:

		Accrued Benefit Obligation		Net Benefit Plan Cost	
Assumption	**Percent Change**	**Increase in Assumption**	**Decrease in Assumption**	**Increase in Assumption**	**Decrease in Assumption**
Discount rate	1%	(356)	456	(10)	14
Future compensation rate	1%	25	(24)	1	(1)
Long-term inflation rate (1)	1%	404	(334)	12	(9)
Health care cost trend rate	1%	11	(9)	–	–
Life expectancy	10%	75	(67)	2	(2)

(1) *The long-term inflation rate for pension plans reflects the fact that pension plan benefit payments have historically been indexed annually to increases in the Canadian Consumer Price Index to a maximum increase of 3.0 per cent per annum.*

The above sensitivities have been calculated independently of each other. Actual experience may result in changes in a number of assumptions simultaneously.

21. DEFERRED REVENUES

Deferred revenues from customer contributions and other sources are as follows:

	2016	2015
Customer contributions	**1,687**	1,647
Other	**2**	2
	1,689	1,649

CUSTOMER CONTRIBUTIONS

Customer contributions for extensions to plant are included in deferred revenues and recognized as revenue over the life of the related asset. Changes in deferred customer contribution revenues are summarized below.

	2016	2015
Beginning of year	1,647	1,508
Receipt of customer contributions	**104**	197
Amortization	**(64)**	(59)
Foreign exchange rate adjustment	**–**	1
End of year	**1,687**	1,647

22. CLASS I AND CLASS II SHARES

A reconciliation of the number and dollar amount of outstanding Class I and Class II Shares at December 31, 2016 is shown below.

AUTHORIZED AND ISSUED

	Class I Non-Voting		Class II Voting		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
Authorized:	300,000,000		50,000,000		350,000,000	
Issued and outstanding:						
December 31, 2014	101,506,223	171	13,635,205	2	115,141,428	173
Purchased and canceled	(275,800)	–	–	–	(275,800)	–
Stock options exercised	158,600	4	–	–	158,600	4
Converted: Class II to Class I	62,200	–	(62,200)	–	–	–
December 31, 2015	101,451,223	175	13,573,005	2	115,024,228	177
Purchased and canceled	**(460,000)**	**(1)**	–	–	**(460,000)**	**(1)**
Stock options exercised	**89,000**	**3**	–	–	**89,000**	**3**
Converted: Class II to Class I	**141,100**	–	**(141,100)**	–	–	–
December 31, 2016	**101,221,323**	**177**	**13,431,905**	**2**	**114,653,228**	**179**

Class I and Class II Shares have no par value.

MID-TERM INCENTIVE PLAN

The Company's MTIP trust is considered a special purpose entity which is consolidated in these financial statements. The Class I Shares, while held in trust, are accounted for as a reduction of share capital. The consolidated Class I and Class II Shares outstanding at December 31 is shown below.

	2016		2015	
	Shares	Amount	Shares	Amount
Shares issued and outstanding	**114,653,228**	**179**	115,024,228	177
Shares held in trust for the mid-term incentive plan	**(300,824)**	**(12)**	(306,987)	(12)
Shares outstanding, net of shares held in trust	**114,352,404**	**167**	114,717,241	165

DIVIDENDS

The Company declared and paid cash dividends of $1.1400 per Class I and Class II Share during 2016 (2015 - $0.9900). The Company’s policy is to pay dividends quarterly on its Class I and Class II Shares. Increases in the quarterly dividend are addressed by the Board in the first quarter of each year. The payment of any dividend is at the discretion of the Board and depends on the financial condition of the Company and other factors.

On January 12, 2017, the Company declared a first quarter dividend of $0.3275 per Class I and Class II Share.

SHARE OWNER RIGHTS

Each Class II Share may be converted into one Class I Share at any time at the share owner’s option. If an offer to purchase all Class II Shares is made, and such offer is accepted and taken up by the owners of a majority of the Class II Shares, and if, at the same time, an offer is not made to the Class I Share owners on the same terms and conditions, then the Class I Shares will be entitled to the same voting rights as the Class II Shares. The two share classes rank equally in all other respects.

NORMAL COURSE ISSUER BID

On March 2, 2015, ATCO Ltd. began a normal course issuer bid to purchase up to 2,030,168 outstanding Class I Non-Voting Shares. The bid expired on February 29, 2016. On March 1, 2016, ATCO Ltd. began a new normal course issuer bid to purchase up to 3,043,884 outstanding Class I Non-Voting Shares. The bid expired on February 28, 2017.

During the year ended December 31, 2016, 460,000 shares were purchased for $18 million (2015 - 275,800 shares were purchased for $10 million). The purchases resulted in a decrease to share capital and retained earnings of $1 million and $17 million, respectively (2015 - nil and $10 million).

23. CASH FLOW INFORMATION

ADJUSTMENTS TO RECONCILE EARNINGS TO CASH FLOWS FROM OPERATING ACTIVITES

Adjustments to reconcile earnings to cash flows from operating activities are summarized below.

	2016	2015
Depreciation, amortization and impairment	**615**	756
Gain on sales of operations and revaluation of joint venture	**(18)**	(49)
Earnings from investment in joint ventures, net of dividends and distributions received	**(1)**	18
Income taxes	**258**	198
Unearned availability incentives	**(14)**	(30)
Contributions by customers for extensions to plant	**104**	197
Amortization of customer contributions	**(64)**	(59)
Net finance costs	**380**	289
Income taxes paid	**(63)**	(81)
Other	**40**	(6)
	1,237	1,233

CHANGES IN NON-CASH WORKING CAPITAL

The changes in non-cash working capital are summarized below.

	2016	2015
Operating activities		
Accounts receivable	**5**	47
Inventories	**25**	(26)
Prepaid expenses and other current assets	**2**	13
Accounts payable and accrued liabilities	**(9)**	16
Provisions and other current liabilities	**(68)**	41
	(45)	91
Investing activities		
Accounts receivable	**(1)**	6
Inventories	**1**	29
Prepaid expenses	**(2)**	–
Accounts payable and accrued liabilities	**(135)**	(95)
	(137)	(60)

CASH POSITION

Cash position in the consolidated statement of cash flows at December 31 is comprised of:

	2016	2015
Cash	**563**	666
Short-term investments	**3**	85
Restricted cash [1]	**40**	49
Cash and cash equivalents	**606**	800
Bank indebtedness	**(5)**	(1)
	601	799

(1) Cash balances which are restricted under the terms of project financing agreements or joint arrangement agreements are considered not available for general use by the Company.

24. FINANCIAL INSTRUMENTS

FAIR VALUE MEASUREMENT

Financial instruments are measured at amortized cost or fair value. Fair value represents the estimated amounts at which financial instruments could be exchanged between knowledgeable and willing parties in an arm's length transaction. Determining fair value requires management judgment. The valuation methods used to determine the fair value of each financial instrument and its associated level in the fair value hierarchy is described below.

Financial Instruments	Fair Value Method
Measured at Amortized Cost	
Cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and short-term debt	Assumed to approximate carrying value due to their short-term nature.
Lease receivables and receivable under service concession arrangement	Determined using a risk-adjusted, pre-tax interest rate to discount future cash receipts (Level 2).
Long-term debt and non-recourse long-term debt	Determined using quoted market prices for the same or similar issues. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on the Company's current borrowing rate for similar borrowing arrangements (Level 2).
Measured at Fair Value	
Interest rate swaps	Determined using interest rate yield curves at period-end (Level 2).
Foreign currency contracts	Determined using quoted forward exchange rates at period-end (Level 2).
Commodity contracts	Determined using observable period-end forward curves, with inputs validated by publicly available market providers. The fair values were also determined using extrapolation formulas using readily observable inputs and implied volatility (Level 2).

FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COST

The fair values of the Company's financial instruments measured at amortized cost are as follows:

Recurring Measurements	Note	2016 Carrying Value	2016 Fair Value	2015 Carrying Value	2015 Fair Value
Financial Assets					
Lease receivables	10	**314**	**433**	311	493
Receivable under service concession arrangement	15	**77**	**77**	_	_
Financial Liabilities					
Long-term debt	18	**8,220**	**9,139**	7,943	8,679
Non-recourse long-term debt	19	**98**	**114**	112	137

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The Company's derivative instruments are measured at fair value. At December 31, 2016, the following derivative instruments were outstanding:

- interest rate swaps for the purpose of limiting interest rate risk on the variable future cash flows of long-term debt and non-recourse long-term debt held in a joint venture,
- foreign currency forward contracts for the purpose of limiting exposure to exchange rate fluctuations relating to expenditures denominated in U.S. and Australian dollars; and
- natural gas and forward power sale and purchase contracts for the purpose of limiting exposure to electricity and natural gas market price movements.

The balance sheet classification and fair values of the Company's derivative financial instruments at December 31 are as follows:

	Subject to Hedge Accounting		Not Subject to Hedge Accounting		
Recurring Measurements	**Interest Rate Swaps**	**Commodities**	**Commodities**	**Foreign Currency Forward Contracts**	**Total Fair Value of Derivatives**
2016					
Financial Assets					
Prepaid expenses and other current assets	_	**6**	**7**	_	**13**
Other assets	_	**17**	**6**	_	**23**
Financial Liabilities					
Other current liabilities	_	_	**2**	_	**2**
Other liabilities	**3**	**7**	**5**	_	**15**
2015					
Financial Assets					
Prepaid expenses and other current assets	_	4	1	1	6
Other assets	_	3	_	_	3
Financial Liabilities					
Other current liabilities	_	3	2	_	5
Other liabilities	_	5	_	_	5

During the year ended December 31, 2016, losses before income taxes of $9 million were recognized in other comprehensive income (OCI) (2015 - gains of $1 million) and gains before income taxes of $1 million were reclassified to the statement of earnings (2015 - $2 million).

There was hedge ineffectiveness of $4 million during 2016 that was recognized in the statement of earnings (2015 - nil). Over the next 12 months, the Company estimates that gains before income taxes of $6 million will be reclassified from accumulated other comprehensive income (AOCI) to earnings.

Notional and maturity summary

The notional value and maturity dates of the Company's derivative instruments outstanding at December 31 are as follows:

	Subject to Hedge Accounting			Not Subject to Hedge Accounting		
Notional value and maturity	**Interest Rate Swaps**	**Natural Gas [1]**	**Power [2]**	**Natural Gas [1]**	**Power [2]**	**Foreign Currency Forward Contracts**
2016						
Purchases [3]	–	**24,892,000**	–	**35,985,800**	**3,755,080**	–
Sales [3]	–	–	**3,027,960**	**20,421,000**	**4,055,037**	–
Currency						
Canadian dollars	**4**	–	–	–	–	–
Australian dollars	**754**	–	–	–	–	–
U.S. dollars	–	–	–	–	–	**35**
Maturity	**2019-2020**	**2017-2021**	**2017-2020**	**2017-2021**	**2017-2020**	**2017**
2015						
Purchases [3]	–	19,479,000	–	6,767,000	556,080	–
Sales [3]	–	–	2,722,233	1,761,000	65,720	–
Currency						
Canadian dollars	6	–	–	–	–	–
Australian dollars	759	–	–	–	–	–
U.S. dollars	–	–	–	–	–	35
Maturity	2019-2020	2016-2020	2016-2020	2016-2018	2016-2017	2016

(1) Notional amounts for the natural gas purchase contracts are the maximum volumes that can be purchased over the terms of the contracts.

(2) Notional amounts for the forward power sale and purchase contracts are the commodity volumes committed in the contracts.

(3) Volumes for natural gas and power derivatives are in GJ and MWh, respectively.

OFFSETTING FINANCIAL ASSETS AND LIABILITIES

Netting arrangements and similar agreements provide counterparties the legal right to set-off liabilities against assets received. The following financial assets and financial liabilities are subject to offsetting at December 31:

	Effects of Offsetting on the Balance Sheet			Related Amounts not Offset		
	Gross Amount	Gross Amount Offset	Net Amount Recognized	Amounts Subject to Master Netting Arrangements	Financial Instrument Collateral	Net Amount
2016						
Financial Assets						
Derivative assets [(1)]	**36**	–	**36**	**(1)**	**(19)**	**16**
Accounts receivable	**69**	**(19)**	**50**	–	–	**50**
Financial Liabilities						
Derivative liabilities [(1)]	**14**	–	**14**	**(1)**	–	**13**
2015						
Financial Assets						
Derivative assets [(1)]	8	–	8	(2)	(4)	2
Accounts receivable	60	(25)	35	–	–	35
Financial Liabilities						
Derivative liabilities [(1)]	10	–	10	(2)	–	8

(1) The Company enters into derivative transactions based on master agreements in which there is a set-off provision under certain circumstances, such as default. The agreements do not meet the criteria for offsetting in the consolidated balance sheet since the Company does not presently have a legally enforceable right to set-off. This right is enforceable only if certain credit events occur in the future.

25. RISK MANAGEMENT

FINANCIAL RISKS

The Company is exposed to a variety of risks associated with the use of financial instruments: market risk, credit risk and liquidity risk. The Company may use various derivative financial instruments to manage its exposure in these areas. All such instruments are used to manage risk and are not for trading purposes.

The Company's Board is responsible for understanding the principal risks of the Company's business, achieving a proper balance between risks incurred and the potential return to share owners, and confirming there are controls in place to effectively monitor and manage those risks with a view to the long-term viability of the Company. The Board established the Audit & Risk Committee to review significant risks associated with future performance, growth and lost opportunities identified by management that could materially affect the Company's ability to achieve its strategic or operational targets. This committee is responsible for confirming that management has procedures in place to mitigate identified risks.

The source of risk exposure and how each is managed is outlined below.

MARKET RISK

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in interest rates. The Company's interest-bearing assets and liabilities include cash and cash equivalents, bank indebtedness, long-term debt and non-recourse long-term debt. The interest rate risk faced by the Company is primarily due to its cash and cash equivalents and floating rate long-term debt.

Cash and cash equivalents include fixed rate instruments with maturities of generally 90 days or less that are reinvested as they mature. The Company is exposed to interest rate movements after these investments mature.

The Company's risk management policy is to hedge all material interest rate risk exposures related to long-term financings when the risk is incurred, unless commercial arrangements or mechanisms are in place to offset such interest rate risk. The Company has fixed interest rates, either directly or through interest rate swap agreements, on 100 per cent (2015 - 99 per cent) of total long-term debt and non-recourse long-term debt. Consequently, the exposure to fluctuations in market interest rates is limited.

A 25 basis point increase or decrease in Australian interest rates would increase or decrease OCI by $3 million. This analysis has been determined based on the exposure to interest rates for financial instruments outstanding at December 31, 2016.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company operates internationally and is exposed to foreign exchange risk from financial instruments denominated in currencies other than the functional currency of an operation and on its net investments in foreign subsidiaries. The majority of this currency risk arises from exposure to the U.S. dollar and Australian dollar. The Company offsets foreign exchange volatility in part by entering into foreign currency derivative contracts and by financing with foreign-denominated debt. The Company's risk management policy is to hedge all material transactions with foreign exchange risks arising from the sale or purchase of goods and services where revenue or the costs to be incurred are denominated in a currency other than the functional currency of the transacting company.

A 10 per cent increase or decrease in foreign exchange rates would each increase or decrease OCI by the following:

	OCI
U.S. dollar	7
Australian dollar	53

The sensitivity analysis is based on management’s assessment that an average 10 per cent increase or decrease in this currency relative to the Canadian dollar is a reasonable potential change over the next year. This analysis has been determined based on the exposure to foreign exchange for financial instruments outstanding at December 31, 2016.

The sensitivity analysis excludes translation risk associated with the translation of subsidiaries that have a different functional currency than the functional currency of the Company.

Energy commodity price risk

Energy commodity price risk is the risk that the fair value or future cash flows of natural gas and power sales and purchases will fluctuate due to changes in market prices. The Company’s electricity generation business is exposed to commodity price movements, particularly to the market price of electricity and natural gas. At December 31, 2016, approximately 743 MW of power generating plant capacity out of a total capacity owned by ATCO Power of 2,297 MW is merchant capacity, which can be sold in the Alberta merchant electricity market.

Natural gas for contracted capacity is provided either under a long-term supply agreement or is the responsibility of the off-taker. Natural gas capacity not contracted is purchased on a daily basis at spot prices. The Company pays market prices for substitute energy when it is unable to supply energy from its contracted capacity.

The Company’s policy is to hedge and optimize the available merchant capacity related to electricity production and related natural gas consumption. The Company enters into natural gas purchase contracts and forward power sales contracts as the hedging instrument to manage the exposure to electricity and natural gas market price movements. Hedge accounting is applied up to an allowable amount of forecasted merchant production to a maximum of a five year term.

The Company is also exposed to seasonal summer/winter natural gas price spreads in its natural gas storage business.

A 10 per cent increase or decrease in the forward price of natural gas or power in Alberta would each increase or decrease earnings and OCI by $5 million and $9 million, respectively. This analysis assumes that changes in the forward price of natural gas affect the mark-to-market adjustment of the natural gas purchase contracts derivative asset.

CREDIT RISK

Credit risk is the risk of financial loss due to a counterparties inability to discharge their contractual obligations to the Company. The Company is exposed to credit risk on its cash and cash equivalents, accounts receivable, derivative instrument assets, receivable under service concession arrangement and lease receivables. The exposure to credit risk represents the total carrying amount of these financial instruments in the consolidated balance sheet.

The Company manages its credit risk on cash and cash equivalents by investing in instruments issued by credit-worthy financial institutions and in short-term instruments issued by the federal government.

Accounts receivable credit risk is reduced by a large and diversified customer base and credit security such as letters of credit. The utilities are also able to recover an estimate for doubtful accounts through approved customer rates and to request recovery through customer rates for any losses from retailers beyond the retailer security mandated by provincial regulations.

Changes during the year in the Company's allowance for doubtful accounts was as follows:

	2016	2015
Beginning of year	8	6
Impairment of receivables	–	2
Receivables written off as uncollectible	**(4)**	–
End of year	**4**	8

The aging analysis of trade receivables that are past due but not impaired at December 31 is as follows:

	2016	2015
30 to 90 days	**19**	15
Greater than 90 days	**5**	13
	24	28

Derivative credit risk arises from the possibility that a counterparty to a contract fails to perform according to its terms and conditions. This risk is minimized by dealing with large, credit-worthy counterparties according to established credit approval policies.

Lease receivable credit risk arises from the possibility that a counterparty to a lease arrangement fails to make lease payments according to its terms and conditions. This risk is minimized by dealing with large, credit-worthy counterparties according to established credit approval policies.

Receivable under service concession arrangement credit risk arises from the possibility that the counterparty to the service concession arrangement fails to make payments according to its terms and conditions. This risk is minimized as the counterparty is the AESO, which is a large, credit-worthy counterparty.

The Company does not have a concentration of credit risk with any counterparty, except for lease receivables and long-term receivable under service concession arrangement, which by their nature are with a single counterparty.

At December 31, 2016, the Company held $233 million in letters of credit for certain counterparty receivables (2015 - $259 million). The Company did not take possession of any collateral it holds as security in 2016 and 2015. The Company has also entered into guarantee arrangements with Centrica plc. relating to the retail energy supply functions performed by Direct Energy (see Note 32).

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with its financial liabilities that are settled in cash or another financial asset. Liquidity risk arises from the Company's general funding needs and in the management of its assets, liabilities and capital structure. The Company considers it prudent to maintain sufficient liquidity to fund approximately one full year of cash requirements to preserve strong financial flexibility. Cash flow from operations provides a substantial portion of the Company’s cash requirements. Additional cash requirements are met with the use of existing cash balances, bank borrowings and issuance of long-term debt, non-recourse long-term debt and preferred shares. Commercial paper borrowings and short-term bank loans are also used under available credit lines to provide flexibility in the timing and amounts of long-term financing.

Lines of credit

The Company has the following lines of credit that enable it to obtain financing for general business purposes:

			2016			2015
	Total	**Used**	**Available**	**Total**	**Used**	**Available**
Long-term committed	**2,687**	**516**	**2,171**	3,034	563	2,471
Short-term committed	**78**	**9**	**69**	–	–	–
Uncommitted	**324**	**137**	**187**	323	124	199
	3,089	**662**	**2,427**	3,357	687	2,670

Long-term committed credit facilities have maturities greater than one year. Uncommitted credit facilities have no set maturity and the lender can demand repayment at any time.

Lines of credit utilized at December 31 are comprised of:

	2016	**2015**
Current bank indebtedness	**5**	1
Short-term debt (*Note 16*)	**55**	–
Long-term debt (*Note 18*)	**414**	494
Letters of credit	**188**	192
	662	687

Commercial paper

The Company is authorized to issue $1.2 billion of commercial paper against its long-term committed credit facilities.

Maturity analysis of financial obligations

The table below analyzes the remaining contractual maturities at December 31, 2016 of the Company's financial liabilities based on the contractual undiscounted cash flows.

	2017	**2018**	**2019**	**2020**	**2021**	**2022 and thereafter**
Bank indebtedness	5	–	–	–	–	–
Accounts payable and accrued liabilities	694	–	–	–	–	–
Short-term debt	55	–	–	–	–	–
Long-term debt:						
Principal	155	8	1,142	162	160	6,635
Interest expense (1)	392	384	367	328	310	6,336
Non-recourse long-term debt:						
Principal	14	15	15	14	11	30
Interest expense	7	6	5	4	3	4
Derivatives (2)	2	4	5	5	–	–
	1,324	417	1,534	513	484	13,005

(1) Interest payments on floating rate debt have been estimated using rates in effect at December 31, 2016. Interest payments on debt that has been hedged have been estimated using hedged rates.

(2) Payments on outstanding derivatives have been estimated using exchange rates and commodity prices in effect at December 31, 2016.

26. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to:

1. Safeguard the Company's ability to continue as a going concern so it can continue to provide returns to share owners and benefits for other stakeholders.
2. Maintain strong investment-grade credit ratings in order to provide efficient and cost-effective access to funds required for operations and growth.
3. Remain within the capital structure approved by the AUC for the utilities.

The Company considers both its regulated and non-regulated operations, as well as changes in economic conditions and risks impacting its operations, in managing its capital structure. The Company may adjust the dividends paid to share owners, issue or purchase Class I and Class II Shares, issue or redeem preferred shares, and issue or repay short-term debt, long-term debt and non-recourse long-term debt. Financing decisions are based on assessments by management in line with the Company's objectives, with a goal of managing the financial risk to the Company as a whole.

While the Alberta utilities have as their objective to be capitalized according to the AUC-approved capital structure, the Company as a whole is not restricted in the same manner. The Company sets its capital structure relative to risk and to meet financial and operational objectives, while factoring in the decisions of the regulator.

The Company also manages capital to comply with the customary covenants on its long-term debt. A common financial covenant for a large portion of the Company's debentures and credit facilities is that total debt divided by total capitalization must be less than 75 per cent. The Company defines total debt as the sum of bank indebtedness, short-term debt, long-term debt and non-recourse long-term debt (including their respective current portions). It defines total capitalization as the sum of Class I and Class II Shares, contributed surplus, retained earnings, AOCI, NCI and total debt. Management maintains the debt capitalization ratio well below 75 per cent to sustain access to cost-effective financing.

Debt capitalization does not have standardized meaning under IFRS and might not be comparable to similar measures presented by other companies. Also, the definitions of total debt and total capitalization vary slightly in the Company's debt-related agreements.

The Company's capitalization at December 31 is as follows:

	2016	2015
Bank indebtedness	**5**	1
Short-term debt	**55**	–
Long-term debt	**8,220**	7,943
Non-recourse long-term debt	**98**	112
Total debt	**8,378**	8,056
Class I and Class II Shares	**167**	165
Contributed surplus	**11**	11
Retained earnings	**3,345**	3,130
Accumulated other comprehensive income	**23**	50
Non-controlling interests	**3,653**	3,537
Total equity	**7,199**	6,893
Total capitalization	**15,577**	14,949
Debt capitalization	**54%**	54%

For the year ended December 31, 2016, the Company complied with externally imposed requirements on its capital, including covenants related to debentures and credit facilities. The Company will continue to assess its capital structure and objectives in light of any future decisions received from the AUC.

27. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Significant judgments, estimates and assumptions made by the Company are outlined below.

SIGNIFICANT ACCOUNTING JUDGMENTS

Joint arrangements

Judgment is required when assessing the classification of a joint arrangement as a joint operation or a joint venture. When making this assessment, the Company considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements, and other facts and circumstances.

Service concession arrangements

Judgment is required when assessing whether contracts with government entities fall within the scope of IFRIC 12 *Service Concession Arrangements*. Judgment also needs to be exercised when determining the classification to be applied to the service concession asset, allocation of consideration between revenue generating activities, classification of costs incurred and the effective interest rate to be applied to the service concession asset.

Impairment of long-lived assets

Indicators of impairment are considered when evaluating whether or not an asset is impaired. Factors which could indicate an impairment exists include: significant underperformance relative to historical or projected operating results, significant changes in the way in which an asset is used or in the Company's overall business strategy, significant negative industry or economic trends, or adverse decisions by regulators. Events indicating an impairment may be clearly identifiable or based on an accumulation of individually insignificant events over a period of time. Measurement uncertainty is increased where the Company is not the operator of a facility. The Company continually monitors its operating facilities and the markets and business environment in which it operates. Judgments and assessments about conditions and events are made order to conclude whether a possible impairment exists.

Property, plant and equipment and intangibles

The Company makes judgments to: assess the nature of the costs to be capitalized and the time period over which they are capitalized in the purchase or construction of an asset; evaluate the appropriate level of componentization where an asset is made up of individual components for which different depreciation and amortization methods and useful lives are appropriate; distinguish major overhauls to be capitalized from repair and maintenance activities to be expensed; and determine the useful lives over which assets are depreciated and amortized.

Leases

The Company evaluates contract terms and conditions to determine whether they contain or are leases. Where a lease exists, the Company determines whether substantially all of the significant risks and rewards of ownership are transferred to the customer, in which case it is accounted for as a finance lease, or remain with the Company, in which case it is accounted for as an operating lease.

Income taxes

The Company makes judgments with respect to changes in tax legislation, regulations and interpretations thereof. Judgment is also applied to estimating probable outcomes, when temporary differences will reverse, and whether tax assets are realizable.

When tax legislation is subject to interpretation, management periodically evaluates positions taken in tax filings and records provisions where appropriate. The provisions are management's best estimates of the expenditures required to settle the present obligations at the balance sheet date, using a probability weighting of possible outcomes.

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Revenue recognition

An estimate of usage not yet billed is included in revenues from the regulated distribution of natural gas and electricity. The estimate is derived from unbilled gas and electricity distribution services supplied to customers. This estimate is from the date of the last meter reading and uses historical consumption patterns. Management applies judgment to the measure and value of the estimated consumption.

Service concession arrangements

Contracts falling under IFRIC 12 require the use of estimates over the term of the arrangement, including estimates of the services performed to date as a proportion of the total services to be performed. Any change in the long term estimates could result in significant variation in the amounts recognized under service concession arrangements.

Useful lives of property, plant and equipment and intangibles

Useful lives are estimated based on current facts and past experience taking into account the anticipated physical life of the asset, existing long-term sales agreements and contracts, current and forecast demand, and the potential for technological obsolescence.

Impairment of long-lived assets

The Company continually monitors its long-lived assets and the markets and business environment in which it operates for indications of asset impairment. Where necessary, the Company estimates the recoverable amount for the cash generating unit (CGU) to determine if an impairment loss is to be recognized. These estimates are based on assumptions, such as the price for which the assets in the CGU could be obtained or future cash flows that will be produced by the CGU, discounted at an appropriate rate. Subsequent changes to these estimates or assumptions could significantly impact the carrying value of the assets in the CGU.

Retirement benefits

The Company consults with qualified actuaries when setting the assumptions used to estimate retirement benefit obligations and the cost of providing retirement benefits during the period. These assumptions reflect management's best estimates of the long-term inflation rate, projected salary increases, retirement age, discount rate, health care costs trend rates, life expectancy and termination rates. The discount rate is determined by reference to market yields on high quality corporate bonds. Since the discount rate is based on current yields, it is only a proxy for future yields. Key assumptions used to determine the retirement benefit cost and obligation are shown in Note 20.

Income taxes

Management periodically evaluates positions taken in tax filings where tax legislation is subject to interpretation, and records provisions where appropriate. The provisions are management's best estimates of the expenditures required to settle the present obligations at the balance sheet date measured using a probability weighting of possible outcomes.

28. SUBSIDIARIES

Principal operating subsidiaries are listed below. Subsidiaries are wholly owned, unless otherwise indicated.

Principal Operating Subsidiaries	Principal Place of Business	Principal Activity
CU Inc.	Canada	Holding company
ATCO Electric	Canada	Electricity transmission, distribution and related infrastructure development
ATCO Gas	Canada	Natural gas distribution and related infrastructure development
ATCO Pipelines	Canada	Natural gas transmission and related infrastructure development
Canadian Utilities Limited (1)	Canada	Holding company
ATCO Power	Canada	Electricity generation and related infrastructure services
Alberta PowerLine (2)	Canada	Design, build, own, and operate transmission infrastructure
ATCO Energy Solutions	Canada	Develops, owns and operates non-regulated energy and water-related infrastructure
ATCO Gas Australia	Australia	Natural gas distribution
ATCO Power Australia	Australia	Electricity generation
ATCO Energy	Canada	Electricity and natural gas retailer
ATCO Structures & Logistics (3)	Canada	Workforce housing, modular facilities, site support services and logistics and operations management.

(1) At December 31, 2016, ATCO Ltd. has an ownership interest of 52.8 per cent (2015 - 53.1 per cent).

(2) At December 31, 2016 and 2015, Canadian Utilities Limited has an ownership interest of 80.0 per cent.

(3) ATCO Ltd. has an ownership interest of 75.5 per cent and Canadian Utilities Limited, has an ownership interest of 24.5 percent. On a consolidated basis, the Company owns 88.5 per cent of ATCO Structures & Logistics.

29. JOINT ARRANGEMENTS

JOINT OPERATIONS

Significant joint operations, all of which are included in the Electricity segment, are listed below.

Significant Joint Operations	Operating Jurisdiction	Ownership %	Principal Activity
Sheerness Generating Plant	Canada	50.0	Electricity generation
Joffre Cogeneration Plant	Canada	40.0	Electricity generation
Cory Cogeneration Plant	Canada	50.0	Electricity generation
Muskeg River Cogeneration Plant	Canada	70.0	Electricity generation

JOINT VENTURES

The following joint ventures are considered the most significant; however, they are not individually material to the operations of the Company.

Significant Joint Ventures	Segment	Operating Jurisdiction	Ownership %	Principal Activity
Brighton Beach Plant	Electricity	Canada	50.0	Electricity generation
Osborne Cogeneration Plant	Electricity	Australia	50.0	Electricity generation
Strathcona Storage Limited Partnership	Pipelines & Liquids	Canada	60.0	Hydrocarbon storage
Sabinco Soluciones Modulares S.A.	Structures & Logistics	Chile	50.0	Modular structures

Aggregate information for the Company's interest in joint ventures is shown below.

	2016	2015
Earnings for the year	**22**	3
Other comprehensive income (loss)	**1**	(1)
Comprehensive income for the year	**23**	2
Dividends received	**21**	21
Aggregate carrying amount of interests in joint ventures	**239**	194

Investment in joint ventures

In April 2016, the Company expanded its international modular structures business into the Chilean market by investing $25 million in Sabinco Soluciones Modulares S.A. (Sabinco) for a 50 per cent ownership interest. At December 31, 2016, $21 million has been paid. The remaining $4 million will be paid in March 2017. Sabinco will operate under the name ATCO-Sabinco S.A. The Company has accounted for its 50 per cent ownership interest as a joint venture which is reported in the Structures & Logistics segment.

In 2016, the Company contributed $59 million to the Strathcona Storage Limited Partnership, which is developing salt caverns for hydrocarbon storage (2015 - $28 million).

In March 2016, the Company increased its ownership in Barking from 51 per cent to 100 per cent. Barking was previously accounted for as a joint venture and is now consolidated.

Impairment

In June 2015, the Company recognized an impairment of $8 million in equity earnings, in the Structures & Logistics segment, relating to certain lodge joint venture assets. The Company determined these assets were impaired due to a reduction in contracted rooms and rates charged as a result of continued and sustained decreases in key commodity prices as well as a significant reduction in the capital expenditure programs of key clients. The recoverable amount of the joint venture lodge asset was calculated based on cash flow projections expected to be derived from the lodge being operational until July 2018. The expected future cash flows were discounted at a pre-tax rate of 15.0 per cent. After recognizing this impairment, the recoverable amount of these assets was nil at December 31, 2015. This amount was determined using value in use.

Commitments

The joint ventures have contractual obligations in the normal course of business. The Company's total share of these unrecognized commitments, based on the contractual undiscounted cash flows, was $175 million at December 31, 2016.

Restrictions

The Company requires approval from its joint venture partners before any dividends or distributions can be paid.

30. NON-CONTROLLING INTERESTS

Non-controlling interests in Canadian Utilities Limited at December 31 are as follows:

	2016	2015
Class A non-voting shares and Class B common shares	**%**	**%**
Total ownership interest held	**47.2**	46.9
Proportion of voting rights held	**10.7**	11.7
Proportion of non-voting rights held	**61.1**	60.6

The summarized consolidated financial information for Canadian Utilities Limited, before inter-company eliminations, is provided below.

	2016	2015
Consolidated Statement of Comprehensive Income		
Revenues	**3,399**	3,264
Earnings for the year	**629**	360
Total comprehensive income	**580**	491
Attributable to NCI:		
Earnings for the year	**335**	202
Total comprehensive income	**313**	263
Consolidated Balance Sheet		
Current assets	**985**	1,057
Non-current assets	**17,796**	17,012
Current liabilities	**(892)**	(799)
Non-current liabilities	**(11,469)**	(11,077)
Net assets	**6,420**	6,193
Attributable to NCI	**3,653**	3,537
Consolidated Statement of Cash Flows		
Cash flows from operating activities	**1,622**	1,616
Cash flows used in investing activities	**(1,456)**	(1,806)
Cash flows (used in) from financing activities	**(341)**	353
(Decrease) increase in cash position	**(175)**	163
Dividends paid to NCI		
Class A and Class B share owners	**112**	99
Equity preferred shares	**75**	64
	187	163

CANADIAN UTILITIES LIMITED DIVIDEND REINVESTMENT PLAN

Canadian Utilities Limited has a dividend reinvestment plan (DRIP) that allows eligible Class A non-voting and Class B common share owners of Canadian Utilities Limited to reinvest all or a portion of their dividends in additional Class A non-voting shares.

During 2016, NCI acquired 1,484,241 Class A non-voting shares of Canadian Utilities Limited, using re-invested dividends of $52 million (2015 - 1,312,550 shares using re-invested dividends of $47 million). The shares were priced at an average of $35.01 per share (2015 - $35.49 per share).

EQUITY PREFERRED SHARES

Equity preferred shares held by non-controlling interests at December 31 are shown below.

	2016	2015
Cumulative Redeemable Preferred Shares, at 2.24% to 4.60%	**190**	190
Cumulative Redeemable Second Preferred Shares, at 4.00% to 5.25%	**1,400**	1,400
Perpetual Cumulative Second Preferred Shares, at 4.00%	**110**	110
Issuance costs	**(30)**	(30)
	1,670	1,670

Effective June 1, 2016, the annual dividend rate for the Series 4 Preferred Shares was reset to 2.24 per cent for the five-year period commencing June 1, 2016. Prior to June 1, 2016, the annual dividend rate was 3.80 per cent.

On August 7, 2015, Canadian Utilities Limited issued $125 million Cumulative Redeemable Second Preferred Shares Series EE at $25.00 per share under its base shelf prospectus. On September 24, 2015, Canadian Utilities Limited issued $250 million Cumulative Redeemable Second Preferred Shares Series FF at $25.00 per share under its base shelf prospectus. Issuance costs of $7 million, net of income taxes, were recorded as a reduction of NCI in the year ended December 31, 2015.

Rights and privileges

Preferred shares	Redemption Amount (1)	Quarterly Dividend (2)	Reset Premium (3)	Date Redeemable/ Convertible	Convertible To
Cumulative Redeemable Preferred Shares					
Series 1	25.00	0.2875	Does not reset	Currently redeemable	Not convertible
Series 4	25.00	0.1401875	1.36%	June 1, 2021 (4)	Series 5 (5)
Cumulative Redeemable Second Preferred Shares					
Series Y	25.00	0.2500	2.40%	June 1, 2017 (4)	Series Z (5)
Series AA	25.00	0.30625	Does not reset	September 1, 2017 (6)	Not convertible
Series BB	25.00	0.30625	Does not reset	September 1, 2017 (6)	Not convertible
Series CC	25.00	0.28125	Does not reset	June 1, 2018 (6)	Not convertible
Series DD	25.00	0.28125	Does not reset	September 1, 2018 (6)	Not convertible
Series EE	25.00	0.328125	Does not reset	September 1, 2020 (6)	Not convertible
Series FF	25.00	0.28125	3.69%	December 1, 2020 (4)	Series GG (5)

(1) Plus accrued and unpaid dividends.

(2) Cumulative, payable quarterly as and when declared by the Board.

(3) Dividend rate will reset on the date redeemable/convertible and every five years thereafter at a rate equal to the Government of Canada yield plus the reset premium noted.

(4) Redeemable by the Company or convertible by the holder on the date noted and every five years thereafter.

(5) If converted, holders will be entitled to receive quarterly floating rate dividends equal to the Government of Canada Treasury Bill yield plus the reset premium noted. Holders have the option to convert back to the original preferred shares series on subsequent redemption dates.

(6) Subject to a redemption premium of 4 per cent per share. The redemption premium declines by 1 per cent in each succeeding twelve month period from the redeemable date.

The Series V Perpetual Cumulative Second Preferred Shares are redeemable at the option of the Company on October 3, 2017, at the stated value plus accrued and unpaid dividends.

31. SHARE-BASED COMPENSATION PLANS

PLAN FEATURES

Share based forms of compensation are granted at the discretion of the Corporate Governance – Nomination, Compensation and Succession Committee. Plan features are described below.

Form of compensation	Eligibility	Vesting Period	Term	Settlement
Stock options (1)	Officers and key employees	20% per year over 5 years	10 years	Class I Non-Voting Shares (3)
Share appreciation rights (1)	Directors, officers and key employees	20% per year over 5 years	10 years	Cash
Mid-term incentive plan	Officers and key employees	2-3 years (2)	2-3 years	Class I Non-Voting Shares (4)

(1) *Exercise price is 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.*

(2) *Based on achieving certain performance criteria.*

(3) *Issued from Treasury.*

(4) *Purchased on the secondary market.*

STOCK OPTION PLAN

Information about the options outstanding and exercisable at December 31 is summarized below.

	2016		2015	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options authorized for grant	**10,200,000**		10,200,000	
Options available for issuance	**2,732,750**		2,815,000	
Outstanding options, beginning of year	678,100	$34.49	762,900	$30.52
Granted	**86,750**	**39.17**	87,250	46.85
Exercised	**(89,000)**	**25.17**	(158,600)	21.41
Forfeited	**(4,500)**	**45.19**	(13,450)	43.28
Outstanding options, end of year	**671,350**	**$36.26**	678,100	$34.49
Options exercisable, end of year	**422,050**	**$31.61**	438,050	$28.47

Options		Outstanding		Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$22.94	126,000	1.2	$22.94	126,000	$22.94
$25.35 - $29.47	135,950	3.6	26.47	135,950	26.47
$35.12 - $39.75	159,650	7.3	37.16	60,500	35.18
$44.20 - $44.97	88,750	6.3	44.96	51,950	44.97
$45.83 - $47.70	85,750	8.2	46.93	17,550	46.93
$51.96 - $51.97	75,250	7.2	51.96	30,100	51.96
$22.94 - $51.97	671,350	5.4	$36.26	422,050	$31.61

Compensation expense related to stock options was less than $1 million in each of 2016 and 2015, with a corresponding increase to contributed surplus.

SHARE APPRECIATION RIGHTS

Information about the stock appreciation rights (SARs) outstanding and exercisable at December 31 is summarized below.

	2016		2015	
	SARs	Weighted Average Exercise Price	SARs	Weighted Average Exercise Price
Outstanding SARs, beginning of year	790,500	$35.19	731,300	$33.13
Granted	**102,750**	**39.47**	104,250	46.85
Exercised	**(123,900)**	**26.05**	(31,600)	22.52
Forfeited	**(29,500)**	**42.09**	(13,450)	43.28
Outstanding SARs, end of year	**739,850**	**$37.04**	790,500	$35.19
SARs exercisable, end of year	**419,550**	**$31.66**	454,450	$28.45

SARs		Outstanding		Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$22.94	123,500	1.2	$22.94	123,500	$22.94
$25.35 - $29.47	135,950	3.6	26.47	135,950	26.47
$35.12 - $39.75	181,650	7.3	37.12	60,500	35.18
$44.20 - $44.97	108,750	6.4	44.95	51,950	44.97
$45.83 - $47.70	104,750	8.2	46.91	17,550	46.93
$51.96 - $51.97	85,250	7.2	51.96	30,100	51.96
$22.94 - $51.97	739,850	5.6	$37.04	419,550	$31.66

In 2016, compensation expense related to SARs was $3 million (2015 - credit of $5 million). The total carrying value of liabilities arising from SARs at December 31, 2016 was $6 million (2015 - $5 million). The total intrinsic value of all vested SARs at December 31, 2016 was $6 million (2015 - $4 million).

STOCK OPTION AND SARS WEIGHTED AVERAGE ASSUMPTIONS

The Company uses the Black-Scholes option pricing model to estimate the weighted average fair value of the stock options and SARs granted. The following weighted average assumptions were used:

	2016		2015	
	Options	SARs	Options	SARs
Class I share price	**$39.17**	**$39.47**	$45.79	$46.85
Risk-free interest rate	**0.73%**	**0.72%**	0.81%	0.83%
Share price volatility (1)	**25.65%**	**20.87%**	22.78%	22.22%
Estimated annual Class I share dividend	**2.91%**	**2.89%**	2.07%	2.12%
Expected holding period prior to exercise	**7.1 years**	**6.0 years**	7.0 years	6.0 years

(1) The share price volatility is based on historical data and reflects the assumption that historical volatility over a period similar to the life of the option or SAR is indicative of future trends, which may not necessarily be indicative of exercise patterns that may occur.

MID-TERM INCENTIVE PLAN

Information about the MTIPs outstanding at December 31 is summarized below.

	2016		2015	
	MTIPs	Weighted Average Grant Date Fair Value	MTIPs	Weighted Average Grant Date Fair Value
Outstanding MTIPs, beginning of year	306,987	$47.94	310,692	$44.26
Granted	**103,118**	**41.76**	123,750	47.06
Vested	**(7,000)**	**52.79**	(95,650)	35.62
Forfeited	**(101,380)**	**45.73**	(31,400)	48.73
Change in unallocated shares [(1)]	**(901)**	**–**	(405)	–
Outstanding MTIPs, end of year	**300,824**	**$46.32**	306,987	$47.94

(1) Unallocated shares are Class I Shares held by the trustee which have not been awarded to officers or key employees.

MTIPs			Outstanding
Range of Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Grant Date Fair Value
$37.05 - $39.75	56,000	2.2	$38.92
$42.29 - $44.76	47,350	1.9	43.19
$46.00 - $48.37	112,388	1.5	47.88
$51.97 - $53.79	59,050	0.2	52.88
Unallocated shares	26,036	–	–
$37.05 - $53.79	300,824	1.4	$46.32

Compensation expense related to MTIP grants was a credit of less than $1 million for 2016 (2015 - expense of $4 million) with a corresponding decrease (2015 - increase) to contributed surplus.

The Company, through a trustee, did not purchase any shares during 2016 to be distributed to employees on vesting of the awards (2015 - $5 million).

32. CONTINGENCIES

Measurement inaccuracies occur from time to time on electricity and gas metering facilities. The measurement adjustments relating to the Canadian utilities are settled between the parties according to the Electricity and Gas Inspections Act (Canada) and related regulations. The AUC may disallow recovery of a measurement adjustment if it finds that controls and timely follow-up are inadequate. The measurement adjustments relating to ATCO Gas Australia are reconciled by the market operator and settled between the parties. Recovery of the costs is via a predetermined allowance contained in the current Access Arrangement.

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

In 2004, ATCO Gas and ATCO Electric transferred their retail energy supply businesses to Direct Energy. The legal obligations of ATCO Gas and ATCO Electric for the retail functions transferred to Direct Energy, which include the supply of natural gas and electricity to customers as well as billing and customer care, remain if Direct Energy fails to perform. In certain circumstances, the functions will revert to ATCO Gas and/or ATCO Electric, with no refund of the transfer proceeds to Direct Energy. Centrica plc., Direct Energy's parent company, provided a $300 million guarantee, supported by a $235 million letter of credit for Direct Energy's obligations to ATCO Gas and ATCO Electric under the transaction agreements. However, there can be no assurance that the coverage under these agreements will be adequate to defray all costs that could arise if the obligations are not met.

33. COMMITMENTS

In addition to commitments disclosed elsewhere in the financial statements, the Company has entered into a number of operating leases, coal purchase contracts, operating and maintenance agreements and agreements to purchase capital assets. Approximate future undiscounted payments under these agreements are as follows:

	2017	2018	2019	2020	2021	2022 and thereafter
Operating leases	29	25	10	10	7	1
Purchase obligations:						
Coal purchase contracts	64	66	70	71	74	145
Operating and maintenance agreements	293	290	254	108	106	337
Capital expenditures	593	564	125	7	7	–
Other	8	1	–	2	2	–
	987	946	459	198	196	483

34. RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH SUBSIDIARY

During the year ended December 31, 2015, the Company acquired 1,479,752 Class A non-voting shares of Canadian Utilities Limited under its DRIP, using re-invested dividends of $52 million. The shares were priced at an average of 35.37 per share. The Company did not participate in the DRIP during 2016.

OTHER

In transactions with the Company's joint ventures, the Company recognized revenues of $10 million relating to management fees and other charges (2015 - $6 million).

In transactions with the Company's group pension plans, the Company paid occupancy costs of $8 million relating to property owned by the pension plans (2015 - $8 million).

The Company incurred $2 million in advertising, promotion and other expenses from an entity related through common control (2015 - $2 million).

KEY MANAGEMENT COMPENSATION

Information on management compensation is shown below.

	2016	2015
Salaries and short-term employee benefits	**7**	9
Retirement benefits	**2**	2
Share-based compensation	**6**	(4)
	15	7

Key management personnel comprise members of executive management and the Board, a total of 17 individuals (2015 - 19 individuals).

35. ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

Subsidiaries are consolidated from the date control is obtained until the date control ends. Control exists where the Company has power over the investee, exposure or rights to variable returns from the investee and the ability to use its power over the investee to affect returns.

All intra-group balances and transactions are eliminated on consolidation.

Interests in subsidiaries owned by other parties are included in NCI. NCI in subsidiaries are identified separately from equity attributable to Class I and Class II owners of the Company. Earnings and each component of OCI are attributed to the Class I and Class II owners of the Company and to NCI, even if this results in the NCI having a deficit balance. Earnings attributable to the Class I and Class II owners are determined after adjusting for dividends on equity preferred shares held by NCI.

Changes in the Company's ownership interests that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Company's interest and the NCI are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the NCI are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the Class I and Class II owners of the Company.

JOINT ARRANGEMENTS

A joint arrangement can be classified as either a joint operation or joint venture and represents the contractually agreed sharing of control by two or more parties. A joint operation is an arrangement in which the Company has the rights and obligations to the corresponding assets and liabilities of the arrangement, whereas a joint venture is an arrangement in which the Company has the rights to the net assets of the arrangement.

Joint operations are proportionately consolidated by including the Company's share of assets, liabilities, revenues, expenses and OCI in the respective consolidated accounts.

Joint ventures are equity accounted. Under this method, the Company's interests in joint ventures are initially recognized at cost. The interests are subsequently adjusted to recognize the Company's share of post-acquisition profits or losses, movements in OCI and dividends or distributions received.

The Company's interests in joint ventures are tested for recoverability when events or circumstances indicate a possible impairment. An impairment loss is recognized in earnings when the carrying value of the Company's interest in an individual joint venture is higher than its recoverable amount. The recoverable amount is the higher of fair value less disposal costs and value in use. An impairment loss may be reversed if there is objective evidence that a change in the estimated recoverable amount of the investment is warranted.

BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. Assets acquired and liabilities assumed are measured at their fair value at the acquisition date. Acquisition costs are expensed in the period incurred.

SERVICE CONCESSION ARRANGEMENTS

Service concession arrangements are contracts between the Company and government entities and can involve the design, build, finance, operation and maintenance of public infrastructure in which the government entity controls:

(i) the services provided by the Company; and

(ii) a significant residual interest in the infrastructure.

Service concession arrangements are classified as either a financial asset or an intangible asset, or both. A financial asset is recognized when the Company has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement. The financial asset is measured at the fair value of consideration received or receivable upon initial recognition. When the Company delivers more than one category of activities in a service concession arrangement, the consideration received or receivable is allocated by reference to the relative fair value of the activity, when amounts are separately identifiable. The Company recognizes an intangible asset when it has a right to charge for usage of the public infrastructure. The intangible asset is measured at fair value upon initial recognition. Subsequent to initial recognition, both the financial and intangible asset are measured at cost less accumulated amortization and impairment losses, if any.

REVENUE RECOGNITION

Revenues from the regulated distribution of natural gas in Canada and Australia and the regulated distribution of electricity in Canada include variable and fixed charges. Variable charges are recognized using meter readings on delivery of the commodity to customers and include an estimate of usage not yet billed. Fixed charges are based on the distribution service provided during the period.

Revenues for the use of regulated electricity transmission facilities are based on an annual tariff and are recognized evenly throughout the year.

Revenues from the regulated transmission of natural gas are recognized based on AUC-approved revenue requirement (cost of service).

Certain additions to property, plant and equipment, mainly in the utilities, are made with the assistance of non-refundable cash contributions from customers. These contributions are made when the estimated revenue is less than the cost of providing service or where the customer needs special equipment. Since these contributions will provide customers with on-going access to the supply of natural gas or electricity, they are classified as deferred revenues and are recognized in revenues over the life of the related asset.

Revenues from power generating plants are recognized on delivery of output or on availability of delivery as prescribed by contracts. In addition, incentives and penalties associated with the PPAs are recognized in earnings on a straight-line basis as lease income. Accumulated incentives in excess of accumulated penalties are deferred. For an individual PPA, any surplus of the accumulated and estimated future incentives over the accumulated and estimated future penalties is amortized to revenues on a straight-line basis over the remaining term of the PPA. Conversely, any shortfall is expensed in the year the shortfall occurs.

Revenues from natural gas storage and processing capacity are recognized according to contracts. Revenues from the sale of natural gas liquids are recognized on delivery.

Revenues from the supply of contracted products and services are recorded using the percentage of completion method. The percentage of completion is based either on actual labour hours incurred as a proportion of the total estimated labour hours for the contract or on contract costs incurred as a proportion of the total estimated contract costs. Full provision is made for any anticipated loss. Other revenues are recognized when products are delivered or services provided. Billings in excess of earned revenue are classified as deferred revenues on the consolidated balance sheet.

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits are recognized as an expense in salaries, wages and benefits as employees render service. These benefits include wages, salaries, social security contributions, short-term compensated absences, incentives and non-monetary benefits, such as medical care. Costs for employee services incurred in constructing an asset that meet the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

Termination benefits are recognized as an expense in salaries, wages and benefits at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring that includes the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

FRANCHISE FEES

Municipal governments charge franchise fees to the utilities in Canada for the exclusive right to provide service in their community. These costs are charged to customers through rates approved by the regulator. Franchise fee revenues and expenses are, therefore, recognized separately and are not recorded on a net basis.

INCOME TAXES

Income taxes are the sum of current and deferred taxes. Income tax is recognized in earnings, except to the extent it relates to items recorded in OCI or in equity.

Current tax is calculated on taxable earnings using rates enacted or substantively enacted at the balance sheet date in the jurisdictions in which the Company operates.

The liability method is used to determine deferred income tax on temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred income tax is calculated using the enacted or substantively enacted tax rates that are expected to apply in the period when the liability is settled or the asset is realized. If expected tax rates change, deferred income taxes are adjusted to the new rates.

Deferred income tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or of other assets and liabilities in a transaction, other than a business combination, that does not affect accounting or taxable earnings. The tax effect of temporary differences from investments in subsidiaries and joint arrangements are not accounted for where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred income tax assets are recognized only when it is probable that future taxable earnings will be available against which the temporary differences can be applied.

Current income tax assets and liabilities are offset where the Company has the legally enforceable right to offset and the Company intends to either settle on a net basis or realize the asset and settle the liability simultaneously.

Deferred income tax assets and liabilities are offset where the Company has a legally enforceable right to set off tax assets and liabilities, and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash at bank, bankers' acceptances, certificates of deposit issued or guaranteed by credit worthy financial institutions and federal government issued short-term investments with maturities generally of 90 days or less at purchase.

INVENTORIES

Inventories are valued at the lower of cost or net realizable value. The cost of inventories that are interchangeable is assigned using the weighted average cost method. For inventories that are not interchangeable, cost is assigned using specific identification of their individual costs. Net realizable value is the estimated selling price in the ordinary course of business, less variable selling expenses.

The cost of inventories is comprised of all purchase, conversion and other costs to bring inventories to their present condition and location. Purchase costs consist of the purchase price, import duties, non-recoverable taxes, transport, handling and other costs directly attributable to the purchase of finished goods, materials or services. Conversion costs include direct material and labour costs and a systematic allocation of fixed and variable overheads incurred in converting materials into finished goods. The standard cost method is used to approximate cost in the Company's Structures & Logistics manufacturing operations.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost less accumulated depreciation and any recognized impairment losses. Cost includes expenditures that are directly attributable to the purchase or construction of the asset, such as materials, labour, borrowing costs incurred during construction, contracted services and asset retirement costs. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits will flow to the Company and the cost can be measured reliably.

Major overhaul costs are capitalized and depreciated on a straight-line basis over the period to the next major overhaul, which varies from three to eight years. The cost of repair and maintenance activities performed every two years or less which do not enhance or extend the useful life of the asset are expensed when incurred.

Borrowing costs attributable to a construction period of substantial duration are added to the cost of the asset. The effective interest method is used to calculate capitalized interest using specified rates for specific borrowings and a weighted average rate for general borrowings. Interest capitalization starts when borrowing costs and expenditures are incurred at the onset of construction and ends when construction is substantially complete.

The Company allocates the amount initially recognized in property, plant and equipment to its significant components and depreciates each component separately. Assets are depreciated mainly on a straight-line basis over their estimated useful lives. No depreciation is provided on land and construction work-in-progress.

The carrying amount of a replaced asset is derecognized when the cost of replacing the asset is capitalized. When an asset is derecognized, any resulting gain or loss is recorded in earnings.

Depreciation periods for the principal categories of property, plant and equipment are shown in the table below.

	Useful Life	Average Useful Life	Average Depreciation Rate
Utility transmission and distribution:			
Electricity transmission equipment	17 to 66 years	49 years	2.0%
Electricity distribution equipment	14 to 103 years	36 years	2.8%
Gas transmission equipment	3 to 82 years	39 years	2.6%
Gas distribution plant and equipment	3 to 120 years	39 years	2.5%
Power generation plant and equipment:			
Gas-fired	3 to 40 years	23 years	4.3%
Coal-fired	5 to 47 years	39 years	2.6%
Hydroelectric	50 years	50 years	2.3%
Buildings	1 to 50 years	33 years	3.0%
Other:			
Rental assets	12 to 17 years	16 years	6.2%
Other plant, equipment and machinery	1 to 66 years	25 years	3.6%

Depreciation methods and the estimated residual values and useful lives of assets are reviewed on an annual basis. Any changes in these accounting estimates are recorded prospectively.

INTANGIBLES

Intangible assets are recorded at cost less accumulated amortization and any recognized impairment losses. The Company amortizes intangible assets on a straight-line basis over their useful lives. Useful life is not longer than 10 years for computer software and between 60 and 100 years for land rights based on the contractual life of the underlying agreements. Software work-in-progress is not amortized as the software is not available for use.

Amortization methods and useful lives of assets are reviewed annually. Any changes in these accounting estimates are recorded prospectively.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

Property, plant and equipment and intangible assets with finite lives are tested for recoverability when events or circumstances indicate a possible impairment. Impairment is assessed at the CGU level, which is the smallest identifiable group of assets that generates independent cash inflows. An impairment loss is recognized in earnings when the CGU's carrying value is higher than its recoverable amount. The recoverable amount is the greater of the CGU's fair value less disposal costs and its value in use. An impairment loss may be reversed in whole or in part if there is objective evidence that a change in the estimated recoverable amount is warranted. A reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for the asset in prior years.

GOODWILL

Goodwill is not amortized. The carrying value of goodwill is tested for impairment annually or more frequently if there is an indicator of impairment. Impairment is tested at the operating segment level. If the carrying value of the segment to which goodwill has been assigned exceeds its recoverable amount, then any excess of the carrying value of a segment's goodwill over its recoverable amount is expensed and is not subsequently reversed.

LEASES

A finance lease exists when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. Amounts due from lessees under finance leases are recorded as finance lease receivables. They are initially recognized at amounts equal to the present value of the minimum lease payments receivable. Payments that are part of the leasing arrangement are divided between a reduction in the finance lease receivable and finance lease income. Finance lease income is recognized so as to produce a constant rate of return on the Company's investment in the lease and is included in revenues.

Assets subject to operating leases are included in property, plant and equipment and are depreciated. Income from operating leases is recognized in earnings on a straight-line basis over the lease term.

When the Company has purchased goods or services as a lessee, and the lease is an operating lease, rental payments are expensed on a straight-line basis over the life of the lease.

For both finance and operating leases, contingent rents are recognized in earnings in the period in which they are incurred. Contingent rent is that portion of lease payments that is not fixed in amount but varies based on a future factor, such as the amount of use or production.

PROVISIONS

The Company recognizes provisions when:

(i) there is a current legal or constructive obligation as a result of a past event,

(ii) a probable outflow of economic benefits will be required to settle the obligation; and

(iii) a reliable estimate of the obligation can be made.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. If discounting is used, the increase in the provision due to the passage of time is recognized in interest expense.

CONTINGENCIES

A contingent liability is a possible obligation, and a contingent asset is a possible asset, that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. A contingent liability may also be a present obligation that arises from past events that is not recognized because it is not probable that an outflow of economic resources will be required to settle the obligation or the amount of the obligation cannot be measured reliably.

Neither contingent liabilities nor assets are recognized in the consolidated financial statements. However, a contingent liability is disclosed, unless the possibility of an outflow of resources is remote. A contingent asset is only disclosed where an inflow of economic benefits is probable.

Management evaluates the likelihood of contingent events based on the probability of exposure to potential loss. Actual results could differ from these estimates.

ASSET RETIREMENT OBLIGATIONS

AROs are legal and constructive obligations connected with the retirement of tangible long-lived assets. These obligations are measured at management's best estimate of the expenditure required to settle the obligation and are discounted to present value when the effect is material. Cash flows for AROs are adjusted to take risks and uncertainties into account and are discounted using a pre-tax, risk-free discount rate.

Initially, an ARO is recorded in provisions, with a corresponding increase to property, plant and equipment. Subsequently, the carrying amount of the provision is accreted over the estimated time period until the obligation is to be settled; the accretion expense is recognized as interest expense. The asset is depreciated over its estimated useful life. Revaluations of the ARO at each reporting period take into account changes in estimated future cash flows and the discount rate.

FINANCIAL INSTRUMENTS

The Company classifies financial assets when they are first recognized as amortized cost or fair value through profit or loss. Classification is determined based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured at amortized cost if the financial asset is:

(i) held for the purpose of collecting contractual cash flows, and

(ii) the contractual cash flows of the financial asset solely represent payments of principle and interest.

All other financial assets are classified as fair value through profit or loss.

Financial liabilities are classified as amortized cost or fair value through profit or loss.

Amortized cost

Financial instruments classified as amortized cost are initially measured at fair value and subsequently measured at their amortized cost using the effective interest method.

Fair value through profit or loss

Financial instruments classified as fair value through profit or loss are initially measured at fair value with subsequent changes in fair value recognized in earnings.

Transaction costs

Transaction costs directly attributable to the purchase or issue of financial assets or financial liabilities that are not fair value through profit or loss are added to the fair value of such assets or liabilities when initially recognized. Transaction costs for long-term debt are amortized over the life of the respective financial liability using the effective interest method. The Company's long-term debt, non-recourse long-term debt and equity preferred shares are presented net of their respective transaction costs.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet:

(i) if there is a legally enforceable right to offset the recognized amounts, and

(ii) if the Company intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

Derecognition of financial instruments

Financial assets are derecognized:

(i) when the right to receive cash flows from the financial assets has expired or been transferred, and

(ii) the Company has transferred substantially all the risks and rewards of ownership.

Financial liabilities are derecognized when the obligation is discharged, cancelled, or expired.

Fair value hierarchy

The Company uses quoted market prices when available to estimate fair value. Models incorporating observable market data, along with transaction specific factors, are also used to estimate fair value. Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Management's judgment as to the significance of a particular input may affect placement within the fair value hierarchy levels.

The hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company applies settlement date accounting to the purchases and sales of financial assets. Settlement date accounting means recognizing an asset on the day it is received by the Company and recognizing the disposal of an asset on the day it is delivered by the Company. Any gain or loss on disposal is also recognized on that day.

IMPAIRMENT OF FINANCIAL INSTRUMENTS

At each reporting date, the Company assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. If such evidence exists, an impairment loss is recognized in earnings.

Impairment losses on financial assets carried at amortized cost are calculated as the difference between the amortized cost and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Impairment losses on financial assets carried at amortized cost may be reversed in whole or in part if there is objective evidence that a change in the estimated recoverable amount is warranted. The revised recoverable amount cannot exceed the carrying amount had no impairment charge been recognized in previous periods.

DERIVATIVE FINANCIAL INSTRUMENTS

Contracts settled net in cash or in another financial asset are classified as derivatives, unless they meet the Company's own use requirements.

All derivative financial instruments are measured at fair value. The gain or loss that results from changes in fair value of the derivative is recognized in earnings immediately, unless the derivative is designated and effective as a hedging instrument, in which case the timing of recognition in earnings depends on the hedging relationship.

Where the Company elects to apply hedge accounting, the Company documents the relationship between the derivative and the hedged item at inception of the hedge, based on the Company's risk management policies. A qualitative assessment of the effectiveness of the hedging relationship is performed at each reporting period if both the critical terms of the hedging relationship and the economic relationship between the hedged item and hedging instrument continue to remain the same or similar. If the mismatch in terms is significant, a quantitative assessment may be required. Ineffectiveness, if any, is measured at the end of each reporting period.

If the risk management hedge ratio used to form the economic relationship of the hedged item and hedging instrument changes, rebalancing of the hedging relationship is required. Under this circumstance, an adjustment to the quantities of the hedged item or hedging instrument would be allowed to realign the hedging relationship in accordance with the appropriate risk management hedge ratio. The Company can only discontinue hedge accounting prospectively if there is no longer an economic relationship between the hedged item and hedging instrument, the risk management objective changes, the derivative no longer is designated as a hedging instrument, or the underlying hedged item is derecognized.

Cash flow hedges

The Company enters into interest rate swaps, foreign currency forward contracts and natural gas and forward power purchase and sale contracts to offset the risk of volatility in the variable cash flows arising from a recognized asset or liability, a highly probable forecast transaction or a firm commitment in a foreign currency transaction. The effective portion of changes in fair value of the derivative is recognized in OCI, whereas the ineffective portion is recognized in earnings immediately. Sources of hedge ineffectiveness can occur as a result of credit risk, change in hedge ratio, changes in the timing of payment, and forecast adjustments leading to over-hedging. The cumulative gain or loss in AOCI is transferred to earnings when the hedged item affects earnings. If a forecast transaction results in the recognition of a non-financial asset or liability, the amount in AOCI is added to the initial cost of the non-financial asset or liability.

If the Company discontinues hedge accounting, the cumulative gain or loss in AOCI is transferred to earnings at the same time as the hedged item affects earnings.

The amount in AOCI is immediately transferred to earnings if the hedged item is derecognized or it is probable that a forecast transaction will not occur in the originally specified time frame.

RETIREMENT BENEFITS

The Company accrues for its obligations under defined benefit pension and OPEB plans.

Pension plan assets at the balance sheet date are reported at fair value. Accrued benefit obligations at the balance sheet date are determined using a discount rate that reflects market interest rates. The rates are equivalent to those on high quality corporate bonds that match the timing and amount of expected benefit payments.

The cost for defined benefit plans includes net interest expense. This expense is calculated by applying the discount rate to the net defined benefit asset or liability at the beginning of the year plus projected contributions and benefit payments during the year.

Gains and losses resulting from experience adjustments and changes in assumptions used to measure the accrued benefit obligations are recognized in OCI in the period in which they occur. Those gains and losses are then transferred directly to retained earnings.

Employer contributions to the defined contribution pension plans are expensed as employees render service.

For defined benefit pension plans and OPEB plans, service cost is recognized as an expense in salaries, wages and benefits, and net interest expense is recognized in interest expense. The cost of defined contribution pension plans is recognized as an expense in salaries, wages and benefits. Past service costs are recognized immediately in earnings in the period of a plan amendment or curtailment. The change in the present value of the defined benefit pension plans resulting from a curtailment is accounted for as a past service cost. When retirement benefit costs for employee services are incurred in constructing an asset and meet asset recognition criteria, they are included in the related property, plant and equipment or intangible asset.

SHARE-BASED COMPENSATION PLANS

The Company expenses stock options granted by ATCO Ltd. and its subsidiary, Canadian Utilities Limited. The Company determines the fair value of the options on the date of grant. The fair value is recognized over the vesting period of the options granted by applying graded vesting, adjusted for estimated forfeitures. The fair value of the ATCO Ltd. options is recorded in salaries, wages and benefits expense and contributed surplus. Contributed surplus is reduced as the ATCO Ltd. options are exercised, and the amount initially recorded in contributed surplus is credited to Class I and Class II Share capital. The fair value of the Canadian Utilities Limited options is recorded in salaries, wages and benefits expense and non-controlling interests.

SARs are cash-settled and are measured at fair value. The fair value is recognized over the vesting period of the SARs granted by applying graded vesting, adjusted for estimated forfeitures. The fair value of SARs is recorded in salaries, wages and benefits expense and accounts payable and accrued liabilities and other non-current liabilities. The liabilities are re-measured at each reporting period.

The MTIP awards are equity-settled with shares purchased on the secondary market. They are measured at fair value based on the purchase price of the Company's Class I Non-Voting Shares at the date of grant. The awards are held by a trust until the shares are vested, at which time they are transferred to the employee. The fair value of the MTIP awards is recognized in salaries, wages and benefits expense over the vesting period, with a corresponding charge to contributed surplus.

RELATED PARTY TRANSACTIONS

Transactions with related parties in the normal course of business are measured at the exchange amount. Transfers of assets or business combinations between entities under common control are measured at the carrying amount.

FOREIGN CURRENCY TRANSLATION

Foreign currency transactions

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities and non-monetary assets and liabilities measured at fair value denominated in a foreign currency are adjusted to reflect the exchange rate at the balance sheet date. Gains or losses on translation of these monetary and non-monetary items are recognized in earnings. Non-monetary items not measured at fair value are not retranslated after they are first recognized.

Foreign operations

The assets and liabilities of subsidiaries whose functional currencies are other than Canadian dollars are translated into Canadian dollars at the exchange rate at the balance sheet date. Revenues and expenses are translated at the average monthly exchange rates during the period, which approximates the foreign exchange rates on the dates of the transactions. Gains or losses on translation are included in other comprehensive income.

If the Company disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the accumulated foreign currency translation gains or losses related to the foreign operation are recognized in earnings.

The exchange rates for the major currencies used in the preparation of the consolidated financial statements were as follows:

	Exchange Rates as at December 31		Average Exchange Rates for Year Ended December 31	
	2016	**2015**	**2016**	**2015**
U.S. dollar	**1.3427**	1.3840	**1.3256**	1.2788
Australian dollar	**0.9707**	1.0083	**0.9854**	0.9605

ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Certain new or amended standards or interpretations issued by the IASB or IFRIC do not need to be adopted in the current period. Standards issued, but not yet effective, which the Company anticipates may have a material effect on the consolidated financial statements or note disclosures are described below.

Standard	Description	Effective Date
IFRS 15 *Revenue from Contracts with Customers*	This standard replaces IAS 18 *Revenue* and related interpretations. It provides a framework to determine when to recognize revenue and at what amount. It applies to new contracts created on or after the effective date and to existing contracts not yet completed as of the effective date. The Company is party to numerous contracts with customers that will be impacted by the new standard. The Company has established a working group to review the adoption of IFRS 15 and education sessions have been, and will continue to be, provided for employees, senior management and the Audit Committee to increase knowledge, awareness and impacts of the standard. Positions papers on issue-specific differences in the new standard are substantially complete and are in discussion with the Company's external auditor. Under IFRS 15, the timing of revenue recognition for certain contracts may be significantly impacted by the new revenue recognition model and transitional adjustments are currently being reviewed. The Company is currently evaluating the impact of the new standard on financial reporting computer systems and internal controls over financial reporting.	Effective for annual periods on or after January 1, 2018. The Company will not early adopt this standard.
IFRS 16 *Leases*	This standard replaces IAS 17 *Leases* and related interpretations. It introduces a new approach to lease accounting that requires a lessee to recognize assets and liabilities for the rights and obligations created by leases. It brings most leases on-balance sheet for lessees, eliminating the distinction between operating and finance leases. However, lessor accounting remains similar to previous guidance and the distinction between operating and finance leases is retained. The Company has developed a detailed project plan to review and implement the new standard and a working group has been formed to assess its impact.	Effective for annual periods on or after January 1, 2019. The Company will not early adopt this standard.