



ATCO LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2015

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. (the Company) during the past year.

This MD&A was prepared as of February 24, 2016, and should be read with the Company's audited consolidated financial statements for the year ended December 31, 2015 (2015 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 (53.1 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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COMPANY OVERVIEW

In 2015, ATCO undertook a transformational change that fundamentally shifted its global business strategy. The Company has restructured into three Global Business Units - Structures & Logistics, Electricity, and Pipelines & Liquids - that are vertically integrated and better able to efficiently and effectively respond to customers' needs. ATCO is now better positioned to deliver comprehensive solutions for modular structures and support services and energy infrastructure development, maintenance and ongoing operations to our customers worldwide.

The Structures & Logistics Business Unit includes ATCO Structures & Logistics and ATCO Sustainable Communities. Together these companies offer workforce housing, innovative modular facilities, construction, site support services, logistics, and operations management.

The Electricity Business Unit includes ATCO Electric Distribution, ATCO Electric Transmission, ATCO Power and ATCO Power Australia. Together these companies provide electricity generation, transmission, distribution and related infrastructure services.

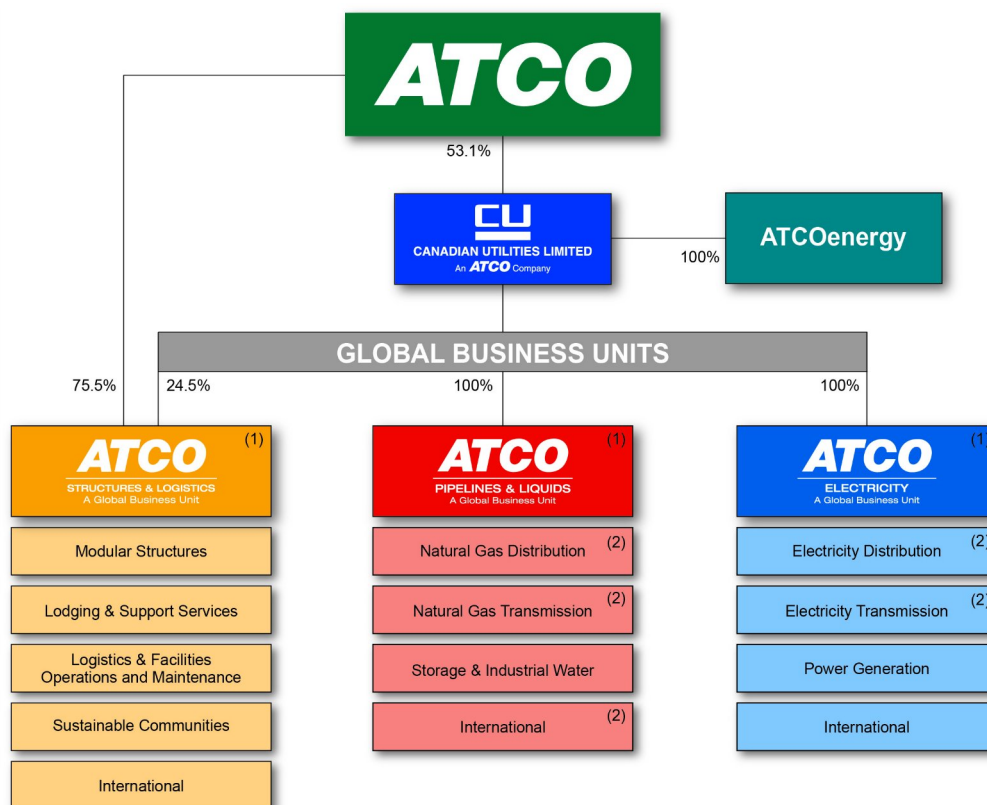
The Pipelines & Liquids Business Unit includes ATCO Gas, ATCO Pipelines, ATCO Energy Solutions and ATCO Gas Australia. These companies offer complementary products and services that enable them to deliver comprehensive energy transmission and distribution services, gas and liquids storage and processing, and water solutions to existing and new customers.

ATCO Energy was launched in January 2016 to provide retail and commercial electricity and natural gas service in Alberta.

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 53.1 per cent (39.4 per cent of the Class A non-voting shares and 88.3 per cent of the Class B common shares), and ATCO Structures & Logistics Ltd., of which ATCO Ltd. owns 75.5 per cent of the Class A non-voting shares and Class B 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.

SIMPLIFIED ORGANIZATIONAL STRUCTURE



(1) Descriptions of business unit activities are provided in the Global Business Unit Information section of this MD&A.

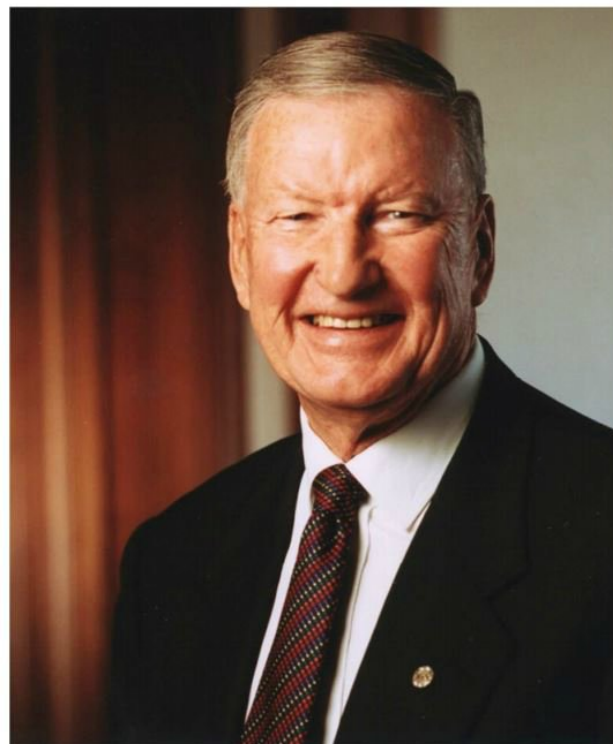
(2) Regulated operations include ATCO Gas, ATCO Pipelines, ATCO Gas Australia, ATCO Electric Distribution, and ATCO Electric Transmission.

ATCO CORE VALUES AND VISION

RONALD D. SOUTHERN

It was with great sadness that ATCO announced the passing on January 21, 2016 of its Founder, Ronald D. Southern. As the Founder of the Company, Mr. Southern was closely identified with ATCO by industry participants, the investment community and the Company's share owners.

As Founder of ATCO, Mr. Southern played a pivotal and visionary role in every major development in the evolution and growth of the Company. He was instrumental in leading ATCO from its very modest beginnings in 1947 through its initial public offering, its acquisition and repatriation of Canadian Utilities, to its vast present day global operations. Under Mr. Southern's leadership, the Company expanded its presence and operations well beyond its Alberta base to over 100 countries. Each of these achievements was executed with a long term focus and with fiscal prudence. Mr. Southern's wisdom, passion, resolve and vision will be greatly missed by the people and customers of ATCO. The lessons he instilled, however, will continue to guide the Company as will his own definition of "Excellence".



Ronald D. Southern C.C., C.B.E., A.O.E., B.Sc., LL.D
1930 – 2016

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. 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.
- **Imaginative:** We are creative, innovative and committed to developing new opportunities that will deliver long-term value.
- **Accountability:** We take personal ownership of tasks, are responsible for our actions and deliver on our promises.
- **Collaboration:** We work together, share ideas and recognize the contribution of others.
- **Perseverance:** We persevere in the face of adversity with courage, pro-actively strengthening our financial position and demonstrating a fierce determination to succeed.
- **Caring:** We care about our customers, our employees, our owners, their families, our communities and the environment.

CORE VISION

ATCO's core vision is to improve the lives of our customers by providing sustainable, innovative and comprehensive solutions globally. The Company is building an organization that will fuel the imagination of its employees to generate strong, sustainable growth over the long-term. The Company believes in well-managed risk and has a disciplined approach to growth.

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 fueling imagination 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.

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 ATCO Group.

FUELING IMAGINATION

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 solutions that differentiate us from our competitors.

PEOPLE

ATCO upholds the highest standards of ethical behavior, fosters leadership and skills development to enable employees to grow within the organization and provides competitive compensation for their efforts. The Company is committed to: enhancing performance management, succession planning, leadership and employee development programs to build and develop learning, growth and career advancement opportunities for its employees; and fostering a productive and collaborative labour relations environment.

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 demands a careful, 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 2015 relative to the strategies outlined above are included in the Company's MD&A, 2015 Annual Financial Statements and AIF. Further commentary regarding strategies and commitments to growth, financial strength, fueling imagination, operational excellence, and community involvement will be provided in the forthcoming 2015 Annual Report, Management Proxy Circular and Sustainability Report. The 2015 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 2015

In 2015, ATCO achieved a number of notable successes in the Structures & Logistics, Electricity and Pipelines & Liquids Business Units in support of each of our principal strategic imperatives.

GROWTH

STRUCTURES & LOGISTICS BUSINESS UNIT

Site C Clean Energy Workforce Housing Project

In 2015, ATCO Structures & Logistics was chosen as the preferred proponent by BC Hydro to manufacture, install and operate a 1,600-bed workforce housing facility for workers constructing the Site C Clean Energy Project on the Peace River in northeast BC. The contract is valued at \$470 million. Manufacturing and installation is expected to be completed in mid-2016 and lodge-related services will be provided until 2022.

LNG Modular Structures Project

In the fourth quarter of 2015, ATCO Structures & Logistics was awarded a contract to design, construct, transport, install and rent 591 modular units at a major LNG project near Lake Charles, Louisiana. At the end of the 29 month lease term, the units will be returned to the Company's fleet, thereby expanding its footprint in the U.S. market.

Wheatstone Project

ATCO Structures & Logistics continued work on the Chevron-operated Wheatstone Project in Western Australia that was awarded in 2015 for the design, manufacture and installation of a 2,000-bed and kitchen facility and 357 blast resistant lunchroom and amenities buildings. The total value for ATCO Structures & Logistics' scope of work is estimated to be \$384 million Australian. This work is expected to be completed in March 2016.

Muskrat Falls Lodging & Support Services Contract

ATCO Structures & Logistics, together with its partner, Nunatsiavut Group of Companies, was awarded a contract by Valard Construction LP in March 2015. The 36-month contract to operate five 100 to 300-bed lodges housing workers constructing the Muskrat Falls Transmission Project in Newfoundland and Labrador is valued at approximately \$45 million.

ELECTRICITY BUSINESS UNIT

Completion of EATL Transmission Line

In December 2015, ATCO Electric Transmission completed and placed in-service the longest transmission line in Alberta's history. The 485 km, \$1.8 billion Eastern Alberta Transmission Line (EATL) is a critical component of Alberta's electrical transmission backbone and will play a key role in bringing renewable energy to Albertans across the province. By reducing the amount of electricity lost during transmission, EATL reduces the amount of power generation required, saving money as well as thousands of tons of future greenhouse gas emissions for Albertans.

Capital Investment in Regulated Utilities

In 2015, the Electricity Business Unit invested \$826 million in assets that earn a return under a regulated business model.

Distributed Generation

In March 2015, ATCO Power began providing an innovative temporary power generation service to Apache Canada Ltd. at its House Mountain facility west of Swan Hills, generating power from excess natural gas. In the third quarter of 2015, ATCO Power and Apache entered into a 10-year contract at House Mountain to continue to provide power generation service using excess natural gas. ATCO Power will be the sole owner and operator of the \$13 million, 6 MW power generation facility, which will replace the temporary generation units. This facility has an expected in-service date of May 2016.

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

In December 2014, Alberta PowerLine (APL), a newly formed partnership between ATCO and Quanta Capital, a Quanta Services company, was awarded a 35-year, \$1.4 billion contract by the AESO for the Fort McMurray 500 kV Project. The majority of the project activities to date have centered on stakeholder consultations. APL has completed all planned open houses and has begun consultation efforts with individual landowners, municipalities, industrial companies, government agencies and First Nations. APL filed its Facilities Application with the AUC in December 2015 and, if approved, construction should commence in 2017 with an expected in-service date in 2019.

Mexico Tula Cogeneration

In October 2014, the Company and its partner Grupo Hermes S.A. de C.V. were selected by an affiliate of Mexico's state-owned petroleum company Pemex, PMX Cogeneracion S.A.P.I. de C.V., 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. Initial estimates value the capital investment of the proposed project at \$820 million U.S., of which the Company will be responsible for approximately half. Capital investment approval is expected in 2016, with a commercial operation date in 2019.

PIPELINES & LIQUIDS BUSINESS UNIT

Capital Investment in Regulated Utilities

In 2015, the Pipelines & Liquids Business Unit invested \$668 million in assets that earn a return under a regulated business model.

Industrial Water

In 2015, ATCO Energy Solutions completed construction on two industrial water supply projects for the North West Redwater Partnership and Air Products Canada Ltd. These projects will provide essential water transportation services and other benefits to customers in the Heartland Industrial area, near Edmonton. Both projects are in operation and began contributing to earnings in the fourth quarter of 2015.

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 the Air Products' hydrogen facility near Fort Saskatchewan.

Hydrocarbon Storage

ATCO Energy Solutions, in partnership with Petrogas Energy Corp., 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 has a 60 per cent partnership interest. Construction continues with commercial operation for the first two caverns targeted for the third quarter of 2016, and the two remaining caverns are expected to be completed by the third quarter of 2017.

FINANCIAL STRENGTH

Capital Redeployment

The Company continuously reviews opportunities to divest non-core assets. In December 2015, the Company's subsidiary, ATCO Structures & Logistics, completed the sale of its Emissions Management business. The proceeds from the sale will be redeployed to finance the Company's future growth initiatives.

ATCO Energy Solutions sold certain non-core NGL extraction and gas gathering and processing assets in the fourth quarter of 2015 and first quarter of 2016. The proceeds will be deployed for continued capital growth in industrial water infrastructure and hydrocarbon storage in Alberta's Industrial Heartland region.

Debt Issuance

To finance capital investment, the Company added long-term debt of \$650 million in 2015.

On July 27, 2015, the Company's subsidiary, CU Inc., issued \$400 million of 3.964 per cent Debentures maturing on July 27, 2045. Additionally, on October 29, 2015, CU Inc. issued \$250 million of 4.211 per cent Debentures maturing on October 29, 2055. Proceeds from these issuances were used to finance capital expenditures, to repay existing indebtedness, and for other general corporate purposes of ATCO Electric, ATCO Gas and ATCO Pipelines.

Credit Ratings

The Company has maintained strong investment grade credit ratings, which allow access to capital markets at competitive rates. In 2015, Standard and Poor's Ratings Services (S&P) and DBRS Limited re-affirmed their ratings of the Company as "A" and "A" (low), respectively. In addition, S&P reaffirmed its "A-" rating for ATCO Gas Australia in October 2015.

FUELING IMAGINATION

New Modular Structure

In 2015, ATCO Structures & Logistics continued to develop innovative new products for the Australian market, including a new blast resistant module and unique facilities for the Manus Island Detention Facility. Work on the AUD\$34 million project began in 2014 and was completed in 2015.

Maintenance Method Improvements

ATCO Electric's new A-Step maintenance method, which involves adapting an existing helicopter-based maintenance method, has evolved power line maintenance by making the job safer, greener, faster and more cost-effective.

Energy Efficiency

ATCO Gas Australia is helping commercial and light industrial customers dramatically reduce their electricity costs through the use of Gas-Powered Air Conditioning - a proven technology that leverages the company's reliable gas network and provides a practical alternative to electric air conditioning.

Innovative Preferred Share Issuance

In September 2015, ATCO's subsidiary, Canadian Utilities, revived the rate reset preferred share market with the introduction of a new feature to meet investor needs. This innovative feature allows for the current yield of 4.50 per cent to become the new floor when the five year fixed rate period is up for reset. During a period of challenging economic conditions and record low interest rates, this creative feature attracted investors and offered protection against deteriorating interest rates. The preferred share issuance resulted in strong investor demand which significantly upsized the initial \$100 million offering to \$250 million.

PEOPLE

In 2012, ATCO was recognized as a Chartered Professional Accountant (CPA) Pre-Approved Training Program (formerly known as a CA Training Office) and hired its first CPA student in December 2012. The program provides support and guidance to ensure all CPA students attain the necessary work experience and competencies required to achieve their designations and provides an opportunity for ATCO to develop future business success by developing leaders from the ground up with a thorough understanding of the complex and diverse nature of the ATCO Group of Companies. In 2015, the ATCO CPA Training Program completed its first class of student designations and has a 100 per cent success rate in designating students in the Program.

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 2015. Generating plant availability was in the 90th percentile with minimal unplanned outages.

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. Employee lost-time and reportable injury rates have declined substantially from 2008, largely due to the implementation of behavior-based safety training and increased sharing of lessons learned. ATCO compares favourably with the lost-time injury rate for Alberta Occupational Health and Safety.

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 March 2015, ATCO and Denendeh Investments Incorporated (DII) signed a Memorandum of Understanding to more than triple DII's ownership in Northland Utilities to 50 per cent. DII, a First Nations-owned corporation, which previously owned 14 per cent of the company, and ATCO have been partners in the electric utility serving the Northwest Territories for nearly 30 years. DII represents 27 Dene First Nations and 75 per cent of the Indigenous population in the Northwest Territories. DII was created to invest in programs and business ventures to help build sustainable communities for its people.

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 the charitable donations made to health and wellness organizations. In 2015, ATCO EPIC donated \$4.3 million to more than 500 charities, and ATCO employees volunteered more than 19,800 hours to make our communities better places to work and live. Since ATCO EPIC's launch in 2006, the program has raised more than \$28 million.

OUTLOOK

ATCO has seen significant growth over the past decade, driven by a buoyant natural resource sector in both North America and Australia. However, since late 2014, the world has been faced with declining mineral and oil prices in addition to a continuing low natural gas price environment in Western Canada. The challenges that are impacting many of our customers are also having an impact on ATCO. During these unpredictable times, the Company is taking a very focused and disciplined approach to our business.

The long-term success of ATCO is dependent upon its 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 are pursuing cost savings and efficiencies in every part of our organization to ensure that we deliver the most competitive solutions to our customers.

CORPORATE PRIORITIES FOR 2016 AND BEYOND

Customer-Focused Approach

This priority will allow ATCO to reach more markets, with more products, in a continued effort to grow the Company's customer base. ATCO plans to optimize its geographic diversification as a tactic to ensure continued growth within the organization.

Research & Development

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. ATCO plans to continue developing new product lines and new ways of delivering energy to customers.

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 have long range plans for ensuring timely supply of goods and services that are critical to the Company's ability to meet its core business objectives.

A robust restructuring exercise to streamline and gain operational efficiencies completed in late 2015 will allow the Company to realize benefits going forward. We will continue to review further opportunities for improved productivity in 2016 and beyond.

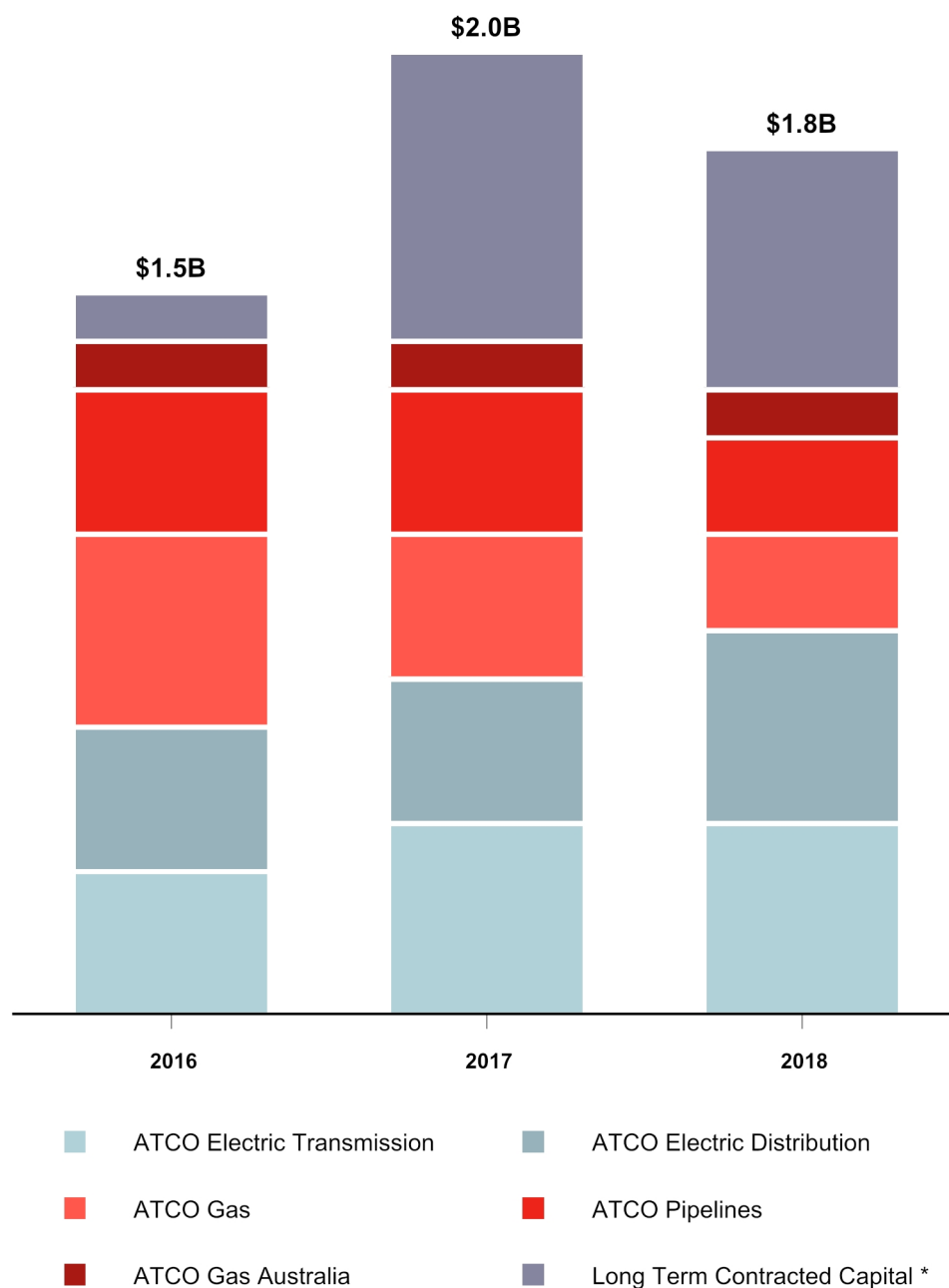
Capital Investment Plans

In the 2016 to 2018 period, ATCO expects to invest an additional \$5.3 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 \$4.1 billion of planned capital investment in the Regulated Utilities. ATCO Electric Distribution and ATCO Electric Transmission are planning to invest \$2.1 billion, and ATCO Gas, ATCO Pipelines and ATCO Gas Australia are planning to invest \$2 billion from 2016 to 2018.

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 2016 to 2018. Of this \$1.2 billion, \$1.1 billion is planned capital investment in the APL Fort McMurray 500 kV Project and approximately \$100 million is planned capital investment in contracted hydrocarbon storage and distributed generation in Alberta and a natural gas pipeline in Mexico. 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 and Contracted Capital Investments



* Includes the Company's proportionate share of investments in partnership interests.

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)	2015	2014	2013
Key Financial Metrics			
Adjusted earnings ⁽¹⁾	293	374	390
Structures & Logistics	27	67	96
Electricity	171	195	206
Pipelines & Liquids	101	106	83
Corporate & Other	(7)	11	4
Intersegment Eliminations	1	(5)	1
Earnings attributable to Class I and Class II Shares	154	420	418
Capital investments ⁽¹⁾	1,919	2,391	2,518
Revenues	4,131	4,554	4,359
Total assets	19,055	17,689	16,010
Long-term debt	8,055	7,383	6,395
Class I and Class II Share owners' equity	3,356	3,168	2,860
Cash dividends declared per Class I and Class II Share (\$)	0.99	0.86	0.75
Funds generated by operations ⁽¹⁾	1,589	1,786	1,854
Weighted average Class I and Class II Shares outstanding (<i>thousands</i>):			
Basic	114,832	114,848	114,801
Diluted	115,300	115,462	115,503

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

ADJUSTED EARNINGS

The Company's adjusted earnings for the year ended December 31, 2015 were \$293 million. The primary drivers of earnings results were as follows:

- Structures & Logistics - The earnings for this segment are significantly influenced by the cyclical nature of large natural resource project activity. The decrease in adjusted earnings in 2015 is primarily due to lower Modular Structures project activity and profit margins, and reduced lodging occupancy levels and room rates, partially offset by business-wide cost reduction initiatives.
- Electricity - Adjusted earnings were \$171 million in 2015 compared to \$195 million in the prior year. Lower adjusted earnings in the year were mainly the result of lower Alberta Power Pool prices, as well as prior period adjustments associated with several regulatory decisions, partially offset by continued investment in utility infrastructure investment in Alberta. Excluding the prior period impacts of these regulatory decisions, normalized adjusted earnings for ATCO Electric Transmission and ATCO Electric Distribution were \$10 million higher than 2014 primarily as a result of continued capital growth in Electricity's regulated businesses.
- Pipelines & Liquids - 2015 adjusted earnings of \$101 million were lower primarily due to lower frac spreads in ATCO Energy Solutions and prior period adjustments associated with several regulatory decisions in ATCO Gas, ATCO Pipelines, and ATCO Gas Australia. Excluding the prior period impacts of several regulatory decisions, 2015 normalized adjusted earnings for ATCO Gas, ATCO Pipelines and ATCO Gas Australia were \$17 million higher than 2014 mainly as a result of continued capital growth in Pipelines & Liquids' regulated businesses.
- Corporate & Other - Corporate & Other adjusted earnings in 2015 were lower than 2014 by \$18 million. The decreased earnings resulted mainly from forgone earnings due to the sale of ATCO I-Tek in the third quarter of 2014.

Additional details on the financial performance of the Company's Business Units are discussed in the Global Business Unit Information section.

EARNINGS ATTRIBUTABLE TO CLASS I AND CLASS II SHARES

Earnings attributable to Class I and Class II Shares were \$154 million in 2015 compared to \$420 million in the prior year. Earnings attributable to Class I and Class II Shares included restructuring costs, one-time gains on the sale of operations, significant impairments and timing adjustments related to rate-regulated activities that were not included in adjusted earnings. The net impact of these items was a reduction of \$139 million to earnings attributable to Class I and Class II Shares in 2015.

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.

ATCO recorded gains on sales of operations and a revaluation of a joint venture of \$28 million in 2015 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 Power investment.

In 2015, impairment charges of \$104 million were recorded relating to ATCO Structures & Logistics' open lodge assets and 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.

Timing adjustments made in rate-regulated accounting lowered earnings attributable to Class I and Class II shares by \$13 million.

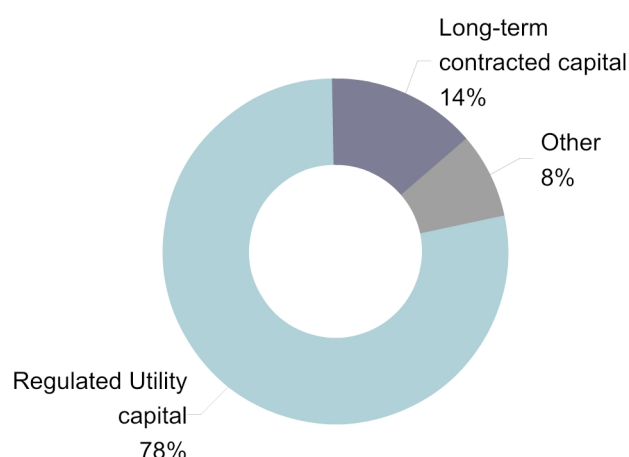
More information on these and other items is included in the "Reconciliation of Adjusted earnings to Earnings Attributable to Class I and Class II Shares" section in this MD&A.

CAPITAL INVESTMENT

Capital investment includes additions to property, plant and equipment, intangibles and capital expenditure in joint ventures. Total capital investment was \$1,919 million in 2015 compared to \$2,391 million in 2014. Lower capital investment compared to the prior years is mainly due to previously disclosed and planned lower capital spending in ATCO Electric Transmission.

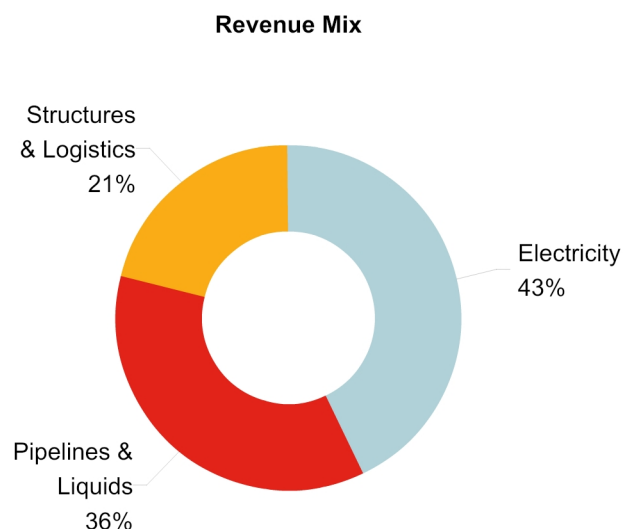
Capital spending in the Company's Regulated Utilities and on long-term contracted capital assets accounted for \$1,754 million of capital spending in 2015. These investments either earn a return under a regulatory business model or are under commercially secured long-term contracts. The remaining expenditures are mainly maintenance capital spread across the Company.

Regulated & Contracted Capital Investment 2015



REVENUES

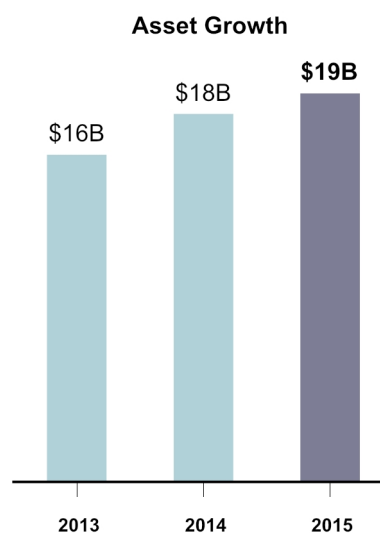
Revenues in 2015 were \$4.1 billion, compared to \$4.6 billion in 2014. Lower revenues were primarily due to reduced flow-through gas sales in ATCO Energy Solutions, which are passed on to customers by the Company and do not impact adjusted earnings, lower revenues in ATCO Structures & Logistics mainly due to reduced Modular Structures project activity in North America, and reduced Alberta Power Pool prices in ATCO Power.



ASSETS, DEBT & EQUITY

The Company's total assets, long-term debt and Class I and Class II Share owners' equity reflect the significant growth during 2015 and how that growth was financed. Total assets grew from \$18 billion at the beginning of 2015 to \$19 billion at year end. That growth occurred mainly in the Alberta Utilities as a result of significant capital investment.

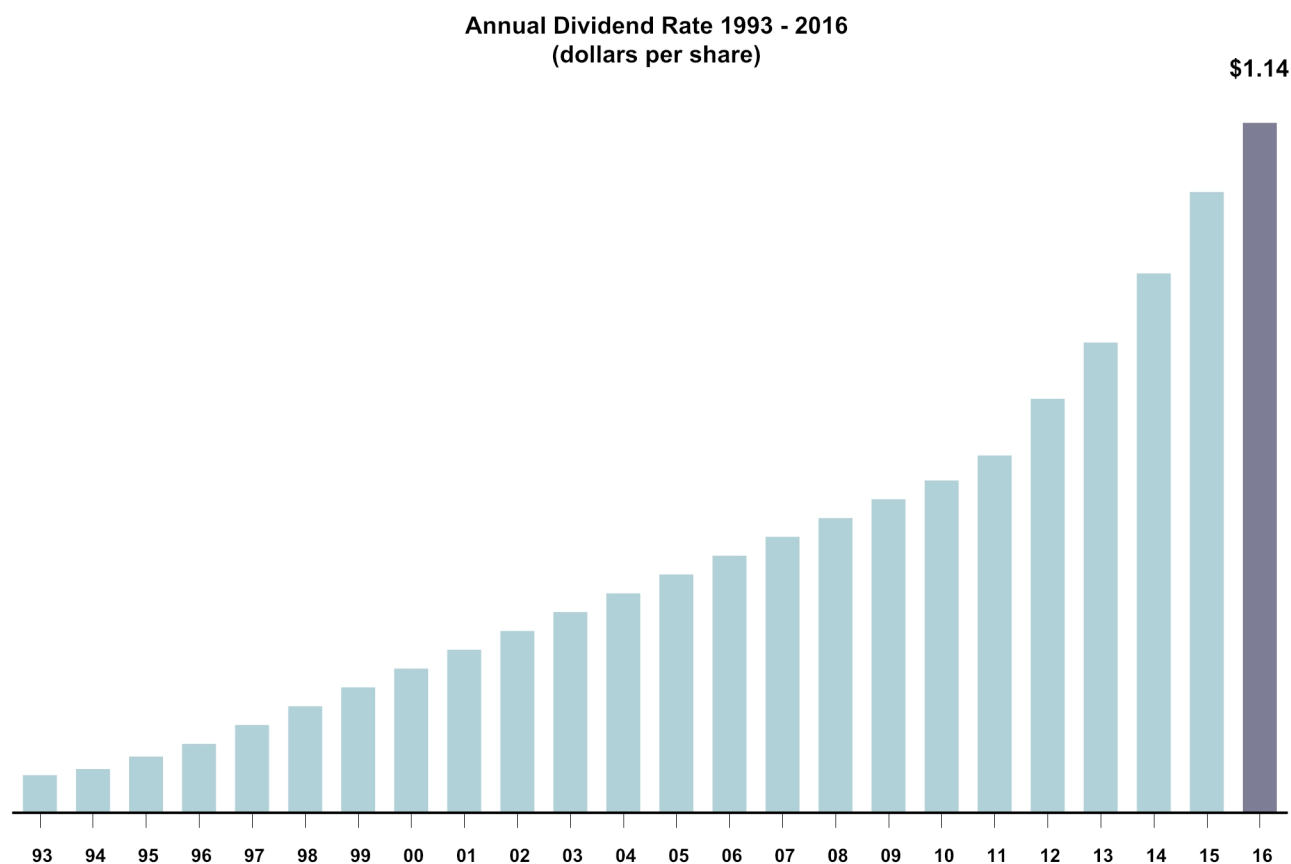
Class I and Class II Share owners' equity increased over the prior year mainly as a result of 2015 earnings, partially offset by higher dividends paid to share owners. In addition, the Company's subsidiary, Canadian Utilities Limited, issued \$125 million of 5.25 per cent Cumulative Redeemable Second Preferred Shares Series EE, and \$250 million of 4.50 per cent Cumulative Redeemable Second Preferred Shares Series FF.



COMMON SHARE DIVIDENDS

In 2015, the Board of Directors increased the quarterly dividends paid per Class I and Class II Share from 21.5 cents per share to 24.75 cents per share, an increase of 15 per cent over 2014.

On January 7, 2016, the Board of Directors declared a first-quarter dividend of 28.50 cents per share. That amount represents a 15 per cent increase over the quarterly dividends per share paid in 2015; the fifth consecutive year of a 15 per cent increase in dividends. The Company has increased its common share dividend each year since 1993. Dividends paid to Class I and Class II Share owners in 2015 totaled \$114 million.



GLOBAL BUSINESS UNIT INFORMATION

Structures & Logistics

Structures & Logistics is made up of four diversified, complementary businesses to meet the needs of its customers and communities around the world: Modular Structures, Logistics and Facility Operations and Maintenance (O&M) Services, Lodging & Support Services, and Sustainable Communities.

REVENUES

Revenues in Structures & Logistics of \$268 million in the fourth quarter of 2015 were \$17 million higher than the \$251 million recorded in the same period in 2014 primarily as a result of increased Modular Structures project activity on the Wheatstone project. Revenues in 2015 of \$869 million were \$94 million lower than 2014 mainly due to reduced Modular Structures project activity in North America and lower Space Rentals and Workforce Housing utilization and rental rates, reduced lodging occupancy levels and room rates as well as the expiry of a Logistics and Facility O&M Services contract at the end of the third quarter of 2014.

ADJUSTED EARNINGS

Adjusted earnings for ATCO Structures & Logistics are shown in the table below.

	Three Months Ended December 31			Twelve Months Ended December 31		
(\$ millions)	2015	2014	Change	2015	2014	Change
Modular Structures	17	25	(8)	44	78	(34)
Logistics and Facility O&M Services	2	3	(1)	10	12	(2)
Lodging & Support Services	–	–	–	(4)	8	(12)
Other ⁽¹⁾	(6)	(2)	(4)	(23)	(31)	8
Total Structures & Logistics	13	26	(13)	27	67	(40)

(1) Other includes Sustainable Communities, Emissions Management and ATCO Structures & Logistics' corporate office.

Adjusted earnings achieved by Structures & Logistics in the quarter and year ended December 31, 2015 were lower than the same periods in 2014 mainly as a result of reduced profit margins and the conclusion of major Modular Structures projects in prior periods and lower Space Rentals and Workforce Housing utilizations and rental rates. Lower earnings in 2015 were partly offset by business-wide cost reduction initiatives.

Detailed information about the business activities and financial results of the three largest divisions is provided in this segmented information. In addition, information regarding the fourth quarter 2015 sale of Emissions Management is also provided in this segmented information section under Capital Redeployment.

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 achieved in the quarter and year ended December 31, 2015 were \$17 million and \$44 million, a decrease of \$8 million and \$34 million over the same periods in 2014. Lower adjusted earnings are related to weakened capital spending in various natural resource sectors in North America and Australia leading to a decline in manufacturing activity, reduced profit margins, and lower Workforce Housing and Space Rental fleet utilization. These decreases were partially offset by additional project work at Wheatstone in Western Australia and the commencement of work at the Site C Clean Energy project in northeast BC.

Major Projects

Site C Clean Energy Workforce Housing Project

In April 2015, ATCO Structures & Logistics was chosen as the preferred proponent by BC Hydro to manufacture, install and operate a 1,600-bed workforce housing facility for workers constructing the Site C Clean Energy Project on the Peace River in northeast BC. ATCO Structures & Logistics is also providing a full suite of lodge-related services including catering, janitorial, maintenance, medical and fire protection until 2022. A definitive project agreement valued at \$470 million was completed in late September 2015. ATCO Structures & Logistics will continue to execute the project with the manufacture and install phase expected to be completed in mid-2016.

LNG Modular Structures Project

In the fourth quarter of 2015, ATCO was awarded a contract to design, construct, transport, install and rent 591 modular units at a major LNG project near Lake Charles, Louisiana. The units will be used to provide sleeping accommodation for 2,300 persons, kitchen and dining facilities, and a recreation center. Under the terms of the agreement, the new workforce housing units will be leased for a 29 month period which commenced in January 2016 with the delivery of 104 modular units after completing Phase I of the project. 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.

Wheatstone Project

ATCO Structures & Logistics continued work on the Chevron-operated Wheatstone Project in Western Australia that was awarded in 2015 for the design, manufacture and installation of a 2,000-bed and kitchen facility and 357 blast resistant lunchroom and amenities buildings. The total value for ATCO Structures & Logistics' scope of work is estimated to be \$384 million Australian. This work is expected to be completed in March 2016.

Shell Carmon Creek Project

ATCO Structures & Logistics completed manufacturing and installation work on the \$170 million Shell Carmon Creek contract early in the second quarter of 2015.

Muskrat Falls Lodging & Support Services Contract

ATCO Structures & Logistics, together with its partner, Nunatsiavut Group of Companies, was awarded a contract by Valard Construction LP in March 2015. Under the 36-month contract, the Company is providing catering, janitorial and commercial laundry services to five 100 to 300-bed lodges that are housing workers constructing the Muskrat Falls Transmission Project in Newfoundland and Labrador. The contract is valued at approximately \$45 million.

Rental Fleet Statistics

The following table compares ATCO Structures & Logistics' manufacturing hours and rental fleet for 2014 and 2015.

	Three Months Ended December 31			Twelve Months Ended December 31		
	2015	2014	Change	2015	2014	Change
North America						
Manufacturing hours (<i>thousands</i>)	246	246	—	571	982	(42%)
Global Space Rentals						
Number of units	13,302	13,174	1%	13,302	13,174	1%
Average utilization (%)	64	71	(7%)	68	75	(7%)
Average rental rate (\$ <i>per month</i>)	549	608	(10%)	576	615	(6%)
Global Workforce Housing						
Number of units	3,354	3,230	4%	3,354	3,230	4%
Average utilization (%)	35	76	(41%)	51	77	(26%)
Average rental rate (\$ <i>per month</i>)	1,465	2,541	(42%)	1,805	2,472	(27%)

Reduced capital spending in natural resource sectors in North America led to a decline in Modular Structures manufacturing activity in 2015.

The decrease in the utilization of the Space Rental and Workforce Housing fleets was due to overall weakened demand from customers whose business activity is exposed to commodity price declines. This reduced demand has also resulted in lower rental rates.

Morris Acquisition

In the second quarter of 2015, ATCO Structures & Logistics acquired the modular business of Morris Modular Space located in Sudbury, Ontario. The Morris business contributes fleet assets, rental contracts, light vehicles, parts and other inventory, and positions ATCO Structures & Logistics for growth in that geographical region. The addition of this business increases ATCO Structures & Logistics' modular fleet in eastern Canada by 10 per cent and builds on the current operating platform in Ontario with branches in Ottawa, Toronto and Timmins. ATCO Structures & Logistics will continue to invest in strategic market locations that will provide geographic diversification and improve utilization rates.

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 this division were comparable in the fourth quarter of 2015 compared to the same period of 2014. Marginally lower earnings for the year were mainly due to the expiry of the North Warning System Contract with the Canadian Department of National Defence at the end of the third quarter of 2014. The Company continues to pursue and bid on project opportunities to provide Logistics and Facility O&M Services.

Principal active contracts as of December 31, 2015, are shown in the table below.

Contract	Customer	Start Date	Completion Date
NATO Flight Training ⁽¹⁾	CAE Military Aviation Training Inc.	Jun 2000	May 2020
Iqaluit Fuel Contract ⁽²⁾	Government of Nunavut	Jun 2007	Nov 2017
Kandahar - First Responders ⁽³⁾	NATO Support Agency (NSPA)	Jan 2011	Jul 2016
Ontario Facilities Management Contract ⁽⁴⁾	Defence Construction Canada	Apr 2013	Mar 2018
Facilities & Operations Maintenance Contract ⁽⁵⁾	Major Canadian exploration & production company	Mar 2014	Feb 2016
Alaska Radar System ⁽⁶⁾	U.S. Department of Defense	Oct 2016	Oct 2026
NATO Fire Protection Contract ⁽⁷⁾	NATO Support Agency (NSPA)	Jan 2015	Dec 2016

(1) At the discretion of the client the contract may be extended to 2021.

(2) Joint venture with Indigenous partners.

(3) The contract was extended to July 2016.

(4) At the discretion of the client the contract may be extended to 2023.

(5) An extension to the contract to 2017 is under review by the customer.

(6) Logistics and Facilities O&M Services currently provided under a bridge agreement until the end of October 2016 at which time the new contract to October 2026 takes effect.

(7) At the discretion of the client the contract may be extended up to 2019 based on 1 year option periods.

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 in the fourth quarter of 2015 were comparable to the same period of 2014. For the year ended December 31, 2015 adjusted earnings were \$12 million lower than 2014. Continued weakened natural resource sector capital spending decreased the demand for temporary lodging and camp facilities near Fort McMurray, Alberta, resulting in lower occupancy levels and room rates.

In response to these challenging market conditions, the Lodging & Support Services division plans to pursue opportunities and enter non-resource markets via acquisition or a greenfield approach.

CAPITAL REDEPLOYMENT

In December 2015, Structures & Logistics completed the sale of its Emissions Management business. Included in the sale were Emissions Management's operations in Canada, United States and Mexico and the transfer of current contracts and employees. Proceeds of the sale totaled \$60 million, resulting in a one-time gain of \$16 million. The gain was excluded from adjusted earnings, but increased earnings attributable to Class I and Class II shares. The proceeds from the sale will be redeployed to finance the Company's future growth initiatives.

Electricity

Electricity's activities are conducted through two regulated businesses, ATCO Electric Distribution and ATCO Electric Transmission (Regulated Electricity), and two non-regulated business, ATCO Power and ATCO Power Australia (Non-regulated Electricity).

REVENUES

Electricity revenues of \$464 million in the fourth quarter and \$1,771 million for the full year of 2015 were comparable to the same periods of 2014.

Higher revenues in Regulated Electricity attributable to growth in rate base were offset by lower revenues in ATCO Power primarily due to lower realized Alberta Power Pool prices and the closure of ATCO Power Australia's Bulwer Island power plant.

ADJUSTED EARNINGS

Adjusted earnings for ATCO Electric Distribution, ATCO Electric Transmission, ATCO Power and ATCO Power Australia are shown in the table below.

	Three Months Ended December 31			Twelve Months Ended December 31		
(\$ millions)	2015	2014	Change	2015	2014	Change
Regulated Electricity						
ATCO Electric Distribution	12	13	(1)	50	55	(5)
ATCO Electric Transmission	11	21	(10)	82	90	(8)
Total Regulated Electricity	23	34	(11)	132	145	(13)
Non-regulated Electricity						
ATCO Power						
Independent Power Plants	1	3	(2)	7	17	(10)
Thermal PPAs	7	6	1	22	22	–
ATCO Power Australia	2	2	–	10	11	(1)
Total Non-regulated Electricity	10	11	(1)	39	50	(11)
Total Electricity	33	45	(12)	171	195	(24)

Electricity generated \$171 million of adjusted earnings in 2015. Lower earnings in the year are primarily due to prior period adjustments associated with several regulatory decisions in ATCO Electric Distribution and ATCO Electric Transmission and lower earnings in ATCO Power resulting from lower realized Alberta Power Pool prices and spark spreads. An increase in income tax expense due to the change in the Alberta corporate income tax rate also contributed to lower annual earnings. These decreases were partially offset by continued capital investment and growth in rate base within the Regulated Electricity business.

To facilitate comparison, adjusted earnings for 2015 and 2014 for ATCO Electric Transmission and ATCO Electric Distribution have been normalized in the table below for prior period impacts of the following regulatory decisions:

- The Generic Cost of Capital (GCOC) decision received in the first quarter of 2015 reduced earnings by \$15 million. 2015 full year normalized earnings have been increased by \$14 million for the 2013 and 2014 impact. 2014 normalized earnings have been reduced by \$2 million in the fourth quarter and \$7 million for the year.
- The Capital Tracker decision received in the first quarter of 2015 reduced earnings by \$3 million. 2015 full year normalized earnings have been increased by \$2 million for the 2013 and 2014 impact. 2014 normalized earnings have been reduced by \$2 million for the year.
- The 2010 Evergreen decision received in the second quarter of 2014 reduced earnings by \$5 million. 2014 full year normalized earnings have been increased by \$5 million for the portion relating to 2010 to 2013.
- The 2014 Interim Rates decisions received in the third quarter of 2014 increased earnings by \$6 million. 2014 full year normalized earnings have been reduced by \$3 million for the portion relating to 2013.

Normalized Electricity Adjusted Earnings

(\$ millions)	Three Months Ended December 31			Twelve Months Ended December 31		
	2015	2014	Change	2015	2014	Change
Regulated Electricity						
ATCO Electric Distribution	12	11	1	56	51	5
ATCO Electric Transmission	11	21	(10)	92	87	5
Total Regulated Electricity	23	32	(9)	148	138	10
Non-regulated Electricity						
ATCO Power						
Independent Power Plants	1	3	(2)	7	17	(10)
Thermal PPAs	7	6	1	22	22	–
ATCO Power Australia	2	2	–	10	11	(1)
Total Non-regulated Electricity	10	11	(1)	39	50	(11)
Total Electricity	33	43	(10)	187	188	(1)

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, excluding the prior period impacts of the GCOC, Capital Tracker, 2010 Evergreen and 2014 Interim Rates decisions, were \$1 million higher in the fourth quarter of 2015 and \$5 million higher for the year when compared to the same periods in 2014. Higher earnings resulted from growth in rate base.

Electricity Transmission

ATCO Electric Transmission's adjusted earnings, excluding the prior period impacts of the GCOC and 2010 Evergreen decisions, were \$10 million lower in the fourth quarter of 2015 than the same period in 2014 mainly due to regulatory lag which required an update to the forecast costs as compared to prospective costs originally filed in the 2015 to 2017 General Tariff Application. Higher adjusted earnings in 2015 were mainly due to growth in rate base.

Regulated Electricity Capital Investment Updates

Regulated Electricity has invested \$4.2 billion in capital growth projects over the last three years. The largest investments were in transmission operations. The AESO identified the need for major reinforcement and expansion of the electricity transmission system in Alberta, and ATCO Electric is dedicated to improving Alberta's electrical system through responsible transmission development.

Total capital investments for Regulated Electricity in the last three years are provided in the table below.

(\$ millions)	Year Ended December 31		
	2015	2014	2013
ATCO Electric Distribution	355	369	408
ATCO Electric Transmission	471	1,233	1,355
Total	826	1,602	1,763

Regulated Electricity invested \$826 million in 2015. EATL was the largest single project under construction during the year. The EATL project spend was \$189 million in 2015, bringing the total spend to date on the project to \$1.8 billion. The project was placed in-service in December 2015. This 500 kV high voltage direct-current transmission line, with associated converter stations and facilities, extends approximately 485 km along a corridor on the east side of the province of Alberta between Edmonton and Calgary.

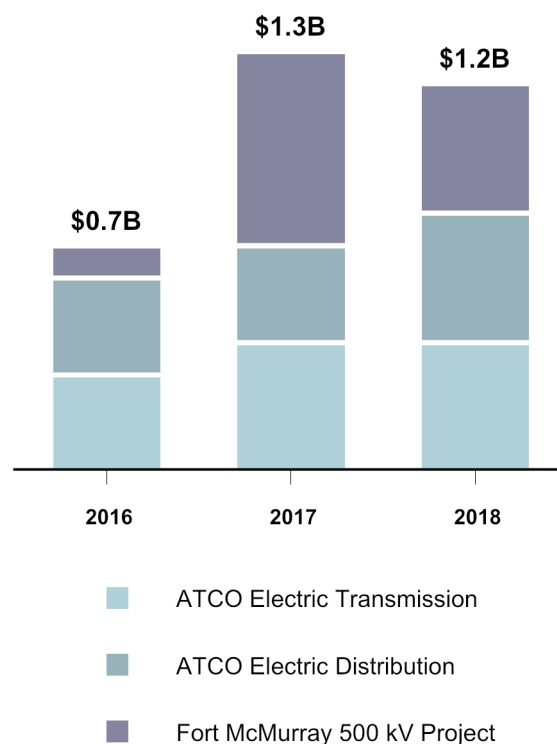
During the period 2016 to 2018, ATCO Electric Distribution and ATCO Electric Transmission are planning to invest \$2.1 billion to reinforce and expand Alberta's electricity system. In addition to these capital investments in Regulated Electricity, the Company plans to invest \$1.1 billion in the Fort McMurray 500 kV Project in the next three years.

Fort McMurray 500 kV Project

In December 2014, APL, a partnership between ATCO and Quanta Capital, 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.

On December 1, 2015, APL submitted the Facilities Application for the project to the AUC. APL is now focused on preparing for the public hearing that has been scheduled by the AUC for June 2016. If the Facilities Application is approved, construction is expected to commence in 2017 and the project is anticipated to be in service in 2019.

Future Regulated and Contracted Capital Investments



NON-REGULATED ELECTRICITY

Our power generation activities are conducted by ATCO Power and ATCO Power Australia. These businesses supply electricity from natural gas, coal-fired and hydroelectric generating plants in western Canada, Ontario and Australia.

Generating Plant Availability

Generating availability for the fourth quarter and full year of 2015 and 2014 is shown below. Independent Power Plant and ATCO Power Australia availability remained strong in 2015 with minimal planned or unplanned outages. Thermal PPA plant availability decreased in 2015 due to a higher number of planned outages than in 2014.

	Three Months Ended December 31			Twelve Months Ended December 31		
	2015	2014	Change	2015	2014	Change
Independent Power Plants ⁽¹⁾	96%	94%	2%	95%	95%	–
Thermal PPA Plants ^{(1) (2) (3)}	95%	94%	1%	88%	95%	(7%)
ATCO Power Australia ⁽¹⁾	99%	100%	(1%)	98%	98%	–

(1) Generating plant capacity fluctuates with the timing and duration of outages.

(2) The Battle River 5 generating plant commenced a major planned maintenance outage in March of 2015 which was completed in the second quarter of 2015.

(3) The Sheerness 1 generating plant commenced and completed a major planned maintenance outage in the first quarter of 2015.

Independent Power Plants

Adjusted earnings in the fourth quarter and full year of 2015 from Independent Power Plants were \$2 million and \$10 million lower than the same periods in 2014. Lower earnings in the fourth quarter and full year 2015 are primarily due to lower Alberta Power Pool prices and spark spreads. 2015 earnings were also impacted by a \$3 million increase in current and deferred income tax expense in the second quarter of 2015 related to the change in the Alberta corporate income tax rate. Lower earnings in 2015 were partially offset by higher realized gains on financial forward contracts and cost reduction initiatives undertaken in response to the challenging market conditions.

Lower Alberta Power Pool prices and reduced price volatility in 2015 were primarily attributable to an increased supply of electricity in the Alberta market compared to 2014.

Average Alberta Power Pool and natural gas prices and the resulting spark spreads for the quarter and year ended December 31, 2015 and 2014 are shown in the table below.

	Three Months Ended December 31			Twelve Months Ended December 31		
	2015	2014	Change	2015	2014	Change
Average Alberta Power Pool electricity price (\$/MWh)	21.19	30.47	(30%)	33.34	49.42	(33%)
Average natural gas price (\$/GJ)	2.35	3.42	(31%)	2.56	4.24	(40%)
Average spark spread (\$/MWh)	3.56	4.82	(26%)	14.14	17.62	(20%)

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 2015 adjusted earnings from the Thermal PPAs were \$1 million higher than the same period of 2014 primarily as a result of higher capacity revenue due to indices changes in the PPA. Earnings for the full year of 2015 were comparable to 2014.

International Power Generation

Our international power generation activities are conducted by ATCO Power Australia. This businesses supplies electricity from two natural gas-fired generation plants in Adelaide, South Australia, and Karratha, Western Australia. Additionally, the Bulwer Island plant in Brisbane formerly provided co-generation 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.

Adjusted earnings for ATCO Power Australia were comparable in the fourth quarter and \$1 million lower in year ended December 31, 2015. Lower earnings in 2015 reflect forgone earnings from the closure of the Bulwer Island Plant.

Major Non-Regulated Electricity Project Updates

Distributed Generation

The following distributed generation projects align 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.

ATCO Power has been providing an innovative temporary power generation service to Apache Canada Ltd. at its House Mountain facility west of Swan Hills since March of 2015, generating power from excess natural gas. In the third quarter of 2015, ATCO Power and Apache entered into a 10-year contract at House Mountain to continue to provide power generation service using excess natural gas. ATCO Power will be the sole owner and operator of the \$13 million, 6 MW power generation facility, which will replace the temporary generation units. This facility has an expected in-service date of May 2016.

ATCO Power purchased a further six 1.5 MW natural gas fired portable units in 2015. A site is being developed to house these additional units when they are not leased to customers. The generation units and site development represent a \$18 million investment that is expected to begin generating revenue in late 2016.

Mexico Tula Cogeneration

In October 2014, the Company and its 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.

In 2015, ATCO continued to work with its Mexican partner, Grupo Hermes, to further the development of the plant. Initial estimates value the capital investment of the proposed project at \$820 million U.S., of which the Company will be responsible for approximately half. A final investment decision is expected in 2016, with a commercial operation date in 2019.

Strathcona Cogeneration Plant

ATCO Power has been selected by Williams Energy Canada to build and operate a natural gas-fired cogeneration plant to meet the high pressure steam and electricity needs of Williams Energy Canada's proposed propane dehydrogenation facility to be located in the Alberta Industrial Heartland region. ATCO's proposed 90 MW cogeneration plant is contingent on Williams Energy Canada's Final Investment Decision for the facility.

Pipelines & Liquids

Pipelines & Liquids activities are conducted through three regulated businesses, ATCO Gas, ATCO Pipelines, and ATCO Gas Australia, and one non-regulated business, ATCO Energy Solutions.

REVENUES

Pipelines & Liquids revenues of \$412 million and \$1,525 million in the quarter and year ended December 31, 2015 were lower than the prior year.

Lower revenues are primarily attributable to lower flow-through gas sales in ATCO Energy Solutions, partially offset by growth in rate base in ATCO Gas, ATCO Pipelines, and ATCO Gas Australia.

ADJUSTED EARNINGS

Adjusted earnings for ATCO Gas, ATCO Pipelines, ATCO Gas Australia, and ATCO Energy Solutions are shown in the table below.

	Three Months Ended December 31			Twelve Months Ended December 31		
(\$ millions)	2015	2014	Change	2015	2014	Change
Regulated Pipelines & Liquids						
ATCO Gas	27	29	(2)	56	52	4
ATCO Pipelines	6	5	1	22	21	1
ATCO Gas Australia	4	5	(1)	15	19	(4)
Total Regulated Pipelines & Liquids	37	39	(2)	93	92	1
Non-regulated Pipelines & Liquids						
ATCO Energy Solutions	8	8	–	8	14	(6)
Total Pipelines & Liquids	45	47	(2)	101	106	(5)

In the quarter and year ended December 31, 2015, adjusted earnings generated by Pipelines & Liquids of \$45 million and \$101 million were \$2 million and \$5 million lower than the same periods of 2014.

Pipelines & Liquids recorded lower adjusted earnings primarily due to lower frac spreads in ATCO Energy Solutions and prior period adjustments associated with several regulatory decisions in ATCO Gas, ATCO Pipelines, and ATCO Gas Australia, partially offset by growth in rate base within Regulated Pipelines & Liquids and the sale of excess gas in ATCO Energy Solutions' storage operations.

To facilitate comparison, adjusted earnings for 2015 and 2014, for ATCO Gas, ATCO Pipelines, and ATCO Gas Australia have been normalized in the table below for prior period impacts of the following regulatory decisions:

- The Generic Cost of Capital (GCOC) decision received in the first quarter of 2015 reduced earnings by \$4 million. 2015 full year normalized earnings have been increased by \$3 million for the 2013 and 2014 impact. 2014 normalized earnings have been reduced by \$1 million in the fourth quarter and \$2 million for the year.
- The Capital Tracker decision received in the first quarter of 2015 reduced earnings by \$2 million. 2015 full year normalized earnings have been increased by \$2 million for the 2013 and 2014 impact. 2014 normalized earnings have been reduced by \$1 million.
- The 2010 Evergreen decision received in the second quarter of 2014 reduced earnings by \$9 million. 2014 full year normalized earnings have been increased by \$7 million for the portion relating to 2010 to 2013.
- The 2014 Interim Rates decisions received in the third quarter of 2014 increased earnings by \$6 million. 2014 full year normalized earnings have been reduced by \$3 million for the portion relating to 2013.
- The Access Arrangement decision received in the second quarter of 2015 reduced earnings by \$10 million. 2015 full year normalized earnings have been increased by \$6 million for the 2014 impact. 2014 normalized earnings have been reduced by \$2 million in the fourth quarter and \$6 million for the year.

Normalized Pipelines & Liquids Adjusted Earnings

	Three Months Ended December 31			Twelve Months Ended December 31		
(\$ millions)	2015	2014	Change	2015	2014	Change
Regulated Pipelines & Liquids						
ATCO Gas	27	29	(2)	59	54	5
ATCO Pipelines	6	4	2	24	20	4
ATCO Gas Australia	4	3	1	21	13	8
Total Regulated Pipelines & Liquids	37	36	1	104	87	17
Non-regulated Pipelines & Liquids						
ATCO Energy Solutions	8	8	—	8	14	(6)
Total Pipelines & Liquids	45	44	1	112	101	11

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.

Adjusted earnings in ATCO Gas, excluding the prior period impacts of the GCOC, Capital Tracker, 2010 Evergreen and 2014 Interim Rates decisions, were lower in the fourth quarter of 2015 primarily due to the timing of higher operations and maintenance costs partially offset by growth in rate base. Adjusted earnings for the year ended December 31, 2015 were \$5 million higher than 2014 primarily due to growth in both rate base and customers.

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.

Adjusted earnings in ATCO Pipelines, excluding the prior period impacts of the GCOC and 2010 Evergreen decisions, were \$2 million higher in the fourth quarter of 2015 and \$4 million higher in 2015, when compared to the same periods in 2014. Increased earnings resulted from growth in rate base.

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.

Adjusted earnings for ATCO Gas Australia, excluding the prior period impact of the Access Arrangement decision, were \$1 million higher in the fourth quarter of 2015 and \$8 million higher in 2015. Increased earnings were mainly due to interest savings related to the Company's refinancing of its long-term debt at favourable rates, continued growth in rate base, and savings due to cost reduction initiatives.

Major Regulated Pipelines & Liquids Project Updates

During the period 2016 to 2018, ATCO Gas, ATCO Pipelines and ATCO Gas Australia are planning to invest \$2 billion to modernize Alberta and Australia's natural gas transmission and distribution networks and add the capacity needed to meet the growing demand for natural gas.

International Natural Gas Transmission - Mexico Tula Pipeline

In October 2014, ATCO was named the successful bidder by the Comisión Federal De Electricidad (CFE) to design, build and operate a natural gas pipeline near the town of Tula in the state of Hidalgo, Mexico. In respect of that award, ATCO signed a 25-year Transportation Services Agreement with the CFE to provide the natural gas transportation services requested in the tender. ATCO is responsible for the design and construction of the 16 km pipeline that will transport natural gas to fuel the existing Francisco Pérez Rios power plant near Tula. ATCO has completed applications for all required permits.

Urban Pipeline Replacement (UPR)

The capital investment to complete construction of ATCO Pipelines' AUC approved UPR project recommenced in 2015. Construction will last approximately five years and the total cost of the UPR project is estimated to be \$850 million, which includes the cost to integrate the new high-pressure network with ATCO Gas' low-pressure distribution system. The project 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 Program

2015 capital investment in ATCO Gas was driven by the Mains Replacement Program. ATCO Gas continuously replaces natural gas distribution facilities across the province to ensure and maintain a high level of safety, service and reliability of our natural gas distribution system.

ATCO Gas has 9,000 kms of steel pipe which it continues to replace as it identifies pipe at the end of its useful life. The pipe that is being replaced is generally more than 60 years old and a portion of this pipe is replaced every year. ATCO Gas will see an increase in this required replacement activity as the steel mains age. In 2015, ATCO Gas replaced approximately 40 kms of line compared to 23 kms in 2014.

The Plastic Mains Replacement program at ATCO Gas is a 20-year program aimed at replacing polyvinyl chloride (PVC) and early generation polyethylene (PE) pipe. The pipe has been identified for replacement due to risks associated with brittle cracking. Overall, approximately 8,000 kms of main gas line, impacting roughly 27,500 services, will be replaced. The program began in 2011 with a target completion date of no later than 2030. Through the first five years of the program, approximately 1,280 kms of main line, impacting 6,400 services, have been replaced.

NON-REGULATED PIPELINES & LIQUIDS

Storage & Industrial Water

Our industrial water services, non-regulated natural gas storage, processing and transmission and electricity transmission are conducted by ATCO Energy Solutions. ATCO Energy Solutions' sold certain non-core natural gas gathering and processing assets in 2015 and in the first quarter of 2016. The assets that have been sold had an impact on fourth quarter 2015 results. ATCO Energy Solutions business focus will be on expanding the natural gas and hydrocarbon storage along with the water infrastructure businesses in 2016.

Adjusted earnings in the fourth quarter of 2015 were comparable to the same period of 2014. Adjusted earnings in 2015 were lower than in 2014 primarily as a result of the continued weak NGL prices and exceptionally low frac spreads and storage fees.

Average industry frac spreads in 2015 were \$4.04/GJ compared to \$9.46/GJ in 2014, excluding transportation costs and location price differentials. These decreases were partially offset by earnings from the sale of excess base gas in 2015. Fourth quarter and full year earnings in 2015 also included contributions from the start-up of two industrial water projects.

Major Non-regulated Project Updates

Industrial Water

In the third quarter of 2015, construction was completed on two industrial water projects in Alberta's Industrial Heartland region. These projects will provide essential water transportation services and other value benefits to customers in the area. The North West Redwater Partnership project and the Air Products project began operating and contributing to earnings in the fourth quarter of 2015.

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 the Air Products' hydrogen facility near Fort Saskatchewan. With the addition of this service, ATCO Energy Solutions continues to grow the Company's suite of water and wastewater services provided to industrial customers throughout Alberta's Industrial Heartland. Customers receiving pre-treated water benefit from substantially improved industrial water quality, in addition to freeing up land at their operations previously dedicated to water treatment.

Hydrocarbon Storage

ATCO Energy Solutions, in partnership with Petrogas Energy Corp., 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 has a 60 per cent partnership interest.

Construction continues with commercial operation for the first two caverns targeted for the third quarter of 2016, and the two remaining caverns are expected to be completed by the third quarter of 2017.

Capital Redeployment

ATCO Energy Solutions sold the Fort Saskatchewan Ethane Extraction Plant, the Villeneuve Ethane Extraction Plant, the Golden Spike Gas Plant and associated interconnecting pipeline network in the fourth quarter of 2015. The proceeds from this sale were \$7 million which resulted in a gain of \$2 million. In the first quarter of 2016, ATCO Energy Solutions sold its 51.3 per cent ownership in the Edmonton Ethane Extraction Plant. The proceeds from the sale of these assets will be deployed for continued capital growth in industrial water infrastructure and hydrocarbon storage in Alberta's Industrial Heartland region.

Corporate & Other

The Corporate & Other segment includes the commercial real estate owned by the Company in Alberta, business development activities associated with ATCO Energy and the Company's expansion into Mexico and also included ATCO I-Tek until August 2014. ATCO I-Tek was sold by the Company in August 2014 to Wipro Ltd., a global information technology, consulting and business process services company.

Corporate & Other adjusted earnings in the three months ended December 31, 2015 were lower than the same period in 2014 by \$5 million. Corporate & Other adjusted earnings in the year ended December 31, 2015 were lower than in 2014 by \$18 million mainly due to forgone earnings as a result of the sale of ATCO I-Tek in the third quarter of 2014.

ATCO ENERGY BUSINESS DEVELOPMENT

As part of ATCO's continued growth strategy, ATCO Energy was launched in January 2016 to provide retail and commercial electricity and natural gas service in Alberta.

ATCO Energy has two lines of business, ATCO Home and ATCO Business. ATCO Home provides electricity and natural gas retail services to all customer segments in the market. ATCO Business has a commercial and industrial portfolio of more than 100 electricity or natural gas customer contracts with terms ranging from one to five years.

REGULATORY DEVELOPMENTS

Generic Cost of Capital (GCOC)

In March 2015, the Company received the AUC 2013 GCOC decision. The decision established the ROE and deemed common equity ratios for the Alberta Utilities for 2013 to 2015. The ROE was set at 8.30 per cent for each of 2013, 2014 and 2015, which is a reduction from the 8.75 per cent previously approved. The GCOC decision also reduced the deemed common equity ratios by one per cent from what was previously approved. These rates will remain in place on an interim basis for 2016 until such time as the AUC issues a decision on final rates as part of the 2016 GCOC proceeding. The following table compares the ROE and deemed common equity ratios resulting from the 2011 and 2013 GCOC decisions. For ATCO Electric Distribution and ATCO Gas, the 2013 GCOC decision only applies to the K Factor mechanism and does not apply to the base PBR formula.

		Rate of Return on Common Equity (%) ⁽¹⁾	Common Equity Ratio (%) ⁽²⁾
ATCO Electric Distribution	2013 Decision	8.30 ⁽³⁾	38.0 ⁽³⁾
	2011 Decision	8.75 ⁽⁴⁾	39.0 ⁽⁴⁾
ATCO Electric Transmission	2013 Decision	8.30 ⁽³⁾	36.0 ⁽³⁾
	2011 Decision	8.75 ⁽⁴⁾	37.0 ⁽⁴⁾
ATCO Gas	2013 Decision	8.30 ⁽³⁾	38.0 ⁽³⁾
	2011 Decision	8.75 ⁽⁴⁾	39.0 ⁽⁴⁾
ATCO Pipelines	2013 Decision	8.30 ⁽³⁾	37.0 ⁽³⁾
	2011 Decision	8.75 ⁽⁴⁾	38.0 ⁽⁴⁾

(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 final Generic Cost of Capital decision for the periods 2013 to 2015 on March 23, 2015.

(4) The rate of return on common equity and common equity ratio was an interim rate based on the AUC Generic Cost of Capital decision of December 8, 2011.

Information Technology Common Matters

The AUC has initiated a proceeding to review the costs associated with the Master Services Agreements for information technology services with Wipro Ltd., which commenced effective January 1, 2015. On August 1, 2015, the AUC ruled that the utilities operating under Performance Based regulation (ATCO Gas and ATCO Electric Distribution) will not be part of this proceeding.

Pension Decision

In September 2015, the Supreme Court of Canada dismissed the Alberta Utilities' appeal related to the 2011 Pension Decision, finding that the AUC's decision to limit the recovery of the Cost of Living Adjustment (COLA) to 50 per cent of the Consumer Price Index with a cap at three per cent was reasonable. There was no impact on the Alberta Utilities' financial results from the Supreme Court of Canada appeal dismissal as the Company's adjusted earnings have reflected the AUC's original decision since it was rendered in September 2011.

2013 Utility Asset Disposition and 2011 Generic Cost of Capital Appeals

In September 2015, the Alberta Court of Appeal dismissed the appeals of the Alberta Utilities related to the 2013 Utility Asset Disposition Decision and the 2011 Generic Cost of Capital Decision. These decisions confirm that utilities are responsible for the cost of assets that are retired due to extraordinary events. There is no current impact on the Alberta Utilities' financial results from this decision.

PBR Capital Tracker (K Factor) Applications

The K Factor is a mechanism included in the PBR regulatory model to allow the Company to recover capital investments that meet certain criteria and are not recoverable through the base PBR formula. Decisions for the 2013, 2014 and 2015 Capital Tracker applications were received in the first quarter of 2015. These decisions included approval of incremental funding for substantially all of the Company's applied for Capital Tracker programs. However, due to the AUC requiring the actual cost of debt in the rate determinations, which was lower than the forecast cost of debt that was previously being used, there was a one-time adjustment to first quarter 2015 earnings for amounts previously recognized for 2013 and 2014.

ATCO Electric Distribution and ATCO Gas 2014 True-Up and 2016/2017 Capital Tracker Applications

ATCO Electric Distribution and ATCO Gas filed their 2014 True-up and 2016 and 2017 Capital Tracker applications in the second and third quarters of 2015, respectively. Decisions from the AUC on these applications are expected in the first quarter of 2016.

ATCO Electric Transmission 2015 to 2017 General Tariff Application

In March 2015, ATCO Electric Transmission filed a General Tariff application for its operations for 2015, 2016 and 2017. The application requests, among other things, additional revenues to recover higher depreciation, operating costs and financing associated with increased rate base in Alberta. ATCO Electric Transmission updated its 2015 to 2017 General Tariff Application in December 2015 modifying its application requests with updated forecast costs as compared to prospective costs originally filed in the 2015 to 2017 General Tariff Application. A decision is expected from the AUC in the third quarter of 2016.

ATCO Australia Access Arrangement Decision

In July 2015, the 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 decision resulted in a reduced ROE from 10.41 per cent to 7.28 per cent.

ATCO Gas Australia lodged an Appeal Application with the Australian Competition Tribunal (ACT) on October 1, 2015. On December 1, 2015, the ACT granted leave for ATCO Gas Australia to proceed with its merits review. A review hearing is set to occur during the first quarter of 2016, and a final decision is expected in the second quarter of 2016.

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.

Alberta's Climate Leadership Plan

In November 2015, the provincial government announced Alberta's Climate Leadership Plan, a framework which includes the phasing out of coal-fired electricity, the accelerated phasing in of renewable energy, an economy-wide tax on carbon emissions starting in 2017, and the reduction of methane emissions. The plan aims to take action on climate change by reducing greenhouse gas (GHG) emissions and positions Alberta as an environmental leader on the world stage. The Federal Government is also reviewing Canada's climate change plan and is expected to engage the provinces in a Canada-wide strategy starting in 2016.

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.

Coal Phase-out

Under the Climate Leadership Plan, GHG emissions from coal-fired plants will be eliminated by 2030 either by using technology to meet emissions standards or by shutting down coal plants and replacing them with natural gas-fired electricity and renewable energy.

Compensation for the early phase out of any coal units will be the subject of discussions with the Government of Alberta starting in the first quarter of 2016. The Department of Energy will lead this work and ATCO will be actively engaged in this process to determine fair compensation and the timeline for the phase out of the coal plants. Completion of these discussions are expected by the end of 2016.

Acceleration of Renewable Generation

Alberta's Climate Leadership Plan has set a target of up to 30 per cent of Alberta's electricity production to be comprised of renewable energy by 2030.

ATCO Power currently operates seven highly efficient and environmentally friendly natural gas-fired cogeneration plants and one hydro-electric plant. Additionally, ATCO Power operates one combined-cycle plant with higher efficiency levels than traditional thermal power generation plants, and three open-cycle plants which can be brought on-line when generation or transmission system problems threaten supply.

ATCO has also been exploring a number of renewable technologies that will allow the Company to be at the forefront of change which will aid the province in meeting its climate targets. ATCO is well-positioned to provide many of the solutions the province will need in the years and decades ahead.

Carbon Pricing Replacing Specified Gas Emitters Regulations

The Alberta government will phase in carbon pricing across all sectors in two steps. Economy-wide carbon pricing of \$20/tonne will be implemented in 2017, followed by \$30/tonne carbon pricing in 2018. The provincial government will continue to manage GHG emissions for large emitters through the existing Specified Gas Emitters Regulations (SGER) until it is replaced in 2018 by the new carbon pricing and emissions performance standard. A revised SGER regulation was announced in June 2015. Previously, the SGER was set at a \$15/tonne charge on GHG emissions from large emitters applied to a 12 per cent emission reduction. In January 2016, the amount increased to a \$20/tonne charge and a 15 per cent emission reduction for large emitters, followed by a \$30/tonne charge and a 20 per cent reduction in January 2017 for large emitters.

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 for compliance with both federal and 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.

ENMAX Corporation (Enmax) has served a notice to Alberta's Balancing Pool to exercise its rights under the PPA on Battle River unit 5, and announced its intention to terminate the agreement, effective January 1, 2016, thereby returning the PPA to the Balancing Pool. Enmax has stated that low power prices and changes to the SGER made the PPA unprofitable for the company. Enmax will continue to dispatch power from the facility on behalf of the Balancing Pool and the Balancing Pool will make capacity payments to ATCO Power. Should the Balancing Pool decide to end the PPA prior to its expiry on December 31, 2020, the rights to Battle River unit 5 generation would return to ATCO Power and a settlement would be paid by the Balancing Pool.

Impairment charges of \$14 million relating to Battle River units 3 and 4 were recorded by the Company in the fourth quarter of 2015. The Company determined that the net book value of these assets was not recoverable for accounting purposes due to the new SGER and carbon pricing announced in 2015 and due to ongoing soft market conditions in the Alberta power market. Battle River units 3 and 4 will remain commercially available for dispatch.

ATCO Power estimates that charges assessed to its gas-fired generation will be largely recovered through the market with a potential for upsides during periods when higher intensity carbon emissions plants are on the margin.

The Company's earnings exposure is limited for the Alberta Utilities because GHG emission charges are expected to be recovered in rates on a go-forward basis.

Methane Emissions

Alberta will reduce methane emissions from oil and gas operations by 45 per cent by 2025 by applying new emissions design standards to new Alberta facilities, and developing a 5-year voluntary Joint Initiative on Methane Reductions and Verification.

Future 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 combined account for less than four per cent of ATCO's direct GHG 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.

Air Pollutants

In addition to the GHG regulations, federal and provincial environmental regulations are being developed and/or revised for other air pollutants. These pollutants include sulfur dioxide, nitrogen oxides, volatile organic carbons, and particulate matter.

The Clean Air Strategic Alliance (CASA) is a multi-stakeholder group of representatives from industry, government and non-government organizations. This group creates strategies to assess and improve air quality for Albertans and influences air emission regulations. CASA developed a framework to manage air emissions from the electricity sector in Alberta, and completed a five-year review in 2015. A number of recommendations were forwarded to the provincial government for consideration, and are currently going through a review process.

The CASA framework also established base line emissions standards, which allow existing units to create credits for future use. ATCO Power is currently operating below base line on some of its units. Battle River unit 3 began compliance with the regulation at the beginning of 2014 and Battle River unit 4 must comply from the beginning of 2016. ATCO Power has purchased emission credits allowing Battle River units 3 and 4 to operate till 2019 without the need to invest in emission compliance abatement upgrades. The emissions credit inventory and the need to invest in air quality control equipment will be systematically reassessed against the evolving regulatory framework and electricity market conditions.

Environmental Controls and Efficiency

ATCO continues to make operational improvements and investments in the Company's existing facilities to lessen their environmental impact. The Company's environmental commitments include:

- Programs to improve the efficiency of compressors and heaters, lowering fuel gas and electrical consumption and reducing environmental impact at ATCO Energy Solutions and ATCO Pipelines.
- Several new energy efficient operating centres at ATCO Gas, ATCO Electric and ATCO Australia. These buildings use a variety of environmentally friendly technologies such as geothermal as well as heating, ventilation and cooling technology.
- ATCO Gas Drake Landing Solar Community, which is Canada's largest subdivision of energy-efficient and environmentally-responsible homes, and the continent's first major implementation of seasonal solar thermal energy storage. The community's innovative design allows solar energy absorbed in the summer months to be stored underground and returned to the homes as heat in the winter.

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the three months and years ended December 31, 2015 and 2014 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.

(\$ millions)	Three Months Ended December 31			Twelve Months Ended December 31		
	2015	2014	Change	2015	2014	Change
Operating costs	737	728	9	2,584	2,845	(261)
Gain on sales of operations and revaluation of joint venture	49	–	49	49	160	(111)
(Loss) earnings from investment in joint ventures	(3)	7	(10)	3	18	(15)
Depreciation, amortization and impairment	328	155	173	756	561	195
Net finance costs	79	75	4	289	298	(9)
Income taxes	(2)	52	(54)	198	237	(39)

OPERATING COSTS

Operating costs, which are total costs and expenses less depreciation, amortization and impairment, increased by \$9 million in the fourth quarter of 2015 compared to the same period in 2014, primarily due to severance costs associated with the Company's restructuring, offset against lower expenses resulting from reduced activity levels in some business segments. Operating costs decreased by \$261 million in 2015 compared to 2014. Lower expenses resulted from reduced activity levels in some business segments, as well as the Company's cost reduction initiatives in response to challenging market conditions, partially offset by severance costs associated with the Company's restructuring.

GAIN ON SALES OF OPERATIONS AND REVALUATION OF JOINT VENTURE

In the fourth quarter of 2015, the Company recognized gains on 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 Power investment. In the third quarter of 2014, Canadian Utilities Limited sold its 100 per cent ownership interest in ATCO I-Tek's information technology services as well as the assets of ATCO I-Tek Australia.

(LOSS) EARNINGS FROM INVESTMENT IN JOINT VENTURES

Earnings from investment in joint ventures were lower in the three months and year ended December 31, 2015 when compared to the same periods in 2014. The decrease for the fourth quarter is primarily due to higher costs associated with the Company's acquisition of an increased ownership position in Barking Power Ltd. Structures & Logistics also recorded an impairment of \$6 million in the second quarter of 2015 as a result of challenging market conditions in its joint venture open lodge business.

DEPRECIATION, AMORTIZATION AND IMPAIRMENT

Increased depreciation, amortization and impairment expense was mainly due to impairment charges recorded relating to Structures & Logistics' open lodge assets and workforce housing assets, the Mexico Tula Pipeline, the Battle River units 3 and 4 power generation assets as well as certain gas gathering and processing facilities. The Company also booked higher depreciation and amortization expense in 2015 associated with a higher asset base due to the ongoing significant capital investment program in the Regulated Utilities.

NET FINANCE COSTS

Net finance costs increased in the fourth quarter of 2015 compared to the same period in 2014, primarily due higher interest expense for incremental debt raised in 2014 and 2015 to fund the Alberta Utilities' significant capital investment program. Net finance costs decreased in the year ended December 31, 2015 compared to the same period in the prior year, primarily due to higher interest capitalized during construction, partially offset by higher interest expense for incremental debt raised in 2014 and 2015 to fund the Alberta Utilities' significant capital investment program.

INCOME TAXES

Income taxes decreased in the fourth quarter and year ended December 31, 2015 when compared to the same periods of 2014. The decrease is primarily due to lower earnings before income taxes, partially offset by higher taxes as a result of an increase in Alberta's corporate income tax rate from 10 per cent to 12 per cent effective July 1, 2015.

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 August 2015, DBRS Limited (DBRS) re-affirmed its rating of the Company as "A" (low) with a stable trend. In July 2015, Standard and Poor's Rating Services (S&P) re-affirmed its rating of the Company "A" and revised its outlook to negative.

In October 2015, S&P re-affirmed its rating of ATCO Gas Australia's debt as "A-" with a negative outlook.

LINES OF CREDIT

At December 31, 2015, the Company and its subsidiaries had the following lines of credit:

(\$ millions)	Total	Used	Available
Long-term committed	3,034	563	2,471
Uncommitted	323	124	199
Total	3,357	687	2,670

Of the \$3,357 million in total credit lines, \$323 million was in the form of uncommitted credit facilities with no set maturity date. The other \$3,034 million in credit lines were committed, with \$681 million maturing in late 2017. The remaining lines of credit mature between 2018 and 2019 and may be extended at the option of the lenders.

The majority of the \$687 million credit line 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.

CONSOLIDATED CASH FLOW

At December 31, 2015, the Company's cash position was \$799 million, an increase of \$170 million compared to 2014. Major movements are outlined in the following table:

(\$ millions)	Three Months Ended December 31			Twelve Months Ended December 31		
	2015	2014	Change	2015	2014	Change
Proceeds from funds generated by operations	354	486	(132)	1,589	1,786	(197)
Cash used for capital investments	(641)	(661)	20	(1,919)	(2,391)	472
Proceeds on sales of operations	57	—	57	57	204	(147)
Proceeds from issuance of long-term debt, net of repayments	250	100	150	650	1,100	(450)
Issue of equity preferred shares by subsidiary company	—	—	—	375	—	375
Redemption of equity preferred shares by subsidiary company	—	—	—	—	(160)	160
Dividends paid to Class I and Class II Share owners	(28)	(25)	(3)	(114)	(99)	(15)
Other	(64)	(251)	187	(468)	(601)	133
(Decrease) increase in cash	(72)	(351)	279	170	(161)	331

Funds generated by operations

Funds generated by operations for the fourth quarter and year ended December 31, 2015 were \$132 million and \$197 million lower than the same periods in 2014. These decreases were mainly as a result of lower earnings attributable to Class I and Class II Shares, partially offset by increased contributions received from customers for Regulated Utility capital expenditures and lower income taxes paid.

Cash used for capital investments

Cash used for capital investments was \$641 million in the fourth quarter and \$1,919 million for the full year of 2015, compared to \$661 million and \$2,391 million in the same periods of 2014. The decreases were primarily due to previously disclosed and planned lower capital spending in ATCO Electric Transmission.

Capital investment for the three months and years ended December 31, 2015 and 2014 are shown in the following table:

	Three Months Ended December 31			Twelve Months Ended December 31		
(\$ millions)	2015	2014	Change	2015	2014	Change
Electricity						
ATCO Electric Distribution	100	107	(7)	355	369	(14)
ATCO Electric Transmission	141	273	(132)	471	1,233	(762)
Alberta PowerLine	9	–	9	24	–	24
ATCO Power	23	9	14	85	20	65
Total Electricity	273	389	(116)	935	1,622	(687)
Pipelines & Liquids						
ATCO Gas	100	79	21	331	292	39
ATCO Pipelines	127	64	63	257	185	72
ATCO Gas Australia	23	20	3	80	79	1
Non-Regulated Capital Investment ⁽¹⁾⁽³⁾	82	50	32	207	82	125
Total Pipelines & Liquids	332	213	119	875	638	237
Structures & Logistics	15	34	(19)	61	91	(30)
Corporate & Other	21	25	(4)	48	40	8
Total ⁽¹⁾⁽²⁾	641	661	(20)	1,919	2,391	(472)

(1) Includes capital expenditures in joint ventures, \$19 million and \$51 million (2014 - \$11 million and \$18 million) for the quarter and year ended December 31, 2015.

(2) Includes additions to property, plant and equipment, intangibles as well as \$20 million and \$97 million (2014 - \$21 million and \$76 million) of interest capitalized during construction for the quarter and year ended December 31, 2015.

(3) Non-Regulated Capital Investment includes ATCO Pipelines Mexico and ATCO Energy Solutions.

Debt issuances and repayments

In order to fund significant capital investments, to repay existing indebtedness, and for other general corporate purposes of the Alberta Utilities, CU Inc. issued a total of \$650 million of long-term debt in 2015. Of this amount, CU Inc. issued \$400 million of 3.964 per cent 30-year debentures and \$250 million of 4.211 per cent 40-year debentures.

Preferred share issuances

On August 7, 2015, Canadian Utilities issued \$125 million of 5.25 per cent Cumulative Redeemable Second Preferred Shares Series EE under its base shelf prospectus. On September 24, 2015, Canadian Utilities issued \$250 million of 4.50 per cent Cumulative Redeemable Second Preferred Shares Series FF under its base shelf prospectus. The proceeds of both issuances were used for capital expenditures, to repay indebtedness, and for other general corporate purposes.

Base Shelf Prospectuses

CU Inc. Debentures

On July 24, 2014, CU Inc. filed a base shelf prospectus that permits it to issue up to an aggregate of \$2.6 billion of debentures over the 25-month life of the prospectus. As of February 23, 2016, aggregate issuances of debentures were \$1.9 billion.

Canadian Utilities Debt Securities and Preferred Shares

On December 4, 2013, 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. The prospectus expired on January 4, 2016, with aggregate issuance of preferred shares totaling \$375 million.

Dividends and Common Shares

ATCO Ltd. has increased its common share dividend each year since 1993. In each of the last five 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, 2015 totaled \$28 million and \$114 million, respectively. On January 7, 2016, the Board of Directors declared a first quarter dividend of 28.50 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 fifth
consecutive year**

Normal Course Issuer Bid

The Corporation 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 3, 2014, ATCO Ltd. began a normal course issuer bid to purchase up to 2,029,496 outstanding Class I Non-Voting Shares. The bid expired on February 27, 2015. From March 3, 2014 to February 27, 2015, 130,000 shares were purchased.

On March 2, 2015, ATCO Ltd. began a new normal course issuer bid to purchase up to 2,030,168 outstanding Class I Non-Voting Shares. The bid will expire on February 29, 2016. From March 2, 2015 to February 23, 2016, 275,800 shares were purchased.

Canadian Utilities Dividend Reinvestment Plan

In the fourth quarter of 2015, Canadian Utilities issued 778,704 Class A non-voting shares under its DRIP in lieu of cash dividend payments of \$25 million. ATCO Ltd. elected to receive 415,177 Class A non-voting shares in lieu of cash dividends of \$13 million.

During the year ended December 31, 2015, Canadian Utilities issued 2,792,302 (2014 - 2,699,207) Class A non-voting shares under its DRIP in lieu of cash dividend payments of \$99 million (2014 - \$104 million). ATCO Ltd. elected to receive 1,479,752 Class A non-voting shares in lieu of cash dividends of \$52 million (2014 - \$65 million).

SHARE CAPITAL

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

At February 23, 2016, the Company had outstanding 101,462,823 Class I Shares, 13,573,005 Class II Shares, and options to purchase 666,100 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 Ltd.'s stock option plan, 2,815,000 Class I Shares were available for issuance at December 31, 2015. 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, 2014, through December 31, 2015.

(\$ 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
(\$ millions except for per share data)	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Revenues	1,226	1,114	1,038	1,176
Earnings attributable to Class I and Class II Shares	127	66	133	94
Earnings per Class I and Class II Share (\$)	1.11	0.57	1.16	0.82
Diluted earnings per Class I and Class II Share (\$)	1.10	0.57	1.15	0.82
Adjusted earnings				
Structures & Logistics	16	8	17	26
Electricity	55	37	58	45
Pipelines & Liquids	43	3	13	47
Corporate & Other and Intersegment Eliminations	1	9	(3)	(1)
Total adjusted earnings	115	57	85	117

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 power 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.

Adjusted Earnings

Adjusted earnings in the Structures & Logistics Business Unit are reflective of the cyclical nature of large natural resource project activity in 2014 and 2015. Lower manufacturing activity and profit margins in the first half of 2014 resulted in decreased earnings. Increased earnings in the third and fourth quarters of 2014 were related to activity associated with the completion of the BHP Billiton Jansen Potash and initial Wheatstone projects which were completed at the end of the fourth quarter of 2014. 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 are associated with Modular Structures manufacturing activity on the second phase of the Wheatstone project and commencement of work at the Site C Clean Energy Workforce Housing project.

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, Alberta Power Pool pricing and spark spreads. Lower adjusted earnings in the second quarter of 2014 reflected the financial impact of the 2010 Evergreen Decision and lower realized Alberta Power Pool prices. The positive impact of the 2014 Interim Rates Decision on distribution operations in Regulated Electricity is reflected in earnings in the third quarter of 2014. Lower adjusted earnings in the first quarter of 2015 reflect 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.

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. Lower adjusted earnings in the second quarter of 2014 reflected the financial impact of the 2010 Evergreen Decision on ATCO Gas and ATCO Pipelines. Continued lower earnings in the third quarter of 2014 reflect the seasonal demand of ATCO Gas, partially offset by the positive impact of the 2014 Interim Rates Decision. Earnings in the second quarter of 2015 reflect lower seasonal demand in ATCO Gas, 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.

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 one-time gains and losses, significant impairments, restructuring charges and other items not in the normal course of business or a results of day-to-day operations are excluded from adjusted earnings and are highlighted below:

- 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 Power 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;
- in the second quarter of 2015, the Company made an adjustment of \$37 million to current and deferred income taxes associated with Government of Alberta 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;
- in the fourth quarter of 2014, the Company recognized an impairment of certain gas gathering, processing and liquids extraction facilities of \$7 million and a \$2 million impairment related to its joint venture power generation assets in the U.K;
- in the third quarter of 2014, ATCO recognized a gain on sale of ATCO I-Tek of \$74 million, and
- in the second quarter of 2014, the Company recognized an impairment for the Bulwer Island power station in Australia of \$6 million.

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. The committee also reviews 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.

Business Risk	Description and Context	Risk Management Approach
Natural Resource Sector Cyclical Risk	Demand for ATCO 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 invest in large-scale products and use the services the Company offers. 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 significantly 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 exist 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.
Regulated Operations	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.	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.
Performance Based Regulation	ATCO Electric Distribution and ATCO Gas moved to the PBR model on January 1, 2013. Under PBR, utility revenues are formula driven, which raises the uncertainty of cost recovery. The first term of the PBR plan expires at the end of 2017. The Alberta Utilities Commission has initiated a generic proceeding to determine the parameters for the next generation of PBR including the establishment of going-in rates and an update to the productivity factor and the treatment of capital additions.	ATCO Electric Distribution and ATCO Gas are actively participating in the generic proceeding to establish the parameters used for the next generation of PBR while continuing to look for ways to lower operating costs while maintaining service levels.

Business Risk	Description and Context	Risk Management Approach
Pipeline Integrity	ATCO Pipelines, ATCO Gas 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.
Measurement Inaccuracies in Metering Facilities	Measurement inaccuracies can occur from time to time in the Alberta Utilities, ATCO Energy Solutions, and ATCO Gas Australia's metering facilities. There is a risk of disallowance of recovering a measurement adjustment.	The Alberta Utilities' measurement adjustments are settled between parties, based on the requirements of the Electricity and Gas Inspections Act (Canada) and applicable regulations. Measurement adjustments are settled between parties based on the requirements of the provincial regulatory bodies within the jurisdictions in which ATCO Energy Solutions operates and the contract terms. ATCO Gas Australia's Access Arrangement contains a fixed percentage benchmark and fixed cost allowance. ATCO Gas Australia also has a fixed gas commodity price contract for the term of the Access Arrangement period which matches the allowance.
Capital Investment	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 cost increases and project delays 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.
Generation Equipment and Technology Risk	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. For merchant facilities, an outage may result in lost merchant opportunities. Therefore, 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, ATCO Power 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 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	Description and Context	Risk Management Approach
Fuel Supply and Costs for Battle River and Sheerness Generating Plants	Fuel costs for the Battle River and Sheerness generating plants are mostly for coal.	To protect against coal price volatility, ATCO Power has long-term coal supply contracts for both its Battle River and Sheerness Thermal plants with Prairie Mines & Royalties Limited. These contracts are at prices that are either fixed or indexed to inflation. The Battle River coal supply agreement is in place until 2022. The Sheerness coal supply agreement is in place until 2026 or until the coal supply is exhausted, whichever comes earlier. Coal costs are recovered under the terms of the PPA for both Battle River unit 5 and Sheerness.
Energy Commodity Price Risk	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. All such instruments are used only to manage risk and not for trading purposes.
Natural Gas Storage Drainage	The Carbon facility is subject to drainage.	To protect the facility from drainage, ATCO Energy Solutions monitors operating pressures and commissions studies to help protect the facility's integrity. When deemed necessary, ATCO Energy Solutions has undertaken an acreage protection program by acquiring the rights to surrounding properties to minimize or eliminate the effects of drainage.
Environmental Matters	In November 2015, the Alberta provincial government announced its Climate Leadership Plan, a framework which includes the phasing out of coal-fired electricity, the accelerated phasing in of renewable energy, an economy-wide tax on carbon emissions starting in 2017, and the reduction of methane emissions. On October 31, 2014 the Australian Federal Government enacted an emissions reduction plan entitled "Direct Action".	Compensation for the early phase out of any coal units will be the subject of discussions with the Alberta provincial government starting in the first quarter of 2016. ATCO Power estimates that charges assessed to its gas-fired generation will be largely recovered through the market. The Company's earnings exposure is limited for the Alberta Utilities because future GHG emission charges are expected to be recovered in rates on a go-forward basis. The Company's exposure is limited for the Alberta Utilities because future requirements to upgrade equipment in order to further reduce methane emissions are expected to be included in rate base on a go-forward basis. While the mechanics of the "Direct Action" plan in Australia are yet to be finalized, the Company does not expect a significant impact to its earnings.

Business Risk	Description and Context	Risk Management Approach
Interest Rate Risk	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, 2015, the Company had fixed interest rates, either directly or through interest rate swap agreements, on 99 per cent (2014 - 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.
Foreign Currency Exchange Rate Risk	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 2015 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.
Financing Risk	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	Description and Context	Risk Management Approach
Credit Risk	For cash and cash equivalents and accounts receivable, credit risk represents the carrying amount on the consolidated balance sheet. Derivative and lease receivable 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. Approximately 77 per cent of the cash equivalents at December 31, 2015, was invested in Government of Canada treasury bills and certificates of deposit issued by Canadian financial institutions. 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 losses from retailers beyond the retailer security mandated by provincial regulations.
Liquidity Risk	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, 2015, the Company's cash position was \$799 million and there were available committed and uncommitted lines of credit of approximately \$2.7 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)	2016	2017	2018	2019	2020	2021 and thereafter
Financial Liabilities						
Accounts payable and accrued liabilities	847	—	—	—	—	—
Long-term debt:						
Principal	5	158	69	1,168	164	6,420
Interest expense ⁽¹⁾	383	381	373	354	314	6,288
Non-recourse long-term debt:						
Principal	15	15	15	15	14	40
Interest expense ⁽¹⁾	11	7	6	5	4	7
Derivatives ⁽²⁾	4	2	1	1	—	—
	1,265	563	464	1,543	496	12,755
Commitments						
Operating leases ⁽³⁾	26	21	20	11	6	5
Purchase obligations:						
Coal purchase contracts ⁽⁴⁾	63	69	72	74	77	252
Operating and maintenance agreements ⁽⁵⁾	322	316	302	230	64	159
Capital expenditures ⁽⁶⁾	76	—	—	—	—	—
Other ⁽⁷⁾	52	—	—	1	—	1
	539	406	394	316	147	417
Total	1,804	969	858	1,859	643	13,172

(1) Interest payments on floating rate debt that has not been hedged have been estimated using rates in effect at December 31, 2015. Interest payments on debt that has been hedged have been estimated using hedged rates.

(2) Payments on outstanding derivatives have been estimated using rates in effect at December 31, 2015.

(3) Operating leases are comprised primarily of long-term leases for office premises and equipment.

(4) ATCO Power has long-term fixed price contracts to purchase coal for its coal-fired generating plants.

(5) Consists of ATCO Power's long-term service agreements with suppliers to provide operating and maintenance services at certain of their generating plants, ATCO Gas's transmission service from NOVA Gas Transmission Ltd. and the Company's information technology services contractual obligations.

(6) Consists of various contracts to purchase goods and services with respect to capital expenditures.

(7) Other includes \$42 million committed to the Strathcona Storage Limited Partnership

NON-GAAP AND ADDITIONAL GAAP MEASURES

Funds generated by operations is defined as cash flow from operations before changes in non-cash working capital. In management's opinion, funds generated by operations is a significant performance indicator of the Company's ability to generate cash during a period to fund capital expenditures without changes in non-cash working capital. Funds generated by operations does not have any standardized meaning under IFRS and might not be comparable to similar measures presented by other companies.

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 5 to the 2015 Annual Financial Statements.

Capital investment is defined as cash used for capital expenditures. It includes 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.

The following table reconciles adjusted earnings to earnings attributable to Class I and Class II Shares.

(\$ millions)						Three Months Ended December 31
2015						
2014 (Restated)	Structures & Logistics	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Total
Revenues	268	464	412	18	(35)	1,127
	251	457	456	28	(16)	1,176
Adjusted earnings	13	33	45	–	1	92
	26	45	47	5	(6)	117
Restructuring costs	(6)	(13)	(19)	(6)	–	(44)
	–	–	–	–	–	–
Gain on sales of operations and revaluation of joint venture	16	10	2	–	–	28
	–	–	–	–	–	–
Impairments	(42)	(14)	(35)	–	–	(91)
	–	(2)	(7)	–	–	(9)
Rate-regulated activities	–	18	(4)	–	–	14
	–	(5)	(10)	–	1	(14)
Earnings attributable to	(19)	34	(11)	(6)	1	(1)
Class I and Class II Shares	26	38	30	5	(5)	94

(\$ millions)

Twelve Months Ended
December 31

2015						
2014 (Restated)	Structures & Logistics	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Total
Revenues	869	1,771	1,525	54	(88)	4,131
	963	1,804	1,723	244	(180)	4,554
Adjusted earnings	27	171	101	(7)	1	293
	67	195	106	11	(5)	374
Restructuring costs	(7)	(17)	(20)	(6)	–	(50)
	–	–	–	–	–	–
Gain on sales of operations and revaluation of joint venture	16	10	2	–	–	28
	–	–	–	74	–	74
Impairments	(55)	(14)	(35)	–	–	(104)
	–	(8)	(7)	–	–	(15)
Rate-regulated activities	–	(5)	(9)	–	1	(13)
	–	–	(12)	–	(1)	(13)
Earnings attributable to Class I and Class II Shares	(19)	145	39	(13)	2	154
	67	188	86	85	(6)	420

RESTRUCTURING COSTS

In the quarter and year ended December 31, 2015, the Company recorded restructuring costs of \$44 million and \$50 million, respectively, that were included in Earnings Attributable to Class I and Class II Shares. 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 in the third quarter of 2015. These costs were incurred in order to maintain the Company's competitive position while continuing with safe and reliable service for our customers.

GAIN ON SALES OF OPERATIONS AND REVALUATION OF JOINT VENTURE

Structures & Logistics

In December 2015, Structures & Logistics 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 of the sale were \$60 million, of which \$10 million will be received in 2016, subject to a working capital true-up. This sale resulted in a gain of \$16 million. As at 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.

Electricity

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 interest in Barking Power Ltd. 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

As a result of an ongoing review of economic conditions and prospects, the Company sold certain non-core natural gas gathering and processing assets on December 31, 2015 for proceeds of \$7 million cash, resulting in a gain of \$2 million. 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.

Corporate & Other

In 2014, the Company adjusted for the \$74 million gain on sale of its information technology services. The proceeds from the sale were used to finance the Company's growth initiatives, including the significant capital expenditure program in the Alberta Utilities.

IMPAIRMENTS

In 2015, the Company recorded impairment charges of \$55 million relating to ATCO 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.

The Company also recorded impairment charges of \$14 million relating to the Battle River units 3 and 4 power generation assets in the fourth quarter of 2015. The Company determined that the net book value of these assets were not recoverable for accounting purposes due to new SGER 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.

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.

In 2014, the Company recorded an impairment of \$6 million relating to ATCO Power Australia's Bulwer Island power station and a \$2 million impairment related to its joint venture power generation assets in the U.K. The Company also record a \$7 million impairment relating to certain natural gas gathering, processing and liquids extraction assets in Canada.

RATE-REGULATED ACTIVITIES

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. Prior to adopting IFRS, the Company used standards for rate-regulated operations issued by the Financial Accounting Standards Board (FASB) in the United States as a source of generally accepted accounting principles. The Company continues to use these FASB standards to fairly present the operating results of its rate-regulated activities.

Rate-regulated accounting reduces earnings volatility as the Company defers the recognition of revenue when cash is received in advance of future expenditures and it recognizes revenue for recoverable costs incurred in advance of future billings to customers. Under IFRS, the Company records revenues when amounts are billed to customers and recognizes costs when they are incurred. The Company does not recognize their recovery until changes to customer rates are reflected in future customer billings.

Under rate-regulated accounting, the Company recognizes revenues from regulatory decisions that relate to current and prior periods when the decisions are received. Under IFRS, the Company recognizes those revenues when customer rates are changed and customers are billed.

Finally, under rate-regulated accounting, amounts relating to intercompany profits recognized in rate base by a regulator are not eliminated on consolidation. Under IFRS, however, intercompany profits are eliminated on consolidation. The Company then recognizes those profits in earnings when amounts are billed to customers over the life of the asset.

Timing adjustments made in rate-regulated accounting are shown in the following table.

(\$ millions)	Three Months Ended December 31			Twelve Months Ended December 31		
	2015	2014	Change	2015	2014	Change
Additional revenues billed in current period ⁽¹⁾	9	3	6	54	46	8
Revenues to be billed in future period ⁽²⁾	(4)	(14)	10	(107)	(62)	(45)
Regulatory decisions related to current and prior periods ⁽³⁾	8	(3)	11	40	5	35
Elimination of intercompany profits related to the construction of property, plant and equipment and intangible assets	1	–	1	–	(2)	2
Total adjustments	14	(14)	28	(13)	(13)	–

Notes:

(1) Additional revenues billed in current period

These adjustments are primarily comprised of future removal and site restoration costs, where customers are billed over the life of the associated assets in advance of future expenditures, and finance costs incurred by ATCO Electric during construction of major transmission capital projects are billed to customers when incurred. Under rate-regulated accounting, the finance costs billed to customers are deferred. The deferred revenues will be recognized in adjusted earnings over the service life of the related assets.

(2) Revenues to be billed in future period

Deferred income taxes are the most significant adjustment items in this category. Deferred income taxes are not recovered from customers until income taxes are paid. Deferred income taxes are a non-cash expense resulting from temporary differences between the book value and the tax value of assets and liabilities. Income taxes are billed to customers when paid by the Company. Under rate-regulated accounting, revenues are recognized in the current period for the deferred income taxes to be billed to customers in future periods. The revenues will reverse when the temporary differences that gave rise to the deferred income taxes reverse in future periods.

(3) Regulatory decisions related to current and prior periods

Refer to the Regulatory Developments section in this MD&A as well as the Segmented Information presented in Note 5 of the 2015 Annual Financial Statements.

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.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting estimates are described in Note 4 of the 2015 Annual Financial Statements, which are prepared in accordance with IFRS. The timely preparation of consolidated financial statements requires management to make judgments, estimates, and assumptions. These judgments may affect the application of policies on the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses.

Key variables used in the calculations, or changes to estimates, could cause actual results to differ from those estimates. The judgments could have a material impact on the Company's financial position or performance. Management uses current economic conditions to develop these assumptions and these assumptions are reviewed on an ongoing basis.

Accounting Changes Not Yet Adopted

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 9 (2014) Financial Instruments - this final standard replaces IAS 39 Financial Instruments: Recognition and Measurement and also replaces previous versions of IFRS 9. The standard incorporates IFRS 9 (2013), providing a further classification category for financial assets, and includes a new impairment model for financial instruments.
The standard is effective on or after January 1, 2018. The Company has not yet determined the impact of the final standard and will not early adopt the standard.
- IFRS 15 Revenue from Contracts with Customers - this standard replaces previous guidance on revenue recognition, providing a framework to determine when to recognize revenue and at what amount. The standard applies to new contracts created on or after January 1, 2017, and to existing contracts not yet completed as of that date. The Company will not early adopt the standard. The Company has not yet determined the impact of the standard and will not early adopt the 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 not yet determined the impact of the final standard and will not early adopt the standard.
The standard is effective on or after January 1, 2019. The Company has not yet determined the impact of the final 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, 2015, the Company's 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, 2015.

Internal Control Over Financial Reporting

As of December 31, 2015, 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, 2015.

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on January 1, 2015, and ended on December 31, 2015, 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 this forward-looking 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, 2015. 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.

Carbon facility means ATCO Energy Solutions' natural gas storage facility located at Carbon, Alberta.

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

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

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

DRIP means the dividend reinvestment plan of Canadian Utilities (refer to the "Canadian Utilities Dividend Reinvestment Plan" section).

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.

Mmcf/day means million cubic feet per day.

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.

Petajoule (PJ) is a unit of energy equal to approximately 948.2 billion British thermal units.

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.

Shrinkage gas means the natural gas which is used to replace, on a heat equivalent basis, the NGL extracted during NGL extraction operations.

Spark spread 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.

Storage price differentials means seasonal differences (summer/winter) in the prices of natural gas.

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, 2015 and 2014, is shown below.

CONSOLIDATED STATEMENT OF EARNINGS

	Three Months Ended December 31	
(\$ millions of Canadian Dollars except per share data)	2015	2014
Revenues	1,127	1,176
Costs and expenses		
Salaries, wages and benefits	(218)	(185)
Energy transmission and transportation	(47)	(42)
Plant and equipment maintenance	(94)	(93)
Fuel costs	(50)	(105)
Purchased power	(21)	(19)
Materials and consumables	(149)	(141)
Depreciation, amortization and impairment	(328)	(155)
Franchise fees	(51)	(54)
Property and other taxes	(19)	(23)
Other	(88)	(66)
	(1,065)	(883)
Gain on sales of operations and revaluation of joint venture	49	–
(Loss) earnings from investment in joint ventures	(3)	7
Operating profit	108	300
Interest income	4	6
Interest expense	(83)	(81)
Net finance costs	(79)	(75)
Earnings before income taxes	29	225
Income taxes	2	(52)
Earnings for the period	31	173
(Loss) earnings attributable to:		
Class I and Class II Shares	(1)	94
Non-controlling interests	32	79
	31	173
(Loss) earnings per Class I and Class II Share	\$ (0.01)	\$ 0.82
Diluted (loss) earnings per Class I and Class II Share	\$ (0.01)	\$ 0.82

CONSOLIDATED STATEMENT OF CASH FLOWS

	Three Months Ended December 31	
(\$ millions of Canadian Dollars)	2015	2014
Operating activities		
Earnings for the period	31	173
Adjustments to reconcile earnings to cash flows from operating activities	323	313
Changes in non-cash working capital	45	(122)
Cash flows from operating activities	399	364
Investing activities		
Additions to property, plant and equipment	(513)	(603)
Proceeds on disposal of property, plant and equipment	–	5
Additions to intangibles	(89)	(26)
Acquisition of Thames Power Limited	(25)	–
Proceeds on sales of operations	57	–
Investment in joint venture	(8)	–
Changes in non-cash working capital	84	45
Other	(17)	(1)
Cash flows used by investing activities	(511)	(580)
Financing activities		
Repayment of short-term debt	–	(60)
Issue of long-term debt	278	228
Repayment of long-term debt	(57)	(128)
Repayment of non-recourse long-term debt	(5)	(8)
Issue of Class A shares by subsidiary company	3	–
(Purchase) issue of Class I Shares	(6)	1
Dividends paid to Class I and Class II Share owners	(28)	(25)
Dividends paid to non-controlling interests in subsidiary company	(44)	(38)
Interest paid	(102)	(103)
Other	1	(2)
Cash flows from financing activities	40	(135)
Decrease in cash position	(72)	(351)
Foreign currency translation	13	(1)
Beginning of period	858	942
End of period	799	590