ATCO LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2017

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

This MD&A was prepared as of February 21, 2018, and should be read with the Company's audited consolidated financial statements for the year ended December 31, 2017 (2017 Consolidated Financial Statements). Additional information, including the Company's Annual Information Form (AIF), is available on SEDAR at www.sedar.com.

The Company is controlled by Sentgraf Enterprises Ltd. and its controlling share owner, the Southern family. The Company includes controlling positions in Canadian Utilities Limited (52.6 per cent ownership) and in ATCO Structures & Logistics Ltd. (100 per cent ownership). Throughout this MD&A, the Company's earnings attributable to Class I and Class II Shares and adjusted earnings are presented after non-controlling interests.

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

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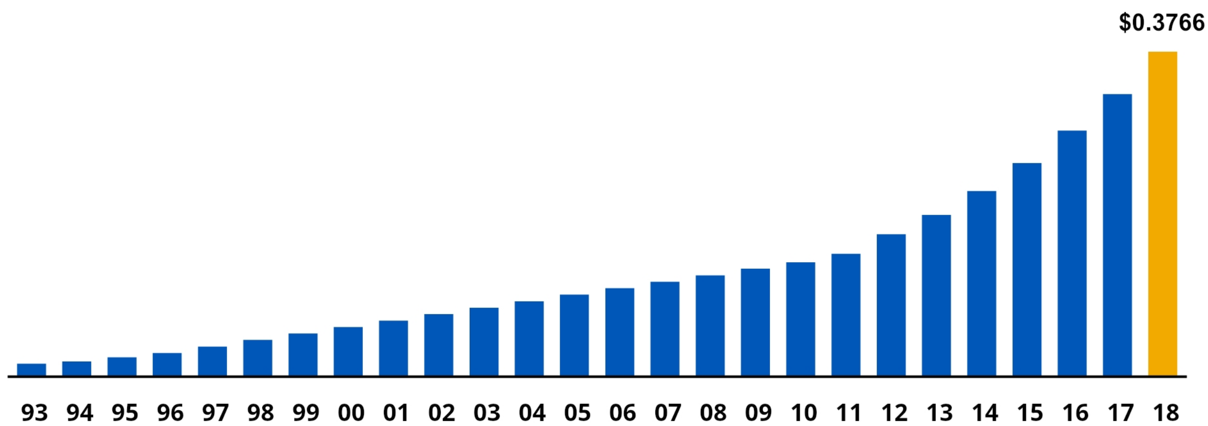
ATCO: WHAT SETS US APART

TRACK RECORD OF DIVIDEND GROWTH

We have increased our common share dividend every year for the past 25 years, a track record we are very proud of. On January 11, 2018, we declared a first quarter dividend of 37.66 cents per share or $1.51 per share on an annualized basis.

Quarterly Dividend Rate 1993 - 2018
(dollars per share)



GROWING A HIGH QUALITY EARNINGS BASE

Over the past five years, we have invested over $9 billion in Regulated Utility and long-term contracted operations. The Regulated Utility portion of our total adjusted earnings has grown from 45 per cent in 2012 to 93 per cent in 2017. Our highly contracted and regulated earnings base provides the foundation for continued dividend growth.

FUTURE CAPITAL INVESTMENT

We will continue to grow our business in the years ahead. In the period 2018 to 2020, we expect to invest $4.4 billion in Regulated Utility and long-term contracted assets, which will continue to strengthen our high quality earnings base. Of the $4.4 billion planned spend, $3.5 billion will be on Regulated Utilities, and $0.9 billion will be on long-term contracted assets.

FINANCIAL STRENGTH

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

25 year
track record of dividend increases

93%
regulated earnings

$4.4B
3 year capital investment

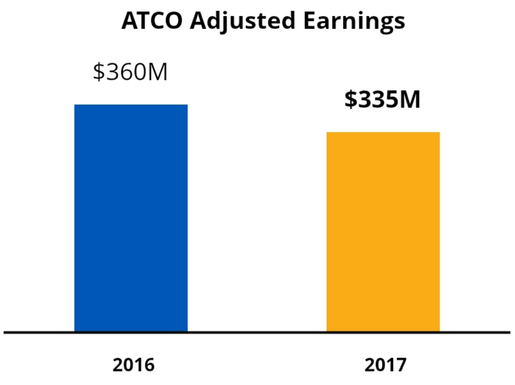
A
range credit rating

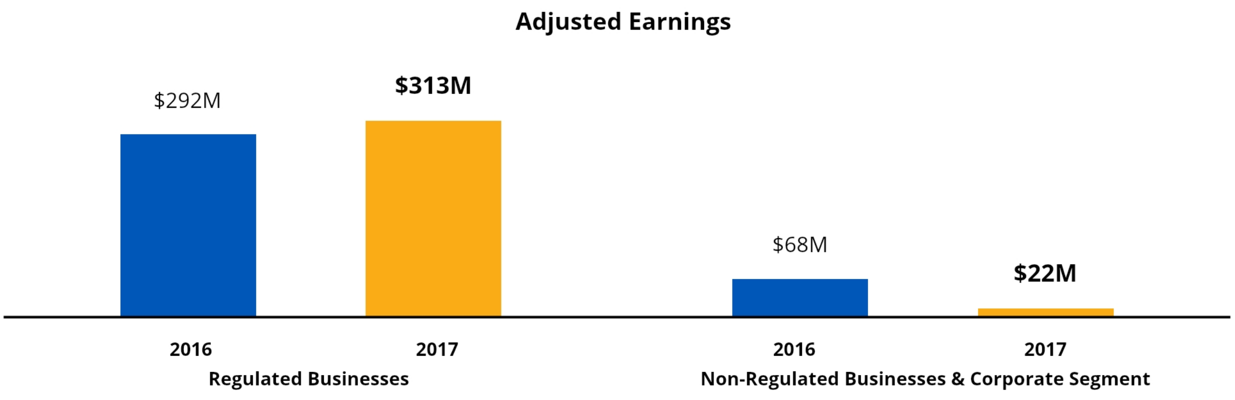
COMPANY OVERVIEW AND OPERATING ENVIRONMENT

ATCO Ltd. is a diversified global enterprise with assets of $22 billion and approximately 7,000 employees engaged in Structures & Logistics, Electricity, Pipelines & Liquids, and Retail Energy. We carefully monitor market opportunities and challenges in each of our Global Business Units to best position the Company for long-term success, while continuing to deliver value to share owners.

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

2017 was another banner year for ATCO's utility businesses with more than 7 per cent earnings growth. Continued investment and rate base growth helped our regulated businesses deliver more energy to more customers than ever before. However, 2017 was not without its macroeconomic challenges. Persistent weak commodity prices impacted financial results in our non-regulated Structures & Logistics and Independent Power Plant businesses. Demand for Structures & Logistics' workforce housing products is directly related to capital spending cycles and levels of development activity in the natural resources sector. A significant reduction in customer capital expenditure programs limited our opportunities for major workforce housing projects, and increased competition put downward pressure on profit margins across all Structures & Logistics' business lines. Our Independent Power Plant business was adversely impacted by lower realized prices. However, with continued investment in regulated and long-term contracted assets, and a renewed sales and customer focus in all of our businesses, ATCO achieved strong adjusted earnings of $335 million in 2017.





STRUCTURES & LOGISTICS

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

BUSINESS STRATEGY

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

MARKET OPPORTUNITIES

Non-traditional modular markets such as public education facilities, high density urban residential housing and correctional facilities offer development opportunities. Our goal is to continue improving space rental utilization and securing additional long-term services contracts with customers outside of the natural resource sectors. Expansion will be focused in select global markets, including Canada, Australia, South America, Mexico and the U.S. We target markets with rule of law, excellent long-term growth potential and strategic fit with our existing asset base.

MARKET CHALLENGES

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

ELECTRICITY

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

BUSINESS STRATEGY

Electricity's strategy is to grow its businesses through: investing in regulated electricity distribution and transmission, and capitalizing on opportunities to provide renewable and firm supply electricity generation. Electricity will continue expanding its businesses geographically in select global markets to meet the evolving needs of our global customer base through the development of innovative infrastructure solutions.

MARKET OPPORTUNITIES

The Government of Alberta's plan to eliminate emissions from coal-fired electricity generation by 2030 has created a need for renewable electricity generation and firm capacity, such as gas-fired and hydroelectric power generation, as well as energy storage, to backstop the renewable power supply. Additional electricity distribution and transmission investment opportunities may result from this changing power market in addition to ongoing investment opportunities for customer growth and system replacements. Expansion will be focused in select global markets, including Canada, Australia, South America, Mexico and the U.S. We target markets with stable regulatory environments and rule of law, excellent long-term growth potential and strategic fit with our existing asset base.

MARKET CHALLENGES

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

PIPELINES & LIQUIDS

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

BUSINESS STRATEGY

Pipelines & Liquids' strategy is to grow its businesses through: investing in regulated natural gas distribution and transmission, and to become a premier hydrocarbon liquids storage and industrial water infrastructure provider. Pipelines & Liquids will continue expanding geographically to meet the evolving needs of our global customer base through the development of innovative infrastructure solutions.

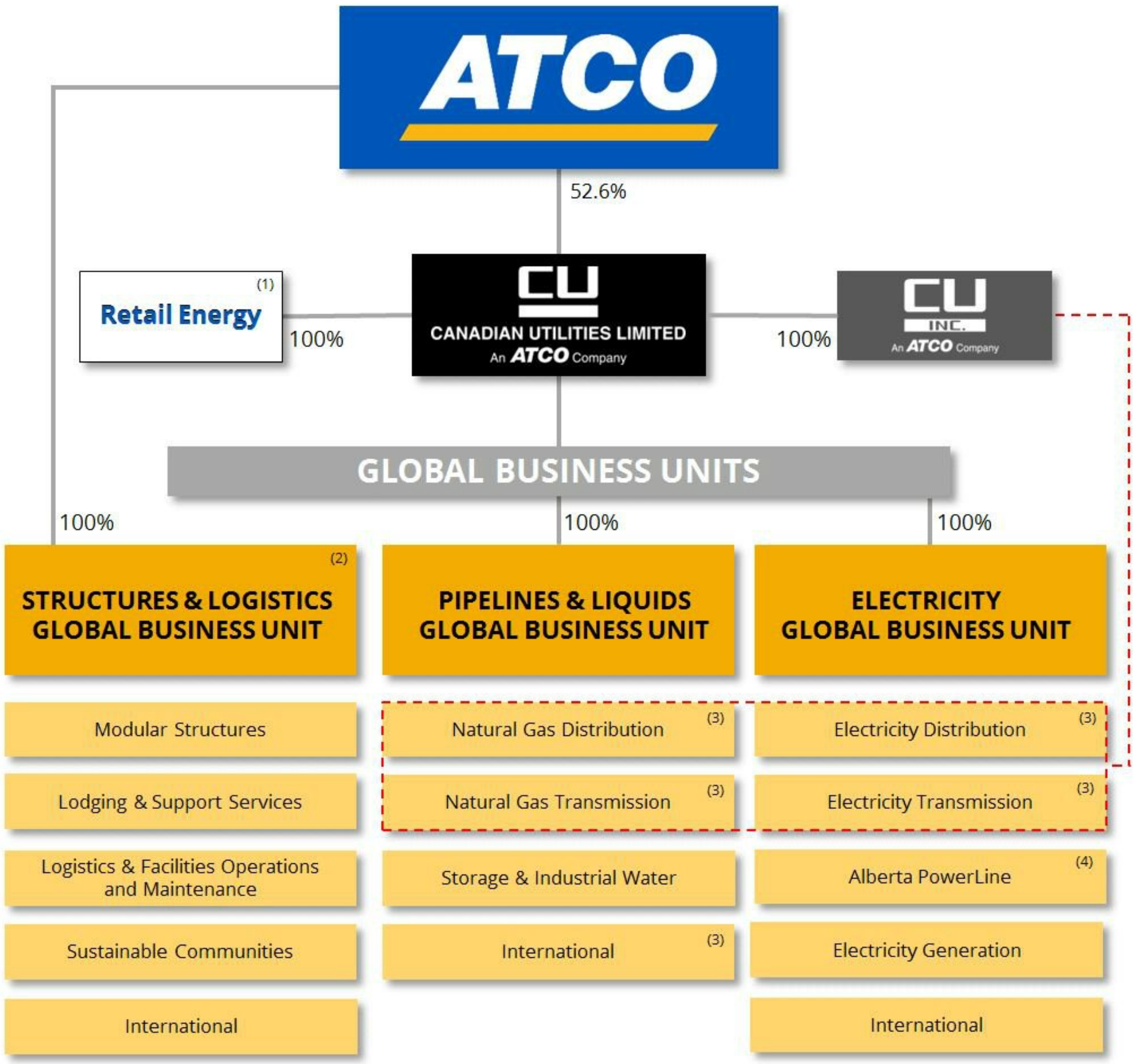
MARKET OPPORTUNITIES

The development of pipelines in Alberta is expected to increase the need for energy storage to manage supply and demand, and the industry trend toward sustainability is expected to increase demand for industrial water solutions. The regulated businesses expect to see continued growth based on projected customer growth and system replacements. Expansion will be focused in select global markets, including Canada, Australia, South America, Mexico and the U.S. We target markets with stable regulatory environments and rule of law, excellent long-term growth potential and strategic fit with our existing asset base.

MARKET CHALLENGES

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

SIMPLIFIED ORGANIZATIONAL STRUCTURE



(1) Retail Energy was launched in early 2016 to provide retail, commercial and industrial electricity and natural gas service in Alberta.

(2) In December 2017, ATCO Ltd. purchased Canadian Utilities' 24.5 per cent interest in ATCO Structures & Logistics Ltd.

(3) Regulated businesses include ATCO Gas, ATCO Pipelines, ATCO Gas Australia, ATCO Electric Distribution, and ATCO Electric Transmission.

(4) Alberta PowerLine General Partner Ltd. is the general partner of Alberta PowerLine Limited Partnership (Alberta PowerLine or APL), a partnership between Canadian Utilities Limited (80 per cent) and Quanta Services, Inc. (20 per cent).

The 2017 Consolidated Financial Statements include the accounts of ATCO Ltd., including a proportionate share of joint venture investments. Principal subsidiaries are Canadian Utilities Limited (Canadian Utilities), of which ATCO Ltd. owns 52.6 per cent (38.8 per cent of the Class A non-voting shares and 89.5 per cent of the Class B common shares), and ATCO Structures & Logistics Ltd., of which ATCO Ltd. owned 75.5 per cent of the Common Shares. On December 31, 2017, ATCO purchased Canadian Utilities' 24.5 per cent ownership interest in ATCO Structures & Logistics for $140 million and now owns 100 per cent.

The 2017 Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the reporting currency is the Canadian dollar. Certain comparative figures throughout this MD&A have been reclassified to conform to the current presentation.

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

ATCO CORE VALUES AND VISION

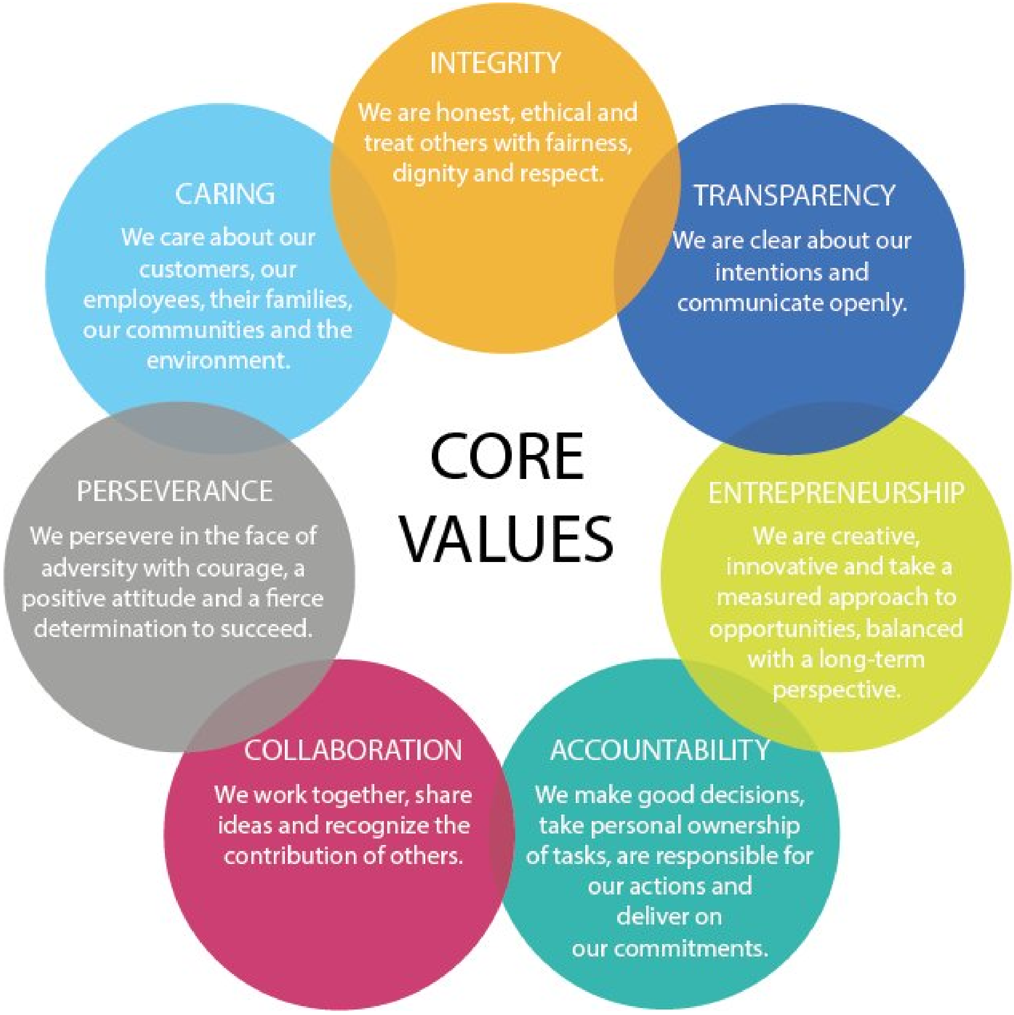
EXCELLENCE: THE HEART & MIND OF ATCO

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

R.D. Southern, Founder, ATCO

CORE VALUES

It is ATCO's Heart and Mind that drives the Company's approach to service reliability and product quality; employee, contractor and public safety; and environmental stewardship. Our pursuit of excellence governs the way we act and make decisions. At ATCO we strive to live by the following values:

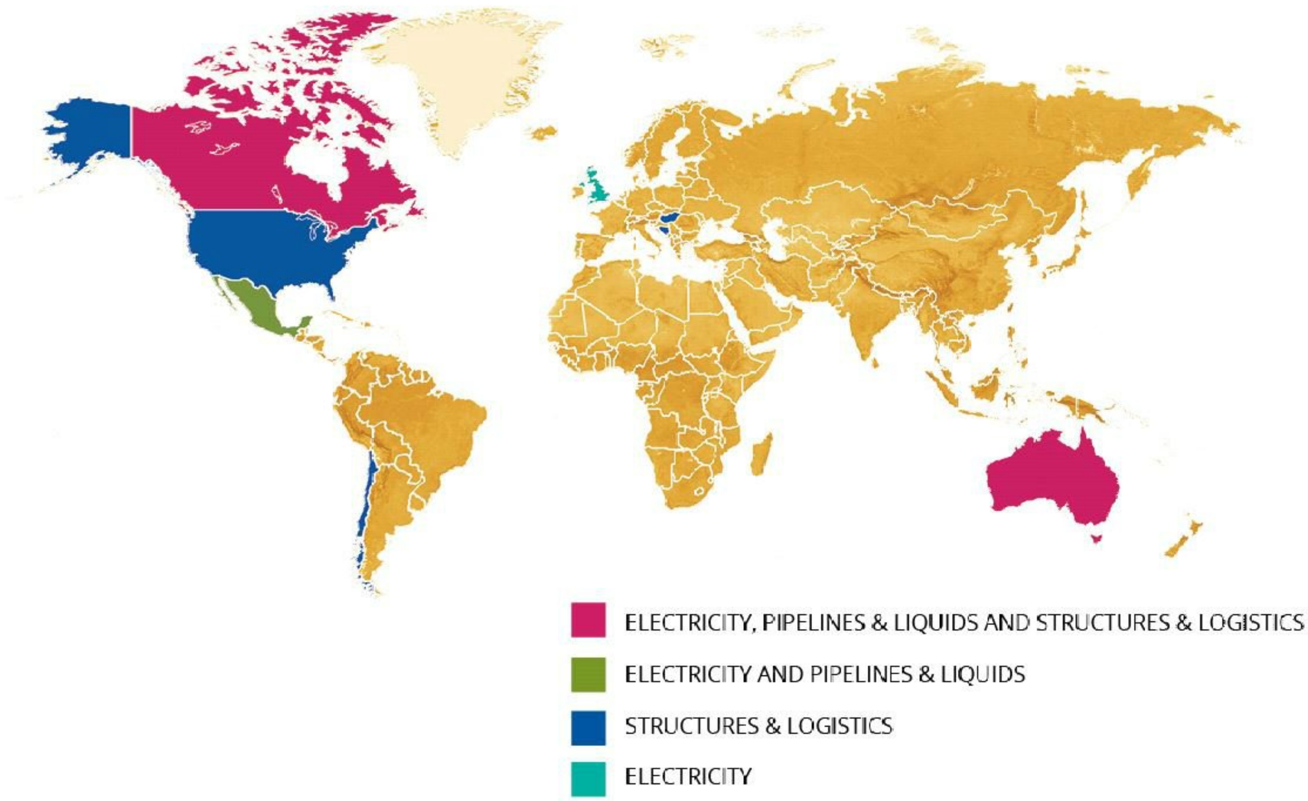


CORE VISION

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

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

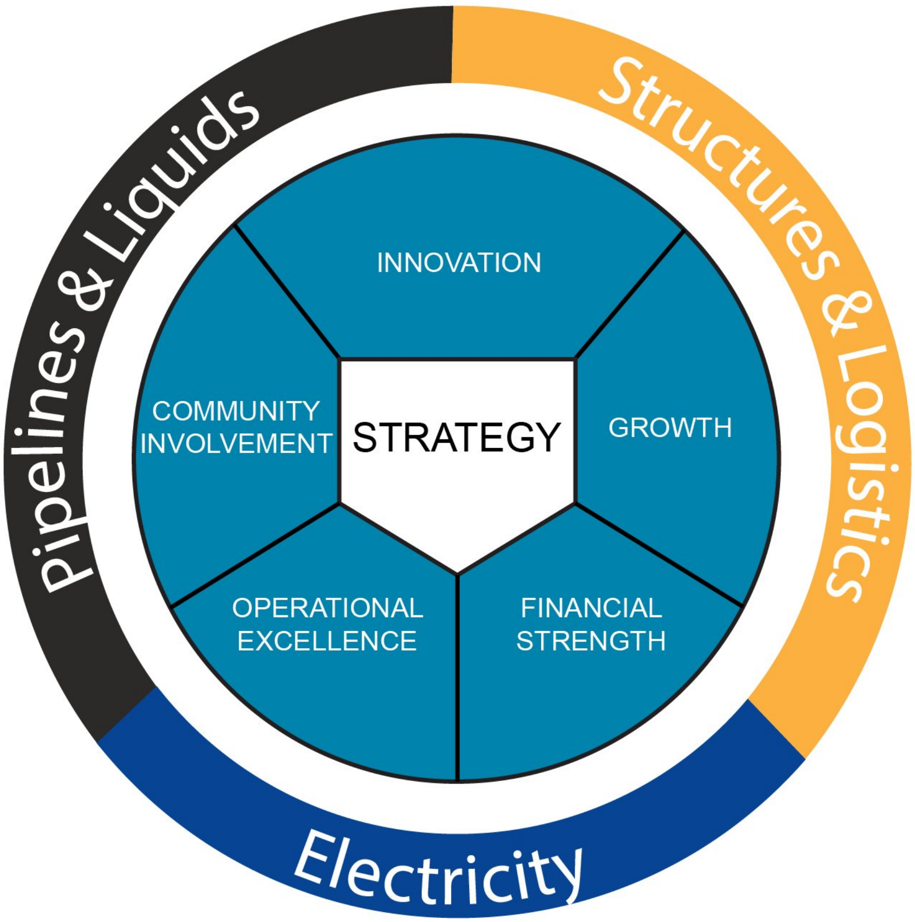
GLOBAL OPERATIONS



ATCO STRATEGIES

Innovation, growth and financial strength provide the foundation from which we have built our company. Our long-term success depends on our ability to expand into new markets and lines of business, while offering our customers premier, comprehensive and integrated solutions to meet their needs.

These strategic imperatives are supported by our unwavering commitment to operational excellence, our people and the customers and communities we are privileged to serve around the world.



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

INNOVATION

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

GROWTH

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

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

FINANCIAL STRENGTH

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

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

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 ensure the timely supply of goods and services that are critical to a company's ability to meet its core business objectives.

COMMUNITY INVOLVEMENT

ATCO maintains a respectful and collaborative community approach, where meaningful partnerships and positive relationships are built with community leaders and groups that will enhance economic and social development. Community involvement 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.

FURTHER COMMENTARY REGARDING STRATEGIES AND COMMITMENTS

ATCO's financial and operational achievements in 2017 relative to the strategies outlined above are included in the Company's MD&A, 2017 Consolidated Financial Statements and AIF. Further commentary regarding strategies and commitments to growth, financial strength, innovation, operational excellence, and community involvement will be provided in the forthcoming 2017 Annual Report, Management Proxy Circular and Sustainability Report. The 2017 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.

ATCO SCORECARD

The following scorecard outlines our performance in 2017.

STRATEGIC PRIORITIES	2017 TARGET	2017 PERFORMANCE
INNOVATION		
New and existing products and services	Exploring and testing new products and methods of energy delivery to meet customers' future needs. Continuous improvement of existing products and services.	Deployed three electric vehicle fast-charging stations in Calgary, Red Deer and Edmonton. Partnered with the City of Lloydminster to employ a LED Conversion and Intelligent Street Lighting Pilot Project which included replacing more than 60 outdated, high-pressure sodium streetlights with LEDs and installing intelligent street lighting sensors. Participated in the development of a hybrid house - a micro combined heat and power (mCHP) unit which runs on natural gas or propane, and has the potential to reduce a customer's home emissions by up to 75 per cent compared with a standard built home.
GROWTH		
Regulated and long-term contracted capital investment	Invest $1.8 billion across our Regulated Utilities and in long-term contracted assets.	Invested $1.7 billion in regulated and long-term contracted assets.
Geographic expansion	Asset expansion into select global markets including Canada, Australia, South America, Mexico and the U.S.	Announced acquisition of a long-term contracted 35 MW hydroelectric generation asset in Veracruz, Mexico. The $114 million transaction closed on February 20, 2018. Installed an additional 7 MW of capacity at a distributed generation facility in San Luis Potosí, Mexico.
FINANCIAL STRENGTH		
Credit rating	Maintain investment grade credit rating.	Maintained 'A (low)' credit rating with stable outlook with DBRS Ltd. Standard & Poor's revised its issuer rating from 'A' with a negative outlook to 'A-' with a stable outlook.
Access to capital markets	Access to capital at attractive rates.	Raised $430 million in debentures at 3.548 per cent, the lowest long-term interest rate in the Company's history. Successfully completed the largest public-private partnership (P3) debt financing in Canadian history with a $1.4 billion bond financing for Alberta PowerLine. Awarded P3 Deal of the Year for the Americas by Project Finance International.

STRATEGIC PRIORITIES	2017 TARGET	2017 PERFORMANCE
OPERATIONAL EXCELLENCE		
Lost-time injury rate: employees	Compare favourably with Alberta Occupational Health and Safety rates of 1.25 cases/200,000 hours worked.	Lost time injury rate of 0.25 cases/200,000 hours worked.
Customer satisfaction	Achieving high service for the customers and communities we serve.	Within our Alberta electricity and natural gas distribution businesses, more than 95 per cent of our customers agreed we provide good service. Within our energy retail operations, 76 per cent of customers report who interact with our call centres are "very satisfied" compared with an industry average of 71 per cent.
Organizational transformation	Streamline and gain operational efficiencies	Simplified ATCO's ownership structure by selling Canadian Utilities' 24.5 per cent interest in ATCO Structures & Logistics Ltd. to ATCO Ltd for $140 million. At the same time, Canadian Utilities acquired a long-term contracted hydroelectric generation asset in Mexico for $114 million.
COMMUNITY INVOLVEMENT		
Indigenous relations	Continue to work together with Indigenous communities to contribute to economic and social development in their communities.	Worked closely with 23 Indigenous organizations through Parks Canada's Indigenous Forum for our Jasper Interconnect Transmission Project; this project is adding 45 km of transmission line and a new substation in Jasper National Park. Signed several Memorandums of Understanding with Indigenous communities in the Yukon to partner on the development of renewable energy and battery storage solutions, enabling each community to become a direct participant in the local energy sector by owning renewable electricity sources (solar or wind) while we provide the energy storage and control systems. Began working with several Indigenous communities to develop partnership agreements to jointly build, operate and maintain the water infrastructure necessary to solve their immediate water needs, while also supporting the growth of their communities in the long-term.
ATCO EPIC (Employees Participating in Communities)	Continue to administer the employee-led campaign to give employees the opportunity to contribute to charitable organizations in the communities in which they work.	Donated $3.3 million and more than 8,500 hours to more than 800 charities to make our communities better places to live and work in 2017.

STRATEGIC PRIORITIES FOR 2018

The following table outlines our strategic priorities and targets for 2018.

STRATEGIC PRIORITIES	2018 TARGET
INNOVATION	
New and existing products and services	Explore and test new products and methods of energy delivery to meet customers' future needs. Demonstrate continuous improvement of existing products and services.
GROWTH	
Regulated and long-term contracted capital investment	Invest $1.8 billion across our Regulated Utilities and in long-term contracted assets.
Global expansion	Continue asset expansion into select global markets including: Canada, Australia, South America, Mexico and the U.S.
FINANCIAL STRENGTH	
Credit rating	Maintain investment grade credit rating.
Access to capital markets	Access capital at attractive rates.
OPERATIONAL EXCELLENCE	
Lost-time injury rate: employees	Reduce lost-time injury rate from 2017 amount of 0.25 cases/200,000 hours worked.
Total recordable injury frequency: employees	Continue improvement in our safety performance, in addition to comparing favourably to benchmark rates such as Alberta Occupational Health and Safety, US Private Industry, and industry best practice rates for each of our global operating units.
Customer satisfaction	Achieving high service for the customers and communities we serve. Establish company-wide customer satisfaction measurement.
Organizational transformation	Streamline and gain operational efficiencies.
COMMUNITY INVOLVEMENT	
Indigenous relations	Continue to work together with Indigenous communities to contribute to economic and social development in their communities.
ATCO EPIC (Employees Participating in Communities)	Continue to administer the employee-led campaign to give employees the opportunity to contribute to charitable organizations in the communities in which they work.

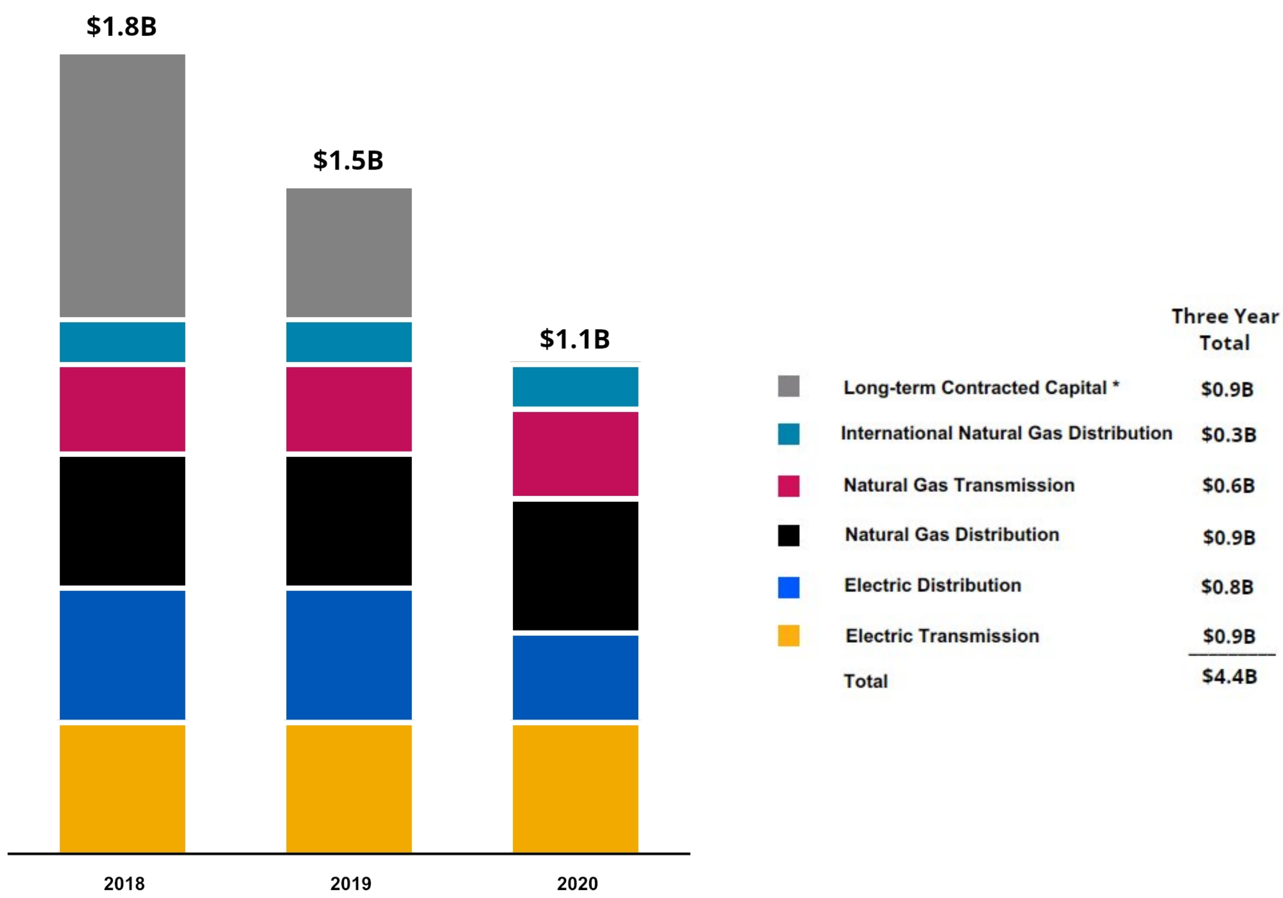
CAPITAL INVESTMENT PLANS

In the 2018 to 2020 period, ATCO expects to invest $4.4 billion in Regulated Utility and commercially secured capital growth projects. This capital investment is expected to contribute significant earnings and cash flow and create long-term value for share owners.

This three year plan includes $3.5 billion of planned capital investment in the Regulated Utilities. Electric Distribution and Electric Transmission are planning to invest $1.7 billion, and Natural Gas Distribution, Natural Gas Transmission and International Natural Gas Distribution are planning to invest $1.8 billion from 2018 to 2020.

In addition to capital investments in the Regulated Utilities, the Company intends to invest a further $0.9 billion in long-term contracted capital from 2018 to 2020 in the APL Fort McMurray West 500-kV Project, contracted hydrocarbon storage in northern Alberta, and the first quarter of 2018 acquisition of a long-term contracted 35 MW hydroelectric power station in Veracruz, Mexico. ATCO also continues to pursue various business development opportunities with long-term potential, such as the hydrocarbon storage midstream opportunities in Mexico, which are not included in these capital growth investment estimates.

Future Regulated Utility and Contracted Capital Investment



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

PERFORMANCE OVERVIEW

FINANCIAL METRICS

The following chart summarizes key financial metrics associated with our financial performance.

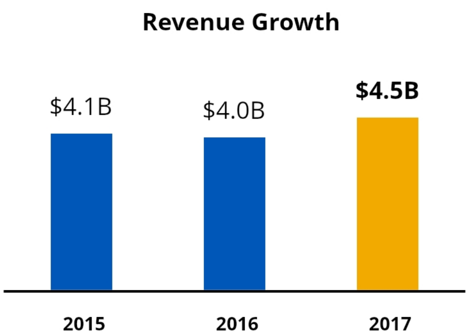
($ millions, except per share data and outstanding shares)	Year Ended December 31 2017	2016	2015
Key Financial Metrics			
Revenues	**4,541**	4,045	4,131
Adjusted earnings (1)	**335**	360	293
Structures & Logistics	**6**	43	27
Electricity	**210**	213	171
Pipelines & Liquids	**144**	136	101
Corporate & Other	**(25)**	(33)	(7)
Intersegment Eliminations	**–**	1	1
Adjusted earnings ($ per share)	**2.93**	3.15	2.55
Earnings attributable to Class I and Class II Shares	**203**	340	154
Earnings attributable to Class I and Class II Shares ($ per share)	**1.78**	2.97	1.34
Total assets	**21,775**	19,724	19,055
Long-term debt and non-recourse long-term debt	**9,973**	8,318	8,055
Class I and Class II Share owners' equity	**3,593**	3,546	3,356
Cash dividends declared per Class I and Class II Share ($ per share)	**1.31**	1.14	0.99
Funds generated by operations (1)	**1,813**	1,912	1,589
Capital investment (1)	**1,821**	1,609	1,919
Other Financial Metrics			
Weighted average Class I and Class II Shares outstanding *(thousands):*			
Basic	**114,352**	114,411	114,832
Diluted	**114,822**	114,846	115,300

(1) Additional information regarding these measures is provided in the Non-GAAP and Additional GAAP Measures section of this MD&A.

REVENUES

Revenues in 2017 were $4,541 million, $496 million higher than the same period in 2016.

These increases were mainly due to revenue recorded for Alberta PowerLine (APL), higher flow-through revenues in natural gas distribution, rate base growth in our Regulated Utilities, and higher revenues from a growing customer portfolio in retail energy. This was partially offset by decreased revenues in Structures & Logistics due to the completion of Modular Structures major projects in 2016.



ADJUSTED EARNINGS

Our adjusted earnings for 2017 were $335 million, or $2.93 per share, compared to $360 million, or $3.15 per share, in 2016. The primary drivers of adjusted earnings results were as follows:

- Structures & Logistics - Adjusted earnings in 2017 were lower than in 2016 mainly due to the completion of major projects in our Modular Structures business and lower profit margins across all business lines, partially offset by cost reduction initiatives.
- Electricity - Adjusted earnings in 2017 were lower than in 2016 mainly due to lower contributions from forward sales, increased business development expenses and a planned major outage at the Sheerness Thermal PPA plant, partially offset by continued capital investment and growth in rate base within Regulated Electricity.
- Pipelines & Liquids - Adjusted earnings in 2017 were higher than in 2016 mainly due to continued capital investment and growth in rate base within Regulated Pipelines & Liquids.
- Corporate & Other - Higher earnings were mainly due to improved results in Retail Energy from a growing customer portfolio.

Our adjusted earnings for the fourth quarter of 2017 were $92 million, or $0.80 per share, compared to $94 million, or $0.82 per share, in the same period of 2016. Lower earnings were mainly due to lower contributions from our non-regulated businesses as persistent weak commodity prices impacted financial results in Structures & Logistics and Electricity.

EARNINGS ATTRIBUTABLE TO CLASS I AND CLASS II SHARES

Earnings attributable to Class I and Class II Shares were $203 million in 2017 compared to $340 million in 2016. Earnings attributable to Class I and Class II Shares includes significant impairments, timing adjustments related to rate-regulated activities, and unrealized losses on mark-to-market forward commodity contracts that are not included in adjusted earnings. The net impact of these items was a reduction of $132 million to earnings attributable to Class I and Class II Shares in 2017.

In 2017, timing adjustments made in rate-regulated accounting lowered earnings attributable to Class I and Class II shares by $61 million. Unrealized losses on mark-to-market forward commodity contracts lowered earnings attributable to Class I and Class II shares by $48 million. Impairment charges of $23 million after tax and non-controlling interests were recorded relating to certain Structures & Logistics' workforce housing assets in Canada and the U.S.

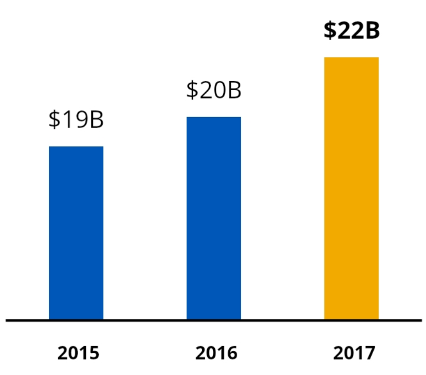
More information on these and other items is included in the Reconciliation of Adjusted Earnings to Earnings Attributable to Class I and Class II Shares section of this MD&A.

ASSETS, DEBT & EQUITY

Our total assets, long-term debt and Class I and Class II Share owners' equity reflect the significant growth achieved during 2017 and how that growth was financed. Total assets grew from $20 billion at the beginning of 2017 to $22 billion at year end. That growth occurred mainly as a result of continued capital investment in APL and the Regulated Utilities.

Class I and Class II Share owners' equity increased over the prior year mainly as a result of 2017 earnings, partially offset by higher dividends paid to share owners.

Asset Growth

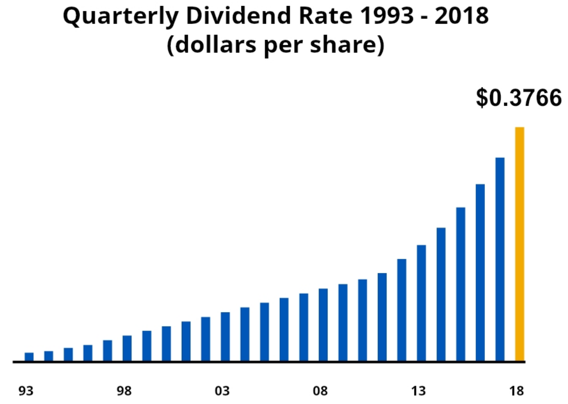


COMMON SHARE DIVIDENDS

In 2017, the Board of Directors increased the quarterly dividends paid per Class I and Class II Share for the four quarters of 2017 from 28.50 cents per share to 32.75 cents per share. Dividends paid to Class I and Class II Share owners totaled $150 million in 2017.

On January 11, 2018, the Board of Directors declared a first quarter dividend of 37.66 cents per share, a 15 per cent increase over the 2017 dividend.

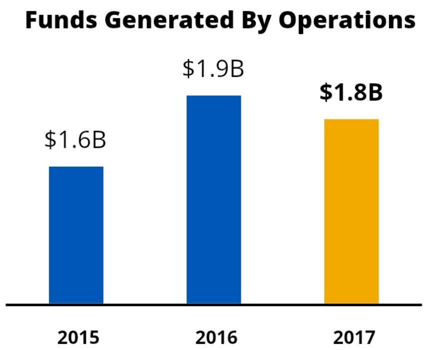
We have increased our common share dividend each year since 1993.



FUNDS GENERATED BY OPERATIONS

Funds generated by operations were $1.8 billion in 2017, compared to $1.9 billion in 2016.

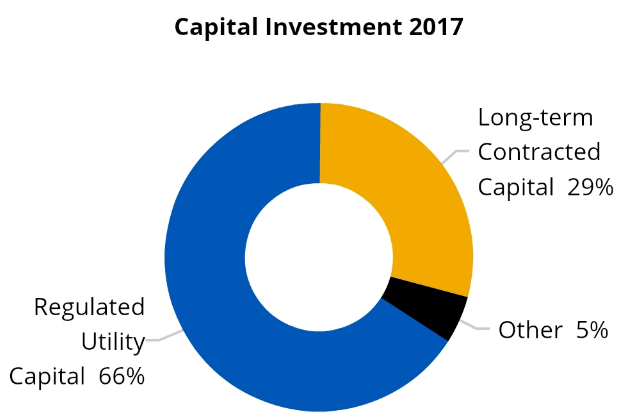
The decrease was mainly due to lower earnings and lower customer contributions received for utility capital expenditures.



CAPITAL INVESTMENT

Capital investment includes additions to property, plant and equipment, intangibles, capital expenditures in joint ventures and service concession arrangements. Total capital investment in the fourth quarter and full year of 2017 were $586 million and $1,821 million.

Capital spending in our Regulated Utilities and on long-term contracted capital assets accounted for $556 million of capital spending in the fourth quarter, and $1,725 million in the full year of 2017. These investments either earn a return under a regulated business model or are under commercially secured long-term contracts.



GLOBAL BUSINESS UNIT PERFORMANCE

REVENUES

Structures & Logistics revenues of $136 million in the fourth quarter and $515 million in the full year of 2017 were $18 million higher and $132 million lower than the same periods in 2016. Higher revenues in the fourth quarter of 2017 were mainly due to the sale of used fleet and Modular Structures project activity in the education, health, correctional facility and construction sectors. Revenues for the full year 2017 were lower than 2016 mainly due to decreased Modular Structures project activity from the completion of the Wheatstone and BC Hydro Site C projects in the first and third quarters of 2016. Lower Modular Structures major project activity revenue was partially offset by revenues from the LNG Modular Structures rental project, the sale of used fleet, and project activity in the education, health, correctional facility and construction sectors.

ADJUSTED EARNINGS

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Modular Structures	**7**	14	(7)	**17**	52	(35)
Frontec						
Logistics and Facility O&M Services	**1**	1	–	**6**	10	(4)
Lodging & Support Services	**–**	–	–	**3**	6	(3)
Total Frontec Adjusted Earnings	**1**	1	–	**9**	16	(7)
Other (1)	**(6)**	(9)	3	**(20)**	(25)	5
Total Structures & Logistics Adjusted Earnings	**2**	6	(4)	**6**	43	(37)

(1) Other includes financial results for Structures & Logistics’ corporate office.

Adjusted earnings achieved by Structures & Logistics in the fourth quarter and full year of 2017 were $4 million and $37 million lower than the same periods in 2016. The decreases were mainly due to the completion of major projects in our Modular Structures business and lower profit margins across all business lines, partially offset by cost reduction initiatives.

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

MODULAR STRUCTURES

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

Adjusted earnings in the fourth quarter of 2017 were $7 million lower than in the same period of 2016. Lower adjusted earnings were mainly due to lower profit margins, partially offset by the sale of used fleet.

For the full year 2017, adjusted earnings were $35 million lower than 2016 mainly due to decreased major project activity due to the completion of the Wheatstone and BC Hydro Site C projects in the first and third quarters of 2016 and lower profit margins, partially offset by earnings from the LNG Modular Structures rental project, the sale of used fleet, and project activity in the education, health, correctional facility and construction sectors. Modular Structures will continue with strategic initiatives to improve space rental utilization, diversify the customer base, lower operating costs, and expand operations in select geographic markets, which may include bolt-on acquisitions.

Rental Fleet Statistics

The following table compares Structures & Logistics' manufacturing hours and rental fleet for the fourth quarter and full year of 2017 and 2016.

	Three Months Ended December 31			Year Ended December 31		
	2017	2016	Change	2017	2016	Change
North America						
Manufacturing hours *(thousands)*	**97**	34	185%	**296**	564	(48%)
Global Space Rentals						
Number of units	**13,456**	13,629	(1%)	**13,456**	13,629	(1%)
Average utilization *(%)*	**72**	65	7%	**70**	64	6%
Average rental rate *($ per month)*	**473**	455	4%	**466**	500	(7%)
Global Workforce Housing						
Number of units	**3,708**	4,974	(25%)	**3,708**	4,974	(25%)
Average utilization *(%)*	**41**	32	9%	**37**	38	(1%)
Average rental rate *($ per month)*	**1,864**	2,580	(28%)	**1,966**	1,962	–

Increased manufacturing hours in the fourth quarter of 2017 were mainly due to education, health, correctional facility, and construction project activity. Decreased manufacturing hours in the full year of 2017 were mainly due to the completion of major project activity at the BC Hydro Site C and LNG Modular Structures projects in 2016, partially offset by an increase in manufacturing hours in 2017 primarily due to education, health, correctional facility and construction sector project activity.

The increase in Space Rental utilization was due to higher construction sector customer activity in North America and Australia. The increase in the average rental rate for Space Rentals in the fourth quarter of 2017 was mainly due to strengthening rental rates in Australia from increased construction activity on the eastern seaboard. The decrease in the average rental rate for Space Rentals in 2017 was due to weakened demand from customers whose business activity is exposed to commodity price declines. The decrease in Space Rental units was due to the sale of used fleet.

The decrease in the Workforce Housing units and the increase in the utilization rate in the fourth quarter were primarily due to sales of non-utilized units in Canada, the U.S. and Australia. In the fourth quarter, the decrease in the Workforce Housing rental rates was mainly due to the impact of foreign exchange on the rental rates relating to the LNG Modular Structures rental project and overall weakened demand from customers whose business activity is exposed to commodity price declines.

FRONTEC

Logistics and Facility O&M Services

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

Adjusted earnings for the fourth quarter of 2017 were comparable to the same period in 2016. Adjusted earnings for the full year of 2017 were $4 million lower when compared to the same period in 2016. Lower earnings were mainly due to a lower profit margin on the Alaska Radar System contract renewal effective October 1, 2016 and the completion of the Kandahar - First Responders contract with NATO Support Agency at the end of the third quarter of 2016. We continue with strategic initiatives to lower operating costs and bid on project opportunities to provide Logistics and Facility O&M Services.

Project Award

In the fourth quarter of 2017, Structures & Logistics was selected by Defence Construction Canada, the procurement partner of Canada's Department of National Defence, to provide facility maintenance and support services at Canadian Armed Forces (CAF) sites across the Canadian North commencing March 1, 2018 for a period of five years. The initial contract is valued at $79 million, with an option for a five-year extension. We will provide facility inspection, maintenance and repair, new construction and upgrades, trade services and environmental services to CAF sites in Yellowknife, Whitehorse, Inuvik, Rankin Inlet and Iqaluit.

Lodging & Support Services

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

Adjusted earnings for the fourth quarter of 2017 were comparable to the same period in 2016. Earnings of $3 million in the full year of 2017 were $3 million lower than the same period in 2016 mainly due to lower profit margins at the BC Hydro Site C workforce housing camp in 2017, the completion of our contract at the end of the second quarter of 2017 to provide services at the K+S Potash Canada Legacy Lodge during the construction of the K+S Potash mine in Saskatchewan, and higher lodging activity and food services provided in the second quarter of 2016 resulting from the 2016 Fort McMurray wildfires. We continue with strategic initiatives to lower operating costs and bid on contract opportunities to provide Lodging & Support Services.

REVENUES

Electricity revenues of $698 million in the fourth quarter and $2,341 million in the full year of 2017 were $147 million and $464 million higher than the same periods in 2016, mainly due to revenue recorded for planning, design and construction activities at Alberta PowerLine.

ADJUSTED EARNINGS

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Regulated Electricity						
Electricity Distribution	**16**	15	1	**71**	69	2
Electricity Transmission	**27**	26	1	**104**	100	4
Total Regulated Electricity Adjusted Earnings	**43**	41	2	**175**	169	6
Non-regulated Electricity						
Independent Power Plants	**2**	8	(6)	**4**	15	(11)
Thermal PPA Plants	**(1)**	6	(7)	**14**	19	(5)
International Power Generation	**2**	1	1	**9**	8	1
Alberta PowerLine	**1**	2	(1)	**8**	2	6
Total Non-regulated Electricity Adjusted Earnings	**4**	17	(13)	**35**	44	(9)
Total Electricity Adjusted Earnings	**47**	58	(11)	**210**	213	(3)

In the fourth quarter, our Electricity business earned $47 million, $11 million lower than the same period of 2016. Lower earnings were due to a planned major outage at the Sheerness Thermal PPA plant, lower contributions from forward sales and increased business development expenses, and lower earnings from APL, partially offset by continued capital investment and growth in rate base within Regulated Electricity.

In the full year of 2017, our Electricity business earned $210 million, $3 million lower than the same period of 2016. Lower earnings were due to a planned major outage at the Sheerness Thermal PPA plant, lower contributions from forward sales and increased business development expenses, partially offset by continued capital investment and growth in rate base within Regulated Electricity and higher earnings from Alberta PowerLine.

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.

Electricity Distribution

Our electricity distribution business earned $16 million in the fourth quarter and $71 million in the full year of 2017, $1 million and $2 million higher than the same periods in 2016. Higher earnings resulted mainly from continued capital investment and growth in rate base.

Electricity Transmission

Our electricity transmission business earned $27 million in the fourth quarter, $1 million higher than the same period in 2016. Higher earnings were primarily due to an increase in the approved return on equity from 8.3 per cent in 2016 to 8.5 per cent in 2017.

Our electricity transmission business earned $104 million in the full year of 2017, $4 million higher than the same period in 2016. Higher earnings were primarily due to an increase in the approved return on equity from 8.3 per cent in 2016 to 8.5 per cent in 2017, partially offset by the net impact of regulatory decisions received in 2017 that related to prior years.

NON-REGULATED ELECTRICITY

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

Generating Plant Availability

Our generating availability for the fourth quarter and full year of 2017 and 2016 is shown in the table below. Generating plant capacity fluctuates with the timing and duration of outages.

	Three Months Ended December 31			Year Ended December 31		
	2017	**2016**	**Change**	**2017**	**2016**	**Change**
Independent Power Plants	**95%**	93%	2%	**94%**	92%	2%
Thermal PPA Plants	**88%**	99%	(11%)	**93%**	95%	(2%)
International Power Generation	**96%**	64%	32%	**98%**	88%	10%

Higher availability in our Independent Power Plants in the fourth quarter and full year of 2017 was primarily due to fewer outages in 2017.

Lower availability in our Thermal PPA Plants in the fourth quarter and full year 2017 was primarily due to a planned major outage at the Sheerness plant.

Higher availability in our International Power Generation in the fourth quarter and full year of 2017 was largely due to the major outage commencing in late September 2016 at our Osborne facility in Australia.

Alberta Power Market Summary

Average Alberta Power Pool and natural gas prices and the resulting spark spreads for the fourth quarter and full year 2017 and 2016 are shown in the table below.

	Three Months Ended December 31			Year Ended December 31		
	2017	**2016**	**Change**	**2017**	**2016**	**Change**
Average Alberta Power Pool electricity price *($/MWh)*	**22.46**	22.03	2%	**22.19**	18.28	21%
Average natural gas price *($/GJ)*	**1.64**	2.94	(44%)	**2.05**	2.06	_
Average market spark spread *($/MWh)*	**10.16**	(0.02)	_	**6.84**	2.84	141%

The average Alberta Power Pool prices for the fourth quarter of 2017 were comparable to the same period in 2016.

For the full year 2017, the average Alberta Pool Price was $3.91 per MWh higher mainly due to the impact of increased carbon prices, continued demand growth, and modestly improved market fundamentals related to supply and demand. The continued low prices and low volatility were a result of an increased supply of electricity in recent years, the Balancing Pool offering coal-fired generation into the merchant energy market at variable cost, and continued low natural gas prices.

Independent Power Plants

In the fourth quarter of 2017, earnings from our Independent Power Plants were $2 million compared to $8 million in the same period in 2016. Full year 2017 earnings from our Independent Power Plants were $4 million compared to $15 million in 2016. Lower earnings generated by our Independent Power Plants in the fourth quarter and full year of 2017 were mainly due to lower contributions from realized forward sales, increased business development expenses and one-time cost-savings recognized in 2016.

Realized Forwards Sales Program

	Three Months Ended December 31			Year Ended December 31		
	2017	**2016**	**Change**	**2017**	**2016**	**Change**
Average volumes settled *(MW)*	**305**	255	20%	**216**	214	1%
Average realized spark spread *($/MWh)*	**12.56**	15.32	(18%)	**11.67**	16.40	(29%)

In the fourth quarter of 2017, 305 MW of power forward settled at an average realized spark spread of $12.56 per MWh compared to 255 MW settled at an average of $15.32 in 2016. Due to the decrease in the realized spark spread, earnings from forward sales in the fourth quarter of 2017 were lower than the same period in 2016.

In 2017, 216 MW of power forward settled at an average realized spark spread of $11.67 per MWh compared to 214 MW settled at an average of $16.40 in 2016. Due to the decrease in the realized spark spread, earnings from forward sales in 2017 were lower than in the previous year.

Thermal PPA Plants

The electricity generated by the Battle River unit 5 and Sheerness plants is sold through PPAs. Under the PPAs, we must make the generating capacity for each generating unit available to the PPA purchaser of that unit. These arrangements entitle us to recover our forecast fixed and variable costs from the PPA purchaser.

In the fourth quarter of 2017, earnings from our Thermal Power Plants were $7 million less than the same period in 2016. Lower earnings were caused by a planned maintenance outage at the Sheerness plant and lower availability incentive revenue compared to the same period in 2016.

Full year 2017 earnings of $14 million were $5 million less than 2016. Lower earnings were caused by a planned maintenance outage at the Sheerness plant and lower availability incentive revenue, partially offset by compensation for the early retirement of coal-fired electricity generation at the Sheerness power plant.

The legal action filed by the Government of Alberta in 2016 regarding the determination on the validity and interpretation of certain terms within the coal PPAs and related regulations remains outstanding and, at this point, only involves Enmax as a Buyer and its purported termination of the Battle River unit 5 and Keephills PPAs. Previously, the Balancing Pool had reported that they were unable to make decisions to accept or terminate the PPAs until this legal action was resolved. In late 2017, Enmax sought injunctive relief on the outstanding decision by the Balancing Pool to accept the Keephills PPA termination. In November 2017, a Court of Queen's Bench (Alberta) decision instructed the Balancing Pool to finalize their assessment of the Keephills PPA and make its acceptance decision. This court decision provided legal precedence that the Government of Alberta's legal action should not encumber the Balancing Pool from making decisions in regards to the PPAs. The originating application on this legal action from the Government of Alberta is expected to be heard by the Court of Queen's Bench (Alberta) in November 2018.

In 2017, the Balancing Pool continued to assess the commercial management of the five PPAs which it held (Battle River unit 5, Genesee, Keephills, Sheerness and Sundance) through its mandate requiring it to manage its generation assets in a commercial manner and to conduct itself in a fashion that is not contrary to a fair, efficient, and openly competitive market. The Company owns 100 per cent of Battle River unit 5 and 50 per cent of Sheerness. On September 18, 2017, the Balancing Pool issued notice of PPA termination of the Sundance unit B and unit C no later than March 31, 2018. In addition, on January 12, 2018, the Balancing Pool announced that it will begin consultation on the return of the Battle River unit 5 PPA as proceeding with this PPA termination decision is no longer encumbered by the Government of Alberta legal action.

The Balancing Pool may terminate a PPA if it:

- Consults with representatives of customers and the Minister about the reasonableness of the termination;
- Gives to the owner of the generating unit to which the PPA applies six months' notice, or any shorter period agreed to by the owner, of its intention to terminate; and
- Pays the owner or ensures that the owner receives an amount equal to the remaining closing net book value of the generating unit, determined in accordance with the power purchase arrangement, as if the generating unit had been destroyed, less any insurance proceeds.

ATCO continues to operate Battle River unit 5 and Sheerness units 1 and 2 under the terms of their respective PPAs. Termination of the Battle River unit 5 by the Balancing Pool would result in the cessation of the PPA and the control of the underlying PPA unit returning to ATCO.

International Power Generation

Our international power generation activities are conducted by ATCO Power Australia. These businesses supply electricity from two natural gas-fired electricity generation plants, the Osborne plant in South Australia and the Karratha plant in Western Australia.

Our international power generation business earned $2 million in the fourth quarter and $9 million in the full year of 2017, $1 million and $1 million higher than the same periods in 2016 due to the impact of the major outage at our Osborne facility in 2016.

Alberta PowerLine

Alberta PowerLine (APL) is a partnership between Canadian Utilities Limited (80 per cent) and Quanta Services, Inc. (20 per cent), with a 35-year contract from the Alberta Electric System Operator (AESO) to design, build, own, and operate the 500 km, Fort McMurray West 500-kV Transmission project, running from Wabamun, near Edmonton to Fort McMurray, Alberta.

APL's adjusted earnings were $1 million in the fourth quarter and $8 million in the full year of 2017. Earnings were $1 million lower in the fourth quarter of 2017 when compared to the same period in 2016 mainly due to interest on bonds issued in October 2017 to finance construction activities. Earnings for the full year were $6 million higher when compared to the prior year as a result of the commencement of construction activities in August 2017.

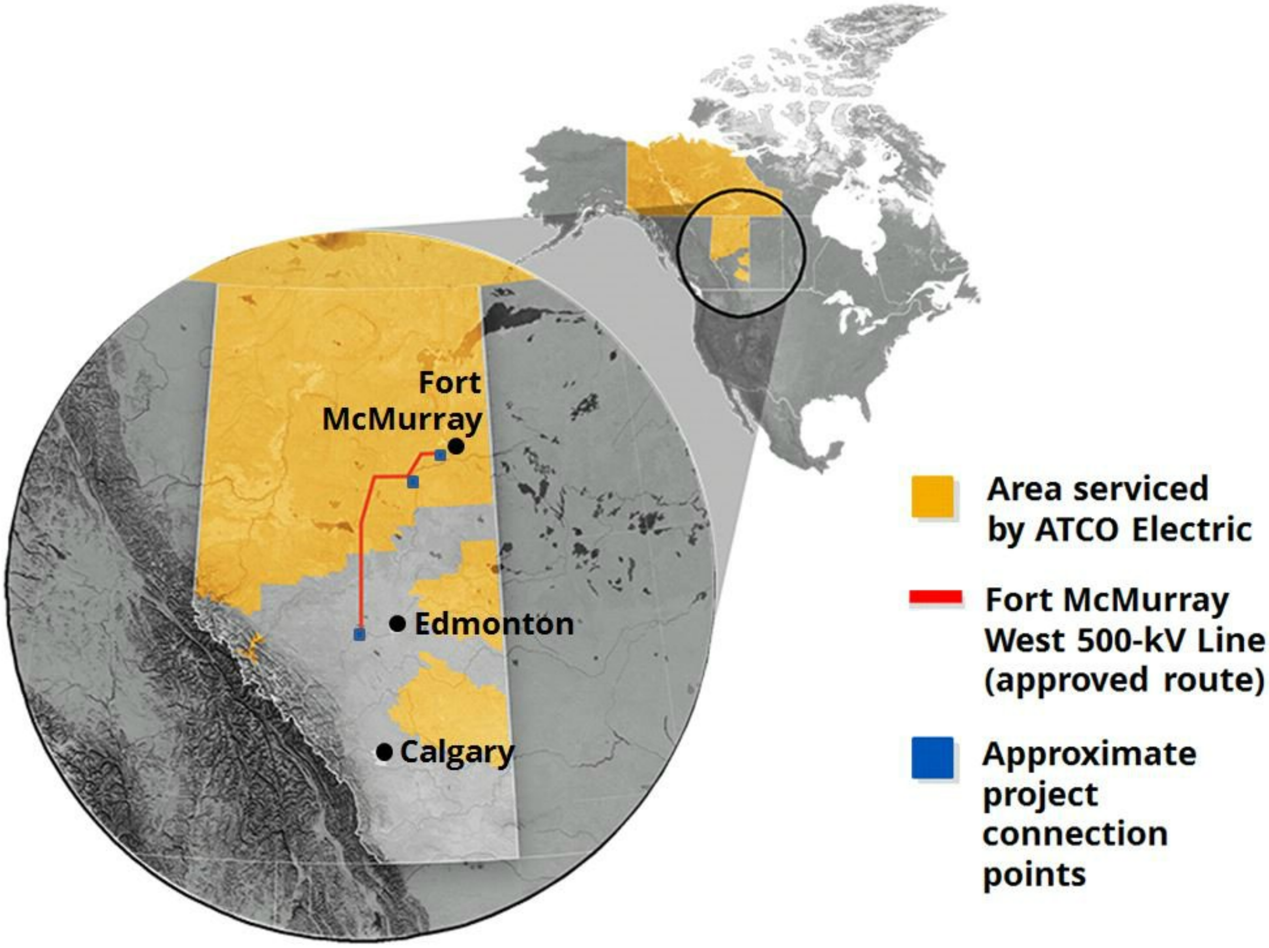
ELECTRICITY MAJOR PROJECT UPDATES

Alberta PowerLine

The design and planning phases of the approximately 500 km, Fort McMurray West 500-kV Project have been completed and construction commenced in August 2017, keeping the target energization of June 2019 on track.

On October 2, 2017, APL closed the issuance of an aggregate of $1.4 billion of bonds with maturities from June 2032 to March 2054. This represents the largest public-private partnership debt financing ever completed in Canada. As a result, APL has been awarded the P3 Deal of the Year for the Americas by Project Finance International.

On November 30, 2017, APL submitted a tariff application as owner of the project. On January 23, 2018, the AUC approved the application.



Distributed Generation

Distributed Generation aligns with ATCO's strategy of taking a creative and innovative approach to meeting our customers' needs by building a fleet of portable natural gas-fired units that can be deployed for temporary or permanent projects.

In 2017, ATCO Mexico continued to advance distributed generation projects in Mexico. ATCO and its Mexican partner, Grupo Ranman, installed 7 MW of distributed generation to increase the total capacity installed to 11 MW at a distributed generation facility located in the World Trade Centre industrial park in San Luis Potosí, Mexico.

Mexico Tula Cogeneration

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

Mexico Hydro Facility

In December 2017, Canadian Utilities Limited, an ATCO company, announced the acquisition of a long-term contracted, 35 MW hydroelectric power station based in Veracruz, Mexico. The $114 million transaction closed on February 20, 2018.

Alberta Electricity Market Reform

On November 23, 2016, the Government of Alberta announced its intention to change the existing energy-only electricity market to a capacity market in 2021. A capacity market includes a market component for the provision of capacity, or the ability to produce electricity, in addition to the market for the production of electricity. The Government of Alberta indicated that it will work closely with industry, consumer groups and other stakeholders to establish the framework and implement the capacity market in 2021. The first version of the Comprehensive Market Design for the capacity market was released on January 26, 2018. The proposed first capacity auction will start in November 2019, for an obligation from November 2021, for a one year term. Multiple aspects of the capacity market design remain under discussion and consultation. The AESO plans to release its second version of the Comprehensive Market Design in March 2018, with a final version expected mid-year 2018.

REVENUES

Pipelines & Liquids revenues of $447 million in the fourth quarter were $7 million lower than the same period in 2016. Lower revenues in the fourth quarter were mainly due to the sale of excess natural gas in our storage & industrial water business in 2016. Revenues of $1,630 million in the full year of 2017 were $134 million higher than the same period in 2016, mainly due to growth in rate base and higher flow-through franchise fees paid to municipalities, which are recovered from customers.

ADJUSTED EARNINGS

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Regulated Pipelines & Liquids						
Natural Gas Distribution	**32**	26	6	**76**	65	11
Natural Gas Transmission	**7**	7	–	**34**	31	3
International Natural Gas Distribution	**6**	4	2	**28**	27	1
Total Regulated Pipelines & Liquids Adjusted Earnings	**45**	37	8	**138**	123	15
Non-regulated Pipelines & Liquids						
Storage & Industrial Water	**4**	7	(3)	**6**	13	(7)
Total Pipelines & Liquids Adjusted Earnings	**49**	44	5	**144**	136	8

Pipelines & Liquids earnings of $49 million in the fourth quarter of 2017 and $144 million in the full year of 2017 were $5 million and $8 million higher than the same periods in 2016, mainly due to continued capital investment and growth in rate base within Regulated Pipelines & Liquids.

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.

Our natural gas distribution business earned $32 million in the fourth quarter of 2017, $6 million higher than the same period of 2016. Increased earnings for the fourth quarter of 2017 were mainly due to growth in rate base and customers. The earnings variance was also impacted by higher fourth quarter 2016 operations and maintenance costs. Our natural gas distribution business earned $76 million in 2017, $11 million higher than in 2016. Increased earnings for the period resulted primarily from growth in 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 from 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.

Our natural gas transmission business earned $7 million in the fourth quarter of 2017, comparable to the same period of 2016. Our natural gas transmission business earned $34 million in the full year of 2017, $3 million higher than in 2016, mainly due to growth in rate base.

International Natural Gas Distribution

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

Our international natural gas distribution business earned $6 million in the fourth quarter and $28 million in the full year of 2017, $2 million and $1 million higher than the same periods in 2016. Higher earnings in the quarter were mainly due to continued growth in rate base. Higher earnings in the full year of 2017 were mainly due to continued growth in rate base, partially offset by warmer weather in 2016 and the favourable impact of a regulatory appeal decision in 2016.

NON-REGULATED PIPELINES & LIQUIDS

Storage & Industrial Water

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

Our storage & industrial water business earned $4 million in the fourth quarter of 2017, $3 million lower than the same period in 2016, mainly due to sales of excess natural gas in 2016. Our storage & industrial water business earned $6 million in the full year of 2017, $7 million lower when compared to the same period of 2016. Earnings were lower in 2017 because the prior year included cost savings due to the sale of under-performing assets and sales of excess natural gas. Earnings for the full year of 2017 include contributions from the hydrocarbon storage facilities that commenced in the fourth quarter of 2016.

PIPELINES & LIQUIDS MAJOR PROJECT UPDATES

Mexico Midstream Opportunities

As part of our geographic expansion in select global markets, we are pursuing midstream opportunities in Mexico. In the fourth quarter of 2017, ATCO and CYDSA S.A.B. de C.V. (CYDSA) announced the signing of a Memorandum of Understanding that will see the two companies work together to explore and develop midstream opportunities in Mexico's oil and gas industry. The initial focus will be on underground hydrocarbon storage in salt cavern formations and depleted reservoirs, and will also include opportunities in gas gathering and processing, natural gas liquids (NGL) extraction and fractionation.

Urban Pipelines Replacement Program

The Urban Pipelines Replacement (UPR) project is replacing and relocating aging, high-pressure natural gas pipelines in densely populated areas of Calgary and Edmonton to address safety, reliability and future growth. Construction is expected to be complete in 2020 and the total cost of the UPR project is estimated to be $850 million. Natural gas distribution and natural gas transmission invested $205 million in the UPR project in 2017 and $653 million since the program's inception.

Mains Replacement Program

Natural gas distribution has 8,000 km of plastic pipe and 9,000 km of steel pipe that have been identified for replacement. The Plastic Mains Replacement program commenced in 2011 and is a 20-year program aimed at replacing polyvinyl chloride (PVC) and early generation polyethylene (PE) pipe. Natural gas distribution replaced 286 km of plastic pipe in 2017 and 1,727 km since the program's inception.

The Steel Mains Replacement program replaces steel pipe that is generally more than 60 years old. Natural gas distribution replaced 57 km of steel pipe in 2017 and 288 km since the program's inception.

Hydrocarbon Storage

Together with our partner, we are 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. We are the facility operator and have a 60 per cent partnership interest.

The first two caverns are in service with earnings starting in the fourth quarter of 2016. The two remaining caverns are expected to be completed in the first quarter of 2018.

Industrial Water

In the fourth quarter of 2017, we entered into a long-term commercial agreement with Inter Pipeline Ltd. to provide water services to Inter Pipeline's newly authorized integrated propane dehydrogenation and polypropylene plant to be known as the Heartland Petrochemical Complex. The water services contract will commence by 2021 with final determination of timing subject to customer notice, which is expected in the first quarter of 2018.

With the addition of these services, we continue to grow the Company’s suite of water and wastewater services for industrial customers throughout Alberta’s Industrial Heartland.

International Natural Gas Transmission - Mexico Tula Pipeline

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

CORPORATE & OTHER

Our Corporate & Other segment includes Retail Energy through ATCOenergy, launched in 2016 to provide retail electricity and natural gas services in Alberta, and the commercial real estate we own in Alberta. Corporate & Other also includes our global corporate head office in Calgary, Canada and our Australia corporate head office in Perth, Western Australia.

Including eliminations, Corporate & Other adjusted earnings in the fourth quarter and full year of 2017 were $8 million and $7 million higher than the same periods in 2016, mainly due to improved results in Retail Energy from a growing customer portfolio.

REGULATORY DEVELOPMENTS

REGULATED BUSINESS MODELS

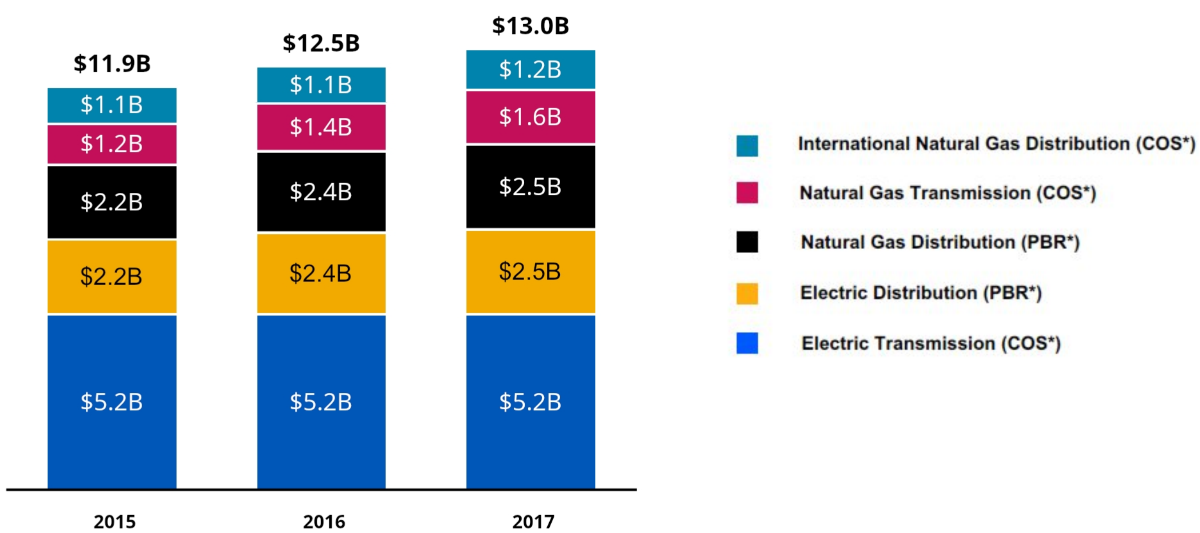
The business operations of electric distribution, electric transmission, natural gas distribution and natural gas transmission are regulated mainly by the AUC. The AUC administers acts and regulations covering such matters as rates, financing and service area.

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

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

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

Regulated Utilities Mid-Year Rate Base



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

GENERIC COST OF CAPITAL (GCOC)

On July 5, 2017, the AUC established a full proceeding schedule for a 2018, 2019 and 2020 GCOC proceeding. Submissions were filed October 31, 2017 with a hearing set for March 2018. The AUC has indicated its intention to issue a decision prior to the end of 2018.

The following table contains the ROE and deemed common equity ratios resulting from the most recent GCOC decisions. The information reflects the most recent amending or varying orders issued after the original decision date. The table also contains the mid-year rate base for each Alberta utility.

	Year	AUC Decision	Rate of Return on Common Equity (%) (1)	Common Equity Ratio (%) (2)	Mid-Year Rate Base ($ millions)
Electric Distribution	**2017**	**2016 GCOC (3)**	**8.50**	**37.0**	**2,476 (4)**
	2016	2016 GCOC (3)	8.30	37.0	2,361 (5)
	2015	2013 GCOC (6)	8.30	38.0	2,228 (5)
Electric Transmission	**2017**	**2016 GCOC (3)**	**8.50 (7)**	**37.0**	**5,227 (8)**
	2016	2016 GCOC (3)	8.30 (7)	37.0	5,236 (5)
	2015	2013 GCOC (6)	8.30	36.0	5,198 (5)
Natural Gas Distribution	**2017**	**2016 GCOC (3)**	**8.50**	**37.0**	**2,537 (4)**
	2016	2016 GCOC (3)	8.30	37.0	2,369 (5)
	2015	2013 GCOC (6)	8.30	38.0	2,189 (5)
Natural Gas Transmission	**2017**	**2016 GCOC (3)**	**8.50**	**37.0**	**1,633 (9)**
	2016	2016 GCOC (3)	8.30	37.0	1,407 (5)
	2015	2013 GCOC (6)	8.30	37.0	1,206 (5)

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

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

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

(4) The mid-year rate base for 2017 is based on the 2018 to 2022 PBR Rebasing Application filed on August 16, 2017 and includes estimated mid-year work in progress of $86 million for Electric Distribution and $73 million for Natural Gas Distribution.

(5) The mid-year rate base for 2015 and 2016 is based on the Rule 005 Actuals Package and includes mid-year work in progress.

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

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

(8) The mid-year rate base for 2017 is based on the 2018 to 2019 GTA application filed on June 16, 2017 and includes mid-year work in progress.

(9) The mid-year rate base for 2017 is based on the 2017 to 2018 General Rate Application filed on October 2, 2017 and includes mid-year work in progress.

International Natural Gas Distribution Access Arrangement Decision

International natural gas distribution's current Access Arrangement period (AA4) is in place from July 2014 to December 2019.

The following table contains the ROE and deemed common equity ratios from the current Access Arrangement. The table also contains the mid-year rate base.

	Year	ERA Decision	Rate of Return on Common Equity (%) (1)	Common Equity Ratio (%) (2)	Mid-Year Rate Base ($ millions)
International Natural Gas Distribution	**2017**	**2016 AA4 (3)**	**7.21**	**40.0**	**1,177**
	2016	2016 AA4 (3)	7.21	40.0	1,111
	2015	2016 AA4 (3)	7.21	40.0	1,083

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

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

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

NEXT GENERATION OF PERFORMANCE BASED REGULATION

On December 16, 2016, the AUC released its decision on the second generation PBR plan framework for electricity and natural gas distribution utilities in Alberta. Under the 2018 to 2022 second generation PBR framework, utility rates will continue to be adjusted by a formula that estimates inflation annually and assumes productivity improvements. The framework also contains modified provisions for supplemental funding of capital expenditures that are not recovered as part of the base inflation less productivity formula. On February 5, 2018, the AUC released a regulatory decision that provides determinations for the going-in rates and incremental capital funding for the second generation of PBR.

The following table compares the key aspects of the PBR First Generation with the PBR Second Generation based on the AUC's February 5, 2018 decision.

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

ALBERTA UTILITIES REGULATORY DEVELOPMENTS

Utility Asset Disposition

On October 11, 2017, the Alberta Department of Energy commenced its Utility Asset Disposition Stakeholder Engagement process to review the allocation of gains and losses associated with utility assets that are no longer used or useful for utility service. This includes assets that are sold to third parties, transferred to non-utility use, or stranded by unforeseen events or obsolescence. Following the engagement process, a policy recommendation will be made to the Government of Alberta with any legislative changes expected be made in the spring of 2018.

ELECTRIC TRANSMISSION REGULATORY DEVELOPMENTS

ATCO Electric Transmission 2013 to 2014 Deferral Accounts Application

On September 20, 2017, the AUC issued a decision on Electric Transmission's 2013 to 2014 Deferral Accounts Application. The application included $824 million of capital expenditures for the 35 direct-assigned AESO projects that went into service in 2013 and 2014. While the decision approved the inclusion of the vast majority of the capital expenditures into rate base, it resulted in a decrease to third quarter 2017 adjusted earnings of $4 million, mainly due to lower taxes that will be refunded to customers, all of which related to years prior to 2017.

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

Review and Variance

On March 16, 2017, the AUC issued a decision on the Review and Variance Application relating to the 2015 to 2017 GTA. The application requested that the AUC review and vary the 2015 to 2017 GTA decision findings for severance costs, line insurance, head office allocations, 2015 capital maintenance costs and 2013-2014 tax deductions. While the decision denied the review and vary request for the tax deductions, line insurance and head office allocations, the AUC agreed with our positions on 2015 capital maintenance costs and a variety of calculation errors. The impact of this decision was an increase to first quarter 2017 adjusted earnings of $2 million, most of which related to prior years.

Compliance Filing

On June 19, 2017, the AUC issued a decision on Electric Transmission's Compliance Filing relating to its 2015 to 2017 GTA. The decision adjusted Electric Transmission's 2016 and 2017 forecast allocation of labour costs between operating and maintenance expense and capital, which resulted in a decrease to second quarter 2017 adjusted earnings of $4 million, of which $3 million related to prior years.

ATCO Electric Transmission 2018 to 2019 General Tariff Application (GTA)

On June 16, 2017, Electric Transmission filed a GTA for its operations for 2018 and 2019. The application requests, among other things, additional revenues to recover higher depreciation, operating costs and financing associated with increased rate base in Alberta. The application also requests approval to refund amounts collected from 2013-2016 for Construction Work in Progress (CWIP), which will result in a reduction in applied-for revenues for 2018 and 2019 as compared to 2017. This request, if approved, will also result in an increase to 2018 and 2019 rate base of approximately $130 million per year. On December 18, 2017, the AUC issued its decision on the interim tariff for 2018 which set an interim tariff based on a continuation of the 2017 revenue requirement. The proposed CWIP in rate-base refund will be addressed with the final approved tariff. This decision is expected in the fourth quarter of 2018.

Electric Transmission Asset Utilization Proceeding

On June 20, 2017, the AUC publicly announced its intention to commence a proceeding to consider the issue of asset utilization for electric transmission infrastructure, and how the corporate and property law principles referenced in the 2013 Utility Asset Disposition decision may relate. The AUC has not yet commenced this proceeding.

NATURAL GAS TRANSMISSION REGULATORY DEVELOPMENTS

ATCO Pipelines 2017 to 2018 General Rate Application (GRA)

On August 29, 2017, ATCO Pipelines received a decision from the AUC regarding its 2017 to 2018 GRA. The decision largely approved the application as filed, with the exception of some changes to property, plant and equipment depreciation rates. ATCO Pipelines rates are in place on a prospective basis until the end of 2018.

SUSTAINABILITY, CLIMATE CHANGE AND THE ENVIRONMENT

We believe that reducing our environmental impact is integral to the pursuit of operational excellence and long-term sustainable growth. Our success depends on our ability to operate in a responsible and sustainable manner, today and in the future.

SUSTAINABILITY REPORTING

ATCO has been publishing external sustainability reports since 2008. Reporting is based upon the internationally recognized Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, covering a broad spectrum of metrics.

Priority has been placed on reporting core non-financial indicators to provide meaningful efficient and transparent disclosure in priority areas for customers of our sustainability reporting, namely investors, business partners, customers, communities, Indigenous groups, employees and government.

Our 2017 Sustainability Report, expected to be released in June 2018, will focus on key material topics including:

- Energy Stewardship: access and affordability, security and reliability, and customer satisfaction,
- Environmental Stewardship: climate change and energy use, and environmental compliance,
- Safety: employee health and safety, public safety, and emergency preparedness, and
- Community and Indigenous Relations.

The 2017 Sustainability Report will be available on our website, at www.ATCO.com.

CLIMATE CHANGE AND THE ENVIRONMENT

Carbon Competitiveness Incentive Regulation

The details of the Carbon Competitiveness Incentive Regulation (CCIR) were released by the Government of Alberta on December 6, 2017. The CCIR outlines the carbon obligation for Large Final Emitters including those in the Electricity Sector. The carbon price and Output-based Allocation (OBA) of 0.37 Tonnes CO2e/MWh were in the range that ATCO anticipated. The carbon cost to thermal generators (including coal) is expected to be largely recovered as a result of associated higher prices in Alberta's electricity market.

Phasing in of Renewable Electricity

As part of its Climate Leadership Plan, the Government of Alberta has published a firm target that 30 per cent of electricity used in Alberta will come from renewable sources such as wind, hydro and solar by 2030. The Government will support 5,000 MW of additional renewable energy capacity. Support will be provided to projects that are based in Alberta, are new or expanded, are greater than five MW in size, and meet the definition of renewable sources as defined by Natural Resources Canada. In December 2017, the Government of Alberta announced the contracts awarded for the first phase auction of the renewable electricity program, totaling 600 MW. On February 5, 2018, the Government of Alberta announced the next two auctions totaling 700 MW; further details are expected at the end of February 2018.

On May 10, 2017, the Government of Alberta issued a Negotiated Request for Proposal (NRFP). This proposal aims to spur the development of approximately 75 MW of solar generation through the purchase of Renewable Energy Credits from new solar facilities. ATCO is participating in the proposal in partnership with Samsung in the form of three 25 MW solar projects. ATCO is awaiting a final decision on the NRFP.

Tax on Carbon Emissions

The Government of Alberta is phasing in a carbon tax across all sectors. An economy-wide carbon tax of $20 per tonne was implemented in 2017, increasing to $30 per tonne carbon tax in 2018, $40 per tonne in 2021 and $50 per tonne in 2022.

Our natural gas distribution business is impacted by the Alberta economy-wide tax on carbon or carbon levy implemented in 2017. ATCO calculates consumption from the meter and applies the levy to the tariff bill file for retailers to bill customers. The retailers pay ATCO and ATCO is responsible for monthly remittance to the Government of Alberta. This is the same process ATCO carries out on behalf of the Government for collecting and remitting GST.

For ATCO Thermal PPA Plants, Battle River unit 5 and Sheerness units 1 and 2, the PPAs allow the Company to recover costs of compliance with Government of Alberta regulations through the term of the PPAs. If the costs are for operations after the PPA term, the plant owner, not the PPA counterparty, bears the burden of these costs. Longer term, we anticipate the carbon taxes that electricity generation plants incur will be largely recovered through the Alberta capacity and energy market.

Methane Emissions

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

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

In addition, the Government of Canada has announced a target to reduce methane to 40 per cent below 2012 levels by 2025.

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

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the fourth quarter and full year of 2017 and 2016 is given below. These amounts are presented in accordance with IFRS accounting standards. They have not been adjusted for the timing of revenues and expenses associated with rate-regulated activities and other items that are not in the normal course of business.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Operating costs	**784**	527	257	**2,407**	2,088	319
Service concession arrangement costs	**132**	69	63	**456**	69	387
Gain on sale of joint operation	–	–	–	–	18	(18)
Earnings from investment in joint ventures	**7**	9	(2)	**23**	22	1
Depreciation, amortization and impairment	**195**	153	42	**670**	615	55
Net finance costs	**114**	96	18	**406**	380	26
Income taxes	**20**	92	(72)	**163**	258	(95)

OPERATING COSTS

Operating costs, which are total costs and expenses less service concession arrangement costs and depreciation and amortization, increased by $257 million in the fourth quarter and $319 million in the full year of 2017 compared to the same periods in 2016. Increased costs were mainly due to higher unrealized losses on mark-to-market forward commodity contracts, an accounting reclassification of a finance lease, and higher operating costs associated with the ramp up of the retail energy business, commensurate with higher revenues in this business.

SERVICE CONCESSION ARRANGEMENT COSTS

Service concession arrangement costs in the fourth quarter and full year of 2017 are costs Alberta PowerLine has recorded on third party design, planning and construction activities for the Fort McMurray West 500-kV Project.

GAIN ON SALE OF JOINT OPERATION

In 2016, we sold our 51.3 per cent ownership interest in the Edmonton Ethane Extraction Plant, which resulted in a gain of $18 million.

EARNINGS FROM INVESTMENT IN JOINT VENTURES

Earnings from investment in joint ventures is mainly comprised of our ownership position in several electricity generation plants, the Strathcona Storage Limited Partnership which operates hydrocarbon storage facilities near Fort Saskatchewan, Alberta, ATCO-Sabinco S.A which operates a Structures & Logistics business in Chile, and certain lodge assets in Structures & Logistics. Earnings in the fourth quarter of 2017 decreased by $2 million when compared to the same period in 2016, mainly due to lower earnings contributions from Creeburn Lake Lodge in Structures and Logistics. Earnings for the full year of 2017 were comparable to the same period in 2016.

DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In the fourth quarter and full year of 2017, depreciation, amortization and impairment expense increased by $42 million and $55 million when compared to the same periods in 2016, mainly due to the ongoing capital investment program in our Regulated Utilities and the impairment on workforce housing assets in Structures & Logistics during the fourth quarter of 2017.

NET FINANCE COSTS

Net finance costs increased in the fourth quarter and full year of 2017 when compared to the same periods in 2016, mainly as a result of incremental debt issued to fund the ongoing capital investment program in our Regulated Utilities.

INCOME TAXES

Income taxes decreased in the fourth quarter and full year of 2017 when compared to the same periods in 2016, mainly due to lower earnings before income taxes in the fourth quarter and full year of 2017.

United States of America Tax Reform

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 was signed into legislation. As a result of this legislation being enacted during 2017, the Company is required to revalue its U.S. deferred income tax assets and liabilities based on the new 27 per cent effective income tax rate which was previously set at 35 per cent. The change in income tax rates had an immaterial impact on ATCO Structures & Logistics (U.S.A.) Inc.'s deferred income tax liability.

There is expected to be no future impact to ATCO's Adjusted Earnings or Funds Generated by Operations, other than the impact of a lower effective tax rate for ATCO Structures & Logistics (U.S.A.) Inc.'s taxable income.

LIQUIDITY AND CAPITAL RESOURCES

Our financial position is supported by Regulated Utility and long-term contracted operations. Our 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).

We consider 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.

The following table shows the current credit ratings assigned to ATCO Ltd., Canadian Utilities Limited, CU Inc., and ATCO Gas Australia Limited Partnership.

	DBRS	S&P
ATCO Ltd.		
Issuer	A (low)	A-
Canadian Utilities Limited		
Issuer	A	A-
Senior unsecured debt	A	BBB+
Commercial paper	R-1 (low)	A-1 (low)
Preferred shares	PFD-2 (high)	P-2
CU Inc.		
Issuer and senior unsecured debt	A (high)	A-
Commercial paper	R-1 (low)	A-1 (low)
Preferred shares	PFD-2 (high)	P-2
ATCO Gas Australia Limited Partnership (1)		
Issuer and senior unsecured debt	N/A	BBB+

(1) ATCO Gas Australia Limited Partnership holds the long-term debt for ATCO Gas Australia Pty Ltd.

DBRS Limited

In July 2017, DBRS Limited (DBRS) affirmed its 'A (high)' issuer rating and stable trend on ATCO Ltd. subsidiary CU Inc. In August 2017, DBRS affirmed its 'A' issuer rating and stable trend on ATCO Ltd. subsidiary Canadian Utilities Limited. In September 2017, DBRS affirmed its 'A (low)' issuer rating and stable trend on ATCO Ltd.

Standard & Poor's

In July 2017, Standard & Poor's (S&P) revised its issuer rating from 'A' with a negative outlook to 'A-' with a stable outlook on ATCO Ltd. and our subsidiaries Canadian Utilities Limited and CU Inc.

In September 2017, S&P revised its rating on Canadian Utilities Limited's senior unsecured debt from 'A-' to 'BBB+'. In the associated publication, S&P clarified that "This rating action stems solely from the application of our revised issue rating criteria and does not reflect any change in our assessment of the 'A-' corporate credit rating on CUL."

In July 2017, S&P revised its issuer rating from 'A-' to 'BBB+' with a stable outlook for Canadian Utilities Limited subsidiary ATCO Gas Australia Limited Partnership as a result of the above noted rating criteria change.

Alberta PowerLine Limited Partnership

In September 2017, Alberta PowerLine Limited Partnership's senior secured bonds received an 'A (low)' rating with a stable trend from DBRS and an 'A2' rating with a stable outlook from Moody's Investors Service.

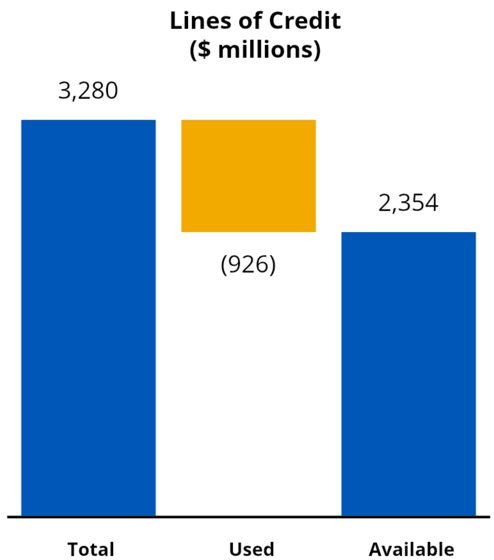
LINES OF CREDIT

At December 31, 2017, ATCO and its subsidiaries had the following lines of credit.

($ millions)	Total	Used	Available
Long-term committed	**2,540**	563	1,977
Short-term committed	**165**	17	148
Uncommitted	**575**	346	229
Total	**3,280**	926	2,354

Of the $3,280 million in total credit lines, $575 million was in the form of uncommitted credit facilities with no set maturity date. The other $2,705 million in credit lines were committed, with $165 million maturing in 2018. The remaining credit lines mature between 2019 and 2021 and may be extended at the option of the lenders.

Of the $926 million credit line usage, approximately half related to letter of credit issuances, with the majority of the remaining usage pertaining to ATCO Gas Australia Limited Partnership. Long-term committed credit lines are used to satisfy all of ATCO Gas Australia Limited Partnership's term debt financing needs. Credit lines for ATCO Gas Australia Limited Partnership are provided by Australian banks, with the majority of all other credit lines provided by Canadian banks.



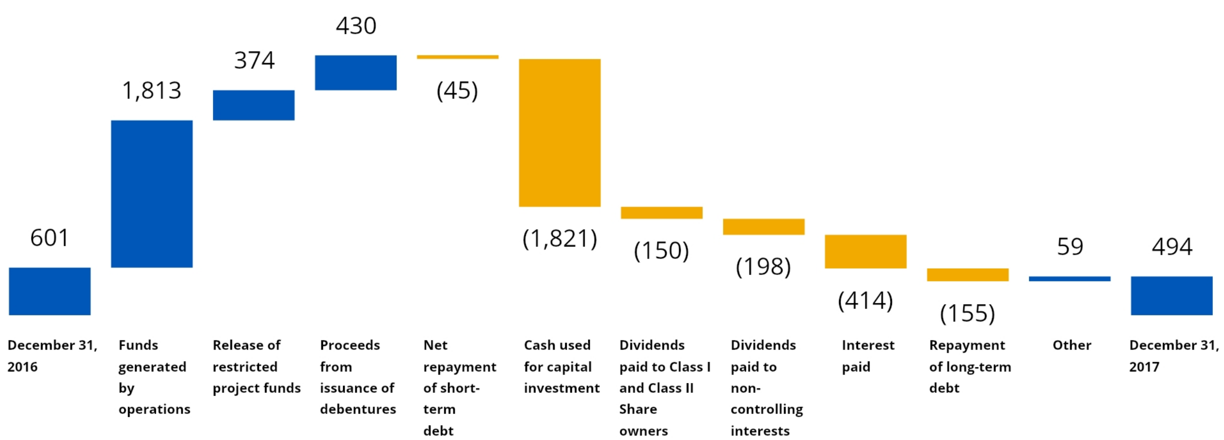
CONSOLIDATED CASH FLOW

At December 31, 2017, the Company's cash position was $494 million, an decrease of $107 million compared to December 31, 2016. Major movements are outlined in the following table:

($ millions)	Three Months Ended December 31 2017	2016	Change	Year Ended December 31 2017	2016	Change
Funds generated by operations	**463**	600	(137)	**1,813**	1,912	(99)
Release of restricted project funds [1]	**374**	_	374	**374**	_	374
Proceeds on sales of operations	_	_	_	_	21	(21)
Proceeds from issuance of debentures (long-term debt)	**430**	375	55	**430**	375	55
Net (repayment) issue of short-term debt	**(515)**	(320)	(195)	**(45)**	55	(100)
Cash used for capital investment	**(586)**	(467)	(119)	**(1,821)**	(1,609)	(212)
Dividends paid to Class I and Class II Share owners	**(37)**	(33)	(4)	**(150)**	(131)	(19)
Dividends paid to non-controlling interests	**(50)**	(46)	(4)	**(198)**	(187)	(11)
Interest paid	**(116)**	(107)	(9)	**(414)**	(394)	(20)
Repayment of long-term debt	**(152)**	(3)	(149)	**(155)**	(144)	(11)
Other	**(37)**	(98)	61	**59**	(96)	155
Increase (decrease) in cash position	**(226)**	(99)	(127)	**(107)**	(198)	91

(1) On October 2, 2017, Alberta PowerLine (APL), a partnership in which our subsidiary, Canadian Utilities, has an 80 per cent ownership interest, issued non-recourse long-term debt consisting of $1.385 billion Senior Secured Nominal Amortizing Bonds. At December 31, 2017, Alberta PowerLine (APL) had $965 million of funds restricted under the terms of APL's non-recourse long-term debt financing agreement. The restricted project funds are considered not available for general use by the Company. Refer to Note 10 of the 2017 Consolidated Financial Statements for additional information regarding Restricted Project Funds.

Changes in Consolidated Cash Flow in 2017
($ millions)



Funds Generated by Operations

Funds generated by operations were $463 million in the fourth quarter of 2017 and $1,813 million in the full year of 2017, $137 million and $99 million lower than the same periods in 2016. The decrease was mainly due to lower earnings and lower customer contributions received for utility capital expenditures.

Cash Used for Capital Investment

Cash used for capital investment was $586 million in the fourth quarter and $1,821 million in the full year of 2017, $119 million and $212 million higher than the same periods in 2016, mainly due to increased spending in Alberta PowerLine, the replacement of aging infrastructure, system upgrades, and growth projects for new customers.

Capital investment for the fourth quarter and full year of 2017 and 2016 is shown in the table below.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Electricity						
Electricity Distribution	**66**	83	(17)	**227**	267	(40)
Electricity Transmission	**83**	43	40	**211**	203	8
Electricity Generation	**10**	24	(14)	**24**	108	(84)
Alberta PowerLine	**132**	26	106	**456**	69	387
Total Electricity	**291**	176	115	**918**	647	271
Pipelines & Liquids						
Natural Gas Distribution	**113**	92	21	**372**	336	36
Natural Gas Transmission	**109**	115	(6)	**297**	252	45
International Natural Gas Distribution	**27**	27	–	**92**	90	2
International Natural Gas Transmission and Storage & Industrial Water	**5**	17	(12)	**21**	112	(91)
Total Pipelines & Liquids	**254**	251	3	**782**	790	(8)
Structures & Logistics	**11**	15	(4)	**37**	97	(60)
Corporate & Other	**30**	25	5	**84**	75	9
Total (1) (2)	**586**	467	119	**1,821**	1,609	212

(1) Includes capital expenditures in joint ventures of $6 million and $17 million (2016 - $14 million and $89 million) for the fourth quarter and full year of 2017.

(2) Includes additions to property, plant and equipment, intangibles and $4 million and $19 million (2016 - $4 million and $18 million) of interest capitalized during construction for the fourth quarter and full year of 2017.

Debt Issuances and Repayments

On October 2, 2017, Alberta PowerLine (APL), a partnership in which our subsidiary Canadian Utilities has an 80 per cent ownership interest, issued non-recourse long-term debt consisting of $1.385 billion Senior Secured Amortizing Bonds. The financing was completed by way of a private placement and is comprised of $549 million of 4.065 per cent Series A Bonds due December 1, 2053, $548 million of 4.065 per cent Series B Bonds due March 1, 2054, $144 million of 3.351 per cent Series C Bonds due September 1, 2032, and $144 million of 3.340 per cent Series D Bonds due June 1, 2032. The net proceeds of the financing will be used to fund the construction of APL's Fort McMurray West 500-kV Project.

On November 22, 2017, CU Inc. issued $430 million of 3.548 per cent 30-year debentures. Proceeds from this issuance were used to fund capital investments, to repay existing indebtedness, and for other general corporate purposes of the Alberta Utilities.

CU Inc. also repaid $150 million of 6.145 per cent debentures at maturity on November 22, 2017.

Base Shelf Prospectuses

CU Inc. Debentures

On May 16, 2016, CU Inc. filed a base shelf prospectus that permits it to issue up to an aggregate of $1.5 billion of debentures over the 25-month life of the prospectus. As of February 21, 2018, aggregate issuances of debentures were $805 million, with $375 million issued in 2016 and $430 million issued in 2017.

Canadian Utilities Debt Securities and Preferred Shares

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

Dividends and Common Shares

We have increased our common share dividend each year since 1993, a 25 year track record. Dividends paid to Class I and Class II Share owners totaled $37 million in the fourth quarter and $150 million in the full year of 2017.

On January 11, 2018 the Board of Directors declared a first quarter dividend of 37.66 cents per share, a 15 per cent increase over the dividend paid in each of the previous four quarters. The payment of any dividend is at the discretion of the Board of Directors and depends on our financial condition and other factors.

25 year

track record of increasing common share dividends

Normal Course Issuer Bid

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

On March 1, 2016, we commenced a normal course issuer bid to purchase up to 3,043,884 outstanding Class I Shares. The bid expired on February 28, 2017. On March 8, 2017 we commenced a normal course issuer bid to purchase up to 3,037,065 outstanding Class I Shares. The bid will expire on March 7, 2018.

During the year ended December 31, 2017, 35,000 shares were purchased for $2 million.

Canadian Utilities Dividend Reinvestment Plan

In the fourth quarter of 2017, Canadian Utilities issued 367,059 Class A non-voting shares under its DRIP in lieu of cash dividend payments of $14 million.

During the year ended December 31, 2017, Canadian Utilities issued 2,388,770 (2016 - 1,484,241) Class A non-voting shares under its DRIP in lieu of cash dividend payments of $90 million (2016 - $52 million). ATCO Ltd. elected to receive 862,822 Class A non-voting shares in lieu of cash dividends of $32 million in 2017. ATCO did not participate in the DRIP in 2016.

SHARE CAPITAL

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

At February 20, 2018, we had outstanding 101,336,273 Class I Shares, 13,323,455 Class II Shares, and options to purchase 725,950 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, except for voting rights.

Of the 10,200,000 Class I Shares authorized for grant of options under our stock option plan, 2,632,550 Class I Shares were available for issuance at December 31, 2017. Options may be granted to our 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

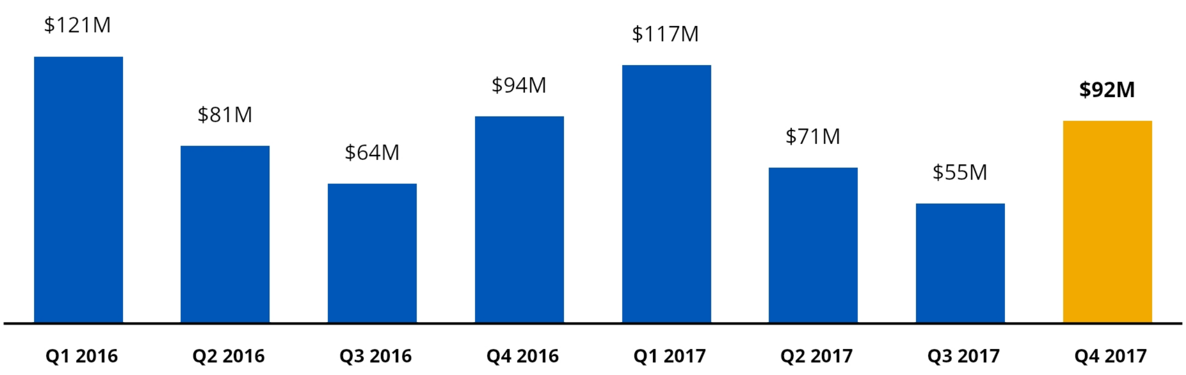
The following table shows financial information for the eight quarters ended January 1, 2016 through December 31, 2017.

($ millions, except for per share data)	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Revenues	1,115	1,065	1,067	**1,294**
Earnings attributable to Class I and Class II Shares	101	44	46	**12**
Earnings per Class I and Class II Share *($)*	0.88	0.39	0.40	**0.11**
Diluted earnings per Class I and Class II Share *($)*	0.87	0.39	0.40	**0.11**
Adjusted earnings				
Structures & Logistics	–	3	1	**2**
Electricity	63	53	47	**47**
Pipelines & Liquids	59	23	13	**49**
Corporate & Other and Intersegment Eliminations	(5)	(8)	(6)	**(6)**
Total adjusted earnings	117	71	55	**92**

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

Adjusted Earnings

Our financial results for the previous eight quarters reflect continued growth in our Regulated Utility operations as well as fluctuating commodity prices in electricity generation and sales, and natural gas storage 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.

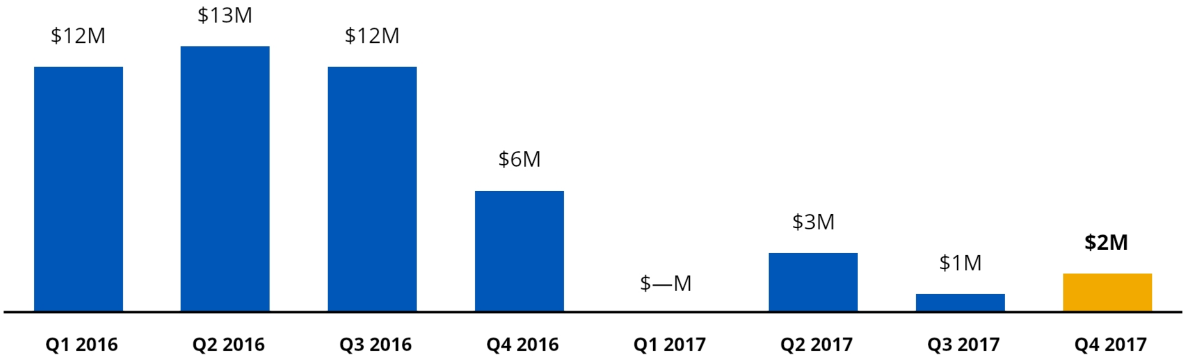


Structures & Logistics

Structures & Logistics' adjusted earnings are reflective of the cyclical nature of large natural resource project activity.

In the first nine months of 2016, earnings reflected continued strong Modular Structures manufacturing activity and high occupancy levels in the Lodging business. Lower fourth quarter 2016 earnings were mainly due to the completion of major Modular Structures projects.

In 2017, earnings were lower due to lower profit margins across all business lines and decreased Modular Structures major project activity.

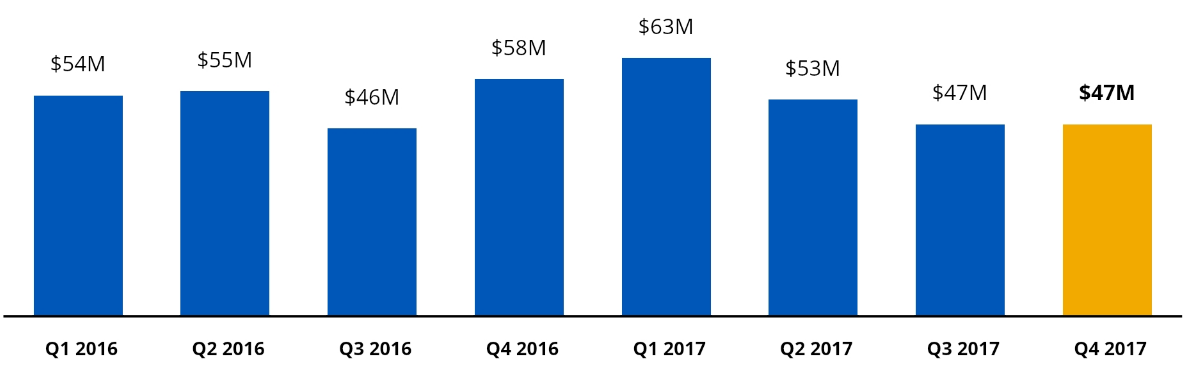


Electricity

Electricity's adjusted earnings reflect the large capital investment made by Regulated Electricity in the previous eight quarters. These investments, which earn a return under a regulated business model, drive growth in adjusted earnings. Adjusted earnings have also been affected by the timing of certain major regulatory decisions, and Alberta Power Pool pricing and spark spreads.

In 2016, earnings reflected continued capital investment and rate base growth and business-wide cost reduction initiatives. Lower earnings in the third quarter were due to the financial impact of electricity transmission's 2015 to 2017 General Tariff Application regulatory decision.

In 2017, higher first quarter earnings were mainly due to continued capital investment and rate base growth within Regulated Electricity and lower operating costs. Lower second quarter earnings were mainly due to the timing of operating and other costs in electric distribution, and the impact of the 2015 to 2017 GTA Compliance decision in electric transmission. Lower third quarter earnings were mainly due to the impact of the 2013 to 2014 Deferral Accounts decision in electric transmission. Fourth quarter earnings were lower mainly due to lower contributions in our electricity generation business from forward sales and increased business development expenses.

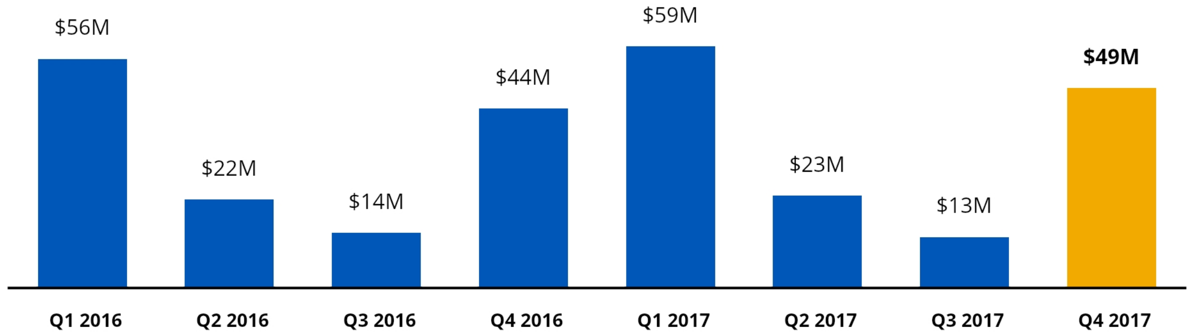


Pipelines & Liquids

Pipelines & Liquids' adjusted earnings reflect the large capital investment made by Regulated Pipelines & Liquids in the previous eight quarters. These investments, which earn a return under a regulated business model, drive growth in adjusted earnings. Adjusted earnings have also been affected by the timing of certain major regulatory decisions, seasonality, and commodity prices.

Earnings in the first quarter of 2016 reflected continued capital investment, growth in rate base and customers, and business-wide cost reduction initiatives. In the second and third quarters of 2016, lower earnings were due to lower seasonal demand in our natural gas distribution business.

In the first quarter of 2017, increased earnings were mainly due to continued capital investment and rate base growth. Lower earnings in the third quarter of 2017 were mainly due to warmer weather and inflation adjustments to rates in our international natural gas distribution business. Higher earnings in the fourth quarter of 2017 were primarily a result of higher rate base and customers.



Earnings Attributable to Class I and Class II Shares

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

- In the fourth quarter of 2017, impairment charges of $23 million after tax and non-controlling interests were recorded relating to Structures & Logistics’ workforce housing assets.
- Each quarter, the Company adjusts the deferred tax asset which was recognized as a result of the 2015 Tula Pipeline Project impairment. The adjustments of less than $1 million in 2017 and $5 million in 2016 are due to a difference between the tax base currency, which is the Mexican peso, and the U.S. dollar functional currency.
- In the first quarter of 2016, we recorded a gain on sale of joint operations of $7 million for the sale of our 51.3 per cent interest in the Edmonton Ethane Extraction Plant.

BUSINESS RISKS AND RISK MANAGEMENT

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

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

We have an established enterprise risk management process that allows us to identify and evaluate our risks by both severity of impact and probability of occurrence. Materiality thresholds are reviewed annually by the Audit & Risk Committee. Non-financial risks that may have an impact on the safety of our employees, customers or the general public and reputation risks are also evaluated. The following table outlines our current significant risks and associated mitigations.

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

Business Risk: Climate Change

Businesses Impacted:

- Non-regulated Electricity
- Modular Structures

Associated Strategies:

- Operational Excellence
- Innovation

Description and Context	***Risk Management Approach***
Legislative Risks In November 2015, the Government of Alberta 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. ATCO's Modular Structures' rental fleet has historically played an important role in servicing the oil & gas industry in Alberta. Provincial climate policies that adversely impact the economic viability of oil & gas operations present a stranded asset risk to rental fleet assets in the short to medium term. **Physical Risks** Physical risks associated with climate change may include an increase in extreme weather events such as heavy rainfall, floods, wildfires, extreme winds and ice storms, or changing weather patterns that cause on-going impacts to seasonal temperatures.	**Legislative Risks** Compensation for the early phase out of any coal units was resolved with the Alberta provincial government in the fourth quarter of 2016. ATCO is evaluating the business case regarding a coal-to-gas conversion of its coal-fired electricity. This conversion would involve capital expenditures and would potentially extend the life span of the units. Broader coal-to-gas conversions present an opportunity for increased demand for natural gas transmission and distribution infrastructure investment in the near to medium term. ATCO estimates that charges assessed to its gas-fired generation will be largely recovered through the market. The Company’s exposure is limited for the Alberta Utilities because future GHG emission charges are expected to be recovered in rates, and because future requirements to upgrade equipment to further reduce methane emissions are expected to be included in rate base on a go-forward basis. The Modular Structures business is making plans to repurpose its Alberta rental fleet for other uses and dispatch underutilized portions of the rental fleet to jurisdictions outside of Alberta. **Physical Risks** The majority of the Company's pipeline network is in the ground, making it less susceptible to extreme weather events. Assets above ground or on water crossings are exposed to extreme weather events. The Company follows regulated engineering code and, where appropriate, submits regulatory applications for capital expenditures aimed at creating greater system reliability and resiliency consistent with the code. The Company maintains in-depth emergency response measures for extreme weather events.

<table>
<tr><td colspan="2">Business Risk: Credit Risk</td></tr>
<tr><td>Businesses Impacted:
• All businesses</td><td>Associated Strategies:
• Financial Strength</td></tr>
<tr><td>Description and Context</td><td>Risk Management Approach</td></tr>
<tr><td>For cash and cash equivalents and accounts receivable, credit risk represents the carrying amount on the consolidated balance sheet. Derivative, lease receivable and receivable under service concession arrangement credit risk arises from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. The maximum exposure to credit risk is the carrying value of loans and receivables and derivative financial instruments.</td><td>Cash and cash equivalents credit risk is reduced by investing in instruments issued by credit-worthy financial institutions and in federal government issued short-term instruments.

The Company minimizes other credit risks by dealing with credit-worthy counterparties, following established credit-approval policies, and requiring credit security, such as letters of credit.

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. The Alberta Utilities are able to recover an estimate for doubtful accounts through approved customer rates and to request recovery through customer rates for any material losses from retailers beyond the retailer security mandated by provincial regulations.</td></tr>
</table>

<table>
<tr><td colspan="2">Business Risk: Cybersecurity</td></tr>
<tr><td>Businesses Impacted:
• All businesses</td><td>Associated Strategies:
• Operational Excellence • Innovation</td></tr>
<tr><td>Description and Context</td><td>Risk Management Approach</td></tr>
<tr><td>The Company's reliance on technology, which supports its information and industrial control systems, is subject to potential cyber attacks including unauthorized access of confidential information and outage of critical infrastructure.</td><td>ATCO has an enterprise wide cybersecurity program that covers all technology assets. The cybersecurity program includes the utilization of layered access controls, continuous monitoring, network threat detection, and coordinated incident response through a centralized information technology response centre. The Company's cybersecurity management is consolidated under a common organizational structure to increase effectiveness and compliance across the entire enterprise.</td></tr>
</table>

Business Risk: Energy Commodity Price	
Businesses Impacted: • Non-regulated Electricity • Non-regulated Pipelines & Liquids • Retail Energy	**Associated Strategies:** • Financial Strength
Description and Context	***Risk Management Approach***
Independent Power Plant's and Retail Energy's earnings are affected by short-term price volatility. Changes to the power reserve margin (electricity 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. Storage & Industrial Water's natural gas storage facility in Carbon, Alberta, is also exposed to storage price differentials.	In conducting its business, the Company may use various instruments, including forward contracts, swaps, and options to manage the risks arising from fluctuations in commodity prices. The Company enters into natural gas purchase contracts and forward power sales contracts as the hedging instrument to manage the exposure to electricity and natural gas market price movements. Under IFRS accounting, entering into hedging instruments may result in mark-to-market adjustments that are recorded as unrealized gains or losses on the income statement. Realized gains or losses are recognized in adjusted earnings and IFRS earnings when the commodity contracts are settled. In addition, Retail Energy monitors forward curves in order to ensure it is not promoting product offerings that are unfavourable to the Company.

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

Business Risk: Foreign Currency Exchange Rate	
Businesses Impacted: • Non-regulated Electricity • Regulated Pipelines & Liquids • Structures & Logistics	**Associated Strategies:** • Financial Strength
Description and Context	***Risk Management Approach***
The Company's earnings from, and carrying values of, its foreign operations are exposed to fluctuations in exchange rates. The Company is also exposed to transactional foreign exchange risk through transactions denominated in a foreign currency.	In conducting its business, the Company may use various instruments, including forward contracts, swaps, and options, to manage the risks arising from fluctuations in exchange rates. All such instruments are used only to manage risk and not for trading purposes. This foreign exchange impact is partially offset by foreign denominated financing and by hedging activities. The Company manages this risk through its policy of matching revenues and expenses in the same currency. When matching is not possible, the Company may utilize foreign currency forward contracts to manage the risk.

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

<table>
<tr><td colspan="2">Business Risk: Interest Rate</td></tr>
<tr><td>Businesses Impacted:
• All businesses</td><td>Associated Strategies:
• Financial Strength</td></tr>
<tr><td>Description and Context</td><td>Risk Management Approach</td></tr>
<tr><td>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.</td><td>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, 2017, the Company had fixed interest rates, either directly or through interest rate swap agreements, on 99 per cent (2016 - 100 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.</td></tr>
</table>

<table>
<tr><td colspan="2">Business Risk: Natural Gas Supply</td></tr>
<tr><td>Businesses Impacted:
• Non-regulated Electricity
• Non-regulated Pipelines & Liquids</td><td>Associated Strategies:
• Financial Strength</td></tr>
<tr><td>Description and Context</td><td>Risk Management Approach</td></tr>
<tr><td>An Alberta natural gas transportation provider's curtailment protocol in 2017, along with increased supply, contributed to on-going low natural gas prices and presents operational risk of natural gas supply for ATCO's Alberta natural gas fired power plants and natural gas storage facilities. Further curtailments and maintenance are scheduled for multiple years into the future, which may result in outages and system constraints to natural gas transmission systems in Alberta.</td><td>Our electricity generation natural gas supply management approach is to obtain firm natural gas transport service for our downstream natural gas assets so that the risk of future gas supply curtailments or restrictions are minimized.

To reduce the impact to storage operations, we plan to structure our natural gas storage portfolio around the natural gas transportation provider's planned maintenance schedules to minimize the impact of natural gas supply curtailments.</td></tr>
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<table>
<tr><td colspan="3">Business Risk: Natural Resource Sector Business Cycles</td></tr>
<tr><td>Businesses Impacted:
• Structures & Logistics</td><td colspan="2">Associated Strategies:
• Growth
• Financial Strength
• Operational Excellence</td></tr>
<tr><td>Description and Context</td><td colspan="2">Risk Management Approach</td></tr>
<tr><td>Demand for Structures & Logistics' products and services is directly related to capital spending cycles and levels of development activity in various industries, primarily in the natural resources sector. Several key factors influence customers' decision-making on whether or not to purchase products and services offered by the Company. These factors include expected commodity prices, global economic and political conditions, and access to debt financing and equity capital. Any adverse impact on these key decision factors for a prolonged period could affect demand for the Company's products and services.</td><td colspan="2">Modular Structures' cost structure is weighted to variable costs which provides flexibility in moderating costs when project activity slows. The Structures & Logistics business is not a capital intensive business so market entry and exit costs are relatively low. A base of more stable earnings and cash flows exists within the 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.</td></tr>
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<table>
<tr><td colspan="3">Business Risk: Pipeline Integrity</td></tr>
<tr><td>Businesses Impacted:
• Regulated Pipelines & Liquids</td><td colspan="2">Associated Strategies:
• Operational Excellence
• Community Involvement</td></tr>
<tr><td>Description and Context</td><td colspan="2">Risk Management Approach</td></tr>
<tr><td>The Pipelines & Liquids Global Business Unit has significant pipeline infrastructure. Although the probability of a pipeline rupture is very low, the consequences of a failure can be severe.</td><td colspan="2">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 Natural Gas Distribution's and Natural Gas Transmission's UPR programs and Natural Gas Distribution's and International Natural Gas Distribution's mains replacement programs. The Company also carries property and liability insurance.</td></tr>
</table>

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

Business Risk: Liquidity	
Businesses Impacted: • All businesses	**Associated Strategies:** • Financial Strength
Description and Context	***Risk Management Approach***
Liquidity risk is the risk that the Company will not be able to meet its financial obligations.	Cash flow from operations provides a substantial portion of the Company's cash requirements. Additional cash requirements are met with the use of existing cash balances and externally through bank borrowings and the issuance of long-term debt, non-recourse long-term debt and preferred shares. Commercial paper borrowings and short-term bank loans under available credit lines are used to provide flexibility in the timing and amounts of long-term financing. The Company does not invest any of its cash balances in asset-backed securities. At December 31, 2017, the Company's cash position was $494 million and there were available committed and uncommitted lines of credit of approximately $2.4 billion which can be utilized for general corporate purposes.

Liquidity Risk 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)	**2018**	**2019**	**2020**	**2021**	**2022**	**2023 and thereafter**
Financial Liabilities						
Bank indebtedness	7	–	–	–	–	–
Accounts payable and accrued liabilities	891	–	–	–	–	–
Short-term debt	10	–	–	–	–	–
Long-term debt:						
Principal	5	1,150	220	160	325	6,740
Interest expense (1)	399	380	344	331	315	6,423
Non-recourse long-term debt:						
Principal	15	20	35	32	33	1,335
Interest expense	58	59	58	56	54	1,009
Derivatives (2)	84	52	19	3	–	–
	1,469	1,661	676	582	727	15,507
Commitments						
Operating leases	22	17	15	11	6	38
Purchase obligations:						
Coal purchase contracts	64	66	68	71	27	117
Operating and maintenance agreements	303	277	132	130	129	298
Construction activities related to Fort McMurray West 500-kV Transmission project	543	221	–	–	–	–
Capital expenditures	56	–	–	–	–	–
Other	12	–	–	2	–	–
	1,000	581	215	214	162	453
Total	2,469	2,242	891	796	889	15,960

(1) Interest payments on floating rate debt have been estimated using rates in effect at December 31, 2017. Interest payments on debt that has been hedged have been estimated using hedged rates.

(2) Payments on outstanding derivatives have been estimated using exchange rates and commodity prices in effect at December 31, 2017.

NON-GAAP AND ADDITIONAL GAAP MEASURES

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

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

Adjusted earnings present earnings from rate-regulated activities on the same basis as was used prior to adopting IFRS - that basis being the U.S. accounting principles for rate-regulated activities. Management's view is that adjusted earnings allow for a more effective analysis of operating performance and trends. A reconciliation of adjusted earnings to earnings attributable to Class I and Class II Shares is presented in this MD&A. Adjusted earnings is an additional GAAP measure presented in Note 3 of the 2017 Consolidated Financial Statements.

Adjusted earnings per Class I and Class II Share is calculated by dividing adjusted earnings by the weighted average number of shares outstanding for the period.

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

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

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

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

($ millions)						**Three Months Ended December 31**
2017 / **2016**	**Structures & Logistics**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**136**	**698**	**447**	**65**	**(52)**	**1,294**
	118	551	454	39	(30)	1,132
Adjusted earnings	**2**	**47**	**49**	**(6)**	**–**	**92**
	6	58	44	(14)	–	94
Unrealized losses on mark-to-market forward commodity contracts	**–**	**(29)**	**–**	**–**	**–**	**(29)**
	–	–	–	–	–	–
Impairment	**(23)**	**–**	**–**	**–**	**–**	**(23)**
	–	–	–	–	–	–
Rate-regulated activities	**–**	**(26)**	**(2)**	**–**	**2**	**(26)**
	–	3	7	–	1	11
Other	**–**	**–**	**(2)**	**–**	**–**	**(2)**
	–	–	(5)	–	–	(5)
Earnings attributable to Class I and Class II Shares	**(21)**	**(8)**	**45**	**(6)**	**2**	**12**
	6	61	46	(14)	1	100

($ millions)						Year Ended December 31
2017 2016	Structures & Logistics	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues	**515**	**2,341**	**1,630**	**214**	**(159)**	**4,541**
	647	1,877	1,496	114	(89)	4,045
Adjusted earnings	**6**	**210**	**144**	**(25)**	**–**	**335**
	43	213	136	(33)	1	360
Gain on sale of joint operation	–	–	–	–	–	–
	–	–	7	–	–	7
Unrealized losses on mark-to-market forward commodity contracts	–	**(48)**	–	–	–	**(48)**
	–	–	–	–	–	–
Impairment	**(23)**	–	–	–	–	**(23)**
	–	–	–	–	–	–
Rate-regulated activities	–	**(69)**	**3**	–	**5**	**(61)**
	–	(4)	(22)	–	4	(22)
Other	–	–	–	–	–	–
	–	–	(5)	–	–	(5)
Earnings attributable to Class I and Class II Shares	**(17)**	**93**	**147**	**(25)**	**5**	**203**
	43	209	116	(33)	5	340

GAIN ON SALE OF JOINT OPERATION

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

UNREALIZED GAINS/(LOSSES) ON MARK-TO-MARKET FORWARD COMMODITY CONTRACTS

In order to optimize the available merchant capacity and manage exposure to electricity market price movements for our Independent Power Plants, we enter into forward contracts. The MW capacity limits on forward commodity contracts were increased in 2016 which heightens the potential for higher unrealized gains or losses in advance of the settlement of the contract.

Effective first quarter 2017, adjusted earnings do not include unrealized gains or losses on mark-to-market forward commodity contracts. Removal of the unrealized gains or losses on mark-to-market forward commodity contracts provides a better representation of the operating results of the Independent Power Plants and more closely aligns us with our electricity generation and utility company peer disclosure. Realized gains or losses are recognized in adjusted earnings when the commodity contracts are settled.

Unrealized losses of $48 million in 2017 resulted from a rise in the forward spark spread which caused our unsettled power positions to be out of the money. The spark spread expansion is a result of changes in both the electricity generation and natural gas markets.

The forward power market significantly increased due to: Balancing Pool announcements that the Sundance unit B and unit C PPAs would be returned in 2018; as well as subsequent announcements that some of those coal-fired generation units will be retired and mothballed in 2018. In addition, on January 1, 2018, a carbon tax was fully implemented through the Carbon Competitiveness Incentive Regulation resulting in a significant increase in variable costs for coal-fired generation of approximately $15 per MWh.

Changes in the Alberta natural gas market were related to supply and demand fundamentals, natural gas transportation provider curtailment methodology, unplanned transportation outages, and other factors. Additional natural gas transportation curtailments and maintenance are scheduled in 2018 and beyond, resulting in potential outages and system constraints to the natural gas transmission system in Alberta.

IMPAIRMENT

In the fourth quarter of 2017, the Company recorded an impairment of $23 million after tax and non-controlling interest relating to certain Structures & Logistics' workforce housing assets in Canada and space rental assets in the U.S. The impairment was included in depreciation, amortization and impairment expense. The Company determined these assets were impaired due to a reduction in utilization, sustained decreases in key commodity prices as well as a significant reduction in the capital expenditure programs of key customers.

RATE-REGULATED ACTIVITIES

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

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

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

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Additional revenues billed in current period						
Future removal and site restoration costs [1]	**3**	5	(2)	**32**	32	–
Revenues to be billed in future periods						
Deferred income taxes [2]	**(14)**	(11)	(3)	**(54)**	(48)	(6)
Impact of warmer temperatures [3]	–	–	–	**(2)**	(15)	13
Impact of inflation on rate base [4]	**(3)**	–	(3)	**(8)**	(5)	(3)
Regulatory decisions received	–	2	(2)	**9**	6	3
Settlement of regulatory decisions and other items [5]	**(12)**	15	(27)	**(38)**	8	(46)
	(26)	11	(37)	**(61)**	(22)	(39)

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

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

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

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

(5) In 2017, Electric Transmission recorded an increase in adjusted earnings of $17 million in relation to settlement of the final 2015-2017 General Tariff Application rate and $14 million in relation to a refund of previously collected capitalized pension costs.

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

Timing Adjustment	Items	RRA Treatment	IFRS Treatment
Additional revenues billed in current period	Future removal and site restoration costs.	The Company defers the recognition of cash received in advance of future expenditures.	The Company recognizes revenues when amounts are billed to customers and costs when they are incurred.
Revenues to be billed in future periods	Deferred income taxes, impact of warmer temperatures and impact of inflation on rate base.	The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company recognizes costs when they are incurred, but does not recognize their recovery until customer rates are changed and amounts are collected through future billings.
Regulatory decisions received	For further details on regulatory decisions that caused a timing adjustment financial impact, refer to the Regulatory Developments section in this MD&A as well as the Segmented Information presented in Note 3 of the 2017 Consolidated Financial Statements.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company does not recognize earnings from a regulatory decision when it is received as regulatory assets and liabilities are not recorded under IFRS.
Settlement of regulatory decisions and other items	Settlement of amounts receivable or payable to customers and other items.	The Company recognizes the amount receivable or payable to customers as a reduction in its regulatory assets and liabilities when collected or refunded through future billings.	The Company recognizes earnings when customer rates are changed and amounts are recovered or refunded to customers through future billings.

For further details on additional revenues billed in the current period, revenues to be billed in future periods, and settlement of regulatory decisions and other items, refer to the Segmented Information presented in Note 3 of the 2017 Consolidated Financial Statements.

OTHER

Each quarter, the Company adjusts the deferred tax asset which was recognized as a result of the 2015 Tula Pipeline Project impairment. The adjustments of less than $1 million in 2017 and $5 million in 2016 are due to a difference between the tax base currency, which is the Mexican peso, and the U.S. dollar functional currency.

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

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

($ millions)

2017 **2016**	**Three Months Ended December 31**	**Year Ended December 31**
Funds generated by operations	**463**	**1,813**
	600	1,912
Changes in non-cash working capital	**(20)**	**34**
	(61)	(45)
Change in receivable under service concession arrangement	**(156)**	**(516)**
	(77)	(77)
Cash flows from operating activities	**287**	**1,331**
	462	1,790

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

SIGNIFICANT ACCOUNTING ESTIMATES

The Company's significant accounting estimates are described in Note 28 of the 2017 Consolidated Financial Statements, which are prepared in accordance with IFRS. Management makes estimates and judgments that could significantly affect how policies are applied, amounts in the consolidated financial statements are reported, and contingent assets and liabilities are disclosed. Most often these estimates and judgments concern matters that are inherently complex and uncertain. Judgments and estimates are reviewed on an ongoing basis; changes to accounting estimates are recognized prospectively.

ACCOUNTING CHANGES

Certain new or amended standards or interpretations issued by the International Accounting Standards Board (IASB) or IFRS Interpretations Committee (IFRIC) do not need 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. For further information, see note 37 of the 2017 Consolidated Financial Statements.

- IFRS 9 (2014) Financial Instruments - this standard replaces IAS 39 Financial Instruments: Recognition and Measurement and previous versions of IFRS 9. It incorporates IFRS 9 (2013), with a further classification category for financial assets, and includes a new impairment model for financial instruments. The Company early adopted two out of three components of this standard (*Classification and Measurement and Hedge Accounting*) on January 1, 2015. This standard was effective on January 1, 2018, at which time the Company adopted the final component, *Impairments*. This component includes a new expected credit loss model for calculating impairment on financial assets and replaces the current incurred loss impairment model. The new standard will increase bad debt provisioning for all trade receivables, however the impact is not expected to be material due to current provisioning procedures, the low credit risk with current counterparties, and collateral and parental guarantee arrangements in place for the Company's significant receivables.
- IFRS 15 Revenue from Contracts with Customers - this standard replaces IAS 18 Revenue and related interpretations and is effective on or after January 1, 2018. It provides a framework to determine when to recognize revenue and at what amount. It applies to new contracts created on or after the effective date and to existing contracts not completed as of the effective date. The Company has applied the full retrospective transition method. The Company is party to numerous contracts with customers that will be impacted by the new standard. Under IFRS 15, the timing of revenue recognition for certain contracts are impacted by the new revenue recognition model.
- IFRS 16 Leases - this standard replaces IAS 17 Leases and related interpretations and is effective on or after January 1, 2019. It requires a lessee to recognize assets and liabilities on the balance sheet for the rights and obligations created by leases. Lessor accounting remains substantially unchanged. The Company is currently assessing the impact and will not early adopt the standard.

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

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of December 31, 2017, 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, 2017.

Internal Control Over Financial Reporting

As of December 31, 2017, 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, 2017.

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on January 1, 2017, and ended on December 31, 2017, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

FORWARD-LOOKING INFORMATION

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

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

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

ADDITIONAL INFORMATION

ATCO has published its audited consolidated financial statements and its MD&A for the year ended December 31, 2017. Copies of these documents may be obtained upon request from Investor Relations at 3rd Floor, West Building, 5302 Forand Street S.W., Calgary, Alberta, T3E 8B4, 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 Electric Distribution (ATCO Electric Distribution), Electric Transmission (ATCO Electric Transmission), Natural Gas Distribution (ATCO Gas) and Natural Gas Transmission (ATCO Pipelines).

AUC means the Alberta Utilities Commission.

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

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

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

CODM means Chief Operating Decision Maker, and is comprised of the Chair, President and Chief Executive Officer, and the other members of the Executive Committee.

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

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

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

GAAP means Canadian generally accepted accounting principles.

GHG means greenhouse gas.

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

IFRS means International Financial Reporting Standards.

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 electricity over a one-hour period.

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. PPAs are legislatively mandated and approved by the AUC.

Regulated Utilities means Electric Distribution (ATCO Electric Distribution), Electric Transmission (ATCO Electric Transmission), Natural Gas Distribution (ATCO Gas), Natural Gas Transmission (ATCO Pipelines) and International Natural Gas Distribution (ATCO Gas Australia).

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

APPENDIX 1
FOURTH QUARTER FINANCIAL INFORMATION

Financial information for the three months ended December 31, 2017 and 2016 is shown below.

CONSOLIDATED STATEMENT OF EARNINGS

	Three Months Ended December 31	
(millions of Canadian Dollars except per share data)	**2017**	**2016**
Revenues	**1,294**	1,132
Costs and expenses		
Salaries, wages and benefits	**(147)**	(164)
Energy transmission and transportation	**(67)**	(51)
Plant and equipment maintenance	**(70)**	(76)
Fuel costs	**(43)**	(36)
Purchased power	**(29)**	(25)
Service concession arrangement costs	**(132)**	(69)
Materials and consumables	**(75)**	(44)
Depreciation, amortization and impairment	**(195)**	(153)
Franchise fees	**(55)**	(60)
Property and other taxes	**(28)**	(23)
Unrealized (losses) gains on mark-to-market forward commodity contracts	**(73)**	3
Cost of sale of electricity generation asset on transition to finance lease	**(115)**	–
Other	**(82)**	(51)
	(1,111)	(749)
Earnings from investment in joint ventures	**7**	9
Operating profit	**190**	392
Interest income	**9**	5
Interest expense	**(123)**	(101)
Net finance costs	**(114)**	(96)
Earnings before income taxes	**76**	296
Income taxes	**(20)**	(92)
Earnings for the period	**56**	204
Earnings attributable to:		
Class I and Class II Shares	**12**	100
Non-controlling interests	**44**	104
	56	204
Earnings per Class I and Class II Share	**$0.11**	$0.88
Diluted earnings per Class I and Class II Share	**$0.11**	$0.87

CONSOLIDATED STATEMENT OF CASH FLOWS

(millions of Canadian Dollars)	Three Months Ended December 31 2017	2016
Operating activities		
Earnings for the period	**56**	204
Adjustments to reconcile earnings to cash flows from operating activities	**407**	396
Changes in non-cash working capital	**(20)**	(61)
Change in receivable under service concession arrangement	**(156)**	(77)
Cash flows from operating activities	**287**	462
Investing activities		
Additions to property, plant and equipment	**(412)**	(339)
Proceeds on disposal of property, plant and equipment	–	1
Additions to intangibles	**(32)**	(41)
Investment in joint ventures	–	(12)
Changes in non-cash working capital	**39**	(37)
Other	**(10)**	2
Cash flows used in investing activities	**(415)**	(426)
Financing activities		
Net repayment of short-term debt	**(515)**	(320)
Issue of long-term debt	**488**	375
Repayment of long-term debt	**(152)**	(3)
Release of restricted project funds	**374**	–
Repayment of non-recourse long-term debt	**(3)**	(5)
Issue of shares by subsidiary companies	–	12
Net (purchase) issue of Class I Shares	**(2)**	2
Dividends paid to Class I and Class II Share owners	**(37)**	(33)
Dividends paid to non-controlling interests	**(50)**	(46)
Interest paid	**(116)**	(107)
Debt issue costs	**(11)**	(3)
Other	**(77)**	(6)
Cash flows used in financing activities	**(101)**	(134)
Decrease in cash position	**(229)**	(98)
Foreign currency translation	**3**	(1)
Beginning of period	**720**	700
End of period	**494**	601