ATCO LTD.

FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED JUNE 30, 2016

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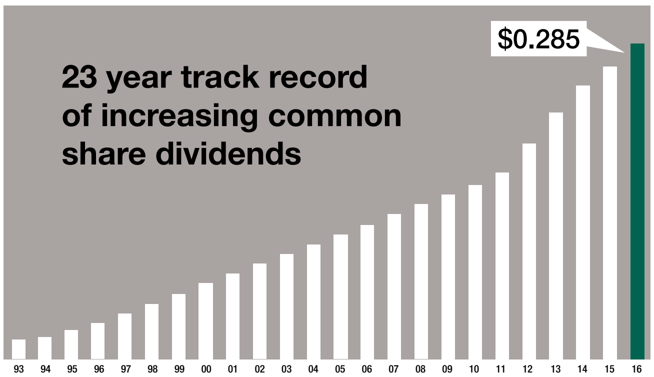
Q2 2016 INVESTOR FACT SHEET

ATCO.COM
STRUCTURES & LOGISTICS | ELECTRICITY | PIPELINES & LIQUIDS

ATCO

With nearly 8,000 employees and assets of approximately $19 billion, ATCO is a diversified global corporation delivering service excellence and innovative business solutions in Structures & Logistics (workforce housing, innovative modular facilities, construction, site support services, and logistics and operations management); Electricity (electricity generation, transmission, and distribution); Pipelines & Liquids (natural gas transmission, distribution and infrastructure development, energy storage, and industrial water solutions); and Retail Energy (electricity and natural gas retail sales).

DIVIDEND GROWTH



** ATCO 2016 quarterly dividend is $1.14 annualized*

ATCO SHARE INFORMATION

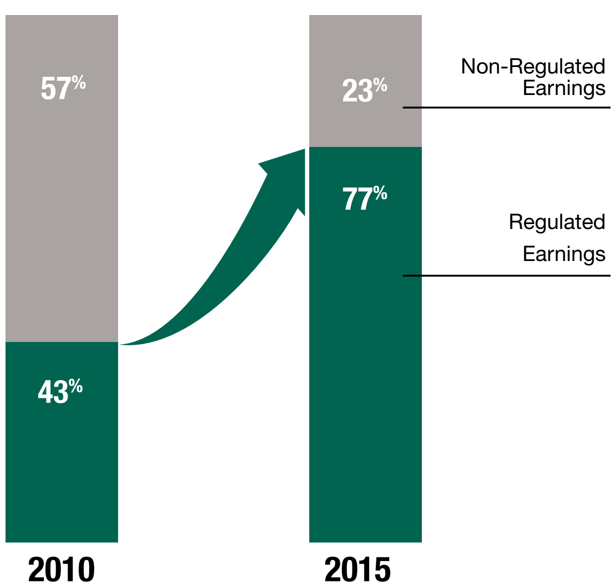
Common Shares (TSX): ACO.X, ACO.Y	
Market Capitalization	$5 billion
Weighted Average Common Shares Outstanding	114.3 million

ATCO AT A GLANCE

69 year history in more than 100 countries worldwide	
"A" rating by Standard & Poor's; "A" (low) rating by DBRS Limited	
Total Assets	$19 billion
Modular Building Manufacturing Locations	8 Globally (2 Canada, 3 United States, 2 Australia, 1 Chile)
Electric Powerlines	87,000 kms
Pipelines	63,300 kms
Power Plants	15 plants globally
Power Generating Capacity	3,857 MW*
Water Infrastructure Capacity	60,000 m³/d**
Natural Gas Storage Capacity	52 PJ***

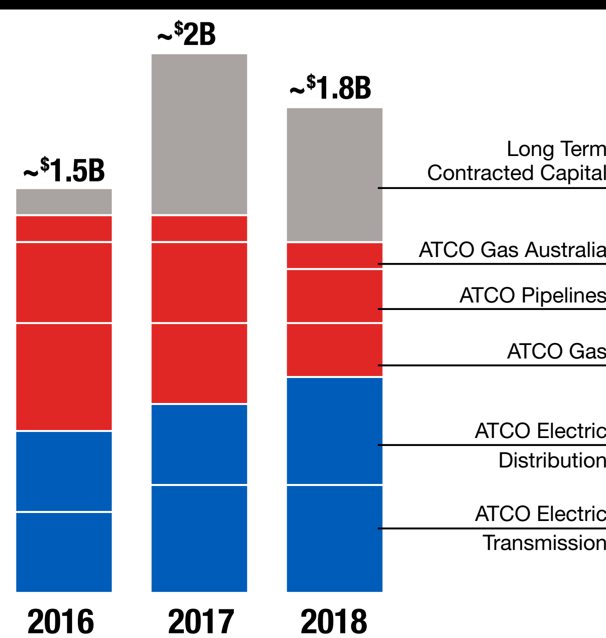
**megawatts **cubic metres per day ***petajoules*

GROWING A HIGH QUALITY EARNINGS BASE



Growth in Regulated Earnings driven by $9.5 billion in Regulated Utility investment

FUTURE CAPITAL INVESTMENT

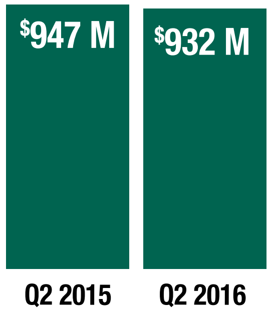


~ $5.3 billion in Regulated Utility and contracted capital growth projects expected in 2016 - 2018

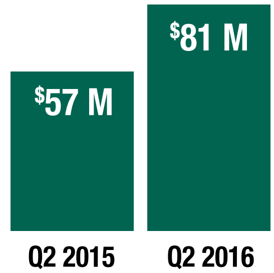
Adjusted earnings are defined as earnings attributable to Class I and Class II Shares after adjusting for the timing of revenues and expenses associated with rate-regulated activities. Adjusted earnings also exclude one-time gains and losses, significant impairments and items that are not in the normal course of business or a result of day-to-day operations. Certain statements in this document contain forward-looking information. Please refer to our forward-looking information disclaimer in ATCO's management's discussion and analysis for more information.

Q2 2016 RESULTS

ATCO REVENUES



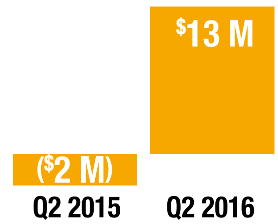
ATCO ADJUSTED EARNINGS



STRUCTURES & LOGISTICS

- Higher adjusted earnings were mainly due to higher Modular Structures project activity, increased occupancy levels in the Lodging business, as well as business-wide cost reduction initiatives.

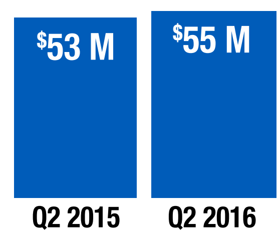
ADJUSTED EARNINGS



ELECTRICITY

- Higher adjusted earnings were mainly due to continued capital investment and growth in rate base within Regulated Electricity and business-wide cost reduction initiatives.

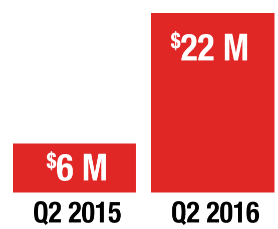
ADJUSTED EARNINGS



PIPELINES & LIQUIDS

- Higher adjusted earnings were primarily attributable to continued capital investment growth in rate base within Regulated Pipelines & Liquids and business-wide cost reduction initiatives. In the second quarter of 2015, ATCO Gas Australia's earnings were reduced by the one-time earnings impact resulting from a retroactive regulatory decision that was received in that quarter.

ADJUSTED EARNINGS



RECENT DEVELOPMENTS

- In April 2016, the Company expanded its international modular structures business into the Chilean market by investing $25 million in Sabinco Soluciones Modulares S.A. (Sabinco) for a 50 per cent ownership interest.
- In May 2016, ATCO rapidly responded to wildfires in the Fort McMurray region of northern Alberta by mobilizing teams from across Alberta to provide accommodation for first responders and evacuees, and rebuild utility infrastructure that was damaged by the wildfires. The fires impacted the assets of the Company's Regulated Electricity and Regulated Pipelines & Liquids businesses located in the region. Insurance coverage applies to the Company's property with the exception of small diameter natural gas pipelines and meters and electric property outside of transmission substations including wires, poles, towers, transformers and meters. The estimated net book value of the damaged assets is less than $10 million.
- In July 2015, the Western Australia Economic Regulation Authority (ERA) released its Final Decision for ATCO Gas Australia's next Access Arrangement period (AA4) from July 2014 to December 2019. The decision resulted in a reduced utility ROE from 10.41 per cent to 7.28 per cent. ATCO Gas Australia lodged an Appeal Application with the Australian Competition Tribunal (ACT) on October 1, 2015 seeking leave to appeal a number of key items, including, but not limited to: ROE and the recovery of operating expenses, depreciation and corporate income tax expenses. The ACT decision was received in July 2016 resulting in an increase of approximately $2 million to second quarter 2016 adjusted earnings mainly due to an improvement in the recoverability of certain expenses.

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2016 SECOND QUARTER FINANCIAL INFORMATION

INVESTOR FACT SHEET

MANAGEMENT DISCUSSION AND ANALYSIS

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2016

TABLE OF CONTENTS

ATCO LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE SIX MONTHS ENDED JUNE 30, 2016

This Management's Discussion and Analysis (MD&A) is meant to help readers understand key operational and financial events that influenced the results of ATCO Ltd. (ATCO, Our, or the Company) during the six months ended June 30, 2016.

This MD&A was prepared as of July 26, 2016, and should be read with the Company's unaudited interim consolidated financial statements for the six months ended June 30, 2016. Additional information, including the Company's prior MD&As, Annual Information Form (2015 AIF) and audited consolidated financial statements for the year ended December 31, 2015, is available on SEDAR at www.sedar.com. Information contained in the 2015 MD&A is not discussed in this MD&A if it remains substantially unchanged.

The Company is controlled by Sentgraf Enterprises Ltd. and its controlling share owner, the Southern family. The Company includes controlling positions in Canadian Utilities Limited (53.0 per cent ownership) and in ATCO Structures & Logistics Ltd. (75.5 per cent ownership). Throughout this MD&A, the Company's earnings attributable to Class I and Class II Shares and adjusted earnings are presented after non-controlling interests.

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

TABLE OF CONTENTS

COMPANY OVERVIEW

ATCO Ltd. is a diversified global enterprise with assets of $19 billion and nearly 8,000 employees engaged in Structures & Logistics, Electricity, Pipelines & Liquids, and Retail Energy.

The Structures & Logistics Business Unit includes Modular Structures, Logistics and Facility Operations & Maintenance Services, Lodging & Support Services and Sustainable Communities. Together these businesses offer workforce housing, innovative modular facilities, construction, site support services, and logistics and operations management.

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

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

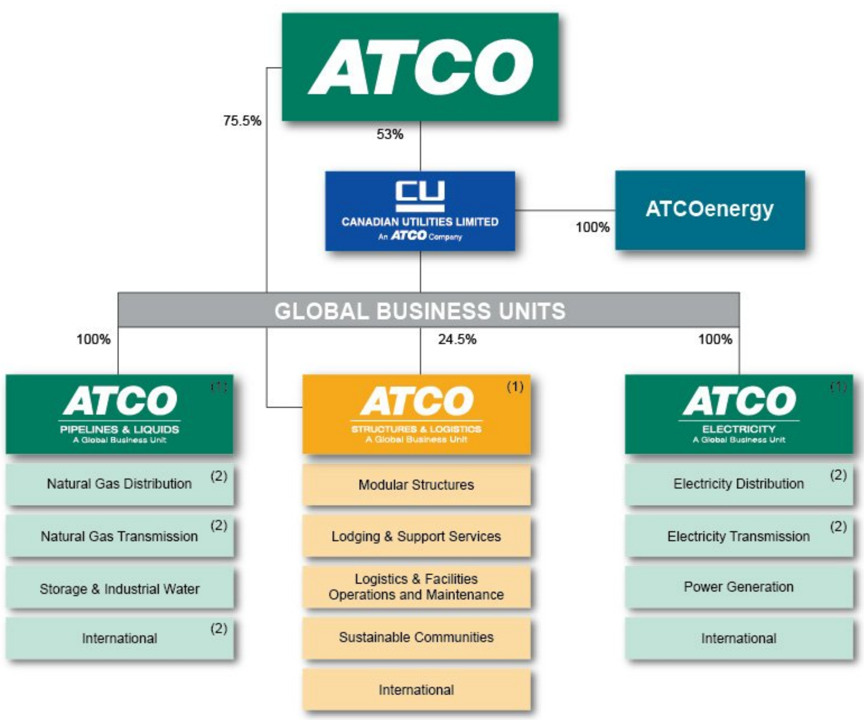
ATCOenergy was launched in January 2016 to provide retail, commercial and industrial electricity and natural gas service in Alberta.

The unaudited interim consolidated financial statements include the accounts of ATCO Ltd., including a proportionate share of joint venture investments. Principal subsidiaries are Canadian Utilities Limited (Canadian Utilities), of which ATCO Ltd. owns 53.0 per cent (39.1 per cent of the Class A non-voting shares and 89.1 per cent of the Class B common shares), and ATCO Structures & Logistics Ltd., of which ATCO Ltd. owns 75.5 per cent of the Common Shares.

The unaudited interim 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.

SIMPLIFIED ORGANIZATIONAL STRUCTURE



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

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

PERFORMANCE OVERVIEW

FINANCIAL METRICS

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

	Three Months Ended June 30			Six Months Ended June 30		
($ millions, except per share data and outstanding shares)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Key Financial Metrics						
Adjusted earnings(1)	**81**	57	24	**202**	135	67
Structures & Logistics	**13**	(2)	15	**25**	3	22
Electricity	**55**	53	2	**109**	87	22
Pipelines & Liquids	**22**	6	16	**78**	48	30
Corporate & Other	**(9)**	(1)	(8)	**(11)**	(3)	(8)
Intersegment Eliminations	**–**	1	(1)	**1**	–	1
Earnings attributable to Class I and Class II Shares	**61**	8	53	**170**	102	68
Revenues	**932**	947	(15)	**1,990**	2,019	(29)
Cash dividends declared per Class I and Class II Share (*cents per share*)	**28.50**	24.75	3.75	**57.00**	49.50	7.50
Capital investment(1)	**387**	418	(31)	**751**	841	(90)
Funds generated by operations(1)	**401**	401	–	**885**	865	20
Other Financial Metrics						
Weighted average Class I and Class II Shares outstanding *(thousands):*						
Basic	**114,281**	114,830	(549)	**114,477**	114,828	(351)
Diluted	**114,721**	115,391	(670)	**114,902**	115,406	(504)

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

ADJUSTED EARNINGS

The Company's adjusted earnings for the second quarter and first half of 2016 were $81 million and $202 million, $24 million and $67 million higher than the prior year periods, respectively. The primary drivers of earnings results were as follows:

- Structures & Logistics - Higher adjusted earnings in the second quarter of 2016 were mainly as a result of higher Modular Structures project activity, and higher occupancy levels in the Lodging business, as well as business-wide cost reduction initiatives.
- Electricity - Higher earnings in the second quarter of 2016 were mainly due to continued capital investment and growth in rate base within Regulated Electricity and business-wide cost reduction initiatives.
- Pipelines & Liquids - Higher adjusted earnings were primarily due to continued capital investment and growth in rate base within the Regulated Pipelines & Liquids businesses and business-wide cost reduction initiatives. Earnings in the second quarter of 2015 were reduced by the one-time earnings impact resulting from a retroactive regulatory decision that ATCO Gas Australia received in that quarter.
- Corporate & Other - Lower earnings are primarily attributable to costs associated with Canadian Utilities' preferred share issuances in the second half of 2015 and higher business development expenses.

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

EARNINGS ATTRIBUTABLE TO CLASS I AND CLASS II SHARES

Earnings attributable to Class I and Class II Shares were $61 million in the second quarter of 2016, $53 million higher compared to the same period in 2015 partially due to adjusted earnings that were higher in the second quarter by $24 million. Earnings attributable to Class I and Class II Shares includes timing adjustments related to rate-regulated activities that are not included in adjusted earnings. The net impact of timing adjustments made in rate-regulated accounting improved earnings attributable to Class I and Class II shares by $13 million. Second quarter 2015 earnings attributable to Class I and Class II Shares also included $16 million of impairments and restructuring costs.

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

REVENUES

Revenues in the second quarter of 2016 of $932 million were comparable to the same period in 2015. Higher revenues in ATCO Structures & Logistics, primarily attributable to increased Modular Structures project activity and increased occupancy levels in the Lodging business, and higher revenues in the Regulated Utilities mainly due to rate base growth were offset by lower revenues in ATCO Power due to lower Alberta Power Pool prices, and lower revenues in ATCO Energy Solutions mainly due to the divestiture and closure of several gas processing facilities in late 2015 and early 2016.

COMMON SHARE DIVIDENDS

On July 14, 2016, the Board of Directors declared a third quarter dividend of 28.50 cents per share. This represents a 15 per cent increase on the dividends declared in the same period last year. Dividends paid to Class I and Class II Share owners in the second quarter of 2016 totaled $32 million.

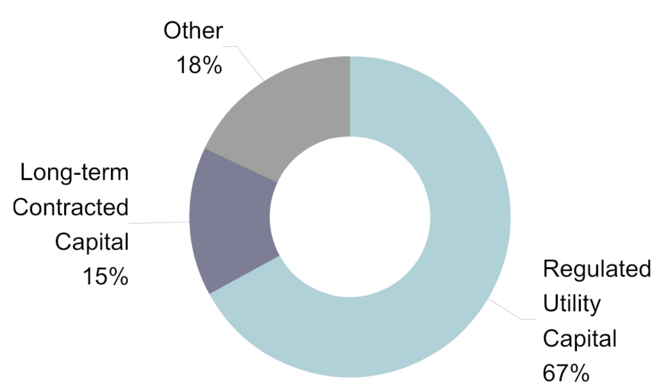
CAPITAL INVESTMENT

Capital investment includes additions to property, plant and equipment, intangibles and capital expenditures in joint ventures. Total capital investment in the second quarter and first half of 2016 were $387 million and $751 million, respectively.

Capital spending in the Company's Regulated Utilities and on long-term contracted capital assets accounted for $334 million of capital spending in the second quarter of 2016 and $615 million in the first half of the year. These investments either earn a return under a regulatory business model or are under commercially secured long-term contracts.

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

Regulated Utility & Contracted Capital Investment
Six Months Ended June 30, 2016

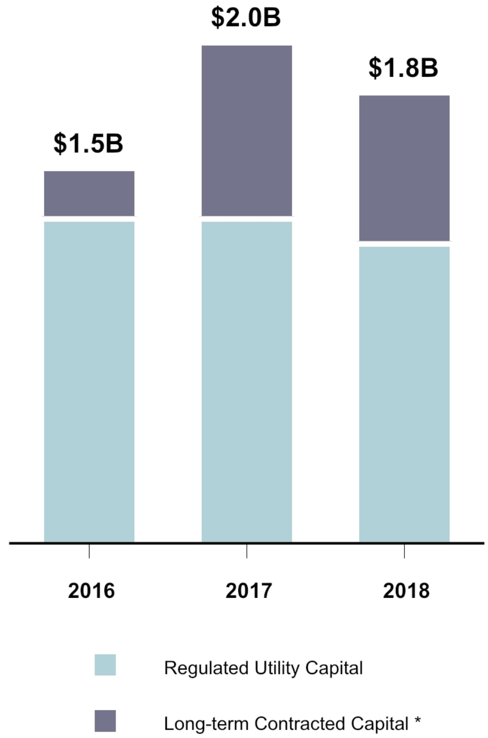


In the 2016 to 2018 period, ATCO expects to invest an additional $5.3 billion in Regulated Utility and commercially secured capital growth projects. This capital investment is expected to contribute significant earnings and cash flow and create long-term value for share owners.

This three year plan includes $4.1 billion of planned capital investment in the Regulated Utilities. ATCO Electric Distribution and ATCO Electric Transmission are planning to invest $2.1 billion, and ATCO Gas, ATCO Pipelines and ATCO Gas Australia are planning to invest $2 billion from 2016 to 2018.

In addition to capital investment in the Regulated Utilities, the Company intends to invest a further $1.2 billion in long-term contracted capital from 2016 to 2018. Of this $1.2 billion, $1.1 billion is planned capital investment in the Alberta PowerLine (APL) Fort McMurray 500 kV Project and approximately $100 million is planned capital investment in contracted hydrocarbon storage and distributed generation in Alberta and a natural gas pipeline in Mexico. ATCO also continues to pursue various business development opportunities with long-term potential, such as the Tula cogeneration power plant in Mexico, which are not included in these capital growth investment estimates.

Future Regulated Utility & Contracted Capital Investment



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

RECENT DEVELOPMENTS IN THE SECOND QUARTER OF 2016

NORTHERN ALBERTA FIRES

In May 2016, ATCO rapidly responded to wildfires in the Fort McMurray region of northern Alberta by mobilizing teams from across Alberta to provide accommodation for first responders and evacuees, and rebuild utility infrastructure that was damaged by the wildfires. The fires impacted the assets of the Company's Regulated Electricity and Regulated Pipelines & Liquids businesses located in the region. Insurance coverage applies to the Company's property with the exception of small diameter natural gas pipelines and meters and electric property outside of transmission substations including wires, poles, towers, transformers and meters. The estimated net book value of the damaged assets is less than $10 million.

ATCO GAS AUSTRALIA ACCESS ARRANGEMENT DECISION

In July 2015, the Western Australia Economic Regulation Authority (ERA) released its Final Decision for ATCO Gas Australia's next Access Arrangement period (AA4) from July 2014 to December 2019. The decision resulted in a reduced utility ROE from 10.41 per cent to 7.28 per cent.

ATCO Gas Australia lodged an Appeal Application with the Australian Competition Tribunal (ACT) on October 1, 2015 seeking leave to appeal a number of key items, including, but not limited to: ROE and the recovery of operating expenses, depreciation and corporate income tax expenses. The ACT decision was received in July 2016 resulting in an increase of approximately $2 million to second quarter 2016 adjusted earnings mainly due to an improvement in the recoverability of certain expenses.

ALBERTA'S CLIMATE LEADERSHIP PLAN

On July 25, 2016, the Government of Alberta commenced legal action to determine the validity and interpretation of certain terms within the Power Purchase Arrangements (PPAs) and related regulations. The legal action the Government of Alberta filed seeks to prevent the PPAs from being returned to the Balancing Pool. ATCO has never been a buyer of a coal PPA.

ATCO continues to operate Battle River unit 5 and Sheerness units 1 and 2 under the terms of their respective PPAs. ATCO will monitor and, in its capacity as a respondent, participate in the proceeding. However, the proceeding seeks no direct relief against ATCO.

GLOBAL BUSINESS UNIT INFORMATION

Structures & Logistics

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

REVENUES

In the second quarter and first half of 2016, revenues in ATCO Structures & Logistics were higher than the same periods in 2015 by $9 million and $62 million, respectively.

Higher revenues were mainly due to increased Modular Structures major project activity and increased occupancy levels in the Lodging business. These increases were partially offset by the completion of the Wheatstone project in the first quarter of 2016, lower Space Rentals and Workforce Housing utilizations and rental rates, as well as forgone revenues due to the sale of the Emissions Management business in the fourth quarter of 2015.

ADJUSTED EARNINGS

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

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Modular Structures	**14**	4	10	**27**	16	11
Logistics and Facility O&M Services	**3**	2	1	**5**	4	1
Lodging & Support Services	**2**	(2)	4	**4**	(4)	8
Other [(1)]	**(6)**	(6)	–	**(11)**	(13)	2
Total Structures & Logistics	**13**	(2)	15	**25**	3	22

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

Higher adjusted earnings achieved by Structures & Logistics in the second quarter and first half of 2016 were primarily due to higher Modular Structures project activity, increased occupancy levels in the Lodging business, as well as business-wide cost reduction initiatives. Partially offsetting these increases were lower Space Rentals and Workforce Housing utilizations and rental rates, reduced profit margins, and forgone earnings due to the sale of the Emissions Management business in the fourth quarter of 2015.

MODULAR STRUCTURES

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

Modular Structures adjusted earnings in the second quarter and first half of 2016 were higher than the same periods in 2015 by $10 million and $11 million, respectively. Higher adjusted earnings were primarily due to continued work at the BC Hydro Site C Clean Energy project which commenced in the third quarter of 2015, as well as cost reduction initiatives. Partially offsetting these increases were the completion of the Wheatstone project in the first quarter of 2016, reduced profit margins, and lower Space Rental and Workforce Housing fleet utilizations and rental rates.

Major Projects

Site C Clean Energy Workforce Housing Project

In April 2015, Structures & Logistics was chosen as the preferred proponent by BC Hydro to manufacture, install and operate a 1,600-bed workforce housing facility for workers constructing the Site C Clean Energy Project on the Peace River in northeast British Columbia. A definitive project agreement valued at $470 million was completed in late September 2015. The project is progressing on schedule for completion in the third quarter of 2016.

LNG Modular Structures Project

In the fourth quarter of 2015, Structures & Logistics was awarded a contract to design, construct, transport, install and rent 591 modular units at a major LNG project near Lake Charles, Louisiana. The units will be used to provide sleeping accommodation for 2,300 persons, kitchen and dining facilities, and a recreation center. Under the terms of the agreement, the new workforce housing units will be leased for a 29 month period which commenced in January 2016. As at June 30, 2016, Structures & Logistics has completed manufacturing 418 units out of the 591 units. At the end of the lease term, the units will be returned to the Company's fleet, thereby expanding its footprint in the U.S. market.

Rental Fleet Statistics

The following table compares Structures & Logistics' manufacturing hours and rental fleet for the second quarter and first half of 2016 and 2015.

	Three Months Ended June 30			Six Months Ended June 30		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
North America						
Manufacturing hours *(thousands)*	**167**	61	174%	**460**	198	132%
Global Space Rentals						
Number of units	**12,862**	13,560	(5%)	**12,862**	13,560	(5%)
Average utilization *(%)*	**64**	70	(6%)	**64**	70	(6%)
Average rental rate *($ per month)*	**480**	579	(17%)	**496**	580	(14%)
Global Workforce Housing						
Number of units	**3,512**	3,427	2%	**3,512**	3,427	2%
Average utilization *(%)*	**46**	65	(19%)	**44**	64	(20%)
Average rental rate *($ per month)*	**1,614**	1,656	(3%)	**1,589**	1,912	(17%)

Increased manufacturing hours are mainly attributable to major project activity at the Site C project in the second quarter of 2016.

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

LOGISTICS AND FACILITY O&M SERVICES

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

Adjusted earnings in the second quarter and first half of 2016 were each higher than the same periods in 2015 by $1 million. This increase in earnings relates primarily to cost reductions. The Company continues to pursue and bid on project opportunities to provide Logistics and Facility O&M Services.

LODGING & SUPPORT SERVICES

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

Adjusted earnings in the second quarter and first half of 2016 were higher by $4 million and $8 million, respectively. These increases are primarily attributable to higher occupancy levels at the Company's lodges, which were partially driven by the wildfires in northern Alberta in May 2016, the mobilization of the main camp at the BC Hydro Site C Clean Energy Workforce Housing project in the first quarter of 2016, and cost reduction initiatives.

Electricity

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

REVENUES	Electricity revenues were $12 million and $27 million lower in the second quarter and first half of 2016 compared to the same periods of 2015. Higher revenues in Regulated Electricity attributable to growth in rate base were offset by lower revenues in ATCO Power due to lower Alberta Power Pool prices and the closure of ATCO Power Australia's Bulwer Island power plant in the second quarter of 2015.
ADJUSTED EARNINGS	Adjusted earnings for ATCO Electric Distribution, ATCO Electric Transmission, ATCO Power and ATCO Power Australia are shown in the table below.

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	2016	2015	Change	2016	2015	Change
Regulated Electricity						
ATCO Electric Distribution	**19**	16	3	**39**	25	14
ATCO Electric Transmission	**27**	31	(4)	**54**	45	9
Total Regulated Electricity	**46**	47	(1)	**93**	70	23
Non-regulated Electricity						
ATCO Power						
Independent Power Plants	**3**	1	2	**3**	1	2
Thermal PPAs	**5**	3	2	**8**	10	(2)
ATCO Power Australia	**1**	2	(1)	**5**	6	(1)
Total Non-regulated Electricity	**9**	6	3	**16**	17	(1)
Total Electricity	**55**	53	2	**109**	87	22

Adjusted earnings generated by Electricity in the second quarter of 2016 were $2 million higher compared to the same period in 2015 mainly due to business-wide cost reduction initiatives. Earnings of $109 million in the first half of 2016 were $22 million higher than the same period in 2015. Higher earnings in the first half of 2016 were primarily due to continued capital investment and growth in rate base within Regulated Electricity and business-wide cost reduction initiatives.

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

REGULATED ELECTRICITY

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

Electricity Distribution

ATCO Electric Distribution's adjusted earnings were $3 million higher in the second quarter and $14 million higher in the first half of 2016 when compared to the same periods of 2015. Higher earnings resulted primarily from growth in rate base, business-wide cost reduction initiatives and the adverse earnings impact associated with the 2013 General Cost of Capital (GCOC) and Capital Tracker regulatory decisions received in the first quarter of 2015.

Electricity Transmission

ATCO Electric Transmission's adjusted earnings of $27 million in the second quarter of 2016 were $4 million lower than the same period in 2015. Second quarter 2015 results included prior period earnings associated with the AUC's approval of interim rates for ATCO Electric Transmission's 2015 to 2017 General Tariff Application. Adjusted earnings of $54 million in the first half of 2016 were $9 million higher than the same period of 2015. Higher earnings for the period resulted primarily from growth in rate base, business-wide cost reduction initiatives, and the adverse impact associated with the GCOC regulatory decision received in the first quarter of 2015.

NON-REGULATED ELECTRICITY

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

Generating Plant Availability

Generating availability for the second quarter and first half of 2016 and 2015 is shown below. Generating plant capacity fluctuates with the timing and duration of outages. Lower availability in Independent Power Plants in the second quarter and first half of 2016 was mainly due to extended planned outages at the Joffre facility, partially offset by lower availability in the second quarter of 2015 due to major planned outages at the Scotford and Muskeg plants. Thermal PPA Plant availability was higher in the second quarter and first half of 2016 compared to the same periods in 2015 mainly due to planned maintenance outages in the second quarter of 2015 at Battle River unit 5. ATCO Power Australia availability remained strong in the second quarter of 2016 with no planned or unplanned outages.

	Three Months Ended June 30			Six Months Ended June 30		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
Independent Power Plants (1)	**87%**	88%	(1%)	**92%**	93%	(1%)
Thermal PPA Plants (2) (3)	**98%**	83%	15%	**94%**	82%	12%
ATCO Power Australia	**100%**	97%	3%	**99%**	97%	2%

(1) The Joffre generating plant underwent extended planned outages in the first half of 2016.

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

(3) The Sheerness generating plant completed a major planned maintenance outage in the first quarter of 2015 and 2016.

Independent Power Plants

Adjusted earnings of $3 million generated by Independent Power Plants in the second quarter and first half of 2016 were $2 million higher than the same periods in 2015. Increased earnings are primarily attributable to lower general and administrative expenses due to restructuring and cost reduction initiatives and a one-time higher tax expense in 2015 due to the Alberta corporate income tax rate change. These increases are partly offset by lower realized Alberta Power Pool prices and spark spreads.

Average Alberta Power Pool and natural gas prices and the resulting spark spreads for the three and six months ended June 30, 2016 and 2015 are shown in the table below.

	Three Months Ended June 30			Six Months Ended June 30		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
Average Alberta Power Pool electricity price *($/MWh)*	**15.00**	57.22	(74%)	**16.55**	43.20	(62%)
Average natural gas price *($/GJ)*	**1.35**	2.52	(46%)	**1.54**	2.57	(40%)
Average spark spread *($/MWh)*	**4.91**	38.32	(87%)	**5.03**	23.92	(79%)

Lower Alberta Power Pool prices and reduced price volatility in the second quarter and first half of 2016 were primarily attributable to an increased supply of electricity and lower demand in the Alberta market compared to the same periods in 2015.

Thermal PPAs

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

Second quarter 2016 adjusted earnings from the Thermal PPAs were $2 million higher than the same period of 2015 primarily due to maintenance costs incurred in 2015 on a Battle River unit 5 planned major outage. This increase is partly offset by lower energy revenue at Battle River unit 5 in 2016 due to lower generation. Earnings for the first half of 2016 were $2 million lower compared to the first half of 2015 mainly due to higher first quarter 2015 earnings from the amortization of accumulated incentives associated with the PPAs.

International Power Generation

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

Adjusted earnings for ATCO Power Australia in the second quarter and first half of 2016 were lower than the prior year due to the closure of the Bulwer Island plant at the end of the second quarter of 2015.

Major Electricity Project Updates

Fort McMurray 500 kV Project

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

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

Pipelines & Liquids

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

REVENUES

Pipelines & Liquids revenues of $320 million and $720 million in the second quarter and first half of 2016 were lower compared to the same periods of 2015.

Revenues are lower mainly due to the divestiture and closure of several gas processing facilities in ATCO Energy Solutions in late 2015 and early 2016.

ADJUSTED EARNINGS

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

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	2016	2015	Change	2016	2015	Change
Regulated Pipelines & Liquids						
ATCO Gas	**5**	2	3	**46**	37	9
ATCO Pipelines	**7**	6	1	**15**	10	5
ATCO Gas Australia	**9**	(2)	11	**13**	2	11
Total Regulated Pipelines & Liquids	**21**	6	15	**74**	49	25
Non-regulated Pipelines & Liquids						
ATCO Energy Solutions	**1**	—	1	**4**	(1)	5
Total Pipelines & Liquids	**22**	6	16	**78**	48	30

In the second quarter and first half of 2016, adjusted earnings generated by Pipelines & Liquids of $22 million and $78 million were $16 million and $30 million higher than the same periods of 2015. Higher adjusted earnings were primarily attributable to continued capital investment and growth in rate base and business-wide cost reduction initiatives within the Pipelines & Liquids businesses. In the second quarter of 2015, ATCO Gas Australia's earnings were reduced by the one-time earnings impact resulting from a retroactive regulatory decision.

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

REGULATED PIPELINES & LIQUIDS

Natural Gas Distribution

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

ATCO Gas' adjusted earnings of $5 million and $46 million in the second quarter and first half of 2016 were higher when compared to the same periods of 2015. Higher earnings resulted primarily from growth in rate base and customers, business-wide cost reduction initiatives and the adverse earnings impact associated with the GCOC and Capital Tracker regulatory decisions received in the first quarter of 2015.

Natural Gas Transmission

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

ATCO Pipelines' adjusted earnings of $7 million and $15 million in the second quarter and first half of 2016 were higher when compared to the same periods of 2015. Higher earnings for the periods resulted primarily from growth in rate base and the adverse earnings impact associated with the GCOC regulatory decision received in the first quarter of 2015.

International Natural Gas Distribution

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

ATCO Gas Australia's adjusted earnings of $9 million in the second quarter and $13 million in the first half of 2016 were higher when compared to the same periods of 2015. Higher earnings for the periods resulted primarily from the impact of the Access Arrangement regulatory decision received in the second quarter 2015, and growth in rate base.

NON-REGULATED PIPELINES & LIQUIDS

Storage & Industrial Water

Our industrial water services and non-regulated natural gas storage, processing and transmission activities are conducted by ATCO Energy Solutions. ATCO Energy Solutions' strategic focus in 2016 is on expanding its natural gas and hydrocarbon storage along with the water infrastructure businesses.

Adjusted earnings were $1 million higher in the second quarter and $5 million higher in the first half of 2016 when compared to the same periods of 2015. Higher earnings were primarily attributable to lower costs due to the sale of under-performing assets in late 2015 and early 2016, higher demand and prices for storage services and earnings contributions from the commencement of additional industrial water projects in late 2015.

Corporate & Other

The Corporate & Other segment includes the commercial real estate owned by the Company in Alberta and business development activities associated with the Company's expansion into Mexico. In the first quarter of 2016, ATCO announced the launch of ATCOenergy, a new electricity and natural gas retail company that promises Albertans outstanding service and lower costs for their homes and businesses.

Corporate & Other adjusted earnings in the second quarter and first half of 2016 were lower compared to the same periods in 2015. Lower earnings are primarily attributable to costs associated with Canadian Utilities' preferred share issuances in the second half of 2015 and ATCOenergy and ATCO Mexico business development expenses.

REGULATORY DEVELOPMENTS

Generic Cost of Capital (GCOC)

In March 2015, the Company received the AUC 2013 GCOC decision. The decision established the return on equity (ROE) and deemed common equity ratios for the Alberta Utilities for 2013 to 2015. The ROE was set at 8.30 per cent for each of 2013, 2014 and 2015. These rates will remain in place on an interim basis for 2016 until such time as the AUC issues a decision on final rates as part of the 2016 GCOC proceeding. The 2016 GCOC hearing was completed in June 2016 and a decision is expected by the end of this year.

ATCO Electric Transmission 2015 to 2017 General Tariff Application

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

ATCO Gas Australia Access Arrangement Decision

In July 2015, the Western Australia Economic Regulation Authority (ERA) released its Final Decision for ATCO Gas Australia's next Access Arrangement period (AA4) from July 2014 to December 2019. The decision resulted in a reduced utility ROE from 10.41 per cent to 7.28 per cent.

ATCO Gas Australia lodged an Appeal Application with the Australian Competition Tribunal (ACT) on October 1, 2015 seeking leave to appeal a number of key items, including, but not limited to, ROE and the recovery of operating expenses, depreciation and corporate income tax expenses. The ACT decision was received in July 2016 resulting in an increase of approximately $2 million to second quarter 2016 adjusted earnings mainly due to an improvement in the recoverability of certain expenses.

CLIMATE CHANGE AND THE ENVIRONMENT

Alberta's Climate Leadership Plan

In November 2015, the Government of Alberta announced Alberta's Climate Leadership Plan, a framework which includes the proposed phasing out of emissions from coal-fired generation by 2030, the accelerated phasing in of renewable energy, an economy-wide tax on carbon emissions starting in 2017, and the reduction of methane emissions.

In June 2016, the Government of Alberta passed Bill 20, the Climate Leadership Implementation Act. The new legislation implements key elements of Alberta's Climate Leadership Plan, including enacting the Climate Leadership Act, which establishes Alberta's carbon levy and carbon levy rebate program, effective January 2017, and the Energy Efficiency Alberta Act, which will promote and deliver programs related to energy efficiency.

Thermal PPAs

On July 25, 2016, the Government of Alberta commenced legal action to determine the validity and interpretation of certain terms within the Power Purchase Arrangements (PPAs) and related regulations. The legal action the Government of Alberta filed seeks to prevent the PPAs from being returned to the Balancing Pool. ATCO has never been a buyer of a coal PPA.

ATCO continues to operate Battle River unit 5 and Sheerness units 1 and 2 under the terms of their respective PPAs. ATCO will monitor and, in its capacity as a respondent, participate in the proceeding. However, the proceeding seeks no direct relief against ATCO.

Coal Phase-out

ATCO Power continues to work with the Government of Alberta, the Facilitator, the Alberta Electric System Operator and other coal-fired electricity generators to develop options to phase out emissions from coal-fired generation by 2030 and is actively engaged in the process to protect its interests. A broader stakeholder meeting was held in June 2016 by the Government of Alberta to engage various stakeholders.

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the three and six months ended June 30, 2016 and 2015 is given below. These amounts are presented in accordance with IFRS accounting standards. They have not been adjusted for the timing of revenues and expenses associated with rate-regulated activities and other items that are not in the normal course of business.

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Operating costs	**528**	586	(58)	**1,078**	1,213	(135)
Earnings from investment in joint ventures	**5**	(4)	9	**9**	2	7
Depreciation, amortization and impairment	**151**	149	2	**302**	285	17
Net finance costs	**94**	69	25	**188**	140	48
Income taxes	**42**	102	(60)	**117**	162	(45)

OPERATING COSTS

Operating costs, which are total costs and expenses less depreciation, amortization and impairment, decreased in the second quarter and first half of 2016, when compared to the same periods in 2015. The decrease is primarily due to lower fuel costs due to the sale and closure of certain non-core NGL and gas gathering and processing assets in ATCO Energy Solutions in the fourth quarter of 2015 and first quarter of 2016. Lower operating costs are also being realized as a result of the Company's restructuring exercise in 2015, leading to ongoing business-wide cost reduction initiatives.

EARNINGS FROM INVESTMENT IN JOINT VENTURES

Earnings from investment in joint ventures increased in the second quarter and in the first half of 2016, when compared to the same periods in 2015. These increases were primarily due to an impairment recorded in the second quarter of 2015 by Structures & Logistics of $7 million as a result of challenging market conditions in its joint venture open lodge business.

DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In the second quarter and first half of 2016, depreciation, amortization and impairment expense increased by $2 million and $17 million, respectively, compared to the same periods in 2015. The increased expense was mainly due to the ongoing significant capital investment program by the Company's Regulated Utilities. Included in the second quarter of 2015 is an impairment of $6 million for Structures & Logistics' open lodges as a result of challenging market conditions.

NET FINANCE COSTS

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

INCOME TAXES

Income taxes decreased in the second quarter and first half of 2016, when compared to the same periods in 2015. The decrease is primarily due to a tax adjustment of $67 million ($37 million after non-controlling interest) in the second quarter of 2015, reflecting an increase in Alberta's corporate income tax rate from 10 per cent to 12 per cent effective July 1, 2015, partially offset by the higher earnings before income taxes year-over-year.

LIQUIDITY AND CAPITAL RESOURCES

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

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

On July 21, 2016, Standard & Poor's Rating Services affirmed its 'A' long-term corporate credit rating on ATCO Ltd. and its subsidiaries Canadian Utilities Limited and CU Inc.

LINES OF CREDIT

At June 30, 2016, the Company and its subsidiaries had the following lines of credit.

($ millions)	**Total**	**Used**	**Available**
Long-term committed	**2,986**	861	2,125
Uncommitted	**322**	113	209
Total	**3,308**	974	2,334

Of the $3,308 million in total credit lines, $322 million was in the form of uncommitted credit facilities with no set maturity date. The other $2,986 million in credit lines were committed, with $677 million maturing in late 2017. The remaining lines of credit mature between 2018 and 2019 and may be extended at the option of the lenders.

Of the $974 million credit line usage, $260 million was related to issuances of commercial paper that are back-stopped by the corporate credit facilities. The majority of the remaining credit line usage was associated with ATCO Gas Australia. Long-term committed credit lines are used to satisfy all of ATCO Gas Australia's term debt financing needs. Credit lines for ATCO Gas Australia are provided by Australian banks, with the majority of all other credit lines provided by Canadian banks.

CONSOLIDATED CASH FLOW

At June 30, 2016, the Company's cash position was $676 million, a decrease of $123 million from December 31, 2015. The main drivers for the decrease are cash used for capital investments and major projects. Partially offsetting the reduced cash position are the higher earnings attributable to Class I and Class II Shares achieved by the Company in the period.

Funds generated by operations

Funds generated by operations (see "Non-GAAP and Additional GAAP Measures" section of this MD&A) of $401 million in the second quarter were comparable to the same period last year. Funds generated by operations were $885 million in the first half of 2016 compared to $865 million in the same period of 2015. The increase was mainly as a result of increased earnings attributable to Class I and Class II Shares.

Cash used for capital investment

Cash used for capital investment was $387 million in the second quarter and $751 million in the first half of 2016, compared to $418 million and $841 million in the same periods of 2015. The decreases were primarily due to previously disclosed and planned lower capital spending in ATCO Electric Distribution and ATCO Electric Transmission year-over-year.

Capital investment for the three and six months ended June 30, 2016 and 2015 is shown in the following table.

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Electricity						
ATCO Electric Distribution	**62**	84	(22)	**118**	175	(57)
ATCO Electric Transmission	**64**	104	(40)	**113**	237	(124)
Alberta PowerLine	**8**	7	1	**19**	11	8
ATCO Power	**10**	40	(30)	**76**	54	22
Total Electricity	**144**	235	(91)	**326**	477	(151)
Pipelines & Liquids						
ATCO Gas	**95**	84	11	**155**	141	14
ATCO Pipelines	**36**	34	2	**77**	64	13
ATCO Gas Australia	**22**	19	3	**39**	35	4
Non-regulated Capital Investment (3)	**33**	24	9	**75**	80	(5)
Total Pipelines & Liquids	**186**	161	25	**346**	320	26
Structures & Logistics	**39**	17	22	**44**	37	7
Corporate & Other	**18**	5	13	**35**	7	28
Total (1) (2)	**387**	418	(31)	**751**	841	(90)

(1) Includes capital expenditures in joint ventures of $44 million and $63 million (2015 - $10 million and $23 million) for the second quarter and first half of 2016.

(2) Includes additions to property, plant and equipment, intangibles and $5 million and $9 million (2015 - $26 million and $50 million) of interest capitalized during construction for the second quarter and first half of 2016.

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

Base Shelf Prospectuses

CU Inc. Debentures and Preferred Shares

On May 16, 2016, CU Inc. filed a base shelf prospectus that permits it to issue up to an aggregate of $1.5 billion of debentures over the 25-month life of the prospectus. No debentures have been issued to date under this base shelf prospectus. Effective June 1, 2016, the annual dividend rate on CU Inc.'s Cumulative Redeemable Preferred Shares Series 4 was reset to 2.24 per cent for the next five-year period.

Canadian Utilities Debt Securities and Preferred Shares

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

Dividends and Common Shares

The Company has increased its common share dividend each year since 1993. In each of the last five years, the Company has increased its quarterly dividend by 15 per cent. Dividends paid to Class I and Class II Share owners in the second quarter and first half of 2016 totaled $32 million and $65 million, respectively. On July 14, 2016, the Board of Directors declared a third quarter dividend of 28.50 cents per share. The payment of any dividend is at the discretion of the Board of Directors and depends on the Company's financial condition and other factors.

15% increase in quarterly dividend for the fifth consecutive year

Normal Course Issuer Bid

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

On March 1, 2016, ATCO commenced a normal course issuer bid to purchase up to 3,043,884 outstanding Class I Shares. The bid will expire on February 28, 2017. From March 1, 2016 to July 25, 2016, 460,000 shares were purchased.

Canadian Utilities Dividend Reinvestment Plan

In the second quarter of 2016, Canadian Utilities issued 367,505 Class A non-voting shares under its DRIP in lieu of cash dividend payments of $13 million.

SHARE CAPITAL

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

At July 25, 2016, the Company had outstanding 101,074,423 Class I Shares, 13,562,805 Class II Shares, and options to purchase 685,100 Class I Shares.

CLASS I NON-VOTING SHARES AND CLASS II VOTING SHARES

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

Of the 10,200,000 Class I Shares authorized for grant of options under ATCO's stock option plan, 2,735,000 Class I Shares were available for issuance at June 30, 2016. Options may be granted to the Company's officers and key employees at an exercise price equal to the weighted average of the trading price of the shares on the Toronto Stock Exchange for the five trading days immediately preceding the grant date. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the time of grant.

QUARTERLY INFORMATION

The following table shows financial information for the eight quarters ended September 30, 2014 through June 30, 2016.

($ millions except for per share data)	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Revenues	985	1,127	1,058	**932**
Earnings attributable to Class I and Class II Shares	53	(1)	109	**61**
Earnings per Class I and Class II Share *($)*	0.46	(0.01)	0.95	**0.53**
Diluted earnings per Class I and Class II Share *($)*	0.46	(0.01)	0.95	**0.53**
Adjusted earnings				
Structures & Logistics	11	13	12	**13**
Electricity	51	33	54	**55**
Pipelines & Liquids	8	45	56	**22**
Corporate & Other and Intersegment Eliminations	(4)	1	(1)	**(9)**
Total adjusted earnings	66	92	121	**81**

($ millions except for per share data)	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Revenues	1,038	1,176	1,072	947
Earnings attributable to Class I and Class II Shares	133	94	94	8
Earnings per Class I and Class II Share *($)*	1.16	0.82	0.82	0.07
Diluted earnings per Class I and Class II Share *($)*	1.15	0.82	0.82	0.06
Adjusted earnings				
Structures & Logistics	17	26	5	(2)
Electricity	58	45	34	53
Pipelines & Liquids	13	47	42	6
Corporate & Other and Intersegment Eliminations	(3)	(1)	(3)	–
Total adjusted earnings	85	117	78	57

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

Adjusted Earnings

Adjusted earnings in the Structures & Logistics Business Unit are reflective of the cyclical nature of large natural resource project activity in 2015 and 2016. Higher earnings in the second half of 2014 were related to activity associated with the completion of the BHP Billiton Jansen Potash and initial Wheatstone projects which were completed at the end of 2014. Reduced lodging occupancy levels and room rates along with lower manufacturing activity and profit margins contributed to lower earnings in the first half of 2015. Improved earnings in the second half of 2015 and the first half of 2016 are associated with increased Modular Structures manufacturing activity and business-wide cost reduction initiatives. Earnings in the first half of 2016 also benefited from increased Lodging and Support Services utilization.

Adjusted earnings in the Electricity Business Unit reflect the large capital investment made by Regulated Electricity in the previous eight quarters. These investments, which earn a return under a regulated business model, drive growth in adjusted earnings. Adjusted earnings have also been affected by the timing of certain major regulatory decisions, and Alberta Power Pool pricing and spark spreads. The positive impact of the retroactive component of the 2014 Interim Rates Decision on distribution operations in Regulated Electricity is reflected in higher earnings in the third quarter of 2014. Earnings in the first quarter of 2015 are reflective of the financial impact of the GCOC and Capital Tracker decisions in Regulated Electricity. Lower earnings in the fourth quarter of 2015 were mainly due to regulatory lag which required an update to the forecast costs as compared to prospective costs originally filed in ATCO Electric Transmission's 2015 to 2017 General Tariff Application. Higher earnings in the first half of 2016 are primarily due to continued capital investment and rate base growth and business-wide cost reduction initiatives.

Adjusted earnings in the Pipelines & Liquids Business Unit reflect the large capital investments made by Regulated Pipelines & Liquids in the previous eight quarters. These investments, which earn a return under a regulated business model, drive growth in adjusted earnings. Adjusted earnings have also been affected by the timing of certain major regulatory decisions, seasonality, and commodity prices. Lower adjusted earnings in the third quarter of 2014 reflect the seasonal demand of ATCO Gas. Earnings in the first quarter of 2015 are reflective of the financial impact of the GCOC and Capital Tracker decisions in Regulated Pipelines & Liquids. Earnings in the second quarter of 2015 reflect lower seasonal demand in ATCO Gas, the impact of the Access Arrangement decision on ATCO Gas Australia, and lower frac spreads and storage fees in ATCO Energy Solutions. Higher operations and maintenance costs and lower seasonal demand in ATCO Gas are reflected in third quarter earnings. Higher earnings in the fourth quarter of 2015 and first half of 2016 are primarily attributable to continued capital investment, growth in rate base and customers, and business-wide cost reduction initiatives.

Earnings attributable to Class I and Class II Shares

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

- in the first quarter of 2016, ATCO recorded a gain on sale of joint operation of $7 million for the sale of ATCO Energy Solutions' 51.3 per cent interest in the Edmonton Ethane Extraction Plant;
- in the fourth quarter of 2015, ATCO recorded gains on sales of operations and a gain on a revaluation of a joint venture of $28 million for: the sale of the Emissions Management business, the sale of certain non-core natural gas gathering and processing assets, and the revaluation of the Company's Barking Power investment;
- in the fourth quarter of 2015, impairment charges of $91 million were recorded relating to Structures & Logistics' workforce housing assets, the Battle River units 3 and 4 power generation assets, the Mexico Tula Pipeline, as well as certain gas gathering and processing facilities;
- in the fourth quarter of 2015, the Company recorded a restructuring charge of $44 million. These costs were primarily related to staff reductions and associated severance costs;
- in the third quarter of 2015, the Company recognized a restructuring charge of $3 million;
- in the second quarter of 2015, the Company recognized a restructuring charge of $3 million and an impairment of Structures & Logistics open lodge assets of $13 million;
- in the second quarter of 2015, the Company made an adjustment of $37 million to current and deferred income taxes associated with the Government of Alberta corporate income tax rate increase from 10 to 12 per cent. $34 million of this adjustment related to deferred income taxes recorded by the Alberta Utilities that were excluded from adjusted earnings;
- in the fourth quarter of 2014, the Company recognized an impairment of certain gas gathering, processing and liquids extraction facilities of $7 million and a $2 million impairment related to its joint venture power generation assets in the U.K.; and
- in the third quarter of 2014, ATCO recognized a gain on sale of ATCO I-Tek of $74 million.

NON-GAAP AND ADDITIONAL GAAP MEASURES

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

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

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

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

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

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

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

($ millions)						**Three Months Ended June 30**
2016 **2015 (Restated)** [1]	**Structures & Logistics**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**176**	**429**	**320**	**26**	**(19)**	**932**
	167	441	343	13	(17)	947
Adjusted earnings	**13**	**55**	**22**	**(9)**	–	**81**
	(2)	53	6	(1)	1	57
Restructuring costs	–	–	–	–	–	–
	–	(2)	(1)	–	–	(3)
Impairment	–	–	–	–	–	–
	(13)	–	–	–	–	(13)
Rate-regulated activities	–	**(8)**	**(13)**	–	**1**	**(20)**
	–	(30)	(3)	–	–	(33)
Earnings attributable to Class I and Class II Shares	**13**	**47**	**9**	**(9)**	**1**	**61**
	(15)	21	2	(1)	1	8

($ millions)						Six Months Ended June 30
2016 **2015 (Restated)** [1]	**Structures & Logistics**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**383**	**877**	**720**	**48**	**(38)**	**1,990**
	321	904	801	24	(31)	2,019
Adjusted earnings	**25**	**109**	**78**	**(11)**	**1**	**202**
	3	87	48	(3)	–	135
Gain on sale of joint operation	–	–	**7**	–	–	**7**
	–	–	–	–	–	–
Restructuring costs	–	–	–	–	–	–
	–	(2)	(1)	–	–	(3)
Impairment	–	–	–	–	–	–
	(13)	–	–	–	–	(13)
Rate-regulated activities	–	**(12)**	**(29)**	–	**2**	**(39)**
	–	(14)	(4)	–	1	(17)
Earnings attributable to Class I and Class II Shares	**25**	**97**	**56**	**(11)**	**3**	**170**
	(10)	71	43	(3)	1	102

(1) During the fourth quarter of 2015, the Company reorganized its operating subsidiaries into the segments above. Comparative amounts for prior periods have been restated to reflect the realigned segments.

RATE-REGULATED ACTIVITIES

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

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

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

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

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

		Three Months Ended June 30			Six Months Ended June 30	
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Additional revenues billed in current period [1]	**12**	16	(4)	**25**	30	(5)
Revenues to be billed in future period [2]	**(30)**	(53)	23	**(57)**	(82)	25
Regulatory decisions related to current and prior periods [3]	**(3)**	4	(7)	**(9)**	34	(43)
Elimination of intercompany profits related to the construction of property, plant and equipment and intangible assets	**1**	–	1	**2**	1	1
Total adjustments	**(20)**	(33)	13	**(39)**	(17)	(22)

Notes:

(1) Additional revenues billed in current period

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

(2) Revenues to be billed in future period

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

The impact of warmer temperatures in the first half of 2016 also had an impact on revenues in this category. ATCO Gas' customer rates are based on a forecast of normal temperatures. Fluctuations in temperatures may result in more or less revenue being recovered from customers than forecast. Under rate-regulated accounting, revenues above or below the norm in the current period are deferred and refunded to or recovered from customers in future periods.

(3) Regulatory decisions related to current and prior periods

Refer to the Regulatory Developments section in this MD&A as well as the Segmented Information presented in Note 3 of the unaudited interim consolidated financial statements for the six months ended June 30, 2016.

OTHER FINANCIAL INFORMATION

ACCOUNTING CHANGES

Certain new or amended standards or interpretations issued by the International Accounting Standards Board (IASB) or IFRS Interpretations Committee (IFRIC) do not have to be adopted in the current period. These standards remain substantially unchanged from the 2015 MD&A.

There were no new or amended standards issued by the IASB or IFRIC in the second quarter of 2016 that the Company anticipates will have a material effect on the unaudited interim consolidated financial statements or note disclosures.

CONTROLS AND PROCEDURES

Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on April 1, 2016, and ended on June 30, 2016, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

FORWARD LOOKING INFORMATION

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

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

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

ADDITIONAL INFORMATION

ATCO has published its unaudited interim consolidated financial statements and its MD&A for the six months ended June 30, 2016. Copies of these documents may be obtained upon request from Investor Relations at 1500, 909 -11th Avenue S.W., Calgary, Alberta, T2R 1N6, telephone 403-292-7500, fax 403-292-7532 or email investorrelations@atco.com.

GLOSSARY

AESO means the Alberta Electric System Operator.

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

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

AUC means the Alberta Utilities Commission.

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

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

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

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

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

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

GAAP means Canadian generally accepted accounting principles.

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

IFRS means International Financial Reporting Standards.

Km means kilometre.

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

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

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

PBR means Performance Based Regulation.

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

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

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

U.K. means United Kingdom.

U.S. means United States of America.

ATCO LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE SIX MONTHS ENDED JUNE 30, 2016

ATCO LTD.
CONSOLIDATED STATEMENT OF EARNINGS

		Three Months Ended June 30		Six Months Ended June 30	
(millions of Canadian Dollars except per share data)	**Note**	**2016**	**2015**	**2016**	**2015**
Revenues		**932**	947	**1,990**	2,019
Costs and expenses					
Salaries, wages and benefits		**(149)**	(159)	**(284)**	(315)
Energy transmission and transportation		**(56)**	(48)	**(110)**	(96)
Plant and equipment maintenance		**(53)**	(75)	**(109)**	(145)
Fuel costs		**(30)**	(62)	**(62)**	(149)
Purchased power		**(17)**	(18)	**(38)**	(39)
Manufacturing raw materials and consumables		**(91)**	(96)	**(208)**	(178)
Depreciation, amortization and impairment		**(151)**	(149)	**(302)**	(285)
Franchise fees		**(43)**	(46)	**(108)**	(114)
Property and other taxes		**(27)**	(23)	**(52)**	(48)
Other		**(62)**	(59)	**(107)**	(129)
		(679)	(735)	**(1,380)**	(1,498)
Gain on sale of joint operation	3	**–**	–	**18**	–
Earnings (loss) from investment in joint ventures		**5**	(4)	**9**	2
Operating profit		**258**	208	**637**	523
Interest income		**3**	2	**7**	5
Interest expense		**(97)**	(71)	**(195)**	(145)
Net finance costs		**(94)**	(69)	**(188)**	(140)
Earnings before income taxes		**164**	139	**449**	383
Income taxes		**(42)**	(102)	**(117)**	(162)
Earnings for the period		**122**	37	**332**	221
Earnings attributable to:					
Class I and Class II Shares		**61**	8	**170**	102
Non-controlling interests		**61**	29	**162**	119
		122	37	**332**	221
Earnings per Class I and Class II Share	8	**$0.53**	$0.07	**$1.48**	$0.89
Diluted earnings per Class I and Class II Share	8	**$0.53**	$0.06	**$1.48**	$0.88

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

ATCO LTD.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three Months Ended June 30		Six Months Ended June 30	
(millions of Canadian Dollars)	**2016**	**2015**	**2016**	**2015**
Earnings for the period	**122**	37	**332**	221
Other comprehensive (loss) income, net of income taxes				
Items that will not be reclassified to earnings:				
Re-measurement of retirement benefits (1)	**(35)**	27	**(105)**	17
Share of other comprehensive loss of joint ventures (2)	**–**	–	**–**	(3)
	(35)	27	**(105)**	14
Items that are or may be reclassified subsequently to earnings:				
Cash flow hedges (3)	**(5)**	(10)	**(10)**	(13)
Cash flow hedges reclassified to earnings (4)	**–**	(1)	**1**	(2)
Foreign currency translation adjustment (4)	**(29)**	(6)	**(60)**	27
	(34)	(17)	**(69)**	12
Other comprehensive (loss) income	**(69)**	10	**(174)**	26
Comprehensive income for the period	**53**	47	**158**	247
Comprehensive income attributable to:				
Class I and Class II Shares	**22**	13	**69**	122
Non-controlling interests	**31**	34	**89**	125
	53	47	**158**	247

(1) Net of income taxes of $13 million and $37 million for the three and six months ended June 30, 2016, respectively (2015 - $(9) million and $(6) million).

(2) Net of income taxes of nil for the three and six months ended June 30, 2016, respectively (2015 - nil and $1 million).

(3) Net of income taxes of $2 million and $4 million for the three and six months ended June 30, 2016, respectively (2015 - $4 million and $5 million).

(4) Net of income taxes of nil.

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

ATCO LTD.
CONSOLIDATED BALANCE SHEET

(millions of Canadian Dollars)	Note	June 30 2016	December 31 2015
ASSETS			
Current assets			
Cash and cash equivalents		**703**	800
Accounts receivable		**661**	624
Finance lease receivables		**9**	9
Inventories		**92**	87
Income taxes receivable		**61**	33
Prepaid expenses and other current assets		**47**	58
		1,573	1,611
Non-current assets			
Property, plant and equipment	5	**16,587**	16,230
Intangibles		**504**	502
Goodwill		**71**	71
Investment in joint ventures		**209**	194
Finance lease receivables		**305**	302
Deferred income tax assets		**80**	82
Other assets		**64**	63
Total assets		**19,393**	19,055
LIABILITIES			
Current liabilities			
Bank indebtedness		**27**	1
Accounts payable and accrued liabilities		**697**	847
Asset retirement obligations and other provisions		**85**	79
Other current liabilities		**13**	17
Short-term debt	6	**260**	–
Long-term debt		**5**	5
Non-recourse long-term debt		**14**	15
		1,101	964
Non-current liabilities			
Deferred income tax liabilities		**1,062**	1,007
Asset retirement obligations and other provisions		**151**	154
Retirement benefit obligations		**449**	307
Deferred revenues		**1,671**	1,649
Other liabilities		**46**	46
Long-term debt		**7,938**	7,938
Non-recourse long-term debt		**91**	97
Total liabilities		**12,509**	12,162
EQUITY			
Class I and Class II Share owners' equity			
Class I and Class II Shares	8	**166**	165
Contributed surplus		**9**	11
Retained earnings		**3,174**	3,130
Accumulated other comprehensive income		**7**	50
		3,356	3,356
Non-controlling interests		**3,528**	3,537
Total equity		**6,884**	6,893
Total liabilities and equity		**19,393**	19,055

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

ATCO LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(millions of Canadian Dollars)	Note	Class I and Class II Shares (Attributable to Equity Owners of the Company)	Contributed Surplus (Attributable to Equity Owners of the Company)	Retained Earnings (Attributable to Equity Owners of the Company)	Accumulated Other Comprehensive Income (Attributable to Equity Owners of the Company)	Total (Attributable to Equity Owners of the Company)	Non-Controlling Interests	Total Equity
December 31, 2014		161	11	3,010	(14)	3,168	3,112	6,280
Earnings for the period		–	–	102	–	102	119	221
Other comprehensive income		–	–	–	20	20	6	26
Gains on retirement benefits transferred to retained earnings		–	–	8	(8)	–	–	–
Shares issued	11	–	–	–	–	–	23	23
Dividends	9	–	–	(57)	–	(57)	(102)	(159)
Share-based compensation		–	(2)	2	–	–	(3)	(3)
Changes in ownership interest in subsidiary company (1)		–	–	22	–	22	(22)	–
Other		–	–	–	–	–	1	1
June 30, 2015		161	9	3,087	(2)	3,255	3,134	6,389
December 31, 2015		165	11	3,130	50	3,356	3,537	6,893
Earnings for the period		**–**	**–**	**170**	**–**	**170**	**162**	**332**
Other comprehensive loss		**–**	**–**	**–**	**(101)**	**(101)**	**(73)**	**(174)**
Losses on retirement benefits transferred to retained earnings		**–**	**–**	**(58)**	**58**	**–**	**–**	**–**
Shares issued, purchased and cancelled	8,11	**(1)**	**–**	**(17)**	**–**	**(18)**	**26**	**8**
Dividends	9	**–**	**–**	**(65)**	**–**	**(65)**	**(119)**	**(184)**
Share-based compensation		**2**	**(2)**	**(1)**	**–**	**(1)**	**1**	**–**
Changes in ownership interest in subsidiary company (1)		**–**	**–**	**15**	**–**	**15**	**(15)**	**–**
Other		**–**	**–**	**–**	**–**	**–**	**9**	**9**
June 30, 2016		**166**	**9**	**3,174**	**7**	**3,356**	**3,528**	**6,884**

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

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

ATCO LTD.
CONSOLIDATED STATEMENT OF CASH FLOW

(millions of Canadian Dollars)	Note	Three Months Ended June 30 2016	Three Months Ended June 30 2015	Six Months Ended June 30 2016	Six Months Ended June 30 2015
Operating activities					
Earnings for the period		**122**	37	**332**	221
Adjustments to reconcile earnings to cash flows from operating activities	10	**279**	364	**553**	644
Changes in non-cash working capital		**(66)**	(74)	**(125)**	(18)
Cash flows from operating activities		**335**	327	**760**	847
Investing activities					
Additions to property, plant and equipment		**(325)**	(369)	**(652)**	(740)
Proceeds on disposal of property, plant and equipment		**6**	–	**9**	–
Additions to intangibles		**(13)**	(13)	**(27)**	(28)
Proceeds on sale of joint operation	3	**–**	–	**21**	–
Investment in joint ventures	4	**(39)**	(10)	**(51)**	(10)
Changes in non-cash working capital		**(24)**	(85)	**(95)**	(153)
Other		**1**	(1)	**6**	–
Cash flows used in investing activities		**(394)**	(478)	**(789)**	(931)
Financing activities					
Net issue of short-term debt	6	**260**	310	**260**	450
Issue of long-term debt		**44**	23	**62**	42
Repayment of long-term debt		**(16)**	(30)	**(31)**	(58)
Repayment of non-recourse long-term debt		**(4)**	(3)	**(7)**	(7)
Issue of Class A shares by subsidiary company		**1**	1	**2**	1
Issue (purchase) of Class I Shares		**1**	–	**(17)**	–
Dividends paid to Class I and Class II Share owners		**(32)**	(29)	**(65)**	(57)
Dividends paid to non-controlling interests		**(46)**	(41)	**(93)**	(79)
Interest paid		**(106)**	(103)	**(196)**	(185)
Other		**3**	1	**5**	–
Cash flows from (used in) financing activities		**105**	129	**(80)**	107
Increase (decrease) in cash position (1)		**46**	(22)	**(109)**	23
Foreign currency translation		**4**	–	**(14)**	14
Beginning of period		**626**	649	**799**	590
End of period		**676**	627	**676**	627

(1) Cash position consists of cash and cash equivalents less current bank indebtedness and includes $39 million (2015 - $53 million) which is not available for general use by the Company.

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

ATCO LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2016

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

1. THE COMPANY AND ITS OPERATIONS

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

ATCO Ltd. is engaged in the following business activities:

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

The unaudited interim consolidated financial statements include the accounts of ATCO Ltd. and its subsidiaries (the Company). The statements also include the accounts of a proportionate share of the Company's investments in joint operations and its equity-accounted investments in joint ventures.

Principal operating subsidiaries are:

- ATCO Structures & Logistics (75.5 per cent owned) and its subsidiaries. On a consolidated basis, the Company owns 88.5 per cent of ATCO Structures & Logistics; and
- Canadian Utilities Limited (53.0 per cent owned), its subsidiaries, and its 24.5 per cent investment in ATCO Structures & Logistics.

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

The unaudited interim consolidated financial statements are prepared according to International Accounting Standard (IAS) 34 Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. They do not include all the disclosures required in annual consolidated financial statements and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2015, prepared according to IFRS.

The unaudited interim consolidated financial statements are prepared following the same accounting policies used in the Company's most recent annual financial statements, except for income taxes. In interim periods, income taxes are accrued using an estimate of the annualized effective tax rate applied to year-to-date earnings.

The unaudited interim consolidated financial statements were authorized for issue by the Audit & Risk Committee, on behalf of the Board of Directors, on July 26, 2016.

BASIS OF MEASUREMENT

The unaudited interim consolidated financial statements are prepared on a historic cost basis, except for derivative financial instruments, defined benefit pension and other employee retirement benefit liabilities and cash-settled share-based compensation liabilities.

Revenues, earnings and adjusted earnings for any quarter are not necessarily indicative of operations on an annual basis. Quarterly financial results may be affected by the seasonal nature of the Company's operations, changes in electricity prices in Alberta, the timing and demand of natural gas storage capacity sold, changes in natural gas storage fees, the timing of maintenance outages at power generating plants, the timing of utility rate decisions and changes in market conditions for workforce housing and space rentals operations.

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

3. SEGMENTED INFORMATION

SEGMENTED RESULTS

Results by operating segment for the three months ended June 30 is shown below.

2016 **2015 (Restated)** (1)	**Structures & Logistics**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues - external	**176**	**425**	**316**	**15**	**–**	**932**
	167	438	337	5	–	947
Revenues - intersegment	**–**	**4**	**4**	**11**	**(19)**	**–**
	–	3	6	8	(17)	–
Revenues	**176**	**429**	**320**	**26**	**(19)**	**932**
	167	441	343	13	(17)	947
Operating expenses (2)	**(146)**	**(162)**	**(205)**	**(33)**	**18**	**(528)**
	(157)	(217)	(219)	(10)	17	(586)
Depreciation, amortization and impairment	**(10)**	**(89)**	**(53)**	**(3)**	**4**	**(151)**
	(22)	(76)	(51)	(2)	2	(149)
Earnings from investment in joint ventures	**2**	**3**	**–**	**–**	**–**	**5**
	(10)	6	–	–	–	(4)
Net finance costs	**(1)**	**(61)**	**(35)**	**4**	**(1)**	**(94)**
	(1)	(37)	(34)	3	–	(69)
Earnings before income taxes	**21**	**120**	**27**	**(6)**	**2**	**164**
	(23)	117	39	4	2	139
Income taxes	**(6)**	**(32)**	**(7)**	**4**	**(1)**	**(42)**
	5	(75)	(32)	1	(1)	(102)
Earnings for the period	**15**	**88**	**20**	**(2)**	**1**	**122**
	(18)	42	7	5	1	37
Adjusted earnings	**13**	**55**	**22**	**(9)**	**–**	**81**
	(2)	53	6	(1)	1	57
Capital expenditures (4)	**14**	**144**	**167**	**18**	**–**	**343**
	17	235	151	5	–	408

Results by operating segment for the six months ended June 30 is shown below.

2016 2015 (Restated) [1]	Structures & Logistics	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues - external	**383**	**868**	**712**	**27**	**–**	**1,990**
	321	898	791	9	–	2,019
Revenues - intersegment	**–**	**9**	**8**	**21**	**(38)**	**–**
	–	6	10	15	(31)	–
Revenues	**383**	**877**	**720**	**48**	**(38)**	**1,990**
	321	904	801	24	(31)	2,019
Operating expenses [2]	**(325)**	**(330)**	**(409)**	**(51)**	**37**	**(1,078)**
	(290)	(445)	(490)	(20)	32	(1,213)
Depreciation, amortization and impairment	**(20)**	**(178)**	**(108)**	**(5)**	**9**	**(302)**
	(34)	(149)	(100)	(4)	2	(285)
Gain on sale of joint operation	**–**	**–**	**18**	**–**	**–**	**18**
	–	–	–	–	–	–
Earnings from investment in joint ventures	**2**	**7**	**–**	**–**	**–**	**9**
	(10)	12	–	–	–	2
Net finance costs	**(1)**	**(123)**	**(71)**	**8**	**(1)**	**(188)**
	(1)	(75)	(69)	7	(2)	(140)
Earnings before income taxes	**39**	**253**	**150**	**–**	**7**	**449**
	(14)	247	142	7	1	383
Income taxes	**(11)**	**(68)**	**(41)**	**5**	**(2)**	**(117)**
	2	(107)	(59)	2	–	(162)
Earnings for the period	**28**	**185**	**109**	**5**	**5**	**332**
	(12)	140	83	9	1	221
Adjusted earnings	**25**	**109**	**78**	**(11)**	**1**	**202**
	3	87	48	(3)	–	135
Total assets [3]	**965**	**11,395**	**6,519**	**622**	**(108)**	**19,393**
	929	11,060	6,394	697	(25)	19,055
Capital expenditures [4]	**19**	**326**	**308**	**35**	**–**	**688**
	37	477	297	7	–	818

(1) During the fourth quarter of 2015, the Company reorganized its operating subsidiaries into the segments above. Comparative amounts for prior periods have been restated to reflect the realigned segments.

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

(3) Total assets do not reflect adjustments for rate-regulated activities included in adjusted earnings. 2015 comparatives are at December 31, 2015.

(4) Includes additions to property, plant and equipment and intangibles and \$5 million and \$9 million (2015 - \$26 million and \$50 million) of interest capitalized during construction for the three and six months ended June 30, 2016.

ADJUSTED EARNINGS

Adjusted earnings are earnings attributable to Class I and Class II Shares after adjusting for the timing of revenues and expenses for rate-regulated activities. 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 used by the Chief Operating Decision Maker (CODM) to assess segment performance and allocate resources. Other accounts in the consolidated financial statements have not been adjusted as they are not used by the CODM for those purposes.

The reconciliation of adjusted earnings and earnings for the three months ended June 30 is shown below.

2016 **2015 (Restated)**	**Structures & Logistics**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Adjusted earnings	**13**	**55**	**22**	**(9)**	**–**	**81**
	(2)	53	6	(1)	1	57
Restructuring costs	**–**	**–**	**–**	**–**	**–**	**–**
	–	(2)	(1)	–	–	(3)
Impairment	**–**	**–**	**–**	**–**	**–**	**–**
	(13)	–	–	–	–	(13)
Rate-regulated activities	**–**	**(8)**	**(13)**	**–**	**1**	**(20)**
	–	(30)	(3)	–	–	(33)
Earnings attributable to Class I and Class II Shares	**13**	**47**	**9**	**(9)**	**1**	**61**
	(15)	21	2	(1)	1	8
Earnings attributable to non-controlling interests						**61**
						29
Earnings for the period						**122**
						37

The reconciliation of adjusted earnings and earnings for the six months ended June 30 is shown below.

2016 **2015 (Restated)**	**Structures & Logistics**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Adjusted earnings	**25**	**109**	**78**	**(11)**	**1**	**202**
	3	87	48	(3)	–	135
Gain on sale of joint operation	**–**	**–**	**7**	**–**	**–**	**7**
	–	–	–	–	–	–
Restructuring costs	**–**	**–**	**–**	**–**	**–**	**–**
	–	(2)	(1)	–	–	(3)
Impairment	**–**	**–**	**–**	**–**	**–**	**–**
	(13)	–	–	–	–	(13)
Rate-regulated activities	**–**	**(12)**	**(29)**	**–**	**2**	**(39)**
	–	(14)	(4)	–	1	(17)
Earnings attributable to Class I and Class II Shares	**25**	**97**	**56**	**(11)**	**3**	**170**
	(10)	71	43	(3)	1	102
Earnings attributable to non-controlling interests						**162**
						119
Earnings for the period						**332**
						221

Gain on sale of joint operation

In January 2016, the Company sold its 51.3 per cent interest in the Edmonton Ethane Extraction Plant for proceeds of $21 million cash, resulting in a gain of $18 million ($7 million after-tax and non-controlling interests).

Restructuring costs

In June 2015, the Company recorded restructuring costs of $3 million, after-tax and non-controlling interests, that were not in the normal course of business. These costs were primarily related to staff reductions and associated severance costs.

Impairment

In June 2015, the Company adjusted for a significant impairment of $13 million, after-tax and non-controlling interests, relating to ATCO Structures & Logistics' lodge assets, one of which is a joint venture asset. The Company determined these assets were impaired due to a reduction in contracted rooms and rates charged as a result of continued and sustained decreases in key commodity prices as well as a significant reduction in the capital expenditure programs of key clients.

Rate-regulated activities

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. Consequently, the Company does not recognize assets and liabilities arising from rate-regulated activities under IFRS.

The Company uses standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of generally accepted accounting principles (GAAP) to account for rate-regulated activities. 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 segment disclosures on this basis.

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

	Rate-Regulated Accounting Treatment	IFRS Treatment
1.	The Company defers the recognition of cash received in advance of future expenditures.	The Company records revenues when amounts are billed to customers and recognizes costs when they are incurred.
2.	The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company records costs when incurred, but does not recognize their recovery until changes to customer rates are reflected in future customer billings.
3.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company recognizes earnings when customer rates are changed and amounts are billed to customers.
4.	Intercompany profits on the manufacture or construction of facilities for a regulated public utility in the consolidated group are deemed to have been realized to the extent that the transfer price on such facilities is recognized for rate-making purposes by a regulator.	Intercompany profits are eliminated upon consolidation. The Company then recognizes those profits in earnings as amounts are billed to customers over the life of the related asset.

Timing adjustments for rate-regulated activities are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2016	**2015**	**2016**	**2015**
Additional revenues billed in current period:				
Future removal and site restoration costs (1)	**9**	5	**18**	11
Finance costs on major transmission capital projects (2)	**(1)**	9	**–**	17
Transmission capital deferral (3)	**2**	–	**5**	–
Other	**2**	2	**2**	2
	12	16	**25**	30
Revenues to be billed in future periods:				
Deferred income taxes (4)	**(13)**	(16)	**(28)**	(27)
Deferred income taxes due to increase in provincial corporate tax rate (4)	**–**	(34)	**–**	(34)
Transmission access payments (5)	**(2)**	(3)	**(2)**	(5)
Transmission capital deferral (3)	**–**	2	**–**	(5)
Impact of warmer temperatures on revenues (6)	**(5)**	(2)	**(14)**	(7)
Impact of inflation on rate base for ATCO Gas Australia (7)	**(1)**	(1)	**(3)**	(3)
Other	**(9)**	1	**(10)**	(1)
	(30)	(53)	**(57)**	(82)
Regulatory decisions related to current and prior periods:				
Generic cost of capital decision (8)	**–**	3	**–**	22
Capital tracker decision (8)	**–**	1	**–**	6
ATCO Electric interim rates decision (8)	**–**	(7)	**–**	(7)
ATCO Gas Australia access arrangement decision (8)	**(2)**	10	**(2)**	10
Transmission access payment recoveries (8)	**–**	–	**–**	4
General rate application (8)	**(1)**	–	**(4)**	–
Other	**–**	(3)	**(3)**	(1)
	(3)	4	**(9)**	34
Intercompany profits:				
Intercompany profits related to construction of property, plant and equipment and intangibles (9)	**1**	–	**2**	1
	(20)	(33)	**(39)**	(17)

Descriptions of the adjustments, and the timing of recovery or refund, are as follows:

	Description	Timing of Recovery or Refund
1.	Removal and site restoration costs billed to customers are based on the costs forecast to be incurred in future periods. Customers fund these expected costs over the estimated useful life of the related assets. Under rate-regulated accounting, billings to customers in excess of costs incurred in the current period are deferred.	The deferred revenues will be recognized in adjusted earnings when removal and site restoration costs are incurred.
2.	Finance costs incurred by ATCO Electric during construction of major transmission capital projects are billed to customers when incurred. Under rate-regulated accounting, the finance costs billed to customers are deferred.	The deferred revenues will be recognized in adjusted earnings over the service life of the related assets.
3.	For major transmission capital projects, ATCO Electric's billings to customers include a return on forecast rate base. When actual capital costs vary from forecast capital costs, the return on rate base, and the resulting billings to the Alberta Electric System Operator (AESO), will be higher or lower than expected. Under rate-regulated accounting, differences between billings to the AESO and the return on actual rate base are deferred.	Recoveries from or refunds to the AESO of variances between forecast and actual returns on rate base are expected to occur in the following year.
4.	Deferred income taxes are a non-cash expense resulting from temporary differences between the book value and the tax value of assets and liabilities. Income taxes are billed to customers when paid by the Company. Deferred income taxes are not billed to customers unless directed to do so by the regulator. Under rate-regulated accounting, revenues are recognized in the current period for the deferred income taxes to be billed to customers in future periods. In the second quarter of 2015, the Government of Alberta announced an increase in the provincial corporate tax rate from 10 per cent to 12 per cent effective July 1, 2015. As a result of this change, the Company increased income taxes and reduced earnings for the three and six months ended June 30, 2015 by $67 million. Of the $67 million increase in income taxes ($37 million after non-controlling interests), $63 million ($34 million after non-controlling interests) relates to deferred income taxes relating to the Alberta Utilities.	The revenues will reverse when the temporary differences that gave rise to the deferred income taxes reverse in future periods.
5.	Transmission access payments billed to customers by ATCO Electric are based on the forecast payments to be incurred. Under rate-regulated accounting, differences between actual costs incurred and forecast costs billed to customers are deferred for collection from or refund to customers in future periods.	Recoveries from or refunds to customers of the differences between transmission access payments billed to customers and paid by ATCO Electric are expected to occur in the next 6 to 12 months.

	Description	Timing of Recovery or Refund
6.	ATCO Gas' customer rates are based on a forecast of normal temperatures. Fluctuations in temperatures may result in more or less revenue being recovered from customers than forecast. Under rate-regulated accounting, revenues above or below the norm in the current period are deferred and refunded to or recovered from customers in future periods.	ATCO Gas may apply to the Alberta Utilities Commission (AUC) for recoveries from or refunds to customers when the net revenue variances exceed $7 million at April 30th of any year for either of its North or South systems.
7.	ATCO Gas Australia earns a return on rate base that excludes inflation. Inflation is accounted for by adjusting the rate base in subsequent periods by the actual rate of inflation; the impact of inflation is billed to customers through recovery of depreciation. Under rate-regulated accounting, an adjustment is made to recognize the inflation component of rate base when it is earned in the current period. Differences between the amounts earned and the amounts billed to customers are deferred.	The inflation-indexed portion of rate base will be recovered from customers over the life of the assets comprising rate base through the recovery of depreciation.
8.	The Canadian and Australian utilities recognize revenues from regulatory decisions when customer rates are changed and amounts are billed to customers. Under rate-regulated accounting, revenues from regulatory decisions that affect current and prior periods are recognized when the decision is received.	**Generic Cost of Capital Decision** The utilities recorded a reduction in adjusted earnings of $22 million in 2015 for an AUC decision which reduced the return on equity (ROE) and deemed common equity ratios for 2013 to 2015. Of the $22 million recorded in 2015, $17 million related to 2013 and 2014. Under IFRS, earnings will be adjusted when the AUC approves revised customer rates and the amount payable to customers is refunded through future billings. **Capital Tracker Decision** ATCO Gas and the distribution operations of ATCO Electric recorded a reduction in adjusted earnings of $6 million in 2015 for the AUC Performance Based Regulation Capital Tracker decisions for 2013 to 2015. Of the $6 million recorded in 2015, $4 million related to 2013 and 2014. Although these decisions included approval of the Company's applied for Capital Tracker programs, the decisions resulted in lower Capital Tracker rates than previously approved primarily due to the AUC requiring the utilities to use the actual cost of debt in the rate determinations, which was lower than the forecast cost of debt that was previously being used. Under IFRS, earnings will be adjusted when the AUC approves revised customer rates and the amount payable to customers is refunded through future billings.

	Description	Timing of Recovery or Refund
		ATCO Electric Interim Rates Decision In 2015, the transmission operations of ATCO Electric recorded an increase in Adjusted Earnings of $10 million for an AUC decision associated with its 2015 to 2017 general rate application. The AUC approved interim rates at 90 per cent of the applied for amount. Under IFRS, earnings are adjusted when the AUC approved revised customer rates are received through future billings; $3 million had been received as at the end of the second quarter of 2015. **ATCO Gas Australia Access Arrangement Decision** In 2015, the Economic Regulation Authority (ERA) released its final decision for ATCO Gas Australia's next Access Arrangement period (AA4) from July 2014 to December 2019. The decision resulted in a reduced ROE and a decrease to second quarter 2015 Adjusted Earnings of $10 million. Of this amount, $2 million related to the second quarter of 2015 and $8 million related to prior periods. ATCO Gas Australia lodged an Appeal Application with the Australian Competition Tribunal (ACT) on October 1, 2015. The ACT decision was received in July 2016 resulting in an increase to second quarter 2016 Adjusted Earnings of $2 million. Under IFRS, earnings will be adjusted when the ERA approves revised customer rates and the amount payable to customers is refunded through future billings. **Transmission Access Payment Recoveries** In 2015, actual payments for transmission access paid by ATCO Electric exceeded forecast costs included in billings to customers. These excess costs are subsequently recovered from customers. **General Rate Application** In the first quarter of 2016, ATCO Pipelines received its 2015 - 2016 general rate application decision. Under IFRS, $4 million will be recognized when the amount receivable from customers is collected through future billings.
9.	Under rate-regulated accounting, intercompany profits from transactions with related parties and approved by the regulator for inclusion in rate base are not eliminated on consolidation; they are recognized as earnings in the current period.	Intercompany profits will be recognized as earnings under IFRS as rate base is depreciated and the depreciation is billed to customers over the life of the assets.

4. INVESTMENT IN JOINT VENTURE

In April 2016, the Company expanded its international modular structures business into the Chilean market by investing $25 million in Sabinco Soluciones Modulares S.A. (Sabinco) for a 50 per cent ownership interest. At June 30, 2016, $12 million has been paid. Sabinco will operate under the name ATCO-Sabinco S.A. The Company has accounted for its 50 per cent ownership interest as a joint venture which is reported in the Structures & Logistics segment.

5. PROPERTY, PLANT AND EQUIPMENT

The Company continues to invest in utility infrastructure in Alberta, particularly in electricity transmission facilities.

A reconciliation of the changes in the carrying amount of property, plant and equipment is as follows:

	Utility Transmission & Distribution	Power Generation	Land and Buildings	Construction Work-in-Progress	Other	Total
Cost						
December 31, 2015	16,601	2,034	802	794	1,665	21,896
Additions	**123**	**10**	**115**	**466**	**19**	**733**
Transfers	**358**	**7**	**1**	**(401)**	**35**	**–**
Retirements and disposals	**(29)**	**(6)**	**(3)**	**(15)**	**(62)**	**(115)**
Changes to asset retirement costs	**–**	**1**	**–**	**–**	**–**	**1**
Foreign exchange rate adjustment	**(49)**	**–**	**(11)**	**(9)**	**(18)**	**(87)**
June 30, 2016	**17,004**	**2,046**	**904**	**835**	**1,639**	**22,428**
Accumulated depreciation and impairment						
December 31, 2015	3,427	1,261	168	85	725	5,666
Depreciation	**195**	**35**	**11**	**–**	**42**	**283**
Retirements and disposals	**(26)**	**(6)**	**(3)**	**–**	**(53)**	**(88)**
Foreign exchange rate adjustment	**(5)**	**–**	**–**	**(5)**	**(10)**	**(20)**
June 30, 2016	**3,591**	**1,290**	**176**	**80**	**704**	**5,841**
Net book value						
December 31, 2015	13,174	773	634	709	940	16,230
June 30, 2016	**13,413**	**756**	**728**	**755**	**935**	**16,587**

The additions to property, plant and equipment included $9 million of interest capitalized during construction for the six months ended June 30, 2016 (2015 - $50 million).

During March 2016, the Company increased its ownership in Barking Power Limited from 51 per cent to 100 per cent, an entity that holds land assets in the U.K. Barking Power Limited was previously accounted for as a joint venture and is now consolidated.

6. SHORT TERM DEBT

At June 30, 2016, Canadian Utilities Limited had $260 million (2015 - nil) of commercial paper outstanding with a weighted average interest rate of 0.85 per cent, maturing in July 2016. The commercial paper is back-stopped by the Company's long-term committed credit facilities.

7. FAIR VALUE MEASUREMENTS

Fair value represents the estimated amounts at which financial instruments could be exchanged between knowledgeable and willing parties in an arm's length transaction. Determining fair value requires management judgment.

Financial instruments are measured at amortized cost or fair value. The valuation methods used to determine the fair value of each financial instrument and its associated level in the fair value hierarchy is described below.

Financial Instruments	Fair Value Method
Measured at Amortized Cost	
Cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and short-term debt	Assumed to approximate carrying value due to their short-term nature.
Lease receivables	Determined using a risk-adjusted, pre-tax interest rate to discount future cash receipts (Level 2).
Long-term debt and non-recourse long-term debt	Determined using quoted market prices for the same or similar issues. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on the Company's current borrowing rate for similar borrowing arrangements (Level 2).
Measured at Fair Value	
Interest rate swaps	Determined using interest rate yield curves at period-end (Level 2).
Foreign currency contracts	Determined using quoted forward exchange rates at period-end (Level 2).
Commodity contracts	Determined using observable period-end forward curves, with inputs validated by publicly available market providers. The fair values were also determined using extrapolation formulas using readily observable inputs and implied volatility (Level 2).

FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COST

The fair values of the Company's financial instruments measured at amortized cost are as follows:

	June 30, 2016		December 31, 2015	
Recurring Measurements	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Lease receivables	**314**	**466**	311	493
Financial Liabilities				
Long-term debt	**7,943**	**9,236**	7,943	8,679
Non-recourse long-term debt	**105**	**123**	112	137

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The fair values of the Company's derivative financial instruments are as follows:

June 30, 2016	Subject to Hedge Accounting			Not Subject to Hedge Accounting		
Recurring Measurements	**Interest Rate Swaps**	**Natural Gas**	**Power**	**Natural Gas**	**Power**	**Foreign Currency Forward Contracts**
Fair values						
Assets	–	1	6	4	3	–
Liabilities	(14)	(6)	(2)	(2)	(5)	(3)
Notional values (1)						
Volumes (2)						
Purchases	–	22,593,000	–	24,904,500	2,761,240	–
Sales	–	–	2,542,680	6,728,500	4,430,689	–
Canadian dollars	736	–	–	–	–	46
Maturity	2019-2020	2016-2021	2016-2020	2016-2020	2016-2020	2016-2017

December 31, 2015	Subject to Hedge Accounting			Not Subject to Hedge Accounting		
Recurring Measurements	**Interest Rate Swaps**	**Natural Gas**	**Power**	**Natural Gas**	**Power**	**Foreign Currency Forward Contracts**
Fair values						
Assets	–	–	7	–	1	1
Liabilities	–	(6)	(2)	(1)	(1)	–
Notional values (1)						
Volumes (2)						
Purchases	–	19,479,000	–	6,767,000	556,080	–
Sales	–	–	2,722,233	1,761,000	65,720	–
Canadian dollars	771	–	–	–	–	48
Maturity	2019-2020	2016-2020	2016-2020	2016-2018	2016-2017	2016

(1) The notional principal is not recorded in the consolidated financial statements as it does not represent amounts that are exchanged by the counterparties. Notional amounts for the natural gas purchase contracts are the maximum volumes that can be purchased over the terms of the contracts. Notional amounts for the forward sale and purchase contracts are the commodity volumes committed in the contracts.

(2) Volumes for natural gas and power derivatives are in GJ and MWh, respectively.

8. CLASS I AND CLASS II SHARES AND EARNINGS PER SHARE

There were 101,051,523 (2015 - 101,514,023) Class I Non-Voting Shares and 13,569,905 (2015 - 13,632,205) Class II Voting Shares outstanding at June 30, 2016. In addition, there were 700,900 options to purchase Class I Non-Voting Shares outstanding at June 30, 2016, under the Company's stock option plan. From July 1, 2016 to July 25, 2016, no stock options were granted or cancelled, 15,800 stock options were exercised, 7,100 Class II Voting Shares were converted to Class I Non-Voting Shares and no Class I Non-Voting Shares were purchased under the Company's normal course issuer bid.

EARNINGS PER SHARE

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

	Three Months Ended June 30		Six Months Ended June 30	
	2016	**2015**	**2016**	**2015**
Average shares				
Weighted average shares outstanding	**114,281,069**	114,829,694	**114,477,114**	114,828,080
Effect of dilutive stock options	**139,060**	246,566	**121,211**	263,201
Effect of dilutive mid-term incentive plan	**300,935**	314,358	**303,962**	314,787
Weighted average dilutive shares outstanding	**114,721,064**	115,390,618	**114,902,287**	115,406,068
Earnings for earnings per share calculation				
Earnings for the period	**122**	37	**332**	221
Non-controlling interests	**(61)**	(29)	**(162)**	(119)
	61	8	**170**	102
Earnings and diluted earnings per Class I and Class II Share				
Earnings per Class I and Class II Share	**$0.53**	$0.07	**$1.48**	$0.89
Diluted earnings per Class I and Class II Share	**$0.53**	$0.06	**$1.48**	$0.88

NORMAL COURSE ISSUER BID

On March 2, 2015, ATCO Ltd. began a normal course issuer bid to purchase up to 2,030,168 outstanding Class I Non-Voting Shares. The bid expired on February 29, 2016. From March 2, 2015, to February 29, 2016, 275,800 shares were purchased, all of which were purchased in 2015 for $10 million. The purchases resulted in a decrease to share capital and retained earnings of nil and $10 million, respectively.

On March 1, 2016, ATCO Ltd. began a new normal course issuer bid to purchase up to 3,043,884 outstanding Class I Non-Voting Shares. The bid will expire on February 28, 2017. From March 1, 2016, to July 25, 2016, 460,000 shares were purchased for $18 million. The purchases resulted in a decrease to share capital and retained earnings of $1 million and $17 million, respectively.

9. DIVIDENDS

Cash dividends declared and paid per share are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(dollars per share)	**2016**	**2015**	**2016**	**2015**
Class I and Class II Shares	**0.2850**	0.2475	**0.5700**	0.4950

The Company’s policy is to pay dividends quarterly on its Class I and Class II Shares. Increases in the quarterly dividend are addressed by the Board in the first quarter of each year. The payment of any dividend is at the discretion of the Board and depends on the financial condition of the Company and other factors.

10. CONSOLIDATED STATEMENT OF CASH FLOWS

Adjustments to reconcile earnings to cash flows from operating activities are summarized below.

	Three Months Ended June 30		Six Months Ended June 30	
	2016	**2015**	**2016**	**2015**
Adjustments to reconcile earnings to cash flows from operating activities				
Depreciation, amortization and impairment	**151**	149	**302**	285
Gain on sale of joint operation	**–**	–	**(18)**	–
Earnings from investment in joint ventures, net of dividends and distributions received	**(2)**	16	**3**	10
Income taxes	**42**	102	**117**	162
Unearned availability incentives	**(3)**	(4)	**(8)**	(19)
Contributions by customers for extensions to plant	**23**	50	**52**	141
Amortization of customer contributions	**(15)**	(12)	**(30)**	(24)
Net finance costs	**94**	69	**188**	140
Income taxes paid	**(17)**	(22)	**(56)**	(59)
Other	**6**	16	**3**	8
	279	364	**553**	644

11. RELATED PARTY TRANSACTION

During the three months ended June 30, 2016, Canadian Utilities Limited issued 367,505 Class A non-voting shares under its dividend reinvestment plan (DRIP) (2015 - 699,761), using re-invested dividends of $13 million (2015 - $25 million). The Company did not participate in the DRIP during 2016 (2015 - the Company acquired 390,935 shares using re-invested dividends of $14 million).

During the six months ended June 30, 2016, Canadian Utilities Limited issued 770,223 Class A non-voting shares under its dividend reinvestment plan (DRIP) (2015 - 1,306,016), using re-invested dividends of $26 million (2015 - $50 million). The Company did not participate in the DRIP during 2016 (2015 - the Company acquired 695,691 shares using re-invested dividends of $27 million).