ATCO LTD.

FINANCIAL INFORMATION

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

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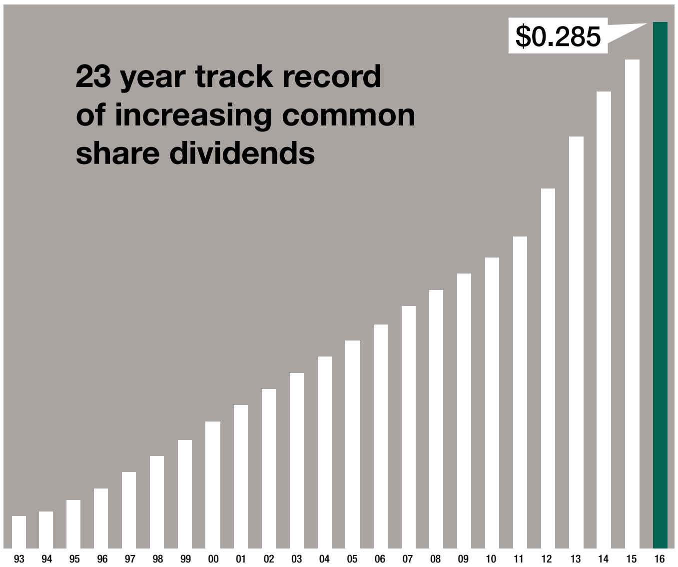
Q3 2016 INVESTOR FACT SHEET

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

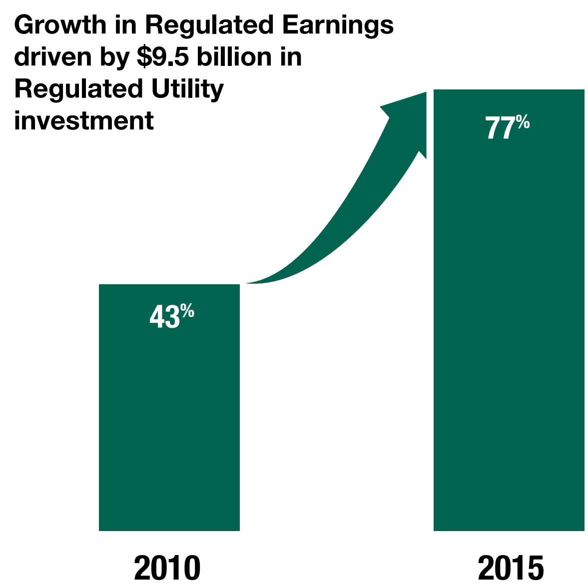
With approximately 7,000 employees and assets of $20 billion, ATCO is a diversified global corporation delivering service excellence and innovative business solutions in Structures & Logistics (workforce housing, innovative modular facilities, construction, site support services, and logistics and operations 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*

GROWING A HIGH QUALITY EARNINGS BASE

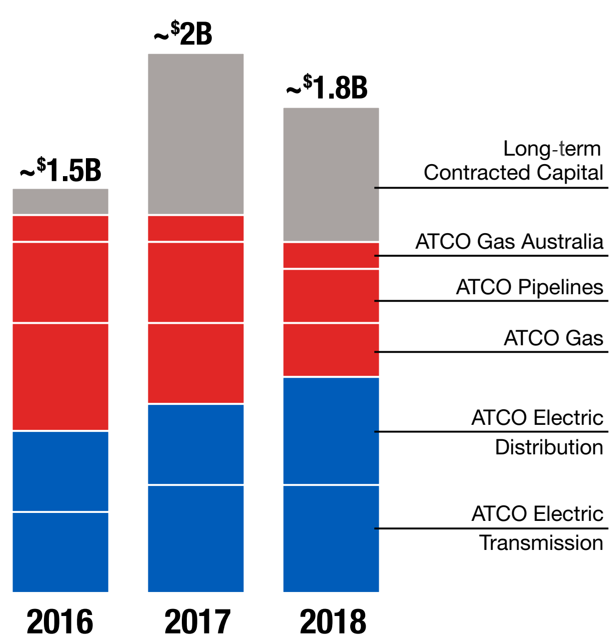


ATCO AT A GLANCE

69 year history in more than 100 countries worldwide	
“A” rating by Standard & Poor’s; “A” (low) rating by DBRS Limited	
Total Assets	$20 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*

FUTURE CAPITAL INVESTMENT



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

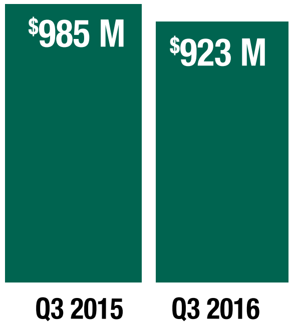
ATCO SHARE INFORMATION

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

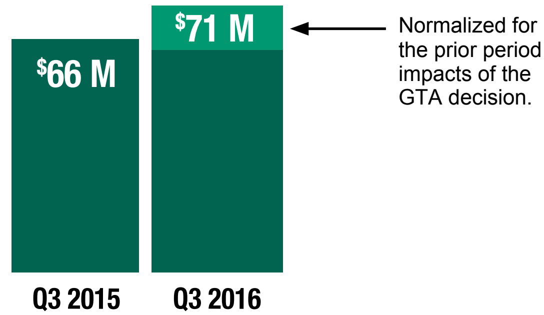
Adjusted earnings are defined as earnings attributable to Class I and Class II Shares after adjusting for the timing of revenues and expenses associated with rate-regulated activities. Adjusted earnings also exclude one-time gains and losses, significant impairments and items that are not in the normal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

Q3 2016 RESULTS

ATCO REVENUES



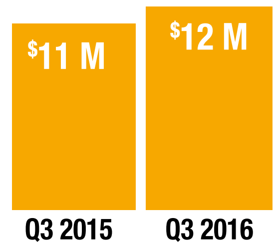
ATCO ADJUSTED EARNINGS



STRUCTURES & LOGISTICS

- Higher adjusted earnings mainly due to increased occupancy levels in the Lodging business and business-wide cost reduction initiatives were partially offset by forgone earnings due to the sale of the Emissions Management business in the fourth quarter of 2015.
- Completed manufacturing and installation of the 1,600-bed workforce housing facility at the Site C Clean Energy Project. Lodge-related services contract is in place until 2022.

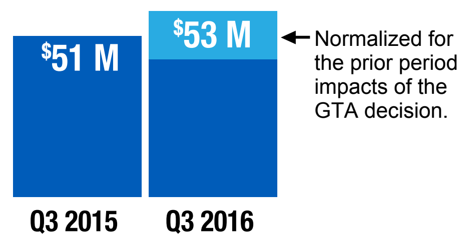
ADJUSTED EARNINGS



ELECTRICITY

- Adjusted earnings were lower compared to the same period in 2015 primarily due to the prior period impacts associated with the ATCO Electric Transmission 2015 to 2017 General Tariff Application (GTA) decision received in the third quarter of 2016. Excluding the prior period impacts of the GTA decision, normalized adjusted earnings for Electricity were $53 million in the third quarter of 2016, mainly due to continued capital investment and growth in rate base in the Regulated Utilities and business-wide cost reduction initiatives within the Electricity businesses.

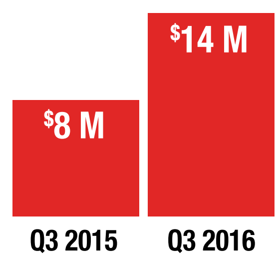
ADJUSTED EARNINGS



PIPELINES & LIQUIDS

- Higher adjusted earnings were primarily due to continued capital investment and growth in rate base in the Regulated Utilities and business-wide cost reduction initiatives within the Pipelines & Liquids businesses.

ADJUSTED EARNINGS



RECENT DEVELOPMENTS

- In October 2016, the Company received the Alberta Utilities Commission (AUC) Generic Cost of Capital (GCOC) decision. The decision established the return on equity (ROE) and deemed common equity ratios for the Alberta Utilities for 2016 and 2017. The ROE remained at 8.30 per cent for 2016 and increased to 8.50 per cent for 2017. The GCOC decision also set the deemed common equity ratios for ATCO Electric Transmission, ATCO Electric Distribution, ATCO Gas and ATCO Pipelines at 37 per cent for 2016 and 2017. The 2016 and 2017 ROE and common equity ratio for ATCO Electric Transmission are approved on an interim basis, pending consideration of any relevant information obtained from the results of ATCO Electric Transmission's GTA. The allowed ROE and common equity ratios for 2017 will remain in place on an interim basis for the Alberta Utilities for 2018 and for subsequent years until changed by the AUC.

- In March 2015, ATCO Electric Transmission filed a general tariff application for its operations for 2015, 2016 and 2017. The application requested, among other things, additional revenues to recover higher financing, depreciation and operating costs associated with growth in rate base in Alberta. In August 2016, the AUC issued a decision on the GTA with final rates that are lower than the approved interim rates from 2015 mainly due to lower O&M and G&A costs. The impact of this decision was a reduction to third quarter 2016 adjusted earnings of $8 million of which $1 million relates to third quarter 2016 and $7 million relates to prior periods.

2016 THIRD QUARTER FINANCIAL INFORMATION

INVESTOR FACT SHEET

MANAGEMENT DISCUSSION AND ANALYSIS

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

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ATCO LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE NINE MONTHS ENDED SEPTEMBER 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 nine months ended September 30, 2016.

This MD&A was prepared as of October 25, 2016, and should be read with the Company's unaudited interim consolidated financial statements for the nine months ended September 30, 2016. Additional information, including the Company's prior MD&As, Annual Information Form 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 (52.9 per cent ownership) and in ATCO Structures & Logistics Ltd. (75.5 per cent ownership). Throughout this MD&A, the Company's earnings attributable to Class I and Class II Shares and adjusted earnings are presented after non-controlling interests.

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

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COMPANY OVERVIEW

ATCO Ltd. is a diversified global enterprise with assets of $20 billion and approximately 7,000 employees engaged in Structures & Logistics, Electricity, Pipelines & Liquids, and Retail Energy.

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.

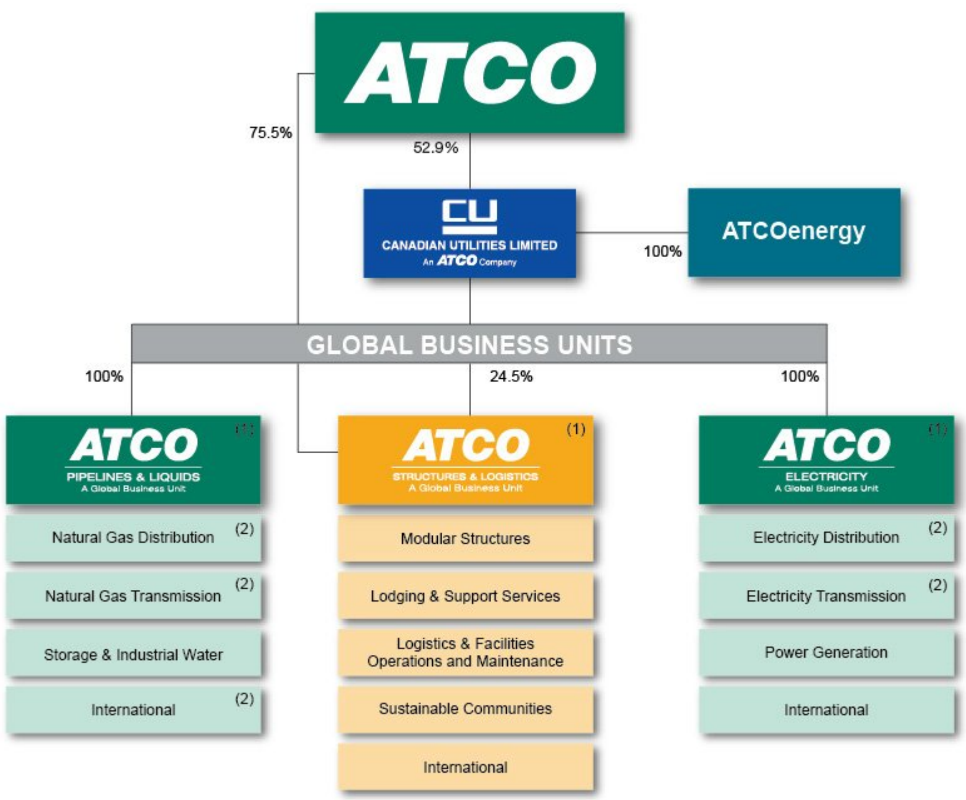
ATCOenergy was launched in January 2016 to provide retail, commercial and industrial electricity and natural gas service in Alberta.

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 52.9 per cent (39.0 per cent of the Class A non-voting shares and 89.2 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 September 30			Nine Months Ended September 30		
($ millions, except per share data and outstanding shares)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Key Financial Metrics						
Adjusted earnings [1]	**64**	66	(2)	**266**	201	65
Structures & Logistics	**12**	11	1	**37**	14	23
Electricity	**46**	51	(5)	**155**	138	17
Pipelines & Liquids	**14**	8	6	**92**	56	36
Corporate & Other	**(8)**	(4)	(4)	**(19)**	(7)	(12)
Intersegment Eliminations	**–**	–	–	**1**	–	1
Earnings attributable to Class I and Class II Shares	**70**	53	17	**240**	155	85
Revenues	**923**	985	(62)	**2,913**	3,004	(91)
Cash dividends declared per Class I and Class II Share (*cents per share*)	**28.50**	24.75	3.75	**85.50**	74.25	11.25
Capital investment [1]	**391**	437	(46)	**1,142**	1,278	(136)
Funds generated by operations [1]	**427**	370	57	**1,312**	1,235	77
Other Financial Metrics						
Weighted average Class I and Class II Shares outstanding *(thousands):*						
Basic	**114,338**	114,848	(510)	**114,430**	114,835	(405)
Diluted	**114,806**	115,347	(541)	**114,862**	115,373	(511)

(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 third quarter of 2016 were $64 million compared to $66 million in 2015. Earnings growth in the third quarter of 2016 was offset by the prior period impacts associated with the ATCO Electric Transmission 2015 to 2017 General Tariff Application (GTA) decision received in the quarter. Excluding the prior period impacts of the GTA decision, normalized adjusted earnings were $71 million. The primary drivers of earnings results were as follows:

- Structures & Logistics - Higher adjusted earnings in the third quarter of 2016 were mainly as a result of higher occupancy levels in the Lodging business, as well as business-wide cost reduction initiatives.
- Electricity - Lower adjusted earnings in the third quarter of 2016 were mainly due to the prior period impacts associated with the ATCO Electric Transmission GTA decision received in the third quarter of 2016, partially offset by continued capital investment and growth in rate base within Regulated Electricity and business-wide cost reduction initiatives. Excluding the prior period impacts of the GTA decision, normalized adjusted earnings for Electricity were $53 million in the third quarter of 2016.
- Pipelines & Liquids - Higher adjusted earnings in the third quarter of 2016 were primarily due to continued capital investment and growth in rate base within the Regulated Pipelines & Liquids businesses and business-wide cost reduction initiatives.
- Corporate & Other - Lower earnings were primarily attributable to 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 of this MD&A.

EARNINGS ATTRIBUTABLE TO CLASS I AND CLASS II SHARES

Earnings attributable to Class I and Class II Shares were $70 million in the third quarter of 2016, $17 million higher compared to the same period in 2015. 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 $16 million in the third quarter of 2016.

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 third quarter of 2016 of $923 million were $62 million lower compared to the same period in 2015. Higher revenues in the Regulated Utilities mainly due to rate base growth were offset by lower revenues in ATCO Structures & Logistics, primarily due to decreased Modular Structures project activity and forgone revenues due to the sale of the Emissions Management business in the fourth quarter of 2015.

COMMON SHARE DIVIDENDS

On October 13, 2016, the Board of Directors declared a fourth 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 third quarter of 2016 totaled $33 million.

ATCO Ltd. has increased its common share dividend each year since 1993. In each of the last five years, the Company has increased its quarterly dividend by 15 per cent.

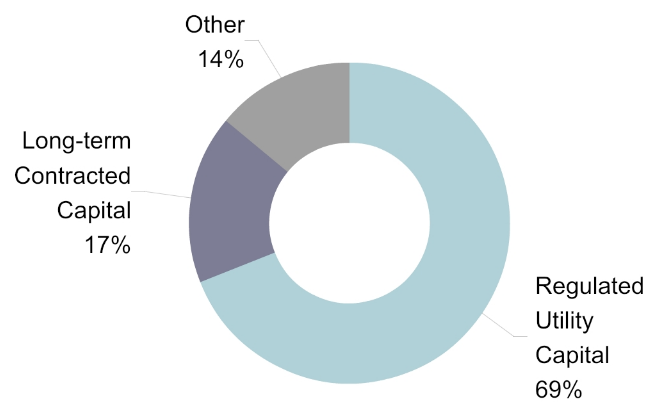
CAPITAL INVESTMENT

Capital investment includes additions to property, plant and equipment, intangibles and capital expenditures in joint ventures. Total capital investment in the third quarter and first nine months of 2016 were $391 million and $1,142 million.

Capital spending in the Company's Regulated Utilities and on long-term contracted capital assets accounted for $370 million of capital spending in the third quarter of 2016 and $985 million in the first nine months 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.

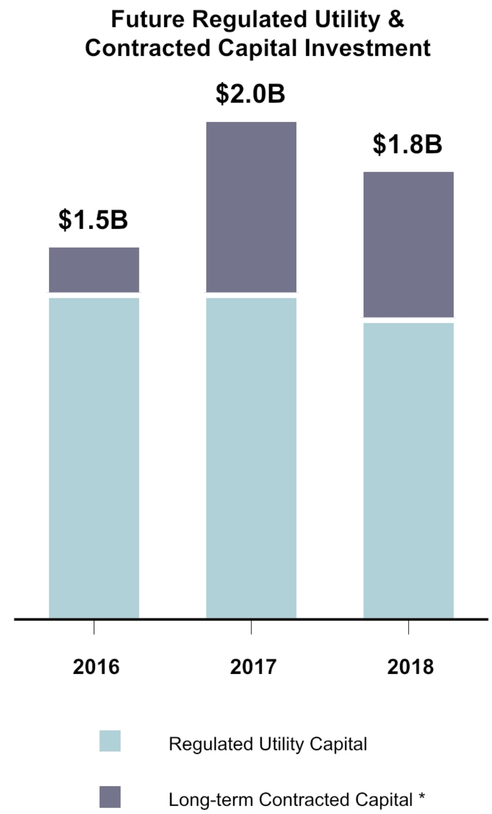
Regulated Utility & Contracted Capital Investment
Nine Months Ended September 30, 2016



In the 2016 to 2018 period, ATCO expects to invest $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.

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 the Tula 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.



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

RECENT DEVELOPMENTS IN THE THIRD QUARTER OF 2016

GENERIC COST OF CAPITAL (GCOC)

In October 2016, the Company received the Alberta Utilities Commission (AUC) 2016 GCOC decision. The decision established the return on equity (ROE) and deemed common equity ratios for the Alberta Utilities for 2016 and 2017. The ROE remained at 8.30 per cent for 2016 and increased to 8.50 per cent for 2017. The GCOC decision also set the deemed common equity ratios for ATCO Electric Transmission, ATCO Electric Distribution, ATCO Gas and ATCO Pipelines at 37 per cent for 2016 and 2017. The allowed ROE and common equity ratios for 2017 will remain in place for the Alberta Utilities on an interim basis for 2018 and for subsequent years until changed by the AUC.

ATCO ELECTRIC TRANSMISSION 2015 to 2017 GENERAL TARIFF APPLICATION (GTA)

In March 2015, ATCO Electric Transmission filed a general tariff application for its operations for 2015, 2016 and 2017. The application requested, among other things, additional revenues to recover higher financing, depreciation and operating costs associated with growth in rate base in Alberta. In August 2016, the AUC issued a decision on the GTA with final rates that are lower than the approved interim rates from 2015 mainly due to lower approved O&M and G&A costs. The impact of this decision was a reduction to third quarter 2016 adjusted earnings of $8 million of which $1 million relates to third quarter 2016 and $7 million relates to prior periods.

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 third quarter and first nine months of 2016, revenues in Structures & Logistics of $146 million and $529 million were lower than the same periods in 2015 by $134 million and $72 million.

Lower revenues were mainly due to decreased Modular Structures project activity, lower Space Rentals 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 September 30			Nine Months Ended September 30		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Modular Structures	**11**	11	–	**38**	27	11
Logistics and Facility O&M Services	**4**	4	–	**9**	8	1
Lodging & Support Services	**2**	–	2	**6**	(4)	10
Other [(1)]	**(5)**	(4)	(1)	**(16)**	(17)	1
Total Structures & Logistics	**12**	11	1	**37**	14	23

(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.

Adjusted earnings achieved by Structures & Logistics in the three months ended September 30, 2016 were $1 million higher compared to the same period of 2015. Higher earnings from increased occupancy levels in the Lodging business and business-wide cost reduction initiatives were partially offset by forgone earnings due to the sale of the Emissions Management business in the fourth quarter of 2015.

Adjusted earnings for the nine months ended September 30, 2016 were $23 million higher than the same period of 2015. The increase was primarily due to higher Modular Structures project activity in the first half of the year, increased occupancy levels in the Lodging business and business-wide cost reduction initiatives. Partially offsetting these increases were lower Space Rentals and Workforce Housing utilizations and 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.

Adjusted earnings achieved for the three months ended September 30, 2016 were comparable to the same period of 2015. Earnings for the nine months ended September 30, 2016 were $11 million higher than the same period of 2015. Higher adjusted earnings were primarily due to work at the BC Hydro Site C Clean Energy project which was completed in the third quarter of 2016, as well as cost reduction initiatives. Partially offsetting these increases were the completion of the Wheatstone project in the first quarter of 2016, reduced profit margins, and lower Space Rental and Workforce Housing utilizations and rental rates.

Major Projects

Site C Clean Energy Workforce Housing Project

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

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. In August 2016, the client reduced the number of units required from 591 to 462. As at September 30, 2016, Structures & Logistics has completed manufacturing all 462 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. The earnings from this contract are being recorded as workforce housing rental income in the Modular Structures business.

Rental Fleet Statistics

The following table compares Structures & Logistics' manufacturing hours and rental fleet for the three and nine months ended September 30, 2016 and 2015.

	Three Months Ended September 30			Nine Months Ended September 30		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
North America						
Manufacturing hours *(thousands)*	**69**	127	(46%)	**529**	325	63%
Global Space Rentals						
Number of units	**12,723**	13,494	(6%)	**12,723**	13,494	(6%)
Average utilization *(%)*	**65**	67	(2%)	**64**	69	(5%)
Average rental rate *($ per month)*	**495**	594	(17%)	**501**	584	(14%)
Global Workforce Housing						
Number of units	**4,070**	3,386	20%	**4,070**	3,386	20%
Average utilization *(%)*	**40**	53	(13%)	**42**	57	(15%)
Average rental rate *($ per month)*	**2,047**	1,453	41%	**1,744**	1,808	(4%)

Decreased manufacturing hours are mainly attributable to lower major project activity at the Site C project in the third quarter of 2016. The decrease in the utilization and rental rates of the Space Rental fleet was due to overall weakened demand from customers whose business activity is exposed to commodity price declines. The increase in the Workforce Housing units and rental rates in the third quarter of 2016 is mainly due to the LNG Modular Structures Project.

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 third quarter of 2016 were comparable to the same period in 2015. Earnings of $9 million in the first nine months of 2016 were $1 million higher than the same period in 2015 primarily due 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 third quarter and first nine months of 2016 were higher by $2 million and $10 million. These increases are primarily attributable to higher occupancy levels at the Company's lodges, 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 of $449 million and $1,326 million in the third quarter and first nine months of 2016 were $46 million and $19 million higher compared to the same periods of 2015.

Higher revenues in Regulated Electricity attributable to growth in rate base were partially 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 September 30			Nine Months Ended September 30		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Regulated Electricity						
ATCO Electric Distribution	**15**	13	2	**54**	38	16
ATCO Electric Transmission	**20**	26	(6)	**74**	71	3
Total Regulated Electricity	**35**	39	(4)	**128**	109	19
Non-regulated Electricity						
ATCO Power						
Independent Power Plants	**4**	5	(1)	**7**	6	1
Thermal PPAs	**5**	5	—	**13**	15	(2)
ATCO Power Australia	**2**	2	—	**7**	8	(1)
Total Non-regulated Electricity	**11**	12	(1)	**27**	29	(2)
Total Electricity	**46**	51	(5)	**155**	138	17

Adjusted earnings of $46 million generated by Electricity in the third quarter of 2016 were lower compared to the same period in 2015, primarily due to the prior period impacts associated with the GTA decision received in the third quarter of 2016. Excluding the prior period impacts of the GTA decision, normalized adjusted earnings for Electricity were $53 million in the third quarter of 2016.

Earnings of $155 million in the first nine months of 2016 were $17 million higher than the same period in 2015. Higher earnings were primarily due to continued capital investment and growth in rate base within Regulated Electricity and business-wide cost reduction initiatives. Excluding the prior period impacts of the GTA decision, normalized adjusted earnings for Electricity were $159 million in the first nine months of 2016.

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 $2 million higher in the third quarter and $16 million higher in the first nine months 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 GCOC and Capital Tracker regulatory decisions received in 2015.

Electricity Transmission

ATCO Electric Transmission's adjusted earnings of $20 million in the third quarter of 2016 were $6 million lower when compared to the same period in 2015 primarily due to the prior period impacts of the GTA decision received in the third quarter of 2016. Excluding the prior period impacts of the GTA decision, normalized adjusted earnings for Electricity Transmission were $27 million in the third quarter of 2016.

Adjusted earnings of $74 million in the first nine months of 2016 were $3 million higher when compared to the same period of 2015 primarily due to the adverse earnings impact of the GCOC regulatory decision received in 2015 as well as growth in rate base and business-wide cost reduction initiatives in 2016, partially offset by the prior period impacts of the GTA decision received in the third quarter of 2016. Excluding the prior period impacts of the GTA decision, normalized adjusted earnings for Electricity Transmission were $78 million in the first nine months of 2016.

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 third quarter and first nine months 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 third quarter and first nine months of 2016 was mainly due to extended major 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 first nine months of 2016 compared to the same period in 2015 mainly due to planned maintenance outages in the second quarter of 2015 at Battle River unit 5. Lower availability in ATCO Power Australia in the third quarter and first nine months of 2016 was mainly due to the planned major outage at the Osborne Cogeneration facility commencing in September 2016.

	Three Months Ended September 30			Nine Months Ended September 30		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
Independent Power Plants (1)	**91%**	98%	(7%)	**91%**	95%	(4%)
Thermal PPA Plants (2) (3)	**93%**	91%	2%	**93%**	85%	8%
ATCO Power Australia (4)	**93%**	99%	(6%)	**97%**	98%	(1%)

(1) The Joffre generating plant underwent extended planned outages in the first nine months 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.

(4) The Osborne generating plant commenced a major planned maintenance outage in the third quarter of 2016.

Independent Power Plants

Adjusted earnings generated by Independent Power Plants in the third quarter of 2016 were $1 million lower compared to the same period in 2015 mainly due to lower Alberta Pool Prices and spark spreads. Earnings for the first nine months of 2016 were $1 million higher than the same period in 2015, primarily a result of lower general and administrative expenses due to restructuring and cost reduction initiatives, partly offset by lower Alberta Pool Prices and spark spreads.

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

	Three Months Ended September 30			Nine Months Ended September 30		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
Average Alberta Power Pool electricity price *($/MWh)*	**17.94**	26.09	(31%)	**17.02**	37.44	(55%)
Average natural gas price *($/GJ)*	**2.21**	2.75	(20%)	**1.77**	2.63	(33%)
Average spark spread *($/MWh)*	**1.36**	5.46	(75%)	**3.74**	17.71	(79%)

Lower Alberta Power Pool prices and reduced price volatility in the third quarter and first nine months 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.

Third quarter 2016 adjusted earnings from the Thermal PPAs were comparable to the same period of 2015. Earnings for the first nine months of 2016 were $2 million lower than the same period in 2015 mainly due to higher first quarter 2015 earnings from the amortization of accumulated incentives associated with the PPAs, partly offset by cost reduction initiatives in 2016.

International Power Generation

The Company's international power generation activities are conducted by ATCO Power Australia. This business supplies electricity from two natural gas-fired generation plants in Adelaide, South Australia, and Karratha, Western Australia. Additionally, the Bulwer Island 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 third quarter were comparable to the same period last year. For the first nine months of 2016 adjusted earnings were lower when compared to the same period in 2015 mainly 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 and the public hearing commenced in October 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.

Strathcona Cogeneration Plant

In September 2016, Inter Pipeline Ltd. acquired the shares of The Williams Companies Inc.'s and Williams Partners L.P's Canadian businesses, including Williams Canada Propylene ULC (now Inter Pipeline Propylene ULC following a name change). ATCO Power has been selected by Inter Pipeline Propylene ULC to build and operate a natural gas-fired cogeneration plant to meet the high pressure steam and electricity needs of Inter Pipeline Propylene ULC's proposed propane dehydrogenation facility to be located in the Alberta Industrial Heartland region. ATCO's proposed 90 MW cogeneration plant is contingent on Inter Pipeline Ltd.'s Final Investment Decision for the facility. ATCO received its AUC approvals for the cogeneration plant on September 28, 2016.

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 $322 million in the third quarter of 2016 were $10 million higher compared to the same period of 2015 mainly due to growth in rate base.

Revenues of $1,042 million in the first nine months of 2016 were $71 million lower when compared to the same period in 2015. Revenues were lower mainly due to the divestiture and closure of several gas processing facilities in ATCO Energy Solutions in late 2015 and early 2016, partially offset by increased revenues in Regulated Pipelines & Liquids mainly due to growth in rate base.

ADJUSTED EARNINGS

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

	Three Months Ended September 30			Nine Months Ended September 30		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Regulated Pipelines & Liquids						
ATCO Gas	**(7)**	(8)	1	**39**	29	10
ATCO Pipelines	**9**	6	3	**24**	16	8
ATCO Gas Australia	**10**	9	1	**23**	11	12
Total Regulated Pipelines & Liquids	**12**	7	5	**86**	56	30
Non-regulated Pipelines & Liquids						
ATCO Energy Solutions	**2**	1	1	**6**	–	6
Total Pipelines & Liquids	**14**	8	6	**92**	56	36

In the third quarter and first nine months of 2016, adjusted earnings generated by Pipelines & Liquids of $14 million and $92 million were $6 million and $36 million higher than the same periods of 2015. Higher adjusted earnings were primarily due to continued capital investment and growth in rate base and business-wide cost reduction initiatives within the Pipelines & Liquids businesses.

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 were $1 million higher in the third quarter and $10 million higher in the first nine months of 2016 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 were $3 million and $8 million higher in the third quarter and first nine months of 2016 when compared to the same periods of 2015. Higher earnings for the periods resulted primarily from growth in rate base.

International Natural Gas Distribution

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

ATCO Gas Australia's adjusted earnings of $10 million and $23 million in the third quarter and first nine months of 2016 were higher when compared to the same periods of 2015. Higher earnings are primarily attributable to the impact of the Access Arrangement regulatory decision received in the second quarter of 2015, continued growth in rate base and business-wide cost reduction initiatives.

NON-REGULATED PIPELINES & LIQUIDS

Storage & Industrial Water

Our industrial water services and non-regulated natural gas 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 third quarter and $6 million higher in the first nine months of 2016 when compared to the same periods of 2015. Increased earnings were primarily due to higher demand and prices for storage services, lower costs due to the sale of under-performing assets in 2015 and 2016, and earnings contributions from the commencement of additional industrial water projects in late 2015, partially offset by the sale of excess natural gas in 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 third quarter and first nine months 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 development expenses.

REGULATORY DEVELOPMENTS

Generic Cost of Capital (GCOC)

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

The following table compares the ROE and deemed common equity ratios resulting from the 2013 and 2016 GCOC decisions.

	AUC Decision	Year	Rate of Return on Common Equity (%) (1)	Common Equity Ratio (%) (2)
ATCO Electric Distribution	**2016 GCOC**	**2017**	**8.50** (3)	**37.0** (3)
	2016 GCOC	**2016**	**8.30** (3)	**37.0** (3)
	2013 GCOC	2015	8.30 (4)	38.0 (4)
ATCO Electric Transmission	**2016 GCOC**	**2017**	**8.50** (3) (5)	**37.0** (3) (5)
	2016 GCOC	**2016**	**8.30** (3) (5)	**37.0** (3) (5)
	2013 GCOC	2015	8.30 (4)	36.0 (4)
ATCO Gas	**2016 GCOC**	**2017**	**8.50** (3)	**37.0** (3)
	2016 GCOC	**2016**	**8.30** (3)	**37.0** (3)
	2013 GCOC	2015	8.30 (4)	38.0 (4)
ATCO Pipelines	**2016 GCOC**	**2017**	**8.50** (3)	**37.0** (3)
	2016 GCOC	**2016**	**8.30** (3)	**37.0** (3)
	2013 GCOC	2015	8.30 (4)	37.0 (4)

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

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

(3) The AUC released its Generic Cost of Capital decision for the periods 2016 to 2017 on October 7, 2016.

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

(5) The ROE and common equity ratio for ATCO Electric Transmission are approved on an interim basis, pending consideration of any relevant information obtained from the results of ATCO Electric Transmission's 2015 to 2017 General Tariff Application.

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

In March 2015, ATCO Electric Transmission filed a general tariff application for its operations for 2015, 2016 and 2017. The application requested, among other things, additional revenues to recover higher financing, depreciation and operating costs associated with growth in rate base in Alberta. In August 2016, the AUC issued a decision on the GTA with final rates that are lower than the approved interim rates from 2015 mainly due to lower approved O&M and G&A costs. The impact of this decision was a reduction to third quarter 2016 adjusted earnings of $8 million of which $1 million relates to third quarter 2016 and $7 million relates to prior periods.

Next Generation of Performance Based Regulation (PBR 2)

The AUC is undertaking a proceeding to establish parameters for the next generation of performance based regulation (PBR 2) as the current term ends December 31, 2017. This proceeding impacts ATCO Electric Distribution and ATCO Gas. The main items under consideration include: rebasing and the establishment of going-in rates; the Productivity or X factor determination; the treatment of incremental funding related to capital additions; and the calculation of annual returns. A decision on these items is anticipated in the fourth quarter of 2016.

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.

Thermal PPAs

On July 25, 2016, the Government of Alberta commenced legal action to determine the validity and interpretation of certain terms within the 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, and the proceeding seeks no direct relief against ATCO.

The proceeding is now subject to case management, a judicially-led process that aims to effectively manage cases through collaboration and scheduling. Initial procedural timelines were established by a case management order dated September 26, 2016 but a final hearing date has yet to be determined.

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.

Coal Phase-out

ATCO Power continues to work with the Government of Alberta, the Facilitator, the AESO 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.

Renewable Energy Target

In September 2016, the Government of Alberta published a firm target that 30 per cent of electricity used in Alberta will come from renewable sources such as wind, hydro and solar by 2030. The Government will support 5,000 MW of additional renewable energy capacity. Support will be provided to projects that are based in Alberta, are new or expanded, are greater than five MW in size, and meet the definition of renewable sources as defined by Natural Resources Canada.

Federal Carbon Price Proposal

In October 2016, the Federal Government passed a motion in the House of Commons to ratify the Paris Climate Change Accord. At the same time, the Federal Government announced a requirement for some form of carbon pricing in all jurisdictions in Canada by 2018; proposing a national benchmark requirement of $10 per tonne of CO_2 by 2018, rising by $10 each year to $50 per tonne in 2022. The Federal Government has stated that it will work with the provinces and territories to implement carbon pricing as part of the Pan-Canadian Framework on Clean Growth and Climate Change.

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the three and nine months ended September 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 September 30			Nine Months Ended September 30		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Operating costs	**483**	634	(151)	**1,561**	1,847	(286)
Earnings from investment in joint ventures	**4**	4	–	**13**	6	7
Depreciation, amortization and impairment	**160**	143	17	**462**	428	34
Net finance costs	**96**	70	26	**284**	210	74
Income taxes	**49**	38	11	**166**	200	(34)

OPERATING COSTS

Operating costs, which are total costs and expenses less depreciation, amortization and impairment, decreased in the third quarter and first nine months of 2016 when compared to the same periods in 2015. The decrease is primarily due to lower raw materials costs resulting from lower manufacturing activity in the Structures & Logistics modular structures business, and 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 were comparable in the third quarter and increased in the first nine months of 2016, when compared to the same periods in 2015. The increase was 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 third quarter and first nine months of 2016, depreciation, amortization and impairment expense increased by $17 million and $34 million, when compared to the same periods in 2015. The increased expense was mainly due to the ongoing capital investment program by the Company's Regulated Utilities.

NET FINANCE COSTS

Net finance costs increased in the third quarter and first nine months 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 resulting from the completion of the $1.8 billion Eastern Alberta Transmission Line (EATL) project during the fourth quarter of 2015. Higher interest expense is also the result of incremental debt issued to fund the Regulated Utilities' ongoing capital investment program.

INCOME TAXES

Income taxes increased in the third quarter of 2016 when compared to the same period in 2015, mainly due to higher earnings before taxes driven by continued capital investment and growth in rate base within the Regulated Utilities, higher occupancy levels in the Lodging business within ATCO Structures & Logistics, and business-wide cost reduction initiatives.

Income taxes were lower in the first nine months of 2016, when compared to the same period in 2015. Higher income taxes in the first nine months of 2015 were mainly due to a tax adjustment of $69 million ($37 million after non-controlling interest), reflecting an increase in Alberta's corporate income tax rate from 10 per cent to 12 per cent effective July 1, 2015.

LIQUIDITY AND CAPITAL RESOURCES

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

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

On August 25, 2016, DBRS Limited (DBRS) affirmed its rating of the Company as "A" (low) with a stable trend.

LINES OF CREDIT

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

($ millions)	**Total**	**Used**	**Available**
Long-term committed	**2,783**	886	1,897
Uncommitted	**321**	118	203
Total	**3,104**	1,004	2,100

Of the $3,104 million in total credit lines, $321 million was in the form of uncommitted credit facilities with no set maturity date. The other $2,783 million in credit lines were committed, with $680 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 $1,004 million credit line usage, $375 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 September 30, 2016, the Company's cash position was $700 million, a decrease of $99 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) was $427 million in the third quarter and $1,312 million in the first nine months of 2016, compared to $370 million and $1,235 million in the same periods in 2015. The increases were mainly as a result of higher earnings attributable to Class I and Class II Shares driven by capital investment and rate base growth in the Regulated Utilities and business-wide cost reduction initiatives.

Cash used for capital investment

Cash used for capital investment was $391 million in the third quarter and $1,142 million in the first nine months of 2016, compared to $437 million and $1,278 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 nine months ended September 30, 2016 and 2015 is shown in the following table.

	Three Months Ended September 30			Nine Months Ended September 30		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Electricity						
ATCO Electric Distribution	**66**	80	(14)	**184**	255	(71)
ATCO Electric Transmission	**47**	93	(46)	**160**	330	(170)
Alberta PowerLine	**24**	4	20	**43**	15	28
ATCO Power	**8**	8	–	**84**	62	22
Total Electricity	**145**	185	(40)	**471**	662	(191)
Pipelines & Liquids						
ATCO Gas	**89**	90	(1)	**244**	231	13
ATCO Pipelines	**60**	66	(6)	**137**	130	7
ATCO Gas Australia	**24**	22	2	**63**	57	6
Non-regulated Capital Investment (1)	**20**	45	(25)	**95**	125	(30)
Total Pipelines & Liquids	**193**	223	(30)	**539**	543	(4)
Structures & Logistics	**38**	9	29	**82**	46	36
Corporate & Other	**15**	20	(5)	**50**	27	23
Total (2) (3)	**391**	437	(46)	**1,142**	1,278	(136)

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

(2) Includes capital expenditures in joint ventures of $12 million and $75 million (2015 - $9 million and $32 million) for the third quarter and first nine months of 2016.

(3) Includes additions to property, plant and equipment, intangibles and $5 million and $14 million (2015 - $27 million and $77 million) of interest capitalized during construction for the third quarter and first nine months of 2016.

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.

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 third quarter and first nine months of 2016 totaled $33 million and $98 million, respectively. On October 13, 2016, the Board of Directors declared a fourth 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 October 24, 2016, 460,000 shares were purchased.

Canadian Utilities Dividend Reinvestment Plan

In the third quarter of 2016, Canadian Utilities issued 318,474 Class A non-voting shares under its DRIP in lieu of cash dividend payments of $12 million.

In the first nine months of 2016, Canadian Utilities issued 1,088,697 Class A non-voting shares under its DRIP in lieu of cash dividend payment of $38 million.

SHARE CAPITAL

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

At October 24, 2016, the Company had outstanding 101,106,623 Class I Shares, 13,546,605 Class II Shares, and options to purchase 670,850 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 September 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 December 31, 2014 through September 30, 2016.

($ millions except for per share data)	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Revenues	1,127	1,058	932	**923**
Earnings attributable to Class I and Class II Shares	(1)	109	61	**70**
Earnings per Class I and Class II Share *($)*	(0.01)	0.95	0.53	**0.61**
Diluted earnings per Class I and Class II Share *($)*	(0.01)	0.95	0.53	**0.61**
Adjusted earnings				
Structures & Logistics	13	12	13	**12**
Electricity	33	54	55	**46**
Pipelines & Liquids	45	56	22	**14**
Corporate & Other and Intersegment Eliminations	1	(1)	(9)	**(8)**
Total adjusted earnings	92	121	81	**64**

($ millions except for per share data)	Q4 2014	Q1 2015	Q2 2015	Q3 2015
Revenues	1,176	1,072	947	985
Earnings attributable to Class I and Class II Shares	94	94	8	53
Earnings per Class I and Class II Share *($)*	0.82	0.82	0.07	0.46
Diluted earnings per Class I and Class II Share *($)*	0.82	0.82	0.06	0.46
Adjusted earnings				
Structures & Logistics	26	5	(2)	11
Electricity	45	34	53	51
Pipelines & Liquids	47	42	6	8
Corporate & Other and Intersegment Eliminations	(1)	(3)	—	(4)
Total adjusted earnings	117	78	57	66

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 nine months 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 last quarter 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 nine months of 2016 are associated with increased Modular Structures manufacturing activity, higher occupancy levels in the Lodging business and business-wide cost reduction initiatives.

Adjusted earnings in the Electricity Business Unit reflect the large capital investment made by Regulated Electricity in the previous eight quarters. These investments, which earn a return under a regulated business model, drive growth in adjusted earnings. Adjusted earnings have also been affected by the timing of certain major regulatory decisions, and Alberta Power Pool pricing and spark spreads. Earnings in the first quarter of 2015 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. Lower earnings in the third quarter of 2016 reflect the financial impact of the GTA decision.

Adjusted earnings in the Pipelines & Liquids Business Unit reflect the large capital investments made by Regulated Pipelines & Liquids in the previous eight quarters. These investments, which earn a return under a regulated business model, drive growth in adjusted earnings. Adjusted earnings have also been affected by the timing of certain major regulatory decisions, seasonality, and commodity prices. Earnings in the first quarter of 2015 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 of 2015. 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 in the third quarter 2016 reflect the seasonal demand in ATCO Gas.

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; and
- 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.

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 September 30**

2016 **2015 (Restated) (1)**	**Structures & Logistics**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Adjusted earnings	**12**	**46**	**14**	**(8)**	**–**	**64**
	11	51	8	(4)	–	66
Restructuring costs	**–**	**–**	**–**	**–**	**–**	**–**
	(1)	(2)	–	–	–	(3)
Rate-regulated activities	**–**	**5**	**–**	**–**	**1**	**6**
	–	(9)	(1)	–	–	(10)
Earnings attributable to Class I and Class II Shares	**12**	**51**	**14**	**(8)**	**1**	**70**
	10	40	7	(4)	–	53

(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.

($ millions)						Nine Months Ended September 30
2016 **2015 (Restated)** [1]	**Structures & Logistics**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Adjusted earnings	**37**	**155**	**92**	**(19)**	**1**	**266**
	14	138	56	(7)	–	201
Gain on sale of joint operation	**–**	**–**	**7**	**–**	**–**	**7**
	–	–	–	–	–	–
Restructuring costs	**–**	**–**	**–**	**–**	**–**	**–**
	(1)	(4)	(1)	–	–	(6)
Impairment	**–**	**–**	**–**	**–**	**–**	**–**
	(13)	–	–	–	–	(13)
Rate-regulated activities	**–**	**(7)**	**(29)**	**–**	**3**	**(33)**
	–	(23)	(5)	–	1	(27)
Earnings attributable to Class I and Class II Shares	**37**	**148**	**70**	**(19)**	**4**	**240**
	–	111	50	(7)	1	155

(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 because the Company matches the timing for the recognition of revenues with the timing for the associated costs. Under IFRS, the timing for the recording of revenues does not always match the timing for the recording of associated costs.

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

Finally, under rate-regulated accounting, amounts relating to intercompany profits recognized in rate base by a regulator are included on consolidation. However, under IFRS 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.

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

	Three Months Ended September 30			Nine Months Ended September 30		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Additional revenues billed in current period [1]	**8**	15	(7)	**33**	45	(12)
Revenues to be billed in future period [2]	**(14)**	(21)	7	**(71)**	(103)	32
Regulatory decisions related to current and prior periods [3]	**11**	(2)	13	**2**	32	(30)
Elimination of intercompany profits related to the construction of property, plant and equipment and intangible assets	**1**	(2)	3	**3**	(1)	4
Total adjustments	**6**	(10)	16	**(33)**	(27)	(6)

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. Under rate-regulated accounting, the revenues associated with the removal and site restoration costs will be recognized in adjusted earnings when the costs are incurred.

(2) Revenues to be billed in future period

Deferred income taxes are the most significant adjustment item in this category. Under IFRS and rate-regulated accounting, deferred income tax expense is recorded on the income statement. However, under IFRS the regulated revenues associated with deferred income taxes are not recorded on the income statement until they are reflected in customer rates, while rate-regulated accounting recognizes regulated revenues in the current period.

The impact of warmer temperatures in the first nine months 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

Under rate regulated accounting, the financial impact of a regulatory decision related to current and prior periods is recorded in the current period. Under IFRS, the financial impact of a regulatory decision is not recognized until customer rates are changed in future periods. For further details on regulatory decisions that caused a timing adjustment financial impact, refer to the Regulatory Developments section in this MD&A as well as the Segmented Information presented in Note 3 of the unaudited interim consolidated financial statements for the nine months ended September 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 third 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 July 1, 2016, and ended on September 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 nine months ended September 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).

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

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

GAAP means Canadian generally accepted accounting principles.

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

IFRS means International Financial Reporting Standards.

Km means kilometre.

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 NINE MONTHS ENDED SEPTEMBER 30, 2016

ATCO LTD.
CONSOLIDATED STATEMENT OF EARNINGS

(millions of Canadian Dollars except per share data)	Note	Three Months Ended September 30 2016	Three Months Ended September 30 2015	Nine Months Ended September 30 2016	Nine Months Ended September 30 2015
Revenues		**923**	985	**2,913**	3,004
Costs and expenses					
Salaries, wages and benefits		**(133)**	(163)	**(417)**	(478)
Energy transmission and transportation		**(55)**	(46)	**(165)**	(142)
Plant and equipment maintenance		**(59)**	(59)	**(168)**	(204)
Fuel costs		**(32)**	(45)	**(94)**	(194)
Purchased power		**(18)**	(18)	**(56)**	(57)
Manufacturing raw materials and consumables		**(63)**	(183)	**(271)**	(361)
Depreciation, amortization and impairment		**(160)**	(143)	**(462)**	(428)
Franchise fees		**(37)**	(36)	**(145)**	(150)
Property and other taxes		**(26)**	(20)	**(78)**	(68)
Other		**(60)**	(64)	**(167)**	(193)
		(643)	(777)	**(2,023)**	(2,275)
Gain on sale of joint operation	3	**–**	–	**18**	–
Earnings from investment in joint ventures		**4**	4	**13**	6
Operating profit		**284**	212	**921**	735
Interest income		**4**	4	**11**	9
Interest expense		**(100)**	(74)	**(295)**	(219)
Net finance costs		**(96)**	(70)	**(284)**	(210)
Earnings before income taxes		**188**	142	**637**	525
Income taxes		**(49)**	(38)	**(166)**	(200)
Earnings for the period		**139**	104	**471**	325
Earnings attributable to:					
Class I and Class II Shares		**70**	53	**240**	155
Non-controlling interests		**69**	51	**231**	170
		139	104	**471**	325
Earnings per Class I and Class II Share	9	**$0.61**	$0.46	**$2.09**	$1.35
Diluted earnings per Class I and Class II Share	9	**$0.61**	$0.46	**$2.09**	$1.34

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

ATCO LTD.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three Months Ended September 30		Nine Months Ended September 30	
(millions of Canadian Dollars)	**2016**	**2015**	**2016**	**2015**
Earnings for the period	**139**	104	**471**	325
Other comprehensive (loss) income, net of income taxes				
Items that will not be reclassified to earnings:				
Re-measurement of retirement benefits (1)	**(62)**	3	**(167)**	20
Share of re-measurement of retirement benefits of joint ventures (2)	**–**	1	**–**	(2)
	(62)	4	**(167)**	18
Items that are or may be reclassified subsequently to earnings:				
Cash flow hedges (3)	**9**	9	**(1)**	(4)
Cash flow hedges reclassified to earnings (2)	**–**	1	**1**	(1)
Foreign currency translation adjustment (2)	**31**	4	**(29)**	31
	40	14	**(29)**	26
Other comprehensive (loss) income	**(22)**	18	**(196)**	44
Comprehensive income for the period	**117**	122	**275**	369
Comprehensive income attributable to:				
Class I and Class II Shares	**61**	65	**130**	187
Non-controlling interests	**56**	57	**145**	182
	117	122	**275**	369

(1) Net of income taxes of $22 million and $59 million for the three and nine months ended September 30, 2016, respectively (2015 - $(1) million and $(7) million).

(2) Net of income taxes of nil.

(3) Net of income taxes of $(3) million and $1 million for the three and nine months ended September 30, 2016, respectively (2015 - $(4) million and $1 million).

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

ATCO LTD.
CONSOLIDATED BALANCE SHEET

(millions of Canadian Dollars)	Note	September 30 2016	December 31 2015
ASSETS			
Current assets			
Cash and cash equivalents		**704**	800
Accounts receivable		**490**	624
Finance lease receivables		**11**	9
Inventories		**70**	87
Income taxes receivable		**70**	33
Prepaid expenses and other current assets		**64**	58
		1,409	1,611
Non-current assets			
Property, plant and equipment	5	**16,841**	16,230
Intangibles		**520**	502
Goodwill		**71**	71
Investment in joint ventures		**233**	194
Finance lease receivables		**306**	302
Deferred income tax assets		**80**	82
Other assets		**74**	63
Total assets		**19,534**	19,055
LIABILITIES			
Current liabilities			
Bank indebtedness		**4**	1
Accounts payable and accrued liabilities		**686**	847
Asset retirement obligations and other provisions		**63**	79
Other current liabilities		**16**	17
Short-term debt	6	**375**	–
Long-term debt		**5**	5
Non-recourse long-term debt		**14**	15
		1,163	964
Non-current liabilities			
Deferred income tax liabilities		**1,085**	1,007
Asset retirement obligations and other provisions		**148**	154
Retirement benefit obligations		**536**	307
Deferred revenues		**1,669**	1,649
Other liabilities		**48**	46
Long-term debt		**7,870**	7,938
Non-recourse long-term debt		**88**	97
Total liabilities		**12,607**	12,162
EQUITY			
Class I and Class II Share owners' equity			
Class I and Class II Shares	9	**167**	165
Contributed surplus		**10**	11
Retained earnings		**3,187**	3,130
Accumulated other comprehensive income		**30**	50
		3,394	3,356
Non-controlling interests		**3,533**	3,537
Total equity		**6,927**	6,893
Total liabilities and equity		**19,534**	19,055

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

ATCO LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(millions of Canadian Dollars)	Note	Attributable to Equity Owners of the Company Class I and Class II Shares	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total	Non-Controlling Interests	Total Equity
December 31, 2014		161	11	3,010	(14)	3,168	3,112	6,280
Earnings for the period		–	–	155	–	155	170	325
Other comprehensive income		–	–	–	32	32	12	44
Gains on retirement benefits transferred to retained earnings		–	–	10	(10)	–	–	–
Equity preferred shares issued by subsidiary company, net of issue costs	11	–	–	–	–	–	368	368
Shares issued, purchased and cancelled	9,13	–	–	(1)	–	(1)	35	34
Dividends	10	–	–	(86)	–	(86)	(154)	(240)
Share-based compensation		1	–	3	–	4	(2)	2
Changes in ownership interest in subsidiary company (1)		–	–	34	–	34	(34)	–
Other		–	–	–	–	–	1	1
September 30, 2015		162	11	3,125	8	3,306	3,508	6,814
December 31, 2015		165	11	3,130	50	3,356	3,537	6,893
Earnings for the period		**–**	**–**	**240**	**–**	**240**	**231**	**471**
Other comprehensive loss		**–**	**–**	**–**	**(110)**	**(110)**	**(86)**	**(196)**
Losses on retirement benefits transferred to retained earnings		**–**	**–**	**(90)**	**90**	**–**	**–**	**–**
Shares issued, purchased and cancelled	9,13	**(1)**	**–**	**(17)**	**–**	**(18)**	**38**	**20**
Dividends	10	**–**	**–**	**(98)**	**–**	**(98)**	**(179)**	**(277)**
Share-based compensation		**3**	**(1)**	**(1)**	**–**	**1**	**3**	**4**
Changes in ownership interest in subsidiary company (1)		**–**	**–**	**23**	**–**	**23**	**(23)**	**–**
Other		**–**	**–**	**–**	**–**	**–**	**12**	**12**
September 30, 2016		**167**	**10**	**3,187**	**30**	**3,394**	**3,533**	**6,927**

(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

		Three Months Ended September 30		Nine Months Ended September 30	
(millions of Canadian Dollars)	**Note**	**2016**	**2015**	**2016**	**2015**
Operating activities					
Earnings for the period		**139**	104	**471**	325
Adjustments to reconcile earnings to cash flows from operating activities	12	**288**	266	**841**	910
Changes in non-cash working capital		**141**	64	**16**	46
Cash flows from operating activities		**568**	434	**1,328**	1,281
Investing activities					
Additions to property, plant and equipment		**(347)**	(384)	**(999)**	(1,124)
Proceeds on disposal of property, plant and equipment		**5**	2	**14**	1
Additions to intangibles		**(27)**	(17)	**(54)**	(45)
Proceeds on sale of joint operation	3	**–**	–	**21**	–
Investment in joint ventures	4	**(22)**	(10)	**(73)**	(20)
Changes in non-cash working capital		**(5)**	9	**(100)**	(144)
Other		**–**	(11)	**6**	(10)
Cash flows used in investing activities		**(396)**	(411)	**(1,185)**	(1,342)
Financing activities					
Net issue (repayment) of short-term debt	6	**115**	(450)	**375**	–
Issue of long-term debt	7	**13**	475	**75**	517
Repayment of long-term debt		**(110)**	(37)	**(141)**	(95)
Repayment of non-recourse long-term debt		**(3)**	(3)	**(10)**	(10)
Issue of equity preferred shares by subsidiary company	11	**–**	375	**–**	375
Issue of Class A shares by subsidiary company		**1**	–	**3**	1
Net purchase of Class I Shares		**–**	(1)	**(17)**	(1)
Dividends paid to Class I and Class II Share owners		**(33)**	(29)	**(98)**	(86)
Dividends paid to non-controlling interests		**(48)**	(40)	**(141)**	(119)
Interest paid		**(91)**	(83)	**(287)**	(268)
Other		**3**	(11)	**8**	(11)
Cash flows (used in) from financing activities		**(153)**	196	**(233)**	303
Increase (decrease) in cash position [(1)]		**19**	219	**(90)**	242
Foreign currency translation		**5**	12	**(9)**	26
Beginning of period		**676**	627	**799**	590
End of period		**700**	858	**700**	858

(1) Cash position consists of cash and cash equivalents less current bank indebtedness and includes $44 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)

SEPTEMBER 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 (52.9 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 October 25, 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 September 30 is shown below.

2016 **2015 (Restated)** [(1)]	**Structures & Logistics**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues - external	**145**	**443**	**318**	**17**	**–**	**923**
	279	401	301	4	–	985
Revenues - intersegment	**1**	**6**	**4**	**10**	**(21)**	**–**
	1	2	11	8	(22)	–
Revenues	**146**	**449**	**322**	**27**	**(21)**	**923**
	280	403	312	12	(22)	985
Operating expenses [(2)]	**(118)**	**(163)**	**(194)**	**(31)**	**23**	**(483)**
	(253)	(191)	(203)	(11)	24	(634)
Depreciation, amortization and impairment	**(10)**	**(92)**	**(57)**	**(2)**	**1**	**(160)**
	(12)	(79)	(52)	(2)	2	(143)
Earnings from investment in joint ventures	**–**	**4**	**–**	**–**	**–**	**4**
	1	3	–	–	–	4
Net finance costs	**(1)**	**(63)**	**(34)**	**2**	**–**	**(96)**
	–	(38)	(34)	4	(2)	(70)
Earnings before income taxes	**17**	**135**	**37**	**(4)**	**3**	**188**
	16	98	23	3	2	142
Income taxes	**(3)**	**(37)**	**(11)**	**3**	**(1)**	**(49)**
	(4)	(24)	(8)	(1)	(1)	(38)
Earnings for the period	**14**	**98**	**26**	**(1)**	**2**	**139**
	12	74	15	2	1	104
Adjusted earnings	**12**	**46**	**14**	**(8)**	**–**	**64**
	11	51	8	(4)	–	66
Capital expenditures [(4)]	**38**	**145**	**181**	**15**	**–**	**379**
	9	185	213	21	–	428

Results by operating segment for the nine months ended September 30 is shown below.

2016 **2015 (Restated)** [1]	**Structures & Logistics**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues - external	**528**	**1,311**	**1,030**	**44**	**–**	**2,913**
	600	1,299	1,092	13	–	3,004
Revenues - intersegment	**1**	**15**	**12**	**31**	**(59)**	**–**
	1	8	21	23	(53)	–
Revenues	**529**	**1,326**	**1,042**	**75**	**(59)**	**2,913**
	601	1,307	1,113	36	(53)	3,004
Operating expenses [2]	**(443)**	**(493)**	**(603)**	**(82)**	**60**	**(1,561)**
	(543)	(636)	(693)	(31)	56	(1,847)
Depreciation, amortization and impairment	**(30)**	**(270)**	**(165)**	**(7)**	**10**	**(462)**
	(46)	(228)	(152)	(6)	4	(428)
Gain on sale of joint operation	**–**	**–**	**18**	**–**	**–**	**18**
	–	–	–	–	–	–
Earnings from investment in joint ventures	**2**	**11**	**–**	**–**	**–**	**13**
	(9)	15	–	–	–	6
Net finance costs	**(2)**	**(186)**	**(105)**	**10**	**(1)**	**(284)**
	(1)	(113)	(103)	11	(4)	(210)
Earnings before income taxes	**56**	**388**	**187**	**(4)**	**10**	**637**
	2	345	165	10	3	525
Income taxes	**(14)**	**(105)**	**(52)**	**8**	**(3)**	**(166)**
	(2)	(131)	(67)	1	(1)	(200)
Earnings for the period	**42**	**283**	**135**	**4**	**7**	**471**
	–	214	98	11	2	325
Adjusted earnings	**37**	**155**	**92**	**(19)**	**1**	**266**
	14	138	56	(7)	–	201
Total assets [3]	**830**	**11,521**	**6,697**	**612**	**(126)**	**19,534**
	929	11,060	6,394	697	(25)	19,055
Capital expenditures [4]	**57**	**471**	**489**	**50**	**–**	**1,067**
	46	662	510	28	–	1,246

(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 $14 million of interest capitalized during construction for the three and nine months ended September 30, 2016 (2015 - $27 million and $77 million) .

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 September 30 is shown below.

2016 **2015 (Restated)**	**Structures & Logistics**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Adjusted earnings	**12**	**46**	**14**	**(8)**	**–**	**64**
	11	51	8	(4)	–	66
Restructuring costs	**–**	**–**	**–**	**–**	**–**	**–**
	(1)	(2)	–	–	–	(3)
Rate-regulated activities	**–**	**5**	**–**	**–**	**1**	**6**
	–	(9)	(1)	–	–	(10)
Earnings attributable to Class I and Class II Shares	**12**	**51**	**14**	**(8)**	**1**	**70**
	10	40	7	(4)	–	53
Earnings attributable to non-controlling interests						**69**
						51
Earnings for the period						**139**
						104

The reconciliation of adjusted earnings and earnings for the nine months ended September 30 is shown below.

2016 **2015 (Restated)**	**Structures & Logistics**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Adjusted earnings	**37**	**155**	**92**	**(19)**	**1**	**266**
	14	138	56	(7)	–	201
Gain on sale of joint operation	**–**	**–**	**7**	**–**	**–**	**7**
	–	–	–	–	–	–
Restructuring costs	**–**	**–**	**–**	**–**	**–**	**–**
	(1)	(4)	(1)	–	–	(6)
Impairment	**–**	**–**	**–**	**–**	**–**	**–**
	(13)	–	–	–	–	(13)
Rate-regulated activities	**–**	**(7)**	**(29)**	**–**	**3**	**(33)**
	–	(23)	(5)	–	1	(27)
Earnings attributable to Class I and Class II Shares	**37**	**148**	**70**	**(19)**	**4**	**240**
	–	111	50	(7)	1	155
Earnings attributable to non-controlling interests						**231**
						170
Earnings for the period						**471**
						325

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

For the three and nine months ended September 30, 2015, the Company recorded restructuring costs of $3 million and $6 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 and lease termination costs.

Impairment

In the nine months ended September 30, 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 September 30		Nine Months Ended September 30	
	2016	**2015**	**2016**	**2015**
Additional revenues billed in current period:				
Future removal and site restoration costs [1]	**9**	4	**27**	15
Finance costs on major transmission capital projects [2]	**–**	9	**–**	26
Transmission capital deferral [3]	**–**	–	**5**	–
Other	**(1)**	2	**1**	4
	8	15	**33**	45
Revenues to be billed in future periods:				
Deferred income taxes [4]	**(9)**	(14)	**(37)**	(41)
Deferred income taxes due to increase in provincial corporate tax rate [4]	**–**	–	**–**	(34)
Transmission access payments [5]	**(1)**	(2)	**(3)**	(7)
Transmission capital deferral [3]	**–**	(3)	**–**	(8)
Impact of warmer temperatures on revenues [6]	**(1)**	–	**(15)**	(7)
Impact of inflation on rate base for ATCO Gas Australia [7]	**(2)**	(2)	**(5)**	(5)
Other	**(1)**	–	**(11)**	(1)
	(14)	(21)	**(71)**	(103)
Regulatory decisions related to current and prior periods:				
ATCO Electric general tariff application [8]	**8**	–	**8**	–
2016-2017 Generic cost of capital decision [8]	**–**	–	**–**	–
2013-2015 Generic cost of capital decision [8]	**–**	2	**–**	24
Capital tracker decision [8]	**–**	–	**–**	6
ATCO Gas Australia access arrangement decision [8]	**(1)**	–	**(3)**	10
Transmission capital deferral refunds [8]	**–**	(11)	**–**	(11)
Other	**4**	7	**(3)**	3
	11	(2)	**2**	32
Intercompany profits:				
Intercompany profits related to construction of property, plant and equipment and intangibles [9]	**1**	(2)	**3**	(1)
	6	(10)	**(33)**	(27)

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 nine months ended September 30, 2015 by \$69 million. Of the \$69 million increase in income taxes (\$37 million after non-controlling interests), \$64 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.	**ATCO Electric General Tariff Application** In the third quarter of 2016, the transmission operations of ATCO Electric recorded a reduction in adjusted earnings of $8 million for an AUC decision associated with its 2015 to 2017 general tariff application. The AUC approved final rates that were lower than the interim rates. Of the $8 million recorded in the third quarter of 2016, $7 million relates to prior quarters. Under IFRS, earnings will be adjusted when the AUC approved revised customer rates are refunded to customers through future billings. **2016-2017 Generic Cost of Capital Decision** In the third quarter of 2016, the utilities recorded an increase to adjusted earnings of less than $1 million for an AUC decision which established the allowed return on equity (ROE) and deemed common equity ratios for 2016 to 2017. Under IFRS, earnings will be adjusted when the AUC approves revised customer rates and the amount receivable from customers is collected through future billings. **2013-2015 Generic Cost of Capital Decision** The utilities recorded a reduction in adjusted earnings of $25 million in 2015 for an AUC decision which reduced the ROE and deemed common equity ratios for 2013 to 2015. Of the $25 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; $1 million has been refunded as at the end of the third quarter of 2015.

	Description	Timing of Recovery or Refund
		Capital Tracker Decision ATCO Gas and the distribution operations of ATCO Electric recorded a reduction in adjusted earnings of $7 million in 2015 for the AUC Performance Based Regulation Capital Tracker decisions for 2013 to 2015. Of the $7 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; $1 million has been refunded as at the end of the third 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 2015 adjusted earnings of $10 million. Of this amount, $4 million related to 2015 and $6 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 $3 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 Capital Deferral Refunds** In 2015, ATCO Electric refunded amounts to customers over-collected in 2012 for major transmission capital projects.
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 September 30, 2016, $17 million has been paid. The remaining $8 million will be paid in two equal installments in November 2016 and March 2017. Sabinco will operate under the name ATCO-Sabinco S.A. The Company has accounted for its 50 per cent ownership interest as a joint venture which is reported in the Structures & Logistics segment.

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	**282**	**31**	**117**	**656**	**58**	**1,144**
Transfers	**444**	**8**	**3**	**(502)**	**47**	**–**
Retirements and disposals	**(115)**	**(12)**	**(4)**	**(17)**	**(105)**	**(253)**
Changes to asset retirement costs	**–**	**1**	**–**	**–**	**–**	**1**
Foreign exchange rate adjustment	**(2)**	**(1)**	**(10)**	**(6)**	**(4)**	**(23)**
September 30, 2016	**17,210**	**2,061**	**908**	**925**	**1,661**	**22,765**
Accumulated depreciation and impairment						
December 31, 2015	3,427	1,261	168	85	725	5,666
Depreciation	**302**	**53**	**16**	**–**	**61**	**432**
Retirements and disposals	**(62)**	**(12)**	**(4)**	**–**	**(87)**	**(165)**
Foreign exchange rate adjustment	**–**	**–**	**–**	**(4)**	**(5)**	**(9)**
September 30, 2016	**3,667**	**1,302**	**180**	**81**	**694**	**5,924**
Net book value						
December 31, 2015	13,174	773	634	709	940	16,230
September 30, 2016	**13,543**	**759**	**728**	**844**	**967**	**16,841**

The additions to property, plant and equipment included $14 million of interest capitalized during construction for the nine months ended September 30, 2016 (2015 - $77 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.

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

6. SHORT TERM DEBT

At September 30, 2016, Canadian Utilities Limited had $375 million of commercial paper outstanding with a weighted average interest rate of 0.88 per cent, maturing in October 2016 (2015 - nil). The commercial paper is back-stopped by the Company's long-term committed credit facilities.

7. LONG TERM DEBT

On July 27, 2015, CU Inc., a wholly owned subsidiary of Canadian Utilities Limited, issued $400 million of 3.964 per cent debentures maturing on July 27, 2045.

8. 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:

	September 30, 2016		December 31, 2015	
Recurring Measurements	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Lease receivables	**317**	**470**	311	493
Financial Liabilities				
Long-term debt	**7,875**	**9,353**	7,943	8,679
Non-recourse long-term debt	**102**	**119**	112	137

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

September 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	**–**	**–**	**21**	**3**	**7**	**–**
Liabilities	**(16)**	**(9)**	**–**	**(4)**	**(2)**	**(3)**
Notional values (1)						
Volumes (2)						
Purchases	**–**	**22,436,000**	**–**	**30,715,300**	**3,321,120**	**–**
Sales	**–**	**–**	**2,489,880**	**12,847,500**	**4,250,274**	**–**
Canadian dollars	**765**	**–**	**–**	**–**	**–**	**46**
Maturity	**2019-2020**	**2016-2021**	**2016-2020**	**2016-2021**	**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.

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

There were 101,106,623 (2015 - 101,531,923) Class I Non-Voting Shares and 13,546,605 (2015 - 13,609,505) Class II Voting Shares outstanding at September 30, 2016. In addition, there were 669,100 options to purchase Class I Non-Voting Shares outstanding at September 30, 2016, under the Company's stock option plan. From October 1, 2016 to October 24, 2016, 1,750 stock options were granted, no stock options were cancelled or exercised, no 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 September 30		Nine Months Ended September 30	
	2016	**2015**	**2016**	**2015**
Average shares				
Weighted average shares outstanding	**114,337,640**	114,848,108	**114,430,283**	114,834,829
Effect of dilutive stock options	**167,867**	184,821	**128,935**	223,849
Effect of dilutive mid-term incentive plan	**300,708**	314,432	**302,869**	314,668
Weighted average dilutive shares outstanding	**114,806,215**	115,347,361	**114,862,087**	115,373,346
Earnings for earnings per share calculation				
Earnings for the period	**139**	104	**471**	325
Non-controlling interests	**(69)**	(51)	**(231)**	(170)
	70	53	**240**	155
Earnings and diluted earnings per Class I and Class II Share				
Earnings per Class I and Class II Share	**$0.61**	$0.46	**$2.09**	$1.35
Diluted earnings per Class I and Class II Share	**$0.61**	$0.46	**$2.09**	$1.34

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 October 24, 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.

10. DIVIDENDS

Cash dividends declared and paid per share are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(dollars per share)	**2016**	**2015**	**2016**	**2015**
Class I and Class II Shares	**0.2850**	0.2475	**0.8550**	0.7425

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.

11. NON-CONTROLLING INTERESTS

On August 7, 2015, Canadian Utilities Limited issued $125 million Cumulative Redeemable Second Preferred Shares Series EE at $25.00 per share under its base shelf prospectus.

On September 24, 2015, Canadian Utilities Limited issued $250 million Cumulative Redeemable Second Preferred Shares Series FF at $25.00 per share under its base shelf prospectus.

Issuance costs of $7 million, net of income taxes, were recorded as a reduction of non-controlling interests in the nine months ended September 30, 2015.

12. CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	**2015**	**2016**	**2015**
Adjustments to reconcile earnings to cash flows from operating activities				
Depreciation, amortization and impairment	**160**	143	**462**	428
Gain on sale of joint operation	**–**	–	**(18)**	–
Earnings from investment in joint ventures, net of dividends and distributions received	**(3)**	2	**–**	12
Income taxes	**49**	38	**166**	200
Unearned availability incentives	**(4)**	(7)	**(12)**	(26)
Contributions by customers for extensions to plant	**16**	31	**68**	172
Amortization of customer contributions	**(19)**	(15)	**(49)**	(39)
Net finance costs	**96**	70	**284**	210
Income taxes paid	**(12)**	(6)	**(68)**	(65)
Other	**5**	10	**8**	18
	288	266	**841**	910

13. RELATED PARTY TRANSACTION

During the three months ended September 30, 2016, Canadian Utilities Limited issued 318,474 Class A non-voting shares under its dividend reinvestment plan (DRIP) (2015 - 707,582), using re-invested dividends of $12 million (2015 - $24 million). The Company did not participate in the DRIP during 2016 (2015 - the Company acquired 368,884 shares using re-invested dividends of $12 million).

During the nine months ended September 30, 2016, Canadian Utilities Limited issued 1,088,697 Class A non-voting shares under its dividend reinvestment plan (DRIP) (2015 - 2,013,598), using re-invested dividends of $38 million (2015 - $74 million). The Company did not participate in the DRIP during 2016 (2015 - the Company acquired 1,064,575 shares using re-invested dividends of $39 million).