ATCO LTD.

FINANCIAL INFORMATION

FOR THE THREE MONTHS ENDED MARCH 31, 2014

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2014 FIRST QUARTER FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014

TABLE OF CONTENTS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED MARCH 31, 2014

This Management's Discussion and Analysis (MD&A) is meant to help readers understand key financial events that influenced the operations of ATCO Ltd. (the Company) during the past quarter.

This MD&A was prepared as of April 24, 2014 and should be read with the Company's 2014 Unaudited Interim Consolidated Financial Statements for the three months ended March 31, 2014. Additional information, including the Company's previous MD&A (2013 MD&A), the Annual Information Form (2013 AIF) and the audited Consolidated Financial Statements for the year ended December 31, 2013, is available on SEDAR at www.sedar.com. Information contained in the 2013 MD&A is not discussed if it remains substantially unchanged.

The Company is principally controlled by Sentgraf Enterprises Ltd. and its controlling share owner, R.D. Southern. The Company includes controlling positions in Canadian Utilities Limited (53.2% ownership) and in ATCO Structures & Logistics Ltd. (75.5% ownership). Throughout this MD&A, the Company's earnings attributable to Class I and Class II Shares and adjusted earnings are presented after non-controlling interests.

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

TABLE OF CONTENTS

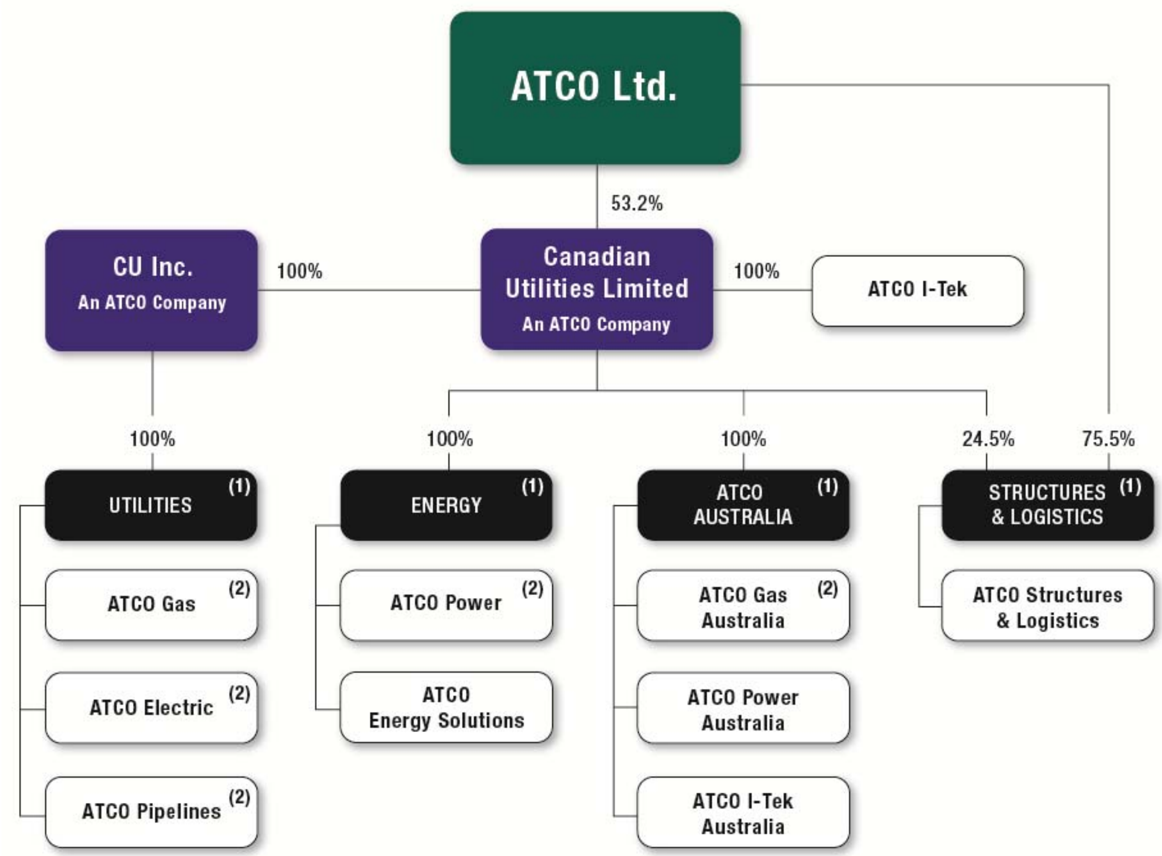
COMPANY OVERVIEW

Alberta-based ATCO Ltd., with more than 9,800 employees and assets of approximately $16 billion, delivers service excellence and innovative business solutions worldwide with leading companies engaged in Structures & Logistics (manufacturing, logistics and noise abatement), Utilities (pipelines, natural gas and electricity transmission and distribution), Energy (power generation, natural gas gathering, processing, storage and liquids extraction), and Technologies (business systems solutions).

The unaudited interim consolidated financial statements include the accounts of ATCO Ltd., including a proportionate share of joint venture investments. Principal subsidiaries are Canadian Utilities Limited (Canadian Utilities), of which ATCO Ltd. owns 53.2% (39.1% of the Class A non-voting shares and 88.1% of the Class B common shares), and ATCO Structures & Logistics Ltd., of which ATCO Ltd. owns 75.5% of the Class A non-voting shares and Class B common shares.

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

SIMPLIFIED ORGANIZATIONAL STRUCTURE



(1) Descriptions of segment business activities are provided in the Segmented Information section of the MD&A.

(2) Regulated operations include ATCO Gas, ATCO Electric, ATCO Pipelines, ATCO Gas Australia and the Battle River unit 5 and Sheerness generating plants of ATCO Power.

PERFORMANCE OVERVIEW

The Company's financial performance in the first quarter of 2014 was the result of three major drivers:

- The Utilities segment continued to make significant investment in utility infrastructure in Alberta. Capital expenditures in the Utilities were $506 million, which was comparable to the $511 million spent in the same period in 2013. These capital expenditures translated into higher earnings as the Company earns a return on its investment. First quarter adjusted earnings in the Utilities segment grew by $7 million, or 10%, over last year. The natural gas and electricity distribution companies have benefited from growth in customers and higher demand. However, this steady growth is somewhat dampened by the fact that ATCO Gas and the distribution operations of ATCO Electric are only recovering, on an interim basis, 60% of the amounts requested in their 2013 and 2014 Capital Trackers. A final decision on Capital Trackers is not expected until the first quarter of 2015.
- The Energy segment saw growth in adjusted earnings of $3 million, or 20%, mainly from the natural gas liquids extraction operations. Continuing the trend from the previous quarter, frac spreads were over 50% higher in the first quarter of 2014 compared to the same period in 2013, which led to stronger earnings in ATCO Energy Solutions.
- Due to the sale of the Company's South American Modular Structures operations in September 2013, adjusted earnings from ATCO Structures & Logistics declined this quarter compared to the same period in the prior year. This sale took advantage of an opportunity to monetize this asset at a time when this region was showing signs of slower growth. Also, the reduced activity in Australia's mining sector that became apparent towards the end of 2013 led to reduced earnings in this quarter from that region. The Modular Structures projects currently underway in Australia are not to the scale of the large LNG projects completed in early 2013. Partially offsetting this lower Australian activity, Modular Structures operations in North America have several large workforce housing projects under construction.

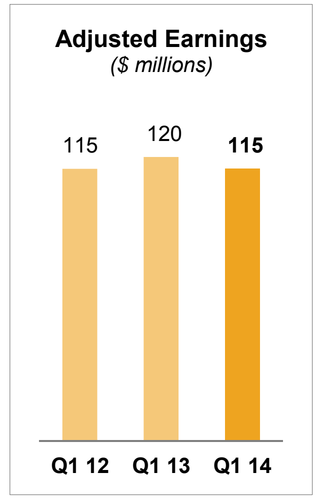
The following chart summarizes key financial metrics associated with the Company's financial performance. These highlights are discussed in more detail throughout this MD&A.

		Three Months Ended March 31	
($ millions, except per share data and outstanding shares)	**2014**	**2013**	**Change**
Key Financial Metrics *(restated for two-for-one stock split)*			
Adjusted earnings	**115**	120	(5)
Earnings attributable to Class I and Class II Shares	**127**	117	10
Revenues	**1,226**	1,099	127
Cash dividends declared per Class I and Class II Share *($)*	**0.215**	0.188	0.027
Funds generated by operations	**556**	458	98
Cash flow from operations	**515**	481	34
Capital expenditures (including capitalized interest)	**561**	564	(3)
Other Financial Metrics *(restated for two-for-one stock split)*			
Earnings per Class I and Class II Share *($):*			
Basic	**1.11**	1.02	0.09
Diluted	**1.10**	1.01	0.09
Class I and Class II Shares outstanding *(thousands)*	**115,134**	115,169	(35)
Weighted average Class I and Class II Shares outstanding *(thousands):*			
Basic	**114,783**	114,732	51
Diluted	**115,528**	115,416	112

An overview of the key financial metrics is provided below.

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

The Company achieved adjusted earnings of $115 million in the three months ended March 31, 2014. Although slightly lower by $5 million from the record quarterly earnings achieved in the first quarter of 2013, these adjusted earnings are on par with the previous record set in the same period in 2012. As explained above, the reduction in adjusted earnings in 2014 resulted largely from the loss of earnings from South America.

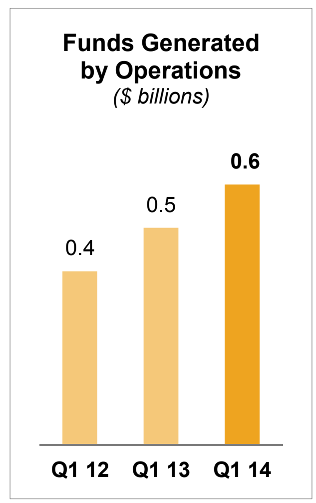


Earnings attributable to Class I and Class II Shares increased by $10 million to $127 million in the first quarter due to timing adjustments related to rate-regulated activities. These timing adjustments included increased recoveries from utility customers mainly due to the colder than forecast weather this past winter and higher recovery of forecast operating costs incurred in current and prior periods. More information on these and other regulatory adjustments is provided in the “Reconciliation of Adjusted Earnings to Earnings Attributable to Class I and Class II Shares” in this MD&A.

REVENUES

Revenues increased by $127 million in the first quarter of 2014 compared to the same period in the prior year. The majority of the increase occurred in the Utilities segment, which mirrors the growth in adjusted earnings from increased capital investment, as well as the higher recoveries from customers related to the colder weather and increased recoverable costs.

FUNDS GENERATED BY OPERATIONS AND CASH FLOW FROM OPERATIONS



Funds generated by operations, which were higher by $98 million in the first quarter of 2014, reflect the increase in earnings attributable to Class I and Class II Shares. In addition, the Company received higher contributions from customers that are provided as payment in advance of future utility services. The amount of contributions received will vary from period to period depending on the utility capital projects that give rise to these payments.

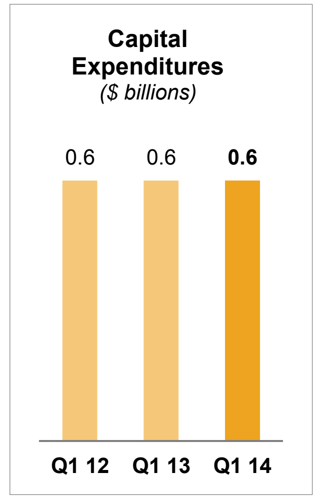
Cash flow from operations was $34 million higher this quarter compared to the prior year. The increase in funds generated by operations was offset by a $64 million reduction in working capital related to the timing of cash receipts from customers.

CAPITAL EXPENDITURES

Total capital expenditures of $561 million in the first quarter of 2014 were comparable to the same period of 2013. The Utilities accounted for $506 million of this capital spending, with the remaining $55 million spread across the Company's other business segments.

The transmission operations of ATCO Electric continue to account for the largest portion of Utilities' expenditures – approximately two-thirds of this quarter's total – with the Eastern Alberta Transmission Line (EATL) project representing the largest single expenditure. Several other large transmission infrastructure projects are either underway or in the planning stages.

The Company plans to invest $5.5 billion in capital expenditures in the Utilities segment during the period 2014 to 2016. ATCO Electric plans to spend $4 billion of this amount, primarily in transmission operations.



SIGNIFICANT DEVELOPMENTS IN THE FIRST QUARTER OF 2014

ATCO STRUCTURES & LOGISTICS

The Company was awarded two contracts in the Logistics and Facility O&M Services division. These contracts reflect the current high activity levels experienced by the Company in its North America operations.

The first contract was awarded by K+S Potash Canada for a 1,470 person camp supporting the Legacy Potash mine in Southern Saskatchewan. The contract commenced in April 2014 for a period of two-and-a-half years.

The second contract is to provide facilities and operations maintenance services to five resource development sites in northern Alberta operated by a major Canadian exploration and production company. This two-year contract commenced in March 2014.

QUARTERLY INFORMATION

The following table shows financial information for the eight quarters ended June 30, 2012, through March 31, 2014. Per share amounts have been retrospectively restated for all periods to reflect the two-for-one share split that occurred in the second quarter of 2013.

($ millions except for per share data)	Q2 2013	Q3 2013	Q4 2013	Q1 2014
Revenues	1,081	1,015	1,164	**1,226**
Earnings attributable to Class I and Class II Shares	98	132	71	**127**
Earnings per Class I and Class II Share *($)*	0.85	1.16	0.61	**1.11**
Diluted earnings per Class I and Class II Share *($)*	0.85	1.15	0.61	**1.10**
Adjusted earnings				
Structures & Logistics	21	27	22	**16**
Utilities	30	32	50	**74**
Energy	30	20	15	**18**
ATCO Australia	5	5	9	**4**
Corporate & Other	3	-	1	**3**
Total adjusted earnings	89	84	97	**115**

($ millions except for per share data)	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Revenues	910	981	1,080	**1,099**
Earnings attributable to Class I and Class II Shares	72	81	98	**117**
Earnings per Class I and Class II Share *($)*	0.63	0.71	0.84	**1.02**
Diluted earnings per Class I and Class II Share *($)*	0.63	0.71	0.84	**1.01**
Adjusted earnings				
Structures & Logistics	25	27	36	**26**
Utilities	27	16	48	**67**
Energy	5	26	17	**15**
ATCO Australia	10	6	4	**5**
Corporate & Other	7	4	(3)	**7**
Total adjusted earnings	74	79	102	**120**

The financial results for the previous eight quarters reflect continued growth in the Company's utility operations and fluctuating commodity prices in the power generation 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.

The large capital investment made by the Utilities in the previous eight quarters has contributed to a general increase in revenues, earnings attributable to Class I and Class II Shares and adjusted earnings. This growth is most evident in ATCO Electric's transmission operations, where significant capital has been added because of the expansion and reinforcement of the transmission network in several regions of Alberta. These expenditures, on which the Utilities earn a regulated return on investment, drive growth in earnings.

The power generation business in the Energy segment recorded higher realized power pool prices and spark spreads in the second and third quarters of 2013 compared to 2012. The final quarter of 2013 and the first quarter of 2014 saw a reduction in power pool prices and spark spreads mainly due to the increased supply of electricity in the Alberta market and a sharp rise in natural gas prices. These lower prices and spark spreads contributed to reduced revenues and earnings.

ATCO Energy Solutions recognized lower natural gas storage differentials for the storage year that ended March 31, 2014, compared to the previous four quarters for the storage year ended March 31, 2013, resulting in lower earnings from storage operations. Offsetting this reduction in the latter half of 2013 and early 2014 were stronger frac spreads, which contributed to higher earnings from NGL extraction operations.

Revenues and earnings in the Structures & Logistics segment are significantly influenced by the cyclical nature of large natural resource project activity. Three large LNG projects in Australia made strong contributions to earnings in 2012 and the first quarter of 2013. Higher project activity in North America, as well as used fleet sales to refresh the Company's inventory, sustained high earnings levels during 2013. The fourth quarter of 2013 and the first quarter of this year saw an expected reduction in earnings as a result of the sale of Modular Structures operations in South America in September 2013. This sale arose in the course of the Company's ongoing capital redeployment strategy.

ATCO Australia's gas distribution utility continued to invest in utility infrastructure on which it earns a return. The adjusted earnings recorded by ATCO Gas Australia in the second quarter of 2012 upon receipt of the favourable appeal decision included amounts for 2010 and 2011. Weather, which can significantly affect the financial results of the gas distribution business, was considerably warmer than normal over all eight quarters. Earnings for the first quarter of 2014 reflect additional costs for an advertising campaign to promote the use of natural gas.

Earnings attributable to Class I and Class II Shares in the third quarter of 2013, which were higher than adjusted earnings, reflected ATCO Structures & Logistics' large gain on sale of its South American operations. In the fourth quarter of 2013, the Company recognized impairments of certain power generation assets in the U.K. and Australia and certain natural gas gathering, processing and liquids extraction assets in Canada. ATCO Structures & Logistics also sold its non-core U.K. space rental assets for a marginal loss. These items were excluded from adjusted earnings, but were still reflected in the Company's quarterly earnings attributable to Class I and Class II Shares.

SEGMENTED INFORMATION

Structures & Logistics

ATCO Structures & Logistics has five divisions: Modular Structures, Logistics and Facility O&M Services, Lodging & Support Services, Emissions Management and Sustainable Communities.

REVENUES

Revenues in ATCO Structures & Logistics were $212 million for the first quarter of 2014, which were $19 million lower than the same period in 2013. This decrease was mainly due to lower project activity levels in the mining sector in Australia and the forgone revenues from the sale of the South American Modular Structures operations in September 2013. The strong project activity levels experienced in the North American operations during the latter part of 2013 continued into 2014 partly offsetting the lower revenues for the quarter.

ADJUSTED EARNINGS

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

	Three Months Ended March 31		
($ millions)	**2014**	**2013**	**Change**
Modular Structures	**20**	26	(6)
Logistics and Facility O&M Services	**3**	5	(2)
Lodging & Support Services	**2**	3	(1)
Other (1)	**(9)**	(8)	(1)
Total ATCO Structures & Logistics	**16**	26	(10)

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

ATCO Structures & Logistics' adjusted earnings performance for the first quarter of 2014 reflected a slowdown in Australian project activity from the record levels experienced by the Company in 2012 and the early part of 2013. Also, as expected, the sale of the Company's South American Modular Structures operations in the third quarter of 2013 reduced quarter-over-quarter earnings. The strong project activity levels experienced in the Company's North American operations in 2013 continued into 2014, translating into continued strong earnings from this region.

More details on the business activities and financial results of the three largest divisions are provided in this segmented section.

MODULAR STRUCTURES

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

High Modular Structures activity levels in North America expected to continue in 2014

Modular Structures' adjusted earnings for the first quarter of 2014 were $6 million lower than the same period of 2013. Work continued on the Wheatstone project in Western Australia, but these earnings were not of the same scale to replace earnings from the three large Australian LNG projects completed in early 2013. In addition, the sale of the Company's South American operations in September 2013 resulted in a loss of earnings in the first quarter.

North American operations earnings remained strong during the first quarter of 2014 with construction activity on schedule for the second phase of BHP Billiton's Jansen Potash Project and the Shell Carmon Creek Project. Strong demand in the North American market also translated into higher rental rates for workforce housing. These high activity levels in the North American Modular Structures operations are expected to continue on the strength of on-going and planned projects.

Major Project Updates

Shell Carmon Creek Project

During the first quarter of 2014, ATCO Structures & Logistics continued to manufacture modular units for the $170 million contract to manufacture and install the 1,200-person workforce housing facility for the Shell Carmon Creek Project near the town of Peace River in northern Alberta. Manufacturing began in the fourth quarter of 2013 and completion is scheduled for the second quarter of 2015.

Wheatstone Project

ATCO Structures & Logistics' $100 million Australian dollar contract to design, manufacture, transport and install 357 blast resistant modular units for the Wheatstone Project continued on schedule. This facility is expected to be completed by the end of the third quarter of 2014.

Jansen Potash Project

ATCO was contracted to design, manufacture, install and operate a 2,586-room workforce housing lodge at BHP Billiton's Jansen Potash Project, located 100 km north of Regina, Saskatchewan valued at approximately $330 million. The first 500-room phase was completed in the third quarter of 2013; construction continues on the second 2,086-room phase and is expected to be completed during the second quarter of 2015.

Rental Fleet Statistics

The following table compares ATCO Structures & Logistics' manufacturing hours and rental fleet for the first quarters of 2013 and 2014, restated for the 2013 divestiture of Tecno Fast ATCO S.A and the U.K. assets.

	Three Months Ended March 31		
	2014	**2013**	**Change**
North America			
Manufacturing hours *(thousands)*	**254**	211	20%
Global Space Rentals			
Number of units	**12,965**	13,042	(1%)
Utilization *(%)*	**75**	77	(2%)
Average rental rate *($ per month)*	**615**	639	(4%)
Global Workforce Housing			
Number of units	**3,139**	2,971	6%
Utilization *(%)*	**76**	86	(10%)
Average rental rate *($ per month)*	**2,469**	2,168	14%

The increase in manufacturing hours on a quarter-over-quarter basis relates mainly to the Jansen Potash Project and Shell Carmon Creek Project. Rental rates for workforce housing remained high in the first quarter of 2014 as a result of strong demand in the North American market. The total number of rental fleet units was marginally lower at the end of the first quarter compared to the prior year because of higher used fleet sales in 2013 that allowed the Company to refresh its rental fleet. Utilization of the space rentals and workforce housing fleets reflected a slowdown in the Australian market compared to the first quarter of 2013 when the large LNG projects were being completed.

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.

Two North American camp services contracts awarded in the first quarter of 2014

The Company was awarded a camp services contract by K+S Potash Canada to support a 1,470-person camp at the Legacy Potash mine in Southern Saskatchewan. The contract commenced in April 2014 and extends for a period of two-and-a-half years. The contract value is approximately $20 million and includes catering, housekeeping, janitorial, laundry, room management, maintenance and lounge/commissary services.

The Company was also awarded a contract to provide facilities and operations maintenance services to five resource development sites in northern Alberta operated by a major Canadian exploration and production company. This two-year contract, valued at $6 million, began in March 2014.

Earnings were $2 million lower in the first quarter of 2014, mainly as a result of a NATO contract to supply utilities support services at the Kandahar airfield ending in the fourth quarter of 2013.

In addition, the Company was not successful in its rebid for the North Warning System Contract with the Canadian Department of National Defense. This contract will expire at the end of the third quarter of 2014.

LODGING & SUPPORT SERVICES

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

This division experienced marginally lower earnings of $1 million for the first quarter of 2014. Lower occupancy at the Barge Landing Lodge and Creeburn Lake Lodge experienced towards the end of 2013 carried into the early part of 2014. This situation arose because of the increased supply of temporary lodging and camp facilities near Fort McMurray. Occupancy levels began to improve towards the end of the quarter.

Utilities

The Utilities' activities are conducted through three regulated businesses within western and northern Canada: ATCO Electric, ATCO Gas, and ATCO Pipelines.

REVENUES

Revenues in the Utilities were $654 million in the first quarter of 2014, which were $103 million higher than the same period of 2013.

Increased revenues for the transmission operations of ATCO Electric were attributable to growth in rate base as a result of the significant ongoing capital investments in transmission infrastructure in Alberta.

The distribution operations of ATCO Gas and ATCO Electric recorded increased revenues as the interim 2014 Performance Based Regulation (PBR) rates are higher than the interim 2013 PBR rates. In addition, the distribution operations are currently recovering 60% of the 2013 and 2014 interim Capital Trackers.

Revenues in ATCO Gas and the distribution operations of ATCO Electric also reflected more customers and higher demand for energy largely resulting from colder weather in the first quarter of 2014. Higher natural gas prices also led to higher franchise fees paid to municipalities that are recovered from customers.

ADJUSTED EARNINGS

Adjusted earnings for each of the Utilities are shown in the table below.

	Three Months Ended March 31		
($ millions)	**2014**	**2013**	**Change**
ATCO Electric	**37**	31	6
ATCO Gas	**31**	30	1
ATCO Pipelines	**6**	6	-
Total Utilities	**74**	67	7

Adjusted earnings generated by the Utilities of $74 million in the first quarter of 2014 were $7 million, or 10%, higher than the $67 million achieved in the same period of 2013. The main reason for these increased earnings was the growth in rate base in ATCO Electric's transmission operations. The Utilities continued to make significant capital investments in Alberta during the first quarter of 2014 on which they earn an AUC-approved regulated return.

Utilities adjusted earnings increased 10% in the first quarter of 2014

More detailed information about the activities and financial results of the Utilities' businesses is provided in the following sections.

ATCO ELECTRIC

ATCO Electric and its subsidiaries, The Yukon Electrical Company, Northland Utilities (NWT) and Northland Utilities (Yellowknife), transmit and distribute electricity mainly in northern and central east Alberta, the Yukon and Northwest Territories. Its service territory includes the oil sands areas near Fort McMurray and the heavy oil areas near Cold Lake and Peace River.

ATCO Electric's adjusted earnings were $6 million higher quarter-over-quarter compared to 2013 mainly from growth in rate base in its transmission operations. The distribution operations benefitted from more customers and higher demand for energy during the cold weather experienced in Alberta this past winter. Capital investment in ATCO Electric's distribution operations also generated higher earnings under the interim approved Capital Tracker rates. ATCO Electric continues to receive only 60% of its requested incremental capital funding on an interim basis for the 2013 and 2014 Capital Trackers. A final decision on Capital Trackers is expected in the first quarter of 2015.

ATCO GAS

ATCO Gas distributes natural gas throughout Alberta and in the Lloydminster area of Saskatchewan. It services municipal, residential, business and industrial customers.

Adjusted Earnings in ATCO Gas were $1 million higher for the first quarter of 2014 compared to last year. Increased earnings resulted from capital investment, more customers and higher demand. ATCO Gas continues to receive only 60% of its requested incremental capital funding on an interim basis for the 2013 and 2014 Capital Trackers. A final decision on Capital Trackers is expected in the first quarter of 2015. The first quarter of 2013 included marginally favourable earnings as a follow-up from the previously issued 2011 and 2012 General Rate Application Decision.

ATCO PIPELINES

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

Adjusted earnings in ATCO Pipelines at $6 million in this quarter were comparable to the same quarter last year.

MAJOR CAPITAL EXPENDITURE PROJECT UPDATES

The Utilities continued with their major capital expenditure programs, investing a further $506 million during the first quarter of 2014. The transmission operations of ATCO Electric spent $329 million of this amount, with the Eastern Alberta Transmission Line (EATL) being the largest single project under construction.

The EATL project spent $180 million in the quarter, bringing the total spend to date to $1.1 billion. Total budgeted costs are $1.8 billion.

The Company plans to invest $5.5 billion in capital expenditures in the Utilities segment during the period 2014 to 2016. ATCO Electric plans to spend $4 billion of this amount, primarily in its transmission operations.

REGULATORY DEVELOPMENTS

Performance Based Regulation (PBR) Capital Tracker (K Factor) Applications

The K Factor applications are mechanisms included in the PBR regulatory model to allow the Company to recover capital expenditures that are not recoverable through the PBR formula that meet certain criteria. In December 2013, the AUC approved the continued collection, on an interim basis, of 60% of the applied-for incremental Capital Trackers for 2013 and 2014 as requested by ATCO Gas and ATCO Electric.

Also in December 2013, the AUC issued a decision providing the Company with a better understanding of the assessment process it intends to use in determining Capital Tracker funding. The AUC requested the Company re-file its 2013 Capital Tracker Applications by no later than May 2014 based on this clarified assessment process. A final decision on the 2013 Capital Tracker Application is not expected until the first quarter of 2015.

The Company will also file its 2014 and 2015 Capital Tracker applications by May 2014 as requested by the AUC.

Information Technology and Customer Care and Billing Services (Evergreen Application)

This regulatory proceeding will establish the pricing for cost-recovery purposes of Information Technology and Customer Care & Billing services provided by ATCO I-Tek to the Company's Utilities covering the period 2010 to 2014. An AUC hearing took place in January 2014, and a decision is expected in the second quarter of 2014.

2011 Pension Decision

In April 2014, the Supreme Court of Canada granted the Company leave to appeal the AUC's 2011 pension decision, which limited recovery of annual COLA adjustments to 50% of the CPI, with a maximum COLA adjustment of 3%.

Energy

Energy's activities are conducted through ATCO Power and ATCO Energy Solutions.

REVENUES

Energy segment revenues of $286 million for the first quarter of 2014 were $37 million higher than the same period of 2013.

For the first quarter of 2014, ATCO Energy Solutions revenues increased as a result of stronger NGL prices resulting in higher frac spreads and higher flow through natural gas sales at one of its NGL extraction facilities.

ATCO Power's revenues declined in the quarter mainly as a result of lower realized Alberta Power Pool prices in the quarter compared to the same period in 2013.

ADJUSTED EARNINGS

Adjusted earnings for ATCO Power and ATCO Energy Solutions are shown in the table below.

	Three Months Ended March 31		
($ millions)	**2014**	**2013**	**Change**
ATCO Power			
Independent Power Plants	**7**	7	-
Regulated Power Plants	**7**	7	-
Total ATCO Power	**14**	14	-
ATCO Energy Solutions			
Storage Operations	**1**	1	-
NGL Extraction and Gas Gathering & Processing	**4**	2	2
Other Operations	**(1)**	(2)	1
Total ATCO Energy Solutions	**4**	1	3
Total Energy	**18**	15	3

Adjusted earnings generated by the Energy segment were $18 million in the first quarter of 2014, which was $3 million, or 20%, higher than the same period of last year. Higher frac spreads due to higher natural gas liquids and propane prices were the main contributing factors to the increase in earnings in ATCO Energy Solutions.

More detailed information about the activities and financial results of ATCO Power and ATCO Energy Solutions is provided in the following sections.

20% increase in Energy's adjusted earnings in the first quarter of 2014

ATCO POWER

ATCO Power's businesses include the regulated and non-regulated supply of electricity from natural gas, coal-fired and hydroelectric generating plants in western Canada, Ontario and the U.K.

Battle River units 3 and 4 became merchant operations in January 2014, adding a further 295 MW to the Company's merchant plant capacity. Therefore, the Company's merchant-owned gas and coal-fired power plant capacity is now 734 MW out of a total Company-owned capacity in Alberta of 1,806 MW. Volatility in Alberta Power Pool prices and average spark spreads will now affect the results of this 734 MW of capacity.

Adjusted earnings for the first quarter of 2014 were comparable to the same period of 2013.

Earnings in the regulated power plants, which are governed by Power Purchase Arrangements (PPA), were comparable at $7 million to the prior year. The transfer of Battle River units 3 and 4 to independent power plants at the beginning of this year reduced earnings from regulated plants. However, the comparative first quarter of 2013 included costs associated with an unfavourable PPA arbitration decision, which reduced earnings by $3 million.

Earnings in independent power plants were also comparable at $7 million compared to the prior year. The financial results for independent power plants were significantly impacted by reduced Alberta Power Pool prices, average spark spreads and price volatility. The increased supply of electricity as a result of higher coal plant availability in the province in the first quarter of 2014 contributed to less short-term price volatility compared to the same quarter in 2013, resulting in lower earnings. Natural gas prices, which rose considerably during the first quarter of 2014 due to colder weather driving higher demand, produced significantly lower average spark spreads (51% lower than the same period of 2013). Offsetting these reductions were increased earnings from Battle River units 3 and 4, which are now merchant capacity.

Average Alberta Power Pool and natural gas prices and the resulting spark spreads for the three months ended March 31, 2014 and 2013, are shown in the table below.

	Three Months Ended March 31		
	2014	**2013**	**Change**
Average Alberta Power Pool electricity price ($/MWh)	**60.60**	65.33	(7%)
Average natural gas price *($/GJ)*	**5.30**	3.03	75%
Average spark spread *($/MWh)*	**20.83**	42.61	(51%)

Generating Plant Capacity and Availability

At March 31, 2014, ATCO Power owned total generating capacity of 2,541 MW.

	As at March 31	
	2014	**2013**
Independent Power Plants		
Contract *(MW)*	**806**	833
Merchant *(MW)* (1)	**960**	629
Total Independent Power Plants	**1,766**	1,462
Regulated Plants		
Contract *(MW)* (1)	**746**	1,050
Merchant *(MW)*	**29**	38
Total Regulated Plants	**775**	1,088
Total	**2,541**	2,550

(1) With the expiry of the Battle River 3 and 4 PPAs at the end of 2013, 295 MW of regulated plant capacity moved from contracted to merchant capacity in 2014. The total capacity of these units is 304 MW, and is now reported within Independent Power Plants.

The availability of the generating plants by geographic region for the first quarter is shown below. Generating plant availability was comparable to the same period last year, but fluctuates with the timing and duration of planned and unplanned maintenance outages.

	Three Months Ended March 31		
	2014	**2013**	**Change**
Independent Power Plants - Canada and U.K.	**95%**	96%	(1%)
Regulated Plants - Canada	**97%**	97%	-

ATCO ENERGY SOLUTIONS

ATCO Energy Solutions' businesses include non-regulated natural gas gathering, processing, storage and transmission, natural gas liquids extraction, electricity transmission and industrial water services.

Adjusted earnings were $3 million higher in the first quarter of 2014 compared to 2013, mainly as a result of increased frac spreads in the NGL extraction operations.

The Company continues to review economic conditions and prospects for its asset portfolio. In the first quarter, the Company was able to monetize a small gas processing facility for a modest gain.

NGL Extraction and Gas Gathering and Processing Operations

ATCO Energy Solutions' derives revenues from natural gas and liquids gathering, processing, extraction, and transportation. The revenues are generated under a combination of fixed fee, take-or-pay and cost-of-service contracts.

Operating statistics for the three months ended March 31, 2014 and 2013 are in the table below.

	Three Months Ended March 31		
	2014	**2013**	**Change**
NGL Extraction			
Plant capacity *(mmcf/d)*	**411**	411	-
Extraction inlet gas processed *(mmcf/d)* (1)	**350**	413	(63)
Extraction ethane volumes *(Bbls/d)* (1)	**6,593**	9,222	(2,629)
Extraction NGL volumes *(Bbls/d)* (1)	**5,305**	4,980	325
Total extraction volumes *(Bbls/d)* (1)	**11,898**	14,202	(2,304)
Average industry frac spreads *($/GJ Propane Plus)* (2)	**12.65**	8.19	4.46
Gas Gathering & Processing			
Plant capacity *(mmcf/d)* (1)	**106**	151	(45)
Processing throughput *(gross mmcf/d)* (1)	**27**	46	(19)

(1) Daily average for the period.

(2) Frac spread is calculated by ATCO Energy Solutions and is representative of indices information.

The majority of NGL extraction operations involve extracting natural gas liquids from natural gas and replacing the liquids (on a heat content equivalent basis) with shrinkage gas. For Propane Plus, the difference between the natural gas price and the value of the liquids extracted is commonly called the frac spread. Frac spreads vary with fluctuations in the input price of natural gas and revenue derived from the applicable liquids extracted.

Average industry frac spreads for the first quarter of 2014 were higher than the same period in 2013 due to strong natural gas and propane prices following a colder than expected winter. The volume of inlet gas processed was lower than prior year because of a pipeline curtailment in the first quarter of 2014. The amount of ethane extracted from the natural gas that was processed was significantly lower because of reduced customer demand, which reduced revenues. However, the amount of NGL volumes extracted increased, which, in combination with the higher frac spreads, resulted in significantly higher earnings quarter-over-quarter.

ATCO Australia

ATCO Australia's two largest business operations are ATCO Gas Australia and ATCO Power Australia.

REVENUES	Revenues in ATCO Australia at $59 million were comparable to the same period in 2013.

ADJUSTED EARNINGS	Adjusted earnings for ATCO Australia are shown in the table below.

	Three Months Ended March 31		
($ millions)	**2014**	**2013**	**Change**
ATCO Gas Australia	**2**	3	(1)
ATCO Power Australia	**4**	4	-
Other [1]	**(2)**	(2)	-
Total ATCO Australia	**4**	5	(1)

(1) Other includes ATCO I-Tek Australia and ATCO Australia's corporate office.

Detailed information about the activities and financial results of ATCO Australia is provided in the following sections.

ATCO GAS AUSTRALIA

ATCO Gas Australia is a regulated provider of natural gas distribution services in Western Australia. It serves metropolitan Perth and surrounding regions.

In the first quarter of 2014, ATCO Gas Australia realized lower adjusted earnings of $1 million mainly due to the cost of an advertising campaign undertaken during the first quarter to promote customer and volume growth. Lower financing costs resulting from the re-financing of debt and the credit ratings upgrade in the fourth quarter of 2013, as well as continued capital investment in utility infrastructure, partly offset these higher costs in the quarter and will contribute to future earnings growth.

ATCO POWER AUSTRALIA

ATCO Power Australia supplies electricity from three natural gas-fired generation plants in Adelaide, South Australia; Brisbane, Queensland; and Karratha, Western Australia. Additionally, the Bulwer Island plant in Brisbane provides cogeneration steam and the Osborne plant in Adelaide provides steam independent of the power plant through auxiliary boilers.

Adjusted Earnings for ATCO Power Australia were consistent at $4 million in both the first quarter of 2014 and 2013.

Availability of the plants can affect ATCO Power Australia's earnings. Availability fluctuates with the timing and duration of outages. Availability for the first quarter of 2014 was 99.5% compared to 99.8% in the same period of 2013, reflecting the steady earnings.

On April 2, 2014, British Petroleum (BP) announced it will cease refining operations at its oil refinery in Brisbane by mid-2015 and convert to an import terminal. This announcement will have a direct impact on ATCO Power Australia's 33 MW Bulwer Island power station which is jointly owned with Origin Energy. ATCO Power Australia will work with Origin Energy to determine the details of BP's decommissioning plan as well as to investigate opportunities to minimize the impact on the power station's operations.

Corporate & Other

The Corporate & Other segment includes ATCO I-Tek and commercial real estate the Company owns in Alberta. ATCO I-Tek develops, operates and supports information systems and technologies, and also provides billing services, payment processing, credit, collection, and call centre services.

Adjusted earnings for the Corporate & Other segment for the first quarter of 2014 decreased by $4 million compared to the 2013 period. This decrease was partly due to incremental preferred share dividends arising from the $400 million of preferred shares issued by Canadian Utilities in the first half of 2013 to fund utility capital expenditures.

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 Share owners 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 day-to-day operations.

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

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

($ millions)							**Three Months Ended March 31**
2014 2013	**Structures & Logistics**	**Utilities**	**Energy**	**ATCO Australia**	**Corporate & Other**	**Intersegment Eliminations**	**Total**
Revenues	**212**	**654**	**286**	**59**	**64**	**(49)**	**1,226**
	231	551	249	61	56	(49)	1,099
Adjusted earnings	**16**	**74**	**18**	**4**	**3**	**-**	**115**
	26	67	15	5	7	-	120
Adjustments for rate-regulated activities	**-**	**13**	**-**	**(1)**	**-**	**-**	**12**
	-	(1)	-	(1)	-	(1)	(3)
Earnings attributable to Class I and Class II Shares	**16**	**87**	**18**	**3**	**3**	**-**	**127**
	26	66	15	4	7	(1)	117

ADJUSTMENTS FOR RATE-REGULATED ACTIVITIES

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

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

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

Timing adjustments made in rate-regulated accounting are shown in the following table. The significant differences in the quarter between adjusted earnings and earnings attributable to Class I and Class II Shares relate to weather and transmission access payments.

	Three Months Ended March 31		
($ millions)	**2014**	**2013**	**Change**
Additional revenues billed in current period			
Future removal and site restoration costs	**8**	6	2
Retirement benefits	**1**	-	1
Finance costs on major transmission capital projects	**6**	6	-
Impact of colder temperatures on revenues (1)	**4**	-	4
Other	**3**	-	3
Total	**22**	12	10
Revenues to be billed in future period			
Deferred income taxes	**(14)**	(11)	(3)
Transmission access payments (2)	**(1)**	(2)	1
Transmission capital deferral	**(1)**	(4)	3
Impact of warmer temperatures on revenues (1)	**-**	(2)	2
Impact of inflation on rate base for ATCO Gas Australia	**(2)**	(2)	-
Other	**-**	(4)	4
Total	**(18)**	(25)	7
Regulatory decisions related to current and prior periods			
Transmission access payments recoveries (2)	**8**	4	4
ATCO Gas Australia appeal decision	**1**	1	-
Weather recoveries (1)	**-**	2	(2)
Other	**-**	4	(4)
Total	**9**	11	(2)
Elimination of intercompany profits related to the construction of property, plant and equipment and intangible assets	**(1)**	(1)	-
Total adjustments	**12**	(3)	15

Notes:

(1) Weather

ATCO Gas' customer rates are based on a forecast of normal temperatures. In the first quarter of 2014, colder weather caused more revenues to be collected than forecast. These excess revenues will be refunded to customers in future periods.

(2) Transmission access payments and recoveries from customers

Transmission access payments are billed to customers by ATCO Electric on a forecast basis; payments are expensed when incurred. In the first quarter of 2014 and 2013, ATCO Electric is recovering from customers higher than forecast transmission access payments incurred in current and prior periods.

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses for the three months ended March 31, 2014 and 2013 is given below.

	Three Months Ended March 31		
($ millions)	**2014**	**2013**	**Change**
Operating costs	**703**	642	61
Depreciation, amortization and impairment	**130**	121	9
Interest expense	**77**	68	9
Income taxes	**81**	68	13

OPERATING COSTS

Operating costs increased by $61 million, or 10%, in the first quarter of 2014. Higher expenses resulted from increased costs for shrinkage gas purchased in the Company's NGL extraction operations in ATCO Energy Solutions and higher franchise fees paid to municipalities by ATCO Gas. These costs are flowed through to customers resulting in no material impact to adjusted earnings.

In addition, there were increased labour and materials costs in ATCO Structures & Logistics as a result of continued major project activity in North America.

DEPRECIATION, AMORTIZATION AND IMPAIRMENT

Depreciation and amortization expense for the first quarter of 2014 rose by $9 million, or 7%. The increased expense was mainly the result of higher capital investments in the Utilities.

INTEREST EXPENSE

Interest expense increased by $9 million, or 13%, in the first quarter of 2014. Higher expenses resulted from incremental debt financing undertaken in 2013 to fund the Utilities' significant capital expenditure program.

INCOME TAXES

Income taxes rose by $13 million, or 19%, in the first quarter of 2014. Higher earnings before income taxes resulted in increased tax expense.

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 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.

LINES OF CREDIT

At March 31, 2014, the Company and its subsidiaries had the following lines of credit:

($ millions)	**Total**	**Used**	**Available**
Long-term committed	**2,647**	632	2,015
Uncommitted	**73**	1	72
Total	**2,720**	633	2,087

Of the $2,720 million in total credit lines, $73 million was in the form of uncommitted credit facilities with no set maturity date. The other $2,647 million in credit lines were committed, with $686 million maturing in 2015. The remaining lines of credit mature between 2016 and 2018 and may be extended at the option of the lenders.

The majority of the $633 million of credit line usage was associated with ATCO Gas Australia. Credit lines for ATCO Gas Australia are provided by Australian banks. The majority of all other credit lines are provided by Canadian banks.

CONSOLIDATED CASH FLOW

At March 31, 2014, the Company's cash position was $616 million, a decrease of $125 million in the quarter. In comparison, at March 31, 2013, the Company's cash position was $555 million, an increase of $85 million in the quarter. During the first quarter of 2014, Canadian Utilities did not access the debt and preferred share capital markets. Instead, Canadian Utilities used cash in part to fund the utility capital expenditure program. In the first quarter of 2013, Canadian Utilities issued $175 million of preferred shares to provide funding for capital expenditures.

Funds generated by operations

Funds generated by operations, which is considered a significant indicator of the Company's ability to generate cash to fund its capital expenditures, continue to pay future dividends and repay indebtedness, were $98 million higher than the same period of 2013. This increase was mainly the result of higher frac spreads in NGL extraction operations and higher customer contributions which are provided as payment in advance for future utility services. These contributions are directly related to capital investment by the Company to provide utility services to customers.

Capital expenditures

Cash of $561 million used for capital expenditures in the first quarter of 2014 was comparable to the same period in the prior year.

	Three Months Ended March 31		
($ millions) [1]	**2014**	**2013**	**Change**
Structures & Logistics	**14**	25	(11)
Electric Transmission	**329**	374	(45)
Electric Distribution	**80**	68	12
Gas Distribution	**56**	55	1
Pipeline Transmission	**41**	14	27
Energy	**15**	3	12
ATCO Australia	**18**	18	-
Corporate & Other	**8**	7	1
Total	**561**	564	(3)

(1) Includes additions to property, plant and equipment and intangibles as well as $19 million (2013 - $18 million) of interest capitalized during construction for the three months ended March 31, 2014.

Base Shelf Prospectuses

CU Inc. Debentures

On June 11, 2012, the Company's subsidiary, CU Inc., filed a base shelf prospectus that permits it to issue up to an aggregate of $2.6 billion of debentures over the 25-month life of the prospectus. As of April 23, 2014, aggregate issuances of debentures were $1.8 billion.

Canadian Utilities Debt Securities and Preferred Shares

On December 4, 2013, Canadian Utilities filed a base shelf prospectus that permits it to issue up to an aggregate of $2 billion of debt securities and preferred shares over the 25-month life of the prospectus. No debt securities or preferred shares have been issued to date under this base shelf prospectus.

Dividends and Common Shares

ATCO Ltd. has increased its common share dividend paid each year since 1993. In each of the last three years, the Company has increased its quarterly dividend by 15%.

Dividends paid to Class I and Class II Share owners in the first quarter of 2014 totaled $24 million. On April 16, 2014, the Board of Directors declared a second-quarter dividend of 21.5 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 third consecutive year

ATCO Ltd.'s normal course issuer bid for the purchase of up to 2,027,314 of the outstanding Class I Shares that commenced on March 1, 2013, expired on February 28, 2014. During this period, 62,000 shares were purchased, all of which were purchased in 2013.

On March 3, 2014, ATCO Ltd. commenced a new normal course issuer bid for the purchase of up to 2,029,496 of the outstanding Class I Shares. The bid expires on February 27, 2015. No shares were purchased between March 3, 2014, and April 23, 2014.

Canadian Utilities Dividend Reinvestment Plan

In the first quarter of 2014, Canadian Utilities issued 993,776 Class A non-voting shares under its DRIP in lieu of cash dividend payments of $38 million. ATCO Ltd. elected to receive 730,255 Class A non-voting shares in lieu of cash dividends of $28 million, thereby increasing its ownership interest in Canadian Utilities from 53.1% to 53.2%.

SHARE CAPITAL

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

At April 23, 2014, the Company had outstanding 101,492,832 Class I Shares, 13,640,896 Class II Shares, and options to purchase 913,250 Class I Shares.

CLASS I NON-VOTING SHARES AND CLASS II VOTING SHARES

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

Of the 10,200,000 Class I Shares authorized for grant of options under ATCO Ltd.'s stock option plan, 2,876,150 Class I Shares were available for issuance at March 31, 2014. 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.

ACCOUNTING CHANGES NOT YET ADOPTED

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

There are no standards or interpretations issued, but not yet effective, that the Company anticipates will have a material effect on the consolidated financial statements once adopted, except for IFRS 9 Financial Instruments. IFRS 9 addresses, in its two finalized phases, the classification and measurement of financial assets and financial liabilities and hedge accounting, replacing the parts currently found in IAS 39 Financial Instruments: Recognition and Measurement. In the third and final outstanding phase of this standard, the IASB will address impairment of financial assets. The Company will quantify the effect when the final standard, including all phases, is issued.

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 January 1, 2014, and ended on March 31, 2014, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

NON-GAAP AND ADDITIONAL GAAP MEASURES

Funds generated by operations are defined as cash flow from operations before changes in non-cash working capital. In management's opinion, funds generated by operations are 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 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 2014 Unaudited Interim Consolidated Financial Statements.

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.

ADDITIONAL INFORMATION

Canadian Utilities has published its unaudited interim consolidated financial statements and its MD&A for the three months ended March 31, 2014. 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 or fax 403-292-7532.

GLOSSARY

Adjusted earnings means 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 day-to-day operations. Refer to the “Reconciliation of Adjusted Earnings to Earnings Attributable to Class I and Class II Shares” section for a description of these items.

AESO means the Alberta Electric System Operator.

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

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.

COLA means cost of living allowance.

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

CPI means Consumer Price Index.

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

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

GAAP means Canadian generally accepted accounting principles.

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

Heating Degree Day is the difference between the average daily temperature and 18 degrees Celsius.

IFRS means International Financial Reporting Standards.

LNG means liquefied natural gas.

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

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

Mmcf/day means million cubic feet per day.

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

PBR means Performance Based Regulation.

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

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

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

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

U.K. means United Kingdom.

U.S. means United States of America.

ATCO LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2014

ATCO LTD.
CONSOLIDATED STATEMENT OF EARNINGS

(millions of Canadian Dollars except per share data)	Note	Three Months Ended March 31 2014	2013
Revenues		**1,226**	1,099
Costs and expenses			
Salaries, wages and benefits		**(177)**	(159)
Energy transmission and transportation		**(42)**	(35)
Plant and equipment maintenance		**(46)**	(40)
Fuel costs		**(129)**	(99)
Purchased power		**(18)**	(18)
Materials and consumables		**(124)**	(131)
Depreciation, amortization and impairment		**(130)**	(121)
Franchise fees		**(76)**	(59)
Property and other taxes		**(27)**	(24)
Other		**(64)**	(77)
		(833)	(763)
		393	336
Earnings from investment in joint ventures		**5**	8
Operating profit		**398**	344
Interest income		**2**	4
Interest expense		**(77)**	(68)
Net finance costs		**(75)**	(64)
Earnings before income taxes		**323**	280
Income taxes		**(81)**	(68)
Earnings for the period		**242**	212
Earnings attributable to:			
Class I and Class II Shares		**127**	117
Non-controlling interests		**115**	95
		242	212
Earnings per Class I and Class II Share	6	**$ 1.11**	$ 1.02
Diluted earnings per Class I and Class II Share	6	**$ 1.10**	$ 1.01

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

ATCO LTD.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(millions of Canadian Dollars)	Three Months Ended March 31 2014	2013
Earnings for the period	**242**	212
Other comprehensive income (loss), net of income taxes:		
Items that will not be reclassified to earnings:		
Re-measurement of retirement benefits (1)	**(69)**	18
Share of other comprehensive income of joint ventures (2)	**-**	(2)
	(69)	16
Items that are or may be reclassified subsequently to earnings:		
Cash flow hedges (3)	**5**	3
Foreign currency translation adjustment (4)	**54**	14
	59	17
	(10)	33
Comprehensive income for the period	**232**	245
Comprehensive income attributable to:		
Class I and Class II Shares	**127**	137
Non-controlling interests	**105**	108
	232	245

(1) Net of income taxes of $22 million and $(6) million, respectively.

(2) Net of income taxes of nil and $1 million, respectively.

(3) Net of income taxes of $(2) million and $(1) million, respectively.

(4) Net of income taxes of nil.

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

ATCO LTD.
CONSOLIDATED BALANCE SHEET

(millions of Canadian Dollars)	Note	March 31 2014	December 31 2013
ASSETS			
Current assets			
Cash and cash equivalents		**616**	743
Accounts receivable		**690**	713
Finance lease receivables		**8**	8
Inventories		**156**	131
Prepaid expenses and other current assets		**69**	57
		1,539	1,652
Non-current assets			
Property, plant and equipment	4	**13,896**	13,381
Intangibles		**400**	387
Goodwill		**71**	71
Investment in joint ventures		**127**	127
Finance lease receivables		**328**	319
Other assets		**83**	73
Total assets		**16,444**	16,010
LIABILITIES			
Current liabilities			
Bank indebtedness		**-**	2
Accounts payable and accrued liabilities		**975**	921
Asset retirement obligations and other provisions		**51**	71
Other current liabilities		**26**	22
Short-term debt		**11**	-
Long-term debt		**138**	138
Non-recourse long-term debt		**36**	39
		1,237	1,193
Non-current liabilities			
Deferred income tax liabilities		**722**	684
Asset retirement obligations and other provisions		**151**	140
Retirement benefit obligations		**388**	302
Deferred revenues		**1,453**	1,386
Other liabilities		**75**	74
Long-term debt		**6,122**	6,092
Non-recourse long-term debt		**122**	126
Total liabilities		**10,270**	9,997
EQUITY			
Class I and Class II Share owners' equity			
Class I and Class II Shares	6	**159**	159
Contributed surplus		**9**	12
Retained earnings		**2,794**	2,717
Accumulated other comprehensive income		**9**	(28)
		2,971	2,860
Non-controlling interests		**3,203**	3,153
Total equity		**6,174**	6,013
Total liabilities and equity		**16,444**	16,010

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

ATCO LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(millions of Canadian Dollars)	Note	Class I and Class II Shares	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total	Non-Controlling Interests	Total Equity
		Attributable to Equity Owners of the Company						
December 31, 2012		156	12	2,210	(8)	2,370	2,551	4,921
Earnings for the period		-	-	117	-	117	95	212
Equity preferred shares issued by subsidiary company, net of issue costs		-	-	-	-	-	171	171
Shares issued		-	-	-	-	-	8	8
Dividends	7	-	-	(22)	-	(22)	(42)	(64)
Share-based compensation		2	(1)	(1)	-	-	(1)	(1)
Other comprehensive income		-	-	-	20	20	13	33
Gains on retirement benefits transferred to retained earnings		-	-	9	(9)	-	-	-
Changes in ownership interest in subsidiary company [1]		-	-	9	-	9	(9)	-
March 31, 2013		158	11	2,322	3	2,494	2,786	5,280
December 31, 2013		159	12	2,717	(28)	2,860	3,153	6,013
Earnings for the period		**-**	**-**	**127**	**-**	**127**	**115**	**242**
Shares issued		**-**	**-**	**-**	**-**	**-**	**10**	**10**
Dividends	7	**-**	**-**	**(24)**	**-**	**(24)**	**(50)**	**(74)**
Share-based compensation		**-**	**(3)**	**-**	**-**	**(3)**	**(4)**	**(7)**
Other comprehensive loss		**-**	**-**	**-**	**-**	**-**	**(10)**	**(10)**
Losses on retirement benefits transferred to retained earnings		**-**	**-**	**(37)**	**37**	**-**	**-**	**-**
Changes in ownership interest in subsidiary company [1]		**-**	**-**	**11**	**-**	**11**	**(11)**	**-**
March 31, 2014		**159**	**9**	**2,794**	**9**	**2,971**	**3,203**	**6,174**

(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 FLOWS

(millions of Canadian Dollars)	Three Months Ended March 31 2014	2013
Operating activities		
Earnings for the period	**242**	212
Adjustments for:		
Depreciation, amortization and impairment	**130**	121
Earnings from investment in joint ventures, net of dividends and distributions received	**4**	8
Income taxes	**81**	68
Unearned availability incentives	**2**	1
Contributions by customers for extensions to plant	**77**	24
Amortization of customer contributions	**(12)**	(12)
Net finance costs	**75**	64
Income taxes paid	**(33)**	(31)
Other	**(10)**	3
	556	458
Changes in non-cash working capital	**(41)**	23
Cash flow from operations	**515**	481
Investing activities		
Additions to property, plant and equipment	**(518)**	(534)
Proceeds on disposal of property, plant and equipment	**-**	1
Additions to intangibles	**(24)**	(12)
Changes in non-cash working capital	**55**	68
Other	**(5)**	(1)
	(492)	(478)
Financing activities		
Issue of short-term debt	**11**	-
Issue of long-term debt	**37**	26
Repayment of long-term debt	**(66)**	(2)
Repayment of non-recourse long-term debt	**(8)**	(8)
Issue of equity preferred shares by subsidiary company	**-**	175
Issue of Class A shares by subsidiary company	**-**	3
Issue of Class I Shares	**-**	2
Dividends paid to Class I and Class II Share owners	**(24)**	(22)
Dividends paid to non-controlling interests in subsidiary company	**(40)**	(34)
Interest paid	**(68)**	(54)
Other	**-**	(6)
	(158)	80
Foreign currency translation	**10**	2
Cash position [1]		
Increase (decrease)	**(125)**	85
Beginning of period	**741**	470
End of period	**616**	555

(1) Cash position consists of cash and cash equivalents less current bank indebtedness and includes $57 million (2013 - $47 million) which is not available for general use by the Company.

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

ATCO LTD.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

MARCH 31, 2014

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

1. CORPORATE INFORMATION

Alberta-based ATCO Ltd. is engaged in Structures & Logistics (manufacturing, logistics and noise abatement), Utilities (pipelines, natural gas and electricity transmission and distribution), Energy (power generation, natural gas gathering, processing, storage and liquids extraction), and Technologies (business systems solutions). 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 principally controlled by Sentgraf Enterprises Ltd. and its controlling share owner, R.D. Southern.

These unaudited interim consolidated financial statements include the accounts of ATCO Ltd. and its subsidiaries, including a proportionate share of its investments in joint operations and its equity accounted investments in joint ventures (the Company). Principal subsidiaries are ATCO Structures & Logistics (75.5% owned) and its subsidiaries, and Canadian Utilities Limited (53.2% owned), its subsidiaries and its 24.5% investment in ATCO Structures & Logistics. On a consolidated basis, the Company owns 88.5% of ATCO Structures & Logistics.

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

These unaudited interim consolidated financial statements have been prepared in accordance with 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, 2013, prepared in accordance with IFRS.

These unaudited interim consolidated financial statements have been 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.

These unaudited interim consolidated financial statements were authorized for issue by the Audit Committee, on behalf of the Board of Directors, on April 24, 2014.

BASIS OF MEASUREMENT

These unaudited interim consolidated financial statements have been 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, changes in natural gas liquids prices and natural gas costs, 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
THREE MONTHS ENDED MARCH 31

2014 2013	Structures & Logistics	Utilities	Energy	ATCO Australia	Corporate and Other	Intersegment Eliminations	Consolidated
Revenues – external	**212**	**653**	**285**	**59**	**17**	**–**	**1,226**
	225	550	248	61	15	–	1,099
Revenues – intersegment	**–**	**1**	**1**	**–**	**47**	**(49)**	**–**
	6	1	1	–	41	(49)	–
Revenues	**212**	**654**	**286**	**59**	**64**	**(49)**	**1,226**
	231	551	249	61	56	(49)	1,099
Operating expenses (1)	**(175)**	**(293)**	**(215)**	**(24)**	**(46)**	**50**	**(703)**
	(184)	(261)	(182)	(28)	(33)	46	(642)
Depreciation, amortization and impairment	**(11)**	**(86)**	**(20)**	**(10)**	**(5)**	**2**	**(130)**
	(11)	(76)	(22)	(9)	(4)	1	(121)
Earnings from investment in joint ventures	**–**	**–**	**2**	**3**	**–**	**–**	**5**
	4	–	1	3	–	–	8
Net finance costs	**(1)**	**(49)**	**(8)**	**(18)**	**2**	**(1)**	**(75)**
	(1)	(39)	(8)	(15)	1	(2)	(64)
Earnings before income taxes	**25**	**226**	**45**	**10**	**15**	**2**	**323**
	39	175	38	12	20	(4)	280
Income taxes	**(7)**	**(57)**	**(12)**	**(3)**	**(1)**	**(1)**	**(81)**
	(10)	(45)	(10)	(4)	(1)	2	(68)
Earnings for the period	**18**	**169**	**33**	**7**	**14**	**1**	**242**
	29	130	28	8	19	(2)	212
Adjusted earnings	**16**	**74**	**18**	**4**	**3**	**–**	**115**
	26	67	15	5	7	–	120
Total assets (2,3)	**936**	**12,046**	**1,613**	**1,396**	**552**	**(99)**	**16,444**
	960	11,611	1,619	1,296	542	(18)	16,010
Capital expenditures (4)	**14**	**506**	**15**	**18**	**8**	**–**	**561**
	25	511	3	18	7	–	564

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

(2) Total assets do not reflect adjustments for rate-regulated activities included in adjusted earnings.

(3) 2013 comparative total assets are at December 31, 2013.

(4) Includes additions to property, plant and equipment and intangibles and $19 million (2013 – $18 million) of interest capitalized during construction for the three months ended March 31, 2014.

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 March 31 is below.

2014 2013	Structures & Logistics	Utilities	Energy	ATCO Australia	Corporate and Other	Intersegment Eliminations	Consolidated
Adjusted earnings	**16**	**74**	**18**	**4**	**3**	**–**	**115**
	26	67	15	5	7	–	120
Adjustments for rate-regulated activities	**–**	**13**	**–**	**(1)**	**–**	**–**	**12**
	–	(1)	–	(1)	–	(1)	(3)
Earnings attributable to Class I and Class II Shares	**16**	**87**	**18**	**3**	**3**	**–**	**127**
	26	66	15	4	7	(1)	117
Earnings attributable to non-controlling interests							**115**
							95
Earnings for the period							**242**
							212

Adjustments for 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.

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 another source of generally accepted accounting principles. The CODM continues to believe that these FASB standards fairly present the operating results of its rate-regulated activities. Therefore, the Company adjusts earnings for the period according to these FASB standards and presents adjusted earnings in its segment disclosures.

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

	Rate-Regulated Accounting Treatment	IFRS Treatment
1.	The Company defers the recognition of revenues when cash is received from customers in advance of expenditures to be incurred in the future.	The Company records revenues when amounts are billed to customers and recognizes costs when they are incurred.
2.	The Company recognizes revenues in the current period when recoverable costs are incurred even though customers will not be billed until a future period.	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 that relates to current and prior periods when the decision is received.	The Company recognizes earnings when changes to customer rates are reflected in future customer billings.
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 on 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 March 31	
	2014	**2013**
Additional revenues billed in current period:		
Future removal and site restoration costs [1]	**8**	6
Retirement benefits [2]	**1**	–
Finance costs on major transmission capital projects [3]	**6**	6
Impact of colder temperatures on revenues [7]	**4**	–
Other	**3**	–
	22	12
Revenues to be billed in future period:		
Deferred income taxes [4]	**(14)**	(11)
Transmission access payments [5]	**(1)**	(2)
Transmission capital deferral [6]	**(1)**	(4)
Impact of warmer temperatures on revenues [7]	**–**	(2)
Impact of inflation on rate base for ATCO Gas Australia [8]	**(2)**	(2)
Other	**–**	(4)
	(18)	(25)
Regulatory decisions related to current and prior periods:		
Transmission access payments recoveries [9]	**8**	4
ATCO Gas Australia appeal decision [9]	**1**	1
Weather recoveries [7]	**–**	2
Other	**–**	4
	9	11
Intercompany profits:		
Intercompany profits related to construction of property, plant and equipment and intangibles [10]	**(1)**	(1)
	12	(3)

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

	Description	Timing of Recovery or Refund
1.	The removal and site restoration costs billed to customers are the costs forecasted 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.	Contributions to defined benefit pension plans and other post-employment benefit plans are billed to customers when paid by the Company, whereas the costs of retirement benefits are accrued over the service life of the employees. Under rate-regulated accounting, contributions paid and billed to customers in excess of costs accrued in the current period are deferred.	The deferred revenues will be recognized in adjusted earnings as the variances between contributions and costs reverse over the life of the plans.

	Description	Timing of Recovery or Refund
3.	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.
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 that are expected to be billed to customers in future periods.	The revenues will reverse when the temporary differences that gave rise to the deferred income taxes reverse in future periods.
5.	The transmission access payments billed to customers by ATCO Electric are the forecasted payments to be incurred. Under rate-regulated accounting, differences between actual costs incurred and forecast costs billed to customers in the current period 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.
6.	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.
7.	ATCO Gas' customer rates are based on forecasted normal temperatures. Fluctuations in temperatures may result in more or less revenue being recovered from customers than forecast. Under rate-regulated accounting, revenues realized 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 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.
8.	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.

	Description	Timing of Recovery or Refund
9.	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 Gas Australia recorded adjusted earnings of $5 million in the second quarter of 2012 for the period from January 1, 2010 to June 30, 2012, following the successful appeal of an Economic Regulation Authority decision. These earnings are being recognized under IFRS over 24 months starting July 2012 as customers are billed. ATCO Electric is recovering from customers the higher than forecast transmission access payments incurred in the current and prior periods.
10.	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. PROPERTY, PLANT AND EQUIPMENT

The Company's Utilities segment continues to make significant investment 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, 2013	12,384	1,968	700	1,645	1,541	18,238
Additions	**120**	**–**	**1**	**387**	**28**	**536**
Disposals	**(10)**	**–**	**–**	**–**	**(18)**	**(28)**
Changes to asset retirement costs	**–**	**4**	**–**	**–**	**7**	**11**
Foreign exchange rate adjustment	**79**	**–**	**4**	**2**	**19**	**104**
March 31, 2014	**12,573**	**1,972**	**705**	**2,034**	**1,577**	**18,861**
Accumulated depreciation:						
December 31, 2013	2,894	1,153	150	–	660	4,857
Depreciation and impairment	**76**	**16**	**7**	**–**	**23**	**122**
Disposals	**(10)**	**–**	**–**	**–**	**(14)**	**(24)**
Foreign exchange rate adjustment	**5**	**–**	**–**	**–**	**5**	**10**
March 31, 2014	**2,965**	**1,169**	**157**	**–**	**674**	**4,965**
Net book value:						
December 31, 2013	9,490	815	550	1,645	881	13,381
March 31, 2014	**9,608**	**803**	**548**	**2,034**	**903**	**13,896**

Included in the additions to property, plant and equipment is $19 million (March 31, 2013 – $18 million) of interest capitalized.

5. 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. Fair value is based on quoted market prices when available; models using observable market data and transaction specific factors are also used to estimate fair value.

Fair value measurements are categorized into levels within a fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. The hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

FAIR VALUE OF NON-DERIVATIVE FINANCIAL INSTRUMENTS

Due to their short-term nature, the fair value of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and short-term debt approximates carrying value.

The classification, carrying amount and fair values of the Company's other non-derivative financial instruments are as follows:

		March 31, 2014		December 31, 2013	
Recurring Measurements	**Fair Value Hierarchy Level**	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Financial Assets					
Loans and Receivables:					
Lease receivables [1]	n/a	**336**	**519**	327	499
Financial Liabilities					
Amortized Cost:					
Long-term debt [2]	Level 2	**6,260**	**6,856**	6,230	6,597
Non-recourse long-term debt [2]	Level 2	**158**	**186**	165	191

(1) Fair values have been estimated using a risk-adjusted, pre-tax interest rate to discount future cash receipts.

(2) Fair values have been estimated 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.

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

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

		March 31, 2014		December 31, 2013	
Recurring Measurements	**Fair Value Hierarchy Level**	**Notional Principal or Volume [1]**	**Fair Value Receivable (Payable) [2]**	**Notional Principal or Volume [1]**	**Fair Value Receivable (Payable) [2]**
Interest rate swaps	Level 2	**728**	**(7)**	681	(11)
Natural gas purchase contracts	Level 2	**1,734,147 GJ**	**–**	1,610,548 GJ	–
Forward power sales contracts	Level 2	**239,040 MWh**	**1**	182,400 MWh	–
Foreign currency forward contracts	Level 2	**60**	**(1)**	61	1

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

(2) Fair values have been estimated using readily observable market data including interest rate yield curves, future prices, foreign exchange rates, counterparty risk, credit risk and volatility. These fair values approximate the amount the Company would either pay or receive to settle the contracts at March 31, 2014, and December 31, 2013.

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

There were 101,492,832 (2013 – 101,510,312) Class I Non-Voting Shares and 13,640,896 (2013 – 13,658,416) Class II Voting Shares outstanding on March 31, 2014. In addition, there were 913,250 options to purchase Class I Non-Voting Shares outstanding at March 31, 2014, under the Company's stock option plan. From April 1, 2014, to April 23, 2014, no stock options were granted, 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 March 31	
	2014	**2013**
Average shares:		
Weighted average shares outstanding	**114,782,943**	114,732,384
Effect of dilutive stock options	**401,108**	346,234
Effect of dilutive mid-term incentive plan	**343,774**	336,904
Weighted average dilutive shares outstanding	**115,527,825**	115,415,522
Earnings for earnings per share calculation:		
Earnings for the period	**242**	212
Non-controlling interests	**(115)**	(95)
	127	117
Earnings and diluted earnings per Class I and Class II Share:		
Earnings per Class I and Class II Share	**$1.11**	$1.02
Diluted earnings per Class I and Class II Share	**$1.10**	$1.01

The Company completed a two-for-one share split of the outstanding Class I Shares and Class II Shares by way of a share dividend on June 14, 2013. All share, share-based compensation and per share amounts for 2013 have been retroactively restated to reflect this share split.

NORMAL COURSE ISSUER BID

On March 1, 2013, ATCO Ltd. commenced a normal course issuer bid for the purchase of up to 2,027,314 of the outstanding Class I Non-Voting Shares. The bid expired on February 28, 2014. From March 1, 2013, to February 28, 2014, 62,000 shares were purchased, all of which were purchased in 2013 for $3 million.

On March 3, 2014, ATCO Ltd. commenced a normal course issuer bid for the purchase of up to 2,029,496 of the outstanding Class I Non-Voting Shares. The bid will expire on February 27, 2015. From March 3, 2014, to April 23, 2014, no shares have been purchased.

7. DIVIDENDS

Cash dividends declared and paid per share are as follows:

	Three Months Ended March 31	
(dollars per share)	**2014**	**2013**
Class I and Class II Shares	**0.2150**	0.1875

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 of Directors in the first quarter of each year. The payment of any dividend is at the discretion of the Board of Directors and depends on the financial condition of the Company and other factors.

8. RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2014, Canadian Utilities Limited issued 993,776 Class A non-voting shares under its dividend reinvestment plan (DRIP) (2013 – 877,194), using re-invested dividends of $38 million (2013 – $33 million). The Company participated in the DRIP by acquiring 730,255 Class A non-voting shares using re-invested dividends of $28 million (2013 – 661,972 shares using re-invested dividends of $25 million).

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