



ATCO LTD.

FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED JUNE 30, 2014

2014 SECOND QUARTER FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

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ATCO LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

This Management's Discussion and Analysis (MD&A) is meant to help readers understand key operational and financial events that influenced the results of ATCO Ltd. (the Company) during the six months ended June 30, 2014.

This MD&A was prepared as of July 24, 2014, and should be read with the Company's 2014 unaudited interim consolidated financial statements for the six months ended June 30, 2014. Additional information, including the Company's prior MD&A's, 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 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.

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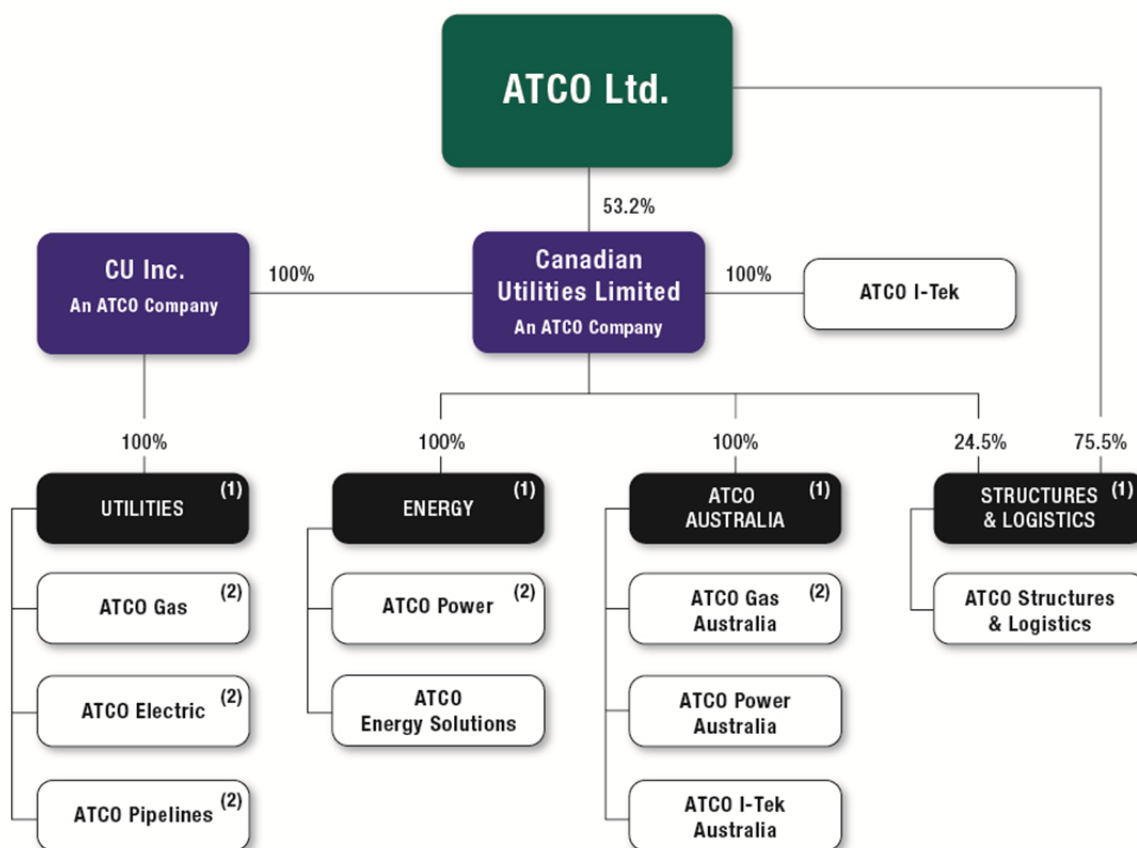
COMPANY OVERVIEW

Alberta-based ATCO Ltd., with more than 9,800 employees and assets of approximately \$17 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 88.2% 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 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 June 30			Six Months Ended June 30		
<i>(\$ millions, except per share data and outstanding shares)</i>	2014	2013	Change	2014	2013	Change
Key Financial Metrics						
Adjusted earnings	57	89	(32)	172	209	(37)
Earnings attributable to Class I and Class II Shares	66	98	(32)	193	215	(22)
Capital expenditures (Including capitalized interest)	544	553	(9)	1,105	1,117	(12)
Other Financial Metrics <i>(restated for two-for-one share split)</i>						
Earnings per Class I and Class II Share (\$):						
Basic	0.57	0.85	(0.28)	1.68	1.87	(0.19)
Diluted	0.57	0.85	(0.28)	1.67	1.86	(0.19)
Class I and Class II Shares outstanding (<i>thousands</i>)	115,243	115,174	69	115,243	115,174	69
Weighted average Class I and Class II shares outstanding (<i>thousands</i>):						
Basic	114,834	114,835	(1)	114,808	114,784	24
Diluted	115,484	115,545	(61)	115,465	115,479	(14)

An overview of the key financial metrics is provided below.

ADJUSTED EARNINGS

The Company's adjusted earnings for the second quarter of 2014 were \$57 million compared to \$89 million in the same period of 2013 – a \$32 million decrease. Major drivers of this decline in adjusted earnings were unfavourable market conditions in the Company's power generation business, an Alberta Utilities Commission (AUC) decision received by the Utilities in the second quarter and reduced earnings from the Structures & Logistics segment.

- ATCO Power** – Exceptionally high average Alberta Power Pool prices (\$123.41/MWh) and average spark spreads (\$98.24/MWh) during the second quarter of 2013 contributed to record earnings in that period. In the second quarter of 2014, Alberta Power Pool prices averaged \$42.43/MWh and spark spreads averaged \$9.13/MWh. These unfavourable market conditions, together with reduced price volatility and continued business development activity to pursue new power generation opportunities and support the recently announced commercial and industrial sales program, contributed to lower adjusted earnings.
- Utilities** – An AUC decision for information technology (IT) and customer care and billing services (2010 Evergreen Decision) resulted in a reduction to adjusted earnings of \$14 million in the second quarter for the four-and-a-half years from the beginning of 2010 to the end of June 2014. Of this amount, only \$1 million related to each of the first and second quarters of 2014 and \$12 million related to prior years. Without the prior-period amounts related to the 2010 Evergreen Decision, adjusted earnings in the Utilities for the second quarter were \$40 million compared to \$30 million in the same period of 2013 and for the first half of the year were \$113 million compared to \$97 million in the same period a year ago – an increase of \$16 million, or 16%.

In July 2014, the Company outsourced its information technology (IT) services due in part to increasing regulatory challenges faced by the Utilities when applying to the AUC to include IT costs for recovery in customer rates. By competitively outsourcing its IT services, the Company is addressing the concerns expressed by the AUC.

- ATCO Structures & Logistics** – Second quarter adjusted earnings were \$13 million lower than the same period last year. The earnings for this segment are significantly influenced by the cyclical nature of large natural resource project activity. Reduced manufacturing activity and profit margins, combined with lower utilization and reduced rental rates and expiry of a Kandahar Airfield utilities services contract, resulted in lower quarter-on-quarter earnings. Earnings also reflect forgone earnings due to the sale of the Company’s South American Modular Structures operations in September 2013.

EARNINGS ATTRIBUTABLE TO CLASS I AND CLASS II SHARES

Earnings attributable to Class I and Class II Shares decreased by \$32 million to \$66 million in the second quarter of 2014 and decreased by \$22 million to \$193 million for the six months ended June 30, 2014. These decreases, which follow the reduction in adjusted earnings, also include the impairment of an Australian power plant and timing adjustments for rate-regulated activities.

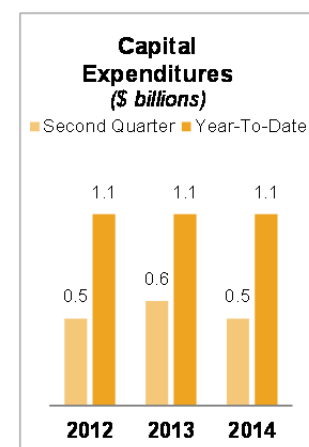
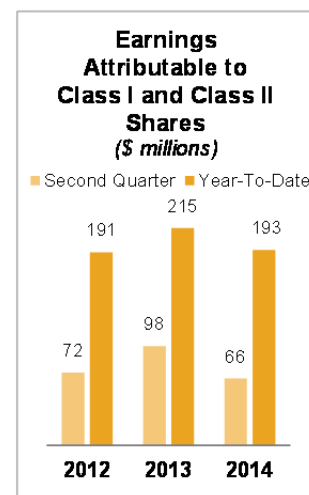
The impairment of the Company’s Bulwer Island power station came about as a result of the announcement by BP, the power station’s sole customer, that it will cease refining operations at its oil refinery in Brisbane, Australia, by mid-2015. This impairment was excluded from the Company’s adjusted earnings for the second quarter, but reduced earnings attributable to Class I and Class II Shares by \$6 million.

Timing adjustments related to rate-regulated activities are discussed in more detail in the “Reconciliation of Adjusted Earnings to Earnings Attributable to Class I and Class II Shares” in this MD&A.

CAPITAL EXPENDITURES

Total capital expenditures of \$544 million in the second quarter and \$1.1 billion in the first half of 2014 were comparable to the same periods of 2013. The Utilities accounted for \$501 million of this quarter’s capital spending, with the remaining \$43 million spread across the Company’s other business segments.

The Company plans to invest \$5.5 billion in capital expenditures in the Utilities segment during the period 2014 to 2016.



QUARTERLY INFORMATION

The following table shows financial information for the eight quarters ended September 30, 2012, through June 30, 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.

<i>(\$ millions except for per share data)</i>	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Revenues	1,015	1,164	1,226	1,114
Earnings attributable to Class I and Class II Shares	132	71	127	66
Earnings per Class I and Class II Share (\$)	1.16	0.61	1.11	0.57
Diluted earnings per Class I and Class II Share (\$)	1.15	0.61	1.10	0.57
Adjusted earnings				
Structures & Logistics	27	22	16	8
Utilities	32	50	74	27
Energy	20	15	18	7
ATCO Australia	5	9	4	7
Corporate & Other	-	1	3	8
Total adjusted earnings	84	97	115	57

<i>(\$ millions except for per share data)</i>	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Revenues	981	1,080	1,099	1,081
Earnings attributable to Class I and Class II Shares	81	98	117	98
Earnings per Class I and Class II Share (\$)	0.71	0.84	1.02	0.85
Diluted earnings per Class I and Class II Share (\$)	0.71	0.84	1.01	0.85
Adjusted earnings				
Structures & Logistics	27	36	26	21
Utilities	16	48	67	30
Energy	26	17	15	30
ATCO Australia	6	4	5	5
Corporate & Other	4	(3)	7	3
Total adjusted earnings	79	102	120	89

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.

Adjusted Earnings

Three large liquefied natural gas (LNG) projects in Australia made strong contributions to ATCO Structures & Logistics' 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 rental assets, supported high earnings levels during 2013. The fourth quarter of 2013 and the first half of this year experienced 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. The first half of 2014 experienced reduced earnings as a result of the cyclical nature of project activity.

The large capital investment made by the Utilities in the previous eight quarters has contributed to a general increase in 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.

Lower adjusted earnings in the second quarter of 2014 included the financial impact of the 2010 Evergreen Decision for the entire four-and-a-half year period covered by the decision.

The Company's power generation business in the Energy segment saw a significant reduction in commodity prices in the first half of 2014 and the final quarter of 2013, which caused a decrease in earnings. The increased supply of electricity in the Alberta market and a sharp rise in natural gas prices produced these unfavourable market conditions. In contrast, the second and third quarters of 2013, which were marked by outages of several large coal-fired plants in the province and lower natural gas prices, saw high realized power pool prices, high spark spreads and greater price volatility. As a result of the high availability of the Company's generating plants during these quarters, the Company was able to capitalize on these favourable market conditions with record earnings.

ATCO Australia's gas distribution utility continued to invest in utility infrastructure on which it earns a regulated return. Earnings over the eight quarters reflect this growth in rate base. Earnings in the last quarter of 2013 and first half of 2014 also reflect reduced financing costs from the refinancing of debt and a credit rating upgrade, as well as a higher actual inflation factor applied to the utility's rate base.

Earnings attributable to Class I and Class II Shares

Earnings attributable to Class I and Class II Shares in the third quarter of 2013, which were markedly 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. In the second quarter of 2014, the Company recognized an impairment of the Bulwer Island power station in Australia. 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 \$261 million for the second quarter of 2014, which were \$21 million higher than the same period in 2013. This increase was mainly due to revenues generated by the Wheatstone project in Western Australia, partly offset by expiry of the Kandahar Airfield utilities contract in the fourth quarter of 2013.

For the first half of 2014, revenues of \$473 million were comparable to the first half of 2013.

ADJUSTED EARNINGS

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

(\$ millions)	Three Months Ended June 30			Six Months Ended June 30		
	2014	2013	Change	2014	2013	Change
Modular Structures	14	21	(7)	34	47	(13)
Logistics and Facility O&M Services	3	5	(2)	6	9	(3)
Lodging & Support Services	2	3	(1)	4	7	(3)
Other ⁽¹⁾	(11)	(8)	(3)	(20)	(16)	(4)
Total ATCO Structures & Logistics	8	21	(13)	24	47	(23)

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

Earnings for the three and six months ended June 30, 2014, were lower than the same periods in 2013 due to reduced manufacturing activity and lower profit margins, lower rental fleet utilization and rates, and the expiry of a Kandahar Airfield utilities contract in the fourth quarter of 2013.

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.

Modular Structures' adjusted earnings of \$14 million and \$34 million in the second quarter and first half of 2014, respectively, were \$7 million and \$13 million lower than the same periods in 2013.

The reduction in earnings quarter-over-quarter reflects lower manufacturing activity and lower profit margins earned in North America. In addition, the Company has forgone earnings from the South American Modular Structures operations sold in September 2013. These decreases were partly offset by higher earnings in Australia from the Wheatstone project.

Lower adjusted earnings for the six months ended June 30, 2014, reflect a slowdown in Western Australia's mining sector and lower manufacturing activity and reduced profit margins earned in North America. 2014 earnings from North America and Australia have not replaced the significant earnings from the large LNG projects completed in Australia in early 2013.

The Company continues to monitor global business activity and invest in business development activities to pursue project opportunities.

Major Project Updates

Shell Carmon Creek Project

During the second 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 is progressing as planned 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. Construction continues on the second 2,086-room phase and is expected to be completed during the fourth quarter of 2014.

Rental Fleet Statistics

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

	Three Months Ended June 30			Six Months Ended June 30		
	2014	2013	Change	2014	2013	Change
North America						
Manufacturing hours (<i>thousands</i>)	243	356	(32%)	497	566	(12%)
Global Space Rentals						
Number of units	12,875	12,978	(1%)	12,875	12,978	(1%)
Utilization (%)	76	77	(1%)	76	77	(1%)
Average rental rate (<i>\$ per month</i>)	625	631	(1%)	621	635	(2%)
Global Workforce Housing						
Number of units	3,164	2,879	10%	3,164	2,879	10%
Utilization (%)	75	83	(8%)	76	85	(9%)
Average rental rate (<i>\$ per month</i>)	2,463	2,659	(7%)	2,465	2,401	3%

The decrease in manufacturing hours for the three and six-month periods relates to lower project activity in North America. Rental rates and utilization were lower in the second quarter of 2014 than the same period last year primarily due to a reduced demand for workforce housing in Western Australia.

LOGISTICS AND FACILITY O&M SERVICES

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

Adjusted earnings were \$2 million and \$3 million lower in the second quarter and first half of 2014, respectively, mainly as a result of the expiry in November 2013 of a contract to supply utilities support services at the Kandahar Airfield in Afghanistan.

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 lower earnings of \$1 million and \$3 million for the second quarter and first half of 2014, respectively. Lower occupancy levels at the Barge Landing Lodge and Creeburn Lake Lodge experienced towards the end of 2013 continued into 2014. This situation arose because of the increased supply of temporary lodging and camp facilities near Fort McMurray.

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 \$49 million higher in the second quarter, and \$152 million higher for the first six months, of 2014 compared to the prior year.

Increased revenues for the transmission operations of ATCO Electric are attributable to 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. Revenues reflected increased capital investment in utility infrastructure, more customers and higher demand for energy largely resulting from colder weather. 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.

(\$ millions)	Three Months Ended June 30			Six Months Ended June 30		
	2014	2013	Change	2014	2013	Change
ATCO Electric	30	28	2	67	59	8
ATCO Gas	(7)	(1)	(6)	24	29	(5)
ATCO Pipelines	4	3	1	10	9	1
Total Utilities	27	30	(3)	101	97	4

Adjusted earnings generated by the Utilities of \$27 million in the second quarter of 2014 were \$3 million lower than the \$30 million achieved in the same period of 2013. For the six months ended June 30, 2014, earnings were \$101 million, which was \$4 million higher than the \$97 million realized in the first half of 2013.

The Utilities recorded lower adjusted earnings in the second quarter of 2014 due to an AUC decision for information technology and customer care and billing services (2010 Evergreen Decision). This decision covers the period 2010 to 2014. Second quarter adjusted earnings were reduced by \$14 million for the four-and-a-half year period to the end of June 2014. Of this amount, only \$1 million related to each of the first and second quarters of 2014 and \$12 million related to prior years. Without the prior-period amounts related to the 2010 Evergreen Decision, adjusted earnings were \$40 million in the second quarter of 2014 and \$113 million in the first half of the year, an increase of \$10 million, or 33%, in the quarter and \$16 million, or 16%, in the first six months.

To facilitate comparison to the prior year, adjusted earnings for each of the Utilities excluding the prior-period impacts of the 2010 Evergreen Decision are presented below.

(\$ millions)	Three Months Ended June 30			Six Months Ended June 30		
	2014	2013	Change	2014	2013	Change
ATCO Electric	34	28	6	71	59	12
ATCO Gas	1	(1)	2	31	29	2
ATCO Pipelines	5	3	2	11	9	2
Total Utilities	40	30	10	113	97	16

These figures show that the Utilities continue to earn on the significant capital investments made in Alberta.

In addition, the Utilities' adjusted earnings increased \$4 million in the second quarter from a significant reduction in registered defined benefit pension plan contributions for 2014. This reduction in required employer contributions came about as a result of a valuation of the Company's largest defined benefit pension plan completed in the second quarter.

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, ATCO Electric Yukon, 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. Adjusted earnings for the transmission operations of ATCO Electric reflects the full year forecast capital spend on direct AESO assigned projects. This spend is subject to deferral account treatment by the AUC, potentially resulting in either a recovery from or refund to customers between AUC approved and actual capital spend. Therefore, earnings related to growth in rate base may not reflect actual capital spend in this quarter.

ATCO Electric's adjusted earnings, excluding the prior-period impacts of the 2010 Evergreen Decision, were \$34 million in the second quarter and \$71 million in the first half of 2014, an increase of \$6 million and \$12 million, respectively. These increases were mainly from growth in rate base in its transmission operations. The distribution operations benefited from more customers and higher demand for energy. Capital investment in ATCO Electric's distribution operations also generated higher earnings under the interim approved Capital Tracker rates. ATCO Electric continues to receive 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, excluding the prior-period impacts of the 2010 Evergreen Decision, were \$1 million in the second quarter and \$31 million in the first half of 2014, an increase of \$2 million in each period. Increased earnings for the first half of this year resulted from capital investment, more customers and higher demand. ATCO Gas continues to receive 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 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, excluding the prior-period impacts of the 2010 Evergreen Decision, were \$5 million in the second quarter and \$11 million in the first half of 2014, an increase of \$2 million in each period. These increases were mainly from capital investment.

MAJOR CAPITAL EXPENDITURE PROJECT UPDATES

The Utilities continued with their major capital expenditure programs, investing a further \$501 million in the second quarter of 2014; total capital expenditures during the first half of 2014 were \$1.0 billion, which was comparable to the same period of 2013. The transmission operations of ATCO Electric invested \$303 million in the quarter and \$632 million year to date 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 second quarter, bringing the total spend to date to \$1.3 billion. The in-service-date has shifted from December 2014 into 2015 due to delays related to the completion of the converter stations. A new date will be established once updated construction schedules have been finalized and the commissioning of the project has been coordinated and agreed with the AESO. While the impact on the project cost will be determined once the re-scheduling has been finalized, the costs at this time are not expected to be materially different from the \$1.8 billion previously forecasted. Amounts for the EATL project exclude interest during construction.

The estimated total capital spend for the Utilities in 2014 remains at approximately \$2 billion. The Company plans to invest \$5.5 billion in capital expenditures in the Utilities segment during the period 2014 to 2016.

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.

ATCO Electric and ATCO Gas re-filed their 2013 Capital Tracker Applications in the second quarter of 2014 as requested by the AUC. These re-filings came about as a result of an earlier decision that clarified the assessment process the AUC would follow to determine Capital Tracker funding. ATCO Electric and ATCO Gas also filed 2014 and 2015 Capital Tracker Applications in the second quarter of 2014 as requested by the AUC. Decisions from the AUC on the 2013, 2014 and 2015 Capital Tracker Applications are not expected until the first quarter of 2015. Meanwhile, ATCO Electric and ATCO Gas filed applications in the second quarter for 100% of the applied-for Capital Tracker rates on an interim basis; decisions from the AUC are not expected until the fourth 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%. The Supreme Court will hear the Company's appeal in December 2014, with a decision expected in 2015.

Energy

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

REVENUES

Energy segment revenues of \$239 million for the second quarter and \$525 million for the six months ended June 30, 2014, were \$48 million and \$11 million, respectively, lower than the same periods of 2013. ATCO Power's revenues for the second quarter and six months declined mainly as a result of lower realized Alberta Power Pool prices.

Offsetting this decrease in the power generation business were higher revenues in ATCO Energy Solutions as a result of more flow through natural gas sales at one of its natural gas liquids (NGL) extraction facilities, higher frac spreads and stronger natural gas storage revenues.

ADJUSTED EARNINGS

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

(\$ millions)	Three Months Ended June 30			Six Months Ended June 30		
	2014	2013	Change	2014	2013	Change
ATCO Power						
Independent Power Plants	-	23	(23)	7	30	(23)
Regulated Power Plants	5	10	(5)	12	17	(5)
Total ATCO Power	5	33	(28)	19	47	(28)
ATCO Energy Solutions						
Storage Operations	3	1	2	4	2	2
NGL Extraction and Gas Gathering & Processing	1	(2)	3	5	-	5
Other Operations	(2)	(2)	-	(3)	(4)	1
Total ATCO Energy Solutions	2	(3)	5	6	(2)	8
Total Energy	7	30	(23)	25	45	(20)

Adjusted earnings generated by the Energy segment in the three and six months ended June 30, 2014, were \$7 million and \$25 million, respectively. Second quarter earnings in the power generation business were significantly lower than the prior year.

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

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. Of the 1,806 MW of Company-owned natural gas and coal-fired plant capacity in Alberta, 734 MW is merchant capacity. Volatility in Alberta Power Pool prices and average spark spreads affect the results of this 734 MW of capacity.

Adjusted earnings from both independent and regulated power plants were significantly lower in the second quarter of 2014 than the same period of 2013.

Average Alberta Power Pool and natural gas prices and the resulting spark spreads for the three and six months ended June 30, 2014 and 2013, are shown in the table below.

	Three Months Ended June 30			Six Months Ended June 30		
	2014	2013	Change	2014	2013	Change
Average Alberta Power Pool electricity price (\$/MWh)	42.43	123.41	(66%)	51.46	94.50	(46%)
Average natural gas price (\$/GJ)	4.44	3.36	32%	4.87	3.19	53%
Average spark spread (\$/MWh)	9.13	98.24	(91%)	14.93	70.54	(79%)

In the second quarter of 2014, Alberta Power Pool prices were 66% lower and volatility also decreased due to the increased availability of coal-fired generation in Alberta. The lower Alberta Power Pool prices, combined with natural gas prices that were 32% higher, resulted in a 91% reduction in spark spreads for the second quarter, which affects earnings from the Company's natural-gas fired generation. In comparison, the second quarter of 2013 was a record earnings quarter for ATCO Power as the combination of high Alberta Power Pool prices, high average spark spreads and greater volatility contributed to strong earnings in that prior period.

Earnings from the regulated power plants, which are governed by Power Purchase Arrangements (PPA), were lower in the six months ended June 30, 2014, as a result of the transfer of Battle River units 3 and 4 to independent power plants at the beginning of this year.

Lower earnings from independent and regulated power plants also reflected the continued investment by ATCO Power in business development, which supports its recently announced commercial and industrial sales program as well as the pursuit of various domestic and foreign project opportunities.

The availability of the generating plants by geographic region for the second quarter and first half are 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 June 30			Six Months Ended June 30		
	2014	2013	Change	2014	2013	Change
Independent Power Plants Canada and U.K.	95%	93%	2%	95%	94%	1%
Regulated Plants Canada	94%	95%	(1%)	96%	96%	0%

U.K. Operations

The Company's Barking generating plant currently relies on revenues from the balancing mechanism market which are not sufficient for profitable operations. Additional earnings were anticipated from a new capacity requirement from the National Grid, referred to as the Supplemental Balancing Reserve. However, on June 10, 2014, the National Grid announced capacity requirements that are unfavourable to power generators. The Company, together with its partners, is now evaluating options for ongoing operations at the generating plant with a decision expected by the end of the year.

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 \$5 million higher in the second quarter of 2014 and \$8 million in the first half of 2014 compared to the same periods of 2013. These increases were mainly the result of higher frac spreads in the NGL extraction operations and higher earnings from natural gas storage operations. Average industry frac spreads were \$10.90/GJ in the second quarter of 2014 compared to \$7.50/GJ in the prior period; in the first half of 2014, frac spreads were \$8.82/GJ compared to \$7.82/GJ in the prior period. Average industry frac spreads were higher due to strong natural gas and propane prices following a colder-than-normal winter.

The Company continues to review economic conditions and prospects for its natural gas gathering, processing, and liquids extraction businesses.

ATCO Australia

The ATCO Australia segment consists of three distinct business operations: ATCO Gas Australia, ATCO Power Australia and ATCO I-Tek Australia.

REVENUES

Revenues in ATCO Australia, at \$76 million and \$135 million for the three and six months ended June 30, 2014, respectively, were \$8 million and \$6 million higher than the comparable periods in 2013. Revenues increased mainly due to higher customer rates from continuing capital investment in utility infrastructure.

ADJUSTED EARNINGS

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

(\$ millions)	Three Months Ended June 30			Six Months Ended June 30		
	2014	2013	Change	2014	2013	Change
ATCO Gas Australia	5	5	-	6	7	(1)
ATCO Power Australia	2	2	-	6	6	-
Other ⁽¹⁾	-	(2)	2	(1)	(3)	2
Total ATCO Australia	7	5	2	11	10	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 below.

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.

For the second quarter of 2014, ATCO Gas Australia's adjusted earnings were comparable to prior year.

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.

Adjusted earnings for ATCO Power Australia were unchanged at \$2 million and \$6 million in the second quarter and first half 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 second quarter and first half of 2014 was 95.1% and 97.3%, respectively, and 95.8% and 97.8%, respectively, in the same periods of 2013, reflecting the steady earnings.

BP announced in April 2014 that it will cease refining operations at its oil refinery in Brisbane by mid-2015. Consequently, the Company recorded an impairment charge of its lease receivable and a related intangible goodwill asset of \$6 million in the second quarter of 2014 for its 33 MW Bulwer Island power station, which is jointly owned with Origin Energy. BP is the power station's only customer, so this announcement has a direct impact on the ability of the plant to generate future revenues. While the partners continue to pursue alternate commercial arrangements, no suitable economic replacement has been identified at this time. This impairment was excluded from adjusted earnings, but reduced earnings attributable to Class I and II Shares. The adjusted earnings impact for the remainder of 2014 is negligible and for 2015 is approximately \$2 million.

ATCO I-TEK AUSTRALIA

ATCO I-Tek Australia supplies information technology services mainly to ATCO Gas Australia and Dampier Bunbury Pipelines (DBP).

In the fourth quarter of 2013, DBP advised that the information technology services provided by ATCO I-Tek Australia would cease as of March 10, 2014, and transition to a new service provider. ATCO I-Tek Australia completed the transition at the end of June 2014 and recorded additional earnings of \$1 million in the second quarter from the services provided under the transition plan.

Refer to the Corporate & Other section below for news regarding the Company's outsourcing of its information technology services.

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 second quarter of 2014 increased by \$4 million compared to the same period in 2013. This increase was mainly the result of higher project activity in ATCO I-Tek. Earnings in the first half of the current year were unchanged from the prior year because increased ATCO I-Tek project activity was offset by incremental preferred share dividends arising from the \$400 million of preferred shares issued by Canadian Utilities in March and May of 2013 to fund utility capital expenditures.

INFORMATION TECHNOLOGY OUTSOURCING

In July 2014, the Company agreed to enter into a strategic alliance with Wipro Ltd. (Wipro), a global information technology (IT), consulting and business process services company. Wipro will provide the Company with a complete suite of IT services. The decision to outsource the Company's IT services was due in part to increasing regulatory challenges faced by the Utilities when applying to the AUC to include IT costs for recovery in customer rates. By competitively outsourcing its IT services, the Company is addressing the concerns expressed by the AUC.

Wipro will also acquire all the shares of ATCO I-Tek, including current contracts and employees, as well as the assets of ATCO I-Tek Australia as valuable resources to provide the IT services ATCO requires and to serve as a launching point for Wipro's expansion in Canada and Australia. ATCO I-Tek will continue to operate as a subsidiary under Wipro. The sale is expected to close in the third quarter of 2014 subject to customary closing conditions. Aggregate proceeds from the sale are expected to be approximately \$210 million. The sale is expected to reduce the Company's adjusted earnings in 2014 by approximately \$8 million. Given the 2010 Evergreen Decision and completion of the Direct Energy and other contracts, the effect of the sale on adjusted earnings for the Company as a whole in 2015 is not forecast to be significant.

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

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

	Three Months Ended June 30						
<i>(\$ millions)</i>							
2014	Structures & Logistics	Utilities	Energy	ATCO Australia	Corporate & Other	Intersegment Eliminations	Total
2013							
Revenues	261	523	239	76	67	(52)	1,114
	240	474	287	68	58	(46)	1,081
Adjusted earnings	8	27	7	7	7	1	57
	21	30	30	5	3	-	89
Impairments	-	-	-	(6)	-	-	(6)
	-	-	-	-	-	-	-
Adjustments for rate-regulated activities	-	16	-	-	-	(1)	15
	-	8	-	1	-	-	9
Earnings attributable to Class I and Class II Shares	8	43	7	1	7	-	66
	21	38	30	6	3	-	98

	Six Months Ended June 30						
<i>(\$ millions)</i>							
2014	Structures & Logistics	Utilities	Energy	ATCO Australia	Corporate & Other	Intersegment Eliminations	Total
2013							
Revenues	473	1,177	525	135	131	(101)	2,340
	471	1,025	536	129	114	(95)	2,180
Adjusted earnings	24	101	25	11	10	1	172
	47	97	45	10	10	-	209
Impairments	-	-	-	(6)	-	-	(6)
	-	-	-	-	-	-	-
Adjustments for rate-regulated activities	-	29	-	(1)	-	(1)	27
	-	7	-	-	-	(1)	6
Earnings attributable to Class I and Class II Shares	24	130	25	4	10	-	193
	47	104	45	10	10	(1)	215

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 transmission access payments, the 2010 Evergreen Decision and settlement of transmission capital deferral accounts.

(\$ millions)	Three Months Ended June 30			Six Months Ended June 30		
	2014	2013	Change	2014	2013	Change
Additional revenues billed in current period						
Future removal and site restoration costs	7	7	-	15	13	2
Retirement benefits	(1)	1	(2)	-	1	(1)
Finance costs on major transmission capital projects	7	5	2	13	11	2
Impact of colder temperatures on revenues	1	-	1	5	-	5
Other	1	3	(2)	4	3	1
Total	15	16	(1)	37	28	9
Revenues to be billed in future period						
Deferred income taxes	(10)	(7)	(3)	(24)	(18)	(6)
Transmission access payments ⁽¹⁾	-	(11)	11	(1)	(13)	12
Transmission capital deferral	-	(1)	1	(1)	(5)	4
Impact of warmer temperatures on revenues	-	-	-	-	(2)	2
Impact of inflation on rate base for ATCO Gas Australia	(1)	(1)	-	(3)	(3)	-
Other	(2)	(1)	(1)	(2)	(5)	3
Total	(13)	(21)	8	(31)	(46)	15
Regulatory decisions related to current and prior periods						
2010 Evergreen Decision ⁽²⁾	14	-	14	14	-	14
Transmission access payment recoveries ⁽¹⁾	2	8	(6)	10	12	(2)
Transmission capital deferral refunds ⁽³⁾	(5)	-	(5)	(5)	-	(5)
ATCO Gas Australia appeal decision	1	1	-	2	2	-
Weather recoveries	-	-	-	-	2	(2)
Other	1	6	(5)	1	10	(9)
Total	13	15	(2)	22	26	(4)
Elimination of intercompany profits related to the construction of property, plant and equipment and intangible assets						
	-	(1)	1	(1)	(2)	1
Total adjustments	15	9	6	27	6	21

The timing adjustments with greater variability are described below:

(1) 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 second quarter of 2014 and 2013, ATCO Electric is recovering from customers higher than forecast transmission access payments incurred in current and prior periods.

(2) 2010 Evergreen Decision

The Utilities recorded a reduction in adjusted earnings of \$14 million in the second quarter of 2014 for an AUC decision which disallowed a portion of the information technology and customer care and billing costs incurred in the period January 1, 2010, to June 30, 2014. Under IFRS, earnings will be adjusted when the AUC approves revised customer rates and the amount payable to customers is refunded through future billings.

(3) Transmission capital deferral refunds

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 AESO, will be higher or lower than expected. In the second quarter of 2014, ATCO Electric refunded to customers' amounts over-collected in 2011 for major transmission capital projects.

OTHER EXPENSES

A financial summary of other consolidated expenses for the six months ended June 30, 2014 and 2013, is given below.

(\$ millions)	Three Months Ended June 30			Six Months Ended June 30		
	2014	2013	Change	2014	2013	Change
Operating costs	722	661	61	1,425	1,303	122
Depreciation, amortization and impairment	144	124	20	274	245	29
Interest expense	77	67	10	154	135	19
Income taxes	46	57	(11)	127	125	2

OPERATING COSTS

Operating costs, which are total costs and expenses, less depreciation, amortization and impairment, increased by \$61 million in the second quarter of 2014 and by \$122 million in the first six months of 2014. Higher expenses resulted from increased costs due to higher flow-through gas purchases for NGL extraction operations in ATCO Energy Solutions and higher franchise fees paid to municipalities by ATCO Gas. Franchise fees are flowed through to customers resulting in no material impact to adjusted earnings. Construction activity for several major projects currently underway in ATCO Structures & Logistics resulted in higher operating costs in both periods.

DEPRECIATION, AMORTIZATION AND IMPAIRMENT

Depreciation, amortization and impairment expense for the second quarter and first half of 2014 rose by \$20 million and \$29 million, respectively, over the same periods in 2013. The increased expense was mainly the result of higher capital investments in the Utilities. The impairment of \$6 million for ATCO Power Australia's Bulwer Island power station was also recorded in this amount.

INTEREST EXPENSE

Interest expense increased by \$10 million in the second quarter and \$19 million in the first half of 2014. Higher expenses resulted from incremental debt financing undertaken in 2013 to fund the Utilities' significant capital expenditure program.

INCOME TAXES

Income taxes decreased by \$11 million in the second quarter of 2014. This decrease was mainly due to lower earnings before income taxes.

LIQUIDITY AND CAPITAL RESOURCES

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

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

LINES OF CREDIT

At June 30, 2014, the Company and its subsidiaries had the following lines of credit:

<i>(\$ millions)</i>	Total	Used	Available
Long-term committed	2,638	1,178	1,460
Uncommitted	73	5	68
Total	2,711	1,183	1,528

Of the \$2,711 million in total credit lines, \$73 million was in the form of uncommitted credit facilities with no set maturity date. The other \$2,638 million in credit lines were committed, with \$685 million maturing in 2015. The remaining lines of credit mature between 2016 and 2018 and may be extended at the option of the lenders.

Of the \$1,183 million credit line usage, \$585 million was related to issuances of commercial paper at the Company's subsidiary, CU Inc., and back-stopped by the corporate credit facilities. The majority of the remaining 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

As at June 30, 2014, the Company's cash position was \$602 million, a decrease of \$139 million compared to the end of 2013. The main reason for the decrease in cash is the redemption of \$160 million of higher-rate, 6.70% equity preferred shares by the Company's subsidiary, CU Inc.

Funds generated by operations

Funds generated by operations are considered a significant indicator of the Company's ability to generate cash to fund its capital expenditures, pay future dividends and repay indebtedness. Funds generated by operations in the second quarter of 2014 were \$79 million lower than the same period of 2013. This decrease was mainly the result of lower earnings for the period and fewer contributions from utility customers, which are used by the Company to provide utility services to customers.

Funds generated by operations in the first six months of 2014 were \$19 million higher than the same period of 2013. This increase was mainly the result of more contributions from customers.

Capital expenditures

Capital expenditures in the second quarter and first half of 2014 were comparable to the same periods in the prior year.

(\$ millions) ⁽¹⁾	Three Months Ended June 30			Six Months Ended June 30		
	2014	2013	Change	2014	2013	Change
Structures & Logistics	12	37	(25)	26	62	(36)
Electric Transmission	303	294	9	632	668	(36)
Electric Distribution	86	77	9	166	145	21
Gas Distribution	73	65	8	129	120	9
Pipeline Transmission	39	27	12	80	41	39
Energy	7	18	(11)	22	21	1
ATCO Australia	21	24	(3)	39	42	(3)
Corporate & Other	3	11	(8)	11	18	(7)
Total	544	553	(9)	1,105	1,117	(12)

(1) Includes additions to property, plant and equipment and intangibles as well as \$22 million and \$41 million (2013 - \$16 million and \$34 million) of interest capitalized during construction for the three and six months ended June 30, 2014.

Base Shelf Prospectuses

CU Inc. Debentures

On June 11, 2012, 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. This prospectus expired on July 11, 2014, with aggregate issuances of debentures totaling \$1.8 billion.

On July 24, 2014, CU Inc. filed a new 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. No debentures have been issued to date under this base shelf prospectus.

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 for the second quarter of 2014 totaled \$26 million and for the first half of 2014 totaled \$50 million. On July 9, 2014, the Board of Directors declared a third-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.

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 Shares. The bid expires on February 27, 2015. No shares were purchased between March 3, 2014, and July 24, 2014.

**15% increase in
quarterly dividend
for the third
consecutive year**

Canadian Utilities Dividend Reinvestment Plan

In the second quarter of 2014, Canadian Utilities issued 581,052 Class A non-voting shares under its DRIP in lieu of cash dividend payments of \$23 million. ATCO Ltd. elected to receive 315,093 Class A non-voting shares in lieu of cash dividends of \$12 million; ATCO Ltd.'s ownership interest in Canadian Utilities remained at 53.2%.

In the six months ended June 30, 2014, Canadian Utilities issued 1,574,828 Class A non-voting shares under its DRIP in lieu of cash dividend payments of \$61 million. ATCO Ltd. elected to receive 1,045,348 Class A non-voting shares in lieu of cash dividends of \$40 million.

SHARE CAPITAL

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

At July 24, 2014, the Company had outstanding 101,631,623 Class I Shares, 13,637,405 Class II Shares, and options to purchase 767,150 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, 2,886,950 Class I Shares were available for issuance at June 30, 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 have been issued by the IASB or IFRIC that are not required to be adopted in the current period. The Company has not early adopted these standards or interpretations. The standards which the Company anticipates will have a material effect on the consolidated financial statements or note disclosures are described below:

IFRS 15 *Revenue from Contracts with Customers* replaces the previous guidance on revenue recognition and provides a framework to determine when to recognize revenue and at what amount. The new standard is effective for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of the new standard.

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

CONTROLS AND PROCEDURES

INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on April 1, 2014, and ended on June 30, 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, this measure is considered a significant performance indicator of the Company's ability to generate cash to fund capital expenditures. Funds generated by operations does not have any standardized meaning under IFRS and might not be comparable to similar measures presented by other companies.

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 for the six months ended June 30, 2014.

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 six months ended June 30, 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.

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.

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.

U.K. means United Kingdom.

U.S. means United States of America.

ATCO

G R O U P

ATCO LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE SIX MONTHS ENDED JUNE 30, 2014

ATCO LTD. CONSOLIDATED STATEMENT OF EARNINGS

	Note	Three Months Ended June 30		Six Months Ended June 30	
		2014	2013	2014	2013
<i>(millions of Canadian Dollars except per share data)</i>					
Revenues		1,114	1,081	2,340	2,180
Costs and expenses					
Salaries, wages and benefits		(175)	(175)	(352)	(334)
Energy transmission and transportation		(42)	(35)	(84)	(70)
Plant and equipment maintenance		(57)	(55)	(103)	(95)
Fuel costs		(118)	(88)	(247)	(187)
Purchased power		(16)	(20)	(34)	(38)
Materials and consumables		(172)	(141)	(296)	(272)
Depreciation, amortization and impairment		(144)	(124)	(274)	(245)
Franchise fees		(53)	(46)	(129)	(105)
Property and other taxes		(26)	(24)	(53)	(48)
Other		(63)	(77)	(127)	(154)
		(866)	(785)	(1,699)	(1,548)
		248	296	641	632
Earnings from investment in joint ventures		3	7	8	15
Operating profit		251	303	649	647
Interest income		2	4	4	8
Interest expense		(77)	(67)	(154)	(135)
Net finance costs		(75)	(63)	(150)	(127)
Earnings before income taxes		176	240	499	520
Income taxes		(46)	(57)	(127)	(125)
Earnings for the period		130	183	372	395
Earnings attributable to:					
Class I and Class II Shares		66	98	193	215
Non-controlling interests		64	85	179	180
		130	183	372	395
Earnings per Class I and Class II Share	9	\$ 0.57	\$ 0.85	\$ 1.68	\$ 1.87
Diluted earnings per Class I and Class II Share	9	\$ 0.57	\$ 0.85	\$ 1.67	\$ 1.86

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

ATCO LTD. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three Months Ended June 30		Six Months Ended June 30	
<i>(millions of Canadian Dollars)</i>	2014	2013	2014	2013
Earnings for the period	130	183	372	395
Other comprehensive income (loss), net of income taxes:				
Items that will not be reclassified to earnings:				
Re-measurement of retirement benefits ⁽¹⁾	(68)	128	(137)	146
Share of other comprehensive income of joint ventures ⁽²⁾	1	-	1	(2)
	(67)	128	(136)	144
Items that have been or may be reclassified subsequently to earnings:				
Cash flow hedges ⁽³⁾	4	-	9	3
Cash flow hedges reclassified to earnings ⁽⁴⁾	(3)	-	(3)	-
Foreign currency translation adjustment ⁽⁵⁾	(18)	(52)	36	(38)
	(17)	(52)	42	(35)
	(84)	76	(94)	109
Comprehensive income for the period	46	259	278	504
Comprehensive income attributable to:				
Class I and Class II Shares	18	134	145	271
Non-controlling interests	28	125	133	233
	46	259	278	504

(1) Net of income taxes of \$23 million and \$45 million for the three and six months ended June 30, 2014, respectively (2013 – \$(42) million and \$(48) million).

(2) Net of income taxes of nil for the three and six months ended June 30, 2014, respectively (2013 – nil and \$1 million).

(3) Net of income taxes of \$(2) million and \$(4) million for the three and six months ended June 30, 2014, respectively (2013 – nil and \$(1) million).

(4) Net of income taxes of \$1 million for the three and six months ended June 30, 2014, respectively (2013 – nil).

(5) Net of income taxes of nil.

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

ATCO LTD.

CONSOLIDATED BALANCE SHEET

<i>(millions of Canadian Dollars)</i>	Note	June 30 2014	December 31 2013
ASSETS			
Current assets			
Cash and cash equivalents		607	743
Accounts receivable		629	713
Finance lease receivables	4	22	8
Inventories		142	131
Prepaid expenses and other current assets		87	57
		1,487	1,652
Non-current assets			
Property, plant and equipment	5	14,266	13,381
Intangibles		412	387
Goodwill		71	71
Investment in joint ventures		125	127
Finance lease receivables	4	301	319
Other assets		91	73
Total assets		16,753	16,010
LIABILITIES			
Current liabilities			
Bank indebtedness		5	2
Accounts payable and accrued liabilities		838	921
Asset retirement obligations and other provisions		32	71
Other current liabilities		21	22
Short-term debt	6	585	-
Long-term debt		440	138
Non-recourse long-term debt		31	39
		1,952	1,193
Non-current liabilities			
Deferred income tax liabilities		723	684
Asset retirement obligations and other provisions		159	140
Retirement benefit obligations	12	473	302
Deferred revenues		1,470	1,386
Other liabilities		71	74
Long-term debt		5,785	6,092
Non-recourse long-term debt		119	126
Total liabilities		10,752	9,997
EQUITY			
Class I and Class II Share owners' equity			
Class I and Class II Shares	9	161	159
Contributed surplus		10	12
Retained earnings		2,808	2,717
Accumulated other comprehensive income		(3)	(28)
		2,976	2,860
Non-controlling interests	8	3,025	3,153
Total equity		6,001	6,013
Total liabilities and equity		16,753	16,010

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

ATCO LTD.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(millions of Canadian Dollars)	Note	Attributable to Equity Owners of the Company						Non-Controlling Interests	Total Equity
		Class I and Class II Shares	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total			
December 31, 2012		156	12	2,210	(8)	2,370	2,551	4,921	
Earnings for the period		-	-	215	-	215	180	395	
Equity preferred shares issued by subsidiary company, net of issue costs		-	-	-	-	-	392	392	
Shares issued		-	-	-	-	-	16	16	
Dividends	10	-	-	(43)	-	(43)	(88)	(131)	
Share-based compensation		1	-	-	-	1	-	1	
Other comprehensive income		-	-	-	56	56	53	109	
Gains on retirement benefits transferred to retained earnings		-	-	77	(77)	-	-	-	
Changes in ownership interest in subsidiary company ⁽¹⁾		-	-	22	-	22	(22)	-	
June 30, 2013		157	12	2,481	(29)	2,621	3,082	5,703	
December 31, 2013		159	12	2,717	(28)	2,860	3,153	6,013	
Earnings for the period		-	-	193	-	193	179	372	
Equity preferred shares redeemed by subsidiary company	8	-	-	(2)	-	(2)	(158)	(160)	
Shares issued		-	-	-	-	-	21	21	
Dividends	10	-	-	(50)	-	(50)	(99)	(149)	
Share-based compensation		2	(2)	-	-	-	(1)	(1)	
Other comprehensive loss		-	-	-	(48)	(48)	(46)	(94)	
Losses on retirement benefits transferred to retained earnings		-	-	(73)	73	-	-	-	
Changes in ownership interest in subsidiary company ⁽¹⁾		-	-	23	-	23	(23)	-	
Other		-	-	-	-	-	(1)	(1)	
June 30, 2014		161	10	2,808	(3)	2,976	3,025	6,001	

(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

	Three Months Ended June 30		Six Months Ended June 30	
(millions of Canadian Dollars)	2014	2013	2014	2013
Operating activities				
Earnings for the period	130	183	372	395
Adjustments for:				
Depreciation, amortization and impairment	144	124	274	245
Earnings from investment in joint ventures, net of dividends and distributions received	2	(1)	6	7
Income taxes	46	57	127	125
Unearned availability incentives	(3)	9	(1)	10
Contributions by customers for extensions to plant	32	69	109	93
Amortization of customer contributions	(12)	(13)	(24)	(25)
Net finance costs	75	63	150	127
Income taxes paid	(21)	(29)	(54)	(60)
Other	2	12	(8)	15
	395	474	951	932
Changes in non-cash working capital	(4)	2	(45)	25
Cash flow from operations	391	476	906	957
Investing activities				
Additions to property, plant and equipment	(494)	(510)	(1,012)	(1,044)
Proceeds on disposal of property, plant and equipment	5	2	5	3
Additions to intangibles	(28)	(27)	(52)	(39)
Income taxes paid on sale of Tecno Fast ATCO S.A.	(24)	-	(24)	-
Changes in non-cash working capital	(68)	(77)	(13)	(9)
Other	(7)	(3)	(12)	(4)
	(616)	(615)	(1,108)	(1,093)
Financing activities				
Net issue of short-term debt	574	30	585	30
Issue of long-term debt	70	25	107	51
Repayment of long-term debt	(93)	(32)	(159)	(34)
Repayment of non-recourse long-term debt	(7)	(7)	(15)	(15)
Issue of equity preferred shares by subsidiary company	-	225	-	400
Redemption of equity preferred shares by subsidiary company	(160)	-	(160)	-
Issue of Class A shares by subsidiary company	3	-	3	3
Issue of Class I Shares	2	1	2	3
Dividends paid to Class I and Class II Share owners	(26)	(21)	(50)	(43)
Dividends paid to non-controlling interests in subsidiary company	(38)	(38)	(78)	(72)
Interest paid	(107)	(100)	(175)	(154)
Other	-	(5)	-	(11)
	218	78	60	158
Foreign currency translation	(7)	1	3	3
Cash position ⁽¹⁾				
Increase (decrease)	(14)	(60)	(139)	25
Beginning of period	616	555	741	470
End of period	602	495	602	495

(1) Cash position consists of cash and cash equivalents less current bank indebtedness and includes \$53 million (2013 - \$67 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)

JUNE 30, 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 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 July 25, 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.

ACCOUNTING CHANGES NOT YET ADOPTED

Certain new or amended standards or interpretations have been issued by the IASB or IFRIC that are not required to be adopted in the current period. The Company has not early adopted these standards or interpretations. The standards which the Company anticipates will have a material effect on the consolidated financial statements or note disclosures are described below:

IFRS 15 *Revenue from Contracts with Customers* replaces the previous guidance on revenue recognition and provides a framework to determine when to recognize revenue and at what amount. The new standard is effective for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of the new standard.

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

3. SEGMENTED INFORMATION

SEGMENTED RESULTS THREE MONTHS ENDED JUNE 30

2014	Structures & Logistics	Utilities	Energy	ATCO Australia	Corporate and Other	Intersegment Eliminations	Consolidated
2013							
Revenues – external	261	522	237	76	18	–	1,114
	239	473	286	68	15	–	1,081
Revenues – intersegment	–	1	2	–	49	(52)	–
	1	1	1	–	43	(46)	–
Revenues	261	523	239	76	67	(52)	1,114
	240	474	287	68	58	(46)	1,081
Operating expenses ⁽¹⁾	(236)	(274)	(194)	(27)	(40)	49	(722)
	(202)	(251)	(181)	(34)	(43)	50	(661)
Depreciation, amortization and impairment	(12)	(85)	(19)	(23)	(5)	–	(144)
	(12)	(78)	(21)	(10)	(4)	1	(124)
Earnings from investment in joint ventures	1	–	1	1	–	–	3
	6	–	–	1	–	–	7
Net finance costs	–	(48)	(8)	(22)	3	–	(75)
	–	(41)	(7)	(15)	2	(2)	(63)
Earnings before income taxes	14	116	19	5	25	(3)	176
	32	104	78	10	13	3	240
Income taxes	(5)	(29)	(5)	(4)	(4)	1	(46)
	(8)	(26)	(21)	1	(1)	(2)	(57)
Earnings for the period	9	87	14	1	21	(2)	130
	24	78	57	11	12	1	183
Adjusted earnings	8	27	7	7	7	1	57
	21	30	30	5	3	–	89
Capital expenditures ⁽⁴⁾	12	501	7	21	3	–	544
	37	463	18	24	11	–	553

SEGMENTED RESULTS
SIX MONTHS ENDED JUNE 30

2014	Structures & Logistics	Utilities	Energy	ATCO Australia	Corporate and Other	Intersegment Eliminations	Consolidated
2013							
Revenues – external	473 464	1,175 1,023	522 534	135 129	35 30	– –	2,340 2,180
Revenues – intersegment	– 7	2 2	3 2	– –	96 84	(101) (95)	– –
Revenues	473 471	1,177 1,025	525 536	135 129	131 114	(101) (95)	2,340 2,180
Operating expenses ⁽¹⁾	(411) (386)	(567) (512)	(409) (363)	(51) (62)	(86) (76)	99 96	(1,425) (1,303)
Depreciation, amortization and impairment	(23) (23)	(171) (154)	(39) (43)	(33) (19)	(10) (8)	2 2	(274) (245)
Earnings from investment in joint ventures	1 10	– –	3 1	4 4	– –	– –	8 15
Net finance costs	(1) (1)	(97) (80)	(16) (15)	(40) (30)	5 3	(1) (4)	(150) (127)
Earnings before income taxes	39 71	342 279	64 116	15 22	40 33	(1) (1)	499 520
Income taxes	(12) (18)	(86) (71)	(17) (31)	(7) (3)	(5) (2)	– –	(127) (125)
Earnings for the period	27 53	256 208	47 85	8 19	35 31	(1) (1)	372 395
Adjusted earnings	24 47	101 97	25 45	11 10	10 10	1 –	172 209
Total assets ^(2,3)	917 960	12,401 11,611	1,551 1,619	1,375 1,296	534 542	(25) (18)	16,753 16,010
Capital expenditures ⁽⁴⁾	26 62	1,007 974	22 21	39 42	11 18	– –	1,105 1,117

(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 \$22 million and \$41 million (2013 – \$16 million and \$34 million) of interest capitalized during construction for the three and six months ended June 30, 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 June 30 is below.

2014	Structures & Logistics	Utilities	Energy	ATCO Australia	Corporate and Other	Intersegment Eliminations	Consolidated
Adjusted earnings	8	27	7	7	7	1	57
	21	30	30	5	3	–	89
Impairment	–	–	–	(6)	–	–	(6)
	–	–	–	–	–	–	–
Adjustments for rate-regulated activities	–	16	–	–	–	(1)	15
	–	8	–	1	–	–	9
Earnings attributable to Class I and Class II Shares	8	43	7	1	7	–	66
	21	38	30	6	3	–	98
Earnings attributable to non-controlling interests							64
							85
Earnings for the period							130
							183

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

2014	Structures & Logistics	Utilities	Energy	ATCO Australia	Corporate and Other	Intersegment Eliminations	Consolidated
Adjusted earnings	24	101	25	11	10	1	172
	47	97	45	10	10	–	209
Impairment	–	–	–	(6)	–	–	(6)
	–	–	–	–	–	–	–
Adjustments for rate-regulated activities	–	29	–	(1)	–	(1)	27
	–	7	–	–	–	(1)	6
Earnings attributable to Class I and Class II Shares	24	130	25	4	10	–	193
	47	104	45	10	10	(1)	215
Earnings attributable to non-controlling interests							179
							180
Earnings for the period							372
							395

Impairment

The Company has adjusted for a significant impairment relating to ATCO Power Australia's Bulwer Island power station (BIEP). The impairment was included in depreciation, amortization and impairment expense (see Note 4).

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 June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Additional revenues billed in current period:				
Future removal and site restoration costs ⁽¹⁾	7	7	15	13
Retirement benefits ⁽²⁾	(1)	1	–	1
Finance costs on major transmission capital projects ⁽³⁾	7	5	13	11
Impact of colder temperatures on revenues ⁽⁷⁾	1	–	5	–
Other	1	3	4	3
	15	16	37	28
Revenues to be billed in future period:				
Deferred income taxes ⁽⁴⁾	(10)	(7)	(24)	(18)
Transmission access payments ⁽⁵⁾	–	(11)	(1)	(13)
Transmission capital deferral ⁽⁶⁾	–	(1)	(1)	(5)
Impact of warmer temperatures on revenues ⁽⁷⁾	–	–	–	(2)
Impact of inflation on rate base for ATCO Gas Australia ⁽⁸⁾	(1)	(1)	(3)	(3)
Other	(2)	(1)	(2)	(5)
	(13)	(21)	(31)	(46)
Regulatory decisions related to current and prior periods:				
Information technology and customer care and billing services ⁽⁹⁾	14	–	14	–
Transmission access payment recoveries ⁽⁹⁾	2	8	10	12
Transmission capital deferral refunds ⁽⁹⁾	(5)	–	(5)	–
ATCO Gas Australia appeal decision ⁽⁹⁾	1	1	2	2
Weather recoveries ⁽⁷⁾	–	–	–	2
Other	1	6	1	10
	13	15	22	26
Intercompany profits:				
Intercompany profits related to construction of property, plant and equipment and intangibles ⁽¹⁰⁾	–	(1)	(1)	(2)
	15	9	27	6

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.

Description	Timing of Recovery or Refund
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.
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 (AUC) for recoveries from or refunds to customers when the net revenue variances exceed \$7 million at April 30th of any year for either of its North or South systems.

Description	Timing of Recovery or Refund
<p>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.</p>	<p>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.</p>
<p>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.</p>	<p>The Utilities recorded a reduction in adjusted earnings of \$14 million in the second quarter of 2014 for an AUC decision which disallowed a portion of the information technology and customer care and billing costs incurred in the period January 1, 2010 to June 30, 2014. Under IFRS, earnings will be adjusted when the AUC approves revised customer rates and the amount payable to customers is refunded through future billings.</p> <p>ATCO Electric is recovering from customers the higher than forecast transmission access payments incurred in the current and prior periods.</p> <p>In the second quarter of 2014, ATCO Electric refunded to customers amounts over-collected in 2011 for major transmission capital projects.</p> <p>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 were recognized under IFRS over 24 months from July 2012 to June 2014 as customers were billed.</p>
<p>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.</p>	<p>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.</p>

4. IMPAIRMENT

The Company recognized a pre-tax impairment of \$13 million relating to ATCO Power Australia's 33 MW Bulwer Island power station (BIEP) (ATCO Australia segment), which was included in depreciation, amortization and impairment expense. On April 2, 2014, BP announced it will cease refining operations at its oil refinery in Brisbane by mid-2015 and convert to an import terminal. Since BP is BIEP's only customer, this announcement has a direct impact on BIEP's ability to generate future revenues. Although BIEP management continues to pursue alternate commercial arrangements for the plant, no suitable economic replacement has been identified at this time.

BIEP is jointly owned with Origin Energy and the plant is accounted for as a finance lease. As a result, BIEP's lease receivable has been impaired. The impairment calculation was based on pre-tax cash flow projections of the separation payments due from BP, salvage value of the plant and the expected remaining lease payments assuming a plant closure date of December 31, 2014. This date reflects the Company's best estimate of the timing based on current commercial discussions. The expected future cash flows were discounted at a pre-tax rate of 12.4%, which was the original effective interest rate of the lease receivable. The remaining lease receivable of \$16 million has been reclassified to current assets as at June 30, 2014.

The related asset retirement obligation has been re-measured at June 30, 2014 to reflect the new estimated closure date of December 31, 2014.

5. 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	383	–	24	584	65	1,056
Disposals	(27)	(2)	–	–	(44)	(73)
Changes to asset retirement costs	–	5	–	–	11	16
Foreign exchange rate adjustment	59	–	3	2	13	77
June 30, 2014	12,799	1,971	727	2,231	1,586	19,314
Accumulated depreciation:						
December 31, 2013	2,894	1,153	150	–	660	4,857
Depreciation and impairment	154	32	11	–	49	246
Disposals	(27)	(2)	–	–	(33)	(62)
Foreign exchange rate adjustment	4	–	–	–	3	7
June 30, 2014	3,025	1,183	161	–	679	5,048
Net book value:						
December 31, 2013	9,490	815	550	1,645	881	13,381
June 30, 2014	9,774	788	566	2,231	907	14,266

Included in the additions to property, plant and equipment is \$41 million (June 30, 2013 – \$34 million) of interest capitalized.

6. SHORT TERM DEBT

At June 30, 2014, CU Inc., a wholly owned subsidiary of Canadian Utilities Limited, had \$585 million (2013 – \$30 million) of commercial paper outstanding with a weighted average interest rate of 1.17% (2013 – 1.12%). The maturity dates range between July 2014 and September 2014. The commercial paper is back-stopped by the Company's long-term committed credit facilities.

7. FAIR VALUE MEASUREMENTS

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

Recurring Measurements	Fair Value Hierarchy Level	June 30, 2014		December 31, 2013	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets					
Loans and Receivables:					
Lease receivables ⁽¹⁾	n/a	323	503	327	499
Financial Liabilities					
Amortized Cost:					
Long-term debt ⁽²⁾	Level 2	6,225	6,951	6,230	6,597
Non-recourse long-term debt ⁽²⁾	Level 2	150	178	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:

Recurring Measurements	Fair Value Hierarchy Level	June 30, 2014		December 31, 2013	
		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	784	(2)	681	(11)
Natural gas purchase contracts	Level 2	3,080,632 GJ	–	1,610,548 GJ	–
Forward power sales contracts	Level 2	497,625 MWh	(3)	182,400 MWh	–
Foreign currency forward contracts	Level 2	55	(2)	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 June 30, 2014, and December 31, 2013.

8. NON-CONTROLLING INTERESTS

On June 1, 2014, CU Inc., a wholly owned subsidiary of Canadian Utilities Limited, redeemed all outstanding 6.70% Cumulative Redeemable Preferred Shares Series 2 totaling \$160 million. The redemption was financed with available cash reserves and the issuance of commercial paper.

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

There were 101,605,923 (2013 – 101,517,112) Class I Non-Voting Shares and 13,637,405 (2013 – 13,656,816) Class II Voting Shares outstanding on June 30, 2014. In addition, there were 792,850 options to purchase Class I Non-Voting Shares outstanding at June 30, 2014, under the Company's stock option plan. From July 1, 2014, to July 24, 2014, no stock options were granted or cancelled, 25,700 stock options were 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		Six Months Ended	
	June 30		June 30	
	2014	2013	2014	2013
Average shares:				
Weighted average shares outstanding	114,833,728	114,835,366	114,808,476	114,784,158
Effect of dilutive stock options	343,151	373,649	331,326	358,563
Effect of dilutive mid-term incentive plan	307,279	335,885	325,425	336,393
Weighted average dilutive shares outstanding	115,484,158	115,544,900	115,465,227	115,479,114
Earnings for earnings per share calculation:				
Earnings for the period	130	183	372	395
Non-controlling interests	(64)	(85)	(179)	(180)
	66	98	193	215
Earnings and diluted earnings per Class I and Class II Share:				
Earnings per Class I and Class II Share	\$0.57	\$0.85	\$1.68	\$1.87
Diluted earnings per Class I and Class II Share	\$0.57	\$0.85	\$1.67	\$1.86

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 July 24, 2014, no shares have been purchased.

10. DIVIDENDS

Cash dividends declared and paid per share are as follows:

<i>(dollars per share)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Class I and Class II Shares	0.2150	0.1875	0.4300	0.3750

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.

11. RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2014, Canadian Utilities Limited issued 581,052 Class A non-voting shares under its dividend reinvestment plan (DRIP) (2013 – 880,900), using re-invested dividends of \$23 million (2013 – \$33 million). The Company participated in the DRIP by acquiring 315,093 Class A non-voting shares using re-invested dividends of \$12 million (2013 – 665,940 shares using re-invested dividends of \$25 million).

During the six months ended June 30, 2014, Canadian Utilities Limited issued 1,574,828 Class A non-voting shares under its dividend reinvestment plan (DRIP) (2013 – 1,758,094), using re-invested dividends of \$61 million (2013 – \$66 million). The Company participated in the DRIP by acquiring 1,045,348 Class A non-voting shares using re-invested dividends of \$40 million (2013 – 1,327,912 shares using re-invested dividends of \$50 million).

12. RETIREMENT BENEFITS

In June 2014, an actuarial valuation for funding purposes was completed for certain registered group defined benefit pension plans. Based on this valuation, employer contributions for 2014 will be \$41 million in 2014, a decrease of \$27 million from 2013.

13. SUBSEQUENT EVENT

In July 2014, the Company announced it has competitively outsourced its information technology (IT) services to Wipro Ltd. (Wipro), a global IT, consulting and business process services company. Wipro will provide the Company with a complete suite of IT services. Wipro will also acquire all the shares of ATCO I-Tek, including current contracts and employees, as well as the assets of ATCO I-Tek Australia. The sale is expected to close in the third quarter of 2014 subject to customary closing conditions. Aggregate proceeds from the sale are expected to be approximately \$210 million.

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