ATCO

Energy/Real Estate/Manufacturing

Annual Report 1979

Corporate Information

Contents

Directors

W. L. Britton
Partner, Jones, Black & Company, Calgary

B. P. Drummond*
President, Greenshields Inc., Montreal

E. N. Farch
President, ATCO Saudi Arabia Ltd.

G. A. Freeman**
Corporate Secretary, ATCO

A. Gates**
President, ATCO Drilling Division

G. P. Kiefer* **
Sr. Vice President, Manufacturing, ATCO

R. Rice*
Sr. Vice President, Citibank, N.A., New York

C. S. Richardson**
Sr. Vice President, Finance, ATCO

N. W. Robertson**
Sr. Vice President & Chief Operating Officer, ATCO

J. G. Scott**
President, International Division, ATCO

C. N. Simpson
President, C. Norman Simpson Consultants Limited, Vancouver

R. D. Southern**
President & Chief Executive Officer, ATCO

S. D. Southern
Chairman of the Board of Directors, ATCO

O. Steiner**
President, ATCO Housing & Development Ltd.

J. D. Wood**
President, ATCO North American Division

* Member — Audit Committee
** Member — Executive Committee

Officers

S. D. Southern
Chairman of the Board

R. D. Southern
President & Chief Executive Officer

M. Durdle
Assistant Secretary

G. A. Freeman
Corporate Secretary

A. Gates
President, Drilling Division

G. P. Kiefer
Sr. Vice President, Manufacturing

K. B. Purdie
Vice President, Controller

C. S. Richardson
Sr. Vice President, Finance

N. W. Robertson
Sr. Vice President & Chief Operating Officer

J. G. Scott
President, International Division

O. Steiner
President, Housing & Development Group

P. G. White
Vice President, Human Resources

Dr. J. D. Wood
President, North American Division

Counsel

Jones, Black & Company
Calgary, Alberta

Auditors

Price Waterhouse & Co.
Calgary, Alberta

Transfer Agents

National Trust Co. Ltd.
Calgary, Alberta

Stock Exchanges

The Toronto Stock Exchange
The Montreal Stock Exchange

Right: Board of Directors — ATCO Ltd.

Standing L to R — Dr. J. D. Wood, R. Rice, N. W. Robertson, A. Gates, R. D. Southern, C. S. Richardson, J. G. Scott, W. L. Britton, O. Steiner.

Seated L to R — C. N. Simpson, G. A. Freeman, S. D. Southern, G. P. Kiefer, B. P. Drummond

Missing from photo: E. N. Farch

ATCO LTD.

Financial Highlights

(Thousands, except per share data)

	1979	1978	Change
Total revenue	$368,269	$249,071	+48%
Net earnings	$ 18,226	$ 7,920	+130%
Preferred share dividends	$ 4,274	—	—
Earnings per common share	$ 2.64	$ 1.50	+76%
Dividends paid per common share	45.5¢	44.0¢	+3%
Working capital from operations	$ 35,239	$ 17,466	+102%
Working capital	$ 44,165	$ 33,030	+34%
Capital expenditures	$ 94,032	$ 22,003	+327%
Total assets	$444,708	$175,044	+154%
Common shareholders' equity	$ 91,700	$ 73,226	+25%
Common shares outstanding	5,290,590	5,280,340	—

R. D. Southern

N. W. Robertson

Report to Shareholders

The 1979 fiscal year operating results for the ATCO Group improved significantly over the previous year. Revenues totalled $368,269,000, an increase of 48% over the $249,071,000 reached in fiscal 1978. Current year's earnings were $18,226,000 compared with earnings of $7,920,000 in the prior year, an increase of 130%. Earnings per common share after preferred share dividends increased 76% to $2.64 from $1.50 in the previous year. Working capital increased 34% to $44,165,000 at the year end. Capital expenditures totalled $94,032,000 in addition to the approximately $71,000,000 spent to acquire the shares of Thomson Industries Limited.

This Annual Report reflects our view of ATCO as a company whose endeavours fall into the areas of Energy, Real Estate and Manufacturing. It is in these three areas that we see ample opportunities for future growth, be they internal or by acquisition.

The past year was the most active in our history and we believe it is fair to say that it was one of outstanding accomplishment. It has taken a year of hard work and total commitment by all ATCO personnel to complete the International Division reorganization, the acquisition of Thomson Industries Limited and the formation of the Alberta Land Development Company partnership in conjunction with Genstar Limited, The Mercantile Bank of Canada and The Toronto-Dominion Bank.

We continue to make excellent progress in the expansion of our Commercial Development Division. The office tower in downtown Calgary will be completed on schedule this fall within the original cost estimate.

Despite the magnitude of these accomplishments, our most difficult task and one we view with considerable pride, was the completion of a $70,000,000 capital expenditure program in our Drilling and Well Servicing Divisions while simultaneously assimilating these operating units into the ATCO Group. The capital expenditure program included the design and construction of 13 new electric SCR drilling rigs while the Well Servicing Divisions in Red Deer, Alberta and Corpus Christi, Texas, placed 11 rigs with capacities up to 25,000 feet in service. ATCO now operates 61 drilling rigs and 29 service rigs in Canada and the United States. These rigs incorporate the latest innovations in engineering and design which results in increased efficiency combined with reduced operating costs, particularly in the area of energy consumption. This latter feature will become very significant in the years ahead as energy costs rise more quickly than general inflation. In summary, this equipment backed by a continuing upgrading and maintenance program, well-trained, safety-conscious employees and dedicated management has allowed the Drilling and Well Servicing Divisions to become leaders in their fields.

Our Gas and Oil Division enjoyed another successful year. Despite the modest level of annual investment, we are establishing a meaningful level of hydrocarbon reserves which will prove beneficial to the Company over the long term. In future, we hope to augment these reserves through the further purchase of producing properties as well as the development of company acreage.

Our investment in the Alberta Land Development Company produced tangible results during fiscal 1979 through the supply of land to ATCO's housing operations. Until this year, the lack of a land inventory has restricted the growth of our Housing Divisions, particularly in the multi-family market. The assured land supply from Alberta Land Development Company has assisted ATCO in becoming a major factor in the Alberta housing industry.

In the manufacturing segment of ATCO's operations, the successful completion of a large number of export contracts, including the massive $45,000,000 housing project at Jubail on the East Coast of Saudi Arabia, confirmed ATCO as the world leader in resource housing. As was mentioned in last year's report, the reorganization of our International Division was a long, difficult chore but with the major problems behind us, we look forward to improved performance in the coming years.

Our Canadian and Australian domestic manufacturing operations, while not enjoying the most buoyant of economies, have improved their competitive position through extensive programs of product redesign and production efficiency. Present indications are that business conditions, as they affect these companies, are going to improve in the near future as several major resource development projects get underway in their respective market areas.

For some time now we have been concerned with our ability to adequately deal with the many and varied problems arising from ATCO's increasingly complex and diverse operations. To solve this problem, a number of Boards of Directors have been established to direct the affairs of the various operating units within ATCO. These Boards, which are composed of both internal and external members, cover the operating units within the Energy, Real Estate and Manufacturing segments. The Board of ATCO Ltd. continues its overall policy-making function and looks to these specialized Boards for advice and counsel in their areas of expertise.

During the year, the term loan arranged to finance the purchase of Thomson Industries Limited was repaid from the proceeds of a preferred share issue. In addition, the financing arranged for the purchase of drilling and service rigs was converted to an income debenture. As a result of these refinancings, the Company will enjoy reduced costs and increased cash flow over the next several years.

During February, your Board increased the quarterly dividend to 12.5¢ per common share. This increase recognizes both our shareholders' desire for a return on their investment and the Company's financial commitments.

A source of constant confidence and inspiration to us is the unique spirit and dedication of our ATCO people. As mentioned previously, growing and adapting a company like ATCO to meet the challenges of today is not an easy task. Our people make it possible — in ATCO's case this is a demonstrable fact and our Directors join with us in extending to everyone in ATCO our appreciation on behalf of our shareholders.

May we also thank once again all of the men and women who are Directors of ATCO and its subsidiaries. Their knowledge, experience, and counsel is of inestimable value in making the many difficult policy and strategy decisions facing the management of an expanding company.

Finally, we want to thank the thousands of ATCO customers and thousands of ATCO shareholders whose confidence we respect and whose support we enjoy.

If you use ATCO's products or services, if you work for ATCO or if you invest in ATCO, we believe we are building a company of which you can be proud, and a company that will continue to grow and prosper in the years ahead.

N. W. Robertson
Chief Operating Officer

R. D. Southern
Chief Executive Officer

Energy

Top right: Drille... Mustang Rig # 15 op... controls at the driller...

Below: ATCO partn...

Bottom Right: ATCO producing ...

Gas and Oil

As a result of recent management changes, all of ATCO's gas and oil activities are now consolidated in a single organization structure. Since ATCO is active in both Canada and the United States, this common management provides the flexibility necessary to take advantage of investment opportunities throughout North America.

During the past fiscal year, capital investment in exploration for and development of oil and gas reserves has been as follows:

Thousands of dollars	Canada	U.S.A.	Total
Drilling	$1,676	$ 223	$1,899
P&NG Acquisition	695	1,081	1,776
Equipment	378	197	575
Geophysics	179	61	240
TOTAL	$2,928	$1,562	$4,490

Increases in revenue have been achieved both as a result of price increases and increased production.

Thousands of dollars	Canada	U.S.A.	Total
Gross Income (after royalties)	$2,034	$508	$2,542
Operating Expenses	455	99	554
PRODUCTION INCOME	$1,579	$409	$1,988

During the year, ATCO participated in the drilling of 77 wells. The results of this drilling are summarized below:

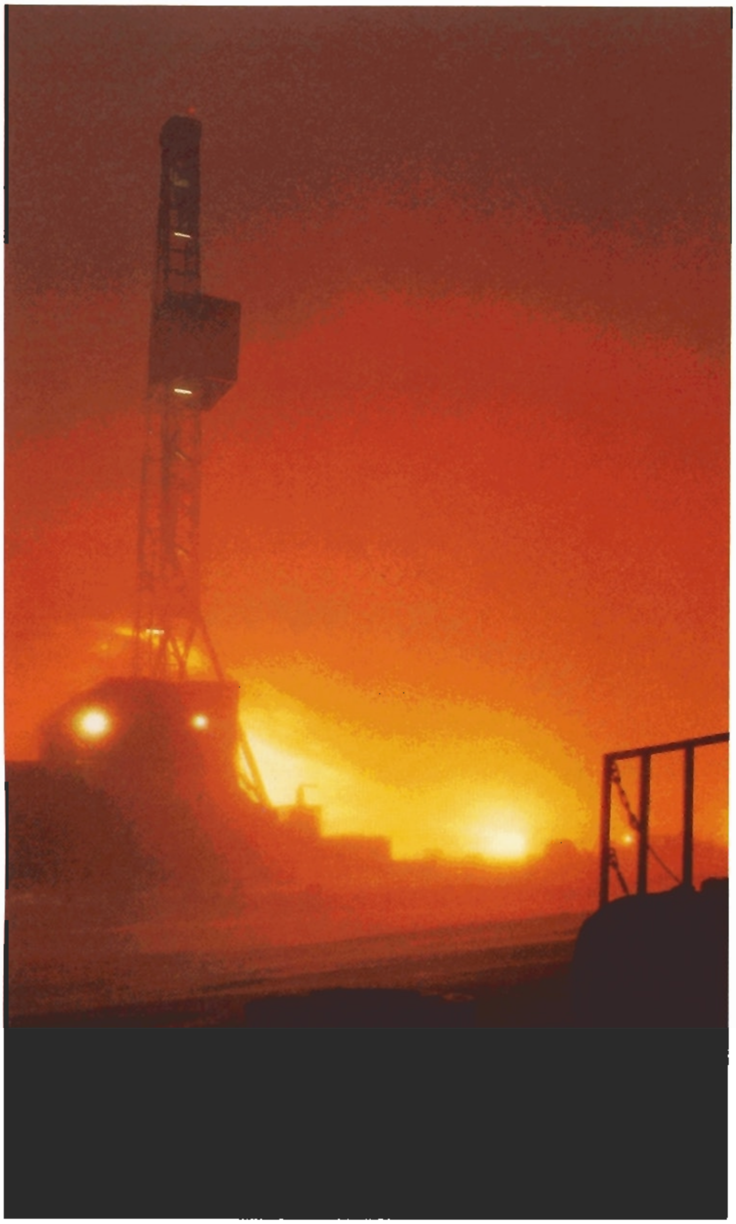
	Canada	U.S.A.	Total
Oil Wells	20	3	23
Gas Wells	16	0	16
D & A Wells	27	11	38
TOTAL	63	14	77

The oil and gas group now has an interest in 150 wells producing or capable of producing oil or natural gas.

	Canada	U.S.A.	Total
Producing Oil Wells	36	11	47
Producing Gas Wells	43	3	46
Shut-in Gas Wells	56	1	57
TOTAL	135	15	150

ATCO has an interest in 457,000 gross acres of petroleum and natural gas rights equivalent to 124,000 net acres. Approximately 39,000 acres are classified as productive and the remaining is currently non-productive acreage on which the majority of the 1980 drilling program will be conducted.

The Company's share of crude oil and natural gas reserves, as established by independent consulting engineers in Canada



Photograph courtesy Pan Ocean Oils Ltd

Left: M[illegible]

Top: ATCO has an interest in 180 wells producing or capable of producing oil or natural gas.

Above: ATCO's gas plant near Sedalia, Alberta.

and the U.S.A., is summarized below. All reserves and production are ATCO's net share after deducting lessor and overriding royalties.

	Proven	Probable	Total
Gas Reserves			
(millions of cubic feet)	10,368	4,344	14,712
Crude Oil Reserves			
(thousands of barrels)	383	568	951

As can be seen from the foregoing data, the continuing investment by ATCO in the oil and gas industry has resulted in a progressive growth in both production income and hydrocarbon reserves. Crude oil and natural gas prices to producers are expected to increase at a rate greater than inflation and, as cash flow accelerates, increased investment is anticipated.

ATCO remains optimistic regarding the North American petroleum industry, despite unfavorable market conditions for Canadian natural gas. Because of the strategic nature of gas and oil reserves, it is inevitable that the consumer will be asked to pay more for these non-renewable resources and this increased cash flow will offset increased finding costs enabling producers to maintain a reasonable return on their investment.

Contract Drilling

The past fiscal year was one of challenge and success for ATCO Drilling. The challenges were the rigging up and operation of thirteen new diesel electric rigs, the construction of a maintenance facility in

Left: Mustang SCR electric rig near Crossfield, Alberta.

Bottom left: Mustang crew making drill pipe connection on floor of rig operating in Central Alberta.

Below: Servicing an ATCO rig at the new maintenance facility in Nisku, Alberta.

Nisku, Alberta, and the opening of new field offices in Nisku and Bryan, Texas. The successes were measured in terms of the record revenue and earnings recorded in fiscal 1979.

In addition to $55,000,000 for the new rigs, an additional $4,000,000 was spent upgrading existing rigs to increase operating efficiency. A further $16,000,000 was spent on rig maintenance to ensure continuity of operation and avoid costly breakdowns. As Canada's largest land driller, ATCO now operates 40 rigs of varying depth capabilities in Western Canada and 21 rigs in the United States divided between Texas and the Rocky Mountain region. Two additional rigs will be added in the third quarter of fiscal 1980. Approximately 1,150 wells were drilled during the year as rig utilization reached 82%. This is very close to the maximum practical activity level considering the need to relocate and rig-up for each drilling site.

Drilling Rig Location and Capacities
(Drilling depth capability in feet)

Rig Locations	Up to 3,000	Up to 9,000	Up to 15,000	Up to 22,000	Total
Texas	—	—	10	—	10
Rocky Mountain area	—	6	5	—	11
Western Canada	10	16	11	3	40
TOTAL	10	22	26	3	61

During the past year, emphasis on the development of heavy oil reserves in the Lloydminster area has increased significantly. Up to the present time, this drilling work has been serviced mainly by regular rigs modified as required. The performance of these rigs, while adequate,

Above: ATCO places emphasis on safety and training for all employees.

Above right: ATCO Drilling is one of the largest shareholders of Calgary-based Western Rock Bit Ltd.

Right: Target unit capable of running 12,000 feet of steel tubing into a well in 2 hours.

can be improved upon and ATCO now has a program underway to design rigs specially suited to heavy oil conditions.

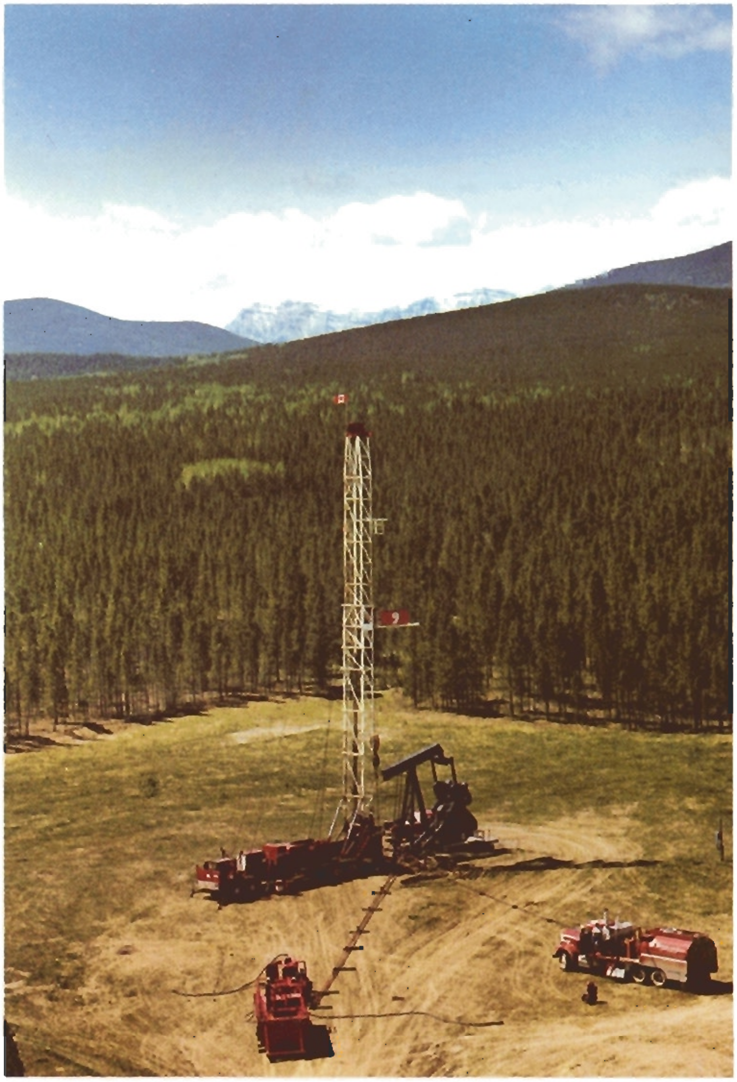
Since the drilling business is essentially one of service, skilled manpower is essential to the quality of service offered to customers. In order to assist ATCO's employees in providing this service, heavy emphasis has been placed on safety and training with several new programs initiated during the past year. The Company now has three mobile classrooms which provide technical training at the wellsite in addition to a centralized training center in Nisku.

During the past year, drilling activity in Canada reached record heights while U.S. activity reached the highest level since 1959. There has been a good deal of speculation as to how long the current level of activity will continue, however, indications are that the uncertainty of foreign energy supplies coupled with the stated government objectives of self-sufficiency and increasing prices in both Canada and the United States will create a sustained favorable environment for both gas and oil drilling.

In fiscal year 1979, ATCO Drilling became one of the largest shareholders in Western Rock Bit Ltd. by increasing its interest to approximately 15% of the outstanding shares. Western Rock Bit is an industry-owned and Calgary-based company manufacturing bits and pressure vessels. In addition, the Company distributes a variety of items to the petroleum, mining, pipeline and construction industries as well as to a broad cross-section of industrial users.

Well Servicing

Target Well Servicing now operates a total of seventeen rigs in Western Canada. The record rate of exploration during the past year has provided a buoyant market for these rigs. Because of the high demand for drilling rigs, Target's rigs have on occasion been diverted to drilling operations and



Left: Target rig #9 on location near Caroline, Alberta

Top: L & M Oilfield Equipment warehouse facility

Above: L & M Oilfield Equipment storage yard in Edmonton

further work will be performed in this field as opportunities arise. One interesting aspect of Target's work in the past year has been the washing out of underground salt deposits in the Fort Saskatchewan area of Alberta so that these underground caverns will be available for propane storage required to meet periods of peak demand. In order to cope with the increasing activity forecast for the future, a new shop and office complex is under construction in Red Deer, Alberta.

At the beginning of the fiscal year, Target Well Servicing Inc., headquartered in Corpus Christi, Texas, was operating 4 new service rigs and took delivery of 8 additional rigs through November 1978. This major equipment acquisition program was completed both on schedule and within budget.

The impending deregulation of United States gas and oil prices is expected to create an unprecedented demand for well-servicing equipment and Target, with its modern rigs and experienced staff, is well positioned to capitalize on this market opportunity.

Service Rig Location and Capacities
(Drilling depth capability in feet)

Rig Locations	Up to 10,000	Up to 15,000	Up to 20,000	Up to 25,000	Total
Canada	4	4	7	2	17
United States	—	10	2	—	12
TOTAL	4	14	9	2	29

Equipment Rentals and Sales

L & M Oilfield Equipment (1975) Ltd. enjoyed another successful year in the renting and selling of specialty oilfield equipment. Rental revenue increased by approximately 60% during fiscal 1979 and the rental equipment inventory has been enlarged to take advantage of market opportunities. Operating from a modern, efficient facility in Edmonton, the Company is well situated to service its customers in Alberta, Northeastern British Columbia and the heavy oil areas of Saskatchewan.

Real Estate

Top: Artist's renderings of the major shopping centre planned for a 50-acre site in Airdrie.

Above: Airdrie To... rental/office comp...

Opposite page: Th... to occupy ATCO's eighteen-sto... in downtown Calgary in Septem...

Left: ATCO Development Dir... Marg Southern and Otto Steme... Ltd.'s Board Chairman, Don S... the Topping Off ceremony of ATCO... modern highrise, Project 800.

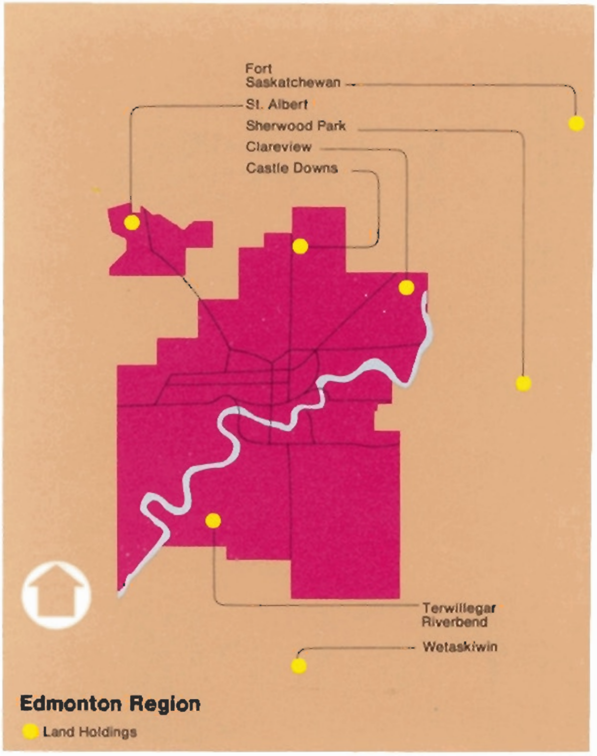
Commercial and Industrial Development

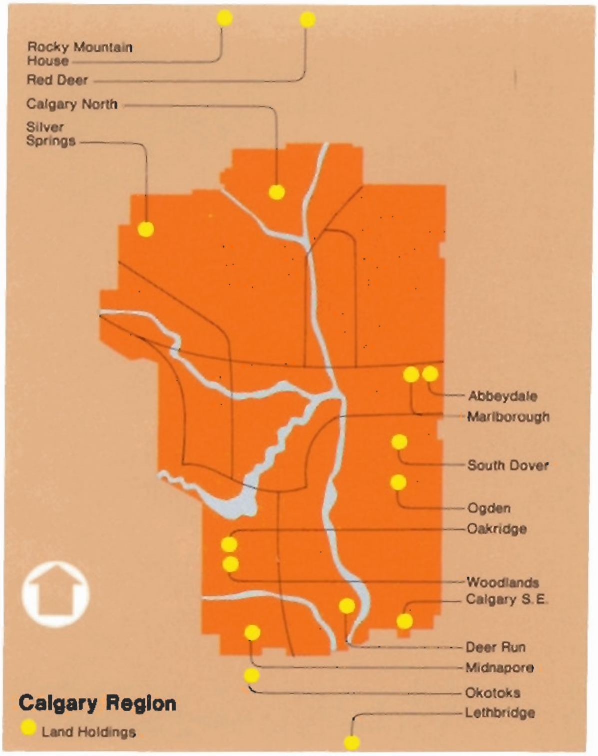
ATCO Development Corporation continued to increase its range of activities during the past twelve months. Phase II of the Vista Industrial Centre located in the Highfield Industrial area of Calgary is now complete. All of the 150,000 square feet of warehouse/industrial space has been leased and six of the seven buildings sold.

The first tenants are scheduled to occupy the eighteen-storey office tower located in downtown Calgary in September 1979. The anchor tenant, Kaiser Oil Ltd., will lease in excess of 50% of the building which when complete will become the major holding in ATCO's real estate portfolio.

ATCO Development has a very busy and what promises to be an exciting year ahead with land acquired and preliminary planning underway for several major projects. These include a major shopping center on 50 acres in Airdrie, an office/warehouse complex on a 20-acre site in Red Deer, and a multi-family/commercial development on a 20-acre site adjacent to a future light-rapid transit route in Calgary.

These projects, along with others for which land is presently being acquired, ensure the future growth of ATCO Development in the Alberta market.





Top: Maps of Alberta Land Development Company land holdings

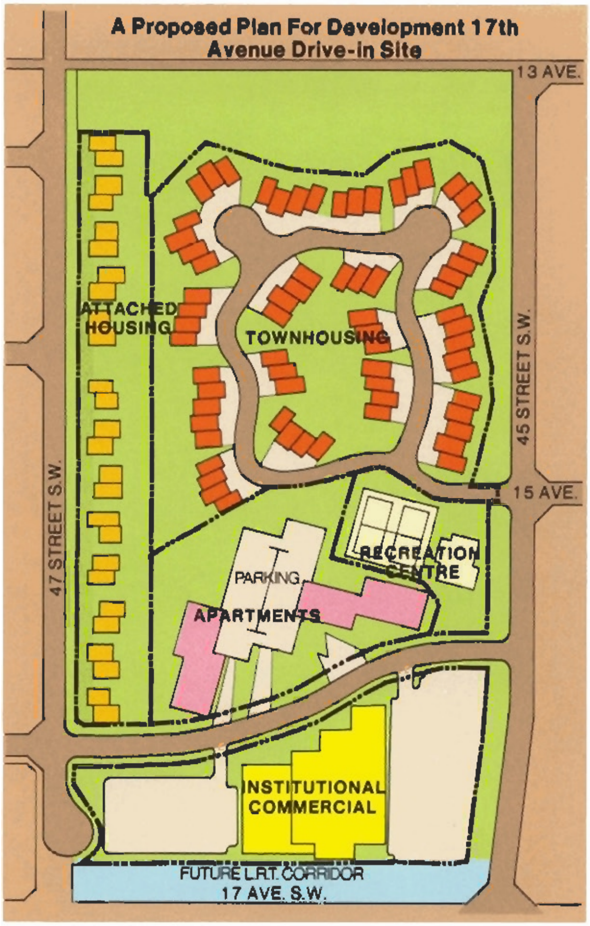
Left: "Georgian Village", a quality 234-unit condominium project in Calgary

Above: [illegible] home in [illegible]

A number of commercial sites will be generated by Alberta Land Development Company and will provide excellent locations for a variety of commercial developments in Alberta during the next few years. Other markets are being continually studied, however, present plans call for a concentration of activity in Alberta as long as it remains the most active real estate market in North America.

ATCO's entrance into the Alberta Land Development Company partnership in January of 1978 was, without doubt, the most significant step the Company has taken in real estate since residential building was first undertaken in Calgary and district some ten years ago.

The partnership owned at inception some 13,500 acres of prime land which, except for small amounts in Red Deer and Lethbridge, is strategically located in or adjacent to the two fastest-growing cities in Canada — Edmonton and Calgary. This land development partnership provides ATCO with access to a continuing supply of residential and commercial land as well as a share of the profit from development activities.



Left: Pr[illegible] commer[illegible] opmen[illegible] adjacent [illegible] Calgary

Below: [illegible] program ensures after-sale satisfaction

Bottom: ATCO single family homes [illegible] and Edmonton feature attractive exte[illegible] quality interiors

Residential Housing

The Southern Division of ATCO Housing Corp. continues to experience a high degree of success in the Calgary market area. The Airdrie Meadows Subdivision was sold out ahead of schedule while the 234-unit Georgian Village Condominium project was completed.

The Northern Division of ATCO Housing is headquartered in Edmonton and operates a branch in the City of Red Deer. In addition to the popular Edmonton subdivisions of Castle Downs and Clareview, the Division also marketed houses in nearby Fort Saskatchewan, Gibbons and Morinville as well as Red Deer and the adjacent towns of Blackfalds, Sylvan Lake and Lacombe. A highlight of the coming year is the multi-family condominium projects proposed for construction in several Edmonton subdivisions.

The buoyant Alberta residential housing market has attracted several builders from other parts of Canada. In this environment of increased competition, the land inventory of the Alberta Land Development Company will be an important factor in ATCO's future growth and prosperity in the industry.

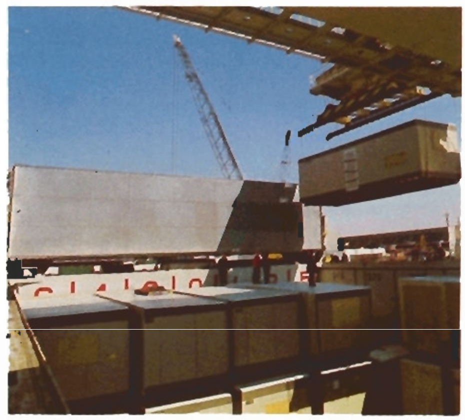
Manufacturing

Left: One of ATCO [illegible]
manufacturing facili[illegible]

Bottom left: Workf[illegible]
L.N.G. project in Al[illegible]

Below: Motel built f[illegible]

Bottom right: Vessel [illegible] loaded with ATCO
units bound for Iraq and Abu Dhabi



Export Industrial Housing

Continued emphasis on market diversification in the International Division resulted in sale of industrial housing and related services to a great many countries throughout the world.

In addition to providing manufacturing support for ATCO Saudi Arabia Ltd., the International Division received contracts in Libya, Abu Dhabi, Iraq, Egypt, Tunisia, Nigeria and Venezuela.

In Iraq, a significant number of capital spending programs are underway. ATCO has provided housing for these projects to several international companies including Sybetra of Belgium and Food Development Corp. of the United States. The Australian factories received contracts for housing at technical colleges in Kirkuk and Babylon in Iraq as well as for the Khor-Al-Jubair port expansion project. Other contracts were completed in Vietnam, North Yemen and New Caledonia. In Venezuela, the government-owned Petroleos De Venezuela is conducting an aggressive exploration and refinery modification program in support of which ATCO supplied housing facilities to such firms as Exxon/Lagoven and Fluor/Lagoven.

ATCO Saudi Arabia

The operations of ATCO Saudi Arabia Ltd. have now emerged from the development stage and under the management of experienced senior ATCO personnel, the Company has become the leading supplier of industrial housing in the Kingdom.

The Head Office is located in the capital city of Riyadh, while western operations are centered in Jeddah and the eastern market is served from Dammam. Service centers and new unit inventory are maintained in both

Top left: Workers live in [illegible] SATOL's barge in Saudi [illegible]

Top right: Kitchens in Jub[illegible] modern as in any large first [illegible]

Left: [illegible]-man camp built for the R[illegible] Comm[illegible] for Jubail and Yanbu[illegible] Arabi[illegible]

Above: [illegible] Supertruss building for ADGII in Abu Dhab[illegible]

Jeddah and Dammam to facilitate delivery and maintenance operations.

During the past year, a number of significant contracts were completed, including the $45 million Jubail housing development and the 600-man training complex erected on the grounds of the Jeddah Royal Palace. Work on a 5,000-man mobilization camp for the Ministry of Defence and Aviation at the King Abdul Aziz Military Academy north of Riyadh, is underway with completion scheduled for late this year.

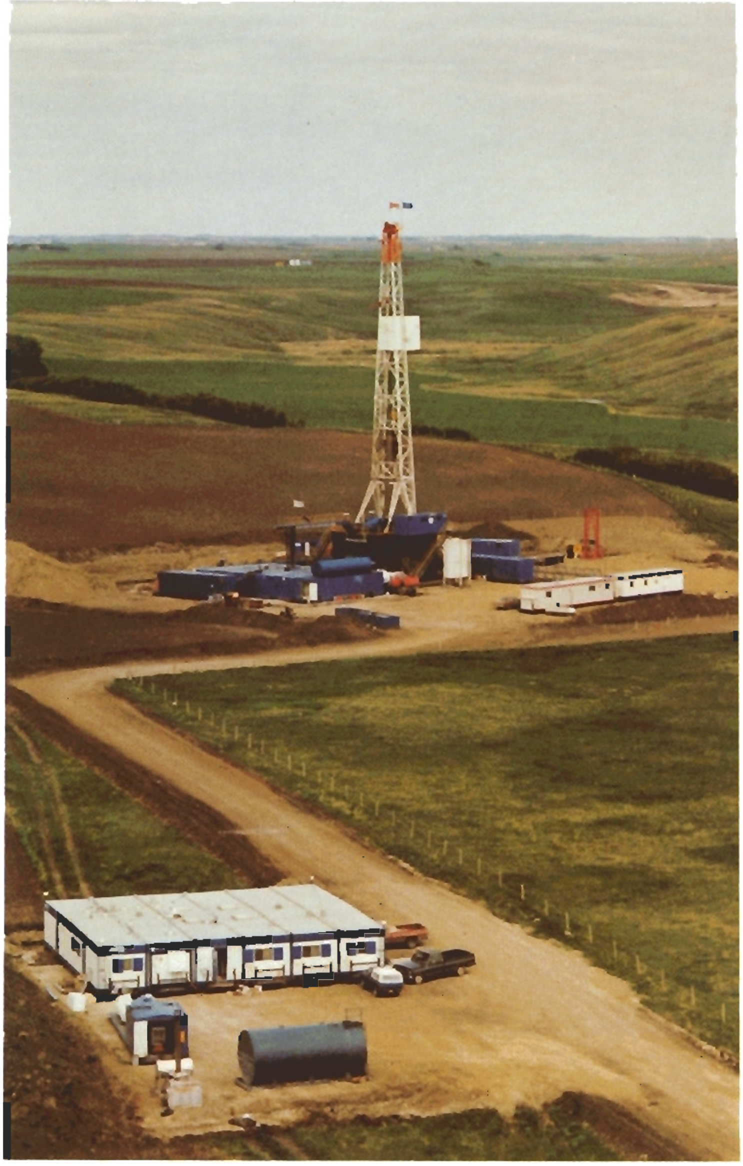
The complexity of the Saudi Arabian market requires special solutions for special problems. There is no better example of this than SATOL's unique relocatability requirement where the housing was erected on a barge prepared by SATOL. Plans are underway to provide a second tier of accommodation on the same barge.

The high level of activity in Saudi Arabia is expected to continue as the Kingdom emerges as the dominant political and economic force in the Middle East. With autonomous local management, ATCO is well positioned to respond to business opportunities as they arise.

Domestic Industrial Housing

With the exception of the most intensive search in history for conventional sources of oil and gas in the Province of Alberta, the industrial housing market in Western Canada and Alaska continued its modest level of activity during the past year.

Conversely, ATCO Structures Inc., headquartered in Alaska, is experiencing increased demand for industrial housing in the lower 48 states. In the oil and gas industry, American firms are turning to ATCO for industrial housing to solve their



Left: ATCO designs and builds the most sophisticated drilling camps and support systems in the world

Top: ATCO units being installed on the Ranger Uranium Project at Jabiru, Northern Territory, Australia

Above: The Alberta Gas Ethylene camp near Joffre, Alberta is the most advanced design on the market today

personnel accommodation problems. To meet these requirements and others, such as the 40-man camp ATCO provided through the federally funded Youth and Adult Conservation Corp in Yellowstone National Park, ATCO Structures Inc. has opened an office in Denver, Colorado.

In Alaska itself, ATCO received its first contract from the Tyonek Housing Corporation for native housing. These structures, designed for high energy efficiency and low-maintenance costs, are the beginning of a major housing program.

In Eastern Canada, the combination of political uncertainty and reduced government spending depressed economic growth in both the private and public sectors. Major natural resource investment was confined to the James Bay Project and to Hydro Quebec activities. ATCO continues to be a major supplier in both of these areas.

Capital investment levels in Australia were modest in fiscal 1979, however, the year culminated in the receipt of a contract for the manufacture, transportation and installation of a 500-man work force camp for the Ranger Uranium project at Jabiru in the Northern Territory.

In all segments of ATCO's domestic industrial housing market, the future looks most promising with a large number of resource development projects scheduled for early commencement. These projects include uranium developments in Australia, hydro electric projects in Eastern Canada and heavy oil, tar sands and pipeline projects in Western Canada.

Project Management

In Australia, ATCO recently entered the project management field by obtaining a major design and engineering contract with

Left: 700 competitors and offic[illegible] eleventh Commonwealth Gam[illegible] Edmonton, Alberta were housed in ATCO [illegible]

Bottom left: Attractive ATCO [illegible] office

Below: [illegible] unique designs suitable for a variety of applications

Bottom right: The R.C.M.P. selected ATCO units for remote police detachments in Northern Alberta

Hammersley Iron Pty. Ltd. at Dampier, Western Australia. Based in Perth, Western Australia, the Division provides design support for other ATCO operating units throughout Australia.

Commercial Structures

The aesthetic appeal of ATCO commercial structures, combined with the traditional flexibility and durability of the Company's relocatable structures, has resulted in an expanding market for this product line.

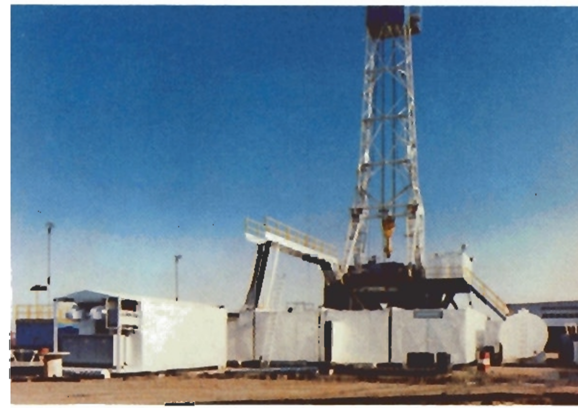
In addition to providing sales and commercial offices throughout Canada, these structures have been the basis for projects as diverse as a medical clinic for the Rockyview Hospital in Calgary, Alberta to a boutique in St. Pierre, Manitoba.

The education community again turned to ATCO to solve their facility requirements with portable classrooms including 24 such units for the Calgary Public School Board. In addition, the Royal Canadian Mounted Police selected ATCO as their major supplier of self-contained, remote Northern Canadian police detachments at such locations as Hay River, Snowdrift, Fort Norman, Fort Franklin, Rae Point and Climax.

Leasing

During fiscal 1979, ATCO continued to upgrade and expand its industrial housing and office lease fleet, already the largest in the world. During the Eleventh Commonwealth Games in Edmonton, Alberta, ATCO provided housing for over 700 participants as well as more than 75 offices for a variety of uses including event timing, equipment storage, broadcasting equipment, press coverage and officials' quarters.

In Eastern Canada, a comprehensive marketing program resulted in an increase i ATCO's share of the office rental market while Australian rental unit utilization remained high throughout last year as a result of the extension of contracts for construction camps for Bechtel Corporatio at Mt. Newman and for Eglo Engineering a their Bass Strait offshore oil platform site.



Top left: Modular sulphur processing plant built for Procor Limited in Calgary

Top right: The new High River Airport in Southern Alberta features ATCO metal cladding

Above: ATCO steel drilling rig support systems

Bottom left: Australian factory/office complexes

Metal Fabrication

Greater penetration in traditional markets and the successful entry into the resource market enabled ATCO Metal Ltd. to record increased sales and earnings during the 1979 fiscal year.

Industrial expansion in the Western Provinces has resulted in increased demand for cladding products and this trend is expected to continue in the 1980's. Although the Western Canadian mobile home industry experienced a year of declining shipments, ATCO Metal achieved increased sales by broadening its customer base. While the market for industrial camps experienced sporadic activity, pending approval of several large resource projects will make this a growth market for the Company in the early 1980's.

The highlight of ATCO Metal's year was its successful entry into the resource-oriented market. ATCO Metal has become a leading supplier to this market with the major products including steel camps, camp support systems and drilling rig support buildings. The Company's largest project in the past year was the design and manufacture of an all-steel camp and life-support system for Nabors Drilling Ltd. The life-support system included facilities for water and sewage treatment, power generation and garbage incineration.

During the coming year, ATCO Metal's efforts will be directed at expanding their resource products market and developing the pre-engineered building business to its full potential.

While the Australian economy provided limited opportunity for growth in the metal building industry during fiscal 1979, ATCO Constructions Pty. Ltd. received contracts for factory/office complexes in New South Wales and South Australia while a community sports and recreation facility was built in the State of Victoria. Sales to the Middle East again contributed to the Company's success and to support this market, metal buildings are now being inventoried in Saudi Arabia.

ATCO mobile and modular homes are beautifully appointed inside and out

Mobile and Modular Homes

Although the mobile home market remained soft, ATCO improved its penetration in Alberta during the past year. One result of the continuing low sales level has been a high rate of attrition at the dealer and manufacturer levels. This is a natural consequence of the prolonged slump in the industry and, while in many ways a negative factor, it does permit the ongoing manufacturers to maintain more economical production volumes.

The development of mobile/modular home subdivisions by the City of Calgary in Huntington Hills and the Alberta Housing Corporation in Airdrie provided a major outlet for ATCO's product. Another positive factor was the agreement reached between Central Mortgage and Housing Corporation and the Canadian Manufactured Housing Institute allowing all mobile homes manufactured after January 1, 1979 to qualify for CMHC financing, provided they are permanently fixed to real property.

In British Columbia, the first six months of fiscal 1979 saw a major decline in shipments of mobile homes, however, in September the Provincial Government initiated a mobile home assistance program featuring grants or second mortgages for mobile home purchasers. These grants and mortgages, which apply to units located on both private property and in mobile home parks, facilitate the purchase of homes by low income families and will have a beneficial effect on future sales.

During the last quarter of the fiscal year, the Pacific Division was formed to consolidate all ATCO operations in the Province of British Columbia under a single management team. Simultaneously, the Penticton factory commenced the manufacture of industrial housing to augment its mobile home production. This organization will allow for improved efficiencies through coordinated management and increased utilization of the production facility. The initial industrial housing produced in the plant included four

Top left: Interior of Z[illegible] Restaurant in Calgary

Bottom left: Interior of the Glenmore Inn [illegible] Calgary

Below: ATCO cabinet display [illegible] Homexpo

16-unit, two-storey barrack blocks manufactured for British Columbia Hydro's use at their Revelstoke Power Project.

Because of a depressed housing market in Australia, the Homes Division operations were combined with those of industrial housing. Prospects for improvement in the coming year are good because of the general upturn in the economy, recovery of the rural sector from three years of severe drought, and the appointment of Elder, Smith, Goldsborough, Mort Ltd., Australia's largest stock and station agents to represent ATCO Homes as selling agent through their 58 regional outlets in South Australia.

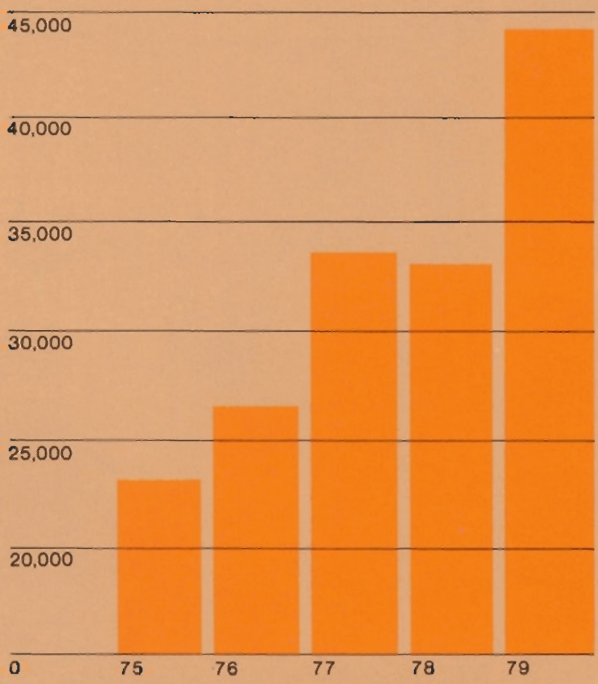
Millwork and Interior Finishing

The sale of modular kitchen cabinets to both new home builders and multi-family project contractors increased throughout the past year. A showroom has been opened in the ATCO Industrial Park to facilitate customer viewing of the various kitchen cabinet models available. In March 1979, well in advance of the Federal Government's deadline for such a changeover, ATCO Components completed the redesign of its kitchen cabinet product line to the metric system.

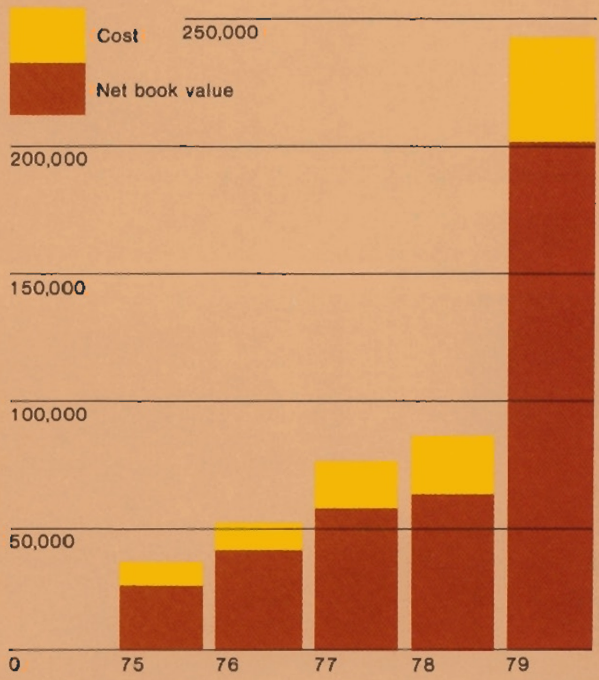
The Calgary interiors market was slower than in previous years, however, with over three million square feet of office and commercial space being completed in the coming year, the Interiors Division is looking forward to a significant increase in activity. During the past year, installations were completed for a variety of clients including the Stampeder Motor Hotel, Petromark Minerals Ltd., Czar Resources Ltd., Zorba's Restaurant, the Main Branch of the Royal Bank of Canada and the executive offices of Canada Safeway Limited.

The Company was recently awarded a contract for the supply of laboratory furniture to the Calgary Children's Hospital during 1980. With increased funding available from the Alberta Government for capital projects, definite improvement in the institutional casework market is expected over the next several years.

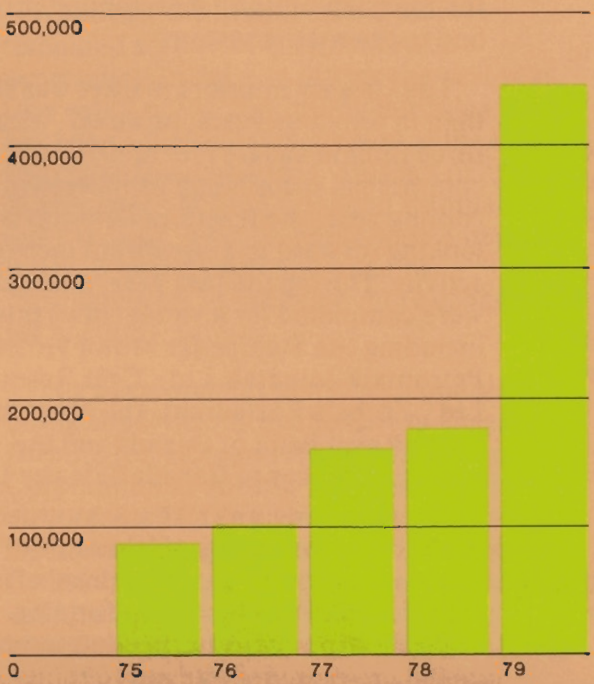
Financial Report



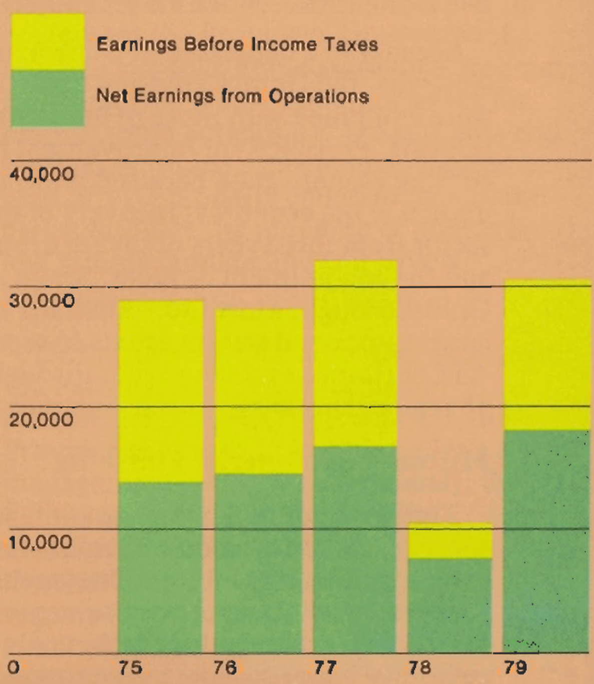
Working Capital
($ in Thousands)



Property, Plant, Equipment and Rental Assets
($ in Thousands)



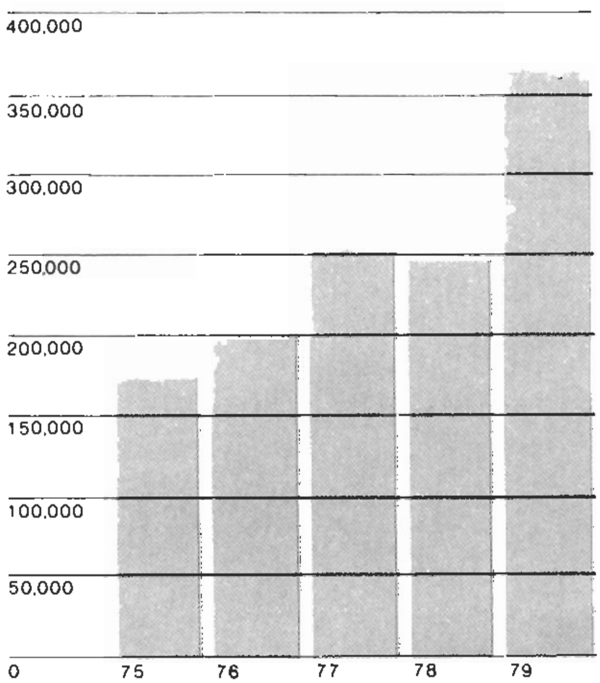
Total Assets
($ in Thousands)



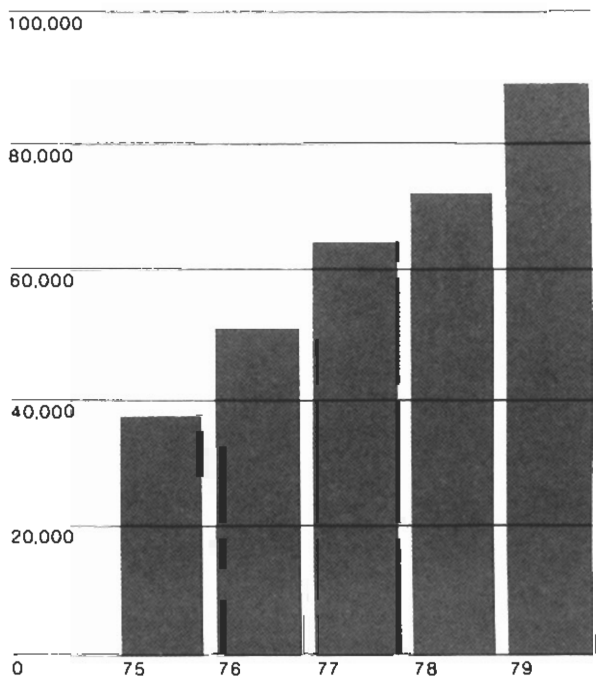
Earnings from Operations
($ in Thousands)

(Thousands of Canadian dollars, except per share data)

	Year Ended March 31				
	1975	1976	1977	1978	1979
Sales, rentals and service revenue	$177,456	$205,602	$258,432	$242,546	$357,727
Other revenue	2,599	3,197	2,724	6,525	10,542
	180,055	208,799	261,156	249,071	368,269
Operating costs	127,192	150,131	188,110	190,330	255,348
	52,863	58,668	73,046	58,741	112,921
Selling and administrative expense	19,144	24,974	30,037	35,848	45,081
	33,719	33,694	43,009	22,893	67,840
Interest expense	1,576	1,334	1,986	2,759	16,987
	32,143	32,360	41,023	20,134	50,853
Depreciation, depletion and amortization	3,177	4,191	8,938	9,821	20,096
	28,966	28,169	32,085	10,313	30,757
Income taxes	14,301	13,180	15,103	1,672	11,958
	14,665	14,989	16,982	8,641	18,799
Minority interests	298	199	216	721	573
NET EARNINGS	$ 14,367	$ 14,790	$ 16,766	$ 7,920	$18,226
Earnings per common share	$2.75	$2.82	$3.19	$1.50	$2.64



Revenue
($ in Thousands)



Common Shareholders' Equity
($ in Thousands)

Auditors' Report

To the Shareholders of ATCO LTD.

We have examined the consolidated statement of financial position of ATCO LTD. as at March 31, 1979 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. For ATCO LTD., for its subsidiaries and for the joint ventures of which we are the auditors and which are consolidated or accounted for by the equity method in these financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For the Alberta Land Development Company partnership which is accounted for by the equity method, we have relied on the report of other auditors who have examined its financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at March 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We have also examined the accompanying pro forma consolidated statement of financial position and in our opinion, it presents fairly the pro forma consolidated financial position of ATCO LTD. as at March 31, 1978, as it would have appeared had the acquisition of Thomson Industries Limited been completed at that date, in accordance with generally accepted accounting principles. With respect to our opinion on the pro forma consolidated statement of financial position, insofar as it relates to the amounts included for Thomson Industries Limited, we have relied on the report of other auditors who examined the consolidated financial statements of that company.

Price Waterhouse & Co.

Chartered Accountants

Calgary, Alberta
May 31, 1979

ATCO LTD.

Consolidated Statement of Earnings

(Thousands of Canadian dollars, except per share data)

	Year Ended March 31	
	1979	1978
Revenue:		
Sales, rentals and service —		
Manufacturing	$204,014	$219,656
Housing and property development	34,956	22,236
Energy related activities	118,757	654
Other (Note 9)	10,542	6,525
	368,269	249,071
Costs and expenses:		
Operating	255,348	190,330
Selling and administrative	45,081	35,848
Depreciation, depletion and amortization	20,096	9,821
Interest (Note 9)	16,987	2,759
	337,512	238,758
Earnings before income taxes and minority interests	30,757	10,313
Provision for income taxes — current	6,167	1,210
— deferred (Note 10)	5,791	462
	11,958	1,672
Earnings before minority interests	18,799	8,641
Minority interests	573	721
Net earnings for the year	$ 18,226	$ 7,920
Earnings per common share, after preferred share dividends	$2.64	$1.50

(Thousands of Canadian dollars, except per share data)

	Year Ended March 31	
	1979	1978
Retained earnings at beginning of year	$66,413	$60,813
Add — Net earnings for the year	18,226	7,920
	84,639	68,733
Deduct —		
Dividends paid		
Preferred shares (Note 8)	4,274	—
Common shares	2,404	2,320
	6,678	2,320
Retained earnings at end of year	$77,961	$66,413
Dividends paid per common share	45.5¢	44.0¢

ATCO LTD.

Consolidated Statement of Financial Position

(Thousands of Canadian dollars)

ASSETS

	March 31		
	1979	Pro forma (Note 2)	1978
Current assets:			
Cash	$ 19,307	$ 4,642	$ 1,859
Accounts receivable	67,095	58,354	33,056
Income taxes recoverable	—	254	2,363
Accrued revenue on contracts, less payments received	26,280	12,543	12,543
Inventories (Note 3)	51,656	34,786	33,858
Prepaid expenses	3,730	1,628	1,342
	168,068	112,207	85,021
Deposits (Note 5)	36,806	38,690	21,300
Investments in joint ventures and partnership (Note 11)	17,658	1,856	1,856
Rental assets, at cost less accumulated depreciation of $7,645 ($7,126 in 1978)	32,012	31,650	31,650
Property, plant and equipment, at cost less accumulated depreciation and depletion (Note 4)	171,181	118,071	32,102
Goodwill, at cost less accumulated amortization (Note 2)	15,814	16,123	368
Other	3,169	3,808	2,747
	$444,708	$322,405	$175,044

Approved by the board:

Director

Director

LIABILITIES

	March 31		
	1979	Pro forma (Note 2)	1978
Current liabilities:			
Outstanding cheques, less related bank balances...	$ 10,714	$ 7,169	$ 4,668
Current bank loans (Note 6)	31,883	19,178	14,120
Accounts payable and accrued	74,137	48,745	30,571
Income taxes payable	1,268	—	—
Long term debt due within one year	5,901	2,932	2,632
	123,903	78,024	51,991
Long term debt, less amounts due within one year (Note 7)	95,328	51,800	23,379
Deferred income taxes (Note 10)	21,455	15,664	9,557
Minority interests	2,322	1,891	1,891
	119,105	69,355	34,827
Shareholders' equity: (Note 8)			
Preferred shares issued by a subsidiary company	100,000	80,000	—
Preferred shares issued by ATCO LTD.	10,000	15,000	15,000
Common shares	5,639	5,513	5,513
Contributed surplus	8,100	8,100	1,300
Retained earnings	77,961	66,413	66,413
	201,700	175,026	88,226
	$444,708	$322,405	$175,044

Consolidated Statement of Changes in Financial Position

(Thousands of Canadian dollars)

	Year Ended March 31	
	1979	1978
Source of working capital:		
Working capital provided by operations	$ 35,239	$ 17,466
Proceeds of long term debt	144,661	5,892
Proceeds on disposal of rental assets	14,311	8,585
Proceeds on disposal of property, plant and equipment	11,415	1,190
Issue of common shares	126	46
Issue of preferred shares —		
By ATCO LTD.	—	16,300
By a subsidiary	106,800	—
Deposits (Note 5)	21,300	—
Drawings from partnership	1,303	—
	335,155	49,479
Application of working capital:		
Additions to rental assets	14,807	14,190
Additions to property, plant and equipment	79,225	7,813
Acquisition of Thomson Industries Limited, net of working capital acquired of $1,153	69,749	—
Advances to joint ventures and partnership	11,569	1,710
Reduction in long term debt	99,641	2,499
Deposits (Note 5)	36,806	21,300
Redemption of preferred shares	5,000	—
Dividends paid —		
Preferred shares	4,274	—
Common shares	2,404	2,320
Other	545	766
	324,020	50,598
Increase (decrease) in working capital	11,135	(1,119)
Working capital at beginning of year	33,030	34,149
Working capital at end of year	$ 44,165	$ 33,030

1. SUMMARY OF ACCOUNTING POLICIES:

Consolidation:

The consolidated financial statements as at March 31, 1979 and for the year then ended and the pro forma consolidated statement of financial position as at March 31, 1978 include the accounts of ATCO LTD. (formerly ATCO Industries Ltd.) and all of its subsidiaries.

The consolidated financial statements as at March 31, 1978 and for the year then ended do not include the accounts of Thomson Industries Limited ("Thomson") and its subsidiaries. The acquisition of Thomson was completed in April 1978.

The subsidiaries of ATCO are wholly owned with the exception of two Australian subsidiaries which are 85% owned and the Saudi Arabian subsidiary which is 75% owned. Thomson has been accounted for as wholly owned since it is anticipated that the 2% not now owned will be obtained when those shareholders have been identified. Provision has been made for the estimated cost thereof.

During fiscal 1979, ownership of the two Australian subsidiaries was increased from 70% to 85%. ATCO has an option to acquire the remaining 15%.

The former President of the principal Australian subsidiary has an option, exercisable in the 1980 fiscal year, to acquire 10% of the outstanding shares of that subsidiary for a consideration based upon its book value at March 31, 1973. In anticipation that the option will be exercised (having regard for certain buy-back arrangements included in the option agreement), provision for the potential charge has been made and accounted for as a minority interest.

ATCO's investments in unincorporated land and property development joint ventures and a partnership are accounted for by the equity method.

Foreign currency translation:

Unless otherwise indicated all dollar amounts are expressed in Canadian funds. Accounts in foreign currencies have been expressed in Canadian dollars as follows:

Current assets and liabilities — at the approximate rates prevailing at the year end.
Other assets and liabilities — at historical rates.
Earnings — at the approximate average rates for the year except for the provisions for depreciation and amortization which have been translated at historical rates.

Gains and losses resulting from translation of foreign currency accounts into Canadian dollars are included in earnings (see Note 9).

The countries in which ATCO operates do not have, at this time, foreign exchange controls or restrictions which would materially affect the company's ability to repatriate funds in the normal course of business.

Revenue:

Revenues are recognized in the accounts as follows:

- Industrial units:
  - Sales from inventory or the rental fleet are recorded when two of the following conditions have been met: units are (i) shipped, (ii) invoiced, or (iii) paid for.
  - Sales resulting from the supply of units to the customer's order are recorded by the percentage of completion method as each unit is manufactured or supplied and, when major on site installation contracts are involved, as identifiable stages of the work are completed. Revisions in cost and profit estimates during the course of the work are reflected in the accounting period in which the facts which require the revision become known. At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss is accrued.
- Mobile home sales are recorded upon payment or guarantee of financing which generally coincide with shipment.

- Residential home sales are recorded at the time of possession.
- Rental contracts with purchase options are recorded either as sales or rentals depending on the amount of guaranteed rentals.
- Day rate drilling contract revenues are recorded as the work progresses while revenues from footage drilling contracts are recorded when contract depths are attained.
- Other sales are generally recorded as goods are shipped or services performed.

Inventories:

Inventories are carried at the lower of cost or estimated net realizable value. Land held for development includes capitalized carrying costs.

Depreciation:

Depreciation methods and rates, per annum, based on cost are as follows:

Straight line method	
Industrial rental units	10%
Drilling rigs	6% to 10%
Well servicing rigs	10%
Leasehold improvements, including buildings on leased property	ATCO Industrial Park in Calgary to 1992; others over term of lease and first renewal period, if any.
Declining balance method	
Other buildings, furniture, fixtures and equipment	5% to 30%

Assets in Saudi Arabia are depreciated at double the above rates.

Amortization:

Plant start up costs are amortized by the straight line method over periods not exceeding five years.

The excess of the cost of the Thomson acquisition over the estimated fair market value of the assets at date of acquisition ("Goodwill") is amortized by the straight line method over 30 years.

Gas and Oil:

The successful efforts method of accounting is followed for gas and oil exploration and development activities. Acquisition, successful exploration and all development costs identifiable with specific leases are capitalized as gas and oil properties. Exploratory dry hole, lease rental and geophysical and geological costs are charged to expense as incurred. When it is determined that a property is not capable of production, the capitalized costs are charged to expense. Costs associated with a producing property are depleted by the unit of production method over the estimated remaining proven reserves of the property.

Warranty:

Provision is made for estimated warranty obligations.

Income taxes:

The tax allocation method of accounting for income taxes is followed whereby tax provisions are based on the income shown in the accounts and taxes relating to timing differences (mainly depreciation and warranty) between accounting income and taxable income are deferred. Investment tax credits are taken into income (see Note 10).

Earnings per share:

Earnings per common share are calculated on the weighted average number of shares outstanding during the year. Provision is made for preferred share dividends when calculating earnings per common share. Fully diluted earnings per common share are not significantly different.

The Companies Act of British Columbia:

These financial statements comply with the disclosure requirements of the Alberta Companies Act and the securities legislation of certain Canadian provinces, but do not purport to comply with all the disclosure requirements unique to the Companies Act of British Columbia.

Reclassification:

Certain fiscal 1978 figures have been reclassified to conform with fiscal 1979 presentation.

2. ACQUISITION OF THOMSON INDUSTRIES LIMITED:

On March 3, 1978 ATCO offered to purchase, for cash, all shares of Thomson at U.S. $20 per share. Approximately 98% of the shares have been acquired. ATCO intends to acquire the remaining 2% at U.S. $20 per share and the resulting approximate amount payable has been included in long term debt.

Thomson is a drilling and well servicing contractor and is also involved in oil and gas exploration and development in Canada and the United States and sells and rents oilfield equipment in Canada.

The assets, liabilities, revenues and expenses of Thomson have been consolidated with those of ATCO commencing April 1, 1978, the effective date of acquisition. For comparative purposes, the assets and liabilities of Thomson were consolidated with those of ATCO in the March 31, 1978 Pro Forma Consolidated Statement of Financial Position on the basis outlined below.

The total purchase price, including costs related to the acquisition ($1,135,000), amounted to $70,902,000.

During fiscal 1979, preliminary estimates of the fair market value of the property and equipment of Thomson were refined and the excess of the cost of acquiring Thomson over the book value of Thomson, at April 1, 1978, has been allocated as follows:

	(Thousands of dollars)		
	Book Value	**Allocation of Excess**	**Purchase Price**
Current assets	$29,295	$ —	$29,295
Current liabilities	28,142	—	28,142
Working capital	1,153	—	1,153
Property and equipment:			
Drilling rigs and related equipment	33,163	36,303	69,466
Well servicing rigs and related equipment	8,023	392	8,415
Gas and oil properties	3,669	2,281	5,950
Other	2,138	—	2,138
	46,993	38,976	85,969
Other assets	1,061	—	1,061
Goodwill	250	15,505	15,755
	49,457	54,481	103,938
Long term debt	26,929	—	26,929
Deferred income taxes	6,107	—	6,107
	33,036	—	33,036
	$16,421	$54,481	$70,902

Prior to March 31, 1978 arrangements were made to finance the acquisition and to provide Thomson with additional capital. Arrangements were also made for Thomson to borrow up to $67.8 million for the purchase of new drilling and service rigs and rental equipment and the upgrading of existing rigs as well as the retirement of certain existing Thomson long term debt. The initial financing arrangements were changed during fiscal 1979 as follows:

	(Thousands of dollars)		
	Initial Financing	Changes	Present Financing
ATCO:			
Issue of Preferred Shares by ATCO LTD. and resulting contributed surplus	$16,300	$ (5,000)	$11,300
Approved long term debt less amount not drawn of $3,500	64,400	(64,400)	—
Issue of Series A and B Preferred Shares by wholly owned subsidiary and resulting contributed surplus (used for retirement of above to the extent of $69.4 million)	—	86,800	86,800
	$80,700	$ 17,400	$98,100
Thomson:			
Approved long term debt plus exchange of $597	$68,397	$(68,397)	$ —
Above debt converted to Income Debentures	—	68,397	68,397
	$68,397	$ —	$68,397

The Pro Forma Statement of Financial Position as at March 31, 1978 has been restated from that presented previously to reflect both the refinements in the allocations of the excess of the purchase price over the net book value of Thomson and the changes in the initial financing.

3. INVENTORIES:

	(Thousands of dollars)		
	1979	*Pro forma*	*1978*
Materials, parts and supplies	$12,988	$ 9,342	$ 8,414
Work in progress	14,810	11,684	11,684
Finished units	13,337	10,863	10,863
Land, developed and undeveloped	10,521	2,897	2,897
	$51,656	$34,786	$33,858

4. PROPERTY, PLANT AND EQUIPMENT:

	(Thousands of dollars)		
	1979	Pro forma	1978
Land and improvements	$ 2,700	$ 2,507	$ 2,246
Leasehold improvements, including buildings on leased property	9,841	11,430	11,245
Buildings, furniture and fixtures	17,073	17,139	16,121
Plant and automotive equipment	13,700	14,917	13,418
Drilling rigs and related equipment	129,649	75,099	—
Well servicing rigs and related equipment	18,873	10,365	—
Gas and oil properties	13,018	11,469	4,983
	204,854	142,926	48,013
Less: Accumulated depreciation and depletion	33,673	24,855	15,911
	$171,181	$118,071	$32,102

5. DEPOSITS:

Proceeds from the issue of subsidiary company Preferred Shares which were surplus to the requirements for retirement of the Thomson acquisition financing (see Notes 2 and 8) and certain proceeds of insurance claims and asset disposals are invested in certificates of deposit and use is restricted to approved capital expenditures and acquisitions.

Deposits of $21.3 million at March 31, 1978 were used for the acquisition of Thomson Industries Limited.

6. CURRENT BANK LOANS:

A majority of the current bank loans are secured by one or more of accounts receivable, inventories, property, plant and equipment and a floating charge on the assets of the applicable subsidiaries.

7. LONG TERM DEBT:

(Thousands of dollars)

Title	Summary of Main Security (i)	Interest Rates (ii)	Repayment Terms	1979	Pro forma	1978
ATCO LTD.						
Term Bank Loan Debenture Due March 31, 1985	These two debentures rank equally and are secured by a fixed charge on real estate and a floating charge on all assets of ATCO LTD.	8% on the first $3,000 and prime plus 2% on the balance.	Annual installments of $250 increasing to $833 from March 31, 1983 to 1985.	$ 3,250	$ 3,500	$ 3,500
Term Bank Loan Debenture Due March 26, 1982		Prime plus 1¼%.	Quarterly installments of $125.	1,500	2,000	2,000
Term Bank Loan Debenture (Undrawn $12,500) Due December 31, 1993	First fixed charge on Alberta properties and a floating charge on all assets of ATCO LTD.	Prime plus 2% to a maximum of 11¾%	60 Quarterly installments commencing the first quarter of the year following each draw. With respect to amount drawn at March 31, 1979, quarterly installment is $125.	6,864	7,364	7,364
Term Bank Loan Due April 1, 1993	Assignment of partnership interest in Alberta Land Development Company.	Prime plus 2¼%.	Repayable in annual installments of $300 to 1981, $800 from 1982 to 1992 and $700 at December 31, 1993 to the extent that funds are received from the Alberta Land Development Company.	10,058	–	–
Thomson Industries Limited						
Income Debentures Due January 1, 1987	Debentures with fixed and floating charges on the Company's assets subject to certain permitted encumbrances.	Approximately 52% of prime plus 1¼% on U.S. funds and 52% of prime plus 1% on Canadian funds.	Minimum installments of U.S. $2,446 and Canadian $1,209 in fiscal 1980, U.S. $5,616 and Canadian $2,775 in fiscal 1981 to 1986 and U.S. $5,560 and Canadian $2,741 in fiscal 1987. Additional payments may be required based on a formula related to funds generated by operations.	(iv) 68,397	25,729	–

Title	Summary of Main Security (i)	Interest Rates (ii)	Repayment Terms	1979	Pro forma	1978
Other						
Mortgage and other loans	Mainly charges on specific operating assets	Averaging 10%	Various	11,160	16,139	13,147
				101,229	54,732	26,011
Less: Amounts due within one year (iii)				5,901	2,932	2,632
				$95,328	$51,800	$23,379

(i) The terms of the above debt include restrictions relating to the payment of dividends by both ATCO and Thomson, and to capital expenditures, new debt, inter company loans, fees, guarantees and performance bonds and letters of credit. Covenants also require the maintenance of specified working capital and debt to equity ratios. Failure to pay interest or principal amounts and to keep covenants constitute events of default and may result in the holders demanding repayment.

The Company has agreed to pay and indemnify holders of Income Debentures to the extent of any reduction on the holders' net after tax return from the income debentures, caused by changes in law.

Terms of the ATCO debentures restrict dividends payable by ATCO LTD., including the restriction that each year's dividends may not exceed 50% of the preceding year's consolidated net earnings.

(ii) The term "prime" has been used to describe rates which may be Canadian prime, the bank's best commercial lending rate, the bank's best U.S. lending rate, the U.S. base rate to Canadian borrowers, the London Interbank Offering Rate, etc.

(iii) The minimum annual repayments of long term debt over each of the next five fiscal years are as follows (based on March 31, 1979 exchange rates):

1980	1981	1982	1983	1984
$5,901	$13,291	$12,596	$11,070	$10,998

(iv) If translated into Canadian dollars at year end exchange rates, the income debentures including amounts due within one year, would increase by $575. This amount, which is not necessarily indicative of the amount which will ultimately be required to repay the obligation, will vary in direct relation to foreign exchange rates.

8. SHAREHOLDERS' EQUITY:

Preferred shares issued by a subsidiary company:

On November 16, 1978 a wholly owned subsidiary of ATCO LTD. created and issued cumulative redeemable preferred shares as follows:

Series A, First Preferred	
400,000 shares with a par value of $100 each	$ 40,000,000
Series B, First Preferred	
400,000 shares with a par value of $100 each	40,000,000
Series 1, Second Preferred	
200,000 shares with a par value of $100 each	20,000,000
	$100,000,000

The Series A, First Preferred Shares were issued, are redeemable and dividends are payable in United States dollars. An amount of U.S. $40 million was received, resulting in a contributed surplus of $6.8 million. Of the total funds received, $32 million has not been expended and use is restricted to approved capital expenditures and acquisitions (see Note 5).

Dividends on all series of Preferred Shares are payable monthly, calculated daily as 52% of prime rate (see Note 7 (ii)) plus 1½%.

The Preferred Shares shall be redeemed, at par, in equal semi annual installments of Canadian $3 million and U.S. $2 million commencing October 1, 1980 and continuing until April 1, 1990. Any of the Preferred Shares may be redeemed earlier subject to certain restrictions and penalties.

The subsidiary has agreed to pay and indemnify holders of Preferred Shares to the extent of any taxes or charges, which arise directly as a result of such holders' acquisition or ownership of the Preferred Shares, imposed by any taxing authority in Canada through a change in law.

The Preferred Shares are the subject of a sale agreement wherein ATCO LTD. agrees upon certain events occurring to purchase the Preferred Shares. This sale agreement is secured by a floating charge debenture of U.S. $90 million issued and pledged by ATCO LTD. and by hypothecation of the Thomson Industries Limited shares. The sale agreement is also secured by guarantees and pledge of a U.S. $90 million floating charge debenture of the subsidiaries (excepting Thomson and its subsidiaries).

Terms relating to the Preferred Shares include restrictions on capital expenditures, new debt, inter company loans and guarantees and performance bonds. Covenants also require the maintenance of specified working capital and debt to equity ratios.

Failure to pay dividends, redeem shares or keep covenants constitute events of default and may result in the holders of the Preferred Shares demanding payment under the terms of the sale agreement.

Preferred shares issued by ATCO LTD.:

	(Thousands of dollars)		
	1979	Pro forma	1978
Authorized:			
3,000,000 Preferred Shares with a par value of $25.00 each			
Issued:			
200,000 Series 1, cumulative redeemable......	$ —	$ 5,000	$ 5,000
400,000 Series 2, cumulative redeemable......	10,000	10,000	10,000
	$10,000	$15,000	$15,000

The Series 1 Preferred Shares were redeemed during fiscal 1979 with no penalty.

The Series 2 Preferred Shares are redeemable in ten equal annual installments of U.S. $1 million commencing June 30, 1984 (or in advance under certain circumstances). Dividends, in U.S. dollars, are payable monthly at one half the bank's prime rate (see Note 7 (ii)) plus 2%.

Failure to pay dividends or redeem shares constitute events of default.

Common shares:

Common shares without nominal or par value, which may be issued for a maximum consideration not to exceed $10 million are as follows:

	Number of shares	
	Authorized	Issued
Class A shares..	7,000,000	3,931,086
Class B shares..	7,000,000	1,359,504
		5,290,590

The two classes of shares are convertible into an equal number of the other class at the option of the shareholder. Each class of shares ranks equally in all respects.

Changes in issued common shares during the year are as follows:

	Number of Shares	Share Capital
Outstanding at March 31, 1978	5,280,340	$5,513,000
Issued for cash upon exercise of options	10,250	126,000
Outstanding at March 31, 1979	5,290,590	$5,639,000

Share option plan:

ATCO has reserved 264,000 common shares for purchase by certain officers, directors and key employees.

Options have been granted, exercisable cumulatively over five years, to certain officers and key employees. At March 31, 1979 a total of 219,350 options were outstanding at prices ranging from $12.15 to $16.77 per share.

Share option equivalents:

In addition to the above share options, 314,400 share option equivalents (at a deemed base value) have been granted to certain officers, directors and key employees. The equivalents provide on redemption, generally five years after date of issue, for payment equal to the equivalent of the appreciation of the closing trade price on the Toronto Stock Exchange over the deemed base value, plus the deemed dividends related thereto.

9. SUPPLEMENTARY INFORMATION:

- The aggregate direct remuneration paid to directors and senior officers amounted to $1,486,000 ($1,244,000 in 1978).
- Other revenue includes the following items:
  - net foreign exchange gains of $28,000, including translation gains of $1,103,000 ($2,662,000 and $2,036,000, respectively in 1978), and
  - interest income of $4,619,000 ($428,000 in 1978).
- Interest of $13,818,000 ($2,167,000 in 1978) was incurred on long term debt, of which $115,000 (Nil in 1978) was capitalized.
- Included in 1978 "selling and administrative" expenses were costs of approximately $1,100,000 related to the relocation of employees during a corporate reorganization.

10. INCOME TAXES:

The effective rate of income tax in the consolidated statement of earnings is affected by:

- non taxable foreign earnings.
- investment tax credits.
- Canadian 3% inventory allowance.
- Canadian manufacturing and processing tax deduction.
- unrealized foreign currency translation gains.
- non deductible interest paid on income debentures.
- non deductible depreciation and amortization relating to the Thomson acquisition.

As a result of current additions to property, plant and equipment, the companies have become entitled to investment tax credits aggregating $4,321,000 and the fiscal 1979 provision for income taxes has been reduced by this amount. Of the total, $828,000 has been claimed against current income taxes payable. The balance of $3,493,000 has been carried forward and is claimable against future taxes payable over the next 5 to 7 years. In the opinion of management the companies will earn taxable income sufficient to claim these credits within the carry forward periods and accordingly such credits have been recorded in fiscal 1979 as a reduction in deferred income taxes.

The earnings of certain foreign subsidiaries are subject to withholding taxes if repatriated to Canada in the form of dividends. Provision has been made for such potential taxes only to the extent that such dividends are anticipated.

The companies carry on business in certain foreign countries where taxation laws and regulations are complex and uncertain. It is management's opinion that adequate provisions have been made for income taxes related to such business.

11. INVESTMENTS IN JOINT VENTURES AND PARTNERSHIP:

On May 4, 1978 (but with effect from January 1, 1978), ATCO became a limited partner in the Alberta Land Development Company which was formed to acquire, develop and market approximately 13,000 acres of land in Alberta. On a non recourse basis (but subject to the contingency referred to below), ATCO borrowed $10 million from a Canadian bank and advanced that amount to the partnership. ATCO is entitled to receive annual interest on the advance at a rate in excess of the rate payable to the bank on the loan, has the annual right to purchase (at the then fair value) a percentage of the available developed land, and is entitled to receive that percentage of the annual development profits of the partnership as determined after deducting the agreed January 1978 retail value of the land. Such percentages are significantly less than the entitlements of the majority partner.

Subject to the contingency, the advances, together with interest, are to be paid to ATCO only to the extent that the partnership has available cash and ATCO is only required to pay the bank loan and interest from cash received from the partnership.

Under certain limited circumstances, ATCO is contingently liable for direct repayment of the loan (plus interest) from the bank.

ATCO also has investments in property and development joint ventures. ATCO's share of both the joint ventures' and partnership's pre tax earnings, including interest income, which aggregate $5,536,000 ($108,000 in 1978) is included in "Housing and property development" revenue.

12. COMMITMENTS AND CONTINGENCIES:

ATCO has contractual obligations in respect of long term leases for manufacturing facilities, office premises and equipment. The rentals amounted to $2 million for fiscal 1979. The minimum rental commitment during the five year period ending March 31, 1984 aggregates $4.8 million.

United States treasury officials are investigating the basis followed by ATCO in determining United States customs and duty payments since fiscal 1969. These investigations are still in progress and the officials have not indicated whether they intend to issue assessments. In the opinion of counsel, claims will probably be asserted. Management is of the opinion that no material amount will ultimately be payable.

ATCO is contingently liable under the terms of repurchase agreements by which it assists its dealers in financing mobile home purchases. The risk of loss, which is spread over numerous dealers and financing institutions, is limited to the originally financed principal balance and declines as scheduled reductions or dealer curtailments take place. No material losses are anticipated.

ATCO has the usual commitments of contractors for completion of contracts and is contingently liable with respect to letters of credit and guarantees for approximately $12.9 million ($23 million in 1978). The letters of credit are issued in the normal course of business in lieu of performance bonds and guarantees under the terms of certain foreign contracts.

ATCO Worldwide Organization

Beginning with the rental of utility trailers in Calgary, the Company was founded in 1946 by S. D. Southern, now Chairman of ATCO Ltd.

ATCO's growth has been dramatic — the result of both internal expansion and acquisitions. The Company has taken its place as one of the top corporations in Canada, employing more than 5,000 people.

ATCO's mix of activities in energy, real estate and manufacturing yields the advantages of vertical integration and ensures the stability, productivity and profitability of the Company as a whole.

The Company has the capability of applying resources relating to its areas of expertise anywhere in the world, whether they be financial resources, the skill resources of its people, or material resources such as equipment and products.

ATCO is organized on divisional lines and through its operating subsidiaries in Canada, the United States, Australia and Saudi Arabia, the Company is a leader in a variety of industries.

The Drilling Division manages subsidiaries involved in North American land-based oil and gas drilling.

The International Division supervises manufacturing in Canada, the United States and Australia for international markets and maintains sales offices and service facilities throughout the world.

The North American Division is responsible for manufacturing, sales and distribution of ATCO products, housing and property development, gas and oil exploration and development, and oilfield services in Canada and the United States.

To optimize the significant opportunities presented by the diverse nature of ATCO's products and markets, several Boards of Directors, comprised of members with special expertise, have been established. These Boards, operating within clearly defined terms of reference from the Board of ATCO Ltd., deal quickly and comprehensively with the multitude of unique situations which arise within the operating subsidiaries under their jurisdiction.


ATCO Drilling Inc.
Contract drilling
UNITED STATES
ATCO Drilling Ltd.
Contract drilling
CANADA
ATCO Development Corporation
Property development/management
ALBERTA, CANADA
ATCO Housing Corp.
Single & multi-family housing
ALBERTA, CANADA
ATCO Structures
Industrial, commercial & community structures; modular homes
AUSTRALIA & EXPORT MARKETS
ATCO Structures Inc.
Industrial, commercial & community structures
UNITED STATES
ATCO Structures
Industrial, commercial & community structures
WESTERN CANADA
ATCO Saudi Arabia Ltd.
Industrial, commercial & community structures; modular homes
SAUDI ARABIA
ATCO Project Consultants
Design, engineering & project management
AUSTRALIA & EXPORT MARKETS
ATCO Pacific
Industrial, commercial & community structures; mobile & modular homes
BRITISH COLUMBIA & YUKON TERRITORY, CANADA
Energy
Real Estate
Manufacturing
ATCO
ATCO Ltd.
Corporate Head Office
ATCO Group of Companies
CALGARY, ALBERTA
CANADA

Corporate Directory

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R. D. Southern, *President & Chief Executive Officer*
N. W. Robertson, *Senior Vice President & Chief Operating Officer*
C. S. Richardson, *Senior Vice President, Finance*
G. P. Kiefer, *Senior Vice President, Manufacturing*
K. B. Purdie, *Vice President, Controller*
P. G. White, *Vice President, Human Resources*
G. A. Freeman, *Corporate Secretary*

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London, England
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