ATCO Ltd.

Annual Report 1984

Company Profile

Divisions and affiliated companies of ATCO Ltd. are active in utilities through the generation and distribution of electricity, and the production and distribution of natural gas; in natural resources through gas and oil exploration and production, natural gas processing and marketing, contract drilling, well servicing and oilfield equipment; in manufacturing through industrial housing, metal buildings and roll-form cladding and in real estate through commercial development and residential housing.

Company Mission

To achieve an international reputation for excellence by providing products and services to the energy and resource industries and to invest principally in energy-related assets in North America.

Contents

"The people of ATCO are the key to our abilities and capabilities."

ATCO Ltd.

Years ended March 31

(Thousands except share data)	1984	1983	Change
Revenues	**$ 1,610,339**	$ 1,723,129	– 7%
Earnings for the year	**$ 18,533**	$ 40,691	– 54%
Earnings (loss) attributable to Class I and Class II shares	**$ (3,171)**	$ 14,690	– 122%
Earnings (loss) per Class I and Class II share	**$ (.16)**	$ .90	– 118%
Dividends paid per Class I and Class II share	**$ .20**	$ .20	—
Working capital provided by operations	**$ 196,525**	$ 186,481	+ 5%
Working capital	**$ 50,816**	$ 96,171	– 47%
Investment in property, plant and equipment	**$ 285,328**	$ 318,670	– 10%
Total assets	**$ 2,882,057**	$ 2,779,529	+ 4%
Class I and Class II shareholders' equity	**$ 201,998**	$ 158,423	+ 28%
Class I and Class II shares outstanding	**22,156,900**	16,317,505	—
Weighted average Class I and Class II shares outstanding	**19,304,544**	16,276,136	—

Letter to Shareholders

Operating in a most difficult economic environment, the ATCO Group recorded earnings before preferred share dividends of $18,533,000 for the year ended March 31, 1984 on total revenue of $1,610,339,000. This compares with earnings for the prior year before preferred share dividends of $40,691,000 on total revenue of $1,723,129,000. After provision of $21,704,000 for preferred share dividends for the 1984 fiscal year, the loss attributable to Class I and Class II shares was $3,171,000 or 16¢ per share. The earnings attributable to Class I and Class II shares for the prior year were $14,690,000 or 90¢ per share after preferred share dividends of $26,001,000. The weighted average number of shares outstanding for the 1984 fiscal year was 19,304,544 compared to 16,276,136 last year.

The reduced earnings reflect a number of factors, the most significant of which is the continuing economic difficulties being experienced in the North American resource development sector. These difficulties impacted negatively on the Company's oil well drilling, well servicing and manufacturing operations with margins being severely depressed. In addition, earnings were reduced by the inability of the Company to recognize income tax benefits relating to losses incurred in the United States drilling and well servicing operations. Earnings of the natural gas utilities are weather sensitive and these earnings were reduced by the warmer-than-normal temperatures experienced during the 1983 winter season.

R. D. Southern, President and Chief Executive Officer (left) and N. W. Robertson, Executive Vice President and Chief Operating Officer.

The most difficult problem facing management today is the uncertainty of future economic trends. While the economies in which the ATCO Group operates are improving, the improvement is fragile because of rising interest rates, huge government deficits, Middle East hostilities and the pending Canadian federal election. In this scenario, emphasis will remain on minimizing operating costs and maximizing liquidity.

In accordance with this approach, the restraint on capital expenditures continued in fiscal 1984. Outside of the utilities, commercial real estate development and oil and gas exploration, the only capital expenditures incurred were those of the "Must Do" type necessary to maintain operations.

Of all of ATCO's endeavors, perhaps the one which generates the most interest is ATCOR Resources Limited. Through its gas marketing, petrochemical and oil and gas exploration and development activities, ATCOR continues to expand its asset base while increasing current earnings and cash flow.

As AT&S Exploration Ltd. achieves increased exposure to exploration for oil and gas on Canada lands, the combined 37.5% participation of ATCOR and ATCO in AT&S enhances the Group's potential. Of particular interest is the drilling currently underway on the venture property off Sable Island and the planned drilling near Norman Wells in the Northwest Territories. While these are exploratory wells with unpredictable results, success in these areas would result in reserves which can be brought to market in the reasonably near future thereby increasing earnings and cash flow.

Utility operating results, although impacted negatively by warmer-than-normal weather and a decline in the rate of growth in the Alberta economy, contributed significantly to overall performance. The efficiency measures introduced in 1982 continued in 1983.

As was the case in the last fiscal year, the North American manufacturing operations struggled with a very low level of activity as capital spending continued to be deferred. On the international scene, operations in Saudi Arabia and Australia were very satisfactory with good backlogs being maintained throughout the year.

While both the Canadian and U.S. drilling and well servicing industries improved during fiscal 1984, the rig surplus continues to depress margins and preclude profitable operations. Forecasts for the coming year indicate that the improvement will continue.

In Australia, the drilling and servicing rigs operated by ATCO-APM Drilling Pty. Ltd. were kept busy throughout the year. The well servicing rigs in particular are meeting with a most favorable reception from Australian operators. Planning is underway for the shipment of additional rigs to Australia.

Because ATCO did not engage in speculative commercial real estate development, the Company has avoided the high vacancy rates facing most Alberta developers. Land holdings are limited to two parcels in downtown Calgary both of which have unique qualities which should allow for early development.

During the latter part of 1983, TransAlta Utilities Corporation completed a rights offering to its holders of Class A and Class B common shares to acquire up to 3,175,000 units consisting of one TransAlta Utilities Class A common share together with one warrant to purchase one Class A share and two and one-half warrants to purchase Class B shares of Canadian Utilities held by TransAlta. The exercise of the Canadian Utilities warrants will result in the sale of a substantial portion of TransAlta's shareholdings in Canadian Utilities.

As a result of the decision taken by your Board of Directors to fix the interest rates on long term debt, wherever possible, $80 million of floating rate debt has heen converted to fixed rate on an attractive basis. Another $66 million is in the process of being fixed with firm commitments having been received. Further transactions now in progress will reduce the Company's floating rate long term debt obligations to approximately $70 million.

In October of 1983, ATCO completed a successful equity financing through the sale of 6,000,000 common shares and 3,000,000 warrants to purchase common shares of the Company. The proceeds of this financing which totalled approximately $50 million strengthened the Company's equity position and enhanced cash reserves.

Despite the disappointing financial results, the Board chose to continue the payment of dividends on Class I and Class II shares at 5¢ per share per quarter. The decision reflects an expected early return to profitability and the importance of an uninterrupted dividend payment record.

Subsequent to the year end, Mr. E. W. King, the President and Chief Executive Officer of Canadian Utilities Limited retired after 28 years of service with the Company and its predecessors. Dr. J. D. Wood has assumed the position of President and Chief Operating Officer, while Mr. W. R. Horton was appointed Executive Vice president, Utilities.

We wisb to thank our exceptionally dedicated staff, our customers and suppliers for their continuing contributions to ATCO's success. In addition, we wish to express our genuine appreciation to the Board of Directors for their thoughtful guidance and wise counsel during this period of difficult economic conditions. Finally, a very special thank you to our many shareholders without whose support and encouragement none of our accomplishments would be possible.

On behalf of the Board of Directors,

R. D. Southern, President and Chief Executive Officer

N. W. Robertson, Executive Vice President and Chief Operating Officer.

The Business of ATCO

Utilities

Electrical Generation and Distribution

Natural Gas Production and Distribution

Through subsidiaries of Canadian Utilities Limited, ATCO is engaged in the generation and distribution of electrical energy primarily in Alberta and in Saskatchewan, the Yukon Territory and the Northwest Territories. ATCO is also involved in the production and distribution of natural gas throughout Alberta and northeastern British Columbia.

Resources

Petroleum Exploration and Production

Natural Gas Processing and Marketing

Contract Drilling

Well Servicing

Oilfield Equipment Rentals and Sales

ATCOR Resources Limited, a subsidiary of Canadian Utilities Limited, explores for, develops and produces hydrocarbons in western Canada. ATCOR owns a 50 per cent interest in an ethane extraction plant located in Edmonton and is Alberta's largest broker of discount natural gas for large volume industrial customers. ATCO is among the largest land contract drilling and well servicing companies in Canada, the United States and Australia. In addition, ATCO sells and rents a variety of oilfield equipment.

Manufacturing

Industrial Housing

Family Housing

Community and Commercial Structures

Metal Buildings

Roll-Form Cladding, Decking and Roofing

ATCO designs, manufactures, sells and leases a wide range of products from facilities in Canada, the United States, Australia and Saudi Arabia. The Company pioneered the concept of factory-built transportable workforce housing and is the largest manufacturer and lessor of these structures in the world. Other manufactured products include mobile and modular homes, metal buildings and metal components.

Real Estate

Commercial Properties Design, Construction and Management

Land Development

Residential Housing Construction

ATCO designs, constructs and manages commercial buildings in Alberta for its own portfolio as well as for other investors. The Company is also a partner in a residential and commercial land development operation in Alberta. ATCO builds both single and multi-family housing in Alberta and sells site-built tract housing on a contract basis in Australia.

Utilities

Canadian Utilities Limited recorded satisfactory growth in assets during calendar 1983 although milder-than-normal winter weather adversely affected earnings per share. Numbers of customers for both electricity and natural gas grew to record levels and total assets rose approximately 10% to $2.4 billion.

Because Canadian Utilities' fiscal year corresponds with the calendar year, references in the following narrative to this year and last year refer to calendar 1983 and 1982, respectively.

Electric Operations

Increased energy sales, earnings and numbers of customers were the highlights of the 1983 performance of Alberta Power Limited, Canadian Utilities' major electric power subsidiary.

Alberta Power now serves directly and through subsidiaries 372 communities in east-central and northern Alberta, two in Saskatchewan, 18 in the Yukon Territory, one in British Columbia and five in the Northwest Territories.

Earnings were $61.3 million, compared to $45.6 million in the previous year. The increase resulted from additional investment in property, plant and equipment and continued emphasis on operating efficiency.

Energy sales to retail customers increased by 4.8%, to 3,618 million kilowatt hours. In addition, 1,179 million kilowatt hours were sold to the City of Edmonton under a unit power agreement, and 373 million kilowatt hours were sold to Edmonton and TransAlta Utilities under the province-wide system of economic dispatch.

The peak load created by Alberta Power's retail customers increased to 720 megawatts from 693 megawatts the previous year. Total retail customers increased by 3,284 during the year, to 139,890 including members of 119 rural electrification associations. During the year, 27 of these associations voted to sell their distribution systems to Alberta Power.

Restraint measures related to both operating and capital expenditures were continued throughout 1983. One benefit from these measures was that despite growth in the number of

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1. Alberta Power continued to expand its network of transmission lines and substations during the year, investing $40 million.
2. Keith Provost, Senior Vice President, right, and George Paicu, Vice President, Energy Supply, seen at Alberta Power's energy dispatch computer located in CU Centre, Edmonton.
3. A. S. Brekke, right, manager of the Sheerness Generating Station project for Alberta Power, checks a rotor for the 375-megawatt turbine generator, while senior resident mechanical engineer C. H. Kerslake looks on. The first unit is scheduled to be commissioned in January, 1986.

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customers, permanent staff declined.

Alberta Power did not apply for an increase in retail rates during the year, seeking instead to earn its allowed return, as approved by the Public Utilities Board in 1982, through productivity gains.

Alberta Power's investments in property, plant and equipment during 1983 totalled $172 million. Of this amount, $96.4 million was invested in the continuing construction of the Sheerness Generating Station in central Alberta, a joint venture with TransAlta Utilities.

Investments in transmission lines and substations totalled $40.2 million. Included was the second phase of the Anderson substation at the site of the Sheerness Generating Station. When that substation's four phases have been completed, its cost will total approximately $20.6 million.

A 123-km transmission line from Sagitawah to Louise Creek required a $17.4 million investment, and a 111-km line from Freidenstal to Clairmont Lake cost $7.3 million.

Because present forecasts of Alberta's electrical energy requirements by the Electrical Utility Planning Council indicate slower growth than had earlier been predicted, the Energy Resources Conservation Board and subsequently the Alberta Cabinet approved Alberta Power's application to defer commissioning of the Sheerness Generating Station.

During 1983, Alberta Power continued its participation with TransAlta Utilities and the Alberta Government in studies of the environmental and economic factors relating to a proposed hydroelectric project on the Slave River in northeastern Alberta.

Natural Gas Operations

Canadian Utilities' major natural gas subsidiaries are Canadian Western Natural Gas Company Limited, serving southern Alberta, and Northwestern Utilities Limited, serving north-central Alberta. Northland Utilities (B.C.) Limited provides gas to Dawson Creek and the new community of Tumbler Ridge in northeastern British Columbia.

Despite a 2.5% growth in the number of customers served, natural gas revenues declined because 1983 was approximately 11% warmer in terms of degree-days than 1982.

Earnings in the natural gas utilities depend on weather and investment in

facilities. In the past, natural gas earnings have been consistent with the rate of asset growth, however, despite an increase of $89.3 million in property, plant and equipment in 1983, earnings declined by $6.8 million, to $26.2 million.

Total taxes paid to all levels of government decreased by $96.5 million, to $231.5 million during 1983; however, taxes still amounted to 25% of total natural gas revenue.

Total system throughput of natural gas grew by 3% to 451 petajoules. Although sales were down, greater volumes were transported for others, including exporting companies and the gas marketing and ethane extraction divisions of ATCOR Resources Limited.

Among the important ongoing capital projects was construction of salt cavern natural gas storage facilities. These caverns, near Edmonton, will store natural gas to meet peak load demand in winter months. Two caverns are now complete and available for the 1984-85 heating season.

The natural gas utilities participated in drilling 46 wells and the purchase of an additional six. Of the wells drilled, 27 were successful, four were being evaluated and seven were in progress at year-end.

Canadian Western's program to replace the original transmission line built in 1912 from Bow Island to Lethbridge and Calgary was completed between Calgary and Lethbridge early in 1983.

In mid-1983, the Alberta Public Utilities Board issued decisions on rate applications filed in 1982, setting rate bases, rates of return and revenue requirements. The Canadian Western decision was reflected in the interim rates effective July 1 and resulted in a refund to customers of $5.5 million. The Northwestern decision was implemented in the interim rates on August 1 and provided for a refund to customers of $12.9 million. Both utilities received final rate approval early in 1984.

Effective February 1 and August 1, the Utilities Board approved reductions in rates as increases in the cost of natural gas supply were offset by increased shielding through the Alberta Natural Gas Price Protection Plan and decreases in the Federal Excise Tax.

The British Columbia Utilities Commission issued a decision on Northland's general rate application establishing a rate of return and authorizing a uniform rate system.

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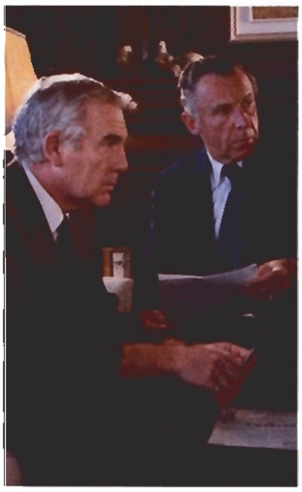

1. Sophisticated control centres such as this one in Calgary, regulate the flow of natural gas to Canadian Western's customers. Manning the centre are Gary Wynder (foreground) and Dave Walker.
2. A. J. L. Fisher, Vice President and General Manager of Canadian Western Natural Gas Company Limited, with Dr. J. D. Wood, right, President of Canadian Utilities Limited.
3. Repairing a gas range, serviceman Ed Faryn of Calgary provides expertise to Canadian Western's customers.
4. Home economist Maureen Rice (foreground) and assistant Rosa Barberio test a recipe in Canadian Western's Blue Flame kitchen in Calgary.

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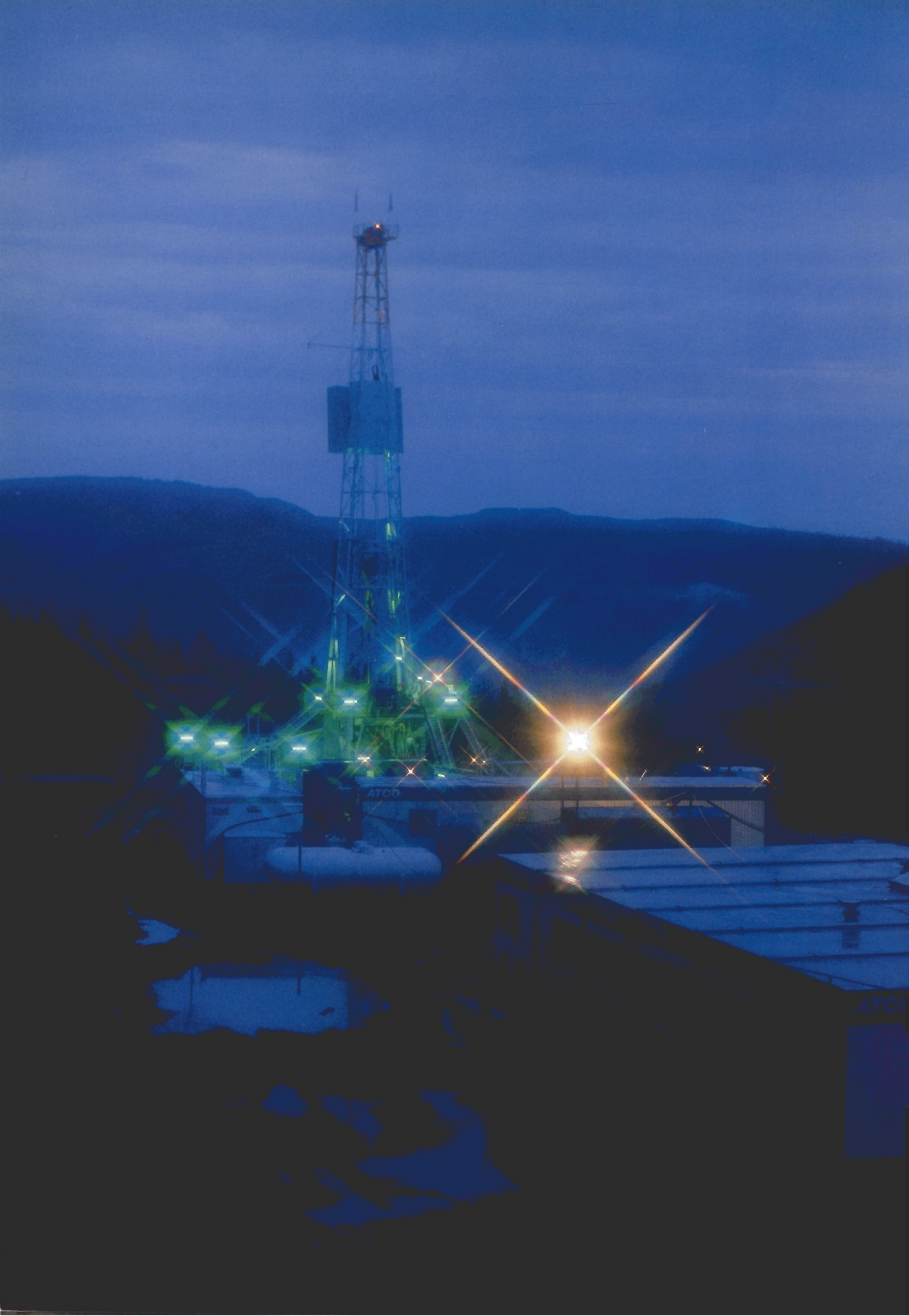
ATCO

Resources

ATCO is involved in the exploration for and production of crude oil and natural gas through ATCOR Resources Limited. Besides its operations in western Canada, ATCOR owns a 30% equity interest and ATCO a 7½% equity interest in AT&S Exploration Ltd., a joint exploration company exploring on both off-shore and on-shore Canada lands.

ATCOR also markets natural gas to large-volume industrial users and owns a 50% interest in an ethane extraction plant.

Because ATCOR's fiscal year corresponds with the calendar year, references to this year and last year in the Exploration and Production and Gas Processing and Marketing sections refer to calendar 1983 and 1982, respectively.

Exploration and Production

ATCOR Resources achieved significant growth during the year. Assets increased by 13% to $126 million; earnings before income taxes were up by 34% to $16 million; and cash flow from operations was $18 million, an increase of 15%.

During the past year ATCOR participated in the drilling of 87 wells, resulting in 46 oil wells, 12 gas wells and 29 dry holes. Expenditures for this program totalled $9.5 million. Daily average production was 189 gross cubic metres of crude oil (141 m^3 net) and 170,694 gross cubic metres of natural gas (123,518 m^3 net).

During 1983 the exploration and production segment of the industry did not experience the degree of recovery that had been anticipated despite the fact that prices on approximately 40% of Alberta's crude oil production increased to world levels and shut-in crude oil was reduced through access to export markets. The problem area is natural gas where the price is under considerable pressure and sales to the United States have decreased to less than 50% of contracted volumes. Despite this natural gas marketing problem there are many companies reinvesting their cash flow in the industry, in anticipation of beneficial changes in markets, taxation and product pricing. Because ATCOR is optimistic regarding the industry's future, increased capital expenditures are anticipated for both exploration and production.

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1. An ATCO Drilling rig on site in northern British Columbia, one of 60 contract rigs deployed in western Canada, the United States and Australia.
2. Ruth Steiger, a secretary in ATCOR Resources Limited's exploration and production department.
3. W. A. Elser, President and Chief Executive Officer of ATCOR Resources Limited and President of AT&S Exploration Ltd., considers a western Canadian prospect with geologist Heather MacLean.
4. Oil production by ATCOR Resources reached a record daily average of 141 m^3 (net) during the past year.

A new venture in which ATCOR Resources and ATCO Ltd. participate, has the potential to make the companies significant investors in exploring Canada's frontiers for hydrocarbons.

AT&S Exploration Ltd. is a joint exploration company owned 7.5% by ATCO Ltd., 30% by ATCOR Resources Limited, 25% by Texaco Canada Resources Ltd. and 37.5% by Sun Life Assurance Company of Canada.

AT&S Exploration was formed to explore for crude oil and natural gas on lands under federal jurisdiction. Texaco Canada has farmed out 700,000 hectares net interest in 2.8 million gross hectares of Canada lands to AT&S. Other federal lands will be explored as opportunities arise. ATCOR's share of the AT&S program cost equates to 10% of the capital expenditures planned by ATCOR during the next five years.

Gas Processing and Marketing

ATCOR owns a 50% interest in an extraction plant located in Edmonton. Ethane and LPG's (propanes, butanes and pentanes plus) are extracted from gas flowing through lines owned by Northwestern Utilities Limited. During 1983, the plant processed a daily average of 5.6 million cubic metres of natural gas or about 60% of capacity. Proposals to increase throughput are now being reviewed.

Daily average recovery for ATCOR's account during 1983 was 736 cubic metres of ethane and 170 cubic metres of LPG's. Ethane is sold to the petrochemical industry on a cost-of-service basis, while LPG's are marketed in eastern Canada and the U.S. midwest at prevailing prices.

Another major activity of ATCOR Resources Limited is the marketing of natural gas to large-volume industrial customers. Major customers include industrial plants in the Edmonton area and oil producers using natural gas for enhanced oil recovery.

A total of 52 petajoules of gas were marketed to 14 customers in 1983, compared with 33 petajoules to nine customers in the previous year.

Contract Drilling

ATCO subsidiaries operate 60 drilling rigs in Canada, the U.S. and Australia. Although business was generally slow during much of the year, a trend toward increased activity was evident at year-end.

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1. ATCOR Resources holds a 50% interest in this extraction plant in south Edmonton.
2. John Hlavka (foreground), Vice President and General Manager of ATCO Drilling Ltd., discusses planning modifications with Contracts Manager Dennis Ferguson.
3. AT&S Exploration Ltd. is currently drilling in three locations off shore eastern Canada.
4. An ATCO Well Servicing rig performs a well workover. A total of 33 rigs are located in western Canada, the United States and Australia.

In Canada, ATCO Drilling Ltd. experienced a slight increase in activity from the previous year with rig utilization averaging 40%.

Because of the increased amount of oil production qualifying for the New Oil Reference Price and other changes in government regulations, the drilling industry expects an improvement of some 20% in total rig operating days in western Canada during the next year.

ATCO Drilling's joint venture with the Inuvialuit Development Corporation, ATCO/Equtak Drilling Ltd., has its first rig on contract for two years to Petro-Canada and the rig recently spudded its second well.

ATCO Zapata Off-Shore Ltd., a joint venture of ATCO Drilling Ltd. and Zapata Off-Shore Company of Houston, Texas is awaiting opportunities to drill off Canada's east coast.

U.S. contract drilling operations improved as the year progressed with utilization exceeding 60% in late 1983. ATCO's operations improved in line with the industry, however, rigs are being relocated to the stronger Canadian market as opportunities arise.

The Australian joint venture, ATCO-APM Drilling Pty. Ltd., operated in a steadily improving market. Strong advance commitments for equipment indicate a record year in 1985.

Well Servicing

The Canadian well servicing industry remained depressed during 1984. Most government incentive programs focused on exploration resulting in decreased budgets for the servicing of older wells.

United States well servicing activity continued at modest levels; however, an improving trend developed during the last half of the year. As a result, some firming of prices occurred. A regional office was established in Victoria, Texas to facilitate customer service and the deployment of rigs to stronger markets.

During 1983, three service rigs were moved from United States operations to balance corporate inventories. Two were relocated to Canada and one was moved to Australia.

Oilfield Equipment Rentals and Sales

Despite the downturn in the rest of the petroleum industry, equipment sales and rentals were up during the past year. Operations are being conducted with minimal overhead and inventories while awaiting an upturn in activity.

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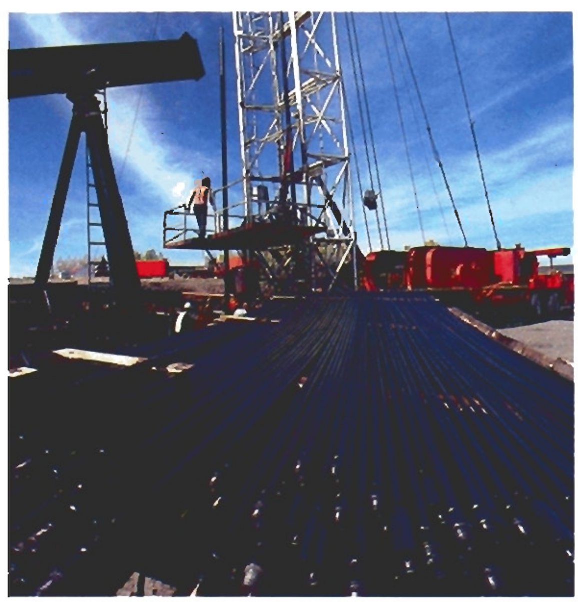

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Manufacturing

In over 60 countries, ATCO industrial shelter complexes have housed men and equipment on remote construction projects. ATCO remains the world's leading source of such shelter more than three decades after introducing the concept. Other manufactured products include permanent structures, factory-built family housing, steel buildings and related products.

Industrial Housing

Markets for industrial housing were weak during 1984; however, some significant projects were completed.

A $16 million contract received from ARCO Alaska Inc. for a 650-man base camp at Kuparuk, Alaska, provided an opportunity to again demonstrate ATCO's ability to react. By combining the manufacturing capabilities of the Calgary, Penticton and Anchorage factories all units were delivered within 80 days, and the completed camp was turned over to the customer just five months after it was ordered. The facility is unique in that it has three-storey dormitories, and includes a full-size gymnasium and some of the most sophisticated mechanical and electrical systems ever used in such a camp.

Western Canadian marketing efforts were focused on selling and renting the large quantities of lease equipment returned from the mega-projects undertaken in the past few years. ATCO's $85 million lease fleet of transportable industrial shelter, the world's largest, provides a quick, flexible and economic solution to housing needs.

A major contract underway at the year-end was the supply of three construction camps in the Revelstoke, B.C., area for some 1,200 men digging tunnels and widening the roadbed for CP Rail in the Rogers Pass area. The contract value is expected to total $10 to $12 million before the work is complete. Another contract in progress was the supply of 36 units, valued at nearly $1 million, for the CNR's maintenance crews.

Other projects included a 500-man camp on Ridley Island, B.C., in support of construction of the Prince Rupert grain terminal; a 300-man camp at Campbell River, B.C., for a Westmin Resources lead-zinc mine; and temporary facilities for the World

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1. An ATCO industrial housing complex at Ridley Island, off the British Columbia coast near Prince Rupert, provides accommodation for crews constructing a grain terminal.
2. W. A. Kmet (left), Vice President of ATCO Industries (N.A.) Ltd., discusses strategy for leasing ATCO's huge fleet of industrial housing with General Sales Manager J. A. McDonald.
3. Much of the shelter required for the athletes and media at the World University Games (Universiade '83) in Edmonton was supplied by ATCO.
4. Doug Rupert, owner-operator of one of the trucks transporting ATCO industrial shelter products from the Calgary factory.

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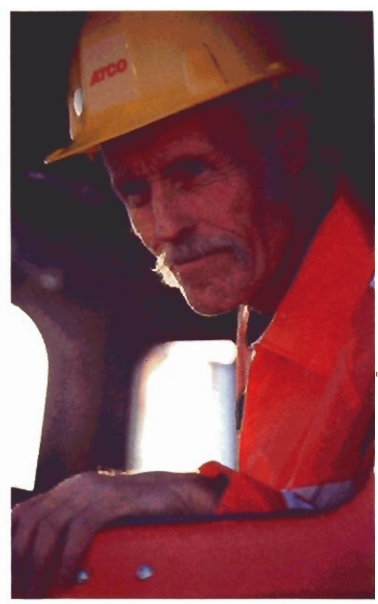

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University Games in Edmonton.

The eastern Canadian market improved in 1984 with housing units being supplied for offshore drilling platforms in the Grand Banks area. In addition, gold mining developments in northwestern Ontario generated a number of sales for ATCO's Winnipeg operation.

In Australia, the resource development market began to recover late in the year. ATCO received a $10 million contract, the largest of its kind ever awarded in Australia, for the supply of an 800-man camp as well as roads, utilities and community buildings, to the Argyle diamond mine in Western Australia. The Dampier-Perth pipeline, a major source of orders last year, continued to provide contracts for camps related to compressor-station construction.

Government markets were buoyant, with a 250-man construction camp under development at year-end for the Queensland Electric Generation Board at Biloela, central Queensland. Other major orders were filled for Queensland's Rail, Telecommunications and Public Works departments.

ATCO Australia has developed a technologically advanced laminating plant to manufacture solid-core wall, roof and floor panels for premium-grade industrial shelter and permanent structures. The plant is located in Adelaide, South Australia.

A line of mobile homes has also been developed and successfully introduced to the Australian market.

Exports from the Australian factories included a $1.5 million, 500-man camp for the Ok Tedi gold/copper project in Papua New Guinea, and a $1.3 million housing project for the People's Democratic Republic of Yemen.

In the United States, a new market is emerging with the supply of bunkhouses as well as kitchens to the State of Colorado to house over 200 correctional institution inmates. A similar order has been received from the State of Washington.

Continued economic and political upheaval throughout the world has had a severe impact on the engineering and construction companies that are the largest customers for the output of ATCO International's factory at Waco, Texas. The major contract received during the year which was shared with ATCO Saudi Arabia Ltd., was for the supply of a turnkey camp to house 500 employees of the Arabian Chicago Bridge and Iron Company constructing

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a refinery tank farm.

Just prior to year-end the U.S.S.R. agency Technoexport awarded ATCO a $2 million contract for a permanent base camp destined for Al Qurna, Iraq.

ATCO Saudi Arabia had a relatively good year despite a weaker market. In addition to the 500-man camp mentioned above, a 250-man camp was supplied to L. E. Myers for a rural electrification project, a 300-man permanent housing complex was supplied to the Arabian Chicago Bridge and Iron Company in Dammam, classrooms and offices were manufactured for the American School in Dhahran and a 1,200-man addition was installed at an existing military camp in Tabuk. Other projects included industrial housing for the new Dammam International Airport and offices for the planned Qassim refinery, both for Bechtel. Turnkey camps for Showa, Nippon and Nittu of Japan, were provided to house workers on the Jubail industrial city.

Despite a reduction in Government petroleum revenues and the virtual elimination of mega projects, the industrialization of the Kingdom is ongoing and prospects for continued success are excellent.

Metal Fabrication

Although the Saskatchewan commercial/industrial market for metal buildings is expanding, the balance of the western Canadian market remains depressed.

Significant installations completed by ATCO during the past year include a Canadian Coast Guard helicopter hangar at Prince Rupert, B.C.; a building for Public Works Canada at the Annacis Island, B.C. marine base; a 5,700 m² briquette plant for Chlorox Canada at Moose Jaw, Sask.; and a 1,900 m² exhibition hall in Moose Jaw.

At year-end a contract for a pipe threading mill was obtained from Prudential Steel in Calgary. The building will be completed during 1984.

ATCO Metal continued to be a leading supplier of roll-formed product in western Canada and is upgrading and redesigning its standard line of buildings to improve quality while reducing costs. In Australia, a depressed resource sector meant weak markets for ATCO's steel fabricating operations. Major projects included a $1.3 million extension to a lead smelter at Port Pirie, South Australia, and completion of contracts for the Ok Tedi gold/copper mines in Papua New Guinea, also valued at $1.3 million.

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1. Manufactured transportable homes, such as this display home at Gepps Cross, Adelaide, Australia, were supplied as project housing during the year.
2. The largest industrial shelter contract in Australian history was awarded to ATCO for the supply of an 800-person construction workforce camp at the Argyle diamond mine in Western Australia.
3. Welders Mike Thompson (foreground), and Vella Gaetana at ATCO Metal's Calgary fabricating facility.
4. Vinh Troung, a production worker at ATCO Metal, is viewed through the core of a steel coil, raw material for the company's forming mill which produces roofing, decking and cladding for the construction industry.
5. ATCO Metal's product line features arch-rib buildings.


VICTORS

Real Estate

Real estate operations are Alberta-based and include the development of commercial properties for both sale and investment and the construction and sale of single-family residences.

ATCO is also a partner in ALDC Partnership, which holds for development an attractive inventory of commercial and residential land.

Commercial Development

The largest commercial building in the ATCO Development portfolio, the 25,300 m^2 Canadian Utilities Centre in Edmonton, was completed in the fall of 1983. Subleasing of the Milner Building, the former Canadian Utilities headquarters, is proceeding very well and should be completed in the current fiscal year.

A 2,300 m^2 addition under construction at Towerlane Mall, Airdrie, will provide facilities for a second anchor tenant, Metropolitan Stores. This new store, which is scheduled to open in August, 1984, will provide increased stability and patronage for all mall tenants.

Two of the smaller Calgary buildings in ATCO Development's portfolio were sold during the year. Deer Run Shopping Centre was purchased, fully leased, by an overseas investor, while the former ATCO Development Building on Memorial Drive was acquired by Pacific Western Airlines for use as an operations centre.

The past year has been a difficult one for the commercial real estate business throughout Alberta, however, ATCO Development has been successful in retaining tenants and as a result the vacancy rate in ATCO's buildings is considerably below the industry average.

Residential Housing

Low demand for new housing in the past year has resulted in limited activity for ATCO's housebuilding and residential development division. Fourteen duplex and thirteen townhouse units were built in Hanna under contract for Alberta Power Limited, as housing for staff members at the Sheerness Generating Station. Other building in Calgary and Red Deer has been carried out only to meet custom sales.

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1. The newest and largest asset in ATCO's real estate portfolio is the 25,300 m^2 Canadian Utilities Centre, right, opened in Edmonton during the fall of 1983.
2. Otto Steiner (right), President of ATCO Development Corporation, views a model of the prospective second tower for the Canadian Western Centre in downtown Calgary with Steve Hardy, Construction Manager.
3. ATCO Development's TowerLane Mall tenant Debbie Nay (left) discusses plans for a special promotion with manager Denise Boutin.
4. Home construction in the Calgary and Red Deer areas, where ATCO Housing's operations are centred.

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ATCO People and Corporate Goals

Throughout the world, ATCO employees have become recognized for their remarkable commitment and skill. Productive, responsive and ingenious, they have proven themselves more than equal to the challenges with which they are faced. Through their efforts, a network of divisions and subsidiaries maintain the enviable record associated with ATCO's name.

In a decentralized organization such as ATCO, Head Office plays an important role in co-ordinating subsidiaries' activities while providing advice, support and financing. Implementation of corporate policy is also a major responsibility.

Departments in the ATCO Head Office making their expertise available to assist all ATCO companies include finance, accounting, planning, human resources and public relations.

Additional support is provided by senior executives who have guided the company's growth for more than three decades.

ATCO's Board of Directors develops an overall view of relevant events while attempting to measure their impact. From this pre-emptive management evolves the policies needed to ensure that the corporation will achieve the following goals:

1. To be a profitable company. Without profits, growth cannot be sustained nor justified. In difficult years profitability can be elusive, but we are proud of ATCO's long-term record of earning a fair return on invested capital.

2. To be a growing company. Growth comes from providing superior products and services to present customers, expanding the line of products and services and attracting new customers.

3. To be a worldwide company. There is a market for ATCO's products and services in many countries. Our expertise is available wherever it is needed.

4. To be a good corporate citizen of all countries in which we operate. We are dedicated to a code of ethics that earns us respect wherever we go.

5. To work with energy. The energy resources field continues to present excellent opportunities. Whether it is in developing those resources ourselves or in providing services to others who are so involved, ATCO works with energy. And we work energetically.

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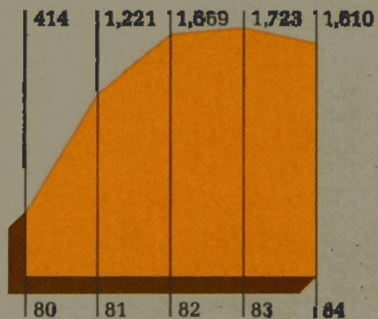
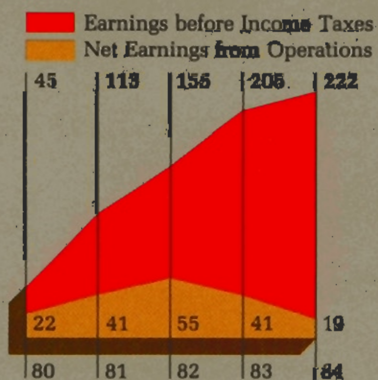
1. (From left): P. D. Feurer, Manager, Corporate Accounting; D. R. Hay, Manager, Planning and Budgeting; and K. B. Purdie, Vice President and Controller.
2. C. S. Richardson, Senior Vice President, Finance.
3. D. P. Wood, Vice President, Corporate Services and Corporate Secretary.
4. G. P. Kiefer (left), President of ATCO Industries (N.A.) Ltd., discusses plans with K. L. LaFrenz, General Manager, Manufacturing, for ATCO Structures in Calgary.

Financial Review

Revenue
millions



Earnings from Operations
millions

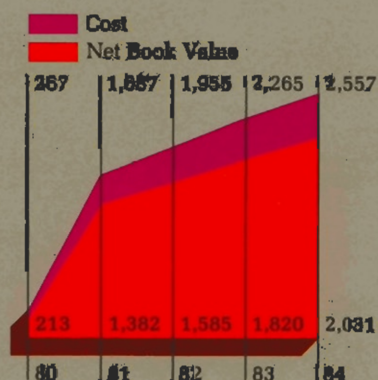


Working Capital
millions

Class I and Class II Shareholders' Equity
millions

Total Assets
millions

Property, Plant & Equipment
millions



Management's Responsibility for Financial Reporting

Management is responsible for the preparation of the consolidated financial statements and other financial information relating to the Company contained in this annual report. The consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles and necessarily include some amounts that are based on informed judgements and best estimates of management.

Price Waterhouse, our independent auditors, are engaged to express a professional opinion on the consolidated financial statements. Their examination is conducted in accordance with generally accepted auditing standards and includes tests and other procedures which allow the auditors to report on the fairness of the consolidated financial statements prepared by management.

The Board of Directors, through an audit committee comprised of three non-management directors and one management director, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management, the internal auditors and the independent auditors to discuss auditing and financial matters and to gain assurance that management is carrying out its responsibilities. The internal auditors and the independent auditors have full and free access to the Audit Committee.

Auditors' Report

To the Shareholders of ATCO Ltd.

We have examined the consolidated balance sheet of ATCO Ltd. as at March 31, 1984 and the consolidated statements of operations and retained earnings and changes in financial position for the year then ended. 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.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at March 31, 1984 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.

Price Waterhouse

Chartered Accountants

Calgary, Alberta
May 22, 1984

ATCO Ltd.

Years ended March 31

(Thousands of Canadian dollars)	Note Reference	1984	1983
			(Restated) (Note 2)
Revenues	10	**$1,610,339**	$1,723,129
Costs and expenses			
Natural gas supply		**517,674**	431,316
Taxes — other than income	11	**182,955**	317,356
Operating and maintenance		**414,446**	447,146
Selling and administrative		**117,428**	128,869
Depreciation, depletion and amortization		**94,007**	91,770
Interest	12	**62,182**	102,134
		1,388,692	1,518,591
		221,647	204,538
Income taxes			
Current		**94,457**	96,224
Deferred		**(7,670)**	(27,896)
	13	**86,787**	68,328
		134,860	136,210
Minority Interests	7	**116,327**	95,519
Earnings for the year		**18,533**	40,691
Dividends on redeemable preferred shares	8	**21,704**	26,001
Earnings (loss) attributable to Class I and Class II shares		**(3,171)**	14,690
Retained earnings at beginning of year			
As previously reported		**148,968**	137,870
Prior period adjustment	2	**1,896**	1,820
As restated		**150,864**	139,690
		147,693	154,380
Dividends on Class I and Class II shares		**3,861**	3,256
Share issue expenses, net of income taxes		**1,604**	—
Exchange adjustments on redemption of preferred shares		**1,293**	260
Retained earnings at end of year		**$ 140,935**	$ 150,864
Earnings (loss) per Class I and Class II share		**$(.16)**	$.90
Dividends paid per Class I and Class II share		**$ .20**	$.20

ATCO Ltd.

Consolidated Balance Sheet

March 31

(Thousands of Canadian dollars)	Note Reference	1984	1983
			(Restated) (Note 2)
Assets			
Current assets			
Cash and short term deposits		$ 108,583	$ 162,739
Accounts receivable		190,127	217,934
Inventories		30,975	36,286
Prepaid expenses		6,281	8,833
		335,966	425,792
Deposits		—	21,590
Investment in real estate development	5	96,530	85,954
Investment in TransAlta Utilities Corporation	3	244,152	244,550
Property, plant and equipment	4	2,030,791	1,819,549
Goodwill		138,651	143,724
Deferred financing charges and other assets		35,967	38,370
		$2,882,057	$2,779,529
Liabilities and Shareholders' Equity			
Current liabilities			
Bank indebtedness		$ 12,844	$ 6,163
Accounts payable and accrued liabilities		239,960	275,844
Income taxes payable		16,825	20,374
Long term debt due within one year		15,521	27,240
		285,150	329,621
Debt on real estate development	5	83,324	54,781
Long term debt	6	780,039	808,179
Contributions for extensions to utility plant		158,180	136,724
Deferred credits		39,212	38,815
Deferred income taxes		16,378	24,212
Minority interests	7	1,056,356	932,374
Redeemable preferred shares	8	261,420	296,400
Class I and Class II shareholders' equity			
Class I and Class II shares	9	61,063	7,559
Retained earnings		140,935	150,864
		201,998	158,423
		$2,882,057	$2,779,529

Approved by the Board:

Director

Director

ATCO Ltd.

Consolidated Statement of Changes in Financial Position

Years ended March 31

(Thousands of Canadian dollars)	Note Reference	1984	1983
			(Restated) (Note 2)
Sources of working capital			
Working capital provided by operations		$196,525	$186,481
Release of deposits		21,590	5,000
Increase in			
Debt on real estate development	5	28,543	11,784
Notes payable		—	150,431
Deferred credits		1,109	4,616
Proceeds on disposal of property, plant and equipment		11,911	12,716
Issue of long term debt		62,253	57,221
Contributions for extensions to utility plant		25,578	25,988
Issue of shares by CUL			
Class A and Class B		3,816	74,550
Preferred, net of redemptions		98,880	284,587
Issue of shares by the Company			
Class I and Class II	9	53,504	362
Preferred		—	50,000
Other		404	9,403
		504,113	873,139
Applications of working capital			
Investment in			
Real estate development	5	11,128	17,712
TransAlta Utilities Corporation	3	—	244,550
Property, plant and equipment		285,328	318,670
Increase in deferred financing charges		4,904	15,254
Reduction in			
Notes payable		—	180,431
Long term debt		90,393	38,767
Redemption of preferred shares		34,980	10,680
Share issue expenses		3,067	—
Dividends			
Redeemable preferred shares	8	21,704	26,001
Class I and Class II shares		3,861	3,256
Minority interests		94,103	68,402
		549,468	923,723
Decrease in working capital		$ 45,355	$ 50,584

Notes to Consolidated Financial Statements

March 31, 1984

1. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of ATCO Ltd. and all of its subsidiaries (collectively referred to herein as "ATCO") which are wholly-owned except for Canadian Utilities Limited ("CUL"), which is 50.1% owned, and ATCO Saudi Arabia Ltd., which is 75% owned. The operating subsidiaries and divisions are shown on pages 38 to 40.

Investments in joint ventures and partnerships are recorded on the equity basis.

Goodwill is recorded at cost and amortized on a straight line basis generally over 40 years.

Regulation

The accounting records and policies of the utility subsidiaries reflect decisions made by regulatory bodies, principally the Public Utilities Board of Alberta, as part of the rate making process. Decisions made by these regulatory bodies which impact on operating results or accounting policies are reflected in the accounts from the date of decision. Customer refunds are recorded when known.

Foreign Currency Translation

Accounts in foreign currencies have been translated to Canadian dollars as follows:

At year-end rates — Current assets and current liabilities.
At historical rates — Other assets and liabilities, depreciation and amortization.
At average rates for the year — Revenues and expenses, except for depreciation and amortization.

Exchange adjustments arising on the issue of redeemable preferred shares in United States dollars are included in redeemable preferred shares on the balance sheet, and are reduced in proportion to redemptions. Any exchange adjustments arising because of differences in the exchange rates at dates of issue and redemption are included in retained earnings.

Property, Plant and Equipment

Additions to natural gas and electric utility plant and equipment include an allowance for funds used during construction at a rate approved by the Public Utilities Board for the debt and equity cost of capital components. Certain of these additions are made with the assistance of cash contributions from customers and governments where the estimated revenue is less than the cost of providing service or where special equipment is needed to supply the customers' specific requirements. These contributions are amortized on the same basis as the assets to which they relate. All other plant and equipment additions are recorded at cost.

Depreciation Methods and Rates Per Annum

	Straight Line	Declining Balance
Natural gas and electric utility plant and equipment	1.8% to 8.3%	
Industrial rental units	10%	
Drilling rigs	6% to 10%	
Replacement drill pipe	25%	
Well servicing rigs	10%	
Other buildings, furniture, fixtures and equipment		5% to 30%

On retirement of depreciable natural gas and electric utility plant and equipment, the accumulated depreciation is charged with the cost of the retired unit less net salvage value.

Included in the natural gas utility subsidiaries' property, plant and equipment are gas wells that have been drilled, tested and capped and remain unconnected to the utility system. The Public Utilities Board has directed that the costs of such wells, including an allowance for funds, be accounted for as plant held for future use. If, after a period of five years, these wells have not been added to the utility system, the costs will be written off against funds received under The Natural Gas Price Administration Act. If at a future date a gas well is placed in service or is required to be used, the amount written off will be reinstated in property, plant and equipment.

Revenue Recognition

Utility revenues are recognized on the basis of cycle billing and are recorded when customers are billed.

Revenues resulting from the supply of contracted products and services are recorded by the percentage of completion method, except for footage drilling contracts which are recorded when contract depths are attained. Any anticipated loss is provided for in its entirety when the estimated loss is identified.

Inventories

Inventories are carried at the lower of cost or estimated net realizable value.

Real Estate Development

Carrying costs of land held for development and properties under development are capitalized to the extent that the accumulated costs do not exceed the estimated net realizable value of the property. Carrying costs of rental properties under construction are capitalized until the earlier of one year after completion or 75% occupancy, at which time depreciation begins at 2.5% on a straight line basis.

Gas and Oil

In accounting for non-regulated gas and oil exploration and development activities, the full cost method is followed whereby all costs relating to the exploration for and the development of gas and oil reserves are capitalized. These costs are depleted by the unit of production method based on estimated proven gas and oil reserves.

As Alberta gas producers, the natural gas utility subsidiaries receive a pro rata share of monies available under The Natural Gas Price Administration Act. These monies, net of royalties and income taxes, are included in deferred credits. Subject to the approval of the Public Utilities Board, the costs of unsuccessful gas exploration, net of income taxes, are charged against these deferred credits.

Income Taxes

The utility subsidiaries provide for current income taxes by claiming as deductions for tax purposes only amounts recorded in the accounts. This method is referred to as the "Normalization — All Taxes Paid" method of income tax accounting as approved by the Public Utilities Board. Prior to adoption of this method, the utility subsidiaries followed the "Flow Through" method of income tax accounting whereby deductions claimed in calculating taxable income exceeded the expenses recorded in the accounts, thereby reducing income taxes otherwise payable. The deferred tax provision for these reductions has not been recorded in the accounts since the income tax component of rates recovers only income taxes currently payable.

Investment tax credits are accounted for as a reduction of the provision for income taxes in the year in which the related expenditures are made, except in certain United States subsidiaries where no tax benefits have been recognized in the current year (see Note 13).

Deferred Financing Charges

Expenses of issue of long term debt are amortized over the term of the debt and expenses of issue of preferred shares are amortized over the lesser of the expected life of the issue or 30 years.

Other deferred charges are subject to amortization over various periods not exceeding 40 years.

2. Prior Period Adjustment

The Company has received acknowledgement from the Department of Justice, Canada that a foreign tax credit will be allowed on foreign taxes paid in 1977. The expected recovery of taxes of $1,450,000 plus interest has been recorded as a prior period adjustment.

3. Investment in TransAlta Utilities Corporation

On August 3, 1982, ATCO Ltd., CUL and TransAlta Utilities Corporation ("TransAlta") entered into an agreement providing for the divestiture of the interlocking equity ownership positions held by CUL and TransAlta. Subject to market conditions prevailing from time to time, the intended divestiture period is three years, with a provision for an extension of up to two additional years.

On December 1, 1982, each CUL Series H preferred shareholder was issued a warrant, for each share held, entitling the bearer to purchase one Class A common share of TransAlta owned by CUL at a price of $22.25 per share on or before November 1, 1987. The investment in TransAlta was acquired at an average price of $18.81 per share. Gains on disposition are recorded as warrants are exercised. As of March 31, 1984, 2,183 warrants had been exercised.

The investment in TransAlta is being accounted for by the cost method, whereby income is recorded only to the extent of dividends declared.

4. Property, Plant and Equipment

(Thousands of dollars)	1984		1983	
	Cost	Accumulated Depreciation and Depletion	Cost	Accumulated Depreciation and Depletion
Electric utility plant and equipment	**$ 984,184**	**$204,975**	$ 908,732	$167,790
Natural gas utility plant and equipment	**845,328**	**183,792**	746,029	166,547
Utility plant construction work in progress	**285,187**	**—**	173,557	—
Drilling and well servicing rigs and related equipment	**199,560**	**70,049**	198,661	56,182
Rental assets	**86,303**	**24,799**	87,002	19,028
Other plant and equipment	**41,042**	**15,889**	41,950	14,541
Gas and oil properties	**50,541**	**12,826**	40,629	9,333
Deferred gas exploration	**24,132**	**—**	29,400	—
Land, buildings and improvements	**40,304**	**13,460**	39,393	12,383
	$2,556,581	**$525,790**	$2,265,353	$445,804
	$2,030,791		$1,819,549	

As explained in the Summary of Significant Accounting Policies, plant held for future use in the amount of $27,606,000 is included in natural gas utility plant and equipment at March 31, 1984.

During the year $1,761,000 (1983 — $1,329,000) of unsuccessful gas exploration costs, net of related income taxes, were charged against monies received under The Natural Gas Price Administration Act.

5. Real Estate Development

(Thousands of dollars)	1984	1983
Investment:		
Land held for development	$ 2,409	$ 3,544
Properties under development	10,021	25,538
Canadian Western Centre (net of accumulated depreciation)	22,193	22,661
Canadian Utilities Centre (net of accumulated depreciation)	25,989	—
Equity in ALDC Partnership	15,822	15,100
Equity in joint ventures	20,096	19,111
	$96,530	$85,954

The Canadian Western Centre in Calgary is occupied principally by Canadian Western Natural Gas Company Limited and the Canadian Utilities Centre in Edmonton is occupied principally by CUL and its subsidiaries.

ATCO's share of the joint ventures' and partnership's earnings amounted to $186,000 (1983 — $419,000) and is included in sales, rentals and service revenue.

(Thousands of dollars)	1984	1983
Debt related to:		
Land held for development:		
Land inventory payables	$ 81	$ 143
Properties under development:		
Construction mortgages payable	681	2,356
Bank loans at prime plus ½% secured by housing inventories	—	710
Interim financing on development projects, at prime plus ¼% secured by charges on the specific projects.	—	10,200
	681	13,266
Canadian Western Centre:		
Term loan, at prime, due December 31, 1997, secured by a first charge on the building. No principal payments are required over the next four years.	18,000	18,000
Canadian Utilities Centre:		
Term loans, at 52% of prime plus 1½% to prime minus ¾%, due June 30, 1994, secured by a first charge on the building and a second charge on Canadian Western Centre. No principal payments are due until December 31, 1987.	44,378	—
ALDC Partnership:		
Bank loan, at prime plus 2¾%, due December 31, 1992, secured by assignment of partnership interest in ALDC Partnership.	10,543	9,188
Joint Ventures:		
Interim and long term financing on projects, at prime minus ⅛% to prime plus ¾%, due at various dates to December 31, 1987, secured by charges on specific joint venture projects.	9,641	14,184
	$83,324	$54,781

6. Long Term Debt

(Thousands of dollars)	1984	1983
227095 Holdings Ltd.		
Term loan, at prime plus ⅝%, due April 1, 1993	**$100,000**	$200,000
Term loan, at 11¼% to 11¾% up to January 31,1987 and at prime plus ⅝% thereafter, due April 1, 1993	**50,000**	—
The term loans are secured by Class A non-voting and Class B common shares of CUL owned by the corporation and its subsidiaries and by a second charge on the assets of ATCO Drilling Holdings Ltd.		
ATCO Drilling Holdings Ltd.		
Income debentures	**—**	24,208
ATCO Drilling Ltd.		
Term loan, at 11% to March 31, 1985, 12.5% from April 1, 1985 to March 31, 1987 and 13% thereafter, due March 31, 1989, secured by a first charge on drilling and well servicing rigs of the corporation and its subsidiaries	**30,000**	—
CUL and Subsidiaries		
Sinking fund debentures, at 7¼% to 17½%, due at various dates to 2002	**444,988**	461,792
First mortgage sinking fund bonds, at 5⅜% to 9¾%, due at various dates to 1994	**44,958**	49,714
Capitalized lease obligation	**21,856**	22,570
Other	**15,860**	—
Other		
Mortgage and other loans, at 8% to prime plus 1%, due at various dates to 1996, secured mainly by charges on specific operating assets	**87,898**	77,135
	795,560	835,419
Less: Amounts due within one year	**15,521**	27,240
	$780,039	$808,179

The terms of the above debt include restrictions relating to the payment of dividends by ATCO Ltd., ATCO Drilling Holdings Ltd. and CUL and its subsidiaries and to new debt, intercompany loans, guarantees and performance bonds and letters of credit. Covenants also require maintenance of voting control of CUL, specified working capital and debt to equity ratios and continued ownership, either directly or indirectly, by 474243 Ontario Ltd. of the CUL shares purchased on March 31, 1981.

CUL leases, with an option to purchase, a dragline costing $24,818,000 which is included in elecric utility plant and equipment. The future minimum payments are $2,421,000 per year for the next five years and $24,697,000 thereafter to June 30, 1996. The imputed interest included in these future minimum rentals at 7.62% implicit in the lease is $14,946,000.

The minimum annual repayments of long term debt over each of the next five fiscal years are as follows;

(Thousands of dollars)

1985	1986	1987	1988	1989
$15,521	$44,793	$52,242	$85,192	$71,557

7. Minority Interests

(Thousands of dollars)	1984	1983
Equity of minority interests:		
In preferred shares of CUL and subsidiaries	**$ 753,240**	$654,360
In Class A non-voting and Class B common shares of CUL	**302,214**	276,882
In common shares of ATCO Saudi Arabia Ltd.	**902**	1,132
	$1,056,356	$932,374
In CUL earnings for the year	**$114,756**	$ 94,902
Resulting from issue of Class A non-voting and Class B common shares of CUL under employee share purchase plan	**1,187**	—
In ATCO Saudi Arabia Ltd. earnings for the year	**384**	617
	$116,327	$ 95,519

8. Redeemable Preferred Shares

(Thousands of dollars)	1984	1983
Issued by:		
ATCO Ltd.	**$ 55,000**	$ 66,300
ATCO Holdings (N.A.) Ltd.	**56,420**	80,100
474243 Ontario Ltd.	**150,000**	150,000
Total issued (detailed below)	**$261,420**	$296,400

ATCO Ltd.

1984 1983	Issued Shares	Issued Amount	Average Prime Rate	Dividends
Preferred Shares				
Authorized 8,000,000 shares				
Series 2, issued in U.S. dollars	**—**	**$ —**	**10.8%**	**$ 8**
	400,000	$11,300	14.0%	$1,118
Junior Preferred Shares				
Authorized 8,000,000 shares				
Series 1	**200,000**	**5,000**	**11.0%**	**377**
	200,000	5,000	14.8%	470
Series 2	**2,000,000**	**50,000**	**N/A**	**5,750**
	2,000,000	50,000	N/A	2,781
		$55,000		**$6,135**
		$66,300		$4,369

The Series 2 Preferred Shares were redeemed on April 4, 1983.

The Series 1 Junior Preferred Shares are to be redeemed June 16, 1991 (or earlier under certain circumstances). Dividends are payable quarterly, calculated daily at one-half the prime rate plus 2%.

The Series 2 Junior Preferred Shares are redeemable from October 1, 1987 (or earlier under certain circumstances) and may be converted into 2.86 Class I non-voting shares for each convertible preferred share prior to September 29, 1989. 5,720,000 Class I non-voting shares have been reserved for this purpose. The redemption price is $26.25 from October 1, 1987 to September 30, 1988 and declines $.25 per share per year to $25.00 on October 1, 1992, and thereafter. Dividends are payable quarterly at a fixed rate of $.71875 per share.

ATCO Holdings (N.A.) Ltd.

1984 1983	Issued Shares	Issued Amount	Average Prime Rate	Dividends
First Preferred Shares				
Par value $100 each				
Authorized 800,000 shares				
Series A, issued in U.S. dollars	**260,000**	**$30,420**	**11.3%**	**$2,461**
	300,000	$35,100	14.0%	$3,396
Series B	**260,000**	**26,000**	**11.0%**	**1,962**
	300,000	30,000	14.8%	2,860
Second Preferred Shares				
Par value $100				
Authorized 400,000 shares				
Series 1	**—**	**—**	**11.0%**	**9**
	150,000	15,000	14.8%	1,430
		$56,420		**$4,432**
		$80,100		$7,686

The Series 1, Second Preferred Shares were redeemed April 4, 1983.

The Series A and B First Preferred Shares, which may be redeemed earlier subject to certain restrictions and penalties, are to be redeemed, at par, in equal semi-annual installments of U.S. $2,000,000 and Canadian $2,000,000 to April 1, 1990.

Dividends are payable monthly, calculated daily at 52% of prime plus 1½%.

The subsidiary has indemnified holders of the preferred shares to the extent of any reduction in the holders' net after tax return from the preferred shares, caused by changes 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. $90,000,000 issued and pledged by ATCO Ltd. and by hypothecation of the ATCO Drilling Holdings Ltd. shares. The sale agreement is also secured by guarantees and pledge of a U.S. $90,000,000 floating charge debenture of the subsidiaries (excepting ATCO Drilling Holdings Ltd., CUL and their subsidiaries).

Terms relating to the preferred shares include restrictions on capital expenditures, new debt, intercompany loans and guarantees and performance bonds. Covenants also require maintenance of specified working capital and debt to equity ratios.

Failure to pay dividends, redeem shares or comply with covenants constitutes default and may result in the holders of the preferred shares demanding payment under the terms of the Sale Agreement.

474243 Ontario Ltd.

1984 1983	Issued Shares	Issued Amount	Average Prime Rate	Dividends
Preference Shares				
Par value $1,000 each				
Authorized 150,000 shares				
Classes A - G	**150,000**	**$150,000**	**11.0%**	**$11,137**
	150,000	$150,000	14.8%	$13,946

Commencing May 1, 1985, the issued preference shares are to be redeemed, at par, at 1.25% per quarter to February 1, 1992, with the balance to be redeemed, at par, on May 1, 1992. The preference shares may be redeemed earlier subject to certain restrictions and penalties.

Dividends are payable quarterly at the following rates, calculated daily:

Classes A - D ($75,000,000)	50% of prime plus 2%
Classes E - F ($25,000,000)	50% of prime plus 1⅞%
Class G ($50,000,000)	52% of prime plus 1½%

The subsidiary has indemnified holders of the preference shares to the extent of any reduction in the holders' net after tax return from the preference shares, caused by changes in law.

9. Class I and Class II Shares

(Thousands of dollars)	Class I Non-Voting		Class II Voting		Total	
	Shares	Consideration	Shares	Consideration	Shares	Consideration
Authorized	100,000,000		50,000,000		150,000,000	
Issued:						
March 31, 1982	10,988,816	$ 4,886	5,245,784	$2,311	16,234,600	$ 7,197
Employee share option plans	53,270	232	29,635	130	82,905	362
Conversions	284,016	129	(284,016)	(129)	—	—
March 31, 1983	11,326,102	5,247	4,991,403	2,312	16,317,505	7,559
Public issue	5,700,000	52,913	—	—	5,700,000	52,913
Employee share option plans	90,930	387	48,465	204	139,395	591
Conversions	264,399	132	(264,399)	(132)	—	—
March 31, 1984	17,381,431	$58,679	4,775,469	$2,384	22,156,900	$61,063

Each Class II voting share may be converted to one Class I non-voting share at the shareholder's option. The two classes of shares rank equally in all other respects.

Share Options and Equivalents

ATCO has share option plans under which options to purchase 994,740 Class I non-voting and 217,260 Class II voting shares may be granted to selected directors, officers, and key employees. The options are exercisable cumulatively over periods up to ten years from the date of grant.

Options to purchase 647,820 Class I non-voting and 216,660 Class II voting shares have been granted under the plan, of which 236,900 and 11,700, respectively, were outstanding at March 31, 1984 at prices ranging from $5.70 to $8.25 per share.

In conjunction with the above plan, ATCO has a long term incentive compensation plan under which 817,020 share equivalents have been granted to selected officers, directors, and key employees. The equivalents generally are deemed to be received (at prices ranging from $4.05 to $8.22 per share) when a stock option is exercised and are redeemable five years later. Future payments under the plan are based on the increase in the price of ATCO's Class I and Class II shares plus deemed dividends. In 1984, $712,000 was credited to earnings in connection with this plan (1983 — charge of $873,000).

10. Revenues

(Thousands of dollars)	1984	1983
Sales, rentals and service	**$1,571,347**	$1,677,778
Interest income	**17,900**	26,332
Dividends from TransAlta Utilities Corporation	**18,244**	13,740
Gain (loss) on disposal of property, plant and equipment	**(208)**	385
Gain on purchase of long term debt	**1,131**	1,137
Exchange gains (losses)		
Operating	**(284)**	1,346
Translation	**201**	(1,210)
Other	**2,008**	3,621
	$1,610,339	$1,723,129

11. Taxes — Other Than Income

(Thousands of dollars)	1984	1983
Federal natural gas and gas liquids taxes	**$ 66,515**	$198,759
Federal petroleum and natural gas revenue taxes	**7,131**	5,847
Federal Canadian ownership taxes	**41,686**	43,128
	115,332	247,734
Franchise taxes	**51,331**	52,779
Other	**16,292**	16,843
	$182,955	$317,356

12. Interest

(Thousands of dollars)	1984	1983
Incurred	**$105,207**	$127,011
Capitalized	**(19,199)**	(13,071)
Allowance for equity funds used during construction	**(23,826)**	(11,806)
	(43,025)	(24,877)
Expensed	**$ 62,182**	$102,134
Expensed on non-current liabilities	**$ 58,504**	$ 85,982

13. Income Taxes

The income tax provision differs from that computed using the statutory tax rate for the following reasons:

(Thousands of dollars)	1984	1983
Earnings before income taxes and minority interests	**$221,647**	$204,538
Income taxes at statutory rate of 47.6% (1983 — 48.6%)	**$105,504**	$ 99,405
Effect of utility subsidiaries claiming tax deductions in respect of property, plant and equipment less than (in excess of) book depreciation and depletion	**9,292**	(5,155)
Allowance for funds used during construction	**(16,830)**	(10,126)
Crown royalties and other non-deductible government payments	**8,577**	12,247
Earned depletion and resource allowance	**(11,638)**	(9,997)
Unrecorded benefits of loss carryforwards	**8,248**	—
Taxes related to amounts allocated to assets in excess of tax values on share acquisitions	**2,923**	2,770
Foreign tax rate differences	**(3,976)**	(8,494)
Non-taxable portion of capital gains	**(560)**	(656)
Investment tax credits	**(1,766)**	(2,071)
Income debenture interest	**412**	1,112
Provincial rebates	**(2,954)**	(4,269)
Non-taxable dividends	**(8,697)**	(6,740)
Other	**(1,748)**	302
	$ 86,787	$ 68,328
Effective rate	**39.2%**	33.4%

As described in the Summary of Significant Accounting Policies, a provision for certain deferred taxes is not recorded by the utility subsidiaries. Unrecorded deferred taxes of the utility subsidiaries decreased during the year by $2,666,000 (1983 — increase of $11,536,000) to an accumulated amount of $131,131,000.

Certain United States subsidiaries have operating loss carryforwards of approximately $16,854,000 for which the tax benefits have not been recognized in the accounts. The operating loss carryforwards are available to reduce future years' taxable income and expire in 1999.

14. Segmented Information

(Thousands of dollars)

By Industry

1984 / 1983	Electric Utility Operations	Gas Utility Operations	Drilling and Well Servicing	Other Energy	Manu-facturing	Real Estate & Property Development	Other	Consolidated*
Revenues:								
Trade	**$ 332,364**	**$900,567**	**$ 62,986**	**$136,952**	**$130,869**	**$10,488**	**$ 36,113**	**$1,610,339**
	$ 320,977	$951,048	$ 85,802	$119,065	$189,643	$15,722	$ 40,872	$1,723,129
Inter-segment	**141**	**22,771**	**1,689**	**7,850**	**2,114**	**20,671**	**6,100**	**—**
	215	18,818	3,845	4,668	1,134	10,104	4,639	—
Total segment revenues	**332,505**	**923,338**	**64,675**	**144,802**	**132,983**	**31,159**	**42,213**	**1,610,339**
	321,192	969,866	89,647	123,733	190,777	25,826	45,511	1,723,129
Expenses:								
Operating costs	**134,733**	**816,072**	**64,111**	**121,110**	**125,945**	**24,357**	**7,551**	**1,232,503**
	138,490	854,815	77,350	102,624	163,730	23,287	6,580	1,324,687
Depreciation, depletion and amortization	**35,160**	**19,252**	**15,404**	**5,034**	**11,716**	**772**	**3,528**	**94,007**
	32,742	20,162	15,893	4,646	11,050	330	3,491	91,770
Total segment expenses	**169,893**	**835,324**	**79,515**	**126,144**	**137,661**	**25,129**	**11,079**	**1,326,510**
	171,232	874,977	93,243	107,270	174,780	23,617	10,071	1,416,457
Segment operating profit (loss)	**$ 162,612**	**$ 88,014**	**$ (14,840)**	**$ 18,658**	**$ (4,678)**	**$ 6,030**	**$ 31,134**	**$ 283,829**
	$ 149,960	$ 94,889	$ (3,596)	$ 16,463	$ 15,997	$ 2,209	$ 35,440	$ 306,672
Identifiable assets	**$1,083,391**	**$838,866**	**$148,542**	**$102,324**	**$126,935**	**$98,060**	**$361,582**	**$2,882,057**
	$ 937,773	$785,569	$169,214	$ 69,555	$141,659	$87,275	$458,485	$2,779,529
Capital expenditures	**$ 181,131**	**$108,299**	**$ 3,332**	**$ 4,842**	**$ 12,218**	**$11,265**	**$ 39**	**$ 296,456**
	$ 157,841	$136,608	$ 3,230	$ 9,176	$ 26,486	$17,712	$244,565	$ 580,932

By Geographical Location

1984 / 1983	Canada	Other	Consolidated*
Revenues:			
Trade	**$1,509,531**	**$100,808**	**$1,610,339**
	$1,564,652	$158,477	$1,723,129
Inter-segment	**2,933**	**—**	**—**
	7,877	(2,953)	—
Total segment revenues	**1,512,464**	**100,808**	**1,610,339**
	1,572,529	155,524	1,723,129
Expenses:			
Operating costs	**1,137,924**	**97,512**	**1,232,503**
	1,199,264	133,751	1,324,687
Depreciation, depletion and amortization	**80,350**	**14,037**	**94,007**
	77,756	14,754	91,770
Total segment expenses	**1,218,274**	**111,549**	**1,326,510**
	1,277,020	148,505	1,416,457
Segment operating profit (loss)	**$ 294,190**	**$ (10,741)**	**$ 283,829**
	$ 295,509	$ 7,019	$ 306,672
Identifiable assets	**$2,597,403**	**$169,960**	**$2,882,057**
	$2,461,714	$192,003	$2,779,529

* Inter-segment transactions have been eliminated in the consolidated columns.

	1984	1983
Segment operating profit	**$283,829**	$306,672
Interest	**62,182**	102,134
Income taxes	**86,787**	68,328
Minority interests	**116,327**	95,519
	265,296	265,981
Earnings for the year	**$ 18,533**	$ 40,691

15. Commitments and Contingencies

ATCO has contractual obligations in respect of long term operating leases for manufacturing facilities, office premises and equipment. The rentals amounted to $7,354,000 for 1984 (1983 — $6,604,000). Future minimum lease payments are as follows:

(Thousands of dollars)

1985	1986	1987	1988	1989	Total of All Subsequent Years
$6,385	$5,062	$4,168	$3,483	$2,754	$2,485

United States treasury officials are investigating the basis followed by ATCO in determining certain United States customs and duty payments since 1969. These investigations are still in progress. In the opinion of counsel, claims will probably be asserted. Management is of the opinion that no material amount above those amounts already provided in the accounts will ultimately be payable.

Alberta Power Limited has a 50% joint ownership in the Sheerness Generating Station which is under construction. The project is forecast to cost the corporation approximately $563,000,000 of which $229,000,000 has been expended to date. All phases of this project are expected to be completed by 1987.

ATCO has pension plans covering substantially all of its employees. The aggregate unfunded past service liability, all of which is attributable to CUL, amounted to approximately $26,258,000 at March 31, 1984 (1983 — $27,986,000) and is being funded over a period not exceeding 13 years.

AT&S Exploration Ltd. is an exploration company formed during the year by ATCO Ltd., Sun Life Assurance Company of Canada and Texaco Canada Resources Ltd. For an investment of $786,000, ATCO owns 37.5% of the issued and outstanding common shares of AT&S, distributed 30% to ATCOR Resources Limited and 7.5% to ATCO Ltd. ATCOR has also assumed an obligation to subscribe for $10,500,000 of preferred shares of AT&S over the next three to four year period.

As part of the financing of the June 19, 1980 acquisition of shares of CUL, ATCO has agreed to pay the lenders and preferred shareholders 7% of the increase in value of the CUL shares from acquisition to date of demand, to a maximum amount of $21,000,000. The amount is payable on demand if ATCO sells or transfers any of the shares of CUL, or at any time from December 31, 1985 to December 15, 1992. Payment may be made in cash or, at ATCO's option, by the issue of an appropriate number of Class I shares of ATCO Ltd. based on their then quoted market price.

16. Continuance

Effective March 13, 1984, ATCO Ltd. was continued under the provisions of the Alberta Business Corporations Act and is now subject to the provisions of that act.

17. Comparative Figures

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted for 1984.

ATCO Ltd.

Years ended March 31

(Thousands of Canadian dollars)	1984	1983	1982	1981	1980
Revenues	**$1,610,339**	$1,723,129	$1,668,979	$1,220,926	$414,003
Costs and expenses	**1,388,692**	1,518,591	1,514,088	1,107,778	368,772
	221,647	204,538	154,891	113,148	45,231
Income taxes	**86,787**	68,328	43,041	36,569	22,803
	134,860	136,210	111,850	76,579	22,428
Minority interests	**116,327**	95,519	57,291	33,171	30
	18,533	40,691	54,559	43,408	22,398
Extraordinary item	**—**	—	—	2,776	—
Earnings for the year	**18,533**	40,691	54,559	40,632	22,398
Dividends on redeemable preferred shares	**21,704**	26,001	28,547	11,241	10,328
Earnings (loss) attributable to Class I and Class II shares	**$ (3,171)**	$ 14,690	$ 26,012	$ 29,391	$ 12,070
Earnings (loss) per Class I and Class II share	**$(.16)**	$.90	$1.60	$1.83	$.76
Dividends per Class I and Class II share	**$.20**	$.20	$.20	$.18	$.17
Equity per Class I and Class II share	**$9.12**	$9.71	$9.05	$7.68	$5.93

Market price of shares					
Class I High	**10¾**	11½	11¼	10 (1)	
Low	**6½**	5	6½	7¾ (1)	
Class II High	**10⅝**	11¼	11⅛	10½ (1)	
Low	**6⅜**	5	6½	7¾ (1)	

(1) Prices from January 22, 1981, the date of reorganization of shares into Class I and Class II shares.

W. L. Britton, Q.C.
Partner, Bennett Jones
Calgary

B. P. Drummond ●
Vice Chairman, Richardson
Greenshields of Canada
Limited
Montreal

B. K. French ★
President,
Karusel Management Ltd.
Calgary

G. P. Kiefer ● ☆
President,
ATCO Industries (N.A.) Ltd.

E. W. King
Corporate Director
Edmonton

K. B. Purdie ☆
Vice President, Controller
ATCO Ltd.

R. Rice ●
Consultant
Greenwich, Conn., U.S.A.

C. S. Richardson ☆
Senior Vice President,
Finance
ATCO Ltd.

N. W. Robertson ☆
Executive Vice President and
Chief Operating Officer
ATCO Ltd.

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

R. D. Southern ☆
President and Chief
Executive Officer
ATCO Ltd.

S. D. Southern
Chairman of the Board
ATCO Ltd.

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

J. D. Wood ☆
President and Chief
Operating Officer
Canadian Utilities Limited

★ Member — Audit Committee
☆ Member — Executive
Committee

S. D. Southern
Chairman of the Board

R. D. Southern
President and Chief
Executive Officer

N. W. Robertson
Executive Vice President
and Chief Operating Officer

C. S. Richardson
Senior Vice President,
Finance

G. P. Kiefer
Senior Vice President,
Manufacturing

K. B. Purdie
Vice President, Controller

D. P. Wood
Vice President, Corporate
Services and Corporate
Secretary

M. Durdle
Assistant Secretary

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Elizabeth West, South Australia
5113
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Energy Development
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Holiday Travel Reservations
(403) 230-2911
Business Reservations
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InterATCO Drilling BV
Financial Holding Companies
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Shareholders' Information

Shareholder and security analyst inquiries should be directed to:
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ATCO Ltd.
1600, 909 - 11th Avenue S.W.
Calgary, Alberta T2R 1N6
Telephone (403) 229-4500

Dividend information and other inquiries concerning your shares should be directed to:
STOCK TRANSFER DEPARTMENT
National Trust Company, Limited
150 Toronto Dominion Square
320 - 8th Avenue S.W.
Calgary, Alberta T2P 3B2

The shares of ATCO Ltd. are listed under the ticker symbols
ACO.X (Class I — non-voting)
ACO.Y (Class II — voting)
ACO.Pr.A (11½% Cumulative Redeemable Convertible Junior Preferred Shares, Series 2)
on The Toronto Stock Exchange

ATCO's fiscal year ends on March 31.
Dividends are mailed approximately the end of September, December, March and June

ATCO Ltd. is incorporated under the laws of the Province of Alberta

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AUDITORS
Price Waterhouse
Calgary, Alberta

COUNSEL
Bennett Jones
Calgary, Alberta

The annual shareholders' meeting will be held at 10 a.m. M.D.T. on Tuesday, August 14, 1984 in the Calgary Convention Centre, Calgary, Alberta

ATCO

ATCO Ltd.
World Headquarters
1500/1600, 909 - 11th Avenue S.W.
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Ronalds Western