


# ATCO Ltd.
# 1988
# Annual Report

ATCO

*Nine Months Ended*
*December 31, 1988*

# CORPORATE PROFILE

ATCO Ltd., with assets exceeding $3 billion and three operating groups employing more than 5,500 persons, is one of Canada's largest corporations. The operating groups are:

ATCO Enterprises Ltd.
Manufacturing of relocatable shelters for sale or lease; contract drilling and well servicing; and property management.

ATCOR Ltd.
Oil and gas exploration and production in western Canada and the Canadian frontiers; natural gas marketing and processing.

Canadian Utilities Limited
Natural gas production and distribution, electrical power generation and distribution throughout Alberta. One of Canada's largest investor-owned utility companies, Canadian Utilities also operates complementary non-utility ventures.

Annual General Meeting

The Annual General Meeting of Shareholders will be held at 10:00 a.m. M.D.T. on Tuesday, May 30, 1989 in Macleod Salon A & B of the Calgary Convention Centre, Calgary, Alberta.

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# FINANCIAL HIGHLIGHTS

(Thousands except share data)

| | Nine Months Ended December 31, 1988 (1) | Nine Months Ended December 31, 1987 (2) |
|---|---|---|
| Revenues | $ 903,859 | $ 893,699 |
| Earnings for the period | $ 36,966 | $ 30,594 |
| Earnings attributable to Class I and Class II shares | | |
| Before unusual and extraordinary items | $ 12,948 | $ 5,527 |
| After unusual and extraordinary items | $ 16,625 | $ 11,302 |
| Earnings per Class I and Class II share | | |
| Before unusual and extraordinary items | $ .43 | $ .18 |
| After unusual and extraordinary items | $ .55 | $ .37 |
| Dividends paid per Class I and Class II share | $ .15 | $ .15 |
| Cash position | $ 43,805 | $ 44,346 |
| Additions to property, plant and equipment | $ 192,489 | $ 178,225 |
| Total assets | $3,116,676 | $3,093,441 |
| Class I and Class II shareholders' equity | $ 276,066 | $ 311,346 |
| Class I and Class II shares outstanding | 30,258,532 | 30,258,532 |
| Weighted average Class I and Class II shares outstanding | 30,258,532 | 30,175,717 |

(1) Effective April 1, 1988 the Corporation changed its fiscal year end from March 31 to December 31.

(2) Amounts presented are unaudited.

# REPORT TO SHAREHOLDERS

Earnings for the nine months ended December 31, 1988, before preferred share dividends and an extraordinary item were $33,289,000. The extraordinary item of $3,677,000 arose from the recovery of income taxes from the utilization of prior years' loss carryforwards. After payment of preferred share dividends of $20,341,000 earnings per Class I and Class II share were 43 cents before and 55 cents after the extraordinary item. This report reflects the change in the Company's year-end from March 31 to December 31. Because of this change, it is difficult to provide meaningful comparative information; however, we have included nine-month comparative figures in the financial highlights and 12-month comparative figures in the consolidated summary of operations to assist shareholders in analyzing the Company's performance.

The improved earnings were the result of a very strong performance by the utility subsidiaries and the manufacturing and leasing operations of ATCO Enterprises Ltd.

The utilities benefited from a stronger Alberta economy and this resulted in an increase in the number of customers served, higher gas transportation revenues and increased electrical sales primarily to industrial customers. In addition, reduced costs per unit of output were achieved throughout the organization as a result of ongoing productivity enhancement programs.

In the case of ATCO Enterprises, capital expenditures related to the improved economic activity across Canada provided a number of opportunities in manufacturing and leasing as contracts were received for the sale and lease of equipment to the mining, forestry, petroleum and defense industries. Contracts now on hand are sufficient to ensure another strong performance in manufacturing and leasing during 1989.

The reduced revenues and earnings of ATCOR Ltd. in 1988 were in line with oil and gas industry trends. Despite this difficult period, the strategy of having ATCOR achieve a "critical mass" sufficient to become a desirable public company has not changed, and the purchase of an interest in the Caroline field representing an estimated 59 billion cubic feet of proven recoverable gas reserves will support this initiative. The recent firming of oil prices and the expanding United States market for natural gas exports should improve financial results in 1989. In the longer term, the potential for growth in natural gas exports has been significantly enhanced by several recently announced pipeline expansion plans. Being a participant in Gulf's Amauligak structure and the Esso Beaufort Sea program, we are particularly interested in the recent proposals for construction of a pipeline to transport gas from the Canadian Arctic. As a producer we would expect to hold an equity interest in any such pipeline.

The Energy Services Division of ATCO Enterprises did not have a successful year in 1988. Activity in both drilling and well servicing dropped to surprisingly low levels in the last quarter making it impossible to realize an adequate return from the rigs. Some improvement is expected in 1989, and management remains of the view that the next decade will see enhanced activity in this sector.

In last year's report I advised that the Company's operations had been divided into three distinct units. The format of this report has been changed from that of prior years to reflect this organization structure.

One of the most obvious benefits realized from this increased decentralization has been that the freedom of action given to our subsidiaries has resulted in important new initiatives throughout the Group. Examples of these initiatives are the sale by ATCO Enterprises of the Canadian oilfield equipment division and the United States well servicing operations, the wide variety of non-utility projects being assessed in Canadian Utilities Limited and the recent purchase of an interest in the Caroline gas field by ATCOR. While it might seem reasonable to expect these and other initiatives to develop in any well-managed organization, no matter how it is structured, decentralization prevents syndication of responsibility and provides an environment which facilitates change.

The North Warning System contract is proceeding on schedule with the establishment of the Contract Management Office (CMO) in Ottawa, Ontario and the Regional Operations Control Centre (ROCC) in North Bay, Ontario. To date, Frontec Logistics Corp. has assumed the management of three manned stations with more to come in 1989. Frontec expects to obtain other important contracts for maintenance and operations logistics support in Canada's north, and we are confident that we can continue to expand the firm's operations.

In November 1988, Canadian Utilities sold 5,200,000 Class A non-voting treasury shares at a price per share of $19.25 for total proceeds of $100,100,000. The funds were used to increase Canadian Utilities' equity investment in Alberta Power Limited ($75,000,000) and ATCOR Ltd. ($25,000,000). ATCO Ltd. purchased 600,000 shares from this issue at a total cost of $11,550,000. These transactions brought ATCO's ownership of Canadian Utilities Class A non-voting and Class B common shares to 50.1%. It is not expected that the Canadian Utilities capital expenditure program will require additional equity issues in the foreseeable future.

During the past few years questions have arisen regarding non-voting shares and the rights of minority shareholders, particularly during takeover offers. Since both ATCO and its controlled subsidiary, Canadian Utilities, have non-voting shares in their capital structure, it is important to note that both feature the very best in shareholder protection. The notes to the financial statements in this report and that of Canadian Utilities contain a detailed description of that protection and I suggest you review this information to satisfy yourself in this regard.

Because of the uncertainties created by rising interest rates and volatile oil prices, the Board chose to continue the payment of dividends at the rate of 5 cents per share per quarter on Class I and Class II shares during 1988.

I wish to thank our staff, customers and suppliers for their continuing support and important contributions to the Company's success. I also wish to express appreciation to the Board of Directors for their thoughtful guidance and astute counsel, which is especially valuable in these uncertain economic times. Finally, a special thank you to our Shareholders without whose support none of our accomplishments would be possible.

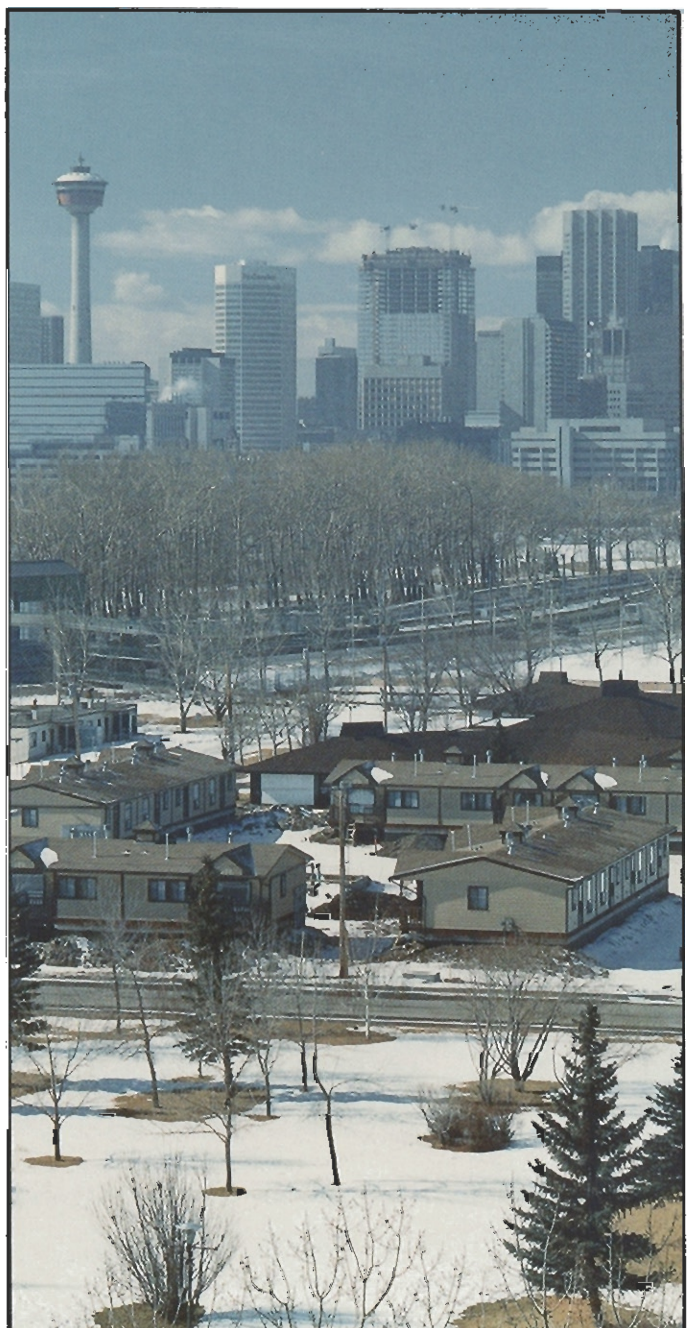
On behalf of the Directors,

R. D. Southern
Deputy Chairman, President and
Chief Executive Officer

# ATCO ENTERPRISES LTD.

*ATCO Enterprises Ltd., based in Calgary, has assumed ATCO's traditional areas of business: manufacturing of relocatable shelters for sale or lease, contract drilling and well servicing, and property management. The Company's goal is to build a profitable, growth-oriented company generating earnings and cash flow attractive to investors by increasing market share in existing core businesses and through acquisitions in new but related areas of endeavour.*





**40 units from the Lincoln Park Media Village were relocated in Calgary as a senior citizen's housing complex.**


Following the recent reorganization, 1989 will be the first full year of activity for ATCO Enterprises Ltd. Operations will be enhanced with the consolidation of administrative activities in one location at 919 - 11th Avenue S.W., Calgary, Alberta.

### Canadian Industrial Manufacturing and Leasing

Surging demand for industrial shelter in western Canada's pulp and paper, mining and energy fields resulted in a strong nine month period for this Division.

Utilization of the industrial lease fleet reached the highest level in five years. Major workforce installations housing more than 5,000 people were completed for pulp mill construction projects at Gold River, British Columbia, Peace River and Hinton, Alberta and for Alberta's oil and gas industry. Although domestic manufacturing activity remained sluggish in 1988, recent increases in industrial activity indicate improvement can be expected in 1989.

For the second consecutive year, custom residential housing was sold to a government agency in Shanghai, China. Sales initiatives which should result in new contracts in the coming year are being directed to other Pacific Rim countries.

A $9 million contract was awarded to the Division for the supply of technical service buildings on the Canadian Department of National Defence's North Warning System sites in Canada's north. Construction of these units will be complete in 1989.

A number of new resource development projects announced recently in western Canada will increase fleet utilization in 1989.

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**N. W. Robertson**
**Deputy Chairman, President and Chief Executive Officer**

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**ATCO is pursuing opportunities in international housing and a prototype was designed and constructed inside the Calgary plant.**

### Metal

Products manufactured by the Metal Division include pre-engineered buildings and the patented Fold-a-Way building as well as roll-formed metal cladding for the industrial, recreational and agricultural markets.

Major projects completed during 1988 included: a building complex for the Southern Alberta Institute of Technology's training centre in Indonesia; nine buildings for Esso Resources' heavy oil project at Cold Lake, Alberta; a 110,000 square-foot pulp mill at Grande Prairie, Alberta; a 24,000 square-foot hangar in Edmonton, Alberta; an 84,000 square-foot ice arena in Saskatoon, Saskatchewan; and a 17,300 square-foot Fold-a-Way building for the toxic waste disposal plant at Swan Hills, Alberta.

A number of contracts for pre-engineered buildings were on hand as 1989 began. These contracts included nine buildings for use in the gas fields of Alberta, and an additional building for the Indonesian training facility. Revenues of the Metal Division are expected to surpass 1988 levels as resource industry activity remains brisk.

### Space Rentals

The Space Rentals Division is Canada's only nation-wide firm specializing in the rental of portable building units for a wide variety of applications including office space for construction and industrial projects, classrooms, and auxiliary buildings for special events.

Average occupancy levels exceeded 80 percent for the nine month period. Large capital expenditures in the forestry, automotive and mining sectors created a strong demand for the fleet. As might be expected, the higher utilization levels led to increased margins.

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**A pre-engineered building structure at Sheerness, Alberta.**

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**Space Rentals construction site offices.**

Major projects awarded during the nine months include: units for the Economic Summit Meeting in Toronto, Ontario hosted by the Canadian government; a large office complex for the Pearson International Airport in Toronto, Ontario while a third terminal is constructed; a 15,000 square-foot office complex for IBM in Montreal, Quebec; and a large commercial office for the Magnesium Company of Canada's new refinery in High River, Alberta.

With the passage of the Free Trade Agreement between Canada and the United States, and the strengthening investment climate, the outlook remains optimistic for the Space Rentals Division in 1989.

Saudi Arabia

Several major contracts were completed during the period, including a 2,200-man camp for the Rabigh Community Project in Saudi Arabia. The Soviet agency Technoexport, purchased accommodation facilities for development and production at oil fields in West Qurnah, Iraq. In addition, a variety of projects were undertaken for contractors on the new King Fahad International Airport near Dammam, Saudi Arabia.

Capital spending, drilling activity and reconstruction efforts following the cessation of hostilities in Iraq and Iran, should provide excellent opportunities for the Saudi Arabian operation to contribute to the Group's profitability.

United States Manufacturing and Leasing

A shift in emphasis from industrial shelter to urban space and commercial structures resulted in growth in the United States operations.

In November, the Division was awarded a $10 million contract for construction of two multi-storey office-laboratory facilities totalling 200,000 square feet in Scottsdale, Arizona. Another major project of this type, a 36,000 square-foot Federal District Courthouse, was built during 1988 in California. Meanwhile, surplus industrial lease equipment has been reduced substantially through sales. These sales, combined with additional lease contracts, have resulted in a utilization rate in excess of 65 percent. With the resurgence in mining, pulp and paper, and major dam projects, the expansion of rental activity should continue.

The Space Rental unit, created in late 1986 in Seattle, Washington, increased its fleet substantially at the beginning of 1988. Expansion into other United States urban centres is anticipated, and continued growth is forecast for 1989.

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**Multi-storey office-laboratory facility in Scottsdale, Arizona.**

## Energy Services

ATCO Enterprises Ltd. believes the long term prospects for the Energy Services Division are encouraging. Because of this the Company is committed to maintaining existing rigs and emphasizing safety and staff training, while retaining a core of skilled personnel in key positions to enable quick response to market opportunities.

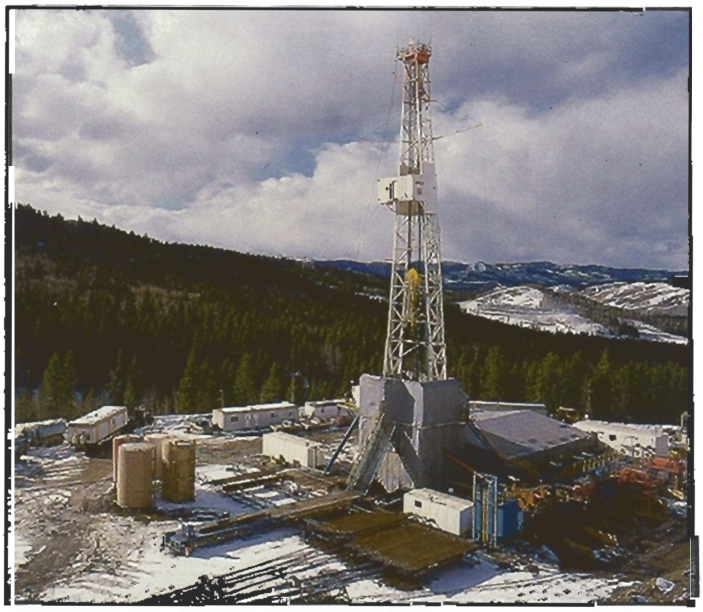
As a result of lower crude oil prices, a sharp decline in rig utilization was experienced during the last six months of 1988. In addition, the stronger Canadian dollar resulted in lower netbacks to oil and gas producers, further dampening drilling activity in western Canada.

The Energy Services Division completed its asset rationalization program by selling the Oilfield Equipment Division in Canada and 11 well servicing rigs in the United States. The Division now operates 33 drilling rigs and 19 well servicing rigs in Canada and 14 drilling rigs in the United States.

As a result of the OPEC production accord signed in November 1988, the outlook for future oil drilling is cautiously optimistic. To stabilize prices at U.S. $15 to $17, OPEC has agreed to limit production to 18.5 to 19 million barrels a day. Whether this can be achieved over a significant period of time is not yet known.

The outlook for gas exports from Canada is very promising and this situation coupled with Federal and Provincial royalty incentive programs, and stable oil prices, should increase rig activity in western Canada during 1989.





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**A well servicing rig in southern Alberta.**

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**Drilling rig #44 in the foothills of Alberta.**

## Property Management

1988 was a transitional year that saw a movement from being an owner/developer to a real estate services Division, with emphasis on providing consulting and property management services. The Division currently manages a portfolio of 1,300,000 square feet of commercial and retail properties for a variety of clients. Completion of 919 - 11th Avenue S.W., a 130,000 square-foot office building in Calgary, was a highlight of the nine month period. Major tenants include the Province of Alberta Treasury Branches and ATCO Enterprises Ltd.

## Southco Travel

Southco Travel continued to show excellent growth and is now Calgary's second largest independent travel agency. Southco is diversifying its systems to effectively maximize efforts in the specific areas of corporate, vacation, cruise and group travel.

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**Corridor leading to lobby of 919 - 11th Avenue S.W.**

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**919 - 11th Avenue S.W. was completed in 1988.**

# ATCOR LTD.

*The mission of ATCOR Ltd. is to increase the long term value of the corporation to the shareholders of the ATCO group of companies through an accelerating investment of resources in oil and gas in Canada.*



**An ATCOR operated gas processing plant.**

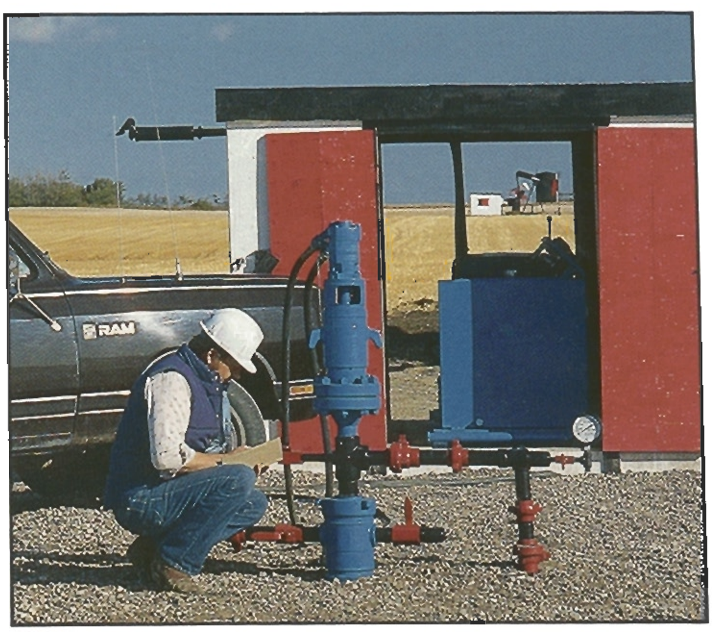

ATCOR Ltd. participates in oil and gas exploration and production primarily in western Canada. In Canadian frontier areas, exploration is carried out by AT&S Exploration Ltd. in which ATCOR holds a 37.5 percent interest. AT&S Exploration Ltd. has a 10.1625 percent interest in the Amauligak structure in the Beaufort Sea and ATCOR has a 3.80 percent direct participation in this structure. Commentary in this section covers the operations of ATCOR for the 1988 calendar year.

## Exploration and Production

Weakening product prices in 1988 impacted the industry's investment climate; however, recent international developments have generated renewed optimism that pricing will strengthen and stability will return.

ATCOR increased its total petroleum and natural gas rights in western Canada by about 15 percent to 145,014 net hectares, excluding lands where petroleum and natural gas rights are split. ATCOR participated in the drilling of 95 wells with an overall success rate of 70 percent. Proven reserves of crude oil and natural gas liquids increased to 4.1 million barrels. Proven natural gas reserves rose 23 percent to 76.5 billion cubic feet. Daily average production of crude oil increased by 16 percent to 2,011 barrels and daily average production of natural gas increased 79 percent to 14.1 million cubic feet.

Exploration expenditures resulted in a finding and onstream cost of $5.88 per barrel of oil equivalent. Finding and onstream costs are defined as total capital expenditures divided by total proven reserve additions. Exploration highlights included the discovery of gas reserves in the Fort Pitt area of northwestern Saskatchewan. Well tie-ins and additional drilling is scheduled for early 1989 on ATCOR's 92 percent working interest lands at Fort Pitt. In the Thornbury-Winefred Lake area of northeastern Alberta significant gas reserves were added. During 1988, ATCOR pursued an aggressive program of




▲
**W. A. Elser**
**President and**
**Chief Executive Officer**

◀
**Foreman checking heavy oil site.**

exploration and development in this area on lands in which ATCOR holds a 46 percent to 92 percent working interest. Activity in the Windfall-Groat-Haddock areas, northwest of Edmonton, provided significant 1988 reserve additions and additional exploration opportunities which will be pursued in 1989.


## Gas Processing

ATCOR is a 50 percent owner in an ethane/natural gas liquids production facility in Edmonton from which ethane is delivered to an Alberta petrochemical producer and liquid petroleum gas liquids are sold in Sarnia, Ontario.

Gas processed in 1988 decreased five percent over 1987 volumes to 267 million cubic feet per day; however, ATCOR's share of extracted LPG liquids increased seven percent to 1,840 barrels per day. LPG prices, following world oil prices, decreased 26 percent in 1988. Plant operating revenue decreased 24 percent in 1988 due to lower prices and processing volumes.



## Gas Marketing

Gas supplies tightened in the United States in 1988 as a result of higher demand and declining production capability. Low energy prices and a surplus of natural gas during the past three years have discouraged gas exploration in the United States and there is now concern that American production will not be able to meet market demands in the near future. Canada is already benefiting from this declining production capacity, as exports to the United States increased significantly in 1988. Unfortunately the opportunity to export additional gas from Canada in 1989 will be limited by available pipeline capacity.

A recent study prepared by the National Energy Board points out that all firm capacity on pipelines transporting to the United States is under contract, except for the Westcoast Transmission system in British Columbia. The first stage of additional pipeline construction on the TransCanada system will occur in 1989. Applications for further pipeline additions have been or will be filed with the National Energy Board in 1989.

The most attractive new market for Canadian gas is in the northeast region of the United States. New England and New York have been suffering from inadequate supplies of gas and pipeline capacity for some time.

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**Oil storage tank at battery site.**

Environmental concerns with alternate fuels and rapid growth in electrical consumption are increasing the demand for clean burning natural gas. In the last two years, the northeastern United States has become the focus of attention for the gas industry as regulators attempt to determine the most viable and economic way to increase supplies to the region.

The Alberta Northeast Project (ANE), initiated in 1986 to supply 19 gas and electric utilities in New England and New York, is the lead project for additional supplies. ATCOR is one of four suppliers to the project which involves the supply of 415,000 gigajoules per day over 15 years. ATCOR's share is 37,000 gigajoules per day. The ANE project cleared a major hurdle in 1988 when a settlement was reached among all participants and a recommendation was made to the U.S. Federal Regulatory Commission to issue a certificate for the construction of the proposed Iroquois Gas Transmission pipeline. The focus in 1989 will be on the Canadian facility improvements necessary to transport the ANE volumes to the United States.

In addition to ANE, ATCOR remained active in market development across Canada and the United States during 1988. Outside of Alberta, ATCOR concentrated on longer term, firm market opportunities such as ANE, avoiding the very volatile spot and short term markets.

ATCOR's natural gas sales during 1988 totalled 85.0 petajoules or approximately 230,000 gigajoules per day. The Company served 33 customers located in Alberta, Saskatchewan and Ontario. Gas supplied to these markets was produced from ATCOR wells and purchased from 106 producing companies under 167 supply contracts. Market growth over the next five years will depend on the availability of firm transportation capacity pipelines carrying gas to the United States.

Frontier

The major AT&S Exploration Ltd. activity in 1988 was completion of the delineation drilling program at the Amauligak oilfield in the Beaufort Sea. Four wells were completed, two as oilwells and two dry holes. Extensive technical studies continue and suggest that an early 1998 production start is feasible.

Field activity on other AT&S holdings in the Beaufort-Mackenzie Delta area was limited to geophysical surveys which are expected to result in the drilling of several wells in 1989.

Reduced levels of frontier activity were not entirely due to declining world oil prices. Obligatory drilling on nearly all existing exploration licences is complete and the decline in activity is partially due to the hiatus accompanying the planning of new programs following licence expiry and renewal under new terms. Application for the export of gas from the Delta, plus the potential for oil production from Amauligak, indicates long term promise for northern hydrocarbon development.

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**A pumpjack — a visual symbol of the oil industry in Canada.**

# CANADIAN UTILITIES LIMITED

*Canadian Utilities Limited is an investor-owned, Alberta-based company, committed to achieving above-average earnings and dividend growth through a balance of core utility operations and diversified but complementary non-utility ventures.*



▶ **1,500 kilometres of electrical transmission and distribution lines were constructed in 1988 by Alberta Power.**

Earnings of Canadian Utilities Limited, in which ATCO Ltd. holds a 50.1 percent interest, were significantly higher during 1988 than in the previous year. A stronger Alberta economy and continued productivity improvements resulted in earnings of $102,799,000 ($1.88 per share), compared with $96,691,000 ($1.78 a share) in 1987. Commentary in this section covers the operations of Canadian Utilities for the 1988 calendar year.

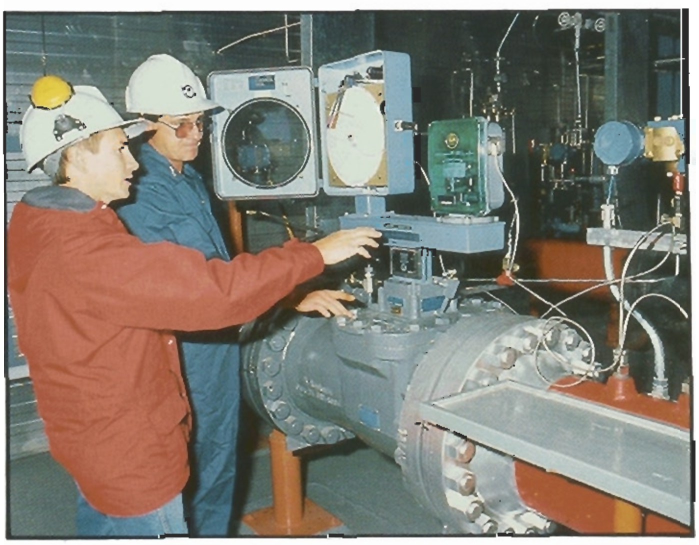
During the year, Canadian Utilities experienced continued growth in the number of customers served, higher gas transportation revenues and higher electrical sales, primarily to industrial customers. Although the weather was warmer than normal, average temperatures were colder than in 1987, also contributing to improved earnings.

The company established three divisions during 1988: CU Gas, CU Power and CU Services. All utility operations and non-regulated business opportunities are now managed by these divisions.

High levels of activity in forestry, natural gas exploration and production, petrochemicals and related industries are expected to provide future growth in the markets for Canadian Utilities' services.

CU Gas

The CU Gas Division of Canadian Utilities was created to manage both the gas utility operations and related non-regulated business opportunities. Gas utility operations are carried out by two subsidiaries. Canadian Western Natural Gas Company Limited serves southern Alberta, including Calgary and Lethbridge, and Northwestern Utilities Limited serves north-central Alberta, including Edmonton, Camrose, Fort McMurray, Grande Prairie, Red Deer, St. Albert and Lloydminster. Distribution in Dawson Creek and Tumbler Ridge, British Columbia, is managed by a Northwestern subsidiary.



▲ **Dr. J. D. Wood President and Chief Executive Officer**

◀ **Technicians check instrumentation at gas plant.**

The number of customers served grew by more than 10,000 during the year, to a total of 631,311. System throughput increased by 54 petajoules (PJ), to 464.7 PJ and revenues grew by $15.4 million, to $622.9 million. The growing number of customers, higher volumes of gas transported for others and colder weather in 1988 than 1987, were responsible for these improvements.

Capital expenditures amounted to $73.0 million during the year with the largest single expenditure being $8.6 million for the current year's portion of the ongoing 10-year replacement of bare steel mains in Edmonton.

A ruling by the Alberta Public Utilities Board approved recovery in 1988 by Northwestern of $9.5 million in revenue for 1987 and $14.7 million for 1988. The Public Utilities Board also issued a decision during 1988 establishing rates for expanded gas transportation service for industrial customers.

Because of continued productivity gains, labor costs increased by only 2.2 percent over 1987 despite a three percent increase in base pay provided in the agreement signed two years ago with employees. A two-year contract was recently signed with employees' associations providing for a 4.5 percent increase in base pay for each of 1989 and 1990.

The process of deregulating natural gas pricing continued during 1988. Favorable prices obtained by CU's gas utilities provided customers with their lowest unit gas costs since 1982. New procedures allow the utilities to pass the benefits of lower gas costs to the customer expeditiously. As a result, new gas rates were approved January 25, April 1 and November 1, 1988.

CU Power

The CU Power Division of Canadian Utilities was created to manage both the electric utility operation and related non-regulated business opportunities. Alberta Power Limited, CU's major electric utility, serves industrial, commercial and residential customers in 326 communities and adjacent rural areas in east-central and northern Alberta and 2 communities in Saskatchewan.

Yukon Electrical Company Limited, a subsidiary of Alberta Power, serves customers in 18 Yukon communities and 1 community in British Columbia. Yukon Electrical also manages the assets of the Yukon Energy Corporation. Together with its own operations, Yukon Electrical now provides electric service to the entire Yukon Territory.

Some 2,000 customers were added during the year, bringing the total to 152,529. Sales to retail customers increased by 12.5 percent during 1988, to 6,083 million kilowatt hours. An additional 588 million kilowatt hours were sold to the City of Edmonton under an agreement that ended in mid-year.

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**Natural gas service lines are connected using plastic pipe.**

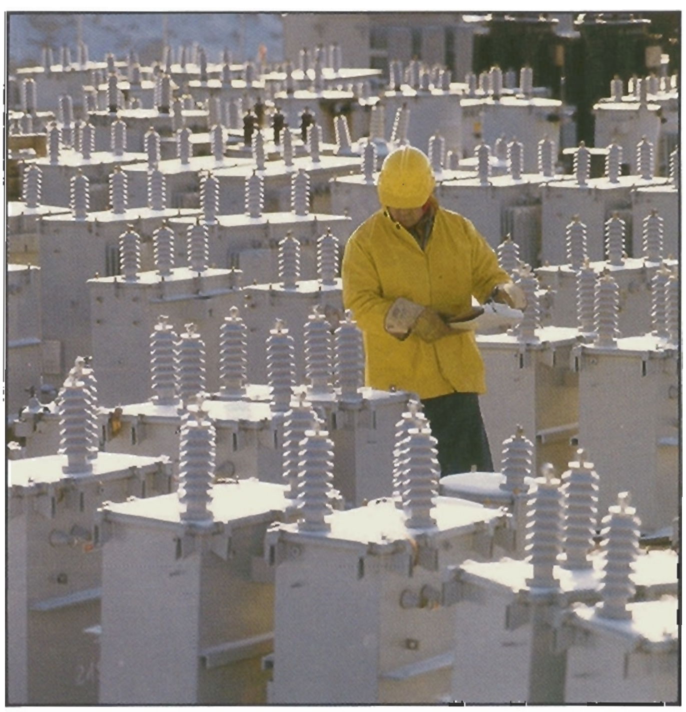
Ongoing productivity programs continue to generate savings in operations and maintenance costs. These costs have dropped by 14 percent in the past five years or expressed another way, the operations and maintenance cost per kilowatt hour, in constant 1988 dollars, dropped from 2.8 cents in 1983 to 2.4 cents in 1988.

Consolidated electrical utilities revenues of $424.2 million were up $15.5 million over 1987. Increased revenue from industrial sales and from the Alberta Electric Energy Marketing Agency more than compensated for the loss of revenue due to the expiry of the agreement with Edmonton Power.

New construction during the year totalled $125.6 million. The largest transmission project was located in northwestern Alberta, where a 165-kilometre, 240-kilovolt line was built from the Valleyview area to Peace River. Construction commenced in June on a $36.4 million tie-line to link the electrical systems of Alberta and Saskatchewan. Completion is scheduled for October 1989.

Construction of the second unit of the Sheerness thermal generating plant resumed in May 1988. The Energy Resources Conservation Board reconfirmed the 1990 in-service date of this unit, which will double the station's capacity to 760 megawatts.

The Yukon Electrical Company filed a rate application in early 1989 requesting a reduction of 4 percent in the 1989 base rate and a 2.8 percent reduction in the 1990 rate. These reductions are made possible by lower operating costs, primarily reduced prices for purchased power.



◄ **Electric transformers being inspected.**

## CU Services

A new Division of Canadian Utilities, CU Services, was created to market company expertise in systems integration, i.e. the design, development, installation and operation of computer and telecommunications systems.

The new Division has been awarded a contract to design, develop, operate and maintain the registration, eligibility and premium systems of the Alberta Department of Health. The contract is for an initial four-year period, with an option for a two-year extension.

In addition, the Division is providing systems integration services to the CU Gas Division, which sells meter reading, customer billing and customer information services to other utilities.

CU Services operates a large computer facility linked to over 200 sites in Alberta, British Columbia and the Yukon through a voice and data telecommunications network. Its experience in systems development and operations, using advanced data base technology and fourth-generation productivity tools, is expected to make its skills attractive in the marketplace.



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**Natural gas control centre in Edmonton.**

▶
**Canadian Utilities operates one of the largest computer facilities in western Canada.**

## Frontec Logistics Corp.

Frontec Logistics Corp., jointly owned by ATCO Enterprises Ltd. and Canadian Utilities Limited, has the potential to become a leading worldwide logistics, operations and maintenance contractor, building on the combined expertise of its parent companies and associated firms.

This expertise includes ATCO's 40 years of experience in installing complete communities in remote areas throughout the world. It also includes Canadian Utilities' more than 75 years of experience in constructing and operating natural gas and electrical transmission lines, compressor stations and generating stations in such challenging terrains as the muskeg of northern Alberta and the permafrost of northern Canada.

### North Warning System

Frontec was awarded a $114.2 million contract a year ago by the Canadian Department of National Defence for the operation and maintenance of the long-range radar sites on the new North Warning System. This system, replacing the aging Distant Early Warning (DEW) Line, is comprised of 11 manned long-range radar sites and 36 unmanned short-range radar sites in northern Canada. Frontec began managing three of the long-range sites in 1988, and the remaining eight are to be transferred to the joint venture in 1989. Northland Utilities Enterprises Ltd. and an American logistics contractor each have a 10 percent interest in the North Warning System project.

By 1990 Frontec will employ about 200 people on the North Warning System, and as many as 330 if all contract options are exercised. One of the options is for the operation and maintenance of the 36 short-range sites on the Arctic coast.

▲
A North Warning System radar dome.

◀
The Saglek long-range site overlooking the Atlantic Ocean.

## Northland Utilities Enterprises Ltd.

Northland Utilities Enterprises Ltd., which operates in the Northwest Territories, is majority-owned by Canadian Utilities Limited and ATCO Enterprises Ltd., while northern investors own 34 percent of the Company. Northland provides electricity to 1,882 customers in seven franchised areas in the Northwest Territories.

A $3.5 million transmission line from Pine Point to Hay River, N.W.T. was completed in 1988. The line allows Northland to reduce costs by purchasing surplus energy from the NWT Power Corporation's Taltson hydro system. As a result, in 1988, Northland applied for its second rate decrease in three years. Both the 1988 decrease of 11.5 percent and the projected 5.02 percent decrease in 1989 are the result of lower operating costs.

Employees of Northland are chosen wherever possible from the northern population. Advancement comes from on-the-job training; however, northern community colleges are being encouraged to develop programs to train northerners for jobs on the system and good progress is being made in this regard.



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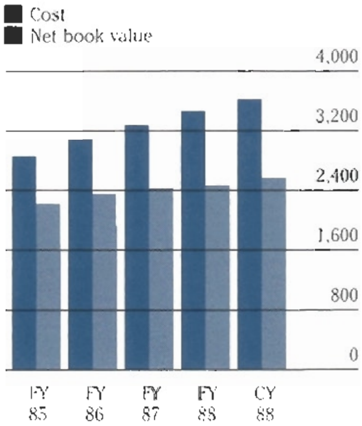
**Northland provides electricity to 1,882 customers in the Northwest Territories.**

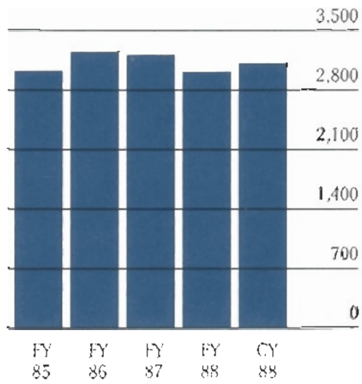
# FINANCIAL REPORT

# FINANCIAL REVIEW

PROPERTY, PLANT
& EQUIPMENT
*$ in millions*

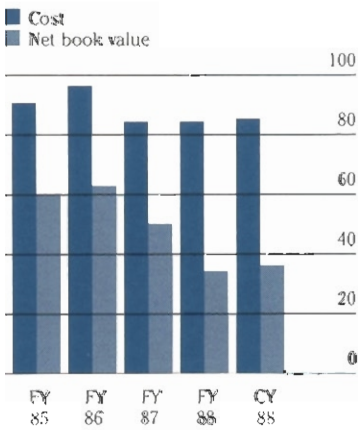



TOTAL ASSETS
*$ in millions*

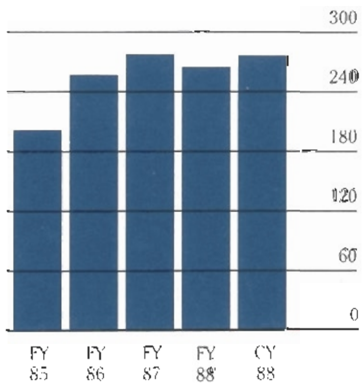




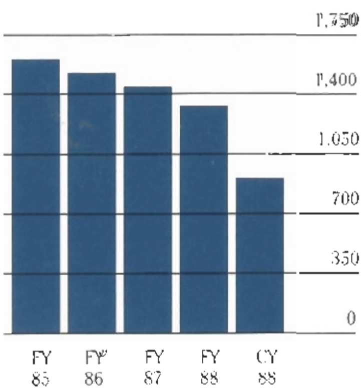

RENTAL ASSETS
*$ in millions*



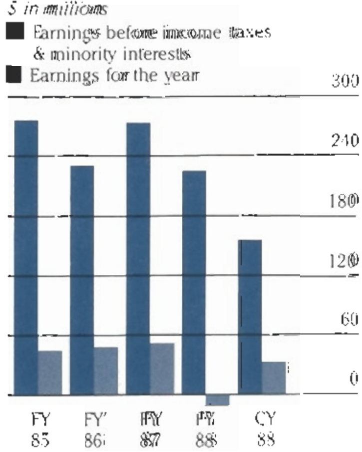

CLASS I & CLASS II
SHAREHOLDERS' EQUITY
*$ in millions*




REVENUES
*$ in millions*




EARNINGS FOR THE PERIOD
BEFORE EXTRAORDINARY ITEMS
*$ in 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 Corporation 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, 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 access to the Audit Committee.

C. S. Richardson
Senior Vice President, Finance and
Chief Financial Officer

A. J. Pullman
Vice President,
Planning and Budgeting

March 6, 1989

# AUDITORS' REPORT

***Price Waterhouse***

To the Shareholders of ATCO Ltd.

We have examined the consolidated balance sheet of ATCO Ltd. as at December 31, 1988 and the consolidated statements of earnings and retained earnings and changes in cash position for the nine months 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 December 31, 1988 and the results of its operations and the changes in its cash position for the nine months 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
March 6, 1989

ATCO Ltd.

# CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

(Thousands of Canadian dollars)

| | Note Reference | Nine Months Ended December 31, 1988 | Twelve Months Ended March 31, 1988 |
|---|---|---|---|
| Revenues | | $903,859 | $1,327,613 |
| Costs and expenses | | | |
| Natural gas supply | | 164,462 | 287,642 |
| Taxes — other than income | | 41,112 | 61,601 |
| Operating and maintenance | | 300,951 | 389,153 |
| Selling and administrative | | 98,076 | 129,094 |
| Depreciation, depletion and amortization | | 86,666 | 130,745 |
| Interest | | 89,392 | 110,667 |
| | | 780,659 | 1,108,902 |
| | | 123,200 | 218,711 |
| Allowance for funds used during construction | | 16,312 | 21,810 |
| Other income | 2 | 15,575 | 29,758 |
| Unusual items | 3 | — | (46,585) |
| | | 155,087 | 223,694 |
| Income taxes | | | |
| Current | | 59,116 | 125,725 |
| Deferred | | 4,452 | 2,292 |
| | 4 | 63,568 | 128,017 |
| | | 91,519 | 95,677 |
| Minority shareholders' interests | 5 | 58,230 | 104,541 |
| Earnings (loss) before extraordinary item | | 33,289 | (8,864) |
| Recovery of income taxes on utilization of prior years' loss carryforwards | | 3,677 | — |
| Earnings (loss) for the period | | 36,966 | (8,864) |
| Dividends on redeemable preferred shares | 6 | 20,341 | 25,611 |
| Earnings (loss) attributable to Class I and Class II shares | | 16,625 | (34,475) |
| Retained earnings at beginning of period | | 127,268 | 168,500 |
| | | 143,893 | 134,025 |
| Dividends on Class I and Class II shares | | 4,539 | 6,052 |
| Share issue and redemption expenses, net of deferred income taxes | | — | 396 |
| Exchange adjustments on preferred shares | 6 | (328) | 309 |
| Retained earnings at end of period | | $139,682 | $ 127,268 |
| Earnings per Class I and Class II share | | | |
| Before unusual and extraordinary items | | $ .43 | $ .66 |
| Unusual items | | $ — | $ (1.80) |
| Extraordinary item | | $ .12 | $ — |
| After unusual and extraordinary items | | $ .55 | $ (1.14) |
| Dividends paid per Class I and Class II share | | $ .15 | $ .20 |

# CONSOLIDATED BALANCE SHEET



(Thousands of Canadian dollars)

| | Note Reference | December 31, 1988 | March 31, 1988 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and short term investments | | $ 58,628 | $ 64,292 |
| Accounts receivable | | 170,796 | 169,580 |
| Inventories | | 47,473 | 47,786 |
| Income taxes recoverable | | 4,663 | — |
| Prepaid expenses | | 8,310 | 7,342 |
| | | 289,870 | 289,000 |
| Investments | 7 | 95,847 | 97,001 |
| Property, plant and equipment | 8 | 2,566,957 | 2,462,671 |
| Goodwill | | 123,385 | 135,086 |
| Deferred financing charges and other assets | | 40,617 | 41,648 |
| | | $3,116,676 | $3,025,406 |
| **Liabilities and Shareholders' Equity** | | | |
| Current liabilities | | | |
| Bank indebtedness | | $ 14,823 | $ 26,532 |
| Accounts payable and accrued liabilities | | 178,784 | 193,900 |
| Income taxes payable | | — | 11,386 |
| Long term debt due within one year | 9 | 25,676 | 36,953 |
| | | 219,283 | 268,771 |
| Long term debt | 9 | 1,027,565 | 969,072 |
| Contributions for extensions to utility plant | | 235,993 | 222,965 |
| Deferred credits | | 25,855 | 32,942 |
| Deferred income taxes | | 5,335 | 5,916 |
| Minority shareholders' interests | 5 | 986,503 | 907,212 |
| Redeemable preferred shares | 6 | 340,076 | 354,876 |
| Class I and Class II shareholders' equity | | | |
| Class I and Class II shares | 10 | 136,384 | 136,384 |
| Retained earnings | | 139,682 | 127,268 |
| | | 276,066 | 263,652 |
| | | $3,116,676 | $3,025,406 |

Approved by the Board:

Robert Rice

Director

Director

ATCO Ltd.

# CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION

(Thousands of Canadian dollars)

| | Nine Months Ended December 31, 1988 | Twelve Months Ended March 31, 1988 |
|---|---|---|
| **Operating activities** | | |
| Earnings (loss) for the period before extraordinary item | $ 33,289 | $ (8,864) |
| Depreciation, depletion and amortization | 86,666 | 130,745 |
| Deferred income taxes | 4,452 | 2,292 |
| Minority shareholders' interests | 58,230 | 104,541 |
| Unusual items | — | 46,585 |
| Other — net | (14,997) | (15,388) |
| | 167,640 | 259,911 |
| Increase in non-cash working capital | (20,538) | (73,220) |
| Cash from operations | 147,102 | 186,691 |
| **Dividends** | | |
| Paid to shareholders of the Corporation | (24,880) | (31,663) |
| Paid to minority shareholders of subsidiaries | (56,656) | (87,121) |
| | (81,536) | (118,784) |
| **Financing activities** | | |
| Issue of long term debt | 88,439 | 209,557 |
| Reduction in long term debt | (41,223) | (104,098) |
| Issue of shares by subsidiary | 88,580 | 100,000 |
| Redemption of preferred shares by subsidiary | (780) | (342,299) |
| Redemption of preferred shares by the Corporation | (14,524) | (16,718) |
| Issue of Class I and Class II shares by the Corporation | — | 26,404 |
| Other — net | (12,231) | (5,436) |
| | 108,261 | (132,590) |
| **Investing activities** | | |
| Property, plant and equipment | (167,093) | (191,094) |
| Acquisition of shares of Canadian Utilities Limited | — | (42,113) |
| Investments | (689) | 280,806 |
| | (167,782) | 47,599 |
| **Cash position*** | | |
| Increase (decrease) | 6,045 | (17,084) |
| Beginning of period | 37,760 | 54,844 |
| End of period | $ 43,805 | $ 37,760 |

* Cash position includes cash and short term investments less bank indebtedness.

## 1. Summary of Significant Accounting Policies

*Consolidation*

The consolidated financial statements include the accounts of ATCO Ltd. and all of its subsidiaries ("ATCO"). The principal operating subsidiaries are ATCO Enterprises Ltd. (100% owned) and its subsidiaries and Canadian Utilities Limited (50.07% owned) and its subsidiaries ("Canadian Utilities"), which include the utility subsidiaries and ATCOR Ltd. ATCO Ltd. and its wholly owned subsidiaries are collectively referred to herein as "the Corporation".

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

*Regulation*

The utility subsidiaries are regulated primarily by the Public Utilities Board of Alberta (the "Board") and the Energy Resources Conservation Board of Alberta, which administer acts and regulations covering such matters as rates, financing, accounting, construction, operation and service area. The Board may award interim rates, subject to final determination. Decisions made by these authorities and management which affect utility accounting policies are reflected in the consolidated financial statements prospectively from the date of decision.

*Property, Plant and Equipment*

The utility subsidiaries include in the cost of additions an allowance for funds used during construction, at a rate approved by the Board for debt and equity funds.

Certain additions are made with the assistance of cash contributions 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, and offset the depreciation charge of, 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 |
|---|---|---|
| Electric and natural gas utility plant and equipment | 1.5% to 7.2% | |
| Industrial rental units | 10% | |
| Drilling rigs | 6% to 10% | |
| Well servicing rigs | 10% | |
| Other buildings, furniture, fixtures and equipment | 2.5% | 5% to 30% |

On retirement of depreciable utility assets, the accumulated depreciation is charged with the cost of the retired unit adjusted for net salvage.

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 development of, petroleum and natural gas properties are capitalized in one cost centre per country. The net book value of petroleum and natural gas properties, net of related deferred income taxes, is limited to an amount equivalent to the estimated net amount to be received with respect to the production of proved reserves, based on current prices and costs, plus the net cost of unproved properties less estimated future general and administrative expenses, financing costs and income taxes. All resource properties are depleted on a unit of production basis.

*Revenue Recognition*

Utility revenues are recognized on the accrual basis with the exception of the electric subsidiary where revenues are recognized when billed. The natural gas subsidiaries include in revenues an estimate for natural gas delivered but unbilled at the end of each accounting period.

Significant additional revenues or refunds resulting from Board decisions are recorded in the period to which they relate. Other adjustments are recorded in the current period.

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.

*Inventories*

Inventories are recorded at the lower of cost and estimated net realizable value.

*Natural Gas Supply*



Natural gas supply expense is based on the recovery rate for natural gas costs included in customer rates. Variances from actual costs are deferred for refund to, or collection from, customers at a later date. Commencing November 1, 1987 winter and summer customer rates were adopted to correspond to the seasonal prices in current purchase contracts. Natural gas supply expense is adjusted for the variances when refunds or collections are billed in the following winter or summer season.

*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 Board.

*Deferred 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.

*Pensions*

ATCO has defined benefit plans covering substantially all its employees. Employees participate through contributions to the plans which provide for pensions based on length of service and final average earnings. The cost of pension benefits is determined using the accrued benefit actuarial cost method and reflects management's best estimates of investment returns, wage and salary increases, mortality rates, terminations and age at retirement. Adjustments resulting from plan enhancements, experience gains and losses and changes in assumptions are amortized over the estimated average remaining service life of employees. Assets in the plans are valued at market.

## 2. Other Income

| (Thousands of dollars) | Nine Months Ended December 31, 1988 | Twelve Months Ended March 31, 1988 |
|---|---|---|
| Interest income | $11,951 | $23,044 |
| Dividends | 994 | 3,224 |
| Exchange losses | (705) | (1,184) |
| Other | 3,335 | 4,674 |
| | $15,575 | $29,758 |

## 3. Unusual Items

| (Thousands of dollars) | Nine Months Ended December 31, 1988 | Twelve Months Ended March 31, 1988 |
|---|---|---|
| Gain on sale of: | | |
| Real estate development property | $ — | $ 3,806 |
| TransAlta Utilities Corporation shares and related securities | — | 9,715 |
| | — | 13,521 |
| At March 31, 1988, the Corporation wrote down the carrying value of certain assets in the energy services, manufacturing and leasing and real estate operations by $60,106,000 to reflect the estimated current economic value of those assets, as follows: | | |
| Drilling rigs | — | (41,933) |
| Rental assets | — | (11,906) |
| Real estate development properties | — | (5,000) |
| Other property and equipment | — | (1,267) |
| | — | (60,106) |
| | $ — | $(46,585) |

## 4. Income Taxes

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

| (Thousands of dollars) | Nine Months Ended December 31, 1988 | Twelve Months Ended March 31, 1988 |
|---|---|---|
| Earnings before income taxes and minority interests | $155,087 | $223,694 |
| Income taxes at statutory rate of 47.38% (March 31, 1988 — 51.31%) | $ 73,480 | $114,777 |
| Allowance for equity funds used during construction | (3,982) | (7,804) |
| Asset writedowns not tax effected | — | 30,836 |
| Crown royalties and other non-deductible government payments | 2,112 | 4,127 |
| Earned depletion and resource allowance | (4,470) | (8,665) |
| Non-taxable portion of capital gains | (60) | (1,012) |
| Foreign tax rate differences | 102 | 2,030 |
| Provincial rebates | (2,068) | (3,269) |
| Non-taxable dividends | (457) | (1,656) |
| Other | (1,089) | (1,347) |
| | $ 63,568 | $128,017 |

Prior to adoption of the "Normalization — All Taxes Paid" method of income tax accounting, the utility subsidiaries followed the "Flow-Through" method whereby deductions claimed in calculating taxable income exceeded the expenses recorded in the accounts, thereby reducing income taxes otherwise payable. Since the income tax component of utility rates recovers only income taxes currently payable, the deferred tax provision for these reductions was not recorded by the utility subsidiaries. Unrecorded deferred taxes of the utility subsidiaries are approximately $135,000,000 at December 31, 1988.

Certain subsidiaries have operating loss carryforwards of approximately $19,300,000 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 begin to expire in 1991.

In addition, certain subsidiaries have asset values for tax purposes in excess of the corresponding values for book purposes for which the tax benefits have not been recognized in the accounts. This excess amounts to approximately $69,300,000 and is available to reduce future years' taxable income.

## 5. Minority Interests

| (Thousands of dollars) | Nine Months Ended December 31, 1988 | Twelve Months Ended March 31, 1988 |
|---|---|---|
| Equity of minority interests: | | |
| In preferred shares of Canadian Utilities (detailed below) | $559,623 | $560,403 |
| In Class A non-voting and Class B common shares of Canadian Utilities Limited | 425,195 | 345,418 |
| Other | 1,685 | 1,391 |
| | $986,503 | $907,212 |
| In Canadian Utilities — | | |
| Preferred share dividends | $ 31,581 | $ 52,972 |
| Earnings attributable to Class A non-voting and Class B common shares | 26,605 | 51,522 |
| Other | 44 | 47 |
| | $ 58,230 | $104,541 |

*Preferred shares of Canadian Utilities*

| (Thousands of dollars) | 1989 Redemption Premium | Issued Amount December 31, 1988 | Issued Amount March 31, 1988 |
|---|---|---|---|
| Cumulative Redeemable Preferred Shares, 4% to 6% | 1% - 4% | $ 30,508 | $ 30,508 |
| Floating Rate Cumulative Redeemable Preferred Shares | N/A | 20,000 | 20,000 |
| Cumulative Redeemable Second Preferred Shares | | | |
| Non-retractable, 7.3% | N/A | 21,305 | 22,085 |
| Retractable, 7.08% to 8.74% | (See below) | 487,810 | 487,810 |
| | | $559,623 | $560,403 |

*Redemption and retraction privileges*

The preferred shares of Canadian Utilities are redeemable subject to the premiums listed above plus accrued dividends. The Cumulative Redeemable Preferred Shares, the non-retractable Cumulative Redeemable Second Preferred Shares and the retractable Cumulative Redeemable Second Preferred Shares, Series I are redeemable at the option of the corporation at any time. The remaining retractable Cumulative Redeemable Second Preferred Shares will be subject to redemption at the option of the corporation commencing at the redemption dates and with initial premiums as stated below.

The retractable Cumulative Redeemable Second Preferred Shares are retractable on the retraction dates specified below at the option of the holder at the stated value plus accrued dividends.

| (Thousands of dollars) | Stated Value | Redemption Date | Redemption Premium | Retraction Date |
|---|---|---|---|---|
| Series I | $ 98,802 | | 3% | November 1, 1991 |
| Series J | $ 27,000 | January 31, 1992 | Nil | January 31, 1992 |
| Series K | $122,008 | October 15, 1993 | Nil | October 15, 1993 |
| Series L | $ 60,000 | June 1, 1991 | 6% | June 1, 1994 |
| Series M | $ 80,000 | June 1, 1991 | 4% | June 1, 1993 |
| Series N | $100,000 | June 1, 1995 | Nil | June 1, 1995 |

The aggregate of required redemptions and maximum possible retractions of preferred shares of Canadian Utilities for each of the next five years is:

| (Thousands of dollars) | 1989 | 1990 | 1991 | 1992 | 1993 |
|---|---|---|---|---|---|
| | $8,400 | $8,400 | $98,202 | $32,400 | $194,908 |

## 6. Redeemable Preferred Shares

| (Thousands of dollars) | Issued Amount | | Dividends | |
|---|---|---|---|---|
| | December 31, 1988 | March 31, 1988 | Nine Months Ended December 31, 1988 | Twelve Months Ended March 31, 1988 |
| Issued by: | | | | |
| ATCO Ltd. | $ 55,000 | $ 55,000 | $ 3,782 | $ 5,005 |
| ATCO Holdings (N.A.) Ltd. | 13,156 | 22,340 | 854 | 1,610 |
| ATCO Utilities Holdings Ltd. | 150,000 | 150,000 | 8,754 | 10,182 |
| 474243 Ontario Ltd. | 121,920 | 127,536 | 6,951 | 8,814 |
| Total issued (detailed below) | $340,076 | $354,876 | $20,341 | $25,611 |

*ATCO Ltd.*

| December 31, 1988<br>March 31, 1988<br>(Thousands of dollars) | Issued Shares | Issued Amount | Average Prime Rate | Dividends |
|---|---|---|---|---|
| Junior Preferred Shares | | | | |
| Authorized 8,000,000 shares | | | | |
| Series 1 | 200,000 | $ 5,000 | 11.1% | $ 283 |
| | 200,000 | $ 5,000 | 9.7% | $ 343 |
| Series 3 | 2,000,000 | 50,000 | N/A | 3,499 |
| | 2,000,000 | 50,000 | N/A | 4,662 |
| | | $55,000 | | $3,782 |
| | | $55,000 | | $5,005 |

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 3 Junior Preferred Shares are redeemable, at the corporation's option, from December 31, 1989 to December 14, 1990 at $26.00 per share and at $25.00 per share until December 31, 1990, at which time the remaining shares will be redeemed. Dividends are payable quarterly at a fixed rate of $.58125 per share.

*ATCO Holdings (N.A.) Ltd.*

| December 31, 1988<br>March 31, 1988<br>(Thousands of dollars) | Issued | | Average Prime Rate | Dividends |
|---|---|---|---|---|
| | Shares | Amount | | |
| First Preferred Shares | | | | |
| Par value $100 each | | | | |
| Authorized 800,000 shares | | | | |
| Series A, issued in U.S. dollars | 60,000 | $ 7,156 | 10.0% | $ 454 |
| | 100,000 | $12,340 | 9.0% | $ 891 |
| Series B | 60,000 | 6,000 | 11.1% | 400 |
| | 100,000 | 10,000 | 9.7% | 719 |
| | | $13,156 | | $ 854 |
| | | $22,340 | | $1,610 |

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.

The Series A First Preferred Shares are translated at the period end exchange rate. Exchange adjustments arising on translation are deferred and amortized to retained earnings over the remaining life of the preferred shares.

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 to purchase the preferred shares upon the occurrence of certain events. This sale agreement is secured by a floating charge debenture of U.S. $90,000,000 issued and pledged by ATCO Ltd. and by guarantees and pledge of a U.S. $90,000,000 floating charge debenture of ATCO Enterprises Ltd.

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 holders of the preferred shares demanding payment under the terms of the sale agreement.

*ATCO Utilities Holdings Ltd.*

| December 31, 1988<br>March 31, 1988<br>(Thousands of dollars) | Issued | | Average Prime Rate | Dividends |
|---|---|---|---|---|
| | Shares | Amount | | |
| Preferred Shares | | | | |
| Authorized 150,000 shares | 150,000 | $150,000 | 11.1% | $ 8,754 |
| | 150,000 | $150,000 | 9.7% | $10,182 |

The preferred shares may be redeemed, at the corporation's option, at a price of $1,020 per share through July 6, 1989. The preferred shares outstanding at July 7, 1989 must be redeemed at a price of $1,000 per share.

Dividends are payable quarterly at a rate of one quarter of 70% of the average prime rate for the quarter.

| December 31, 1988<br>March 31, 1988<br>(Thousands of dollars) | Issued | | Average Prime | |
|---|---|---|---|---|
| | Shares | Amount | Rate | Dividends |
| Preference Shares | | | | |
| Par value $1,000 each | | | | |
| Authorized 150,000 shares | | | | |
| Classes A - G | 121,920 | $121,920 | 11.1% | $6,951 |
| | 127,536 | $127,536 | 9.7% | $8,814 |

The issued preference shares are to be redeemed, at par, at $1,872,000 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.

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

| | |
|---|---|
| Classes A - D ($60,975,000) | 50% of prime plus 2% |
| Classes E - F ($20,320,000) | 50% of prime plus 1⅞% |
| Class G ($40,625,000) | 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.

*Redemptions*

The required redemptions of preferred shares of the Corporation for each of the next five years are:

| (Thousands of dollars) | 1989 | 1990 | 1991 | 1992 | 1993 |
|---|---|---|---|---|---|
| | $166,271 | $61,885 | $12,500 | $99,420 | $ — |

7. Investments

| (Thousands of dollars) | December 31, 1988 | March 31, 1988 |
|---|---|---|
| Hydro-Quebec bonds | $49,983 | $49,977 |
| Other securities, at cost | | |
| (approximate current market value $18,616,000) | 21,037 | 20,244 |
| Joint ventures and partnership (on the equity basis) | 24,827 | 26,780 |
| Total | $95,847 | $97,001 |

The proceeds on the issue of the Series 3 Junior Preferred Shares were invested in $50,000,000 principal amount of 12⅜% Hydro-Quebec bonds maturing January 3, 1991. These securities have been hypothecated and use of the principal and interest is restricted.

ATCO's share of the joint ventures' and partnership's losses amounted to $395,000 (March 31, 1988 — earnings of $172,000) and is included in revenues.

## 8. Property, Plant and Equipment

| (Thousands of dollars) | December 31, 1988 | | March 31, 1988 | |
|---|---|---|---|---|
| | Cost | Accumulated Depreciation & Depletion | Cost | Accumulated Depreciation & Depletion |
| Electric utility plant and equipment | $1,894,267 | $ 415,907 | $1,797,152 | $375,431 |
| Natural gas utility plant and equipment | 1,181,376 | 304,980 | 1,136,524 | 289,870 |
| Drilling and well servicing rigs and related equipment | 177,358 | 159,233 | 188,515 | 169,414 |
| Gas and oil properties | 174,058 | 77,701 | 157,553 | 72,595 |
| Urban and industrial space rental assets | 85,218 | 49,416 | 84,251 | 49,763 |
| Other plant and equipment | 100,804 | 38,887 | 93,076 | 37,327 |
| | $3,613,081 | $1,046,124 | $3,457,071 | $994,400 |
| | $2,566,957 | | $2,462,671 | |

## 9. Long Term Debt

| (Thousands of dollars) | December 31, 1988 | March 31, 1988 |
|---|---|---|
| **Canadian Utilities** | | |
| Sinking fund debentures, at fixed rates of 8⅜% to 17½%, due at various dates to 2007 | $ 773,879 | $ 747,674 |
| First mortgage sinking fund bonds, at fixed rates of 5⅝% to 9¾%, due at various dates to 1994 | 31,888 | 32,318 |
| Capitalized lease obligation | 17,361 | 18,399 |
| Notes payable | 35,700 | 10,000 |
| Other | 24,230 | 25,370 |
| **ATCO Ltd.** | | |
| Term loans, unsecured, at fixed rates of 10.13% to 10.18%, due at various dates to August, 1991 | 30,000 | 30,000 |
| Term loans, unsecured, at prime, due at various dates to March, 1993 | 60,000 | 60,000 |
| **ATCO Enterprises Ltd.** | | |
| Term loan, at 11.49%, due July 3, 1990, secured by 2,000,000 Class B common shares of Canadian Utilities Limited | 36,000 | 36,000 |
| Bank loan, due December 31, 1992, non-recourse, secured by assignment of interest in ALDC Partnership | 8,800 | 8,800 |
| Interim financing on Canadian Western Centre, Phase II, at prime, due December 31, 1989, secured by the building under construction | 10,055 | 3,091 |
| Term loan, at 10⅛%, due March 31, 1992, secured by a first charge on drilling and well servicing rigs of the corporation | 22,500 | 22,500 |
| Term loan, at prime, due December 30, 1990, secured by certain gas and oil properties | — | 10,400 |
| Other | 2,828 | 1,473 |
| | 1,053,241 | 1,006,025 |
| Less: Amounts due within one year | 25,676 | 36,953 |
| | $1,027,565 | $ 969,072 |

The Corporation has fixed the interest rate on certain of its floating rate instruments by entering into interest rate swap agreements as follows:

| Maturity Date | Principal Amount | Interest Rate |
|---|---|---|
| 1989 | $ 5,000,000 | 9.50% |
| 1990 | $ 14,000,000 | 9.69% |
| 1991 | $ 50,000,000 | 9.77% - 9.82% |
| 1992 | $105,000,000 | 10.51% - 12.00% |

The Corporation maintains a standby line of credit for $50,000,000 under a term credit agreement at negotiated interest rates. The term credit agreement, which expires in April, 1993, is secured by Class A non-voting and Class B common shares of Canadian Utilities Limited owned by the Corporation, and by covenants which require maintenance of voting control of Canadian Utilities Limited and the continued ownership, either directly or indirectly, by ATCO Utilities Holdings Ltd. of the Canadian Utilities Limited shares currently owned by that corporation. At December 31, 1988, no amount was outstanding under this agreement (March 31, 1988 — Nil).

The terms of the above debt include restrictions relating to new debt and guarantees. Covenants also require maintenance of specified working capital and shareholders' equity. Canadian Utilities Limited is subject to restrictions on the payment of dividends on Class A non-voting and Class B common shares in excess of $143,052,000 (March 31, 1988 — $145,119,000).

Included in electric utility plant and equipment is a dragline costing $24,818,000 acquired under a lease which included a purchase option exercisable in 1996. The future minimum lease payments in aggregate are $24,698,000 of which $2,421,000 is payable in each of the next five succeeding years. Included in these future minimum payments is $7,337,000 of imputed interest at the rate of 7.62%.

Under a bank loan agreement, which provides a line of credit of up to $75,000,000 to March 14, 1990, Canadian Utilities issues commercial paper and assumes bank loans. Under the agreement, Canadian Utilities maintains an unused bank line of credit of not less than 50% of the commercial paper outstanding. At December 31, 1988, Canadian Utilities had notes payable of $35,700,000 (March 31, 1988 — $10,000,000) outstanding under this agreement at interest rates varying from 10.35% to 10.98% with maturities to March 1, 1989.

Interest expensed on long term debt was $80,619,000 (March 31, 1988 — $101,825,000). In addition to the allowance for funds used during construction, interest of $768,000 (March 31, 1988 — $1,076,000) was capitalized during the period.

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

| (Thousands of dollars) | 1989 | 1990 | 1991 | 1992 | 1993 |
|---|---|---|---|---|---|
| | $25,676 | $107,746 | $107,537 | $67,390 | $34,453 |

The terms of a $100,000,000, 13.10% Canadian Utilities Limited sinking fund debenture, 1984 series, due June 1, 1994, grant the holder of the debentures the option of requiring the corporation to redeem all or any of the holder's debentures on June 1, 1989 at a price equal to the principal amount plus accrued and unpaid interest to June 1, 1989.

## 10. Class I and Class II Shares

| (Thousands of dollars) | Class I Non-Voting | | Class II Voting | | Total | |
|---|---|---|---|---|---|---|
| | Shares | Consid-eration | Shares | Consid-eration | Shares | Consid-eration |
| Authorized | 100,000,000 | | 50,000,000 | | 150,000,000 | |
| Issued: | | | | | | |
| March 31, 1987 | 23,538,420 | $107,840 | 4,221,130 | $2,140 | 27,759,550 | $109,980 |
| Exercise of warrants | 1,762,950 | 18,511 | — | — | 1,762,950 | 18,511 |
| Issued under financing agreement | 732,932 | 7,868 | — | — | 732,932 | 7,868 |
| Employee share option plans | 3,100 | 25 | — | — | 3,100 | 25 |
| Conversions: | | | | | | |
| Class II to Class I | 12,980 | 6 | (12,980) | (6) | — | — |
| March 31, 1988 | 26,050,382 | 134,250 | 4,208,150 | 2,134 | 30,258,532 | 136,384 |
| Conversions: | | | | | | |
| Class II to Class I | 1,500 | 1 | (1,500) | (1) | — | — |
| December 31, 1988 | 26,051,882 | $134,251 | 4,206,650 | $2,133 | 30,258,532 | $136,384 |

Each Class II voting share may be converted to one Class I non-voting share at the shareholder's option. In the event an offer to purchase Class II voting shares is made to all holders of Class II voting shares, and is accepted and taken up by the holders of a majority of such shares pursuant to such offer, then provided an offer is not made to the holders of Class I non-voting shares on the same terms and conditions, the Class I non-voting shares shall be entitled to the same voting rights as the Class II voting shares. The two classes of shares rank equally in all other respects.

*Share options —*

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

Options to purchase 897,820 Class I non-voting and 216,660 Class II voting shares have been granted under the plan, of which 446,900 and nil, respectively, were outstanding at December 31, 1988 at prices ranging from $8.125 to $8.75 per share.

## 11. Segmented Information

*By Industry*

| December 31, 1988<br>March 31, 1988<br>(Thousands of dollars) | Electric Utility Operations | Gas Utility Operations | Gas and Oil (1) | Euergy Services | Manu-facturing & Leasing | Other | Consoli-dated (2) |
|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | |
| Trade | $ 311,517 | $378,543 | $ 81,552 | $ 31,611 | $73,061 | $ 27,220 | $ 903,859 |
| | $ 431,428 | $613,403 | $120,521 | $ 59,048 | $73,666 | $ 29,547 | $1,327,613 |
| Inter-segment | 181 | 8,795 | 4,843 | 523 | 293 | 13,334 | — |
| | 210 | 14,969 | 17,787 | 1,947 | 9,856 | 19,525 | — |
| Total segment revenues | 311,698 | 387,338 | 86,395 | 32,134 | 73,354 | 40,554 | 903,859 |
| | 431,638 | 628,372 | 138,308 | 60,995 | 83,522 | 49,072 | 1,327,613 |
| Expenses: | | | | | | | |
| Operating costs | 129,075 | 291,975 | 77,613 | 35,479 | 56,723 | 36,738 | 604,601 |
| | 174,008 | 465,664 | 120,165 | 57,637 | 69,843 | 44,307 | 867,490 |
| Depreciation, depletion and amortization | 43,566 | 23,038 | 7,958 | 2,302 | 5,105 | 3,325 | 86,666 |
| | 53,865 | 35,703 | 4,632 | 14,278 | 9,228 | 8,975 | 130,745 |
| Total segment expenses | 172,641 | 315,013 | 85,571 | 37,781 | 61,828 | 40,063 | 691,267 |
| | 227,873 | 501,367 | 124,797 | 71,915 | 79,071 | 53,282 | 998,235 |
| Segment operating profit (loss) | $ 139,057 | $ 72,325 | $ 824 | $ (5,647) | $11,526 | $ 491 | $ 212,592 |
| | $ 203,765 | $127,005 | $ 13,511 | $ (10,920) | $ 4,451 | $ (4,210) | $ 329,378 |
| Identifiable assets | $1,561,148 | $996,362 | $182,616 | $ 29,823 | $63,392 | $199,742 | $3,116,676 |
| | $1,500,815 | $957,845 | $147,272 | $ 37,608 | $63,944 | $192,153 | $3,025,406 |
| Capital expenditures | $ 95,581 | $ 59,729 | $ 14,298 | $ 2,972 | $12,786 | $ 7,123 | $ 192,489 |
| | $ 113,235 | $ 50,605 | $ 28,672 | $ 3,084 | $ 9,233 | $ 5,769 | $ 210,598 |

(1) Exploration and production, petrochemicals and gas marketing.

(2) Inter-segment transactions have been eliminated in the consolidated column.

| (Thousands of dollars) | Nine Months Ended December 31, 1988 | Twelve Months Ended March 31, 1988 |
|---|---|---|
| Segment operating profit | $ 212,592 | $ 329,378 |
| Interest | (89,392) | (110,667) |
| Allowance for funds used during construction | 16,312 | 21,810 |
| Other income | 15,575 | 29,758 |
| Unusual items | — | (46,585) |
| Income taxes | (63,568) | (128,017) |
| Minority interests | (58,230) | (104,541) |
| | (179,303) | (338,242) |
| Earnings (loss) for the period before extraordinary item | $ 33,289 | $ (8,864) |

## 12. Pensions

The present value of the accrued pension benefits based on actuarial appraisals and the net assets available to provide for those benefits are as follows:

| (Thousands of dollars) | December 31, 1988 | March 31, 1988 |
|---|---|---|
| Market value of assets | $411,859 | $392,456 |
| Accrued pension benefits | 369,997 | 336,826 |
| Surplus | $ 41,862 | $ 55,630 |

The pension costs for the period amounted to $3,464,000 (March 31, 1988 — $3,019,000) of which $784,000 (March 31, 1988 — $743,000) was capitalized. The plan surplus is being amortized on a straight-line basis over 15.6 years. The cumulative difference of $3,643,000 (March 31, 1988 — $1,125,000) between pension costs and funding contributions is included in deferred credits.

## 13. 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 $15,413,000 for the period (March 31, 1988 — $16,317,000). Future minimum lease payments are as follows:

| (Thousands of dollars) | 1989 | 1990 | 1991 | 1992 | 1993 | Total of all Subsequent Years |
|---|---|---|---|---|---|---|
| | $15,780 | $15,478 | $13,658 | $12,719 | $12,261 | $113,821 |

United States Treasury officials have investigated the basis followed by the Corporation in determining certain United States customs and duty payments in 1974 and 1975. A hearing is scheduled for March, 1989. Management is of the opinion that no material amount above those amounts already provided in the accounts will ultimately be payable.

The electric subsidiary has a 50% joint ownership in the Sheerness Generating Station. Unit 2 is currently under construction and forecast to cost approximately $255,000,000, of which approximately $98,000,000 is yet to be expended.

The lender has filed a statement of claim demanding repayment of a loan secured by an assignment of the Corporation's interest in the ALDC Partnership, having a principal amount of $8,800,000 and alleged unpaid interest of approximately $10,000,000. Management contends that, under the circumstances, the loan is non-recourse and its counsel has advised that it is unlikely that any liability will ultimately attach to the Corporation.

## 14. Comparative Figures

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted for December 31, 1988.

# CONSOLIDATED SUMMARY OF OPERATIONS

ATCO Ltd.

(Thousands of Canadian dollars)

| | Twelve Months Ended December 31, 1988 (unaudited) | Twelve Months Ended March 31 1988 | 1987 | 1986 | 1985 |
|---|---|---|---|---|---|
| Revenues | $1,337,773 | $1,327,613 | $1,443,706 | $1,527,229 | $1,610,827 |
| Costs and expenses | 1,133,696 | 1,108,902 | 1,265,158 | 1,331,238 | 1,410,467 |
| | 204,077 | 218,711 | 178,548 | 195,991 | 200,360 |
| Allowance for funds used during construction and other income | 44,237 | 51,568 | 57,737 | 64,022 | 75,353 |
| Unusual items (1) | (60,106) | (46,585) | 37,700 | (30,424) | — |
| | 188,208 | 223,694 | 273,985 | 229,589 | 275,713 |
| Income taxes | 105,377 | 128,017 | 112,766 | 92,840 | 108,645 |
| | 82,831 | 95,677 | 161,219 | 136,749 | 167,068 |
| Minority interests | 89,000 | 104,541 | 108,943 | 89,011 | 122,331 |
| Earnings (loss) before extraordinary item | (6,169) | (8,864) | 52,276 | 47,738 | 44,737 |
| Recovery of income taxes on utilization of prior years' loss carryforwards | 3,677 | — | — | — | — |
| Earnings (loss) for the period | (2,492) | (8,864) | 52,276 | 47,738 | 44,737 |
| Dividends on redeemable preferred shares | 26,660 | 25,611 | 27,057 | 34,343 | 33,343 |
| Earnings (loss) attributable to Class I and Class II shares | $ (29,152) | $ (34,475) | $ 25,219 | $ 13,395 | $ 11,394 |
| Earnings (loss) per Class I and Class II share | | | | | |
| Before unusual and extraordinary items | $ .91 | $ .66 | $ .29 | $ .97 | $ .51 |
| Unusual items | $ (1.99) | $ (1.80) | $ .62 | $ (.40) | $ — |
| Extraordinary item | $ .12 | $ — | $ — | $ — | $ — |
| After unusual and extraordinary items | $ (.96) | $ (1.14) | $ .91 | $ .57 | $ .51 |
| Dividends per Class I and Class II share | $ .20 | $ .20 | $ .20 | $ .20 | $ .20 |
| Equity per Class I and Class II share | $ 9.12 | $ 8.71 | $ 10.03 | $ 9.25 | $ 9.05 |
| Class I and Class II shares outstanding | 30,258,532 | 30,258,532 | 27,759,550 | 27,757,550 | 22,166,800 |
| Market price of shares | | | | | |
| Class I High | 10⅜ | 14¾ | 10¾ | 11⅞ | 9⅝ |
| Low | 7½ | 8 | 7½ | 8½ | 5¼ |
| Class II High | 10¼ | 14½ | 11 | 11¾ | 9¼ |
| Low | 7¾ | 8¼ | 7½ | 8¼ | 5½ |

(1) The asset writedown of $60,106,000 occurred in the first quarter of calendar 1988 and therefore is included in each of the years ended March 31, 1988 and December 31, 1988.

# PRINCIPAL OPERATIONS

## ATCO Enterprises Ltd.

Head Office:
800, 919 - 11th Avenue S.W.
Calgary, Alberta T2R 1P4
Telephone: (403) 292-7500

Operating Divisions and Companies:

Canadian Industrial Manufacturing & Leasing
Drilling
Metal
Property Management
Southco Travel
Space Rentals
Well Servicing
ATCO/Equtak Drilling Ltd.
ATCO Saudi Arabia Ltd.
ATCO Structures, Inc.

## ATCOR Ltd.

Head Office:
800, 800 - 6th Avenue S.W.
Calgary, Alberta T2P 3G3
Telephone: (403) 292-8000

Operating Companies:

ATCOR Ltd.
AT&S Exploration Ltd. (37.5% owned)

## Canadian Utilities Limited

Head Office:
10035 - 105 Street
Edmonton, Alberta T5J 2V6
Telephone: (403) 420-7310

Operating Companies:

Alberta Power Limited
Canadian Western Natural Gas Company Limited
Northland Utilities (B.C.) Limited
Northland Utilities (NWT) Limited
Northwestern Utilities Limited
The Yukon Electrical Company Limited

## ATCO Enterprises Ltd./Canadian Utilities Limited — Corporate Joint Ventures

CATS Defense Support Systems Inc.
Frontec Logistics Corp.
Northland Utilities Enterprises Ltd.



Directors

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

E. W. King
Corporate Director,
Edmonton

Honourable E. P. Lougheed
P.C., C.C., Q.C.,
Partner, Bennett Jones
Calgary

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

C. S. Richardson*
Senior Vice President, Finance and Chief Financial Officer,
ATCO Ltd.

N. W. Robertson
Deputy Chairman, President and Chief Executive Officer,
ATCO Enterprises Ltd.

J. A. Scrymgeour
Corporate Director,
Hamilton, Bermuda

R. D. Southern*
Deputy Chairman, President and Chief Executive Officer,
ATCO Ltd.

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

Dr. J. D. Wood
President and Chief Executive Officer,
Canadian Utilities Limited
Edmonton

* Member — Executive Committee
** Member — Audit Committee

# SHAREHOLDERS' INFORMATION

**Officers**

S. D. Southern
Chairman of the Board

R. D. Southern
Deputy Chairman, President and Chief Executive Officer

C. S. Richardson
Senior Vice President, Finance and Chief Financial Officer

A. J. Pullman
Vice President, Planning and Budgeting

D. P. Wood
Vice President, Corporate Secretary

**Corporate Head Office**

ATCO Ltd.
1600 Canadian Western Centre
909 - 11th Avenue S.W.
Calgary, Alberta T2R 1N6
Telephone: (403) 292-7550
Telex: 03 822697
Rapifax: (403) 292-7507

Shareholder and security analyst inquiries should be directed to:

Senior Vice President, Finance and
Chief Financial Officer
ATCO Ltd.
1600, 909 - 11th Avenue S.W.
Calgary, Alberta T2R 1N6
Telephone: (403) 292-7554

Dividend information and other inquiries concerning shares should be directed to:

National Trust Company
Stock Transfer Department
1008 The Home Oil Tower
324 - 8th Avenue S.W.
Calgary, Alberta T2P 3B2

The shares of ATCO Ltd. are listed on The Toronto Stock Exchange, The Montreal Exchange and Alberta Stock Exchange under the ticker symbols:

ACO.X (Class I Non-Voting Shares)
ACO.Y (Class II Voting Shares)

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

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

**Auditors**
Price Waterhouse, Calgary, Alberta

**Counsel**
Bennett Jones, Calgary, Alberta

ATCO

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Calgary, Alberta, Canada
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