ATCO

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# 1989 Annual Report to the Shareholders

ATCO

# IN MEMORIAM

SAMUEL DONALD SOUTHERN
(1909-1990)
FOUNDER AND CHAIRMAN OF THE BOARD
ATCO LTD.

*"S.D.", as he was known to friends and employees alike, along with his wife Ina, who predeceased him on July 6, 1987, founded the Corporation in 1947. He consistently encouraged employees, at all levels, to strive to do their best and to fulfill their personal aspirations.*

*His contribution to ATCO was enormous and his wise counsel will be missed by all who knew him.*

*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; property management and travel agency services.

## 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 operates complementary non-utility ventures.

## ATCOR LTD.

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

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## ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders will be held at 10:00 a.m. M.D.T. on Thursday, May 24, 1990 at The Westin Hotel, Calgary, Alberta.

# FINANCIAL HIGHLIGHTS
*(Thousands except share data)*

| | Year Ended December 31 | |
|---|---|---|
| | **1989** | 1988 |
| Revenues | **$1,372,625** | $1,337,773 |
| *Operating income* | **$ 207,092** | $ 204,077 |
| Earnings (loss) for the year | **$ 60,257** | $ (2,492) |
| Earnings (loss) attributable to Class I and Class II shares | | |
| Before asset writedowns | **$ 32,351** | $ 30,954 |
| After asset writedowns | **$ 32,351** | $ (29,152) |
| Earnings (loss) per Class I and Class II share | | |
| Before asset writedowns | **$ 1.07** | $ 1.02 |
| After asset writedowns | **$ 1.07** | $ (.96) |
| Dividends paid per Class I and Class II share | **$ .20** | $ .20 |
| Cash position | **$ 14,658** | $ 43,805 |
| Additions to property, plant and equipment | **$ 353,004** | $ 224,899 |
| Total assets | **$3,362,692** | $3,116,676 |
| Class I and Class II shareholders' equity | **$ 302,777** | $ 276,066 |
| Class I and Class II shares outstanding | **30,260,532** | 30,258,532 |
| Weighted average Class I and Class II shares outstanding | **30,258,699** | 30,258,532 |

As a result of the excellent performances of the Manufacturing and Leasing Division of ATCO Enterprises Ltd. and of Canadian Utilities Limited, ATCO's 1989 consolidated earnings were most satisfactory. Earnings for the 12 months ended December 31, 1989 were $60,257,000 on revenues of $1,372,625,000. Comparable figures for the previous year were a loss of $2,492,000 on revenues of $1,337,773,000. The prior year's figures include an asset writedown of $60,106,000. After payment of preferred share dividends of $27,906,000 ($26,660,000 in the previous year), earnings attributable to Class I and Class II shares for the 12 months ended December 31, 1989 were $32,351,000 or $1.07 per share. This compares with a loss of $29,152,000 or 96¢ per share in the prior year, after taking into account the aforementioned writedown.

*From the left: N. W. Robertson, Deputy Chairman, President & Chief Executive Officer, ATCO Enterprises Ltd.; C. S. Richardson, Senior Vice President, Finance and Chief Financial Officer, ATCO Ltd.; W. A. Elser, President & Chief Executive Officer, ATCOR Ltd.; Dr. J. D. Wood, President & Chief Executive Officer, Canadian Utilities Limited; and (seated) R. D. Southern, Deputy Chairman, President & Chief Executive Officer, ATCO Ltd.*

The manufacturing and leasing operations of ATCO Enterprises had an excellent year. Industrial leasing was very active on several large projects, while space rentals continued to expand. The United States is an integral part of this expansion and in October 1989, ATCO Enterprises acquired the leasing assets and related contracts of Modular Building Systems (MBS), a lessor of space and commercial units in California and Arizona. This acquisition is strategically important in that it is the first step in the Corporation's plan to increase United States space rentals activities. Modest operations have been conducted in Seattle and Denver previously; however, the MBS purchase marks the beginning of a program to establish ATCO in the United States space rental market in a significant way.

Faced with the need to reduce costs, the management of ATCO's drilling division closed the United States drilling operation and consolidated its efforts in western Canada where the Corporation operates 28 drilling rigs and 19 well servicing rigs.

Canadian Utilities earned $110,324,000 during 1989, an increase of approximately seven percent over the previous year. Electric utility earnings rose because of higher industrial sales and increased allowance for funds used during construction of the Sheerness Generating Station. In the natural gas utilities, total throughput was up by almost seven percent; however, Alberta Public Utilities Board (PUB) decisions in 1988 and 1989, which affected the timing of customer rate adjustments, resulted in slightly lower natural gas utility earnings in 1989 when compared to 1988.

In two decisions, the PUB disallowed the inclusion in rate base of plants which were constructed by utilities after approval by the Alberta Energy Resources Conservation Board. The PUB has taken the position that rates paid by electric utility customers in any year should include only the cost of the plant needed to meet the requirements of that year. The Corporation is concerned about the position taken by the PUB and is reviewing the implications as they relate to its operations.

In the non-regulated area, CU Power is pursuing opportunities in co-generation while also participating in two consortiums proposing to build generating facilities offshore. In May, CU Gas purchased a 21 percent interest in Metscan Inc. of

Honeoye Falls, New York. Metscan designs, manufactures and markets remote automatic meter reading devices for the utility industry. The market for these devices is 55 million meters in Canada and the United States. CU Gas also developed and marketed a customer billing package to municipalities serving approximately 15,000 utility customers. Further sales are expected in 1990. CU Services' Registration, Eligibility and Premium (REAP) contract with Alberta Health Care produced its first full year of revenue and earnings for the Corporation.

ATCOR substantially increased its hydrocarbon reserves primarily as a result of an acquisition of an interest in the Caroline gas field. A higher than expected price of crude oil was the most significant factor contributing to a modest increase in earnings from the previous year.

In gas marketing, the Alberta Northeast Project (ANE) received producer approval and is now awaiting approval from the Canadian National Energy Board and the United States Federal Energy Regulatory Commission. Present plans call for gas sales to commence in 1992. With ATCOR's share of the sales being 37 million cubic feet per day, the project will have a very positive impact on ATCOR's cash flow and earnings.

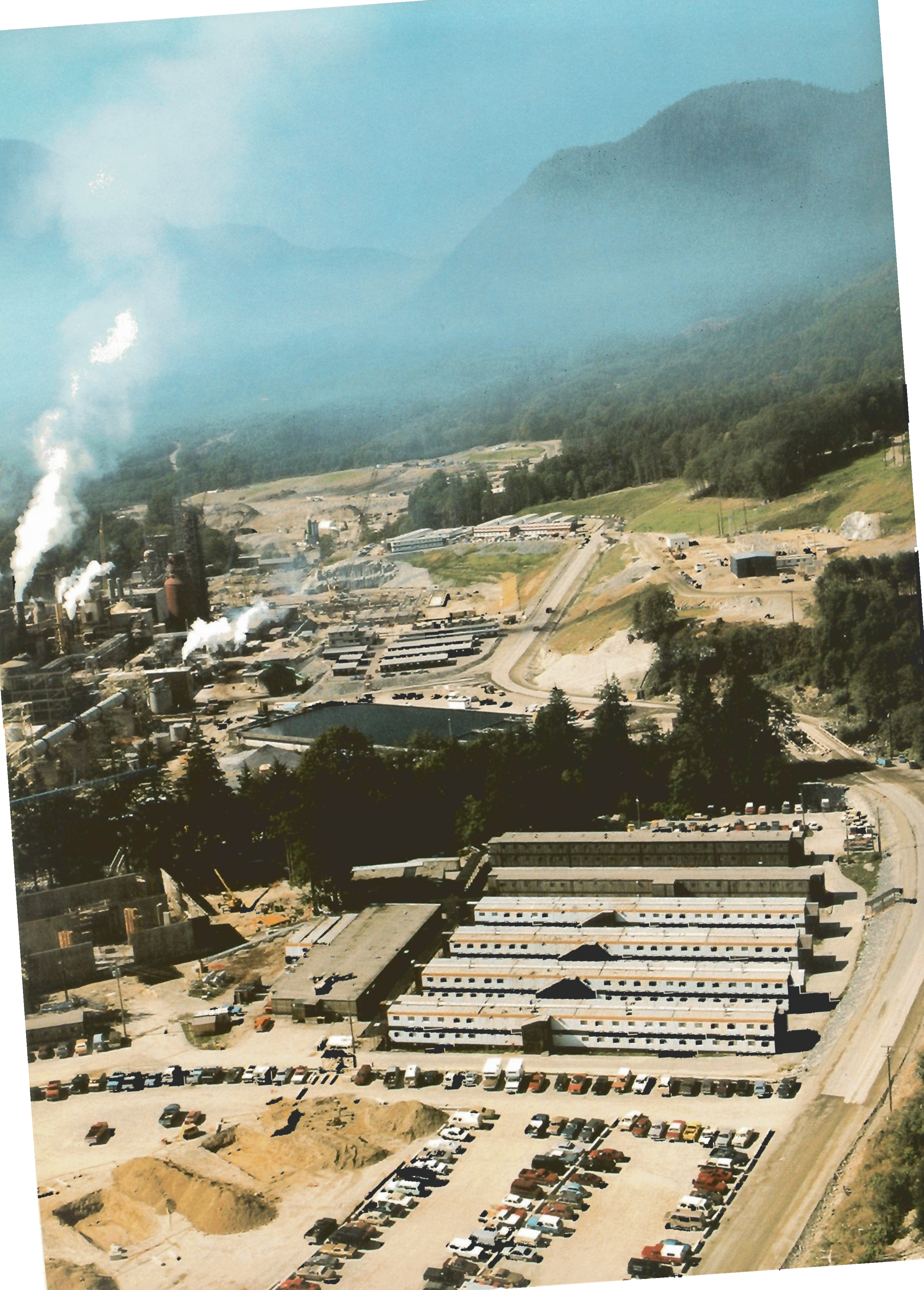
The volumes of gas processed on a fee basis through the Edmonton Ethylene Extraction Plant increased significantly beginning in November of last year. This additional processing was accomplished with minimal capital expenditures and will significantly increase cash flow and earnings in the coming years.

In August, the Corporation completed the most important financing in its history with the issue by a wholly-owned subsidiary of $300 million of 7.75 percent Cumulative Redeemable Retractable Reset Preferred Shares. The shares carry a maximum term of 12 years with provisions for resetting the term and dividend rate, at the end of five years. Proceeds of this financing were used to redeem preferred shares and repay debt associated with the investment in Canadian Utilities.

Included with this report for the first time is a Management Discussion and Analysis (MD&A). Beginning in 1989, the Ontario Securities Commission requires most companies to produce an MD&A. I trust that the MD&A will prove to be informative to the readers of this report.

I wish to thank our customers, suppliers and loyal staff for their support and important contributions to the Corporation's endeavours. I would also like to thank our Board of Directors who continue to provide the wise counsel which is fundamental to our success. Finally, a very special thank you goes to our shareholders, without whose support none of our accomplishments would be possible.

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



ATCO Enterprises Ltd. enjoyed excellent results in their first full year of operations since the 1988 re-organization.

The Manufacturing and Leasing group experienced high plant and fleet utilization in Canada and the United States. Expansion of the space rentals business in the United States was highlighted by the acquisition of Modular Building Systems of Ontario, California and Phoenix, Arizona. Further growth is expected in these two areas, along with the Denver, Colorado and Seattle, Washington markets where the group has operated on a modest basis for the past few years.

In 1989 the energy services industry recorded one of its worst years in history with rig utilization falling to an all-time low. This prompted the closing of the corporation's United States drilling operations and the sale of the rigs.

## MANUFACTURING AND LEASING

*Canadian Operations*

### *Industrial Manufacturing and Leasing*

*One of ATCO Industrial Manufacturing & Leasing's major rental projects was for Howe Sound Pulp & Paper on the Sunshine Coast in B.C., which included two large two-storey camps for 1,100 people.*

This division increased fleet utilization by 25 percent in 1989, despite a 20 percent expansion of the asset base. In June 1989, ATCO acquired the rental assets and contracts of National Caterers Limited. This acquisition significantly enhanced the division's ability to respond to the strong demand for industrial camps.

The division was successful on a number of major workforce housing rental projects:

— *Alberta Newsprint Developments Inc., Whitecourt, Alberta — 700 person camp.*

— *Repap Manitoba Inc., The Pas, Manitoba — 600 person camp.*

— *Petro-Canada Ltd., Brazeau, Alberta — 250 person camp.*

— *Howe Sound Pulp & Paper, Sunshine Coast, B.C. — 1,100 person camp.*

— *Daishowa — Alberta expansion from 1,000 to 1,500 person camp.*

Manufacturing activity exceeded expectations. Major contracts were undertaken for a highly customized 300 person camp and other support facilities for Alcan's Kemano project in British Columbia, and a three-storey mobile drilling camp for Doyan Drilling in Alaska. In addition, the Technical Services Building contract for the Canadian Department of National Defence's North Warning System was completed.

The outlook for the division remains positive, tempered somewhat by the much publicized environmental hearings in western Canada. Major contracts for the rental of industrial camps have been awarded to the division, however, several of the projects await environmental approvals.

### *Space Rentals*

1989 was an excellent year for the space rental operations. An expansion of 10 percent in fleet size, to 4,400 units, with an average utilization of over 80 percent, produced higher earnings and cash flows.

The division's performance was enhanced by a strong demand for used single and multi-unit offices. This demand came from a broad range of resource and commercial construction-related projects across Canada.

### *Metal*

With the exception of sales of the patented fold-a-way building which were at their highest level for many years, overall activity was slower than originally anticipated. Of special interest was a custom fold-a-way building with 40 foot side walls constructed for the toxic waste disposal plant at Swan Hills, Alberta.

Rural cladding sales were down because of lower farm incomes resulting from poor weather conditions, low product prices and higher interest rates.

### *United States Operations*

Increased marketing emphasis in the United States space rental and commercial structures market has accelerated expansion of the fleet, and led to the recent acquisition of the assets of Modular Building Systems, Inc. To maximize the expansion opportunity afforded by this acquisition, ATCO Structures, Inc. has relocated its Head Office to Ontario, California and has established four operating regions: California (Ontario), Southwest (Phoenix), Pacific Northwest (Seattle) and Rocky Mountain (Denver).


***Modular dialysis complex recently completed by the new Space Rentals Southwest Division of ATCO Structures Inc., in Phoenix, Arizona.***

### *Industrial Manufacturing and Leasing*

Several major projects were completed during the year. These included a 1,000 person facility at International Falls, Minnesota for Boise Cascade's pulp expansion and two multi-storey office laboratory facilities, comprising 200,000 square feet at Scottsdale, Arizona.

Continued strength in the economies of California and the Pacific Northwest is anticipated. This strength coupled with economic recovery in the Rocky Mountain and Southwest markets and increased market penetration will provide a major growth opportunity for ATCO.

***ATCO Metal's pre-engineered building division completed this 25,000 square foot warehouse for oilfield equipment manufacturer Erichsen Industries Ltd. in Edmonton, Alberta.***

### *Space Rentals*

ATCO recorded a 30 percent growth rate in the Pacific Northwest space rental market during the year. Sales of both new and used units were also an integral part of the Seattle operation in 1989. The district recently achieved the distinction of being named the supplier of facilities to the Turner Broadcasting System's International Goodwill Games to be staged in Seattle in July-August, 1990.

The United States space rental fleet has increased from 350 to over 1,100 units in the past year through acquisition, the manufacture of new units and the retrofit of existing units.

*International Operations*

The Saudi Arabian operation experienced a modest improvement in activity as projects were completed for clients in Oman, Iraq, Sudan, Pakistan and within Saudi Arabia. While credit difficulties persist in many of these countries, there are an increasing number of quality opportunities appearing in the marketplace. Aramco has announced programs to increase production capacity and ATCO is well placed to supply facilities to this client. Cessation of the hostilities in the region has resulted in the supply of one large camp to Iraq and the prospects of further work are encouraging.

## Energy Services

ATCO Enterprises remains committed to this group and the future resurgence of the drilling and well servicing industries.

A difficult year across the energy industry necessitated the rationalization and consolidation of operations and other cost cutting measures. The Drilling division is now consolidated in the four western provinces and the Northwest Territories. Well Servicing has relocated two Saskatchewan rigs back to Alberta with efforts now concentrated in our primary markets of central and northern Alberta. Major upgrades were completed on our deep gas rigs, positioning us well to capitalize on this promising segment of the market.

***ATCO Space Rentals Division presently is on site with various equipment, including this 16 unit, 10,680 square foot office complex, for Fluor Daniel Inc., who are building a hydrogen peroxide plant for Dupont Canada Inc. near Gibbons, Alberta.***

***ATCO Drilling's largest rig, #44, on location near Pincher Creek in southern Alberta drilling for Mobil Oil.***

Both Drilling and Well Servicing continued to emphasize safety and improvements in safety records were realized. In addition, the commitment to maintaining our equipment to a high standard, keeping a well trained staff and maintaining our reputation for quality service, has been reinforced as we move from difficult to more promising years.

## Property Management

The movement from being an owner-developer to a real estate service division continued in 1989 with a successful year as earnings and cash flow continued to be positive. A 125,000 square foot office building at 919 - 11th Avenue S.W. in Calgary was fully leased, with the Law Society of Alberta joining Alberta Treasury Branch as tenants.

The Olympic Media Village project, which has been in operation for almost five years, was completed fulfilling our obligation to satisfied clients.

## Southco Travel

Southco Travel had an excellent year and this agency continues to be a Calgary success story. Business, Vacation and Cruise business all performed well. Corporate and group meetings and convention arrangements are a growing facet of the agency.

Earnings of Canadian Utilities Limited (CU), in which ATCO Ltd. holds a 50.01 percent interest, increased to $110,324,000 from $102,799,000 the previous year.

Utility operations expanded to meet the needs of Alberta's stronger economy and population growth, and initiatives in non-regulated business gained in size, scope and momentum.

During the year, CU experienced continued growth in the number of customers served, and increased sales to the industrial sector. Although the weather was still warmer than normal, average temperatures were colder than 1988, also contributing to improved earnings.

New investment in major forest industry projects is providing a significant stimulus to Alberta's economy, resulting in spin-off benefits for sectors such as housing and specialty chemical manufacturing. Despite uncertainty over short term oil prices, upstream capital expenditures in the oil industry are expected to increase. Alberta's greatest economic opportunities in the next decade revolve around the export of natural gas to the United States. In addition to the increased exploration necessary to maintain producer reserves, considerable capital spending is necessary for pipelines, pumping stations and related facilities.

*Alberta Power is 50 percent owner of the Sheerness Generating Station near Hanna, Alberta. This turbine is part of a new second 380 MW unit, which began in 1989 and is slated for completion in October 1990.*

## CU GAS

CU Gas is the operating division under which all of the corporation's natural gas utility and related activities are managed. Gas utility operations are carried out by two CU 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.

An improved Alberta economy contributed to the largest annual increase in customers since 1983. More than 13,000 customers were added during 1989 bringing the total at year-end to 644,800.

System throughput increased by 30.8 petajoules (PJ), to 495.5 PJ and revenues grew by $20.6 million, to $655.9 million. The growing number of customers, higher volumes of gas transported for others, colder weather and increased sales to the industrial sector contributed to these improvements.

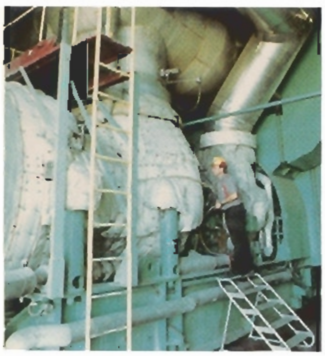
In December 1989, CU Gas successfully concluded a long term contract with Shell Canada Limited for approximately 1,000 PJ of natural gas, covering the life of the reserves from the Jumping Pound Field. Earlier in the year deliveries began under long term contracts with ESSO Resources, securing 300 PJ of reserves from the Leduc-Woodbend field.

Capital expenditures amounted to $76.1 million during the year, with the largest single expenditure being $7.9 million for the third year of Northwestern's 10-year program to replace bare steel mains in Edmonton. Canadian Western's major capital projects included replacing the original main line crossing the Old Man River near Lethbridge, as well as the installation of a major distribution feeder line in southeast Calgary.

Complementary to its utility business, CU Gas evaluated and pursued a number of non-regulated investment opportunities.

A 21 percent interest in Metscan Inc., a U.S. based manufacturer of automatic meter reading equipment, was purchased for $3.8 million (U.S.), with an option to increase the CU interest to 30%.

A complete customer billing package was developed and marketed to the Alberta municipalities of Drayton Valley, Strathcona, and Ponoka, serving approximately 15,000 accounts. The contracted service includes meter reading, processing to generate a monthly bill, on-line account recordings (including payments and adjustments), and the mailing of the bill to the customer. Sales of this service are expected to increase substantially during 1990.



*Simonette Unit #140, a gas turbine generator located 60 kms S.W. of Valleyview, Alberta, is remotely operated by Alberta Power from Vegreville, Alberta.*

Other non-regulated investment opportunities being pursued include field storage facilities for natural gas, equipment related to natural gas vehicles, sweet gas distribution systems to service sour gas fields, and underground cable location services.

*Northwestern Utilities, in the third year of a 10 year, $100 million gas line replacement program, replaced 86 kms of distribution mains and 6,000 services in Edmonton, which were initially installed between 1923 and 1933.*

## CU Power

The CU Power Division manages electric utility operations 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 two communities in Saskatchewan. The Yukon Electrical Company Limited, a subsidiary of Alberta Power, serves customers in 18 Yukon communities and one community in British Columbia. Yukon Electrical also manages the assets of the Yukon Energy Corporation.

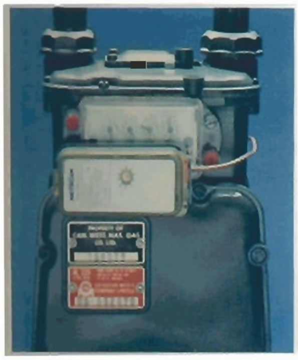
Some 2,100 customers were added during the year, bringing the total to 154,631. Operating revenues of $446.0 million were up $17.8 million over 1988. Earnings rose due to an increase in electric sales, mainly in the industrial sector, and an increased allowance for funds used during construction of the Sheerness Generating Station, Unit 2. These factors more than compensated for the expiry, in mid-1988, of an agreement to sell power to the City of Edmonton.

Alberta Power experienced a record demand for electricity with a peak load requirement of 1,071 megawatts (MW) in December 1989. This was a six percent increase over the previous record of 1,008 MW set in January 1989.

Completion of a $35 million converter station at McNeill, Alberta provided the first Electric System connection between Alberta and Saskatchewan.

Commissioning activities for the second 380 MW unit at the Sheerness Generating Station began during 1989, with full commissioning slated for October 1990. The Sheerness station near Hanna is 50 percent owned by Alberta Power, who are also the operators of the facility.

The Yukon Utilities Board (YUB) approved a 13.5 percent return on equity for The Yukon Electrical Company Limited in both 1989 and 1990. Because of lower operating costs the corporation instituted an overall 5 percent rate reduction for residential customers and a rate equalization program for residential and general service customers.



*During 1989, Metscan Systems were tested on a number of residential gas metres. The remote monitoring device program will be accelerated starting in mid-1990.*

During 1989 the CU Power Business Development Group was re-named the International Power Group (IPG) to reflect the group's international marketing focus. IPG is currently in the early stages of development of potential projects in British Columbia, England and Pakistan, and is examining the longer term outlook for the United States market.

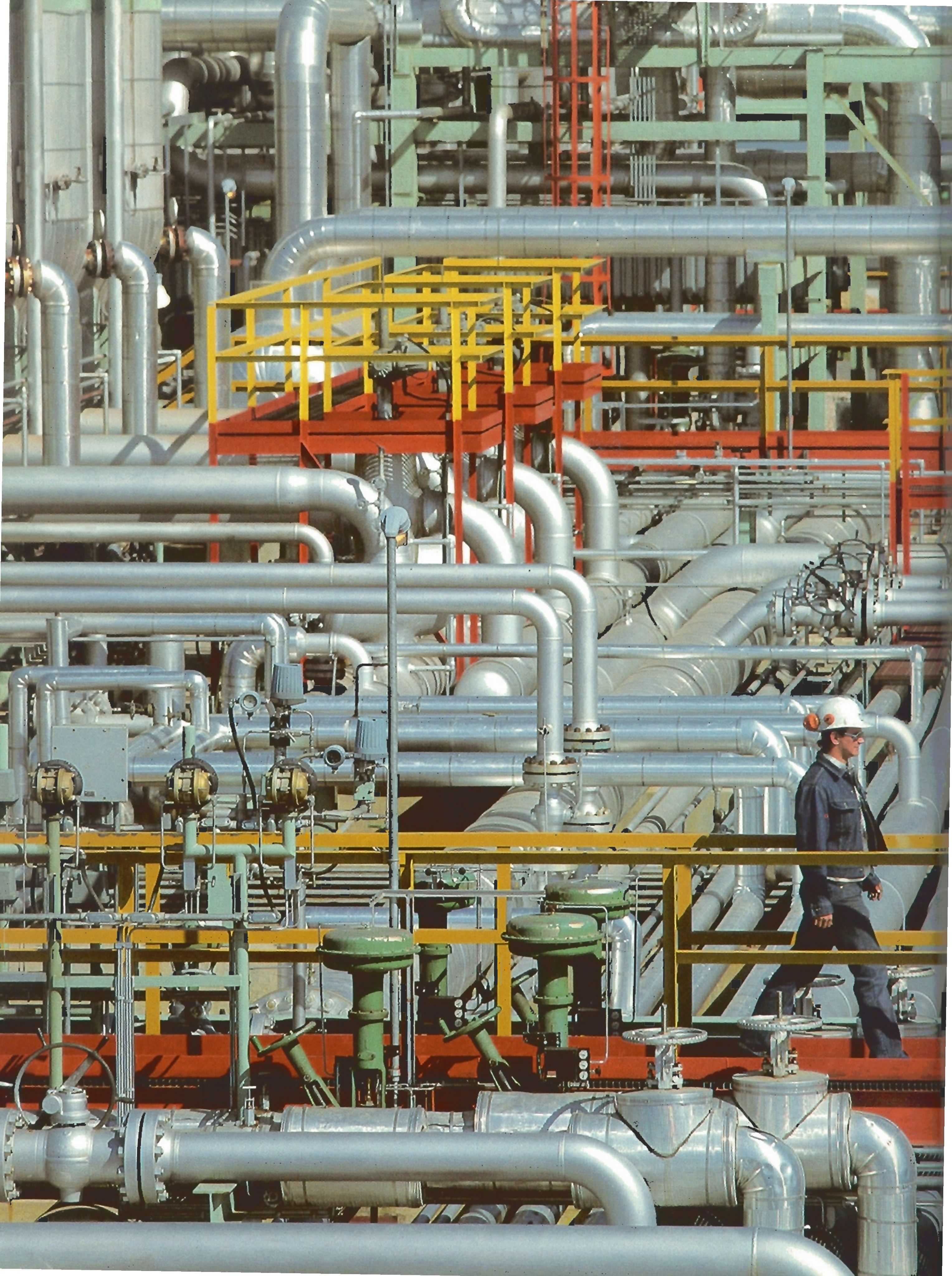
*CU Services REAP contract with Alberta Health Care was extended to 1993.*

## CU Services

CU Services provides computerized information systems along with voice and data telecommunications systems to the CU group of companies. This Division also pursues external non-regulated business opportunities, building on the CU group's extensive systems expertise.

CU Services has introduced integrated voice and data links between Edmonton and Calgary to improve service and reduce costs, integrated financial accounting systems, an Executive Information System, and western Canada's first automated tape cartridge storage and retrieval system. The Division has also developed and implemented systems supporting the complete customer billing package that CU Gas is selling to municipalities.

The Registration, Eligibility and Premium (REAP) contract with Alberta Health Care produced its first full year of revenues and earnings. REAP serves all Albertans through a network of more than 200 terminals. During 1989 CU Services' contract to operate this system was extended to 1993, with an option for a further two-year extension.



ATCOR Ltd., a wholly-owned subsidiary of Canadian Utilities Limited is engaged in oil and gas exploration and production, natural gas processing and natural gas marketing.

ATCOR's average selling price for crude oil in 1989 increased by 26 percent over 1988 to $18.46 (Cdn.) per barrel; however, ATCOR's average selling price for natural gas during 1989 was down marginally from the previous year.

In 1990, management anticipates modestly lower prices for crude oil, offset to some extent by strengthening natural gas prices. Producers may also benefit from a decline in interest rates and the value of the Canadian dollar.

1989 operating income improved over the previous year, reflecting higher crude oil prices, increased natural gas production and higher gas processing volumes. Cash flow from operations was $19.3 million, down marginally from 1988. Capital expenditures were up 8 percent to $53.0 million, of which $12.5 million was spent on oil and gas exploration and development, $38.5 million, including interest capitalized, on the Caroline interest as outlined below and $1.2 million for additional compression at the Edmonton gas processing facility. ATCOR plans to spend $20 million on conventional exploration and development activities, including property acquisitions in 1990.

***ATCOR Ltd. has a 50 percent interest in this ethane/ natural gas liquids production facility in Edmonton, Alberta.***

On April 20, 1989, ATCOR acquired an approximate 3 percent working interest in the Caroline Swan Hills gas field for $35.4 million. The acquisition provides ATCOR with additional proven recoverable reserves of 29.1 billion cubic feet (bcf) of natural gas, 5.72 million barrels of natural gas liquids, and 764,000 long tons of sulphur.

## Exploration and Production

ATCOR participated in 42 wells (88 in 1988) with an overall success rate of 40 percent. Daily average production of crude oil and natural gas liquids was 2,001 barrels, a decrease of 11 percent from 1988, while daily average production of natural gas increased 4 percent to 14,754 million cubic feet (mcf).

To ensure continued growth in reserves, ATCOR is pursuing an acquisition strategy and in 1989 was successful in acquiring the aforementioned 3 percent working interest in the Caroline Swan Hills gas field. As a result, ATCOR's proven reserves of crude oil and natural gas liquids increased by 129 percent to 9.4 million barrels, while proven natural gas reserves increased by 38 percent to 105.5 bcf and ATCOR's sulphur reserves, previously insignificant, now stand at 766,000 long tons. These figures do not include frontier reserves which will be recognized when the timing of production start-up is determined.

## Gas Processing

ATCOR is a 50 percent owner of an ethane extraction plant located in south Edmonton. Natural gas is processed for the recovery of liquids from Northwestern

Utilities' main gas transmission lines which run through the plant site. ATCOR's share of the ethane extracted is delivered to an Alberta ethylene producer under a cost of service contract. The corporation's share of liquid petroleum gas (LPG) is sold in Sarnia, Ontario, at market prices. Natural gas is also processed for other producers on a fee basis.

Total gas processed in 1989 was 268 mcf per day, approximately equal to 1988 volumes. This represents a capacity utilization of 85 percent. ATCOR's share of LPG liquids decreased by 9 percent to 1,694 barrels per day; however, LPG prices rose 6 percent in 1989 to an average of $12.41 per barrel.

Gas volumes processed for other producers increased by 22 percent to 106 mcf per day. In November and December, these volumes increased to approximately 170 mcf per day and are expected to remain at these levels for the next several years resulting in enhanced profitability. Because of these increased volumes, gas processing operating income increased by 28 percent in 1989.

## Gas Marketing

Gas prices clearly showed signs of firming in 1989 as supplies tightened in the United States and Canadian export volumes increased. Although average prices for short term gas supplies in Alberta were up only slightly in 1989 over the previous year, by the fall of 1989, spot and one-year prices had increased 15 percent to 20 percent over the previous years.

ATCOR is a participant in the Alberta Northeast Project (ANE). The project, which is one of the industry's largest, represents the sale of more than 390 mcf of natural gas per day to 18 gas and electric utilities in the northeastern United States. This sale of natural gas, which is scheduled to commence in November 1991, requires the installation of new gas transmission facilities. ATCOR, one of four suppliers to ANE, is contracted to supply 37 mcf per day.

During 1989, ATCOR supplied 78 bcf of natural gas to 40 customers including industrial firms, distribution utilities and companies operating enhanced oil recovery flood projects.

***Through a joint exploration company, AT&S Exploration Ltd., ATCOR participated in a drilling program in the Beaufort Sea.***

## Frontier

All of ATCOR's frontier activities are conducted through AT&S Exploration Ltd., with the exception of a direct interest which ATCOR owns in the Amauligak Project.

During the year, ATCOR participated in the drilling of two wells in the Beaufort Sea. This drilling resulted in one gas well and one combined oil and gas well. ATCOR farmed out its interest in a third well drilled in the area. This well resulted in a dry hole. Seismic surveys were also conducted both onshore and offshore and one well may be drilled in 1990.

Three major oil companies made application and received approval from the National Energy Board to export 9.2 trillion cubic feet of natural gas to the United States from the Beaufort-Mackenzie Delta area.

Amauligak Project activities have been limited to the completion of the definitive phase of calculating the recoverable reserves, the development of a depletion plan and the establishment of project structural and transportation requirements along with their estimated costs.

## Petroleum and Natural Gas Rights

*(at year end)*

| | Developed Acreage | | Undeveloped Acreage | |
|---|---|---|---|---|
| | Gross Acres | Net Acres | Gross Acres | Net Acres |
| Alberta | 210,820 | 52,291 | 606,059 | 272,856 |
| Saskatchewan | 3,720 | 1,965 | 13,855 | 9,879 |
| British Columbia | 1,490 | 232 | 14,032 | 4,846 |
| Manitoba | 40 | 6 | 492 | 116 |
| Subtotal | 216,070 | 54,494 | 634,438 | 287,697 |
| Split Rights | 12,920 | 3,257 | 535,185 | 319,243 |
| **Total** | **228,990** | **57,751** | **1,169,623** | **606,940** |

***ATCOR participates in oil and gas exploration and production, primarily in western Canada.***

## Crude Oil and Natural Gas Gross Before Royalties

*(at year end)*

| | 1989 | | | 1988 | | |
|---|---|---|---|---|---|---|
| | Proven | Probable | Total | Proven | Probable | Total |
| Crude oil and natural gas liquids (mbbls) | **9,415** | **1,432** | **10,847** | 4,109 | 1,720 | 5,829 |
| Natural gas (mmcf) | **105,494** | **8,447** | **113,941** | 76,465 | 9,696 | 86,161 |
| Sulphur (mlt) | **766** | **—** | **766** | 2 | – | 2 |

| | Crude Oil and Natural Gas Liquids | Natural Gas | Sulphur |
|---|---|---|---|
| | (bbls) | (mmcf) | (mlt) |
| Proven reserves at December 31, 1988 | 4,109 | 76,465 | 2 |
| Production in 1989 | 730 | 5,385 | — |
| Reserve additions in 1989 | 6,036 | 34,414 | 764 |
| Proven Reserves at December 31, 1989 | **9,415** | **105,494** | **766** |

*Note. (1) Reserves volumes do not include frontier reserves at this time.*

## FRONTEC LOGISTICS CORP.

Frontec Logistics, jointly owned by ATCO Enterprises and Canadian Utilities, is a logistics, operations and maintenance contractor operating north of the 60th parallel in Canada.

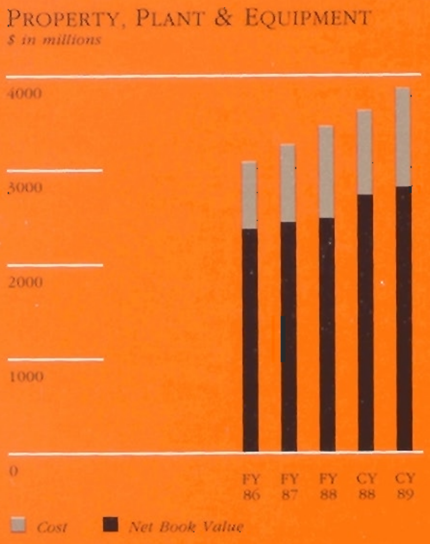
Currently Frontec's largest contract is with the Government of Canada, Supply and Services Department, to operate and maintain 11 long range radar sites on the Arctic and Labrador coasts for the Department of National Defence. In addition, Frontec has assumed responsibility for operating and maintaining the satellite communications equipment on the long range radar sites of the North Warning System.

In 1989, Frontec, with a joint venture partner, was awarded a three year contract by Transport Canada to operate and maintain the airfields at Resolute Bay, Hall Beach, Mould Bay, Eureka and Nanisivik, Northwest Territories. Also, Frontec signed a three year contract with the United States Air Force to provide technical, operations and maintenance services to the Goose Bay Ionospheric Observatory in Labrador.

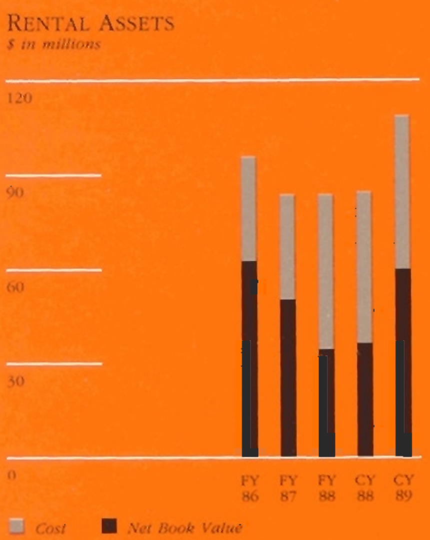
## NORTHLAND UTILITIES ENTERPRISES LTD

Northland Utilities Enterprises, who operate an electric system serving 1,882 customers in the Northwest Territories, is owned jointly by ATCO Enterprises, Canadian Utilities and northern investors.

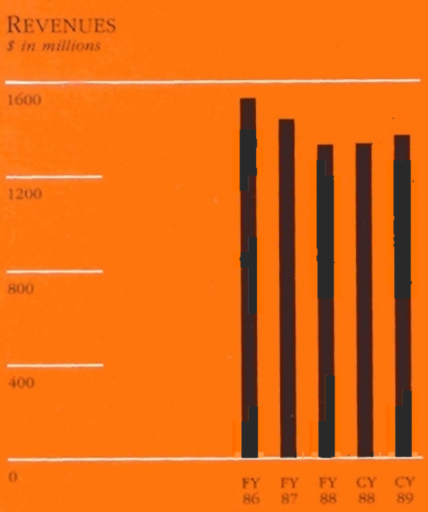
*Frontec Logistics Corp. operates 11 long range radar sites on the Arctic and Labrador coasts.*

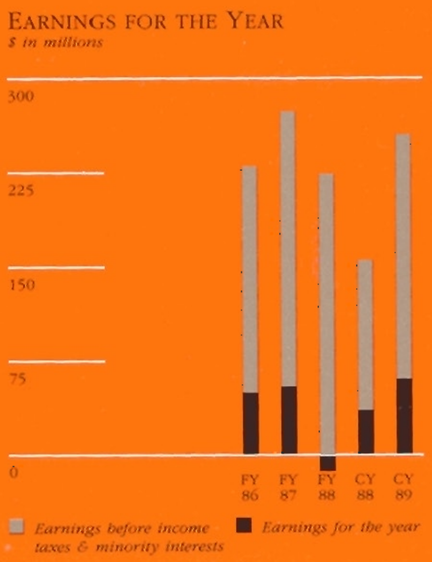

Property, Plant & Equipment
$ in millions
4000
3000
2000
1000
0
FY 86
FY 87
FY 88
CY 88
CY 89
Cost
Net Book Value


Total Assets
$ in millions
3600
2700
1800
900
0
FY 86
FY 87
FY 88
CY 88
CY 89


Rental Assets
$ in millions
120
90
60
30
0
FY 86
FY 87
FY 88
CY 88
CY 89
Cost
Net Book Value


Class I & Class II Shareholders' Equity
$ in millions
320
240
180
60
0
FY 86
FY 87
FY 88
CY 88
CY 89


Revenues
$ in millions
1600
1200
800
400
0
FY 86
FY 87
FY 88
CY 88
CY 89


Earnings for the Year
$ in millions
300
225
150
75
0
FY 86
FY 87
FY 88
CY 88
CY 89
Earnings before income taxes & minority interests
Earnings for the year

# Management's Discussion and Analysis of Financial Condition and Results of Operations

*Introduction*

The following discussion and analysis of financial condition and results of operations of ATCO Ltd. for the two years ended December 31, 1989 should be read in conjunction with the Company's audited consolidated financial statements which include the accounts of ATCO Ltd. and all of its subsidiaries ("ATCO"). The principal operating subsidiaries are ATCO Enterprises Ltd. (100 percent owned) and its subsidiaries and Canadian Utilities Limited (50.01 percent 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".

## Results of Operations

Revenues of $1,372.6 million showed an increase of 2.6 percent over those of the prior year, while segment operating profit of $331.0 million showed a similar increase. Consolidated earnings per share were $1.07, compared to $1.02 per share in 1988, before the effect of asset writedowns.

## Electric Utility Operations

Operating revenues for 1989 grew by 4.1 percent to $446.0 million due to increased consumption in the industrial sector as a result of growth in the oil field and gas processing sectors. Sales volumes increased from 6,083 (Gigawatt hours) Gwh in 1988 to 6,467 Gwh in 1989.

In December 1989, the Alberta Public Utilities Board (PUB) issued a decision which authorized a rate of return of 13.5 percent for each of 1989 and 1990 on the portion of Alberta Power's common equity considered to be financing rate base. Reference is also made to allowance for funds used during construction on page 27.

## Gas Utility Operations

Operating revenues for 1989 grew by 3.2 percent to $655.9 million due to colder temperatures and the addition of 13,000 customers. Volumes of gas sold and transported increased from 465 PJ in 1988 to 496 PJ in 1989.

In response to a PUB order, Canadian Western Natural Gas filed evidence on November 1, 1989 to enable the PUB to fix rates for the 1989, 1990 and 1991 test years. Hearings will start in April 1990. It is not possible, at this time, to forecast the outcome or effect of this proceeding.

## Gas and Oil

Although 1989 operating revenues declined by 6.6 percent to $117.5 million, operating expenses also decreased by 11.4 percent to $110.1 million.

Crude oil production revenues increased by 12 percent in 1989 due to higher crude oil prices for the year, offset by lower production volumes.

Natural gas production revenues increased by 3 percent in 1989 due to higher production volumes offset by lower wellhead prices.

Gas processing income increased by 29 percent in 1989 to $6.6 million due to higher volumes of gas which are processed for third parties.

## ENERGY SERVICES

Operating revenues declined to $25.2 million from $52.8 million in the previous year. This decrease resulted from lower utilization of the Corporation's Canadian drilling and well servicing rigs and from the closure of its United States drilling operations in 1989.

During the year, the Corporation disposed of nine rigs in the U.S. and five rigs in Canada, and in February 1990, it disposed of its remaining five rigs in the United States. Its fleet now consists of 28 drilling rigs and 19 well servicing rigs all located in Canada.

## MANUFACTURING AND LEASING

Revenues of the Manufacturing and Leasing segment were as follows:

| | ($ million) | |
|---|---|---|
| | **1989** | 1988 |
| **Canada** | | |
| Industrial Manufacturing and Leasing | **45.8** | 27.8 |
| Space Rentals | **31.6** | 30.9 |
| Metal | **16.0** | 17.5 |
| Total Canada | **93.4** | 76.2 |
| **United States** | **13.7** | 12.7 |
| Other | **4.8** | 5.5 |
| **Total** | **111.9** | 94.4 |

The increase in industrial manufacturing and leasing revenues was due to three factors: the acquisition of National Caterers fleet in June 1989; the award of a number of major projects which improved the fleet's utilization and rental rates; and a $10 million increase in sales of manufactured units over 1988.

The main cause of increased revenues in the United States was the acquisition of the Modular Building Systems' assets in October 1989.

## OTHER

ATCO's other businesses comprise logistic operations and maintenance primarily for the North Warning System contract; independent power projects; information systems; property management; and Southco Travel. Revenues in 1988 and 1989 include amounts in respect of construction management contracts of $28.3 million and $16.9 million respectively.

## Earnings/Loss for the Year

Minority interests increased by $9.1 million in 1989 to $98.1 million. This was due to a decline in the Corporation's interest in Canadian Utilities from 53.76 percent in 1988 to 50.01 percent in 1989, as a result of the issue of Class A shares by Canadian Utilities in November 1988.

Allowance for funds used during construction increased by $7.2 million in 1989 to $27.8 million. The increase was primarily the result of additional construction expenditures on a second coal-fired steam turbine at the Sheerness Generating Plant.

The PUB, in a December 1989 decision, ruled that inclusion of the Sheerness Unit 2 costs in Alberta Power's rate base is to be deferred, with Alberta Power continuing to capitalize carrying costs on the unit. These carrying costs are limited to certain debt and equity financing rates. After June 30, 1990, the equity financing rate will not fully reflect the actual financing costs of Alberta Power. This decision is not expected to have a material effect on earnings but will reduce cash flow by $15.8 million in 1990.

## Liquidity and Capital Resources

Internally generated funds, comprised of cash generated by operations, provided substantial amounts of the Corporation's cash requirements in 1989 and 1988. Cash from operations totalled $261.1 million in 1989 as compared to $240.6 million in 1988.

A substantial portion of ATCO's operating income and cash flow is generated from its utility operations. The utilities borrow on a short term basis to finance their construction programs between longer term issues. Utility rates designed to recover financing costs and depreciation over the useful life of the utility assets assure the availability of funds for debt interest and retirement and preferred share dividends and redemption.

During the year the Corporation refinanced $271.9 million of outstanding preferred shares and $36.0 million of long term debt by the issue of $300.0 million Cumulative Redeemable Retractable Reset Preferred shares, with a dividend rate of 7.75 percent by CanUtilities Holdings Ltd., a wholly owned subsidiary of ATCO Ltd.

Net capital expenditures in 1989 increased $152.1 million to $345.7 million, due to expenditures on the second unit of Sheerness; the acquisition of oil and gas reserves; and the purchase of industrial and space rental assets. These were financed by internally generated funds and by the issue of $160.9 million of long term debt.

In addition to the long term and medium term facilities described in Note 9 to the financial statements, ATCO had short term credit facilities available at December 31, 1989 of $143.5 million, of which $19.2 million had been drawn.

# 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 judgments 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 whether the consolidated financial statements prepared by management are presented fairly in accordance with generally accepted accounting principles.

The Board of Directors, through its Audit Committee comprised of four 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, 1990

# Auditors' Report

***Price Waterhouse***

To the Shareholders of ATCO Ltd.

We have examined the consolidated balance sheets of ATCO Ltd. as at December 31, 1989 and 1988 and the consolidated statements of earnings and retained earnings and changes in cash position for the years then ended. Our examinations were 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, 1989 and 1988 and the results of its operations and the changes in its cash position for the years then ended in accordance with generally accepted accounting principles. After giving retroactive effect to the change in the method of accounting for the tax benefit of loss carryforwards as explained in Note 4 to the financial statements, these principles have been applied on a consistent basis.

Price Waterhouse

Chartered Accountants
Calgary, Alberta

March 6, 1990

# Consolidated Statement of Earnings and Retained Earnings
*(Thousands of Canadian dollars)*

| | Note Reference | Year Ended December 31 1989 | 1988 |
|---|---|---|---|
| **Revenues** | | **$1,372,625** | $1,337,773 |
| **Costs and expenses** | | | |
| Natural gas supply | | **294,521** | 284,144 |
| Operating and maintenance | | **468,758** | 469,091 |
| Selling and administrative | | **147,705** | 133,186 |
| Depreciation, depletion and amortization | | **130,606** | 128,637 |
| Interest | | **123,943** | 118,638 |
| | | **1,165,533** | 1,133,696 |
| **Operating income** | | **207,092** | 204,077 |
| **Allowance for funds used during construction** | | **27,832** | 20,594 |
| **Other income** | 2 | **21,321** | 23,643 |
| **Asset writedowns** | 3 | **—** | (60,106) |
| | | **256,245** | 188,208 |
| **Income taxes** | | | |
| Current | | **98,028** | 101,082 |
| Deferred | | **(195)** | 618 |
| | 4 | **97,833** | 101,700 |
| | | **158,412** | 86,508 |
| **Minority shareholders' interests** | 5 | **98,155** | 89,000 |
| **Earnings (loss) for the year** | | **60,257** | (2,492) |
| **Dividends on redeemable preferred shares** | 6 | **27,906** | 26,660 |
| **Earnings (loss) attributable to Class I and Class II shares** | | **32,351** | (29,152) |
| **Retained earnings at beginning of year** | | **139,682** | 174,956 |
| | | **172,033** | 145,804 |
| **Dividends on Class I and Class II shares** | | **6,052** | 6,052 |
| **Share issue and redemption expenses, net of deferred income taxes** | | **—** | 396 |
| **Exchange adjustments on preferred shares** | 6 | **(396)** | (326) |
| **Retained earnings at end of year** | | **$ 166,377** | $ 139,682 |
| **Earnings (loss) per Class I and Class II share** | | **$ 1.07** | $ (.96) |
| **Dividends paid per Class I and Class II share** | | **$ .20** | $ .20 |

# Consolidated Balance Sheet

*(Thousands of Canadian dollars)*



| | Note Reference | December 31 1989 | 1988 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and short term investments | | **$ 33,915** | $ 58,628 |
| Accounts receivable | | **204,284** | 170,796 |
| Inventories | | **53,621** | 47,473 |
| Income taxes recoverable | | **7,173** | 4,663 |
| Prepaid expenses | | **5,987** | 8,310 |
| | | **304,980** | 289,870 |
| **Investments** | 7 | **95,405** | 94,136 |
| **Property, plant and equipment** | 8 | **2,798,067** | 2,566,957 |
| **Goodwill** | | **119,245** | 123,385 |
| **Deferred financing charges and other assets** | | **44,995** | 42,328 |
| | | **$3,362,692** | $3,116,676 |
| **Liabilities and Shareholders' Equity** | | | |
| **Current liabilities** | | | |
| Bank indebtedness | | **$ 19,257** | $ 14,823 |
| Accounts payable and accrued liabilities | | **202,410** | 178,784 |
| Long term debt due within one year | 9 | **56,235** | 25,676 |
| | | **277,902** | 219,283 |
| **Long term debt** | 9 | **1,131,975** | 1,027,565 |
| **Contributions for extensions to utility plant** | | **256,682** | 235,993 |
| **Deferred credits** | | **28,003** | 25,855 |
| **Deferred income taxes** | | **5,392** | 5,335 |
| **Minority shareholders' interests** | 5 | **1,000,641** | 986,503 |
| **Redeemable preferred shares** | 6 | **359,320** | 340,076 |
| **Class I and Class II shareholders' equity** | | | |
| Class I and Class II shares | 10 | **136,400** | 136,384 |
| Retained earnings | | **166,377** | 139,682 |
| | | **302,777** | 276,066 |
| | | **$3,362,692** | $3,116,676 |

Director

Director

# Consolidated Statement of Changes in Cash Position



*(Thousands of Canadian dollars)*

| | Year Ended December 31 | |
|---|---|---|
| | **1989** | 1988 |
| **Operating activities** | | |
| Earnings (loss) for the year | **$ 60,257** | $ (2,492) |
| Depreciation, depletion and amortization | **130,606** | 128,637 |
| Deferred income taxes | **(195)** | 618 |
| Minority shareholders' interests | **98,155** | 89,000 |
| Asset writedowns | **—** | 60,106 |
| Other — net | **(11,479)** | (16,028) |
| Increase in non-cash working capital | **(16,197)** | (19,220) |
| | **261,147** | 240,621 |
| **Dividends** | | |
| Paid to shareholders of the Corporation | **(33,958)** | (32,712) |
| Paid to minority shareholders of subsidiaries | **(82,367)** | (75,459) |
| | **(116,325)** | (108,171) |
| **Financing activities** | | |
| Issue of long term debt | **198,922** | 67,665 |
| Reduction in long term debt | **(63,953)** | (53,842) |
| Issue of shares by subsidiaries | **3,424** | 88,580 |
| Redemption of preferred shares by subsidiaries | **(3,500)** | (835) |
| Issue of preferred shares by the Corporation | **300,000** | — |
| Redemption of preferred shares by the Corporation | **(280,756)** | (16,396) |
| Issue of Class I shares by the Corporation | **16** | — |
| Other — net | **19,928** | (22,671) |
| | **174,081** | 62,501 |
| **Cash available for investing** | **318,903** | 194,951 |
| **Investing activities** | | |
| Property, plant and equipment | **(345,686)** | (193,578) |
| Investments | **(2,364)** | 15,212 |
| | **(348,050)** | (178,366) |
| **Cash position*** | | |
| Increase (decrease) | **(29,147)** | 16,585 |
| Beginning of year | **43,805** | 27,220 |
| End of year | **$ 14,658** | $ 43,805 |

* 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 (50.01% 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 (PUB) 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 PUB 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 PUB for debt and equity funds.

Certain additions to utility plant 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.

Depreciation Methods and Rates Per Annum

| | Straight Line | Declining Balance |
|---|---|---|
| Electric and natural gas utility plant and equipment | 1.5% to 7.3% | |
| Rental assets | 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. In addition, interest costs are capitalized on major development projects. The capitalized cost 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. Resource properties are depleted on a unit of production basis.

REVENUE RECOGNITION

Utility revenues are recognized on the accrual basis. In December 1989, the electric subsidiary was given approval by the PUB to recognize revenues on the accrual basis rather than when billed. This accounting policy change has no impact on earnings.

Significant additional revenues or refunds resulting from PUB 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. Any anticipated loss is provided for in its entirety.

INVENTORIES

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

NATURAL GAS SUPPLY

Natural gas supply expense is based on the forecast cost of natural gas included in customer rates. Variances from actual costs are deferred for refund to, or collection from, customers at a later date and natural gas supply expense is adjusted accordingly.

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 PUB.

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.

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

| | **1989** | 1988 |
|---|---|---|
| | (Thousands of dollars) | |
| Interest income | **$15,862** | $15,591 |
| Dividends | **1,620** | 1,353 |
| Exchange losses | **(376)** | (1,926) |
| Other | **4,215** | 8,625 |
| | **$21,321** | $23,643 |

## 3. Asset Writedowns

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:

| | 1989 | 1988 |
|---|---|---|
| | (Thousands of dollars) | |
| Drilling rigs | $ — | $(41,933) |
| Rental assets | — | (11,906) |
| Real estate development properties | — | (5,000) |
| Other property and equipment | — | (1,267) |
| | $ — | $(60,106) |

## 4. Income Taxes

| | 1989 | 1988 |
|---|---|---|
| | (Thousands of dollars) | |
| Earnings before income taxes and minority interests | **$256,245** | $188,208 |
| Income taxes at statutory rate of 43.84% (1988 — 47.38%) | **$112,346** | $ 89,174 |
| Allowance for equity funds used during construction | **(5,664)** | (5,218) |
| Asset writedowns not tax effected | **—** | 28,474 |
| Crown royalties and other non-deductible government payments | **2,894** | 3,393 |
| Earned depletion and resource allowance | **(6,127)** | (7,070) |
| Recovery of previously unrecorded tax benefits | **(4,486)** | (3,677) |
| Large corporation tax | **1,366** | — |
| Foreign tax rate differences | **—** | 1,139 |
| Provincial rebates | **(3,190)** | (3,323) |
| Non-taxable dividends | **(720)** | (594) |
| Other | **1,414** | (598) |
| | **$ 97,833** | $101,700 |

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, 1989.

Certain subsidiaries have operating loss carryforwards of approximately $19,100,000 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 1998.

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 $59,500,000 and is available to reduce future years' taxable income. Revenue Canada is questioning the values placed on certain drilling rigs sold in August 1985 from a United States subsidiary to a Canadian subsidiary. Management is of the opinion that the values are appropriate; however, any ultimate change in these values will decrease the excess asset values noted above.

In the fourth quarter of 1989, ATCO retroactively changed its method of accounting for the recovery of income taxes on utilization of prior years' loss carryforwards to conform with the recommendations of The Canadian Institute of Chartered Accountants. Previously these recoveries were recorded as extraordinary items. This change is one of classification only and has no effect on earnings for the year.

## 5. Minority Interests

| | 1989 | 1988 |
|---|---|---|
| | (Thousands of dollars) | |
| **Equity of minority interests:** | | |
| In preferred shares of Canadian Utilities (detailed below) | **$ 556,723** | $559,623 |
| In Class A non-voting and Class B common shares of Canadian Utilities Limited | **442,141** | 425,195 |
| Other | **1,777** | 1,685 |
| | **$1,000,641** | $986,503 |
| In Canadian Utilities — | | |
| Preferred share dividends | **$ 42,233** | $ 42,099 |
| Earnings attributable to Class A non-voting and Class B common shares | **55,731** | 46,764 |
| Other | **191** | 137 |
| | **$ 98,155** | $ 89,000 |

**Preferred shares of Canadian Utilities**

| | 1989 Redemption Premium | Issued Amount 1989 | 1988 |
|---|---|---|---|
| | | (Thousands of dollars) | |
| Cumulative Redeemable Preferred Shares, 4% to 6% | **1% to 4%** | **$ 30,508** | $ 30,508 |
| Floating Rate Cumulative Redeemable Preferred Shares | **N/A** | **18,000** | 20,000 |
| Cumulative Redeemable Second Preferred Shares | | | |
| Non-retractable, 7.3% | **N/A** | **20,405** | 21,305 |
| Retractable, 7.08% to 8.74% | **(See below)** | **487,810** | 487,810 |
| | | **$556,723** | $559,623 |

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.

| | Stated Value | Redemption Date | Redemption Premium | Retraction Date |
|---|---|---|---|---|
| | (Thousands) | | | |
| 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:

| 1990 | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|
| | | (Thousands of dollars) | | |
| $8,400 | $101,202 | $32,400 | $197,408 | $62,900 |

## 6. Redeemable Preferred Shares

| | Issued Amount | | Dividends | |
|---|---|---|---|---|
| | **1989** | 1988 | **1989** | 1988 |
| | | (Thousands of dollars) | | |
| **Issued by:** | | | | |
| ATCO Ltd. | **$ 55,000** | $ 55,000 | **$ 5,132** | $ 5,028 |
| CanUtilities Holdings Ltd. | **300,000** | — | **8,814** | — |
| ATCO Holdings (N.A.) Ltd. | **4,320** | 13,156 | **689** | 1,216 |
| ATCO Utilities Holdings Ltd. | **—** | 150,000 | **7,020** | 11,307 |
| 174243 Ontario Ltd. | **—** | 121,920 | **6,251** | 9,109 |
| Total issued (detailed below) | **$359,320** | $340,076 | **$27,906** | $26,660 |

**ATCO Ltd.**

| **1989**<br>1988 | Issued Shares | Issued Amount | Average Prime Rate | Dividends |
|---|---|---|---|---|
| | | (Thousands of dollars) | | |
| Junior Preferred Shares | | | | |
| Authorized 8,000,000 shares | | | | |
| Series 1 | **200,000** | **$ 5,000** | **13.3%** | **$ 432** |
| | 200,000 | $ 5,000 | 10.7% | $ 369 |
| Series 3 | **2,000,000** | **50,000** | **N/A** | **4,700** |
| | 2,000,000 | 50,000 | N/A | 4,659 |
| | | **$55,000** | | **$5,132** |
| | | $55,000 | | $5,028 |

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.

**CanUtilities Holdings Ltd.**

| **1989**<br>1988 | Issued Shares | Issued Amount | Dividends |
|---|---|---|---|
| | | (Thousands of dollars) | |
| Preferred Shares | | | |
| Authorized 12,000,000 shares | **12,000,000** | **$300,000** | **$8,814** |
| | — | $ — | $ — |

The preferred shares are redeemable at the option of the corporation and retractable at the option of the holder on October 15, 1994, and at any subsequent retraction date as may be determined by the corporation, at a price of $25.00 per share. Any shares outstanding at July 1, 2001 will be redeemed at $25.00 per share.

Prior to each retraction date, the corporation will be entitled to reset the dividend rate to be effective from such date. The dividend rate in effect until the first retraction date of October 15, 1994 is $1.9375 per share per annum.

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

| **1989**<br>1988 | Issued Shares | Issued Amount | Average Prime Rate | Dividends |
|---|---|---|---|---|
| | | (Thousands of dollars) | | |
| First Preferred Shares | | | | |
| Par value $100 each | | | | |
| Authorized 800,000 shares | | | | |
| Series A, issued in U.S. dollars | **20,000** | **$ 2,320** | **11.4%** | **$ 355** |
| | 60,000 | $ 7,156 | 9.8% | $ 653 |
| Series B | **20,000** | **2,000** | **13.3%** | **334** |
| | 60,000 | 6,000 | 10.7% | 563 |
| | | **$ 4,320** | | **$ 689** |
| | | $13,156 | | $1,216 |

The Series A and B First Preferred Shares, are to be redeemed, at par, on April 1, 1990. Dividends are payable monthly, calculated daily at 52% of prime plus 1½%.

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

**ATCO Utilities Holdings Ltd.**

| **1989**<br>1988 | Shares | Amount | Average Prime Rate | Dividends |
|---|---|---|---|---|
| | | (Thousands of dollars) | | |
| Preferred Shares | | | | |
| Authorized 150,000 shares | **—** | **$ —** | **13.1%** | **$ 7,020** |
| | 150,000 | $150,000 | 10.7% | $11,307 |

The preferred shares were redeemed at a price of $1,000 per share on July 7, 1989.

**474243 Ontario Ltd.**

| **1989**<br>1988 | Shares | Amount | Average Prime Rate | Dividends |
|---|---|---|---|---|
| | | (Thousands of dollars) | | |
| Preference Shares | | | | |
| Par value $1,000 each | | | | |
| Authorized 150,000 shares | | | | |
| Class A - G | **—** | **$ —** | **13.1%** | **$6,251** |
| | 121,920 | $121,920 | 10.7% | $9,109 |

The preference shares were redeemed, at par, on August 15, 1989.

REDEMPTIONS

The aggregate of required redemptions and maximum possible retractions of preferred shares of the Corporation for each of the next five years are:

| 1990 | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|
| | | (Thousands of dollars) | | |
| $54,320 | $5,000 | $ — | $ — | $300,000 |

## 7. INVESTMENTS

| | 1989 | 1988 |
|---|---|---|
| | (Thousands of dollars) | |
| Hydro-Quebec bonds | $49,992 | $49,983 |
| Other securities, at cost (approximate current market value $21,698,000) | 22,963 | 19,326 |
| Joint ventures and partnership (on the equity basis) | 22,450 | 24,827 |
| Total | $95,405 | $94,136 |

The proceeds on the issue of the Series 3 Junior Preferred Shares were invested in $50,000,000 principal amount of 12⅞% 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 $615,000 (1988 earnings of $351,000) and is included in revenues.

## 8. PROPERTY, PLANT AND EQUIPMENT

| | 1989 | | 1988 | |
|---|---|---|---|---|
| | Cost | Accumulated Depreciation & Depletion | Cost | Accumulated Depreciation & Depletion |
| | | (Thousands of dollars) | | |
| Electric utility plant and equipment | $2,078,232 | $ 471,015 | $1,894,267 | $ 415,907 |
| Natural gas utility plant and equipment | 1,251,820 | 339,254 | 1,181,376 | 304,980 |
| Drilling and well servicing rigs and related equipment | 107,745 | 93,259 | 177,358 | 159,233 |
| Gas and oil properties | 224,868 | 84,314 | 174,058 | 77,701 |
| Rental assets | 109,470 | 49,316 | 85,218 | 49,416 |
| Other plant and equipment | 103,286 | 40,196 | 100,804 | 38,887 |
| | $3,875,421 | $1,077,354 | $3,613,081 | $1,046,124 |
| Net book value | $2,798,067 | | $2,566,957 | |

## 9. LONG TERM DEBT

| | 1989 | 1988 |
|---|---|---|
| | (Thousands of dollars) | |
| **Canadian Utilities** | | |
| Sinking fund debentures, at fixed rates of 8⅝% to 17½%, due at various dates to 2007 | $876,080 | $773,879 |
| First mortgage sinking fund bonds, at fixed rates of 5⅞% to 9¾%, due at various dates to 1994 | 29,214 | 31,888 |
| Capitalized lease obligation | 16,242 | 17,361 |
| Notes payable | 91,823 | 35,700 |
| Other | 22,950 | 24,230 |

| | 1989 | 1988 |
|---|---|---|
| | (Thousands of dollars) | |
| **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 LIBOR plus ⅜% to March 1, 1991 and at LIBOR plus ⅞% thereafter, due March 1, 1997, secured by first charge on certain rental assets | **13,920** | — |
| Bank loan, due December 31, 1992, non-recourse, secured by assignment of interest in ALDC Partnership | **8,800** | 8,800 |
| Term loan on Canadian Western Centre, Phase II, at prime, due December 31, 1994, secured by the building | **13,000** | 10,055 |
| 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 11.49% | **—** | 36,000 |
| **Other** | **3,681** | 2,828 |
| | **1,188,210** | 1,053,241 |
| Less: Amounts due within one year | **56,235** | 25,676 |
| | **$1,131,975** | $1,027,565 |

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 |
|---|---|---|
| 1990 | $14,000,000 | 9.69% |
| 1991 | $50,000,000 | 9.77% - 9.82% |

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 is subject to restrictions on the payment of dividends on Class A non-voting and Class B common shares in excess of $144,782,000 (1988 — $143,052,000).

Included in electric utility plant and equipment is a dragline costing $24,818,000 acquired under a lease which includes a purchase option exercisable in 1996. The future minimum lease payments in aggregate are $22,277,000 of which $2,421,000 is payable in each of the five succeeding years. Included in these future minimum payments is $6,035,000 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, 1991, 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, 1989, Canadian Utilities had notes payable of $70,500,000 (1988 — $35,700,000) outstanding under this agreement at interest rates varying from 12.30% to 12.375% with maturities to March 1, 1990. Bank loans outstanding under this agreement at December 31, 1989 and 1988 were nil.

ATCOR Ltd. has a $50,000,000 revolving credit facility which includes an option to convert to a loan payable in equal installments over five years. Accordingly, $21,323,000 representing four fifths of the total indebtedness of $26,654,000 at December 31, 1989 (1988 — Nil) has been classified as long term notes payable. Included in this total indebtedness are bankers acceptances of $18,768,000 at interest rates of approximately 12.3% and $7,886,000 of bank indebtedness at bank prime. ATCOR has granted the bank a general assignment of book debts and will, at the request of the bank, grant binding security upon certain petroleum and natural gas properties and on its interest in an ethane extraction plant.

Interest expensed on long term debt was $108,093,000 (1988 — $101,825,000). In addition to the allowance for funds used during construction, interest of $3,157,000 (1988 — $1,076,000) was capitalized during the year on non-utility projects.

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

| 1990 | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|
| | | (Thousands of dollars) | | |
| $56,235 | $119,539 | $67,517 | $30,111 | $129,800 |

## 10. 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:** | | | | | | |
| December 31, 1987 | 26,050,257 | $134,250 | 4,208,275 | $2,134 | 30,258,532 | $136,384 |
| Conversions: Class II to Class I | 1,625 | 1 | (1,625) | (1) | — | — |
| December 31, 1988 | 26,051,882 | 134,251 | 4,206,650 | 2,133 | 30,258,532 | 136,384 |
| Employee share option plans | 2,000 | 16 | — | — | 2,000 | 16 |
| Conversions: Class II to Class I | 24,908 | 13 | (24,908) | (13) | — | — |
| **December 31, 1989** | **26,078,790** | **$134,280** | **4,181,742** | **$2,120** | **30,260,532** | **$136,400** |

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 444,900 and nil, respectively, were outstanding at December 31, 1989 at prices ranging from $8.125 to $8.75 per share.

## 11. Segmented Information

(Thousands of dollars)

By Industry

**1989**
1988

| | Electric Utility Operations | Gas Utility Operations | Gas and Oil (1) | Energy Services | Manu-facturing & Leasing | Other | Consolidated (2) |
|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | |
| Trade | **$ 445,797** | **$ 643,994** | **$107,297** | **$ 24,722** | **$111,263** | **$ 38,562** | **$1,372,625** |
| | $ 427,992 | $ 622,903 | $108,895 | $ 51,233 | $ 92,800 | $ 37,963 | $1,337,773 |
| Inter-segment | **163** | **11,883** | **10,193** | **522** | **645** | **13,788** | **—** |
| | 222 | 12,381 | 16,886 | 1,520 | 1,640 | 11,478 | — |
| Total segment revenues | **445,960** | **655,877** | **117,490** | **25,244** | **111,908** | **52,350** | **1,372,625** |
| | 428,214 | 635,284 | 125,781 | 52,753 | 94,440 | 49,441 | 1,337,773 |
| Expenses: | | | | | | | |
| Operating costs | **189,015** | **489,855** | **101,283** | **28,573** | **86,017** | **53,324** | **910,984** |
| | 176,619 | 463,343 | 114,856 | 54,295 | 74,483 | 45,609 | 886,421 |
| Depreciation, depletion and amortization | **62,155** | **39,794** | **8,790** | **2,703** | **7,575** | **5,581** | **130,606** |
| | 58,073 | 40,185 | 9,349 | 5,747 | 7,461 | 3,818 | 128,637 |
| Total segment expenses | **251,170** | **529,649** | **110,073** | **31,276** | **93,592** | **58,905** | **1,041,590** |
| | 234,692 | 503,528 | 124,205 | 60,042 | 81,944 | 49,427 | 1,015,058 |
| Segment operating profit (loss) | **$ 194,790** | **$ 126,228** | **$ 7,417** | **$ (6,032)** | **$ 18,316** | **$ (6,555)** | **$ 331,035** |
| | $ 193,522 | $ 131,756 | $ 1,576 | $ (7,289) | $ 12,496 | $ 14 | $ 322,715 |
| Identifiable assets | **$1,704,907** | **$1,040,735** | **$198,218** | **$ 27,991** | **$100,505** | **$214,880** | **$3,362,692** |
| | $1,561,148 | $ 996,362 | $182,616 | $ 29,823 | $ 63,392 | $199,742 | $3,116,676 |
| Capital expenditures | **$ 182,280** | **$ 76,106** | **$ 52,988** | **$ 558** | **$ 35,881** | **$ 5,191** | **$ 353,004** |
| | $ 119,903 | $ 51,550 | $ 22,908 | $ 5,236 | $ 14,417 | $ 10,885 | $ 224,899 |

(1) Exploration and production, petrochemicals and gas marketing.
(2) Inter-segment transactions have been eliminated in the consolidated column.

| | 1989 | 1988 |
|---|---|---|
| | (Thousands of dollars) | |
| Segment operating profit | **$ 331,035** | $ 322,715 |
| Interest | **(123,943)** | (118,638) |
| Allowance for funds used during construction | **27,832** | 20,594 |
| Other income | **21,321** | 23,643 |
| Asset writedowns | **—** | (60,106) |
| Income taxes | **(97,833)** | (101,700) |
| Minority interests | **(98,155)** | (89,000) |
| | **(270,778)** | (325,207) |
| Earnings (loss) for the year | **$ 60,257** | $ (2,492) |

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:

| | **1989** | 1988 |
|---|---|---|
| | (Thousands of dollars) | |
| Market value of assets | **$495,298** | $411,859 |
| Accrued pension benefits | **409,399** | 374,633 |
| Surplus | **$ 85,899** | $ 37,226 |

The pension costs for the year amounted to $6,244,000 (1988 — $4,465,000) of which $1,407,000 (1988 — $999,000) was capitalized. The plan surplus is being amortized on a straight-line basis over 15.6 years. The cumulative difference of $2,907,000 (1988 — $3,643,000) 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 $12,640,000 for the year (1988 — $16,009,000). Future minimum lease payments are as follows:

| 1990 | 1991 | 1992 | 1993 | 1994 | **Total of All Subsequent Years** |
|---|---|---|---|---|---|
| | | (Thousands of dollars) | | | |
| $13,463 | $12,209 | $11,699 | $11,541 | $11,609 | $94,092 |

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. These matters are before the United States Court of International Trade. 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 $253,000,000, of which approximately $38,000,000 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. The outstanding portion of the loan is in the principal amount of $8,800,000 and the alleged unpaid interest is approximately $10,000,000. Alternatively, the Bank has claimed, for breach of collateral contract, damages in the amount of $25,000,000. 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. ATCO has also been advised by its counsel that the claim for breach of collateral contract is without merit.

The PUB, by an order dated August 2, 1989, directed one of the natural gas utility subsidiaries to file a submission for a general rate application covering the years 1989, 1990 and 1991. After reviewing the rates allowed for 1989, the PUB may or may not amend the rates the corporation charged to its customers. It is not possible, at this time, to forecast the outcome or effect of this proceeding.

# CONSOLIDATED SUMMARY OF OPERATIONS

*(Thousands of Canadian dollars)*

| | Year Ended December 31 | | Year Ended March 31 | | |
|---|---|---|---|---|---|
| | **1989** | 1988 | 1988 | 1987 | 1986 |
| **Revenues** | **$1,372,625** | $1,337,775 | $1,327,613 | $1,443,706 | $1,527,229 |
| **Costs and expenses** | **1,165,533** | 1,133,696 | 1,108,902 | 1,265,158 | 1,331,238 |
| **Operating income** | **207,092** | 204,077 | 218,711 | 178,548 | 195,991 |
| **Allowance for funds used during construction and other income** | **49,153** | 44,237 | 51,568 | 57,737 | 64,022 |
| **Asset sales and writedowns*** | **—** | (60,106) | (46,585) | 37,700 | (30,424) |
| | **256,245** | 188,208 | 223,694 | 273,985 | 229,589 |
| **Income taxes** | **97,833** | 101,700 | 128,017 | 112,766 | 92,840 |
| | **158,412** | 86,508 | 95,677 | 161,219 | 136,749 |
| **Minority interests** | **98,155** | 89,000 | 104,541 | 108,943 | 89,011 |
| **Earnings (loss) for the year** | **60,257** | (2,492) | (8,864) | 52,276 | 47,738 |
| **Dividends on redeemable preferred shares** | **27,906** | 26,660 | 25,611 | 27,057 | 34,343 |
| **Earnings (loss) attributable to Class I and Class II shares** | **$ 32,351** | $ (29,152) | $ (34,475) | $ 25,219 | $ 13,395 |
| **Earnings (loss) per Class I and Class II share** | | | | | |
| **Before asset sales and writedowns** | **$ 1.07** | $ 1.02 | $ .66 | $ .29 | $ .97 |
| **Asset sales and writedowns*** | **—** | (1.98) | (1.80) | .62 | (.40) |
| **After asset sales and writedowns** | **$ 1.07** | $ (.96) | $ (1.14) | $ .91 | $ .57 |
| **Dividends per Class I and Class II share** | **$ .20** | $ .20 | $ .20 | $ .20 | $ .20 |
| **Equity per Class I and Class II share*** | **$ 10.01** | $ 9.12 | $ 8.71 | $ 10.03 | $ 9.25 |
| **Class I and Class II shares outstanding** | **30,260,532** | 30,258,532 | 30,258,532 | 27,759,550 | 27,757,550 |
| **Market price of shares** | | | | | |
| **Class I High** | **11⅛** | 10⅝ | 11¾ | 10¾ | 11⅞ |
| **Low** | **7¾** | 7½ | 8 | 7½ | 8½ |
| **Class II High** | **11** | 10¼ | 14½ | 11 | 11¾ |
| **Low** | **8** | 7¾ | 8¼ | 7½ | 8¼ |

* *Asset writedowns of $60,106,000 (1.98 per share) occurred in the first quarter of calendar 1988 and therefore are included in each of the years ended March 31, 1988 and December 31, 1988.*

# Corporate Information

## Directors

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

R. Rice**
Consultant
North Carolina, 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
Retired
Hamilton, Bermuda

N. C. Southern**
Vice President, Television & Public Affairs
Spruce Meadows
Calgary

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*
*† (Deceased March 22, 1990)*

## 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 & Budgeting

D. P. Wood
Vice President, Corporate Secretary

## ATCO ENTERPRISES LTD.

Head Office:
800, 919 - 11th Avenue S.W.
Calgary, Alberta T2R 1P4
Telephone: (403) 292-7500
Fax: (403) 292-7543

*Operating Divisions and Companies:*

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

## CANADIAN UTILITIES LIMITED

Head Office:
10035 - 105 Street
Edmonton, Alberta T5J 2V6
Telephone: (403) 420-7310
Fax: (403) 420-7400

*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

## ATCOR LTD.

Head Office:
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Calgary, Alberta T2P 3G3
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Fax: (403) 261-7665

*Operating Companies:*

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

## ATCO ENTERPRISES LTD./CANADIAN UTILITIES LIMITED CORPORATE JOINT VENTURES

Frontec Logistics Corp.
Northland Utilities Enterprises Ltd.

## Corporate Head Office

ATCO Ltd.
1600, 909 - 11th Avenue S.W.
Calgary, Alberta T2R 1N6
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Telex: 03 822697
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Shareholders 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 Stock 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 Verchere, Calgary, Alberta

ATCO

ATCO Ltd.

World Headquarters

1600, 909 - 11th Avenue S.W.

Calgary, Alberta

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Printed in Canada