ATCO

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ANNUAL REPORT 1995

ATCO LTD.

Gallery of Annual Reports

1990 – Expanse of Alberta foothills

1991 – Alberta alpine stream

1992 – Alberta country scene

1993 – Alberta's majestic winter scene

1994 – Milk River area, Alberta

ATCO

Writing on Stone Provincial Park

ATCO's growth and expanding international presence since 1947 has paralleled the advancement of Alberta, ATCO's home province. In recognition of that continuing linkage, this annual report cover is the sixth of a series to feature scenes of Alberta beauty.

Table of Contents

ATCO Ltd.

One of Canada's premier corporations, Alberta based with a worldwide organization of companies, assets exceeding $4.3 billion and three operating groups employing more than 5,500 persons.

The Operating Groups:

Canadian Utilities Limited

Canadian Utilities' subsidiaries include Alberta Power Limited, (electric power generation, transmission and distribution), Canadian Western Natural Gas Company Limited and Northwestern Utilities Limited (natural gas production, transmission and distribution), CU Power International Limited (international independent power generation and transmission projects), CU Gas Limited (gas gathering, transmission, processing and storage), CU Water Limited (water transmission and distribution).

ATCO Ltd.
One of Canada's premier corporations, Alberta based with a worldwide organization of companies, assets exceeding $4.3 billion and three operating groups employing more than 5,500 persons.

Frontec Corporation

Frontec provides management, operation and maintenance and technical services in the defence, transportation and industrial sectors.

ATCO Structures Inc.

ATCO Structures manufactures, sells and leases industrial workforce housing to over 75 countries around the world from factories in Calgary, Canada and Budapest, Hungary. ATCO Noise Management, a division of ATCO Structures, designs and constructs buildings and acoustic barriers to reduce noise emissions from industrial facilities.

Highlights and Consolidated Financial Information

($ Millions except share data)

ATCO

Consolidated Annual Results	Year Ended December 31	
	1995	1994
Revenues	1,736.9	1,831.5
Earnings before income taxes and non controlling interests	344.8	345.4
Earnings from continuing operations	76.7	75.1
Earnings attributable to Class I and Class II shares	57.9	52.6
Earnings per Class I and Class II share	1.90	1.73
Dividends paid per Class I and Class II share	0.36	0.27
Additions to property, plant and equipment	367.9	342.0
Total assets	4,364.1	4,191.7
Class I and Class II shareholders' equity	502.0	456.4
Equity per Class I and Class II share	16.48	15.00
Class I and Class II shares outstanding	30,465,432	30,425,432
Weighted average Class I and Class II shares outstanding	30,463,349	30,423,765

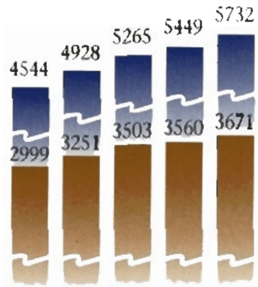
Consolidated Quarterly Results (1)
(Unaudited)

	Three Months Ended					
	March 31	June 30	September 30	December 31	Total	
Revenues	503.3	367.7	356.5	509.4	1,736.9	1995
	578.7	375.9	344.3	532.6	1,831.5	1994
Earnings from continuing operations	30.4	13.4	11.6	21.3	76.7	1995
	28.3	10.7	8.5	27.6	75.1	1994
Earnings attributable to Class I and Class II shares	26.0	8.3	6.7	16.9	57.9	1995
	22.7	5.3	3.0	21.6	52.6	1994
Earnings per Class I and Class II share (2)	0.85	0.28	0.22	0.55	1.90	1995
	0.75	0.17	0.10	0.71	1.73	1994

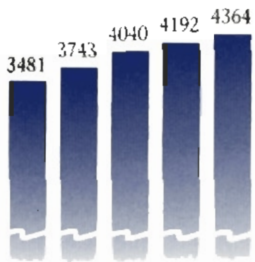
(1) Because of seasonal fluctuations, particularly in the utility operations of ATCO, quarterly earnings are not indicative of full year results.

(2) After payment of preferred share dividends.

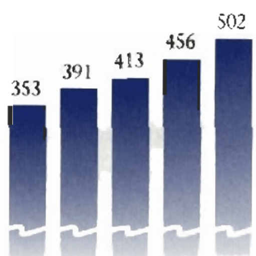
Property, Plant & Equipment
(Millions of dollars)



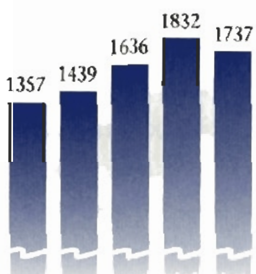
Total Assets
(Millions of dollars)



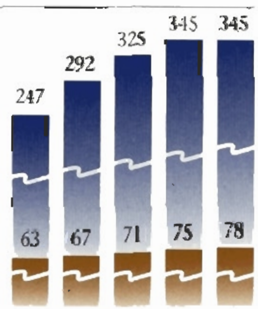
Class I & Class II Shareholders' Equity
(Millions of dollars)



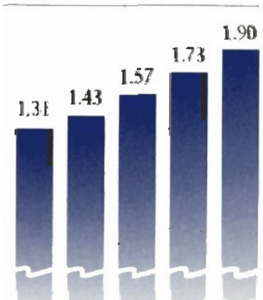
Revenues
(Millions of dollars)



Earnings for the Year
(Millions of dollars)



Earnings per Class I and Class II Share
(Dollars)



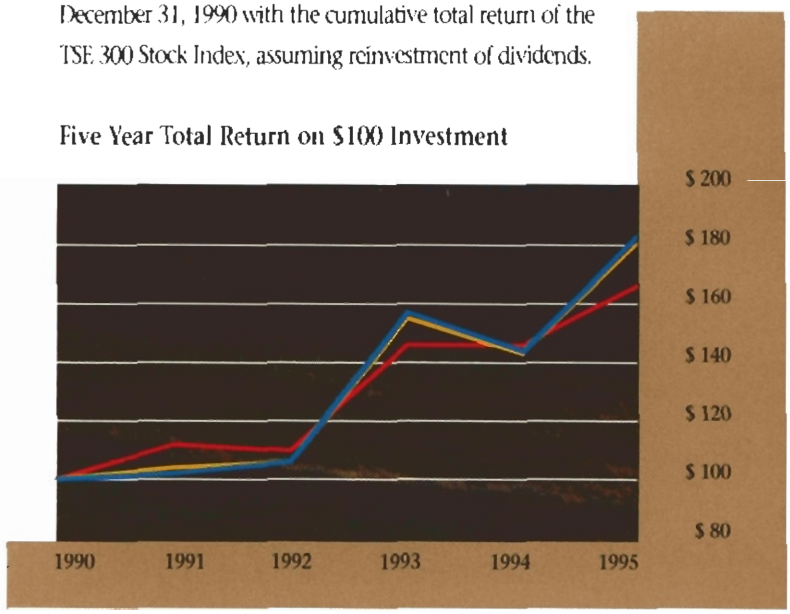
ATCO LTD.

Financial Review

Performance Graph

The following compares the five year cumulative shareholder return on $100 invested in Class I non-voting shares and Class II voting shares of the Corporation on December 31, 1990 with the cumulative total return of the TSE 300 Stock Index, assuming reinvestment of dividends.

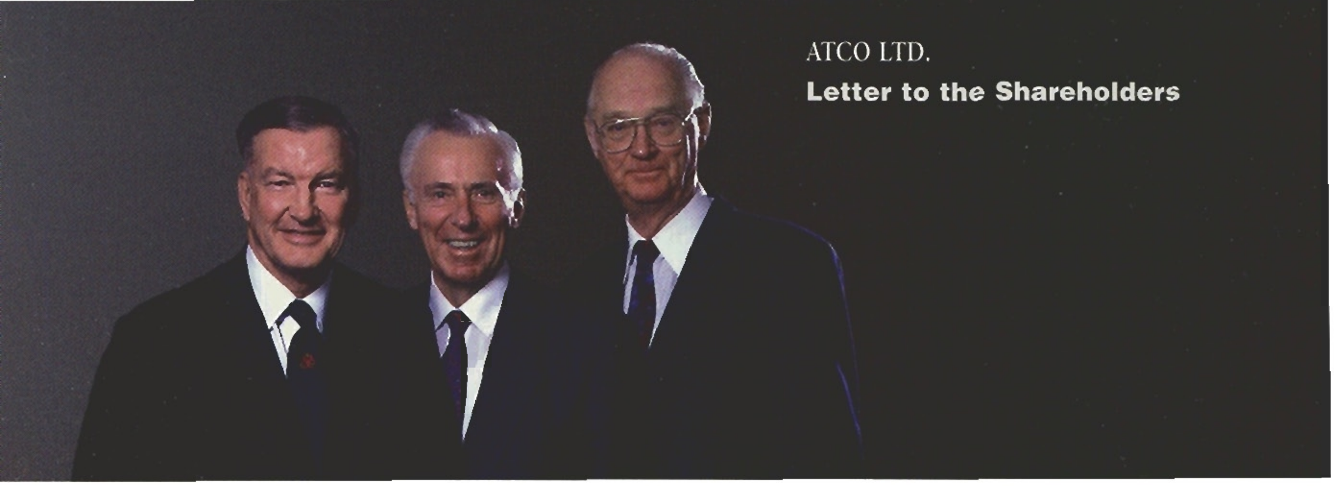
Five Year Total Return on $100 Investment



	1990	1991	1992	1993	1994	1995
ATCO Class I Non-Voting	100	102	106	157[1]	144[1]	184[1]
ATCO Class II Voting	100	104	106	155[1]	143[1]	182[1]
TSE 300	100	112	110	146	146	167

NOTE:

(1) The cumulative shareholder return on the Class I non-voting and Class II voting shares includes the effect of a distribution by the Corporation to shareholders of shares of Akita Drilling Ltd. effective January 1, 1993 on the basis of one Akita share for every four shares of the Corporation held and assumes the continued holding by shareholders of such Akita shares. If the distribution of the Akita shares is not included in the calculation of cumulative return, the amounts as at December 31, 1993 are $148 for the Class I non-voting shares and $146 for the Class II voting shares and the amounts as at December 31, 1994 are $135 for the Class I non-voting shares and $134 for the Class II voting shares, and as at December 31, 1995 are $172 for the Class I non-voting shares and $170 for the Class II voting shares.



ATCO LTD.
Letter to the Shareholders

R.D. Southern
Chairman and Chief Executive Officer

J.D. Wood
President and Chief Operating Officer

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

The ATCO Group ("ATCO") is pleased to report increased earnings for the eighth consecutive year.

Earnings for the year ended December 31, 1995, before payment of preferred share dividends were, $77.8 million on revenues of $1,736.9 million. Comparable figures for the previous year were earnings of $74.7 million on revenues of $1,831.5 million. After payment of preferred share dividends of $19.9 million ($22.1 million in the previous year) earnings attributable to Class I and Class II shares for the twelve months ended December 31, 1995 were $57.9 million or $1.90 per share compared to $52.6 million or $1.73 per share in the previous year.

The improved earnings were the result of the commencement of commercial operations at the 1000 megawatt ("MW") Barking Power Station, higher electric and natural gas sales and the acquisition of significant natural gas utility assets.

A highlight of the year was the commissioning of the aforementioned Barking Power Station, a gas fired combined cycle generation plant in London, England. The plant was officially opened in October by Britain's industry and energy minister, the Right Honourable Tim Eggar.

The ATCO Group subsidiary, CU Power International Limited, had the lead role in design, construction supervision and commissioning and is now operating the plant. The project is a great example of ATCO's capabilities in electric generation and as such provides a platform for future projects.

One such project led by the Australian subsidiary of CU Power International Limited is the development and operation of a gas fired 180 MW cogeneration plant near Adelaide, Australia. Financial close is scheduled for the second quarter of 1996 with construction starting immediately thereafter and operation expected to commence in early 1998.

The complementary natural gas operations conducted by CU Gas Limited ("CU Gas") are gaining momentum. Our strategy of combining natural gas gathering, transmission, processing, storage and marketing assets in a single entity provides the focus necessary for success by allowing CU Gas to offer a complete portfolio of services to prospective customers.

The regulatory aspects of our utility operations continued to occupy a great deal of senior executive time in 1995 as the move toward increased deregulation continued.

In May 1995, the Alberta Government passed the Electric Utilities Act, which restructures the industry and introduces competition in generation. In March 1995, portions of the Gas Utilities Statutes Amendments Act were enacted to allow customers to purchase natural gas directly from suppliers rather than only from Canadian Western Natural Gas and Northwestern Utilities. Additional details regarding these changes can be found in the narrative and in the Management's Discussion and Analysis sections of this report.

ATCO

ATCO has a unique initiative underway in Chile where ATCO Structures Inc. ("ASI") has for the first time granted a third party, Tecno Fast S.A., a license to manufacture ASI products utilizing the ATCO trademark. In addition, ASI has agreed to joint venture with Tecno Fast, a leading Santiago, Chile construction company, on large complex projects which can benefit from ATCO's forty plus years of experience in manufacturing and installing workforce housing.

In January 1995, ATCO's investment in ATCOR Resources Limited ("ATCOR") was sold to Forest Oil Corporation. Forest also purchased all of the shares owned by the public. The purchase price was $4.88 per share which provided ATCO with gross proceeds of $84.5 million. An attractive feature of the sale was Forest's agreement to employ all of ATCOR's personnel in their Canadian operations.

The decision to sell was made because ATCO is earnings and dividend oriented. Oil and gas exploration and development companies such as ATCOR tend to focus on generating cash flow and reinvesting those funds to build assets. Because of this situation it was decided that shareholder value would be maximized by the sale. Shareholders obviously agreed because over 99% of the shares represented at the meeting, called to consider the transaction, voted in favour of the sale.

The price of ATCO Ltd. shares, which grew by 23% during 1995, continued to out-perform the Toronto Stock Exchange 300 index. The stock market performance is attributable, in part, to the fact that all segments of ATCO's operations continue to perform very well. This broad based success of our principal operating subsidiaries is one of ATCO's strongest attributes.

The strong earnings of the past eight years, combined with recent asset sales, have resulted in ATCO Ltd. accumulating significant cash reserves. Management and the Board are now considering appropriate strategies, in our core businesses, to maximize shareholder value through the prudent investment of these funds.

In March 1996, the ATCO Ltd. Board of Directors increased the quarterly dividend to $0.11 per share, an increase of 22% over the amount paid previously. This increase is a reflection of the Board's confidence in the outlook for the Corporation.

In addition, the Board of Directors declared a special dividend of $0.08 per share. This special dividend is being paid in recognition of the increased liquidity resulting from the significant asset sales of the past 15 months. Both the regular quarterly dividend and the special dividend are payable on March 29, 1996 to shareholders of record on March 25, 1996.

A number of management changes took place in 1995 and early 1996.

In January 1996, Ms. N.C. Southern was appointed Deputy Chairman of ATCO Ltd. and Canadian Utilities Limited.

In 1995, Mr. R.G. Lock was appointed Senior Vice President, Office of the Chairman, ATCO Ltd. and Canadian Utilities Limited. In January 1996, Mr. Lock was appointed President of CU Power Australia Pty Ltd.

Mr. P.J. House was appointed Vice President, Corporate Secretary, Office of the Chairman in February 1996. He replaced Mr. D.P. Wood who retired after 30 years of distinguished service.

As was noted previously, this is the eighth consecutive year of increased earnings for ATCO. We are very proud of this achievement and would like to thank our customers, employees, suppliers, directors and shareholders, all of whom have played a vital role in this success.

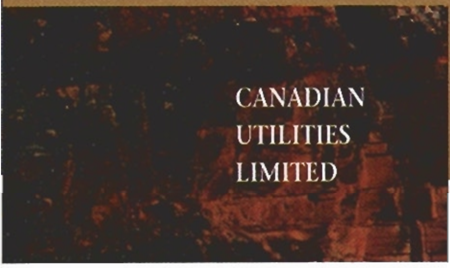
On behalf of the Board of Directors,

R.D. Southern
Chairman and
Chief Executive Officer

J.D. Wood
President and
Chief Operating Officer

A highlight of the year was the commissioning of the aforementioned Barking Power Station a gas fired combined cycle generation plant in London, England.

The regulatory aspects of Canadian Utilities Limited utility operations continued to be a major focus as the move toward increased deregulation continued.



Natural Gas Utility Operations

The Corporation's natural gas utility operations consist of two subsidiaries: Canadian Western Natural Gas Company Limited ("CWNG") which serves southern Alberta, and Northwestern Utilities Limited ("NUL") which serves north-central Alberta.

CWNG's customer base increased 2.1% in 1995. At year end, the company served 348,143 customers in 115 communities.

Total CWNG system throughput was 183.1 petajoules (PJ), up 9.9 % from 1994. The growth was the result of higher volumes transported for gas producers and increased temperature-sensitive sales. Temperatures were 5.8% colder than the previous year.

At year end, NUL served 377,051 customers in 175 communities. The customer base grew 1.1% in 1995.

Total NUL system throughput was 470.8 PJ, up 14.6% from the previous year. The growth resulted from acquisition of transmission assets, greater demand from a strong fertilizer market, increased demand for transportation to the gas export market and increased demand from the petrochemical industry due to higher methanol prices. Temperatures in NUL's service area were 1.5% colder than in 1994.

Capital expenditures by the two gas companies to provide for customer growth and to meet existing customer's needs totalled $141.7 million. The largest expenditure was NUL's acquisition in January 1995 of gas transmission pipelines and associated facilities from Norcen Energy Resources Limited and North Canadian Oils Limited. CWNG's largest project was the first stage of a three year program to upgrade field withdrawal capacity and improve efficiency and reliability at the company's production and storage facility at Carbon, Alberta.

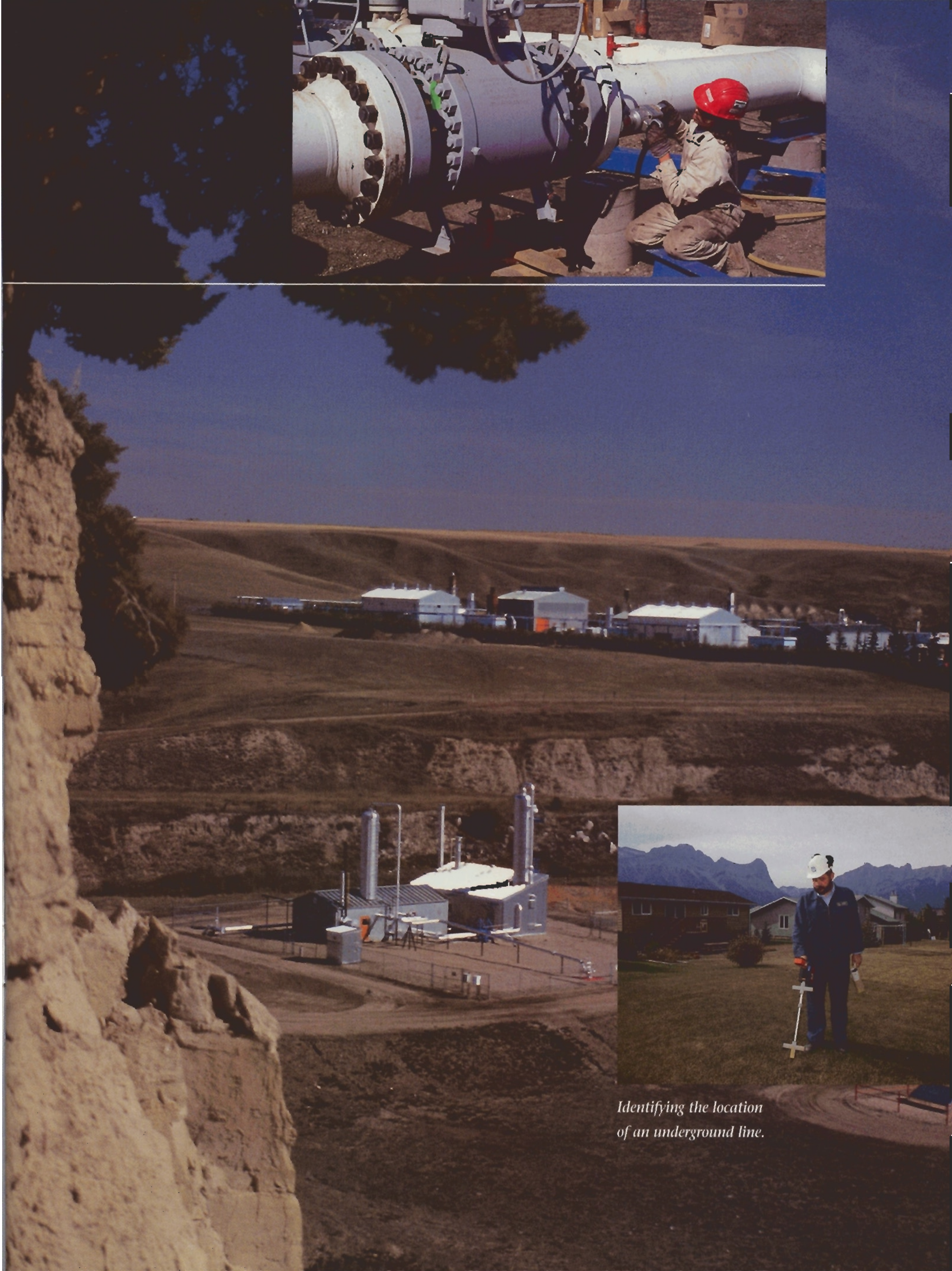
At year end, CWNG's book value of property, plant and equipment, net of accumulated depreciation, was $515.8 million and NUL's was $788.8 million.

In May, a reorganization within Canadian Utilities Limited resulted in the appointment of separate presidents responsible for CWNG, NUL and CU Gas Limited. In October, the Gas Supply division of CWNG and NUL was eliminated. Gas production and gas management services are now provided by CU Gas Limited.

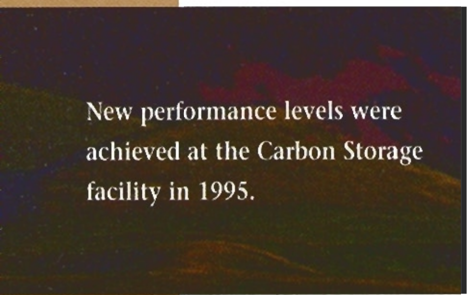
Alberta's Energy and Utilities Board ("EUB") approved regular and unscheduled applications by CWNG and NUL for changes in the winter and summer gas cost recovery rates. Since the cost of gas is a flow-through, customers received the full benefit of the price reductions.

Work carried out at Canadian Western's Carbon storage facility near Drumheller, Alberta to increase responsiveness, efficiency and safety.

Natural gas storage facilities at Carbon, Alberta.



Identifying the location of an underground line.



In March, portions of Alberta's Gas Utilities Statutes Amendment Act (Bill 51) were enacted to allow the core market, that is residential, commercial and institutional customers, to purchase natural gas directly from suppliers of their choice rather than exclusively from CWNG or NUL. The EUB held public hearings on rates and terms and conditions for core market direct purchase in late 1995. The switching of core market customers from regular sales service to direct purchase will have no impact on total throughput and will have little impact on earnings.

NUL renegotiated franchise agreements with nine communities in 1995, including the City of Edmonton while CWNG renegotiated franchise agreements with three communities.

In line with their responsibility to provide a healthy and safe workplace for employees and the public, CWNG and NUL developed a revised alcohol and drug policy which was implemented in February 1996. Random alcohol and drug testing for safety-sensitive positions is scheduled to be introduced in 1996.

The ongoing commitment of NUL and CWNG to protection of the environment continued in 1995. The companies developed an environmental management system and continued a program of training all employees regarding environmental policies and procedures.

CU GAS LIMITED

CU Gas Limited's natural gas-related complementary business activities in 1995 centred on the areas of natural gas gathering and processing, natural gas storage and water transmission and distribution. Restructuring in late 1995 saw the integration of the gas supply groups of Canadian Western Natural Gas and Northwestern Utilities into CU Gas. The merging of these groups has resulted in an enhanced focus in the areas of natural gas gathering and processing, storage and hub services, and natural gas supply, production and transmission.

To complement and add value to its purchase from Norcen in early 1995 of the natural gas gathering and processing assets of Mid-West Gas Transmission Ltd., CU Gas applied for and received EUB approval to construct a 35 million cubic feet per day ("mmcfd") liquids extraction facility near the hamlet of Villeneuve north of Edmonton. This plant will be constructed in 1996 and will process gas from the CU Gas gathering system.

The Edmonton Ethane Extraction Plant continues to perform well. In 1995 operating costs were reduced, throughput was maximized and the cost of shrinkage makeup was significantly reduced as a result of the synergies arising from CU Gas ownership of the Mid-West Gas Transmission assets. CU Gas is confident these high levels of throughput will be maintained in future years.

New performance levels were achieved at the Carbon Storage facility in 1995. Records established included the October storage inventory of 44 PJ and the storage gas withdrawal rate of 600 TJ per day. This enhanced performance resulted from the 1995 capital program at Carbon which included the installation of a new 20 inch field line, the drilling of a second horizontal well and the reconfiguration of the facility into three gas streams. Additional benefits include improved reliability, efficiency, safety, responsiveness and the positioning of the Carbon storage facility for future expansion.

Northwestern used directional drilling as it replaced the gas transmission line crossing the Pembina River near Sangudo, about 80 kms northwest of Edmonton.

During 1995, Canada's first natural gas refuelling facility at an airport opened at Edmonton International Airport.

Inside Northwestern Utilities' salt cavern storage facility at Fort Saskatchewan, Alberta.

The aforementioned reorganization brought all aspects of the Carbon facility — marketing, operations and capital expansion — under the management of a single group, the Gas Services division of CU Gas. Deregulation, competition and increased gas marketing sophistication have made storage and hub services increasingly important components in the natural gas market. This coordinated organization will pursue new opportunities to meet customers' needs while utilizing Alberta's most strategically located storage and hub facility.

ATCO

CU Gas' Golden Spike gas plant west of Edmonton.

The Gas Supply division of CU Gas has assisted in the management of the gas supply portfolios for its affiliated natural gas utilities, Canadian Western and Northwestern. This portfolio management is performed on the basis of a management contract which includes gas supply portfolio planning, the negotiation of supply arrangements and the procurement of gas supply. The utilities' portfolio (219 PJ) is comprised primarily of an aggregation of gas supplies to serve Northwestern and Canadian Western customers. Staff performing these functions were transferred from the utilities to CU Gas at the time of the reorganization.

The portfolio management services provided to the utilities also include regulatory filings in support of the utilities' gas purchasing activities. The company took the lead in presenting the utilities in the regulatory hearing intended to open the Alberta core market to direct gas sales. In addition, CU Gas completed the regulatory filing of the utilities' deferred gas accounts (flow-through accounts for natural gas costs) and implemented revised procedures to reduce administration for everyone involved.

In 1995, the non-core production assets of both Canadian Western and Northwestern were packaged for sale to the industry. The program was successful with the majority of the properties being sold.

During 1995, a three-dimensional seismic program was conducted at Carbon to identify future drilling locations and evaluate the potential in other horizons and a horizontal well was drilled to increase storage deliverability and injectivity.

With the transition toward deregulation of the natural gas industry and the resulting increase in competition, new opportunities will develop in the area of gas transmission in western Canada. With its new organization, CU Gas has the resources and mandate to pursue these opportunities.

Stripping the sulphur out of tail gases at CU Gas' Carbondale gas plant.

Pipe rack at CU Gas' ethane extraction plant at Fort Saskatchewan.

Yukon Electrical is involved with testing Yukon Energy's wind turbine near Whitehorse, Yukon Territory.

Electric Utilities Operations

Alberta Power Limited ("APL") and its subsidiaries, The Yukon Electrical Company Limited, Northland Utilities (NWT) Limited and Northland Utilities (Yellowknife) Limited serve 176,800 customers in 359 communities. During 1995 sales increased by 3.4% to a total of 8,886 million kilowatt hours.

In Alberta, sales growth was driven by industrial development particularly in the oil and gas and forestry sectors. Industrial sales which surpassed 6,000 million kilowatt hours account for more than 72% of APL's sales.

In May, the Alberta government passed its new Electric Utilities Act which brings changes to the structure of the industry and introduces competition in the generation sector. Throughout 1995, APL made major contributions to shaping the legislation and the accompanying regulations.

Innovations that were developed through discussions with industry, consumer and environmental groups include a new power pool through which all electric energy trading in the province will be carried out. This pool creates an hourly spot market for electricity. APL played a key role in developing the rules and systems under which the pool will operate.

In the transmission segment of the industry an administrator will contract with owners of transmission facilities to provide the transmission services needed to serve customers throughout the province. The Grid Company of Alberta Inc. ("GridCo") was created through a joint agreement among the four utilities owning transmission services and GridCo was appointed transmission administrator by the provincial government in November. Jim Beckett, APL's Vice President, Transmission is serving the first term as President of GridCo.

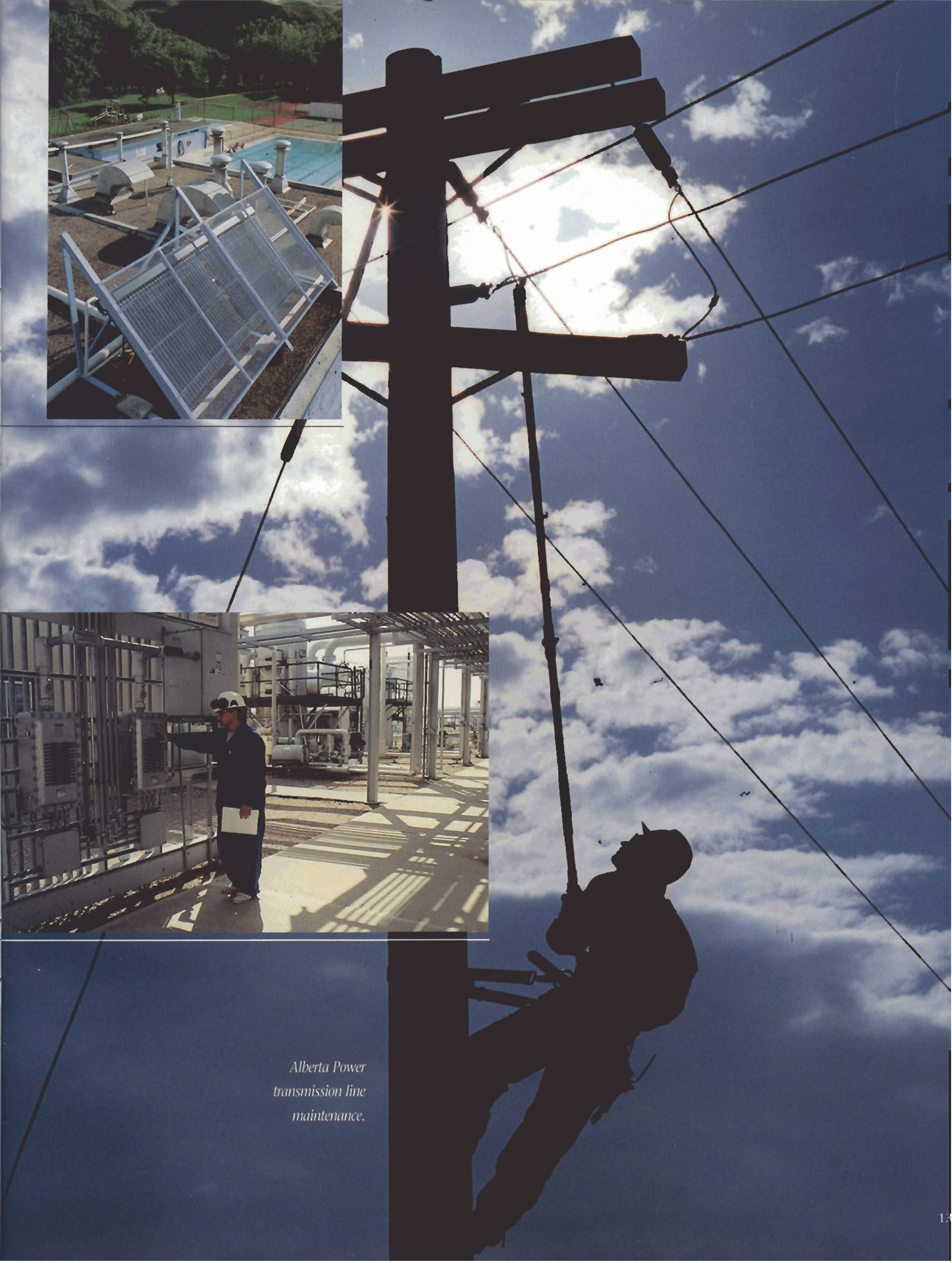
During 1995 APL invested more than $111 million in capital projects. $50 million of this amount was spent on distribution projects as the company added nearly 1700 kilometres of new distribution lines. The major upgrade to the H.R. Milner generating station at Grande Cache commenced in 1995 with $9.6 million being spent.

The Yukon Electric Company Limited continues to manage some $121 million of generation, transmission and distribution assets of the Yukon Energy Corporation which is owned by the Yukon Territorial Government. The two companies combined have 14,423 customers, an increase of some 4% in the past year.

In the Northwest Territories, the Company serves Yellowknife, Hay River and seven other communities. Capital spending was approximately $2 million to meet the growth in the number of customers.

Solar panels for heating a community swimming pool at Drumheller, part of an Alberta Power conservation demonstration project.

Alberta Power facilities serving industrial customer, Sceptre Resources.



Alberta Power transmission line maintenance.

Ron Southern, Chairman and Chief Executive Officer, ATCO and CU and Dick Walthall, Barking Plant Manager address visitors at the Official Opening of the Barking Power Plant on October 18, 1995.

CU POWER INTERNATIONAL LIMITED

CU Power International Limited ("CUPIL") was established in 1988 to participate in the deregulated and highly competitive world electricity markets.

CUPIL now operates 1,014 MW of generating capacity and has a recognized reputation as a low-cost producer. Among CUPIL's accomplishments in 1995 were the commissioning of the Barking Power Station in London, England, the purchase with joint venture partner, London Electricity plc, of a cogeneration facility at Heathrow Airport which CUPIL operates and the signing of a Heads of Agreement with ETSA Corporation and Penrice Soda Products Pty Ltd. to develop a 180 MW cogeneration plant near Adelaide, Australia.

Construction of the 1,000 MW, $1.4 billion, natural gas-fired, combined-cycle generating plant at Barking, in London, England was completed during 1995. Commercial operations of Block 1 (400 MW) began in May while Block 2 (600 MW) came on stream in June. CUPIL was responsible for the owners' engineering role during construction which required a peak work force of 1,850. CUPIL is also responsible for operating the plant.

ATCO

Thames Power Limited, a company jointly owned by CUPIL's UK subsidiary and BICC plc, an international engineering and cable manufacturer, owns 51% of the Barking project.

In July, CUPIL and a subsidiary of London Electricity plc purchased a cogeneration plant at London's Heathrow Airport from BAA plc. The plant, which has a 14 MW gas-fired turbine and a 40 MW boiler, is supplying electricity and hot water to BAA plc for a 15 year term.

During 1995, CUPIL and Boral Limited, an Australian building materials and energy company, agreed to develop a 180 MW cogeneration plant near Adelaide, South Australia.

Agreements are being negotiated to sell electric energy to ETSA Corporation, the state-owned utility, and steam to Penrice Soda Products Pty Ltd., a producer of soda ash. Financial close for the $170 million, non-recourse financing package is scheduled for the second quarter of 1996. Construction will start immediately thereafter, with commercial operations scheduled to commence during the first half of 1998.

CUPIL will lead the development, construction and operation of the project, a 50/50 joint venture partnership with Boral Limited.

The 118 MW McMahon Cogeneration plant in Taylor, B.C. exceeded its availability targets in 1995. The station provides electricity to the British Columbia grid and steam to a plant owned by CUPIL's joint venture partner, Westcoast Energy Inc. Power sales began in November 1993 under a 20 year agreement with BC Hydro.

Negotiations are ongoing with a number of potential partners in North America, England, Europe and Australia regarding independent power development opportunities which complement CUPIL's expertise and position it for continued growth in selected national and international markets.

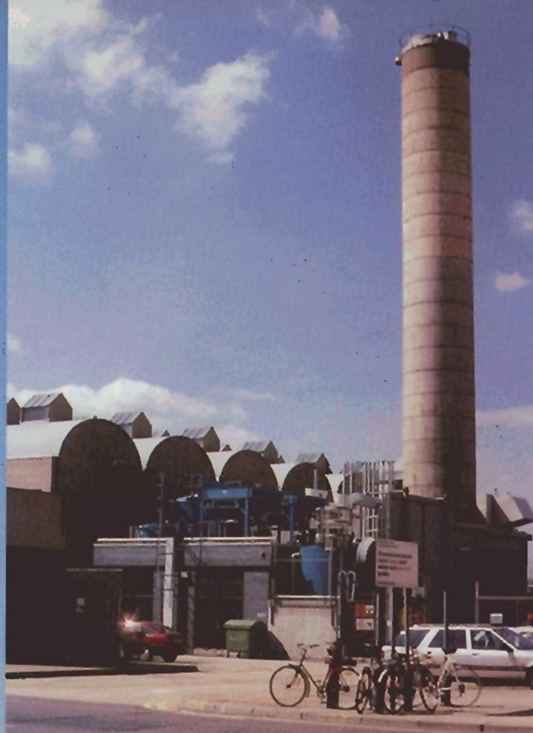
ATCOR RESOURCES LTD.

The Group's interest in ATCOR Resources Ltd. ("ATCOR") was sold effective January 31, 1996. The details of the sale are outlined in the Letter to the Shareholders and the Management's Discussion and Analysis.

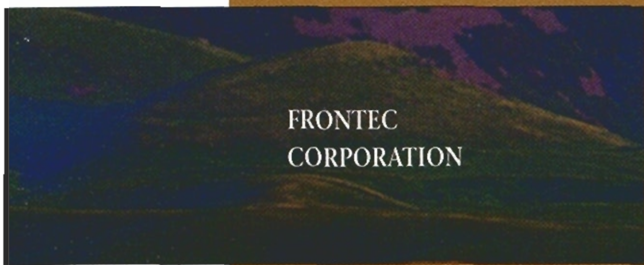
ATCOR's earnings are reflected in the Consolidated Statement of Earnings and Retained Earnings as Discontinued Operations. (Please refer to the financial statements Note 5 - Discontinued Operations.)

Cogeneration plant at London's Heathrow Airport now operated by CU Power International Limited.

1000 MW Barking Power plant, located in East London, England began commercial operation in May, 1995.



The McMahon Cogeneration plant in Taylor, B.C., provides electricity to the B.C. grid and steam to Westcoast Energy Inc.



FRONTEC CORPORATION

Frontec Corporation ("Frontec") is a Canadian leader in the provision of project management and technical services for customers in the industrial, defence and transportation sectors.

With its corporate offices in Edmonton, Frontec Corporation ("Frontec") employs over 400 technical and management professionals in offices across Canada and in Alaska.

In April, a new joint venture of Frontec and the Pan Arctic Inuit Logistics Corporation ("PAIL") was awarded a five year contract to operate and maintain the North Warning System, a network of over 50 radar and logistics support sites across the Arctic and along the Labrador coast. A unique element of this new joint venture is the training program under which PAIL will recruit, and Frontec will train, 20 Inuit per year over a five year period.

Operationally, Frontec successfully re-configured the system to allow for remote operation of nine long range radar sites. Under this innovative cost-reduction initiative, all sites will now be operated and maintained from five strategically located logistics support sites. Frontec hopes to draw on this experience with the North Warning System to introduce a similar program for the Alaska Radar System project which is co-managed by Frontec and its partner, native-owned Piquniq Management Corporation.

Early in 1995, Frontec expanded its airport operations work with the addition of a new contract to operate and maintain the Castlegar Airport in British Columbia. On Canada's east coast, Frontec was awarded a contract to provide airport management services at Canadian Forces Base Shearwater, near Halifax.

Frontec's Calgary-based Iris Installation Project reached a number of significant milestones in 1995. In addition to achieving ISO 9002 certification, Frontec completed its first Engineering Development Model ("EDM"), a forerunner to a fully qualified and accepted vehicle installation. The EDM is essential to ensure that the installation hardware, as designed, can be manufactured and installed to support the system.

Frontec provides airport management services including firefighting at the Castlegar, B.C. airport.

Another of Frontec's operations, Yellowknife-based Narwhal Arctic Services, provides airport services, facilities management, construction and logistics support in the High Arctic. Narwhal's ongoing projects include the operation and maintenance of the Resolute Bay Airport and support to high arctic weather stations at Eureka and Mould Bay, as well as the operation of the Narwhal Hotel and the maintenance of the Solar Wind Observatory, both in Resolute Bay.

Mining exploration camp at Voisey's Bay, Labrador. Frontec has signed a joint venture agreement to provide support services for exploration and development activity.

In January, Frontec expanded its operation and maintenance capabilities by purchasing ATCO's Property Management Group. This Group manages industrial sites, commercial office towers and retail space in several centres in Alberta.

Frontec has also signed a joint venture agreement with the Labrador Inuit Development Corporation to pursue promising opportunities in the transportation, logistics and support services in Labrador's Voisey's Bay region, site of significant nickel, copper and cobalt discoveries. Work will be performed by Torngait Services Inc., a newly incorporated Newfoundland company formed as a result of this agreement.

As the leader in the technical support services industry in Canada, Frontec is well positioned to meet the evolving needs of customers both in North America and abroad.

In April, 1995, Frontec was awarded a further five year contract to operate and maintain Canada's North Warning System.

ATCO STRUCTURES INC.

Late in the year, ATCO Structures entered into a five year licensing agreement with Tecno Fast S.A., a leading manufacturing and construction company based in Santiago, Chile.

ATCO Structures Inc. ("ASI") experienced a very successful year in 1995.

The program to modernize the existing workforce housing fleet continued with the sale of used units further reducing the fleet from 1,950 units in 1994 to 1,400 units at year end. In conjunction with these sales, ASI introduced its "New Generation" of industrial housing products incorporating both new materials and designs. The new units were widely accepted by both sales and rental customers and approximately $4.0 million was invested in new rental fleet units.

The largest single project awarded to ASI in 1995 was the $20 million contract for a permanent housing facility for the Falconbridge Ltd. Raglan Nickel project in the Deception Bay area of northern Quebec. The 170,000 square foot facility will provide state-of-the-art housing for 300 personnel. Manufacturing commenced in 1995 and will be completed by June 1996. Installation is scheduled to be complete by January 1, 1997.

Late in the year, ATCO Structures entered into a five year licensing agreement with Tecno Fast S.A., a leading manufacturing and construction company based in Santiago, Chile. The agreement provides Tecno Fast with the exclusive rights to utilize the ATCO trademark and to manufacture ATCO products from its location in South America. In addition, the two companies will work in a joint venture on those large projects which require direct participation by ATCO's experienced manufacturing and field installation personnel.

The level of activity in the Budapest, Hungary manufacturing facility was below expectations; however, orders were completed for a variety of products including camps, schools, wellsites and Fold-A-Way buildings which were delivered to various locations in Eastern Europe. ATCO Europe Ltd., a subsidiary of ASI, was recently awarded a significant order for the supply of housing and related facilities for the peacekeeping forces in Bosnia. It is expected that the reconstruction of Bosnia and Croatia will provide similar opportunities in the future.

Internationally, ASI provided a 200 person camp for a natural gas power project in India. Other projects were successfully completed in Russia, Bulgaria, Thaikastan, Uzbekistan and the Ukraine.

The 1996 outlook is promising. The year started with good production backlogs and the opportunities in Eastern Europe and South America should more than offset any slowdown in Canada.

ATCO Structures' main manufacturing facility in Calgary, Alberta is operating at full production capacity.

A 420 person refurbished workforce housing facility provided by ATCO to a Fletcher Challenge pulpmill in Mackenzie, B.C.

ATCO units which will house U.S. NATO forces are being installed in Bosnia.

ATCO

ATCO's manufacturing plant in Budapest, Hungary produced dormitory housing and kitchen facilities to Brown & Root for the U.S. NATO forces serving in Bosnia and Croatia. Units were transported by rail from Budapest to Slavonski Brod, the marshalling area for all components, then loaded onto trucks for transport to Zupanja, then on to Tuzla and Lukavac areas of Croatia. ATCO also supervised the installation of the units at the various sites.

ATCO Structures also provided several Fold-a-way storage buildings to the NATO forces in Bosnia.

ATCO Noise Management designed, supplied and installed a new acoustic building envelope for Northwest Pipeline Corporation - Sumas "A" compressor station in Sumas, Washington.

ATCO NOISE MANAGEMENT

The ATCO Noise Management Division of ASI operates as a turnkey supplier of acoustic buildings, acoustic barriers, and the retrofit of existing facilities for the control of environmental noise. All projects incorporate proprietary technology developed and tested by the Division.

In 1995, significant diversification was experienced beyond the traditional markets of compressor station and highway noise control. Contracts were received for the acoustic treatment of three cogeneration plants: two for TransCanada PipeLines at Kapuskasing and North Bay, Ontario and one for Northland Power at Iroquois Falls, Ontario. In addition the Division received its first overseas contract from BOC Process Plants, United Kingdom for work on an oxygen plant in Poland.

These projects, together with acoustic buildings supplied on four TransCanada PipeLines compressor stations in Ontario and retrofit work on four stations for Northwest Pipeline Corporation in Washington, constituted a year of rapid growth for the Division.

The outlook for the future is bright with the increasing awareness of the negative effects of noise pollution promising to open up further markets for the Division. In this regard, ATCO Noise Management has recently received contracts for three compressor buildings in Ontario and Saskatchewan and an extensive retrofit program on a number of compressor stations in Washington and Oregon.

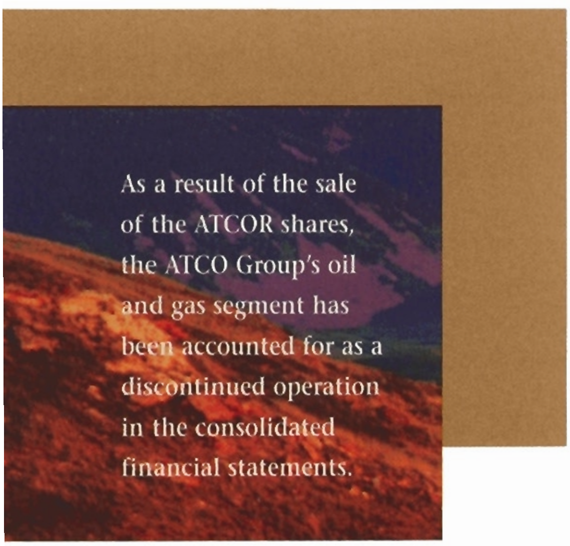
The TransCanada Pipelines - Station 99 compressor station located at Smooth Rock Falls, Ontario is ATCO Noise Management's most acoustic building to date.

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, 1995 should be read in conjunction with the audited consolidated financial statements which include the accounts of ATCO Ltd. and all of its subsidiaries ("ATCO"). The principal subsidiaries are Canadian Utilities Limited ("Canadian Utilities"), of which ATCO Ltd. owns 41.29% of the Class A non-voting shares and 67.52% of the Class B common shares, for an aggregate ownership of 51.19%, and ATCO Structures Inc. ("ATCO Structures") (100% owned). Canadian Utilities has published an Annual Report containing its Management's Discussion and Analysis of Financial Condition and Results of Operations. Please refer to Shareholders' Information on the back inside cover of this annual report to obtain copies.

ATCO



BUSINESS

ATCO Ltd. is a management holding company with operating subsidiaries engaged in the following businesses:

Electric Power

Generation, transmission and distribution of electric energy by its utility subsidiaries Alberta Power Limited ("Alberta Power"), Yukon Electrical Company Limited, Northland Utilities (NWT) Limited, Northland Utilities (Yellowknife) Limited and development, ownership and operation of independent power and cogeneration projects by CU Power International Limited ("CUPIL").

Natural Gas

Production, transmission and distribution of natural gas by its utility subsidiaries Canadian Western Natural Gas Company Limited ("Canadian Western Natural Gas") and Northwestern Utilities Limited ("Northwestern Utilities"), natural gas gathering and processing and storage by CU Gas Limited ("CU Gas") and water transmission and distribution by CU Water Limited ("CU Water").

Facilities Management and Logistics

Operation and maintenance, and facilities management services by Frontec Corporation, Frontec Logistics Corp. ("Frontec Logistics") and Frontec Services Limited, owned by Canadian Utilities.

Manufacturing and Leasing

Manufacture, sale and lease of relocatable Workforce Housing shelter products and design and construction of buildings to reduce noise emissions from industrial facilities by ATCO Structures.

Other

Real estate and travel agency services by ATCO Investments Ltd., a wholly-owned subsidiary of ATCO Ltd.

CONSOLIDATED RESULTS OF OPERATIONS

Segmented revenues and earnings, being earnings before income taxes and non-controlling interests, for the years 1994 and 1995 were as follows:

	Revenues ($ Millions)		*Earnings ($ Millions)*	
	1995	1994	**1995**	1994
Electric Power	**771.0**	688.1	**204.9**	195.8
Natural Gas	**807.0**	914.5	**130.2**	128.9
Facilities Management and Logistics	**97.1**	103.6	**12.8**	18.6
Manufacturing and Leasing	**50.2**	107.9	**4.8**	14.7
Other	**21.9**	27.4	**(3.9)**	(8.8)
Intersegment	**(10.3)**	(10.0)	**(4.0)**	(3.8)
Total	**1,736.9**	1,831.5	**344.8**	345.4

Consolidated earnings per share were $1.90, up approximately 10% from $1.73 reported in 1994.

On December 12, 1995, ATCO Ltd., Canadian Utilities Limited and CanUtilities Holdings Ltd. entered into an agreement with Forest Oil Corporation ("Forest") of Denver, Colorado, whereby Forest agreed to acquire all of the issued and outstanding shares of ATCOR Resources Ltd. ("ATCOR") for $4.88 per Class A non-voting share and Class B common share. As part of the transaction, ATCO Ltd. and Canadian Utilities Limited agreed to purchase 50% of ATCOR's frontier oil and gas holdings, 54% of ATCOR's one-third interest in the Edmonton Ethane Extraction Plant and certain marketable securities for approximately $21.3 million. ATCO Ltd., Canadian Utilities Limited and CanUtilities Holdings Ltd. owned 8,009,721 Class A non-voting shares and 9,314,346 Class B common shares of ATCOR. The transactions closed in early 1996.

As a result of the sale of the ATCOR shares, ATCO's oil and gas segment has been accounted for as a discontinued operation in the consolidated financial statements.

BUSINESS RISKS

Utility Rate Regulation

ATCO's utility operations in Alberta are subject to the jurisdiction of the Alberta Energy and Utilities Board ("EUB") which, among other things, is vested with broad powers of supervision with respect to the construction and operation of electric energy and natural gas facilities within the province and broad powers of regulation in respect of rates charged for electric energy, natural gas and water. The EUB approves customer rates based on the revenue required to recover estimated operating expenses, depreciation and taxes payable and to provide a fair return on rate base, all in respect of future test years.

Rate base consists of the depreciated cost of utility assets and an allowance for working capital. Return on rate base is designed to meet the cost of interest on long term debt and dividends on preferred shares and to provide the common shareholders with an opportunity to earn a fair return on their investment.

The determination of a fair return to the common shareholders involves an assessment by the EUB of many factors, including returns on alternative investment opportunities of comparable risk and the level of return which will enable a utility to attract the necessary capital to fund its operations.

The determination of customer rates is based on anticipated energy sales consistent with a forecast of economic and business conditions and operating expenses. For natural gas utility operations, customer rates are also based on anticipated energy sales at normal temperature which is defined as the average temperature for the previous 20 years.

The Electric Energy Marketing Act ("EEMA") came into effect in September 1982 with the objective of equalizing the generation and transmission costs of electric energy throughout the province of Alberta. This equalization of costs (the EEMA program) was achieved by having each participating utility sell its electric energy to EEMA based on its own generation and transmission costs and then purchase the electric energy back from EEMA at the average generation and transmission costs of the participating utilities. Alberta Power sold electric energy to EEMA at prices greater than those at which it purchased the electric energy from EEMA. This condition was primarily due to Alberta Power's larger more remote service area and newer asset base relative to the other utilities participating in this program. The entire benefit from the difference in prices was passed on to the customers of Alberta Power. As a consequence, the operations of EEMA did not have a material effect on ATCO's earnings.

It is ATCO's policy to finance projects on a non-recourse basis whereby the lender's recourse in the event of default is limited to the business and assets of the project in question and not to the business and assets of ATCO as a whole.

EEMA was repealed and replaced by the Electric Utilities Act ("EUA") effective January 1, 1996. The system of regulation of the electric utility industry in Alberta has undergone significant change with the implementation of the Electric Utilities Act (Refer to "Electric Power – Business Outlook").

ATCO's utility operations are subject to the normal risks faced by all regulated utility companies. These risks include the approval of customer rates by the EUB which permit a reasonable opportunity to recover on a timely basis the estimated costs of providing service, including a fair return on investment in utility assets. ATCO's ability to recover the actual costs of providing service and to earn the approved rates of return depends on achieving the forecasts established in the rate-making process. Changes in natural gas supply costs have a negligible effect on ATCO's earnings. Refer to page 28.

Independent Power Projects

For independent power projects, it is ATCO's policy to limit risk by entering into long term contracts with purchasers for the output of projects and with key suppliers. In addition, it is ATCO's policy to finance these projects on a non-recourse basis whereby the lender's recourse in the event of default is limited to the business and assets of the project in question and not to the business and assets of ATCO as a whole.

Environment

ATCO Ltd.'s operating subsidiaries are subject to extensive federal, provincial and local environmental protection laws concerning emissions to the air, discharges to surface and subsurface waters, land use activities and the handling, manufacturing, processing, use, emission and disposal of materials and waste products. In Alberta, protection of the environment is generally governed by the Alberta Environmental Protection and Enhancement Act. The operating subsidiaries' facilities have all necessary permits and licences as required by law to carry on their operations.

The operating subsidiaries of ATCO Ltd. are committed to preserving and protecting the environment and minimizing the discharge of deleterious materials into the environment in accordance with environmental protection laws and regulations. Nevertheless, some risk of unintentional violation of environmental protection laws and the resulting liability is inherent in particular operations of these subsidiaries, as it is with other companies engaged in similar businesses. There can be no assurance that material costs and liabilities will not be incurred. To mitigate these costs, ATCO carries insurance against third party claims for bodily injury and property damage arising from a sudden and accidental event or occurrence resulting from an unexpected release of pollutants or contaminants.

ATCO Ltd. does not expect that environmental protection laws and regulations will affect its operating subsidiaries differently from other companies in the industries in which they operate. Identifiable expenditures for pollution abatement and control for ATCO Ltd. operating subsidiaries were approximately $4.4 million in 1995 and are estimated to be $6.5 million in 1996. Costs of compliance with existing laws and regulations are not expected to have a material impact on the earnings or the competitive position of the operating subsidiaries of ATCO Ltd.

ELECTRIC POWER

Operating Results

The segmented earnings of ATCO's Electric Power operations for 1995 increased by 4.6% from $195.8 million to $204.9 million.

Revenues in 1995 increased by $82.9 million or 12.0% to $771.0 million. Of this increase, $65.0 million was the result of increased revenues from independent power production, primarily due to the commencement of commercial operations at the Barking power station during 1995, and $16.3 million was due to higher sales by Alberta Power. Of the increase in Alberta Power sales, $11.9 million was due to higher industrial sales, mainly in the oilfield ($6.4 million) and gas and oil processing ($3.6 million) sectors.

Operating costs for 1995 increased by $51.5 million or 16.8% to $358.1 million, primarily due to an increase of $37.4 million in fuel and purchased power expenses. CUPIL accounted for $26.2 million of the increase, primarily as a result of the Barking Power Station, and Alberta Power accounted for $10.5 million due to higher sales. Alberta Power's fuel costs are mostly coal supply. To protect against volatility in coal prices, Alberta Power owns or has committed under long term contracts sufficient coal supplies for the anticipated lives of its coal-fired generating plants. These contracts are at prices that are either fixed or indexed to inflation. Operation and maintenance expenses increased by $14.0 million mainly as a result of the Barking Power Station.

Depreciation expense increased by $9.3 million to $103.1 million in 1995. This increase was primarily as a result of the commencement of commercial operations at the Barking Power Station ($4.5 million) and capital additions by Alberta Power during 1995 ($4.1 million).

Interest expense increased from $97.9 million to $118.7 million in 1995. This increase is primarily due to the commencement of commercial operation of the Barking Power Station. Interest was capitalized during the construction phase of the Barking Power Station.

Business Outlook

REGULATORY

The EUA enacted in May 1995, is the result of a consensus reached after several years of discussion among Alberta's electric utilities (including Alberta Power), customers, independent power producers, environmental groups and the Alberta government regarding changes to Alberta's electric industry. The EUA provides, among other things, for separate tariffs at the wholesale level for generation and transmission in addition to those retail rates which currently exist for distribution, unregulated new electric generation, mechanisms to effectively replace EEMA and the use of incentive regulation. There is also a requirement to study the feasibility of retail customers buying their incremental electric energy requirements from suppliers other than their local electric utility. The EUA took effect on January 1, 1996.

The EUA requires that separate tariffs and retail rates be approved by the EUB. The new tariffs will allow any owner of a regulated or non-regulated generating unit to have access to the transmission systems of Alberta's utilities and thus facilitate the sale of its power to the distribution utilities in the province. The same transmission tariff will be charged to each distribution utility regardless of the location.

Under the EUA, new generation assets will not be considered part of utility operations and will not be regulated by the EUB. However, owners of non-regulated generating units as well as owners of regulated generating units must sell their power through a competitive power pool established by the EUA. The power pool functions as a spot market, matching demand with supply to establish an hourly pool price. The power pool is operated by the Power Pool Council whose primary function is to ensure fair and open competition for the exchange of electric energy. The Power Pool Council's membership includes Alberta's electric utilities (including Alberta Power) as well as intervenors and other customer groups.

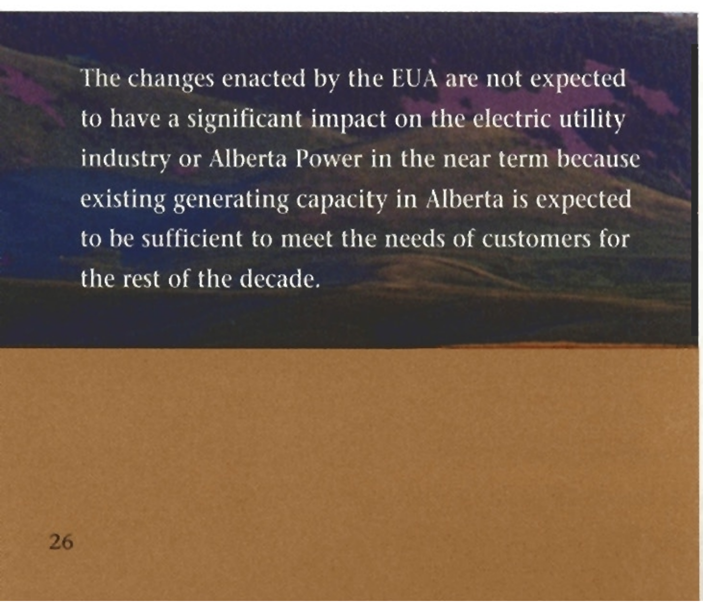
Effective December 31, 1995, EEMA was repealed and replaced by the EUA. Under the EEMA program all customers throughout the province of Alberta paid the same average price for generation and transmission. The EUA provides that the averaging process will continue for transmission and existing generating facilities, but that the costs of future generating facilities will not be averaged. Each distribution utility is responsible for obtaining the new electric generating capacity needed to meet the needs of customers in its service area.

The EUA requires that the EUB, when considering any rates requested by a regulated electric utility, ensure that the rates provide for incentives for efficiencies that result in cost savings or other benefits that can be shared in an equitable manner between the electric utility and its customers. It is not known at this time if this requirement will affect the efficiency incentives currently in existence in Alberta.

As part of the EUA and the new electric industry structure, it has been agreed that a study, commencing in 1996, be conducted into the feasibility of retail customers buying their incremental electric energy requirements from suppliers other than their local electric utility. Currently only wholesale customers, namely distribution utilities, are allowed to purchase the electric energy required to meet customer needs in excess of the amounts supplied by existing generation from the supplier of their choice. A committee, which includes representatives from the Alberta government, Alberta's electric utilities (including Alberta Power) as well as intervenors and other customer groups, has been established to review the matter. It is not known when the findings of the committee will be available.

The changes enacted by the EUA are not expected to have a significant impact on the electric utility industry or Alberta Power in the near term because existing generating capacity in Alberta is expected to be sufficient to meet the needs of customers for the rest of the decade.

As required under the EUA, Alberta Power filed a general rate application with the EUB on October 31, 1995 seeking, among other things, approval for wholesale tariffs for each of generation and transmission and retail rates. A hearing was held in November 1995 and a decision was issued on December 21, 1995 approving tariffs on an interim refundable basis which resulted in no change in existing retail rates.




In 1995, CUPIL and a subsidiary of Boral Limited, an Australian construction materials and energy group, entered into a 50%-50% joint venture agreement to develop, construct and operate a AUS$170 million (approximately $170 million) 180 megawatt cogeneration plant in Osborne, South Australia.

The application also requested a 2.9% increase in retail rates to recover estimated operating expenses, investment in assets and a fair return on common equity for the 1996 test year. The application incorporates forecast costs which, among other things, are based on a rate of return of 12.75% on the portion of rate base considered to be financed by common equity. A hearing is scheduled to commence July 15, 1996 to determine the amount of increase, if any, in the final tariffs and retail rates.

On December 19, 1994, an association of industrial power customers filed an application with the EUB requesting a review of the rates charged by Alberta Power for 1994. On March 1, 1995 a similar application was filed with the EUB for 1995. Both the 1994 and 1995 applications were dismissed in their entirety by the EUB in decisions issued May 31, 1995. Subsequently, the industrial power customers filed an application for a review and variance with the EUB regarding Alberta Power's 1995 rates and an application for leave to appeal with the Alberta Court of Appeal. On December 21, 1995, the EUB issued a decision denying the review and variance application. The application for leave to appeal is expected to be heard by the Alberta Court of Appeal in 1996.

CAPITAL EXPENDITURES

Capital expenditures in Alberta Power's electric utility operations are expected to average $100 million per year over the next five years, down 20% from the $125 million per year average of the past five years.

INDEPENDENT POWER

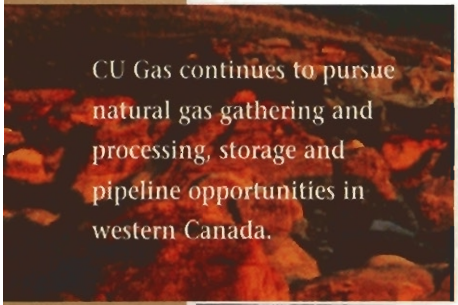
Canadian Utilities has a 50% equity interest in Thames Power Ltd., based in London, England. Thames Power Ltd. has a 51% interest in Barking Power Limited which operates a 1,000 megawatt, natural gas-fired, combined-cycle generating plant at Barking in London, England.

The Barking generating plant commenced operations during May 1995, consequently earnings for 1996 will reflect a full year's operations.

In July 1995, a 50/50 joint venture of CUPIL and a subsidiary of London Electricity plc purchased and operates a facility consisting of a 14 megawatt natural gas turbine, 40 megawatt of boiler capacity and an associated heat distribution system at London's Heathrow Airport. This joint venture entered into a 15 year energy services contract with BAA plc, owners of the Heathrow Airport, for all of the electric energy and hot water produced by the facility. A contract has been signed for a 15 year supply of natural gas. As a result of required overhauling and upgrading, this facility did not contribute to earnings in 1995 but is expected to contribute to earnings in 1996.

In 1995, CUPIL and a subsidiary of Boral Limited, an Australian construction materials and energy group, entered into a 50/50 joint venture agreement to develop, construct and operate a AUS$170 million (approximately $170 million) 180 megawatt cogeneration plant in Osborne, South Australia. ATCO's share will be approximately $85 million, of which approximately $65 million will be financed on a non-recourse basis. It is anticipated that agreements respecting the sale of the output of the plant and the supply of natural gas will be finalized so that non-recourse financing arrangements will be completed in the second quarter of 1996. Construction under a fixed price turnkey contract would begin shortly thereafter with commercial operation expected to commence in the first half of 1998.

Canadian Utilities continues to focus its development efforts on independent power and cogeneration projects in Canada, Australia, Europe and the United States.



NATURAL GAS

Operating Results

The segmented earnings of ATCO's Natural Gas operations for 1995 increased by 1% from $128.9 million to $130.2 million.

Temperatures in 1995 were 6.3% colder than normal. If temperatures had been normal during 1995, the segmented earnings would have been reduced by $10.7 million.

On January 26, 1995, Northwestern Utilities and CU Gas acquired certain transmission, natural gas gathering and processing assets for a price of $79.3 million. The Northwestern Utilities assets, amounting to $47.1 million, consist of a transmission line in the vicinity of Edmonton, Alberta, a natural gas pipeline system from Wabamun to Hinton and natural gas transportation and sale contracts relating to the systems. The CU Gas assets, amounting to $32.2 million, consist of three natural gas processing plants, two compressor stations and 420 kilometres of pipelines in the Edmonton, Alberta area.

Revenues in 1995 decreased by $107.5 million or 11.7% to $807.0 million. The primary reason for the decrease was a decline in the price of natural gas recovered in utility rates ($127.6 million). Revenues from utility operations also declined due to reduced industrial sales ($9.6 million), lower sales per customer ($9.0 million), reduced franchise tax recoveries ($6.4 million) and reduced storage revenues ($2.1 million), partially offset by growth in the number of customers ($10.1 million) and colder temperatures ($10.1 million). Revenues from CU Gas increased by $28.4 million in 1995 due to revenue from the assets acquired in early 1995.

Operating costs for 1995 decreased by $120.0 million or 17.7% to $556.6 million. This decrease was primarily due to lower natural gas supply costs resulting from lower natural gas prices ($127.6 million), reduced industrial sales ($7.2 million) and lower sales per customer ($5.6 million), partially offset by colder temperatures ($3.8 million) and an increase in the number of customers ($4.7 million). In addition, operating costs also decreased due to lower franchise taxes ($6.4 million), primarily as a result of lower natural gas prices. The decrease in operating costs was partially offset by costs from CU Gas related to the assets acquired in early 1995 ($22.5 million).

The amount of natural gas supply costs recorded as an expense is based on the forecast cost of natural gas included in customer rates. Any variances from forecast are deferred until the EUB approves revised rates to either refund or collect the variance. As a consequence, changes in natural gas supply costs have a negligible effect on ATCO's earnings.

Depreciation expense increased by $6.2 million or 10.2% to $66.9 million, primarily as a result of capital additions during 1994 and 1995, including the assets acquired in early 1995.

Business Outlook

REGULATORY

On March 13, 1995, the Gas Utilities Statutes Amendment Act was proclaimed and the Gas Utilities Core Market Regulation and the Municipal Gas System Core Market Regulation were enacted under the Gas Utilities Act and Municipal Government Act, respectively. In compliance with such act and regulations, in 1995, Northwestern Utilities and Canadian Western Natural Gas filed with the EUB rates, terms and conditions which, if approved, will allow residential, commercial and institutional natural gas customers to buy their natural gas directly from producers. Northwestern Utilities and Canadian Western Natural Gas are currently awaiting a decision from the EUB on the hearings held relative to these filings. Although the legislation could result in some core market customers switching from sales to transportation service, neither total throughput nor ATCO's earnings are expected to be materially affected.

CU Gas recently received EUB approval to construct a $9.0 million, 35 million cubic feet per day, liquids extraction facility near Villeneuve, Alberta. This plant is anticipated to be constructed in 1996 and will process natural gas from CU Gas' existing natural gas gathering system.

CAPITAL EXPENDITURES

Capital expenditures to provide for customer growth and to meet the needs of existing customers in ATCO's natural gas utility operations are expected to average $100 million per year over the next five years, down 22% from the $128 million per year average of the past five years.

CU Gas continues to pursue natural gas gathering and processing, storage and pipeline opportunities in western Canada. CU Water continues to pursue water project opportunities in Canada.

FACILITIES MANAGEMENT AND LOGISTICS

Effective January 1, 1995 Canadian Utilities purchased ATCO Ltd.'s 50% interest in facilities management and logistics and ATCO Ltd.'s property management operations for $35.7 million which was paid for by the issuance of 935,679 Class A non-voting shares and 599,756 Class B common shares of Canadian Utilities.

Operating Results

The segmented earnings of ATCO's Facilities Management and Logistics operations for 1995 decreased by $5.8 million to $12.8 million primarily due to lower earnings from the North Warning System contract as well as Frontec Logistics sharing of the profits with its partner.

Until March 31, 1995 when the initial contract expired, Frontec Logistics managed a seven year, $415 million contract with the Government of Canada to operate and maintain the North Warning System on behalf of ATCO. A new five year, $255 million contract to operate and maintain the North Warning System from April 1, 1995 was awarded to a venture of Frontec Logistics and Pan Arctic Inuit Logistics Corporation. The agreement provides for a sharing of the profits from the new North Warning System contract, based on each participant meeting certain performance targets.

Revenues in 1995 decreased by $6.5 million to $97.1 million, primarily due to lower revenue from the North Warning System contract which reflects the reduced scope of the new contract.

Business Outlook

Frontec Logistics has a joint venture with Piquniq Management Corporation, an Alaska-based company, to operate and maintain the Alaska Radar System. This contract is for one year and has four one year renewal options. The joint venture assumed operations responsibility on October 1, 1994. If all renewal options are exercised, the total revenues will be approximately U.S. $100 million. Frontec Logistics' share is 49% of this total.

Frontec Services Limited has signed a limited partnership agreement with the Labrador Inuit Development Corporation ("LIDC") to provide transportation, logistics and support services for developers and mineral exploration companies in Labrador's Voisey's Bay region, a site of substantial exploration activity associated with nickel-copper-cobalt discoveries. The partnership will be managed by Torngait Services Inc., a newly incorporated Newfoundland company owned by Frontec Corporation (51%) and LIDC (49%).

MANUFACTURING AND LEASING

Operating Results

The 1995 segmented earnings of ATCO's Manufacturing and Leasing operations decreased to $4.8 million from $14.7 million in 1994, primarily as a result of the sale of the Space Rentals assets on November 30, 1994. Non-recurring items of $9.8 million in 1994 included earnings from Space Rentals up to November 30, 1994 and the gain on the sale of Space Rentals assets which were partially offset by a writedown of the remaining lease fleet.

Manufacturing and Leasing revenues in 1995 decreased $57.7 million from $107.9 million to $50.2 million due to the sale of the Space Rentals assets on November 30, 1994 ($51.9 million) and due to a decrease in Manufacturing and Workforce Housing revenues ($5.8 million), primarily as a result of less revenues from international sales ($16.3 million), partially offset by increased sales in Canada ($10.5 million).

MANUFACTURING AND WORKFORCE HOUSING

Western Canadian capital resource projects provide the primary domestic market for the North American Workforce Housing division. Since there were no major lease contracts in 1995, the fleet utilization rate was 10%. Rental revenues of $2.1 million were down 8.7% from 1994 revenues of $2.3 million. As part of a continuing disposal program, the Workforce Housing lease fleet was reduced from a 1994 level of 1,950 units to 1,424 units at December 31, 1995. ATCO Structures invested approximately $4 million in the manufacturing of 88 "New Generation" style workforce units as part of a program to modernize the lease fleet.

Business Outlook

ATCO Structures will continue to focus on its core businesses of Workforce Housing in North America and selective international markets and Noise Management operations. There is a current backlog in the manufacturing facilities in Calgary and Edmonton, Alberta and in a satellite facility in Montreal, Quebec. The backlog is primarily due to the $20 million Falconbridge Project located in northern Quebec, comprised of a 300 person permanent housing facility, scheduled for completion in January 1997.

In Canada, there are several new major resource developments which will create opportunities for ATCO Structures this year and beyond. These resource developments include the new mineral find at Voisey's Bay, Newfoundland, diamond mining in the Northwest Territories, tar sand initiatives in northern Alberta, gas plants in Alberta and mining ventures in British Columbia.

In Europe, reconstruction in Bosnia and Croatia is expected to provide a number of opportunities to provide housing and classrooms. ATCO Structures' manufacturing facility in Budapest, Hungary was awarded a contract in 1996 to provide base camps to accommodate the United States peacekeepers supporting NATO activities in Bosnia. Other identified projects may receive approval in 1996 and provide bidding opportunities for ATCO Structures.

ATCO Structures Inc. and TecnoFast S.A. ("TecnoFast") of Santiago, Chile have entered into a five year licencing agreement giving TecnoFast the exclusive rights to manufacture ATCO products in South America and utilize the ATCO trademarks. ATCO Structures and TecnoFast have also established a joint venture to bid on two significant projects for the Collahuasi mining group which is preparing to develop the $2 billion Collahuasi copper mine in northern Chile. A decision on these bids is expected in early 1996.

International sales may expose ATCO Structures to greater risk than normally associated with domestic transactions due to the political and financial aspects of international business. However, ATCO Structures will continue to follow strict credit policies on international sales to minimize financial exposure and to utilize its international experience to manage the political and other risks associated with international business. ATCO Structures has marketed and installed its manufactured products in over 75 countries around the world since 1947.

OTHER

Operating Results

The segmented earnings of ATCO's Other operations in 1995 increased $4.9 million primarily due to an increase in interest income.

OTHER EXPENSE

Income taxes decreased by 2.5% from $156.3 million to $152.4 million in 1995. The decrease is mainly due to lower large corporation taxes and the effect of foreign income tax rates.

The Public Utilities Income Tax Transfer Act ("PUITTA") provided for the rebate to customers of a majority of federal corporate income taxes paid by Canadian Utilities which were attributable to its electric and natural gas utility operations in Alberta. Prior to March 31, 1995, the level of rebate was 85.5% of the eligible federal corporate income taxes paid. Legislation eliminating PUITTA became effective March 31, 1995. Utility customer rates are designed to recover estimated income taxes payable. Actual federal income taxes rebated are passed on to customers by a credit on their monthly bills. Therefore, the elimination of PUITTA will affect customers' net billings for utility services but will not have any direct effect on earnings attributable to ATCO Ltd.'s Class I non-voting and Class II voting shares. Customers will see an increase in their bills in mid-1996 as a result of the elimination of PUITTA.

The interests of non-controlling shareholders increased from $114.0 million to $115.7 million, primarily as a result of increased earnings by Canadian Utilities, partially offset by a decrease of $2.9 million related to Canadian Utilities' preferred share dividends.

LIQUIDITY AND CAPITAL RESOURCES

Internally generated funds, comprised of cash generated by operations, provided substantial amounts of ATCO's cash requirements in 1994 and 1995. Cash from continuing operations totalled $338.0 million in 1995 as compared to $338.9 million in 1994.

A major portion of ATCO's operating income and cash flow is generated from its utility operations. Canadian Utilities uses commercial paper borrowings and bank loans to provide flexibility in the timing and amounts of long term financing. 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. ATCO Ltd. and CanUtilities Holdings Ltd., a wholly-owned subsidiary, receive dividends from Canadian Utilities which have been more than sufficient to service debt requirements and to pay dividends.

Capital expenditures in 1995 totalled $367.9 million. These were primarily financed by internally generated funds. Estimated capital expenditures, of $300 million in 1996, are expected to be financed from internal sources.

It is the policy of ATCO Ltd. to pay dividends quarterly on its Class I non-voting and Class II voting shares. The payment of any dividend is at the discretion of the Board of Directors and depends on the financial condition of ATCO Ltd. and other factors.

In addition to the long term and medium term facilities described in Note 10 to the financial statements, ATCO Ltd. and ATCO Structures have short term credit facilities available at December 31, 1995 of $20 million, of which $Nil had been drawn.

ATCO has entered into several contracts in order to reduce interest rate and foreign exchange risk. The magnitude of the financial impact of these contracts is not material and the counterparty in each transaction is a major Canadian bank. It is the policy of ATCO to use financial instruments to reduce specific risk exposures and not to hold these instruments for trading purposes.

During 1994, the 12 million outstanding 7.75% Cumulative Redeemable Retractable Reset Preferred Shares of CanUtilities Holdings Ltd., a wholly owned subsidiary of ATCO Ltd., were subdivided into six million Series A Preferred Shares ($150 million) with a fixed dividend rate of 6.90% per annum, and three million Series B Preferred Shares ($75 million) and three million Series C Preferred Shares ($75 million), each with a dividend rate determined monthly by an auction procedure. CanUtilities Holdings Ltd. is required to redeem the Preferred Shares on July 1, 2001. The lower dividend rates should benefit future earnings; however, the amount of any benefit is not known as the Series B and Series C Preferred Shares outstanding are subject to a floating rate.

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.

ATCO

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

K.M. Watson
Vice President,
Controller

March 4, 1996

Auditors' Report

Price Waterhouse

To the Shareholders of ATCO Ltd.

We have audited the consolidated balance sheets of ATCO Ltd. as at December 31, 1995 and 1994 and the consolidated statements of earnings and retained earnings and changes in cash position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1995 and 1994 and the results of its operations and changes in its cash position for the years then ended in accordance with generally accepted accounting principles.

Price Waterhouse.

Price Waterhouse
Chartered Accountants
Calgary, Alberta
March 4, 1996

ATCO LTD.

Consolidated Statement of Earnings and Retained Earnings

(Millions of Canadian Dollars except per share data)

	Note Reference	Year Ended December 31 1995	1994
Revenues		$1,736.9	$1,831.5
Costs and expenses			
Natural gas supply		275.8	409.9
Fuel and purchased power		164.1	126.7
Operating and maintenance		361.1	358.8
Selling and administrative		162.2	176.8
Depreciation and amortization		178.2	176.5
Taxes — other than income		93.6	98.9
Interest	10	178.4	156.2
		1,413.4	1,503.8
		323.5	327.7
Other income	2	21.3	17.7
Earnings before income taxes and non-controlling interests		344.8	345.4
Income taxes	3	152.4	156.3
		192.4	189.1
Non-controlling interests	4	115.7	114.0
Earnings from continuing operations		76.7	75.1
Earnings (loss) from discontinued operations	5	1.1	(0.4)
Earnings for the year		77.8	74.7
Dividends on cumulative redeemable preferred shares	6	19.9	22.1
Earnings attributable to Class I and Class II shares		57.9	52.6
Retained earnings at beginning of year	7	317.9	273.5
		375.8	326.1
Dividends on Class I and Class II shares		11.0	8.2
Direct charges to retained earnings	8	0.8	—
Retained earnings at end of year		$ 364.0	$ 317.9
Earnings per Class I and Class II share			
Continuing operations		$ 1.86	$ 1.74
Discontinued operations		0.04	(0.01)
		$ 1.90	$ 1.73
Dividends paid per Class I and Class II share		$ 0.36	$ 0.27

ATCO

ATCO LTD.

Consolidated Balance Sheet

(Millions of Canadian Dollars)

	Note Reference	December 31 1995	1994
ASSETS			
Current assets			
Cash and short term investments		$ 155.7	$ 103.7
Accounts receivable		301.9	278.6
Inventories		74.1	77.2
Income taxes recoverable		0.6	—
Prepaid expenses		13.1	15.9
		545.4	475.4
Property, plant and equipment	9	3,671.3	3,560.4
Goodwill		86.3	92.5
Deferred financing charges		22.3	23.7
Other assets		38.8	39.7
		$4,364.1	$4,191.7
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank indebtedness		$ —	$ 6.9
Accounts payable and accrued liabilities		271.6	281.7
Income taxes payable		—	27.0
Long term debt due within one year — recourse	10	0.3	0.3
— non-recourse	10	7.9	3.9
		279.8	319.8
Deferred credits		32.6	16.4
Deferred income taxes		70.8	42.5
Long term debt — recourse	10	1,588.1	1,473.5
— non-recourse	10	345.9	282.6
Non-controlling interests	4	1,244.9	1,300.5
Cumulative redeemable preferred shares	6	300.0	300.0
Class I and Class II shareholders' equity			
Class I and Class II shares	11	138.2	137.8
Retained earnings		364.0	317.9
Foreign currency translation adjustment		(0.2)	0.7
		502.0	456.4
		$4,364.1	$4,191.7

Robert Rice

Director

Director

ATCO LTD.

Consolidated Statement of Changes in Cash Position

(Millions of Canadian Dollars)

	Year Ended December 31	
	1995	1994
Operating activities		
Earnings from continuing operations	$ 76.7	$ 75.1
Non-cash items included in earnings		
Depreciation and amortization	178.2	176.5
Deferred income taxes	14.4	0.5
Non controlling interests	115.7	114.0
Gain on disposal of space rentals fleet	—	(17.2)
Writedown of assets	2.3	13.8
Other — net	6.1	(5.8)
	393.4	356.9
Increase in non-cash working capital	(55.4)	(18.0)
Cash from continuing operations	338.0	338.9
Cash provided by discontinued operations	39.4	49.7
	377.4	388.6
Dividends		
Paid to shareholders of the Corporation	(30.9)	(30.3)
Paid to non-controlling interests	(87.4)	(89.8)
	(118.3)	(120.1)
Financing activities		
Issue of long term debt — recourse	186.2	200.8
— non-recourse	81.0	68.6
Repayment of long term debt — recourse	(69.9)	(232.8)
— non-recourse	(3.9)	(2.0)
Issue of Class A non-voting shares by subsidiary	0.7	0.2
Issue of preferred shares by subsidiary	—	200.0
Redemption of preferred shares by subsidiary	(82.6)	(191.1)
Issue of Class I non-voting shares by the Corporation	0.4	0.1
Receipts from United Kingdom consortium tax relief	11.1	—
Costs of financing	(2.7)	(9.2)
Other	10.4	(2.9)
	130.7	31.7
Cash available for investing	389.8	300.2
Investing activities		
Proceeds on sale of space rentals fleet — net	—	93.4
Property, plant and equipment — net	(352.4)	(338.6)
Contributions by customers for extensions to utility plant	27.2	26.4
Other	(5.7)	(3.9)
	(330.9)	(222.7)
Cash position*		
Increase	58.9	77.5
Beginning of year	96.8	19.3
End of year	$ 155.7	$ 96.8

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

ATCO

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 Structures Inc. (100% owned) and its subsidiaries; Canadian Utilities Limited (51.19% owned) and its subsidiaries ("Canadian Utilities"), which mainly comprise the utility subsidiaries; and ATCOR Resources Ltd. ("ATCOR") (30.24% owned, which includes 69.72% of the voting shares). ATCO Ltd. and its wholly owned subsidiaries are collectively referred to herein as "the Corporation".

Effective January 1, 1995, the Corporation retroactively adopted the Canadian Institute of Chartered Accountants recommendations on accounting for interests in joint ventures using the proportionate consolidation method. Previously, the equity method was used to account for interests in joint ventures. This accounting change has no effect on reported earnings attributable to Class I and Class II shares.

Goodwill is recorded at cost and amortized on a straight line basis generally over 40 years. The carrying value of goodwill is reviewed for impairment by estimating future cash flow from related operations over the remaining amortization period.

Utility Regulation

The electric and natural gas utility subsidiaries are regulated primarily by the Alberta Energy and Utilities Board ("EUB"), which administers acts and regulations covering such matters as rates, financing, accounting, construction, operation and service area. The EUB may award interim rates, subject to final determination.

Property, Plant and Equipment

The utility subsidiaries include in capital expenditures an allowance for funds used during construction and on plant held for future use at rates approved by the EUB for debt and equity capital. Plant held for future use is plant which is in service or is capable of service, the cost of which has been excluded from rate base. The EUB will determine when this plant may be included in rate base.

Certain utility additions are made with the assistance of non-refundable cash contributions from customers when 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. Property, plant and equipment is disclosed net of unamortized contributions.

Depreciation is provided on assets on a straight line basis over their useful lives. Depreciation rates for utility assets are approved by the EUB. For certain utility assets, depreciation rates approved by the EUB include a provision for future removal costs and site restoration costs. On retirement of depreciable utility assets, the accumulated depreciation is charged with the cost of the retired unit, net disposal costs and site restoration costs.

Revenue Recognition

Utility revenues are recognized on the accrual basis and include an estimate of services provided but not yet billed. Significant additional revenues or refunds, resulting from EUB decisions, are recorded in the year to which they relate. Other adjustments are recorded in the current year.

Revenues resulting from the supply of contracted products and services are recorded by the percentage of completion method. Full provision is made for any anticipated loss.

Natural Gas Supply

Natural gas supply expense is based on the forecast cost of natural gas included in customer rates. Variances from forecast costs are deferred until such time as approval from the EUB is obtained for refund to or collection from customers through revised rates and natural gas supply expense is adjusted accordingly.

Income Taxes

The tax allocation method of accounting for income taxes is used for operations other than regulated electric and natural gas utilities.

With the exception of a provision related to deferred gas costs, deferred income taxes are not provided for by the regulated electric and natural gas utilities as the income tax component of rates approved by the EUB is designed to recover only income taxes currently payable. The customer in future years will bear a charge in the event of a reversal of these unbooked deferred income taxes.

Deferred Financing Charges

Expenses of issue of long term debt are amortized over the term of the debt and expenses of issue of preferred shares are amortized over the expected life of the issue. Premiums paid and unamortized issue costs of redeemed long term debt and preferred shares of utility subsidiaries are amortized over the life of the issue funding the redemption.

ATCO

Current Maturities of Long Term Debt

When ATCO intends to refinance current maturities on a long term basis and there is a written undertaking from an underwriter to act on ATCO's behalf or sufficient capacity under bank loan agreements to issue commercial paper or assume bank loans, then current maturities of long term debt are classified as long term.

Hedging

In conducting its business, ATCO uses various instruments, including forward contracts, interest rate swaps and options, to manage the risks arising from fluctuations in exchange rates, interest rates and commodity prices. All such instruments are used only to manage risk and not for trading purposes.

Gains and losses are deferred and recognized in income in the same period and in the same financial statement category as the income or expense from the hedged transactions.

Pensions

ATCO has defined benefit pension 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 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, adjusted for a three to five year averaging of unrealized gains or losses.

2. OTHER INCOME

	1995	1994
	(Millions of dollars)	
Gain on sale of space rentals lease fleet	$ —	$ 17.2
Writedown of assets	(2.3)	(13.8)
Allowance for funds used by utilities	6.6	4.0
Interest	16.1	7.6
Exchange gains (losses)	(0.5)	2.9
Other	1.4	(0.2)
	$ 21.3	$ 17.7

In 1994, the Corporation sold its Canadian and United States space rentals lease fleets which had a net book value of $76.2 million, for proceeds of $103.6 million. The gain on the sale was $17.2 million after deducting related expenses of $10.2 million.

In 1994, the Corporation wrote down the carrying value of the workforce housing fleet by $10.0 million to reflect the estimated ultimate net recoverable amount of these remaining lease fleet assets.

3. INCOME TAXES

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

	1995	1994
	(Millions of dollars)	
Earnings before income taxes and non-controlling interests	$ 344.8	$345.4
Income taxes at statutory rate of 44.57% (1994 — 44.34%)	$ 153.7	$153.2
Allowance for funds used by utilities	(1.6)	(1.0)
Crown royalties and other non-deductible government payments	1.8	3.4
Earned depletion and resource allowance	(3.6)	(5.5)
Large corporations tax	5.1	6.2
Unrecorded deferred income taxes	(4.0)	(3.6)
Depreciation of assets with no tax value	3.6	3.8
Foreign tax rate variance	(1.6)	—
Other	(1.0)	(0.2)
	152.4	156.3
Current income taxes	138.0	155.8
Deferred income taxes	$ 14.4	$ 0.5

Unrecorded deferred taxes of the utility subsidiaries increased by $4.0 million to $176.6 million at December 31, 1995.

Foreign subsidiaries have operating loss carryforwards of approximately $13.3 million which are available to reduce future years' taxable income and begin to expire in 2000. No benefit has been recorded with respect to these loss carryforwards.

Under a provision of United Kingdom tax, Barking Power Limited has entered into an agreement to surrender 49% of its tax losses eligible for relief to certain of its United Kingdom based shareholders. The amount receivable is discounted from the tax value of the losses to reflect the present value of accelerating the effective use of the losses. Canadian Utilities received as its share $11.1 million which is included in accumulated deferred income taxes.

4. NON-CONTROLLING INTERESTS

	1995	1994
	(Millions of dollars)	
Non-controlling interests in subsidiary companies:		
Canadian Utilities		
Cumulative Redeemable Preferred Shares, 4.00% to 6.00%	$ 30.5	$ 30.5
Cumulative Redeemable Second Preferred Shares		
Non-retractable, 7.10% to 7.875%	125.9	208.5
Retractable, 5.30% to 8.00%	450.0	450.0
Class A non-voting and Class B common shares	544.7	518.3
ATCOR		
Class A non-voting and Class B common shares	93.8	92.9
Other	—	0.3
	$1,244.9	$1,300.5

Redemptions and Retractions

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

1996	1997	1998	1999	2000
		(Millions of dollars)		
$126.5	$1.5	$126.5	$151.5	$51.5

	1995	1994
	(Millions of dollars)	
Non-controlling interests in the earnings of subsidiary companies:		
Canadian Utilities		
Preferred share dividends	$ 42.1	$ 45.0
Earnings attributable to Class A non-voting and Class B common shares	73.6	69.1
Other	—	(0.1)
	$115.7	$114.0

ATCO

5. DISCONTINUED OPERATIONS

On January 31, 1996, ATCO completed a series of transactions with Forest Oil Corporation, of Denver, which resulted in the receipt of $4.88 in cash for each ATCOR Resources Ltd. share held. Net proceeds to ATCO after costs were approximately $83 million resulting in a gain of $6.7 million. Concurrently, ATCO purchased from ATCOR an interest in the Edmonton Ethane Extraction Plant, certain frontier oil and gas properties, and floating rate preferred shares for an aggregate consideration of $21.3 million.

The results of ATCOR Resources Ltd. for the year ended December 31, 1995 have been disclosed as discontinued operations in the statement of earnings and are summarized as follows:

	(Millions of dollars)
Revenues	$235.4
Costs and expenses	229.3
	6.1
Other expense	(0.1)
	6.0
Income taxes	3.8
	2.2
Non-controlling interests	1.1
Earnings from discontinued operations	$ 1.1

The assets and liabilities of ATCOR Resources Ltd. included in the balance sheet as at December 31, 1995 are as follows:

Working capital	$ 19.7
Property, plant and equipment	220.8
	$240.5
Deferred credits	$ 3.5
Deferred income taxes	48.1
Long term debt — recourse	18.8
Non-controlling interests	93.8
Class I and Class II shareholders' equity	76.3
	$240.5

6. CUMULATIVE REDEEMABLE PREFERRED SHARES

	Issued Amount		Dividends	
	1995	1994	1995	1994
	(Millions of dollars)			
Issued by:				
CanUtilities Holdings Ltd.				
Authorized 12.0 million shares				
Issued 12.0 million shares	$ —	$ —	$ —	$18.5
Series A				
Authorized 6.0 million shares				
Issued 6.0 million shares	150.0	150.0	10.4	2.2
Series B				
Authorized 3.0 million shares				
Issued 3.0 million shares	75.0	75.0	4.8	0.7
Series C				
Authorized 3.0 million shares				
Issued 3.0 million shares	75.0	75.0	4.7	0.7
	$300.0	$300.0	$19.9	$22.1

ATCO

Prior to October 17, 1994, the preferred shares had a dividend rate of $1.9375 per share per annum.

On October 17, 1994, the preferred shares were subdivided into 6.0 million Series A preferred shares, 3.0 million Series B preferred shares and 3.0 million Series C preferred shares.

The Series A preferred shares will bear a dividend rate of $1.7250 per share per annum until July 1, 2001. The Series B and Series C preferred shares will bear a dividend rate determined by monthly auctions.

The average dividend rate on the preferred shares for the year ended December 31, 1995 was $1.6544 (1994 — $1.8401) per share per annum.

The Corporation will be required to redeem the preferred shares on July 1, 2001 at $25.00 per share, plus accrued and unpaid preferential dividends. The Corporation is not permitted to redeem the preferred shares prior to July 1, 2001.

7. PRIOR PERIOD ADJUSTMENTS

	December 31	
	1994	1993
	(Millions of dollars)	
Retained earnings as previously reported	$322.2	$277.8
Effect of income tax reassessment relating to the 1988 taxation year	(4.7)	(4.7)
Income taxes relating to the 1991 settlement of stock options	0.4	0.4
	$317.9	$273.5

Retained earnings at beginning of year have been reduced by $4.7 million to reflect an income tax reassessment received in June 1995 relating to the 1988 taxation year. Management is of the opinion there is no valid basis for this reassessment and is contesting this matter with Revenue Canada.

8. DIRECT CHARGES TO RETAINED EARNINGS

	1995	1994
	(Millions of dollars)	
Settlement of stock options by the Corporation (after income taxes)	$0.2	$—
Settlement of stock options by a subsidiary (after income taxes and non-controlling interests)	0.6	—
	$0.8	$—

9. PROPERTY, PLANT AND EQUIPMENT

		1995		1994	
	Composite Depreciation Rates	Cost	Accumulated Depreciation & Depletion	Cost	Accumulated Depreciation & Depletion
			(Millions of dollars)		
Electric power					
— in service	3.7%	$3,226.2	$ 893.6	$2,790.5	$ 805.3
— under construction		13.4	—	318.0	—
Natural gas	3.9%	1,968.6	599.8	1,825.8	550.2
Oil and gas properties		431.7	201.9	409.7	170.1
Rental assets	10.0%	15.4	8.9	19.2	15.6
Other property, plant and equipment	7.6%	76.4	29.6	85.6	34.0
		$5,731.7	$1,733.8	$5,448.8	$1,575.2
Property, plant and equipment, less accumulated depreciation			$3,997.9		$3,873.6
Unamortized contributions by customers for extensions to utility plant			326.6		313.2
			$3,671.3		$3,560.4

Accumulated depreciation and depletion includes amounts provided for future removal and site restoration costs of $97.6 million (1994 — $82.8 million).

In January 1995, ATCO paid $79.3 million to acquire certain gas processing and pipeline assets from Norcen Energy Resources Limited.

10. LONG TERM DEBT

	1995	1994
	(Millions of dollars)	
Recourse		
Canadian Utilities		
Debenture — sinking fund — at fixed rate of 17.50%, due March 1997	$ 24.0	$ 27.0
Debentures — other — at fixed rates of 7.25% to 12.00%, due at various dates to 2023	1,352.0	1,232.0
Notes payable, at rates of 5.70% to 6.375%, with maturities to November 15, 1996	98.3	98.7
Barking Power Project — term loan, at LIBOR plus .35%, due February 2000, payable in British Pounds	51.6	34.0
Other, at rates of 7.50% to 14.87%	27.9	31.8
ATCOR		
Revolving credit facility, at prime	—	15.2
Term loan, at prime, due June 30, 1999	18.8	18.8
ATCO Investments Ltd.		
Term loan on Canadian Western Centre, Phase II, at prime, due March 31, 2000, secured by the building	12.2	12.4
Other, at prime, due March 31, 2000	3.6	3.9
	1,588.4	1,473.8
Less: Amounts due within one year	0.3	0.3
	$1,588.1	$1,473.5

	1995	1994
Non-recourse		
Canadian Utilities		
Barking Power Limited project financing:		
at fixed rates averaging 7.95%	$ 108.1	$ 84.0
at LIBOR plus 1.04%	186.0	165.6
semi-annual payments commencing September 1996 and finishing 2010, payable in British Pounds		
McMahon cogeneration plant term facility, at 9.01%, due to 2004	33.0	36.9
Industrial Gas System credit facility, at 7.32%, due to 2006	26.7	—
	353.8	286.5
Less: Amounts due within one year	7.9	3.9
	$ 345.9	$ 282.6

ATCO

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

1996	1997	1998	1999	2000
		(Millions of dollars)		
$19.1	$83.8	$66.7	$60.6	$121.8

Of the $19.1 million due in 1996, $10.9 million is to be refinanced and is, therefore, excluded from long term debt due within one year in the balance sheet. Similarly, the notes payable have been included in long term debt.

The debenture trust indenture places certain limitations on Canadian Utilities which include restrictions on the payment of dividends on Class A non-voting and Class B common shares in excess of $167.2 million.

Interest on debt is as follows:

	1995	1994
	(Millions of dollars)	
Long term debt	$184.3	$158.4
Current bank indebtedness	2.3	3.7
Amortization of financing charges	4.7	3.8
Less — capitalized on non-utility projects	(9.6)	(5.7)
	181.7	160.2
Discontinued operations	(3.3)	(4.0)
	$178.4	$156.2

11. CLASS I AND CLASS II SHARES

	Class I Non-Voting		Class II Voting		Total	
	Shares	Consideration	Shares	Consideration	Shares	Consideration
			(Millions of dollars except share data)			
Authorized	100,000,000		50,000,000		150,000,000	
Issued:						
December 31, 1993	26,608,562	$135.8	3,806,870	$1.9	30,415,432	$137.7
Employee share option plans	10,000	0.1	—	—	10,000	0.1
Conversions:						
Class II to Class I	11,227	—	(11,227)	—	—	—
December 31, 1994	26,629,789	135.9	3,795,643	1.9	30,425,432	137.8
Employee share option plans	40,000	0.4	—	—	40,000	0.4
Conversions:						
Class II to Class I	82,681	—	(82,681)	—	—	—
December 31, 1995	26,752,470	$136.3	3,712,962	$1.9	30,465,432	$138.2

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.

ATCO Ltd. has a share option plan under which options to purchase 580,000 Class I non-voting shares were outstanding at December 31, 1995 at a price of $14.03 per share. These options expire at various dates to February 1, 2005. On January 1, 1996, options to purchase 250,000 Class I non-voting shares were granted at a price of $18.58 per share. These options expire at various dates to January 1, 2006. The exercise of the outstanding options would not materially dilute earnings per Class I and Class II share.

During the year, ATCO Ltd. paid $0.3 million ($0.2 million after tax) to participants of the stock option plan in settlement of 50,000 stock options.

12. SEGMENTED INFORMATION

Industry Segments
(Millions of dollars)

1995
1994

	Electric Power	Natural Gas	Facilities Management and Logistics	Manu-facturing & Leasing	Other (1)	Consolidated (2)
Revenues	$ 771.0	$ 807.0	$ 97.1	$ 50.2	$ 21.9	$1,736.9
	$ 688.1	$ 914.5	$103.6	$107.9	$ 27.4	$ 1,831.5
Operating costs	358.1	556.6	82.1	45.9	23.7	1,056.8
	306.6	676.6	84.3	91.0	21.5	1,171.1
Depreciation and amortization	103.1	66.9	2.5	1.7	1.1	178.2
	93.8	60.7	1.6	11.1	6.7	176.5
Interest	118.7	56.3	0.5	0.1	3.5	178.4
	97.9	50.6	0.4	1.5	6.0	156.2
Other income (expense)	13.8	3.0	0.8	2.3	2.5	21.3
	6.0	2.3	1.3	10.4	(2.0)	17.7
Earnings before income taxes and non-controlling interests	$ 204.9	$ 130.2	$ 12.8	$ 4.8	$ (3.9)	$ 344.8
	$ 195.8	$ 128.9	$ 18.6	$ 14.7	$ (8.8)	$ 345.4
Identifiable assets (3)	$2,467.4	$1,337.6	$ 29.5	$ 38.6	$160.1	$4,364.1
	$ 2,326.3	$1,254.4	$ 49.3	$ 65.2	$115.5	$ 4,191.7
Capital expenditures	$ 160.0	$ 176.1	$ 0.6	$ 5.2	$ 0.3	$ 367.9
	$ 185.3	$ 114.8	$ 1.2	$ 13.3	$ 1.3	$ 342.0

(1) Real estate, travel and corporate.

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

(3) ATCOR Resources Ltd.'s identifiable assets have been included in the consolidated column.

Geographic Segments

	Domestic		Foreign		Consolidated	
	1995	1994	1995	1994	1995	1994
Revenues	$1,647.8	$1,822.3	$ 89.1	$ 9.2	$1,736.9	$1,831.5
Total assets	$3,934.2	$3,879.4	$429.9	$312.3	$4,364.1	$4,191.7
Capital expenditures	$ 327.1	$ 257.2	$ 40.8	$ 84.8	$ 367.9	$ 342.0

Foreign activities consist of operations of the Barking Power Plant in the United Kingdom, the maintenance of the Alaska Radar System and manufacturing in Hungary.

13. JOINT VENTURES

ATCO'S interest in joint ventures is summarized below:

	1995	1994
	(Millions of dollars)	
Statement of Earnings		
Revenues	$ 111.1	$ 33.7
Operating expenses	66.9	19.6
Depreciation and amortization	7.9	3.0
Interest	22.3	4.1
	14.0	7.0
Other income (expense)	0.5	(1.4)
Earnings from joint ventures before income taxes	$ 14.5	$ 5.6
Balance Sheet		
Current assets	$ 96.5	$ 6.6
Current liabilities	(51.1)	(19.9)
Property, plant and equipment		
— in service	377.6	51.7
— under construction	—	303.8
— held for resale	11.4	11.9
Deferred items — net	(11.4)	(1.1)
Deferred income taxes	(13.5)	—
Long term debt — recourse	(3.6)	(4.0)
— non-recourse	(319.2)	(286.5)
Investment in joint ventures	$ 86.7	$ 62.5
Statement of Changes in Cash Position		
Cash provided from operations	$ 15.8	$ 11.9
Financing	84.2	70.2
Cash available for investing	100.0	82.1
Investing	(41.6)	(85.2)
Increase (decrease) in cash position	$ 58.4	$ (3.1)

Current assets contains cash of $61.2 million (1994 — $3.5 million) which is only available within the joint ventures.

Under current market conditions "Property, plant and equipment — held for resale" would likely realize less than the carrying value. Management's current intention is to hold the properties until market conditions improve.

Non-recourse debt is secured only by joint venture assets.

14. PENSIONS

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

	1995	1994
	(Millions of dollars)	
Market value of assets	$826.5	$722.3
Accrued pension benefits	711.1	674.1
Surplus	$115.4	$ 48.2

ATCO

The pension costs for the year amounted to $13.3 million (1994 — $11.7 million) of which $2.2 million (1994 — $2.3 million) was capitalized. The plan surplus is being amortized on a straight line basis over 15 years.

15. COMMITMENTS AND CONTINGENCIES

ATCO has contractual obligations in respect of long term operating leases for manufacturing facilities, office premises and equipment. The rentals amounted to $13.5 million for the year (1994 — $14.8 million). Future minimum lease payments are as follows:

1996	1997	1998	1999	2000	Total of All Subsequent Years
		(Millions of dollars)			
$12.7	$12.2	$11.6	$11.5	$11.2	$72.2

The government of Saudi Arabia has claimed taxes of approximately $4.0 million from the Corporation with respect to contracts in that country in 1977. Management and legal counsel believe there is no valid basis for this claim.

ATCO is also party to a number of disputes and lawsuits in the ordinary course of business. Management is confident that the ultimate liability arising from these matters will have no material effect on the consolidated financial statements.

16. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted for 1995.

ATCO LTD.

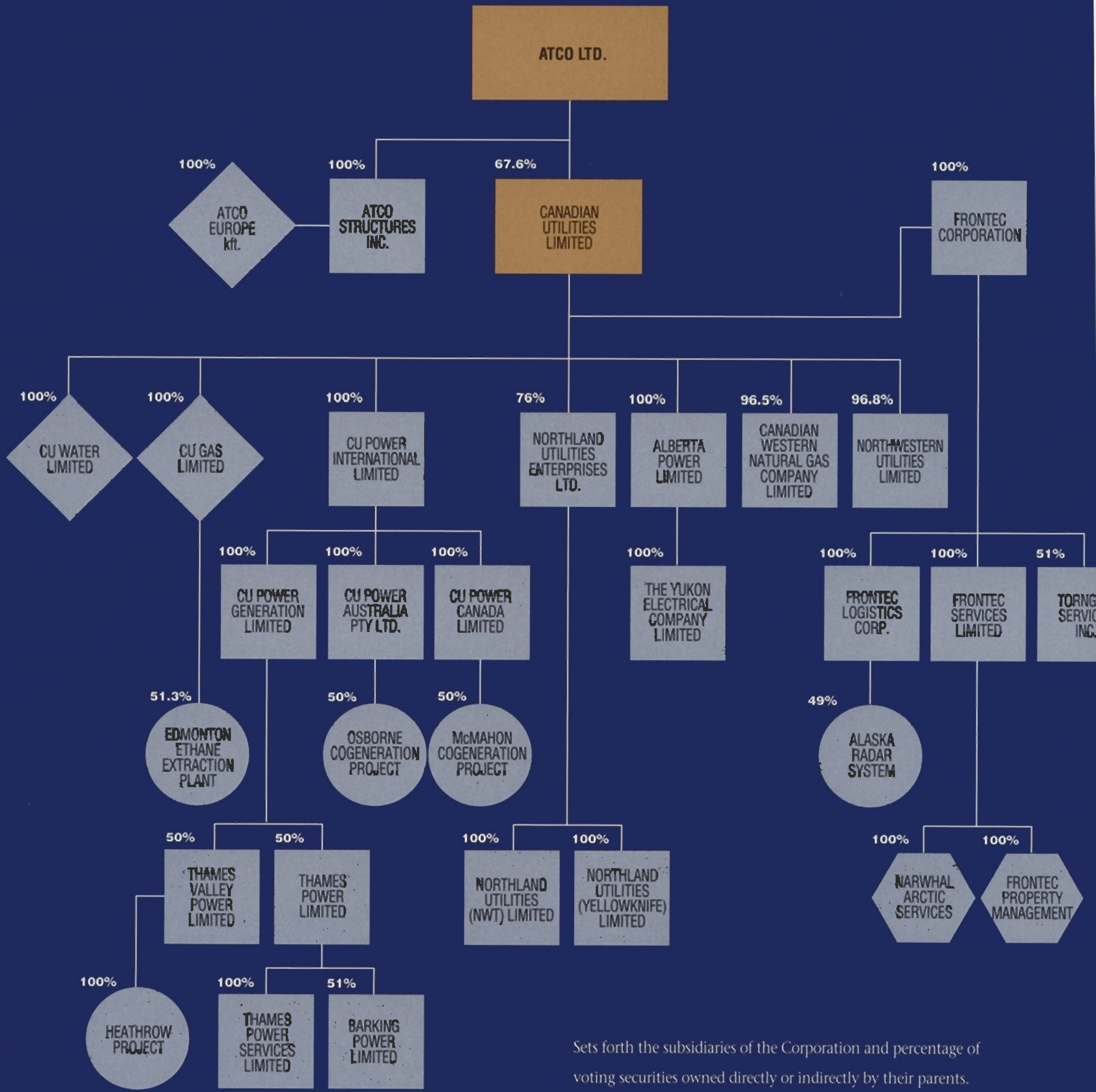
Consolidated Summary of Operations

(Millions of Canadian dollars except share data)

	1995	1994	1993(1)	1992(1)	1991(1)
Revenues	$ 1,736.9	$ 1,831.5	$ 1,636.4	$ 1,439.1	$ 1,357.4
Costs and expenses	1,413.4	1,503.8	1,325.3	1,181.9	1,155.0
	323.5	327.7	311.1	257.2	202.4
Other income	21.3	17.7	14.3	34.3	44.4
	344.8	345.4	325.4	291.5	246.8
Income taxes	152.4	156.3	140.7	115.1	84.4
	192.4	189.1	184.7	176.4	162.4
Non-controlling interests	115.7	114.0	116.0	112.7	102.2
Earnings (loss) from					
Continuing operations	76.7	75.1	68.7	63.7	60.2
Discontinued operations	1.1	(0.4)	2.2	2.9	2.8
Dividends on redeemable preferred shares	19.9	22.1	23.3	23.2	23.4
Earnings attributable to Class I and Class II shares	$ 57.9	$ 52.6	$ 47.6	$ 43.4	$ 39.6
Earnings (loss) per Class I and Class II share from					
Continuing operations	$ 1.86	$ 1.74	$ 1.50	$ 1.34	$ 1.21
Discontinued operations	0.04	(0.01)	0.07	0.09	0.10
Earnings per Class I and Class II share	$ 1.90	$ 1.73	$ 1.57	$ 1.43	$ 1.31
Dividends per Class I and Class II share	$ 0.36	$ 0.27	$ 0.24	$ 0.24	$ 0.24
Equity per Class I and Class II share	$ 16.48	$ 15.00	$ 13.57	$ 12.89	$ 11.66
Class I and Class II shares outstanding	30,465,432	30,425,432	30,415,432	30,296,532	30,296,532
Market price of shares					
Class I High	19 1/4	16 3/4	17	12 5/8	14 1/4
Low	13 3/4	12	11 1/2	10 1/2	11
Class II High	18 1/2	16 7/8	16 1/2	12 1/2	14 1/4
Low	14	12 1/2	11 1/2	10 1/2	11

(1) 1991, 1992 and 1993 have not been adjusted to account for interests in joint ventures using the proportionate consolidation method as the amounts are not considered significant.

Corporate Structure



Sets forth the subsidiaries of the Corporation and percentage of voting securities owned directly or indirectly by their parents.

Publicly traded and Board of Directors with external membership.

Board of Directors with external membership.

Joint Venture.

Business Division

Board of Directors without external membership.

Corporate Information

PRINCIPAL OPERATIONS

Canadian Utilities Limited

Head Office
10035 - 105 Street
Edmonton, Alberta T5J 2V6
Telephone: (403) 420-7757
Fax: (403) 420-7400

Operating Companies:

Alberta Power Limited
Canadian Western Natural Gas Company Limited
Northwestern Utilities Limited
The Yukon Electrical Company Limited
CU Power Australia Pty Ltd.
CU Power International Limited
CU Power Canada Limited
CU Power Generation Limited
Thames Power Limited
Barking Power Limited
Thames Power Services Limited
Thames Valley Power Limited
CU Gas Limited
CU Water Limited
Northland Utilities (NWT) Limited
Northland Utilities (Yellowknife) Limited

Frontec Corporation

Head Office:
P.O. Box 2426, Station Main
10035 - 105 Street
Edmonton, Alberta T5J 2V6
Telephone: (403) 420-7112
Fax: (403) 420-3426

Operating Divisions and Companies:

Frontec Logistics Corp.
Frontec Services Limited
Narwhal Arctic Services
Frontec Property Management

ATCO Structures Inc.

Head Office:
5115 Crowchild Trail S.W.
Calgary, Alberta T3E 1T9
Telephone: (403) 292-7600
Fax: (403) 292-7624

Operating Divisions and Companies

ATCO Noise Management
ATCO Europe Ltd.

ATCO Travel

1243 McKnight Blvd. N.E.
Calgary, Alberta T2E 5T2
Telephone: (403) 292-7474
Fax: (403) 250-8731

BOARD OF DIRECTORS AND OFFICERS

Directors

W.L. Britton Q.C. (1) (3)
Partner, Bennett Jones Verchere, Calgary

B.P. Drummond (2) (3)
Vice Chairman
Richardson Greenshields of Canada Limited
Montreal

B.K. French (2) (3)
President, Karusel Management Ltd., Calgary

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

R. Rice (2) (3)
Corporate Director and Private Investor
South Carolina, U.S.A.

C.S. Richardson (1)
Senior Vice President, Finance and Chief Financial Officer, ATCO Ltd.

N.C. Southern (2) (3)
Deputy Chairman, ATCO Ltd.

R.D. Southern, C.M., C.B.E., LL.D (1) (3)
Chairman and Chief Executive Officer, ATCO Ltd.

L.C. van Wachem, K.B.E.
Corporate Director, The Hague, The Netherlands

Dr. J.D. Wood, F.C.A.E. (1)
President and Chief Operating Officer, ATCO Ltd.

Officers

R.D. Southern
Chairman and Chief Executive Officer

N.C. Southern
Deputy Chairman

Dr. J.D. Wood
President and Chief Operating Officer

C.O. Twa
Executive Vice President

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

J.A. Campbell
Vice President, Finance

M.M. Shaw
Vice President

K.M. Watson
Vice President, Controller

S.R. Werth
Vice President, Administration

P.J. House
Vice President, Corporate Secretary

(1) Member - Finance Committee
(2) Member - Audit Committee
(3) Compensation, Nomination and Succession Committee

Shareholders' Information

ATCO

CORPORATE HEAD OFFICE

ATCO Ltd.
1600, 909 - 11th Avenue S.W.
Calgary, Alberta T2R 1N6
Telephone: (403) 292-7550
Fax: (403) 292-7507

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:

The R-M Trust Company
Stock Transfer Department
600 The Dome Tower
333 - 7th Avenue S.W.
Calgary, Alberta T2P 2Z1

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

Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 a.m. M.D.T. on Wednesday, May 22, 1996 at The Palliser Hotel
133 - 9th Avenue S.W.
Calgary, Alberta

ATCO Group Annual Reports

Annual Reports to Shareholders and Management's Discussion and Analysis for ATCO Ltd. and ATCO publicly traded company, Canadian Utilities Limited, are available upon request from the companies.

ATCO Ltd.

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