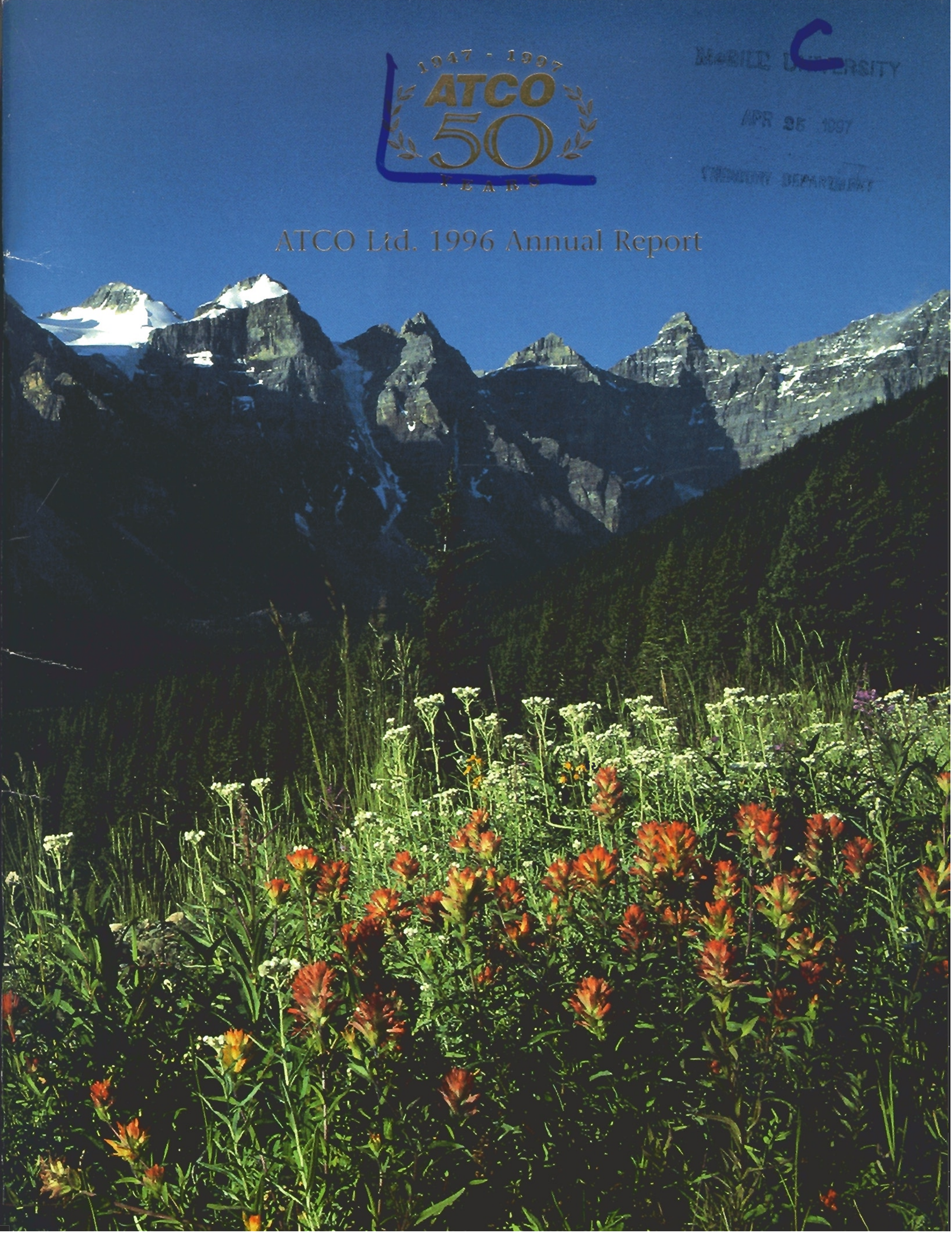
1947 - 1997
ATCO
50
YEARS

ATCO Ltd. 1996 Annual Report



1990
EXPANSE OF
ALBERTA FOOTHILLS

1991
ALBERTA ALPINE STREAM

1992
ALBERTA COUNTRY SCENE

1993
ALBERTA'S MAJESTIC
WINTER SCENE

1994
MILK RIVER AREA,
ALBERTA

1995
WRITING ON STONE
PROVINCIAL PARK,
ALBERTA

COVER: *Valley of Ten Peaks, Alberta.*

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 seventh of a series to feature scenes of Alberta beauty.

TABLE OF CONTENTS

ATCO

One of Canada's premier corporations, Alberta based with a worldwide organization of companies, assets exceeding $4.2 billion and three operating groups employing more than 5,500 persons. The three operating groups are:

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). ATCO Gas Services Ltd. (gas gathering, processing and storage), CU Water Limited (water transmission and distribution).

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 80 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.

Financial Highlights

($ Millions except share data)

CONSOLIDATED ANNUAL RESULTS

	Year Ended December 31	
	1996	**1995**
Revenues	**1,937.3**	1,736.9
Earnings before income taxes and non-controlling interests	**341.0**	293.3
Earnings from continuing operations	**73.3**	56.8
Earnings attributable to Class I and Class II shares	**80.1**	57.9
Earnings per Class I and Class II share	**2.63**	1.90
Dividends paid per Class I and Class II share	**0.52**	0.36
Additions to property, plant and equipment	**262.5**	367.9
Total assets	**4,241.6**	4,361.7
Class I and Class II shareholders' equity	**567.7**	502.0
Equity per Class I and Class II share	**18.63**	16.48
Class I and Class II shares outstanding	**30,474,532**	30,465,432
Weighted average Class I and Class II shares outstanding	**30,468,407**	30,463,349

CONSOLIDATED QUARTERLY RESULTS [1]

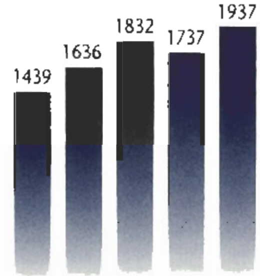
(Unaudited)

		Three Months Ended				
		March 31	June 30	September 30	December 31	Total
Revenues	**1996**	**600.4**	**416.9**	**371.6**	**548.4**	**1,937.3**
	1995	503.3	367.7	356.5	509.4	1,736.9
Earnings from continuing operations	**1996**	**32.2**	**12.5**	**10.1**	**18.5**	**73.3**
	1995	25.2	8.0	6.7	16.9	56.8
Earnings attributable to Class I and Class II shares	**1996**	**39.0**	**12.5**	**10.1**	**18.5**	**80.1**
	1995	26.0	8.3	6.7	16.9	57.9
Earnings per Class I and Class II share [2]	**1996**	**1.28**	**0.41**	**0.33**	**0.61**	**2.63**
	1995	0.85	0.28	0.22	0.55	1.90

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

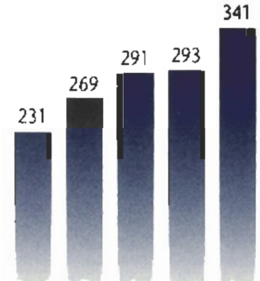
(2) After payment of preferred share dividends.

Revenues
(Millions of dollars)

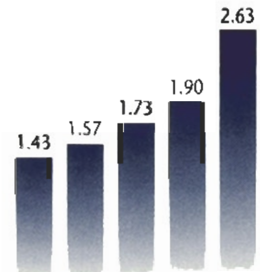


Earnings
(Millions of dollars)

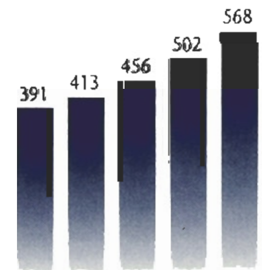
Earnings before income taxes & non-controlling interests



Earnings per Class I and Class II Share
(Dollars)



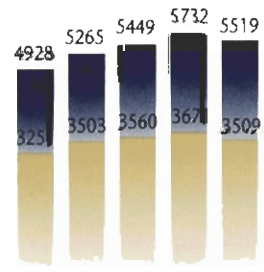
Class I & Class II Shareholders' Equity
(Millions of dollars)



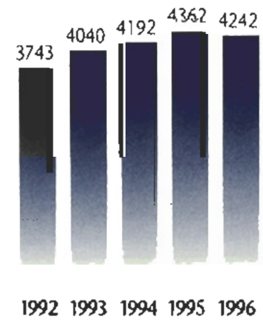
Property, Plant & Equipment
(Millions of dollars)

Cost

Net Book Value



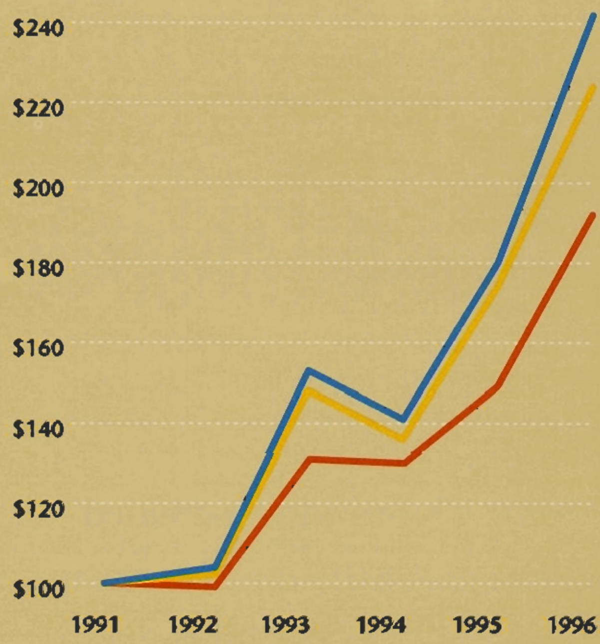
Total Assets
(Millions of dollars)



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, 1991 with the cumulative total return of the TSE 300 Stock Index, assuming reinvestment of dividends.

FIVE YEAR TOTAL RETURN ON $100 INVESTMENT



	1991	1992	1993	1994	1995	1996
ATCO Class I Non-Voting	100	104	153[1]	141[1]	180[1]	242[1]
ATCO Class II Voting	100	102	148[1]	136[1]	174[1]	224[1]
TSE 300	100	99	131	130	149	192

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 $145 for the Class I non-voting shares and $140 for the Class II voting shares and the amounts as at December 31, 1994 are $132 for the Class I non-voting shares and $129 for the Class II voting shares, and as at December 31, 1995 are $169 for the Class I non-voting shares and $163 for the Class II voting shares, and as at December 31, 1996 are $220 for the Class I non-voting shares and $204 for the Class II voting shares.

ATCO LTD.

Letter *to* Shareholders

R.D. Southern and C.O. Twa

During 1996, the ATCO Group ("ATCO") recorded increased earnings for the ninth consecutive year. Earnings for the year ended December 31, 1996, were $80.1 million or $2.63 per share on revenue of $1,937.3 million. This compares with earnings of $57.9 million or $1.90 per share on revenue of $1,736.9 million in the previous year.

A highlight of the continued earnings growth is the strong performance of all the operating units. The more significant contributions to the record earnings were the first full year of commercial operation at the Barking Power Station, higher earnings in ATCO Structures and non-regulated natural gas operations as well as colder weather and lower financing costs. In addition, 1996 earnings include a gain of $6.8 million or $0.22 per share on the sale of ATCO's investment in ATCOR Resources.

One of the more important but often unheralded strengths of ATCO is the combination of technical skills in the Canadian Utilities' subsidiaries and the entrepreneurial skills in ATCO Ltd. The ATCO Ltd. Board of Directors recognized this strength when it agreed to fund 20% of the development expenses and project costs of CU Power International Limited and ATCO Gas Services in exchange for the opportunity to participate to the extent of 20% in ventures of CU Power International Limited and ATCO Gas Services.

The agreement also provides for Canadian Utilities' participation in any like ATCO Structures Inc. projects on a reciprocal basis to that described above. This agreement will allow the shareholders of both ATCO Ltd. and Canadian Utilities Limited to benefit from the overall expertise and experience in ATCO.

ATCO's utility operations experienced another very strong year in 1996 and, at the end of 1996, ATCO had 917,961 utility customers, a growth of nearly 2% over the prior year.

Natural gas throughput of Northwestern Utilities Limited and Canadian Western Natural Gas Company Limited increased 11.2% to 727.4 petajoules, mostly a result of weather in the main service areas which was 13% colder than the previous year and 20% colder than normal.

Electric retail sales of Alberta Power Limited and the utility subsidiaries in the Yukon and Northwest Territories were 9,760.2 million kilowatt hours, up 9.8% from 1995.

CU Power International Limited ("CUPIL") continued to demonstrate its ability to successfully develop new greenfields projects with the reaching of financial close on the Osborne Cogeneration plant in Adelaide, Australia. Construction on the 180 megawatt plant commenced in July with operations scheduled to begin in July 1998.

One of the most encouraging aspects of CUPIL's operations is that the Company is beginning to establish the momentum so necessary for long term success. With the McMahon and Barking plants operating very well and the Osborne plant under construction, the CUPIL staff is working very hard on developing several generation opportunities in their selected market areas.

In December, ATCO announced a project which could establish the Group as a major participant in the large diameter gas pipeline industry. ATCO Gas Pipelines, Shell Canada Limited, and Amoco Canada Petroleum Company Ltd. plan to build the $450 million Alberta Pipeline Project ("APP"). The project involves three pipeline segments in central Alberta to access markets in Alberta, eastern Canada and the United States. ATCO's Carbon storage facility will also play an important part in the logistics of marketing and storing gas moving on the APP.

Prior to the final decision to proceed with construction on a project of this magnitude, there are a number of very important milestones to be reached. These include, among others, final design, a sufficient volume of shipper commitments, and environmental and regulatory approval.

Prior to the APP announcement ATCO Gas Pipelines and Shell Canada revealed plans to build a $30 million pipeline from Shell's Waterton Plant to export facilities just across the Canadian border. ATCO Gas Pipelines will operate both of these pipelines.

Having grown from a single project company to a multi-divisional organization with over 500 employees across Canada and in Alaska, Frontec has established itself as a leader in the provision of technical services and is optimistic that the growth of the last 10 years will continue in the future.

Through joint ventures with local native owned businesses, Frontec operates both the North Warning System in Canada and the Alaska Radar System in the United States.

In 1996, Frontec's northern Canadian operations expanded with the receipt of contracts to manage fuel purchase and delivery, and equipment disposal for Northwest Tel Inc. Frontec also operates the bulk fuel storage and distribution system in Iqaluit in a joint venture with two aboriginal groups.

Torngait Services Inc., a joint venture of Frontec and the Labrador Inuit Development Corporation, is active in providing a variety of services at the Voisey's Bay mining project in Labrador.

The ATCO Structures initiative in Chile, which was mentioned in last year's annual report, has met with considerable success. The joint venture with Tecno Fast SA has received orders to provide accommodation for some 5,000 persons at the Collahuasi copper project in northern Chile. These contracts have a total value of Cdn $70 million.

Another major success for ATCO Structures in 1996 was the supply of housing to the American NATO forces in Bosnia and Croatia. Because the delivery schedules were critical, the Company had to use all of its ingenuity to coordinate procurement and manufacture in both Europe and North America. In addition, the housing was installed in a most inhospitable environment during very harsh winter conditions.

During 1996, ATCO Noise Management continued to broaden the market for its noise attenuation products. The capital spending programs forecast for the energy sector, combined with the growing emphasis on the reduction of noise pollution, indicate there are opportunities for growth in ATCO Noise Management and steps are being taken to position the company accordingly.

ATCO shares again provided an attractive total return to shareholders in 1996. This return, including dividends and capital gain, was 27% which is the same return as in 1995 when ATCO stock led all Canadian pipeline and energy utilities in total return.

In early March 1997, the initial steps were taken to reorganize the head offices of ATCO Ltd. and Canadian Utilities Limited to eliminate duplication and reduce operating costs. When complete, this reorganization will improve communication in ATCO and facilitate decision making.

A feature of the reorganization will be the transfer of a number of Canadian Utilities' employees to the Company's operating subsidiaries. These moves are in support of a strategy to decentralize and reinforce the "stand alone" nature of the subsidiaries' operations.

In conjunction with the reorganization, the following Officer appointments were announced: C.E. (Ted) Barnicoat Vice President, Information Technology; D. Terry Davis Vice President, Internal Audit; Pat J. House Vice President, Corporate Secretary; Charles S. McConnell, Treasurer; Ladis J. Vegh Vice President, Insurance; Karen M. Watson Vice President, Controller; Dale R. Cawsey Assistant Corporate Secretary and Manager, Human Resources.

In March 1997, the ATCO Ltd. Board of Directors increased the quarterly dividend to $0.15 per share, an increase of 36% over the prior year. This increase reflects the Company's continued strong financial performance and favourable future outlook.

On October 2, 1996, Dr. John D. Wood retired as President and Chief Operating Officer and on April 2, 1997, Cameron S. Richardson retired as Senior Vice President, Finance and Chief Financial Officer. Both Dr. Wood and Mr. Richardson have provided the Group with outstanding leadership during their lengthy careers and their counsel will be greatly missed. We all wish both them and their wives the very best in their retirement.

Following these retirements, Craighton O. Twa was appointed President and Chief Operating Officer and James A. Campbell was appointed Senior Vice President, Finance and Chief Financial Officer. In October, Mr. Twa was appointed to the Board of Directors.

As mentioned earlier this is the ninth consecutive year of increased earnings in ATCO. This success has been made possible through the dedicated efforts of our employees, directors and suppliers, as well as the support of our customers and shareholders. We thank them all very much for their continued support.

On behalf of the Board of Directors,

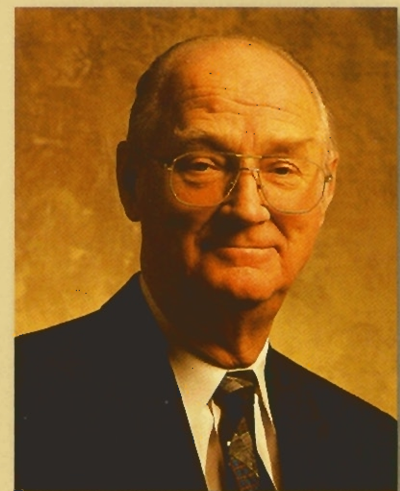
Craighton Twa

R.D. Southern
Chairman and
Chief Executive Officer

C.O. Twa
President and
Chief Operating Officer

TO OUR

Employees & Shareholders



After 33 years of service with the ATCO Group of Companies, I have decided to retire. It has been a wonderful journey and after all, "it's the journey that counts, not the arrival point." The journey has covered a very broad spectrum of activities from Academia at Stanford, aerospace, logistics support, manufacturing of workforce housing and gas and electric utilities in over 80 countries.

In my career with the ATCO Group of Companies, I have been privileged to meet and work with many outstanding men and women. Our business has changed and grown enormously over the years, but one of the constants is the high level of integrity of our people and those we do business with.

In this annual report, I am particularly pleased to have the opportunity to thank one group in particular: our shareholders. Your loyalty, contribution, commitment and support through the years has been greatly appreciated.

Very truly yours,

Dr. John D. Wood
PRESIDENT & CHIEF OPERATING OFFICER RETIRED

As I leave the ATCO Group after some 38 years, I look back with pride on the shareholders' value that has been created over the years. In addition, I feel very good about the strategic positioning of the Group as it heads into the next century

I would like to thank my fellow employees, members of the financial community and our shareholders for their support of my endeavours.

The future is bright. I wish everyone continued success.

Best regards,

C.S. Richardson
SENIOR VICE PRESIDENT, FINANCE AND CHIEF FINANCIAL OFFICER RETIRED

Looking Back
Moving Forward

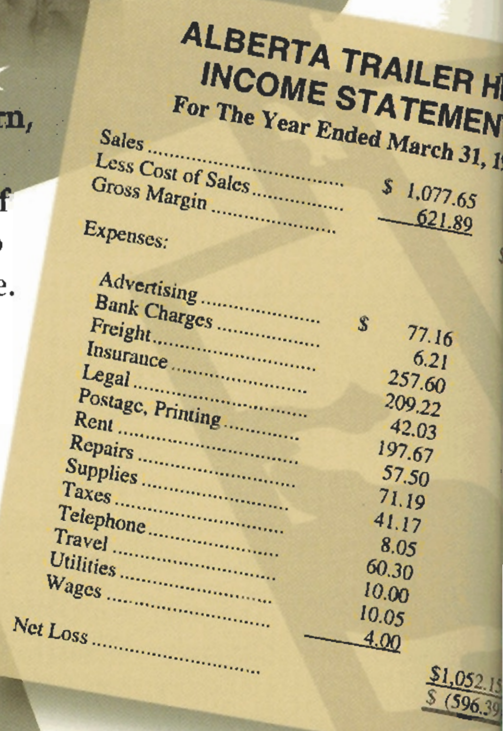
1997 marks the 50th Anniversary of the ATCO Group of Companies. Even as we move forward to the next century, we look back at our past.

In 1947, Samuel Donald (S.D.) Southern, along with his wife Ina and son Ron, founded an industry in the foothills of the Rockies which would develop into an enterprise that today spans the globe.

From modest beginnings, S.D. and then R.D. Southern, expanded the business from the building of workforce housing for remote areas, which ATCO still does today in over 80 countries around the world, to a Group also involved in electric and natural gas utilities, power generation and gas transportation, logistics and facilities management and noise attenuation.

It has been a challenging journey.

As we begin the second 50 years the future is full of promise for continued success.



ALBERTA TRAILER H
INCOME STATEMEN
For The Year Ended March 31, 1

Sales	$ 1,077.65	
Less Cost of Sales	621.89	
Gross Margin		
Expenses:		
Advertising	$ 77.16	
Bank Charges	6.21	
Freight	257.60	
Insurance	209.22	
Legal	42.03	
Postage, Printing	197.67	
Rent	57.50	
Repairs	71.19	
Supplies	41.17	
Taxes	8.05	
Telephone	60.30	
Travel	10.00	
Utilities	10.05	
Wages	4.00	
		$1,052.1
Net Loss		$ (596.3

55.76

Alberta Power line maintenance near Drumheller

Canadian Utilities Limited

ELECTRIC UTILITIES OPERATIONS

Canadian Utilities Limited ("CU") serves electric customers through four operating companies: Alberta Power Limited; its subsidiary, The Yukon Electrical Company Limited; Northland Utilities (NWT) Limited; and Northland Utilities (Yellowknife) Limited (collectively "Northland Utilities"). Together, these utilities serve 360 communities.

Sales in 1996 increased by 9.8% to 9,760 million kilowatt hours. More than 3,000 customers were added to electric utility operations, bringing the total customers to 179,828.

Alberta Power Limited's ("APL") sales increased 10.1% over 1996. Industrial sales, which account for more than 73% of the Corporation's sales, totalled 6,891 million kilowatt hours. This growth was driven by continued development in all major industrial sectors, including oil and gas and forestry.

Alberta's new Electric Utilities Act took effect January 1, 1996, moving Alberta's electric industry away from vertically integrated utilities. APL continues to be involved in developing the new industry structure, including the power pool and the transmission administrator.

APL filed a general rate application based on the new industry structure. The Alberta Energy and Utilities Board is expected to issue its decision in the first half of 1997.

During 1996, APL worked on various initiatives to strengthen relationships with customers. A New Customer Service Information System and Industrial Customer Service Centre ("ICSC") was implemented in 1996. Billing history and information for all of APL's 12,000 industrial accounts will be accessible through the new ICSC centre by the end of April 1997. This system helps APL respond quickly to customer requests for billing information and will facilitate the establishment of more flexible rates to better meet customer needs. Additional customer service training is being provided to employees, with priority on front line staff who deal directly with customers.

The Corporation is accelerating a program to phase-out all distribution equipment with a PCB content of more than 50 parts per million. The project's estimated cost is $3.9 million, including the replacement of up to 500 transformers.

In 1996, APL invested $119.2 million in capital projects to improve and extend service to customers. These expenditures included: $57.9 million in distribution, $38.0 million in generation and $23.3 million in transmission projects.

The Yukon Electrical Company Limited, ("Yukon Electrical") which has been in business for 95 years, serves 14,827 customers. Under a management agreement with Yukon Energy Corp. ("YEC"), Yukon Electrical manages $122.7 million in assets owned by YEC, including generation, transmission and distribution facilities.

In 1996, Yukon Electrical invested $4.7 million in its system, mainly in the areas of distribution facilities and extensions to meet the needs of new customers.

At the end of the year, the Anvil Range Mining Corporation announced that it was shutting down mining operations in Faro, however, this closure will not have a significant affect on the operations of Yukon Electrical.

Mining exploration in northern Canada continues to grow. As a result, the Northland Utilities' operations, in the Northwest Territories, increased their customer base to a total of 8,781 at year end. The two companies invested more than $1.9 million in capital projects, specifically for generation-related projects, distribution system improvements and new transformers.

CU POWER INTERNATIONAL LIMITED

CU Power International Limited ("CUPIL") was established in 1988 to participate in the deregulated power generation market.

CUPIL now operates over 1,000 megawatts ("MW") of generating capacity and has established a solid reputation as a developer, project manager and operator of independent power projects.

In early 1996, CUPIL and Boral Energy Limited, a subsidiary of Boral Limited, an Australian building materials and energy company, finalized commercial agreements on the 180 MW cogeneration plant in Osborne. Power will be sold to ETSA Corporation and steam to Penrice Soda Products Pty Ltd. under 20 year agreements. The $170 million (Aust.) project will purchase natural gas from ETSA Corporation. Non-recourse financing will be provided by Westpac Banking Corporation. CUPIL will lead the development, construction and operation of the project. Construction commenced in July 1996 with an anticipated completion date of July 1998.

The 1,000 MW Barking Station, having been commissioned in 1995, surpassed its availability targets in 1996. CUPIL's managers are now responsible for all aspects of the station's operations.

The Heathrow Cogeneration Plant, purchased in July 1995 by a joint venture of CUPIL and London Electricity plc, met its availability targets during 1996. The plant supplies electricity and hot water to BAA plc under a 15 year contract.

The 118 MW McMahon Cogeneration Plant in Taylor, B.C. also exceeded its availability targets in 1996. The station provides electricity to the British Columbia grid and steam to a neighbouring gas plant owned by Westcoast Energy Inc.

The 1000 MW Barking Station's high-tech control room.

NATURAL GAS UTILITY OPERATIONS

CU's natural gas utility operations consist of two subsidiaries: Canadian Western Natural Gas Company Limited ("CWNG") which serves southern Alberta, including Calgary and Lethbridge and Northwestern Utilities Limited ("NUL") which serves north-central Alberta, including Edmonton, Camrose, Fort McMurray, Fort Saskatchewan, Grande Prairie, Lloydminster, Red Deer, St. Albert, Spruce Grove and Wetaskiwin.

CWNG's customer base increased 2.3 % in 1996. At year end, the corporation served 356,023 customers in 115 communities.

Total CWNG system throughput was 235.3 petajoules ("PJ"), up 28.5% from 1996. This growth was the result of much higher volumes transported for gas producers and a large increase in temperature sensitive sales. Temperatures were 13% colder than in 1995.

At year end, NUL served 382,110 customers in 175 communities. This is a 1.3% increase in customers in 1996.

Total system throughput was 492.1 PJ, up 4.5% from the previous year. Throughput for temperature-sensitive customers increased by 13.3 PJ and transportation of gas for third parties rose by 8.0 PJ. Temperatures in NUL's service area were 13.1% colder than in 1995.

Capital expenditures by the two gas companies to meet existing customers' needs and provide for customer growth totaled $82.1 million. The largest expenditure was for CWNG's program to replace bare steel pipe originally installed in urban areas in the 1920's and 1930's.

In mid-year, the Alberta Energy and Utilities Board ("EUB") approved rates and terms and conditions for residential, commercial and institutional gas customers to purchase gas directly from the supplier of their choice. For customers who choose this option, CWNG and NUL will provide transportation service. The switching of customers from sales to transportation service will not materially affect total throughput or earnings.

NUL successfully renegotiated franchise agreements with five communities in 1996, including the County of Strathcona. CWNG also renegotiated franchise agreements with five communities.

ATCO GAS SERVICES LTD.

Natural gas-related complementary business activities in 1996 focused on natural gas gathering and processing and natural gas transmission. Two new companies were formed in early 1997 succeeding CU Gas Limited.

ATCO Gas Services Ltd. ("AGS") was formed to increase the Corporation's natural gas gathering, processing, transmission, storage and marketing business in western Canada. At the same time, the ATCO Gas Pipelines unit was formed to develop large diameter pipeline systems in Alberta and western Canada.

Northwestern Utilities Limited gas production facilities at the Viking field southeast of Edmonton.

In January 1997, AGS completed the 35 million cubic feet per day liquids extraction facility near the hamlet of Villeneuve on schedule and under budget. The new plant is an integral enhancement to AGS' Industrial Gas System which provides gathering and processing services to a large number of producers.

In early 1996, AGS completed a 20 well gathering system in the Viking area for Archer Resources Ltd. The capacity of the system is more than 20 million cubic feet per day.

In 1996, AGS acquired an additional 18% working interest in the Edmonton Ethane Extraction Plant bringing its total ownership to 51.3%. The plant continues to perform well with throughput maximized from gas streams rich in natural gas liquids.

In December 1996, ATCO Gas Pipelines and Shell Canada Limited jointly announced plans to build the $30 million Crowsnest Pipeline. Approximately 75 kilometers long with pipeline diameters of 12 inches and 16 inches, the pipeline will transport 100 million cubic feet per day of sweet natural gas from Shell's Waterton Plant through the Crowsnest Pass and across the British Columbia border.

Later in December, ATCO Gas Pipelines, Shell Canada and Amoco Canada Petroleum Company Ltd. jointly announced the Alberta Pipeline Project ("APP"). The proposed $450 million APP will consist of three pipeline segments that total approximately 650 kilometres. The pipe diameter sizes range from 20 to 36 inches. The pipeline system will provide increased natural gas transportation capacity to serve markets within Alberta, Canada and the United States through interconnection with other downstream pipelines. ATCO Gas Pipelines will operate the APP.

The APP, as proposed, will provide capacity to transport gas for each of the owners as well as other shippers and producers, including Mobil Oil Canada, who have conditionally agreed to be major shippers. Additional parties interested in shipping gas on the APP will have an opportunity to subscribe to capacity prior to design completion.

The APP will consist of two western pipeline legs originating in central Alberta converging at the Alberta Market Centre at Carbon. From Carbon, the pipeline proceeds east and crosses the Alberta-Saskatchewan border near Empress to tie into the TransCanada Pipeline and Foothills Pipeline systems. The APP will access storage facilities at Crossfield, operated by CrossAlta and at Carbon, operated by ATCO Gas Services and will interconnect with pipeline systems of Northwestern Utilities in the north near Rimbey and Canadian Western Natural Gas in the south at Carbon.

The final decision to proceed with construction is dependent on a number of factors, including firm shipper commitments as well as environmental and regulatory approval.

ATCO Gas Services' liquids extraction plant at Fort Saskatchewan.

Maintenance work by Frontec on a Department of National Defence heating plant in North York, Ontario.

Frontec Corporation

FRONTEC, a Canadian leader in the delivery of project management and technical services for customers in the defence, air transportation and industry sectors, marked its 10th anniversary in 1996.

FRONTEC projects range from the operation and maintenance of airports and facilities across Canada and Alaska to providing comprehensive property management services for industrial, commercial and utility clients in western Canada. Through joint ventures with local aboriginal-owned businesses, FRONTEC continues to operate and maintain over 70 radar and logistics support sites which make up the North Warning System ("NWS") in Canada and Alaska Radar System ("ARS") in the United States. FRONTEC is working with the United States Air Force on a cost-reduction program for the ARS based on a similar program introduced by FRONTEC for the NWS.

FRONTEC's northern presence expanded in 1996 with new contracts and innovative business ventures. In January, the corporation won a major contract with Yellowknife-based NorthwesTel Inc. to manage fuel purchase and delivery to 18 microwave sites spanning north of Fort Simpson to Inuvik. A second contract was received from NorthwesTel to dismantle and dispose of used telephone operating equipment at 13 sites between Iqaluit and Resolute Bay in the High Arctic. In April, Frontec Services Limited, in a joint venture with the aboriginal organizations Qikiqtaaluk Corporation and Nunasi Corporation, was awarded a 10 year, multi-million dollar contract for the lease and operation of a bulk fuel storage facility and pipeline distribution system in Iqaluit.

Torngait Services Inc. ("TSI"), a Labrador-based company, operates the limited partnership between the Labrador Inuit Development Corporation and Frontec Services Limited. TSI is committed to the support, growth and development of the Beneficiaries of Labrador through technology transfer and training. In January 1997, TSI was awarded a one year contract to provide camp management services at two of Voisey's Bay Nickel Company's largest mining camps at Anaktala Bay and Voisey's Bay.

In June, FRONTEC won a three year contract to provide complete operation and maintenance services for Department of National Defence ("DND") Land Forces Area infrastructure in greater Toronto. In August, FRONTEC signed a contract to provide management and logistics support for the Canadian Marine Response Management Corp. FRONTEC's responsibilities include responding to call-outs for oil spills in eastern Canada, providing resources and expertise to plan, build, manage and maintain field camps logistics and transportation management documentation control, catering and other support services as required. FRONTEC's logistics portfolio also includes a contract with Canadian North, a division of Canadian Airlines, in Yellowknife for the loading and unloading of aircraft, package pick-up and delivery and warehouse management.

FRONTEC's success in the Canadian airport industry was reconfirmed in 1996 with the multi-year extension of its contract to support military flight training activities at Southport Aerospace Centre in Portage la Prairie, Manitoba and with the extension of its operating license to provide airport support services at Canadian Forces Base Shearwater, Nova Scotia. FRONTEC is also a member of the Bombardier Team selected to participate in the NATO Flying Training in Canada ("NFTC") program at Canadian Forces Base Moose Jaw. FRONTEC will provide airside and groundside services in support of military jet pilot training under this DND privatization initiative.

ATCO Structures main manufacturing facility in Calgary, Canada with the custom designed Falconbridge units on the line.

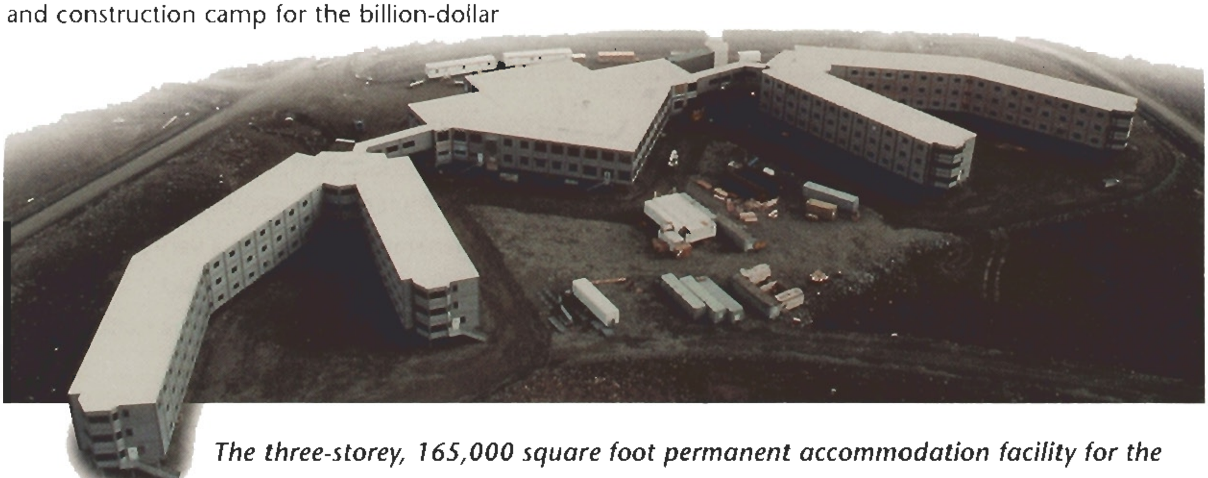
ATCO Structures Inc.

Domestic sales of workforce housing manufactured by ATCO Structures Inc. ("ASI") were strong throughout 1996. This was due to increased mining activity across Canada, continuing development of the tarsands in northern Alberta, growth of the forestry industry in British Columbia and Ontario, and an active oil and gas sector in western Canada.

Manufacturing of ASI's "New Generation" products including drill camps, wellsites, accommodation units, offices, kitchens, and the construction of rental and custom modular buildings, including the ATCO Fold-A-Way, provided a consistent level of production for the Corporation's facilities in western Canada.

Of particular note was the completion of the permanent accommodation for 300 people at Falconbridge's Raglan nickel project in northern Quebec. This 165,000 square foot facility, which is the most modern of its kind, was recently awarded the 1996 Modular Building Institute ("MBI") Award of Distinction for the best Multi-Story Complex over 10,000 square feet.

In Chile, ASI completed the 4,100 person pioneer and construction camp for the billion-dollar Collahuasi copper mining project in northern Chile. In early December 1996, ASI and its Chilean partner, were awarded a $40.8 million Cdn. contract for the manufacture and installation of a 790 room permanent residence facility for the project. Manufacturing of the permanent facility commenced immediately at the Corporation's manufacturing facility in Santiago. ASI and its partner will manufacture 500 modules containing approximately 275,000 square feet and panelized products totalling 75,000 square feet. The contract includes living accommodation, recreation, kitchen/dining, office, administration and medical clinic facilities. Fabrication of the modules for the residence will be complete by early summer with installation scheduled for September 1997.

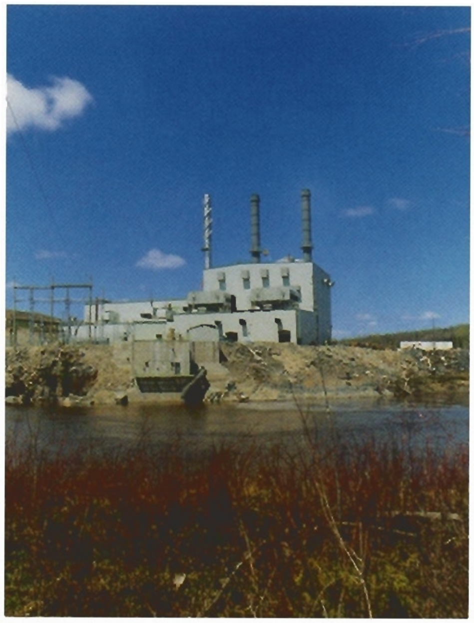


The three-storey, 165,000 square foot permanent accommodation facility for the Falconbridge Raglan Project in northern Quebec accommodates 300 people.

After an absence of several years, the Corporation returned to the Algerian market with the sale of two 175 person drill camps and eight custom villas. A variety of ASI manufactured products were also sold in the United States, Peru, India, Bolivia, Mexico, Ecuador and Tunisia.

ASI's manufacturing facility in Budapest, Hungary had an exceptional year, led by the successful construction and installation of facilities for American NATO forces serving in Bosnia and Croatia. Ongoing activities in Europe, including the dismantling of abandoned soviet military installations and petroleum related operations, resulted in contracts to manufacture a variety of units including accommodation, offices, drill camps, wellsites and kitchen facilities. The renewed interest in pipeline activity in the Commonwealth of Independent States is a very positive factor in the outlook for the Budapest operation.

The overall outlook for ASI is one of optimism. In western Canada, the oil and gas industry remains very active while the mining development at Voisey's Bay in Labrador will generate opportunities to supply a variety of housing requirements.



ATCO Noise Management designed, supplied and constructed the acoustic envelope for Northland Power's 104 MW cogeneration plant at Iroquois Falls, Ontario.

ATCO NOISE MANAGEMENT

ATCO Noise Management ("ANM") continued its growth in 1996 and increased its penetration of the United States market. ANM was awarded its first power generation projects in the United States by Siemens Power Corporation. The projects were a 150 MW single cycle generation plant at Kansas City, Missouri and a 100 MW combined cycle generation plant in Sacramento, California. For both projects, ANM provided the design and supply of the building's structural steel, acoustic envelope, acoustic ventilation system and ventilation control system.

ANM successfully completed its first European project, an installation for B.O.C. Process Plants, the British company, in Pila, Poland. Subsequent to the work in Poland, B.O.C. Process Plants awarded ANM an additional five projects in the United States.

During 1996, ANM provided TransCanada Pipelines Limited ("TCPL") with acoustic construction services at four compressor stations and completed the acoustic building construction at two 40 MW cogeneration plants. ANM has been awarded contracts to supply acoustic compressor buildings and control buildings for the thirteen compressor stations included in TCPL's 1997 expansion. The stations are located in Saskatchewan, Manitoba and Ontario.

In 1996, ANM completed the provision of acoustic facilities for the Northland Power cogeneration plant at Iroquois Falls, Ontario. ANM views this type of electrical generation project as a very promising market for the Corporation's product.

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, 1996 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 41.49% of the Class A non-voting shares and 67.70% of the Class B common shares, for an aggregate ownership of 51.37%, 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.

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 ("APL"), The Yukon Electrical Company Limited ("YECL"), Northland Utilities (Yellowknife) Limited ("NUY"), Northland Utilities (NWT) Limited ("NLD") and development, ownership and operation of independent power production by CU Power International Limited ("CUPIL").

Natural Gas

Production, gathering, purchase, transmission, transportation, storage, sale and distribution of natural gas by its utility subsidiaries Northwestern Utilities Limited ("NUL") and Canadian Western Natural Gas Company Limited ("CWNG"), gathering, processing, storage, purchase and sale of natural gas by ATCO Gas Services Ltd. ("ATCO Gas"), formerly CU Gas Limited, and transmission and distribution of water by CU Water Limited ("CU Water").

Facilities Management and Logistics

Project management and technical services by Frontec Corporation, Frontec Logistics Corp., Frontec Services Limited and Torngait Services Inc.

Manufacturing and Leasing

Manufacture, sale and lease of relocatable workforce 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.

CONSOLIDATED RESULTS OF OPERATIONS

Segmented revenues and earnings, being earnings before income taxes and non-controlling interests, for the years 1995 and 1996 were as follows:

	Revenues		Earnings	
	1996	1995	**1996**	1995
		(Millions of dollars)		
Electric Power	**811.7**	771.0	**186.4**	184.2
Natural Gas	**912.9**	807.0	**155.4**	118.7
Facilities Management and Logistics	**92.5**	97.1	**11.4**	12.8
Manufacturing and Leasing	**108.1**	50.2	**9.9**	4.8
Other	**21.1**	21.9	**(18.7)**	(23.7)
Inter-segment	**(9.0)**	(10.3)	**(3.4)**	(3.5)
Total	**1,937.3**	1,736.9	**341.0**	293.3

Note:

(1) Certain 1995 comparative figures have been reclassified to conform with the current year's presentation.

Consolidated earnings per share were $2.63, up approximately 38% from $1.90 reported in 1995.

On January 31, 1996, ATCO sold its interest in ATCOR Resources Ltd. (refer to Note 5 to the Consolidated Financial Statements).

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 general 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 anticipated energy sales as well as the revenue required to recover estimated costs of service and a fair return on rate base, all in respect of a future test period. Energy sales are based on a forecast of economic and business conditions and, in the case of natural gas utility operations, normal temperature which is defined as the average temperature for the previous 20 years. Costs of service include estimated operating expenses, depreciation and taxes.

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 a reasonable 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 Electric Utilities Act ("EUA"), which came into effect on January 1, 1996, and recent amendments to the Gas Utilities Act have granted the EUB specific authority to approve customer rates that provide incentives for efficiencies that result in cost savings or other benefits which can be shared in an equitable manner between a utility and its customers.

ATCO's utility operations in the Yukon Territory (YECL) and the Northwest Territories (NUY and NLD) are subject to regulation similar to that in effect in Alberta by regulatory authorities in those jurisdictions.

Electric Utilities Act

The EUA provides the framework for a new structure in Alberta's electric utility industry and introduces competition into the electric utility business. The full impact of this new structure is not expected to be felt immediately, but instead will occur over a period of years. Significant competition in generation will occur as old uneconomic plants are retired and new generation is required to be built. Additional adjustments to the operations of the power pool and in the implementation of open access transmission are still required. New retail rates will be designed to reflect the new structure provided by the EUA.

New Generation

Under the EUA, new generation assets are not considered part of utility operations and rates are not regulated by the EUB. This will result in a gradual transition to a competitive generation market in Alberta as new generation is added to meet incremental demand and to replace existing generating units as they are retired from service. All owners of non-regulated and regulated generating units must sell their electric energy through a competitive power pool established by the EUA.

Existing Generation

The EUA provides for the continued equalization of costs of existing generation that was in service at December 31, 1995. The equalization is achieved by providing for each entitled distributor a stipulated share of the output from each existing generating unit at regulated prices. If the actual pool prices paid by the distributors exceed the entitled prices, the owners of the existing generating units must pay the difference to the distributors. In return, the distributors are obligated to pay the fixed costs associated with the existing generating units.

Transmission

Under the EUA, separate wholesale tariffs for transmission must be approved by the EUB. The transmission tariffs 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 is charged to each distribution utility regardless of location.

The equalization of transmission costs is achieved by having each utility with transmission facilities charge its costs to the Transmission Administrator. The Transmission Administrator, currently the Grid Company of Alberta Inc. which is jointly owned by APL, TransAlta Utilities Corporation, Edmonton Power and the City of Calgary Electric System, then aggregates these costs and charges a common transmission rate to all who use the transmission system.

Distribution

Under the EUA, separate retail rates for distribution must be approved by the EUB. Costs of distribution are not equalized. All owners of electric distribution systems must buy electric energy through the power pool. 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 Administrator, and the Power Pool Council oversees the operation of the pool. The role of the Power Pool Council 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 APL) as well as independent power producers and customer groups.

Gas Utilities Act

Under the Gas Utilities Act, customers in Alberta have the choice of purchasing their natural gas supplies from their local natural gas utility or directly from producers or brokers, subject to certain conditions. In any case, the local natural gas utility provides the transportation and distribution services for all customers under EUB approved tariffs which provide for the recovery of the cost of service and a fair return on rate base.

Customers purchasing natural gas from NUL and CWNG do so at rates that are approved by the EUB. NUL and CWNG receive no profit or benefit from natural gas supply costs. The cost of natural gas they purchase for sale to their customers is passed directly on to their customers following scrutiny in a public process under the authority of the EUB. The EUB requires NUL and CWNG to file an application with the EUB to adjust customer rates whenever the difference between natural gas costs and cost recoveries from customers exceed levels set by the EUB. Customer rates proposed by NUL and CWNG are scrutinized in public hearings which allow intervenors and the EUB to test the prudence of NUL's and CWNG's natural gas purchases and resulting costs.

BUSINESS RISKS

Utility Operations

ATCO's utility operations are subject to the normal risks faced by regulated utility companies. These risks include the approval by the EUB of customer rates which permit a reasonable opportunity to recover on a timely basis the estimated costs of providing service, including a fair return on rate base. 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-setting process.

The business risks of APL have changed with the implementation of the EUA. There is now more forecast risk as each electric utility is exposed to the forecasts of other electric utilities in Alberta as well as the requirement to independently forecast provincial wide generation output and pool prices. There is not expected to be a significant impact to earnings given APL's ability to manage these risks.

CUPIL and ATCO Gas Operations

CUPIL's and ATCO Gas' operations are subject to the risks faced by any commercial enterprise in those industries and in those countries in which they operate. CUPIL and ATCO Gas have attempted to limit their risks by entering into long term contracts with purchasers for the output of projects and with key suppliers. In all independent power production undertakings to date, risks in respect of fuel and energy prices have, by contract, been agreed and allocated amongst the various parties. CUPIL, to date, has not assumed any risks in this regard. CUPIL and ATCO Gas have financed their major operations 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 to their investment therein, and not to the businesses and assets of CUPIL and ATCO Gas as a whole.

Environmental Protection

ATCO Ltd.'s operating subsidiaries and the industries in which they operate, are subject to extensive federal, provincial and local environmental protection laws concerning emissions to the air, discharges to surface and sub-surface 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 permits and licences required by law to carry on their operations.

ATCO Ltd.'s operating subsidiaries 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.'s operating subsidiaries do not expect that environmental protection laws and regulations will affect them differently from other companies in the industries in which they operate. Specifically identifiable expenditures for pollution abatement and control were approximately $6.3 million in 1996 and are estimated to be $9.2 million in 1997. Costs of compliance with existing laws and regulations are not expected to have a material impact on the earnings of ATCO Ltd. or the competitive position of the operating subsidiaries.

ELECTRIC POWER

Operating Results

The segmented earnings before taxes and non-controlling interests of ATCO's electric power operations for 1996 increased by 1.2% from $184.2 million to $186.4 million. The increased earnings were largely attributable to the inclusion of a full year's operations of the Barking power station, which commenced operations in May 1995, and lower APL financing costs and were partially offset by higher depreciation and amortization expenses.

Revenues in 1996 increased by $40.7 million or 5.3% to $811.7 million. This increase was primarily the result of increased revenues from the inclusion of a full year's operations of the Barking power station and an increase in APL industrial sales, mainly in the oilfield and gas and oil processing sectors. This was partially offset by the impact of industry restructuring, whereby revenues from the Electric Energy Marketing Agency were discontinued effective January 1, 1996 and replaced by wholesale generation and transmission revenues. However, this reduction in revenues was offset by APL's lower fuel and purchased power costs arising from industry restructuring.

Operating costs for 1996 increased by $24.3 million or 6.8% to $382.4 million. The increase was primarily due to the inclusion of a full year's operations of the Barking power station and costs associated with higher APL sales. Fuel costs in APL are mostly for coal supply. To protect against volatility in coal prices, APL 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.

Depreciation and amortization expense increased by $12.0 million or 11.6% to $115.1 million in 1996. This increase was primarily a result of the inclusion of a full year's operations of the Barking power station and capital additions by APL during 1996.

In 1996, dividends on preferred shares and interest expense, net of other income, rose by $2.2 million or 1.8% to $127.8 million, primarily as a result of increased interest expense from the inclusion of a full year's operations of the Barking power station and was partially offset by increased other income and decreased dividends on preferred shares.

Regulatory Matters

In 1994 and 1995, an association of industrial power customers filed applications with the EUB requesting a review of the rates charged by APL for 1994 and 1995. Both applications were dismissed by the EUB in 1995 and an application for leave to appeal was dismissed by the Alberta Court of Appeal in 1996.

As required under the EUA, APL filed a general rate application with the EUB on October 31, 1995 seeking, among other things, approval for wholesale tariffs for the generation and transmission of electric energy and approval for retail rates for the distribution of electric energy. 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.

The application also requested an increase in retail rates to recover estimated operating expenses and investment in assets, and a fair return on common equity for the 1996 test year. A hearing commenced in July and was completed in October 1996. A decision is expected in the first half of 1997.

Business Outlook

Regulatory

As part of the electric industry review leading to the implementation of the EUA, it was agreed that a study, commencing in 1996, would 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 consisting of government, industry and customer representatives was established in 1996 to review the matter, but discussions were deferred to allow committee members to participate in the various rate case proceedings held in 1996 for Alberta's electric utilities. Discussions are expected to resume in 1997.

CUPIL

CUPIL has a 50% interest in a joint venture with Boral Energy Limited, a subsidiary of Boral Limited, an Australian construction materials and energy group. The joint venture is constructing and will operate an AUD$170 million (approximately $185 million) 180 MW cogeneration plant in Osborne, South Australia. Commercial operations are scheduled to begin in the first half of 1998. This joint venture will supply electricity to ETSA Corporation ("ETSA"), a corporation owned by the State of South Australia engaged in the generation, transmission and distribution of electric energy, under a 20 year electricity purchase agreement. In addition to generating electricity, the plant will also provide steam under a 20 year agreement to Penrice Soda Products Pty Ltd. ETSA has entered into a 15 year agreement with the joint venture to supply natural gas to the plant.

Long term financing for the Osborne cogeneration plant was finalized during 1996 and construction commenced in July 1996. ATCO's share of the financing that had been advanced as of December 31, 1996 was AUD$8.0 million (approximately $8.7 million). Upon completion of the plant, the recourse of the lenders against ATCO will be limited to its equity investment in the project, amounting to approximately AUD$17.5 million ($19.1 million).

CUPIL continues to focus its development efforts on independent power production in Canada, Australia, Europe and the United States.

Capital Expenditures

Capital expenditures in ATCO's electric utility operations were $126 million in 1996 and are expected to be $125 million in 1997. ATCO expects to spend approximately $50 million in 1997 on a cogeneration plant in Osborne, South Australia, in which CUPIL has a 50% interest.

NATURAL GAS

Operating Results

The segmented earnings before taxes and non-controlling interests of ATCO's natural gas operations for 1996 increased by 30.9% from $118.7 million to $155.4 million. Earnings improved primarily as a result of temperatures which were colder than in 1995, utility customer growth, increased transportation throughput and higher earnings from the Edmonton Ethane Extraction Plant ("EEEP"), including the impact of the additional 18% interest acquired effective February 1, 1996 (refer to Note 5 to the Consolidated Financial Statements), partially offset by increased depreciation and amortization expenses.

Temperatures in 1996 were 20.3% colder than normal. If temperatures had been normal during 1996, the segmented earnings before income taxes would have been reduced by $33.6 million.

Revenues in 1996 increased by $105.9 million or 13.1% to $912.9 million. The primary reason for the increase was increased volumes of natural gas sold due to colder temperatures, growth in the number of customers and higher transportation throughput. Revenues from non-regulated operations also increased as a result of higher revenues from EEEP, including the impact of the additional interest in EEEP acquired in early 1996.

Operating costs for 1996 increased by $66.3 million or 11.9% to $622.9 million. This increase was primarily due to increased volumes of natural gas purchased due to colder weather, and growth in the number of customers. Operating costs also increased as a result of higher expenses from EEEP, including the impact of the additional interest in EEEP acquired in early 1996.

Depreciation and amortization expense rose $4.5 million or 6.7% to $71.4 million in 1996, primarily as a result of capital additions during 1995 and 1996.

In 1996, dividends on preferred shares and interest expense, net of other income, decreased by $1.6 million or 2.5% to $63.2 million. The decrease resulted from increased other income and lower dividends on preferred shares and was partially offset by higher interest expense associated with the financing of capital additions.

Business Outlook

Regulatory

On November 22, 1996, NUL held a public information meeting with interested parties to discuss the need for an increase in customer rates for the 1997 test year and to propose an expedited process to deal with the rate increase. Under the expedited process, NUL and various customer groups will endeavour to negotiate the amount of rate increase and then file by May 1, 1997 a settlement agreement with the EUB for approval. The intervenors have agreed to the expedited process and negotiations are ongoing.

ATCO Gas

During 1996, ATCO Gas commenced construction of a $9.0 million 35 million, cubic feet ("Mmcf") per day liquids extraction facility near Villeneuve, Alberta. Construction was completed in January 1997 and the facility now processes natural gas from ATCO Gas Pipelines' existing natural gas gathering system.

On December 20, 1996, ATCO Gas Pipelines, together with Shell Canada Limited and Amoco Canada Petroleum Company Ltd., announced plans to construct a $450 million pipeline project, the Alberta Pipeline Project ("APP"). The APP will provide transportation of natural gas to serve markets within Alberta and to interconnect with other downstream pipelines which access markets within Canada and the United States. A determination of the APP route will begin in 1997 and will include a public consultation process. A detailed environmental assessment will be conducted following the determination of a final route. ATCO Gas Pipelines' financing requirements for the APP are yet to be finalized.

On December 3, 1996, ATCO Gas Pipelines, together with Shell Canada Limited, announced plans to construct a $30 million pipeline project, the Crowsnest Pipeline Project ("CPP"). The CPP will transport natural gas from the Waterton area of southwestern Alberta through the Crowsnest Pass and across the British Columbia border. ATCO Gas Pipelines' financing requirements for the CPP are yet to be finalized.

ATCO Gas continues to pursue natural gas gathering and processing, storage and pipeline opportunities in western Canada.

Capital Expenditures

Capital expenditures in ATCO's natural gas utility operations were $82.1 million in 1996 and are expected to be $139 million in 1997. ATCO has not yet identified any material capital expenditures for 1997 for ATCO Gas.

FACILITIES MANAGEMENT AND LOGISTICS

Operating Results

The segmented earnings before taxes and non-controlling interests of ATCO's facilities management and logistics operations for 1996 declined by $1.4 million to $11.4 million primarily as a result of lower earnings from the North Warning System contract, partially offset by higher earnings from other projects.

Revenues in 1996 decreased by $4.6 million or 4.7% to $92.5 million, primarily due to the reduced scope of the North Warning System contract, partially offset by higher revenues from other projects.

Business Outlook

Frontec Services Limited has a joint venture with two aboriginal organizations, Nunasi Corporation and Qikiqtaaluk Corporation. The joint venture was awarded a ten year contract commencing August 1996 to lease and operate the bulk fuel storage and distribution system in Iqaluit, Northwest Territories. The contract is expected to generate revenues in excess of $200 million over the ten year period. Frontec Services Limited has a 49% interest in the venture.

MANUFACTURING AND LEASING

Operating Results

The 1996 segmented earnings before taxes of ATCO's manufacturing and leasing operations increased to $9.9 million from $4.8 million in 1995, primarily due to increased revenues from domestic and international sales.

Manufacturing and leasing revenues in 1996 increased by $57.9 million to $108.1 million, primarily due to the sale of a 1,250-person camp to house U.S. NATO forces in Bosnia, increased sales in Canada, including the sale of a 300-person camp to Falconbridge at Raglan, Quebec, the sale by the Tecno Fast ATCO joint venture of a 4,100-person pioneer and construction camp for the Collahuasi copper mining project in northern Chile and the sale of two drill camps to Enafor of Algeria.

Western Canadian capital resource projects provide the primary domestic market for the North American workforce housing division. ATCO Structures had no major lease contracts in 1996 and the fleet utilization rate was 10%, unchanged from 1995. Programs to modernize and to reduce the size of the workforce housing lease fleet are continuing.

Business Outlook

ATCO Structures will continue to focus on its core businesses of workforce housing in North America, South America and Europe and selective international markets, and noise management operations. There is a current backlog in ATCO Structures' manufacturing facilities in North America and South America. The backlog is primarily due to an $8 million order for relocatable site offices and a $40.8 million contract for a 790-room permanent residence facility for the $2.5 billion Collahuasi copper mining project in northern Chile. ATCO Structures' joint venture with Tecno Fast S.A. of Santiago, Chile is currently manufacturing the product needed to meet their contract requirements for the Collahuasi copper mining project.

In Canada, it is anticipated that several new major resource developments will create opportunities for ATCO Structures in 1997 and beyond. These include the new mineral find at Voisey's Bay, Newfoundland, and tar sand initiatives and gas plants in Alberta.

In Europe, reconstruction in Bosnia and Croatia is expected to provide a number of opportunities to provide housing and classrooms. In addition, ATCO Structures is also pursuing oil and gas and mining sector opportunities in the former Soviet Union. A number of other natural resource projects in South America should provide additional opportunities for the ATCO Structures Tecno Fast S.A. joint venture.

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 will continue 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 80 countries around the world since 1947.

In late 1996, ATCO Structures' Noise Management division received an order for 13 highly acoustic compressor station buildings and 12 non-acoustic control buildings with a total value in excess of $16 million, the largest order received to date by the Noise Management division. The buildings will be constructed in 1997.

OTHER

Operating Results

The segmented earnings before taxes and non-controlling interests of ATCO's other operations in 1996 increased by $5.0 million, primarily due to decreased dividends on preferred shares and lower interest expense.

OTHER EXPENSE

Income taxes increased $23.5 million or 15.4% from $152.4 million to $175.9 million in 1996. The increase is mainly due to higher earnings before taxes.

The interests of non-controlling shareholders increased from $84.1 million to $91.8 million, primarily as a result of increased earnings by Canadian Utilities, partially offset by a decrease of $1.4 million related to Canadian Utilities' non-retractable preferred share dividends.

LIQUIDITY AND CAPITAL RESOURCES

Cash from operations increased by $45.6 million to $383.3 million in 1996, primarily due to higher earnings from continuing operations and increased depreciation and amortization expenses.

Investments decreased from $330.9 million in 1995 to $132.6 million in 1996, primarily as a result of lower capital expenditures and the sale of ATCOR Resources Ltd. Had the one-time impact of the sale of ATCOR Resources Ltd. for $86.9 million on January 31, 1996, together with the related purchase of assets from ATCOR Resources Ltd. for $21.3 million (see Note 5 to the Consolidated Financial Statements) been excluded, investments would have amounted to $198.2 million in 1996.

A major portion of ATCO's operating income and cash flow is generated from its utility operations. Canadian Utilities uses commercial paper borrowings and short term 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 pay dividends.

Capital expenditures in 1996 totalled $262.5 million. These were primarily financed by internally generated funds. Estimated capital expenditures of $360 million in 1997 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 8 to the financial statements, ATCO Ltd. and ATCO Structures have short term credit facilities available at December 31, 1996 of $22.3 million, of which $4.1 million had been drawn.

It is the policy of ATCO to use financial instruments to reduce specific risk exposures and to not hold these instruments for trading purposes.

ATCO has entered into several contracts in order to reduce interest rate and foreign exchange risk. The financial impact of these contracts is not material and the counterparty in each transaction is a major Canadian bank.

Management's Responsibility for Financial Reporting

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

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

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

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

K.M. Watson
Vice President,
Controller

February 28, 1997

Auditors' Report

Price Waterhouse

To the Shareholders of ATCO Ltd.

We have audited the consolidated balance sheets of ATCO Ltd. as at December 31, 1996 and 1995 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, 1996 and 1995 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

February 28, 1997

Consolidated Statement of Earnings and Retained Earnings

(Millions of Canadian Dollars except per share data)

	Note	Year Ended December 31 1996	1995
Revenues		$ 1,937.3	$ 1,736.9
Costs and expenses			
Natural gas supply		311.1	275.8
Fuel and purchased power		175.6	164.1
Operating and maintenance		444.6	361.1
Selling and administrative		166.0	162.2
Depreciation and amortization		195.1	178.2
Interest	8	184.5	178.4
Dividends on preferred shares		43.5	51.5
Franchise, property and other taxes		98.6	93.6
		1,619.0	1,464.9
		318.3	272.0
Other income	2	22.7	21.3
Earnings before income taxes and non-controlling interests		341.0	293.3
Income taxes	3	175.9	152.4
		165.1	140.9
Non-controlling interests	4	91.8	84.1
Earnings from continuing operations		73.3	56.8
Earnings from discontinued operations	5	6.8	1.1
Earnings attributable to Class I and Class II shares		80.1	57.9
Retained earnings at beginning of year		364.0	317.9
		444.1	375.8
Dividends on Class I and Class II shares		15.8	11.0
Direct charges to retained earnings	6	0.3	0.8
Retained earnings at end of year		$ 428.0	$ 364.0
Earnings per Class I and Class II share			
Continuing operations		$ 2.41	$ 1.86
Discontinued operations		0.22	0.04
		$ 2.63	$ 1.90
Dividends paid per Class I and Class II share		$ 0.52	$ 0.36

Consolidated Balance Sheet

(Millions of Canadian Dollars)

	Note	December 31 1996	1995
ASSETS			
Current assets			
Cash and short term investments	12	$ 185.8	$ 155.7
Accounts receivable		298.3	301.9
Inventories		80.2	74.1
Deferred natural gas costs		34.9	(0.3)
Prepaid expenses		10.4	11.6
		609.6	543.0
Property, plant and equipment	7	3,509.1	3,671.3
Goodwill		83.8	86.3
Deferred financing charges		18.8	22.3
Other assets		20.3	38.8
		$ 4,241.6	$ 4,361.7
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank indebtedness		$ 4.1	$ —
Accounts payable and accrued liabilities		315.9	269.8
Income taxes payable		53.7	0.7
Long term debt due within one year — recourse	8	0.2	0.3
— non-recourse	8	15.2	7.9
		389.1	278.7
Deferred income taxes		35.7	69.5
Unearned revenues		19.8	12.7
Other deferred credits		17.6	19.9
Long term debt — recourse	8	1,422.7	1,588.1
— non-recourse	8	370.3	345.9
Preferred shares	9	625.0	750.0
Non-controlling interests	4	793.7	794.9
Class I and Class II shareholders' equity			
Class I and Class II shares	10	138.3	138.2
Retained earnings		428.0	364.0
Foreign currency translation adjustment		1.4	(0.2)
		567.7	502.0
		$ 4,241.6	$ 4,361.7

Director

Director

Consolidated Statement of Changes in Cash Position

(Millions of Canadian Dollars)

	Year Ended December 31	
	1996	1995
Operating activities		
Earnings from continuing operations	$ 73.3	$ 56.8
Non-cash items included in earnings		
Depreciation and amortization	195.1	178.2
Deferred income taxes	8.5	10.2
Non-controlling interests	91.8	84.1
Other — net	14.6	8.4
	383.3	337.7
Changes in non-cash working capital	59.3	(51.2)
Cash from continuing operations	442.6	286.5
Cash provided by discontinued operations	—	39.4
	442.6	325.9
Dividends		
Paid to Class I and Class II shareholders of the Corporation	(15.8)	(11.0)
Paid to non-controlling interests	(55.1)	(55.8)
	(70.9)	(66.8)
Investing activities		
Property, plant and equipment — net	(254.9)	(352.4)
Contributions by customers for extensions to utility plant	30.4	27.2
Sale of ATCOR Resources Ltd.	86.9	—
Other	5.0	(5.7)
	(132.6)	(330.9)
Financing activities		
Issue of long term debt — recourse	14.0	186.2
— non-recourse	8.6	81.0
Repayment of long term debt — recourse	(161.3)	(69.9)
— non-recourse	(7.9)	(3.9)
Issue of non-retractable preferred shares by subsidiary	60.0	—
Redemption of preferred shares by subsidiary	(76.9)	(82.6)
Redemption of non-retractable preferred shares by subsidiary	(55.0)	—
Issue of Class A non-voting shares by subsidiary	0.3	0.7
Issue of Class I non-voting shares by the Corporation	0.1	0.4
U.K. consortium tax relief	3.0	11.1
Other	2.0	7.7
	(213.1)	130.7
Cash position*		
Increase	26.0	58.9
Beginning of year	155.7	96.8
End of year	**$ 181.7**	**$ 155.7**

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

Notes to Consolidated Financial Statements

December 31, 1996

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of ATCO Ltd. and its subsidiaries including a proportionate share of joint venture investments ("ATCO"). The principal operating subsidiaries are ATCO Structures Inc. (100% owned) and its subsidiaries; and Canadian Utilities Limited (51.372% owned) and its subsidiaries ("Canadian Utilities"), which mainly comprise the utility subsidiaries. ATCO Ltd. and its wholly owned subsidiaries are collectively referred to herein as "the Corporation".

ATCO has retroactively adopted the Canadian Institute of Chartered Accountants recommendations on accounting for financial instruments. These recommendations require mandatorily redeemable or retractable preferred shares be classified as liabilities and related dividends as an expense. Previously, all preferred shares were classified as equity instruments. This accounting change resulted in changes in presentation and disclosure but had 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 at rates approved by the EUB for debt and equity capital. Capital expenditures in the other subsidiaries include capitalized interest incurred during construction.

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.

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

Each regulated electric and natural gas utility follows the method of accounting for income taxes that is consistent with the method of determining the income tax component of its rates. When deferred income taxes are not provided in the income tax component of rates, the customer in future years will bear a charge in the event of a reversal of the unbooked deferred income taxes.

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

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.

Long Term Debt Due Within One Year

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 with respect thereto, or sufficient capacity under long term bank loan agreements to issue commercial paper or assume bank loans, then current maturities 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 recognized in income in the same period and in the same financial statement category as the income or expense from the hedged position.

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. Assets in the plans are valued at market, adjusted for a three to five year averaging of unrealized gains or losses.

Adjustments resulting from plan enhancements, experience gains and losses and changes in assumptions are amortized over the estimated average remaining service life of employees.

2. OTHER INCOME

	1996	1995
	(Millions of dollars)	
Allowance for funds used by utilities	$ 6.6	$ 6.6
Interest	18.9	16.1
Other	(2.8)	(1.4)
	$ 22.7	$ 21.3

3. INCOME TAXES

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

	1996	1995
	(Millions of dollars)	
Earnings before income taxes and non-controlling interests	$ 341.0	$ 293.3
Income taxes at statutory rate of 44.62% (1995 - 44.57%)	$ 152.2	$ 130.7
Dividends on preferred shares	19.4	23.0
Allowance for funds used by utilities	(1.5)	(1.6)
Crown royalties and other non-deductible government payments	3.2	1.8
Earned depletion and resource allowance	(3.7)	(3.6)
Large corporations tax	5.0	5.1
Unrecorded deferred income taxes	(1.7)	(4.0)
Depreciation of assets with no tax value	3.5	3.6
Utilization of unrecorded benefits on prior years' losses	(1.1)	—
Foreign tax rate variance	(2.9)	(1.6)
Other	3.5	(1.0)
	175.9	152.4
Current income taxes	152.5	138.0
Deferred income taxes	$ 23.4	$ 14.4

Deferred income taxes include $14.9 million (1995 - $4.2 million) which is recorded in current liabilities as it relates to deferred gas costs included in current assets.

Unrecorded deferred taxes of the utility subsidiaries increased by $1.7 million to $178.3 million at December 31, 1996.

A foreign subsidiary has operating loss carryforwards of approximately $11.2 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. In 1996, another foreign subsidiary utilized operating loss carryforwards of approximately $2.5 million for which the tax benefits were not previously recognized in the accounts.

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 received was discounted from the tax value of the losses to reflect the present value of accelerating the use of the losses. Canadian Utilities' share of the amount received in 1996 is $3.0 million (1995 - $11.1 million) and has been included in accumulated deferred income taxes.

4. NON-CONTROLLING INTERESTS

	1996	1995
	(Millions of dollars)	
Non-controlling interests in subsidiary companies:		
Canadian Utilities		
Non-retractable		
Cumulative Redeemable Preferred Shares, 4¼% to 6.0%	$ 10.5	$ 30.5
Cumulative Redeemable Second Preferred Shares, 7.1% to 8.0%	99.0	50.9
Perpetual Cumulative Second Preferred Shares, 4.63% to 5.4%	100.0	75.0
Class A non-voting and Class B common shares	584.2	544.7
ATCOR		
Class A non-voting and Class B common shares	—	93.8
	$ 793.7	$ 794.9

Purchase Obligations

The purchase obligations of non-retractable preferred shares of Canadian Utilities for each of the next five years are:

1997	1998	1999	2000	2001
		(Millions of dollars)		
$ 1.5	$ 1.5	$ 1.5	$ 1.5	$ 1.5

	1996	1995
	(Millions of dollars)	
Non-controlling interests in the earnings of subsidiary company:		
Canadian Utilities		
Non-retractable preferred share dividends	$ 9.1	$ 10.5
Earnings attributable to Class A non-voting and Class B common shares	82.7	73.6
	$ 91.8	$ 84.1

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. Proceeds to ATCO, after costs, were $86.9 million (including the elimination of ATCOR Resources Ltd.'s $5.0 million current bank indebtedness) resulting in a gain of $6.8 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. Subsequently, Canadian Utilities Limited purchased from ATCO Ltd. its share of the assets acquired from ATCOR for a total purchase price of $6.7 million. Consideration for the purchase was the issue of 155,697 Class A non-voting and 94,418 Class B common shares of Canadian Utilities Limited.

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. DIRECT CHARGES TO RETAINED EARNINGS

	1996	1995
	(Millions of dollars)	
Settlement of stock options by the Corporation (after income tax)	$ —	$ 0.2
Settlement of stock options by a subsidiary (after income tax and non-controlling interests)	0.3	0.6
	$ 0.3	$ 0.8

7. PROPERTY, PLANT AND EQUIPMENT

		1996		1995	
	Composite Depreciation Rates	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
			(Millions of dollars)		
Electric power	3.6%	$ 3,403.0	$ 999.8	$ 3,239.6	$ 893.6
Natural gas	3.9%	2,040.1	637.5	1,968.6	599.8
Oil and gas properties		—	—	431.7	201.9
Rental assets	15.0%	11.2	3.6	15.4	8.9
Other property, plant and equipment	6.5%	65.2	26.1	76.4	29.6
		$ 5,519.5	$ 1,667.0	$ 5,731.7	$ 1,733.8
Property, plant and equipment, less accumulated depreciation			$ 3,852.5		$ 3,997.9
Unamortized contributions by customers for extensions to utility plant			343.4		326.6
			$ 3,509.1		$ 3,671.3

Accumulated depreciation includes amounts provided for future removal or site restoration costs of $114.4 million (1995 - $97.6 million).

8. LONG TERM DEBT

	1996	1995
	(Millions of dollars)	
Recourse		
Canadian Utilities		
Debenture — sinking fund — at fixed rate of 17.50%, due March 1997	$ 21.0	$ 24.0
Debentures — other — at fixed rates of 7.25% to 12.00%, due at various dates to 2023	1,352.0	1,352.0
Notes payable, at a rate of 3.45% maturing November 14, 1997	3.9	98.3
Barking Power Project — term loan	—	51.6
Other, at rates of 4.36% to 12.00%	34.0	27.9
ATCOR	—	18.8
ATCO Investments Ltd.		
Term loan on Canadian Western Centre, Phase II, at prime, due March 31, 2000, secured by the building	12.0	12.2
Other	—	3.6
	1,422.9	1,588.4
Less: Amounts due within one year	0.2	0.3
	$ 1,422.7	$ 1,588.1
Non-recourse		
Canadian Utilities		
Barking Power Limited project financing:		
at fixed rates averaging 7.95%	$ 118.5	$ 108.1
at LIBOR plus 1.04%	202.5	186.0
semi-annual payments commencing September 1996 and ending 2010, payable in British Pounds		
McMahon cogeneration plant term facility, at 9.01%, due to 2004	29.1	33.0
Industrial Gas System credit facility, at 7.32%, due to 2006	26.7	26.7
Osborne Cogeneration Pty Ltd., project financing at 9.43% due to 2013, payable in Australian dollars	8.7	—
	385.5	353.8
Less: Amounts due within one year	15.2	7.9
	$ 370.3	$ 345.9

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

1997	1998	1999	2000	2001
		(Millions of dollars)		
$ 71.6	$ 81.3	$ 61.8	$ 71.6	$ 38.2

Of the $71.6 million due in 1997, $56.2 million is to be refinanced and is, therefore, excluded from long term debt due within one year in the balance sheet. Similarily, the notes payable have been included in long term debt.

ATCO has operating credit lines totaling $322 million with maturities of up to five years. These credit lines enable ATCO to obtain financing for general business purposes and support the commercial paper program. There was $18.1 million outstanding under these credit lines at December 31, 1996 (1995 - nil).

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 $181.2 million.

Interest on debt is as follows:

	1996	1995
	(Millions of dollars)	
Long term debt	$ 179.2	$ 184.3
Current bank indebtedness	0.9	2.3
Amortization of financing charges	4.7	4.7
Less — capitalized on non-utility projects	(0.3)	(9.6)
	184.5	181.7
Discontinued operations	—	(3.3)
	$ 184.5	$ 178.4

Fair values for the above debt, determined using quoted market prices for the same or similar issues, are shown below. Where market prices are not available, fair values are estimated using discounted cash flow analysis based on ATCO's current borrowing rate for similar borrowing arrangements.

	1996	1995
	(Millions of dollars)	
Recourse — fixed rate	$ 1,687.8	$ 1,630.8
— floating rate	30.2	90.6
	$ 1,718.0	$ 1,721.4
Non-recourse — fixed rate	116.6	107.5
— floating rate	254.2	238.8
	$ 370.8	$ 346.3

9. PREFERRED SHARES

	Redemption Date	1996 Shares	1996 Amount	1995 Shares	1995 Amount
			(Millions)		
CanUtilities Holdings Ltd.					
Authorized and Issued:					
Cumulative Redeemable Preferred Shares					
Series A	July 1, 2001	6.0	$ 150.0	6.0	$ 150.0
Series B	July 1, 2001	3.0	75.0	3.0	75.0
Series C	July 1, 2001	3.0	75.0	3.0	75.0
			300.0		300.0
Canadian Utilities Limited					
Authorized:					
An unlimited number of Series Second Preferred Shares, issuable in series					
Issued:					
Cumulative Redeemable Second Preferred Shares					
Retractable on redemption dates					
8.0% Series P	—	—	—	5.0	125.0
5.9% Series Q	December 1, 1998	5.0	125.0	5.0	125.0
5.3% Series R	June 1, 1999	6.0	150.0	6.0	150.0
6.6% Series S	March 1, 2000	2.0	50.0	2.0	50.0
			325.0		450.0
			$ 625.0		$ 750.0

CanUtilities Holdings Ltd.

The Series A preferred shares bear a fixed dividend rate of $1.7250 per share per annum. The Series B and Series C preferred shares bear a floating dividend rate determined by monthly auctions.

The average dividend rate on the preferred shares for the year ended December 31, 1996 was $1.3045 (1995 - $1.6544) 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.

Canadian Utilities Limited

On December 2, 1996, 3,076,267 of Cumulative Redeemable Second Preferred Shares Series P were retracted at a price of $25.00 per share plus accrued dividends. Effective December 2, 1996, the retraction option expired and the remaining 1,923,733 Series P shares are now redeemable only at the option of the corporation and, therefore, have been recorded as non-controlling interests (see note 4).

The preferred shares of Canadian Utilities Limited are redeemable subject to accrued and unpaid dividends but are not subject to a premium. The preferred shares are retractable at the stated value of $25.00 per share plus accrued and unpaid dividends.

Fair Values

Fair values for Preferred Shares, determined using quoted market prices for the same or similar issues, are $652.3 million (1995 - $762.3 million).

Purchase Obligations

The aggregate of purchase obligations and maximum possible retractions of Preferred Shares for each of the next five years is:

1997	1998	1999	2000	2001
		(Millions of dollars)		
$ —	$ 125.0	$ 150.0	$ 50.0	$ 300.0

10. 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 and Outstanding:						
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
Employee share						
option plans	9,100	0.1	—	—	9,100	0.1
Conversions:						
Class II to Class I	26,953	—	(26,953)	—	—	—
December 31, 1996......	26,788,523	$ 136.4	3,686,009	$ 1.9	30,474,532	$ 138.3

Shareholder Rights

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.

Stock Option Plan

ATCO Ltd. has a share option plan under which options to purchase Class I non-voting shares were outstanding at December 31, 1996. The exercise of the outstanding options would not materially dilute earnings per Class I and Class II share. Changes in shares under option are summarized below:

Price Per Option	$ 8.63	$ 14.03	$ 18.58	
Expiry at various dates to	March 31, 1995	February 1, 2005	January 1, 2006	Total
Options at December 31, 1994	90,000	—	—	90,000
Granted	—	580,000	—	580,000
Exercised	(40,000)	—	—	(40,000)
Settlement	(50,000)	—	—	(50,000)
Options at December 31, 1995	—	580,000	—	580,000
Granted	—	—	250,000	250,000
Exercised	—	(9,100)	—	(9,100)
Options at December 31, 1996	—	570,900	250,000	820,900

On January 1, 1997, options to purchase 277,000 Class I non-voting shares were granted at a price of $23.70 per share. These options expire at various dates to January 1, 2007.

11. SEGMENTED INFORMATION

Industry Segments

1996 1995	Electric Power	Natural Gas	Facilities Management and Logistics	Manufacturing & Leasing	Other[1]	Consolidated[2]
			(Millions of dollars)			
Revenues	$ 811.7	$ 912.9	$ 92.5	$108.1	$ 21.1	$ 1,937.3
	$ 771.0	$ 807.0	$ 97.1	$ 50.2	$ 21.9	$ 1,736.9
Operating costs	382.4	622.9	80.3	95.0	23.5	1,195.9
	358.1	556.6	82.1	45.9	23.7	1,056.8
Depreciation and amortization	115.1	71.4	1.1	2.6	1.7	195.1
	103.1	66.9	2.5	1.7	1.1	178.2
Interest	126.3	57.3	0.1	0.3	0.5	184.5
	118.7	56.3	0.5	0.1	3.5	178.4
Dividends on preferred shares	17.7	10.2	—	—	15.6	43.5
	20.4	11.3	—	—	19.8	51.5
Other income (expense)	16.2	4.3	0.4	(0.3)	1.5	22.7
	13.5	2.8	0.8	2.3	2.5	21.3
Earnings before income taxes and non-controlling interests	$ 186.4	$ 155.4	$ 11.4	$ 9.9	$ (18.7)	$ 341.0
	$ 184.2	$ 118.7	$ 12.8	$ 4.8	$ (23.7)	$ 293.3
Identifiable assets[3]	$ 2,487.5	$ 1,414.0	$ 33.3	$ 48.6	$ 182.0	$ 4,241.6
	$ 2,474.3	$ 1,341.1	$ 29.6	$ 38.6	$ 147.8	$ 4,361.7
Capital expenditures[3]	$ 139.5	$ 111.6	$ 1.3	$ 10.1	$ —	$ 262.5
	$ 160.0	$ 175.7	$ 0.5	$ 5.2	$ 0.3	$ 367.9

(1) Real estate, travel and corporate.

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

(3) ATCOR Resources Ltd.'s 1995 identifiable assets and capital expenditures have been included in the consolidated column.

Geographic Segments

	Domestic		Foreign		Consolidated	
	1996	1995	1996	1995	1996	1995
			(Millions of dollars)			
Revenues	$ 1,749.4	$ 1,647.8	$ 187.9	$ 89.1	$ 1,937.3	$ 1,736.9
Earnings before income taxes and non-controlling interests	$ 310.6	$ 280.6	$ 30.4	$ 12.7	$ 341.0	$ 293.3
Total assets	$ 3,782.2	$ 3,931.8	$ 459.4	$ 429.9	$ 4,241.6	$ 4,361.7
Capital expenditures	$ 247.4	$ 327.1	$ 15.1	$ 40.8	$ 262.5	$ 367.9

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 and Chile.

12. JOINT VENTURES

ATCO'S interest in joint ventures is summarized below:

	1996	1995
	(Millions of dollars)	
Statement of Earnings		
Revenues	$ 181.9	$ 111.1
Operating expenses	112.8	66.9
Depreciation	14.8	7.9
Interest	29.4	22.3
	24.9	14.0
Other income	4.5	0.5
Earnings from joint ventures before income tax	$ 29.4	$ 14.5
Balance Sheet		
Current assets	$ 81.3	$ 96.5
Current liabilities	(71.4)	(51.1)
Property, plant and equipment		
— in service	411.7	377.6
— held for resale	8.8	11.4
Deferred items — net	(36.4)	(24.9)
Long term debt — recourse	—	(3.6)
— non-recourse	(345.3)	(319.2)
Investment in joint ventures	$ 48.7	$ 86.7
Statement of Changes in Cash Position		
Operating activities	$ 37.6	$ 15.8
Investing activities	(11.4)	(41.6)
Financing activities	(56.3)	84.2
Increase (decrease) in cash position	$ (30.1)	$ 58.4

Current assets include cash of $35.2 million (1995 - $61.2 million) which is only available for use 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.

13. 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:

	1996	1995
	(Millions of dollars)	
Market value of assets	$ 966.2	$ 826.5
Accrued pension benefits	732.3	711.1
Surplus	$ 233.9	$ 115.4

The pension costs for the year amounted to $12.5 million (1995 - $13.3 million) of which $2.1 million (1995 - $2.2 million) was capitalized. The plan surplus is being amortized on a straight line basis over 16 years.

14. COMMITMENTS AND CONTINGENCIES

ATCO has contractual obligations in the normal course of business and in respect of long term operating leases for manufacturing facilities, office premises and equipment. The rentals amounted to $13.2 million for the year (1995 - $13.5 million). Future minimum lease payments are as follows:

1997	1998	1999	2000	2001	Total of All Subsequent Years
(Millions of dollars)					
$ 12.8	$ 12.3	$ 11.9	$ 11.5	$ 10.9	$ 41.8

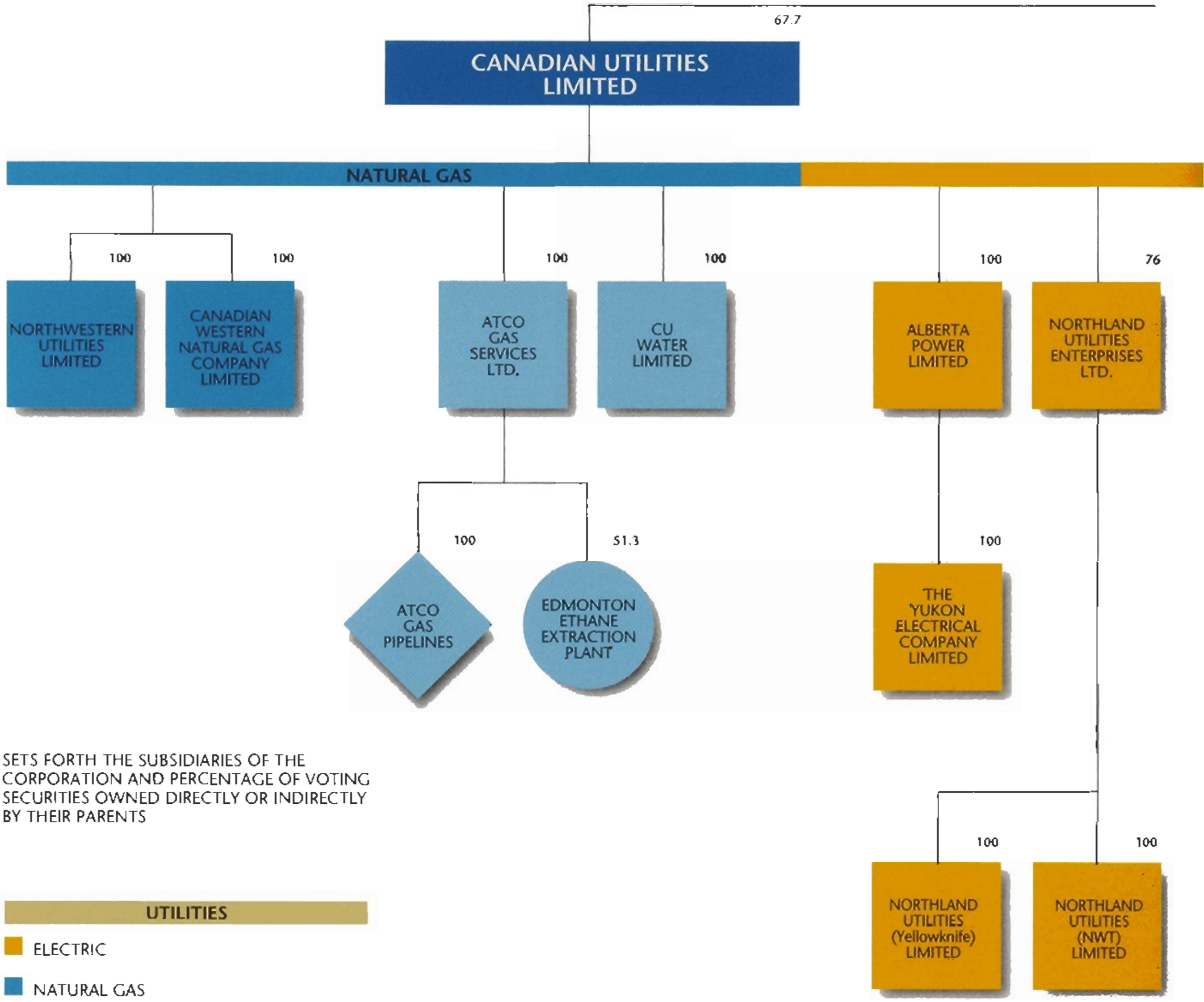
ATCO is party to a number of disputes and lawsuits in the ordinary course of business. Management is confident that the ultimate liability arising from these matters will have no material effect on the consolidated financial statements.

In late 1995, Alberta Power Limited filed a general rate application for 1996 rates with the EUB. A decision is expected in 1997. The decision is not expected to have a material effect on the consolidated financial statements.

15. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted for 1996.

Corporate Structure



SETS FORTH THE SUBSIDIARIES OF THE CORPORATION AND PERCENTAGE OF VOTING SECURITIES OWNED DIRECTLY OR INDIRECTLY BY THEIR PARENTS

UTILITIES

ELECTRIC

NATURAL GAS

COMPLEMENTARY

INDEPENDENT POWER GENERATION

FACILITIES MANAGEMENT AND LOGISTICS

GAS GATHERING, PROCESSING AND TRANSMISSION

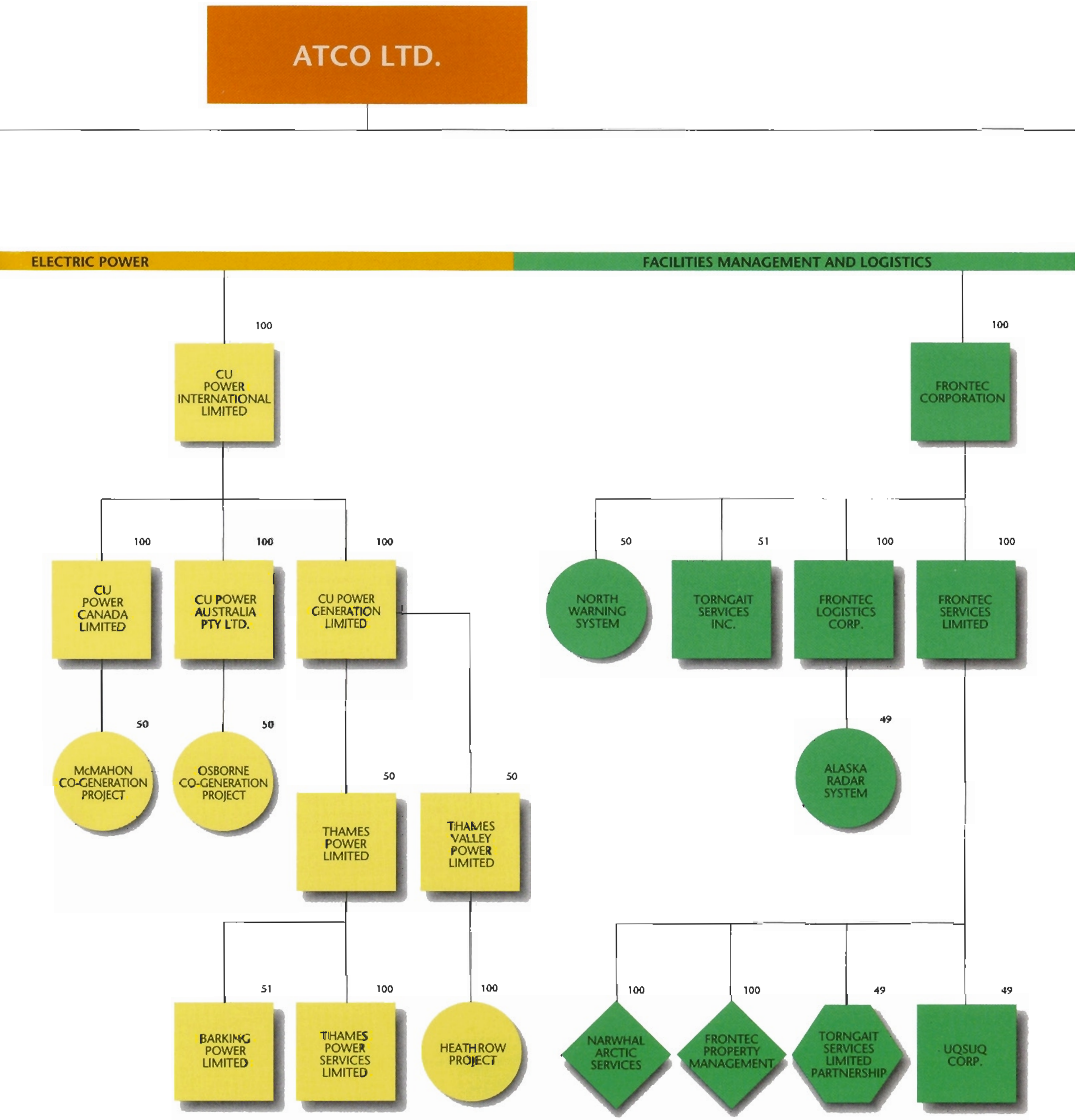
SYMBOLS

CORPORATION

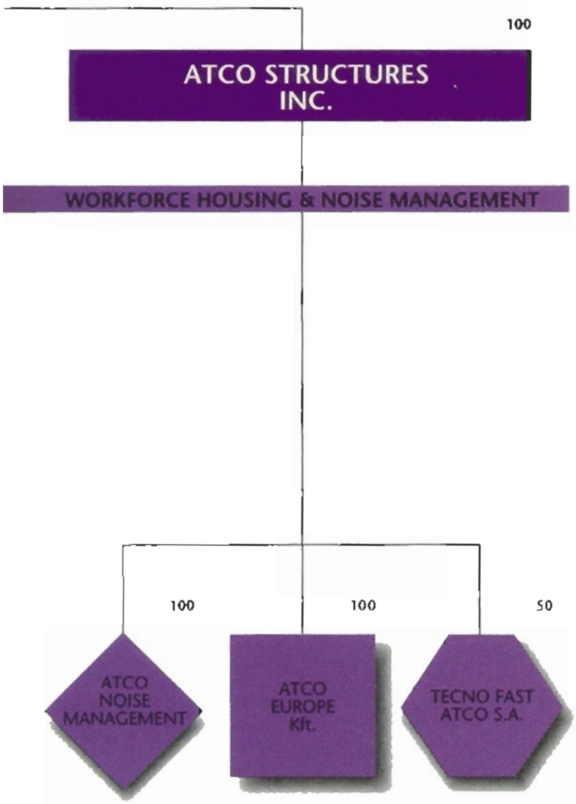
JOINT VENTURE

BUSINESS DIVISION

LIMITED PARTNERSHIP


ATCO LTD.
ELECTRIC POWER
FACILITIES MANAGEMENT AND LOGISTICS
100
CU POWER INTERNATIONAL LIMITED
100
FRONTEC CORPORATION
100
CU POWER CANADA LIMITED
100
CU POWER AUSTRALIA PTY LTD.
100
CU POWER GENERATION LIMITED
50
NORTH WARNING SYSTEM
51
TORNGAIT SERVICES INC.
100
FRONTEC LOGISTICS CORP.
100
FRONTEC SERVICES LIMITED
50
McMAHON CO-GENERATION PROJECT
50
OSBORNE CO-GENERATION PROJECT
49
ALASKA RADAR SYSTEM
50
THAMES POWER LIMITED
50
THAMES VALLEY POWER LIMITED
51
BARKING POWER LIMITED
100
THAMES POWER SERVICES LIMITED
100
HEATHROW PROJECT
100
NARWHAL ARCTIC SERVICES
100
FRONTEC PROPERTY MANAGEMENT
49
TORNGAIT SERVICES LIMITED PARTNERSHIP
49
UQSUQ CORP.

Corporate Information



BOARD OF DIRECTORS AND OFFICERS

DIRECTORS

W.L. Britton Q.C. (2)
Partner, Bennett Jones Verchere, Calgary

B.P. Drummond (1) (2)
Corporate Director
Montreal

B.K. French (1) (2)
President,
Karusel Management Ltd., Calgary

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

R. Rice (1) (2)
Corporate Director and Private Investor
South Carolina, U.S.A.

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

N.C. Southern (1) (3)
Deputy Chairman, ATCO Ltd.

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

C.O. Twa (3)
President and Chief Operating Officer ATCO Ltd.

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

Dr. J.D. Wood, F.C.A.E.
President and Chief Operating Officer, ATCO Ltd.
(retired Oct. 2, 1996)

OFFICERS

R.D. Southern
Chairman and Chief Executive Officer

N.C. Southern
Deputy Chairman

C.O. Twa
President and Chief Operating Officer

C.S. Richardson
Senior Vice President, Finance and Chief Financial Officer
(retired April 2, 1997)

C.E. Barnicoat
Vice President, Information Technology

J.A. Campbell
Vice President, Finance

D.T. Davis
Vice President, Internal Audit

P.J. House
Vice President, Corporate Secretary

C.S. McConnell
Treasurer

L.J. Vegh
Vice President, Insurance

K.M. Watson
Vice President, Controller

S.R. Werth
Vice President, Administration

D.R. Cawsey
Assistant Corporate Secretary and Manager, Human Resources

(1) Member – Audit Committee
(2) Corporate Governance – Nomination, Succession and Compensation Committee
(3) Ex-officio Member - Corporate Governance - Nomination, Succession and Compensation Committee

Consolidated Summary of Operations

(Millions of Canadian dollars except share data)

	1996	1995	1994	1993[(1)]	1992[(1)]
Revenues	$ 1,937.3	$ 1,736.9	$ 1,831.5	$ 1,636.4	$ 1,439.1
Costs and expenses	1,619.0	1,465.0	1,558.3	1,381.6	1,242.1
	318.3	271.9	273.2	254.8	197.0
Other income	22.7	21.3	17.7	14.3	34.3
	341.0	293.2	290.9	269.1	231.3
Income taxes	175.9	152.3	156.3	140.7	115.1
	165.1	140.9	134.6	128.4	116.2
Non-controlling interests	91.8	84.1	81.6	83.0	75.7
Earnings (loss) from					
Continuing operations	73.3	56.8	53.0	45.4	40.5
Discontinued operations	6.8	1.1	(0.4)	2.2	2.9
Earnings attributable to Class I and Class II shares	$ 80.1	$ 57.9	$ 52.6	$ 47.6	$ 43.4
Earnings (loss) per Class I and Class II share					
Continuing operations	$ 2.41	$ 1.86	$ 1.74	$ 1.50	$ 1.34
Discontinued operations	0.22	0.04	(0.01)	0.07	0.09
Earnings per Class I and Class II share	$ 2.63	$ 1.90	$ 1.73	$ 1.57	$ 1.43
Dividends per Class I and Class II share	$ 0.52	$ 0.36	$ 0.27	$ 0.24	$ 0.24
Equity per Class I and Class II share	$ 18.63	$ 16.48	$ 15.00	$ 13.57	$ 12.89
Class I and Class II shares outstanding	30,474,532	30,465,432	30,425,432	30,415,432	30,296,532
Market price of shares					
Class I High	24	19 1/4	16 3/4	17	12 5/8
Class I Low	17 5/8	13 3/4	12	11 1/2	10 1/2
Class II High	24	18 1/2	16 7/8	16 1/2	12 1/2
Class II Low	17 5/8	14	12 1/2	11 1/2	10 1/2

(1) 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.

PRINCIPAL OPERATIONS

Canadian Utilities Limited

Corporate Office
1500, 909 - 11th Avenue S.W.
Calgary, Alberta T2R 1N6
Telephone: (403) 292-7500
Fax: (403) 292-7532

Operating Companies:

Alberta Power Limited
ATCO Gas Pipelines
ATCO Gas Services Ltd.
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 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
Torngait Services Inc.
Uqsuq Corp.

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 kft.
Tecno Fast ATCO S.A.

ATCO Travel

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

SHAREHOLDERS' INFORMATION

ATCO Ltd.
Office of the Chairman & Corporate Office
1500/1600, 909 - 11th Avenue S.W.
Calgary, Alberta T2R 1N6
Telephone: (403) 292-7500
Fax: (403) 292-7532

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) 292-7502

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
Telephone: 1-800-387-0825
(toll free in Canada or the U.S.)

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 21, 1997 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. & Canadian Utilities Limited Corporate Offices

1500/1600, 909 - 11th Avenue S.W.
Calgary, Alberta
T2R 1N6

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