ATCO LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2019

This Management's Discussion and Analysis (MD&A) is meant to help readers understand key operational and financial events that influenced the results of ATCO Ltd. (ATCO, our, we, us, or the Company) during the year ended December 31, 2019.

This MD&A was prepared as of February 26, 2020, and should be read with the Company's audited consolidated financial statements (2019 Consolidated Financial Statements) for the year ended December 31, 2019. Additional information, including the Company's Annual Information Form (AIF), is available on SEDAR at www.sedar.com.

The Company is controlled by Sentgraf Enterprises Ltd. and its controlling share owner, the Southern family. The Company includes controlling positions in Canadian Utilities Limited (Canadian Utilities or CU) (52.2 per cent ownership), ATCO Structures & Logistics Ltd. (100 per cent ownership), and ATCO Investments Ltd. (100 per cent ownership). The Company also has a non-controlling 40 per cent equity investment in Neltume Ports S.A. (Neltume Ports). Throughout this MD&A, the Company's earnings attributable to Class I and Class II Shares and adjusted earnings are presented after non-controlling interests.

Terms used throughout this MD&A are defined in the Glossary at the end of this document.

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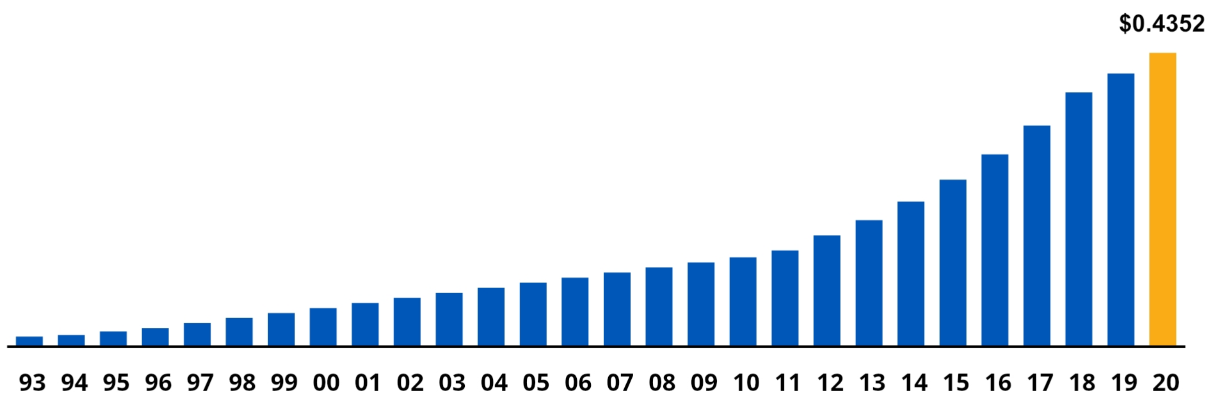
ATCO: WHAT SETS US APART

TRACK RECORD OF DIVIDEND GROWTH

We have increased our common share dividend every year for the past 27 years, a track record of which we are very proud. On January 9, 2020, we declared a first quarter dividend of 43.52 cents per share or $1.74 per share on an annualized basis. ATCO continues to grow its dividends consistent with the sustainable growth of its investments.

Quarterly Dividend Rate 1993 - 2020

(dollars per share)



DIVERSIFIED INFRASTRUCTURE HOLDINGS

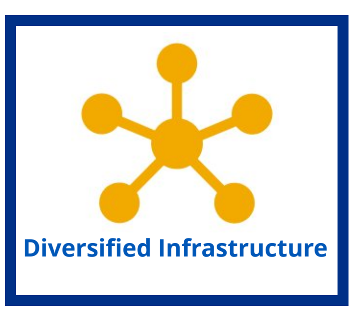
ATCO is focused on investments that put us at the forefront of global trends. We strive to deliver growth within our portfolio with a focus on select opportunities in the essential global services of: housing, logistics and transportation, agriculture, water, real estate, energy and energy infrastructure.

GLOBAL GROWTH PLANS

In the years ahead, ATCO will continue to grow and expand our business with a focus on disciplined capital investment in select global markets.

COMMITMENT TO FINANCIAL STRENGTH

Financial strength is fundamental to our current and future success. It ensures we have the financial capacity to grow our existing business and seek future opportunities that will ensure long term intergenerational prosperity. We remain committed to maintaining our strong, investment grade credit ratings.



ATCO CORE VISION AND VALUES

EXCELLENCE: THE HEART & MIND OF ATCO

"Going far beyond the call of duty. Doing more than others expect. This is what excellence is all about. It comes from striving, maintaining the highest standards, looking after the smallest detail and going the extra mile. Excellence means caring. It means making a special effort to do more."

R.D. Southern, Founder, ATCO

CORE VISION

Delivering inspired solutions for a better world. Always there. Anywhere.

CORE VALUES

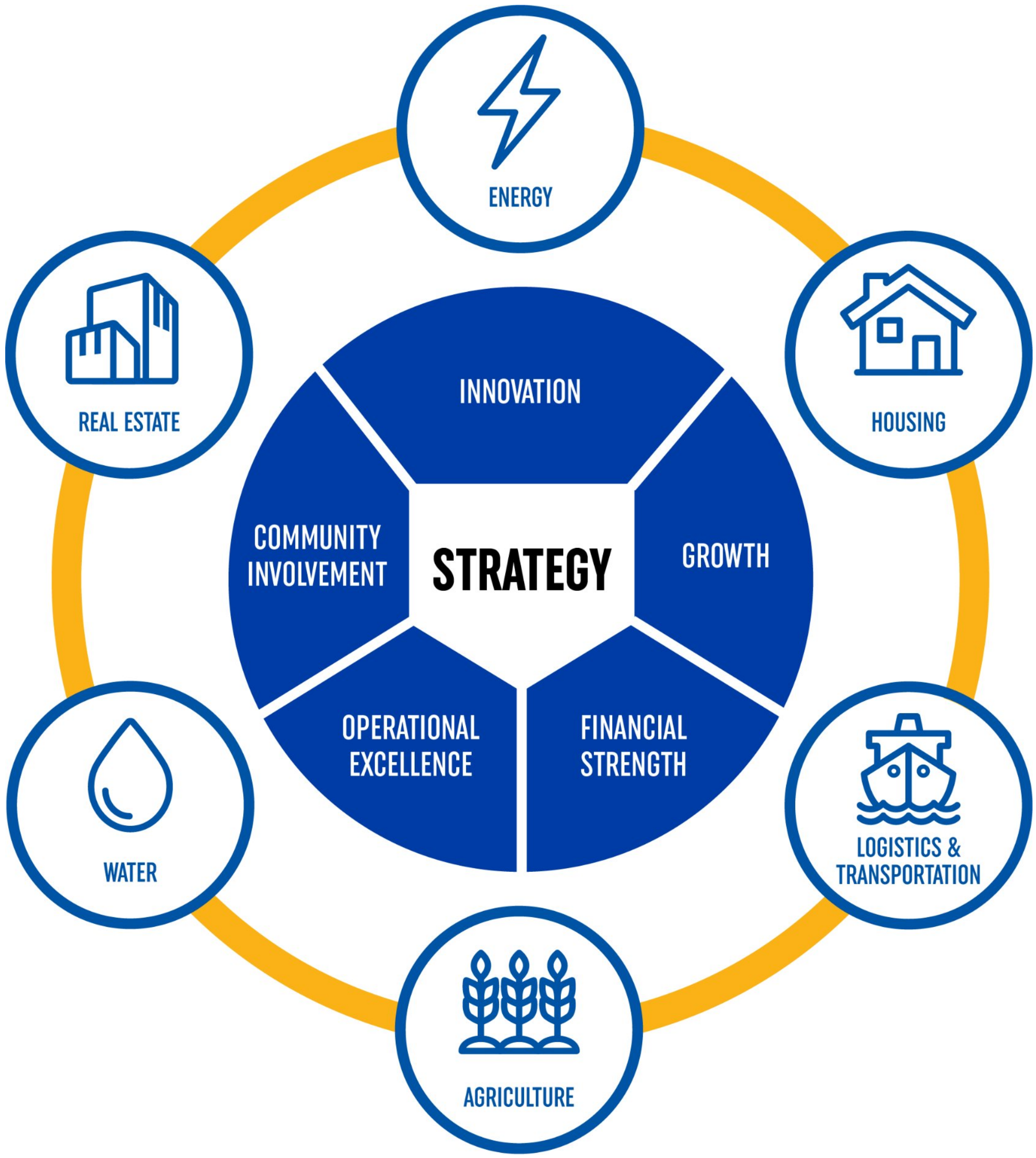
It is ATCO's Heart and Mind that drives the Company's approach to service reliability and product quality. Our pursuit of excellence governs the way we act and make decisions.

ATCO STRATEGIES

ATCO is focused on investments that put us at the forefront of global trends. We strive to deliver growth within our portfolio with a focus on select opportunities in the essential global services of: housing, logistics and transportation, agriculture, water, real estate, energy and energy infrastructure.

Innovation, growth and financial strength provide the foundation from which we have built our Company. Our long-term success depends on our ability to continue offering our customers premier, comprehensive and integrated solutions to meet their needs and expand into new markets.

These strategic imperatives are supported by our unwavering commitment to operational excellence, our customers, our people and the communities we are privileged to serve around the world.



"Making life easier for our customers by offering integrated solutions around the world."

INNOVATION

We seek to create a work environment where employees are encouraged to take a creative and innovative approach to meeting our customers' needs. By committing to applied research and development, we are able to offer our customers unique and imaginative solutions that differentiate us from our competitors.

GROWTH

Long-term sustainable growth is paramount. We approach this strategy by: expanding geographically to meet the global needs of our customers; developing significant, value-creating greenfield projects; and fostering continuous improvement.

We pursue the acquisition and development of complementary assets and businesses that have future growth potential and provide long-term value for share owners.

FINANCIAL STRENGTH

Financial strength is fundamental to our current and future success. It ensures ATCO has the financial capacity to fund existing and future capital investments through a combination of predictable cash flows from operations, cash balances on hand, credit facilities and access to capital markets. It enables ATCO to sustain our operations and to grow through economic cycles, thereby providing long-term financial benefits.

We continuously review ATCO's holdings to evaluate opportunities to sell mature assets and recycle the proceeds into growing areas of the Company. The viability of such opportunities depends on the outlook of each business as well as general market conditions. This ongoing focus supports the optimal allocation of capital across ATCO.

OPERATIONAL EXCELLENCE

We achieve operational excellence through high service, reliability, and product quality for our customers and the communities we serve. We are uncompromising about maintaining a safe work environment for employees and contractors, promoting public safety and striving to minimize our environmental impact. We ensure the timely supply of goods and services that are critical to our customers' ability to meet their core business objectives.

COMMUNITY INVOLVEMENT

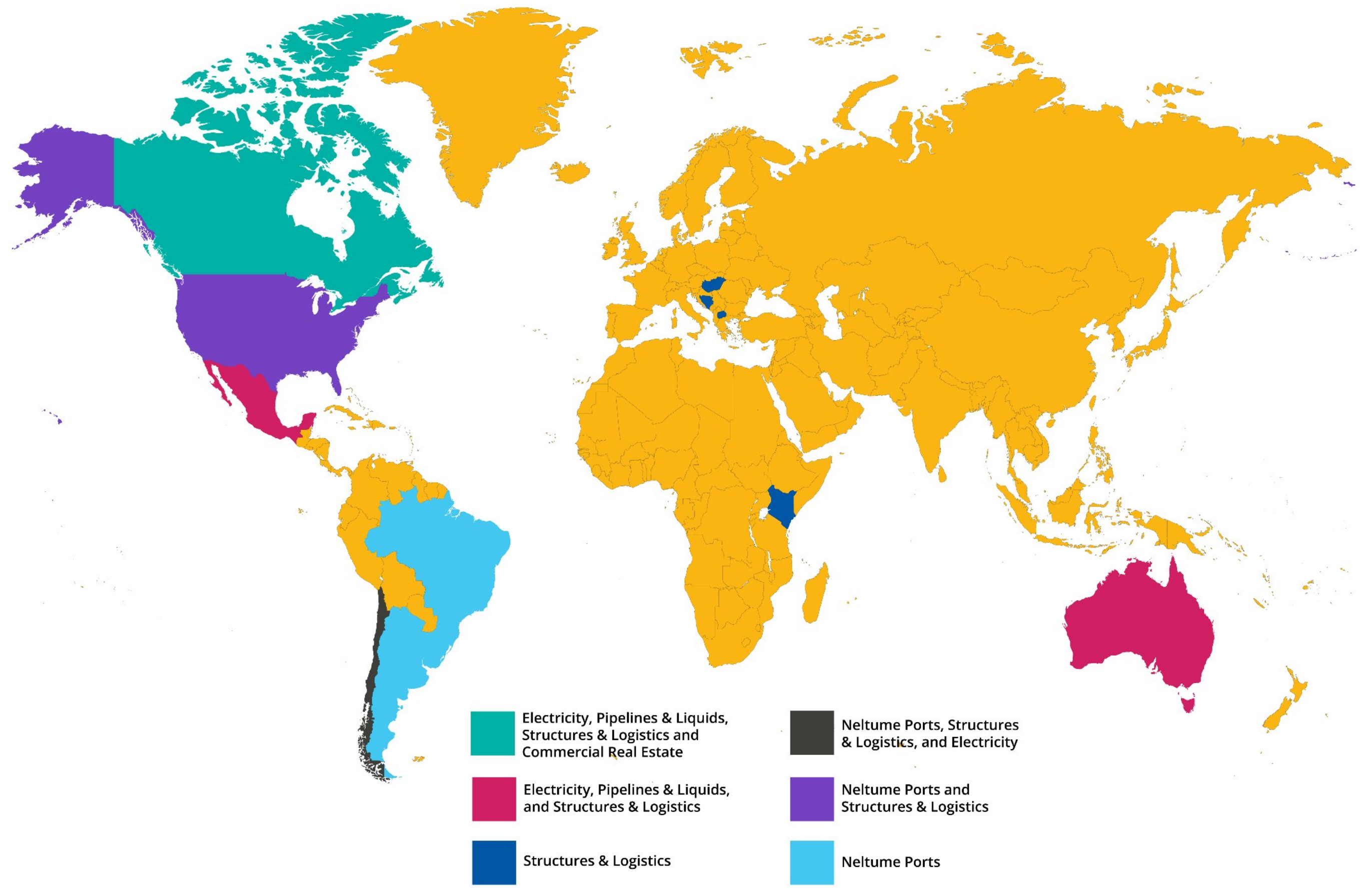
ATCO maintains a respectful and collaborative community approach, where meaningful partnerships and positive relationships are built with community leaders and groups that will enhance economic and social development. Community involvement creates the opportunity to develop partnerships with Indigenous and community groups that may be affected by projects and operations worldwide, and build ongoing, positive Indigenous relationships that contribute to economic and social development in their communities. We also engage with governing authorities, regulatory bodies, and landowners. We encourage partnerships throughout the organization. We encourage our employees to participate in community initiatives that will serve to benefit non-profit organizations through volunteer efforts, and the provision of products and services in-kind.

FURTHER COMMENTARY REGARDING STRATEGIES AND COMMITMENTS

ATCO's financial and operational achievements in 2019 relative to the strategies outlined above are included in this MD&A, the 2019 Consolidated Financial Statements and 2019 AIF. Further commentary regarding strategies and commitments to growth, financial strength, innovation, operational excellence, and community involvement will be provided in the forthcoming 2019 Management Proxy Circular, Year in Review, and Sustainability Report. The 2019 Management Proxy Circular also contains discussion of the Company's corporate governance practices.

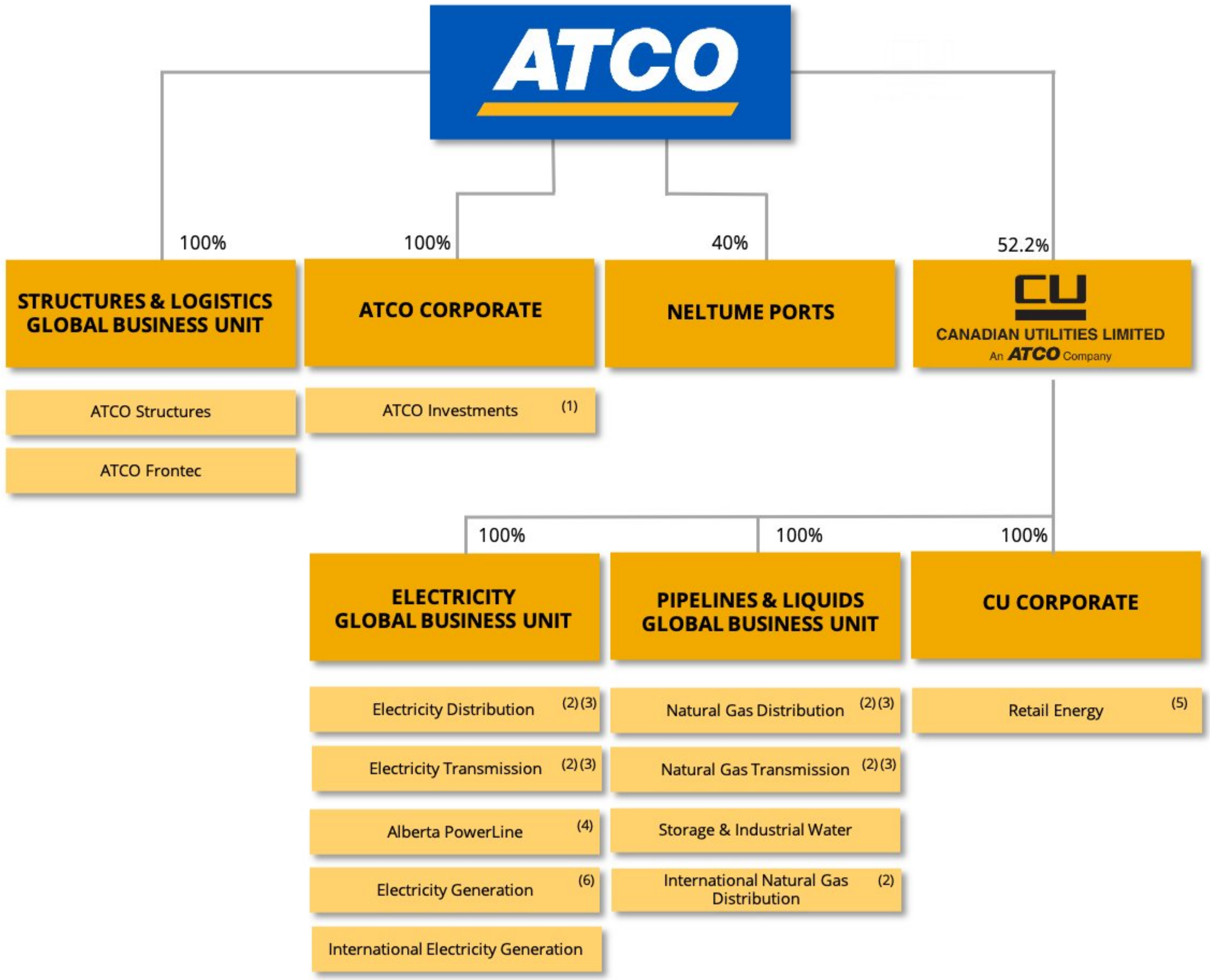
ATCO's website, www.atco.com, is a valuable source for the latest news of the Company's activities. Prior years' reports are also available on this website.

GLOBAL OPERATIONS



We are privileged to serve more than two million customers around the world, providing integrated, forward-thinking solutions in structures, logistics, electricity, retail energy, pipelines and liquids, commercial real estate, and ports and transportation. From reliable, sustainable energy for homes and businesses to innovative temporary and permanent structures and everything in between, we build communities, energize industries and deliver customer-focused infrastructure solutions.

ORGANIZATIONAL STRUCTURE



(1) *ATCO Investments Ltd. (ATCO Investments) includes commercial real estate investments held for sale, lease or development.*

(2) *Regulated businesses include Natural Gas Distribution, Natural Gas Transmission, International Natural Gas Distribution, Electricity Distribution, and Electricity Transmission.*

(3) *Canadian Utilities' 100 per cent owned subsidiary CU Inc. includes Natural Gas Distribution, Natural Gas Transmission, Electricity Distribution, and Electricity Transmission.*

(4) *Alberta PowerLine General Partner Ltd., the general partner of Alberta PowerLine Limited Partnership (Alberta PowerLine or APL), was a partnership between Canadian Utilities Limited (80 per cent) and Quanta Services, Inc. (20 per cent). In December of 2019, Canadian Utilities, along with Quanta Services Inc. completed the previously announced sale of APL. Canadian Utilities received aggregate proceeds of $222 million for its interest in APL and will remain as the operator over its 35-year contract with the Alberta Electric System Operator.*

(5) *Retail Energy, through ATCO Energy Ltd. (ATCOenergy), provides retail, commercial and industrial electricity and natural gas service in Alberta.*

(6) *On September 30, 2019, Canadian Utilities announced the sale of its Canadian fossil fuel-based electricity generation portfolio for aggregate proceeds of $821 million. The sale was completed in the fourth quarter of 2019.*

The 2019 Consolidated Financial Statements include the accounts of ATCO Ltd., including a proportionate share of joint venture investments and its equity-accounted investment in associate company (Neltume Ports). Principal subsidiaries are Canadian Utilities, of which ATCO Ltd. owns 52.2 per cent (38.3 per cent of the Class A non-voting shares and 90.2 per cent of the Class B common shares), and ATCO Structures & Logistics Ltd., of which ATCO Ltd. owns 100 per cent of the common shares. ATCO Ltd. also owns 100 per cent of the common shares of ATCO Investments Ltd. (ATCO Investments). On December 31, 2019, ATCO purchased Canadian Utilities' 100 per cent ownership interest in ASHCOR Technologies Ltd., an Alberta-based company engaged in marketing fly ash.

The 2019 Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the reporting currency is the Canadian dollar. Certain comparative figures throughout this MD&A have been reclassified to conform to the current presentation.

ATCO's website, www.atco.com, is a valuable source for the latest news of the Company's activities. Prior years' reports are also available on this website.

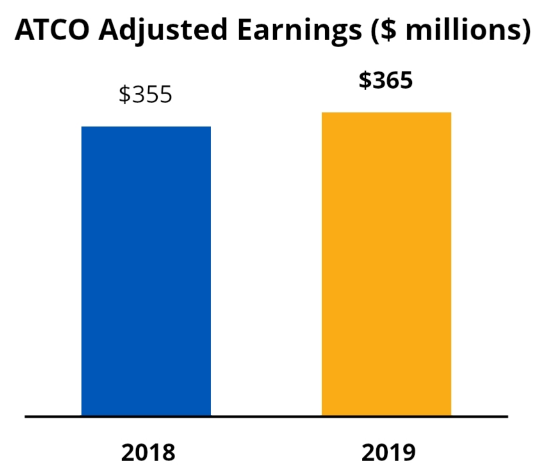
COMPANY OVERVIEW AND OPERATING ENVIRONMENT

With approximately 6,500 employees and assets of $22 billion, ATCO is a diversified global holding corporation with investments in Structures & Logistics (workforce housing, innovative modular facilities, construction, site support services, and logistics and operations management); Energy Infrastructure (electricity transmission, distribution and generation; natural gas transmission and distribution; energy storage and industrial water solutions; and electricity and natural gas retail sales); Transportation (ports and transportation logistics); and Commercial Real Estate.

The long-term success of ATCO is dependent upon our ability to grow the business by expanding into new markets and new business lines. Our steadfast commitment to our five strategic priorities of innovation, growth, financial strength, operational excellence and community involvement has allowed ATCO to endure periods of immense instability while continuing to grow. These priorities underpin our present strategy of delivering essential services for global economic prosperity through Housing, Energy, Logistics and Transportation, Water, Agriculture and Real Estate.

At the heart of ATCO's strategy is the desire to be a unified provider of essential services for our customers, allowing them to avoid the challenges of utilizing a fragmented network of providers. Our unique market position, integrated capabilities, and exceptional customer care combine to create a competitive advantage that is difficult to replicate, and one that continues to deliver value to share owners through exceptional earnings and dividend growth.

ATCO achieved adjusted earnings in 2019 of $365 million or $10 million higher than 2018. Higher earnings from Structures & Logistics were mainly due to work on the LNG Canada Cedar Valley Lodge contract. Higher earnings from Neltume Ports were due to a full year of earnings contributions following ATCO's acquisition of a 40 per cent ownership interest of Neltume Ports in September 2018.



STRUCTURES & LOGISTICS

The Structures & Logistics Global Business Unit's activities are conducted through two complementary businesses: ATCO Structures and ATCO Frontec. Diversified by geography, product and service offerings, these businesses meet the needs of customers and communities globally. Together these businesses offer workforce and residential housing, innovative modular facilities, construction, site support services, workforce lodging services, facility operations and maintenance, defence operations services, and disaster and emergency management services.

ATCO Structures

BUSINESS STRATEGY

ATCO Structures' strategy is to continue to grow a base of stable earnings through three main business lines: space rentals, workforce housing, and permanent modular construction. These complementary business lines, combined with our geographic diversity and prudent cost management create a leading, globally competitive business that is balanced to withstand global economic cycles.

Permanent modular classroom, Victoria, Australia

MARKET OPPORTUNITIES

Our goal is to continue growing our global space rental business while streamlining our manufacturing platform to scale quickly and profitably when needed to capture workforce housing contracts. We continue to focus on customer diversification opportunities outside of the natural resource sector. Non-traditional modular markets such as public education facilities, high density urban residential housing, hotels and correctional facilities offer development opportunities. Expansion will be focused in select global markets, including Canada, Australia, Latin America and the U.S.

MARKET CHALLENGES

The global natural resource sector continues to face economic headwinds, with ongoing lower private sector capital investment. There is a high level of competition in the markets in which we operate both from traditional competitors and new product developers looking to enter or diversify into markets in which ATCO Structures operates.

ATCO Frontec

BUSINESS STRATEGY

ATCO Frontec's strategy is to be a customer service business focused on providing workforce lodging services, facility operations and maintenance services, defence operations services, and disaster and emergency management services.

Silvertip mining camp, British Columbia

MARKET OPPORTUNITIES

Our focus in 2020 will be centered on expanding camp service offerings in new geographies and markets. ATCO Frontec's northern operations are also focused on growth opportunities as the Arctic experiences more global attention and government contracts continue to come up for renewal. Canadian and international contract wins in 2019 in the disaster and emergency management division present an operating platform for continued growth.

MARKET CHALLENGES

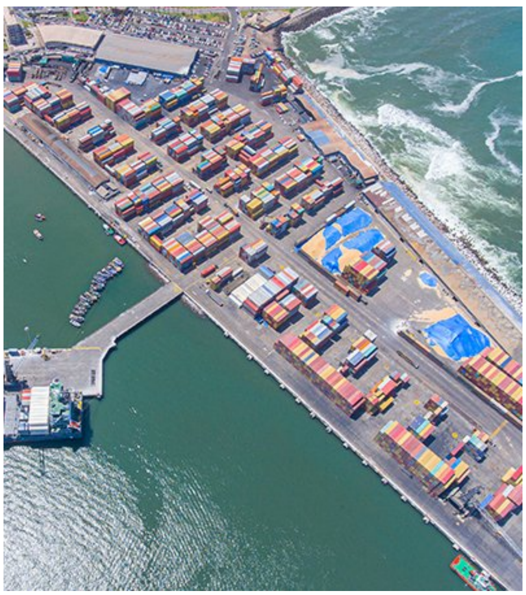
Continued uncertainty in the natural resource sector in Canada will limit the demand for workforce housing and the associated camp services that ATCO Frontec operates. ATCO Frontec is pursuing contracts with customers whose projects remain subject to comprehensive approval processes.

NELTUME PORTS

Neltume Ports is a port operator and developer with a diversified portfolio of multipurpose, bulk cargo and container terminals located in Chile, Uruguay, Argentina, and Brazil. Neltume Ports operates 16 port facilities and three port operation services businesses with assets that are highly diversified across both cargo types and volume mix. The business employs approximately 6,100 people and in 2019, it handled 46 million tonnes of product, including copper, forestry products, consumer goods and agricultural products.

BUSINESS STRATEGY

Neltume Ports' strategy is to grow its businesses through: increasing volumes at existing ports, increasing ownership in existing ports, and investing in port opportunities across the Americas. International growth opportunities allow Neltume Ports to further diversify its cargo type and customer base. Most of the ports are secured by long-term contracts or concessions and are strategically located near major resource or agriculture hubs, as well as high density areas of economic importance. The business environment is also supported by key partnerships with shipping lines and cargo owners.



Container port operations, Arica, Chile

MARKET OPPORTUNITIES

Through Neltume Ports' exposure to global trade and transportation, the business is able to capitalize on increasing demand for resources, agriculture and forestry products, as well as growing macroeconomic factors. Latin American Gross Domestic Product (GDP) growth is expected to slow its pace. Neltume Ports' positioning provides some geographic mitigation for slowing global trade and its container and bulk shipments are expected to remain stable.

MARKET CHALLENGES

Potential changes in macroeconomic conditions could slow the growth trajectory of the business. There is exposure to certain countries with a higher possibility of political unrest and economic volatility.

CANADIAN UTILITIES

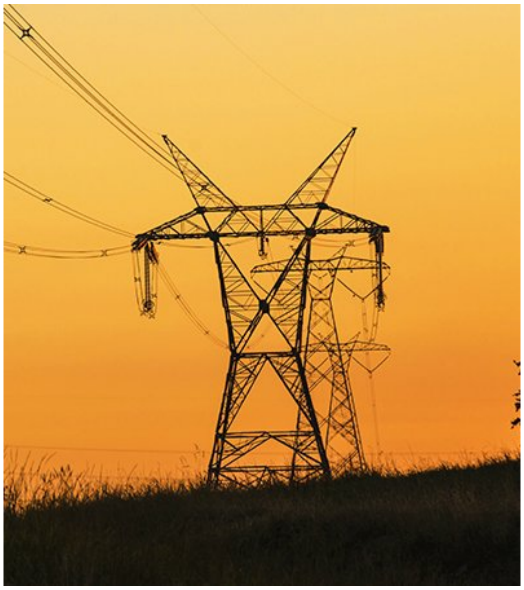
Canadian Utilities is a diversified global energy infrastructure corporation delivering service excellence and innovative business solutions in Electricity (electricity transmission, distribution, and generation); Pipelines & Liquids (natural gas transmission and distribution, energy storage, and industrial water solutions); and Retail Energy (electricity and natural gas retail sales).

Electricity

The Electricity Global Business Unit's activities are conducted through two regulated businesses: electricity distribution and electricity transmission, and non-regulated electricity generation and transmission. Together these businesses provide electricity distribution, transmission, generation, and related infrastructure services.

BUSINESS STRATEGY

Electricity's strategy is to grow its businesses through: investing in regulated electricity distribution and transmission, capitalizing on opportunities to provide long-term contracted electricity transmission services and renewable and natural gas-fired electricity generation.



Electricity transmission towers, Alberta

MARKET OPPORTUNITIES

The electricity regulated businesses expect to see continued investment opportunities based on customer growth and system replacements. Expansion will be focused in select global markets, including Canada, Australia, Latin America and the U.S.

Electricity targets select markets with stable regulatory environments and rule of law, excellent long-term growth potential, and strategic fit with our existing asset base and complementary skills.

MARKET CHALLENGES

Potential changes in macroeconomic conditions or government policy could slow the growth trajectory of these businesses.

Pipelines & Liquids

The Pipelines & Liquids Global Business Unit's activities are conducted through three regulated businesses: natural gas distribution, natural gas transmission, and international natural gas distribution, and one non-regulated business: storage & industrial water. These businesses offer complementary products and services that enable them to deliver comprehensive natural gas distribution and transmission services, energy storage, and industrial water solutions to existing and new customers.

BUSINESS STRATEGY

Pipelines & Liquids' strategy is to grow its businesses through investing in regulated natural gas distribution and transmission, and becoming a premier hydrocarbon liquids storage and industrial water infrastructure provider.

Natural gas transmission control station, Drayton Valley, Alberta

MARKET OPPORTUNITIES

The pipelines and liquids regulated businesses expect to see continued growth based on forecasted customer growth and system replacements. Expansion of pipelines in Alberta is expected to increase the need for energy storage to manage supply and demand. Expansion will be focused in select global markets, including Canada, Australia, Latin America, and the U.S.

Pipelines & Liquids targets select markets with stable regulatory environments and rule of law, excellent long-term growth potential, and strategic fit with our existing asset base and complementary skills.

MARKET CHALLENGES

Potential changes in macroeconomic conditions or government policy could slow the growth trajectory of these businesses.

ATCO SCORECARD

Target Met | Target Partially Met | Target Not Met

The following scorecard outlines our performance in 2019.

STRATEGIC PRIORITIES	2019 TARGET		2019 PERFORMANCE
INNOVATION			
New and existing products and services	Expand permanent modular construction into hotels, schools, affordable housing and seniors' living centres.	Target Met	Leveraging off of its expertise in modular housing, ATCO Structures partnered with the Homes for Heroes Foundation to build a village of 15 modular tiny homes to provide housing and a robust support system for veterans who are experiencing homelessness. This project was completed on schedule in November. ATCO Structures secured multiple projects for the Government of British Columbia's (BC) supportive housing program. A 52-unit apartment complex in Vernon, BC was successfully completed in June and a 30-unit apartment building in Powell River, BC was substantially complete in December. ATCO Structures was awarded a contract for two Marriott hotels situated near Napa Valley and Oakland, California. Modular supply manufacturing was completed in the fourth quarter of 2019 for the first hotel. ATCO Structures provided classroom spaces for 6,000 students in public and private campuses, and built our first ever police station in Australia.
	Explore and test new products and methods of energy delivery to meet customers' future needs.	Target Met	In July, we officially opened the Clean Energy Innovation Hub in Jandakot, Western Australia. This hub uses solar renewable energy to produce hydrogen, enabling us to be part of the next energy wave with hydrogen, and repositioning the international natural gas distribution business as the energy mix evolves.
	• Expand number of electric vehicle charging stations in Alberta	Target Met	Canadian Utilities continued to expand its number of electric vehicle (EV) direct current, fast charging stations. A total of 15 charging stations were installed in 2019 and additional stations are planned for 2020.
	• Reduce or replace diesel consumption with more energy efficient solutions for customers in remote communities	Target Met	In 2019, Canadian Utilities successfully constructed and energized the Fort Chipewyan phase one 600-kW solar farm, which will displace 160,000 litres of diesel annually. Also in 2019, Canadian Utilities and Indigenous Partner Three Nations Energy obtained government funding and executed contracts to build an Indigenous owned phase two 2,200-kW solar farm, with a Canadian Utilities owned energy storage and microgrid controls system. The project is on track to be energized in October 2020.

STRATEGIC PRIORITIES	2019 TARGET		2019 PERFORMANCE
New and existing products and services	• Reduce or replace diesel consumption with more energy efficient solutions for customers in remote communities.		ATCO Electric Yukon (AEY), in partnership with the Vuntut Gwitchin First Nation in Old Crow, Yukon, installed solar panels to offset diesel consumption in this fly-in only community. We helped facilitate the installation of the Nation's 940-kW solar array together with the AEY owned battery and microgrid controller. By the summer of 2020, the project will have the potential to save 190,000 litres of diesel fuel annually. This was the first Energy Purchase Agreement contract signed in the Yukon.
	Demonstrate continuous improvement of existing products and services. • Complete coal-to-natural gas conversion of Battle River unit 5.		In our natural gas and electric utility operations we have implemented remote monitoring technology, digitized stations and are in the process of implementing workforce and asset management systems, which will digitize our work processes, creating operational efficiencies and will enable enhanced data collection from our infrastructure. The conversion of coal-fired power generation to lower-emitting natural gas at the Battle River unit 5 Generating Station commenced in 2019. Conversion continued until the sale of the assets in the third quarter to Heartland Generation Ltd.
	Launch eCommerce platform and digital strategy for ATCOenergy.		Launch of the ATCOenergy eCommerce platform was achieved in 2019. ATCOenergy's digital strategy was a success in 2019 with a move to more targeted marketing through digital platforms. The digital platforms provide customer insights with respect to buying patterns, areas of interest, understanding of customer journeys and how best to adapt digital mediums to cater to customer requirements.
	Formalize the emergency management and disaster response business offering.		In 2019, a division was formally established within ATCO Frontec to provide disaster and emergency management services. Building on a long history of successful disaster response operations within ATCO, a team is now in place with a mandate to expand this offering. During the course of the year, the division achieved the following: • Negotiated the delivery of a temporary office complex in the Bahamas in response to Hurricane Dorian; • Secured emergency management consulting contracts for domestic clients; and • Awarded a contract to provide workforce housing and camp support services for ECC Constructors LLC's 1,500-person Tuscan Ridge Lodge near Chico, California. The nine-month contract has supported and will support ECC's efforts to provide environmental remediation and debris cleanup in the Butte County region of northern California, in particular the community of Paradise, which was devastated by the "Camp Fire" wildfire in November 2018.

STRATEGIC PRIORITIES	2019 TARGET	2019 PERFORMANCE
New and existing products and services	Explore and test new products and methods of energy delivery to meet customers' future needs.	In 2019, an innovation team was formed to assist in the execution of ATCO's transformation mandate: to create a culture and capability that is future-ready, aware, creative, competent, and agile. This team will aim to bring ATCO's strategic vision into reality.
GROWTH		
Regulated and long-term contracted capital investment	Invest $1.2 billion across our Regulated Utilities and in long-term contracted assets.	Invested $1.2 billion across our Regulated Utilities and long-term contracted assets in 2019 as planned.
	• Complete construction of Alberta PowerLine by March 2019.	In March, Alberta PowerLine, a partnership between ATCO and Quanta Services, energized the Fort McMurray West 500-kV Transmission Line three months ahead of the contract schedule target of June, 2019, on-budget and with an impeccable safety record.
	• Commence construction of natural gas cogeneration power plant in Mexico.	We began engineering and procurement activities in relation to the 26-MW La Laguna cogeneration power project in Mexico in partnership with RANMAN Energy. Total planned investment with the La Laguna project is approximately $70 million.
	Expand hydrocarbon and waste storage services.	In November, Canadian Utilities announced the expansion of our existing storage business at the ATCO Heartland Energy Centre near Fort Saskatchewan, Alberta. The expansion will involve the development of a fifth hydrocarbon storage cavern and a pipeline that will connect the facility to the existing pipeline networks in the region.
Global expansion	Continue asset expansion into select global markets including Canada, Australia, South America, Mexico and the U.S.	In February, Neltume Ports acquired an additional 15 per cent ownership in Terminal Puerto de Arica S.A. (TPA), bringing its total ownership in TPA to 50 per cent. TPA is a container port located in northern Chile with a diversified cargo mix mainly serving Bolivian trade. In 2019, ATCO Structures increased the workforce housing fleet size by 4 per cent primarily from the execution of workforce housing rental contracts in Western Australia and the U.S. Space rental fleet size increased by 6 per cent in 2019 mainly as a result of ATCO Structures expanding its space rentals presence in the U.S., increasing the fleet size in Central Canada and expanding in Latin America. ATCO Structures expanded its space rentals presence in the U.S. through opening its first sales branch in Aurora, Colorado and moving its corporate office to Houston, Texas. In the fourth quarter of 2019, Canadian Utilities entered into a partnership with Impulso Capital, a Chilean developer, to build and operate the 18-MW Cabrero Solar project. This project, located in southern Chile, will provide clean solar energy to the Chilean electricity grid. The first 3-MW is under construction, and is expected to be operational in 2020. The remaining 15-MW is scheduled for completion in 2021. The total investment in this project is expected to be approximately $24 million.

STRATEGIC PRIORITIES	2019 TARGET	2019 PERFORMANCE
FINANCIAL STRENGTH		
Credit rating	Maintain investment grade credit rating.	Maintained 'A (low)' credit rating with a stable outlook with DBRS Limited. Maintained 'A-' credit rating with a stable outlook with Standard & Poor's. We strengthened our balance sheet through the sale of the Canadian fossil fuel-based electricity generation assets and Alberta PowerLine which together generated approximately $1 billion of gross proceeds in 2019. The sale of Alberta PowerLine also removed approximately $1.4 billion of debt from Canadian Utilities' balance sheet thereby improving our financial strength.
Access to capital markets	Access capital at attractive rates.	In 2019, we raised $580 million in 30-year debentures at 2.96 per cent, the lowest long-term coupon achieved in the Company's history.
OPERATIONAL EXCELLENCE		
Lost-time incident frequency: employees **Total recordable incident frequency: employees**	Continue improvement in our safety performance, in addition to comparing favourably to benchmark rates such as Alberta Occupational Health and Safety, U.S. private industry, and industry best practice rates for each of our global operating units.	Our lost-time incident frequency compares very favourably to benchmarks such as Alberta Occupational Health and Safety, U.S. private industry and industry best practice rates. ATCO achieved a 25 per cent reduction in the lost time incident rate in 2019 to 0.12 incidents/200,000 hours worked. Our total recordable incident frequency in 2019 was 2.20 incidents/200,000 hours worked which is an increase relative to 2018 results.
Customer satisfaction	Achieve high service for the customers and communities we serve. Results from customer satisfaction surveys should be consistent with or better than in prior years.	Within the Alberta electricity and natural gas distribution businesses, more than 94 per cent of customers agreed that Canadian Utilities provides good service. Within our energy retail operations, 75 per cent of customers who interact with call centres are "very satisfied". These results compare favourably to industry averages and are consistent with previous years.
Organizational transformation	Streamline and gain operational efficiencies. • Adopt lean manufacturing processes and increase production automation for ATCO Structures' North American manufacturing facilities.	The reconfiguration of our Canadian ATCO Structures manufacturing facility and updated building processes contributed to improved manufacturing performance in 2019.
	• Continue to optimize ERP implementation.	In 2019, we continued to optimize the cloud-based Enterprise Resource Planning (ERP) system that was implemented in 2018. Moving from a highly customized environment to one with limited customizations improved the quarterly upgrade installation time and employee productivity. Optimization examples include the development of a standardized reporting catalogue, a reduction in the month end close from 13 days to 5 days, the creation of a standardized delegation of authority matrix, and a reduction in manual journal entries by 50 per cent.

STRATEGIC PRIORITIES	2019 TARGET		2019 PERFORMANCE
Organizational transformation	• Complete strategic review of Canadian electricity generation assets.	●	In the fourth quarter of 2019, following a strategic review, Canadian Utilities finalized the sale of its 2,276-MW Canadian fossil fuel-based electricity generation portfolio in a series of transactions for aggregate proceeds of $821 million. Following the close of the transaction, Canadian Utilities continues to own 244-MW of electricity generation assets in Canada, Mexico and Australia. The remaining generation portfolio is 90 per cent contracted with an 8 year average contract life.
	• Complete strategic review of Alberta PowerLine ownership interest.	●	In December of 2019, following a strategic review, Canadian Utilities, along with Quanta Services Inc. completed the sale of Alberta Powerline (APL), a partnership between Canadian Utilities (80 per cent) and Quanta Services Inc. (20 per cent). Canadian Utilities received aggregate proceeds of $222 million. Canadian Utilities will remain as the operator of APL over its 35-year contract with the Alberta Electric System Operator.
COMMUNITY INVOLVEMENT			
Indigenous relations	Continue to work together with Indigenous communities to contribute to economic and social development in their communities.	●	ATCO awarded $66,000 to 53 students across Canada for the ATCO Indigenous Education Awards Program. Our Indigenous Relations team held 11 Corporate Indigenous Training sessions for 242 ATCO employees in eight locations across Alberta, Yukon and the Northwest Territories. We sponsor the University of Calgary Indigenous Relations Leadership Certificate, a four day program which helps participants gain a better understanding of the issues facing Canada's Indigenous population today. Seven Indigenous communities in Alberta purchased 40 per cent of Alberta PowerLine, a partnership between ATCO and Quanta Services. This investment will enable the communities to become direct owners and participants in Alberta's energy sector. We will continue to partner with Indigenous communities to establish maintenance and operational contracts over our 35-year contract as operator with the Alberta Electric System Operator. In 2019, we opened the Six Seasons Garden at our Jandakot Operations Centre in Western Australia, with the objective to strengthen our relationships with Aboriginal and Torres Strait Islander Peoples. The Garden recognizes and celebrates the Noongar people, who have lived in the south-west of Western Australia for more than 45,000 years and are one of the largest Aboriginal cultural blocks in Australia. In 2019, ATCO Mexico launched the Child Nutrition Project in partnership with the non-profit organization, Mexico Tierra de Amaranto. We are working to ensure that elementary students in the Indigenous community of Mecuilca, in the state of Veracruz, receive the nutrition they need to be successful in school.

STRATEGIC PRIORITIES	2019 TARGET		2019 PERFORMANCE
ATCO EPIC (Employees Participating in Communities)	Continue to administer the employee-led campaign to give employees the opportunity to contribute to charitable organizations in the communities in which they work.		With the combined efforts of our employees around the world, we pledged more than $2.7 million to support hundreds of community charities through our annual ATCO EPIC campaign, taking the program's cumulative fundraising total to more than $44 million since its inception in 2006. ATCO made a gift in-kind donation of $1.5 million to the Homes for Heroes Foundation and provided our expertise in the design, build, manufacture, delivery and placement of units on ATCO-supplied pile foundations. ATCO's employees volunteered 7,731 hours of their time in the communities in which they work.

STRATEGIC PRIORITIES FOR 2020

The following table outlines our strategic priorities for 2020.

2020 PRIORITIES

INNOVATION	
New and existing products and services	Continue to expand permanent modular construction into hotels, schools, affordable housing and seniors' living centers. Explore and test new products and methods of energy delivery to meet customers' future needs. • Continue to expand number of electric vehicle charging stations in Alberta. • Continue to reduce or replace diesel consumption with more energy efficient solutions for customers in remote communities. Demonstrate continuous improvement of existing products and services. Complete ATCO Park real estate land use amendments to improve value and future optionality.
GROWTH	
Regulated and long-term contracted capital investment	Continue to invest across our Regulated Utilities and in long-term contracted assets.
Global expansion	Continue expansion into select global markets including: Canada, Australia, Latin America. Reposition ATCO Structures' rental fleet into growing regions and further expand space rental business in selected regions. Expand ATCO Frontec's North American business and diversify the customer base. Seek opportunities with Neltume Ports' available cash in brownfield, greenfield and M&A opportunities. Increase number of customers for international natural gas distribution in Australia.
FINANCIAL STRENGTH	
Credit rating	Maintain investment grade credit rating.
Access to capital markets	Access capital at attractive rates.
OPERATIONAL EXCELLENCE	
Lost-time incident frequency: employees **Total recordable incident frequency: employees**	Compare favourably to safety benchmarks.
Customer satisfaction	Achieve high service for the customers and communities we serve. Results from customer satisfaction surveys should be consistent with or better than prior years.
Organizational transformation	Streamline and gain operational efficiencies. • Improve processes and increase production automation for ATCO Structures' North American manufacturing facilities. • Continue to improve global manufacturing and sourcing strategies to increase ATCO Structures' manufacturing competitive advantage. • Continue to optimize enterprise resource planning, workforce and asset management, and computerized maintenance management systems.
COMMUNITY INVOLVEMENT	
Indigenous relations	Continue to work together with Indigenous communities to contribute to economic and social development in their communities.
ATCO EPIC (Employees Participating in Communities)	Continue to administer the employee-led campaign to give employees the opportunity to contribute to charitable organizations in the communities in which they work.

CORPORATE GOVERNANCE

Ensuring that our business operates in a transparent, ethical and accountable manner is at the core of creating strong and sustainable value for our share owners and in promoting the Company's well-being over the long term.

We do not believe in a one-size fits all approach to governance. Our Board of Directors has designed and implemented a unique and effective system of checks and balances that recognize the need to provide autonomy to our various business units, while prudently managing our financial resources.

This fit-for-purpose approach to governance has worked exceedingly well over the years, providing our Board of Directors and senior management team with the foundation to create long-term intergenerational value for our share owners.

Following are some of the highlights of our model for corporate governance. For a more complete picture, please see the Governance section of the 2019 Management Proxy Circular, which will be available in March 2020.

From left to right: Michael Rayfield, Denis Ellard, Robert Booth, Charles Wilson, Nancy Southern, Linda Southern-Heathcott, Roger Urwin, Susan Werth, Robert Routs

Our Board of Directors

The role of our Board of Directors has evolved alongside our business, providing oversight to an organization with a growing global footprint and a diverse, yet complementary suite of premier products and services. The Board strives to ensure that its corporate governance practices provide for the effective stewardship of the Company, and it regularly evaluates those practices to ensure they are in keeping with the highest standards.

Key elements of our corporate governance system include the oversight and diligence provided by the Board, the lead director, the Audit & Risk Committee and our Corporate Governance - Nomination, Compensation and Succession Committee (GOCOM). Although not required by securities laws, some of our governance tools, such as the use of Designated Audit Directors (DADs), also reinforce the effectiveness and rigor of our governance model.

Much like our business operations, the strength of our Board of Directors is due in no small part to the diverse nature of skills, talent and experience each member brings to Board deliberations.

In 1995, ATCO was among the first public companies in Canada to introduce the concept of a lead director. Mr. Charles W. Wilson is the current lead director for ATCO, and was appointed to this position on April 1, 2003. The lead director provides the Board with the leadership necessary to ensure independent oversight of management. The lead director is an independent director and must be a member of GOCOM.

Designated Audit Directors

Distinctly unique to ATCO are Designated Audit Directors who are directors of either ATCO or Canadian Utilities. Each DAD is assigned to one of our Global Business Units to provide oversight based on their strengths and experience in various industry sectors.

Each DAD meets quarterly with the senior leadership of their Global Business Unit or business division, and holds annual meetings with internal and external auditors. In addition, they review their respective businesses' financial statements and operating results, discuss risks with management, and report on both operating results and risks to our Audit & Risk Committee.

PERFORMANCE OVERVIEW

FINANCIAL METRICS

The following chart summarizes key financial metrics associated with our financial performance.

($ millions, except per share data and outstanding shares)	Year Ended December 31 2019	2018	2017
Key Financial Metrics			
Revenues	**4,706**	4,888	4,600
Adjusted earnings [1]	**365**	355	335
Structures & Logistics	**37**	15	6
Neltume Ports	**15**	4	—
ATCO Corporate & Other	**(6)**	17	10
Canadian Utilities Limited			
Electricity	**221**	228	210
Pipelines & Liquids	**137**	130	144
Canadian Utilities Corporate & Other	**(39)**	(39)	(35)
Adjusted earnings ($ per share) [1]	**3.19**	3.10	2.93
Earnings attributable to Class I and Class II Shares	**513**	328	219
Earnings attributable to Class I and Class II Shares ($ per share)	**4.49**	2.87	1.92
Total assets	**21,703**	23,344	21,786
Long-term debt and non-recourse long-term debt	**9,436**	10,798	9,973
Class I and Class II Share owners' equity	**4,000**	3,755	3,527
Cash dividends declared per Class I and Class II Share (cents per share)	**1.62**	1.51	1.31
Funds generated by operations [1]	**1,927**	1,897	1,813
Capital investment [1]	**1,324**	2,518	1,821
Other Financial Metrics			
Weighted average Class I and Class II Shares outstanding *(thousands):*			
Basic	**114,370**	114,394	114,352
Diluted	**114,746**	114,788	114,822

(1) Additional information regarding these measures is provided in the Non-GAAP and Additional GAAP Measures section of this MD&A.

REVENUES

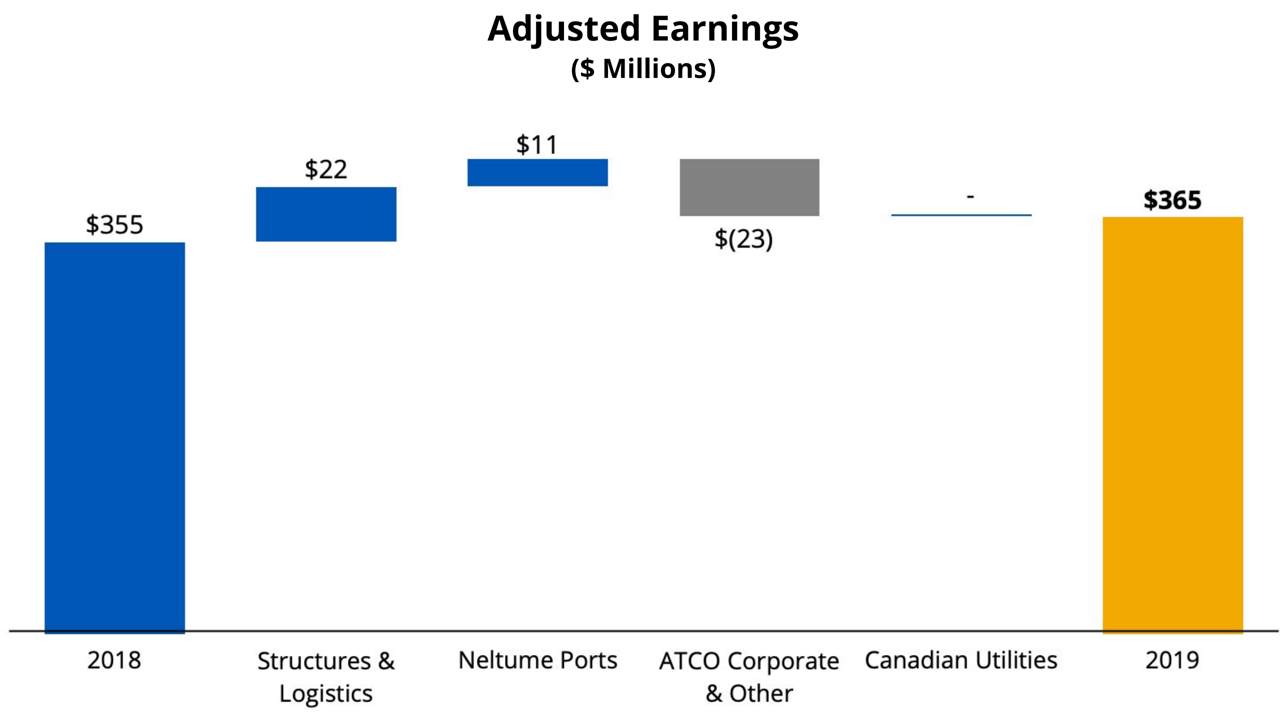
Revenues in 2019 were $4,706 million, $182 million lower than in 2018. Lower revenues were mainly due to the completion of construction activity at APL in the first quarter of 2019 and forgone revenue following the sale of the Canadian fossil fuel-based electricity generation portfolio in the third quarter of 2019. Lower revenues were partially offset by higher revenues in ATCO Structures due to the LNG Canada Cedar Valley Lodge contract and higher flow-through revenues in natural gas distribution for third party franchise and transmission fees, and growth in the regulated rate base.

ADJUSTED EARNINGS

Our adjusted earnings in 2019 were $365 million or $3.19 per share, compared to $355 million or $3.10 per share recorded in 2018. Higher earnings were recorded in Structures & Logistics, and Neltume Ports.

The primary drivers of adjusted earnings results were as follows:

- Structures & Logistics adjusted earnings in 2019 were $22 million higher than in 2018. The increase was mainly due to incremental earnings from the LNG Canada Cedar Valley Lodge contract.
- Neltume Ports adjusted earnings in 2019 were $11 million higher than in 2018. ATCO's first full year of ownership in Neltume Ports was 2019. On September 12, 2018, ATCO invested in a 40 per cent interest in Neltume Ports.
- ATCO Corporate & Other adjusted earnings in 2019 were $23 million lower than in 2018, mainly due to higher interest expense associated with the financing of ATCO's investment in Nelltume Ports and lower earnings from ATCO Investments, which completed two commercial real estate transactions in the third quarter of 2018.
- Canadian Utilities adjusted earnings in 2019 were comparable to 2018.



Additional detail on the financial performance of our Global Business Units is discussed in the Global Business Unit Performance section of this MD&A.

EARNINGS ATTRIBUTABLE TO CLASS I AND CLASS II SHARES

Earnings attributable to Class I and Class II Shares were $513 million in 2019, $185 million higher compared to 2018. Earnings attributable to Class I and Class II Shares include timing adjustments related to rate-regulated activities, unrealized gains or losses on mark-to-market forward and swap commodity contracts, one-time gains and losses, significant impairments, and items that are not in the normal course of business or a result of day-to-day operations. These items are not included in adjusted earnings.

In 2019, Canadian Utilities closed a series of transactions related to the sale of its Canadian fossil fuel-based electricity generation business and its ownership interest in Alberta PowerLine, resulting in ATCO recording a gain on sale of operations of $65 million (after non-controlling interests). Transaction costs recorded in previous quarters that relate to the sale of Alberta PowerLIne have been consolidated into this gain. As the gain is related to a series of one-time transactions, it is excluded from adjusted earnings.

More information on these and other items is included in the Reconciliation of Adjusted Earnings to Earnings Attributable to Class I and Class II Shares section of this MD&A.

ASSETS, DEBT & EQUITY

Total assets of $21.7 billion in 2019 were $1.6 billion lower compared to 2018. Long-term debt and non-recourse long-term debt decreased by approximately $1.4 billion in 2019 compared to 2018. These changes were mainly due to the sale of Canadian Utilities' ownership interest in Alberta PowerLine and sale of its Canadian fossil fuel-based electricity generation business. Class I and Class II Share owners' equity increased by $245 million in 2019 compared to the prior year mainly due to 2019 earnings, partially offset by dividends paid to share owners.

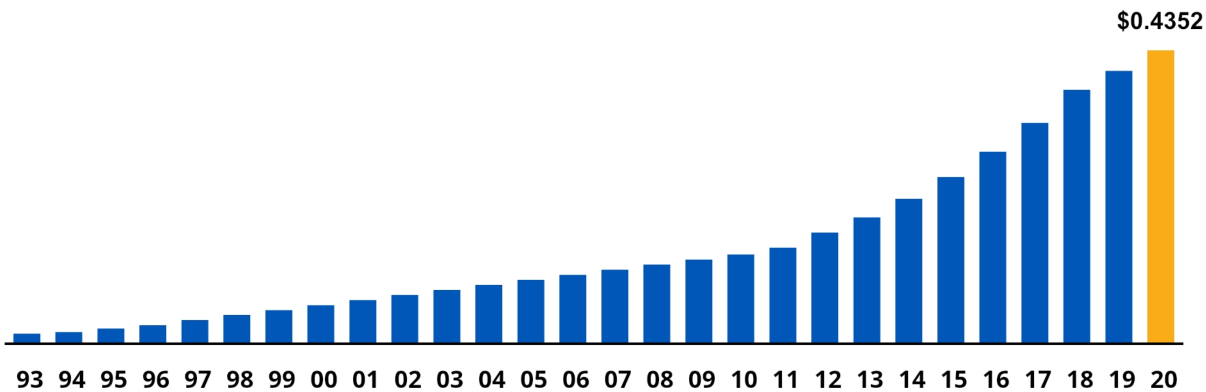
COMMON SHARE DIVIDENDS

Dividends paid to Class I and Class II Share owners totaled $186 million in 2019.

On January 9, 2020, the Board of Directors declared a first quarter dividend of 43.52 cents per share. We have increased our common share dividend each year since 1993.

Quarterly Dividend Rate 1993 - 2020

(dollars per share)



FUNDS GENERATED BY OPERATIONS

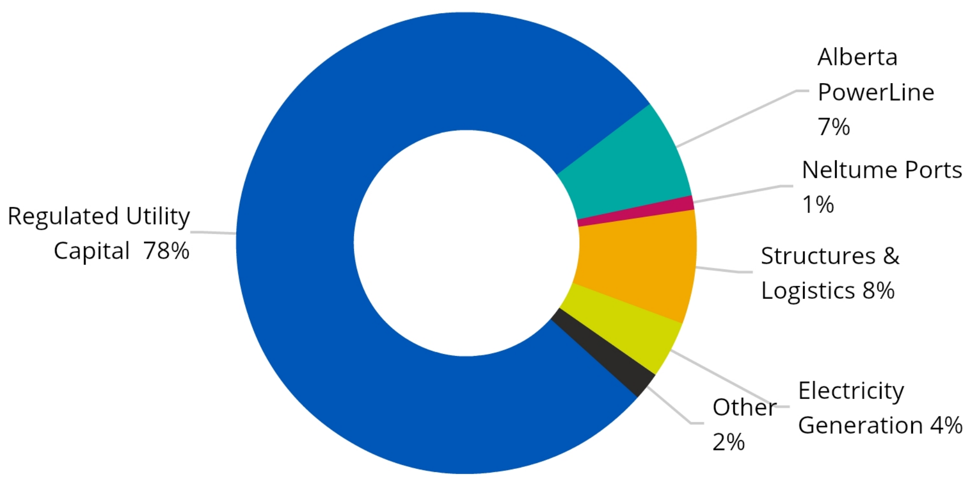
Funds generated by operations were $1,927 million in 2019, $30 million higher than in 2018. The increase was mainly due to higher funds generated by operations in Structures & Logistics and the Alberta Utilities, partially offset by lower funds generated as a result of the sale of the Canadian fossil-fuel based electricity business in the third quarter of 2019.

CAPITAL INVESTMENT

Total capital investment of $1.3 billion in 2019 was $1.2 billion lower than the previous year mainly due to the completion of construction activities in Alberta PowerLine in the first quarter of 2019, the 2018 investment in Neltume Ports and the acquisition of a long-term contracted hydroelectric power station in Veracruz, Mexico.

Capital spending in the Regulated Utilities accounted for $1,035 million or 78 per cent of total capital invested in 2019. The remaining $289 million or 22 per cent invested in 2019 included the completion of construction at Alberta PowerLine, global expansion of the ATCO Structures space rental fleet, planned capital maintenance in the electricity generation fleet as well as the acquisition of an increased port ownership interest by Neltume Ports.

Capital Investment in 2019



GLOBAL BUSINESS UNIT PERFORMANCE

REVENUES

Structures & Logistics revenues of $245 million in the fourth quarter of 2019 were $105 million higher than the same period in 2018, mainly due to incremental revenues from ATCO Structures' LNG Canada Cedar Valley Lodge contract.

Structures & Logistics revenues of $803 million in 2019 were $292 million higher than the same period in 2018. Higher revenues were mainly due to incremental revenue from the LNG Canada Cedar Valley Lodge contract, and ATCO Frontec North American camp services and maintenance contracts. Also contributing to higher ATCO Structures revenue were higher space rental activity, as well as higher trade sale and rental activity in workforce housing.

ADJUSTED EARNINGS

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
ATCO Structures	**13**	7	6	**32**	15	17
ATCO Frontec	**1**	(2)	3	**5**	–	5
Total Structures & Logistics Adjusted Earnings	**14**	5	9	**37**	15	22

Structures & Logistics recorded adjusted earnings of $14 million in the fourth quarter of 2019 and $37 million in the full year of 2019, $9 million and $22 million higher than the same periods in 2018. The increase was mainly due to incremental earnings from ATCO Structures' LNG Cedar Valley Lodge contract and incremental ATCO Frontec earnings from North American camp services and maintenance contracts.

Detailed information about the activities and financial results of the Structures & Logistics businesses is provided in the following sections.

ATCO STRUCTURES

ATCO Structures manufactures, sells and leases transportable workforce and residential housing and space rental products. Space rentals sells and leases mobile office trailers in various sizes and floor plans to suit our customers' needs. Workforce housing delivers modular workforce housing worldwide, including short-term and permanent modular construction, pre-fabricated and relocatable modular buildings.

ATCO Structures recorded adjusted earnings of $13 million in the fourth quarter of 2019 and $32 million in the full year of2019, $6 million and $17 million higher than the same periods in 2018. Higher adjusted earnings were mainly due to continued work on the LNG Canada Cedar Valley Lodge contract, higher space rental activity in Canada and higher workforce housing sale and rental activity in the United States and Australia.

Rental Fleet Statistics

The following table compares ATCO Structures' manufacturing hours and rental fleet for the fourth quarter and full year of 2019 and 2018.

	Three Months Ended December 31			Year Ended December 31		
	2019	2018	Change	2019	2018	Change
North America						
Manufacturing hours *(thousands)*	**252**	156	62%	**988**	487	103%
Global Space Rentals						
Number of units	**16,353**	15,321	7%	**16,353**	15,321	7%
Average utilization *(%)*	**73**	74	(1%)	**72**	75	(3%)
Average rental rate *($ per month)*	**605**	548	10%	**568**	519	9%
Global Workforce Housing						
Number of units	**2,866**	2,774	3%	**2,866**	2,774	3%
Average utilization *(%)*	**54**	36	18%	**48**	40	8%
Average rental rate *($ per month)*	**1,882**	1,969	(4%)	**1,872**	1,877	–

The increase in manufacturing hours in the fourth quarter and full year of 2019 was mainly due to increased LNG Canada Cedar Valley Lodge manufacturing activity and manufacturing of additional units to support the expansion of the Canadian and U.S. space rental fleet.

The increase in the number of space rental units was mainly due to the strategic expansion of the space rental fleet in the United States, central Canada, British Columbia (BC), Mexico and Chile. The decrease in utilization during the fourth quarter and full year of 2019 was mainly driven by timing between the addition of new units to the fleet and deployment of units on rental contracts. The increase in the average rental rate was mainly due to the addition of new fleet assets rented out at higher rental rates combined with strong activity in the construction sector, particularly in central Canada.

The increase in the number of workforce housing units was mainly due to securing a large workforce housing rental project in Western Australia partially offset by used fleet sales of non-utilized units in Canada, the U.S., and Australia. The increase in utilization was mainly due to rental projects in Western Australia, California and British Columbia. The decrease in the average rental rate was primarily due to the lower rates in Canada and Australia partially offset by higher rates in the U.S.

RECENT DEVELOPMENTS

Canada

LNG Canada Cedar Valley Lodge Contract

ATCO Structures, through its joint ventures with Bird Construction and the Haisla Nation, continues to progress on both manufacturing and site construction work for the LNG Canada Cedar Valley Lodge contract. Manufacturing commenced in the first quarter of 2019 and is planned to continue through 2020. Throughout the fourth quarter of 2019, modules were delivered and installed on site. The facility is being built to house workers involved in the construction of LNG Canada’s natural gas liquefaction and export facility in Kitimat, BC. The project is one of the largest accommodation facilities ever built in Canada.

LNG Canada Cedar Valley Lodge - Kitimat, BC

ATCO Village, Homes for Heroes - Calgary, Alberta

Homes For Heroes

During the fourth quarter of 2019, ATCO Structures completed the handover of Homes for Heroes ATCO Village, a community of 15 modular tiny homes in Calgary, Alberta to go along with a robust support system for veterans of the Canadian Armed Forces who are experiencing homelessness.

Rendering of Marriott Fairfield - Napa Valley, California

United States

Permanent Modular Construction - Marriott hotels

During the fourth quarter of 2019, ATCO Structures successfully completed the manufacturing supply of Marriott branded units for the Marriott Fairfield Inn located near Oakland, California under a $7 million contract. A second $7 million manufacturing supply contract for a Marriott branded hotel in Napa Valley, California is in production and expected to be complete in the first quarter of 2020.

Supplementing the established workforce housing business line and growth in permanent modular construction in the United States, ATCO Structures has established a new space rentals branch in Aurora, Colorado. This permanent operation enhanced ATCO Structures' expansion in the U.S. space rentals market in 2019 and resulted in a fleet increase to 398 units at 77 per cent utilization.

Tuscan Ridge

In 2019, ATCO Structures was awarded a $50 million contract for the installation and rental of a 1,500-person camp for fire disaster relief in Chico, California. The contract began in March 2019 and continued until the end of January 2020.

Australia

ATCO Structures is working on the design, manufacture and installation of a 400-room, two story accommodation village in Karratha, Western Australia. The total contract value is $22 million with final handover expected in May 2020.

In the fourth quarter of 2019, ATCO Structures began work on a $47 million contract to relocate and install an 800-room camp in Western Australia with completion planned for March 2020.

800-room camp - near Karratha, Western Australia

ATCO FRONTEC

ATCO Frontec provides facility operations and maintenance services, workforce lodging and support services, defence operations services, and disaster and emergency management services.

ATCO Frontec recorded adjusted earnings of $1 million in the fourth quarter of 2019, $3 million higher than the same period in 2018. Higher adjusted earnings were mainly due to incremental earnings from North American camp services and maintenance contracts which include the Tuscan Ridge contract in Chico, California, the Silvertip mining contract in northern BC, the Coastal GasLink Pipeline support services project in BC, and the Elkford Lodge TECK Coal contract in BC.

ATCO Frontec recorded adjusted earnings of $5 million in 2019, $5 million higher than the same period in 2018. Higher adjusted earnings were mainly due to incremental earnings from North American camp services and maintenance contracts which includes the Tuscan Ridge contract in Chico, California and the BC Hydro Site C Two Rivers Lodge in Northern BC.

RECENT DEVELOPMENTS

Canada

BC Hydro Site C Two Rivers Lodge

In 2016, ATCO Frontec commenced an operations and maintenance contract at the BC Hydro Site C Two Rivers Lodge for up to 1,750 workers. The original operations and maintenance services contract is in place until late 2022.

In May 2019, ATCO Frontec was awarded an expansion to the operations and maintenance contract at the BC Hydro Site C Two Rivers Lodge. ATCO Frontec will provide operations and maintenance services for an additional 150 new workforce housing accommodation rooms being installed by ATCO Structures. The total value of the ATCO Structures rental and ATCO Frontec expansion contracts is $15 million.

BC Hydro Site C Two Rivers Lodge, Near Fort St. John, British Columbia

Elkford Lodge

ATCO Frontec was awarded a $10 million contract by TECK Coal Limited for camp maintenance including food services, housekeeping and janitorial services for the 500-person Elkford Lodge in British Columbia that was supplied by ATCO Structures. The contract began in May 2019 and will continue until late 2021.

International

NATO Headquarters Communications and Infrastructure Systems Support

In November 2019, ATCO Frontec was awarded a $2 million one-year contract extension to provide NATO Support and Procurement Agency (NSPA) communication and information systems support to the NATO headquarters at the Camp Butmir near Sarajevo, Bosnia.

In October 2019, ATCO Frontec won a rebid to provide NSPA around-the-clock fire protection services to NATO troops, known as Kosovo Force, at the Novo Selo Camp near Pristina, Kosovo. The five-year contract is valued at $3 million.

Papa Air Base Facilities Management

In May 2019, ATCO Frontec was awarded a $2 million contract extension by NSPA NATO Airlift Management Program to provide facilities maintenance, cleaning, landscaping, snow and ice clearing, and pest control at Papa Air Base in Hungary. The extension will continue until April 2021.

U.S.

Tuscan Ridge

In April 2019, ATCO Frontec was awarded a $20 million contract for camp maintenance including food services, housekeeping and janitorial services for the 1,500-person camp supplied by ATCO Structures for fire disaster relief in Chico, California. The contract continued until the end of January, 2020.

Neltume Ports, a subsidiary of Ultramar, is a port operator and developer with a diversified portfolio of 16 multipurpose, bulk cargo and container port facilities and three port operations services. The business is located primarily in Chile, with smaller operations in Uruguay, Argentina, and Brazil.

ADJUSTED EARNINGS

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Neltume Ports	**4**	3	1	**15**	4	11

Neltume Ports recorded adjusted earnings of $4 million in the fourth quarter of 2019, $1 million higher than same period in 2018 mainly due to higher container volume at the Terminal Pacifico Sur (TPS) port.

Neltume Ports recorded adjusted earnings of $15 million in 2019, $11 million higher than in 2018. ATCO's first full year of ownership in Neltume Ports was 2019. On September 12, 2018, ATCO invested in a 40 per cent interest in Neltume Ports.

RECENT DEVELOPMENTS

TPA Ownership Interest Increase

In February 2019, Neltume Ports acquired an additional 15 per cent ownership in Terminal Puerto Arica S.A. (TPA), bringing the total ownership to 50 per cent. This acquisition gave Neltume Ports operational control of TPA, strengthening its port operator role in the concession. TPA is a container port located in northern Chile with a diversified cargo mix mainly servicing Bolivian trade. ATCO paid $9 million for its equity share of this investment.

TGN Contract

In July 2019, Terminal Graneles del Norte (TGN), a Neltume port, was awarded an important 25-year copper concentrate loading contract. This contract aligns with our growth strategy to secure a significant share of Chilean mining related activity, triggers the development of a new copper concentrate loading terminal, and extends the existing TGN concession arrangement for another 15 years, from 2026 to 2041.

New Port - AutoMobile International Terminal

In January 2020, Neltume Ports entered into a 50/50 joint venture (JV) partnership with Terminal Zarate to build and operate a roll-on roll-off (RoRo) terminal in Mobile, Alabama. The JV will invest 30 per cent of the construction costs. Neltume Ports' portion of the investment will be approximately US$9 million and will be funded with existing cash reserves. The Alabama State Port Authority will provide the remaining capital funding. The JV will operate the terminal beginning in 2021 under a 10-year concession agreement with two consecutive 10-year extensions at the JV's election for a total of up to 30 years. The port will primarily support the import and export needs of the growing local automotive sector in the region.

Neltume Ports' partner, Terminal Zarate, a member company of Grupo Murchison, provides port operations services, integrated logistics, warehousing and other related business activities in Argentina and Uruguay. Terminal Zarate operates the largest RoRo terminal in Latin America.

This investment opportunity allows Neltume Ports to grow and diversify, by both geography and product type, while partnering with an experienced and respected partner.

ATCO CORPORATE & OTHER

ATCO Corporate & Other contains ATCO Investments which is a commercial real estate business that holds investments for sale, lease or development. ATCO Corporate & Other also includes the global corporate head office in Calgary, Canada, ATCO licensing fees received, and financing expenses associated with the Neltume Ports investment.

ADJUSTED EARNINGS

	Three Months Ended December 31			**Year Ended December 31**		
($ millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
ATCO Corporate & Other	**(9)**	2	(11)	**(6)**	17	(23)

ATCO Corporate & Other adjusted earnings in the fourth quarter of 2019 were $11 million lower than the same period in 2018 mainly due to the timing of certain expenditures and higher interest expense associated with the financing of ATCO's investment in Neltume Ports.

ATCO Corporate & Other adjusted earnings in the full year of 2019 were $23 million lower than in 2018 mainly due to higher interest expense associated with the financing of ATCO's investment in Neltume Ports and lower income from ATCO Investments, which completed two commercial real estate transactions in 2018.

Canadian Utilities is a diversified global energy infrastructure corporation delivering service excellence and innovative business solutions in Electricity (electricity transmission, distribution and generation); Pipelines & Liquids (natural gas transmission and distribution, energy storage, and industrial water solutions); and Retail Energy (electricity and natural gas retail sales).

ELECTRICITY

REVENUES

Revenues of $419 million in the fourth quarter and $2,155 million in the full year of 2019 were $218 million and $703 million lower than the same periods in 2018. Lower revenues were mainly due to reduced construction activity at Alberta Powerline, forgone revenue associated with the sale of the Canadian fossil fuel-based electricity generation portfolio in the third quarter of 2019, and the Balancing Pool's termination of the Battle River unit 5 PPA in the third quarter of 2018. Lower revenues were partially offset by higher flow through revenues in electricity transmission for the amortization of customer contributions in the fourth quarter of 2019.

ADJUSTED EARNINGS

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Regulated Electricity						
Electricity Distribution	**16**	14	2	**66**	59	7
Electricity Transmission	**27**	22	5	**106**	92	14
Total Regulated Electricity Adjusted Earnings	**43**	36	7	**172**	151	21
Non-regulated Electricity						
Independent Power Plants	–	6	(6)	**15**	9	6
Thermal PPA Plants	–	3	(3)	**15**	44	(29)
International Electricity Generation	**2**	1	1	**6**	6	–
Alberta PowerLine	**1**	8	(7)	**13**	18	(5)
Total Non-regulated Electricity Adjusted Earnings	**3**	18	(15)	**49**	77	(28)
Total Electricity Adjusted Earnings	**46**	54	(8)	**221**	228	(7)

Electricity earnings of $46 million in the fourth quarter of 2019 were $8 million lower than the same period in 2018. Lower earnings were mainly as a result of the forgone earnings from the sale of the Canadian fossil fuel-based electricity generation business in the third quarter of 2019 and lower earnings contributions from Alberta PowerLine mainly due to the completion of construction activities in the first quarter of 2019. Lower earnings were partially offset by the positive impact of the electricity transmission 2018-2019 general tariff application (GTA) decision which was received in July 2019, overall cost efficiencies and lower income taxes.

Electricity earnings of $221 million in 2019 were $7 million lower than in 2018. Lower earnings were mainly due to favourable earnings realized in 2018 associated with the Balancing Pool’s termination of the Battle River unit 5 PPA and the associated availability incentive and performance payments, forgone earnings from the sale of the Canadian fossil fuel-based electricity generation business in the third quarter of 2019, and lower earnings contributions from Alberta PowerLine mainly due to the completion on construction activities in the first quarter of

2019. Lower earnings were partially offset by the positive impact of the electricity transmission 2018-2019 GTA decision which was received in July 2019, overall cost efficiencies and lower income taxes.

REGULATED ELECTRICITY

Regulated Electricity provides regulated electricity distribution, transmission and distributed generation mainly in northern and central east Alberta, the Yukon and the Northwest Territories.

Electricity Distribution

In the fourth quarter of 2019, electricity distribution adjusted earnings of $16 million were $2 million higher compared to the same period in 2018. Higher earnings were mainly due to cost efficiencies and lower income taxes.

In 2019, electricity distribution adjusted earnings of $66 million were $7 million higher compared to 2018. Higher earnings were mainly due to the ongoing implementation of cost efficiencies, lower income taxes, and continued growth in the rate base.

Electricity Transmission

Electricity transmission recorded adjusted earnings of $27 million in the fourth quarter of 2019 and $106 million in the full year of 2019, $5 million and $14 million higher than the same periods in 2018. Higher adjusted earnings were mainly due to the impact of the 2018-2019 GTA decision received in July 2019 which approved higher rates for 2018 and 2019, as well as costs efficiencies and lower income taxes.

NON-REGULATED ELECTRICITY

Non-regulated electricity activities supply electricity from hydroelectric and natural gas generating plants in western Canada, Australia and Mexico and non-regulated electricity transmission in Alberta.

Independent Power Plants

Independent Power Plants recorded adjusted earnings of nil in the fourth quarter of 2019, $6 million lower than the same period in 2018. Lower earnings were mainly due to the sale of the Canadian fossil fuel-based electricity generation business in the third quarter of 2019. Lower earnings in the fourth quarter of 2019 were also due to earnings associated with the sale of the Barking Power assets that were recognized in the fourth quarter of 2018.

Independent Power Plants recorded adjusted earnings of $15 million in 2019, $6 million higher compared to the same period in 2018. Higher earnings were mainly due to increased market prices in the first nine months of 2019 and cost efficiencies, partially offset by higher planned maintenance costs in the first nine months of 2019 and earnings associated with the sale of the Barking Power assets in the fourth quarter of 2018.

Thermal PPA Plants

Thermal PPA Plants recorded adjusted earnings of nil in the fourth quarter of 2019 as a result of the sale of the Canadian fossil fuel-based portfolio in the third quarter of 2019.

Earnings of $15 million in 2019, were $29 million lower compared to the same period in 2018. Lower earnings were mainly due to favourable earnings realized in 2018 associated with the Balancing Pool's termination of the Battle River unit 5 PPA, and forgone earnings associated with the sale of the Canadian fossil fuel-based electricity generation business in the third quarter of 2019.

International Electricity Generation

International electricity generation supplies electricity in Australia and Mexico. In Australia, two natural gas-fired generation plants supply electricity in Australia: the Osborne plant in South Australia and the Karratha plant in Western Australia. Source Energy Co. also provides energy solutions to residential and commercial customers in Australia using a combination of grid electricity and solar energy. In Mexico, electricity is supplied from a distributed electricity generation station near San Luis Potosí and a hydroelectric generation station near Veracruz.

International electricity generation adjusted earnings of $2 million in the fourth quarter of 2019 were $1 million higher compared to the same period in 2018. Higher earnings were mainly due to the earnings impact of an unplanned outage at the Osborne plant in the fourth quarter of 2018.

International electricity generation adjusted earnings of $6 million in the full year 2019 were comparable to 2018.

Alberta PowerLine

Prior to its sale, Alberta PowerLine (APL) was a partnership between Canadian Utilities (80 per cent) and Quanta Services, Inc. (20 per cent), with a 35-year contract from the Alberta Electric System Operator (AESO) to design, build, own, and operate the 500-km, Fort McMurray West 500-kV Transmission project, running from Wabamun, near Edmonton to Fort McMurray, Alberta.

APL's adjusted earnings of $1 million in the fourth quarter of 2019, were $7 million lower compared to the same period in 2018. Lower earnings were mainly due to an Early Energization Incentive recorded in fourth quarter of 2018 and the completion of construction activities in the first quarter of 2019.

APL's adjusted earnings of $13 million in the full year of 2019 were $5 million lower than in 2018 mainly due to an Early Energization Incentive recorded in fourth quarter of 2018, and the completion of construction activities in the first quarter of 2019, partially offset by lower income taxes from a lower Alberta corporate income tax rate and higher service concession arrangement interest income.

ELECTRICITY RECENT DEVELOPMENTS

Sale of Canadian Fossil Fuel-Based Electricity Generation Business

In the fourth quarter of 2019, Canadian Utilities finalized the sale of its 2,276-MW Canadian fossil fuel-based electricity generation portfolio in a series of transactions. In September, Canadian Utilities sold 10 partly- or fully-owned natural gas-fired and coal-fired electricity generation assets in Alberta and BC to Heartland Generation Ltd., an affiliate of Energy Capital Partners. In August, Canadian Utilities sold its 50 per cent ownership interest in the 580-MW Brighton Beach joint venture, located in Windsor, Ontario, to Ontario Power Generation Inc. In July, Canadian Utilities completed the sale of its 50 per cent ownership interest in the 260-MW Cory Cogeneration Station to SaskPower International. Canadian Utilities received $821 million of aggregate proceeds on the sale.

Following the close of the transactions, Canadian Utilities continues to own 244-MW of electricity generation assets in Canada, Mexico and Australia that are 90 per cent contracted with a weighted average contract term of 8 years.

Sale of ASHCOR Technologies

On December 31, 2019, Canadian Utilities sold its 100 per cent investment in ASHCOR Technologies Ltd. (Ashcor), an Alberta-based company engaged in marketing fly ash, to ATCO for aggregate consideration of $35 million. Ashcor was previously reported in the Electricity segment in the Thermal PPA business line.

Sale of Alberta PowerLine

In March 2019, APL energized the Fort McMurray West 500-kV Transmission Line, three months ahead of schedule, on-budget and with an impeccable safety record.

In the second quarter of 2019, Canadian Utilities and Quanta Services Inc. entered into agreements to sell APL. Canadian Utilities offered an opportunity for Indigenous communities along the electricity transmission line route to obtain up to a 40 per cent equity interest.

With the completion of the sale in December 2019, seven Indigenous communities in Alberta have a combined 40 per cent equity ownership in this essential Canadian energy infrastructure project: Athabasca Chipewyan First Nation, Bigstone Cree Nation, Gunn Metis Local 55, Mikisew Cree First Nation, by way of its business arm, the Mikisew Group of Companies, Paul First Nation, Sawridge First Nation and Sucker Creek First Nation.

The remaining 60 per cent of APL was acquired by a consortium including TD Asset Management Inc., for and on behalf of TD Greystone Infrastructure Fund (Global Master) L.P., and IST3 Investment Foundation acting on behalf of its investment group IST3 Infrastruktur Global. The sale transaction also included the assumption of $1.4 billion of APL debt.

Canadian Utilities received aggregate proceeds of $222 million for its interest in APL and will remain as the operator of APL over its 35-year contract with the Alberta Electric System Operator.

Chile Distribution-Connected Solar Generation Facility

In the fourth quarter of 2019, Canadian Utilities entered into a partnership with Impulso Capital, a Chilean developer, to build and operate the 18-MW Cabrero Solar project. This project, located in southern Chile, will provide clean solar energy to the Chilean electricity grid. The first 3-MW is under construction, and is expected to be operational in 2020. The remaining 15-MW is scheduled for completion in 2021. The total investment in this project is expected to be approximately $24 million.

PIPELINES & LIQUIDS

PIPELINES & LIQUIDS REVENUES

Pipelines & Liquids revenues of $483 million in the fourth quarter and $1,649 million in the full year of 2019 were $100 million and $179 million higher than the same periods in 2018. Higher revenues were mainly due to higher flow-through revenues in natural gas distribution for third party franchise and transmission fees, and higher revenue from growth in the regulated rate base and number of natural gas distribution customers.

ADJUSTED EARNINGS

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Regulated Pipelines & Liquids						
Natural Gas Distribution	**32**	33	(1)	**62**	57	5
Natural Gas Transmission	**9**	10	(1)	**39**	38	1
International Natural Gas Distribution	**8**	7	1	**28**	29	(1)
Total Regulated Pipelines & Liquids Adjusted Earnings	**49**	50	(1)	**129**	124	5
Non-regulated Pipelines & Liquids						
Storage & Industrial Water	**5**	4	1	**8**	6	2
Total Pipelines & Liquids Adjusted Earnings	**54**	54	–	**137**	130	7

Pipelines & Liquids adjusted earnings of $54 million in the fourth quarter of 2019 were comparable to the same period in 2018.

Pipelines & Liquids recorded adjusted earnings of $137 million in 2019, $7 million higher than in 2018. Higher earnings were mainly due to ongoing growth in the regulated rate base, cost efficiencies, incremental earnings from hydrocarbon storage, and lower income taxes.

Detailed information about the activities and financial results of Pipelines & Liquids' businesses is provided in the following sections.

REGULATED PIPELINES & LIQUIDS

Natural Gas Distribution

Natural gas distribution serves municipal, residential, business and industrial customers throughout Alberta and in the Lloydminster area of Saskatchewan.

Natural gas distribution recorded earnings of $32 million in the fourth quarter of 2019, $1 million lower than the same period in 2018. Lower earnings were mainly due to the timing of operations and maintenance costs.

Natural gas distribution recorded adjusted earnings of $62 million in 2019, $5 million higher than in 2018. Higher earnings were mainly due to cost efficiencies, ongoing growth in the rate base and customers, and lower income taxes.

Natural Gas Transmission

Natural gas transmission receives natural gas on its pipeline system from various gas processing plants as well as from other natural gas transmission systems and transports it to end users within the province of Alberta or to other pipeline systems, primarily for export out of the province.

Natural gas transmission recorded adjusted earnings of $9 million in the fourth quarter of 2019, $1 million lower than the same period in 2018. Lower adjusted earnings were mainly due to the timing of operations and maintenance costs.

Natural gas transmission recorded adjusted earnings of $39 million in 2019, $1 million higher than in 2018. Higher adjusted earnings were mainly due to continued growth in the rate base.

International Natural Gas Distribution

International natural gas distribution is a regulated provider of natural gas distribution services in Western Australia, serving metropolitan Perth and surrounding regions.

In the fourth quarter of 2019, international natural gas distribution adjusted earnings of $8 million, were $1 million higher than the same period in 2018. Higher adjusted earnings were mainly due to rate base growth and cost efficiencies.

The international natural gas distribution business recorded adjusted earnings of $28 million in 2019, $1 million lower than in 2018, mainly due to a difference between inflation rates in the first quarters of 2018 and 2019. The published inflation rate for the first quarter of 2019, when applied to the rate of return calculations, produced a reduction to the revenues and earnings in 2019.

NON-REGULATED PIPELINES & LIQUIDS

Storage & Industrial Water

Storage & industrial water provides non-regulated natural gas storage and transmission activities, hydrocarbon storage, and industrial water services in Alberta.

Storage & industrial water recorded adjusted earnings of $5 million in the fourth quarter of 2019, $1 million higher than the same period in 2018 mainly due to higher demand and pricing for natural gas storage services and cost efficiencies.

Storage & industrial water recorded adjusted earnings of $8 million in 2019, $2 million higher than in 2018. Higher earnings were mainly due to cost efficiencies, incremental earnings from two additional hydrocarbon storage caverns that became operational in the second quarter of 2018, and lower income taxes.

PIPELINES & LIQUIDS RECENT DEVELOPMENTS

Urban Pipelines Replacement Program

The Urban Pipelines Replacement (UPR) program is replacing and relocating aging, high-pressure natural gas pipelines in densely populated areas of Calgary and Edmonton to address safety, reliability and future growth. Construction is expected to be complete in 2020 and the total cost of the UPR program is estimated to be approximately $900 million. Natural gas distribution and natural gas transmission have invested $795 million in the UPR program since its inception.

Mains Replacement Program

Natural gas distribution has two mains replacement programs which were approved in 2011, the plastic mains replacement and the steel mains program. The plastic mains replacement includes 8,000-km of polyvinyl chloride (PVC) and early generation polyethylene (PE) pipe that are planned for replacement by 2031. Natural gas distribution has replaced 2,015-km of PVC and PE pipe since the approval of this program. The steel mains program includes 9,000-km of steel pipe that is monitored and continually evaluated for replacement based on the performance history. Natural gas distribution has replaced 327-km of steel pipe since the approval of this program.

International Natural Gas Transmission - Mexico Tula Pipeline

In 2014, Canadian Utilities was awarded a 25-year Transportation Services Agreement with the Comisión Federal De Electricidad (CFE) to design, build, own and operate a 16-km natural gas pipeline near the town of Tula in the state of Hidalgo, Mexico. Canadian Utilities is involved in a number of disputes arising from landowner and communal landholder claims against the project. We continue to work with the Government of Mexico and other parties to achieve a timely resolution of these disputes.

Hydrocarbon Storage

In the fourth quarter of 2019, storage & industrial water secured long-term contracts for a fifth salt cavern storage facility at the ATCO Heartland Energy Centre. As well, we secured long-term contracts for the construction and operation of a pipeline connecting the new salt cavern facility to existing pipelines in the area for receipt and delivery of hydrocarbon products. Construction began in the fourth quarter of 2019, with full operation targeted for late 2021.

Industrial Water

In the fourth quarter of 2017, Canadian Utilities entered into a long-term commercial agreement with Inter Pipeline Ltd. to provide water services to Inter Pipeline's integrated propane dehydrogenation and polypropylene plant to be known as the Heartland Petrochemical Complex. Construction activities began in 2019 and are expected to be complete in the second quarter of 2020.

Pembina-Keephills Transmission Pipeline

In August 2018, natural gas transmission filed a facilities application requesting approval for the installation of the Pembina-Keephills transmission pipeline. The 59-km high-pressure natural gas pipeline supports coal-to-gas conversion of power producers in the Genesee and surrounding areas of Alberta with the capacity to deliver up to 550-TJ per day. A decision was received on August 6, 2019 approving the project as filed. Construction has commenced and the pipeline is expected to be in service by mid-2020. The estimated cost to construct this project is approximately $230 million and is included in natural gas transmission's three year capital investment plan.

Pembina-Keephills transmission pipeline construction, near Wabamun Lake, Alberta

CANADIAN UTILITIES CORPORATE & OTHER

Canadian Utilities' Corporate & Other segment includes Retail Energy through ATCOenergy, launched in 2016 to provide retail electricity and natural gas services in Alberta. Corporate & Other also includes the global corporate head office in Calgary, Canada, the Australia corporate head office in Perth, Australia and the Mexico corporate head office in Mexico City, Mexico. In addition, Canadian Utilities Corporate & Other includes CU Inc. and Canadian Utilities preferred share dividend and debt expenses.

ADJUSTED EARNINGS

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Canadian Utilities Corporate & Other	**(8)**	(10)	2	**(39)**	(39)	–

Including intersegment eliminations, Canadian Utilities Corporate & Other adjusted earnings in the fourth quarter of 2019 were $2 million higher compared to the same period in 2018 mainly due to timing of certain other expenses.

Canadian Utilities Corporate and Other adjusted earnings for 2019 were comparable to 2018.

REGULATORY DEVELOPMENTS

REGULATED BUSINESS MODELS

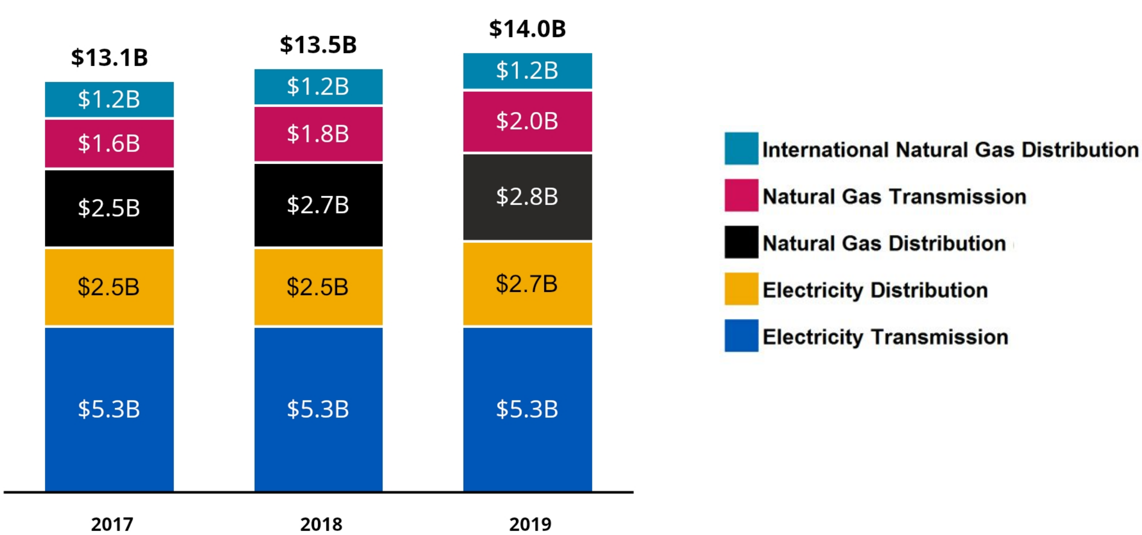
The business operations of electricity distribution, electricity transmission, natural gas distribution and natural gas transmission are regulated mainly by the Alberta Utilities Commission (AUC). The AUC administers acts and regulations covering such matters as rates, financing and service area.

Natural gas transmission and electricity transmission operate under cost of service (COS) regulation. Under this model, the regulator establishes the revenues to provide for a fair return on utility investment using mid-year calculations of the total investment less depreciation, otherwise known as mid-year rate base. Growth in mid-year rate base is a leading indicator of the business' earnings trend, depending on changes in the equity ratio of the mid-year rate base and the rate of return on common equity.

Natural gas distribution and electricity distribution operate under performance based regulation (PBR). Under PBR, revenue is determined by a formula that adjusts customer rates for inflation less an estimated amount for productivity improvements. The AUC reviews the utilities' results annually to ensure the rate of return on common equity is within certain upper and lower boundaries. To do these calculations, the AUC reviews mid-year rate base. For this reason, growth in mid-year rate base can be a leading indicator of the business' earnings trend, depending on the ability of the business to maintain costs based on the formula that adjusts rates for inflation and productivity improvements.

International natural gas distribution is regulated mainly by the Economic Regulation Authority (ERA) of Western Australia. International natural gas distribution operates under incentive based regulation (IBR) under which the ERA establishes the prices for a five-year period to recover a return on forecasted rate base, including income taxes, depreciation on the forecasted rate base, and forecasted operating costs based on forecasted throughput. For this reason, growth in mid-year rate base can be a leading indicator of the business' earnings trend, depending on the ability of the business to maintain costs within approved forecasts.

Regulated Utilities Mid-Year Rate Base



GENERIC COST OF CAPITAL (GCOC)

In August 2018, the AUC issued a decision approving a Return on Equity (ROE) of 8.5 per cent and capital structure of 37 per cent equity for the 2018, 2019 and 2020 periods for all Alberta utilities.

The following table contains the ROE and deemed common equity ratios resulting from the most recent GCOC decisions and also contains the mid-year rate base for each of Canadian Utilities' Alberta-based utilities.

	Year	AUC Decision	Rate of Return on Common Equity (%) (1)	Common Equity Ratio (%) (2)	Mid-Year Rate Base ($ millions)
Electricity Distribution	**2019**	**2018 GCOC (4)**	**8.50**	**37.0**	**2,669 (5)**
	2018	2018 GCOC (4)	8.50	37.0	2,498 (6)
	2017	2016 GCOC (3)	8.50	37.0	2,471 (7)
Electricity Transmission	**2019**	**2018 GCOC (4)**	**8.50**	**37.0**	**5,262 (8)**
	2018	2018 GCOC (4)	8.50	37.0	5,280 (6)
	2017	2016 GCOC (3)	8.50	37.0	5,287 (7)
Natural Gas Distribution	**2019**	**2018 GCOC (4)**	**8.50**	**37.0**	**2,847 (5)**
	2018	2018 GCOC (4)	8.50	37.0	2,715 (6)
	2017	2016 GCOC (3)	8.50	37.0	2,549 (7)
Natural Gas Transmission	**2019**	**2018 GCOC (4)**	**8.50**	**37.0**	**1,971 (9)**
	2018	2018 GCOC (4)	8.50	37.0	1,791 (6)
	2017	2016 GCOC (3)	8.50	37.0	1,614 (7)

(1) *Rate of return on common equity is the rate of return on the portion of rate base considered to be financed by common equity.*

(2) *The common equity ratio is the portion of rate base considered to be financed by common equity.*

(3) *The AUC released its 2016 GCOC decision for the periods 2016 to 2017 on October 7, 2016.*

(4) *The AUC released its 2018 GCOC decision for the periods 2018 to 2020 on August 2, 2018.*

(5) *The mid-year rate base for 2019 is equal to the year over year growth in rate base reflected in the 2020 PBR Annual Rate Filings applied to the 2018 actual mid-year rate base and includes mid-year work in progress.*

(6) *The mid-year rate base for 2018 is based on the Rule 005 Actuals Package and includes mid-year work in progress.*

(7) *The mid-year rate base for 2017 is based on the Rule 005 Actuals Package and includes mid-year work in progress.*

(8) *The mid-year rate base for 2019 is based on the electricity transmission 2018-2019 General Tariff Application Compliance Filing and includes estimated mid-year work in progress.*

(9) *The mid-year rate base for 2019 is based on the natural gas transmission 2019-2020 General Rate Application Compliance Filing and includes estimated mid-year work in progress.*

GCOC (POST-2020)

In December 2018, the AUC initiated the 2021 GCOC proceeding. The main focus of the proceeding will be to determine the rate of return for the years 2021 and 2022, as well as consideration of returning to a formula-based approach. Initial evidence was filed in January 2020 focusing on comparability to other investments, capital attractiveness and financial integrity. The AUC expects to issue a decision in 2020.

PERFORMANCE BASED REGULATION

In December 2016, the AUC released its decision on the second generation PBR plan framework for electricity and natural gas distribution utilities in Alberta. Under the 2018 to 2022 second generation PBR framework, utility rates continue to be adjusted by a formula that estimates inflation annually and assumes productivity improvements.

In February 2018, the AUC released a regulatory decision that provided determinations for the going-in rates and incremental capital funding for the second generation of PBR. In November 2018, the AUC issued a Phase I Review and Variance decision to reassess anomaly adjustments for all Alberta distribution utilities for the purposes of establishing 2018 going-in rates. On February 14, 2019, the AUC commenced a proceeding to undertake that review. On January 30, 2020, the AUC issued a decision, which provided updated clarification on what would qualify for anomaly adjustments. Parties can now re-apply for applicable anomalies, which if approved, would re-establish 2018 going in rates. Applications are to be submitted in early 2020 with a decision from the AUC expected before the end of the year.

	PBR Second Generation
Timeframe	2018 to 2022
Inflation Adjuster (I Factor)	Inflation indices (AWE and CPI) adjusted annually
Productivity Adjuster (X Factor)	0.30%
O&M	Based on the lowest annual actual O&M level during 2013-2016, adjusted for inflation, growth and productivity to 2017 dollars; inflated by I-X thereafter over the PBR term
Treatment of Capital Costs	• Recovered through going-in rates inflated by I-X and a K Bar that is based on inflation adjusted average historical capital costs for the period 2013-2016. The K Bar is calculated annually and adjusted for the actual WACC • Significant capital costs that are extraordinary, not previously incurred and required by a third party recovered through a "Type I" K Factor
ROE Used for Going-in Rates	• 8.5% • + 0.5% ROE ECM achieved from PBR First Generation added to 2018 and 2019
Efficiency Carry-over Mechanism (ECM)	ECM up to 0.5% additional ROE for the years 2023 and 2024 based on certain criteria
Reopener	+/- 300 bps of the approved ROE for two consecutive years or +/- 500 bps of the approved ROE for any single year
ROE Used for Reopener Calculation	• 2018: 8.5% excluding impact of ECM • 2019: 8.5% excluding impact of ECM • 2020: 8.5% • 2021 and beyond: At approved ROE pending future GCOC proceeding decisions

ACCESS ARRANGEMENT - INTERNATIONAL NATURAL GAS DISTRIBUTION

International natural gas distribution's Access Arrangement period (AA4) was in place from July 2014 to December 2019. The following table contains the ROE and deemed common equity ratios from the current Access Arrangement. The table also contains the mid-year rate base.

	Year	ERA Decision	Rate of Return on Common Equity (%) (1)	Common Equity Ratio (%) (2)	Mid-Year Rate Base ($ millions)
International Natural Gas Distribution	**2019**	**2016 AA4 (3)**	**7.21**	**40.0**	**1,178 (4)**
	2018	2016 AA4 (3)	7.21	40.0	1,211 (5)
	2017	2016 AA4 (3)	7.21	40.0	1,179 (6)

(1) Rate of return on common equity is the rate of return on the portion of rate base considered to be financed by common equity.

(2) The common equity ratio is the portion of rate base considered to be financed by common equity.

(3) The ERA released its AA4 Amended Final Decision on September 10, 2015. This was superseded when the ERA released its AA4 Revised Final Decision on October 25, 2016.

(4) 2019 mid- year rate base was impacted by a strengthening Canadian dollar in 2019. The 2019 mid-year rate base was calculated using a foreign exchange rate of Australian $1 to Canadian $0.91 compared to Canadian $0.96 in 2018. The mid-year rate base in Australian dollars was $1,293 in 2019 and $1,260 in 2018, which is a $33 million increase from 2018 to 2019.

(5) 2018 mid-year rate base was impacted by a strengthening Canadian dollar in 2018. The 2018 mid-Year rate base was calculated using a foreign exchange rate of Australian $1 to Canadian $0.96 compared to Canadian $0.98 in 2017. The mid-year rate base in Australian dollars was $1,260 in 2018 and $1,205 in 2017, which is a $55 million increase from 2017 to 2018.

(6) 2017 mid-year rate base was impacted by a strengthening Australian dollar in 2017. The 2017 mid-year rate base was calculated using a foreign exchange rate of Australian $1 to Canadian $0.98 compared to Canadian $0.97 in 2016. The mid-year rate base in Australian dollars was $1,205 in 2017 and $1,145 in 2016, which is a $60 million increase from 2016 to 2017.

ACCESS ARRANGEMENT 5

International natural gas distribution received the final decision related to the five-year Access Arrangement 5 (AA5) application from the Economic Regulation Authority (ERA) on November 15, 2019. The ERA also published its final rate of return guidelines which outline the parameters for the weighted average cost of capital (WACC) applicable to AA5. The AA5 WACC calculation was completed using a 20-business day period of observation in September 2019 to determine the risk free rate portion of the WACC calculation prior to the final decision. The WACC also determines the regulated return on equity (ROE) for international natural gas distribution. The AA5 ROE is 5.02 per cent compared to 7.21 per cent in the previous Access Arrangement. The final decision also includes rebasing of revenues for the recovery of operating costs, the approved capital expenditure program, and the forecast of demand and throughput. The common equity ratio for AA5 will be 45 per cent compared to 40 per cent in the previous Access Arrangement.

The tariffs included in the AA5 final decision are applicable for the period January 1, 2020 to December 31, 2024.

ALBERTA REGULATORY UPDATES

ELECTRICITY TRANSMISSION AND DISTRIBUTION REGULATORY UPDATES

ELECTRICITY DISTRIBUTION DEPRECIATION PROCEEDING

In the third quarter of 2019, the AUC issued a decision on depreciation parameters that extends the overall depreciable life of the electricity distribution assets and incorporates historical retirements related to severe weather events. The AUC determined the depreciation parameters as filed are reasonable, resulting in an electricity distribution depreciation rate change and lowered depreciation expense in the third and fourth quarters of 2019.

ELECTRICITY TRANSMISSION AND ELECTRICITY DISTRIBUTION RECOVERY OF 2016 REGIONAL MUNICIPALITY OF WOOD BUFFALO WILDFIRE COSTS

In October 2019, the AUC issued its decisions associated with electricity transmission and electricity distribution's application for the recovery of costs related to the 2016 Regional Municipality of Wood Buffalo wildfire.

Electricity transmission's applied-for cost recoveries were all substantially approved as part of the electricity transmission 2018-2019 GTA.

Approximately 90 per cent of the applied-for cost recoveries were approved in electricity distribution's application. The capital cost to replace the destroyed assets was approved as filed as were the majority of the operating and maintenance costs and recovery for lost revenues. However, the value of electricity distribution's destroyed assets was deemed to be an extraordinary retirement and was not approved for recovery in customer rates, resulting in a reduction to 2019 adjusted earnings of $1 million.

ELECTRICITY TRANSMISSION 2020-2022 GENERAL TARIFF APPLICATION (GTA)

In October 2019, electricity transmission filed a GTA for its operations for 2020, 2021, and 2022. The application requests, among other things, additional revenues to recover higher depreciation costs. The application also requests, at electricity transmission's discretion, the ability to advance an application to establish 2023 and 2024 revenue requirements by escalating the 2022 approved revenue requirement. A decision from the AUC is expected by the fourth quarter of 2020.

ELECTRICITY TRANSMISSION HANNA REGION TRANSMISSION DEVELOPMENT DEFERRAL APPLICATION

In February 2017, electricity transmission filed an application seeking approval of approximately $688 million of capital additions related to the Hanna Regional Transmission Development program incurred between 2012 and 2015. A decision from the AUC was received in June 2019 approving the vast majority of capital additions into rate base as prudently incurred.

ELECTRICITY TRANSMISSION 2018-2019 GTA

In June 2017, electricity transmission filed a GTA for its operations for 2018 and 2019. The decision was received in July 2019 approving the majority of requested capital expenditures and operating costs as filed. The impact of this decision was an increase to second quarter 2019 adjusted earnings of $9 million.

ELECTRICITY TRANSMISSION 2015-2017 DIRECT ASSIGNED PROJECTS DEFERRAL APPLICATION

In March 2019, electricity transmission filed an application seeking the approval of approximately $2.2 billion of capital additions from transmission projects with in-service dates between 2015-2017. The application includes $1.8 billion in capital additions from the Eastern Alberta Transmission Line.

NATURAL GAS TRANSMISSION REGULATORY UPDATES

NATURAL GAS TRANSMISSION 2019-2020 GENERAL RATE APPLICATION (GRA)

In July 2018, natural gas transmission filed a GRA for 2019 and 2020. The decision was received in June 2019 approving the majority of requested capital expenditures and operating costs requested as filed. The adjustments directed by the AUC in the decision had a $2 million positive impact in the second quarter 2019 adjusted earnings.

PBR REGULATORY UPDATES

1ST GENERATION PERFORMANCE BASED REGULATION (PBR) RE-OPENER

In June 2018, the AUC initiated a process for electricity distribution and natural gas distribution as the re-opener clause was triggered by both utilities in 2017, the final year of the 1st Generation PBR plan. The PBR re-opener thresholds are triggered if a utility's earnings are +/- 500 bps from the approved ROE in one year or +/- 300 bps from approved ROE in two consecutive years.

In February 2019, the AUC issued its decision that the re-opening of the plan was not warranted, agreeing with Canadian Utilities' submission that the achievements of the utilities were not due to a flaw in the PBR plan, but rather were the result of management decisions responding to the incentives the plan created. This process is closed.

COMMON MATTERS REGULATORY UPDATES

INFORMATION TECHNOLOGY (IT) COMMON MATTERS

In August 2014, ATCO subsidiary, Canadian Utilities sold its IT services business to Wipro Ltd. (Wipro) and signed a ten-year IT Master Services Agreement (MSA) effective January 1, 2015. Proceeds of the sale were $204 million, resulting in a one-time after-tax gain of $74 million which was recorded in earnings attributable to Class I and Class II shares. In 2014, the Company did not include this gain on sale in adjusted earnings because it was a significant one-time event.

In 2015, the AUC commenced an Information Technology Common Matters (IT Common Matters) proceeding to review the recovery of information technology costs by the Alberta Utilities from January 1, 2015 going forward. In June 2019, the AUC issued its decision regarding the IT Common Matters proceeding and directed the Alberta Utilities to reduce the first-year of the Wipro MSA by 13 per cent and to apply a glide path that reduces pricing by 4.61 per cent in each of years 2 through 10. For natural gas distribution and electricity distribution, the AUC's direction impacts the PBR 2018 going-in rates and treatment of capital costs. For the natural gas transmission and electricity transmission utilities, the AUC's direction impacts the revenue requirement dating back to 2015. The Alberta Utilities presented a considerable amount of evidence, including independent expert benchmarking and price review studies, to show that the Wipro MSA rates were at fair market value (FMV). As such, there was no cross subsidization between the sale price of Canadian Utilities' IT services business to Wipro in the 2014 transaction and the establishment of IT rates under the MSA. Despite these efforts, the AUC determined that the Alberta Utilities failed to demonstrate that the IT pricing in the MSA would result in just and reasonable rates.

As a result of the AUC's IT Common Matters decision, a $12 million reduction to the previously recorded 2014 after-tax gain on sale of $74 million was recorded in 2019. Going forward, the IT Common Matters decision is expected to further reduce the previously recorded gain. Consistent with the treatment in 2014, the $12 million reduction recognized in 2019, along with ongoing impacts associated with this decision, are not included in adjusted earnings.

In July 2019, the Alberta Utilities filed a leave to appeal application with the Alberta Court of Appeal in relation to the AUC Decision on the IT Common Matters proceeding. In October 2019, the Alberta Court of Appeal denied the Alberta Utilities leave to appeal application.

SUSTAINABILITY, CLIMATE CHANGE AND ENERGY TRANSITION

We believe that reducing our environmental impact is integral to the pursuit of operational excellence and long-term sustainable growth. Our success depends on our ability to operate in a responsible and sustainable manner, today and in the future.

SUSTAINABILITY REPORTING

Our 2019 Sustainability Report, which will be published in June 2020, will focus on the material topics listed below.

- Energy Stewardship: access and affordability, security and reliability, and customer satisfaction,
- Environmental Stewardship: climate change and energy use, and environmental compliance,
- Safety: employee health and safety, public safety, and emergency preparedness, and
- Community and Indigenous relations.

The Sustainability Report is based upon the internationally recognized Global Reporting Initiative (GRI) Standards. Our reporting is also guided by the Sustainability Accounting Standards Board (SASB) and the Financial Stability Board's Task Force on Climate-related Financial Disclosures' (TCFD) recommendations.

The 2018 Sustainability Report, Sustainability Framework Reference Document, and other disclosures are available on our website, at www.ATCO.com.

CLIMATE CHANGE AND ENERGY TRANSITION

To contribute to a lower carbon future, we continue to pursue initiatives looking at integrating lower intensity fuels, such as natural gas, hydrogen, renewables, and other clean energy solutions.

We actively and constructively work with federal and provincial governments with the goal of finding the best long-term solutions. We participate in a wide number of discussions, and the following are examples of where we are focusing our efforts.

Carbon Pricing / Output-Based Pricing Systems

The Government of Canada imposed a carbon levy of $20 per tonne as of January 1, 2019, increasing to $30 per tonne in April 2020. By 2022, it is expected to reach $50 per tonne.

In addition, the Government of Canada released the Output-Based Pricing System Regulations in June 2019. In Alberta, the Technology Innovation and Emissions Reduction (TIER) regulations meet the federal government's stringency requirements for carbon emitting pricing systems for Large Industrial Emitters and came into force on January 1, 2020.

In the third quarter of 2019, Canadian Utilities announced the sale of its 2,276-MW Canadian fossil fuel-based electricity generation business in a series of transactions. These sale transactions remove coal-fired electricity generation assets from Canadian Utilities' asset portfolio and significantly reduce overall greenhouse gas emissions as of October 1, 2019.

Under the National Greenhouse and Energy Reporting scheme in Australia, the safeguard mechanism applies to facilities with direct covered emissions of more than 100,000 tonnes of carbon dioxide equivalent per year. These facilities are required to keep their net emissions at or below emissions baselines set by the Clean Energy Regulator or surrender Australia Carbon Credit Units to offset their emissions and stay below their baseline.

Fuel Switching / Clean Fuel Standards

In June 2019, the Government of Canada released a paper on the Clean Fuel Standards Proposed Regulatory Approach. A key design element being proposed is that credits can be generated when end-users displace liquid transportation fuel with natural gas, propane or a non-carbon energy carrier such as electricity or hydrogen. The regulations will come into force for the liquid class in 2022 and the gaseous and solid classes in 2023.

In 2018, Canadian Utilities installed three electric vehicle (EV) charging stations between Calgary and Edmonton, Alberta providing end-users an opportunity to replace liquid fuel with a low-carbon emitting energy. In 2019, Canadian Utilities continued to expand its number of EV direct current, fast charging stations with 15 stations installed and 5 additional stations planned to be in service by the end of the first quarter of 2020.

In Australia, with support from the Australian Renewable Energy Agency (ARENA) we are investing $3.7 million in a leading research and development facility at our Jandakot Operations Centre, called the Clean Energy Innovation Hub. The Clean Energy Innovation Hub is a test bed for hybrid energy solutions integrating natural gas, solar PV, battery storage and hydrogen production.

We also continue to explore and implement opportunities for fuel switching to lower-emitting options such as reducing or replacing diesel consumption with more energy efficient solutions for customers in remote communities.

EV charging station, Lethbridge, Alberta

Methane Reductions

We continue to monitor developments, such as provincial equivalency to the Government of Canada announcement to reduce methane emissions from the oil and gas sector by 40 to 45 per cent from 2012 levels by 2025.

The federal and provincial methane regulations affect a portion of the Company's fugitive and venting emissions from Canadian natural gas pipeline-related operations. The Company's exposure is limited because requirements to upgrade equipment in order to further reduce methane emissions are expected to be included in rate base on a go-forward basis. The Company has already implemented a number of programs to improve efficiency and reduce fugitive and venting emissions in the natural gas distribution and transmission businesses, and will comply with both sets of rules until equivalency is reached.

Climate Change Resiliency

We carefully manage climate-related risks, including preparing for, and responding to, extreme weather events through activities such as proactive route selection, asset hardening, regular maintenance, and insurance. The Company follows regulated engineering codes and continues to evaluate ways to create greater system reliability and resiliency. When planning for capital investment or acquiring assets we consider site specific climate and weather factors, such as flood plain mapping and extreme weather history.

In electricity transmission and distribution operations, grid resiliency initiatives focus on prevention, protection, and reaction. Prevention includes minimizing operational risks and ensuring system adequacy through system planning and coordination. Protection is focused on improving grid resiliency through activities such as retrofitting and vegetation management to reduce incidents that result in outages. Wildfire Management Plans include requirements to conduct annual patrols of all power lines in forest protection areas. Finally, we look to restore services in the shortest possible timeframe through grid modernization, adequate contingency planning and dispatch.

In natural gas transmission and distribution activities, the majority of the Company's pipeline network is underground, making it less susceptible to extreme weather events. We work with regulators to increase resiliency where appropriate through asset improvement projects. We have also mapped and continue to regularly inspect pipeline water crossings.

In our structures and logistics activities, we look to leverage our expertise to produce high-efficiency structures in response to evolving building codes. Our modular housing units are built in factories, which reduces our emissions and environmental impact. In addition, the availability of deployable modular housing and logistical services can be an important asset when extreme weather events occur around the world.

We have streamlined our Crisis Response and Emergency Preparedness systems, and we continuously improve our ability to rapidly mobilize and effectively respond to crises globally. We incorporate learnings from responding to extreme weather events which enables us to continue to strengthen our emergency response capabilities.

Climate Change Challenges and Opportunities

While climate-related challenges and opportunities are integrated into our strategy and risk management processes, ATCO understands that specifically disclosing climate-related information may be useful for the investment community. In addition to the material risks described in the Business Risks and Risk Management section of this MD&A, the table below provides further information on how we address specific climate-related challenges and opportunities. We plan to continue to progress these disclosures in the future.

Category/ Driver	Challenges	Opportunities	Mitigation Options/Measures
Policy/ Regulatory	Operations in several jurisdictions subject to emissions limiting regulations Aggressive shifts in policy which do not allow for transition in an effective, affordable manner	Continued fuel switching to lower-emitting options Coal-to-gas conversions present opportunity for increased demand for natural gas transmission infrastructure investment in the near to medium term	Active participation in policy development, industry groups, regulatory discussions, etc. Business diversification Sale of 2,276-MW of Canadian fossil fuel-based electricity generation significantly reduces overall GHG emissions of the Company
Market	Changes in carbon policy, costs of operations, and commodity prices Changing customer behaviour	Increase in demand for lower-emitting technologies	Participation in carbon markets Business diversification
Technology	Replacement of current products/services with lower-emitting options Prosumer movement may affect energy load profiles	A transition to lower-emitting energy systems provides opportunity to utilize expertise in: generation, integration and delivery of new energy sources including hydrogen, renewable natural gas, EV networks; and transmission and distribution infrastructure to ensure energy network reliability and security	Internal innovation teams to evaluate new technologies
Reputational	Public perception of carbon risk	Increase in demand for trusted long-term partners to deliver lower-emitting solutions	Transparent reporting
Physical	Extreme weather events Long-term changes in temperature and weather patterns	Climate change mitigation and adaptation Rapidly deployable structures and logistics services	Climate change resiliency efforts Emergency Response and Preparedness plans and training

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the fourth quarter and full year of 2019 and 2018 is given below. These amounts are presented in accordance with IFRS accounting standards. They have not been adjusted for the timing of revenues and expenses associated with rate-regulated activities and other items that are not in the normal course of business.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Operating costs	**663**	623	40	**2,598**	2,378	220
Service concession arrangement costs	**9**	44	(35)	**127**	664	(537)
Depreciation and amortization	**172**	158	14	**637**	682	(45)
Proceeds from termination of Power Purchase Arrangement	–	–	–	–	62	(62)
Gain on sale of Operations	**21**	–	21	**174**	–	174
Gain on sale of Barking Power assets	–	125	(125)	–	125	(125)
Earnings from investment in associate company	**4**	3	1	**15**	4	11
Earnings from investment in joint ventures	**7**	6	1	**24**	25	(1)
Net finance costs	**115**	130	(15)	**484**	478	6
Income taxes	**90**	85	5	**66**	231	(165)

OPERATING COSTS

Operating costs, which are total costs and expenses less service concession arrangement costs and depreciation and amortization, increased by $40 million in the fourth quarter of 2019 when compared to the same period in 2018. Higher operating costs were mainly due to higher materials costs in ATCO Structures from increased activity on the LNG Canada Cedar Valley Lodge contract, partially offset by lower operating expenses due to the sale of the Canadian fossil-fuel based electricity generation business in the third quarter of 2019.

Operating costs increased by $220 million in 2019 when compared to 2018. Higher operating costs were mainly due to higher materials costs in ATCO Structures from increased activity on the LNG Cedar Valley Lodge contract, higher losses on mark-to-market forward and swap commodity contracts, and higher flow-through power costs in ATCOenergy. Higher expenses were partially offset by lower operating costs due to the sale of the Canadian fossil-fuel based electricity generation business in the third quarter of 2019.

SERVICE CONCESSION ARRANGEMENT COSTS

Service concession arrangement costs were recorded for third party construction and operation activities for APL's Fort McMurray West-500kV Project. Service concession arrangement costs in the fourth quarter and full year 2019 were $35 million and $537 million lower compared to the same periods in 2018, mainly due to the completion of construction activities in March 2019. The project was energized on March 28, 2019 and costs incurred subsequent to this date relate to operating and maintenance activities.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by $14 million in the fourth quarter of 2019 mainly due to higher depreciation costs in electricity transmission.

Depreciation and amortization decreased by $45 million in 2019. Lower depreciation is mainly due to a depreciation rate change in the third quarter of 2019 extending the overall depreciable life of the electricity distribution assets, and the ceasing of depreciation of the Canadian fossil fuel-based electricity generation assets that were classified as held for sale in the second quarter of 2019 and subsequently sold in the third quarter of 2019. Lower depreciation expense was partially offset by higher depreciation costs in electricity transmission, ongoing capital investment, and the implementation of IFRS 16 in 2019.

PROCEEDS FROM TERMINATION OF POWER PURCHASE ARRANGEMENT

On September 30, 2018, the Battle River unit 5 PPA was terminated by the Balancing Pool and dispatch control was returned to Canadian Utilities. Canadian Utilities received a $62 million payment from the Balancing Pool in the third quarter of 2018.

GAIN ON SALE OF OPERATIONS

In the fourth quarter of 2019, Canadian Utilities completed a series of transactions on the sale of our Canadian fossil fuel-based electricity generation portfolio and ownership interest in Alberta PowerLine. These sales resulted in a gain on sale of operations of $174 million (before income tax). This gain on sale includes $10 million of transaction costs recognized in previous quarters.

GAIN ON SALE OF BARKING POWER ASSETS

In the fourth quarter of 2018, ATCO subsidiary Canadian Utilities sold its 100 per cent ownership interest in the Barking Power assets. In accordance with IFRS accounting standards, ATCO recorded a gain on sale of $125 million (before income tax).

EARNINGS FROM INVESTMENT IN ASSOCIATE COMPANY

Earnings from investment in associate company is comprised of our 40 per cent ownership interest in Neltume Ports, a leading port operator and developer in South America with operations in 16 port facilities and three port operation services businesses located in Chile, Uruguay, Argentina, and Brazil. Earnings from investment in associate company were $4 million in the fourth quarter and $15 million in the full year of 2019. Higher earnings in 2019 were mainly due to a full year of ownership following the acquisition of our 40 per cent interest of Neltume Ports in September, 2018.

EARNINGS FROM INVESTMENT IN JOINT VENTURES

Earnings from investment in joint ventures is mainly comprised of ownership positions in several electricity generation plants, the Strathcona Storage Limited Partnership which operates hydrocarbon storage facilities at the ATCO Heartland Energy Centre near Fort Saskatchewan, Alberta, and ATCO-Sabinco S.A which operates a Structures & Logistics business in Chile, and certain ATCO Frontec facility operations and maintenance contracts.

Earnings from investment in joint ventures increased by $1 million in the fourth quarter of 2019 compared to the same period in 2018 mainly due to higher earnings from the Strathcona Storage Limited Partnership due to two additional hydrocarbon storage caverns that became operational in the second quarter of 2018.

Earnings from investment in joint ventures decreased by $1 million in the full year of 2019 compared to the same period in 2018 mainly due to the impact of the new PPA at the Osborne generation plant in Australia, and lower earnings in electricity generation due to the sale of Brighton Beach in the third quarter of 2019, partially offset by higher earnings from the Strathcona Storage Limited Partnership due to two additional hydrocarbon storage caverns that became operational in the second quarter of 2018.

NET FINANCE COSTS

Net finance costs decreased by $15 million in the fourth quarter of 2019 when compared to the same period in 2018, mainly due to lower interest expense under service concession arrangement accounting as a result of the completion of construction of APL in the first quarter of 2019. Decreased net finance costs were also due to lower interest expenses on non-recourse long-term debt from the sale of the Canadian fossil-fuel based electricity generation business in the third quarter of 2019, and lower interest expense on long-term CU Inc. debt refinanced in the third quarter of 2019.

Net finance costs increased by $6 million in 2019 when compared to the same period in 2018, mainly due to interest expense associated with the Neltume Ports investment, partially offset by lower interest expense under service concession arrangement accounting as a result of the completion of construction of APL in the first quarter of 2019. Decreased net finance costs were also due to lower interest expenses on non-recourse long-term debt from the sale of the Canadian fossil-fuel based electricity generation business in the third quarter of 2019, and lower interest expense on long-term CU Inc. debt refinanced in the third quarter of 2019.

INCOME TAXES

Income taxes increased by $5 million in the fourth quarter of 2019 compared to the same period in 2018, mainly due to the sale of APL, partially offset by a decrease in earnings.

Income taxes decreased by $165 million in 2019 compared to 2018 mainly due to lower corporate income tax rates enacted by the Government of Alberta in June 2019, partially offset by higher earnings before income taxes in 2019. The Government of Alberta enacted a phased decrease in the provincial corporate income tax rate from 12 per cent to 8 per cent over four years, commencing with a one per cent decrease on July 1, 2019 followed by a one per cent reduction on January 1st of each of the next three years.

LIQUIDITY AND CAPITAL RESOURCES

Our financial position is supported by Regulated Utility and long-term contracted operations. Our business strategies, funding of operations, and planned future growth are supported by maintaining strong investment grade credit ratings and access to capital markets at competitive rates. Primary sources of capital are cash flow from operations and the debt and preferred share capital markets.

We consider it prudent to maintain enough liquidity to fund approximately one full year of cash requirements to preserve strong financial flexibility. Liquidity is generated by cash flow from operations and is supported by appropriate levels of cash and available committed credit facilities.

CREDIT RATINGS

Credit ratings are important to the Company's financing costs and ability to raise funds. The Company intends to maintain strong investment grade credit ratings in order to provide efficient and cost-effective access to funds required for operations and growth.

The following table shows the current credit ratings assigned to ATCO Ltd., Canadian Utilities Limited, CU Inc., and ATCO Gas Australia Pty Ltd.

	DBRS	S&P
ATCO Ltd.		
Issuer	A (low)	A-
Canadian Utilities Limited		
Issuer	A	A-
Senior unsecured debt	A	BBB+
Commercial paper	R-1 (low)	A-1 (low)
Preferred shares	PFD-2 (high)	P-2
CU Inc.		
Issuer and senior unsecured debt	A (high)	A-
Commercial paper	R-1 (low)	A-1 (low)
Preferred shares	PFD-2 (high)	P-2
ATCO Gas Australia Pty Ltd. (1)		
Issuer and senior unsecured debt	N/A	BBB+

(1) ATCO Gas Australia Pty Ltd. is a regulated provider of natural gas distribution services in Western Australia, serving metropolitan Perth and surrounding regions.

On July 17, 2019, DBRS Limited (DBRS) affirmed its 'A (high)' long-term corporate credit rating and stable outlook on ATCO subsidiary CU Inc. On August 9, 2019, DBRS affirmed its 'A' long-term corporate credit rating and stable outlook on ATCO subsidiary Canadian Utilities. On August 30, 2019, DBRS affirmed its 'A (low)' long-term corporate credit rating and stable outlook on ATCO.

On October 3, 2019, S&P Global Ratings (S&P) affirmed its 'A-' long-term issuer credit rating and stable outlook on ATCO Ltd. and its subsidiaries Canadian Utilities and CU Inc.

On November 11, 2019, S&P affirmed its 'BBB+' long-term issuer credit rating and stable outlook on ATCO subsidiary ATCO Gas Australia Pty Ltd.

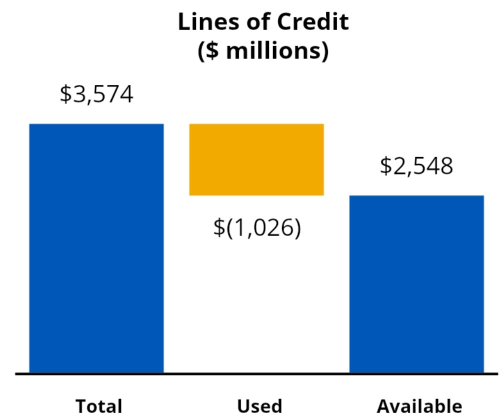
LINES OF CREDIT

At December 31, 2019, ATCO and its subsidiaries had the following lines of credit.

($ millions)	**Total**	**Used**	**Available**
Long-term committed	**2,985**	839	2,146
Short-term committed	**18**	13	5
Uncommitted	**571**	174	397
Total	**3,574**	1,026	2,548

Of the $3,574 million in total credit lines, $571 million was in the form of uncommitted credit facilities with no set maturity date. The other $3,003 million in credit lines was committed, with maturities between 2021 and 2023, and may be extended at the option of the lenders.

Of the $1,026 million credit line usage, $620 million was related to ATCO Gas Australia Pty Ltd. with the majority of the remaining usage pertaining to the issuance of letters of credit. Long-term committed credit lines are used to satisfy all of ATCO Gas Australia Pty Ltd.'s term debt financing needs.



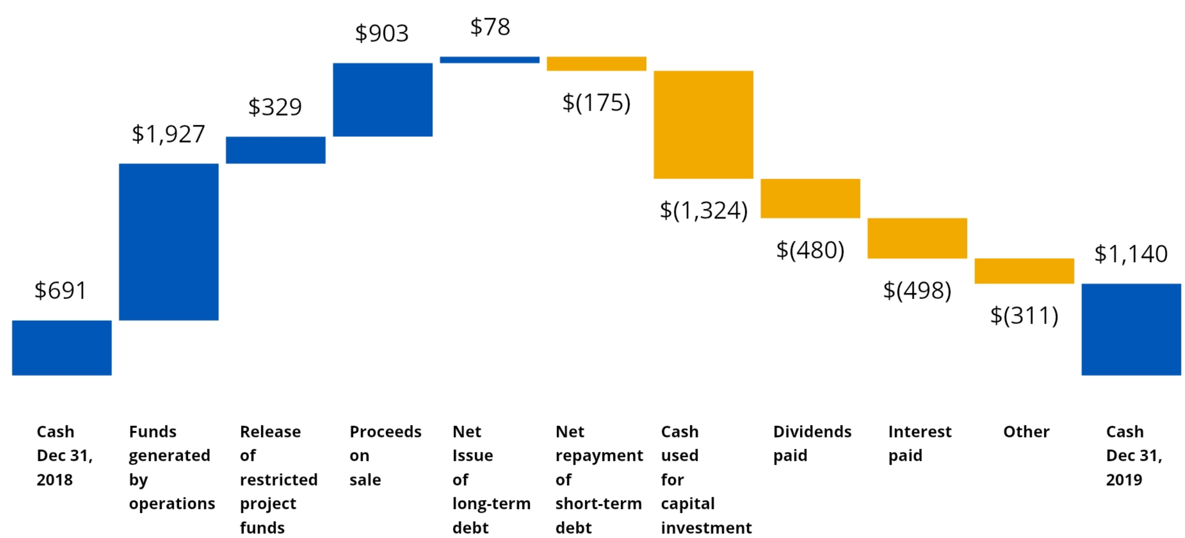
CONSOLIDATED CASH FLOW

At December 31, 2019, the Company's cash position was $1,140 million, an increase of $449 million compared to December 31, 2018. Major movements are outlined in the following table:

	Year Ended December 31		
($ millions)	**2019**	**2018**	**Change**
Funds generated by operations [1]	**1,927**	1,897	30
Release of restricted project funds	**329**	726	(397)
Proceeds on sales of assets and operations	**903**	219	684
Net Issue of long-term debt	**78**	814	(736)
Net issue of short-term debt	**(175)**	165	(340)
Cash used for capital investment	**(1,324)**	(2,518)	1,194
Dividends paid to Class I and Class II Share owners	**(186)**	(173)	(13)
Dividends paid to non-controlling interests	**(294)**	(214)	(80)
Interest paid	**(498)**	(485)	(13)
Other	**(311)**	(234)	(77)
Increase in cash position	**449**	197	252

(1) Additional information regarding this measure is provided in the Non-GAAP and Additional GAAP Measures section of this MD&A.

Changes in Consolidated Cash Balances in 2019
($ Millions)



CONSOLIDATED CASH FLOW

Funds Generated by Operations

Funds generated by operations were $1,927 million in 2019, $30 million higher compared to 2018. The increase was mainly due to higher earnings in Structures & Logistics and the Alberta Utilities, partially offset by lower funds generated as a result of the sale of the Canadian fossil-fuel based electricity business in the third quarter of 2019.

Cash Used for Capital Investment

Cash used for capital investment was $382 million in the fourth quarter of 2019, $38 million lower than the same period in 2018. Lower capital spending was mainly due to lower capital spending in electricity transmission, the completion of construction activities in Alberta PowerLine in the first quarter of 2019, and lower capital investment in ATCO Structures' rental fleet. This lower capital spending was partially offset by higher capital spending in natural gas transmission with the commencement of construction in late 2019 on the Pembina-Keephills Transmission Pipeline.

Cash used for capital investment was $1,324 million in 2019, $1,194 million lower than the same period in 2018. Lower capital spending was mainly due to the completion of construction activities in Alberta PowerLine in the first quarter of 2019, the 2018 investment in a 40 per cent ownership interest in Neltume Ports in the third quarter of 2018, the acquisition of Electricidad del Golfo in the first quarter of 2018 and lower capital spending in electricity transmission in 2019. Lower capital spending was partially offset by higher capital investment in natural gas transmission due to the commencement of construction on the Pembina-Keephills Transmission Pipeline in late 2019.

Capital investment in the fourth quarter and full year of 2019 and 2018 is shown in the table below.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Electricity						
Electricity Distribution	**73**	63	10	**224**	227	(3)
Electricity Transmission	**26**	81	(55)	**165**	240	(75)
Electricity Generation	**12**	15	(3)	**59**	156	(97)
Alberta PowerLine	**–**	44	(44)	**95**	664	(569)
Total Electricity	**111**	203	(92)	**543**	1,287	(744)
Pipelines & Liquids						
Natural Gas Distribution	**92**	80	12	**284**	290	(6)
Natural Gas Transmission	**130**	65	65	**293**	239	54
International Natural Gas Distribution	**19**	24	(5)	**69**	93	(24)
International Natural Gas Transmission and Storage & Industrial Water	**19**	5	14	**31**	26	5
Total Pipelines & Liquids	**260**	174	86	**677**	648	29
CU Corporate & Other	**3**	3	–	**6**	16	(10)
Canadian Utilities Total	**374**	380	(6)	**1,226**	1,951	(725)
Structures & Logistics	**25**	35	(10)	**105**	113	(8)
Neltume Ports	**–**	–	–	**9**	444	(435)
ATCO Corporate & Other	**3**	5	(2)	**4**	10	(6)
Intersegment Eliminations	**(20)**	–	(20)	**(20)**	–	(20)
ATCO Total (1) (2)	**382**	420	(38)	**1,324**	2,518	(1,194)

(1) Includes capital expenditures in joint ventures of nil and $2 million (2018 - $5 million and $20 million) for the fourth quarter and full year of 2019.

(2) Includes additions to property, plant and equipment, intangibles and $2 million and $16 million (2018 - $4 million and $20 million) of interest capitalized during construction for the fourth quarter and full year of 2019.

Base Shelf Prospectuses

CU Inc. Debentures

On June 11, 2018, CU Inc. filed a base shelf prospectus that permits it to issue up to an aggregate of $1.5 billion of debentures over the 25-month life of the prospectus. As of February 26, 2020, aggregate issuances of debentures were $965 million.

Canadian Utilities Debt Securities and Preferred Shares

On June 11, 2018, Canadian Utilities filed a base shelf prospectus that permits it to issue up to an aggregate of $2 billion of debt securities and preferred shares over the 25-month life of the prospectus. No debt securities or preferred shares have been issued to date under this base shelf prospectus.

Dividends and Common Shares

We have increased our common share dividend each year since 1993, a 27-year track record. Dividends paid to Class I and Class II Share owners totaled $47 million in the fourth quarter and $186 million in the full year of 2019.

On January 9, 2020, the Board of Directors declared a first quarter dividend of 43.52 cents per share. The payment of any dividend is at the discretion of the Board of Directors and depends on our financial condition and other factors.

27 year

track record of increasing common share dividends

Normal Course Issuer Bid

We believe that, from time to time, the market price of our Class I Shares may not fully reflect the value of our business, and that purchasing our own Class I Shares represents an attractive investment opportunity and desirable use of available funds. The purchase of Class I Shares, at appropriate prices, will also minimize any dilution resulting from the exercise of stock options.

On March 8, 2019, we commenced a normal course issuer bid to purchase up to 1,014,294 outstanding Class I Shares. This bid will expire on March 7, 2020. From March 8, 2019 to December 31, 2019, 101,350 shares were purchased for $5 million.

SHARE CAPITAL

ATCO's equity securities consist of Class I Shares and Class II Shares.

At February 25, 2020, we had outstanding 101,468,481 Class I Shares, 13,199,647 Class II Shares, and options to purchase 691,600 Class I Shares.

CLASS I NON-VOTING SHARES AND CLASS II VOTING SHARES

Each Class II Share may be converted into one Class I Share at any time at the share owner's option. If an offer to purchase all Class II Shares is made, and such offer is accepted and taken up by the owners of a majority of the Class II Shares, and, if at the same time, an offer is not made to the Class I Share owners on the same terms and conditions, then the Class I Shares will be entitled to the same voting rights as the Class II Shares. The two share classes rank equally in all other respects, except for voting rights.

Of the 10,200,000 Class I Shares authorized for grant of options under our stock option plan, 2,444,450 Class I Shares were available for issuance at December 31, 2019. Options may be granted to our officers and key employees at an exercise price equal to the weighted average of the trading price of the shares on the Toronto Stock Exchange for the five trading days immediately preceding the grant date. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the time of grant.

QUARTERLY INFORMATION

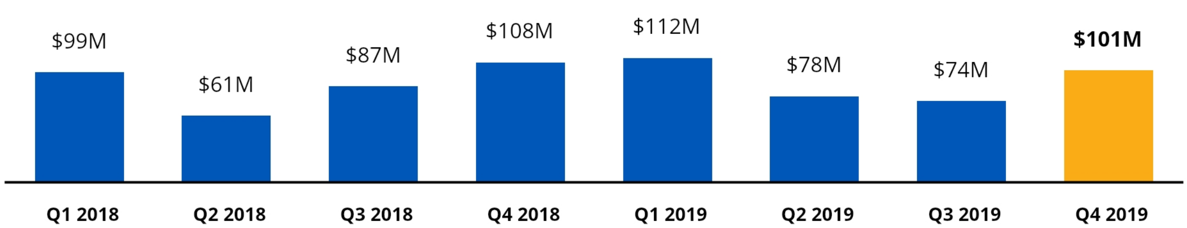
The following table shows financial information for the eight quarters ended March 31, 2018 through December 31, 2019.

($ millions, except for per share data)	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Revenues	1,324	1,103	1,097	**1,182**
Earnings attributable to Class I and Class II Shares	112	158	160	**83**
Earnings per Class I and Class II Share *($)*	0.98	1.38	1.40	**0.73**
Diluted earnings per Class I and Class II Share *($)*	0.98	1.37	1.40	**0.72**
Adjusted earnings per Class I and Class II Share *($)*	0.98	0.68	0.65	**0.88**
Adjusted earnings				
Structures & Logistics	3	7	13	**14**
Neltume Ports	4	4	3	**4**
ATCO Corporate & Other	–	–	3	**(9)**
Canadian Utilities				
Electricity	61	55	59	**46**
Pipelines & Liquids	51	23	9	**54**
Canadian Utilities Corporate & Other	(7)	(11)	(13)	**(8)**
Total adjusted earnings	112	78	74	**101**

($ millions, except for per share data)	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Revenues	1,500	1,103	1,111	1,174
Earnings (loss) attributable to Class I and Class II Shares	90	(12)	115	135
Earnings (loss) per Class I and Class II Share *($)*	0.78	(0.10)	1.01	1.18
Diluted earnings (loss) per Class I and Class II Share *($)*	0.78	(0.10)	1.00	1.18
Adjusted earnings per Class I and Class II Share *($)*	0.87	0.53	0.76	0.94
Adjusted earnings				
Structures & Logistics	1	6	3	5
Neltume Ports	–	–	1	3
ATCO Corporate & Other	2	(2)	15	2
Canadian Utilities				
Electricity	51	53	70	54
Pipelines & Liquids	53	14	9	54
Canadian Utilities Corporate & Other	(8)	(10)	(11)	(10)
Total adjusted earnings	99	61	87	108

ADJUSTED EARNINGS

Our financial results for the previous eight quarters reflect continued growth and regulatory decisions in Regulated Utility operations as well as fluctuating commodity prices in electricity generation and sales, and natural gas storage operations. Interim results will vary due to the seasonal nature of demand for electricity and natural gas, the timing of utility regulatory decisions and the cyclical demand for workforce housing and space rental products and services.



STRUCTURES & LOGISTICS

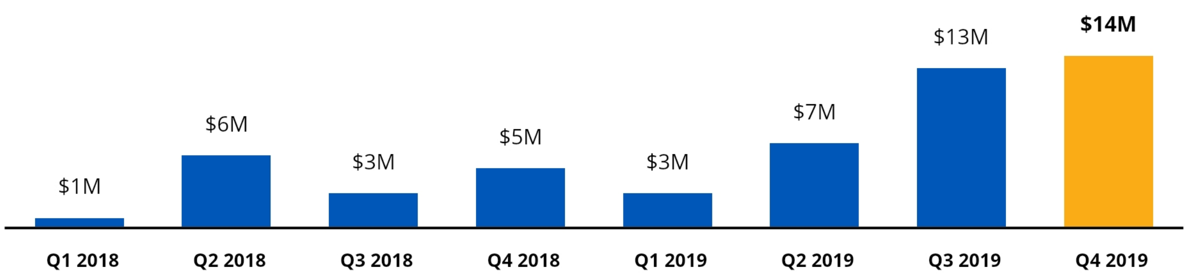
In the second quarter of 2018, earnings increased compared to the prior quarters mainly due to higher used fleet sales and space rental activity in ATCO Structures, partially offset by lower workforce housing rental earnings in the U.S.

In the third quarter of 2018, earnings increased compared to the third quarter of 2017 mainly due to improved margins on both used workforce housing fleet sales and space rentals in Canada and Australia, as well as increased space rental activity and asset expansions in Mexico and Chile in ATCO Structures.

In the fourth quarter of 2018, earnings increased compared to the fourth quarter of 2017 mainly due to higher space rentals activity, higher trade sale activity particularly in permanent modular construction in Canada and Australia, and higher occupancy at the BC Hydro Site C workforce housing camp.

In the first quarter of 2019, earnings increased compared to the first quarter of 2018 mainly due to higher space rental earnings, commencement of work on the LNG Canada Cedar Valley Lodge contract, and higher lodging occupancy at the BC Hydro Site C workforce housing camp.

In the second, third and fourth quarters of 2019, earnings increased compared to the same periods in 2018, mainly due to incremental earnings from ATCO Structures' LNG Canada Cedar Valley Lodge contract and incremental ATCO Frontec earnings from North American camp services and maintenance contracts.

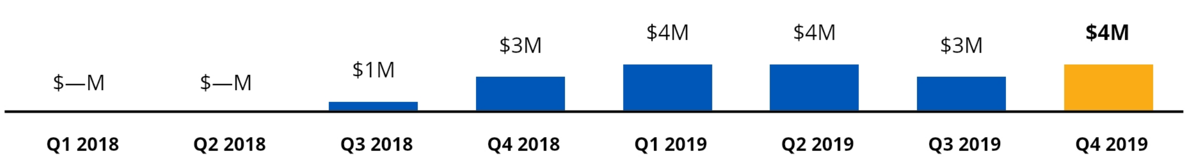


NELTUME PORTS

On September 12, 2018, ATCO invested in a 40 per cent interest in Neltume Ports. In the third quarter and fourth quarter of 2018, Neltume Ports earned $1 million and $3 million.

In the first, second and third quarters of 2019, Neltume Ports earned $4 million, $4 million and $3 million.

Neltume Ports recorded adjusted earnings of $4 million in the fourth quarter of 2019. Earnings were $1 million higher compared to the same period of 2018 mainly due to higher container volume at the TPS port.



CANADIAN UTILITIES

Electricity

Electricity adjusted earnings are impacted by the timing of certain major regulatory decisions, and Alberta Power Pool pricing and spark spreads.

In 2018, earnings were adversely impacted by performance base regulation rate rebasing under Alberta's regulated model in electricity distribution and lower electricity transmission interim rates approved by the AUC.

In the first quarter of 2018, Electricity earnings were adversely impacted by realized forward sales and minor plant outage costs in the Independent Power Plants, partially offset by earnings from Alberta PowerLine due to construction activity and earnings in Thermal PPAs due to the recognition of availability incentives.

In the second quarter of 2018, earnings increased compared to the second quarter of 2017 mainly due to improved market conditions for Independent Power Plants and higher recognition of availability incentives in the Thermal PPA Plants.

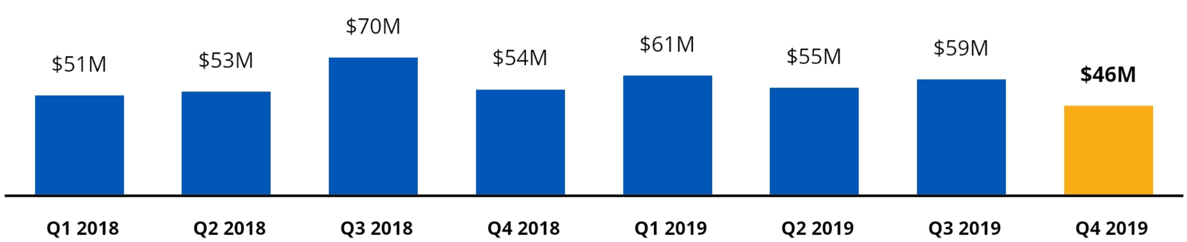
In the third quarter of 2018, earnings increased compared to the third quarter of 2017 mainly due to the completion of performance obligations and additional availability incentive earnings which resulted from the Battle River unit 5 PPA termination, and improved market conditions for Independent Power Plants. These improved earnings were partially offset by lower earnings due to lower scheduled construction activity at Alberta PowerLine.

In the fourth quarter of 2018, higher earnings compared to the fourth quarter of 2017 were mainly due to earnings from the sale of the Barking Power assets and improved conditions in the Alberta power market, as well as higher APL earnings recorded as result of an early energization incentive.

In the first quarter of 2019, higher earnings were mainly due to increased Alberta power market prices, ongoing growth in the regulated rate base and cost efficiencies in electricity distribution.

In the second quarter of 2019, higher earnings compared to the second quarter of 2018 were mainly due to the impact of the electricity transmission 2018-2019 GTA decision, continued growth in the regulated rate base, cost efficiencies, and lower income taxes.

Electricity earnings in the third and fourth quarters of 2019 were lower compared to the third and fourth quarters of 2018, mainly due to the forgone earnings from the sale of the Canadian fossil fuel-based electricity generation business in the third quarter of 2019 and lower earnings contributions from Alberta PowerLine as a result of the completion of construction activities in the first quarter of 2019. Lower earnings were partially offset by the positive impact of the electricity transmission 2018-2019 general tariff application decision which was received in the second quarter of 2019, overall cost efficiencies and lower income taxes.



Pipelines & Liquids

Pipelines & Liquids' adjusted earnings are impacted by the timing of certain major regulatory decisions, seasonality, and demand for hydrocarbon and natural gas storage and water services.

In 2018, earnings were adversely impacted by performance base regulation rate rebasing under Alberta's regulated model in natural gas distribution.

In the first quarter of 2018, earnings were positively impacted by higher seasonal demand and growth in rate base across the pipelines & liquids' regulated businesses.

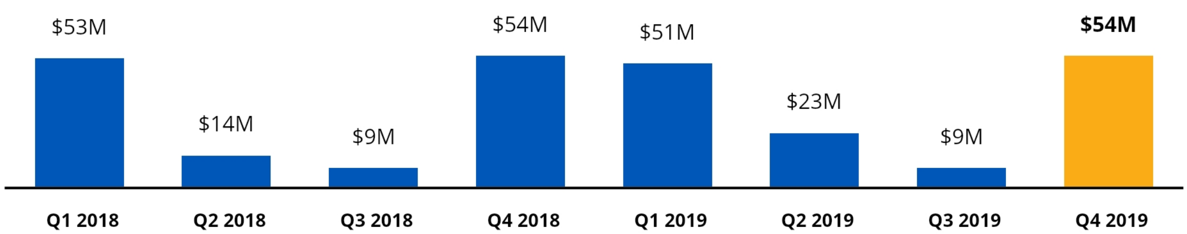
In the second and third quarters of 2018, lower earnings compared to the same periods in 2017 were mainly due to lower seasonal demand and the impact of rate rebasing under Alberta's regulated model in natural gas distribution, partially offset by growth in rate base across our Regulated Pipelines & Liquids businesses.

In the fourth quarter of 2018, higher earnings compared to the fourth quarter of 2017 were mainly due to growth in rate base, the timing of regulatory decisions and higher seasonal demand.

In the first quarter of 2019, lower earnings compared to the first quarter of 2018 were mainly due to inflation rate adjustments applied to the rate of return calculations in international natural gas distribution, partially offset by ongoing growth in the regulated rate base and cost efficiencies in natural gas distribution.

In the second quarter of 2019, higher earnings compared to the second quarter of 2018 were mainly due to ongoing growth in the regulated rate base and the impact of the natural gas transmission 2019-2020 general rate application GRA decision, earnings growth in the hydrocarbon storage business, cost efficiencies, and lower income taxes.

In the third and fourth quarters of 2019, adjusted earnings were comparable to the same periods in 2018.



EARNINGS ATTRIBUTABLE TO CLASS I AND CLASS II SHARES

Earnings attributable to Class I and Class II Shares includes timing adjustments related to rate-regulated activities and unrealized gains or losses on mark-to-market forward commodity contracts. They also include one-time gains and losses, significant impairments, restructuring charges and other items that are not in the normal course of business or a result of day-to-day operations recorded at various times over the past eight quarters. These items are excluded from adjusted earnings and are highlighted below:

- In the second quarter of 2018, restructuring and other costs not in the normal course of business of $39 million after-tax were recorded. These costs mainly relate to staff reductions and associated severance costs, as well as costs related to decisions to discontinue certain projects that no longer represent long-term strategic value to the Company.
- In the third quarter of 2018, the Battle River unit 5 PPA was terminated by the Balancing Pool and dispatch control was returned to Canadian Utilities. Canadian Utilities received a payment from the Balancing Pool and also recorded additional coal-related costs and Asset Retirement Obligations associated with the Battle River generating facility. This one-time receipt and costs in the net amount of $19 million were excluded from adjusted earnings.
- In the fourth quarter of 2018, Canadian Utilities sold its 100 per cent ownership interest in Barking Power assets. A gain in the amount of $46 million was excluded from adjusted earnings.
- In the second, third and fourth quarters of 2019, Canadian Utilities closed a series of transactions related to the sale of its Canadian fossil fuel-based electricity generation portfolio and Alberta PowerLine resulting in a gain on sale of operations of $65 million. As these transactions are one-time in nature, they are excluded from adjusted earnings.

BUSINESS RISKS AND RISK MANAGEMENT

The Board of Directors (Board) is responsible for understanding the principal risks of the businesses in which the Company is engaged. The Board also must achieve a prudent balance between risks incurred and the potential return to share owners. It must confirm controls are in place that effectively monitor and manage those risks for the Company's long-term viability.

The Board has an Audit & Risk Committee, which reviews significant risks associated with future performance and growth. This committee is responsible for confirming that management has procedures in place to mitigate identified risks.

We have an established enterprise risk management process that allows us to identify and evaluate our risks by both severity of impact and probability of occurrence. Materiality thresholds are reviewed annually by the Audit & Risk Committee. Non-financial risks that may have an impact on the safety of our employees, customers or the general public and reputation risks are also evaluated. The following table outlines our current significant risks and associated mitigations.

Business Risk: Capital Investment		
Businesses Impacted:	**Associated Strategies:**	
• All businesses	• Growth	• Financial Strength
Description and Context	***Risk Management Approach***	
The Company is subject to the normal risks associated with major capital projects, including cancellations, delays and cost increases.	The Company attempts to reduce the risks of project delays and cost increases by careful planning, diligent procurement practices and entering into fixed price contracts when possible. International natural gas distribution's planned capital investment is approved by the regulator. Planned capital investments for the Alberta Utilities are based on the following significant assumptions: projects identified by the AESO will proceed as currently scheduled; the remaining planned capital investments are required to maintain safe and reliable service and meet planned growth in the Alberta Utilities' service areas; regulatory approval for capital projects can be obtained in a timely manner; and access to capital market financings can be maintained. The Company believes these assumptions are reasonable.	

Business Risk: Climate Change	
Businesses Impacted: • All businesses	**Associated Strategies:** • Operational Excellence • Innovation
Description and Context	***Risk Management Approach***
Policy risks ATCO has operations in several jurisdictions subject to emission regulations, including carbon pricing, output-based performance standards, and other emission management policies. For example, in Alberta the output-base Technology Innovation and Emissions Reduction (TIER) Regulations replaced the federal output-based pricing system as of January 1, 2020. ATCO Structures' rental fleet has historically played an important role in servicing large industry such as the oil and gas industry. Provincial and federal climate policies that adversely impact the economic viability of these operations present an under-utilized asset risk to rental fleet assets in the short to medium term.	**Policy risks** The sale of the Canadian fossil fuel-based electricity generation portfolio significantly reduced overall GHG emissions and removed coal-fired electricity generation assets from our asset portfolio as of October 1, 2019. The Company's exposure is limited for the Regulated Utilities because GHG emission charges are generally recovered in rates. In addition, future requirements, such as upgrading equipment to further reduce methane emissions, are expected to be included in rate base on a go-forward basis. ATCO Structures is further mitigating risk through the diversification of customers, geography, and end use of products, including the pursuit of three main business lines: space rentals, workforce housing, and permanent modular construction.
Physical Risks Physical risks associated with climate change may include an increase in extreme weather events such as heavy rainfall, floods, wildfires, extreme winds and ice storms, or changing weather patterns that cause ongoing impacts to seasonal temperatures. Electricity transmission, distribution and pipeline assets above ground or on water crossings are exposed to extreme weather events.	**Physical Risks** The Company continues to carefully manage physical risks, including preparing for, and responding to, extreme weather events through activities such as proactive route selection, asset hardening, regular maintenance, and insurance. The Company follows regulated engineering codes, continues to evaluate ways to create greater system reliability and resiliency and, where appropriate, submits regulatory applications for capital expenditures aimed at creating greater system reliability and resiliency within the code. Prevention activities include Wildfire Management Plans and vegetation management at electricity transmission and distribution operations. The majority of the Company's natural gas pipeline network is in the ground, making it less susceptible to extreme weather events. The Company maintains in-depth emergency response measures for extreme weather events. When planning for capital investment or acquiring assets we consider site specific climate and weather factors, such as flood plain mapping and extreme weather history.

Business Risk: Credit Risk	
Businesses Impacted: • All businesses	**Associated Strategies:** • Financial Strength
Description and Context	***Risk Management Approach***
For cash and cash equivalents and accounts receivable and contract assets, credit risk represents the carrying amount on the consolidated balance sheet. Derivative, finance lease receivable and receivable under service concession arrangement credit risk arises from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. The maximum exposure to credit risk is the carrying value of loans and receivables and derivative financial instruments.	Cash and cash equivalents credit risk is reduced by investing in instruments issued by credit-worthy financial institutions and in federal government issued short-term instruments. The Company minimizes other credit risks by dealing with credit-worthy counterparties, following established credit-approval policies, and requiring credit security, such as letters of credit. Geographically, a significant portion of loans and receivables are from the Company's operations in Alberta, followed by operations in Australia and Mexico. The largest credit risk concentration is from the Alberta Utilities, which are able to recover an estimate for doubtful accounts through approved customer rates and to request recovery through customer rates for any material losses from the retailers beyond the retailer security mandated by provincial regulations. The second largest concentration of credit risk is within the Structures & Logistics business. The counterparties' financial quality is monitored regularly to ensure appropriate mitigation of credit risk.

Business Risk: Cybersecurity	
Businesses Impacted: • All businesses	**Associated Strategies:** • Operational Excellence • Innovation
Description and Context	***Risk Management Approach***
The Company's reliance on technology, which supports its information and industrial control systems, is subject to potential cyber-attacks including unauthorized access of confidential information and outage of critical infrastructure.	ATCO has an enterprise wide cybersecurity program covering all technology assets. The cybersecurity program includes employee awareness, layered access controls, continuous monitoring, network threat detection, and coordinated incident response through a centralized Security Operations Centre. The Company's cybersecurity management is consolidated under a common, centralized organization structure to increase effectiveness and compliance across the entire enterprise.

Business Risk: Energy Commodity Price	
Businesses Impacted: • Retail Energy • Non-regulated Pipelines & Liquids	**Associated Strategies:** • Financial Strength
Description and Context	***Risk Management Approach***
Retail Energy's earnings are affected by short-term price volatility. Storage & industrial water's natural gas storage facility in Carbon, Alberta, is also exposed to storage price differentials.	In conducting its business, the Company may use various instruments, including forward contracts, swaps, and options to manage the risks arising from fluctuations in commodity prices. The Company enters into natural gas purchase contracts and forward power sales contracts as the hedging instrument to manage the exposure to electricity and natural gas market price movements. Under IFRS accounting, entering into hedging instruments may result in mark-to-market adjustments that are recorded as unrealized gains or losses on the income statement. Realized gains or losses are recognized in adjusted earnings and IFRS earnings when the commodity contracts are settled. In addition, Retail Energy monitors forward curves in order to ensure it is not promoting product offerings that are unfavourable to the Company. Effective September 30, 2019, the Company announced the sale of its Canadian fossil fuel-based electricity generation portfolio. Following the close of the transaction, Canadian Utilities owns 244-MW of electricity generation assets in Canada, Mexico and Australia that are 90 per cent contracted with a weighted average contract length of 8 years.

Business Risk: Financing	
Businesses Impacted: • All businesses	**Associated Strategies:** • Financial Strength
Description and Context	***Risk Management Approach***
The Company’s financing risk relates to the price volatility and availability of external financing to fund the capital expenditure program and refinance existing debt maturities. Financing risk is directly influenced by market factors. As financial market conditions change, these risk factors can affect the availability of capital and also the relevant financing costs.	To address this risk, the Company manages its capital structure to maintain strong credit ratings which allow continued ease of access to the capital markets. The Company also considers it prudent to maintain sufficient liquidity to fund approximately one full year of cash requirements to preserve strong financial flexibility. This liquidity is generated by cash flows from operations and supported by appropriate levels of cash and available committed credit facilities.

Business Risk: Foreign Currency Exchange	
Businesses Impacted: • All businesses	**Associated Strategies:** • Financial Strength
Description and Context	***Risk Management Approach***
The Company's earnings from, and carrying values of, its foreign operations are exposed to fluctuations in exchange rates. The Company is also exposed to transactional foreign exchange risk through transactions denominated in a foreign currency.	In conducting its business, the Company may use various instruments, including forward contracts, swaps, and options, to manage the risks arising from fluctuations in exchange rates. All such instruments are used only to manage risk and not for trading purposes. This foreign exchange impact is partially offset by foreign denominated financing and by hedging activities. The Company manages this risk through its policy of matching revenues and expenses in the same currency. When matching is not possible, the Company may utilize foreign currency forward contracts to manage the risk.

Business Risk: Interest Rate	
Businesses Impacted: • All businesses	**Associated Strategies:** • Financial Strength
Description and Context	***Risk Management Approach***
The interest rate risk faced by the Company is largely a result of its long-term debt at variable rates as well as cash and cash equivalents. The Company also has exposure to interest rate movements that occur beyond the term of maturity of the fixed-rate investments.	In conducting its business, the Company may use various instruments, including forward contracts, swaps, and options to manage the risks arising from fluctuations in interest rates. All such instruments are used only to manage risk and not for trading purposes. The Company has converted certain variable rate long-term debt and to fixed rate debt through interest rate swap agreements. At December 31, 2019, the Company had fixed interest rates, either directly or through interest rate swap agreements, on 98 per cent (2018 - 98 per cent) of total long-term debt. Consequently, the exposure to fluctuations in future cash flows, with respect to debt, from changes in market interest rates was limited. The Company's cash and cash equivalents include fixed rate instruments with maturities of generally 90 days or less that are reinvested as they mature.

Business Risk: Natural Gas Supply	
Businesses Impacted: • Non-regulated Pipelines & Liquids	**Associated Strategies:** • Financial Strength
Description and Context	***Risk Management Approach***
An Alberta natural gas transportation provider's curtailment protocol in 2017 contributed to ongoing low natural gas prices in Alberta. While the protocol was changed in the later part of 2019, it still presents operational risk for natural gas storage facilities in the downstream market; all storage in Alberta is under interruptible transport. Further natural gas transportation maintenance is scheduled for multiple years into the future, which may result in transportation constraints.	To reduce the impact to natural gas storage operations, Canadian Utilities structures its natural gas storage portfolio around the natural gas transportation provider's planned maintenance schedules to minimize the impact of natural gas supply curtailments.

Business Risk: Natural Resource Sector Business Cycles	
Businesses Impacted: • Structures & Logistics • Neltume Ports	**Associated Strategies:** • Growth • Operational Excellence • Financial Strength
Description and Context	***Risk Management Approach***
Demand for Structures & Logistics' products and services, and the services provided by Neltume Ports are directly related to capital spending cycles and levels of development activity in various industries, primarily in the natural resources sector. Several key factors influence customers' decision-making on whether or not to purchase products and services offered by the Company and/or to utilize the services provided by Neltume Ports. These factors include expected commodity prices, global economic and political conditions, and access to debt financing and equity capital. Any adverse impact on these key decision factors for a prolonged period could affect demand for the Company's products and services.	ATCO Structures' cost structure is weighted to variable costs which provides flexibility in moderating costs when project activity slows. The Structures & Logistics business is not a capital intensive business so market entry and exit costs are relatively low. A base of more stable earnings and cash flows exists within the space rentals business and the facility operations & maintenance service contracts that provide support when ATCO Structures' natural resource sector customers are going through commodity cycle downturns. Neltume Ports has a diversified operational portfolio linked to a mix of economic activity in Chile, Uruguay, Argentina, and Brazil.

Business Risk: Pipeline Integrity		
Businesses Impacted: • Pipelines & Liquids	**Associated Strategies:** • Operational Excellence	 • Community Involvement
Description and Context	***Risk Management Approach***	
Pipelines & Liquids has significant pipeline infrastructure. Although the probability of a pipeline rupture is very low, the consequences of a failure can be severe.	Programs are in place to monitor the integrity of the pipeline infrastructure and replace pipelines as required to address safety, reliability, and future growth. These programs include natural gas distribution and natural gas transmission's Urban Pipeline Replacement and Integrity programs, and natural gas distribution and international natural gas distribution's Mains Replacement programs. The Company also carries property and liability insurance.	

Business Risk: Political		
Businesses Impacted: • All businesses	**Associated Strategies:** • Growth • Financial Strength	 • Operational Excellence
Description and Context	***Risk Management Approach***	
Operations are exposed to a risk of change in the business environment due to political change. Legislative changes may impact the financial performance of operations. This could negatively impact earnings, return on equity and assets, and credit metrics.	Participation in policy consultations with governments and engagement of stakeholder groups ensures ongoing communication and that the impacts and costs of proposed policy changes are identified and understood. Where appropriate, the Company works with its peers and industry associations to develop common positions and strategies. Geographic diversification of assets by region and by country reduces the impact of political and legislative changes.	

<table>
<tr><td colspan="2">Business Risk: Regulated Operations</td></tr>
<tr><td>Businesses Impacted:
• Regulated Pipelines & Liquids
• Regulated Electricity</td><td>Associated Strategies:
• Growth
• Financial Strength
• Operational Excellence</td></tr>
<tr><td>Description and Context</td><td>Risk Management Approach</td></tr>
<tr><td>The Regulated Utilities are subject to the normal risks faced by regulated companies. These risks include the regulator's approval of customer rates that permit a reasonable opportunity to recover service costs on a timely basis, including a fair return on rate base. These risks also include the regulator's potential disallowance of costs incurred. Electricity distribution and natural gas distribution operate under performance based regulation (PBR). Under PBR, utility revenues are formula driven, which raises the uncertainty of cost recovery. In Australia, the ERA assesses appropriate returns, prudent levels of operating costs, capital expenditure and expected throughput on the network through an Access Arrangement proceeding.</td><td>The Regulated Utilities file forecasts in the rate-setting process to recover the costs of providing services and earn a fair rate of return. The determination of a fair rate of return on the common equity component of rate base is determined in a generic cost of capital proceeding in Alberta and an Access Arrangement proceeding in Australia. The Regulated Utilities continuously monitor various regulatory decisions and cases to assess how they might impact the Company's regulatory applications for the recovery of prudent costs. The Regulated Utilities are proactive in demonstrating prudence and continuously look for ways to lower operating costs while maintaining service levels.</td></tr>
</table>

<table>
<tr><td colspan="2">Business Risk: Technological Transformation and Disruption</td></tr>
<tr><td>Businesses Impacted:
• All businesses</td><td>Associated Strategies:
• Growth
• Financial Strength
• Operational Excellence
• Innovation</td></tr>
<tr><td>Description and Context</td><td>Risk Management Approach</td></tr>
<tr><td>The introduction and rapid, widespread adoption of transformative technology could lead to disruption of ATCO's existing business models and new competitive market dynamics. Failure to effectively identify and manage disruptive technology and / or changing consumer attitudes and preferences may result in disruptions to the business and an inability to achieve strategic and financial objectives.</td><td>The strategic plans of each Business Unit incorporate and address the evolution of their business into areas of transformative technology. Achievement of technological currency and implementation of innovative initiatives have been adopted as key strategies for the Company and annual key performance indicators in these areas are monitored to ensure continuing evolution. The business constantly seeks opportunities to minimize costs by monitoring trends occurring in other jurisdictions that may be ahead of the technological curve.</td></tr>
</table>

Business Risk: Liquidity	
Businesses Impacted: • All businesses	**Associated Strategies:** • Financial Strength
Description and Context	***Risk Management Approach***
Liquidity risk is the risk that the Company will not be able to meet its financial obligations.	Cash flows from operations provides a substantial portion of the Company's cash requirements. Additional cash requirements are met with the use of existing cash balances and externally through bank borrowings and the issuance of long-term debt, non-recourse long-term debt and preferred shares. Commercial paper borrowings and short-term bank loans under available credit lines are used to provide flexibility in the timing and amounts of long-term financing. The Company does not invest any of its cash balances in asset-backed securities. At December 31, 2019, the Company's cash position was $1,140 million and there were available committed and uncommitted lines of credit of approximately $2.5 billion which can be utilized for general corporate purposes.

Liquidity Risk includes contractual financial obligations which the Company will meet with cash flow from operations, existing cash balances and external financing, if necessary. These contractual obligations for the next five years and thereafter are shown below.

($ millions)	**2020**	**2021**	**2022**	**2023**	**2024**	**2025 and thereafter**
Financial Liabilities						
Accounts payable and accrued liabilities	675	–	–	–	–	–
Long-term debt:						
Principal	200	557	327	511	123	7,767
Interest expense [(1)]	412	394	370	352	337	6,687
Derivatives [(2)]	11	8	1	1	–	–
	1,298	959	698	864	460	14,454
Commitments						
Purchase obligations:						
Operating and maintenance agreements	343	322	327	325	287	24
Capital expenditures	128	–	–	–	–	–
Other	12	–	–	–	–	–
	483	322	327	325	287	24
Total	1,781	1,281	1,025	1,189	747	14,478

(1) Interest payments on floating rate debt have been estimated using rates in effect at December 31, 2019. Interest payments on debt that has been hedged have been estimated using hedged rates.

(2) Payments on outstanding derivatives have been estimated using exchange rates and commodity prices in effect at December 31, 2019.

NON-GAAP AND ADDITIONAL GAAP MEASURES

Adjusted earnings are defined as earnings attributable to Class I and Class II Shares after adjusting for the timing of revenues and expenses associated with rate-regulated activities and unrealized gains or losses on mark-to-market forward and swap commodity contracts. Adjusted earnings also exclude one-time gains and losses, significant impairments, and items that are not in the normal course of business or a result of day-to-day operations.

Adjusted earnings present earnings from rate-regulated activities on the same basis as was used prior to adopting IFRS - that basis being the U.S. accounting principles for rate-regulated activities. Management’s view is that adjusted earnings allow for a more effective analysis of operating performance and trends. A reconciliation of adjusted earnings to earnings attributable to Class I and Class II Shares is presented in this MD&A. Adjusted earnings is an additional GAAP measure presented in Note 4 of the 2019 Consolidated Financial Statements.

Adjusted earnings per Class I and Class II Share is calculated by dividing adjusted earnings by the weighted average number of shares outstanding for the period.

Funds generated by operations is defined as cash flow from operations before changes in non-cash working capital and change in receivable under service concession arrangement. In management’s opinion, funds generated by operations is a significant performance indicator of the Company’s ability to generate cash during a period to fund capital expenditures. Funds generated by operations does not have any standardized meaning under IFRS and might not be comparable to similar measures presented by other companies. A reconciliation of funds generated by operations to cash flows from operating activities is presented in this MD&A.

Capital investment is defined as cash used for capital expenditures, business combinations, service concession arrangements, and cash used in the Company's proportional share of capital expenditures in joint ventures, and cash used for equity investment in associate companies. In management's opinion, capital investment reflects the Company's total cash investment in assets. Capital expenditures includes additions to property, plant and equipment and intangibles as well as interest capitalized during construction. A reconciliation of capital investments to capital expenditures is presented in this MD&A.

RECONCILIATION OF ADJUSTED EARNINGS TO EARNINGS ATTRIBUTABLE TO CLASS I AND CLASS II SHARES

Adjusted earnings are earnings attributable to Class I and Class II Shares after adjusting for the timing of revenues and expenses associated with rate-regulated activities and unrealized gains or losses on mark-to-market forward and swap commodity contracts. Adjusted earnings also exclude one-time gains and losses, significant impairments, and items that are not in the normal course of business or a result of day-to-day operations.

Adjusted earnings are a key measure of segment earnings that management uses to assess segment performance and allocate resources. It is management's view that adjusted earnings allow a better assessment of the economics of rate regulation in Canada and Australia than IFRS earnings.

($ millions) | **Three Months Ended December 31**

2019 / **2018**	**Structures & Logistics**	**Neltume Ports**	**ATCO Corporate & Other**	**Canadian Utilities Limited**				**ATCO Consolidated**
				Electricity	**Pipelines & Liquids**	**CUL Corporate & Other**	**Consolidated**	
Revenues	**245**	**–**	**8**	**419**	**483**	**27**	**929**	**1,182**
	140	–	(1)	637	383	15	1,035	1,174
Adjusted earnings (loss)	**14**	**4**	**(9)**	**46**	**54**	**(8)**	**92**	**101**
	5	3	2	54	54	(10)	98	108
Loss on sale of operations	**–**	**–**	**–**	**(7)**	**–**	**–**	**(7)**	**(7)**
	–	–	–	–	–	–	–	–
Sale of Barking Power assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	–	–	–	46	–	–	46	46
Unrealized gains (losses) on mark-to-market forward and swap commodity contracts	**–**	**–**	**–**	**–**	**3**	**(1)**	**2**	**2**
	–	–	–	1	–	–	1	1
Rate-regulated activities	**–**	**–**	**2**	**(3)**	**(2)**	**(1)**	**(6)**	**(4)**
	–	–	–	7	(28)	1	(20)	(20)
IT Common Matters decision	**–**	**–**	**–**	**(1)**	**(2)**	**–**	**(3)**	**(3)**
	–	–	–	–	–	–	–	–
Other	**–**	**–**	**1**	**–**	**(6)**	**(1)**	**(7)**	**(6)**
	–	–	–	–	–	–	–	–
Earnings (loss) attributable to Class I and Class II Shares	**14**	**4**	**(6)**	**35**	**47**	**(11)**	**71**	**83**
	5	3	2	108	26	(9)	125	135

($ millions) — Year Ended December 31

		Structures & Logistics	Neltume Ports	ATCO Corporate & Other	Canadian Utilities Limited: Electricity	Canadian Utilities Limited: Pipelines & Liquids	Canadian Utilities Limited: CUL Corporate & Other	Canadian Utilities Limited: Consolidated	ATCO Consolidated
Revenues	2019	**803**	–	**(2)**	**2,155**	**1,649**	**101**	**3,905**	**4,706**
	2018	511	–	–	2,858	1,470	49	4,377	4,888
Adjusted earnings (loss)	2019	**37**	**15**	**(6)**	**221**	**137**	**(39)**	**319**	**365**
	2018	15	4	17	228	130	(39)	319	355
Gain on sale of operations	2019	–	–	–	**65**	–	–	**65**	**65**
	2018	–	–	–	–	–	–	–	–
Restructuring and other costs	2019	–	–	–	–	–	–	–	–
	2018	(9)	–	3	(19)	(11)	(3)	(33)	(39)
Proceeds from termination of PPA	2019	–	–	–	–	–	–	–	–
	2018	–		–	19	–	–	19	19
Sale of Barking Power Assets	2019	–	–	–	–	–	–	–	–
	2018	–	–	–	46	–	–	46	46
Unrealized (losses) gains on mark-to-market forward and swap commodity contracts	2019	–	–	–	**(7)**	**3**	**7**	**3**	**3**
	2018	–	–	–	16	–	–	16	16
Rate-regulated activities	2019	–	–	**2**	**64**	**33**	**(1)**	**96**	**98**
	2018	–	–	–	(28)	(43)	2	(69)	(69)
IT Common Matters decision	2019	–	–	–	**(6)**	**(6)**	–	**(12)**	**(12)**
	2018	–	–	–	–	–	–	–	–
Other	2019	–	–	**1**	–	**(6)**	**(1)**	**(7)**	**(6)**
	2018	–	–	–	–	–	–	–	–
Earnings (loss) attributable to Class I and Class II Shares	2019	**37**	**15**	**(3)**	**337**	**161**	**(34)**	**464**	**513**
	2018	6	4	20	262	76	(40)	298	328

GAIN ON SALE OF OPERATIONS

In 2019, Canadian Utilities closed a series of transactions related to the sale of its Canadian fossil fuel-based electricity generation portfolio and ownership interest in Alberta PowerLine. These sales resulted in an aggregate gain of $125 million (after-tax), ($65 million to ATCO after non-controlling interests). Transaction costs recorded in previous quarters that relate to the sale of Alberta PowerLine have been consolidated into this gain. As this gain is related to a series of one-time transactions, it is excluded from adjusted earnings.

RESTRUCTURING AND OTHER COSTS

In the second quarter of 2018, restructuring and other costs not in the normal course of business of $39 million were recorded. These costs mainly related to staff reductions and associated severance costs, as well as costs related to decisions to discontinue certain projects that no longer represent long-term strategic value to the Company.

PROCEEDS FROM TERMINATION OF PPA

On September 30, 2018, the Battle River unit 5 PPA was terminated by the Balancing Pool and dispatch control was returned to Canadian Utilities. ATCO subsidiary Canadian Utilities received a $62 million payment ($24 million to ATCO after-tax and non-controlling interests) from the Balancing Pool. The payment has been recorded as proceeds from termination of PPA in the statement of earnings in 2018. Additional Battle River generating facility coal-related costs and Asset Retirement Obligations of $5 million (after-tax) were also recorded. These one-time receipts and costs in the net amount of $19 million were excluded from adjusted earnings.

SALE OF BARKING POWER ASSETS

In the fourth quarter of 2018, ATCO subsidiary Canadian Utilities sold its 100 per cent ownership interest in Barking Power assets. An after-tax gain in the amount of $46 million was excluded from adjusted earnings.

UNREALIZED GAINS (LOSSES) ON MARK-TO-MARKET FORWARD AND SWAP COMMODITY CONTRACTS

Prior to the sale of the Canadian fossil fuel based electricity generation portfolio, the Company entered into forward contracts in order to optimize available merchant capacity and manage exposure to electricity market price movements for its Independent Power and Thermal Plants not governed by a Power Purchase Arrangement. The forward contracts were measured at fair value. Unrealized gains and losses due to changes in the fair value of the forward contracts were recognized in the Electricity operating segment earnings where hedge accounting was not applied.

In addition, the Company’s retail electricity and natural gas business in Alberta enters into fixed-price swap commodity contracts to manage exposure to electricity and natural gas prices and volumes. Prior to the sale of operations, these contracts were accounted for as normal purchase agreements as they were with an affiliate company and the own use exemption was applied. Starting September 30, 2019, these contracts are measured at fair value. Unrealized gains and losses due to changes in the fair value of the fixed-price swap commodity contracts are recognized in the Corporate & Other segment earnings.

The CODM believes that removal of the unrealized gains or losses on mark-to-market forward and swap commodity contracts provides a better representation of operating results for the Company's operations.

Realized gains or losses are recognized in adjusted earnings when the commodity contracts are settled.

RATE-REGULATED ACTIVITIES

ATCO Electric and its subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife), as well as natural gas distribution, natural gas transmission and international natural gas distribution are collectively referred to as Utilities.

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. In the absence of this guidance, the Utilities do not recognize assets and liabilities from rate-regulated activities as may be directed by regulatory decisions. Instead, the Utilities recognize revenues in earnings when amounts are billed to customers, consistent with the regulator-approved rate design. Operating costs and expenses are recorded when incurred. Costs incurred in constructing an asset that meet the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

The Company uses standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of generally accepted accounting principles to account for rate-regulated activities in its internal reporting provided to the CODM. The CODM believes that earnings presented in accordance with the FASB standards are a better representation of the operating results of the Company’s rate-regulated activities. Therefore, the Company presents adjusted earnings as part of its segmented disclosures on this basis. Rate-regulated accounting (RRA) standards impact the timing of how certain revenues and expenses are recognized when compared to non-rate regulated activities, to appropriately reflect the economic impact of a regulator's decisions on revenues.

Rate-regulated accounting differs from IFRS in the following ways:

Timing Adjustment	Items	RRA Treatment	IFRS Treatment
Additional revenues billed in current period	Future removal and site restoration costs, and impact of colder temperatures.	The Company defers the recognition of cash received in advance of future expenditures.	The Company recognizes revenues when amounts are billed to customers and costs when they are incurred.
Revenues to be billed in future periods	Deferred income taxes, impact of warmer temperatures, and impact of inflation on rate base.	The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company recognizes costs when they are incurred, but does not recognize their recovery until customer rates are changed and amounts are collected through future billings.
Regulatory decisions received	Regulatory decisions received which relate to current and prior periods.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company does not recognize earnings from a regulatory decision when it is received as regulatory assets and liabilities are not recorded under IFRS.
Settlement of regulatory decisions and other items	Settlement of amounts receivable or payable to customers and other items.	The Company recognizes the amount receivable or payable to customers as a reduction in its regulatory assets and liabilities when collected or refunded through future billings.	The Company recognizes earnings when customer rates are changed and amounts are recovered or refunded to customers through future billings.

The significant timing adjustments as a result of the differences between rate-regulated accounting and IFRS are as follows:

	Three Months Ended December 31			Year Ended December 31		
($ millions)	2019	2018	Change	2019	2018	Change
Additional revenues billed in current period						
Future removal and site restoration costs [(1)]	**5**	8	(3)	**34**	39	(5)
Impact of colder temperatures [(2)]	**(1)**	–	(1)	**7**	6	1
Revenues to be billed in future periods						
Deferred income taxes [(3)]	**(13)**	(14)	1	**(54)**	(55)	1
Deferred income taxes due to decrease in provincial corporate income tax [(4)]	**–**	–	–	**106**	–	106
Impact of warmer temperatures [(2)]	**–**	(3)	3	**–**	–	–
Impact of inflation on rate base [(5)]	**(2)**	(8)	6	**(7)**	(8)	1
Regulatory decisions received (see below)	**2**	–	2	**3**	–	3
Settlement of regulatory decisions and other items [(6)]	**5**	(3)	8	**9**	(51)	60
	(4)	(20)	16	**98**	(69)	167

(1) Removal and site restoration costs are billed to customers over the estimated useful life of the related assets based on forecast costs to be incurred in future periods.

(2) Natural gas distribution customer rates are based on a forecast of normal temperatures. Fluctuations in temperatures may result in more or less revenue being recovered from customers than forecast. Revenues above or below the normal in the current period are refunded to or recovered from customers in future periods.

(3) Income taxes are billed to customers when paid by the Company.

(4) In the second quarter of 2019, the Government of Alberta enacted a phased decrease in the provincial corporate income tax rate from 12 per cent to 8 per cent. This decrease is being phased in increments from July 1, 2019 to January 1, 2022. As a result of this change, the Alberta Utilities decreased deferred income taxes and increased earnings in 2019 by $106 million.

(5) The inflation-indexed portion of the international natural gas distribution rate base is billed to customers through the recovery of depreciation in subsequent periods based on the actual rate of inflation. Under rate-regulated accounting, revenue is recognized in the current period for the inflation component of rate base when it is earned. Differences between the amounts earned and the amounts billed to customers are deferred and recognized in revenues over the service life of the related assets.

(6) In 2018, electricity transmission recorded a decrease in earnings of $20 million mainly related to a refund of deferral account balances relating to 2013 and 2014. Natural gas distribution also recorded a reduction in earnings of $31 million related to a refund of previously over-collected transmission costs.

Regulatory Decisions Received

Under rate-regulated accounting, the Company recognizes earnings from a regulatory decision pertaining to current and prior periods when the decision is received. A description of the significant regulatory decisions recognized in adjusted earnings in 2019 is provided below.

	Decision	Amount	Description
1.	Information Technology (IT) Common Matters	12	In August 2014, the Company sold its IT services business to Wipro Ltd. (Wipro) and signed a ten-year IT Master Services Agreement (MSA) effective January 1, 2015. In 2015, the Alberta Utilities Commission (AUC) commenced an Information Technology Common Matters proceeding to review the recovery of IT costs by the Alberta Utilities from January 1, 2015 going forward. On June 5, 2019, the AUC issued its decision regarding the IT Common Matters proceeding and directed the Alberta Utilities to reduce the first-year of the Wipro MSA by 13 per cent and to apply a glide path that reduces pricing by 4.61 per cent in each of years 2 through 10. The reduction in adjusted earnings resulting from the decision for the period January 1, 2015 to December 31, 2019 was $12 million. Of this amount, $8 million relates to the period January 1, 2015 to June 30, 2019 and was recorded in the second quarter of 2019. The remaining $4 million was recorded in the second half of 2019.
2.	ATCO Electric Transmission General Tariff Application (GTA)	(9)	In June 2017, ATCO Electric Transmission filed a GTA for its operations for 2018 and 2019. The decision was received in July 2019 approving the majority of capital expenditures and operating costs requested. The increase in adjusted earnings resulting from the decision was $9 million, of which $5 million relates to 2018.

IT COMMON MATTERS DECISION

As described in the IT Common Matters decision above, in August 2014, the Company sold its IT services business to Wipro Ltd. (Wipro) and signed a ten-year IT Master Services Agreement (MSA) effective January 1, 2015. Proceeds of the sale were $204 million, resulting in a one-time after-tax and NCI gain of $74 million. In 2014, the Company did not include this gain on sale in adjusted earnings because it was a significant one-time event.

In June 2019, the AUC issued its decision regarding the IT Common Matters proceeding which is described in the regulatory decisions received section above. In the proceeding, the Company presented a considerable amount of evidence, including expert benchmarking and price review studies, to support that the Wipro MSA rates were at fair market value. As such, there was no cross subsidization between the sale price of the Company's IT services business to Wipro in the 2014 transaction and the establishment of IT rates under the MSA. Despite these efforts the AUC found that the Alberta Utilities failed to demonstrate that the IT pricing in the MSA would result in just and reasonable rates.

Consistent with the treatment in 2014, the $12 million reduction recognized in 2019, along with future impacts associated with this decision, will be excluded from adjusted earnings.

OTHER

For the year ended December 31, 2019, the Company has recognized costs of $6 million after tax and NCI relating to a number of disputes related to the Tula Pipeline project. The Company continues to work with the involved parties to achieve a resolution of these disputes. As these costs relate to a significant non-recurring event, they are excluded from adjusted earnings.

RECONCILIATION OF FUNDS GENERATED BY OPERATIONS TO CASH FLOWS FROM OPERATING ACTIVITIES

Funds generated by operations is defined as cash flow from operations before changes in non-cash working capital and change in receivable under service concession arrangement. In management's opinion, funds generated by operations is a significant performance indicator of the Company's ability to generate cash during a period to fund capital expenditures. Funds generated by operations does not have any standardized meaning under IFRS and might not be comparable to similar measures presented by other companies.

($ millions)

2019 **2018**	**Three Months Ended December 31**	**Year Ended December 31**
Funds generated by operations	**469**	**1,927**
	490	1,897
Changes in non-cash working capital	**2**	**(205)**
	(21)	(95)
Change in receivable under service concession arrangement	**(28)**	**(180)**
	(93)	(803)
Cash flows from operating activities	**443**	**1,542**
	376	999

RECONCILIATION OF CAPITAL INVESTMENT TO CAPITAL EXPENDITURES

Capital investment is defined as cash used for capital expenditures, business combinations, service concession arrangements, and cash used in the Company's proportional share of capital expenditures in joint ventures, and cash used for equity investment in associate companies. In management's opinion, capital investment reflects the Company's total cash investment in assets. Capital expenditures includes additions to property, plant and equipment and intangibles as well as interest capitalized during construction. A reconciliation of capital investments to capital expenditures is presented in this MD&A.

($ millions) **Three Months Ended December 31**

2019 / **2018**		**Structures & Logistics**	**Neltume Ports**	**ATCO Corporate & Other**	**Canadian Utilities Limited**				**ATCO Consolidated**
					Electricity	**Pipelines & Liquids**	**CUL Corporate & Other**	**Consolidated**	
Capital Investment	**2019**	**25**	–	**(17)**	**111**	**260**	**3**	**374**	**382**
	2018	35	–	5	203	174	3	380	420
Capital expenditure in joint ventures	**2019**	–	–	–	**(1)**	**1**	–	–	–
	2018	(1)	–	–	(3)	(1)	–	(4)	(5)
Business combinations [1]	**2019**	–	–	–	–	–	–	–	–
	2018	(24)	–	–	–	–	–	–	(24)
Service concession arrangement	**2019**	–	–	–	–	–	–	–	–
	2018	–	–	–	(44)	–	–	(44)	(44)
Capital Expenditures	**2019**	**25**	–	**(17)**	**110**	**261**	**3**	**374**	**382**
	2018	10	–	5	156	173	3	332	347

($ millions) **Year Ended December 31**

2019 / **2018**		**Structures & Logistics**	**Neltume Ports**	**ATCO Corporate & Other**	**Canadian Utilities Limited**				**ATCO Consolidated**
					Electricity	**Pipelines & Liquids**	**CUL Corporate & Other**	**Consolidated**	
Capital Investment	**2019**	**105**	**9**	**(16)**	**543**	**677**	**6**	**1,226**	**1,324**
	2018	113	444	10	1,287	648	16	1,951	2,518
Equity investment in associate company	**2019**	–	**(9)**	–	–	–	–	–	**(9)**
	2018	–	(444)	–	–	–	–	–	(444)
Capital expenditure in joint ventures	**2019**	–	–	–	**(2)**	–	–	**(2)**	**(2)**
	2018	(1)	–	–	(14)	(5)	–	(19)	(20)
Business combinations [1]	**2019**	–	–	–	–	–	–	–	–
	2018	(24)	–	–	(112)	–	–	(112)	(136)
Service concession arrangement	**2019**	–	–	–	**(95)**	–	–	**(95)**	**(95)**
	2018	–	–	–	(664)	–	–	(664)	(664)
Capital Expenditures	**2019**	**105**	–	**(16)**	**446**	**677**	**6**	**1,129**	**1,218**
	2018	88	–	10	497	643	16	1,156	1,254

(1) *Business combinations includes Canadian Utilities' first quarter 2018 acquisition of Electricidad de Golfo, a long-term contracted, 35-MW hydroelectric power station in the state of Veracruz, Mexico. This also includes an acquisition for 70 per cent ownership interest in ATCO Espaciomovil, a modular manufacturing business in Mexico.*

OTHER FINANCIAL INFORMATION

OFF BALANCE SHEET ARRANGEMENTS

ATCO does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition, including, without limitation, the Company's liquidity and capital resources.

CONTINGENCIES

The Company is party to a number of disputes and lawsuits in the normal course of business. The Company believes the ultimate liability arising from these matters will have no material impact on its consolidated financial statements.

SIGNIFICANT ACCOUNTING ESTIMATES

The Company's significant accounting estimates are described in Note 26 of the 2019 Consolidated Financial Statements, which are prepared in accordance with IFRS. Management makes judgments and estimates that could significantly affect how policies are applied, amounts in the consolidated financial statements are reported, and contingent assets and liabilities are disclosed. Most often these judgments and estimates concern matters that are inherently complex and uncertain. Judgments and estimates are reviewed on an ongoing basis; changes to accounting estimates are recognized prospectively.

ACCOUNTING CHANGES

On January 1, 2019, the Company adopted the new accounting standard, IFRS 16 *Leases*, which replaces IAS 17 *Leases* and related interpretations. This standard introduces a new approach to lease accounting that requires a lessee to recognize right-of-use assets and lease liabilities for the rights and obligations created by leases. It brings most leases on-balance sheet for lessees, eliminating the distinction between operating and finance leases. Lessor accounting under the new standard retains similar classifications to the previous guidance.

The Company adopted the standard using the modified retrospective approach which does not require restatement of prior period financial information, as it recognizes the cumulative impact on the opening balance sheet and applies the standard prospectively. Accordingly, the comparative information in the 2019 Consolidated Financial Statements is not restated.

On adoption of the new standard on January 1, 2019, the Company recognized $107 million of right-of-use assets and $107 million of lease liabilities. The right-of-use assets and lease liabilities relate to leases for land and buildings. From January 1, 2019, the Company recognizes depreciation expense on right-of-use assets and interest expense on lease liabilities with lease payments recorded as a reduction of the lease liability. Prior to the adoption of IFRS 16, lease payments were recorded as expenses in the statement of earnings. The adoption of IFRS 16 has not had a significant impact on earnings. Further information on the adoption of IFRS 16, right-of-use assets and lease liabilities are provided in Notes 3 and 20 of the 2019 Consolidated Financial Statements.

In June 2019, the IFRS Interpretations Committee, acting on a request for interpretation, concluded that a pipeline sub-surface arrangement is, or contains, a lease under IFRS 16. A pipeline sub-surface arrangement is an agreement with a landowner to lay an underground pipeline in exchange for consideration. It contains a lease because the underground space is physically distinct from the landowner's land, and the owner of the pipeline has exclusive use of the underground space. The Company has assessed the impact of the interpretation on its pipeline sub-surface arrangements. Based on the analysis performed, the impact on the 2019 Consolidated Financial Statements is not significant.

There are no other new or amended standards issued, but not yet effective, that the Company anticipates will have a material effect on the 2019 Consolidated Financial Statements once adopted.

DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2019, management evaluated the effectiveness of the Company's disclosure controls and procedures as required by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO).

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis. The controls also seek to assure this information is accumulated and communicated to management, including the CEO and the CFO, as appropriate, to allow timely decisions on required disclosure.

Management, including the CEO and the CFO, does not expect the Company's disclosure controls and procedures will prevent or detect all errors. The inherent limitations in all control systems are that they can provide only reasonable, not absolute, assurance that all control issues and instances of error, if any, within the Company have been detected.

Based on this evaluation, the CEO and the CFO have concluded that the Company's disclosure controls and procedures were effective at December 31, 2019.

INTERNAL CONTROL OVER FINANCIAL REPORTING

As of December 31, 2019, management evaluated the effectiveness of the Company's internal control over financial reporting as required by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the CEO and the CFO.

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, internal control over financial reporting can provide only reasonable assurance regarding the reliability of financial statement preparation and may not prevent or detect all misstatements.

Based on this evaluation, the CEO and the CFO have concluded that the Company's internal control over financial reporting was effective at December 31, 2019.

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on January 1, 2019, and ended on December 31, 2019, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A constitute forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "will", "intend", "should", and similar expressions. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes that the expectations reflected in the forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information should not be unduly relied upon.

The Company's actual results could differ materially from those anticipated in any forward-looking information contained in this MD&A as a result of regulatory decisions, competitive factors in the industries in which the Company operates, prevailing economic conditions, and other factors, many of which are beyond the control of the Company.

Any forward-looking information contained in this MD&A represents the Company's expectations as of the date hereof, and is subject to change after such date. The Company disclaims any intention or obligation to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required by applicable securities legislation.

ADDITIONAL INFORMATION

ATCO has published its 2019 Consolidated Financial Statements and its MD&A for the year ended December 31, 2019. Copies of these documents may be obtained upon request from Investor Relations at 3rd Floor, West Building, 5302 Forand Street S.W., Calgary, Alberta, T3E 8B4, telephone 403-292-7500, fax 403-292-7532 or email investorrelations@atco.com.

GLOSSARY

AESO means the Alberta Electric System Operator.

Alberta Power Pool means the market for electricity in Alberta operated by AESO.

Alberta Utilities means Electricity Distribution (ATCO Electric Distribution), Electricity Transmission (ATCO Electric Transmission), Natural Gas Distribution (ATCO Gas) and Natural Gas Transmission (ATCO Pipelines).

AUC means the Alberta Utilities Commission.

Availability is a measure of time, expressed as a percentage of continuous operation, that a generating unit is capable of producing electricity, regardless of whether the unit is actually generating electricity.

Average weekly earnings (AWE) is an indicator of short-term employee earnings growth.

Class I Shares means Class I Non-Voting Shares of the Company.

Class II Shares means Class II Voting Shares of the Company.

CODM means Chief Operating Decision Maker, and is comprised of the Chair & Chief Executive Officer, and the other members of the Executive Committee.

Company means ATCO Ltd. and, unless the context otherwise requires, includes its subsidiaries and joint arrangements.

Consumer price index (CPI) measures the average change in prices over time that consumers pay for a basket of goods and services.

Earnings means Adjusted Earnings as defined in the Non-GAAP and Additional GAAP Measures section of this MD&A.

GAAP means Canadian generally accepted accounting principles.

GHG means greenhouse gas.

Gigajoule (GJ) is a unit of energy equal to approximately 948.2 thousand British thermal units.

IFRS means International Financial Reporting Standards.

K Bar means the AUC allowance for capital additions under performance based regulation.

Kilowatt (kW) is a measure of electric power equal to 1,000 watts.

LNG means liquefied natural gas.

Megawatt (MW) is a measure of electric power equal to 1,000,000 watts.

Megawatt hour (MWh) is a measure of electricity consumption equal to the use of 1,000,000 watts of electricity over a one-hour period.

NCI means non controlling interest

PBR means Performance Based Regulation.

PPA means Power Purchase Arrangements.

Regulated Utilities means Electricity Distribution (ATCO Electric Distribution), Electricity Transmission (ATCO Electric Transmission), Natural Gas Distribution (ATCO Gas), Natural Gas Transmission (ATCO Pipelines) and International Natural Gas Distribution (ATCO Gas Australia).

APPENDIX 1
FOURTH QUARTER FINANCIAL INFORMATION

Financial information for the three months ended December 31, 2019 and 2018 is shown below.

CONSOLIDATED STATEMENT OF EARNINGS

	Three Months Ended December 31	
(millions of Canadian Dollars except per share data)	**2019**	**2018**
Revenues	**1,182**	1,174
Costs and expenses		
Salaries, wages and benefits	**(139)**	(155)
Energy transmission and transportation	**(49)**	(44)
Plant and equipment maintenance	**(66)**	(66)
Fuel costs	**(28)**	(60)
Purchased power	**(51)**	(52)
Service concession arrangement costs	**(9)**	(44)
Materials and consumables	**(151)**	(79)
Depreciation and amortization	**(172)**	(158)
Franchise fees	**(68)**	(50)
Property and other taxes	**(17)**	(43)
Other	**(94)**	(74)
	(844)	(825)
Gain on Sale of Operations	**21**	–
Gain on sale of Barking Power assets	**–**	125
Earnings from investment in associate company	**4**	3
Earnings from investment in joint ventures	**7**	6
Operating profit	**370**	483
Interest income	**9**	4
Interest expense	**(124)**	(134)
Net finance costs	**(115)**	(130)
Earnings before income taxes	**255**	353
Income taxes	**(90)**	(85)
Earnings for the period	**165**	268
Earnings attributable to:		
Class I and Class II Shares	**83**	135
Non-controlling interests	**82**	133
	165	268
Earnings per Class I and Class II Share	**$0.73**	$1.18
Diluted earnings per Class I and Class II Share	**$0.72**	$1.18

CONSOLIDATED STATEMENT OF CASH FLOWS

	Three Months Ended December 31	
(millions of Canadian Dollars)	**2019**	**2018**
Operating activities		
Earnings for the period	**165**	268
Adjustments to reconcile earnings to cash flows from operating activities	**304**	222
Changes in non-cash working capital	**2**	(21)
Change in receivable under service concession arrangement	**(28)**	(93)
Cash flows from operating activities	**443**	376
Investing activities		
Additions to property, plant and equipment	**(353)**	(275)
Proceeds on disposal of property, plant and equipment	**3**	2
Proceeds on sale of Barking Power assets	**–**	219
Additions to intangibles	**(27)**	(68)
Acquisition, net of cash acquired	**(5)**	(24)
Investment in equity interest in associate company	**–**	(7)
Proceeds on sales of operations, net of cash disposed	**222**	–
Changes in non-cash working capital	**30**	32
Other	**3**	(4)
Cash flows used in investing activities	**(127)**	(125)
Financing activities		
Net repayment of short-term debt	**–**	(225)
Issue of long-term debt	**13**	662
Repayment of long-term debt	**(10)**	(71)
Release of restricted project funds	**146**	81
Repayment of non-recourse long-term debt	**(7)**	(5)
Repayment of lease liabilities	**(5)**	–
Net purchase of Class I Shares	**(5)**	(5)
Dividends paid to Class I and Class II Share owners	**(47)**	(43)
Dividends paid to non-controlling interests	**(73)**	(54)
Interest paid	**(143)**	(138)
Other	**(1)**	17
Cash flows (used in) from financing activities	**(132)**	219
Increase in cash position	**184**	470
Foreign currency translation	**(35)**	8
Beginning of period	**991**	213
End of period	**1,140**	691