CANADIAN UTILITIES LIMITED
An ATCO Company

CANADIAN UTILITIES LIMITED MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2016

This Management's Discussion and Analysis (MD&A) is meant to help readers understand key operational and financial events that influenced the results of Canadian Utilities Limited (Canadian Utilities, our, we, or the Company) during the past year.

This MD&A was prepared as of March 2, 2017, and should be read with the Company's audited consolidated financial statements for the year ended December 31, 2016 (2016 Annual Financial Statements). Additional information, including the Company's Annual Information Form (AIF), is available on SEDAR at www.sedar.com.

The Company is controlled by ATCO Ltd. and its controlling share owners, Sentgraf Enterprises Ltd. and the Southern family.

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

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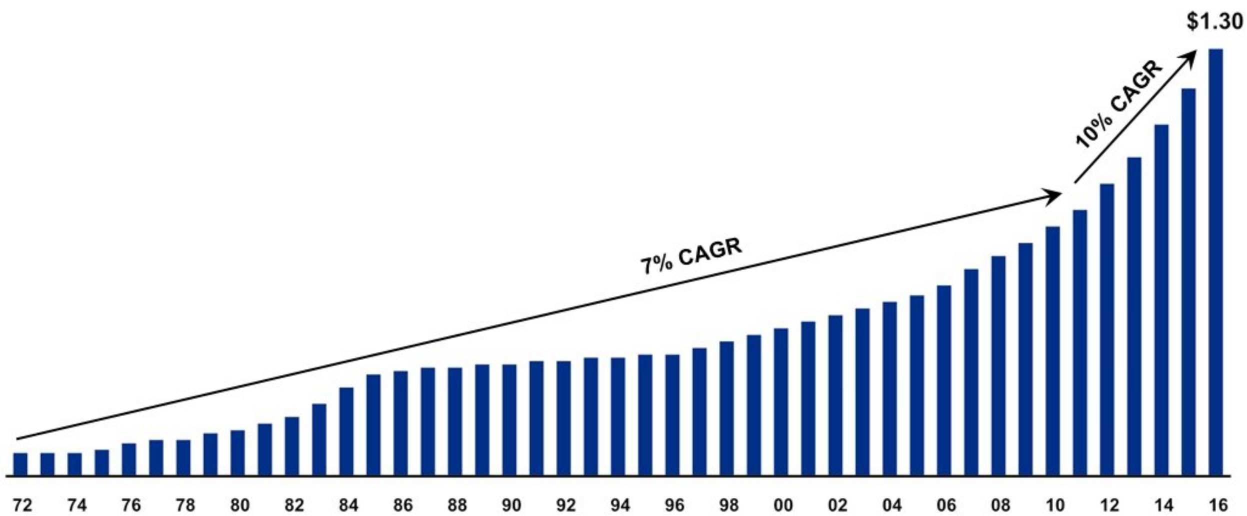
CANADIAN UTILITIES

TRACK RECORD OF DIVIDEND GROWTH

We have increased our common share dividend every year for the past 45 years, the longest record of annual dividend increases of any Canadian publicly traded company. On January 12, 2017, we declared a first quarter dividend of 35.75 cents per share or $1.43 per share on an annualized basis, a 10 per cent increase over the 2016 annualized dividend.



GROWING A HIGH QUALITY EARNINGS BASE

Over the past five years, we have invested nearly $10 billion in Regulated Utility and long-term contracted operations. The Regulated Utility portion of our total adjusted earnings has grown from 52 per cent in 2011 to 93 per cent in 2016. Our highly contracted and regulated earnings base provides the foundation for continued dividend growth.

FUTURE CAPITAL INVESTMENT

We will continue to grow our business in the years ahead. In the period 2017 to 2019, we expect to invest $5 billion in Regulated Utility and long-term contracted assets, which will continue to strengthen Canadian Utilities' high quality earnings base. Of the $5 billion planned spend, $3.8 billion is on Regulated Utilities, and $1.2 billion is on long-term contracted assets.

FINANCIAL STRENGTH

Financial strength is fundamental to Canadian Utilities' current and future success. It ensures we have the financial capacity to fund our existing and future capital investment. We are committed to maintaining our strong, investment grade credit ratings, which allow us to access capital at attractive rates.

10%
dividend CAGR 2012 - 2017

93%
regulated earnings

$5B
3 year capital investment

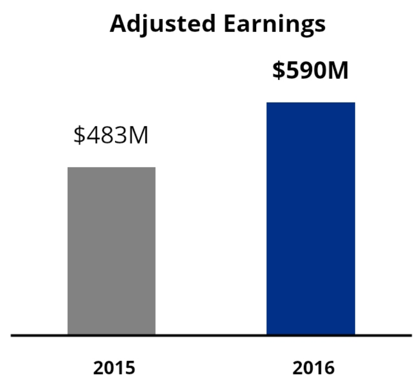
A
credit rating

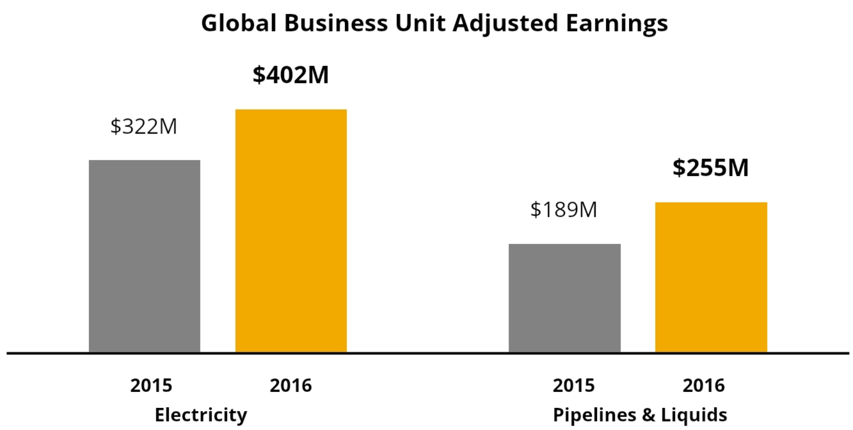
COMPANY OVERVIEW AND OPERATING ENVIRONMENT

Canadian Utilities Limited, an ATCO company, is a diversified global enterprise with assets of $19 billion and approximately 5,400 employees. Canadian Utilities Limited is engaged in Electricity, Pipelines & Liquids, Retail Energy, and Structures & Logistics. We carefully monitor market opportunities and challenges in each of our Global Business Units to best position the Company for long-term success, while continuing to deliver value to share owners.

The long-term success of Canadian Utilities is dependent upon our ability to grow the business by expanding into new markets and into new business lines. To achieve this, we are expanding our sales and customer focus in all our activities. At the same time, we continue to pursue cost-savings and efficiencies in every part of our organization to ensure we deliver the most competitive solutions to our customers.

2016 presented several macroeconomic challenges for the Company: geopolitical uncertainty, low global economic growth and weak commodity prices impacted the business environment in all the global markets we operate in, but particularly in Alberta where the majority of our asset base is located. However, with continued investment in regulated and long-term contracted assets, a renewed sales and customer focus in all our activities, and the pursuit of cost-savings in every part of our organization, Canadian Utilities achieved strong earnings of $590 million in 2016.





While 2017 poses some of the same geopolitical and macroeconomic challenges, there is less uncertainty in a few areas. Regulatory decisions received in 2016 mean we have much better clarity on the business environment for all of our utilities; this is discussed in more detail in the Regulatory Developments section of this MD&A. Announcements from the Government of Alberta on Electricity Market Reform and further clarity on the Climate Leadership Plan address some of the questions about the power market; these are discussed in more detail in the Electricity section, and the Sustainability, Climate Change and Environment section of this MD&A.

ELECTRICITY

The Electricity Global Business Unit's activities are conducted through two regulated businesses; ATCO Electric Distribution and ATCO Electric Transmission, and three non-regulated businesses; ATCO Power, ATCO Power Australia and Alberta PowerLine (APL). Together these companies provide electricity distribution, transmission, and generation, and related infrastructure services.

BUSINESS STRATEGY

Electricity's strategy is to grow its businesses through continued investment and leverage of expertise in regulated electricity distribution and transmission, capitalize on the opportunity to provide renewable and firm supply electricity generation for Albertans, and expand its businesses geographically to meet the evolving needs of our global customer base through the development of innovative infrastructure solutions.

MARKET OPPORTUNITIES

The Government of Alberta's plan to eliminate emissions from coal-fired generation by 2030 has created a need for renewable power generation and firm capacity, such as gas-fired and hydroelectric power generation, as well as energy storage, to backstop the renewable power supply. Additional electricity distribution and transmission investment opportunities may result from this changing power market in addition to ongoing investment opportunities for customer growth and system replacements.

MARKET CHALLENGES

Near term, power market challenges related to the Alberta energy-only market put downward pressure on market pricing until surplus supply and additional clarity on market design are resolved.

PIPELINES & LIQUIDS

The Pipelines & Liquids Global Business Unit activities are conducted through three regulated businesses; ATCO Gas, ATCO Pipelines, and ATCO Gas Australia, and one non-regulated business; ATCO Energy Solutions. These companies 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 continued investment and leverage of expertise in regulated natural gas distribution and transmission, and utilize its advantaged position in the Industrial Heartland of Alberta to become a premier hydrocarbon liquids storage and industrial water infrastructure provider in Alberta. Pipelines & Liquids will continue expanding geographically to meet the evolving needs of our global customer base.

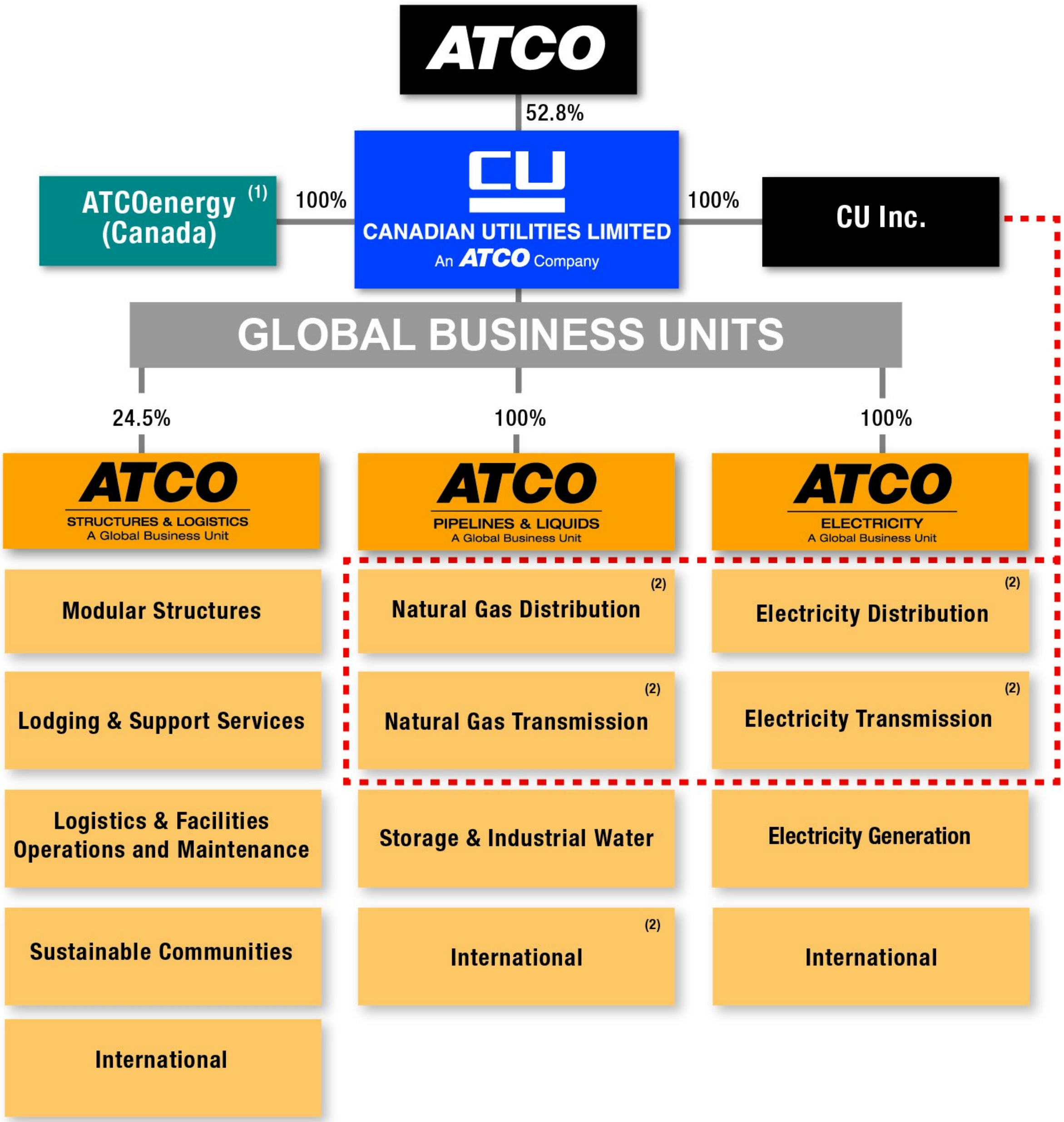
MARKET OPPORTUNITIES

The development of pipelines in Alberta is expected to increase the need for energy storage to manage supply and demand, and the industry trend toward sustainability is expected to increase demand for industrial water solutions. The regulated businesses expect to see continued growth based on projected customer growth and system replacements.

MARKET CHALLENGES

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

SIMPLIFIED ORGANIZATIONAL STRUCTURE



(1) *ATCOenergy was launched in January 2016 to provide retail, commercial and industrial electricity and natural gas service in Alberta.*
(2) *Regulated operations include ATCO Gas, ATCO Pipelines, ATCO Gas Australia, ATCO Electric Distribution, and ATCO Electric Transmission.*

The consolidated financial statements include the accounts of Canadian Utilities Limited, its subsidiaries, including the equity investment in joint ventures and a proportionate share of joint operations, and its 24.5 per cent equity investment in ATCO Structures & Logistics Ltd.

The 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.

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

CANADIAN UTILITIES CORE VALUES AND VISION

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."

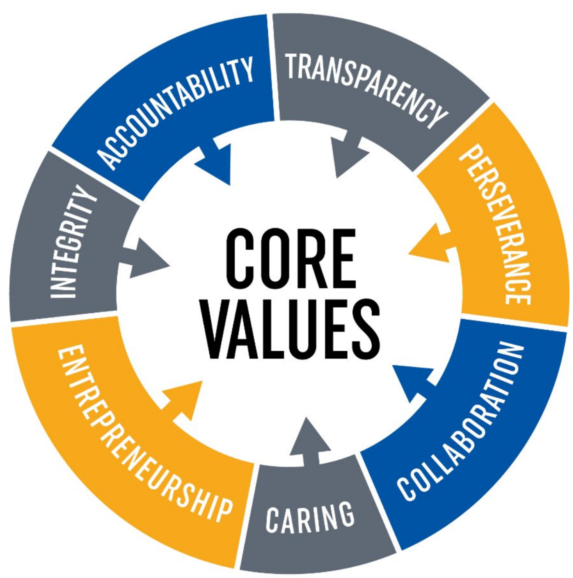
R.D. Southern, Founder, ATCO

CORE VALUES

It is ATCO's Heart and Mind that drives the Company's approach to service reliability and product quality; employee, contractor and public safety; and environmental stewardship.

Our pursuit of excellence governs the way we act and make decisions. At Canadian Utilities we strive to live by the following values:

- **Integrity**: We are honest, ethical and treat others with fairness, dignity and respect.
- **Transparency**: We are clear about our intentions and communicate openly.
- **Entrepreneurship**: We are creative, innovative and take a measured approach to opportunities, balanced with a long-term perspective.
- **Accountability**: We make good decisions, take personal ownership of tasks, are responsible for our actions and deliver on our commitments.
- **Collaboration**: We work together, share ideas and recognize the contribution of others.
- **Perseverance**: We persevere in the face of adversity with courage, a positive attitude and a fierce determination to succeed.
- **Caring**: We care about our customers, our employees, their families, our communities and the environment.



CORE VISION

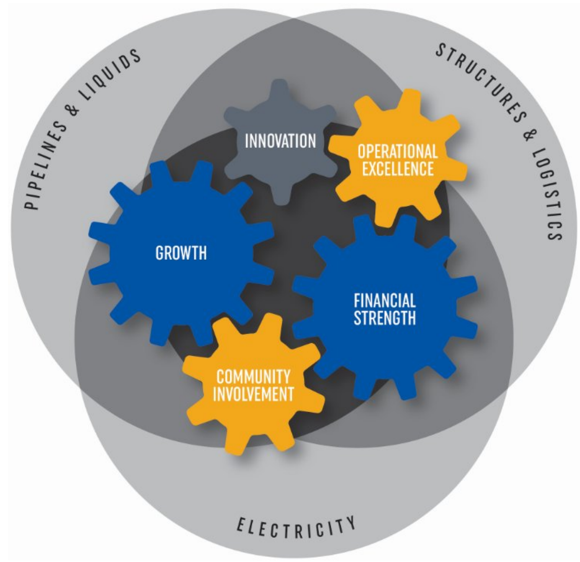
Our core vision is to improve the lives of our customers by providing sustainable, innovative and comprehensive solutions globally. We believe in well-managed risk and a disciplined approach to growth. We fuel the imagination of our people to drive growth over the long-term, ultimately delivering value to our customers and our share owners.

Our strong financial and operating performance reflects our approach to sales and our customers, the strength and determination of our people, a deeply embedded focus on operational excellence with its inherent cost controls, and careful consideration of the environmental and social impact of our actions - now and for the future.

CANADIAN UTILITIES STRATEGIES

Growth and financial strength are the pivotal strategies employed to build our enterprise. The long-term success of the Company is dependent on our ability to grow our business by expanding into new markets and business lines while offering our customers complete services and products to meet their needs.

These strategic imperatives are supported by the Company's commitment to innovation and operational excellence. We are also committed to engaging with our employees throughout their careers and to helping create healthy, vibrant communities in which the Company does business and in which our people live and work.



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

GROWTH

Long-term sustainable growth is paramount. The Company approaches this strategy by: expanding geographically to meet the global needs of customers; developing significant, value-creating greenfield projects; and fostering continuous improvement and innovation through research and development.

The ongoing exploration of opportunities to acquire assets provides the Company with additional growth potential. The Company will pursue the acquisition and development of complementary assets that have future growth potential and provide long-term value for share owners.

FINANCIAL STRENGTH

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

The Company continuously reviews its holdings to evaluate opportunities to sell mature assets and redeploy 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 the Company.

INNOVATION

The Company seeks to create a work environment where employees are encouraged to take a creative and innovative approach to meeting our customers' needs. By committing to continuous improvement through research and development, the Company is able to offer our customers unique and imaginative solutions that differentiate us from our competitors.

OPERATIONAL EXCELLENCE

The Company approaches operational excellence by achieving 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 environmental impact. We have long range plans for ensuring timely supply of goods and services that are critical to a company's ability to meet its core business objectives.

COMMUNITY INVOLVEMENT

Canadian Utilities 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 investment involves developing partnerships with Indigenous and community groups that may be affected by projects and operations worldwide, and building ongoing, positive Indigenous relationships that contribute to economic and social development in their communities. The Company also engages with governing authorities, regulatory bodies, and landowners. We encourage partnerships throughout the organization and at all levels that will serve to benefit non-profit organizations through volunteer efforts, providing products and services in-kind, and general advice where required.

FURTHER COMMENTARY REGARDING STRATEGIES AND COMMITMENTS

Canadian Utilities' financial and operational achievements in 2016 relative to the strategies outlined above are included in the Company's MD&A, 2016 Annual Financial Statements and AIF. Further commentary regarding strategies and commitments to growth, financial strength, innovation, operational excellence, and community involvement will be provided in the forthcoming 2016 Annual Report, Management Proxy Circular and Sustainability Report. The 2016 Management Proxy Circular also contains discussion of the Company's corporate governance practices.

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

STRATEGIC ACHIEVEMENTS IN 2016

In 2016, Canadian Utilities achieved a number of notable successes in the Electricity and Pipelines & Liquids Global Business Units in support of each of our principal strategic imperatives.

GROWTH

ELECTRICITY BUSINESS UNIT

Capital Investment in Regulated Utilities

In 2016, the Electricity Business Unit invested $470 million in assets that earn a return under a regulated business model. This capital was invested mainly in new customer connections and system replacements.

Fort McMurray West 500-kilovolt (kV) Transmission Project (Fort McMurray 500 kV Project)

In December 2014, APL, a partnership between Canadian Utilities Limited and Quanta Capital Solutions Inc., was awarded a 35-year, $1.4 billion contract by the AESO to design, build, own, and operate the Fort McMurray 500 kV Project. In December 2015, APL submitted the Facilities Application for the project to the AUC. The public hearing was completed in November 2016 and a decision approving the route was received in the first quarter of 2017. The design and planning phases are underway and construction is expected to commence in 2017. The project is anticipated to be in service in 2019.

Distributed Generation

Distributed generation aligns with the Company's strategy of taking a creative and innovative approach to meeting our customers' needs by building a fleet of portable natural gas-fired units that can be deployed for temporary or permanent projects. In the first quarter of 2016, ATCO Power signed a 10-year contract to build and operate a two unit, 3 MW natural-gas fired units located southeast of Grande Prairie, Alberta with a capital investment of $8 million. In the fourth quarter of 2016, the Company and its Mexican partner, Grupo Ranman, completed the first phase of a distributed generation facility located in the World Trade Centre industrial park in San Luis Potosí, Mexico. Two 2 MW natural gas-fired units were installed to service initial customers. ATCO Power plans to expand this facility to up to 20 MW by December 2017.

Strathcona Cogeneration Plant

In September 2016, Inter Pipeline Ltd. acquired the shares of The Williams Companies Inc.'s and Williams Partners L.P's Canadian businesses, including Williams Canada Propylene ULC (now Inter Pipeline Propylene ULC following a name change). ATCO Power has been selected by Inter Pipeline Propylene ULC to build and operate a natural gas-fired cogeneration plant to meet the high pressure steam and electricity needs of Inter Pipeline Propylene ULC's proposed propane dehydrogenation facility to be located in the Alberta Industrial Heartland region. Canadian Utilities' proposed 90 MW cogeneration plant is contingent on Inter Pipeline Ltd.'s Final Investment Decision for the facility. Canadian Utilities received its AUC approvals for the cogeneration plant in September 2016.

PIPELINES & LIQUIDS BUSINESS UNIT

Capital Investment in Regulated Utilities

In 2016, the Pipelines & Liquids Business Unit invested $678 million in assets that earn a return under a regulated business model. This capital was invested mainly in the Urban Pipelines Replacement program, the Mains Replacement Programs, new customer connections and system replacements.

Urban Pipelines Replacement Program

Construction continued on ATCO Pipelines' AUC-approved UPR program in 2016. Construction will continue until 2020 and the total cost of the UPR program is estimated to be $850 million, which includes the cost to integrate the new high-pressure network with ATCO Gas' low-pressure distribution system. In 2016, ATCO Gas and ATCO Pipelines invested $185 million in the UPR program. The program will replace and relocate aging, high-pressure natural gas pipelines in densely populated areas of Calgary and Edmonton to address safety, reliability and future growth.

Mains Replacement Programs

ATCO Gas has 8,000 kms of plastic pipe and 9,000 kms of steel pipe that have been identified for replacement. The Plastic Mains Replacement program is a 20-year program aimed at replacing polyvinyl chloride (PVC) and early generation polyethylene (PE) pipe. The Steel Mains Replacement program replaces steel pipe that is generally more than 60 years old. In 2016, ATCO Gas replaced 242 kms of plastic pipe, and 41 kms of steel pipe.

Hydrocarbon Storage

ATCO Energy Solutions, together with our partner, is developing four salt caverns with capacity to store approximately 400,000 cubic metres of hydrocarbons at the Canadian Utilities Heartland Energy Centre near Fort Saskatchewan, Alberta. Long-term contracts have been secured for all four salt caverns. The total partnership investment is approximately $200 million. ATCO Energy Solutions is the facility operator and has a 60 per cent partnership interest.

Construction of the first two caverns is complete and operations are underway with earnings starting in the fourth quarter of 2016. Construction of the two remaining caverns is expected to be complete by the end of 2017. As ATCO Energy Solutions secures additional customers and develops the supporting infrastructure, the Company has the potential to develop up to 40 caverns with the mineral rights it currently has in place in Alberta’s Industrial Heartland.

Industrial Water

In the fourth quarter of 2015, ATCO Energy Solutions entered into a long-term commercial agreement with Air Products Canada Ltd. (Air Products) to provide water pre-treatment services in addition to the existing water transportation services contract for Air Products' hydrogen facility near Fort Saskatchewan. Construction on this project was completed, and commercial operations commenced in the fourth quarter of 2016.

RETAIL ENERGY

As part of the Company's continued growth strategy, ATCOenergy was launched in January 2016, selling electricity and natural gas to residential and small commercial customers. ATCOenergy is a logical step in the vertically integrated growth of the Company.

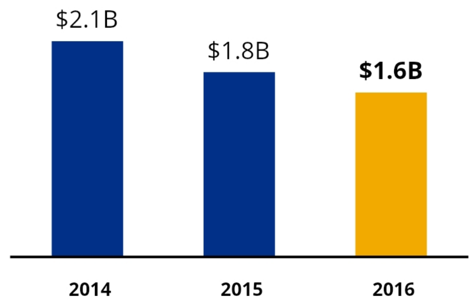
ATCOenergy is comprised of three business lines: ATCOhome, ATCObusiness and the ATCO Blue Flame Kitchen. ATCOhome intends to be a preeminent retailer of electricity and natural gas by leveraging the strength of the ATCO brand with a compelling value proposition that includes sign-up incentives, loyalty rewards, competitive rates and flexible plans for customers. ATCObusiness sells electricity and natural gas to large commercial retail customers. ATCO Blue Flame Kitchen, which has a long history in Alberta spanning more than eight decades, was integrated with ATCOenergy in 2016.

FINANCIAL STRENGTH

Cost Management

Canadian Utilities is taking a focused and disciplined approach to pursuing cost-savings and efficiencies in every part of the organization to ensure we deliver the most competitive solutions to our customers. Canadian Utilities achieved a 14 per cent reduction in operating costs in 2016 compared to the previous year. Lower operating costs were one of the primary reasons for improved earnings in 2016.

Lower Operating Costs Positively Impacted 2016 Earnings



Capital Redeployment

The Company continuously reviews opportunities to divest non-core assets. In the first quarter of 2016, ATCO Energy Solutions sold its 51.3 per cent ownership in the Edmonton Ethane Extraction Plant. The $21 million of proceeds from the sale were deployed for continued capital growth in industrial water infrastructure and hydrocarbon storage in Alberta's Industrial Heartland region.

Debt Issuance

In November 2016, the Company's subsidiary, CU Inc., issued $375 million of 3.763 per cent debentures maturing on November 19, 2046. Proceeds from these issuances were used to fund significant capital investments, to repay existing indebtedness, and for other general corporate purposes of the Alberta Utilities.

Credit Ratings

The Company has maintained strong investment grade credit ratings, which allow access to capital markets at competitive rates. In 2016, Standard and Poor's Rating Services (S&P) affirmed its rating of the Company as "A" with a negative outlook. In August 2016, DBRS Limited (DBRS) affirmed its rating of the Company as "A" with a stable trend.

INNOVATION

Coal to Gas Conversion

In November 2016, Canadian Utilities announced it will work with the Government of Alberta on the conversion of coal-fired power generation to natural gas. This initiative is part of a broader transition in the province to cleaner sources of electricity while ensuring these measures support affordable, reliable and sustainable energy for all Albertans.

Solar

In October 2016, Canadian Utilities announced the energization of Western Canada’s largest off-grid solar project, located at the Saddle Hills Telecommunication Site northwest of Grande Prairie. This groundbreaking system is capable of generating 75 kilowatts and storing 250 kilowatt hours of energy, and will provide 100 per cent of the power required at the remote site, which is an integral part of Canadian Utilities' telecommunications network.

This solar project is the latest in a growing suite of clean and innovative solutions offered by the Company. The launch of ATCOenergy in January 2016, brought more choice to Albertans, including green energy options for its customers. ATCOenergy customers can choose either 25 per cent or 100 per cent of their electricity to come from renewable sources. Canadian Utilities also continues to explore a range of renewable and low-carbon energy technologies for residential and business customers.

In Australia, Canadian Utilities began a new research and development project that combines the reliability of our natural gas network with renewable energy technologies including battery storage and rooftop solar panels. The initial stage of the GasSola project has seen nine homes with rooftop solar panels in the City of Busselton, in Western Australia's southwest region, equipped with a natural gas-fired generator, battery technology and a communications system.

The project seeks to demonstrate how natural gas and scalable hybrid technology in both residential and commercial market segments can assist in providing firm generation to support renewables, ultimately increasing energy security and potentially reducing the need for costly electricity network upgrades in constrained parts of the power network.

Energy Efficiency

In 2016, Canadian Utilities worked with PCL Construction and Ivanhoe Cambridge to utilize natural gas for construction heat and power generation at the new 500,000 sq. ft. outlet mall near Edmonton's International Airport. Canadian Utilities installed natural gas lines prior to the building being erected to fuel natural gas space heaters and a natural gas power generator for use during construction.

The use of natural gas, as opposed to propane or diesel, to provide heat and power during residential and commercial construction offers our customers a number of benefits, including significantly reduced fuel costs, lower labour costs and lower greenhouse gas emissions. Canadian Utilities continues to work with other builders and developers to pilot similar projects on multi-family and commercial sites.

Micro Combined Heat & Power

We are helping our customers reduce emissions and operating costs with Micro Combined Heat & Power (CHP) technology, using onsite natural gas to efficiently generate heat and electricity. In 2016, we invested more than $225,000 into a pilot program involving several Alberta homes and a natural gas regulating station to determine the viability of this new potential service offering. We are also investigating the effectiveness of integrating solar panels and batteries for use in isolated locations without access to the grid.

With a micro CHP unit, customers can economically meet their heat and electricity needs while reducing greenhouse gas emissions by 50 per cent to 55 per cent.

Water Treatment

Canadian Utilities is developing the industrial water treatment infrastructure to provide treated water through a multi-user water system to customers throughout Alberta's Industrial Heartland, near Edmonton. With treated water delivered directly to their facility, customers benefit from substantially improved industrial water quality and can free up land on their sites previously dedicated to water treatment.

By allowing customers to connect to an integrated single system, Canadian Utilities' multi-user system provides several environmental benefits including reducing the number of intake points required on the river and providing the ability to capture and reuse treated wastewater from customer operations.

OPERATIONAL EXCELLENCE

Generating Plant Availability

ATCO Power continued its solid performance of providing industry leading, reliable, responsible and cost-effective solutions for our customers and partners around the world in 2016. Generating plant availability was more than 90 per cent with minimal unplanned outages.

Maintenance Overhaul

The Osborne Cogeneration facility in Adelaide, Australia underwent the most significant overhaul of its gas and steam turbines and generators since being commissioned in 1998. The predominantly outdoor facility experienced some of the wettest and windiest conditions on record, which when combined with a 'system black' event in South Australia that disabled the entire state's electricity grid, the operational expertise of our team was critical. The team persevered, and after a total of 50,000 man-hours, completed the seven-week overhaul allowing Osborne to re-synchronize to the national electricity grid and again supply its critical base-load power to South Australian consumers.

Customer Response

In May 2016, a sudden cold snap dropped 20 inches of snow onto the Peace Country region of northwestern Alberta. With heavy snowfall and broken trees damaging many kilometres of power line, 11,000 customers in 17 of our Northern Alberta service areas were without power. Canadian Utilities Incident Command Centres were opened in Grande Prairie, Peace River and Slave Lake and local crews worked around the clock for three days to remove downed trees and repair lines to restore power to our customers.

Also in May, Canadian Utilities crews went above and beyond during the Fort McMurray wildfires to protect property in the community and keep important electricity services running so that firefighters could keep the flames at bay. For weeks, our employees worked in dangerous conditions, including dense smoke and heat, to repair and maintain damaged critical electrical infrastructure. Within a month of the largest evacuation and the most devastating fire in Canadian history, Canadian Utilities had restored service to Fort McMurray without a single lost-time safety incident.

In January 2017, the Edison Electric Institute (EEI), a trade association representing all North American owned electric companies, presented Canadian Utilities with an Emergency Recovery Award, recognizing the tremendous response of our employees working together during the 2016 Fort McMurray wildfire. The EEI's Emergency Recovery Awards recognizes "companies that faced difficult circumstances caused by extraordinary events" and that put forth "an outstanding effort to restore service to the public".

Health and Safety

Safety is the first consideration in everything we do. We strive to continually improve our safety programs with the objective of providing the awareness, training, procedures, equipment and follow-up to drive our "zero injury" culture. Since we launched our Sustainability Report in 2008, employee lost-time and reportable injury rates have declined substantially, largely due to a focus on continuous improvement, visible commitment and active participation by management and employees, and increased sharing of lessons learned. Canadian Utilities compares favourably with the lost-time injury rate for Alberta Occupational Health and Safety.

In May 2016, Structures & Logistics was recognized by Bechtel for safety performance on the Chevron-operated Wheatstone LNG project in Western Australia. With approximately 200 employees on-site at any one time, the Structures & Logistics team maintained focus and worked to execute safely and on-time for the project. The performance evaluation criteria include environmental safety and health, labour and employee relations, schedule, cost and quality.

In November 2016, Structures & Logistics' Camp Services team celebrated a safety milestone of achieving five million man-hours without a lost-time incident.

In September 2016, ATCO Pipeline's employees reached 14 consecutive years without a lost-time incident. This remarkable accomplishment is a credit to ATCO's ongoing efforts and focus in this area.

A more detailed report on the Company's Health and Safety performance will be provided in our Sustainability Report which is expected to be published in May 2017.

COMMUNITY INVOLVEMENT

Building and Sustaining Positive Indigenous Relationships

Canadian Utilities has more than 40 joint-venture partnerships, Memorandums of Understanding and other relationships with Indigenous communities. Some of our Indigenous partnerships are celebrating more than 25 years of working together.

In 2016, Sustainable Communities completed the construction of a Multi-Purpose Centre, featuring an NHL size hockey rink, for the Piikani Nation of Alberta to provide the local community with a new hub to meet, play, and thrive.

In 2016, once again Canadian Utilities was the title sponsor of Ski Fit North Alberta (SFNA), bringing fun and fitness to Indigenous youth through cross-country skiing. In partnership with Cross Country Canada and Cross Country Alberta, SFNA provides a unique opportunity for Alberta's Indigenous youth to experience the positive impact of outdoor activity, learn more about the importance of proper nutrition, and interact with former Olympic athletes.

ATCO EPIC - Employees Participating in Communities

This internationally acclaimed program gives employees the opportunity to contribute to charitable organizations in the communities where they live and work. The administration of the employee-led campaign is funded by Canadian Utilities, ensuring 100 per cent of employee donations go towards employees' charities of choice.

Canadian Utilities honors employees' generosity by matching the charitable donations made to health and wellness organizations. In 2016, ATCO EPIC donated $3.6 million to more than 800 charities, and Canadian Utilities employees volunteered more than 12,000 hours to make our communities better places to work and live. Over the past 10 years, the ATCO EPIC program has raised more than $31 million.

Donated
$3.6 million
in 2016

Indigenous Education Awards

In 2016, Canadian Utilities' Indigenous Education Awards Program supported 30 students from 11 First Nations and Métis communities by providing awards, bursaries and scholarships to students who demonstrated leadership capabilities and strived to be role models in their schools and communities. Since the program was launched in 2011, 161 students have received financial support from Canadian Utilities to assist in their education. Canadian Utilities also awarded 29 other scholarships and bursaries to Indigenous students studying at NAIT, Keyano College, the University of Alberta, Aurora College and community colleges and trade schools across Canada.

STRATEGIC PRIORITIES FOR 2017

GROWTH

In 2017, Canadian Utilities intends to invest $1.8 billion in capital growth opportunities across our Regulated Utilities and in long-term contracted operations. This capital investment is expected to contribute significant earnings and cash flow and create long-term value for share owners.

FINANCIAL STRENGTH

Maintaining our strong financial position enables the Company to sustain its operations and to grow through economic cycles, thereby providing long-term financial benefits to our share owners. This is particularly important with today's weaker global economic conditions. Our "A" credit ratings are fundamental to our current and future success. It ensures the Company has the financial capacity to fund our existing and future capital investments through access to capital markets at attractive rates.

INNOVATION

Canadian Utilities will continue to explore new technologies and ways of delivering energy to our customers. The Company's research and development focus will underpin its success in the years ahead through continuous improvement of existing products and services as well as exploring and testing new products and methods of delivery to meet our customers' future needs. For example, Canadian Utilities will work with the Government of Alberta on the conversion of coal-fired power generation to natural gas, the exploration of hydro generation potential in Alberta, and the development of Alberta's new capacity power market.

OPERATIONAL EXCELLENCE

Canadian Utilities approaches operational excellence by achieving high service, reliability, and product quality for our customers and the communities we serve. The Company is uncompromising about maintaining a safe work environment for employees and contractors, promoting public safety and striving to minimize environmental impacts. We will focus on continually improving our safety programs and achieving lost-time injury rates that compare favourably with Alberta Occupational Health and Safety rates.

In late 2015, the Company initiated an organizational transformation to streamline and gain operational efficiencies. These transformation initiatives have created tangible benefits and will provide a competitive advantage for the organization and cost effective solutions for our customers. Canadian Utilities will continue to look for opportunities for improved productivity.

COMMUNITY INVOLVEMENT

Canadian Utilities will continue to build on and sustain positive Indigenous relationships through ongoing communication and mutual sharing of interests and ways of working together to contribute to economic and social development in their communities.

We encourage partnerships throughout the organization to benefit non-profit organizations through volunteer efforts, providing products and services in-kind, and general advice where required. Canadian Utilities will continue to administer the employee-led ATCO EPIC campaign to give employees the opportunity to contribute to charitable organizations in the communities in which they live and work.

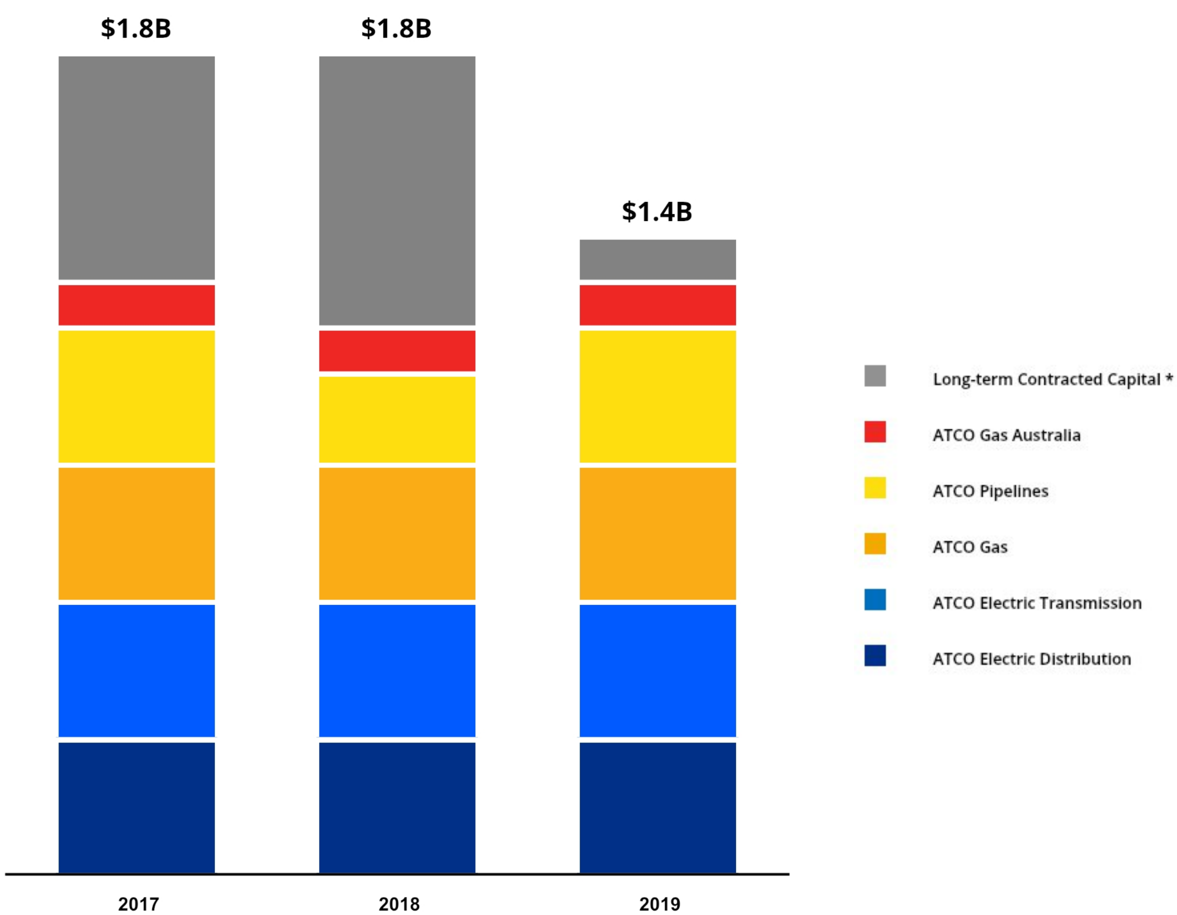
CAPITAL INVESTMENT PLANS

In the 2017 to 2019 period, Canadian Utilities expects to invest an additional $5 billion in Regulated Utility and commercially secured capital growth projects. This capital investment is expected to contribute significant earnings and cash flow and create long-term value for share owners.

This three year plan includes $3.8 billion of planned capital investment in the Regulated Utilities. ATCO Electric Distribution and ATCO Electric Transmission are planning to invest $1.8 billion, and ATCO Gas, ATCO Pipelines and ATCO Gas Australia are planning to invest $2 billion from 2017 to 2019.

In addition to capital investments in the Regulated Utilities, the Company intends to invest a further $1.2 billion in long-term contracted capital from 2017 to 2019 in the APL Fort McMurray 500 kV Project and contracted hydrocarbon storage and distributed generation in Alberta. Canadian Utilities also continues to pursue various business development opportunities with long-term potential, such as the Tula cogeneration power plant in Mexico and the Strathcona cogeneration power plant in Alberta, which are not included in these capital growth investment estimates.

Future Regulated Utility and Contracted Capital Investment



** Includes the Company's proportionate share of investment in partnership interests and cash used for service concession arrangements.*

PERFORMANCE OVERVIEW

FINANCIAL METRICS

The following chart summarizes key financial metrics associated with the Company's financial performance.

($ millions, except per share data and outstanding shares)		**Year Ended December 31**	
	2016	**2015**	**2014**
Key Financial Metrics			
Adjusted earnings [1]	**590**	483	575
Electricity	**402**	322	369
Pipelines & Liquids	**255**	189	196
Corporate & Other	**(69)**	(29)	10
Intersegment Eliminations	**2**	1	–
Earnings attributable to Class A and Class B shares	**620**	352	711
Revenues	**3,399**	3,264	3,600
Total assets	**18,781**	18,069	16,702
Long-term debt	**8,318**	7,991	7,315
Class A and Class B share owners' equity	**4,735**	4,523	4,305
Cash dividends declared per Class A and Class B share *(cents per share)*	**1.30**	1.18	1.07
Capital investments [1]	**1,442**	1,819	2,292
Funds generated by operations [1]	**1,803**	1,532	1,643
Other Financial Metrics			
Weighted average Class A and Class B shares outstanding *(thousands):*			
Basic	**267,173**	264,652	262,013
Diluted	**267,777**	265,349	262,818

(1) Additional information regarding these measures is provided in the Non-GAAP and Additional GAAP Measures section.

ADJUSTED EARNINGS

The Company's adjusted earnings for 2016 were $590 million an increase of $107 million compared to 2015. The primary drivers of earnings results were as follows:

- Electricity - Higher adjusted earnings in 2016 were mainly due to continued capital investment and growth in rate base within Regulated Electricity and business-wide cost reduction initiatives.
- Pipelines & Liquids - Higher adjusted earnings in 2016 were primarily due to continued capital investment and growth in rate base within the Regulated Pipelines & Liquids businesses and business-wide cost reduction initiatives.
- Corporate & Other - Lower earnings were primarily attributable to dividend costs associated with the Company's preferred share issuances in the second half of 2015 and higher business development expenses.

Additional details on the financial performance of the Company's Business Units are discussed in the Global Business Unit Performance section of this MD&A.

EARNINGS ATTRIBUTABLE TO CLASS A AND CLASS B SHARES

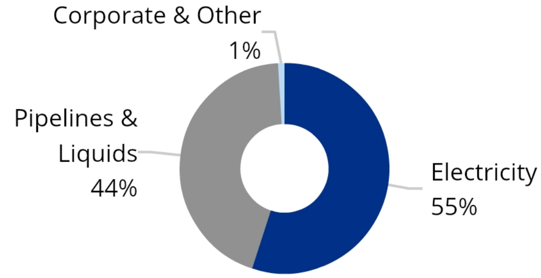
Earnings attributable to Class A and Class B shares were $620 million in 2016, $268 million higher compared to 2015 mainly due to continued capital investment and growth in rate base in the Regulated Utilities and business-wide cost reduction initiatives. Earnings attributable to Class A and Class B shares includes timing adjustments related to rate-regulated activities that are not included in adjusted earnings.

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

REVENUES

In 2016, revenues of $3,399 million were $135 million higher when compared to 2015. Higher revenues were mainly due rate base growth in the Regulated Utilities, and revenue recorded for APL.

Revenue Mix 2016

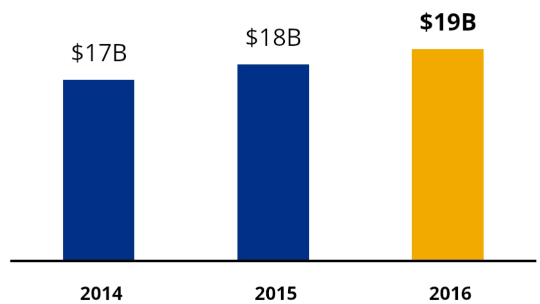


ASSETS, DEBT & EQUITY

The Company's total assets, long-term debt and Class A and Class B share owners' equity reflect the significant growth achieved during 2016 and how that growth was financed. Total assets grew from $18 billion at the beginning of 2016 to $19 billion at year end. That growth occurred mainly in the Alberta Utilities as a result of significant capital investment.

Class A and Class B share owners' equity increased over the prior year mainly as a result of 2016 earnings, partially offset by higher dividends paid to share owners.

Asset Growth

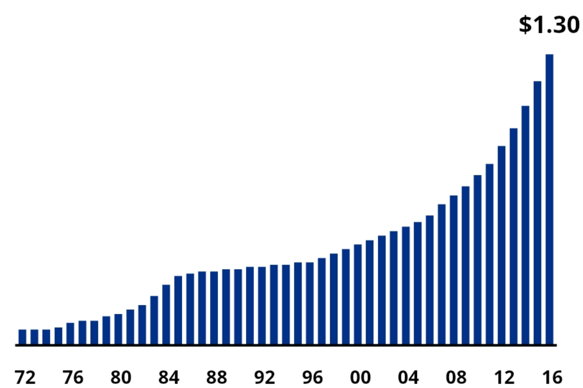


COMMON SHARE DIVIDENDS

In 2016, the Board of Directors increased the quarterly dividends paid per Class A and Class B share from 29.50 cents per share to 32.50 cents per share, an increase of 10 per cent over 2015. Dividends paid to Class A and Class B share owners totaled $296 million in 2016.

On January 12, 2017 the Board of Directors declared a first quarter dividend of 35.75 cents per share. This represents a 10 per cent over the quarterly dividends declared in 2016. Canadian Utilities has increased its common share dividend each year since 1972. In each of the last six years, the Company has increased its quarterly dividend by 10 per cent.

Annual Dividend Rate 1972 - 2016
(dollars per share)



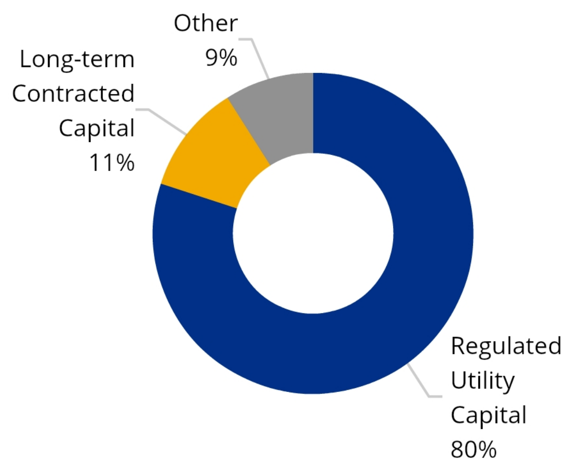
CAPITAL INVESTMENT

Capital investment includes additions to property, plant and equipment, intangibles, capital expenditures in joint ventures and service concession arrangements. Total capital investment in the fourth quarter and full year of 2016 were $428 million and $1,442 million.

Capital spending in the Company's Regulated Utilities and on long-term contracted capital assets accounted for $386 million of capital spending in the fourth quarter and $1,314 million in the full year of 2016. These investments either earn a return under a regulatory business model or are under commercially secured long-term contracts.

The remaining expenditures are mainly related to the Company's purchase of the remaining 49 per cent of Barking Power Limited (Barking) in the first quarter of 2016.

Regulated Utility & Contracted Capital Investment 2016

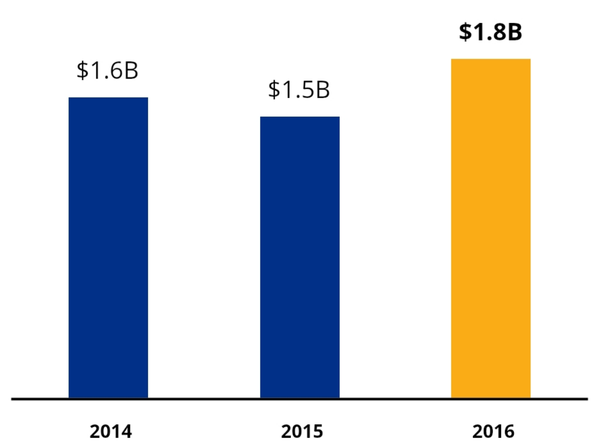


FUNDS GENERATED BY OPERATIONS

Funds generated by operations in 2016 were $1,803 million, compared to $1,532 million in 2015.

Continued capital investment and growth in rate base in the Company's Regulated Utilities, and business-wide cost reduction initiatives led to higher funds generated by operations.

Funds Generated By Operations



GLOBAL BUSINESS UNIT PERFORMANCE

REVENUES

Electricity revenues of $551 million in the fourth quarter and $1,877 million for the full year of 2016 were $87 million and $106 million higher when compared to the same periods of 2015.

Higher revenues in the fourth quarter of 2016 were mainly due to revenue recorded for APL. Higher 2016 revenues in Regulated Electricity were attributable to growth in rate base and revenue recorded for APL, partially offset by lower revenues in ATCO Power due to lower Alberta Power Pool prices.

ADJUSTED EARNINGS

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Regulated Electricity						
ATCO Electric Distribution	**28**	22	6	**129**	93	36
ATCO Electric Transmission	**49**	22	27	**188**	155	33
Total Regulated Electricity Adjusted Earnings	**77**	44	33	**317**	248	69
Non-regulated Electricity						
ATCO Power						
Independent Power Plants	**13**	1	12	**28**	13	15
Thermal PPAs	**12**	13	(1)	**36**	41	(5)
ATCO Power Australia	**4**	5	(1)	**16**	20	(4)
Alberta PowerLine	**5**	–	5	**5**	–	5
Total Non-regulated Electricity Adjusted Earnings	**34**	19	15	**85**	74	11
Total Electricity Adjusted Earnings	**111**	63	48	**402**	322	80

In fourth quarter and full year of 2016, adjusted earnings generated by Electricity of $111 million and $402 million were $48 million and $80 million higher than in the fourth quarter and full year of 2015. Higher earnings were primarily due to continued capital investment and growth in rate base within Regulated Electricity and business-wide cost reduction initiatives.

Detailed information about the activities and financial results of Electricity's businesses is provided in the following sections.

REGULATED ELECTRICITY

Our Regulated Electricity activities are conducted by ATCO Electric Distribution and ATCO Electric Transmission and their subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife). These businesses provide regulated electricity distribution, transmission and distributed generation mainly in northern and central east Alberta, the Yukon and the Northwest Territories. The service territory includes the oil sands areas near Fort McMurray and the heavy oil areas near Cold Lake and Peace River.

Electricity Distribution

ATCO Electric Distribution's adjusted earnings of $28 million in the fourth quarter and $129 million in the full year of 2016 were $6 million and $36 million higher when compared to the same periods of 2015. Higher earnings resulted primarily from growth in rate base, business-wide cost reduction initiatives and the adverse earnings impact associated with the Generic Cost of Capital (GCOC) and Capital Tracker regulatory decisions received in 2015.

Electricity Transmission

ATCO Electric Transmission's adjusted earnings of $49 million in the fourth quarter and $188 million in the full year of 2016 were $27 million and $33 million higher when compared to the same periods of 2015. Higher earnings resulted primarily from growth in rate base, business-wide cost reduction initiatives, and the adverse impact associated with the GCOC regulatory decision received in 2015, partially offset by the impact of the ATCO Electric Transmission GTA decision received in August 2016.

NON-REGULATED ELECTRICITY

Our non-regulated electricity activities are conducted by ATCO Power, ATCO Power Australia and Alberta PowerLine. These businesses supply electricity from natural gas, coal-fired and hydroelectric generating plants in western Canada, Ontario, Australia and Mexico and non-regulated electricity transmission in Alberta.

Generating Plant Availability

Generating availability for the quarter and year ended December 31, 2016 and 2015 is shown in the table below. Generating plant capacity fluctuates with the timing and duration of outages. Generating availability remained strong with a combined availability of 92 per cent in 2016 and minimal unplanned outages.

Independent Power Plants availability was lower in the fourth quarter and full year of 2016. Lower availability in the fourth quarter was primarily due to planned minor outages at the Cory, Muskeg, Scotford, and Battle River unit 3 plants. There was also a higher frequency of outages at the Rainbow plant due to planned capital project work during the quarter. The lower availability for the year was primarily due to planned major outages at the Joffre facility in 2016.

Thermal PPA Plant availability was higher in 2016 compared to 2015, mainly due to the planned major outage at Battle River unit 5 in the second quarter of 2015.

Lower availability in ATCO Power Australia in the fourth quarter and full year 2016 was mainly due to the planned major outage at the Osborne Cogeneration facility.

	Three Months Ended December 31			Year Ended December 31		
	2016	2015	Change	2016	2015	Change
Independent Power Plants	**93%**	96%	(3%)	**92%**	95%	(3%)
Thermal PPA Plants	**99%**	95%	4%	**95%**	88%	7%
ATCO Power Australia	**64%**	99%	(35%)	**88%**	98%	(10%)

Independent Power Plants

Adjusted earnings generated by Independent Power Plants in the fourth quarter and full year of 2016 were $12 million and $15 million higher than the same periods in 2015. Higher earnings were due to higher forwards sales as well as lower expenses due to cost-savings initiatives, partially offset by lower Alberta Pool Prices and spark spreads.

Average Alberta Power Pool and natural gas prices and the resulting spark spreads for the quarter and year ended December 31, 2016 and 2015 are shown in the table below.

	Three Months Ended December 31			Year Ended December 31		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
Average Alberta Power Pool electricity price *($/MWh)*	**22.03**	21.19	4%	**18.28**	33.34	(45%)
Average natural gas price *($/GJ)*	**2.94**	2.35	25%	**2.06**	2.56	(20%)
Average spark spread *($/MWh)*	**(0.02)**	3.56	(101%)	**2.84**	14.14	(80%)

Lower Alberta Power Pool prices and reduced price volatility in the full year of 2016 were primarily attributable to an increased supply of electricity and lower demand in the Alberta market compared to 2015. The transition to the current low price environment occurred in the fourth quarter of 2015. Alberta Power Pool prices for the fourth quarter of 2016 were comparable to the same period in 2015; however, natural gas prices were higher, resulting in a lower spark spread.

Thermal PPAs

The electricity generated by the Battle River unit 5 and Sheerness plants is sold through PPAs. Under the PPAs, ATCO Power must make the generating capacity for each generating unit available to the PPA purchaser of that unit. These arrangements entitle ATCO Power to recover its forecast fixed and variable costs from the PPA purchaser. Under the terms of the PPAs, ATCO Power is subject to an incentive related to the generating unit availability. Incentives are payable by the PPA counterparties for availability in excess of predetermined targets. These amounts are amortized based on estimates of future generating unit availability and future electricity prices over the term of the PPAs.

Fourth quarter and full year 2016 adjusted earnings from the Thermal PPAs were $1 million and $5 million lower than the same periods in 2015, primarily due to higher fourth quarter 2015 earnings resulting from the amortization of accumulated incentives associated with the PPAs, partly offset by lower maintenance expenses and cost reduction initiatives in 2016.

International Power Generation

The Company's international power generation activities are conducted by ATCO Power Australia. This business supplies electricity from two natural gas-fired generation plants in Adelaide, South Australia, and Karratha, Western Australia. Additionally, the Bulwer Island cogeneration plant in Brisbane formerly provided electricity and steam. As a result of British Petroleum's (BP) announcement to close its Brisbane oil refinery in mid-2015, the Bulwer Island plant was closed on June 23, 2015.

ATCO Power Australia's adjusted earnings of $4 million in the fourth quarter and $16 million in the full year of 2016 were $1 million and $4 million lower than the same periods in 2015, primarily due to the closure of the Bulwer Island plant at the end of the second quarter of 2015 and a planned maintenance outage at the Osborne generating plant in the second half of 2016.

Alberta PowerLine

APL's adjusted earnings were $5 million higher in the fourth quarter and full year of 2016 when compared to the same periods in 2015. The Fort McMurray 500 kV Project has been accounted for as a service concession arrangement under IFRS because the AESO controls the output of the transmission facilities as a part of the greater Alberta network and the ownership of the transmission facilities will transfer to the AESO at the end of the service agreement. Under a service concession arrangement, revenues and costs relating to the design, planning and construction phases of the project are recognized based on a percentage of completion, and revenues and costs relating to the operating phase will be recognized as the service is rendered. The accounting for APL is discussed further in Note 14 of the Company's 2016 Annual Financial Statements.

Major Electricity Project Updates

Alberta PowerLine Fort McMurray 500 kV Project

In December 2014, APL was awarded a 35-year, $1.4 billion contract by the AESO to design, build, own, and operate the Fort McMurray 500 kV Project. This project will increase the capacity of the electricity system in northeast Alberta and help to ensure that this economically vital area of the province has the power it needs.

In December 2015, APL submitted the Facilities Application for the project to the AUC. The public hearing was completed in November 2016 and a decision approving the route was received in the first quarter of 2017. The design and planning phases are underway and construction is expected to commence in 2017. The project is anticipated to be in service in 2019.

Distributed Generation

In 2016, ATCO Power continued to advance distributed generation projects in Alberta and Mexico. Distributed generation aligns with the Company's strategy of taking a creative and innovative approach to meeting our customers' needs by building a fleet of portable natural gas-fired units that can be deployed for temporary or permanent projects.

In the first quarter of 2016, ATCO Power signed a 10-year contract to build and operate a two unit, 3 MW natural gas-fired units located southeast of Grande Prairie, Alberta with a capital investment of $8 million. In the fourth quarter of 2016, the Company and its Mexican partner, Grupo Ranman, completed the first phase of a distributed generation facility located in the World Trade Centre industrial park in San Luis Potosí, Mexico. Two 2 MW natural gas-fired units were installed to service initial customers. ATCO Power plans to expand this facility to up to 20 MW by December 2017.

Mexico Tula Cogeneration

In October 2014, the Company and its Mexican partner, Grupo Hermes S.A. de C.V., were selected by PMX Cogeneracion S.A.P.I. de C.V., an affiliate of Mexico's state-owned petroleum company Pemex, to commence the project development and approval process for a natural gas cogeneration plant at the Miguel Hidalgo refinery near the town of Tula in the state of Hidalgo, Mexico.

During 2015 and 2016, Canadian Utilities and Grupo Hermes worked with Pemex to further the development of the plant. Commercial discussions continue with Pemex, who remains committed to the project and to working with Canadian Utilities and Grupo Hermes.

Strathcona Cogeneration Plant

In September 2016, Inter Pipeline Ltd. acquired the shares of The Williams Companies Inc.'s and Williams Partners L.P's Canadian businesses, including Williams Canada Propylene ULC (now Inter Pipeline Propylene ULC following a name change). ATCO Power has been selected by Inter Pipeline Propylene ULC to build and operate a natural gas-fired cogeneration plant to meet the high pressure steam and electricity needs of Inter Pipeline Propylene ULC's proposed propane dehydrogenation facility to be located in the Alberta Industrial Heartland region. In December 2016, the Government of Alberta announced that Inter Pipeline's project would receive $200 million in royalty credits through the Petrochemical Diversification Program. Canadian Utilities' proposed 90 MW cogeneration plant is contingent on Inter Pipeline Ltd.'s final investment decision for the facility, which is expected during the second quarter of 2017. Canadian Utilities received its AUC approvals for the cogeneration plant on September 28, 2016.

Alberta Electricity Market Reform

On November 23, 2016, the Government of Alberta announced its intention to change the existing energy-only electricity market to a capacity market in 2021. A capacity market includes a market component for the provision of capacity, or the ability to produce electricity, in addition to the market for the production of electricity. The Government of Alberta indicated that it will work closely with industry, consumer groups and other stakeholders to establish the framework and implement the capacity market by 2021.

In the near-term, Canadian Utilities will assess the economic viability of converting some of its coal-fired electricity generation to natural gas which will include participating in the development of greenhouse gas regulations for natural gas-fired electricity generation. In addition, Canadian Utilities will work alongside the Government of Alberta in exploring the potential of hydroelectric power as a means to provide reliable, emissions-free baseload generation in the province. Hydro, as the only form of renewable energy generation with dispatch control, is an optimal solution to replace coal-fired generation while supporting the reliability and sustainability of Alberta's electricity grid.

REVENUES

Pipelines & Liquids revenues of $454 million in the fourth quarter of 2016 were $42 million higher compared to the same period of 2015 mainly due to continued capital investment and growth in rate base.

Revenues of $1,496 million in 2016 were $29 million lower when compared to 2015. Revenues were lower mainly due to the divestiture and closure of several gas processing facilities in ATCO Energy Solutions in late 2015 and early 2016, partially offset by increased revenues in Regulated Pipelines & Liquids mainly due to growth in rate base.

ADJUSTED EARNINGS

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Regulated Pipelines & Liquids						
ATCO Gas	**48**	51	(3)	**123**	106	17
ATCO Pipelines	**15**	11	4	**59**	41	18
ATCO Gas Australia	**7**	8	(1)	**51**	28	23
Total Regulated Pipelines & Liquids Adjusted Earnings	**70**	70	–	**233**	175	58
Non-regulated Pipelines & Liquids						
ATCO Energy Solutions	**11**	14	(3)	**22**	14	8
Total Pipelines & Liquids Adjusted Earnings	**81**	84	(3)	**255**	189	66

Pipelines & Liquids' adjusted earnings of $81 million in the fourth quarter of 2016 were $3 million lower when compared to the same period in 2015, primarily due to higher sales of excess natural gas in ATCO Energy Solutions in 2015.

Adjusted earnings of $255 million in 2016 were $66 million higher than 2015. Higher adjusted earnings were primarily due to continued capital investment and growth in rate base and business-wide cost reduction initiatives.

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

REGULATED PIPELINES & LIQUIDS

Natural Gas Distribution

Our natural gas distribution activities throughout Alberta and in the Lloydminster area of Saskatchewan are conducted by ATCO Gas. It services municipal, residential, business and industrial customers.

ATCO Gas' adjusted earnings of $48 million in the fourth quarter of 2016 were $3 million lower when compared to the same period in 2015, primarily due to higher operations and maintenance costs in the quarter. Earnings of $123 million in the full year of 2016 were $17 million higher when compared to the same period of 2015. Higher earnings resulted primarily from growth in rate base and customers, business-wide cost reduction initiatives and the adverse earnings impact associated with the GCOC and Capital Tracker regulatory decisions received in the first quarter of 2015.

Natural Gas Transmission

Our natural gas transmission activities in Alberta are conducted by ATCO Pipelines. This business receives natural gas on its pipeline system at various gas processing plants as well as from other natural gas transmission systems and transports it to end users within the province or to other pipeline systems, primarily for export out of the province.

ATCO Pipelines' adjusted earnings of $15 million in the fourth quarter and $59 million in the full year of 2016 were $4 million and $18 million higher when compared to the same periods of 2015. Higher earnings were primarily due to growth in rate base and the adverse earnings impact associated with the GCOC decision received in the first quarter of 2015.

International Natural Gas Distribution

ATCO Gas Australia is part of our international natural gas distribution activities. It is a regulated provider of natural gas distribution services in Western Australia, serving metropolitan Perth and surrounding regions.

ATCO Gas Australia's adjusted earnings of $7 million in the fourth quarter of 2016 were comparable to the same period in 2015. Earnings of $51 million in the full year of 2016 were $23 million higher when compared to the same period of 2015. Higher earnings were primarily attributable to the impact of the Access Arrangement regulatory decision received in the second quarter of 2015 and the appeal decision received in the second quarter of 2016, continued growth in rate base and business-wide cost reduction initiatives.

NON-REGULATED PIPELINES & LIQUIDS

Storage & Industrial Water

Our industrial water services and non-regulated natural gas and hydrocarbon storage, processing and transmission activities are conducted by ATCO Energy Solutions.

ATCO Energy Solution's adjusted earnings of $11 million in the fourth quarter of 2016 were lower when compared to the same period in 2015. Decreased earnings were primarily due to higher sales of excess natural gas in 2015, partially offset by higher demand and prices for storage services, and earnings contributions from the commencement of additional industrial water and hydrocarbon storage projects.

Adjusted earnings of $22 million in the full year of 2016 were $8 million higher than in 2015. Increased earnings were primarily due to higher demand and prices for storage services, earnings contributions from the commencement of additional industrial water and hydrocarbon storage projects in late 2015 and 2016 and business-wide cost reductions, partially offset by higher sales of excess natural gas in 2015.

Major Pipelines & Liquids Project Updates

Urban Pipelines Replacement Program

Construction continued on ATCO Pipelines' AUC-approved UPR program in 2016. Construction will continue until 2020 and the total cost of the UPR program is estimated to be $850 million, which includes the cost to integrate the new high-pressure network with ATCO Gas' low-pressure distribution system. In 2016, ATCO Gas and ATCO Pipelines invested $185 million in the UPR program. The program will replace and relocate aging, high-pressure natural gas pipelines in densely populated areas of Calgary and Edmonton to address safety, reliability and future growth.

Mains Replacement Programs

ATCO Gas has 8,000 kms of plastic pipe and 9,000 kms of steel pipe that have been identified for replacement. The Plastic Mains Replacement program is a 20-year program aimed at replacing polyvinyl chloride (PVC) and early generation polyethylene (PE) pipe. The Steel Mains Replacement program replaces steel pipe that is generally more than 60 years old. In 2016, ATCO Gas replaced 242 kms of plastic pipe, and 41 kms of steel pipe.

Hydrocarbon Storage

ATCO Energy Solutions, together with our partner, is developing four salt caverns with capacity to store approximately 400,000 cubic metres of hydrocarbons at the Canadian Utilities Heartland Energy Centre near Fort Saskatchewan, Alberta. Long-term contracts have been secured for all four salt caverns. The total partnership investment is approximately $200 million. ATCO Energy Solutions is the facility operator and has a 60 per cent partnership interest.

Construction of the first two caverns is complete and operations are underway with earnings contributions commencing in the fourth quarter of 2016. Construction of the two remaining caverns is expected to be complete by the end of 2017.

Industrial Water

Through the Canadian Utilities Heartland Industrial Water System, ATCO Energy Solutions’ multi-user water system connected to the North Saskatchewan River, Canadian Utilities provides integrated water services including pipeline transportation, water treatment, recycling and disposal to industrial customers. This industrial water system also supplies water for the development of salt caverns for the Company’s hydrocarbon storage facilities in the region. The Company's river intake system and modern pump station facility has the capacity to withdraw 3,550 cubic metres per hour, with a current deliverability of 1,300 cubic metres per hour.

In the fourth quarter of 2015, ATCO Energy Solutions entered into a long-term commercial agreement with Air Products to provide water pre-treatment services in addition to the existing water transportation services contract for Air Products' hydrogen facility near Fort Saskatchewan. Construction on this project was completed, and commercial operations commenced in the fourth quarter of 2016. With the addition of this service, ATCO Energy Solutions has the potential to further grow the Company’s suite of water and wastewater services for industrial customers throughout Alberta’s Industrial Heartland.

Capital Redeployment

In the first quarter of 2016, ATCO Energy Solutions sold its 51.3 per cent ownership in the Edmonton Ethane Extraction Plant. Proceeds of the sale totaled $21 million. The proceeds from the sale will be deployed for continued capital growth in industrial water infrastructure and hydrocarbon storage in Alberta's Industrial Heartland region.

International Natural Gas Transmission - Mexico Tula Pipeline

In 2014, Canadian Utilities signed a 25-year Transportation Services Agreement with the Comisión Federal de Electricidad (CFE) to design, build and operate a 16 km natural gas pipeline near the town of Tula in the state of Hidalgo, Mexico. Canadian Utilities has completed the majority of construction and continues to work with the Government of Mexico regarding land access and the completion of construction.

Corporate & Other

The Corporate & Other segment includes the recent launch of retail energy through ATCOenergy to provide retail electricity and natural gas services in Alberta, the commercial real estate owned by the Company in Alberta, and the strategic investment and expansion into Mexico. Corporate & Other also includes the Company's global corporate head office in Calgary, Canada, ATCO Australia's corporate head office in Perth, Western Australia and the Company's 24.5 per cent equity investment in ATCO Structures & Logistics.

Corporate & Other adjusted earnings in the fourth quarter and full year of 2016 were lower when compared to the same periods in 2015. Lower earnings were primarily due to dividend costs associated with Canadian Utilities' preferred share issuances in the second half of 2015 and ATCOenergy business development expenses.

REGULATORY DEVELOPMENTS

REGULATED BUSINESS MODELS

The business operations of ATCO Electric Distribution, ATCO Electric Transmission, ATCO Gas and ATCO Pipelines are regulated mainly by the AUC. The AUC administers acts and regulations covering such matters as rates, financing and service area.

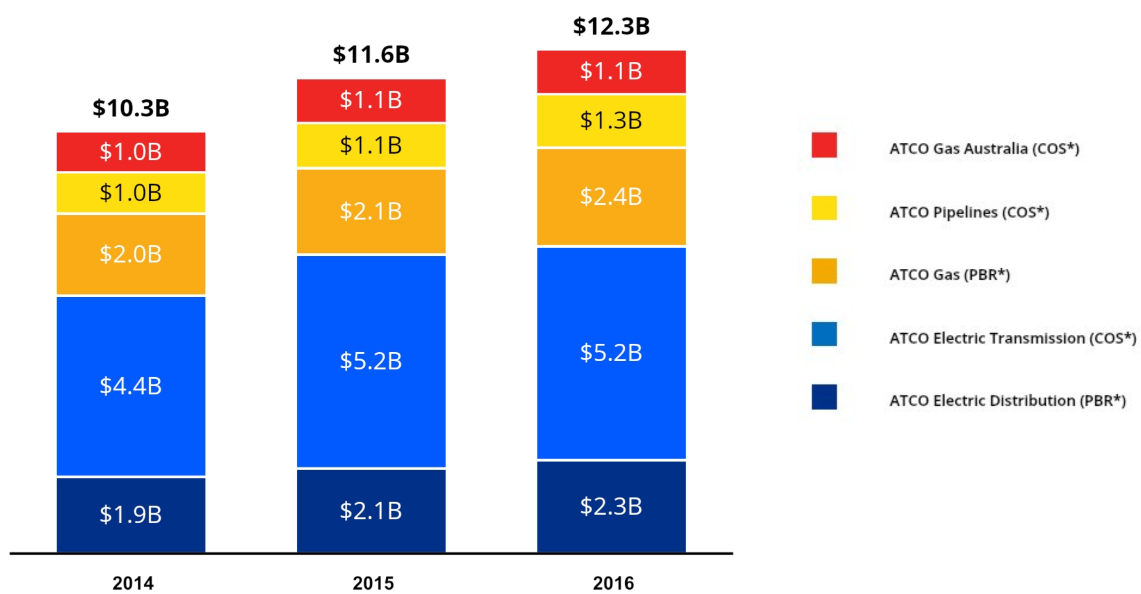
The transmission operations of ATCO Pipelines and ATCO Electric Transmission operate under a cost of service regulation. Under this model, the regulator establishes the revenues needed for a fair return on utility investment using mid-year calculations of the total investment less depreciation, otherwise known as Mid-Year Rate Base. Growth in Mid-Year Rate Base is a leading indicator of the business' earnings trend, depending on the equity ratio of the Mid-Year Rate Base and the Rate of Return on Common Equity.

The distribution operations of ATCO Gas and ATCO Electric Distribution operate under performance based regulation (PBR). Under PBR, revenue is determined by a formula that adjusts customer rates for inflation and expected 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 mainly on the formula that adjusts rates for inflation and productivity improvements.

ATCO Gas Australia is regulated mainly by the Economic Regulation Authority (ERA) of Western Australia. ATCO Gas Australia operates under cost of service regulation under which the ERA establishes the revenues for each year to recover a return on projected Mid-Year Rate Base, including income taxes, depreciation on the projected rate base, and projected operating costs. 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 limits along with several other annual adjustments.

Further discussion of these regulations is discussed in the Company's Annual Information Form in the Government Regulation section.

Regulated Utilities Mid-Year Rate Base



** COS means Cost of Service Regulation; PBR means Performance Based Regulation*

Generic Cost of Capital (GCOC)

In October 2016, the Company received the AUC 2016 GCOC decision. The decision established the return on equity (ROE) and deemed common equity ratios for the Alberta Utilities for 2016 and 2017. The approved ROE and common equity ratios for 2017 will remain in place on an interim basis for 2018 and for subsequent years until changed by the AUC. For ATCO Electric Distribution and ATCO Gas, the 2016 GCOC decision only applies to incremental capital funding and does not apply to the base PBR formula. Based on the changes to the approved ROE and common equity ratios, the net impact is expected to be an improvement to 2017 adjusted earnings for Canadian Utilities, mainly due to the increase in the approved ROE and common equity ratio for ATCO Electric Transmission.

The following table compares the ROE and deemed common equity ratios resulting from the 2013 and 2016 GCOC decisions. The information reflects the most recent amending or varying orders issued after the original decision date.

	Year	AUC Decision	Rate of Return on Common Equity (%) (1)	Common Equity Ratio (%) (2)	Mid-Year Rate Base ($ millions)
ATCO Electric Distribution	**2017**	**2016 GCOC (3)**	**8.50**	**37.0**	–
	2016	**2016 GCOC (3)**	**8.30**	**37.0**	**2,315 (6)**
	2015	2013 GCOC (4)	8.30	38.0	2,130 (7)
	2014	2013 GCOC (4)	8.30	38.0	1,949
ATCO Electric Transmission	**2017**	**2016 GCOC (3)**	**8.50 (5)**	**37.0**	–
	2016	**2016 GCOC (3)**	**8.30 (5)**	**37.0**	**5,218 (8)**
	2015	2013 GCOC (4)	8.30	36.0	5,198 (9)
	2014	2013 GCOC (4)	8.30	36.0	4,413
ATCO Gas	**2017**	**2016 GCOC (3)**	**8.50**	**37.0**	–
	2016	**2016 GCOC (3)**	**8.30**	**37.0**	**2,352 (10)**
	2015	2013 GCOC (4)	8.30	38.0	2,145 (11)
	2014	2013 GCOC (4)	8.30	38.0	1,988
ATCO Pipelines	**2017**	**2016 GCOC (3)**	**8.50**	**37.0**	–
	2016	**2016 GCOC (3)**	**8.30**	**37.0**	**1,263 (12)**
	2015	2013 GCOC (4)	8.30	37.0	1,144
	2014	2013 GCOC (4)	8.30	37.0	979

(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 GCOC decision for the periods 2016 to 2017 on October 7, 2016.

(4) The ROE and common equity ratio were based on the last AUC GCOC decision of March 23, 2015.

(5) The ROE and common equity ratio for ATCO Electric Transmission were approved on an interim basis on October 7, 2016, and were approved on a final basis on December 16, 2016.

(6) The mid-year rate base forecast for 2016 is based of the 2016-2017 Capital Tracker Compliance application filed on April 14, 2016.

(7) The mid-year rate base for 2015 is based on the Rule 005 Actuals Package filed on May 2, 2016.

(8) The mid-year rate base forecast for 2016 is based of the 2015-2017 GTA Compliance application filed on December 14, 2016.

(9) The mid-year rate base for 2015 is based on the Rule 005 Actuals Package filed on May 2, 2016.

(10) The mid-year rate base forecast for 2016 is based on the 2016 forecast included in the 2016-2017 Capital Tracker Compliance Application filed on May 12, 2016.

(11) The mid-year rate base for 2015 is based on the Rule 005 Actuals Package filed on May 16, 2016.

(12) The mid-year rate base for 2016 is from the 2017/2018 General Rate Application (GRA) filed September 22, 2016.

NEXT GENERATION OF PERFORMANCE BASED REGULATION (PBR 2)

On December 16, 2016, the AUC released its decision on the second generation of PBR plan framework for electricity and natural gas distribution utilities in Alberta. Under the 2018 to 2022 second generation PBR framework, utility rates will continue to be adjusted by a formula that estimates inflation annually and assumes productivity improvements. The framework also contains modified provisions for supplemental funding of capital expenditures that are not recovered as part of the base inflation less productivity formula. Regulatory applications to determine going-in rates will be filed by March 31, 2017. This decision does not apply to the transmission operations of ATCO Electric and ATCO Pipelines; these continue to be regulated under Cost of Service regulation.

The following table compares the key aspects of the PBR First Generation with the PBR Second Generation based on the AUC's December 16, 2016 decision.

	PBR First Generation	**PBR Second Generation**
Timeframe	2013 to 2017	2018 to 2022
Inflation Adjuster (I Factor)	Inflation indexes (AWE and CPI) adjusted annually	Unchanged
Productivity Adjuster (X Factor)	1.16%	0.30%
O&M	Based on approved 2012 forecast O&M levels; inflated by I-X thereafter over the PBR term	Based on the lowest annual actual O&M level during 2013-2016, adjusted for anomalies, inflation and growth to 2017 dollars; inflated by I-X thereafter over the PBR term
Treatment of Capital Expenditures	• Recovered through going-in rates inflated by I-X • Significant capital expenditures not fully recovered by the I-X formula and meeting certain criteria recovered through a K Factor	• Recovered through going-in rates inflated by I-X and a K Bar that is based on inflation adjusted average historical capital expenditures for the period 2013-2016 • Significant capital expenditures 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	8.75%	• 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 2018 and 2019 based on certain criteria	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	Unchanged
ROE Used for Reopener Calculation	2013 to 2016: 8.3% 2017: 8.5%	2018 approved ROE (once known) and approved rates thereafter

ATCO Electric Transmission 2015 to 2017 General Tariff Application (GTA)

In March 2015, ATCO Electric Transmission filed a general tariff application for its operations for 2015, 2016 and 2017. The application requested, among other things, additional revenues to recover higher financing, depreciation and operating costs associated with growth in rate base in Alberta. In August 2016, the AUC issued a decision on the GTA with final rates that were lower than the approved interim rates from 2015 mainly due to lower approved O&M and G&A costs. The impact of this decision was a reduction to 2016 adjusted earnings of $19 million of which $12 million relates to 2016 and $7 million relates to 2015.

PBR Capital Tracker Applications

The Capital Tracker is a mechanism included in the 2013-2017 PBR regulatory model to allow the Company to recover capital investments that meet certain criteria and are not recoverable through the base PBR formula. The decisions for the 2014 Capital Tracker true-up and the 2016-2017 Capital Tracker applications were received by ATCO Electric Distribution in March 2016 and ATCO Gas in April 2016. These decisions included approval of incremental funding for the majority of the Company's applied-for forecast Capital Tracker programs for 2016 and 2017.

ATCO Gas Australia Access Arrangement Decision

In July 2015, the Western Australia Economic Regulation Authority (ERA) released its Final Decision for ATCO Gas Australia's next Access Arrangement period (AA4) from July 2014 to December 2019. The Australian Competition Tribunal (ACT) decision resulted in a reduced utility ROE from 10.41 per cent (AA3) to 7.21 per cent (AA4).

ATCO Gas Australia lodged an Appeal Application with the ACT on October 1, 2015 seeking leave to appeal a number of key items, including, but not limited to, ROE and the recovery of operating expenses, depreciation and corporate income tax expenses. The ACT decision was received in July 2016 resulting in an increase of approximately $5 million to 2016 adjusted earnings mainly due to an improvement in the recoverability of certain expenses.

The following table compares the ROE and deemed common equity ratios resulting from the 2016 ERA Amended Final Decision.

	Year	ERA Decision	Mid-Year Rate Base ($ millions)	Rate of Return on Common Equity (%) (1)	Common Equity Ratio (%) (2)
ATCO Gas Australia	**2016**	**2016 AA4 (3)**	**1,111**	**7.21**	**40.0**
	2015	2016 AA4 (3)	1,083	7.21	40.0
	2014	2016 AA4 (3)	953	8.81	40.0

(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.

SUSTAINABILITY, CLIMATE CHANGE AND THE ENVIRONMENT

Canadian Utilities believes that reducing its environmental impact is integral to the pursuit of operational excellence and long-term sustainable growth. Canadian Utilities' success depends on its ability to operate in a responsible and sustainable manner, today and in the future.

SUSTAINABILITY REPORTING

Canadian Utilities has been publishing external sustainability reports since 2008. Reporting is based upon the internationally recognized Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, covering a broad spectrum of metrics (i.e. Environment, Health & Safety, Employees and Communities).

Priority has been placed on reporting core non-financial indicators to provide meaningful, efficient and transparent disclosures in priority areas for “customers” of our sustainability reporting (i.e. investors, business partners, customers, communities, Indigenous groups, employees, and government).

In 2016, a more detailed key topic assessment was completed to further engage groups impacted by our operations, to take steps toward alignment with evolving international guidance (GRI Sustainability Reporting Standards), and to inform the redesign of our sustainability disclosures and communication.

The 2016 Sustainability Report, expected to be released in May 2017, will be focused on key material topics including: Environmental Stewardship (climate change and energy use, and environmental compliance), Energy Stewardship (access and affordability, security and reliability, and customer satisfaction), Safety (employee health and safety, public safety, and emergency preparedness), and Community and Indigenous Relations.

CLIMATE CHANGE AND THE ENVIRONMENT

The following is an overview of environmental regulatory developments, predominantly focused on Alberta and Canada as the majority of our assets are located within these jurisdictions.

Alberta's Provincial Climate Leadership Plan

In November 2015, the Government of Alberta announced its Climate Leadership Plan, a proposed framework which includes:

1. phasing out of coal-fired generation by 2030,
2. phasing in of renewable energy,
3. an economy-wide tax on carbon emissions starting in 2017, and
4. the reduction of methane emissions.

Canadian Utilities shares the province's vision to reduce emissions and improve environmental performance. Canadian Utilities has been working closely with the Government to increase renewable power generation in the market, while maintaining the reliability of the electrical grid, protecting jobs and mitigating costs for consumers.

1. Phasing Out of Coal-fired Generation by 2030

On November 24, 2016, ATCO Power and the Government of Alberta entered into a conditional agreement for transition payments on the elimination of coal-fired emissions from the Sheerness Generating Station (Sheerness) on or before December 31, 2030. As compensation for the capital invested in Sheerness, ATCO Power will receive cash payments from the Government of $4.7 million annually for 14 years, commencing in 2017 and terminating in 2030. Sheerness units 1 and 2 were otherwise scheduled to retire in 2036 and 2040.

Thermal PPAs

On July 25, 2016, the Government of Alberta commenced legal action to determine the validity and interpretation of certain terms within the coal PPAs and related regulations. The legal action filed by the Government seeks to prevent the PPAs from being returned to the Balancing Pool. Canadian Utilities has never been a buyer of a coal PPA, and the proceeding seeks no direct relief against Canadian Utilities.

In December 2016, the Government of Alberta announced it had reached an agreement to settle the legal action against TransCanada Energy. The agreement completely removes TransCanada Energy from the court proceedings and settles the matter between the parties as well as all arbitrations with the Balancing Pool. As a result, the Sheerness units 1 and 2 PPAs have been returned to the Balancing Pool, who retains the rights and obligations under the PPAs.

A legal action remains outstanding between the Government of Alberta and Enmax for its return of certain PPAs to the Balancing Pool, including the Battle River unit 5 PPA.

Canadian Utilities continues to operate Battle River unit 5 and Sheerness units 1 and 2 under the terms of their respective PPAs. Canadian Utilities will monitor and, in its capacity as a respondent, participate in the proceeding.

2. Phasing in of Renewable Energy

As part of its Climate Leadership Plan, the Government of Alberta published a firm target that 30 per cent of electricity used in Alberta will come from renewable sources such as wind, hydro and solar by 2030. The Government will support 5,000 MW of additional renewable energy capacity. Support will be provided to projects that are based in Alberta, are new or expanded, are greater than five MW in size, and meet the definition of renewable sources as defined by Natural Resources Canada.

On November 3, 2016, the Government of Alberta appointed the AESO to administer a competitive process to procure up to 5,000 MW of renewable energy by 2030. The AESO plans to gather feedback from industry on draft commercial terms before the first auction anticipated in 2017 for delivery in 2019. Canadian Utilities continues to examine renewable opportunities that support its strategic objectives as active participants in Alberta's electricity transformation.

3. Tax on Carbon Emissions

The Government of Alberta will phase in the carbon tax across all sectors in two steps. An economy-wide carbon tax of $20 per tonne will be implemented in 2017, followed by a $30 per tonne carbon tax in 2018.

Primary impacts to Canadian Utilities from the Alberta economy-wide tax on carbon or carbon levy implemented in 2017 is to our natural gas distribution business. Canadian Utilities will calculate consumption from the meter and apply the levy to the tariff bill file for retailers to bill customers. The retailers pay Canadian Utilities and Canadian Utilities will be responsible for monthly remittance to the Government of Alberta. This is the same process Canadian Utilities carries out on behalf of the Government for collecting and remitting GST.

Regulation is under development to determine how the carbon levy will be applied to generating units with greenhouse gas emissions above a defined limit. For ATCO Power's PPA Thermal power units, Battle River unit 5 and Sheerness units 1 and 2, the PPA allows the Company to recover costs of compliance with Alberta regulations through the term of the PPA. If the costs are for operations after the PPA term, the plant owner, not the PPA counterparty, bears the burden of these costs. Longer term, we anticipate carbon costs will be largely recovered through the Alberta power market.

4. ***Reduction of Methane Emissions***

The Government of Alberta's plan is to reduce methane emissions by 45 per cent from oil and gas operations by 2025 by applying new emissions design standards to new Alberta facilities, and developing a five-year voluntary Joint Initiative on Methane Reductions and Verification.

Future provincial regulations or reduction targets for methane emissions predominantly affect the Company's fugitive or venting emissions from natural gas pipeline-related operations. Fugitive and venting emissions typically account for less than four per cent of Canadian Utilities' direct greenhouse gas emissions, and Canadian Utilities has already implemented a number of programs to improve efficiency and reduce fugitive and venting emissions.

The Company's exposure is limited for the Alberta Utilities 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.

Government of Canada Proposals on the Environment

Phasing out Coal-fired Generation

In November 2016, the Government of Canada announced electricity regulations to phase-out coal-fired electricity by December 31, 2029. Because Alberta's Climate Leadership Plan already includes a proposal to phase out coal-fired electricity by December 31, 2030, this Government of Canada plan is unlikely to materially impact Canadian Utilities.

Tax on Carbon Emissions

In October 2016, the Government of Canada passed a motion in the House of Commons to ratify the Paris Climate Change Accord. At the same time, the Government announced a requirement for some form of carbon pricing in all jurisdictions in Canada by 2018; proposing a national benchmark requirement of $10 per tonne of CO_2 by 2018, rising by $10 each year to $50 per tonne in 2022. The Government has stated that it will work with the provinces and territories to ensure that all monies raised by the carbon tax will stay in the direct control of the respective provinces and territories.

Reduction of Methane Emissions

The Government of Canada has announced a target to reduce methane to 40 per cent below 2012 levels by 2025. The Company's exposure is limited for the Alberta Utilities 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.

OTHER EXPENSES AND INCOME

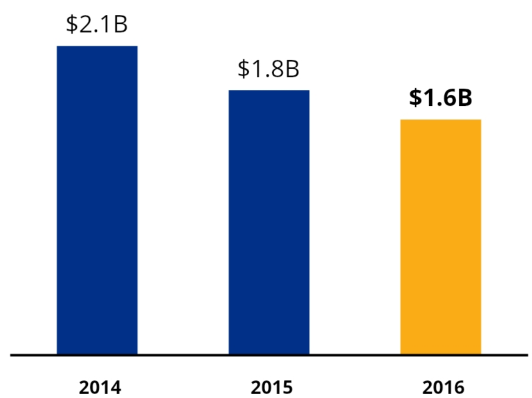
A financial summary of other consolidated expenses and income items for the quarters and years ended December 31, 2016 and 2015 is given below. These amounts are presented in accordance with IFRS accounting standards. They have not been adjusted for the timing of revenues and expenses associated with 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)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Operating costs	**426**	483	(57)	**1,557**	1,804	(247)
Service concession arrangement costs	**69**	–	69	**69**	–	69
Gain on sales of operations and revaluation of joint venture	**–**	30	(30)	**18**	30	(12)
Earnings from investment in joint ventures	**6**	(3)	9	**17**	12	5
Depreciation, amortization and impairment	**142**	261	(119)	**573**	642	(69)
Net finance costs	**98**	79	19	**382**	289	93
Income taxes	**88**	11	77	**236**	205	31

OPERATING COSTS

Operating costs, which are total costs and expenses less service concession arrangement costs and depreciation, amortization and impairment, decreased by $57 million in the fourth quarter and $247 million in the full year of 2016 when compared to the same periods in 2015. Lower operating costs are being realized in 2016 as a result of the Company's restructuring exercise in 2015, leading to ongoing business-wide cost reduction initiatives. The decrease is also due to lower fuel costs resulting from the sale and closure of certain non-core NGL and gas gathering and processing assets in ATCO Energy Solutions in late 2015 and early 2016.

Lower Operating Costs Positively Impacted 2016 Earnings



SERVICE CONCESSION ARRANGEMENT COSTS

Service concession arrangement costs increased in the fourth quarter and full year of 2016 when compared to the same periods in 2015. The increase is attributable to costs APL has recorded on the design and planning phases of the Fort McMurray 500 kV Project. The accounting for APL is discussed further in Note 14 to the 2016 Annual Financial Statements.

GAIN ON SALES OF OPERATIONS AND REVALUATION OF JOINT VENTURE

The gain on sales in 2016 was due to the sale of the ATCO Energy Solutions' Edmonton Ethane Extraction Plant in the first quarter of 2016. Higher contributions in 2015 were mainly due to the revaluation of the ATCO Power's Barking investment, and the sale of certain ATCO Energy Solutions' non-core NGL and gas gathering and processing assets.

EARNINGS FROM INVESTMENT IN JOINT VENTURES

Earnings from investment in joint ventures is mainly comprised of the Company's ownership position in several power generation plants and the Strathcona Storage Limited Partnership. Lower earnings in 2015 were primarily due to costs associated with the acquisition of an increased ownership position in Barking in the fourth quarter of 2015.

DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In the fourth quarter and full year of 2016, depreciation, amortization and impairment expense decreased by $119 million and $69 million, when compared to the same periods in 2015. The decreased expense was mainly due to impairments recorded in 2015 as a result of challenging market conditions.

NET FINANCE COSTS

Net finance costs increased in the fourth quarter and full year of 2016 when compared to the same periods in 2015. These increases were primarily due to interest costs which were previously capitalized now being recorded as interest expense, mainly resulting from the completion of the $1.8 billion Eastern Alberta Transmission Line (EATL) project during the fourth quarter of 2015. Higher interest expense is also the result of incremental debt issued to fund the Regulated Utilities' ongoing capital investment program.

INCOME TAXES

Income taxes increased in the fourth quarter and full year of 2016 when compared to the same periods in 2015, mainly due to higher earnings before taxes driven by continued capital investment and growth in rate base within the Regulated Utilities and business-wide cost reduction initiatives.

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial position is supported by Regulated Utility and long-term contracted operations. Its 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. An additional source of capital is the Class A non-voting shares the Company issues under its Dividend Reinvestment Plan (DRIP).

The Company considers 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.

In July 2016, Standard and Poor's Rating Services (S&P) affirmed its rating on the Company as "A" with a negative outlook. In August 2016, DBRS Limited (DBRS) affirmed its rating on the Company as "A" with a stable trend.

In October 2016, S&P affirmed its rating on ATCO Gas Australia's debt as "A-" with a negative outlook.

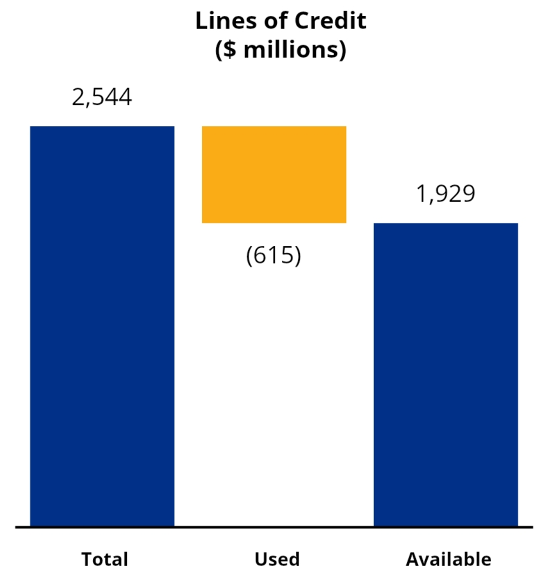
LINES OF CREDIT

At December 31, 2016, the Company and its subsidiaries had the following lines of credit.

($ millions)	**Total**	**Used**	**Available**
Long-term committed	**2,237**	479	1,758
Uncommitted	**307**	136	171
Total	**2,544**	615	1,929

Of the $2,544 million in total credit lines, $307 million was in the form of uncommitted credit facilities with no set maturity date. The other $2,237 million in credit lines were committed, with $600 million maturing in late 2018. The remaining lines of credit mature between 2019 and 2020 and may be extended at the option of the lenders.

The majority of the $615 million credit line usage was associated with ATCO Gas Australia. Long-term committed credit lines are used to satisfy all of ATCO Gas Australia's term debt financing needs. Credit lines for ATCO Gas Australia are provided by Australian banks, with the majority of all other credit lines provided by Canadian banks.

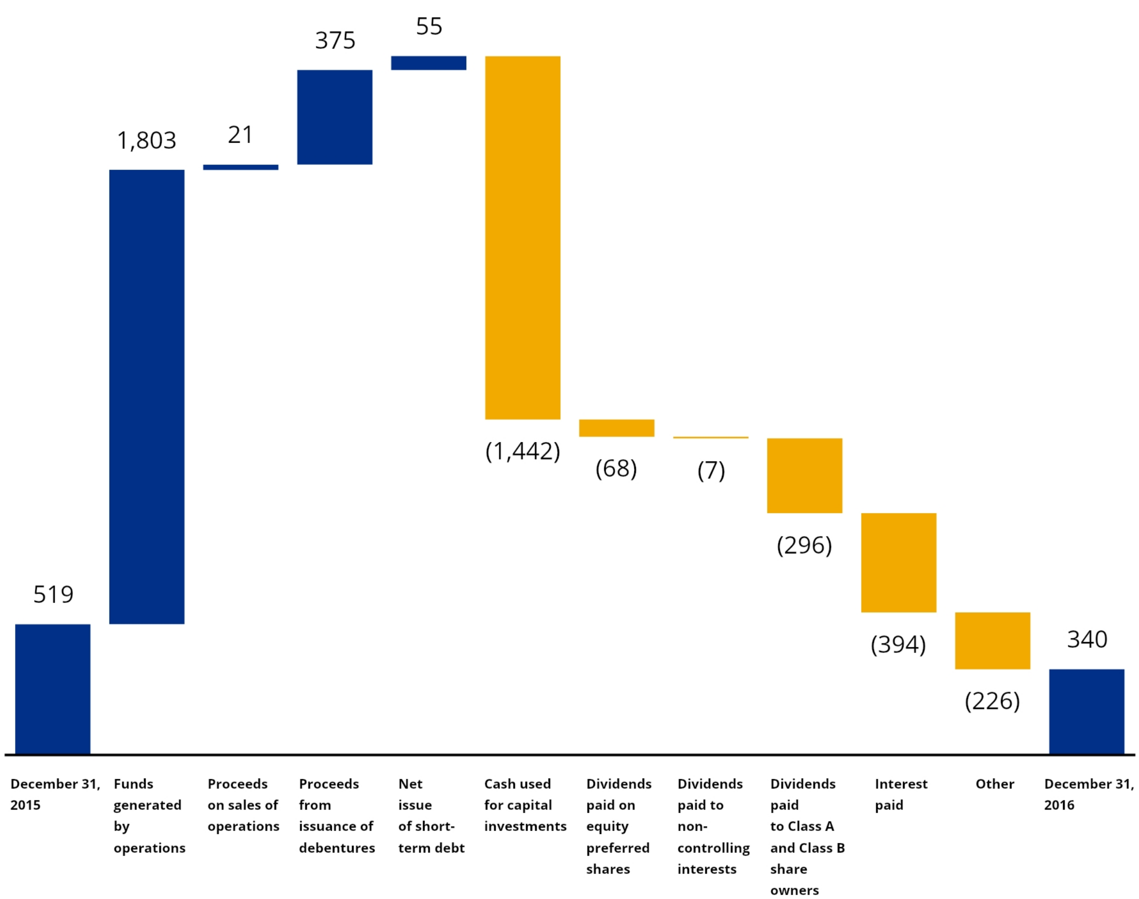


CONSOLIDATED CASH FLOW

At December 31, 2016, the Company's cash position was $340 million, a decrease of $179 million compared to 2015. Major movements are outlined in the following table.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Funds generated by operations	**586**	341	245	**1,803**	1,532	271
Proceeds on sales of operations	**–**	7	(7)	**21**	7	14
Proceeds from issuance of debentures	**375**	250	125	**375**	650	(275)
Net (repayment) issue of short-term debt	**(320)**	–	(320)	**55**	–	55
Cash used for capital investments	**(428)**	(610)	182	**(1,442)**	(1,819)	377
Issue of equity preferred shares	**–**	–	–	**–**	375	(375)
Dividends paid on equity preferred shares	**(17)**	(17)	–	**(68)**	(56)	(12)
Dividends paid to non-controlling interests	**(1)**	(2)	1	**(7)**	(8)	1
Dividends paid to Class A and Class B share owners	**(74)**	(53)	(21)	**(296)**	(213)	(83)
Interest paid	**(107)**	(100)	(7)	**(394)**	(369)	(25)
Other	**(91)**	125	(216)	**(226)**	73	(299)
(Decrease) increase in cash position	**(77)**	(59)	(18)	**(179)**	172	(351)

Changes in Consolidated Cash Flow in 2016
($ millions)



Funds generated by operations

Funds generated by operations were $586 million in the fourth quarter and $1,803 million in the full year of 2016, compared to $341 million and $1,532 million in the same periods in 2015. The increases were mainly as a result of higher earnings attributable to Class A and Class B shares driven by capital investment and rate base growth in the Regulated Utilities, and business-wide cost reduction initiatives.

Cash used for capital investments

Cash used for capital investments was $428 million in the fourth quarter and $1,442 million in the full year of 2016, compared to $610 million and $1,819 million in the same periods of 2015. Decreased investment was due to previously disclosed and planned lower capital spending in Electric Transmission year-over-year, mainly resulting from the completion of the EATL project during the fourth quarter of 2015.

Capital investment for the quarters and years ended December 31, 2016 and 2015 is shown in the table below.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Electricity						
ATCO Electric Distribution	**83**	100	(17)	**267**	355	(88)
ATCO Electric Transmission	**43**	141	(98)	**203**	471	(268)
ATCO Power (1)	**24**	23	1	**108**	85	23
Alberta PowerLine	**26**	9	17	**69**	24	45
Total Electricity	**176**	273	(97)	**647**	935	(288)
Pipelines & Liquids						
ATCO Gas	**92**	100	(8)	**336**	331	5
ATCO Pipelines	**115**	127	(12)	**252**	257	(5)
ATCO Gas Australia	**27**	23	4	**90**	80	10
Non-regulated Capital Investment (2)	**17**	82	(65)	**112**	207	(95)
Total Pipelines & Liquids	**251**	332	(81)	**790**	875	(85)
Corporate & Other	**1**	5	(4)	**5**	9	(4)
Total (3) (4)	**428**	610	(182)	**1,442**	1,819	(377)

(1) Includes ATCO Power Australia's capital expenditures in joint ventures of $6 million (2015 - nil) for the quarter and year ended December 31, 2016.

(2) Non-regulated Capital Investment includes ATCO Pipelines Mexico and ATCO Energy Solutions.

(3) Includes capital expenditures in joint ventures of $12 million and $62 million (2015 - $19 million and $51 million for the quarter and year ended December 31, 2016.

(4) Includes additions to property, plant and equipment, intangibles and $4 million and $18 million (2015 - $20 million and $97 million) of interest capitalized during construction for the quarter and year ended December 31, 2016.

Debt issuances and repayments

On November 19, 2016, CU Inc. issued $375 million of 3.763 per cent 30-year debentures. Proceeds from this issuance were used to fund significant capital investments, to repay existing indebtedness, and for other general corporate purposes of the Alberta Utilities.

Base Shelf Prospectuses

CU Inc. Debentures and Preferred Shares

On May 16, 2016, 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 March 1, 2017, aggregate issuances of debentures were $375 million.

Effective June 1, 2016, the annual dividend rate on CU Inc.'s Cumulative Redeemable Preferred Shares Series 4 was reset from 3.80 per cent to 2.24 per cent for the next five-year period.

Canadian Utilities Debt Securities and Preferred Shares

On April 12, 2016, 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

The Company has increased its common share dividend each year since 1972. In each of the last six years, the Company has increased its quarterly dividend by 10 per cent. Dividends paid to Class A and Class B share owners in the quarter and year ended December 31, 2016 totaled $74 million and $296 million. On January 12, 2017, the Board of Directors declared a first quarter dividend of 35.75 cents per share. The payment of any dividend is at the discretion of the Board of Directors and depends on the Company's financial condition and other factors.

10% increase in quarterly dividend for the sixth consecutive year

Dividend Reinvestment Plan

In the fourth quarter of 2016, the Company issued 395,544 Class A non-voting shares under its DRIP in lieu of cash dividend payments of $14 million.

During the year ended December 31, 2016 the Company issued 1,484,241 (2015 - 2,792,302) Class A non-voting shares under its DRIP in lieu of cash dividend payments of $52 million (2015 - $99 million).

SHARE CAPITAL

Canadian Utilities' equity securities consist of Class A shares and Class B shares.

At March 1, 2017, the Company had outstanding 194,290,102 Class A shares, 74,265,683 Class B shares, and options to purchase 780,850 Class A shares.

CLASS A NON-VOTING SHARES AND CLASS B COMMON SHARES

Class A and Class B share owners are entitled to share equally, on a share for share basis, in all dividends the Company declares on either of such classes of shares as well as in the Company's remaining property on dissolution. Class B share owners are entitled to vote and to exchange at any time each share held for one Class A share.

If a take-over bid is made for the Class B shares and if it would result in the offeror owning more than 50 per cent of the outstanding Class B shares (excluding any Class B shares acquired upon conversion of Class A shares), the Class A share owners are entitled, for the duration of the take-over bid, to exchange their Class A shares for Class B shares and to tender the newly exchanged for Class B shares to the take-over bid. Such right of exchange and tender is conditional on completion of the applicable take-over bid.

In addition, Class A share owners are entitled to exchange their shares for Class B shares if ATCO Ltd., the Company's controlling share owner, ceases to own or control, directly or indirectly, more than 10,000,000 of the issued and outstanding Class B shares. In either case, each Class A share is exchangeable for one Class B share, subject to changes in the exchange ratio for certain events such as a stock split or rights offering.

Of the 12,800,000 Class A shares authorized for grant of options under the Company's stock option plan, 5,360,750 Class A shares were available for issuance at December 31, 2016. Options may be granted to officers and key employees of the Company and its subsidiaries 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

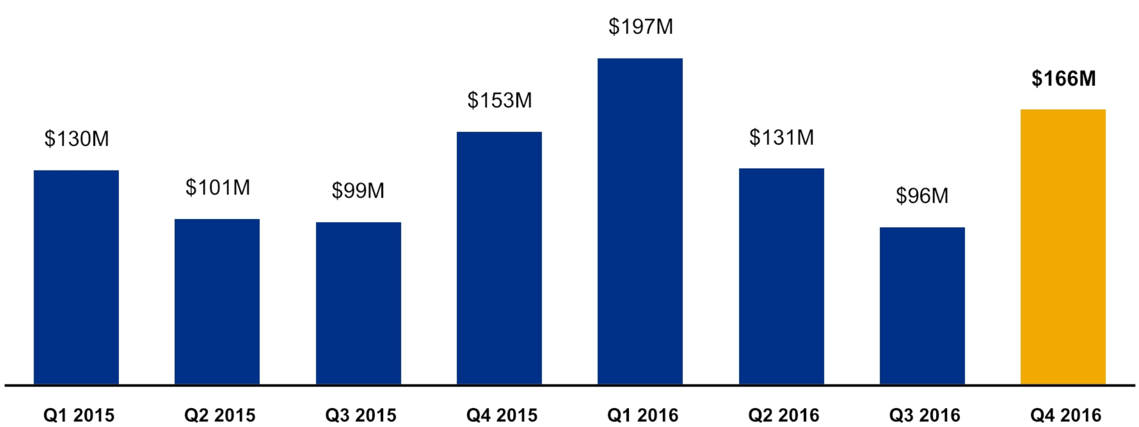
The following table shows financial information for the eight quarters ended March 31, 2015 through December 31, 2016.

($ millions except for per share data)	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Revenues	851	756	778	**1,014**
Earnings attributable to Class A and Class B shares	192	108	124	**196**
Earnings per Class A and Class B share *($)*	0.66	0.34	0.40	**0.67**
Diluted earnings per Class A and Class B share *($)*	0.65	0.34	0.40	**0.67**
Adjusted earnings				
Electricity	102	102	87	**111**
Pipelines & Liquids	105	43	26	**81**
Corporate & Other and Intersegment Eliminations	(10)	(14)	(17)	**(26)**
Total adjusted earnings	197	131	96	**166**

($ millions except for per share data)	Q1 2015	Q2 2015	Q3 2015	Q4 2015
Revenues	918	780	705	861
Earnings attributable to Class A and Class B shares	174	43	89	46
Earnings per Class A and Class B share *($)*	0.61	0.12	0.28	0.11
Diluted earnings per Class A and Class B share *($)*	0.61	0.12	0.28	0.10
Adjusted earnings				
Electricity	66	98	95	63
Pipelines & Liquids	75	13	17	84
Corporate & Other and Intersegment Eliminations	(11)	(10)	(13)	6
Total adjusted earnings	130	101	99	153

Adjusted Earnings

The financial results for the previous eight quarters reflect continued growth in the Company's Regulated Utility operations as well as fluctuating commodity prices in electricity generation and sales, and natural gas gathering, processing, storage and liquids extraction operations. In addition, 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. Financial results in 2016 are reflective of improved earnings from business-wide cost reduction initiatives.



Electricity

Adjusted earnings in the Electricity Business Unit reflect the large capital investment made by Regulated Electricity in the previous eight quarters. These investments, which earn a return under a regulated business model, drive growth in adjusted earnings. Adjusted earnings have also been affected by the timing of certain major regulatory decisions, and Alberta Power Pool pricing and spark spreads. Earnings in the first quarter of 2015 include the financial impact of the GCOC and Capital Tracker decisions in Regulated Electricity. Lower earnings in the fourth quarter of 2015 were mainly due to regulatory lag which required an update to the forecast costs as compared to prospective costs originally filed in ATCO Electric Transmission's 2015 to 2017 General Tariff Application. Higher earnings in 2016 were primarily due to continued capital investment and rate base growth and business-wide cost reduction initiatives. Lower earnings in the third quarter of 2016 were due to the financial impact of the GTA decision.

Pipelines & Liquids

Adjusted earnings in the Pipelines & Liquids Business Unit reflect the large capital investments made by Regulated Pipelines & Liquids in the previous eight quarters. These investments, which earn a return under a regulated business model, drive growth in adjusted earnings. Adjusted earnings have also been affected by the timing of certain major regulatory decisions, seasonality, and commodity prices. Earnings in the first quarter of 2015 include the financial impact of the GCOC and Capital Tracker decisions in Regulated Pipelines & Liquids. Earnings in the second quarter of 2015 reflect the impact of the Access Arrangement decision on ATCO Gas Australia, and lower frac spreads and storage fees in ATCO Energy Solutions. Higher operations and maintenance costs and lower seasonal demand in ATCO Gas are reflected in third quarter earnings of 2015. Higher earnings in the fourth quarter of 2015 and first half of 2016 were primarily attributable to continued capital investment, growth in rate base and customers, and business-wide cost reduction initiatives. Higher earnings in the fourth quarter of 2016 were mainly due to continued capital investment, growth in rate base and customers, and business-wide cost reduction initiatives.

Earnings attributable to Class A and Class B shares

Earnings attributable to Class A and Class B shares include timing adjustments related to rate-regulated activities. 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 fourth quarter of 2016, the Company adjusted the deferred tax asset which was recognized as a result of the Tula Pipeline Project impairment. The adjustment of $9 million is due to a difference between the tax base currency, which is Mexican pesos, and the U.S. dollar functional currency;
- in the first quarter of 2016, Canadian Utilities recorded a gain on sale of joint operation of $13 million for the sale of ATCO Energy Solutions' 51.3 per cent interest in the Edmonton Ethane Extraction Plant;
- in the fourth quarter of 2015, Canadian Utilities recorded $27 million for: the sale of ATCO Structures & Logistics' Emissions Management business, the sale of certain non-core natural gas gathering and processing assets, and the revaluation of the Company's Barking investment;
- in the fourth quarter of 2015, impairment charges of $103 million were recorded relating to the Battle River units 3 and 4 power generation assets, the Mexico Tula Pipeline, as well as certain gas gathering and processing facilities;
- in the fourth quarter of 2015, the Company recorded a restructuring charge of $73 million. These costs were primarily related to staff reductions and associated severance costs;
- in the third quarter of 2015, the Company recognized a restructuring charge of $5 million; and
- in the second quarter of 2015, the Company recognized a restructuring charge of $4 million and made an adjustment of $67 million to current and deferred income taxes associated with the Government of Alberta corporate income tax rate increase from 10 to 12 per cent. $63 million of this adjustment related to deferred income taxes recorded by the Alberta Utilities that were 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.

Business Risk: Capital Investment	
Businesses Impacted: • All businesses	**Associated Strategies:** • Growth Financial Strength
Description and Context	***Risk Management Approach***
The Company is subject to the normal risks associated with major capital projects, including 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 long-term contracts when possible. ATCO Gas Australia capital investment is planned and 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: Credit Risk	
Businesses Impacted: • All businesses	**Associated Strategies:** • Financial Strength
Description and Context	***Risk Management Approach***
For cash and cash equivalents and accounts receivable, credit risk represents the carrying amount on the consolidated balance sheet. Derivative, 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 these risks by dealing with large, credit-worthy counterparties with established credit-approval policies. A significant portion of loans and receivables are from the Company's operations in Alberta, except for the lease receivable for the Karratha plant in Australia. Accounts receivable credit risk is reduced by a large and diversified customer base and credit security, such as letters of credit. The Alberta Utilities are also able to recover an estimate for doubtful accounts through approved customer rates and to request recovery through customer rates for any material losses from retailers beyond the retailer security mandated by provincial regulations.

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 cyberattacks including unauthorized access of confidential information and outage of critical infrastructure.	Canadian Utilities has an enterprise wide cybersecurity program that covers all technology assets and is aligned to industry best practices. The cybersecurity program includes the utilization of layered access controls, continuous monitoring, network threat detection, and coordinated incident response through a centralized information technology response centre. The Company's cybersecurity management is consolidated under a common organizational structure to increase effectiveness and compliance across the entire enterprise.

Business Risk: Energy Commodity Price Risk	
Businesses Impacted: • ATCO Power • ATCO Energy Solutions	**Associated Strategies:** • Financial Strength
Description and Context	***Risk Management Approach***
ATCO Power earnings are affected by short-term price volatility. Changes to the power reserve margin (power supply relative to demand) and natural gas prices can result in volatility in Alberta Power Pool Prices and spark spreads. A number of key factors contribute to price volatility including electricity demand and electricity supply, primarily from Alberta's coal and wind generation. ATCO Energy Solutions' 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. All such instruments are used only to manage risk and optimize the available merchant capacity.

Business Risk: Financing Risk	
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 flow from operations and supported by appropriate levels of cash and available committed credit facilities.

Business Risk: Foreign Currency Exchange Rate	
Businesses Impacted: • Structures & Logistics • ATCO Gas Australia • ATCO Power Australia • ATCO Pipelines	**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. Revenues and expenses in functional currencies other than Canadian dollars are translated at the average monthly rates of exchange during the period. Gains or losses on translation of the assets and liabilities of foreign operations are included in the foreign currency translation adjustment account in accumulated other comprehensive income in the 2016 Annual Financial Statements. The Company manages this risk through its policy of matching revenues and expenses in the same currency. When matching is not possible, the Company utilizes foreign currency forward contracts to manage the risk.

Business Risk: Generation Equipment and Technology Risk	
Businesses Impacted: • ATCO Power • ATCO Power Australia	**Associated Strategies:** • Financial Strength • Operational Excellence
Description and Context	***Risk Management Approach***
ATCO Power and ATCO Power Australia's generating plants are exposed to operational risks which can cause outages due to issues such as boiler, turbine, and generator failures. An extended outage could negatively impact earnings and cash flows. If a generating plant does not meet availability or production targets specified in a PPA or another long-term agreement, the Company may need to compensate the purchaser for the loss of production availability.	To reduce this risk, a proactive maintenance program is regularly carried out with scheduled outages for major overhauls and other maintenance. The Company also carries property and some business interruption insurance for its power plants to protect against extended outages. PPAs are designed to provide force majeure relief for regulated plant outages beyond specified time periods and certain circumstances.

Business Risk: Interest Rate Risk	
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 recourse and non-recourse 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 non-recourse long-term debt to fixed rate debt through interest rate swap agreements. At December 31, 2016, the Company had fixed interest rates, either directly or through interest rate swap agreements, on 100 per cent (2015 - 99 per cent) of total long-term debt and non-recourse 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: Pipeline Integrity	
Businesses Impacted: • ATCO Gas • ATCO Gas Australia • ATCO Pipelines	**Associated Strategies:** • Operational Excellence • Community Involvement
Description and Context	***Risk Management Approach***
ATCO Gas, ATCO Pipelines and ATCO Gas Australia have 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 ATCO Gas' and ATCO Pipelines' UPR programs and ATCO Gas' and ATCO Gas Australia's mains replacement programs. The Company also carries property and liability insurance.

<table>
<tr><td colspan="2">Business Risk: Regulated Operations</td></tr>
<tr><td>Businesses Impacted:
• ATCO Electric Distribution
• ATCO Electric Transmission
• ATCO Gas Australia
• ATCO Gas
• ATCO Pipelines</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. ATCO Electric Distribution and ATCO Gas operate under a performance based regulation (PBR). Under PBR, utility revenues are formula driven, which raises the uncertainty of cost recovery.</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>

Business Risk: Liquidity Risk	
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 flow 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 has a policy not to invest any of its cash balances in asset-backed securities. At December 31, 2016, the Company's cash position was $340 million and there were available committed and uncommitted lines of credit of approximately $1.9 billion which can be utilized for general corporate purposes.

Liquidity Risk (discussed in the Business Risks and Risk Management table above) 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)	2017	2018	2019	2020	2021	2022 and thereafter
Financial Liabilities						
Bank indebtedness	5					
Accounts payable and accrued liabilities	605	–	–	–	–	–
Short-term debt	55	–	–	–	–	–
Long-term debt:						
Principal	155	8	1,142	162	160	6,635
Interest expense (1)	392	384	367	328	310	6,336
Non-recourse long-term debt:						
Principal	14	15	15	14	11	30
Interest expense	7	6	5	4	3	4
Derivatives (2)	2	4	5	5	–	–
	1,235	417	1,534	513	484	13,005
Commitments						
Operating leases	26	28	14	13	12	14
Purchase obligations:						
Coal purchase contracts	64	67	70	72	75	145
Operating and maintenance agreements	289	286	250	104	101	326
Capital expenditures	590	557	118	–	–	–
Other	8	–	–	–	–	–
	977	938	452	189	188	485
Total	2,212	1,355	1,986	702	672	13,490

(1) Interest payments on floating rate debt have been estimated using rates in effect at December 31, 2016. 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, 2016.

NON-GAAP AND ADDITIONAL GAAP MEASURES

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.

Adjusted earnings are defined as earnings attributable to Class A and Class B shares after adjusting for the timing of revenues and expenses associated with rate-regulated activities and dividends on equity preferred shares of the Company. 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 A and Class B shares is presented in this MD&A. Adjusted earnings is an additional GAAP measure presented in Note 3 of the 2016 Annual Financial Statements.

Capital investments is defined as cash used for capital expenditures and service concession arrangements. Capital expenditures include additions to property, plant and equipment, intangibles and the Company's proportional share of capital expenditures in joint ventures, as well as interest capitalized during construction. In management's opinion, capital investment reflects the Company's total cash investment in assets.

RECONCILIATION OF ADJUSTED EARNINGS TO EARNINGS ATTRIBUTABLE TO CLASS A AND CLASS B SHARES

Adjusted earnings are earnings attributable to the Class A and Class B shares after adjusting for the timing of revenues and expenses associated with rate-regulated activities and dividends on equity preferred shares of the Company. 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**
2016 **2015**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**551**	**454**	**38**	**(29)**	**1,014**
	464	412	17	(32)	861
Adjusted earnings	**111**	**81**	**(26)**	**–**	**166**
	63	84	5	1	153
Gain on sales of operations and revaluation of joint venture	**–**	**–**	**–**	**–**	**–**
	19	4	4	–	27
Restructuring costs	**–**	**–**	**–**	**–**	**–**
	(25)	(34)	(14)	–	(73)
Impairment	**–**	**(9)**	**–**	**–**	**(9)**
	(26)	(66)	(11)	–	(103)
Rate-regulated activities	**5**	**15**	**–**	**2**	**22**
	33	(9)	–	1	25
Dividends on equity preferred shares of Canadian Utilities Limited	**1**	**–**	**16**	**–**	**17**
	1	–	16	–	17
Earnings attributable to Class A and Class B shares	**117**	**87**	**(10)**	**2**	**196**
	65	(21)	–	2	46

($ millions) 2016 2015	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Year Ended December 31 Consolidated
Revenues	**1,877**	**1,496**	**109**	**(83)**	**3,399**
	1,771	1,525	49	(81)	3,264
Adjusted earnings	**402**	**255**	**(69)**	**2**	**590**
	322	189	(29)	1	483
Gain on sales of operations and	**–**	**13**	**–**	**–**	**13**
revaluation of joint venture	19	4	4	–	27
Restructuring costs	**–**	**–**	**–**	**–**	**–**
	(32)	(36)	(14)	–	(82)
Impairments	**–**	**(9)**	**–**	**–**	**(9)**
	(26)	(66)	(15)	–	(107)
Rate-regulated activities	**(8)**	**(41)**	**–**	**7**	**(42)**
	(10)	(18)	–	3	(25)
Dividends on equity preferred shares	**3**	**1**	**64**	**–**	**68**
of Canadian Utilities Limited	3	1	52	–	56
Earnings attributable to Class A	**397**	**219**	**(5)**	**9**	**620**
and Class B shares	276	74	(2)	4	352

GAIN ON SALE OF OPERATIONS AND REVALUATION OF JOINT VENTURE

Electricity

In 2015, the Company increased its ownership in Thames Power Limited (TPL) from 50 per cent to 100 per cent. TPL owns a 51 per cent interest in Barking Power Limited. Cash consideration for the purchase was $25 million. This acquisition resulted in a revaluation gain of $19 million on the existing ownership interest in the Barking land. This transaction was performed to strategically position ATCO Power for future opportunities in the UK market, including the potential repowering of the existing Barking site if economically feasible in future years.

Pipelines & Liquids

In 2016, as a result of an ongoing review of economic conditions and prospects, the Company sold its 51.3 per cent interest in the Edmonton Ethane Extraction Plant. Proceeds from the sale totaled $21 million, resulting in a one-time gain of $13 million. The proceeds will be deployed for continued capital growth in industrial water infrastructure and hydrocarbon storage in Alberta's Industrial Heartland region.

In 2015, the Company sold certain non-core natural gas gathering and processing assets for proceeds of $7 million cash, resulting in a gain of $4 million.

RESTRUCTURING COSTS

In 2015, the Company recorded restructuring costs of $82 million. These costs were primarily related to staff reductions and associated severance costs as well as the restructuring of a fuel supply contract in ATCO Power. These costs were incurred in order to maintain the Company's competitive position while continuing with safe and reliable service for our customers.

IMPAIRMENTS

Electricity

In 2015, the Company recorded impairment charges of $26 million relating to the Battle River units 3 and 4 power generation assets. The Company determined that the net book value of these assets were not recoverable for accounting purposes due to new emissions performance standards and new carbon pricing announced in 2015 to phase out coal-fired electricity, which impacts emissions costs, and due to ongoing soft market conditions in the Alberta power market.

Pipelines & Liquids

In 2016, the Company adjusted the deferred tax asset which was recognized as a result of the Tula Pipeline Project impairment. The adjustment of $9 million is due to a difference between the tax base currency, which is Mexican pesos, and the U.S. dollar functional currency.

In 2015, the Company recorded an impairment of $59 million relating to the Mexico Tula Pipeline Project. The Company determined these construction work in progress assets were impaired as a result of significantly higher land access costs than originally forecast.

In 2015, the Company recorded impairment charges of $7 million relating to certain gas processing facilities. The Company determined that the carrying value of these assets exceeded the recoverable amounts due to a significant and prolonged decline in commodity prices which reduced future cash flow forecasts.

Corporate & Other

In 2015, the Company recorded impairment charges of $15 million relating to Structures & Logistics' open lodge assets and workforce housing assets in North America and Australia. This charge was as a result of a sustained reduction in contracted rooms and rates and reduced utilizations and rental rates charged as a result of ongoing low commodity prices and reduced capital expenditure programs of key clients.

RATE-REGULATED ACTIVITIES

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.

As a result, the Company uses standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of generally accepted accounting principles (GAAP) to account for rate-regulated activities in its internal reporting provided to the Chief Operating Decision Maker (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 regulators' decisions on revenues.

Earnings adjustments to reflect rate-regulated accounting are shown in the following table.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Additional revenues billed in current period						
Future removal and site restoration costs [1]	**9**	8	1	**60**	35	25
Finance costs on major transmission capital projects	**–**	13	(13)	**–**	62	(62)
Revenues to be billed in future periods						
Deferred income taxes [3]	**(20)**	(21)	1	**(90)**	(162)	72
Impact of temperatures on revenues [4]	**–**	(8)	8	**(28)**	(20)	(8)
Impact of inflation on rate base [5]	**(1)**	(2)	1	**(10)**	(11)	1
Regulatory decisions received	**4**	7	(3)	**13**	86	(73)
Settlement of regulatory decisions and other items	**30**	28	2	**13**	(15)	28
	22	25	(3)	**(42)**	(25)	(17)

(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) Finance costs incurred by ATCO Electric during construction of major transmission capital projects are billed to customers when incurred.

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

(4) ATCO Gas' 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.

(5) The inflation-indexed portion of ATCO Gas Australia's 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.

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, finance costs on major transmission capital projects 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, transmission access payments, transmission capital deferral, impact of warmer temperatures and impact of inflation on rate base for ATCO Gas Australia.	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	For further details on regulatory decisions that caused a timing adjustment financial impact, refer to the Regulatory Developments section in this MD&A as well as the Segmented Information presented in Note 3 of the 2016 Annual Financial Statements.	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.

For further details on additional revenues billed in the current period, revenues to be billed in future periods, and settlement of regulatory decisions and other items, refer to the Segmented Information presented in Note 3 of the 2016 Annual Financial Statements.

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)

2016 **2015**	**Three Months Ended December 31**	**Year Ended December 31**
Funds generated by operations	**586**	**1,803**
	341	1,532
Changes in non-cash working capital (1)	**(49)**	**(104)**
	45	84
Change in receivable under service concession arrangement (2)	**(77)**	**(77)**
	–	–
Cash flows from operating activities	**460**	**1,622**
	386	1,616

(1) Refer to Note 23 of the 2016 Annual Financial Statements for detailed descriptions of the adjustments.

(2) Refer to Note 14 of the 2016 Annual Financial Statements for a detailed description of the adjustment.

OTHER FINANCIAL INFORMATION

OFF-BALANCE SHEET ARRANGEMENTS

Canadian Utilities 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 can be 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 27 of the 2016 Annual Consolidated Financial Statements, which are prepared in accordance with IFRS. Management makes estimates and judgments 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 estimates and judgments 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

Certain new or amended standards or interpretations issued by the International Accounting Standards Board (IASB) or IFRS Interpretations Committee (IFRIC) do not have to be adopted in the current period.

The standards issued, but not yet effective, which the Company anticipates may have a material effect on the consolidated financial statements are described below:

- IFRS 15 Revenue from Contracts with Customers - this standard replaces IAS 18 *Revenue* and related interpretations and is effective on or after January 1, 2018. It provides a framework to determine when to recognize revenue and at what amount. It applies to new contracts created on or after the effective date and to existing contracts not yet completed as of the effective date. The Company is party to numerous contracts with customers that will be impacted by the new standard. Under IFRS 15, the timing of revenue recognition for certain contracts may be significantly impacted by the new revenue recognition model and transitional adjustments are currently being reviewed. The Company will not early adopt the standard.
- IFRS 16 Leases - this standard replaces IAS 17 *Leases* and related interpretations and is effective on or after January 1, 2019. It requires a lessee to recognize assets and liabilities on the balance sheet for the rights and obligations created by leases. Lessor accounting remains substantially unchanged. The Company is currently assessing the impact and will not early adopt the standard.

There are no other standards or interpretations issued, but not yet effective, that the Company anticipates may have a material effect on the consolidated financial statements once adopted.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of December 31, 2016, 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, 2016.

Internal Control Over Financial Reporting

As of December 31, 2016, 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, 2016.

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on January 1, 2016, and ended on December 31, 2016, 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

Canadian Utilities has published its audited consolidated financial statements and its MD&A for the year ended December 31, 2016. Copies of these documents may be obtained upon request from Investor Relations at 1500, 909 -11th Avenue S.W., Calgary, Alberta, T2R 1N6, 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 ATCO Electric Distribution, ATCO Electric Transmission, ATCO Gas and 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.

Class A shares means Class A non-voting shares of the Company.

Class B shares means Class B common shares of the Company.

CODM means Chief Operating Decision Maker, and is comprised of the Chair, President and Chief Executive Officer, and five other senior executives.

Company means Canadian Utilities Limited and, unless the context otherwise requires, includes its subsidiaries.

DRIP means the dividend reinvestment plan (refer to the "Dividend Reinvestment Plan" section).

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

ERA means the Economic Regulatory Authority (Western Australia).

Facilitator means Mr. Terry Boston, who was appointed as the Coal Phase-Out Facilitator to help navigate the province's transition from coal to cleaner sources of power.

Frac spread means the premium or discount between the purchase price of natural gas and the selling price of extracted natural gas liquids on a heat content equivalent basis.

GAAP means Canadian generally accepted accounting principles.

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

IFRS means International Financial Reporting Standards.

Km means kilometre.

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 power over a one-hour period.

NGL means natural gas liquids, such as ethane, propane, butane and pentanes plus, that are extracted from natural gas and sold as distinct products or as a mix.

PBR means Performance Based Regulation.

PPA means Power Purchase Arrangements that became effective on January 1, 2001, as part of the process of restructuring the electric utility business in Alberta. PPA are legislatively mandated and approved by the AUC.

Regulated Utilities means ATCO Electric Distribution, ATCO Electric Transmission, ATCO Gas, ATCO Pipelines and ATCO Gas Australia.

Spark spread is the difference between the selling price of electricity and the marginal cost of producing electricity from natural gas. In this MD&A, spark spreads are based on an approximate industry heat rate of 7.5 GJ per MWh.

U.K. means United Kingdom.

U.S. means United States of America.

APPENDIX 1
FOURTH QUARTER FINANCIAL INFORMATION

Financial information for the three months ended December 31, 2016 and 2015 is shown below.

CONSOLIDATED STATEMENT OF EARNINGS

	Three Months Ended December 31	
(millions of Canadian Dollars except per share data)	**2016**	**2015**
Revenues	**1,014**	861
Costs and expenses		
Salaries, wages and benefits	**(117)**	(152)
Energy transmission and transportation	**(51)**	(47)
Plant and equipment maintenance	**(75)**	(94)
Fuel costs	**(36)**	(50)
Purchased power	**(25)**	(21)
Service concession arrangement costs	**(69)**	–
Materials and consumables	–	(2)
Depreciation and amortization	**(142)**	(261)
Franchise fees	**(60)**	(51)
Property and other taxes	**(22)**	(18)
Other	**(40)**	(48)
	(637)	(744)
Gain on sales of operations and revaluation of joint venture	–	30
Earnings (loss) from investment in ATCO Structures & Logistics	**2**	(6)
Earnings from investment in joint ventures	**6**	(3)
Operating profit	**385**	138
Interest income	**4**	3
Interest expense	**(102)**	(82)
Net finance costs	**(98)**	(79)
Earnings before income taxes	**287**	59
Income taxes	**(88)**	(11)
Earnings for the period	**199**	48
Earnings attributable to:		
Class A and Class B shares	**196**	46
Non-controlling interests	**3**	2
	199	48
Earnings per Class A and Class B share	**$0.67**	$0.11
Diluted earnings per Class A and Class B share	**$0.67**	$0.10

CONSOLIDATED STATEMENT OF CASH FLOWS

(millions of Canadian Dollars)	Three Months Ended December 31 2016	2015
Operating activities		
Earnings for the period	**199**	48
Adjustments to reconcile earnings to cash flows from operating activities	**387**	293
Changes in non-cash working capital	**(49)**	45
Change in receivable under service concession arrangement	**(77)**	–
Cash flows from operating activities	**460**	386
Investing activities		
Additions to property, plant and equipment	**(306)**	(481)
Proceeds on disposal of property, plant and equipment	**1**	–
Additions to intangibles	**(37)**	(90)
Acquisition of Thames Power Limited	**–**	(25)
Proceeds on sales of operations	**–**	7
Investment in joint ventures	**(8)**	(8)
Changes in non-cash working capital	**(37)**	84
Other	**1**	(14)
Cash flows used in investing activities	**(386)**	(527)
Financing activities		
Net repayment of short-term debt	**(320)**	–
Issue of long-term debt	**375**	250
Repayment of long-term debt	**(3)**	(2)
Repayment of non-recourse long-term debt	**(5)**	(5)
Issue of Class A shares	**1**	3
Issue of shares by subsidiary company to non-controlling interests	**11**	–
Dividends paid on equity preferred shares	**(17)**	(17)
Dividends paid to non-controlling interests	**(1)**	(2)
Dividends paid to Class A and Class B share owners	**(74)**	(53)
Interest paid	**(107)**	(100)
Other	**(8)**	1
Cash flows (used in) from financing activities	**(148)**	75
Decrease in cash position	**(74)**	(66)
Foreign currency translation	**(3)**	7
Beginning of period	**417**	578
End of period	**340**	519