ATCO LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2011

ATCO Ltd.
Management's Discussion and Analysis (MD&A)
For the Year Ended December 31, 2011

This MD&A should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended December 31, 2011 (2011 Annual Financial Statements). This MD&A is dated February 21, 2012. Additional information relating to the Corporation, including the Corporation's annual information form, is available on SEDAR at www.sedar.com.

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

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Company Overview

Alberta-based ATCO Group, with more than 8,800 employees and assets of approximately $12 billion, delivers service excellence and innovative business solutions worldwide with leading companies engaged in structures & logistics (manufacturing, logistics and noise abatement), utilities (pipelines, natural gas and electricity transmission and distribution), energy (power generation, natural gas gathering, processing, storage and liquids extraction) and technologies (business systems solutions).

The consolidated financial statements include the accounts of ATCO Ltd. and all of its subsidiaries. The principal subsidiaries are Canadian Utilities Limited (Canadian Utilities), of which ATCO Ltd. owns 52.7% (39.1% of the Class A non-voting shares and 82.1% of the Class B common shares) and ATCO Structures & Logistics, of which ATCO Ltd. owns 75.5% of the Class A non-voting shares and Class B common shares. The consolidated financial statements have been prepared in accordance with IFRS and the reporting currency is the Canadian dollar.

Segments

The Corporation operates in the following business segments:

The **Structures & Logistics** segment includes the following activities provided by ATCO Structures & Logistics:

- the manufacture, sale and lease of transportable workforce housing and space rentals products (Modular Structures division);
- the provision of lodging and support services to the resource sector (Lodging & Support Services division);
- the rapid mobilization and provision of facilities operations and maintenance services for customers in the resource, defence and telecommunications sectors (Logistics and Facility O&M Services division);
- the design, supply and construction of noise abatement for industrial facilities (Noise and Emission Control Systems division); and
- the design, manufacture and construction of permanent infrastructure solutions (Urban Space and Industrial Construction division).

The **Utilities** segment includes:

- the regulated distribution of natural gas by ATCO Gas;
- the regulated transmission of natural gas by ATCO Pipelines; and
- the regulated distribution and transmission of electric energy by ATCO Electric and its subsidiaries, Northland Utilities (NWT), Northland Utilities (Yellowknife) and Yukon Electrical.

The **Energy** segment includes:

- the non-regulated supply of electricity and cogeneration steam by ATCO Power;
- the regulated supply of electricity by ATCO Power; and
- the non-regulated natural gas gathering, processing, storage and natural gas liquids extraction by ATCO Midstream.

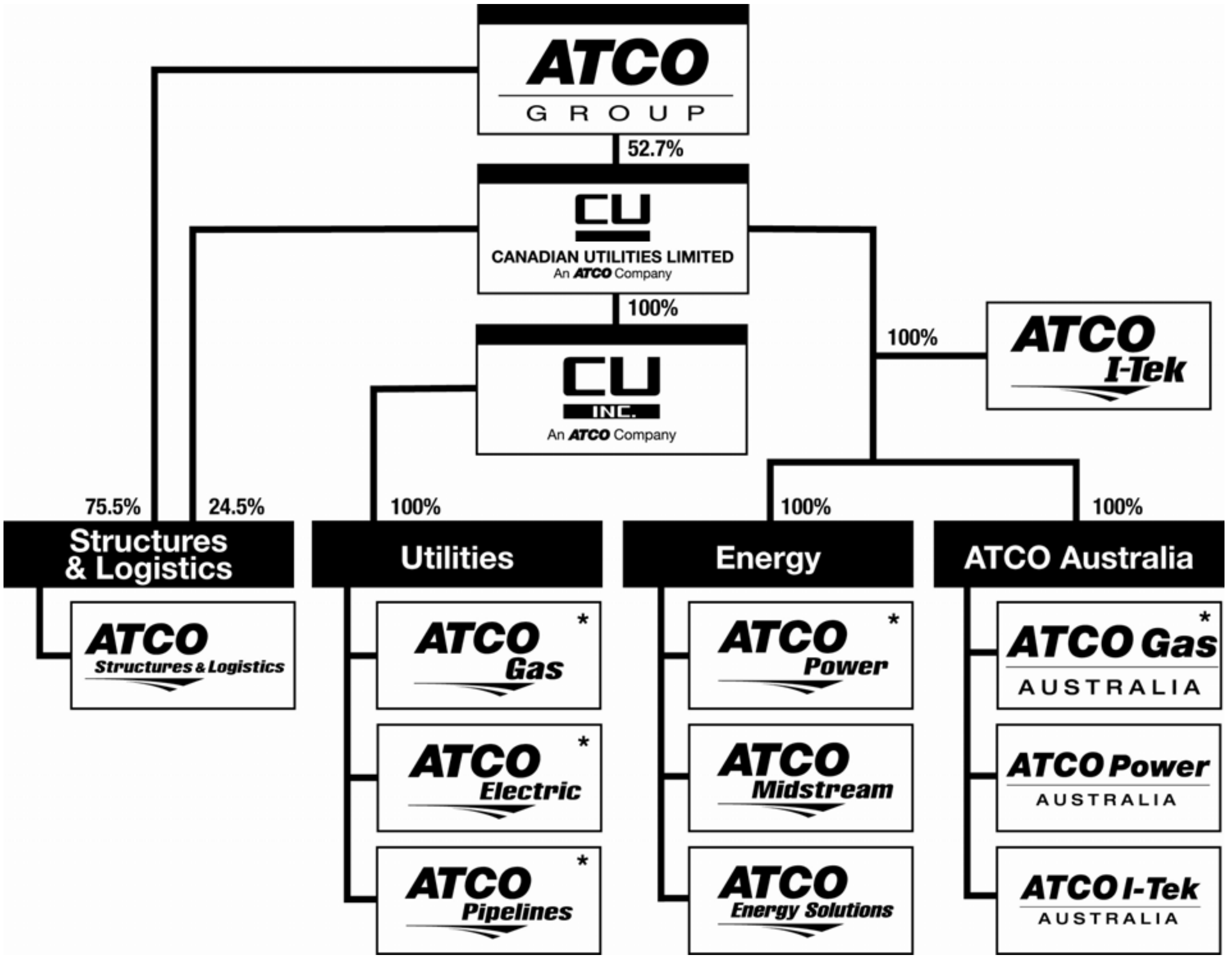
The **ATCO Australia** segment includes:

- the regulated distribution of natural gas by ATCO Gas Australia;
- the non-regulated supply of electricity and cogeneration steam by ATCO Power Australia; and
- the non-regulated provision of information technology services by ATCO I-Tek Australia.

The **Corporate & Other** segment includes:

- the development, operation and support of information systems and technologies, and the provision of billing services, payment processing, credit, collection and call centre services by ATCO I-Tek; and
- short term investments and commercial real estate owned in Alberta.

Simplified Organizational Structure



* *Regulated operations include ATCO Gas, ATCO Electric, ATCO Pipelines, ATCO Gas Australia and the Battle River and Sheerness generating plants of ATCO Power.*

International Financial Reporting Standards

The Corporation has adopted IFRS as the basis of financial reporting commencing with the interim financial statements for the three months ended March 31, 2011. The transition date from Canadian GAAP to IFRS was January 1, 2010 (Transition Date), and comparative data for 2010 has been restated in accordance with IFRS.

The adoption of IFRS has affected the Corporation's financial position and operating results in two significant ways: (1) the Corporation no longer recognizes regulatory assets and liabilities associated with its rate regulated activities, thereby resulting in increased volatility of earnings under IFRS, and (2) the carrying value of certain property, plant and equipment was reduced, and the unamortized gains and losses associated with the Corporation's retirement benefit plans were transferred to retained earnings, thereby resulting in improved earnings in subsequent periods. These two significant effects are further described below.

Accounting for Rate Regulated Activities

Prior to the adoption of IFRS, the Corporation used accounting principles generally accepted in Canada to recognize and measure assets and liabilities arising from rate regulation on its balance sheet. Because there is currently no specific guidance under IFRS for rate regulated entities, the Corporation does not recognize regulatory assets and liabilities under IFRS. At the Transition Date, all assets and liabilities arising from rate regulation were charged to retained earnings. The Corporation has disclosed the impacts of rate regulation as an Adjusted Earnings item in this MD&A (see Importance of Adjusted Earnings section) and in Note 6, Segmented Information, to the 2011 Annual Financial Statements.

Property, Plant and Equipment and Retirement Benefit Plans

On transition to IFRS, the Corporation reduced the carrying value of certain property, plant and equipment, mainly power generation assets, to fair value as permitted by IFRS. A revaluation of these assets was not required under Canadian GAAP. The reduction to property, plant and equipment amounted to $189 million. Consequently, under IFRS, depreciation and amortization expense decreased by $2 million and $10 million for the three months and the year ended December 31, 2010, respectively, as compared to Canadian GAAP.

At the Transition Date, rather than continue to amortize the cumulative unamortized gains and losses associated with the Corporation's defined benefit pension plans and other post employment benefit plans to earnings, the Corporation elected to charge all cumulative unamortized gains and losses to retained earnings. Because cumulative unamortized losses exceeded unamortized gains at the Transition Date, subsequent earnings will be improved. On transition to IFRS, $58 million was charged to retained earnings. Under IFRS, retirement benefits expense decreased by $1 million and $12 million for the three months and year ended December 31, 2010, respectively, as compared to Canadian GAAP. Furthermore, under IFRS, the Corporation will record all actuarial gains and losses associated with pension plan assets and retirement benefit obligations in other comprehensive income as permitted by IFRS. These gains and losses will not be recorded in earnings but will be transferred directly to retained earnings.

Other

The transition to IFRS involved a number of other adjustments that did not have a significant effect on the financial position or future earnings of the Corporation. A number of the exemptions taken on transition to IFRS resulted in adjustments being recorded in retained earnings. The adjustments reduced retained earnings by $20 million. This reduction in retained earnings does not affect the Corporation's ability to pay dividends. A full description of these items is provided in Note 4 to the 2011 Annual Financial Statements.

Results of Operations

FOURTH QUARTER HIGHLIGHTS

The following highlights have occurred since the third quarter MD&A dated October 27, 2011. These events are discussed in more detail throughout this MD&A:

- Adjusted Earnings for the quarter ended December 31, 2011, were $83 million compared to $80 million in the corresponding period in 2010, an increase of $3 million (4%).
- The increase in fourth quarter Adjusted Earnings was led by strong performance in the ATCO Structures & Logistics segment.

- Adjusted Earnings were higher mainly due to increased manufacturing and rental fleet activity in the Structures & Logistics segment and higher Alberta Power Pool prices and related Spark Spreads in ATCO Power. These increases were partially offset by lower Storage Price Differentials in ATCO Midstream and the impact in the Utilities of the two AUC decisions described below.
- On December 5, 2011, the AUC issued a decision on ATCO Gas' 2011 and 2012 general rate application approving, among other things, increased revenues to recover increased financing, depreciation, and operating costs associated with increased rate base in Alberta. The AUC also disallowed certain operating and maintenance programs and excluded certain capital expenditures from rate base resulting in a decrease to Adjusted Earnings of $5 million, after non-controlling interests.
- On December 8, 2011, the AUC released the 2011 Generic Cost of Capital Decision, which established a generic return on equity for the Utilities of 8.75% for 2011 and 2012, a reduction of 0.25% from the previous return on equity of 9%. For 2011, all of the Utilities common equity ratios remained unchanged, with the exception of ATCO Electric's transmission operations which increased by 1% to 37%. This decision decreased Adjusted Earnings by $3 million, after non-controlling interests.
- On January 12, 2012, the Board of Directors declared a first quarter dividend of $0.3275 per share, a 15% increase over the $0.285 per share paid in each of the previous four quarters. The Corporation has increased its annual common share dividend each year since 1993.
- In December 2011, ATCO Gas Australia refinanced AUD $250 million of debt, extending its maturity from 2012 to 2015. Since the acquisition in July 2011, both Standard & Poors (S&P) and Moody's revised their ratings outlook for ATCO Gas Australia from 'negative' to 'stable', and S&P increased its rating from BBB- to BBB.

SELECTED QUARTERLY INFORMATION

The following table shows the quarterly financial information for each of the eight quarters ended March 31, 2010 through December 31, 2011.

	For the Three Months Ended (1) (2) (7)			
($ millions except per share data)	**Mar. 31**	**Jun. 30**	**Sep. 30**	**Dec. 31**
2011 (3) (4) (IFRS)				
Revenues	1,021	882	958	1,130
Earnings attributable to Class I and Class II Shares	109	62	54	102
Earnings per Class I and Class II Share	1.89	1.07	0.93	1.76
Diluted earnings per Class I and Class II Share	1.89	1.07	0.92	1.76
Adjusted Earnings (6)	108	61	78	83
2010 (5) (IFRS)				
Revenues	908	851	772	955
Earnings attributable to Class I and Class II Shares	90	59	60	72
Earnings per Class I and Class II Share	1.54	1.02	1.02	1.25
Diluted earnings per Class I and Class II Share	1.53	1.02	1.02	1.25
Adjusted Earnings (6)	94	59	63	80

(1) *There were no discontinued operations or extraordinary items during these periods.*

(2) *Due to certain factors, revenues, earnings and Adjusted Earnings for any quarter are not necessarily indicative of operations on an annual basis. These factors include the seasonal nature of the Corporation's operations, changes in electricity prices in Alberta and the U.K., the timing and demand of natural gas storage capacity sold, changes in natural gas storage fees, changes in NGL prices and natural gas costs, the timing of rate*

decisions and changes in market conditions impacting ATCO Structures & Logistics' workforce housing and space rentals operations.

(3) *Quarterly information for the first, second and third quarters of 2011 has been extracted from the interim consolidated financial statements, which have been prepared in accordance with IFRS.*

(4) *Refer to Appendix 1 for quarterly information for the fourth quarter of 2011, which has been prepared in accordance with IFRS.*

(5) *Quarterly information for 2010 has been restated in accordance with IFRS.*

(6) *Refer to the Importance of Adjusted Earnings section for a reconciliation of Adjusted Earnings to Earnings Attributable to Class I and Class II Shares.*

(7) *The reporting currency is the Canadian dollar.*

The results and financial condition for the previous eight quarters have been significantly influenced by continued organic growth and fluctuating commodity prices, as well as the acquisition of WA Gas Networks in Western Australia on July 29, 2011 (WAGN Acquisition). In addition, interim results will fluctuate due to the seasonal nature of natural gas and electricity demand, as well as the timing of regulatory decisions.

The organic growth has come primarily from continued investment in rate base in the Utilities segment driven mainly by electricity transmission projects in Alberta. In addition, ATCO Structures & Logistics has experienced an increase in demand through the eight quarters in the Modular Structures division due to heightened activity in the natural resource sector, which more than offset the reduced activity in the Logistics & Facility O&M Services division due to the completion of the infrastructure and support services contract in Afghanistan in March 2011.

The Energy segment's results vary with commodity prices. High Power Pool prices and related Spark Spreads in the first, third and fourth quarters of 2011 contributed to increased earnings in 2011 for ATCO Power and more than offset reduced earnings resulting from the expiry of the U.K. Barking revenue contract on September 30, 2010. In addition, Storage Price Differentials have trended downwards for the prior eight quarters, which negatively impacted the earnings for ATCO Midstream.

In 2010, ATCO Gas received two decisions related to the Carbon Facility (Carbon Decisions). ATCO Gas recorded increased Adjusted Earnings of $6 million and $7 million, after non-controlling interests, in the first and third quarters of 2010, respectively.

In 2011, ATCO Electric received an AUC decision on its 2011 and 2012 General Tariff Application. The AUC approved the inclusion in rate base of construction work in progress for projects that are directly assigned from the AESO and the recovery from customers of federal deferred income taxes relating to transmission operations. These two items did not impact Adjusted Earnings, but did contribute to an increase in Earnings attributable to Class I and Class II Shares in the fourth quarter of 2011 as recoveries from customers increased.

SELECTED ANNUAL INFORMATION

($ millions, except per share data, outstanding shares and return on equity) [5] [6]	For the Year Ended December 31 IFRS [1] 2011	IFRS [1] 2010	Canadian GAAP [2] 2009
Revenues	**3,991**	3,486	3,109
Earnings attributable to Class I and Class II Shares	**327**	281	283
Adjusted Earnings [3]	**330**	296	278
Cash position	**755**	645	1,020
Total assets	**12,453**	10,084	9,955
Long term debt	**4,250**	2,984	3,139
Non-recourse long term debt	**338**	376	439
Preferred shares	**-**	-	150
Class I and Class II Share owners' equity	**2,163**	1,978	2,010
Return on equity (%)	**15.8**	14.6	15.0
Cash flow from operations	**1,483**	1,245	881
Funds Generated by Operations	**1,514**	1,234	935
Capital expenditures	**1,500**	934	987
Earnings per Class I and Class II Share ($)	**5.65**	4.83	4.89
Diluted earnings per Class I and Class II Share ($)	**5.64**	4.82	4.88
Cash dividends declared per share ($):			
5.75% Cumulative Redeemable Preferred Shares, Series 3 [4]	**-**	0.45	1.44
Class I and Class II Shares	**1.14**	1.06	1.00
Equity per Class I and Class II Share ($)	**37.47**	34.15	34.52
Class I and Class II Shares outstanding, year end (thousands)	**57,730**	57,924	58,220
Weighted average Class I and Class II Shares outstanding (thousands):			
Basic	**57,779**	58,172	57,899
Diluted	**57,927**	58,327	58,071

(1) *The above data for 2011 and 2010 (other than Funds Generated by Operations, Return on equity and Equity per Class I and Class II Share) has been extracted from the 2011 Annual Financial Statements, which have been prepared in accordance with IFRS.*

(2) *Securities regulations require the presentation of selected annual information for the three most recently completed financial years. IFRS does not require the restatement of financial information prior to the Transition Date, which was January 1, 2010. Therefore, information for 2009 is as reported in the 2010 MD&A under Canadian GAAP and does not conform to current presentation under IFRS.*

(3) *For 2011 and 2010, refer to the Importance of Adjusted Earnings section for a reconciliation of Adjusted Earnings to Earnings Attributable to Class I and Class II Shares. For 2009, refer to the Significant Non-Operating Financial Items section of the 2010 MD&A.*

(4) *The 5.75% Cumulative Redeemable Preferred Shares were redeemed on March 23, 2010.*

(5) *There were no discontinued operations or extraordinary items during these periods.*

(6) *The reporting currency is the Canadian dollar.*

IMPORTANCE OF ADJUSTED EARNINGS

Adjusted Earnings are earnings attributable to Class I and Class II Shares after adjusting for the timing of revenues and expenses associated with rate regulated activities. Adjusted Earnings also exclude one-time gains and losses and items that are not in the normal course of business or day-to-day operations.

Adjusted Earnings are a key measure of segment earnings used by management for purposes of assessing segment performance and allocating resources. Furthermore, it is management's view that Adjusted Earnings allows a better assessment of the economics of rate regulation in Canada and Australia and facilitates comparability of the Corporation's financial results with peer companies that have either deferred the adoption of IFRS by one year to 2012 as permitted in Canada or utilize U.S. generally accepted accounting principles for rate regulated entities.

The following table reconciles Adjusted Earnings to Earnings Attributable to Class I and Class II Shares.

	For the Three Months Ended December 31			For the Year Ended December 31		
($ millions)	**2011**	2010	Change (2011-2010)	**2011**	2010	Change (2011-2010)
Adjusted Earnings	**83**	80	4%	**330**	296	11%
Adjustments for rate regulated activities [1]	**19**	(8)	338%	**23**	(15)	253%
Acquisition transaction costs [2]	**-**	-	-	**(26)**	-	-
Earnings attributable to Class I and Class II Shares	**102**	72	42%	**327**	281	16%

(1) Adjustments for Rate Regulated Activities

Rate regulated accounting reduced the volatility of earnings, firstly, because the Corporation was able to defer the recognition of cash received in advance of future expenditures. Under IFRS, the Corporation records revenues when amounts are billed to customers and recognizes costs when they are incurred. Secondly, under rate regulated accounting, the Corporation was able to recognize revenues associated with recoverable costs in advance of future billings to customers. Under IFRS, the Corporation records costs when incurred, but does not recognize their recovery until changes to customer rates are reflected in future customer billings. Thirdly, under rate regulated accounting, the Corporation recognized the earnings that arose from a regulatory decision that pertained to current and prior periods upon receipt of the decision. Under IFRS, the Corporation recognizes earnings when customer rates are changed and amounts are billed to customers. Finally, under rate regulated accounting, amounts relating to intercompany profits that were recognized in rate base by a regulator were not eliminated upon consolidation. Under IFRS, intercompany profits included in property, plant and equipment and intangible assets are eliminated upon consolidation. The Corporation then recognizes those profits in earnings as amounts are billed to customers over the life of the related asset.

The adjustments for rate regulated activities, which are strictly timing in nature, generally fall into the four following categories. Certain adjustments may transfer from one category to another depending upon whether more or less revenue has been billed to customers than expected. The adjustments for the three months and year ended December 31, 2011, are shown in the following table:

($ millions)	For the Three Months Ended December 31 **2011**	2010	Change (2011-2010)	For the Year Ended December 31 **2011**	2010	Change (2011-2010)
(i) Additional revenues billed in current period	**-**	2	(2)	**43**	42	1
(ii) Revenues to be billed in future period	**(20)**	(11)	(9)	**(59)**	(39)	(20)
(iii) Regulatory decisions related to current and prior periods	**41**	3	38	**44**	(14)	58
(iv) Elimination of intercompany profits related to the construction of property, plant and equipment and intangible assets	**(2)**	(2)	-	**(5)**	(4)	(1)
	19	(8)	27	**23**	(15)	38

(i) Additional revenues billed in current period

These adjustments are primarily comprised of future removal and site restoration costs, where customers are billed over the life of the associated assets in advance of future expenditures, and retirement benefits where the Corporation recovers the amounts paid under defined benefit pension plans, which are currently higher than the accrued costs expensed and capitalized.

(ii) Revenues to be billed in future period

Deferred income taxes and ATCO Electric's transmission access payments are the most significant items in this category. Deferred income taxes are not recovered from customers until income taxes are paid, with the exception of federal deferred income taxes for ATCO Electric's transmission operations beginning in 2011. ATCO Electric's transmission access payments represent amounts paid that are in excess of forecast recoveries from customers. ATCO Electric then applies to the AUC to recover the excess amounts from customers. The recovery is shown in the regulatory decisions category.

(iii) Regulatory decisions

The change in this category was mainly the result of the following decisions: ATCO Gas' 2010 Carbon Decisions and ATCO Electric decisions in 2011 to recover higher transmission access payments from customers.

Under rate regulated accounting, in the first and third quarters of 2010, ATCO Gas recorded Adjusted Earnings, after non-controlling interests, of $6 million and $7 million, respectively, pertaining to the Carbon Decisions. Under IFRS, these earnings, as well as $5 million, after non-controlling interests, from earlier AUC decisions related to the Carbon Facility, were recognized starting in the second quarter of 2010 and continuing in 2011 as they were billed to customers.

ATCO Electric received two AUC decisions approving the recovery of approximately $40 million over the period August 2011 to December 2011 associated with higher than forecasted 2011 transmission access payments. Under Adjusted Earnings, the recovery of higher 2011 transmission access payments is recognized as the costs are incurred, whereas under IFRS, the revenues are recognized as customers are billed.

(2) Acquisition Transaction Costs

The Corporation incurred approximately $50 million of transaction costs ($26 million after non-controlling interests) associated with the WAGN Acquisition. These costs included an estimate of Australian stamp duty as well as other incremental legal and advisory services directly related to the acquisition. As these transaction costs were one-time items that were not a result of day-to-day operations, the Corporation adjusted for them in the third quarter of 2011.

CONSOLIDATED REVENUES AND ADJUSTED EARNINGS

Revenues for the three months ended December 31, 2011, **increased** by $175 million (18%) over 2010. Increased manufacturing and rental fleet activity in ATCO Structures & Logistics, increased rate base in the Utilities, higher Alberta Power Pool prices in ATCO Power and the addition of ATCO Gas Australia were the principal contributors to increased revenues. Partially offsetting these increases were lower flow through natural gas sales and lower Storage Price Differentials in ATCO Midstream.

Revenues for the year ended December 31, 2011, **increased** by $505 million (14%) over 2010. The primary drivers for increased revenues were higher manufacturing and rental fleet activity in ATCO Structures & Logistics, higher flow through natural gas sales in ATCO Midstream, higher Alberta Power Pool prices in ATCO Power, the addition of ATCO Gas Australia as of July 29, 2011, and increased rate base in the Utilities. These increases were partially offset by the expiry of ATCO Power's Barking generating plant revenue contract on September 30, 2010. In addition, revenues were lower in ATCO Power Australia as 2010 included revenues of $130 million for the lease of the first and second units of the Karratha plant.

Adjusted Earnings for the three months ended December 31, 2011, **increased** by $3 million (4%) over 2010. This was primarily attributable to higher manufacturing and rental fleet activity in ATCO Structures & Logistics and higher Alberta Power Pool prices and related Spark Spreads in ATCO Power. These increases were partially offset by lower Storage Price Differentials in ATCO Midstream, a 2010 favourable tax adjustment recorded in the fourth quarter of 2010 in ATCO Electric, the impact of ATCO Gas' 2011 and 2012 General Rate Application decision and the 2011 Generic Cost of Capital decision in the Utilities.

Adjusted earnings in 2011 were $330 million, an **increase** of $34 million (11%) over 2010. The primary contributors to the increase were higher manufacturing and rental fleet activity in ATCO Structures & Logistics, higher Alberta Power Pool prices and related Spark Spreads in ATCO Power, increased rate base in the Utilities and lower dividends on preferred shares resulting from the redemption of the Series 3 Preferred Shares on March 23, 2010. These increases were partially offset by the expiry of the Barking generating plant's revenue contract in ATCO Power, lower Storage Price Differentials in ATCO Midstream and $13 million of earnings, after non-controlling interests, recorded in 2010 related to the ATCO Gas Carbon Decisions.

CONSOLIDATED EXPENSES

	For the Three Months Ended December 31			For the Year Ended December 31		
($ millions)	**2011**	2010	Change (2011-2010)	**2011**	2010	Change (2011-2010)
Costs and expenses:						
Salaries, wages and benefits	**162**	139	17%	**590**	540	9%
Energy transmission and transportation	**28**	6	367%	**51**	13	292%
Plant and equipment maintenance	**78**	69	13%	**245**	222	10%
Fuel costs	**82**	110	(25%)	**407**	319	28%
Purchased power	**15**	14	7%	**55**	54	2%
Materials and consumables	**184**	134	37%	**623**	558	12%
Franchise fees	**43**	47	(9%)	**175**	173	1%
Other expenses	**112**	89	26%	**387**	300	29%
	704	608	16%	**2,533**	2,179	16%
Depreciation and amortization	**111**	105	6%	**416**	391	6%
Interest expense	**64**	56	14%	**232**	229	1%
Dividends on preferred shares	**-**	-	-	**-**	5	(100%)
Income taxes	**68**	57	19%	**230**	185	24%

Costs and expenses for the three months ended December 31, 2011, **increased** by $96 million (16%) over the same period in 2010. Materials and consumables expense increased by $50 million as a result of increased manufacturing activity in ATCO Structures & Logistics' Modular Structures division. Salaries, wages and benefits increased by $23 million mainly due to the acquired operations of ATCO Gas Australia and increased business activity in ATCO Structures & Logistics. Energy transmission and transportation costs increased by $22 million resulting from the transition of ATCO Pipelines' customers to NOVA Gas Transmission Ltd. (NGTL) effective October 1, 2011, ATCO Gas now pays NGTL for transmission costs and ATCO Pipelines receives revenues for transmission services from NGTL. Fuel costs decreased by $28 million primarily due to lower flow through natural gas purchases for NGL extraction in ATCO Midstream.

Costs and expenses for the year ended December 31, 2011, **increased** by $354 million (16%) over the same period in 2010. Excluding $125 million of cost of sales in the first half of 2010 related to the lease of the first and second units of the Karratha plant, costs and expenses for the year ended December 31, 2011, increased by $479 million (23%). Materials and consumables expense, excluding the Karratha lease, increased by $190 million as a result of increased manufacturing activity in ATCO Structures & Logistics' Modular Structures division, particularly in Australia. Fuel costs increased by $88 million mainly as a result of higher flow through natural gas purchases for NGL extraction in ATCO Midstream. Other expenses increased by $87 million mainly due to the acquired operations of ATCO Gas Australia and $50 million of transaction costs associated with the WAGN Acquisition. Salaries, wages and benefits increased by $50 million mainly due to the acquired operations of ATCO Gas Australia, and employee additions and normal salary escalation throughout the Corporation. Energy transmission and transportation costs increased by $38 million resulting from the transition of ATCO Pipelines' customers to NGTL effective October 1, 2011, ATCO Gas now pays NGTL for transmission costs and ATCO Pipelines receives revenues for transmission services from NGTL.

For the three months and year ended December 31, 2011, **depreciation and amortization expense increased** by $6 million (6%) and by $25 million (6%) respectively, over 2010, primarily due to the acquisition of ATCO Gas Australia's operations and capital additions in the Utilities.

Interest expense for the three months ended December 31, 2011, **increased** by $8 million (14%) over 2010, mainly due to the issuance of $700 million of debentures on October 24, 2011, and interest on long term debt assumed as part of the WAGN Acquisition.

Interest expense for the year ended December 31, 2011, **increased** by $3 million (1%) over 2010, mainly due to the issuance of $700 million of debentures on October 24, 2011, and interest on long term debt assumed as part of the WAGN Acquisition. This was partially offset by repayment of non-recourse debt in ATCO Power and the refinancing of $125 million of 11.4% debentures which were repaid on August 15, 2010, with $125 million of 4.947% debentures issued on November 18, 2010.

For the three months ended December 31, 2011, **income taxes increased** by $11 million (19%) over the same period in 2010, primarily due to higher earnings before income taxes. This increase was partially offset by lower income tax rates.

For the year ended December 31, 2011, **income taxes increased** by $45 million (24%) over 2010, primarily due to higher earnings before income taxes, non-deductible costs associated with the WAGN Acquisition and a $4 million one-time reduction in ATCO Structures & Logistics' 2010 income tax expense relating to European operations. This increase was partially offset by lower income tax rates.

SEGMENTED INFORMATION

	For the Three Months Ended December 31						
($ millions)	Structures & Logistics	Utilities	Energy	ATCO Australia	Corporate & Other	Intersegment Eliminations	Total
2011							
Revenues	**307**	**500**	**242**	**70**	**62**	**(51)**	**1,130**
Adjusted Earnings	**31**	**32**	**17**	**1**	**3**	**(1)**	**83**
Adjustments for rate regulated activities [1]	**-**	**20**	**-**	**-**	**-**	**(1)**	**19**
Earnings attributable to Class I and Class II Shares	**31**	**52**	**17**	**1**	**3**	**(2)**	**102**
2010							
Revenues	224	423	277	23	60	(52)	955
Adjusted Earnings	20	37	20	2	-	1	80
Adjustments for rate regulated activities [1]	-	(6)	-	-	-	(2)	(8)
Earnings attributable to Class I and Class II Shares	20	31	20	2	-	(1)	72

[1] *Refer to Importance of Adjusted Earnings section for a description of the adjustments.*

	For the Year Ended December 31						
($ millions)	Structures & Logistics	Utilities	Energy	ATCO Australia	Corporate & Other	Intersegment Eliminations	Total
2011							
Revenues	**1,007**	**1,690**	**1,087**	**175**	**220**	**(188)**	**3,991**
Adjusted Earnings	**89**	**124**	**86**	**10**	**19**	**2**	**330**
Adjustments for rate regulated activities [1]	**-**	**24**	**-**	**(1)**	**-**	**-**	**23**
Acquisition transaction costs [2]	**-**	**-**	**-**	**(26)**	**-**	**-**	**(26)**
Earnings attributable to Class I and Class II Shares	**89**	**148**	**86**	**(17)**	**19**	**2**	**327**
2010							
Revenues	749	1,520	987	201	211	(182)	3,486
Adjusted Earnings	74	126	76	9	8	3	296
Adjustments for rate regulated activities [1]	-	(15)	-	-	-	-	(15)
Earnings attributable to Class I and Class II Shares	74	111	76	9	8	3	281

[1] [2] Refer to Importance of Adjusted Earnings section for a description of the adjustments.

Structures & Logistics

Revenues **increased** by $83 million (37%) and $258 million (34%) for the three months and year ended December 31, 2011, respectively, over the corresponding periods of 2010. These increases were primarily due to higher manufacturing and rental fleet activity in Australia, Canada and South America. These increases were partially offset by lower revenues in Afghanistan due to the completion of the infrastructure and support services contracts in March 2011.

Adjusted Earnings for ATCO Structures & Logistics are shown in the following table:

	For the Three Months Ended December 31			For the Year Ended December 31		
($ millions)	**2011**	2010	Change (2011-2010)	**2011**	2010	Change (2011-2010)
Modular Structures	**24**	10	140%	**74**	44	68%
Logistics and Facility O&M Services	**6**	10	(40%)	**23**	34	(32%)
Other [1]	**1**	-	-	**(8)**	(4)	(100%)
	31	20	55%	**89**	74	20%

[1] *Other includes the Lodging & Support Services, Noise and Emission Control Systems and Urban Space and Industrial Construction divisions and ATCO Structures & Logistics' Corporate Office.*

Adjusted Earnings for the three months and year ended December 31, 2011, **increased** by $11 million (55%) and $15 million (20%), respectively, over the corresponding periods of 2010. These increases were primarily due to strong earnings from modular structures operations in Australia, Canada and South America driven by significant workforce housing related projects. Australia was particularly strong due to the construction of workforce housing for three liquefied natural gas projects on Curtis Island, Australia. These increases were partially offset by the completion of the Afghanistan infrastructure and support services contracts in March 2011.

The high activity levels of modular structures operations in Canada, South America and Australia are expected to continue well into 2012 on the strength of ongoing and expected projects.

The high activity levels of the modular structures operations are based on the assumption that activity and usage of assets and services experienced in 2011 will continue into 2012. There is a risk that such activity could decrease if the level of activity in the resource extraction industries is reduced.

Modular Structures

The Modular Structures division has marketed and installed its manufactured products in more than 100 countries around the world since 1947 and has established a reputation as a leader in the international supply of relocatable shelter products. Products sold are manufactured in Canada, the U.S., Australia, Chile and Peru and under subcontract in other jurisdictions.

	For the Three Months Ended December 31			For the Year Ended December 31		
	2011	2010	Change (2011-2010)	**2011**	2010	Change (2011-2010)
Manufacturing hours (thousands) [1]	**510**	296	72%	**1,927**	943	104%
Space Rentals Fleet						
Number of units	**18,823**	15,840	19%	**18,823**	15,840	19%
Utilization (%)	**81**	76	5%	**80**	78	2%
Average rental rate ($ per month)	**427**	439	(3%)	**438**	448	(2%)
Workforce Housing Fleet						
Number of units	**3,117**	2,699	15%	**3,117**	2,699	15%
Utilization (%)	**90**	76	14%	**87**	78	9%
Average rental rate ($ per month)	**1,278**	1,128	13%	**1,297**	1,236	5%

(1) *Manufacturing hours exclude operations in Australia where manufacturing is sub-contracted to third party contractors.*

Recent Developments

In 2011, ATCO Structures & Logistics was awarded a number of significant workforce housing contracts. In November 2011, ATCO Structures & Logistics announced it was awarded a contract to build a 1,700 person camp and office complex in northern Chile for Teck Resources Limited. Installation is expected to be completed in the first quarter of 2013. This followed contracts awarded earlier in the year to manufacture three workforce housing construction camps located on Curtis Island, Australia. These contracts consist of a 1,700 person accommodation facility supporting the Queensland Curtis LNG project which is expected to be completed in the third quarter of 2012, a 1,344 person accommodation facility for the Gladstone LNG project which is expected to be completed in the fourth quarter of 2012, and a 2,600 person accommodation facility to support Australia Pacific LNG's liquefied natural gas project which is expected to be completed in the first quarter of 2013.

Logistics and Facility O&M Services

The following table is a summary of the principal Logistics and Facility O&M Services division contracts.

Contract	Customer	Start Date	Completion Date	Possible Extension [(1)]
Alaska Radar System [(2)]	U.S. Department of Defense	Oct. 2004	Sep. 2012	2014
North Warning System [(2)]	Department of National Defense	Sep. 2001	Sep. 2012	2013
Iqaluit Fuel Contract [(2)]	Government of Nunavut	Jun. 2007	Nov. 2012	2017
Stabilization Force Organization	NATO	Feb. 2004	Sep. 2013	2015
NATO Flight Training	NATO	Jun. 2000	May 2020	-
Kandahar Projects:	NATO			
First Responders		Jan. 2011	Jan 2014	2016
Utilities		Nov. 2010	Nov. 2013	2015
Pass & Permits		Sep. 2007	Sep. 2012	-

(1) *The contract may be extended at the option of the customer.*
(2) *Joint venture with aboriginal partners.*

Lodging & Support Services

ATCO Structures & Logistics and the Fort McKay First Nation are partners in a joint venture which owns and operates the Creeburn Lake Lodge, a 500-room lodge north of Fort McMurray, Alberta. The Creeburn Lake Lodge accepts clients on a nightly, weekly or monthly basis.

ATCO Structures & Logistics and the Fort McKay First Nation are also partners in a second joint venture which operates the Barge Landing Lodge, a 1,900-room temporary work camp north of Fort McMurray, under various service agreements with several clients.

ATCO Structures & Logistics also owns and operates two other lodges; ATCO Lodge Estevan, a 196-room lodge located in Estevan, Saskatchewan, and ATCO Lodge Williston, a 200-room lodge located in Williston, North Dakota.

Structures & Logistics Business Risks

Commodity Price Risk

ATCO Structures & Logistics products are directly related to the capital spending cycle and the level of development activity in natural resource and energy industries, which, in turn, are largely dependent on commodity prices. Changes in commodity prices of natural resources may have a significant impact on the Corporation's earnings and cash flow from operations.

War Risk

ATCO Structures & Logistics' operations provide support to military agencies in foreign locations which may be subject to war risk. ATCO Structures & Logistics maintains insurance, including war risks, to mitigate the risk associated with the nature of these contracts. Additionally, in areas where the risk of injury is considered to be severe, ATCO Structures & Logistics confines its staff to specific military compounds and all employees are given pre-deployment orientation and ongoing safety training.

Utilities

The Utilities are regulated primarily by the AUC, which administers acts and regulations covering such matters as rates, financing and service area. The Utilities are subject to a cost of service regulatory mechanism under which the AUC establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization and income taxes, of providing the regulated service, and (ii) to provide a fair return on utility investment, or rate base. Rate base for each utility is the aggregate of the AUC approved investment in property, plant and equipment and intangible assets, less accumulated depreciation and amortization, reserves for future removal and site restoration, and unamortized contributions by utility customers for extensions to plant, plus an allowance for working capital. The Utilities earn a return on rate base intended to meet the cost of the debt and preferred share components of rate base and to provide share owners with a fair return on the common equity component of rate base. The determination of a fair return to the common shareholders involves an assessment by the regulator of many factors, including returns on alternative investment opportunities of comparable risk and the level of return which will enable a utility to attract the necessary capital to fund its operations and to maintain financial integrity.

Utilities **revenues** for the three months ended December 31, 2011, were $500 million, an **increase** of $77 million (18%) over 2010. This increase was primarily attributable to increased rate base in the Utilities and recoveries from customers of federal deferred income taxes relating to ATCO Electric's transmission operations. These increases were partially offset by the effect of warmer weather in ATCO Gas.

Utilities **revenues** for the year ended December 31, 2011, **increased** by $170 million (11%) over 2010. This increase was primarily attributable to increased rate base in the Utilities, recoveries from customers of federal deferred income taxes relating to ATCO Electric's transmission operations and the Carbon Decisions in ATCO Gas that commenced in the second quarter of 2010.

Adjusted Earnings for each of the Utilities are shown in the following table:

	For the Three Months Ended December 31			For the Year Ended December 31		
($ millions)	**2011**	2010	Change (2011-2010)	**2011**	2010	Change (2011-2010)
ATCO Electric	**15**	17	(12%)	**71**	60	18%
ATCO Gas	**12**	13	(8%)	**31**	46	(33%)
ATCO Pipelines	**5**	6	(17%)	**25**	23	9%
Eliminations	**-**	1	(100%)	**(3)**	(3)	-
	32	37	(14%)	**124**	126	(2%)

Adjusted Earnings for the three months ended December 31, 2011, were $32 million, a **decrease** of $5 million (14%) compared to the corresponding period in 2010. The primary reasons for lower Adjusted Earnings were a favourable tax adjustment recorded in the fourth quarter of 2010 in ATCO Electric, ATCO Gas' 2011 and 2012 General Rate Application decision and the impact of the 2011 Generic Cost of Capital decision. These decreases were partially offset by increased rate base in the Utilities.

Adjusted Earnings for the year ended December 31, 2011, were $124 million, a **decrease** of $2 million (2%) compared to 2010. The primary reason for lower Adjusted Earnings was $13 million, after non-controlling interests, recorded in 2010 related to ATCO Gas' 2010 Carbon Decisions, partially offset by earnings from increased rate base in the Utilities.

Regulatory Developments

Generic Cost of Capital

On December 8, 2011, the AUC issued its decision on the 2011 Generic Cost of Capital proceeding. In this decision, the AUC set the 2011 and 2012 generic return on equity (ROE) at 8.75%. The AUC continued the concept of a single generic ROE for all utilities, with differences in utility or sector specific risk to be recognized through the adjustments of individual common equity ratios. The common equity ratio for ATCO Electric's transmission operations was increased by 1% to 37% effective 2011. The AUC reduced ATCO Pipelines' common equity ratio by 7% to 38% effective 2012 in consideration of the reduced risk associated with the integration with NGTL. The common equity ratio for ATCO Electric's distribution operations and ATCO Gas was unchanged at 39%. The reduction in the generic ROE and increase in ATCO Electric's common equity ratio for transmission operations resulted in an overall decrease to Adjusted Earnings of $3 million, net of non-controlling interests, in 2011. There was no impact on IFRS earnings in 2011.

In February 2012, the Utilities filed a review and variance application with the AUC and applied to the Alberta Court of Appeal for leave to appeal the decision pending the outcome of the review and variance application. The application is focused on challenging statements made by the AUC regarding cost responsibility for stranded assets.

Pension Hearing

On September 27, 2011, the AUC issued its decision on the Utilities' pension methodology, specifically on the determination of the cost of living allowance (COLA) used in the determination of pension costs included in 2011 and future years' revenue requirements. There was no impact in 2011; the Utilities recovered 100% of the consumer price index (CPI). For future years the AUC decided that the appropriate level for annual COLA adjustments is 50% of CPI subject to a maximum COLA adjustment of 3%. This decision affects current service funding requirements starting in 2012 and current service and deficit funding requirements starting in 2013. Consequently, pension cost recoveries from customers will be reduced in 2012 with a potential further reduction commencing in 2013. The potential reduction in 2013 will depend on the results of the next actuarial valuation for funding purposes, which is required to be completed as of December 31, 2012.

The Utilities filed a review and variance application on this decision with the AUC in the fourth quarter of 2011, and have applied to the Alberta Court of Appeal for leave to appeal the decision pending the outcome of the review and variance application.

Information Technology and Customer Care and Billing Services (Evergreen Application)

The Utilities purchase information technology services, and ATCO Electric and ATCO Gas also purchase customer care and billing services, from ATCO I-Tek. The recovery of these costs in customer rates is subject to AUC approval.

On May 26, 2011, the AUC approved final rates for information technology and customer care and billing services provided by ATCO I-Tek that can be included in customer rates for 2008 and 2009. The adjustments to placeholder amounts previously included in customer rates did not have a significant impact on Adjusted Earnings.

A further regulatory process to deal with rates for information technology and customer care and billing services provided by ATCO I-Tek for 2010-2012 has been established and a decision is expected in the fourth quarter of 2012.

ATCO Electric

2011 and 2012 General Tariff Application

On April 13, 2011, the AUC issued a decision on ATCO Electric's 2011 and 2012 general tariff application approving, among other things, increased revenues to recover increased financing, depreciation, and operating costs associated with increased rate base in Alberta. The decision also approved ATCO Electric's request that construction work in progress for projects that are directly assigned from the AESO be included in rate base and that the recovery of federal deferred income taxes for transmission operations be included in customer rates. The inclusion of construction work in progress and federal deferred income taxes in customer rates does not significantly impact Adjusted Earnings but does result in an improvement to reported earnings under IFRS and cash flows during the construction of the major transmission projects currently being undertaken. As the AUC had previously approved an interim adjustable rate increase, there was no significant impact to Adjusted Earnings as a result of this decision.

Eastern Alberta Transmission Line (EATL) Project

In 2009, the Alberta government deemed ATCO Electric's EATL project to be Critical Transmission Infrastructure (CTI) and the AESO directed ATCO Electric to: (i) prepare a facility application to build and operate a new 500kV high voltage direct current transmission line along a corridor on the east side of the province between Edmonton and Calgary, and (ii) undertake pre-construction activities, including engineering and ordering of long lead-time materials, to achieve a mid to late 2014 in-service date.

On March 29, 2011, ATCO Electric filed its facility application with the AUC, with an estimated project cost, excluding capitalized interest during construction, of $1.6 billion, $120 million of which has been incurred and included in the financial statements for the year ended December 31, 2011. On October 21, 2011, the AUC, in response to a request from the Alberta government, suspended the regulatory process for both the EATL project and AltaLink's Western Alberta Transmission Line (WATL) project, pending a government review of its approach to these two CTI projects in the province. On December 6, 2011, the Alberta government announced its appointment of a Critical Transmission Review Committee (CTRC) comprised of an independent panel of experts to review plans for EATL and WATL, as well as to consider and recommend changes to the associated legislation. On February 13, 2012, the government released the CTRC's report in which the CTRC confirmed that the AESO's plans for EATL were reasonable and that the project should proceed as planned. The government has indicated that it will respond to the CTRC's report by the end of February. The achievement of an in-service date in 2014 for EATL is dependent upon the government deciding to proceed with the project and the timing of receiving final regulatory approvals from the AUC.

Hanna Region Transmission Development ("HRTD") Project

In 2010, the AUC approved the need for major transmission reinforcement in the Hanna area located in the southeast region of the province. ATCO Electric's share of the HRTD project is comprised of six distinct developments comprising approximately 380 kilometres of transmission line projects, the construction of nine new substations and modifications and expansions to a further 14 existing substations. The majority of the six developments are anticipated to be in-service by the end of the second quarter of 2013. The estimated total project cost, excluding capitalized interest during construction, for the HRTD project is approximately $765 million, $170 million of which has been incurred and included in the financial statements for the year ended December 31, 2011. ATCO Electric has received approval from the AUC to proceed with the construction of four developments for an estimated cost of $50 million and is awaiting approval of one facility application filed with the AUC with an estimated cost of $700 million. The facility application for the remaining development with an estimated cost of $15 million was filed with the AUC on February 13, 2012. Final approvals are expected in the second quarter of 2012. It is anticipated that the majority of the remaining costs of approximately $595 million will be incurred in 2012.

ATCO Gas

2011 and 2012 General Rate Application

On December 5, 2011, the AUC issued a decision on ATCO Gas' 2011 and 2012 general rate application approving, among other things, increased revenues to recover increased financing, depreciation, and operating costs associated with increased rate base in Alberta. The decision resulted in a decrease to 2011 Adjusted Earnings of $5 million, after non-controlling interests, resulting primarily from disallowances of certain operating and maintenance programs and the exclusion of certain capital expenditures from rate base.

There was no impact on IFRS earnings as a result of the December 5, 2011, decision as the decision will not affect rates billed to customers until 2012 when the AUC approves final rates. However, as the AUC had previously issued a decision in April 2011 approving an interim adjustable rate increase pending its decision on the rate application, 2011 earnings under IFRS increased by $3 million, after non-controlling interests, in the fourth quarter of 2011 and by $5 million, after non-controlling interests, for the year ended December 31, 2011, as billing of interim rates to customers commenced May 1, 2011.

In February 2012, ATCO Gas filed a review and variance application with the AUC. The application is focused on challenging the AUC's denial of ATCO Gas' right to recover prudently incurred costs previously approved by the AUC in prior regulatory decisions or associated with assets that were fully consumed in the provision of utility service. ATCO Gas has applied to the Alberta Court of Appeal for leave to appeal the decision pending the outcome of the review and variance application.

Carbon Natural Gas Storage Facility

ATCO Gas owned a 43.5 petajoule natural gas storage facility located at Carbon, Alberta. The Carbon Facility was not used by ATCO Gas for the provision of utility service and the entire storage capacity was leased to ATCO Midstream. On March 29, 2011, ATCO Gas received approval from the AUC for the internal transfer of the Carbon Facility from ATCO Gas to ATCO Midstream. The transfer, which was measured at the carrying value of assets of $43 million and liabilities of $6 million, was completed for cash consideration of $37 million on June 1, 2011.

ATCO Pipelines

Alberta System Integration

ATCO Pipelines and NGTL entered into an agreement with respect to natural gas transmission service that will allow ATCO Pipelines and NGTL to utilize their physical assets under a single rates and services structure with a single commercial interface for Alberta customers. Each company will separately manage assets within distinct operating territories within Alberta. This integration will end duplicate tolling and operational activities and result in more efficient regulatory processes.

The AUC issued a decision on May 27, 2010, approving the integration, but requested ATCO Pipelines to submit subsequent applications to address the specific details of (i) the transition of ATCO Pipelines' customers to NGTL, and (ii) the asset swap between ATCO Pipelines and NGTL in order to establish operating areas. On April 20, 2011, the AUC approved ATCO Pipelines' application to address the transition of customers, which took place on October 1, 2011. An application to address the asset swap was submitted to the AUC on February 15, 2012.

Utilities Business Risks

Regulated Operations

The Utilities are subject to the normal risks faced by companies that are regulated. These risks include the approval by the regulator of customer rates that permit a reasonable opportunity to recover on a timely basis the estimated costs of providing service, including a fair return on rate base. In addition, these risks include the potential for disallowance by the regulator of costs incurred. The ability to recover the actual costs of providing service and to earn the approved rates of return depends on achieving the forecasts established in the rate-setting process. The determination of fair rate of return on the common equity component of rate base is an earnings and cash flow risk.

AUC Initiative to Reform Rate Regulation

On February 26, 2010, the AUC advised that it was beginning an initiative to reform utility rate regulation in Alberta. The intent of this initiative is to move to a form of rate regulation referred to as "performance based regulation" in which prevailing rates are adjusted annually by a formula that recognizes inflation and productivity improvements. The rate regulation initiative will begin with the reform of rate regulation for electricity and natural gas distribution services. The reform of rate regulation for electricity and natural gas transmission is excluded from this initiative at this time.

The AUC has advised that the target date for the implementation of performance based regulation for ATCO Gas and ATCO Electric will be January 1, 2013, based on applications filed with the AUC on July 22, 2011. The impact of this initiative on ATCO Gas' and ATCO Electric's distribution operations cannot be determined at this time.

Pipeline Integrity

Pipeline ruptures in the U.S. in recent years have highlighted the risks associated with pipeline integrity. Although the probability of an occurrence is very low, the consequences of a failure can be extreme. ATCO Pipelines and ATCO Gas, by the nature of their businesses, have significant pipeline infrastructure that has operated safely and effectively for decades. The Corporation has programs in place to monitor the integrity of its pipeline infrastructure and to replace pipelines as required.

Measurement Inaccuracies in Metering Facilities

Measurement inaccuracies occur from time to time with respect to the Utilities' metering facilities. The Utilities' measurement adjustments are settled between parties based on the requirements of the Electricity and Gas Inspections Act (Canada) and applicable regulations issued pursuant thereto. There is a risk of disallowance of the recovery of a measurement adjustment. For the Utilities this may occur if controls and timely follow up are found to be inadequate by the AUC.

Transfer of the Retail Energy Supply Businesses

In 2004, ATCO Gas and ATCO Electric transferred their retail energy supply businesses to Direct Energy and one of its affiliates (collectively, Direct Energy), a subsidiary of Centrica plc. ATCO Gas and ATCO Electric continue to own and operate the natural gas and electricity distribution systems used to deliver energy.

Although ATCO Gas and ATCO Electric transferred to Direct Energy certain retail functions, including the supply of natural gas and electricity to customers and billing and customer care functions, the legal obligations of ATCO Gas and ATCO Electric remain if Direct Energy fails to perform. In certain events (including where Direct Energy fails to supply natural gas and/or electricity and ATCO Gas and/or ATCO Electric are ordered by the AUC to do so), the functions will revert to ATCO Gas and/or ATCO Electric with no refund of the transfer proceeds to Direct Energy by ATCO Gas and/or ATCO Electric.

Centrica plc, Direct Energy's parent, has provided a $300 million guarantee, supported by a $235 million letter of credit in respect of Direct Energy's obligations to ATCO Gas, ATCO Electric and ATCO I-Tek in respect of the ongoing relationships contemplated under the transaction agreements. However, there can be no assurance that the coverage under these agreements will be adequate to cover all of the costs that could arise in the event of a reversion of such functions.

Canadian Utilities has provided a guarantee of ATCO Gas', ATCO Electric's and ATCO I-Tek's payment and indemnity obligations to Direct Energy contemplated under the transaction agreements.

Energy

Energy **revenues** for the three months ended December 31, 2011, **decreased** by $35 million (13%) compared to 2010. This decrease was primarily attributable to lower flow through natural gas sales due to increased competition for natural gas supply and lower Storage Price Differentials in ATCO Midstream, partially offset by higher Power Pool prices in ATCO Power's independent power plants in Alberta.

Energy **revenues** for the year ended December 31, 2011, **increased** by $100 million (10%) over 2010. This increase was primarily attributable to higher flow through natural gas sales in ATCO Midstream used for NGL extraction, higher pool prices in ATCO Power's independent power plants in Alberta due to higher prices in the Alberta electricity market and higher generation and availability in ATCO Power's Sheerness and Battle River regulated plants. These increases in revenues were partially offset by decreased revenues at ATCO Power's Barking generating plant in the U.K. due to the expiry of the revenue contract on September 30, 2010, and lower Storage Price Differentials in ATCO Midstream.

Adjusted Earnings for ATCO Power and ATCO Midstream are shown in the following table:

($ millions)	For the Three Months Ended December 31			For the Year Ended December 31		
	2011	2010	Change (2011-2010)	**2011**	2010	Change (2011-2010)
ATCO Power						
Independent Power Plants	**8**	4	100%	**44**	31	42%
Regulated Power Plants	**7**	6	17%	**30**	23	30%
	15	10	50%	**74**	54	37%
ATCO Midstream						
Storage Operations	**1**	5	(80%)	**3**	11	(73%)
NGL Extraction Operations	**3**	4	(25%)	**13**	13	-
Other Midstream (1)	**(2)**	-	-	**(6)**	(4)	(50%)
	2	9	(78%)	**10**	20	(50%)
Other	**-**	1	(100%)	**2**	2	-
	17	20	(15%)	**86**	76	13%

(1) Other Midstream includes Gas Gathering & Processing and ATCO Midstream's Corporate Office.

Adjusted Earnings for the three months ended December 31, 2011, **decreased** by $3 million (15%) compared to 2010. The decrease was primarily attributable to lower Storage Price Differentials in ATCO Midstream, partially offset by higher Power Pool prices and related Spark Spreads in ATCO Power's independent power plants in Alberta.

Adjusted Earnings for the year ended December 31, 2011, were $86 million, an **increase** of $10 million (13%) over 2010. The increase was primarily attributable to higher Power Pool prices and related Spark Spreads in ATCO Power's independent power plants in Alberta and higher availability incentive amortization and excess energy sales due to higher generation in ATCO Power's Sheerness and Battle River regulated plants. These increases were partially offset by decreased earnings from ATCO Power's Barking generating plant in the U.K. due to the expiry of the revenue contract on September 30, 2010, and lower Storage Price Differentials in ATCO Midstream.

Power Generation

Availability of the generating plants by geographic region is set forth below:

	For the Three Months Ended December 31			For the Year Ended December 31		
	2011	2010	Change (2011-2010)	**2011**	2010	Change (2011-2010)
Independent Power Plants [1]						
Canada	**95.3%**	98.7%	(3.4%)	**93.5%**	96.0%	(2.5%)
U.K. [2]	**80.1%**	91.6%	(11.5%)	**83.7%**	89.7%	(6.0%)
Regulated Plants [1] [3]						
Canada	**89.6%**	95.5%	(5.9%)	**93.1%**	89.8%	3.3%

(1) *Generating plant availability will fluctuate due to the timing and duration of outages.*

(2) *The Barking generating plant commenced a planned outage on one of its gas turbines in the second quarter of 2011. The gas turbine failed upon its return to service in July. Repairs were completed and the gas turbine returned to service in the fourth quarter of 2011.*

(3) *The Sheerness generating plant completed a planned outage in the fourth quarter of 2011.*

Merchant Operations

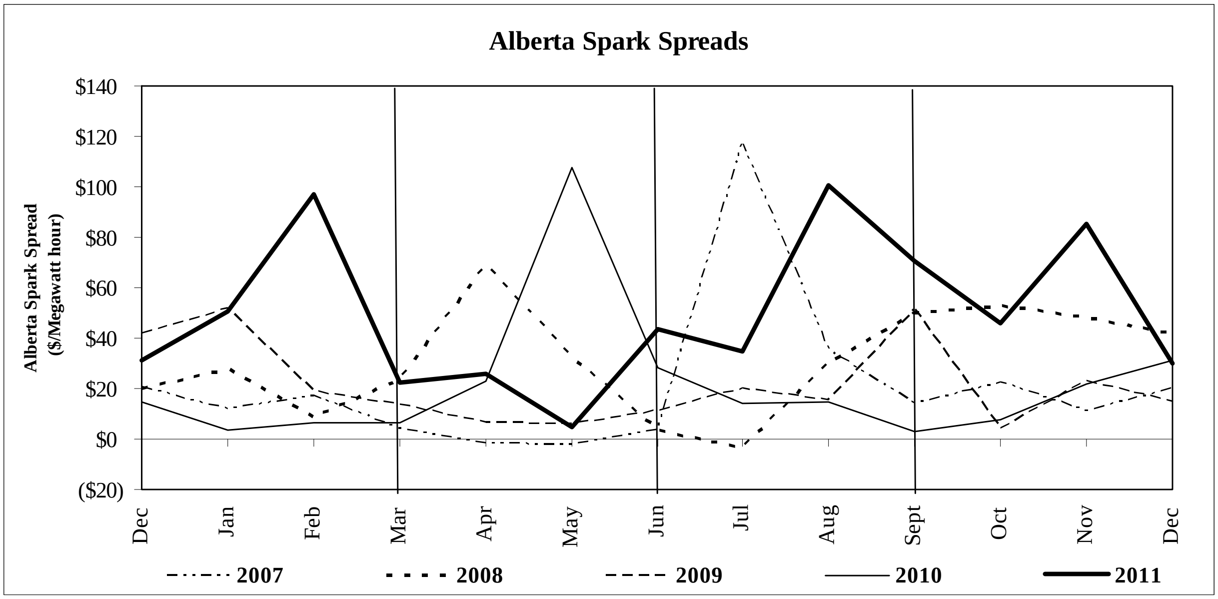
At December 31, 2011, changes in Spark Spread affect the results of approximately 665 MW of plant capacity out of a total capacity owned by ATCO Power of 2,550 MW. This capacity is comprised of approximately 410 MW in Alberta out of a total Alberta-owned capacity of 1,815 MW and all of the U.K.-owned capacity of 255 MW.

Alberta Merchant Operations

The majority of ATCO Power's electricity sales to the Alberta Power Pool are from natural gas-fired generating plants and, as a result, earnings are affected by natural gas prices and Alberta Power Pool prices. The average Alberta Power Pool electricity prices, natural gas prices and resulting Spark Spreads for the three months and year ended December 31, 2011, are shown in the following table:

	For the Three Months Ended December 31			For the Year Ended December 31		
	2011	2010	Change (2011-2010)	**2011**	2010	Change (2011-2010)
Average Alberta Power Pool electricity price ($/MWh)	**76.07**	45.94	66%	**76.21**	50.88	50%
Average natural gas price ($/GJ)	**3.03**	3.44	(12%)	**3.44**	3.79	(9%)
Average Spark Spread ($/MWh)	**53.32**	20.17	164%	**50.42**	22.49	124%

The following chart demonstrates the volatility of Alberta Spark Spreads since the beginning of 2007:



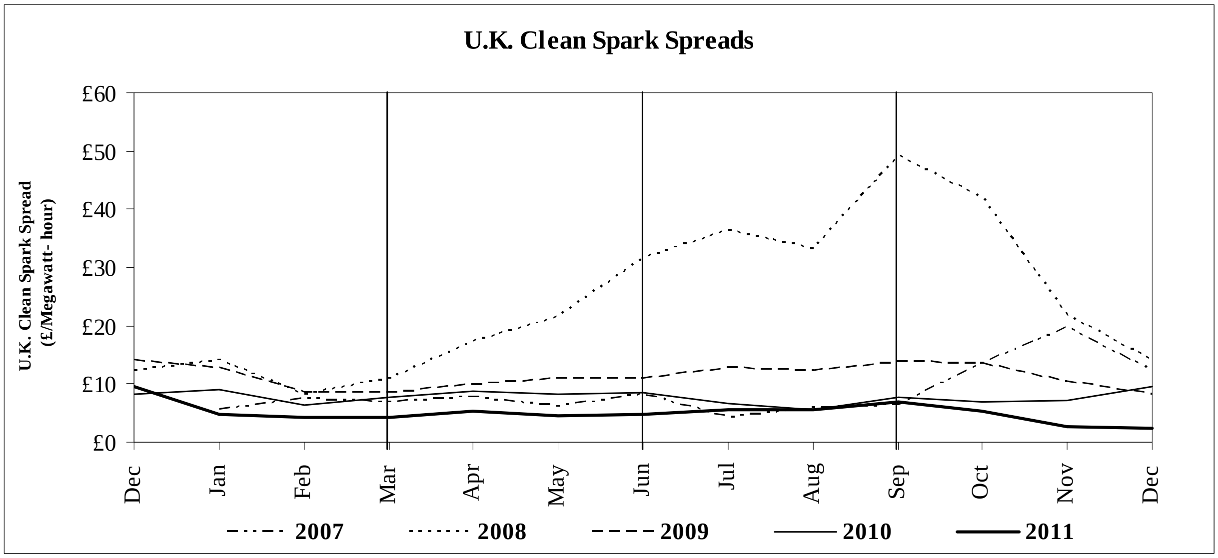
U.K. Merchant Operations

As of October 1, 2010, the majority of ATCO Power's Barking generating plant capacity is exposed to market prices for electricity, natural gas and emissions allowances. ATCO Power owns 255 MW of the plant's capacity, of which 45 MW was contracted for a one-year term which ended on September 30, 2011. As of October 1, 2011, all of ATCO Power's Barking generating plant capacity is exposed to market prices for electricity, natural gas and emissions allowances.

The average U.K. power prices, natural gas prices, emissions allowances and resulting Spark Spreads for the three months and year ended December 31, 2011, are shown in the following table:

	For the Three Months Ended December 31			For the Year Ended December 31		
	2011	2010	Change (2011-2010)	**2011**	2010	Change (2011-2010)
Average U.K. power price (£/MWh)	**45.33**	48.15	(6%)	**47.84**	41.13	16%
Average natural gas price (£/GJ)	**5.36**	4.93	9%	**5.34**	3.98	34%
Average emissions allowance price (£/tonne of CO_2)	**7.70**	12.74	(40%)	**11.55**	12.37	(7%)
Average Spark Spread (£/MWh)	**3.54**	7.54	(53%)	**4.73**	7.57	(38%)

Barking's actual merchant sales are not necessarily sold using the same Spark Spread indicator used in the table above and the graph below. The table and graph depict the spot market, whereas the Barking generating plant generally utilizes a combination of available arrangements to sell its capacity, including short term bilateral transactions, as well as intra day electrical energy services transactions. The following chart demonstrates the volatility of U.K. Spark Spreads since the beginning of 2007:



Regulated Generating Plants

The electricity generated by the Battle River and Sheerness generating plants is sold pursuant to PPAs. Under the PPAs, ATCO Power is required to make the generating capacity for each generating unit available to the purchaser of the PPA for that unit. In return, ATCO Power is entitled to recover its forecast fixed and variable costs for that unit from the PPA purchaser, including a rate of return on common equity equal to the long term Government of Canada bond rate plus 4.5% based on a deemed common equity ratio of 45%. Many of the forecast costs will be determined by indices, formulae or other means for the entire period of the PPA. ATCO Power's actual results will vary and depend on performance compared to the forecasts on which the PPAs were based. The return on common equity rate used in its PPA tariff calculations for ATCO Power was 7.90% in 2011 and 8.44% in 2010. The rate of return on common equity for 2012 is 7.23%.

Under the terms of the PPAs, ATCO Power is subject to an incentive/penalty regime related to generating unit availability. Incentives are payable by the PPA counterparties for availability in excess of predetermined targets, and penalties are payable by ATCO Power when the availability targets are not achieved. These amounts are deferred and amortized based on estimates of future generating unit availability and future electricity prices over the term of the PPAs.

During 2011, the **unearned availability incentive** account **increased** by $20 million to $68 million. The increase in the balance was primarily due to availability incentives received for both the Battle River and Sheerness generating plants during the year as a result of high availability during periods of high Alberta Power Pool electricity prices. Partially offsetting this increase was the amortization of deferred availability incentives. During the year the amortization of deferred availability incentives, recorded in revenue, increased by $6 million to $20 million compared to the same period in 2010.

A decision to operate Battle River units 3 and 4 after the expiry of the contracts in 2013 has not yet been finalized. The ability to operate beyond the PPA term will in part depend on the final version of the various environmental regulations which are currently in draft form. At this point, ATCO Power expects to operate both of these units beyond 2013. However, it is yet to be determined how long this period will be.

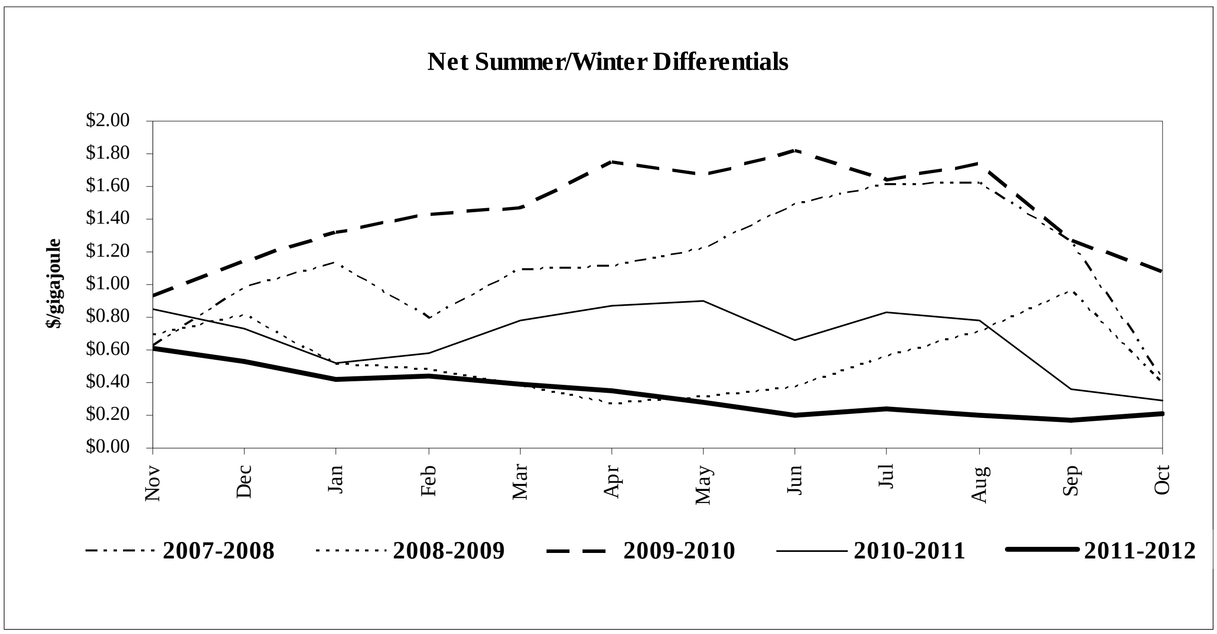
ATCO Midstream

ATCO Midstream engages in non-regulated natural gas gathering, processing, storage and natural gas liquids extraction services and sales.

Storage Operations

The majority of ATCO Midstream's natural gas storage revenues come from seasonal differences (summer/winter) in the price of natural gas (Storage Price Differentials). Seasonal storage differentials are differences between summer and winter natural gas prices. Seasonal Storage Price Differentials are lower than historic averages and as a consequence have resulted in lower storage revenues.

Storage Price Differentials can be volatile, as shown in the following graph, which illustrates a range of seasonal differentials experienced during the storage periods from the 2007-2008 storage year to the 2011-2012 storage year. The storage year is defined as April to October injection and November to March withdrawal, however, Storage Price Differentials are typically contracted prior to the beginning of the withdrawal period. Storage Price Differentials at any point in time may not be indicative of the storage revenue and earnings for the same period due to the types of contracts and the timing of the revenue recognition associated with these contracts.



[(1)] *The above chart represents Alberta Storage Price Differentials derived from prices reported on the Natural Gas Exchange (NGX).*

Fluctuations in Storage Price Differentials affect ATCO Midstream's earnings and cash flow from operations. At current values, a $0.05 per gigajoule change in the Storage Price Differentials impacts the Corporation's annual consolidated earnings attributable to Class I and Class II Shares by approximately $1 million.

Transfer of Carbon Facility

The AUC approved the internal transfer of the Carbon Facility from ATCO Gas to ATCO Midstream. The transfer, which was measured at the carrying value of assets of $43 million and liabilities of $6 million, was completed for cash consideration of $37 million on June 1, 2011.

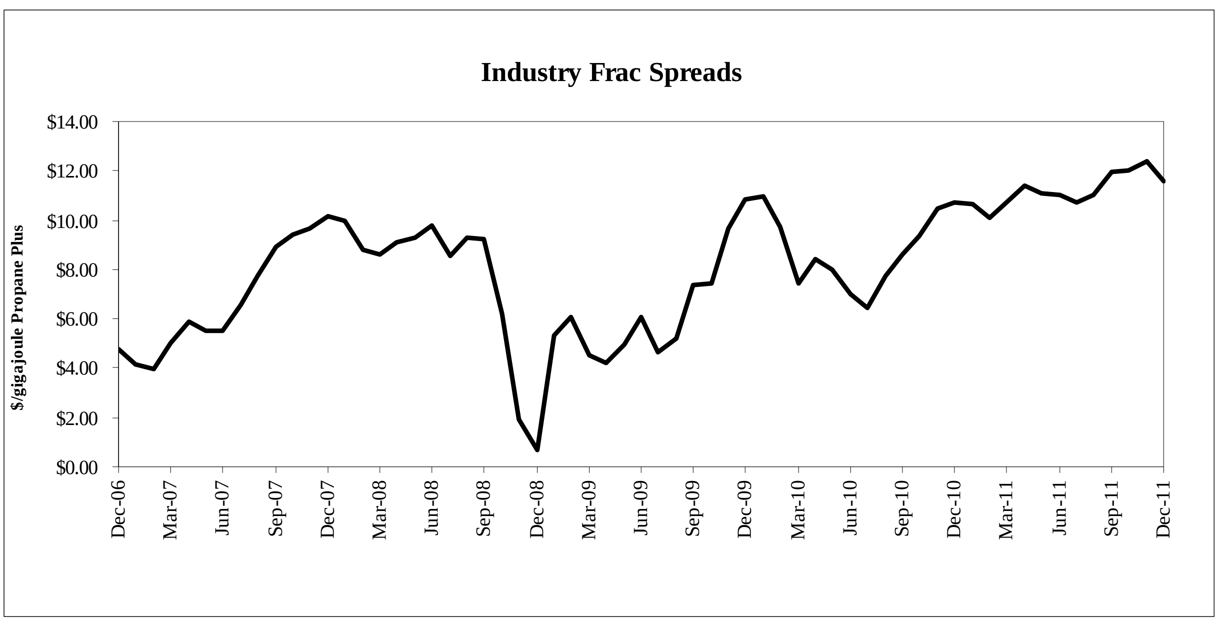
Compressor Failure at the Carbon Facility

On May 24, 2011, one of the five compressors at the Carbon Facility experienced damage due to mechanical failure. During the remainder of 2011 approximately 28% of the Carbon Facility's physical gas deliverability was compromised, but all existing contractual commitments were met. The cost of repairs is expected to be recovered through insurance. The unit will return to service in early 2012. As the compressor failure occurred during a period of low Storage Price Differentials, there was no significant impact on 2011 earnings.

NGL Extraction Operations

A portion of ATCO Midstream's revenues is derived from the extraction of NGL from natural gas and the marketing of NGL products under sales contracts. ATCO Midstream owns a net working interest of 411 million cubic feet per day of processing capacity in its NGL extraction plants. Throughput for ATCO Midstream's NGL extraction operations was 296 mmcf/day and 342 mmcf/day for the three months and year ended December 31, 2011, respectively, compared to 399 mmcf/day and 337 mmcf/day, respectively, for the comparative periods in 2010. The reduction in throughput for the three months ended December 31, 2011, compared to the same period in 2010 was largely due to increased competition for natural gas supply at some of ATCO Midstream's NGL facilities.

The majority of ATCO Midstream's NGL extraction operations involve the extraction of NGL from natural gas and the replacement (on a heat content equivalent basis) of the NGL extracted with shrinkage gas. For Propane Plus, the difference between the price of natural gas and the value of the liquids extracted is commonly referred to as the Frac Spread. Frac Spreads vary with fluctuations in the price of natural gas and the prices of the applicable liquids extracted. Frac Spreads can be volatile, as shown in the following graph, which illustrates monthly Frac Spreads during the period of December 2006 to December 2011.



(1) *The above chart represents measurements of industry Frac Spreads in Alberta as reported by an independent consultant. The average Frac Spreads for the three months and year ended December 31, 2011, were $12.00 and $11.22 per gigajoule, respectively, compared to $10.17 and $8.74 per gigajoule, respectively, for the three months and year ended December 31, 2010.*

Historically, fluctuations in Frac Spreads directly affected ATCO Midstream's earnings and cash flow from operations. More recently, owing to increased competition for natural gas supply, the positive effect from higher Frac Spreads is being partially offset by increased costs of obtaining natural gas for extraction. Therefore, a correlation of Frac Spreads to earnings cannot be made. Earnings from ATCO Midstream's NGL operations in 2011 were approximately the same as 2010.

Ikhil Natural Gas Supply

In December 2010, Inuvik Gas Ltd., a distribution company serving the Town of Inuvik in the Northwest Territories, and the Ikhil Joint Venture, holding natural gas reserves and related assets at Ikhil near the Town of Inuvik, in each of which ATCO Midstream has a one-third interest, announced their intention to perform repairs on a natural gas well as a result of natural gas deliverability issues. Repair work, which was concluded in March 2011, was not successful and the well was shut in.

The Ikhil Joint Venture and Inuvik Gas Ltd. are evaluating short and long term strategies for maintaining gas supply and are currently taking steps to mitigate the impact of a shortage of gas supplies from the currently producing well. These steps have included the decision by the Northwest Territories Power Corporation to convert its power generation from natural gas to diesel.

Natural gas production from the second well at Ikhil currently meets the demands of Inuvik Gas Ltd., the gas supplier for the Town of Inuvik. A report on the life of reserves has been finalized which indicates that there are approximately 1.2 years of proved reserves and 2.3 years of proved and probable reserves remaining at current and anticipated usage rates. The Ikhil Joint Venture operator, Utility Group Facilities Inc. (a subsidiary of AltaGas Ltd.) on behalf of the joint venture partners, continues to work with consultants and other parties to evaluate alternative gas supply options for meeting future requirements. The remaining net book value of ATCO Midstream's Ikhil assets is $9 million as at December 31, 2011.

Energy Business Risks

Energy Price Risk

A combination of changes to the power reserve margin (the amount of power supply in relation to demand) and natural gas prices can result in volatility in Alberta and U.K. power prices and the commensurate Spark Spreads.

ATCO Midstream's NGL extraction operations are exposed to the difference between the selling price of NGL and the purchase price of Shrinkage Gas, the cost of transporting natural gas to its facilities, and power costs. ATCO Midstream is also exposed to Storage Price Differentials at its Carbon Facility.

The Corporation is unable to determine what future changes in energy markets could occur and how these changes could affect the Corporation.

Generation Equipment and Technology Risk

ATCO Power's generating plants are exposed to operational risks which may cause outages due to such issues as boiler, turbine, and generator failures. In order to mitigate this risk, a proactive maintenance program is carried out on a regular basis with scheduled outages for major overhauls and other maintenance issues. In addition, the Corporation carries property and business interruption insurance for its independent power plants to protect against the risk of extended outages. The PPAs are designed to provide force majeure relief for regulated plant outages beyond 42 days.

If a generating plant does not meet availability or production targets specified in the PPA or other long term agreement, ATCO Power may be required to compensate the purchaser for the loss in the availability of production. For merchant facilities, an outage may result in lost merchant opportunities. Therefore, an extended outage would have a negative impact on earnings and cash flows.

Coal Supply for Battle River and Sheerness Generating Plants

Fuel costs for the Battle River and Sheerness generating plants are mostly for coal supply. To protect against volatility in coal prices, ATCO Power owns or has sufficient coal supplies under long term contracts for the anticipated lives of its Battle River and Sheerness coal-fired generating plants. These contracts are at prices that are either fixed or indexed to inflation.

NGL Extraction Rights

At ATCO Midstream's NGL facilities, the Corporation contracts commercial arrangements with parties who hold NGL extraction rights on those pipelines delivering gas to the NGL facilities. As a result of an industry-wide review and subsequent AUC decision, the ownership of NGL extraction rights is proposed to transfer from the border delivery shippers (generally exporters from the province who include some of ATCO Midstream's suppliers) to receipt point shippers (generally producers). If implemented, this decision may alter which parties own NGL extraction rights and consequently the parties with which ATCO Midstream negotiates. In October 2011, NGTL filed a regulatory application to transfer the ownership of NGL extraction rights to receipt point shippers effective November 2013. The application remains contentious with many parties prepared to oppose with full legal effort. The earnings and cash flow impact on certain of ATCO Midstream's NGL extraction facilities from this issue is uncertain at this time.

Measurement Inaccuracies in Metering Facilities

Measurement inaccuracies occur from time to time with respect to ATCO Midstream's metering facilities. Measurement adjustments are settled between parties based on the requirements of the provincial regulatory bodies within the jurisdictions in which ATCO Midstream operates and the contract terms between parties. There is a risk that measurement adjustments may not be recoverable if controls and timely follow up exceed contractual limitation periods.

Carbon Natural Gas Storage Facility

In the normal course of operation, the Carbon Facility is subject to drainage. In an effort to protect the Carbon Facility from drainage, ATCO Midstream monitors operating pressures and from time to time commissions studies to help protect the integrity of the Carbon Facility. In those instances where it has been deemed necessary, ATCO Midstream has undertaken an acreage protection program whereby it acquires the rights to surrounding properties to protect the integrity of the Carbon Facility by either minimizing or eliminating the effects of drainage.

Environmental Matters

The Energy Segment is subject to extensive federal, provincial and local environmental protection laws concerning emissions to the air, discharges to surface and subsurface waters, land use activities and the handling, manufacturing, processing, use, emission and disposal of materials and waste products.

Greenhouse Gas Emissions

Alberta legislation requires most large emitters to reduce GHG emission intensities by up to 12% as compared to a baseline for the 2003 to 2005 period. For cogeneration facilities, steam production GHG emissions are also subject to the same reduction target; however, these facilities are eligible for special GHG treatment and emissions credits.

The Government of Canada published the draft *Reduction of Carbon Dioxide Emissions from Coal-Fired Generation of Electricity Regulations* on August 27, 2011. The proposed regulations will apply a "clean as gas" performance standard to new coal-fired generation units and units that have reached the end of their economic life. If enacted, the regulations will limit the life of ATCO Power's Battle River and Sheerness conventional coal-fired units to 45 years or three years after the expiry of the PPA, whichever is later. Final regulations are expected to be published in 2012 and are scheduled to come into effect on July 1, 2015.

It is anticipated that the Alberta GHG program will be harmonized with the federal program.

The Barking generating plant in the U.K. complies with the European Union Emissions Trading Scheme (EU-ETS) which is currently in its second phase until the end of 2012. Under this second of three phases, Barking is allocated a free allowance of 1.4 million tonnes which it sells on the EU-ETS market. Barking then purchases emissions allowances from the EU-ETS market, as required, on a forward basis concurrently with forward power sales. This approach currently provides a full recovery of these emissions compliance costs.

Air Pollutants

Alberta regulation requires coal-fired generating plant operators, including ATCO Power, to monitor mercury emissions and target a capture of at least 70% of the mercury in the coal commencing January 1, 2011. Mercury control equipment was installed at the Battle River and Sheerness generating plants.

In 2008, the Clean Air Strategic Alliance (CASA) conducted a review of air emissions standards (sulphur dioxide, nitrogen oxides, mercury, and particulate matter) for the power generation sector in Alberta. CASA recommended new standards to the Alberta Government in June 2010 but they have yet to be formally adopted.

In October 2010, federal and provincial environment ministers agreed to move forward with a new air management approach. The proposed new system will include more ambitious air quality standards and consistent industrial emissions standards across Canada. Ministers directed officials to develop the major elements of the system in 2011, extended to March 31, 2012, for the electricity sector, with implementation to start in 2013. It is uncertain how a federal system would impact the existing provincial frameworks.

Cost Recovery

For ATCO Power's regulated power plants, it is anticipated that the PPAs will allow ATCO Power to recover all of the costs associated with complying with both the federal and Alberta regulations during the PPA terms. There is an exception to this recovery for the emissions related to output in excess of the committed capacity in the PPAs. The amount of emissions related to output in excess of this committed capacity is minimal. ATCO Power expects to recover the majority of compliance costs for its independent power plants either from existing contractual arrangements, or through the market.

The Corporation continues to monitor these developments and the impact of complying with any resulting regulations.

ATCO Australia

Acquisition of WA Gas Networks of Western Australia (WAGN)

On July 29, 2011, the Corporation's subsidiary, Canadian Utilities, acquired 100 per cent of WA Gas Networks from WestNet Infrastructure Group and the DUET Group. Included in the acquisition was WestNet Infrastructure Group's information technology division. WAGN is the natural gas distribution utility company that serves the City of Perth and surrounding areas. It connects more than 650,000 customers through 13,100 km of natural gas pipelines and associated infrastructure. The acquisition complements the Corporation's existing portfolio of energy infrastructure assets in Australia. WAGN was subsequently renamed ATCO Gas Australia and the information technology division was rebranded as ATCO I-Tek Australia.

The aggregate purchase price of the acquisition, including transaction costs of $50 million (AUD $48 million), was approximately $1.1 billion (AUD $1.0 billion), including the assumption of approximately $689 million (AUD $657 million) of debt. The balance of the aggregate purchase price was funded with $327 million (AUD $312 million) of existing cash reserves. The transaction costs, which included an estimate of Australian stamp duty, as well as legal and consulting services, were expensed as incurred and reported as an Adjusted Earnings item.

The aggregate purchase price of AUD $1.0 billion represented a premium of 1.16 times rate base of AUD $861 million.

Results of Operations

ATCO Australia's revenues **increased** by $47 million (204%) for the three months ended December 31, 2011, over 2010, primarily due to the addition of ATCO Gas Australia.

ATCO Australia's revenues **decreased** by $26 million (13%) for the year ended December 31, 2011, compared to 2010. 2010 included revenues of $130 million related to the lease of the first and second units of the Karratha plant. Operations commenced on February 14, 2010, for the first unit and April 9, 2010, for the second unit. Excluding these revenues, revenues for the year ended December 31, 2011, increased by $104 million, primarily due to the addition of ATCO Gas Australia as of July 29, 2011.

Adjusted Earnings for ATCO Australia are shown in the following table:

	For the Three Months Ended December 31			For the Year Ended December 31		
($ millions)	**2011**	2010	Change (2011-2010)	**2011**	2010	Change (2011-2010)
ATCO Gas Australia	**1**	-	-	**6**	-	-
ATCO Power Australia	**3**	2	50%	**10**	9	11%
Other [(1)]	**(3)**	-	-	**(6)**	-	-
	1	2	(50%)	**10**	9	11%

[(1)] *Other includes ATCO I-Tek Australia and ATCO Australia's Corporate Office.*

The results for ATCO Gas Australia will fluctuate due to the seasonal nature of demand for natural gas. Natural gas throughput is higher in the Australian winter months (July to September) compared to the summer months (December to February). This typically results in higher Adjusted Earnings in the second and third quarters compared to the first and fourth quarters.

Adjusted Earnings decreased by $1 million (50%) for the three months ended December 31, 2011, compared to 2010 mainly due to costs associated with the maintenance of the ATCO Australia head office and ongoing business development initiatives, partially offset by the addition of ATCO Gas Australia.

Adjusted Earnings increased by $1 million (11%) for the year ended December 31, 2011, over 2010 mainly due to the addition of ATCO Gas Australia as well as higher generation in ATCO Power Australia. These increases were partially offset by higher costs for the establishment and maintenance of the Perth head office.

ATCO Gas Australia Regulatory Environment

ATCO Gas Australia is regulated primarily by the Economic Regulation Authority (ERA) of Western Australia**.** Rates are generally set for a five year Access Arrangement (or General Rate Application) period, although the current period, which began on January 1, 2010, and ends on June 30, 2014, is only four and a half years in length because the year end for rate making purposes was switched from December 31 to June 30. ATCO Gas Australia is subject to a cost of service regulatory mechanism under which the ERA establishes the revenues for each year of the access arrangement period to recover (1) a return on projected rate base, including income taxes; (2) depreciation on the projected rate base; and (3) projected operating costs.

ATCO Gas Australia uses the real method to determine revenue requirement and customer rates. Under this method, the impact of inflation on rate base is added to rate base annually and is reflected in customer rates in future periods through the recovery of depreciation. Customer rates are adjusted annually through a mechanism which adjusts the approved rates in real dollars for actual inflation.

In the rate decision released by the ERA on February 28, 2011, for the current access period, the real return, which excludes forecast inflation of 2.6%, was approved at 7.4%. The real return is based on a deemed capital structure of 60% debt and 40% equity. The cost of debt is based on market rates for BBB rated companies in Australia, while the cost of equity is based on a capital asset pricing model. Income taxes are included in the return component of the revenue requirement.

In the third quarter of 2011, ATCO Gas Australia lodged an application to the Australian Competition Tribunal seeking leave to appeal a number of key elements of the ERA's February 28, 2011, rate decision. The key issue under appeal is the calculation of the rate of return on capital. The hearing for the appeal is scheduled for April 2012 and the Tribunal has projected late May 2012 for release of their decision.

ATCO Power Australia

Availability of the generating plants in Australia for the three months ended December 31, 2011, was 98.7% compared to 72.4% in the corresponding period in 2010, an increase of 26.3%. Availability of the generating plants in Australia for the year ended December 31, 2011, was 97.5% compared to 90.0% in 2010, an increase of 7.5%. The Osborne generating plant performed a planned outage in the fourth quarter of 2010 reducing availability.

The electricity and steam produced are sold under 20 year offtake contracts expiring between 2018 and 2030.

ATCO Australia Business Risks

Regulated Operations

ATCO Gas Australia is subject to the normal risks faced by companies that are regulated. These risks include the approval by the regulator of customer rates that permit a reasonable opportunity to recover on a timely basis the estimated costs of providing service, including a fair return on rate base. In addition, these risks include the potential for disallowance by the regulator of costs incurred. The ability to recover the actual costs of providing service and to earn the approved rates of return depends on achieving the forecasts established in the rate-setting process. The determination of fair rate of return on the common equity component of rate base is an earnings and cash flow risk.

Measurement Inaccuracies in Metering Facilities

Measurement inaccuracies occur from time to time with respect to ATCO Gas Australia’s metering facilities. ATCO Gas Australia’s measurement adjustments are settled between parties and the costs are recovered via the tariff based on a predetermined threshold of adjustment contained in the Economic Regulation Authority's Access Arrangement for the Mid-West and South-West Gas Distribution System. The Access Arrangement also contains a cost pass-through mechanism for recovery of any increases in gas commodity prices associated with these measurement adjustments.

There is a risk of disallowance of the recovery of a measurement adjustment. This may occur if the measurement adjustment exceeds the predetermined threshold of adjustment; however, it should be noted that currently levels are tracking below the threshold.

Pipeline Integrity

Pipeline ruptures in the U.S. in recent years have highlighted the risks associated with pipeline integrity. Although the probability of an occurrence is very low, the consequences of a failure can be extreme. ATCO Gas Australia, by the nature of its business, has significant pipeline infrastructure that has operated safely and effectively for decades. The Corporation has programs in place to monitor the integrity of its pipeline infrastructure and to replace pipelines as required.

Generating Plant Operating Risk

ATCO Power Australia’s generating plants are exposed to operational risks which may cause outages due to such issues as boiler, turbine, and generator failures. In order to mitigate this risk, a proactive maintenance program is carried out on a regular basis with scheduled outages for major overhauls and other maintenance issues. In addition, ATCO Power Australia carries property and business interruption insurance to protect against the risk of extended outages.

Environmental Matters

In 2011, the Australian Federal Government passed legislation intended to, among other things, regulate carbon emissions and introduce a tax on carbon for the approximately 500 largest emitters in the country. The tax will come into effect in July 2012. ATCO Power Australia’s generating plants will be regulated by this new legislation. All of these generating plants have long term contractual power purchase agreements allowing full recovery of the direct costs associated with complying with this new law.

ATCO Gas Australia’s gas distribution system may also be regulated by the new carbon emission regulations due to its unaccounted for gas being classified as fugitive emissions under the act. There is a provision in ATCO Gas Australia's Access Arrangement to pass on any cost associated with this legislation to end use customers.

Corporate & Other

Adjusted Earnings for the three months ended December 31, 2011, were $3 million, an **increase** of $3 million over the corresponding period in 2010. The increase was primarily due to lower share appreciation rights expense.

Adjusted Earnings for the year ended December 31, 2011, were $19 million, an **increase** of $11 million (138%) over 2010 mainly due to lower dividends on preferred shares resulting from the redemption of the Series 3 Preferred Shares on March 23, 2010, and lower share appreciation rights expense.

ATCO I-Tek

ATCO I-Tek is engaged in the development, operation and support of information systems and technologies.

ATCO I-Tek provides billing, payment processing, credit, collection and call centre services to its clients. ATCO I-Tek currently provides such services to Direct Energy for its regulated retail and competitive energy supply businesses in Alberta. ATCO I-Tek also supplies distribution-related billing and customer care services to ATCO Gas and ATCO Electric.

Direct Energy entered into a 10 year contract effective May 4, 2004, with ATCO I-Tek to provide billing and call centre services to ensure continued quality customer service. Direct Energy had the option to terminate this contract on May 4, 2009. As a result of negotiations in 2010, the contract was extended to December 31, 2014.

Liquidity and Capital Resources

A substantial portion of the Corporation's operating income and Funds Generated by Operations is generated from its utility operations. Canadian Utilities and its wholly owned subsidiary, CU Inc., use bank loans and commercial paper borrowings to provide flexibility in the timing and amounts of long term financing. ATCO Ltd. has received dividends from Canadian Utilities which have been more than sufficient to service debt requirements and pay dividends.

SUMMARY OF CASH FLOW

	For the Three Months Ended December 31			For the Year Ended December 31		
($ millions)	**2011**	2010	Change (2011-2010)	**2011**	2010	Change (2011-2010)
Cash position, beginning of period	**377**	539	(30%)	**645**	1,021	(37%)
Cash provided by (used in)						
Operating activities:						
Funds Generated by Operations	**474**	357	33%	**1,514**	1,234	23%
Changes in non-cash working capital	**(20)**	1	(2100%)	**(31)**	11	(382%)
Cash flow from operations	**454**	358	27%	**1,483**	1,245	19%
Investing activities	**(487)**	(284)	(71%)	**(1,701)**	(926)	(84%)
Financing activities	**414**	38	989%	**318**	(683)	147%
Foreign currency impact on cash balances	**(3)**	(6)	50%	**10**	(12)	183%
Cash position, end of period	**755**	645	17%	**755**	645	17%

OPERATING ACTIVITIES

For the three months ended December 31, 2011, **Funds Generated by Operations** and **cash flow from operations increased** by $117 million (33%) and by $96 million (27%), respectively, over 2010. These increases were primarily due to higher earnings and higher contributions by utility customers for extensions to plant.

For the year ended December 31, 2011, **Funds Generated by Operations increased** by $280 million (23%) over 2010. The increase was primarily due to higher earnings, higher contributions by utility customers for extensions to plant and increased availability incentive receipts in ATCO Power. For the year ended December 31, 2011, **cash flow from operations increased** by $238 million (19%) over 2010. This increase was primarily due to increased Funds Generated by Operations, partially offset by a reduction in changes in non-cash working capital mainly due to increased accounts receivable in ATCO Structures & Logistics as a result of increased manufacturing and rental activity.

INVESTING ACTIVITIES

For the three months ended December 31, 2011, **cash used in investing activities increased** by $203 million (71%) compared to the corresponding period of 2010. This was mainly due to the increased capital investment in regulated distribution and transmission infrastructure projects in ATCO Electric and regulated natural gas distribution projects in ATCO Gas, partially offset by higher capital accounts payable in ATCO Electric.

For the year ended December 31, 2011, **cash used in investing activities increased** by $775 million (84%) over 2010. This increase was mainly due to the $315 million (net of cash acquired) for the WAGN Acquisition and increased capital investment in regulated distribution and transmission infrastructure projects in ATCO Electric and regulated natural gas distribution projects in ATCO Gas. These increases were partially offset by higher capital accounts payable in ATCO Electric.

Capital expenditures for the year ended December 31, 2011, are shown in the following table:

($ millions)	For the Year Ended December 31 **2011**	2010	Change (2011-2010)
Utilities			
Electric Transmission and Distribution	**892**	492	81%
Gas Distribution	**286**	195	47%
Pipeline Transmission	**110**	83	33%
Energy	**33**	26	27%
ATCO Australia	**23**	27	(15%)
Structures & Logistics	**132**	98	35%
Corporate & Other	**24**	13	85%
	1,500	934	61%

Capital expenditures to maintain capacity, meet planned growth, and fund future development activities are expected to be approximately $2.3 billion in 2012, an increase of $0.8 billion over 2011. The majority of these expenditures relate to the Utilities segment. Capital expenditures in the Utilities segment are expected to be approximately $1.9 billion in 2012 and up to $2.0 billion in each of 2013 and 2014 (refer to Segmented Information – Utilities – Regulatory Developments – ATCO Electric section). These expenditures are expected to be financed by a combination of Funds Generated by Operations and capital market financings.

The planned capital expenditures for the Utilities segment are based on the following significant assumptions:

- the projects identified by the AESO, excluding EATL, will proceed as currently scheduled;
- EATL will proceed with an estimated in-service date of late 2014. The achievement of an in-service date in 2014 for EATL is dependent upon the government deciding to proceed with the project and the timing of receiving final regulatory approvals from the AUC;
- the remaining planned capital expenditures in the Utilities segment are required to maintain safe and reliable capacity and meet planned growth in the Utilities' service areas. These expenditures are consistent with the anticipated growth in the Alberta economy and in the Utilities' service areas;
- the regulatory system in Alberta will remain substantially unchanged; and
- continued access to capital market financings.

In the opinion of the Corporation, these assumptions are reasonable, but no assurance can be given that these assumptions will prove to be correct.

The Corporation is subject to the normal risks associated with major capital projects, including delays and cost overruns. Although the Corporation attempts to mitigate these risks by careful planning and entering into long term contracts when possible, there can be no assurance against significant cost overruns or delays.

FINANCING ACTIVITIES

In 2011, the Corporation had **net issuances** of long term debt of $574 million, mainly as a result of the issuance on October 24, 2011, of $500 million of 4.543% debentures maturing on October 24, 2041, and $200 million of 4.593% debentures maturing on October 24, 2061, by CU Inc., a wholly owned subsidiary of Canadian Utilities. These issuances were partially offset by the redemption of $100 million of 7.05% debentures due June 1, 2011, and repayment of long term debt by ATCO Structures & Logistics. Repayments of non-recourse long term debt by ATCO Power totaled $39 million.

On September 21, 2011, Canadian Utilities **issued** $325.0 million of 4.00% Cumulative Redeemable Preferred Shares Series Y under its base shelf prospectus (refer to Base Shelf Prospectuses – Canadian Utilities Preferred Shares section).

On March 23, 2010, the Corporation **redeemed** $150.0 million of 5.75% Cumulative Redeemable Preferred Shares Series 3.

On December 2, 2011, Canadian Utilities **redeemed** all of its outstanding Series O, T and U Perpetual Cumulative Second Preferred Shares totaling $100 million.

On March 1, 2010, the Corporation commenced a **normal course issuer bid** for the purchase of up to 3% of the outstanding Class I Shares. The bid expired on February 28, 2011. From March 1, 2010, to February 28, 2011, 499,200 shares were purchased, all of which were purchased in 2010. On March 1, 2011, the Corporation commenced a new **normal course issuer bid** for the purchase of up to 3% of the outstanding Class I Shares. The bid will expire on February 29, 2012. From March 1, 2011, to December 31, 2011, 324,200 shares were purchased.

Purchases of Class I Shares under the Corporation's normal course issuer bid were $20 million in 2011 compared to $27 million in 2010. **Issues** of Class I Shares due to stock option exercises were $4 million in each of 2011 and 2010. **Net purchases** were $16 million in 2011 compared to **net purchases** of $23 million in 2010.

Total **dividends paid to Class I and Class II Share owners increased** by $4 million to $66 million. In 2011, the **quarterly dividend** payment on the Class I and Class II Shares was **increased** by $0.02 (8%) to $0.285 per share over 2010. On January 12, 2012, the Board of Directors declared a first quarter dividend of $0.3275 per share, a 15% increase over the $0.285 per share paid in each of the previous four quarters. The Corporation has increased its common share dividend each year since 1993. The payment of any dividend is at the discretion of the Board of Directors and depends on the financial condition of the Corporation and other factors.

FOREIGN CURRENCY TRANSLATION

Foreign currency translation increased the Corporation's cash position by $10 million due to changes in the U.K. and Australian exchange rates used for balance sheet translations.

LINES OF CREDIT

At December 31, 2011, the Corporation and its subsidiaries had approximately $2,370 million in credit lines, of which $2,108 million was available.

($ millions)	Total	Used	Available
Long term committed	2,209	192	2,017
Uncommitted	161	70	91
Total	2,370	262	2,108

Of the $2,370 million in total credit lines, $161 million is in the form of uncommitted credit facilities with no set maturity date. The other $2,209 million in credit lines are committed with maturities between June 2013 and October 2015, unless extended at the option of the lenders. The majority of the $262 million of credit line usage was associated with ATCO Gas Australia and ATCO Structures & Logistics. Credit lines in Australia for ATCO Gas Australia and ATCO Structures & Logistics are provided by Australian banks and amounted to $175 million, of which $49 million was unused. The majority of all other credit lines are provided by Canadian banks either individually or as a syndicate. The amount and timing of future financings will depend on market conditions and the specific needs of the Corporation.

BASE SHELF PROSPECTUSES

CU Inc. Debentures

On May 18, 2010, CU Inc. filed a **base shelf prospectus** that permits CU Inc. to issue up to an aggregate of $1.7 billion of debentures over the twenty-five month life of the prospectus. On October 24, 2011, CU Inc. issued $500 million of 4.543% debentures due October 24, 2041, and $200 million of 4.593% debentures due October 24, 2061.

The proceeds of these issues were advanced to ATCO Electric, ATCO Gas and ATCO Pipelines to be used to fund capital expenditures, to repay indebtedness and for other general corporate purposes.

Canadian Utilities Preferred Shares

On September 12, 2011, Canadian Utilities filed a base shelf prospectus that permits Canadian Utilities to issue up to $2.0 billion of preferred shares and debt securities over the twenty-five month life of the prospectus.

On September 21, 2011, Canadian Utilities issued $325 million of Cumulative Redeemable Second Preferred Shares Series Y at a price of $25.00 per share under its base shelf prospectus. Holders will be entitled to receive fixed cumulative preferential cash dividends, as and when declared by the Board of Directors of Canadian Utilities, payable quarterly for an initial period of five and a half years at a rate of $1.00 per share to yield 4.00% annually. Thereafter the dividend rate will reset every five years to the then current 5-year Government of Canada bond yield plus 2.40%. On June 1, 2017, and on June 1 of every fifth year thereafter, Canadian Utilities may redeem the Series Y Preferred Shares in whole or in part at par.

Holders may elect to convert any or all of their Series Y Preferred Shares into an equal number of Cumulative Redeemable Second Preferred Shares Series Z on June 1, 2017, and on June 1 of every fifth year thereafter. Holders of the Series Z Preferred Shares will be entitled to receive floating rate cumulative preferential cash dividends, as and when declared by the Board of Directors of Canadian Utilities, payable quarterly at a rate equal to the then current 3-month Government of Canada Treasury

Bill yield plus 2.40%. On June 1, 2022, and on June 1 of every fifth year thereafter ("Series Z Conversion Date"), holders of the Series Z Preferred Shares may elect to convert any or all of their Series Z Preferred Shares back into an equal number of Series Y Preferred Shares. Canadian Utilities may redeem the Series Z Preferred Shares in whole or in part by payment of $25.00 per share on a Series Z Conversion Date or $25.50 per share if redeemed on any other date.

ATCO GAS AUSTRALIA FINANCING

In December 2011, ATCO Gas Australia refinanced AUD$250 million of debt, extending its maturity from 2012 to 2015. ATCO Gas Australia's debt is rated by both S&P and Moody's. In conjunction with the refinancing, and to recognize the improvements ATCO has made to the business since the acquisition in July 2011, both S&P and Moody's revised their ratings outlook from 'negative' to 'stable', and S&P increased its rating from BBB- to BBB.

Share Capital

The equity securities of the Corporation consist of Class I Shares and Class II Shares.

At February 17, 2012, the Corporation had outstanding 50,892,556 Class I Shares, 6,837,008 Class II Shares, and options to purchase 453,750 Class I Shares.

CLASS I NON-VOTING SHARES AND CLASS II VOTING SHARES

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

Of the 5,100,000 Class I Shares authorized for grant in respect of options under the Corporation's stock option plan, 1,570,150 Class I Shares were available for issuance at December 31, 2011. Options may be granted to officers and key employees of the Corporation 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 date of grant. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the time of grant. As of February 17, 2012, options to purchase 453,750 Class I Shares were outstanding.

Pension Plans

With respect to the Corporation's registered defined benefit pension plans, the Corporation is required to provide the balance of the funding not provided by employees necessary to ensure that benefits will be fully provided for at retirement for the members of those pension plans.

Declines in stock markets and bond yields, changes in actuarial assumptions, and additional employee service have created funding deficits in the defined benefit components of the Corporation's pension plans. In 2010, the Corporation commenced current service and deficit funding contributions.

The actual funding contributions for 2010 and 2011 were established based on actuarial valuations for funding purposes as of December 31, 2009. Based on these final actuarial valuations, the employer contributions relating to both the defined contribution and the defined benefit components of the plan for

2011 were $79 million. The next actuarial valuations for funding purposes are required to be completed as of December 31, 2012.

For purposes of any pension funding requirements pertaining to utility operations, the AUC has directed that the cash basis of accounting be used in customer rate applications. Accordingly, the Corporation includes the cost of funding in its rate applications to the AUC, thereby, with the consent of the AUC, recovering approximately 72% of the costs of funding its pension plans from utility customers. The net funding contribution amounts (actual funding contributions less recovery from utility customers) were approximately $22 million in 2011. Pension funding contributions do not equate to pension expense for accounting purposes. A description of pension expense can be found in Note 31 to the 2011 Annual Financial Statements.

The AUC's September 27, 2011, decision on the pension hearing (refer to Segmented Information – Utilities section) has the potential to reduce the amount of pension funding that is recovered from utility customers. This decision is effective for current service funding requirements starting in 2012 and for current service and deficit funding requirements starting in 2013. The Utilities filed a review and variance application on this decision with the AUC in the fourth quarter of 2011, and have applied to the Alberta Court of Appeal for leave to appeal the decision pending the outcome of the review and variance application.

Risk Management and Financial Instruments

The Corporation's Board of Directors is responsible for understanding the principal risks of the business in which the Corporation is engaged, achieving a proper balance between risks incurred and the potential return to share owners, and confirming that there are systems in place that effectively monitor and manage those risks with a view to the long-term viability of the Corporation. The Board of Directors has established a Risk Review Committee, which reviews significant risks associated with future performance, growth and lost opportunities identified by management that could materially affect the Corporation's ability to achieve its strategic or operational targets. This committee is responsible for confirming that management has procedures in place to mitigate identified risks.

The Corporation is exposed to changes in interest rates, commodity prices and foreign currency exchange rates. The Energy segment is affected by the cost of natural gas, the price of natural gas liquids and the price of electricity in Alberta and the U.K. In conducting its business, the Corporation may use various instruments, including forward contracts, swaps and options, to manage the risks arising from fluctuations in exchange rates, interest rates and commodity prices. All such instruments are used only to manage risk and not for trading purposes.

At December 31, 2011, the following derivative instruments were outstanding: interest rate swaps that hedge interest rate risk on the variable future cash flows associated with a portion of long term debt and non-recourse long term debt, forward power sales, forward gas purchases and greenhouse gas emission credit purchases to fix U.K. spark spreads for a portion of availability at the Barking Power generating plant and certain natural gas purchase contracts that were not considered own-use contracts.

The Corporation's derivative assets and liabilities outstanding at December 31, 2011, were $5 million (2010 - $11 million) and $32 million (2010 - $8 million), respectively.

Interest rate risk

The interest rate risk faced by the Corporation is largely a result of its non-recourse long term debt at variable rates and cash and cash equivalents. The Corporation 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, 2011, the Corporation has fixed interest rates, either directly or through interest rate swap agreements, on 96% of total long term debt and non-recourse long term debt. Consequently, the exposure to fluctuations in future cash flows, with respect to debt, as a result of changes in market interest rates is limited.

The Corporation's cash and cash equivalents include fixed rate instruments with maturities of generally 90 days or less that are reinvested as they mature. The Corporation has exposure to interest rate movements that occur beyond the term of maturity of the fixed rate investments.

Foreign currency exchange rate risk

The Corporation's earnings from, and carrying values of, its foreign operations are exposed to fluctuations in exchange rates. This foreign exchange impact is partially offset by foreign-denominated financing costs and by the Corporation's 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.

The Corporation is also exposed to transactional foreign exchange risk through transactions which are denominated in a foreign currency. The Corporation manages this risk through its policy to match revenues and expenses in the same currency. When this is not possible, the Corporation utilizes foreign currency forward contracts to manage the risk. There were no foreign currency forward contracts outstanding as of December 31, 2011.

Energy commodity price risk

The Corporation is exposed to energy commodity price risk in its power generation, NGL extraction, and natural gas storage operations. Refer to Results of Operations – Energy section for a description of this risk.

Natural gas purchase contracts

The Corporation has long term contracts for the supply of natural gas for certain of its power generation projects. Under the terms of certain of these contracts, the volume of natural gas that the Corporation is entitled to take is in excess of the natural gas required to generate power. As the excess volume of natural gas can be sold, the Corporation is required to account for this option as a derivative asset. The Corporation recognized a non-current derivative asset and records mark-to-market adjustments through earnings as the fair values of these contracts change with changes in period-end market prices for natural gas and implied volatility.

Other income (expense) for the year ended December 31, 2011, includes a loss of $3 million (2010 - loss of $19 million) related to the change in fair value of the natural gas purchase contracts derivative asset.

Credit risk

For cash and cash equivalents and accounts receivable, credit risk represents the carrying amount on the consolidated balance sheet. 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. Approximately 86% of the cash equivalents at December 31, 2011, were invested in Government of Canada treasury bills and certificates of deposit issued by Canadian financial institutions.

Derivative credit risk and lease receivable credit risk arise from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. These risks are minimized by dealing with large, credit-worthy counterparties in accordance with established credit approval policies.

The maximum exposure to credit risk is the carrying value of loans and receivables and derivative financial instruments on the balance sheet. The Corporation does not have a concentration of credit risk with any counterparties, except for the lease receivables, which by their nature are with single counterparties. A significant portion of loans and receivables arise from the Corporation's operations in Alberta, with the exception of the lease receivable for the Karratha plant in Australia.

Accounts receivable credit risk is reduced by a large and diversified customer base, requirement for credit security such as letters of credit, and, for the Utilities, the ability to recover an estimate for doubtful accounts through approved customer rates and the ability to request recovery through customer rates for any losses from retailers beyond that covered by the retailer security provided in accordance with provincial regulations.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations associated with financial liabilities. Cash flow from operations provides a substantial portion of the Corporation'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 are used under available credit lines to provide flexibility in the timing and amounts of long term financing. The Corporation has a policy not to invest any of its cash balances in asset backed securities.

As at December 31, 2011, the Corporation's cash position was $755 million and there were available committed and uncommitted lines of credit of approximately $2.1 billion which can be utilized for general corporate purposes.

Contractual obligations for the next five years and thereafter are as follows:

		Payments Due by Period			
($ millions)	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Accounts payable and accrued liabilities	693	693	-	-	-
Operating leases	218	63	62	47	46
Long term debt	4,412	139	616	352	3,305
Non-recourse long term debt	383	40	85	54	204
Interest expense (1)	4,209	295	548	437	2,929
Purchase obligations:					
Coal purchase contracts (2)	769	89	181	193	306
Natural gas purchase contracts (3)	30	13	17	-	-
Operating and maintenance agreements (4)	359	153	133	36	37
Capital expenditures (5)	216	216	-	-	-
Derivatives (6)	4	1	2	1	-
Other	15	12	3	-	-
Total	11,308	1,714	1,647	1,120	6,827

(1) *Interest payments on floating rate debt that has not been hedged have been estimated using rates in effect at December 31, 2011. Interest payments on debt that has been hedged have been estimated using the hedged rates.*

(2) *ATCO Power has fixed price long term contracts to purchase coal for its coal-fired generating plants. These costs are recoverable pursuant to the PPAs.*

(3) *Natural gas purchase contracts consist primarily of ATCO Power contracts to purchase natural gas for certain of its natural gas-fired generating plants.*

(4) *ATCO Power has long term service agreements with suppliers to provide operating and maintenance services at certain of its generating plants. As of October 2011, ATCO Gas receives all required transmission service from NGTL. The contract with NGTL is annual with an expiry date of December 31. Prior to the ATCO Pipelines/NGTL integration, this service was provided by ATCO Pipelines.*

(5) *Various contracts to purchase goods and services with respect to capital expenditure programs.*

(6) *Payments on outstanding derivatives have been estimated using rates in effect at December 31, 2011.*

Financing risk

The Corporation'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, this can affect the availability of capital and also the relevant financing costs.

To address this risk, the Corporation manages its capital structure to maintain strong credit ratings which allows the Corporation continued access to the capital markets. The Corporation also maintains sufficient liquidity through cash balances and committed credit facilities to ensure that obligations are paid when due.

Transactions with Related Parties

On January 1, 2011, the Corporation transferred its wholly owned subsidiary, ATCO Resources, to ATCO Power, a wholly owned subsidiary of Canadian Utilities. The fair value of the common shares of ATCO Resources, net of its existing debt obligations, was $82.5 million, as estimated by an independent financial advisor and supported by management.

In other transactions with entities related through common control, the Corporation sold and rented manufactured product and recovered administrative expenses totaling nil (2010 - less than $1 million) and incurred advertising, promotion and administrative expenses totaling $1 million (2010 - $2 million).

In transactions with the Corporation's group pension plans, the Corporation paid occupancy costs of $6 million (2010 - $6 million) relating to property owned by the pension plans.

Except for the transfer of ATCO Resources to ATCO Power, these transactions are in the normal course of business and under normal commercial terms, measured at the exchange amount.

Off-Balance Sheet Arrangements

At December 31, 2011, there are tax losses and non-capital losses of $15 million for which no benefit has been recorded. For additional information about the Corporation's unrecorded deferred income tax liabilities, refer to Note 10 to the 2011 Annual Financial Statements.

The Corporation 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, such considerations as liquidity and capital resources.

Contingencies

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

Critical Accounting Estimates

The preparation of the Corporation's consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. On an on-going basis, management reviews its estimates, particularly those related to depreciation and amortization methods, useful lives and impairment of long-lived assets, amortization of unearned availability incentives, asset retirement obligations, retirement benefits, the fair value of financial instruments and the fair value of identifiable assets acquired in business combinations, using currently available information. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates. The Corporation's critical accounting estimates are discussed below.

FAIR VALUE OF ASSETS ACQUIRED AND LIABILITIES ASSUMED ON WAGN ACQUISITION

On July 29, 2011, the Corporation acquired WA Gas Networks (see Results of Operations – Segmented Information – ATCO Australia section). The determination of the fair values of identifiable assets acquired and the liabilities assumed required management to make assumptions and estimates about future events. Significant judgment was required in the analysis of the industry and estimation of future earnings including: the likelihood of new entrants in the retail gas market in Western Australia, forecasted demand for natural gas commodity prices, and expected synergies and other benefits from the combination. Critical estimates and assumptions included discount rates, weighted average cost of capital, estimated useful lives and residual values of tangible assets, and current replacement costs. Changes in any of these assumptions or estimates could impact the amounts assigned to assets and liabilities. The fair values of the identifiable assets acquired and liabilities assumed were determined in consultation with a third party professional valuator, using methods and procedures that are generally accepted.

RETIREMENT BENEFITS

The expected long term rate of return on pension plan assets is determined at the beginning of the year on the basis of the high quality long bond yield rate plus an equity and management premium that reflects the plan asset mix. A premium of 1.2% was added to the high quality long bond yield rate of 5.6%, resulting in an expected long term rate of return of 6.8% for 2011. This methodology is supported by actuarial guidance on long term asset return assumptions for the Corporation's defined benefit pension plans, taking into account asset class returns, normal equity risk premiums, asset diversification effect on portfolio returns and the Corporation's portfolio asset mix policy.

Expected return on plan assets for the year is calculated by applying the expected long term rate of return to the market related value of plan assets, at the beginning of the year and the expected changes in assets due to contributions and benefit payments. The expected long term rate of return declined from 7.0% to 6.8% in the year ended December 31, 2011. The result has been a decrease in the expected return on plan assets and a corresponding increase in the cost of pension benefits.

Accrued benefit obligations at the end of the year are determined using a discount rate that reflects market interest rates that match the timing and amount of expected benefit payments. The liability discount rate has also declined to 5.2% at the end of 2011. The result is an increase in benefit obligations (i.e., an experience loss), which is recorded to other comprehensive income for the year.

The assumed annual health care cost trend rate increases used in measuring the accumulated post employment benefit obligations in the year ended December 31, 2011, are as follows: for drug costs, 6.2% starting in 2011 grading down over 13 years to 4.5%, and for other medical and dental costs, 4.5% and 4.0%, respectively, for 2011 and thereafter. Combined with lower recent claims experience, the effect of these changes has been to decrease the costs of other post employment benefits.

The sensitivities of key assumptions used in measuring accrued benefit obligations and benefit plan cost for 2011 are outlined in the following table. The sensitivities of each key assumption have been calculated independently of changes in other key assumptions. Actual experience may result in changes in a number of assumptions simultaneously.

($ millions)	2011 Pension Benefit Plans Accrued Benefit Obligation	2011 Pension Benefit Plans Benefit Plan Cost	2011 Other Post Employment Benefit Plans Accrued Benefit Obligation	2011 Other Post Employment Benefit Plans Benefit Plan Cost
Expected long term rate of return on plan assets				
1% increase	-	(11)	-	-
1% decrease	-	11	-	-
Liability discount rate				
1% increase	(259)	(2)	(10)	-
1% decrease	323	2	12	-
Future compensation rate				
1% increase	47	3	-	-
1% decrease	(45)	(2)	-	-
Long term inflation rate (1) (2)				
1% increase	194	9	9	1
1% decrease (2)	(221)	(10)	(7)	(1)

(1) *The long term inflation rate for pension plans reflects the fact that pension plan benefit payments have historically been indexed annually to increases in the Canadian Consumer Price Index to a maximum increase of 3.0% per annum.*

(2) *The long term inflation rate for other post employment benefit plans is the assumed annual health care cost trend rate described in the weighted average assumptions.*

Future Accounting Changes

Certain new or amended standards have been issued by the International Accounting Standards Board that are not required to be adopted in the current period. The Corporation has not early adopted these standards. The standards which the Corporation anticipates will have a material effect on the consolidated financial statements or note disclosures are described below:

IFRS 11 *Joint Arrangements* classifies joint arrangements into two types: joint operations and joint ventures.

- A joint operation is a joint arrangement where the owners directly own a share of the individual assets and are directly responsible for paying a share of the individual liabilities of the joint arrangement. A joint operator is required to recognize its share of assets, liabilities, revenues and expenses. The Corporation will continue to proportionately consolidate its joint operations.
- A joint venture is where the joint arrangement itself (and not the owners) directly owns the assets and is directly responsible for paying the liabilities of the arrangement. A joint venturer is required to account for its investment using the equity method of accounting where only the net investment in the joint venture and net earnings of the joint venture are recognized. Consequently, the Corporation will change its method of accounting for its joint ventures from proportionate consolidation to the equity method.

This change in accounting policy would not have an impact on net earnings or equity, but it would impact individual assets, liabilities, revenues and expenses along with capitalization and coverage ratios. The new standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 12 *Disclosure of Interests in Other Entities* sets out the required disclosures for entities reporting under the consolidation and joint arrangements standards. The standard describes the disclosures required for entities reporting under IFRS 10 *Consolidation* and IFRS 11 *Joint Arrangements*. The disclosure is designed to help users to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates and joint arrangements. The standard includes disclosure about significant judgments and assumptions made in determining whether the entity controls, jointly controls or has significant influence over other entities. The new standard is effective for annual periods beginning on or after January 1, 2013, and will result in additional disclosures.

IFRS 13 *Fair Value Measurement* explains how to measure fair value and aims to enhance fair value disclosures. Under this new standard, a company would maximize the use of quoted prices for the same or similar assets in active markets in determining fair value. For non financial assets where there is no active market, a company would consider the best use that another market participant would have for the asset even though that is not what the company currently uses it for. The effect of any changes for the Corporation is limited to fair value disclosures for financial instruments, the fair value of defined benefit pension assets and in asset impairment calculations. This standard is effective for financial statements beginning on and after January 1, 2013.

IAS 19 *Employee Benefits* has been amended to change the recognition and measurement of defined benefit pension expense and termination benefits and increase disclosures. The only significant change for the Corporation is that the expected return on assets and interest cost on pension obligations will be combined into a net interest cost calculated using a single discount rate on net pension assets or liabilities. As the expected return on assets, which includes an equity and management premium, is currently higher than the liability discount rate, the change in the calculation will result in higher pension expense. This standard is effective for annual periods beginning on or after January 1, 2013.

Controls and Procedures

DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2011, the Corporation's management evaluated the effectiveness of the Corporation's disclosure controls and procedures, as defined under rules adopted 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 controls and other procedures 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 and is accumulated and communicated to the Corporation's management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure.

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

Based on this evaluation, the CEO and the CFO have concluded that the Corporation's disclosure controls and procedures were effective at December 31, 2011.

INTERNAL CONTROL OVER FINANCIAL REPORTING

As of December 31, 2011, the Corporation's management evaluated the effectiveness of the Corporation's internal control over financial reporting, as defined under rules adopted by the Canadian

Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the CEO and the CFO.

The Corporation'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 GAAP.

Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

Based on this evaluation, the CEO and the CFO have concluded that the Corporation's internal control over financial reporting was effective at December 31, 2011.

There was no change in the Corporation's internal control over financial reporting that occurred during the period beginning on October 1, 2011, and ended on December 31, 2011, that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Non-GAAP and Additional GAAP Measures

The Corporation uses the measures "Funds Generated by Operations" and "Adjusted Earnings" in this MD&A. These measures do not have any standardized meaning under IFRS and might not be comparable to similar measures presented by other companies.

Funds Generated by Operations is defined as cash flow from operations before changes in non-cash working capital. In management's opinion, Funds Generated by Operations is a significant performance indicator of the Corporation's ability to generate cash during a period to fund its capital expenditures without regard to changes in non-cash working capital during the period. Funds Generated by Operations is a non-GAAP measure because it is not presented in the 2011 Annual Financial Statements.

Adjusted Earnings are defined as earnings attributable to Class I and Class II Shares after adjusting for the timing of revenues and expenses associated with rate regulated activities. 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 currently used by rate regulated companies in Canada. Adjusted Earnings also exclude one-time gains and losses and items that are not in the normal course of business or day-to-day operations. It is management's view that Adjusted Earnings allow for a more effective analysis of operating performance and trends. A reconciliation of Adjusted Earnings to earnings attributable to Class I and Class II Shares is presented in the Results of Operations section. Adjusted Earnings is an additional GAAP measure because it is presented in Note 6 to the 2011 Annual Financial Statements.

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 Corporation 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.

Glossary

Adjusted Earnings means earnings attributable to Class I and Class II Shares after adjustments for the timing of revenues and expenses associated with rate regulated activities and items that are not in the normal course of business or day-to-day operations. These items are usually of a non-recurring or one-time nature. Refer to Importance of Adjusted Earnings section for a description of these items.

AESO means the Alberta Electric System Operator.

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

ATCO Structures & Logistics means ATCO Structures & Logistics Ltd.

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.

Carbon Facility means ATCO Midstream's natural gas storage facility located at Carbon, Alberta.

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

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

Corporation means ATCO Ltd. and, unless the context otherwise requires, includes its subsidiaries.

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.

GHG means any greenhouse gas which has the potential to retain heat in the atmosphere, including water vapour, carbon dioxide, methane, nitrous oxide and hydrofluorocarbons.

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

IFRS means International Financial Reporting Standards.

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

Mmcf/day means million cubic feet per day

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.

Petajoule (PJ) means a unit of energy equal to approximately 948.2 billion British thermal units.

Placeholder means an AUC approved interim cost which has been included in utility customer rates pending an AUC review in a separate or future proceeding. This cost is subject to adjustment once the separate or future proceeding is completed and may result in refunds to or recoveries from customers.

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. The PPAs are legislatively mandated and approved by the AUC.

Propane Plus means propane, butane, pentane and other hydrocarbons other than methane and ethane.

Shrinkage Gas means the natural gas which is used to replace, on a heat equivalent basis, the NGL extracted during NGL extraction operations.

Spark Spread means 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.

Storage Price Differentials means seasonal differences (summer/winter) in the prices of natural gas.

U.K. means United Kingdom.

U.S. means United States of America.

Additional Information

Canadian Utilities has published its audited consolidated financial statements and its MD&A for the year ended December 31, 2011. Copies of these documents may be obtained upon request from the Corporate Secretary of Canadian Utilities at 1400 ATCO Centre, 909-11th Avenue S.W., Calgary, Alberta, T2R 1N6, telephone 403-292-7500 or fax 403-292-7623.

Appendix 1 – Fourth Quarter Financial Information

ATCO Ltd.
Consolidated Statement of Earnings
(Millions of Canadian Dollars except per share data)

	Three Months Ended December 31	
	2011	2010
Revenues	**1,130**	955
Costs and expenses		
Salaries, wages and benefits	**(162)**	(139)
Energy transmission and transportation	**(28)**	(6)
Plant and equipment maintenance	**(78)**	(69)
Fuel costs	**(82)**	(110)
Purchased power	**(15)**	(14)
Materials and consumables	**(184)**	(134)
Depreciation and amortization	**(111)**	(105)
Franchise fees	**(43)**	(47)
Other	**(112)**	(89)
	(815)	(713)
Operating profit	**315**	**242**
Interest income	**2**	8
Interest expense	**(64)**	(56)
Net finance costs	**(62)**	**(48)**
Earnings before income taxes	**253**	194
Income taxes	**(68)**	(57)
Earnings for the period	**185**	137
Earnings attributable to:		
Class I and Class II shares	**102**	72
Non-controlling interests	**83**	65
	185	137
Earnings per Class I and Class II share	**$ 1.76**	$ 1.25
Diluted earnings per Class I and Class II share	**$ 1.76**	$ 1.25

ATCO Ltd.
Consolidated Statement of Cash Flows
(Millions of Canadian Dollars)

	Three Months Ended December 31	
	2011	2010
Operating activities		
Earnings for the period	**185**	137
Adjustments for:		
Depreciation and amortization	**111**	105
Income taxes	**68**	48
Unearned availability incentives	**4**	3
Contributions by customers for extensions to plant	**44**	22
Amortization of customer contributions	**(8)**	(11)
Net finance costs	**62**	48
Income taxes paid	**(15)**	(13)
Other	**23**	18
	474	357
Changes in non-cash working capital	**(20)**	1
Cash flow from operations	**454**	358
Investing activities		
Purchase of property, plant and equipment	**(537)**	(262)
Proceeds on disposal of property, plant and equipment	**1**	-
Purchase of intangibles	**(28)**	(23)
Changes in non-cash working capital	**75**	8
Other	**2**	(7)
	(487)	(284)
Financing activities		
Issue of long term debt	**730**	126
Repayment of long term debt	**(51)**	(6)
Repayment of non-recourse long term debt	**(8)**	(19)
Issue of equity preferred shares by subsidiary	**-**	75
Redemption of equity preferred shares by subsidiary	**(100)**	-
Net issue (purchase) of Class A shares by subsidiary	**(1)**	2
Net purchase of Class I shares	**(3)**	(12)
Dividends paid to Class I and Class II share owners	**(17)**	(16)
Dividends paid to non-controlling interests in subsidiary	**(38)**	(33)
Interest paid	**(94)**	(77)
Other	**(4)**	(2)
	414	38
Foreign currency translation	**(3)**	(6)
Cash position		
Increase (decrease)	**378**	**106**
Beginning of period	**377**	539
End of period	**755**	645