

SUSTAINABILITY, CLIMATE CHANGE AND ENERGY TRANSITION

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

SUSTAINABILITY REPORTING

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

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

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

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

CLIMATE CHANGE AND ENERGY TRANSITION

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

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

Carbon Pricing / Output-Based Pricing Systems

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

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

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

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

Fuel Switching / Clean Fuel Standards

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

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

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

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



EV charging station, Lethbridge, Alberta

Methane Reductions

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

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

Climate Change Resiliency

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

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

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

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

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

Climate Change Challenges and Opportunities

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

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