



**TransAlta Renewables Inc.**

**Management's Discussion and Analysis**

*December 31, 2020*

# Management's Discussion and Analysis

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*This Management's Discussion and Analysis ("MD&A") should be read in conjunction with our 2020 audited annual consolidated financial statements (the "Consolidated Financial Statements") and our 2021 annual information form ("AIF") for the year ended Dec. 31, 2020. Our Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for Canadian publicly accountable enterprises as issued by the International Accounting Standards Board ("IASB") in effect at Dec. 31, 2020. Certain financial measures included in this MD&A do not have a standardized meaning as prescribed by IFRS. These measures may not be comparable to similar measures presented by other issuers and should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. See the Non-IFRS Measures section of this MD&A for additional information. All dollar amounts in the tables are in millions of Canadian dollars, except amounts per share, which are presented in whole dollars to the nearest two decimals. All other dollar amounts in this MD&A are in Canadian dollars, unless otherwise noted. In this MD&A, unless the context otherwise requires, "we", "our", "us", "TransAlta Renewables", and the "Corporation" refer to TransAlta Renewables Inc. and its subsidiaries, and "TransAlta" refers to TransAlta Corporation and its subsidiaries, other than TransAlta Renewables. Capitalized terms not otherwise defined herein have the respective meanings set forth in the Glossary of Key Terms. This MD&A is dated March 2, 2021. Additional information respecting TransAlta Renewables, including our AIF, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on our website at [www.transaltarenewables.com](http://www.transaltarenewables.com). Information on or connected to our website is not incorporated by reference herein.*

## Operations of the Corporation

As at Dec. 31, 2020, TransAlta Renewables owned 13 hydro facilities, 19 wind facilities, one battery storage facility and one natural gas facility in Canada, and held economic interests in TransAlta's Wyoming Wind, Lakeswind, Big Level and Antrim wind facilities, Mass Solar solar projects and the Australian gas-fired generation assets. The battery storage facility commenced commercial operations on Oct. 15, 2020. The Big Level and Antrim wind facilities commenced commercial operations on Dec. 19, 2019, and Dec. 24, 2019, respectively. The operational results of those assets in which we have an economic interest are not consolidated into our results; however, the finance income we receive on the underlying investments is included in our consolidated net earnings.

In total, we own, directly or through economic interests, an aggregate of 2,565 MW of gross generating capacity<sup>(1)</sup> (2,537 MW of net generating capacity<sup>(1)</sup>) in operation as at Dec. 31, 2020. TransAlta manages and operates these facilities on our behalf under the terms of a Management, Administrative and Operational Services Agreement, as amended (the "Management Agreement").

On Dec. 23, 2020, the Corporation entered into a definitive agreement with TransAlta to acquire the 207 MW Windrise wind project, an economic interest in the 29 MW Ada cogeneration facility and a 49 per cent economic interest in the 137 MW Skookumchuck wind facility from TransAlta. The acquisition of the Windrise wind project closed on Feb. 26, 2021, and the acquisition of the economic interest in the Ada cogeneration facility and the Skookumchuck wind facility are expected to close in the second quarter of 2021; however, the economic benefit of each transaction will be effective as at Jan. 1, 2021.

## Forward-Looking Statements

This MD&A includes forward-looking statements within the meaning of applicable Canadian securities laws. All forward-looking statements are based on our beliefs as well as assumptions based on information available at the time the assumptions were made and on management's experience and perception of historical trends, current conditions and expected future developments, as well as other factors deemed appropriate in the circumstances. Forward-looking statements are not facts, but only predictions and generally can be identified by the use of statements that include phrases such as "may," "will," "believe," "expect," "anticipate," "intend," "plan," "foresee," "potential," "enable," "continue," "forecast" or other comparable terminology. These statements are not guarantees of our future performance, results or events and are subject to risks, uncertainties and other important factors that could cause our actual performance, results or events to be materially different from that set out in or implied by the forward-looking statements.

In particular, this MD&A contains forward-looking statements pertaining to our business and anticipated future financial performance including, but not limited to: our corporate strategy, including capitalizing on strategic growth opportunities in the renewable and natural gas power generation and other infrastructure sectors and paying out 80 to 85 per cent of cash available for distribution to the shareholders of the Corporation on an annual basis; the acquisition of the economic interest in the Ada cogeneration facility and the Skookumchuck wind facility in April 2021; the potential impact of COVID-19 on the Corporation and the actions undertaken by the Corporation or TransAlta in response to the COVID-19 pandemic; our 2021 Outlook, including comparable EBITDA, AFFO and CAFD (each, as defined below), interest expense, cash available for distribution, and sustaining capital and productivity expenditures; the dividend amount on the tracking preferred shares; foreign exchange exposure and risk management; liquidity and capital resources, including our ability to manage borrowings through 2023 and beyond on acceptable terms; changes to the Alberta tax rate; principal sources of liquidity and our ability to draw on such liquidity; expectations regarding project-level debt; tax equity proceeds currently held as reserves being released upon the payment of all outstanding project costs and the satisfaction of certain other conditions; expectations in terms of the cost of operations and maintenance, including maintenance performed by third parties, and the variability of those costs; the payment of future dividends; expectations in respect of generation availability, capacity and production; actions to manage certain risks, including specific actions identified to manage liquidity risk, interest rate risk, project risks and reputation risk; expected governmental regulatory regimes, legislation and programs; expectations regarding seasonality of wind and hydro production and the resulting timing of carbon offset revenues; expectations on our ability to access capital markets on reasonable terms; expectations regarding our decommissioning and restoration activities; expectations regarding the outcome of existing or potential legal or contractual claims, regulatory investigations and disputes, including the dispute with Fortescue Metals Group Ltd. ("FMG") over the commissioning of the South Hedland Power Station; and that the

*(1) We measure capacity as Net Maximum Capacity, which is consistent with industry standards. Capacity figures represent capacity owned and in operation unless otherwise stated. The gross capacity reflects the basis of consolidation of underlying assets owned, plus those in which we hold an economic interest. Net capacity deducts capacity attributable to non-controlling interest in these assets. Megawatts are rounded to the nearest whole number.*

Corporation will realize on acquisition and development opportunities from time-to-time to advance the growth of the Corporation. The forward-looking statements contained in this MD&A are based on many assumptions including, but not limited to, the following: fair value of financial instruments, power and natural gas price forecasts, the impacts arising from COVID-19 not becoming significantly more onerous on the Corporation, which includes the Corporation being able to continue to operate as an essential service, and being able to fund growth through project-level debt and access to credit on reasonable terms.

Forward-looking statements are subject to a number of significant risks, uncertainties and assumptions that could cause actual plans, performance, results or outcomes to differ materially from current expectations. Factors that may adversely impact what is expressed or implied by forward-looking statements contained in this MD&A include risks relating to the impact, duration and severity of COVID-19 and the associated general economic downturn, which cannot currently be predicted, and which present risks including, but not limited to: more restrictive directives of government and public health authorities; reduced labour availability impacting our ability to continue to staff our operations and facilities; impacts on our ability to realize our growth goals, including our ability to acquire operating or development assets from TransAlta; our ability to maintain adequate internal controls; restricted access to capital and increased borrowing costs; decreases in short-term and/or long-term electricity demand; changes to commodity prices; reductions in production; increased costs resulting from our efforts to mitigate the impact of COVID-19; deterioration of worldwide credit and financial markets that could limit our ability to obtain external financing to fund our operations and growth expenditures; a higher rate of losses on our accounts receivables due to credit defaults; further disruptions to our supply chain; impairments and/or writedowns of assets; and adverse impacts on our information technology systems and our internal control systems, including increased cybersecurity threats. Other factors that may adversely impact our forward-looking statements include, but are not limited to, risks relating to: changes in general economic conditions, including interest rates; fluctuations in the value of foreign currencies, including the Canadian, US and Australian dollars; operational risks involving our facilities, including Unplanned Outages at such facilities; disruptions in the transmission and distribution of electricity; the effects of weather and other climate-related risks; disruptions in the source of water, wind, solar or gas resources required to operate our facilities; natural disasters; equipment failure and our ability to carry out repairs in a cost-effective or timely manner or at all; the need for additional financing and the ability to access financing at a reasonable cost; structural subordination of securities; counterparty credit risk; insurance coverage; our provision for income taxes; disputes with counterparties and legal and contractual proceedings involving the Corporation; reliance on key personnel and services provided by TransAlta; the regulatory and political environments in the jurisdictions in which we operate; changes to government incentives or grants for renewable energy production; increasingly stringent environmental requirements and changes in, or liabilities under, these requirements; and the risks associated with development projects and acquisitions. The foregoing risk factors, among others, are described in further detail in the Risk Factors section of our AIF, which is available on SEDAR at [www.sedar.com](http://www.sedar.com) as well as under Risk Management in this MD&A.

Readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements included in this document are made only as of the date hereof and we do not undertake to publicly update these forward-looking statements to reflect new information, future events or otherwise, except as required by applicable laws. The purpose of the financial outlooks contained herein is to give the reader information about management's current expectations and plans and readers are cautioned that such information may not be appropriate for other purposes. In light of these risks, uncertainties and assumptions, the forward-looking events might occur to a different extent or at a different time than we have described, or might not occur at all. We cannot assure that projected performance results or events will be achieved.

## Strategy and Capability to Deliver Results

Our objectives are to (i) provide stable, consistent returns for investors through the ownership of, and investment in, highly-contracted renewable and natural gas power generation and other infrastructure assets that provide stable cash flow primarily through long-term contracts with strong counterparties; (ii) pursue and capitalize on strategic growth opportunities in the renewable and natural gas electricity generation and other infrastructure sectors; (iii) maintain diversity in terms of geography, generation and counterparties; and (iv) pay out 80 to 85 per cent of cash available for distribution to the shareholders of the Corporation on an annual basis. See also the Risk Management section in this MD&A.

Our strategies and capabilities to deliver on our objectives are as follows:

### Growth Strategy

Our growth strategy is to develop or acquire highly-contracted renewable and natural gas power generation facilities and other infrastructure assets that generate stable cash flows, with the objective of achieving targeted returns on invested capital. The successful execution of our growth strategy requires careful timing and business judgment, as well as the resources to complete the due diligence and evaluation of such assets.

TransAlta, our largest shareholder, has indicated that the sale of certain of its contracted assets to us could form a source of growth and a source of TransAlta's financing. A key component of TransAlta's sponsorship is their ability to acquire projects and construct, integrate and operate generation facilities on our behalf. Acquisitions from TransAlta are subject to independent assessments and approval by the independent directors of the Board of Directors of TransAlta Renewables (the "Board").

With support from TransAlta, we expanded our renewables fleet with the following developments occurring in 2020:

- On Aug. 1, 2020, the WindCharger battery storage project ("WindCharger"), located in Pincher Creek, Alberta, was acquired from TransAlta and has been operational since Oct. 15, 2020. The facility increases net ownership capacity by 10 MW and has a total storage capacity of 20 MWh;
- On Dec. 23, 2020, the Corporation announced that it had entered into definitive agreements with TransAlta Corporation for the acquisition of a 100 per cent direct interest in the 207 MW Windrise wind project located in the Municipal District of Willow Creek, Alberta, which closed on Feb. 26, 2021; a 49 per cent economic interest in the 137 MW Skookumchuck wind facility located across Thurston and Lewis counties in Washington State; and a 100 per cent economic interest in the 29 MW Ada cogeneration facility located in Ada, Michigan. The acquisitions of the economic interests in the Skookumchuck wind facility and Ada cogeneration facility are expected to close in the second quarter of 2021; and
- Construction activities on the Windrise wind project advanced with all appropriate procedures in place to protect the construction team during the COVID-19 pandemic. However, as a result of COVID-19-related delays in the delivery of the wind turbine components, construction and commissioning is expected to occur during the second half of 2021.

Other longer-term growth opportunities may also be sought, primarily through acquisitions of contracted new build projects, industry consolidation and other growth opportunities in new markets, other technologies or investment classes.

### Contracting Strategy

Through our power purchase agreements ("PPAs"), including the TransAlta PPAs (as defined below), our facilities and those in which we have an economic interest are highly contracted. Substantially all of our generating capacity is contracted over the next five years, gradually decreasing thereafter over a period extending to 26 years. The weighted average remaining contractual life of our PPAs is approximately 11 years.<sup>(2)</sup>

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<sup>(2)</sup> Weighted average based on capacity.

## Operational Strategy

Our wind, hydro, solar and gas facilities have an established track record of operating history and performance. The assets as at Dec. 31, 2020, have been in operation from two months to 30 years, with the weighted average years of operation by capacity being 15 years, which includes facilities in which we own an economic interest.

TransAlta provides management, administrative and operational services to the Corporation. The members of TransAlta's management team who are responsible for managing our operations have extensive experience in the power generation business. The employees of TransAlta providing operational services at our facilities are the same individuals who perform such services for TransAlta. Further details are set out in the AIF.

## Financial Strategy

Our financial strategy is to maintain a strong financial position to provide a solid foundation for our core business and growth. A strong financial position improves our ability to create stable and consistent returns.

## Highlights

### Consolidated Financial Highlights

Year ended Dec. 31	2020	2019	2018
Renewable energy production (GWh) <sup>(1)</sup>	4,471	3,747	3,652
Revenues	436	446	462
Net earnings attributable to common shareholders	92	179	236
Comparable EBITDA <sup>(2)(3)</sup>	462	438	430
Adjusted funds from operations <sup>(2)</sup>	355	343	343
Cash flow from operating activities	267	331	385
Cash available for distribution <sup>(2)</sup>	304	293	295
Net earnings per share attributable to common shareholders, basic and diluted	0.35	0.68	0.92
Adjusted funds from operations per share <sup>(2)</sup>	1.33	1.30	1.33
Cash available for distribution per share <sup>(2)</sup>	1.14	1.11	1.15
Dividends declared per common share	0.94	0.94	0.94
Dividends paid per common share <sup>(4)</sup>	0.94	0.94	0.94

(1) Includes production from Canadian Wind, Canadian Hydro and US Wind and Solar and excludes Canadian and Australian gas-fired generation. Production is not a key revenue driver for gas-fired facilities as most of their revenues are capacity-based.

(2) Refer to the Non-IFRS Measures section of this MD&A for further discussion of these items.

(3) Comparable EBITDA excludes the impact of unrealized mark-to-market gains or losses.

(4) Includes DRIP payments.

As at Dec. 31	2020	2019	2018
Gas installed capacity (MW) <sup>(1)</sup>	949	949	949
Renewables gross installed capacity (MW) <sup>(2)</sup>	1,619	1,609	1,496
Total assets	3,656	3,702	3,747
TEA demand loan <sup>(3)</sup>	195	—	—
Debt and lease obligations <sup>(4)</sup>	692	961	932
Total long-term liabilities	987	1,237	1,192

(1) Includes Canadian and Australian gas-fired generation in which we hold an economic interest.

(2) Includes Canadian Wind, Canadian Hydro and US Wind and Solar capacity. The gross installed capacity reflects the basis of consolidation of underlying assets owned, plus those in which we hold an economic interest. Megawatts are rounded to the nearest whole number.

(3) On Oct. 23, 2020, TransAlta Energy (Australia) Pty Ltd. ("TEA"), a subsidiary of TEA, issued AU\$200 million of intercompany loans to the Corporation. The TEA demand loan is unsecured, due on demand and bears interest at 4.32 per cent, with interest payable quarterly until maturity on Oct. 26, 2022.

(4) Including current portion.

Renewable energy production for the year ended Dec. 31, 2020, increased 724 GWh compared to 2019. This increase was mainly due to higher production at US Wind and Solar as a result of a full year of operations at the Big Level and Antrim wind facilities, higher wind resources in Canadian Wind and higher water resources in Canadian Hydro.

Revenues decreased \$10 million compared to 2019, mainly due to lower market demand for Canadian Gas, partially offset by higher wind and water resources.

Comparable earnings before interest, taxes, depreciation and amortization ("comparable EBITDA") increased \$24 million compared to 2019, mainly due to a full period of operations at the Big Level and Antrim facilities, which were commissioned in December 2019, higher wind resources and the strengthening of the Australian dollar relative to the Canadian dollar, partially offset by the settlement of the AESO transmission line loss proceeding, the timing of carbon offset revenues, insurance proceeds received in 2019 and lower government incentives driven by the planned expiry of certain Wind Power Production Incentives in 2019.

The AESO transmission line loss proceeding related to whether the AESO transmission line loss rules from 2006 to 2016 complied with Alberta Regulations. It was ruled that it was not in compliance, and in 2017, there was a further ruling that the method used to calculate the 2017 line losses would be applied to the years between 2006 and 2016. The settlement invoices were to be issued for three separate periods (being 2006-2009, 2010-2013, and 2014-2016). In the current year, the Corporation has recorded \$6 million for net settlement costs on the AESO transmission line loss settlement, representing its proportion of the transmission line losses, and \$2 million in interest expense. For additional information, refer to the Contingencies section of this MD&A.

Overall, our Adjusted Funds From Operations ("AFFO") increased by \$14 million from 2019, primarily due to higher comparable EBITDA and lower sustaining capital expenditures, partially offset by higher tax equity distributions and higher current income tax expense.

CAFD ("Cash Available For Distribution") increased by \$11 million year-over-year, due to higher AFFO, partially offset by higher principal repayments of amortizing debt.

Net earnings attributable to common shareholders decreased by \$87 million compared to 2019. The decrease was attributable to lower finance income, an unfavourable change in fair value of financial assets and an increase in income tax expense, offset by an increase in foreign exchange gains on the carrying value of the Australian assets resulting from a strengthening Australian dollar relative to the Canadian dollar. Income tax expense increased period-over-period by \$17 million, mainly due to the recognition in 2019 of a deferred income tax recovery of \$18 million related to a decrease in the Alberta corporate tax rate. Variability in finance income and the change in fair value of financial assets is related to the classification of the distributions received from the Corporation's investments in its economic interests as return of capital or dividends received, timing of dividends declared on the Preferred Shares Tracking Australia Cash Flows and foreign exchange impacts. Set out below are the key drivers of the changes arising from these investments:

- A reduction in finance income of \$7 million as a result of lower dividends received on the Preferred Shares Tracking the Amortizing Term Loan, which were redeemed on Oct. 23, 2020;
- A higher foreign exchange gain of \$58 million as a result of the strengthening of the Australian dollar relative to the Canadian dollar since Dec. 31, 2019; and
- An unfavourable change in fair value of \$108 million, relating to cash flow assumptions accelerating the repayment of the underlying loan on the Preferred Shares Tracking the Amortizing Term Loan.

See the Financial Instruments and Significant and Subsequent Events sections of this MD&A for additional information on the changes in our investments.

### Ability to Deliver Financial Results

The metrics we use to track our performance are comparable EBITDA, AFFO and CAFD. The table below compares our previously disclosed targets to actual amounts:

Year ended Dec. 31		2020	2019
Comparable EBITDA	Target	445-475	425-455
	Actual	462	438
AFFO	Target	350-380	320-350
	Actual	355	343
CAFD	Target	300-330	270-300
	Actual	304	293

Refer to the Non-IFRS Measures section of this MD&A for further discussion of these metrics.

## Significant and Subsequent Events

### TransAlta and the Corporation Announce President and Chief Executive Officer Succession

On Feb. 4, 2021, TransAlta announced that John Kousiniotis will succeed Dawn Farrell as President and Chief Executive Officer of TransAlta and will join the Board of TransAlta on April 1, 2021. As part of the transition, Mr. Kousiniotis stepped down as President and as a member of the Board of Directors of TransAlta Renewables effective Feb. 5, 2021. Todd Stack assumed the role of President of TransAlta Renewables and joined the Board of TransAlta Renewables effective Feb. 6, 2021. Mr. Stack continues as TransAlta's Executive Vice President, Finance and Chief Financial Officer

### Acquisition from TransAlta of 303 MW Generation Portfolio, including 274 MW of Wind Generation

On Dec. 23, 2020, the Corporation announced it had entered into definitive agreements for the acquisition of three assets from TransAlta consisting of:

- A 100 per cent direct interest in the 207 MW Windrise wind project located in the Municipal District of Willow Creek, Alberta;
- A 49 per cent economic interest in the 137 MW Skookumchuck wind facility in operation across Thurston and Lewis counties in Washington State; and
- A 100 per cent economic interest in the 29 MW Ada cogeneration facility in operation in Ada, Michigan.

The total acquisition price for the portfolio of assets is estimated to be \$439 million, which includes the remaining construction costs for the Windrise wind project. The Corporation intends to fund the cash consideration for the acquisition and remaining construction costs with the proceeds received in October 2020 from the redemptions of the Preferred Shares Tracking the Amortizing Term loan and the preferred shares of TEA. The redemption of these instruments was funded with the proceeds from the South Hedland Power Station debt financing. The acquisition of the Windrise wind project closed on Feb. 26, 2021, and the acquisition of the economic interest in the Ada cogeneration facility and the Skookumchuck wind facility are expected to close in the second quarter of 2021; however, the economic benefit of each transaction will be effective as at Jan. 1, 2021.

### Dividend Reinvestment Plan ("DRIP") Suspended

On May 31, 2018, the Corporation implemented a DRIP for Canadian holders of common shares of the Corporation. Commencing with the dividend payable on July 31, 2018, eligible shareholders could elect to automatically reinvest monthly dividends into additional common shares of the Corporation. The price per common share under the DRIP was 98 per cent of the average market price of the common shares for the five trading days on which not less than 500 common shares of the Corporation were traded immediately prior to the dividend payment date. Eligible shareholders were not required to participate in the DRIP.

In the fourth quarter of 2020, the Corporation suspended its DRIP in respect of any future declared dividends until further notice. Accordingly, the dividend payable on Oct. 30, 2020, to shareholders of record on Oct. 15, 2020, was the last dividend payment eligible for reinvestment by participating shareholders under the DRIP. Subsequent dividends will be paid only in cash. Upon any reinstatement of the DRIP, plan participants enrolled in the DRIP at the time of its suspension who remain enrolled at the time of its reinstatement will automatically resume participation in the DRIP.

### BHP Nickel West Contract Extension

On Oct. 22, 2020, Southern Cross Energy ("SCE"), replaced and extended its current PPA with BHP Billiton Nickel West Pty Ltd. ("BHP"). SCE is composed of four generation facilities with a combined capacity of 245 MW in the Goldfields region of Western Australia. The Corporation owns an indirect economic interest in SCE, that forms part of the Australian cash flows.

The new agreement became effective Dec. 1, 2020, and replaced the previous contract that was scheduled to expire Dec. 31, 2023. The amendment to the PPA extends the term to Dec. 31, 2038, and provides SCE with the exclusive right to supply thermal and electrical energy from the Southern Cross Facilities for BHP's mining operations located in the Goldfields region of Western Australia. The amendment preserves the PPA's current economic benefit to 2023, while also providing SCE a return on new capital investments that will be required to support BHP's future power requirements and recently announced emission reduction targets. The amendments within the PPA also provide BHP participation rights in integrating renewable electricity generation, including solar and wind, with energy storage technologies, subject to the satisfaction of certain conditions. Evaluation of the renewable energy supply and carbon emissions reduction initiative under the extended PPA with SCE are underway, including an 18.5 MW solar photovoltaic project supported by a battery energy storage system and a waste heat steam turbine system.

The fair value of the Preferred Shares Tracking Australia Cash Flows has been updated to reflect the expected change in future cash flows related to the updated contract, including the 15-year extension and related capital investment to support the extended contract term. This resulted in an increase in fair value recognized in other comprehensive income.

### South Hedland Power Station Debt Financing

On Oct. 22, 2020, TEC Hedland Pty Ltd. ("TEC"), a subsidiary of TEA that owns the South Hedland Power Station, closed an AU\$800 million senior secured note offering ("TEC Notes") by way of a private placement that is secured by, among other things, a first-ranking charge over all assets of TEC. The Corporation owns an indirect economic interest in TEC, that forms part of the Australian cash flows. The notes bear interest at 4.07 per cent per annum, payable quarterly, and maturing on June 30, 2042, with principal payments starting on March 31, 2022.

On Oct. 23, 2020, the Corporation received \$480 million (AU\$515 million) of proceeds directly through the redemption of the Preferred Shares Tracking the Amortizing Term Loan and the redemption of preferred shares of TEA. The proceeds from the redemption of the shares were used to repay existing indebtedness on the credit facility and shall fund the 303 MW portfolio acquisition from TransAlta.

The proceeds of the TEC Notes were also used to issue AU\$200 million of intercompany loans to the Corporation by TEA, a subsidiary of TransAlta ("TEA demand loan"). The remainder of the TEC Notes proceeds remain in TEA to fund required reserves and transaction costs. The TEA demand loan is unsecured, due on demand and bears interest at 4.32 per cent, with interest payable quarterly until maturity on Oct. 26, 2022.

The fair value of the Preferred Shares Tracking Australia Cash Flows has been updated to reflect the fair value attributed to the expected change in future cash flows relating to the updated financing structure, including the receipt of the TEC Notes proceeds and the use of proceeds to redeem and settle certain financial instruments noted above.

### Acquisition of WindCharger Battery Storage Project from TransAlta Corporation

On Aug. 1, 2020, the Corporation acquired the 10 MW/20 MWh WindCharger battery storage project that is connected to the Alberta transmission system through the Summerview 2 wind facility substation from a subsidiary of TransAlta for \$12 million. The Corporation funded the remaining construction cost and the project commenced commercial operation on Oct. 15, 2020. TransAlta is expected to receive co-funding of almost 50 per cent of the \$14 million construction cost from Emissions Reduction Alberta. The Corporation also executed a 20-year battery storage usage contract with TransAlta in which TransAlta will pay a fixed monthly capacity charge for the exclusive right to operate and dispatch the battery in the Alberta market.

### Global Pandemic

The World Health Organization declared a Public Health Emergency of International Concern relating to COVID-19 on Jan. 30, 2020, which they subsequently declared, on March 11, 2020, as a global pandemic. The outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to constrain the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods, self-isolation, physical and social distancing and the closure of non-essential businesses, have caused significant disruption to businesses globally, which has resulted in an uncertain and challenging economic environment.

TransAlta, as the manager and operator of the Corporation's business and assets, continues to operate under its business continuity plan, which focused on ensuring that: (i) TransAlta employees who could work remotely did so and (ii) TransAlta employees who operate and maintain our facilities, and who were not able to work remotely, were able to work safely and in a manner that ensured they remained healthy. During the second and third quarters of 2020, TransAlta successfully brought employees who were working remotely back to the office without compromising health and safety standards. In November 2020, as a result of the rising COVID-19 case counts in the Province of Alberta and in light of office attendance restrictions eventually imposed by the Government of Alberta, staff at TransAlta's head office returned to remote work protocols. All of TransAlta's offices and sites follow strict health screening and physical distancing protocols with personal protective equipment readily available. Further, TransAlta maintains travel bans aligned to local jurisdictional guidance, enhanced cleaning procedures, revised work schedules, contingent work teams and the reorganization of processes and procedures to limit contact with other employees and contractors on-site.

While our results have been impacted by price and demand as a result of COVID-19, all of our facilities, including those in which we have economic interests through TransAlta, continue to remain fully operational and capable of meeting our customers' needs. The Corporation continues to work and serve all of our customers and counterparties under the terms of their contracts. We have not experienced interruptions to service requirements. Electricity and steam supply continue to remain a critical service requirement to all of our customers and have been deemed an essential service in our jurisdictions.

## Additional IFRS Measures

An additional IFRS measure is a line item, heading or subtotal that is relevant to an understanding of the financial statements but is not a minimum line item mandated under IFRS, or the presentation of a financial measure that is relevant to an understanding of the financial statements, but is not presented elsewhere in the financial statements. We have included line items entitled "gross margin" and "operating income" in our Consolidated Statements of Earnings. Presenting these line items provides management and investors with a measure of ongoing operating performance that is readily comparable from period to period.

## Non-IFRS Measures

We evaluate our performance using a variety of measures to provide management and investors with an understanding of our financial position and results. Certain of the measures discussed in this MD&A are not defined under IFRS and, therefore, should not be considered in isolation, or as a substitute for or as an alternative to or to be more meaningful than measures as determined in accordance with IFRS when assessing our financial performance or liquidity. These measures have no standardized meaning under IFRS and may not be comparable to similar measures presented by other issuers.

The Corporation's key non-IFRS measures are comparable EBITDA, AFFO and CAFD. Comparable EBITDA is comprised of our reported EBITDA adjusted to exclude the impact of unrealized mark-to-market gains and losses, changes in fair value of financial assets, foreign exchange gains and losses and asset impairments; plus the comparable EBITDA of the facilities in which we hold an economic interest, which is the facilities' reported EBITDA adjusted for: 1) finance lease income and the change in the finance lease receivable amount; 2) contractually fixed management costs; 3) interest earned on the prepayment of certain transmission costs; 4) insurance recovery; and 5) the impact of unrealized mark-to-market gains or losses. Comparable EBITDA is presented to provide management and investors with a proxy for the amount of cash generated from operating activities before net interest expense, non-controlling interest, income taxes and the impacts of timing on the finance income from subsidiaries of TransAlta in which we have an economic interest. We present comparable EBITDA along with operational information of the assets in which we own an economic interest so that readers can better understand and evaluate the drivers of those assets in which we have an economic interest. Since the economic interests are designed to provide the Corporation with returns as if we owned the assets themselves, presenting the operational information and comparable EBITDA provides a more complete picture for readers to understand the underlying nature of the investments and the resultant cash flows that would otherwise only be presented as finance income from the investments. AFFO is calculated as the cash flow from operating activities before changes in working capital, less sustaining capital expenditures, distributions paid to subsidiaries' non-controlling interest and finance and interest income, plus AFFO of the assets owned through economic interests, which is calculated as comparable EBITDA from the economic interests less the change in long-term receivable, interest expense, sustaining capital expenditures, current income tax expense, tax equity distributions, insurance recovery and currency adjustments. AFFO provides users with a proxy for the amount of cash generated from operating activities and investments in subsidiaries of TransAlta in which we have an economic interest. CAFD is calculated as AFFO less scheduled principal repayments of amortizing debt and lease obligations. CAFD can be used as a proxy for the cash that will be available to common shareholders of the Corporation. One of the primary objectives of the Corporation is to provide reliable and stable cash flows, and presenting AFFO and CAFD assists readers in assessing our cash flows in comparison to prior periods. See the Reconciliation of Non-IFRS Measures section of this MD&A for additional information.

## Discussion of Comparable EBITDA

The amounts discussed in this section include operational metrics and financial information related to our fuel types and include investments in the economic interests of TransAlta subsidiaries. Since the investments in these economic interests provide us with returns as if we owned the assets, presenting the operational information provides users with information to assist them in assessing the financial performance of the assets that generate the finance income related to the economic interests. All the assets in the US Wind and Solar and Australian Gas business segments are owned through investments in an economic interest. The comparable EBITDA of the assets in which we have an economic interest is reconciled to the finance income recognized in our Consolidated Financial Statements in the Reconciliation of Non-IFRS Measures section of this MD&A.

The following table summarizes operational data and comparable EBITDA by fuel type:

Year ended Dec. 31	Long-term average renewable energy production (GWh) <sup>(1)</sup>	Production (GWh)		Comparable EBITDA	
		2020	2019	2020	2019
Canadian Wind	2,977	3,118	2,812	181	192
Canadian Hydro	439	429	393	21	18
US Wind and Solar	891	924	542	75	46
<b>Total – Renewable energy</b>	<b>4,307</b>	<b>4,471</b>	<b>3,747</b>	<b>277</b>	<b>256</b>
Canadian Gas <sup>(2)</sup>		1,140	1,257	80	82
Australian Gas		1,779	1,832	125	120
Corporate		–	–	(20)	(20)
<b>Total</b>		<b>7,390</b>	<b>6,836</b>	<b>462</b>	<b>438</b>

(1) Long-term average is calculated on an annualized basis from the average annual energy yield predicted from our simulation model based on historical resource data performed over a period of typically 15 years for wind and 30 years for hydro.

(2) Comparable EBITDA excludes the impact of unrealized mark-to-market gains or losses.

Changes to comparable EBITDA and renewable energy production are discussed below for each of our business segments:

### Canadian Wind

Year ended Dec. 31	2020	2019
Production (GWh)	3,118	2,812
Gross installed capacity (MW) <sup>(1)</sup>	1,177	1,167
Revenues <sup>(2)</sup>	243	240
Royalties and other costs of sales	21	12
<b>Comparable gross margin</b>	<b>222</b>	<b>228</b>
Operations, maintenance and administration	35	34
Insurance recovery	–	(4)
Taxes, other than income taxes	6	6
<b>Comparable EBITDA</b>	<b>181</b>	<b>192</b>

(1) Megawatts are rounded to the nearest whole number. The Corporation acquired the WindCharger battery storage project from TransAlta and the project commenced commercial operation on Oct. 15, 2020.

(2) Includes finance lease income adjusted for change in finance lease receivable. Excludes the impact of unrealized mark-to-market gains or losses.

Production for the year ended Dec. 31, 2020, increased by 306 GWh compared with the production in 2019, mainly due to higher wind resources in Western Canada.

Despite the increase in production, comparable EBITDA decreased \$11 million compared to 2019, mainly due to the recognition of the settlement costs of \$8 million from the AESO transmission line loss proceeding, timing of carbon offset revenues, as well as insurance proceeds received in 2019 for a wind turbine fire at the Summerview facility and lower government incentives driven by the planned expiry of certain Wind Power Production Incentives in 2019.

## Canadian Hydro

Year ended Dec. 31	2020	2019
Production (GWh)	429	393
Gross installed capacity (MW)	112	112
Revenues	30	26
Royalties and other costs of sales	2	3
<b>Comparable gross margin</b>	<b>28</b>	<b>23</b>
Operations, maintenance and administration	6	4
Taxes, other than income taxes	1	1
<b>Comparable EBITDA</b>	<b>21</b>	<b>18</b>

Production for the year ended Dec. 31, 2020, increased by 36 GWh compared to 2019, mainly due to higher water resources.

Comparable EBITDA increased \$3 million compared to 2019, mainly due to higher production and a favourable recovery from the AESO transmission line loss proceeding of \$2 million, partially offset by an outage at our St. Mary's facility and higher annual maintenance costs at our Bone Creek and Taylor facilities.

## US Wind and Solar

Year ended Dec. 31	2020	2019 <sup>(1)</sup>
Production (GWh)	924	542
Gross installed capacity (MW)	330	330
Revenues	91	53
Royalties and other costs of sales	2	2
<b>Comparable gross margin</b>	<b>89</b>	<b>51</b>
Operations, maintenance and administration	12	9
Insurance recovery	—	(5)
Taxes, other than income taxes	2	1
<b>Comparable EBITDA</b>	<b>75</b>	<b>46</b>

(1) Includes results of the Big Level and Antrim wind facilities, which began commercial operation in December 2019.

Production for the year ended Dec. 31, 2020, increased by 382 GWh compared to 2019, mainly due to realizing a full year of production related to the Big Level and Antrim wind facilities, which commenced commercial operations in December 2019, and higher wind resources.

Comparable EBITDA was \$29 million higher compared to 2019 due to a full year of production from the Big Level and Antrim wind facilities, which were commissioned in December 2019, and higher wind resources, partially offset by insurance proceeds received in 2019.

## Canadian Gas

Year ended Dec. 31	2020	2019
Production (GWh)	1,140	1,257
Gross installed capacity (MW)	499	499
Revenues <sup>(1)</sup>	163	180
Fuel and purchased power	54	68
<b>Comparable gross margin</b>	<b>109</b>	<b>112</b>
Operations, maintenance and administration	28	29
Taxes, other than income taxes	1	1
<b>Comparable EBITDA</b>	<b>80</b>	<b>82</b>

(1) Excludes the impact of unrealized mark-to-market gains or losses.

Canadian Gas consists solely of the Sarnia cogeneration facility.

Production for the year ended Dec. 31, 2020, decreased by 117 GWh compared to 2019, mainly due to lower market demand, partially offset by higher customer demand. Due to the nature of our contracts, changes in production do not have a significant financial impact as our contracts are structured as capacity payments with customer-supplied fuel or a pass-through of fuel costs.

Comparable EBITDA was consistent with 2019.

## Australian Gas

Year ended Dec. 31	2020	2019
Production (GWh)	1,779	1,832
Gross installed capacity (MW)	450	450
Revenues <sup>(1)</sup>	162	160
Fuel and purchased power	6	5
<b>Comparable gross margin</b>	<b>156</b>	<b>155</b>
Operations, maintenance and administration <sup>(2)</sup>	31	35
<b>Comparable EBITDA</b>	<b>125</b>	<b>120</b>

(1) Includes finance lease income adjusted for change in finance lease receivable.

(2) Includes the effect of contractually fixed management costs.

Production for the year ended Dec. 31, 2020, decreased by 53 GWh compared to 2019, mainly due to changes in customer demand. The contracts in Australia are capacity contracts and our results are not directly impacted by generation.

Comparable EBITDA increased by \$5 million compared to 2019, mainly due to the timing of legal costs and the strengthening of the Australian dollar relative to the Canadian dollar.

## Corporate

Year ended Dec. 31	2020	2019
Operations, maintenance and administration	20	20
<b>Comparable EBITDA</b>	<b>(20)</b>	<b>(20)</b>

Corporate costs were consistent with the prior year and with expectations.

## Reconciliation of Non-IFRS Measures

The table below reconciles our cash flow from our reported operating activities to our AFFO and CAFD:

Year ended Dec. 31	2020	2019	2018
Cash flow from operating activities	267	331	385
Change in non-cash operating working capital balances	31	(23)	5
<b>Cash flow from operations before changes in working capital</b>	<b>298</b>	<b>308</b>	<b>390</b>
Adjustments:			
Sustaining capital expenditures – owned assets	(17)	(30)	(34)
Distributions paid to subsidiaries' non-controlling interest	(5)	(5)	(4)
Finance and interest income – economic interests <sup>(1)</sup> (Table II)	(69)	(76)	(171)
AFFO – economic interests <sup>(1)</sup> (Table II)	148	146	162
<b>AFFO</b>	<b>355</b>	<b>343</b>	<b>343</b>
Deduct:			
Principal repayments of amortizing debt	(50)	(49)	(48)
Principal repayments of lease obligations <sup>(2)</sup>	(1)	(1)	–
<b>CAFD</b>	<b>304</b>	<b>293</b>	<b>295</b>
Weighted average number of common shares outstanding in the period (millions)	266	264	257
<b>AFFO per share</b>	<b>1.33</b>	<b>1.30</b>	<b>1.33</b>
<b>CAFD per share</b>	<b>1.14</b>	<b>1.11</b>	<b>1.15</b>

(1) Refer to the reconciliation of the comparable EBITDA of the facilities in which we hold an economic interest to the reported finance income table (Table II) in this MD&A.

(2) Includes owned assets and economic interests.

## Reconciliation of Comparable EBITDA to AFFO

Year ended Dec. 31	2020			2019			2018		
	Owned assets	Economic interests <sup>(1)</sup>	Total	Owned assets	Economic interests <sup>(1)</sup>	Total	Owned assets <sup>(2)</sup>	Economic interests <sup>(1)</sup>	Total
Comparable EBITDA (Table I)	262	200	462	272	166	438	270	160	430
Interest expense	(41)	(6)	(47)	(41)	–	(41)	(48)	–	(48)
Sustaining capital expenditures	(17)	(10)	(27)	(30)	(7)	(37)	(34)	(4)	(38)
Current income tax expense	(1)	(12)	(13)	(2)	(8)	(10)	(6)	(1)	(7)
Tax equity distributions	–	(23)	(23)	–	(6)	(6)	–	(3)	(3)
Distributions paid to subsidiaries' non-controlling interest	(5)	–	(5)	(5)	–	(5)	(4)	–	(4)
Realized foreign exchange loss	(4)	–	(4)	(1)	–	(1)	–	–	–
Provisions	7	–	7	–	–	–	–	–	–
Insurance recovery	–	–	–	(4)	(5)	(9)	–	(6)	(6)
Change in long-term receivable	–	–	–	–	–	–	–	14	14
Currency adjustment, reserves, interest income and other	6	(1)	5	8	6	14	3	2	5
<b>AFFO</b>	<b>207</b>	<b>148</b>	<b>355</b>	<b>197</b>	<b>146</b>	<b>343</b>	<b>181</b>	<b>162</b>	<b>343</b>

(1) Refer to Table II for a reconciliation of comparable EBITDA for the economic interests to finance income as reported and included in the Consolidated Statements of Earnings.

(2) Includes results of the Kent Breeze wind facility from May 31, 2018.

**Table I**

The tables below reconcile our reported EBITDA of our owned assets to comparable EBITDA, including the comparable EBITDA of those assets we hold an economic interest in. Since the economic interests are designed to provide the Corporation with returns as if we owned the assets ourselves, presenting the operating information and comparable EBITDA provides a more complete picture to understand the underlying nature of the investments and the resultant cash flows that would otherwise only be presented as finance income from investments. For a reconciliation of the finance and interest income recognized on those assets we hold an economic interest in to comparable EBITDA of those assets, refer to the section labelled Table II:

**Year ended Dec. 31, 2020**

	Reported	Adjustments	Economic interests	Comparable total
Revenues <sup>(1)</sup>	436	—	253	689
Fuel, royalties and other costs of sales <sup>(2)</sup>	77	—	8	85
<b>Gross margin</b>	<b>359</b>	<b>—</b>	<b>245</b>	<b>604</b>
Operations, maintenance and administration <sup>(3)</sup>	89	—	43	132
Asset impairment	2	(2)	—	—
Taxes, other than income taxes	8	—	2	10
Finance income (Table II)	(69)	69	—	—
Interest income (Table II)	(6)	6	—	—
Change in fair value of financial assets	59	(59)	—	—
Foreign exchange gain	(27)	27	—	—
<b>Earnings before interest, taxes, depreciation and amortization</b>	<b>303</b>	<b>(41)</b>	<b>200</b>	<b>462</b>

(1) Amounts related to economic interests include finance lease income adjusted for change in finance lease receivable amount.

(2) Amounts related to economic interests include interest earned on the prepayment of certain transmission costs.

(3) Amounts related to economic interests include the effect of contractually fixed management costs.

**Year ended Dec. 31, 2019**

	Reported	Adjustments	Economic interests	Comparable total
Revenues	446	—	213	659
Fuel, royalties and other costs of sales <sup>(1)</sup>	83	—	7	90
<b>Gross margin</b>	<b>363</b>	<b>—</b>	<b>206</b>	<b>569</b>
Operations, maintenance and administration <sup>(2)</sup>	87	—	44	131
Asset impairment	2	(2)	—	—
Taxes, other than income taxes	8	—	1	9
Insurance recovery	(4)	—	(5)	(9)
Finance income (Table II)	(76)	76	—	—
Interest income (Table II)	(8)	8	—	—
Change in fair value of financial assets	(49)	49	—	—
Foreign exchange loss	31	(31)	—	—
<b>Earnings before interest, taxes, depreciation and amortization</b>	<b>372</b>	<b>(100)</b>	<b>166</b>	<b>438</b>

(1) Amounts related to economic interests include interest earned on the prepayment of certain transmission costs.

(2) Amounts related to economic interests include the effect of contractually fixed management costs.

Year ended Dec. 31, 2018

	Reported	Adjustments	Economic interests	Comparable total
Revenues	462	—	200	662
Fuel, royalties and other costs of sales <sup>(1)</sup>	98	—	6	104
Gross margin	364	—	194	558
Operations, maintenance and administration <sup>(2)</sup>	86	—	39	125
Taxes, other than income taxes	8	—	1	9
Insurance recovery	—	—	(6)	(6)
Finance income (Table II)	(129)	129	—	—
Interest income (Table II)	(45)	45	—	—
Change in fair value of Class B shares	1	(1)	—	—
Foreign exchange gain	(6)	6	—	—
Earnings before interest, taxes, depreciation and amortization	449	(179)	160	430

(1) Amounts related to economic interests include interest earned on the prepayment of certain transmission costs.

(2) Amounts related to economic interests include the effect of contractually fixed management costs.

**Table II**

The table below reconciles the comparable EBITDA of the facilities in which we hold an economic interest to the reported finance and interest income recognized in net earnings:

Year ended Dec. 31	2020			2019			2018		
	US Wind and Solar	Australian Gas	Total	US Wind and Solar <sup>(1)</sup>	Australian Gas	Total	US Wind and Solar <sup>(2)</sup>	Australian Gas	Total
Comparable EBITDA	75	125	200	46	120	166	30	130	160
Interest expense	(2)	(4)	(6)	—	—	—	—	—	—
Sustaining capital expenditures	(1)	(9)	(10)	(2)	(5)	(7)	(2)	(2)	(4)
Current income tax expense <sup>(3)</sup>	—	(12)	(12)	—	(8)	(8)	—	(1)	(1)
Tax equity distributions	(23)	—	(23)	(6)	—	(6)	(3)	—	(3)
Insurance recovery	—	—	—	(5)	—	(5)	(6)	—	(6)
Change in long-term receivable	—	—	—	—	—	—	—	14	14
Currency adjustment, reserves, interest income and other	(3)	2	(1)	—	6	6	—	2	2
AFFO of economic interests	46	102	148	33	113	146	19	143	162
Return of Solomon proceeds	—	8	8	—	—	—	—	28	28
Return of capital and redemptions	(30)	(57)	(87)	(17)	(42)	(59)	(4)	(13)	(17)
Effects of changes in working capital and other timing	(4)	4	—	(9)	(2)	(11)	(4)	2	(2)
Finance and interest income	12	57	69	7	69	76	11	160	171

Finance and interest income are presented and included in the Consolidated Statements of Earnings as follows:

Year ended Dec. 31	2020			2019			2018		
	US Wind and Solar	Australian Gas	Total	US Wind and Solar <sup>(1)</sup>	Australian Gas	Total	US Wind and Solar <sup>(2)</sup>	Australian Gas	Total
Finance income	12	57	69	7	69	76	11	118	129
Interest income <sup>(4)</sup>	—	—	—	—	—	—	—	42	42
Total	12	57	69	7	69	76	11	160	171

(1) Includes Lakeswind, Wyoming Wind, Big Level and Antrim wind facilities and Mass Solar solar facilities.

(2) Includes Lakeswind wind facility and Mass Solar solar facilities from May 31, 2018.

(3) Includes withholding tax.

(4) Refer to Note 9 of the Annual Financial Statements for the composition of Interest income. The interest income in 2020, 2019 and a portion in 2018 is unrelated to the economic interests.

## Fourth Quarter Results

### Consolidated Financial Highlights

Three months ended Dec. 31	2020	2019
Renewable energy production (GWh) <sup>(1)</sup>	1,336	1,173
Revenues	128	119
Net earnings attributable to common shareholders	53	48
Comparable EBITDA <sup>(2)(3)</sup>	133	125
Adjusted funds from operations <sup>(2)</sup>	94	100
Cash flow from operating activities	49	73
Cash available for distribution <sup>(2)</sup>	72	77
Net earnings per share attributable to common shareholders, basic and diluted	0.20	0.18
Adjusted funds from operations per share <sup>(2)</sup>	0.35	0.38
Cash available for distribution per share <sup>(2)</sup>	0.27	0.29
Dividends declared per common share	0.23	0.23
Dividends paid per common share	0.23	0.23

(1) Includes production from Canadian Wind, Canadian Hydro and US Wind and Solar and excludes Canadian and Australian gas-fired generation. Production is not a key revenue driver for gas-fired facilities as most of their revenues are capacity-based.

(2) Refer to the Non-IFRS Measures section of this MD&A for further discussion of these items.

(3) Comparable EBITDA excludes the impact of unrealized mark-to-market gains or losses.

Renewable energy production increased 163 GWh, mainly due to higher wind resource in Canadian Wind, higher water resource in Canadian Hydro and higher production at US Wind and Solar as a result of operations at the Big Level and Antrim wind facilities during the period.

Comparable EBITDA increased by \$8 million in the fourth quarter of 2020, mainly due to a full period of operations at the Big Level and Antrim facilities, which were commissioned in December 2019, and higher wind resources, timing of legal costs at Australian Gas and the strengthening of the Australian dollar relative to the Canadian dollar, partially offset by the settlement of the AESO line loss proceeding and lower government incentives driven by the planned expiry of certain Wind Power Production Incentives in 2019 for Canadian Wind.

AFFO and CAFD decreased by \$6 million and \$5 million, respectively, in the fourth quarter of 2020. This was primarily driven by higher comparable EBITDA contributions that were more than offset by higher distributions relating to the US tax equity financings at Big Level and Antrim, higher interest expense related to the South Hedland financing, higher sustaining capital expenditures and impacts of realized foreign exchange settlements.

Reported net earnings attributable to common shareholders increased by \$5 million, primarily due to higher finance income this quarter of \$10 million, partially offset by a higher income tax expense of \$2 million and a higher unfavourable change in the fair value of financial assets of \$4 million related to investments in subsidiaries of TransAlta.

## Reconciliation of Cash Flow from Operating Activities to AFFO and CAFD

The table below reconciles our cash flow from operating activities to our AFFO and comparable CAFD:

Three months ended Dec. 31	2020	2019
Cash flow from operating activities	49	73
Change in non-cash operating working capital balances	61	25
<b>Cash flow from operations before changes in working capital</b>	<b>110</b>	<b>98</b>
Adjustments:		
Sustaining capital expenditures – owned assets	(5)	(8)
Distributions paid to subsidiaries' non-controlling interest	(1)	(1)
Finance and interest income – economic interests <sup>(1)</sup> (Table II)	(38)	(28)
AFFO – economic interests <sup>(1)</sup> (Table II)	28	39
<b>AFFO</b>	<b>94</b>	<b>100</b>
Deduct:		
Principal repayments of amortizing debt	(22)	(23)
<b>CAFD</b>	<b>72</b>	<b>77</b>
Weighted average number of common shares outstanding in the period (millions)	267	265
<b>AFFO per share</b>	<b>0.35</b>	<b>0.38</b>
<b>CAFD per share</b>	<b>0.27</b>	<b>0.29</b>

(1) Refer to the reconciliation of the comparable EBITDA for the three months ended Dec. 31, 2020, of the facilities in which we hold an economic interest to the reported finance income table (Table II) in this MD&A.

## Reconciliation of Comparable EBITDA to AFFO

Three months ended Dec. 31	2020			2019		
	Owned assets	Economic interests <sup>(1)</sup>	Total	Owned assets	Economic interests <sup>(1)</sup>	Total
Comparable EBITDA (Table I)	80	53	133	77	48	125
Interest expense	(12)	(6)	(18)	(11)	–	(11)
Sustaining capital expenditures	(5)	(7)	(12)	(8)	(2)	(10)
Current income tax expense	–	(4)	(4)	(1)	(2)	(3)
Tax equity distributions	–	(7)	(7)	–	(2)	(2)
Distributions paid to subsidiaries' non-controlling interest	(1)	–	(1)	(1)	–	(1)
Realized foreign exchange gain (loss)	(1)	–	(1)	3	–	3
Provisions	3	–	3	–	–	–
Insurance recovery	–	–	–	–	(5)	(5)
Currency adjustment, reserves, interest income and other	2	(1)	1	2	2	4
<b>AFFO</b>	<b>66</b>	<b>28</b>	<b>94</b>	<b>61</b>	<b>39</b>	<b>100</b>

(1) Refer to Table II for a reconciliation of the economic interest comparable EBITDA to finance and interest income for the three months ended Dec. 31, 2020, as reported on the Consolidated Statements of Earnings.

**Table I**

The tables below reconcile our reported EBITDA of our owned assets to comparable EBITDA for the three months ended Dec. 31, 2020, including the comparable EBITDA of those assets we hold an economic interest in. Since the economic interests are designed to provide the Corporation with returns as if we owned the assets ourselves, presenting the operating information and comparable EBITDA provides a more complete picture to understand the underlying nature of the investments and the resultant cash flows that would otherwise only be presented as finance income from investments. For a reconciliation of the finance and interest income recognized on those assets we hold an economic interest in to comparable EBITDA of those assets, refer to the section labelled Table II:

**Three months ended Dec. 31, 2020**

	Reported	Adjustments	Economic interests	Comparable total
Revenues <sup>(1)</sup>	128	(1)	67	194
Fuel, royalties and other costs of sales <sup>(2)</sup>	24	—	1	25
<b>Gross margin</b>	<b>104</b>	<b>(1)</b>	<b>66</b>	<b>169</b>
Operations, maintenance and administration <sup>(3)</sup>	21	—	13	34
Taxes, other than income taxes	2	—	—	2
Finance income (Table II)	(38)	38	—	—
Interest income (Table II)	(2)	2	—	—
Change in fair value of financial assets	15	(15)	—	—
Foreign exchange gain	(8)	8	—	—
<b>Earnings before interest, taxes, depreciation and amortization</b>	<b>114</b>	<b>(34)</b>	<b>53</b>	<b>133</b>

(1) Comparable EBITDA excludes the impact of unrealized mark-to-market gains or losses. Amounts related to economic interests include finance lease income adjusted for change in finance lease receivable amount.

(2) Amounts related to economic interests include interest earned on the prepayment of certain transmission costs.

(3) Amounts related to economic interests include the effect of contractually fixed management costs.

**Three months ended Dec. 31, 2019**

	Reported	Adjustments	Economic interests	Comparable total
Revenues	119	—	58	177
Fuel, royalties and other costs of sales <sup>(1)</sup>	19	—	3	22
<b>Gross margin</b>	<b>100</b>	<b>—</b>	<b>55</b>	<b>155</b>
Operations, maintenance and administration <sup>(2)</sup>	22	—	12	34
Taxes, other than income taxes	1	—	—	1
Insurance recovery	—	—	(5)	(5)
Finance income (Table II)	(28)	28	—	—
Interest income (Table II)	(2)	2	—	—
Change in fair value of financial assets	11	(11)	—	—
Foreign exchange gain	(9)	9	—	—
<b>Earnings before interest, taxes, depreciation and amortization</b>	<b>105</b>	<b>(28)</b>	<b>48</b>	<b>125</b>

(1) Amounts related to economic interests include interest earned on the prepayment of certain transmission costs.

(2) Amounts related to economic interests include the effect of contractually fixed management costs.

**Table II**

The table below reconciles our finance income to comparable EBITDA of the facilities in which we hold an economic interest:

Three months ended Dec. 31	2020			2019		
	US Wind and Solar	Australian Gas	Total	US Wind and Solar	Australian Gas	Total
Comparable EBITDA	22	31	53	20	28	48
Interest expense	(2)	(4)	(6)	–	–	–
Sustaining capital expenditures	–	(7)	(7)	–	(2)	(2)
Current income tax expense <sup>(1)</sup>	2	(6)	(4)	–	(2)	(2)
Tax equity distributions	(7)	–	(7)	(2)	–	(2)
Insurance recovery	–	–	–	(5)	–	(5)
Currency adjustment, reserves and other	(3)	2	(1)	–	2	2
<b>AFFO of economic interests</b>	<b>12</b>	<b>16</b>	<b>28</b>	<b>13</b>	<b>26</b>	<b>39</b>
Return of capital	(5)	–	(5)	(4)	(1)	(5)
Effects of changes in working capital and other timing	–	15	15	(8)	2	(6)
<b>Finance income</b>	<b>7</b>	<b>31</b>	<b>38</b>	<b>1</b>	<b>27</b>	<b>28</b>

(1) Includes withholding tax.

## Discussion of Comparable EBITDA and Operational Results for the Three Months Ended Dec. 31, 2020

Presenting comparable EBITDA from period to period provides management and investors with a proxy for the amount of cash generated from operating activities before net interest expense, non-controlling interest, income taxes and the impacts of timing and sustaining capital expenditures on finance income from subsidiaries of TransAlta.

Three months ended Dec. 31	Long-term average renewable energy production (GWh) <sup>(1)</sup>	Production (GWh)		Comparable EBITDA	
		2020	2019	2020	2019
Canadian Wind	925	976	934	55	58
Canadian Hydro	80	83	69	7	3
US Wind and Solar	258	277	170	22	20
<b>Total - Renewable energy</b>	<b>1,263</b>	<b>1,336</b>	<b>1,173</b>	<b>84</b>	<b>81</b>
Canadian Gas		281	320	22	21
Australian Gas		435	463	31	28
Corporate		–	–	(4)	(5)
<b>Total</b>		<b>2,052</b>	<b>1,956</b>	<b>133</b>	<b>125</b>

(1) Long-term average is calculated on an annualized basis from the average annual energy yield predicted from our simulation model based on historical resource data performed over a period of typically 15 years for wind and 30 years for hydro.

- Canadian Wind: Comparable EBITDA decreased \$3 million compared to 2019, mainly due to recognizing the \$8 million settlement related to the AESO line loss proceeding and lower government incentives driven by the planned expiry of certain Wind Power Production Incentives in 2019, partially offset by higher wind resources.
- Canadian Hydro: Comparable EBITDA increased \$4 million compared to 2019, mainly due to a recovery of \$4 million related to the AESO line loss proceeding.
- US Wind and Solar: Comparable EBITDA increased \$2 million compared to 2019, due to a full quarter of production from the Big Level and Antrim wind facilities, which were commissioned in December 2019, and higher wind resources.
- Canadian Gas: Comparable EBITDA increased \$1 million from 2019, mainly due to higher customer demand.
- Australian Gas: Comparable EBITDA increased by \$3 million from 2019, mainly due to the timing of legal fees and the strengthening of the Australian dollar relative to the Canadian dollar.
- Corporate: Corporate costs were consistent with 2019.

## Selected Quarterly Information

	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Revenue	110	103	95	128
Net earnings attributable to common shareholders	3	30	6	53
Cash flow from operating activities	82	71	65	49
AFFO <sup>(1)</sup>	94	90	76	94
CAFD <sup>(1)</sup>	91	67	73	72
Net earnings per share attributable to common shareholders, basic and diluted	0.01	0.11	0.02	0.20
CAFD per share <sup>(1)</sup>	0.34	0.25	0.27	0.27

	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Revenue	127	111	89	119
Net earnings attributable to common shareholders	76	31	24	48
Cash flow from operating activities	131	52	75	73
AFFO <sup>(1)</sup>	94	80	69	100
CAFD <sup>(1)</sup>	92	57	67	77
Net earnings per share attributable to common shareholders, basic and diluted	0.29	0.12	0.09	0.18
CAFD per share <sup>(1)</sup>	0.35	0.22	0.25	0.29

(1) Refer to the Non-IFRS Measures section of this MD&A for further discussion of these items.

Our business results fluctuate with seasonal variations, with the first and fourth quarters seeing the largest wind volumes and the second and third quarters recording higher hydro volumes. As wind forms a larger part of our renewable fleet, higher revenues and earnings are expected in the first and fourth quarters. In March 2019, we acquired an economic interest in the Antrim US wind development project. The Big Level and Antrim wind projects achieved commercial operations in December 2019. Net earnings attributable to common shareholders include various effects arising from our economic interest investments through financial instruments as follows:

- Dividends or return of capital can vary each quarter depending on the pre-tax earnings from our economic interest investments (Preferred Shares Tracking Australia Cash Flows, TEA preferred shares, preferred shares tracking earnings and distributions of Wyoming Wind, Lakeswind, Big Level and Antrim, and Mass Solar and Preferred Shares Tracking the Amortizing Term Loan). The TEA preferred shares and Preferred Shares Tracking the Amortizing Term Loan were redeemed in October 2020.
- Interim results for the changes in fair value of financial assets will vary due to changes in cash flow assumptions, discount rates and forecast foreign exchange translation rates.
- Fluctuations in the strength of the Canadian dollar relative to the Australian dollar result in foreign exchange gains and losses on Australian-dollar-denominated investments. With the exception of the second, third and fourth quarters of 2020, each quarter in 2019 and the first quarter in 2020 have recognized foreign exchange losses.
- Fluctuations in the strength of the Canadian dollar relative to the US dollar result in foreign exchange gains and losses on US-dollar-denominated investments and promissory notes. Foreign exchange gains were recognized in the first and third quarters of 2019 and second quarter in 2020, with losses in the first, third and fourth quarters of 2020 and second and fourth quarters of 2019.

## Financial Instruments

Our financial instruments as at the end of the referenced periods are as follows:

As at	Dec. 31, 2020		Dec. 31, 2019	
	Fair value Level II	Fair value Level III	Fair value Level II	Fair value Level III
Preferred Shares Tracking Australia Cash Flows	—	771	—	598
Preferred shares tracking earnings and distributions of Wyoming Wind	—	110	—	119
Preferred shares tracking earnings and distributions of Big Level and Antrim	—	139	—	118
Preferred shares tracking earnings and distributions of Mass Solar	—	48	—	53
Preferred shares tracking earnings and distributions of Lakeswind	—	19	—	30
Preferred Shares Tracking the Amortizing Term Loan	—	—	532	—
Preferred shares of TEA	—	—	42	—
Net risk management liabilities	(2)	—	(2)	—

The Corporation has invested in preferred shares of subsidiaries of TransAlta that pay dividends based on certain financial results of other subsidiaries of TransAlta.

At Dec. 31, 2020, Level III financial instruments were comprised of financial assets with a carrying value of \$1,087 million (2019 – \$918 million).

The increase in fair value of the Preferred Shares Tracking Australia Cash Flows during the year reflect a change in cash flow assumptions, including extension of the BHP contract from 2023 to 2038, and required capital investment and the impacts of the TEC Notes which replaced more expensive financing with lower-cost financing, partially offset by a decrease as a result of changes in the discount rate on the Preferred Shares Tracking Australia Cash Flows.

The fair value of the preferred shares tracking earnings and distributions of Big Level and Antrim have increased as the Corporation has subscribed for additional preferred shares to cover the construction costs associated with the US Wind Projects.

The fair values of the other tracking preferred shares have mainly declined due to the rolling off of the future cash periods, payment of return of capital and changes in the assumptions associated with exchange rates and discount rates.

Refer to the Critical Accounting Policies and Estimates section of this MD&A for additional information on these Level III fair value measurements.

At Dec. 31, 2020, Level II financial instruments were comprised of financial assets with a carrying value of \$2 million related to net risk management liabilities. In 2019, Level II financial instruments were comprised of financial assets with a carrying value of \$574 million, due to the Preferred Shares Tracking the Amortizing Term Loan and the net risk management liabilities. The Preferred Shares Tracking the Amortizing Term Loan and preferred shares of TEA were fully redeemed on Oct. 23, 2020. See Notes 4 and 8 of the Consolidated Financial Statements for additional information related to the redemption of the Preferred Shares Tracking the Amortizing Term Loan and preferred shares of TEA.

Financial instruments give rise to credit risk, foreign currency risk, interest risk and liquidity risk. The Corporation is exposed to market risks based on changes in the fair value of the Preferred Shares Tracking Australia Cash Flows, and the preferred shares tracking earnings and distributions of Wyoming Wind, Big Level and Antrim, Lakeswind and Mass Solar. A one per cent increase (decrease) in the value of these securities would result in an \$11 million increase (decrease) in other comprehensive income as at Dec. 31, 2020. We accept the market risk that arises from our investment in the Preferred Shares Tracking Australia Cash Flows. Refer to the Risk Management section of this document for a discussion thereof and our management strategies.

Financial instruments can be used to manage exposure to interest rates, commodity prices and currency fluctuations, as well as other market risks. TransAlta enters into derivative contracts with external counterparties on our behalf. Derivative financial instruments are accounted for using the fair value method of accounting. The initial recognition of

fair value and subsequent changes in fair value can affect reported earnings in the period the change occurs if hedge accounting is not elected. Otherwise, the effective portion of the changes in fair value will generally not affect earnings until the financial instrument is settled.

The two types of derivative financial instruments that we primarily use are: (i) those that are used in relation to energy trading activities, commodity hedging activities and other contracting activities; and (ii) those used in the hedging of foreign-denominated revenues, debt, projects and expenditures. See Note 12 of the Consolidated Financial Statements for additional information.

## Other Consolidated Results

### Interest Expense

The components of net interest expense for the referenced periods are shown below:

Year ended Dec. 31	2020	2019
Interest on long-term debt	34	37
Interest on lease obligations	1	1
Interest on TEA demand loan	1	—
Other net interest <sup>(1)</sup>	5	3
Interest on line loss rule proceeding	2	—
Accretion of provisions	3	4
<b>Interest expense</b>	<b>46</b>	<b>45</b>

*(1) Consists of letters of credit and guarantees, credit facility commitments, other interest and banking fees (net of capitalized interest). For the year ended Dec. 31, 2020, interest on letters of credit and guarantees pledged by TransAlta was \$2 million (2019 – \$1 million).*

For the year ended Dec. 31, 2020, interest expense decreased compared to 2019, primarily due to lower interest resulting from repayments on the credit facility and non-recourse bonds, partially offset by higher other net interest, interest on the line loss rule proceeding and interest on the TEA demand loan.

### Income Taxes

Our income tax rates and tax expense are based on the earnings generated in each jurisdiction in which we operate and any permanent differences between how pre-tax income is calculated for accounting and tax purposes. If there is a timing difference between when an expense or revenue item is recognized for accounting and tax purposes, these differences result in deferred income tax assets or liabilities and are measured using the income tax rate expected to be in effect when these temporary differences reverse. The impact of any changes in income tax rates on deferred income tax assets or liabilities is recognized in earnings in the period the new rates are enacted.

In 2020, the Corporation recognized a deferred income tax expense of \$2 million related to changes in future tax rates (2019 – \$18 million recovery). In 2019, the Alberta government approved a phase-in of the tax decrease. On June 29, 2020, the Alberta government announced that it was accelerating the reduction in the general corporate income tax rate by reducing the rate to 8 per cent effective July 1, 2020.

### Non-Controlling Interest

Natural Forces Technologies, Inc. owns a 17 per cent interest in Kent Hills Wind LP, which owns the Kent Hills 1, 2 and 3 wind facilities, which collectively have 167 MW of gross generating capacity.

Since we have a controlling interest in Kent Hills Wind LP, 100 per cent of the earnings, assets and liabilities are consolidated into our financial statements. The non-controlling interest on the Consolidated Statements of Earnings and Consolidated Statements of Financial Position relate to the earnings and net assets attributable to the portion of Kent Hills that we do not own. On the Consolidated Statements of Cash Flows, cash paid to the minority owners of Kent Hills is shown in the financing activities section as distributions to non-controlling interest.

Net earnings attributable to the non-controlling interest were \$5 million for the year ended Dec. 31, 2020, an increase of \$1 million compared to 2019, primarily due to price escalations and slightly higher wind resources.

## Other Comprehensive Income (OCI)

Other comprehensive income (loss) includes the changes in fair value for investments in subsidiaries of TransAlta related to the preferred shares of TEA, the Preferred Shares Tracking Australia Cash Flows and the preferred shares tracking earnings and distributions of Wyoming Wind, Big Level and Antrim, Lakeswind and Mass Solar. These gains and losses are excluded from the Consolidated Statements of Earnings. To calculate the fair values of these investments, we use discounted cash flow models based on the underlying future cash flows of the related operations and make estimates and assumptions that are susceptible to change from period-to-period and often do impact the estimate of the fair values. Period-to-period fluctuations in fair value are generally attributed to changes in forward-looking cash flow assumptions, discount rates and foreign exchange rates.

During the year ended Dec. 31, 2020, we recognized a \$126 million increase in fair value in OCI (2019 - \$45 million decrease). The increase during 2020 is primarily attributable to changes in cash flow assumptions for the Preferred Shares Tracking Australia Cash Flows, including the extension of the BHP contract from 2023 to 2038 and required capital investment and the impacts of the TEC Notes, partially offset by a decrease as a result of changes in the discount rate on the Preferred Shares Tracking Australia Cash Flows and the rolling off of future cash flow periods and changes in assumptions associated with exchange rates and discount rates of the preferred shares tracking earnings of the US Tracking Preferred Shares.

See Note 8 of the Consolidated Financial Statements for additional information related to the investments for which changes in fair value are recognized in OCI.

## Sustaining Capital Expenditures

Sustaining capital expenditures for assets we directly own, as well as the facilities in which we own economic interests, are noted below:

Year ended Dec. 31						
	Canadian Wind	Canadian Hydro	US Wind and Solar	Canadian Gas	Australian Gas	Total
2020 Total sustaining expenditures	12	3	1	2	9	27
2019 Total sustaining expenditures	11	3	2	16	5	37

Sustaining capital expenditures decreased by \$10 million compared to 2019 due to lower planned major maintenance at our Canadian Gas facility, partially offset by higher planned major maintenance for Australian Gas and Canadian Wind. In 2019, the majority of the sustaining capital expenditures in Canadian Gas related to a major overhaul of a gas turbine at the Sarnia cogeneration facility.

We also incurred \$2 million in 2020 related to productivity capital primarily for Canadian Wind and the Parkeston facility in Australia.

## Related-Party Transactions and Balances

### Related-Party Transactions

Amounts recognized from transactions with TransAlta or subsidiaries of TransAlta for the referenced periods, excluding those described in the Significant and Subsequent Events section of this MD&A, are as follows:

Year ended Dec. 31	2020	2019
Revenue from TransAlta PPAs (I)	44	35
Revenue from environmental attributes <sup>(1)</sup>	6	13
Finance income from investments in subsidiaries of TransAlta	69	76
Interest income – promissory notes and investments in subsidiaries of TransAlta	3	5
G&A Reimbursement Fee (II)	17	17
Natural gas purchases (III)	2	9
Financial power swap sales – gain (III)	(1)	(1)
Interest expense on TEA demand loan	1	–
Asset optimization fee <sup>(2)</sup>	2	2
Interest expense on credit facility and letter of credit and guarantee fees	2	1

(1) The value of environmental attributes was determined by reference to market information for similar instruments, including historical transactions with third parties.

(2) A subsidiary of TransAlta provides asset management and optimization services for the Corporation's Sarnia cogeneration facility. The Sarnia cogeneration facility is charged a fixed fee of approximately \$0.125 million per quarter, plus a variable fee of 1.6 per cent of its gross margin.

### I. TransAlta PPAs

We have agreements with TransAlta for certain wind and hydroelectric facilities, providing for the purchase by TransAlta, for a fixed price, of all of the power produced by such facilities (the "TransAlta PPAs"). The price paid by TransAlta in 2020 for output under the TransAlta PPAs was approximately \$33.52 per MWh for wind facilities and \$50.29 per MWh for hydroelectric facilities, which are adjusted annually for changes in the Consumer Price Index. TransAlta is only required to purchase power that is actually produced. Each TransAlta PPA has a term of 20 years or end-of-asset life, where end-of-asset life is less than 20 years.

### II. Management Agreement

Under the Management Agreement between the Corporation and TransAlta, TransAlta provides us with general administrative services, including key management personnel services, as may be required or advisable for the management of the business affairs of the Corporation. As reimbursement for the services provided, we pay TransAlta a fee (the "G&A Reimbursement Fee"). TransAlta also provides operational and maintenance services under the Management Agreement, which generally includes all services as may be necessary or requested for the operation and maintenance of our wind, hydro, gas and solar facilities. TransAlta is reimbursed for all out-of-pocket and third-party fees and costs, including salaries, wages and benefits associated with managing and operating the facilities not captured by the G&A Reimbursement Fee. The Management Agreement has an initial 20-year term, which is automatically renewed for further successive terms of five years after the expiry of the initial term or any renewal term, unless terminated by either party. On Feb. 28, 2020, the Management Agreement was amended so that the G&A Reimbursement Fee will be calculated quarterly in an amount equal to five per cent of comparable EBITDA of the immediately prior fiscal quarter, without duplication for any indirect costs associated with the management, administrative, accounting, planning and other head office costs of TransAlta that reduce the dividends or distributions that would otherwise be payable to the Corporation on any of the tracking preferred shares. This amendment is not expected to significantly change the amount of the G&A Reimbursement Fee. Further details concerning the Management Agreement are set out in our AIF. See also the Risk Management section of this MD&A.

### III. Natural Gas Purchases, Sales and Power Swap Sales

Our subsidiary, TransAlta (SC) LP ("Sarnia"), and TransAlta Energy Marketing Corp. ("TEMCO"), a Canadian subsidiary of TransAlta, are parties to a Gas Management Intercompany Agreement for the Sarnia cogeneration facility to obtain its natural gas at the Dawn Hub from TEMCO in consideration of TEMCO being allowed to trade and profit from Sarnia's storage position. The key terms of the Gas Management Intercompany Agreement are as follows:

- All gas burned at Sarnia is purchased by Sarnia from TEMCO priced at the ICE NGX Union Gas Dawn Day-Ahead Index (previously NGX Union Dawn Daily Spot Price) published by the Canadian Gas Price Reporter on the day the gas is burned;
- TEMCO will purchase all customer make-up gas from Sarnia at the ICE NGX Union Gas Dawn Day-Ahead Index at the day of occurrence;

- All gas not consumed and used by Sarnia for hedging purposes is purchased by TEMC at the ICE NGX Union Gas Dawn Day-Ahead Index; and
- In exchange for the gas, Sarnia grants TEMC the unlimited right to inject, store and withdraw gas from the Sarnia storage asset for proprietary purposes.

Additionally, Sarnia remains responsible for all storage and transportation costs, which are based on the volumes of gas transported on the Union Gas pipeline from the hub to the facility.

#### IV. Governance and Co-operation Agreement

Pursuant to the Governance and Co-operation Agreement between the Corporation and TransAlta, TransAlta serves as the primary vehicle through which we will acquire and/or develop renewable power projects. The Governance and Co-operation Agreement provides, among other things, that we will rely on TransAlta to: (i) identify acquisition and/or development opportunities for us (the "Opportunities"); (ii) evaluate the Opportunities for their suitability; (iii) present Opportunities suitable for, and meeting the strategic goals and objectives of the Corporation to the Board for assessment and approval; and (iv) execute and complete any Opportunities approved by the Board. TransAlta and its affiliates are not required to allocate any minimum level of dedicated resources for the pursuit of renewable electricity generation opportunities nor shall TransAlta or its affiliates be required to offer any specific opportunities to us. Approval of any Opportunities involving a transfer of interests from TransAlta or its affiliates to us must be supported and approved by a majority of the independent directors of our Board. Further details concerning the Governance and Co-operation Agreement are set out in our AIF. See also the Risk Management section of this MD&A.

In 2020, we acquired the WindCharger battery storage project from TransAlta. In 2019, we acquired an economic interest in the Antrim wind facility from TransAlta.

#### Related-Party Balances

Related-party balances include the following:

As at	Dec. 31, 2020	Dec. 31, 2019
Trade and other receivables	39	19
Accounts payable and accrued liabilities (including interest payable)	11	8
Dividends payable	38	38
Investments in subsidiaries of TransAlta	1,087	1,492
Credit facility	—	112
Big Level and Antrim promissory notes	18	113
Finance lease receivable <sup>(1)</sup>	7	—
TEA demand loan	195	—
Guarantees provided by TransAlta on behalf of the Corporation (I) <sup>(2)</sup>	207	314
Long-term prepaid – management fee (II)	2	2
Indemnification guarantee provided by the Corporation to TransAlta (III) <sup>(2)</sup>	540	512

(1) Finance lease receivable relates to the 10 MW WindCharger battery storage project, which was acquired in August 2020.

(2) Not recognized as a financial liability on the Consolidated Statements of Financial Position.

All of these balances are with TransAlta or subsidiaries of TransAlta.

### **I. Guarantees**

If the Corporation does not perform under the related agreements, the counterparty may present a claim for payment from TransAlta.

### **II. Long-Term Prepaid – Management Fee**

In the fourth quarter of 2018, the Corporation paid a \$2 million one-time upfront fee upon achieving commercial operation of Kent Hills 3 and will be recognized over a 30-year period, in lieu of the annual five per cent of incremental EBITDA that would otherwise be paid pursuant to the Management Agreement.

### **III. Indemnification Guarantee**

As part of the acquisition of the Australian Assets, we entered into a Guarantee and Indemnification Agreement in favour of TransAlta related to certain guarantees it has provided to third parties in respect of certain obligations of TEA (the "TEA Guarantees"). We have agreed to indemnify TransAlta from and against all claims, actions, proceedings, liabilities, losses, costs, expenses or damages against or incurred by it arising out of or in connection with the TEA Guarantees and to reimburse TransAlta in full for the amount of any payment made by it under and in accordance with the TEA Guarantees, relating to actions, omissions, events and circumstances that occur on or after May 7, 2015. As consideration for this indemnity that we have provided, TransAlta is required to pay us the Canadian-dollar equivalent of the guarantor fees it receives from TEA in respect of any of the TEA Guarantees.

## Liquidity and Capital Resources

Liquidity risk arises from our ability to meet general funding needs, engage in hedging activities and manage the assets, liabilities and capital structure of the Corporation. Liquidity risk is managed by maintaining sufficient liquid financial resources to fund obligations as they come due in the most cost-effective manner. See also the Risk Management – Risk Factors – Liquidity Risk section of this MD&A.

We operate with significant liquidity to enable us to fund growth initiatives, operational expenses, capital expenditures, distributions to the non-controlling interest, interest and principal payments on debt and dividends. Principal sources of liquidity include cash generated from operations, capital markets and funding from our existing Credit Facility. The Corporation remains focused on any refinancing of debt obligations on acceptable terms and maintaining a manageable maturity ladder and does not anticipate material issues in addressing our borrowing through 2023 and beyond on acceptable terms.

### Financial Position

The following table highlights significant changes in the Consolidated Statements of Financial Position from Dec. 31, 2019 to Dec. 31, 2020:

	Dec. 31, 2020	Dec. 31, 2019	Increase/ (decrease)	Primary factors explaining change
Cash and cash equivalents	582	63	519	Timing of receipts from the proceeds on redemption of the Preferred Shares Tracking the Amortizing Term Loan and preferred shares of TEA and receipt of proceeds from the TEA demand loan
Trade and other receivables	134	90	44	Timing of receipts and collections
Property, plant and equipment, net	1,617	1,728	(111)	Depreciation expense, asset impairments, partially offset by additions
Intangible assets	103	114	(11)	Decrease due to amortization expense, partially offset by additions
Finance lease receivables	7	–	7	Finance lease receivable with TransAlta associated with the sale and leaseback of the WindCharger battery storage project acquired in October 2020
Investments in subsidiaries of TransAlta	1,087	1,492	(405)	Decrease due to the redemption of the preferred shares of TEA and Preferred Shares Tracking the Amortizing Term Loan and returns of capital on the investments in US Wind and Solar, partially offset by higher fair values of the Preferred Shares Tracking Australia Cash Flows and issuance of investments in preferred shares tracking earnings and distributions of Big Level and Antrim
Other assets (including current portion)	72	162	(90)	Repayments received on the Big Level and Antrim promissory notes
TEA demand loan	195	–	195	Loan from TEA related to the proceeds of the TEC Notes
Accounts payable and accrued liabilities	50	37	13	Timing of payments and accruals
Long-term debt (including current portion)	692	961	(269)	Repayment of the credit facility and scheduled principal repayments on non-recourse bonds
Deferred income tax liabilities	290	264	26	Decrease in tax loss carryforwards
Equity attributable to shareholders	2,255	2,268	(13)	Decrease due to common share dividends, partially offset by net earnings, favourable fair value changes and common shares issued under DRIP

## Cash Flows

The following table highlights significant changes in the Consolidated Statements of Cash Flows for the year ended Dec. 31, 2020, compared to the same period in 2019:

Year ended Dec. 31	2020	2019	Change	Primary factors explaining change
Cash and cash equivalents, beginning of year	63	73	(10)	
Provided by (used in):				
Operating activities	267	331	(64)	Lower cash earnings of \$10 million and unfavourable changes in working capital of \$54 million
Investing activities	555	(126)	681	Lower investments in subsidiaries of \$535 million, increase in net repayments on promissory notes from a subsidiary of TransAlta by \$188 million, lower additions to property, plant and equipment of \$4 million, increase in advances of \$5 million on loans receivable, decrease in proceeds on redemptions and return of capital on investments in subsidiaries of TransAlta of \$22 million and decrease in restricted cash of \$31 million compared to 2019
Financing activities	(303)	(215)	(88)	Decrease in borrowings under the credit facility by \$275 million and increase in dividends paid on common shares by \$10 million compared to 2019, demand loan from TEA of \$188 million and realized foreign exchange gain of \$11 million
Cash and cash equivalents, end of year	582	63	519	

## Debt and Lease Obligations

	As at Dec. 31, 2020			
	Total facility limit	Utilized		Available capacity
		Outstanding letters of credit <sup>(1)</sup>	Drawings	
Committed credit facility	700	92	—	608

(1) Letters of credit were issued from uncommitted demand facilities. These obligations are backstopped and reduce the available capacity on the syndicated credit facility.

Debt and lease obligations, including the TEA demand loan, totalled \$887 million as at Dec. 31, 2020, compared to \$961 million as at Dec. 31, 2019. The decrease in debt is due to the repayment of the credit facility of \$220 million and scheduled repayments of non-recourse bonds of \$51 million, partially offset by the issuance of the TEA demand loan of \$195 million.

We are subject to customary positive and negative covenants related to debt and are not in violation of any of these covenants. See our AIF for further details.

On Oct. 23, 2020, the Corporation received \$480 million (AU\$515 million) of proceeds directly through the redemption of the Preferred Shares Tracking the Amortizing Term Loan and the redemption of preferred shares of TEA. The proceeds from the redemption of the shares were used to repay the existing indebtedness on the credit facility and will be used to fund the 303 MW portfolio acquisition from TransAlta.

The Melancthon Wolfe Wind, Pingston, New Richmond and Kent Hills Wind bonds are subject to customary financing conditions and covenants that restrict the Corporation's ability to access funds generated by the facilities' operations. Upon meeting certain distribution tests, typically performed once per quarter, the funds can be distributed by the subsidiary entities to their respective parent entity. These restrictions include the ability to meet a debt service coverage ratio prior to distribution. Funds in these entities that have accumulated since the fourth quarter test will remain there until the next debt service coverage ratio can be calculated in the first quarter of 2021. As at Dec. 31, 2020, \$24 million of cash was subject to these financial restrictions (2019 – \$23 million).

The Corporation had no restricted cash as at Dec. 31, 2020, and Dec. 31, 2019.

## Share Capital

On Dec. 31, 2020, we had approximately 266.9 million (2019 – 265.6 million) common shares issued and outstanding. During 2020, the Corporation issued approximately 1.3 million common shares under the DRIP for a total equity value of \$20 million.

In the fourth quarter of 2020, the Corporation suspended its DRIP in respect of any future declared dividends until further notice. See Note 4 of the Consolidated Financial Statements for additional information.

As at March 2, 2021, we had approximately 266.9 million common shares issued and outstanding.

## Capital Structure

Our capital structure consists of the following components as shown below:

As at Dec. 31	2020		2019	
	Amount	%	Amount	%
Debt, net of available cash and cash equivalents <sup>(1)</sup>	305	12	898	28
Non-controlling interest	50	2	45	1
Equity attributable to shareholders	2,255	86	2,268	71
<b>Total capital</b>	<b>2,610</b>	<b>100</b>	<b>3,211</b>	<b>100</b>

(1) The Corporation includes available cash and cash equivalents as a reduction of capital, as capital is managed internally and evaluated by management using a net debt position. Debt includes TEA demand loan, long-term debt and lease obligations.

In 2020, the Corporation's capital structure included a lower percentage of debt than in 2019. Total debt decreased mainly due to the repayments of the credit facility, Melancthon Wolfe Wind bond, New Richmond Wind bond and Kent Hills Wind bond, partially offset by the issuance of the TEA demand loan. Cash and cash equivalents increased compared to 2019, mainly from the proceeds on redemption of the Preferred Shares Tracking the Amortizing Term Loan and redemption of the preferred shares of TEA that occurred in October 2020 and funds from the TEA demand loan to be used in the acquisition of the 303 MW Generation Portfolio from TransAlta.

Certain facilities in which the Corporation holds economic interests are partially funded with project debt and tax equity that is not consolidated in our capital structure. The economic interest in the Australian Assets was partially funded with project debt from the TEC Notes of \$782 million. Approximately \$134 million of tax equity proceeds were raised to partially fund the Lakeswind and Big Level and Antrim facilities.

## Commitments

Payments required under the Corporation's contractual obligations are as follows:

	Long-term service agreements <sup>(1)</sup>	General administrative services <sup>(2)</sup>	TEA demand loan <sup>(3)</sup>	Long-term debt and lease obligations	Interest on debt and lease obligations	Other <sup>(4)</sup>	Total
2021	30	19	195	53	36	10	343
2022	36	20	–	55	33	11	155
2023	21	20	–	102	23	3	169
2024	17	17	–	60	20	2	116
2025	9	17	–	63	17	2	108
2026 and thereafter	27	101	–	365	67	36	596
<b>Total</b>	<b>140</b>	<b>194</b>	<b>195</b>	<b>698</b>	<b>196</b>	<b>64</b>	<b>1,487</b>

(1) Long-term service agreements for wind and gas facilities including economic interests.

(2) Includes the asset management and optimization fees for the Corporation's Sarnia cogeneration facility.

(3) Scheduled maturity repayment of TEA demand loan on Oct. 26, 2022.

(4) Includes land access, other leases, purchase contracts and natural gas purchase and transportation.

## Contingencies

In the normal course of business, the Corporation may become party to litigation, proceedings or regulatory investigations.

### Line Loss Rule Proceeding

The Corporation has been participating in a transmission line loss rule proceeding before the Alberta Utilities Commission ("AUC"). The AUC directed the Alberta Electric System Operator ("AESO") to recalculate the transmission line loss factors of all Alberta generating facilities for the period from 2006 to 2016 and issue a single invoice charging or crediting market participants for the difference in line loss charges (the "Decision"). The AESO submitted a review and variance application of the Decision to implement a "pay-as-you-go" invoicing scheme rather than a single invoice. The AUC ruled on the AESO's request and approved a three-period invoice process (being 2006-2009, 2010-2013 and 2014-2016). The total liability for the line loss charges was \$8 million; however, due to payments made (and received) for the first two invoices, only \$1 million of the total liability remains outstanding. The AESO issued the first invoice on Oct. 22, 2020, for \$1 million, which was paid by Dec. 30, 2020. The second invoice was issued on Dec. 21, 2020, for \$6 million. The third invoice is expected in March 2021.

In November 2020, the AESO sought direction from the AUC with respect to interest payments on the settlement amounts. The AUC ruled in January 2021 that simple interest would apply to the loss charges.

### FMG Dispute

While the Corporation is not directly involved in the ongoing dispute with FMG over the purported termination of the South Hedland PPA, the results of the litigation could impact the finance income received as a result of the economic interest in the Australian Assets. TransAlta constructed the South Hedland Power Station for approximately \$570 million and the facility was expected to generate approximately \$80 million in EBITDA on an annual basis. The Corporation's investment in the Australian Assets is through an economic interest that provides after-tax finance and interest income based on EBITDA of the underlying facilities. The trial is set to proceed for five weeks starting May 3, 2021.

The Corporation recognizes finance and interest income when declared on our investments in the Australian Assets, inclusive of the impacts of any contingent gains when recognized by TransAlta.

### Dispute Settled

There was a second dispute involving FMG's claims against TransAlta related to the transfer of the Solomon facility to FMG. FMG claimed certain amounts related to the condition of the facility while TransAlta claimed certain outstanding costs and payments that should be reimbursed or paid. The dispute was settled and dismissed in the Supreme Court of Western Australia on Sept. 9, 2020.

## Unconsolidated Structured Entities or Arrangements

Disclosure is required of all unconsolidated structured entities or arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity or the availability of, or requirements for, capital resources. We currently have no such unconsolidated structured entities or arrangements.

## Critical Accounting Policies and Estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions that could affect the reported amounts of assets, liabilities, revenues, expenses and disclosures of contingent assets and liabilities during the period. These estimates are subject to uncertainty.

The duration and impact of the COVID-19 pandemic are unknown at this time. Estimates of the extent to which the COVID-19 pandemic may, directly or indirectly, impact the Corporation's operations, financial results and conditions in future periods are also subject to significant uncertainty.

Actual results could differ from those estimates due to factors such as fluctuations in interest rates, foreign exchange rates, inflation and commodity prices, and changes in economic conditions, legislation and regulations.

In the process of applying the Corporation's accounting policies, which are discussed in Note 2 of the Consolidated Financial Statements, management has to make judgments and estimates about matters that are highly uncertain at the time the estimate is made and that could significantly affect the amounts recognized in the Consolidated Financial Statements. Different estimates with respect to key variables used in the calculations, or changes to estimates, could potentially have a material impact on the Corporation's financial position or performance. The key judgments and sources of estimation uncertainty are described below:

### Fair Value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values can be determined by reference to prices for that instrument in active markets to which the Corporation has access. In the absence of an active market, the Corporation determines fair values based on valuation models or by reference to other similar products in active markets.

Fair values determined using valuation models require the use of assumptions. In determining those assumptions, the Corporation looks primarily to external readily observable market inputs. In limited circumstances, the Corporation uses inputs that are not based on observable market data.

### Level Determinations and Classifications

The Level I, II and III classifications in the fair value hierarchy utilized by the Corporation are defined below. The fair value measurement of a financial instrument is included in only one of the three levels, the determination of which is based on the lowest level input that is significant to the derivation of the fair value.

#### *a. Level I*

Fair values are determined using inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.

#### *b. Level II*

Fair values are determined, directly or indirectly, using inputs that are observable for the asset or liability, either directly or indirectly.

Fair values within the Level II category are determined through the use of quoted prices in active markets, which in some cases are adjusted for factors specific to the asset or liability, such as basis, credit valuation and location differentials.

The Corporation's commodity risk management Level II financial instruments may include over-the-counter derivatives with values based on observable commodity futures curves and derivatives with inputs validated by broker quotes or other publicly available market data providers. Level II fair values are also determined using valuation techniques, such as option pricing models and interpolation formulas, where the inputs are readily observable.

In determining Level II fair values of other risk management assets and liabilities and the preferred shares of TEA and the Preferred Shares Tracking the Amortizing Term Loan measured and carried at fair value, the Corporation uses observable inputs other than unadjusted quoted prices that are observable for the asset or liability, such as interest rate yield curves and currency rates. For certain financial instruments where insufficient trading volume or lack of recent trades exists, the Corporation relies on similar interest or currency rate inputs and other third-party information, such as credit spreads. The fair value of the preferred shares of TEA and the Preferred Shares Tracking the Amortizing Term

Loan were determined by calculating an implied price based on a current assessment of the yield to maturity. The preferred shares of TEA and Preferred Shares Tracking the Amortizing Term Loan were redeemed on Oct. 23, 2020.

*c. Level III*

Fair values are determined using inputs for the asset or liability that are not readily observable.

In estimating the fair value of the Preferred Shares Tracking Australia Cash Flows and the preferred shares tracking earnings and distributions of Wyoming Wind, Big Level and Antrim, Lakeswind and Mass Solar, the Corporation uses a discounted cash flow method and makes estimates and assumptions about sales prices, production, capital expenditures, asset retirement costs and other related cash inflows and outflows over the life of the facilities, as well as the remaining life of the facilities. In developing these assumptions, management uses estimates of contracted and merchant prices, anticipated production levels, planned and unplanned outages, changes to regulations, and transmission capacity or constraints for the estimated remaining life of the facilities. Appropriate discount rates reflecting the risks specific to TEA, Wyoming Wind, Big Level and Antrim, Lakeswind and Mass Solar are used in the valuations. Management also develops assumptions in respect of the ongoing financing and tax positions of TEA, Wyoming Wind, Big Level and Antrim, Lakeswind and Mass Solar. These estimates and assumptions are susceptible to change from period to period and actual results can, and often do, differ from the estimates, and can have either a positive or negative impact on the estimate of the fair value of the instrument, and may be material.

The table below summarizes quantitative data regarding the unobservable inputs used in valuing the TEA Tracking Preferred Shares (discussed further below) as at the referenced dates:

Unobservable input	Dec. 31, 2020	Dec. 31, 2019
Discount rate	5.8 %	5.5 %
Quarterly cash flows (millions)	Average of \$13	Average of \$10

The following table summarizes the impact on the fair value measurement of a change in the unobservable inputs to reflect reasonably possible alternative assumptions:

Unobservable input	Alternative assumption	Change in fair value as at Dec. 31, 2020	Change in fair value as at Dec. 31, 2019
Basis point change in discount rates	-10 basis points decrease	6	6
	+10 basis points increase	(6)	(6)
Quarterly cash flows	+1% increase <sup>(1)</sup>	8	6
	- 1% decrease <sup>(1)</sup>	(8)	(6)

(1) Quarterly cash flows could vary by a higher rate than the assumed one per cent factor.

The table below summarizes quantitative data regarding the unobservable inputs used in valuing the fair value of the preferred shares tracking earnings and distributions of Wyoming Wind, Big Level and Antrim, Lakeswind and Mass Solar as at the referenced dates:

Unobservable input as at Dec. 31, 2020	Wyoming Wind	Big Level and Antrim	Lakeswind	Mass Solar
Discount rate	6.8 %	9.7 %	10.3 %	6.8 %
Quarterly cash flows (millions)	Average of \$3	Average of \$4	Average of \$1	Average of \$1

Unobservable input as at Dec. 31, 2019	Wyoming Wind	Big Level and Antrim <sup>(1)</sup>	Lakeswind	Mass Solar
Discount rate	5.6 %	7.8 %	8.4 %	6.3 %
Quarterly cash flows (millions)	Average of \$3	Average of \$4	Average of \$1	Average of \$1

(1) Projects achieved commercial operations in December 2019.

The following table summarizes the impact on the fair value measurements of a change in the unobservable inputs to reflect reasonably possible alternative assumptions as at the referenced dates:

Unobservable input	Alternative assumption	Change in fair value as at Dec. 31, 2020	Change in fair value as at Dec. 31, 2019
Basis point change in discount rates	-10 basis points decrease	2	3
	+10 basis points increase	(2)	(3)
Quarterly cash flows	+1% increase	3	3
	- 1% decrease	(3)	(3)

### Significant Influence through Tracking Preferred Shares

The Corporation has invested in preferred shares of subsidiaries of TransAlta that pay dividends based on certain financial results of other subsidiaries of TransAlta. Under IFRS, a 20 per cent voting interest is presumed to provide the holder with significant influence over the investee. Significant influence is the power to participate in the financial and operating policy decisions of an investee.

The rights associated with the Corporation's investments in the preferred shares of a subsidiary of TransAlta tracking the financial results of certain US Wind and Solar assets provide the Corporation individually with a five per cent (cumulatively 20 per cent) voting interest in that subsidiary. In the event that any dividends on these preferred shares have not been paid within six months of the date at which the payout formula would have them paid, and while such amounts remain unpaid, the Corporation will have the right to appoint individually 15 per cent (cumulatively 60 per cent) of the directors of that subsidiary.

The investment in the preferred shares of a subsidiary of TransAlta tracking the financial results of TEA does not provide the Corporation with any voting rights, unless and until the subsidiary fails to pay four quarterly dividends on the dates when due in accordance with the payout formula, whether or not consecutive, and whether or not such dividends have been declared. Thereafter, but only for so long as any such dividends remain in arrears, the Corporation is entitled to elect 30 per cent of the directors of the subsidiary. The investment agreement with TransAlta provides the Corporation with rights to financial information and further protections against adverse changes in the operation and financial structure of TEA through post-closing covenants. The investment agreement is discussed further in our AIF.

The Corporation determined that it does not have significant influence over the TransAlta subsidiaries, in consideration of TransAlta's block ownership of the voting shares, and accordingly, the investments were determined to constitute financial assets.

### Consolidation of Kent Hills 1, 2 and 3 ("Kent Hills") Wind Facilities

Under IFRS, the Corporation is required to consolidate all entities that it controls. The Corporation consolidates Kent Hills Wind LP as a subsidiary. Kent Hills Wind LP is owned 83 per cent by the Corporation and 17 per cent by an external third party. The Corporation controls Kent Hills Wind LP through its 83 per cent ownership, and accordingly, consolidation is required.

### Dividends as Income or Return of Capital

The Corporation receives dividends from its investments in the Preferred Shares Tracking Australia Cash Flows, the TEA preferred shares, preferred shares tracking earnings and distributions of Wyoming Wind, Lakeswind, Big Level and Antrim, and Mass Solar. Determining whether a dividend represents in substance a return of capital requires significant judgment. The TEA preferred shares were redeemed in October 2020. The Corporation determines the amount of dividends that represent a return of capital based on the lower of: (i) the difference, if positive, between the cost base of the shares and their fair value, at the end of the reporting period; and (ii) the actual dividend declared on the shares during the reporting period. When it is determined that a dividend represents a return of capital, the carrying amount of the related investment is reduced.

## Impairment of PP&E

Impairment exists when the carrying amount of an asset exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. An assessment is made at each reporting date as to whether there is any indication that an impairment loss may exist or that a previously recognized impairment loss may no longer exist or may have decreased. In determining fair value less costs of disposal, information about third-party transactions for similar assets is used and if none is available, other valuation techniques, such as discounted cash flows, are used. Value in use is computed using the present value of management's best estimates of future cash flows based on the current use and present condition of the asset. In estimating either fair value less costs of disposal or value in use using discounted cash flow methods, estimates and assumptions must be made about sales prices, production, asset retirement costs and other related cash inflows and outflows over the life of the facilities, which can range from 25 to 50 years. In developing these assumptions, management uses estimates of contracted prices, anticipated production levels, planned and unplanned outages, changes to regulations, and transmission capacity or constraints for the remaining life of the facilities. Appropriate discount rates reflecting the risks specific to the asset under review are used in the assessments. These estimates and assumptions are susceptible to change from period to period and actual results can, and often do, differ from the estimates, and can have either a positive or negative impact on the estimate of the impairment charge, and may be material. Substantially all of the Corporation's generating assets are contracted under the TransAlta PPAs or other PPAs with various third parties.

## Income Taxes

Preparation of the Consolidated Financial Statements involves determining an estimate of, or provision for, income taxes in each of the jurisdictions in which the Corporation operates. The process also involves making an estimate of income taxes currently payable and income taxes expected to be payable or recoverable in future periods, referred to as deferred income taxes. Deferred income taxes result from the effects of temporary differences due to items that are treated differently for tax and accounting purposes. The tax effects of these differences are reflected in the Consolidated Statements of Financial Position as deferred income tax assets and liabilities. An assessment must also be made to determine the likelihood that the Corporation's future taxable income will be sufficient to permit the recovery of deferred income tax assets. To the extent that such recovery is not probable, deferred income tax assets must be reduced. Management must exercise judgment in its assessment of continually changing tax interpretations, regulations and legislation, to ensure deferred income tax assets and liabilities are complete and fairly presented. Differing assessments and applications from the Corporation's estimates could materially impact the amounts recognized for deferred income tax assets and liabilities.

## Provisions for Decommissioning and Restoration Activities

We recognize provisions for decommissioning and restoration obligations in the period in which they are incurred if there is a legal or constructive obligation to reclaim the facility or site. Initial decommissioning provisions, and subsequent changes thereto, are determined using the Corporation's best estimate of the required cash expenditures, adjusted to reflect the risks and uncertainties inherent in the timing and amount of settlement. The estimated cash expenditures are present valued using a current, risk-adjusted, market-based, pre-tax discount rate. A change in estimated cash flows, market interest rates or timing could have a material impact on the carrying amount of the provision.

At Dec. 31, 2020, the total provision recognized for decommissioning and restoration activities was \$51 million (2019 - \$56 million). In the fourth quarter of 2020, the Corporation adjusted the Sarnia decommissioning and restoration provision to reflect an updated engineering study. The Corporation's current best estimate of the decommissioning and restoration provision decreased by \$15 million. We estimate the undiscounted amount of cash flow required to settle these provisions is approximately \$185 million (2019 - \$220 million), which is expected to be incurred between 2029 and 2050. The majority of these costs will be incurred between 2035 and 2045. An increase of one per cent and 10 per cent for the discount rate and undiscounted cash flows would result in a total net earnings decrease of \$1 million.

## Useful Life of Property, Plant and Equipment ("PP&E")

Each significant component of an item of PP&E is depreciated over its estimated useful life. Estimated useful lives are determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset, existing long-term sales agreements and contracts, current and forecasted demand, the potential for technological obsolescence, and regulations. The useful lives of PP&E are reviewed at least annually to ensure they continue to be appropriate.

During the third quarter of 2019, the allocation of the costs recognized for the components of Wind assets and the useful lives of the identified components were reviewed. During the review, additional components were identified for parts where the useful lives are shorter than the original estimate. The useful life of each of these components was reduced from 30 years to either 15 years or 10 years. As a result, depreciation expense increased by approximately \$10 million for the 12 months ended Dec. 31, 2019.

### Revenue from Contracts with Customers

Where contracts contain multiple promises for goods or services, management exercises judgment in determining whether goods or services constitute distinct goods or services or a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer. The determination of a performance obligation affects whether the transaction price is recognized at a point in time or over time. Management considers both the mechanics of the contract and the economic and operating environment of the contract in determining whether the goods or services in a contract are distinct.

In determining the transaction price and estimates of variable consideration, management considers past history of customer usage in estimating the goods and services to be provided to the customer. We also consider the historical production levels and operating conditions for our variable generating assets.

The satisfaction of performance obligations requires management to make judgments as to when control of the underlying good or service transfers to the customer. Determining when a performance obligation is satisfied affects the timing of revenue recognition. We consider both customer acceptance of the good or service, and the impact of laws and regulations such as certification requirements, in determining when this transfer occurs.

Management also applies judgment in determining whether the invoice practical expedient permits recognition of revenue at the invoiced amount, if that invoiced amount corresponds directly with the entity's performance to date.

### Leases

In determining whether a contract is a lease, we apply judgment in determining whether an identified asset exists, whether the customer or supplier obtains substantially all of the economic benefits from use of the identified asset, and who has the right to control the use of the identified asset during the term of the contract.

For contracts that are considered to be leases, judgment is applied in making the following determinations at the lease commencement date, all of which affect the amount recognized for the right of use asset and lease liability:

- Lease term — whether the Corporation is reasonably certain to exercise renewal or, not to exercise, termination options;
- Lease payments — identifying in-substance fixed payments (included) and variable payments that are based on usage or performance factors (excluded); and
- Components of a contract — identifying lease and non-lease components (services that the supplier performs) and allocating contract payments to lease and non-lease components.

## Accounting Changes

### Current Accounting Changes

#### IFRS 3 Business Combinations

The Corporation has adopted the amendments to IFRS 3 *Business Combinations* as of Jan. 1, 2020. The amendments clarify the definition of a business and introduce amendments that are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. During the third quarter of 2020, the Corporation acquired the WindCharger battery storage project. The project was assessed under the optional fair value concentration test and was not identified as a business, and therefore has been accounted for as an asset acquisition.

Refer to Note 3 of the Consolidated Financial Statements for additional information related to IFRS 3.

#### Amendments to IAS 1 and 8 – Definition of Materiality

The Corporation adopted the amendments to IAS 1 and 8 on Jan. 1, 2020. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements.

### Future Accounting Changes

#### Amendments to IAS 16 *Property, Plant and Equipment: Proceeds before Intended Use*

The Corporation plans to early adopt the Amendments to IAS 16 *Property, Plant and Equipment: Proceeds before Intended Use* on Jan. 1, 2021. The amendment has a mandatory effective date of Jan. 1, 2022. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing the asset to the location and condition necessary for it to be capable of operating. No adjustments are expected from early adopting the amendments.

#### IFRS 7 *Financial Instruments: Disclosures* – Interest Rate Benchmark Reform

London Interbank Offered Rate ("LIBOR") is scheduled to be phased out as an interest rate index readily used by corporations for financial instruments by the end of 2021. The IASB issued *Interest Rate Benchmark Reform – Phase 2* in August 2020, which amends IFRS 9 *Financial Instruments*, IAS 39 *Financial instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures* and IFRS 16 *Leases*. The amendments are effective Jan. 1, 2021, and will be adopted by the Corporation in 2021. No financial impact is expected upon adoption.

## 2021 Outlook

The following table outlines our expectation on key financial targets for 2021:

Measure	Target
Comparable EBITDA	\$480 million to \$520 million
Adjusted funds from operations	\$335 million to \$365 million
Cash available for distribution	\$285 million to \$315 million

The following are material assumptions used to develop these financial targets:

### Operations

#### Production

In 2021, we expect renewable energy production from our wind, solar and hydroelectric assets, including those owned through economic interests, to be in the range of 4,100 to 4,500 GWh. Upon close of the acquisition of the Windrise wind project on Feb. 26, 2021, expected to commence of commercial operations in the second half of 2021, and the economic interest in the Skookumchuck wind facility expected to close in the second quarter of 2021, we expect renewable energy production to be in the range of 4,400 to 4,900 GWh. The economic benefit of each transaction will be effective as at Jan. 1, 2021. Our gas-fired generation primarily receives compensation for capacity, and accordingly, production is not a significant performance indicator of that business.

#### Contracted Cash Flows

Through the use of PPAs, including the TransAlta PPAs, our facilities and those in which we have an economic interest have a weighted average remaining contractual life of approximately 11 years. Upon close of the acquisitions of the Windrise wind project on Feb. 26, 2021, and the economic interests in the Ada cogeneration facility and the Skookumchuck wind facility expected to close in the second quarter of 2021, the weighted average remaining contractual life will be approximately 12 years.

Certain of the Corporation's wind and hydro facilities were eligible to receive incentives under the Wind Power Production Incentive or the ecoENERGY for Renewable Power incentive programs sponsored by the Canadian federal government. The incentives received by some of the Corporation's facilities expired at the end of 2019 and the incentives for the balance of eligible facilities expired in 2020. In 2019 and 2020, we received \$8 million and \$5 million, respectively, from these government incentive programs.

#### Operating Costs

We have established long-term service agreements with suppliers to stabilize operations and maintenance costs. Most of our generation from gas is sold under contracts with pass-through provisions for fuel. For gas generation with no pass-through provision, we purchase natural gas coincident with production, thereby minimizing our exposure to changes in price.

#### Exposure to Fluctuations in Foreign Currencies

We are exposed to fluctuations in the exchange rates between the Canadian and Australian and US dollars as a result of our economic interests in the US Wind and Solar Assets and the Australian Assets. The securities acquired from TransAlta and the related dividends received are denominated in Canadian, Australian and US dollars. We aim to mitigate foreign exchange risk on foreign-denominated cash flows to ensure our ability to meet dividend requirements by entering into foreign exchange forwards to hedge Australian dollar cash flows related to the Australian Assets. In addition, we enter into foreign exchange forwards to hedge US dollar cash flows primarily related to the US Wind and Solar Assets. Any changes in foreign investments or foreign-denominated debt may change our exposure.

#### Interest Expense

Based on our current asset holdings, reported interest expense for 2021 is expected to be lower than 2020, mainly due to favourable interest rates. The interest expense is also subject to any growth projects or acquisitions undertaken by the Corporation in 2021. Our syndicated credit facility gives us access to \$700 million in direct borrowings at a variable interest rate. As a result, we have some exposure to interest rate risk, and changes in interest rates can affect the amount of interest expense incurred.

### Finance Income

We expect distributions from our Australian economic interest to be lower due to the full year impact of the TEC Notes. The quarterly interest payable, and principal payments commencing on March 31, 2022, due under the TEC Notes will be deducted from cash distributions from our Australian economic interest resulting in lower finance income.

### Net Debt, Liquidity and Capital Resources

We expect to maintain adequate available liquidity under our credit facility.

### Income Taxes

The Corporation's statutory blended tax rate is 25.38 per cent. The effective income tax rate can change depending on the mix of earnings from various countries and certain deductions that do not fluctuate with earnings.

The Corporation's anticipated cash tax horizon is subject to risks, uncertainties and other factors that could cause the cash tax horizon to occur sooner than our current projection of approximately two years. In particular, our anticipated cash tax horizon is subject to risk pertaining to a change in our operations, asset base, corporate structure or changes to tax legislation, regulations or interpretations. In the event we become cash taxable sooner than projected, or we are unable to lengthen the cash tax horizon through the acquisition and development of additional growth projects and related tax pools, our cash available for distribution and our dividend could decrease.

In 2019, the Alberta government approved general corporate income tax rate reductions from 12 per cent to 8 per cent. The tax decrease was proposed to be phased in as follows: 11 per cent effective July 1, 2019, 10 per cent effective Jan. 1, 2020, 9 per cent effective Jan. 1, 2021, and 8 per cent effective Jan. 1, 2022. On June 29, 2020, the Alberta government announced that it was accelerating the reduction in the general corporate income tax rate by reducing the rate to 8 per cent, effective July 1, 2020. This proposal was enacted on Dec. 9, 2020 (substantively enacted on Oct. 20, 2020).

### Environmental Legislation

The new Technology Innovation and Emissions Reduction ("TIER") Regulation replaced the Carbon Competitiveness Incentive Regulation ("CCIR") in the Province of Alberta on Jan. 1, 2020. Under TIER, renewables wind projects will continue to generate carbon credits — offsets and Emission Performance Credits ("EPC") — as they did under the CCIR. Total revenues from Alberta carbon offsets and EPCs decreased compared to 2019 and amounted to approximately \$9 million in 2020 (2019 — \$17 million), due to the timing of credits received. In January 2021, approximately \$7 million of credits were received related to 2020. We anticipate the value of carbon credits generated in Alberta in 2021 to be approximately \$16 million, excluding the timing of the 2020 credits.

### Capital Expenditures

#### Sustaining Capital

Our sustaining capital is comprised of the ongoing capital costs associated with maintaining the existing generating capacity of our facilities. The facilities of TransAlta in which we own economic interests also incur sustaining capital expenditures. While we are not required to fund these expenditures, they reduce the finance income from these investments.

For 2021, our estimate for total sustaining capital expenditures for owned assets and those in which we own an economic interest ranges from \$30 million to \$40 million. Upon close of the acquisitions of the Windrise wind project and the economic interests in the Ada cogeneration facility and Skookumchuck wind facility, our estimated total sustaining capital expenditures for owned assets and those in which we own an economic interest ranges from \$35 million to \$45 million.

### Financing

Financing for these capital expenditures is expected to be provided by cash on hand, cash flow from operating activities, our Credit Facility and project financing.

## Business Environment

### Demand and Supply

Our business is cyclical due to the nature of electricity, which is generally consumed as it is generated. Wind and run-of-river hydro resources fluctuate based on both seasonal patterns and naturally occurring weather variation. Typically, run-of-river hydroelectric facilities generate most of their electricity and revenues during the spring and summer months when melting snow starts feeding watersheds and rivers. Wind generation is historically greater during the cold winter months and lower in the warm summer months.

Generally, market demand, supply conditions and changes in such conditions do not have a significant impact on our business operations due to our highly contracted position.

### Contracted Cash Flows

Substantially all of our wind, hydroelectric, solar and gas facilities have contracts in place for the sale of electricity they produce. Most of our wind and hydroelectric facilities located in Alberta are contracted under long-term PPAs with TransAlta. The remaining wind and hydroelectric facilities are contracted with government-owned entities or with other private or public customers. The Sarnia cogeneration gas facility is contracted to supply steam and electricity to commercial users in various industries, with the remaining generation sold into the Ontario market via the Independent Electricity System Operator. The Australian gas facilities are predominantly contracted to mining companies in Western Australia and Horizon Power, a state-owned utility.

In addition to contracting for power, we have entered into long-term and short-term contracts to sell the environmental attributes from our wind and hydroelectric facilities that do not sell the environmental attributes bundled with power sold under long-term contracts. These environmental attributes are sold to a variety of counterparties— ranging from government entities to commercial users— or utilized internally for TransAlta's regulatory obligations.

## Regulatory and Environmental Legislation

### Environmental Legislation

We are subject to federal, provincial, state and local environmental laws, regulations and guidelines concerning the generation and transmission of electrical and thermal energy. We are committed to complying with legislative and regulatory requirements and to minimizing the environmental impact of our operations. We work with governments and the public to develop appropriate frameworks to protect the environment and to promote sustainable development. See also the Risk Management – Risk Factors section of this MD&A.

### Canadian Federal Government

#### *Federal Climate Plan*

On Dec. 11, 2020, the Government of Canada released its “A Healthy Environment and a Healthy Economy” climate plan that outlines how the federal government intends to use policies, regulations and funding to achieve Canada's Paris Agreement emission reduction target of a 30 per cent reduction from 2005 greenhouse gas emission levels. The three major aspects of the plan include increased carbon prices and obligations, increased funding for clean technology and the implementation of the Clean Fuel Regulation (“CFR”). The government stated that it will consult with provinces and industry regarding many elements of the plan so significant uncertainty remains regarding the final form of the related regulations and other initiatives.

Key proposed elements of the federal plan:

- Carbon price for the carbon tax and the larger emitters program is to rise \$15 per tonne CO<sub>2</sub>e per year from 2023 until reaching \$170 per tonne by 2030;
- Carbon obligations to rise as performance standards (benchmarks) under large emitter regulations tighten;
- Over \$10 billion of funding being made available for energy transition, including support for electric vehicles and clean energy development to battery storage and improved grid technology; and
- Implementation of the CFR on liquid fuels but no CFR obligations for gaseous and solid fuels.

The Corporation intends to continue to engage with governments to mitigate risks and identify opportunities within the new federal plan.

#### *Clean Fuel Regulation*

In 2016, the Canadian federal government announced plans to consult on the development of a CFR to reduce Canada's greenhouse gas (“GHG”) emissions through the increased use of lower carbon fuels, energy sources and technologies. The objective of the regulation is to achieve 30 million metric tonnes of annual reductions in GHG emissions by 2030.

On Dec. 19, 2020, the Canadian federal government published its draft version of the CFR with the accompanying supporting documents. As a result of gaseous fuels no longer being regulated by the CFR, the CFR will have a limited impact on the electricity sector. Consultation on the regulation will conclude on March 4, 2021. The CFR is scheduled to be finalized in December 2021 and come into force on Dec. 1, 2022.

#### *Federal Carbon Pricing on Greenhouse Gases*

On June 21, 2018, the Canadian federal *Greenhouse Gas Pollution Pricing Act* ("GGPPA") came into force. Under the GGPPA, the federal government implemented a national price on GHG emissions. On Jan. 1, 2019, the GGPPA's backstop mechanisms came into force in provinces and territories that did not have an independent carbon pricing program or where the existing program was not deemed equivalent to the federal system. The backstop mechanism has two components: a carbon levy for small emitters ("Carbon Tax") and regulation for large emitters called the Output-Based Pricing Standard ("OBPS"). The Carbon Tax sets a carbon price per tonne of GHG emissions related to transportation fuels, heating fuels and other small emission sources.

As noted above, in the "*A Healthy Environment and a Healthy Economy*" plan, the federal government proposed escalating the national price on carbon by \$15 per tonne each year from 2023 until it reaches \$170 per tonne in 2030.

The OBPS regulates large emitters' carbon intensity by setting a sectoral benchmark of GHG emissions per unit of production (e.g., tonnes CO<sub>2</sub>e/MWh) for electricity generators. Emitters exceeding the benchmark generate carbon obligations and those emitters that perform below the benchmark generate emission performance credits. Emitters can meet their obligations by reducing their emission intensity, buying carbon credits from others (offsets or emission performance credits) or making compliance payments to the government.

As discussed in the provincial sections below, Ontario is in the process of transitioning out of the OBPS and into a provincial industrial carbon pricing system. As a result, the Corporation's Sarnia asset will be regulated by provincial systems moving forward. However, the federal government compares provincial carbon pricing systems against the OBPS when deciding whether provinces have achieved equivalency with the federal government's carbon price under the GGPPA. On Feb. 12, 2021, the federal government began planning for a 2022 review of the OBPS and other aspects of the GGPPA. TransAlta will actively engage in this process as any changes to the OBPS will influence provincial carbon pricing systems in the future.

## **Alberta**

### *Large Emitter Greenhouse Gas Regulations*

On Jan. 1, 2020, the Government of Alberta replaced the previous CCIR with TIER. For the electricity sector, there were negligible changes between CCIR and TIER with renewable facilities continuing to receive crediting. The carbon price for TIER in 2021 will be \$40/tonne CO<sub>2</sub>e aligned with the GGPPA requirements. The performance standard benchmark remained at 0.370 tonnes CO<sub>2</sub>e/MWh. A review of TIER is not expected until 2023.

Facilities with emissions above the set benchmark comply with TIER by: i) paying into the TIER Fund (a government-controlled fund that invests in emissions reduction in the province) at the current carbon price; ii) making reductions at their facility; iii) remitting emission performance credits from other facilities; or iv) remitting emission offset credits.

As required by the GGPPA, the Alberta government files annual reports on TIER program details with the federal government. The federal government reviewed TIER and found it compliant with the GGPPA for 2021. The Corporation will continue to receive offsets and emission performance credits for its renewable facilities under TIER ensuring expected revenues are realized.

## **Ontario**

### *Large Emitter Greenhouse Gas Regulations*

On Oct. 23, 2018, the federal government announced that Ontario large emitters would be subject to the federal backstop OBPS regulation. For 2019 and 2020, this meant that Ontario large emitters have been subject to the OBPS.

On July 4, 2019, the Government of Ontario released its own final regulations for the provincial Greenhouse Gas Emissions Performance Standards ("EPS"). On Sept. 21, 2020, the federal government accepted the Ontario government's EPS as meeting the requirements of the GGPPA. In December 2020, the Ontario government published amendments to align the EPS with the GGPPA requirements. The Ontario government also announced its intention to transition from the OBPS to the EPS starting on Jan. 1, 2021. Therefore, Ontario's large emitters were covered by the OBPS for 2019 and 2020 compliance years and will subsequently be covered by the EPS.

Sarnia is a covered entity under the OBPS and the EPS. This requires Sarnia to track and make compliance filings annually and to meet the carbon emission obligations of the applicable government. There are minor differences between between the EPS and OBPS. Sarnia will meet compliance requirements through payments and alternative compliance units under the OBPS and EPS. However, change of law provisions in contracts allow the Corporation to flow carbon-regulation-related costs to customers, resulting in negligible cost increases to the Corporation.

### Quebec

Under the the Le Nordais contract with Hydro-Quebec, the Corporation retains the rights to the Renewable Energy Credits ("RECs"). As a directly adjacent region, these RECs can be sold into the New England Renewable Portfolio Standard ("RPS") market. These RPS markets continue to grow and the acceptability of RECs from Quebec also has expanded. The Corporation will continue to market these RECs at the best available market price in the New England region.

Le Nordais receives value from the sale of RECs into the New England RPS markets. Massachusetts has proposed a lower compliance cost ceiling on its RPS standard which would effectively cap the value of RECs. This could have a negative impact on Le Nordais' REC sales price. The change in regulation is still being considered and has not yet been put into force.

### Massachusetts

The Massachusetts solar assets that the Corporation holds an economic interest in generate Solar Renewable Electricity Credit I ("SREC I") credits. The SREC I program was carved out from Massachusetts' RPS requiring an initial quantity of 400 MW from small solar facilities of 10 MW or less. The initial SREC I program's volume target was achieved, and qualified projects under SREC I continue to generate SREC I credits for their first 10 years post-commercial operation date ("COD"). SREC I facilities then generate Class 1 RECs under the Massachusetts RPS for the remainder of their operational life.

The market for SREC I was designed to be a closed market where demand roughly equals supply. As a result, the Corporation will continue to market SREC I credits and realize at least the compliance price faced by RPS-regulated electricity retailers in the state.

Under Massachusetts' net metering program, qualified facilities connect with the local utility and generate net metering credits. Net metering credits offset the delivery, supply and customer charges and can be sold to customers from remote or on-site qualifying facilities. In 2016, the net metering program was updated to reduce the value of the net metering credits by reducing the offset to only energy costs. New projects are impacted once the net metering program volume reaches 1,600 MW. TransAlta Renewables' and other existing facilities were grandfathered and continue to receive the full, original cost offset treatment for a period of 25 years from initial COD.

### British Columbia

Beginning April 1, 2018, the British Columbia government increased its carbon tax price to \$35 per tonne CO<sub>2</sub>e and committed to raise the price by \$5 per tonne each year until it reaches \$50 per tonne in 2021. Upon review, the government has determined that the carbon tax rate will remain at its current level of \$40 per tonne CO<sub>2</sub>e until April 2021, when it will increase from \$40 to \$45 per tonne CO<sub>2</sub>e. The carbon tax will increase to \$50 per tonne CO<sub>2</sub>e in April 2022. The tax has a negligible cost impact for the Corporation as the tax applies primarily to our transportation fuel use, which is negligible in BC.

### Australia

On Dec. 13, 2014, the Australian government enacted legislation to implement the Emissions Reduction Fund (the "ERF"). The AU\$2.55 billion ERF is the centrepiece of the Australian government's policy and provides a policy framework to cut emissions by five per cent below 2000 levels by 2020 and 26 to 28 per cent below 2005 emissions by 2030. The ERF's safeguard mechanism, commenced on July 1, 2016, is designed to ensure emissions reductions purchased by the Australian government through the ERF are not displaced by significant increases in emissions elsewhere in the economy. The ERF and its safeguard mechanism provide incentives to reduce emissions across the Australian economy.

In addition, on June 23, 2015, the federal Australian government also reformed the Renewable Energy Target ("RET") scheme. The RET is designed to add at least 33,000 GWh/year of renewable sources by 2020. The Australian government has advised there are now sufficient projects approved to meet and exceed the 2020 target of 33,000 GWh/year of additional renewable electricity. The annual target will remain at 33,000 gigawatt hours until the scheme ends in 2030. This would result in approximately 23.5 per cent of Australia's electricity generation being sourced from renewable projects.

The ERF is not expected to have a material impact on our Australian assets. In Australia, electricity has a single sectoral baseline applied to all electricity generators' emissions for units connected to one of Australia's five main electricity grids. The electricity sector baseline has been set at 198 million tonnes CO<sub>2</sub>e per year. In the most recent high emission years of 2015 and 2016, the total emissions were 179 million tonnes CO<sub>2</sub>e per year.

If the baseline is exceeded, then all large emitter generation facilities will need to comply with individual facility baselines. The electricity sector should never exceed the sectoral emission target as no new coal generation is to be built and older coal facilities are retiring. The Corporation's gas facilities will not be subject to carbon costs under current regulations unless changes are made.

#### Market Regulatory Framework

Regulatory and political risk to our business is associated with potential changes to the existing regulatory structures and the political influence upon those structures. This risk can come from market regulation and re-regulation, increased oversight and control, structural or design changes in markets, or other unforeseen influences.

We manage these risks systematically through our legal and regulatory groups and our compliance program, which is reviewed periodically to ensure its effectiveness. We work with governments, regulators, electricity system operators and other stakeholders to resolve issues as they arise. We are actively monitoring changes to market rules and market design, and we engage in industry- and government-agency-led stakeholder engagement processes. Through these and other avenues, we engage in advocacy and policy discussions at a variety of levels. These stakeholder negotiations have allowed us to engage in proactive discussions with governments and regulatory agencies over the longer term.

International investments are subject to unique risks and uncertainties relating to the political, social and economic structures of the respective country and such country's regulatory regime. We mitigate this risk through the use of non-recourse financing and insurance. See also the Risk Management section of this MD&A.

#### **Alberta**

Alberta remains an energy-only market where generators make power supply offers that clear against power demand. The demand and supply dynamics determine market clearing prices. All market risk for the Corporation's assets is held by TransAlta pursuant to a fixed price contract between the two companies.

On July 4, 2019, the Government of Alberta announced that it will not transition to a capacity market and will continue with an energy-only market design. This decision stopped all work on the capacity market design work, which had been underway through the Alberta Electric System Operator ("AESO") since 2017. The Government's announcement followed a stakeholder consultation and review that found stakeholder support for maintaining the energy-only market based upon its proven track record for providing a reliable supply and affordable electricity for Albertans. The removal of legislative changes to enable the capacity market received royal assent on Oct. 31, 2019.

The Minister of Energy further directed Alberta Energy to conduct a policy review on market power and market power mitigation in the energy-only and ancillary services market and directed the AESO to conduct analysis and make recommendations on whether changes are needed to the price floor/ceiling and shortage pricing by July 31, 2020. The AESO's review concluded that no changes were necessary to the pricing or market power mitigation framework in the energy-only market. On Aug. 28, 2020, the Associate Minister announced that the government accepts the AESO's recommendation and no changes will be made to Alberta's energy-only wholesale market design.

#### **Ontario**

Ontario's electricity market is a hybrid market that includes a wholesale spot electricity market, as well as regulated prices for certain electricity consumers and long-term contracts for the purchase of power by the Independent Electricity System Operator ("IESO"). The Ontario Ministry of Energy, Northern Development and Mines supports the IESO in defining the electricity mix to be procured by the IESO. The IESO has the mandate to undertake long-term planning of the electric system, to procure the electricity generation in that plan and to manage contracts for privately owned generation. The IESO is responsible for managing the Ontario wholesale market and for ensuring the reliability of the electric system in Ontario. The electricity sector is regulated by the Ontario Energy Board.

The IESO is currently running a market renewal consultation that includes proposed fundamental changes to the electricity market. These include modifying the energy market, adding a capacity market and improving operability and reliability. The IESO held a capacity auction in December 2020 for the 2021 obligation period. The IESO is continuing to consult on changes to the energy market that are expected to be implemented in early 2023.

Due to the fact that all our units are almost entirely contracted, we expect market rule changes to have minimal, short-term impact on the Corporation.

### New Brunswick and Quebec

These electricity markets are vertically integrated markets with limited ability for independently developed electricity projects in the market or nearby markets. In all cases, the projects have long-term contracts with the local utility so there is no merchant exposure or revenue risk.

### British Columbia

British Columbia's electricity market is dominated by a vertically integrated Crown corporation, BC Hydro. The other provincial utility, FortisBC, has a small service territory in the interior of the province. Electricity is traded with other markets through BC Hydro's trading arm and wholly-owned subsidiary, Powerex. All electricity utilities are regulated by the British Columbia Utilities Commission ("BCUC").

Under government direction in the late 1990s and early 2000s, BC Hydro established a private power market through several competitive calls for power from independent power producers. In recent years, BC Hydro stopped its competitive power calls and contracting with independent power producers ("IPPs") and also suspended its smaller Standing Offer Program for small projects below 15 MW.

BC Hydro is delaying discussions related to recontracting assets until it has completed its new Integrated Resource Plan ("IRP"). In late summer, BC Hydro started its Clean Power 2040 consultation process to feed into the development of IRP. The purpose of the Clean Power 2040 is to develop a long-term electricity system view to meet the climate change and supply objectives related to provincial policy and legislation. The first round of discussions were completed in late 2020. In early spring 2021, a second round of consultations will take place on the draft IRP that was developed based on the findings of the round one discussions. BC Hydro has noted it expects to submit its final IRP to the BCUC in September 2021. The BCUC will hold a public review process on the IRP prior to providing a decision on the IRP.

Current Clean Power 2040 initial results indicate BC Hydro continues to find a need to renew Energy Purchase Agreements with existing independent power producers like the Corporation's Pingson hydro facility.

### US Wholesale Power Market

The *Federal Power Act* gives the US Federal Energy Regulatory Commission ("FERC") rate-making jurisdiction over public utilities engaged in wholesale sales of electricity and the transmission of electricity in interstate commerce. FERC oversees the market structure for all integrated market rules and wholesale sales from generators.

TransAlta Renewables' wind facilities in the US, with the exception of the Wyoming Wind facility, are part of integrated wholesale markets. These wind assets are under long-term contracts so we expect the market rule changes to have minimal impact on the Corporation's revenues. Antrim and Big Level offer capacity in the ISO New England and PJM capacity markets respectively. Antrim has a long-term Capacity Supply Obligation, and as a result, the capacity market auction changes have no short-term impact on revenues. Big Level's capacity has been assigned to the customer so there are no offer requirements and no contract revenue impacts.

The Wyoming Wind facility is not located in an integrated market, but qualifies as an Exempt Wholesale Generator and is not regulated by the local public utility commission. It also has a long-term contract that minimizes the impact of market changes on the Corporation's revenues.

The Massachusetts solar facilities flow their generation directly to the utilities so their power is not directly offered in the ISO New England wholesale market. As a result, market changes have no impact on revenues.

## Environment, Social and Governance ("ESG")

The Corporation places a high priority on ESG or sustainability management and performance. TransAlta has reported on sustainability for over 25 years and fiscal 2020 reporting marked TransAlta's sixth year of integrated financial and sustainability disclosure. TransAlta provides management, administrative and operational services to the Corporation. As a result, the Corporation benefits from the well-established sustainability practices at TransAlta. This is our second year reporting on the environmental and social impacts with respect to the Corporation's exposure from TransAlta.

Key elements of the following disclosure are guided by our sustainability materiality assessment. To help inform discussion and provide context on how ESG affects our business, our content is guided by key criteria from leading ESG reporting frameworks, including the Global Reporting Initiative, Sustainability Accounting Standards Board ("SASB") and Task Force on Climate-related Financial Disclosures ("TCFD").

### Sustainability Strategy

Sustainability is a core value for the Corporation. Our actions support this; the Corporation was established as an investment vehicle to, among other things, pursue and capitalize on strategic growth opportunities in clean electricity (renewable and natural gas) generation and other infrastructure sectors. Our assets cover both renewable and natural gas facilities. Natural gas plays an important role in the electricity sector, providing low-emission baseload and peaking generation to support system demands and enable intermittent renewable generation. Our focus on clean electricity generation also supports the mitigation of potential adverse regulatory developments in response to emerging environmental regulation including, but not limited to, a regulated cost of carbon.

### Environmental and Social ("E&S") Risk and Materiality

Our major environmental risk factors include weather, environmental disasters, climate change, exposure to the elements, environmental compliance risk (with respect to biodiversity, land use, GHG, air emissions, water use, waste, etc.) and current and emerging environmental regulation. Our major social risk factors include public health and safety, employee and contractor health and safety, local communities, employee retention, reputation management, and Indigenous stakeholder relationships.

Further guidance on our risk factors can be found in the Risk Management section of this MD&A.

### Environmental Risk

A high-level overview of the major environmental risk factors affecting the Corporation is as follows:

- Our generation facilities and their operations are exposed to potential damage and partial or complete loss resulting from environmental disasters (e.g., floods, high winds, fires and earthquakes), equipment failures and other events beyond our control. Climate change can increase the frequency and severity of these extreme weather events; and
- Our activities are subject to stringent environmental laws and regulations promulgated and administered by federal, provincial, state and municipal governments where we operate. These laws and regulations generally concern use of water, wildlife protection, wetlands preservation, remediation of contamination, waste disposal requirements, preservation of archaeological artifacts, endangered species preservation and noise limitations, among others. Changes to regulations may affect our strategy, financial position and earnings by reducing the operating life of generating facilities, imposing additional costs on the generation of electricity, requiring additional capital investments to reduce emissions or requiring us to invest in offset credits.

Refer to the Risk Management section of this MD&A for additional information on risk factors affecting the Corporation. See also "Risk Factors" in our AIF.

## Social Risk

A high-level overview of the major social risk factors affecting the Corporation follows:

- We depend on certain partners, including in particular TransAlta, that may have interests or objectives that conflict with our objectives and such differences could have a negative impact on us;
- We are dependent on access to parts and equipment from certain key suppliers and we may be adversely affected if these relationships are not maintained;
- The electricity generation industry has certain inherent risks related to worker health and safety and the environment that could cause us to suffer unanticipated expenditures or to incur fines, penalties or other consequences material to our business and operations; and
- TransAlta manages and operates our facilities and if they fail to attract and retain key personnel, we could be materially and adversely affected. The loss of any such key personnel or the inability to attract, train, retain and motivate additional qualified management and other personnel could have a material adverse effect on our business.

Further information on all of our risk factors can be found in the Risk Management section of this MD&A. See also "Risk Factors" in our AIF.

## Environmental Management and Performance

Reducing the environmental impact of our activities benefits not only our operations and financial results, but also the communities in which we operate. We seek continuous improvement on numerous performance metrics such as GHG emissions, safety, and land and water impacts to minimize both risk to the environment and our compliance risk. The following environmental performance data are also reported by TransAlta as part of its overall reporting on ESG. Hence, it is important to note that comparing TransAlta and the Corporation's ESG data would result in double-counting.

We strive to be in compliance with all environmental regulations relating to our operations and facilities. Compliance with both regulatory requirements and management system standards is regularly audited through TransAlta's performance assurance policy and results are reported quarterly.

### Environmental Governance

TransAlta employees operate and maintain the Corporation's assets pursuant to the Management Agreement, which includes providing environment, health and safety services to the Corporation. We do not specifically include environmental oversight within the General Governance Guidelines of the Board; however, the Board is generally responsible for understanding the principal risks associated with the Corporation's business and for ensuring that TransAlta has identified the principal risks and has implemented appropriate strategies and systems to monitor, manage and mitigate these risks, which include environmental risks. Accordingly, the Board maintains oversight on environmental-related business impacts to those facilities we own (including those held through economic interests), and TransAlta reports to the Board quarterly on any environmental impacts.

### Environmental Management Systems ("EMS")

All of the Corporation's facilities (including those held through economic interests) have an EMS in place, the majority of which closely align with the internationally recognized International Organization for Standardization ("ISO") 14001 EMS standard. Only one facility does not have an ISO 14001 aligned EMS in place (our Wyoming Wind facility), although this facility does have a comparable EMS in place. This is due to commercial arrangements (TransAlta is not the operator of this site). Aligning with ISO 14001 provides assurance that our systems are designed to continuously improve performance.

### Biodiversity

The importance of environmental protection and biodiversity is outlined in a Total Safety Management Policy as a corporate responsibility for TransAlta, and a responsibility of each employee and contractor working on TransAlta's behalf. We consider the biodiversity impact at all of our existing operations and the biodiversity impacts of all new growth projects are evaluated in line with regulatory compliance and with respect to TransAlta's focus on biodiversity, which is to support biodiversity health.

### Growth

Each new TransAlta development project must complete an in-depth environmental assessment (as prescribed by the local regulations and in line with our own assessment practices) describing baseline environmental conditions, identifying potential effects and developing mitigation for identified environmental sensitivities prior to construction and operation. These assessments have been specifically designed to meet the environmental information requirements

of the respective regions in which we operate while identifying alignment with the intent of the standards and/or regulations applicable to these jurisdictions (e.g., Wildlife Directive for Alberta Wind Energy Projects, US Fish & Wildlife Service Land-Based Wind Energy Guidelines, etc.). Typically our renewable projects are greenfield development projects that require a higher level of evaluation compared to a number of our gas projects, which integrate into existing industrial facilities.

In addition, TransAlta provides a detailed wildlife mitigation plan to environmental regulators outlining specific measures that will be employed to mitigate the effects that project construction and operation activities may have on wildlife, wildlife habitat and specific wildlife features identified during environmental studies completed during the development stage.

Each greenfield development project has a detailed stakeholder consultation plan designed to ensure all potentially impacted host landowners, stakeholders, agencies, businesses, non-governmental organizations ("NGOs"), environmental NGOs and Indigenous communities understand the nature of the projects, have multiple and varied opportunities for engagement and feedback, and are able to engage in meaningful dialogue and discussion with TransAlta and its representatives. The ultimate goal is addressing, solving and mitigating stakeholder or Indigenous community biodiversity concerns prior to filing major permit applications for all of our projects.

#### *Day-to-Day Operations*

Our natural gas operations have a relatively limited impact on biodiversity. The facilities are frequently constructed adjacent to existing industrial operations, and TransAlta may not always be the holder of the environmental permits. The land area these facilities occupy is also generally relatively small. One exception is our Sarnia cogeneration facility. This facility is made up of 260 acres of brownfield industrial land, some of which contains areas with tall grasses and potential wildlife. Care will be taken at the time of redevelopment of this land to minimize impact to species at risk through the completion of species at risk surveys as well as performing certain construction activities outside of nesting periods. For all sites that are under our environmental scope, we adhere to all relevant environmental compliance permits.

At our hydro facilities, a major focus is on reducing the impact on fish and fish habitat. We adhere to provincial and federal regulations and operate in accordance with facility approvals. We continue to work towards operational improvement and review our Environmental Operational Management Plans regularly to ensure our operating parameters are met.

At our wind and solar operations, the business unit has established the WiSPER (Wind Stewardship Planning and Environmental Reporting) Program. The goal of the program is to provide continuous improvement and ongoing environmental monitoring programs beyond TransAlta's regulatory requirements. This is achieved through periodic audit and inspection programs, and through collaboration with industry and the scientific community to address environmental concerns and impacts. An Operational Environmental Management Plan has been developed for each renewable asset to ensure that our facilities use environmentally sound and responsible practices that are based on a philosophy of continuous improvement of environmental protection through a program of inspection, monitoring and review.

Examples of WiSPER initiatives to support our biodiversity focus include our Avian Protection Program (installation of covers to protect birds from possible electrocution), a bird and bat mortality database (records all injuries and mortalities), environmentally sensitive resource monitoring (monitoring sensitive wildlife features in and around our operating wind facilities such as raptor nests and sharp-tailed grouse leks), long-term dataset collections (e.g. wildlife studies pre-construction and post-construction), and community wind education programs.

#### **Environmental Incidents**

Protecting and minimizing our impact on the environment supports healthy ecosystems and mitigates our environmental compliance risk and reputational risk. In 2020, environmental incidents were separated into two categories: significant environmental incidents and regulatory non-compliance environmental incidents. We define regulatory, non-compliance environmental incidents as events involving a non-compliance event that did not have an impact on the environment. For example, a technical issue with a computer system for gathering real-time data could cause us to be out of compliance with local regulation or our EMS, but there is no direct consequence for the physical environment. All other events are captured as significant environmental incidents if there is some level of impact to the environment. In 2020, we recorded six significant environmental incidents (2019 – three incidents). Our six significant environmental incidents (all bird and bat strikes – further details below) will not cause any long-term impacts on the environment and the associated ecosystem and did not trigger any enforcement action. The Corporation is working to ensure our classification is accurate as a true significant environmental incident is one that causes harm to the

environment and poses a long-term impact on a local ecosystem. In 2020 we note that we did not experience an incident with such an impact. We recorded two regulatory non-compliance environmental incidents in 2020 (2019 – two incidents). Both of these incidents occurred at our Sarnia facility and were related to an exceedance of discharge from our sumps during water treatment. Both incidents had negligible environmental impact.

Our six significant environmental incidents in 2020 occurred at our Summerview (Alberta), Antrim (New Hampshire) and Big Level (Pennsylvania) wind facilities. Four New Hampshire state-listed bat carcasses were found during the post-construction biological survey in Antrim (three little brown bats and one eastern small-footed bat). One Pennsylvania state-listed bird (yellow-bellied flycatcher) was found during the post-construction biological survey at Big Level. A ferruginous hawk, a listed species in Alberta, was found during an ongoing inspection during normal operation. In each case, root cause analysis investigations were performed and we found no causal factors or root causes related to human behaviour or equipment failure being involved in the incidents. For all incidents we collaborated with authorities and there were no enforcement actions with respect to the mortalities. Despite inconclusive findings, smart bat curtailment optimization is contemplated at Antrim and biological monitoring studies continue at relevant sites.

Environmental incidents	2020	2019	2018
Significant environmental incidents	6	3	–
Regulatory environmental incidents	2	2	1

Some examples of mitigation measures TransAlta has taken include:

- Installation of artificial nest platforms to increase breeding opportunities for endangered ferruginous hawks in southern Alberta;
- Installation of bluebird nest boxes to increase breeding habitat for this sensitive species found at some of our southern Alberta wind facilities;
- Bobolink Management Plan at the Wolfe Island wind facility – creation of 50 acres of breeding habitat for bobolink (a sensitive bird species in Ontario) to offset the potential impacts of the Wolfe Island wind facility on this species; and
- Implementing operational bat curtailment at the Antrim, Big Level, Summerview and Kent Breeze wind facilities during the fall bat migration period (July to September) to reduce bat mortality at these sites by increasing the cut-in speed.

#### Environmental Spills

Typical spills that could occur at our operation sites are hydrocarbon-based. Spills generally happen in low environmental impact areas and are almost always contained and fully recovered. It is extremely rare for large spills to occur. Efforts are placed on providing a quick response to all spills to ensure assessment, containment and recovery of spilled materials result in minimal risk to the environment. The estimated volume of spills in 2020 was 1 m<sup>3</sup> (2019 – 528 m<sup>3</sup>). Spill volumes in 2019 were higher due to a 527 m<sup>3</sup> spill at our Sarnia cogeneration facility. This was not a traditional product spill and was a wastewater effluent limit exceedance from a sump. There was no enforcement action associated with this spill.

#### Air Emissions

Our seven natural gas generation facilities, those held through economic interests, emit low levels of nitrogen dioxide ("NO<sub>x</sub>") that triggers reporting to national regulatory bodies. These gas facilities also produce trace amounts of sulphur dioxide ("SO<sub>2</sub>") and particulate matter, but at levels that are deemed negligible and do not trigger any reporting requirements or compliance issues. The air emissions at all six Australia facilities occur in very remote and unpopulated regions, away from dense urban areas. Our Sarnia facility in Ontario is our only gas facility within 49 kilometres of dense or urban environments.

Historical air emissions, previously reported in 2019 and 2018, were revised in 2020 to reflect changes in our reporting boundary. We have adopted an equity or financial boundary versus an operational control boundary for ESG reporting to more accurately reflect the Corporation's exposure. At the TransAlta level we report on an operational control basis as TransAlta is the operator of the majority of its facilities. As a result of this adjustment our Parkeston facility ESG data was halved to reflect our 50 per cent ownership. Revisions impacted reported nitrogen dioxide emissions. As a result these were revised by approximately 1,000 tonnes (with rounding). Our 2019 particulate matter emissions at our Sarnia facility were revised in 2020 due to the review and adoption of more appropriate emission factors for calculating particulate matter emissions. The change resulted in a reduction of our 2019 particulate emissions total by 10 tonnes. Other historical variances are due to rounding, which was not done for 2019 reporting.

Air emissions	2020	2019	2018
Nitrogen dioxide emissions (tonnes)	3,500	3,500	3,500
Sulphur dioxide emissions (tonnes)	10	10	10
Particulate matter emissions (tonnes)	110	120	130

### Water Use

Our principal water use is for cooling and steam generation in our gas facilities but our hydro operations also require water flow for operations. Water for gas operations is withdrawn primarily from rivers where we hold permits to withdraw water and must adhere to regulations on the quality of discharged water. We return or discharge approximately 95 per cent of water for gas operations back to the source and meet the regulatory quality levels that exist in the various locations in which we operate. The difference between withdrawal and discharge, representing consumption, is largely due to evaporation loss. Water consumption fluctuates based on several factors such as facility availability and weather.

Our gas facilities were responsible for withdrawal of 190 million m<sup>3</sup> of water in 2020, but returned 180 million m<sup>3</sup> or 95 per cent. Our Sarnia gas cogeneration facility, which produces both electricity and steam for our customers, operates a once-through, non-contact cooling system for our steam turbines. This means large amounts of water flow in and out of the system. Despite large withdrawals from the adjacent St. Clair River to support our Sarnia operations, we return approximately 93 per cent of the water withdrawn. Water from this source is currently at "low risk" as per analysis from the SASB-endorsed Aqueduct Water Risk Atlas tool.

The Aqueduct Water Risk Atlas tool highlights that water risk is high at our interior and southern Western Australia facilities due to high interannual variability in the region. Interannual variability refers to wider variations in regional water supply from year to year. Our water supply at these facilities is provided at no cost under PPAs with our mining customers, hence our risk is significantly mitigated. In addition, our customers have developed conservation and re-use strategies aimed at recycling water for mining operational needs. All water used in the region is sourced from scheme water, and with respect to gas and diesel turbine water use, water wash techniques and frequency of activities are continually modified to minimize consumption and environmental impact. Water used in our operations is returned to our customers, who repurpose this water for vegetation and dust suppression in their mining operations.

At our South Hedland facility in northern Western Australia, water risk is also high due to the risk of flooding in the region. The South Hedland facility was built above normal flood levels to mitigate potential risk from flooding. During a category 4 cyclone event in the area and associated flooding in the region in 2019, the South Hedland facility stayed dry and continued to generate power for the region. In addition, the South Hedland facility has developed a Water Efficiency Management Plan with Water Corporation WA, the principal supplier of water, wastewater and drainage services in Western Australia. Initiatives are aimed at reducing water consumption and costs through innovative technology and efficiencies identified through facility management.

The following represents our total water consumption (million m<sup>3</sup>) over the last three years. Figures below have been rounded to the nearest 10 million m<sup>3</sup>:

Water management	2020	2019	2018
Water intake (million m <sup>3</sup> )	190	220	200
Water discharge (million m <sup>3</sup> )	180	200	180
<b>Water consumption (million m<sup>3</sup>)</b>	<b>10</b>	<b>20</b>	<b>20</b>

### Land Use

Land use associated with our operations is approximately 750 hectares (1,800 acres or 7.5 km<sup>2</sup>). For comparability, this is the equivalent of approximately 1 per cent of land use in Calgary, Alberta, where our head office is located. We work closely with all of our neighbouring stakeholders and rights holders in all of our operating regions.

### Waste

In 2020, the facilities we own, directly and through economic interests, generated approximately 23,800 tonnes of non-hazardous and hazardous waste (2019 – 24,500). Waste diversion from landfill is a focus area for TransAlta and in 2020, approximately 99 per cent (2019 – 99 per cent) of total waste was diverted away from landfills through recycling efforts.

Less than 0.5 per cent of hazardous waste generation was directed to landfills, which reflects this focus on waste diversion from landfills. Of the total waste generated, hazardous waste accounted for 91 per cent (2019 – 84 per cent). Non-hazardous waste generation accounted for 9 per cent (2019 – 16 per cent) of total waste. Our waste volumes typically fluctuate year-over-year based on the level of maintenance required to sustain our facilities.

We have revised our waste calculations in 2020 as a result of a deep dive review on all of our company-wide waste data. Through the process we identified the appropriate conversion factors of volumetric waste (which refers to waste reported in litres not tonnes) to ensure these volumes reflect an accurate equivalency on a tonne basis. The result of this work increased our reported total waste volumes (on a tonne equivalency), but also more accurately reflects our waste diversion from landfill efforts.

The following represents our total waste production over the last three years. Figures have been rounded to the nearest one hundred:

Waste management	2020	2019	2018
<b>Total waste generation (tonnes equivalent)</b>	<b>23,800</b>	24,500	21,400
Waste to landfill (tonne eq.)	200	200	200
Waste recycled (tonne eq.)	23,600	24,300	21,200
Waste reuse (tonne eq.)	—	—	—
<b>% of total waste to landfill</b>	<b>1%</b>	1%	1%
<b>% of total waste: hazardous</b>	<b>91%</b>	84%	80%
<b>% hazardous waste to landfill</b>	<b>&lt;0.5%</b>	<0.5%	0%

### Energy Use

We use energy in a number of different ways. At our gas facilities, we burn predominantly natural gas, but also a small amount of diesel in dual gas and diesel turbines in Australia. We harness the kinetic energy of water and wind to generate electricity. We also generate electricity from the sun. In addition to combustion of fuel sources, we also track combustion of gasoline or diesel in our vehicles and the electricity use and fuel use for heating (such as natural gas) in the buildings we occupy. Knowledge of how much energy we use allows us to optimize and create energy efficiencies. As an electricity generator, we continually and consistently look for ways to optimize and create efficiencies related to the use of energy. For example, in 2019, we supported a study conducted by Stanford University to understand how to improve wind production. The research showed that angling turbines slightly away from the wind can boost energy produced and even out variable supply.

Historical energy use, previously reported in 2019 and 2018, was revised in 2020 to reflect changes in our reporting boundary. We have adopted an equity or financial boundary versus an operational control boundary for ESG reporting to more accurately reflect the Corporation's exposure. At the TransAlta level we report on an operational control basis as TransAlta is the operator of the majority of its facilities. As a result of this adjustment our Parkeston facility ESG data was halved to reflect our 50 per cent ownership. Revisions impacted total natural gas volumes, diesel totals, propane totals and our overall energy use totals. Revisions were minor (<2%). In addition, electricity use (MWh) in 2019 was revised upwards (9,000 MWh) to reflect accrued invoices from our wind and solar business unit. Electricity use (MWh) in 2018 was revised as a result of process improvement, which in this case was integration of our BC and Ontario hydro facility ESG data.

The following highlights our operational resource or energy use. Figures have been rounded to the nearest thousand:

Resource or energy use	2020	2019	2018
Natural gas (GJ): <i>combustion/power generation and heating</i>	39,150,000	38,882,000	38,494,000
Diesel (L): <i>combustion/power generation and vehicle use</i>	4,872,000	7,107,000	7,208,000
Gasoline (L): <i>vehicle use</i>	176,000	158,000	144,000
Propane (L): <i>vehicle use and heating</i>	83,000	89,000	74,000
Electricity (MWh): <i>building operations</i>	14,000	18,000	16,000
<b>Total resource or energy use (GJ)</b>	<b>39,402,000</b>	<b>39,236,000</b>	<b>38,843,000</b>

## Climate Change

We believe in open and transparent reporting on climate change. This climate change reporting section is structured as per recommendations from the TCFD. The following highlights our management, performance and leadership of impacts related to climate change.

### Climate Change Governance

We do not specifically include climate change oversight within the General Governance Guidelines of the Board; however, the Board is generally responsible for understanding the principal risks associated with the Corporation's business and for ensuring that TransAlta has identified the principal risks and has implemented appropriate strategies and systems to monitor, manage and mitigate these risks, which includes climate change related risks. Accordingly, the Board maintains oversight on climate change related business impacts to those facilities we own, and TransAlta regularly reports to the Board on any applicable climate change developments, including as it pertains to any applicable regulatory changes. TransAlta provides management, operational and administrative services to the Corporation pursuant to the Management Agreement, which includes providing environment, health and safety services to the Corporation.

### Climate Change Strategy

Our objectives are to (i) provide stable, consistent returns for investors through the ownership of, and investment in, highly contracted renewable and natural gas power generation and other infrastructure assets that provide stable cash flow, primarily through long-term contracts with strong counterparties; (ii) pursue and capitalize on strategic growth opportunities in the renewable and natural gas power generation and other infrastructure sectors; (iii) maintain diversity in terms of geography, generation and counterparties; and (iv) pay out 80 to 85 per cent of cash available for distribution to the shareholders of the Corporation on an annual basis. Our assets cover both renewable and natural gas assets, with the rationale that natural gas is a clean fuel that plays an important role in the electricity sector, providing low-emission baseload and peaking generation to support system demands and intermittent renewable generation.

### Climate Change Risk Management

Our climate risks are divided into two major categories as per guidance from the TCFD, which include: (1) risks related to the transition to a lower-carbon economy, and (2) risks related to the physical impacts of climate change.

#### 1. Transition Risks to a Lower-Carbon Economy

##### *Policy and Legal Risks*

We stay engaged on current and emerging carbon regulations in the regions in which we operate. TransAlta, which operates and maintains the assets of the Corporation pursuant to the Management Agreement, commits significant resources to and is experienced in working with regulators and governments in Canada, the United States and Australia to advocate that regulatory or policy changes are well designed and cost-effective. See the Business Environment section of this MD&A for an update on climate-related regional regulations and the associated impact to our business.

##### *Technology Risks*

Battery storage has the ability to enable greater adoption of renewables and motivate a shift to distributed power generation model. We continue to evaluate battery storage for its financial viability, while monitoring the potential impact battery technology could have on natural gas power generation.

### Market Risks

Changing customer behaviour, reduced consumption and associated use of electricity could impact the demand for electricity; however, we believe this risk is mitigated somewhat by the global trend toward increasing electrification of the economy. Our low carbon business model supports this type of future. Increased costs for natural gas supply due to carbon pricing can impact our operating costs. Use of renewable resources, such as the wind and sun, remove associated risk related to cost of supply.

TransAlta's Corporate function applies regionally specific carbon pricing, both current and anticipated, as a mechanism to manage future risks pertaining to uncertainty in the carbon market and as a safeguard to anticipate future impacts of regulatory changes on facilities. This information is directed to the business unit level for further integration. Identified climate change risks or opportunities and carbon pricing are recognized in the annual TransAlta long- and medium-range forecasting processes. We capture economic profit through generation of environmental attributes (such as carbon offsets and Renewable Energy Credits) and through our emission trading function, which seeks to commoditize and profit from carbon trading.

### Reputation Risks

Consumer trends appear to be moving in favour of renewable and cleaner electricity. We are invested in natural gas, as it provides vital support to the electricity system and is a lower carbon fossil fuel, and a diversified mix of renewable generation.

## 2. Physical Impact Risks of Climate Change

### Acute Risks

We are continuing to evaluate the potential impact of an acute climate change related impact to our business and/or an operational facility or facilities. Our facilities, construction projects and operations are exposed to potential interruption and damage or partial or full loss resulting from environmental disasters (e.g., floods, high winds, fires, ice storms, earthquakes and public health crises, such as pandemics and epidemics). Climate change can increase the frequency and severity of extreme weather events. Further impacts of extreme weather and climate change could result in social unrest, war or terrorism. There can be no assurance that in the event of an earthquake, hurricane, tornado, tsunami, typhoon or other natural, man-made or technical catastrophe, all or some parts of our generation facilities and infrastructure systems will not be disrupted. The occurrence of a significant event disrupting the ability of our power generation assets to produce or sell power for an extended period, including events that preclude existing customers under PPAs from purchasing electricity, could have a material negative impact on our business.

We seek to mitigate future impact where relevant with climate adaptation solutions. The TransAlta South Hedland facility in Western Australia was built with climate adaptation in mind. The facility is designed to withstand a category 5 cyclone. Category 5 is the highest cyclone rating. Floods, which can occur in the area, have been mitigated by constructing the facility above the normal flood levels. In 2019, when a category 4 cyclone hit this facility, operations were not impacted and we were able to continue generating electricity through the storm, despite widespread flooding and the shutdown of the nearby port and associated business activities.

### Chronic Risks

We have not identified any chronic physical risks that could impact our operations. However, we continue to further our understanding and integration of climate modelling into our long-term planning.

### Climate Change: Metrics and Targets

Our GHG emission exposure in 2020 was 2 million tonnes CO<sub>2</sub>e (2019 – 2 million tonnes CO<sub>2</sub>e). Our seven gas facilities were responsible for the majority of our GHG emissions. Our GHG emissions were comparable with 2019 GHG emissions. GHG emissions from our renewable fleet are minor. The majority of our GHG emissions are scope 1 emissions. Our production from renewable energy in 2020 offset the equivalent of approximately 1.8 million tonnes of CO<sub>2</sub>e, or the removal of approximately 380,000 cars from the roads in 2020. These offsets support our customers in achieving their renewable energy procurement and/or GHG reduction goals. In 2020, our carbon intensity exposure was 0.27 tonnes CO<sub>2</sub>e/MWh (2019 – 0.29 tonnes CO<sub>2</sub>e/MWh). The reduction was due to a full year of operations from our new renewable energy facilities, Antrim and Big Level in the United States, and an associated increase in renewable MWh.

Historical GHG emissions, previously reported in 2019 and 2018, were revised in 2020 to reflect changes in our reporting boundary. We have adopted an equity or financial boundary versus an operational control boundary for ESG reporting to more accurately reflect the Corporation's exposure. At the TransAlta level we report on an operational control basis as TransAlta is the operator of the majority of its facilities. As a result of this adjustment our Parkeston facility ESG data was halved to reflect our 50 per cent ownership. Although there was no change to reported GHG totals, 2018 GHG intensity decreased to 0.29 tonnes CO<sub>2</sub>e/MWh from 0.31 tonnes CO<sub>2</sub>e/MWh as a result of these revisions.

GHG emissions	2020	2019	2018
Scope 1 (million tonnes CO <sub>2</sub> e)	2.0	2.0	2.0
Scope 2 (million tonnes CO <sub>2</sub> e)	–	–	–
<b>Total GHG emissions from operations (million tonnes CO<sub>2</sub>e)</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>
<i>GHG emission intensity all facilities (tonnes CO<sub>2</sub>e/MWh)</i>	<b>0.27</b>	0.29	0.29

Our 2020 GHG data is reported to a number of different regulatory bodies throughout the year for regional compliance and, as a result, may incur minor revisions as we review and report data. Any historical revisions will be captured and reported in future disclosure. As per the Kyoto Protocol, GHGs include carbon dioxide, methane, nitrous oxide, sulphur hexafluoride, nitrogen trifluoride, hydrofluorocarbons and perfluorocarbons. Our exposure is limited to carbon dioxide, methane, nitrous oxide and a small amount of sulphur hexafluoride. The majority of our estimated GHG emissions result from carbon dioxide emissions from stationary combustion from natural-gas-powered generation. Emissions data for the Corporation has been aligned with the "Setting Organizational Boundaries: Equity Share Approach" methodology set out in The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard developed by the World Resources Institute and the World Business Council for Sustainable Development. As per the methodology, the Corporation reports GHG emissions in line with its equity ownership. The Corporation does not operate any of the facilities in scope, as TransAlta is the operator of the facilities in scope.

Global warming potentials can vary with respect to regional compliance guidance. We compile our corporate GHG inventory using our business segment GHG calculations. The Clean Energy Regulator in Australia amended global warming potentials in August of 2020 and the use of global warming potentials in our Australia Gas GHG calculations differ from the rest of our fleet as a result of these amendments. Applying harmonized global warming potentials across our fleet would result in a minor variance to our overall calculated GHG totals.

In 2020, TransAlta increased its scoring on the CDP (the global disclosure system for environmental impacts known formerly as Carbon Disclosure Project) Climate Change investor request. Our overall score was an A-, indicating that we are implementing current best practices. This ranks the Corporation among industry leaders on climate change management and places us as ahead of most companies in North America. The average CDP score for our peers was a B and the average score for reporting companies in North America was a D.

We do not currently have any established long-term GHG reduction targets due to the current low exposure of GHG emissions in our business.

## Social Management and Performance

TransAlta provides management, administrative and operational services to the Corporation pursuant to the Management Agreement. As a result, the Corporation benefits from the well-established social sustainability practices at TransAlta.

### Social Governance

TransAlta employees operate and maintain the Corporation's assets pursuant to the Management Agreement, which includes providing environment, health and safety services to the Corporation. The General Governance Guidelines of the Board provide that the Board is responsible for monitoring the actions of TransAlta, including reviewing and monitoring compliance with all significant policies and procedures, such as the code of conduct that includes principles of fair dealing and ethical conduct. The Board maintains oversight on social impacts associated with those facilities we own (including those held through economic interests), and TransAlta regularly reports to the Board on any applicable social developments, including as it pertains to any applicable safety incidents, customer interactions, or community and Indigenous developments.

### Employment Standards

The Corporation does not have any direct employees. All management, administrative and operational services are provided by TransAlta under the Management Agreement. TransAlta is an attractive employer in all three countries in which it operates. TransAlta provides compensation to its employees at levels that are competitive in relation to their respective location. It strives to be an employer of choice through its total rewards program, which includes recognition pay for special contributions, participation in TransAlta's incentive program for eligible employees, benefits that can include extended health, medical, vision and dental, retirement plans, educational assistance for courses and workshops, and association memberships. In addition to monetary rewards, TransAlta also offers non-monetary incentives, which include competitive paid time-off programs to encourage work/life balance, time off for volunteer activities, discounted rates on home and auto insurance, financial planning tools and resources, ongoing learning and development, employee assistance programs, culture and purpose (namely, by being part of a corporation that is recognized for a sustainability legacy and at the forefront of energy transition), and being part of a corporation that invests in community organizations like the Calgary Stampede, United Way and many more.

### Human Rights

We operate in Canada, the United States and Australia. All of these countries have high human rights standards. We respect the fundamental human rights of all of our employees, contractors, suppliers, partners, Indigenous partners and other stakeholders. We abide by human rights legislation in all the jurisdictions in which we operate. We have a zero tolerance approach to discrimination based on age, disability, gender, race, religion, colour, national origin, political affiliation or veteran's status or any other prohibited ground as defined by human rights legislation in the jurisdictions in which we operate. We afford equal opportunities for men and women, support the right to freedom of association and the right to organize unions and bargain collectively. We do not conduct operational human rights reviews or impact assessments, but we do continue to operate aligned with the highest ethical standards, such as ISO 14001 and ISO 18001.

### Health and Safety

The safety of our people, communities and environment is one of our core values. TransAlta operates large and often complex facilities. The environments in which TransAlta works, including Canadian winters and the Australian outback, can add additional challenges to keeping its employees, contractors and visitors safe. Each year TransAlta invests significant resources into improving its safety performance, including positively enhancing our safety culture. The safety of people at our facilities, including TransAlta employees, staff, contractors and visitors, is a top priority of our social performance.

Exposure hours in 2020 for employees at our facilities was approximately 589,000 hours (2019 – 630,000 hours) and during this time, we experienced four incidents (2019 – five incidents). Incident types in 2020 included two first aid incidents (wind & solar operations), one medical aid incident (Sarnia operations) and one lost-time incident (Australia operations). Our Total Injury Frequency ("TIF") rate in 2020 was 1.48 (2019 – 1.59).

In addition to TIF, we are tracking Total Recordable Injury Frequency (TRIF). TRIF tracks the number of more serious injuries and excludes minor first aids, relative to exposure hours worked. TRIF provides us with the opportunity to target and monitor our significant injuries. It is also an industry-recognized safety metric and allows us to compare and benchmark our safety performance to that of our peers. Our TRIF result for 2020 was 0.76 compared to 0.64 in 2019.

The following highlights our safety statistics over the last three years. Exposure hours have been rounded to the nearest thousand:

Safety management	2020	2019	2018
First aid incidents	2	3	4
Medical aid incidents	1	1	1
Lost-time incidents	1	1	–
Restricted working incidents	–	–	1
Exposure hours	589,000	630,000	781,000
Total injury frequency rate	1.48	1.59	1.54
Total recordable injury frequency rate	0.76	0.64	0.51

## Indigenous Relationships

At the Corporation, we value our relationships and partnerships with stakeholders and our Indigenous partners. Our Indigenous Relations team focuses on community engagement, employment, economic development and community investment. We ensure that our principles for engagement are upheld and that the Corporation fulfils its commitments to Indigenous communities. Efforts are focused on building and maintaining solid relationships and establishing strong communication channels that enable the Corporation to share information regarding operations and growth initiatives, gather feedback to inform project planning and understand priorities and interests from communities to better address concerns.

Methods of engagement include:

- Relationship building through regular communication and in-person meetings with representatives at various levels within Indigenous community organizations;
- Hosting company-community activities that share both business information and cultural lessons;
- Maintaining consistent communications with each community and following appropriate community protocols and procedures;
- Participating in community events such as pow wows and blessing ceremonies; and
- Providing both monetary and in-kind sponsorships for community initiatives.

### *Support for Indigenous Youth, Education and Employment*

We recognize the importance of investing in Indigenous students and our financial support helps students complete their education, become self-sufficient and give back to their communities. We are keen to help young Indigenous students reach their full potential and achieve their dreams. We also believe in providing financial support to Indigenous primary school students, helping to instil a passion for lifelong learning. In 2020, TransAlta provided more than \$340,000 to support Indigenous youth, education and employment programs across Canada.

Highlights include:

- Entered into an agreement with Mount Royal University Foundation in support of the Indigenous Housing Renovation Fund which will feature an Indigenous family tipi in an outdoor space dedicated to Indigenous students and supporting Indigenous cultural programming;
- Continued TransAlta's partnership with Indspire, Canada's national Indigenous registered charity, and through this program, 10 bursaries of \$3,000 each were given to recipients from the following communities: Ermineskin Cree Nation, Paul First Nation, Sunchild First Nation, Piikani Nation and Aamjiwnaang First Nation;
- Continued TransAlta's support of Indigenous students with the Southern Alberta Institute of Technology (SAIT) Gap program. This program provides critical financial support needed for aspiring Indigenous students who require high school upgrading in order to qualify for a trade program where there is a 'gap' in available funding;
- In partnership with the United Way of Calgary & Area, designated funding to the Diamond Willow Youth Lodge, a safe place for Calgary Indigenous youth to connect with peers and participate in a variety of programs that promote health and wellness, education and employment preparation;
- Provided funding to the Lac Ste. Anne Métis Capacity Fund to support the training needs of community members including youth and women, and the provision of personal protective equipment for individuals entering the workforce; and
- Continued TransAlta's ongoing partnership with the Banff Centre for Arts and Creativity with scholarship funding allocated to Indigenous community members to participate in Indigenous Leadership programming.

### *Stakeholder Relationships and Local Communities*

Fostering relationships with our stakeholders is important to the Corporation. We take a proactive approach to building relationships and understanding the impacts our business may have on local stakeholders. To act in the best interests of the Corporation and to optimize the balance between financial, environmental and social value for both our stakeholders and the Corporation, we seek to:

- Engage regularly with stakeholders about our operations, growth prospects and future developments;
- Consider feedback and make changes to project designs and plans to resolve and/or accommodate concerns expressed by our stakeholders; and
- Respond in a timely and professional manner to stakeholder inquiries and concerns and work diligently to resolve issues or complaints.

Major stakeholder categories include shareholders, debt holders, business partners, contractors, suppliers, customers, community organizations, employees, industry and professional bodies, media, NGOs, government and regulatory agencies, and neighbouring residents.

During 2020, TransAlta contributed more than \$2 million in donations and sponsorships (2019 – \$2 million) across its operations, with a significant portion of this impacting our operating regions.

### Supply Chain – Sustainable Sourcing

We continue to seek solutions to advance supply chain sustainability. In 2020, we worked to optimize our global supply chain management operations by initiating the centralization and standardization of practices across our global operations. As we explore major projects, we assess vendors both at the evaluation stage and as part of information requests on such elements as safe work practices, environmental practices and Indigenous spend. This means, for example, getting information on:

- Estimated value of services that will be procured through local Indigenous businesses;
- Estimated number of local Indigenous persons that will be employed;
- Understanding overall community spend and engagement; and
- Understanding the state of community relations through interview processes and stakeholder work.

In 2019, TransAlta adopted a Supplier Code of Conduct that applies to all vendors and suppliers of TransAlta. Under this code, suppliers of goods and services to TransAlta are required to adhere to our core values, including as they pertain to health and safety, ethical business conduct and environmental leadership. The code also allows suppliers to report ethical or legal concerns via TransAlta's Ethics Helpline.

In addition, TransAlta rolled out a Supplier Relationship and Performance Management program in 2020 with a few of our key and strategic suppliers. The goals of the program include ensuring alignment of our suppliers' goals with those of the Corporation, streamlining communications while providing a platform to discuss how to elevate performance, creating value through access to innovative ideas and working closely with the suppliers on executing activities more cost-effectively.

### Customers

TransAlta's customer team is focused on helping customers, including customers of the Corporation, in ways uniquely suited to achieving their sustainability goals. Solutions can include the development of renewable generation projects. For example, in 2020 we agreed to acquire an economic interest in the Skookumchuck wind facility, expected to close in the second quarter of 2021, that is contracted with Puget Sound Energy Inc. and in 2019, we began commercial operation at the Big Level wind facility, in which we own an economic interest, that is contracted with Microsoft Corp. These projects enable our customers to contribute to the clean energy economy and further their steps toward enabling a clean electricity future. In 2019, we also announced commercial operation of the 29 MW Antrim wind facility located in New Hampshire, which is under two 20-year contracts with Partners HealthCare and New Hampshire Electric Co-op, respectively. In consultation with TransAlta, we regularly assess renewable and natural gas projects across North America that can be custom built to secure energy production and reduce the environmental footprints of our customers. By supporting the development of our customers' sustainability goals we also further our own clean electricity and decarbonization strategy.

## Risk Management

Our business activities expose us to a variety of risks, including, but not limited to, increased regulatory changes, rapidly changing market dynamics and volatility in commodity markets. Our goal is to manage these risks so that we are reasonably protected from an unacceptable level of earnings, cash available for distribution or financial exposure while still enabling business development. We use a multilevel risk management oversight structure to manage the risks arising from our business activities, the markets in which we operate, and the political environments and structures with which we interface.

The responsibilities of various stakeholders in our risk management oversight structure are described below:

**The Board** is responsible for the stewardship of the Corporation. Subject to the provisions of the *Canada Business Corporations Act*, the Board may delegate certain of its powers and authority that the Board, or independent members of the Board, as applicable, deem necessary or desirable to effect the actual administration of the duties of the Board. Pursuant to the Management Agreement, the Board has delegated broad discretion to administer and manage the business and affairs of the Corporation to TransAlta. Nonetheless, the Board retains certain responsibilities that are described in the Board of Directors' Charter, a copy of which is available on our website and on SEDAR under the electronic profile of the Corporation. The Board includes three independent members.

**The Audit and Nominating Committee's** primary role is to assist the Board in fulfilling its oversight responsibilities regarding our internal controls, financial reporting and risk management processes. The Audit and Nominating Committee is composed entirely of independent members of the Board.

The Audit and Nominating Committee is directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing and issuing an auditor's report or performing other audit, review or attestation services, including the resolution of disagreements between the external auditor and management. The external auditor reports directly to the Audit and Nominating Committee. In addition, the Audit and Nominating Committee pre-approves all non-audit services undertaken by the external auditor.

The Audit and Nominating Committee is responsible for establishing and maintaining satisfactory procedures for the receipt, retention and treatment of complaints and for the confidential, anonymous submission of questionable accounting or auditing matters. The Audit and Nominating Committee is accountable to the Board and provides a report to the Board at each regularly scheduled Board meeting outlining the results of the Audit and Nominating Committee's activities and any reviews it has undertaken.

The Audit and Nominating Committee is also responsible for the identification and recommendation of individuals to the Board for nomination as members of the Board and its committees.

TransAlta, on behalf of the Corporation, has adopted a number of risk mitigation measures in response to the COVID-19 pandemic, including the formal implementation of a business continuity plan on March 9, 2020. The Board and management have been monitoring the development of the outbreak and are continually assessing its impact on the Corporation's operations, supply chains and customers as well as, more generally, to the business and affairs of the Corporation. Potential impacts of the pandemic on the business and affairs of the Corporation include, but are not limited to: potential interruptions of production, supply chain disruptions, unavailability of employees at TransAlta, potential delays in growth projects, increased credit risk with counterparties and increased volatility in commodity prices as well as valuations of financial instruments. In addition, the broader impacts to the global economy and financial markets could have potential adverse impacts on the availability of capital for investment and the demand for power and commodity pricing.

To manage the risks resulting from COVID-19, TransAlta, as our manager under the Management Agreement, has taken a number of steps in furtherance of the Corporation's business continuity efforts:

### Management Responses:

- Formed a COVID-19 emergency team run by TransAlta's Chief Operating Officer, who was also the President of the Corporation until Feb. 5, 2021;
- Regularly communicating with the Board of Directors in regard to the Corporation's response to COVID-19;
- Created a team run by TransAlta to develop, implement and update COVID-19 safety protocols, including a back to office and site strategy that will remain in place until a vaccination or cure has been distributed;
- Established a committee to consider and respond to any claims of force majeure that may be received as a result of COVID-19; and
- Developed leadership plans, including contingent authorities.

#### Policy Changes

- Aligned all non-essential travel and quarantine requirements with local jurisdictional guidance for all TransAlta employees and contractors returning from air, bus, train or ship travel for all jurisdictions in which we operate.

#### Employee Changes

- Provided assurances to TransAlta's employees that their employment with TransAlta would not be impacted by the COVID-19 pandemic;
- Developed and implemented COVID-19-specific back-to-office protocols to ensure all TransAlta locations and the Corporation's sites remain safe;
- Requested and received an essential workers quarantine exemption approval from Alberta Health Services to minimize disruptions in the event international technical assistance is required for our Alberta assets;
- Implemented health screening procedures (i.e., questionnaires and temperature tests), enhanced cleaning measures and strict work protocols at TransAlta's offices and facilities and the Corporation's generating facilities in accordance with TransAlta's back to office and site strategy; and
- Implemented training and policies to seamlessly allow non-essential employees to work remotely, as appropriate.

#### Operational Changes

- Modified operating procedures and implemented restrictions on non-essential access to our facilities to support continued operations through the pandemic;
- Reviewed the supply-chain risk associated with all key power generation process inputs and implemented weekly monitoring for changes in risk;
- Reached out to key supply chain contacts to determine strategies and contingencies to ensure we are able to continue to progress our growth projects, wherever possible; and
- Identified new cybersecurity risks associated with phishing emails and enhanced security protocols and increased awareness of potential threats.

#### Financial Oversight

- Continued to monitor counterparties for changes in creditworthiness as well as monitor their ability to meet obligations; and
- Continued to monitor the situation and communicate with our Board of Directors on any foreseeable impacts and on our response to the crisis. We maintain a strong financial position and significant liquidity with our existing committed credit facilities.

Overall, we continue to actively monitor the situation and advice from public health officials with a view to responding to changing recommendations and adapting our response and approach as necessary.

## Risk Controls

Our risk controls have several key components:

### Enterprise Tone

We strive to foster beliefs and actions that are true to, and respectful of, our many stakeholders. We do this by investing in communities where we live and work, operating and growing sustainably, putting safety first, and being responsible to the many groups and individuals with whom we work.

### Policies

Under the Management Agreement, TransAlta provides all the general administrative and operational services as may be required or advisable for the management of the affairs of the Corporation and operation and maintenance of our facilities. TransAlta maintains a comprehensive set of enterprise-wide policies. These policies establish delegated authorities and limits for business transactions, as well as allow for an exception approval process. Periodic reviews and audits are performed to ensure TransAlta's compliance with these policies. All TransAlta employees are required to comply with a corporate code of conduct. Our directors and officers are also required to sign a code of conduct on an annual basis.

## Risk Factors

Risk is an inherent factor of doing business. The following section addresses some, but not all, risk factors that could affect our future results and our activities in mitigating those risks. These risks do not occur in isolation, but must be considered in conjunction with each other. Further information on these risk factors can be found in our AIF.

For some risk factors we show the after-tax effect on net earnings of changes in certain key variables. The analysis is based on business conditions in 2020 and includes the indirect effects of risks on the facilities in which we have an economic interest. The actions that we describe as being part of our management of these risks include those carried by TransAlta as owner of those facilities. Each item in the sensitivity analysis assumes all other potential variables are held constant. While these sensitivities are applicable to the period and the magnitude of changes on which they are based, they may not be applicable in other periods, under other economic circumstances or for a greater magnitude of changes. The changes in rates should also not be assumed to be proportionate to earnings in all instances.

### Volume Risk

Volume risk relates to the variances from our expected production. The financial performance of our hydro, wind and solar operations is highly dependent upon the availability of their input resources in a given year. Shifts in weather or climate patterns, seasonal precipitation and the timing and rate of melting and runoff may impact the water flow to our facilities. The strength and consistency of the wind resource at our facilities impacts production. The operation of thermal facilities can also be impacted by ambient temperatures and the availability of water and fuel. Where we are unable to produce sufficient quantities of output in relation to contractually specified volumes we may be required to pay penalties or purchase replacement power in the market.

The volume risk is managed by TransAlta by:

- Actively managing our assets and their condition in order to be proactive in facility maintenance so that our facilities are available to produce when required;
- Placing our facilities in locations we believe to have adequate resources to generate electricity to meet the requirements of our contracts. However, we cannot guarantee that these resources will be available when we need them or in the quantities that we require; and
- Diversifying our fuels and geography as one way of mitigating regional or fuel-specific events.

### Generation Equipment and Technology Risk

There is a risk of equipment failure due to wear and tear, latent defect, design error or operator error, among other things, which could have a material adverse effect on the Corporation. Although our generation facilities have generally operated in accordance with expectations, there can be no assurance that they will continue to do so. Our facilities are exposed to operational risks such as failures due to damage in generators and turbines, and other issues that can lead to outages and increased volume risk. If facilities do not meet production targets specified in their PPA or other long-term contracts, we may be required to compensate the purchaser for the loss in the availability of production or record reduced energy or capacity payments.

As well, we are exposed to procurement risk for specialized parts that may have long lead times. If we are unable to procure these parts when they are needed for maintenance activities, we could face an extended period where our equipment is unavailable to produce electricity.

This generation equipment and technology risk is managed by TransAlta by:

- Operating our generating facilities within defined industry standards that optimize availability over their commercial operating life;
- Performing preventive maintenance in accordance with applicable industry practices, major equipment supplier recommendations and our operating experience;
- Adhering to comprehensive maintenance programs and regular turnaround schedules;
- Adjusting maintenance plans by facility to reflect equipment type, age and commercial risk;
- Having adequate business interruption coverage in place to cover extended forced outages;
- Having clauses in our PPAs and other long-term contracts that allow us to declare force majeure in the event of an unforeseen failure;
- Selecting and applying proven technology in our generating facilities, where practical;
- Where technology is newer, ensuring that service agreements with equipment suppliers include appropriate availability and performance guarantees;
- Monitoring our fleet against industry performance to identify issues or advancements that may impact performance and adjusting our maintenance and investment programs accordingly;
- Negotiating strategic supply agreements with selected vendors to ensure key components are readily available in the event of a significant outage;
- Entering into long-term arrangements with our strategic supply partners to ensure availability of critical spare parts; and
- Implementing long-term asset management strategies that optimize the life cycles of our existing facilities and/or identify replacement requirements for our generating assets.

### Environmental Compliance Risk

Our activities are subject to stringent environmental laws and regulations promulgated and administered by federal, provincial, state and municipal governments where we operate. These laws and regulations generally concern use of water, wildlife protection, wetlands preservation, remediation of contamination, waste disposal requirements, preservation of archaeological artifacts, endangered species preservation and noise limitations, among others.

Environmental compliance risks are risks to our business associated with existing and/or revised environmental regulations. New emission reduction objectives for the power sector are being established by governments in Canada and the United States. We anticipate continued and growing scrutiny by investors relating to sustainability performance. These changes to regulations may affect our earnings by reducing the operating life of generating facilities, imposing additional costs on the generation of electricity, such as emission caps or tax, requiring additional capital investments in emission capture technology, or requiring us to invest in offset credits. It is anticipated that these compliance costs will increase due to increased political and public attention on environmental concerns.

This environmental compliance risk is managed by TransAlta by:

- Seeking continuous improvement in numerous performance metrics such as emissions, safety, land and water impacts, and environmental incidents;
- Having an International Organization for Standardization and Occupational Health and Safety Assessment Series-based environmental health and safety management system in place that is designed to continuously improve performance;
- Committing significant experienced resources to work with regulators in Canada and the United States to advocate that regulatory changes are well designed and cost-effective;
- Purchasing environmental attributes (such as carbon or emission offset credits);
- Investing in renewable energy projects, such as wind, solar and hydro generation; and
- Incorporating change-in-law provisions in contracts that allow recovery of certain compliance costs from our customers.

We strive to be in compliance with all environmental regulations relating to operations and facilities. Compliance with both regulatory requirements and management system standards is regularly audited through our performance assurance policy and results are reported quarterly.

## Credit Risk

Credit risk is the risk to our business associated with changes in the creditworthiness of entities with which we have commercial exposures. This risk results from the ability of a counterparty to either fulfil its financial or performance obligations to us or where we have made a payment in advance of the delivery of a product or service. The inability to collect cash due to us or to receive products or services may have an adverse impact upon our net earnings and cash flows. We are also exposed indirectly to the credit risks of TEA and other TransAlta subsidiaries through our economic interest investments.

This exposure to credit risk is managed by TransAlta by:

- Establishing and adhering to policies that define credit limits based on the creditworthiness of counterparties, contract term limits and the credit concentration with any specific counterparty;
- Requiring formal sign-off on contracts that include commercial, financial, legal and operational reviews;
- Requiring security instruments, such as parental guarantees, letters of credit, cash collateral or third-party credit insurance if a counterparty goes over its limits. Such security instruments can be collected if a counterparty fails to fulfil its obligation; and
- Reporting our exposure using a variety of methods that allow key decision-makers to assess credit exposure by counterparty. This reporting allows us to assess credit limits for counterparties and the mix of counterparties based on their credit ratings.

If established credit exposure limits are exceeded, we take steps to reduce this exposure, such as requesting collateral, if applicable, or by halting commercial activities with the affected counterparty. However, there can be no assurances that we will be successful in avoiding losses as a result of a contract counterparty not meeting its obligations.

Our credit risk management profile and practices have not changed materially from Dec. 31, 2019. We had no material counterparty losses in 2020. We continue to keep a close watch on changes and trends in the market and the impact these changes could have on our business activities and will take appropriate actions as required, although no assurance can be given that we will always be successful.

A summary of our direct and indirect credit exposures at Dec. 31, 2020, is provided below:

Counterparty credit rating	Direct exposure	Indirect exposure <sup>(2)</sup>
	Receivables <sup>(1)</sup>	Trade accounts receivable
Investment grade	62	40
Non-investment grade	33	8
TransAlta and subsidiaries of TransAlta	57	—
No external rating	52	—

(1) Includes trade accounts receivable, distributions receivable from subsidiaries of TransAlta and a loan receivable.

(2) Includes accounts receivable of TEA. Receivables of other economic interest investments were approximately \$6 million in total and are with investment-grade and other high-quality counterparties.

## Currency Rate Risk

We are exposed to fluctuations in the exchange rates between the Canadian and the Australian and US dollars as a result of our investments in and loans from subsidiaries of TransAlta. Changes in the values of these currencies relative to the Canadian dollar may affect our earnings or the value of our foreign investments to the extent that these positions or cash flows are not hedged or the hedges are ineffective.

We manage currency rate risk by offsetting our Australian and US dollar cash flows primarily related to the Australian Gas and US Wind and Solar assets with foreign exchange forward contracts.

As at Dec. 31, 2020, a three cent increase or decrease in the Australian dollar relative to the Canadian dollar would not significantly increase or decrease net earnings of the Corporation but would result in an increase or decrease in other comprehensive income of \$19 million.

The Wyoming Wind, Big Level and Antrim, Lakeswind and Mass Solar tracking preferred shares contain embedded US-denominated cash flows. A three cent increase or decrease in the US dollar relative to the Canadian dollar would not significantly increase or decrease net earnings of the Corporation but would result in an increase or decrease in other comprehensive income of \$11 million.

### Liquidity Risk

Liquidity risk arises from our ability to meet general funding needs and manage the assets, liabilities and capital structure of the Corporation. Our liquidity needs are met through a variety of sources, including capital markets, cash generated from operations and funding from our credit facility. Our primary uses of funds are operational expenses, capital expenditures, interest and principal payments on debt, funding growth and dividends.

We manage liquidity risk by:

- Maintaining sufficient liquid financial resources to fund obligations as they come due in the most cost-effective manner;
- Preparing and revising longer-term financing plans to reflect changes in business plans and the market availability of capital; and
- Maintaining a \$700 million syndicated credit facility to support potential liquidity requirements.

### Interest Rate Risk

Changes in interest rates can impact our borrowing costs, and changes in our cost of capital may also affect the feasibility of new growth initiatives.

We manage interest rate risk by establishing and adhering to policies that include:

- Employing a combination of fixed and floating rate debt instruments; and
- Monitoring the mixture of floating and fixed rate debt and adjusting where necessary to ensure a continued efficient mixture of these types of debt.

At Dec. 31, 2020, our total debt portfolio was not subject to changes in interest rates. In 2019, 23 per cent of our total debt portfolio was subject to changes in interest rates.

The Interest Rate Benchmark Reform and the phasing out of LIBOR could impact interest rate risk with respect to the Corporation's Canadian dollar credit facility. The credit facility references US LIBOR for US-dollar drawings and the Canadian Dollar Offered Rate for Canadian drawings. As at Dec. 31, 2020, there were no drawings under the credit facility. The Corporation is monitoring the reform and does not expect any material impact. See also the Accounting Changes section of this MD&A for additional information.

### Project Management Risk

On capital projects, we face risks associated with cost overruns, delays and performance.

These project risks are managed by TransAlta by:

- Ensuring all projects are reviewed to see that established processes and policies are followed, risks have been properly identified and quantified, input assumptions are reasonable, and returns are realistically forecasted prior to senior management and Board approvals (including, where applicable, independent Board approval);
- Using consistent and disciplined project management methodologies and processes;
- Performing detailed analysis of project economics prior to construction or acquisition and by determining our asset contracting strategy to ensure the right mix of contracted and merchant capacity before starting construction;
- Developing and following through with comprehensive plans that include critical paths identified, key delivery points and backup plans;
- Managing project closeouts so that any learnings from the project are incorporated into the next significant project;
- Fixing the price and availability of the equipment, foreign currency rates, warranties and source agreements as much as is economically feasible before proceeding with the project; and
- Entering into labour agreements to provide security around cost and productivity.

### Human Resource Risk

Human resource risk relates to the potential impact upon our business as a result of changes in the workplace. Human resource risk can occur in several ways:

- Potential disruption as a result of labour action at our generating facilities;
- Reduced productivity due to turnover in positions;
- Inability to complete critical work due to vacant positions;
- Failure to maintain fair compensation with respect to market rate changes; and
- Reduced competencies due to insufficient training, failure to transfer knowledge from existing employees or insufficient expertise within current employees.

We do not have employees, but rather rely on the Management Agreement with TransAlta for the provision of all our management, administrative and operational services, including making available appropriate personnel. The Human Resources risk is managed by TransAlta by:

- Monitoring industry compensation and aligning salaries with those benchmarks;
- Using incentive pay to align employee goals with corporate goals;
- Monitoring and managing target levels of employee turnover; and
- Ensuring new employees have the appropriate training and qualifications to perform their jobs.

### Regulatory and Political Risk

Regulatory and political risk is the risk to our business associated with potential changes to the existing regulatory structures and the political influence upon those structures. This risk can come from market regulation and re-regulation, increased oversight and control, structural or design changes in markets, or other unforeseen influences. Market rules are often dynamic and we are not able to predict whether there will be any material changes in the regulatory environment or the ultimate effect of changes in the regulatory environment on our business. This risk includes, among other things, uncertainties associated with the development of a capacity market for electricity in Ontario, potential market bid mitigation in Alberta, uncertainties associated with the development of carbon pricing policies and funding.

We manage these risks systematically through TransAlta's legal and regulatory compliance programs, which are reviewed periodically to ensure their effectiveness. TransAlta works with governments, regulators, electricity system operators and other stakeholders to resolve issues as they arise. TransAlta actively monitors changes to market rules and market design and engages in industry- and government-agency-led stakeholder engagement processes. Through these and other avenues, TransAlta engages in advocacy and policy discussions at a variety of levels. These stakeholder negotiations have allowed us to engage in proactive discussions with governments and regulatory agencies over the longer term.

International investments are subject to unique risks and uncertainties relating to the political, social and economic structures of the respective country and such country's regulatory regime. We mitigate this risk through the use of non-recourse financing and insurance.

### Transmission Risk

Access to transmission lines and transmission capacity for existing and new generation is key to our ability to deliver energy produced at our power facilities to our customers. The risks associated with the aging existing transmission infrastructure in the markets in which we operate continue to increase because new connections to the power system are consuming transmission capacity quicker than it is being added by new transmission developments.

### Reputation Risk

Our reputation is one of our most valued assets. Reputation risk relates to the risk associated with our business because of changes in opinion from the general public, private stakeholders, governments and other entities.

We manage reputation risk by:

- Striving as a neighbour and business partner in the regions where we operate to build viable relationships based on mutual understanding leading to workable solutions with our neighbours and other community stakeholders;
- Clearly communicating our business objectives and priorities to a variety of stakeholders on a routine basis;
- Maintaining positive relationships with various levels of government;
- Pursuing sustainable development as a longer-term corporate strategy;
- Ensuring that each business decision is made with integrity and in line with our corporate values;
- Communicating the impact and rationale of business decisions to stakeholders in a timely manner; and
- Maintaining strong corporate values that support reputation risk management initiatives, including the annual code of conduct sign-off.

## Corporate Structure Risk

### *TransAlta*

TransAlta is the largest shareholder of the Corporation and is also responsible for the management and operation of the Corporation pursuant to the Management Agreement. In addition, TransAlta is able to nominate directors to the Board and we rely on TransAlta to identify acquisition and growth opportunities. As a result, TransAlta is able to exercise substantial influence over our operations, administration and growth. Any failure to effectively manage our operations or to implement our growth strategy could have a material adverse effect on our business, financial condition and results of operations. Our risk management procedures in respect of this corporate structure risk include incorporating Board members that are independent of TransAlta.

### *Other*

We conduct a significant amount of business through subsidiaries and partnerships. Our ability to meet and service debt obligations is dependent upon the results of operations of our subsidiaries and the payment of funds by our subsidiaries in the form of distributions, loans, dividends or otherwise. In addition, our subsidiaries may be subject to statutory or contractual restrictions that limit their ability to distribute cash to us.

## General Economic Conditions

Changes in general economic conditions impact product demand, revenue, operating costs, the timing and extent of capital expenditures, the net recoverable value of PP&E, financing costs, credit and liquidity risk, and counterparty risk.

## Investments in Subsidiaries of TransAlta

Following the investments in economic interests of the Australian Assets, Wyoming Wind, Lakeswind, Big Level and Antrim, and Mass Solar, all owned by TransAlta, some, but not all, additional risk factors that could affect our future results, and our activities in mitigating those risks, are outlined below:

### *Nature of interests*

The Corporation indirectly retains an economic interest in, and has no legal rights in respect of, the Australian Assets, Wyoming Wind, Lakeswind, Big Level, Antrim and Mass Solar. We own securities providing an economic interest based on the cash flows from the assets broadly equal to the underlying net distributable profits. This means that we are not able to dispose of these assets or exercise other rights of ownership, nor do we have any ability to directly oversee or manage the ownership and operation of these assets. Consequently, the rights to us in relation to these assets may be of less value compared to direct ownership of these assets.

### *Dependence on financial performance*

The value of our common shares depends, in part, on the financial performance and profitability derived from these assets. Any decline in the financial performance of these assets or adverse change in such other factors could have an adverse effect on us and the value and market price of our common shares. In addition, these assets are potentially subject to the liabilities attributed to TransAlta, even if those liabilities arise from lawsuits, contracts or indebtedness that do not relate or are otherwise attributed to the assets or the Corporation.

### *Insufficient funds to satisfy distributions*

We are entitled to receive quarterly preferential cash dividend payments on the Australian Tracking Preferred Shares. This subsidiary's only source of income is the distributions it receives from a 43 per cent owned limited partnership with TransAlta. In turn, the assets the limited partnership owns are the Australian Assets. There can be no certainty that the Australian Assets will generate sufficient income, such that the distributions it pays will, in aggregate, be sufficient to satisfy the dividend payments in respect of the Australian Tracking Preferred Shares.

Effective Jan. 6, 2016, TransAlta and a subsidiary of TransAlta signed a funding support agreement under which, among other things, TransAlta agreed to subscribe for securities of the subsidiary that issued the Australian Tracking Preferred Shares upon receipt of a funding notice to ensure that the subsidiary of TransAlta has sufficient funds to satisfy the dividend payable on the Australian Tracking Preferred Shares.

### Income Tax Risk

Our operations are complex and located in several jurisdictions. The computation of the provision for income taxes involves tax interpretations, regulations and legislation that are continually changing. Our tax filings are subject to audit by taxation authorities. Management believes that it has adequately provided for income taxes as required by IFRS, based on all information currently available.

The Corporation and the subsidiaries of TransAlta in which we hold economic interests are subject to changing laws, treaties and regulations in and between countries. Various tax proposals in the countries we operate in could result in changes to the basis on which deferred taxes are calculated or could result in changes to income or non-income tax expense. There has recently been an increased focus on issues related to the taxation of multinational corporations.

A change in tax laws, treaties or regulations, or in the interpretation thereof, could result in a materially higher income or non-income tax expense that could have a material adverse impact to the Corporation.

The sensitivity of changes in income tax rates upon our net earnings is shown below:

Factor	Increase or decrease (%)	Approximate impact on net earnings
Tax rate	1	1

The Corporation's statutory blended tax rate is 25.38 per cent. The effective income tax rate can change depending on the mix of earnings from various countries and certain deductions that do not fluctuate with earnings.

The Corporation's anticipated cash tax horizon is subject to risks, uncertainties and other factors that could cause the cash tax horizon to occur sooner than our current projection of approximately two years. In particular, our anticipated cash tax horizon is subject to risk pertaining to a change in our operations, asset base, corporate structure or changes to tax legislation, regulations or interpretations. In the event we become cash taxable sooner than projected, or we are unable to lengthen the cash tax horizon through the acquisition and development of additional growth projects and related tax pools, our cash available for distribution and our dividend could decrease.

### Legal Contingencies

We are occasionally named as a party in various claims and legal or regulatory proceedings that arise during the normal course of our business. We review each of these claims, including the nature of the claim, the amount in dispute or claimed, and the availability of insurance coverage. There can be no assurance that any particular claim will be resolved in our favour or that such claims may not have a material adverse effect on us.

### Other Contingencies

We maintain a level of insurance coverage deemed appropriate by management. There were no significant changes to our insurance coverage during renewal of the insurance policies on Dec. 31, 2020. Our insurance coverage may not be available in the future on commercially reasonable terms. There can be no assurance that our insurance coverage will be fully adequate to compensate for potential losses incurred. In the event of a significant economic event, the insurers may not be capable of fully paying all claims.

### Cybersecurity

We rely on our information technology systems to process, transmit and store electronic information and data used for the safe operation of our assets. In today's ever-evolving cybersecurity-threat landscape, any attacks or breaches of our network or information systems may cause disruptions to our business operations. Cyberattackers may use a range of techniques, from exploiting vulnerabilities within our user-base to using sophisticated malicious code on a single or distributed basis to try to breach our network security controls. Attackers may also use a combination of techniques in their attempt to evade safeguards such as firewalls, intrusion prevention systems and antivirus software that exist on our network infrastructure systems. A successful cyberattack may allow for the unauthorized interception, destruction, use or dissemination of our information and may cause disruptions to our business operations.

We continuously take measures to secure our infrastructure against potential cyberattacks that may damage our infrastructure, systems and data. Our cybersecurity program aligns with industry best practices to ensure that a holistic approach to security is maintained. We have implemented security controls to help secure our data and business operations, including access control measures, intrusion detection and prevention systems, logging and monitoring of network activities, and implementing policies and procedures to ensure the secure operations of the business. We also purchased a cyber insurance policy and have established security awareness programs to help educate our users on cybersecurity risks and their responsibilities in helping protect the business.

While we have cyber insurance, as well as systems, policies, hardware, practices, data backups and procedures designed to prevent or limit the effect of security breaches of our generation facilities and infrastructure, there can be no assurance that these measures will be sufficient and that such security breaches will not occur or, if they do occur, that they will be adequately addressed in a timely manner. We closely monitor both preventive and detective measures to manage these risks.

### Growth Risk

Our growth strategy is to develop or acquire stable cash flows associated with high-quality contracted renewable and natural gas power generation facilities and other infrastructure assets, with the objective of achieving returns on invested capital. Our business plan includes growth through identifying suitable acquisition or contracted new build opportunities, pursuing such opportunities, consummating acquisitions or contracting development and construction, and effectively integrating such growth opportunities into our existing business. There can be no assurance that we will be able to identify attractive growth opportunities in the future (whether through our relationship with TransAlta or otherwise), that we will be able to complete growth opportunities that increase the amount of cash available for distribution, or that growth opportunities will be successfully integrated into our existing operations. The successful execution of the growth strategy requires careful timing and business judgment, as well as the resources to complete the due diligence and evaluation of such opportunities and to acquire and successfully integrate those assets into our business.

## Controls and Procedures

Management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P"). Management has reviewed the changes as a result of changes implemented in response to COVID-19 and is reasonably assured that adjustments to process have not materially affected, or are reasonably likely to materially affect, our ICFR or DC&P.

ICFR is a framework designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Consolidated Financial Statements for external purposes in accordance with IFRS. Management has used the *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) in order to assess the effectiveness of the Corporation's ICFR.

DC&P refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under securities legislation is recorded, processed, summarized and reported within the time frame specified in securities legislation. DC&P include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under securities legislation is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding our required disclosure.

Together, the ICFR and DC&P frameworks provide internal control over financial reporting and disclosure. In designing and evaluating our ICFR and DC&P, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and as such may not prevent or detect all misstatements, and management is required to apply its judgment in evaluating and implementing possible controls and procedures. Further, the effectiveness of ICFR is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with policies or procedures may change.

Management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our ICFR and DC&P as of the end of the period covered by this report. Based on the foregoing evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as at Dec. 31, 2020, the end of the period covered by this report, our ICFR and DC&P were effective.