



TRANSALTA CORPORATION

Extractive Sector Transparency Measures Act Annual Report

For the year ended December 31, 2016

INTRODUCTION

TransAlta Corporation and its subsidiaries (collectively the “Company” or “TAC”) has prepared the following consolidated report (“the Report”) of payments made to government entities for the year ended December 31, 2016 as required by the Extractive Sector Transparency Measures Act S.C. 2014, c.39, s.376 (“ESTMA” or “the Act”).

TAC makes a broader socio-economic contribution to the local areas in which we operate in addition to the payments that are required to be reported under the Act. For further information on such broader contributions, please refer to TAC’s 2016 Sustainability Report.

BASIS OF PREPARATION

The Report has been prepared in accordance with the requirements of the Act and the Natural Resources Canada (“NRCan”) Technical Reporting Specifications. The Technical Reporting Specifications provides specifications with regards to the form and manner of reporting. The following is a summary of judgments and definitions that TAC has made for the purpose of preparing the Report.

Payee

For purposes of the Act, a payee is:

- a) Any government in Canada or in a foreign state.
- b) A body that is established by two or more governments.
- c) Any trust, board, commission, corporation or body or other authority that is established to exercise or perform, or that exercises or performs, a power, duty or function of a government for a government referred to in paragraph (a) above or a body referenced to in paragraph (b) above.

Payees include governments at any level, including national, regional, state/provincial or local/municipal levels. Payees include Crown corporations and other state-owned enterprises that are exercising or performing a power, duty or function of government.

Aboriginal and indigenous groups and organizations within Canada and in other jurisdictions may be regarded as governments for purposes of qualifying as a payee under the Act. However, the Act defers the requirement to report on payments made to Aboriginal governments in Canada, with reporting on these payments beginning on June 1, 2017.

Activities within the Scope of the Report

Payments made by TAC to payees relating to the commercial development of oil, gas and minerals (“commercial development”) are disclosed in this Report. The Report excludes payments that are not related to TAC’s commercial development activities, as defined by the Act and in the associated Guidance document published by NRCan.

Project

Payments are reported at the project level except for payments that are not attributable to a specific project and are reported at the entity level. Corporate income taxes, which are typically not levied at a project level, are an example of this.

A “project” means the operational activities that are governed by a single contract, license, lease, concession or similar legal agreement and form the basis for payment liabilities with a government. However, if multiple such agreements are substantially interconnected, TAC has aggregated such interconnected agreements into a single “Project” for reporting purposes, as permitted under the Act and the associated Technical Reporting Specifications published by NRCan.

Cash and in-kind payments

Payments are reported on a cash basis, meaning that they are reported in the period in which they are paid. In-kind payments are converted to an equivalent cash value based on cost or, if cost is not determinable, the in-kind payment is reported at the fair market value. The valuation method for each payment has been disclosed in a supplementary note to the Report. There were no in-kind payments in the period.

All information is reported in Canadian dollars (“Cdn\$”). Payments to the “same payee” that meet or exceed \$100,000 Cdn in one category of payment are disclosed.

Payments made in situations of joint control

Where TAC has itself made a reportable payment to a payee, the full amount has been disclosed by the controlling operator.

Payment Categories

The information is reported under the following payment categories.

Taxes

This category may include taxes paid by TAC on its income, profits or production. Taxes reported include property taxes and business taxes. Consumption taxes and personal income taxes are excluded.

Royalties

These are payments for the rights to extract oil and gas resources, typically at a set percentage of revenue less any deductions that may be taken. Royalties paid in kind are also reported under this category.

Fees

This category may include rental fees, entry fees and regulatory charges as well as fees or other consideration for licenses, permits or concessions. Amounts paid in ordinary course commercial transactions in exchange for services provided by a payee are excluded.

Production entitlements

A payee’s share of oil, gas or mineral production under a production sharing agreement or a similar contractual or legislated arrangement is reported under this category. For the year ended December 31, 2016, there were no reportable production entitlement payments to a payee.

Bonuses

Signing, discovery, production and any other type of bonuses paid to a payee are reported under this category. For the year ended December 31, 2016, there were no reportable bonus payments to a payee.

Dividends

These are dividend payments other than dividends paid to a payee as an ordinary shareholder of TAC. For the year ended December 31, 2016, there were no reportable dividend payments to a payee.

Infrastructure improvement payments

These are payments which relate to the construction of infrastructure that do not relate primarily to the operational purposes of TAC. For the year ended December 31, 2016, there were no reportable infrastructure improvement payments to a payee.
