

FINAL TRANSCRIPT

TransAlta Corporation

Annual Meeting of Shareholders

Event Date/Time: April 20, 2017 — 10:00 a.m. E.T.

Length: 70 minutes

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CORPORATE PARTICIPANTS

Ambassador Gordon Giffin

TransAlta Corporation — Chairman of the Board

Marcy Cochlan

TransAlta Corporation — Director, Market Regulation

Brian Baudais

TransAlta Corporation — Manager, ODC

Todd Stack

TransAlta Corporation — Managing Director, Corporate Controller

David Hamilton

TransAlta Corporation — Senior Advisor, Corporate Finance

Lora Brenan

TransAlta Corporation — Managing Director, Human Resources

John Kousinioris

TransAlta Corporation — Chief Legal and Compliance Officer and Corporate Secretary

Dawn Farrell

TransAlta Corporation — President and Chief Executive Officer

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PRESENTATION

Ambassador Gordon Giffin — Chairman of the Board, TransAlta Corporation

Good morning, everyone. Thank you for joining us this morning. I'm sorry it's the morning after the Flames got beat last night, but we couldn't control that one.

On behalf of the Board of Directors, it is my pleasure to welcome you to this annual meeting of the shareholders of TransAlta Corporation. The board and management and certainly myself appreciate your attendance and interest.

I'm Gordon Giffin. I am Chair of the Board of TransAlta, and I will act as chair of this meeting. Our Chief Legal and Compliance Officer and Corporate Secretary, John Kousinioris, who's sitting to my far right, will act as our secretary. And of course, most of you know Dawn Farrell, who is our President and Chief Executive Officer, who you will hear from in a few minutes.

As our meeting is being webcast live, we also welcome those who are joining us through the Internet.

Just a few brief procedural matters as we get started. We certainly welcome anyone who is here, who is not a shareholder or a proxy holder, but in terms of participation in the formal aspects of the business of this meeting, we ask that only shareholders and proxy holders undertake to participate. And if you don't mind as we go along, at the appropriate place, if you would address your comments or questions to me. And in the event that someone else should respond, I'll act as the traffic cop.

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And if at the time that you make any interventions, if you would use the microphones that are set up in the room and let us know your name and whether you're a shareholder or a proxy holder, and if you're a proxy holder, in whose interests you're acting.

And out of respect for the others in attendance, please keep comments focused on the business of this meeting and as brief as is possible.

After the end of the formal business aspects of the meeting, I'll make a few comments on behalf of the board, and then we'll hear from Ms. Farrell on the Chief Executive's report and the operations of the Company.

Before I formally call the meeting to order, I'd like to ensure that everyone is familiar with the location we're in and has in mind a safe exit in the event that's necessary. There are exits at the back and front of the room and also side doors can be opened in the event of an emergency. In case of a disruption of power, which won't be our responsibility, the exit signs will remain illuminated.

If you don't mind, turn off your cell phones or other electronic devices until we get to the conclusion of the meeting.

So I will now formally call the TransAlta Corporation annual meeting of shareholders to order. We'll go through these formal steps of the meeting, and then we'll go to the comments that I've mentioned and then your questions and answers.

Kirstin Dillon and Gloria Gherasim are here from CST Trust Company, the Company's transfer agent, and are going to act as our scrutineers for this meeting.

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I ask Mr. Kousinioris to file with the records of the meeting, the proof of service and the notice of this meeting, which were mailed on March 21st of this year to all shareholders of record at the close of business on March 6th.

I have a preliminary report from the scrutineers on attendance. And this may surprise you to know when you look around the room, that there's 126,563,105 common shares represented at this meeting, representing 43.96 percent of the common shares outstanding of the Company. And I, therefore, declare that there is a quorum present at this meeting, and it is properly constituted for the formal transaction of business. A copy of the scrutineers' final report will be filed with the records of this meeting.

In order to have the meeting move in an efficient way, we've asked a number of TransAlta employees, who are also shareholders or proxy holders, to move and second formal motions. If you would like to discuss any of the motions before the vote, please raise your hand and move to the microphone, and indicate whether you're a shareholder or a proxy holder.

The minutes of the last annual meeting of shareholders, which was April 22, 2016, I declare have been verified and signed and are in the Corporation's minute book. Anyone wishing a copy of those minutes may pick one up at the table outside the room after the meeting.

The next item is the receipt of our annual consolidated financial statements and the auditor's report for the year-end December 31, 2016. Those financial statements and the auditor's report are contained on pages F1 through F95 of our annual report and were part of the notice of this

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meeting. Copies are available on the table in the lobby outside, in the event that you would like to have one and don't have one at this point.

Mr. Gordon Graham, a representative of Ernst & Young LLP, the auditors to the Corporation, is available at the meeting and will be available in the event there are any questions later on.

Next item of business is the election of the directors. The board has set as a number of directors to be elected at this meeting at nine. We are satisfied that currently this number of directors is appropriate to provide a significant range and depth of expertise and meet our corporate governance requirements and responsibilities.

I'd like to briefly introduce to you those who are standing for election to our board. First, John Dielwart, resident of Calgary and has been a director since 2014. John was CEO of ARC Resources, a major oil and gas company in Alberta, and he's currently Vice Chairman of ARC Financial Corporation. John, in addition to bringing his general wisdom and presence in the Calgary community, provides us with enormous insight into the energy business broadly, and particularly in the oil and gas business. And he currently serves on the Audit and Risk committee and the Governance and Environment committee.

Tim W. Faithfull. Tim, now a resident of London, England, has been a director since 2003. He was a 36-year veteran of Royal Dutch Shell and formerly President and CEO of Shell Canada. He brings to our corporation that wealth of experience again in the energy business, not only in North

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America but globally, and has a lot of experience in large product development. Tim is currently a member of our Audit and Risk committee and the Governance and Environment committee.

Dawn Farrell, our CEO, who you will hear from later.

Alan J. Fohrer. Alan is a resident of Arcadia, California and been a director since 2013. He was Chairman and CEO of Southern California Edison Company, a subsidiary of Edison International, one of the largest electric utilities in the United States. He also served as Vice President, Treasurer, and Chief Financial Officer of Edison prior to becoming CEO of Southern California Edison. He brings to our board enormous experience in the electric power industry in North America and also his background in accounting and finance. Not surprisingly, he serves as Chair of our Audit and Risk committee.

Tom Jenkins, who couldn't be with us today due to a prior commitment, is from Canmore, Alberta and been a director since 2014. Tom is the Chairman of the Board of Open Text Corporation, a multinational enterprise software firm. Tom brings the entrepreneurial spirit and experience of an innovator and his background in the high-tech industry to our board. He's currently a member of the Human Resources committee and Chair of the Governance and Environment committee.

Yakout Mansour is a resident of Eldorado Hills, California and been a director since 2011. He was President and CEO of the California Independent System Operator Corporation from 2005 to 2011 and has held various executive positions in the power business throughout his career. He brings enormous experience in energy markets and generation and transmission to our board. He currently

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serves as a member of the Audit and Risk committee and the Governance and Environment committee.

Georgia Nelson, resident of Chicago, Illinois and been a director since 2014. Georgia's President and CEO of PTI Resources, LLC, an independent consulting firm. She had a 35-year career in the power generation industry and was President of Midwest Generation Edison Mission Energy from 1999 until her retirement in 2005. And clearly brings to the board experience again in the power business, and also she has a lot of experience in human resources management. She is currently the Chair of our Human Resources committee.

Beverlee Park. Bev is a resident of West Vancouver, British Columbia and been a director since 2015. She's held roles, including CEO, Chief Operating Officer, and Chief Financial Officer of publicly traded and private corporations in a range of industry. She also has been a board member on numerous boards for publicly traded, private, and academic enterprises. She is a Fellow of the Chartered Professional Accountants and a Fellow of the Institute of Chartered Accountants of British Columbia. Bev brings to our board 30 years of experience in finance and accounting as well as leadership in large organizations. And Bev currently serves on our Audit and Risk committee and the Human Resources committee.

I am Gordon Giffin. I'm a resident of Atlanta, Georgia, where if you don't know, the Flames actually originated. They—they're our gift—they're our gift to Calgary some time ago. They won their first Stanley Cup here, unfortunately for Atlanta.

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I'm a senior partner in a global law firm, and I served as United States Ambassador to Canada in 1997 to 2001, and my law practice has been substantially energy regulation for, unfortunately, several decades.

Those are the nine people who we have standing for election to be directors for TransAlta for the next year. If I could have a motion nominating those directors, please?

Marcy Cochlan — Director, Market Regulation, TransAlta Corporation

My name is Marcy Cochlan. I'm a shareholder. And at the direction of the board, I nominate John P. Dielwart, Timothy W. Faithfull, Dawn L. Farrell, Alan J. Fohrer, P. Thomas Jenkins, Yakout Mansour, Georgia R. Nelson, Beverlee F. Park, Gordon D. Giffin, to be elected as the directors of the Corporation, to hold office until the next annual meeting of shareholders or until their successors are elected or appointed.

Ambassador Gordon Giffin

Thank you. Thank you, Marcy. Is there a second?

Brian Baudais — Manager, ODC, TransAlta Corporation

My name is Brian Baudais, and I am a shareholder, and I so move.

Ambassador Gordon Giffin

Thank you, Brian. I appreciate that. Is there any discussion? As there is no discussion, at this point we will continue with the business of the meeting.

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I now request a motion that the nominees be elected as directors of the Corporation, to hold office until their next annual meeting of shareholders or until their successors are elected or appointed.

Brian Baudais

My name is Brian Baudais. I am a shareholder, and I so move.

Ambassador Gordon Giffin

Thank you. Is there a second?

Todd Stack — Managing Director, Corporate Controller, TransAlta Corporation

My name is Todd Stack. I am a shareholder, and I second the motion.

Ambassador Gordon Giffin

Thank you, Todd. We'll conduct the vote by a show of hands. All in favour, please raise your hands. Any opposed? Thank you very much.

I declare the motion carried.

Appointment of auditors is our next item of business. I request a motion that Ernst & Young LLP be appointed auditors of the Corporation, to hold office until the close of the next annual meeting of shareholders, as such remuneration as shall be fixed by the Board of Directors

David Hamilton — Senior Advisor, Corporate Finance, TransAlta Corporation

My name is David Hamilton. I'm a shareholder, and I so move.

Ambassador Gordon Giffin

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Thank you, David. Is there any discussion on this motion? May I have a seconder?

Marcy Cochlan

My name is Marcy Cochlan. I am a shareholder, and I second the motion.

Ambassador Gordon Giffin

Thank you, Marcy. You're doing double duty. We'll conduct this vote by a show of hands. All in favour, please raise your hand. Any opposed? Thank you.

I declare that this motion is carried.

The next item of business is consideration of an approval on advisory basis of an ordinary resolution approving TransAlta's approach to executive compensation. The text of the resolution is specifically set out on page 25 of our Management Proxy Circular dated March 9, 2017, which was made available to shareholders with the materials for this meeting.

I request a motion that the resolution to accept the Company's approach to executive compensation as set out on page 25 of that management proxy circular, be approved on an advisory basis.

Lora Brenan — Managing Director, Human Resources, TransAlta Corporation

Lora Brenan. I am a shareholder, and I so move.

Ambassador Gordon Giffin

Thank you, Lora. Any discussion on the motion? Brian, do you want to second?

Brian Baudais

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My name is Brian Baudais. I am a shareholder, and I second the motion.

Ambassador Gordon Giffin

Thank you, Brian. As a formality, the vote on this motion must be conducted by way of ballot.

So I'm going to ask our secretary to explain the process for ballot voting.

John Kousinioris — Chief Legal and Compliance Officer and Corporate Secretary, TransAlta Corporation

Sure. Yes. Certainly. Registered shareholders and proxy holders received a pink ballot when they registered with the scrutineers prior to the meeting. All registered shareholders that are entitled to vote should mark on the ballot whether they are in favour of the resolution. If you completed your ballot upon registration when you entered the meeting, or if you voted your shares by proxy prior to the meeting, your vote has already been counted, and it isn't necessary for you to vote again.

If you're completing the ballot now, please ensure that you sign the ballot and print your name above your signature.

Please note that you're not required to fill out the bottom of the ballot. That is something that the scrutineers will complete for you, indicating your shareholdings.

Please raise your hand after you've marked your vote on your ballot, so that a scrutineer can come and pick it up—the completed ballot—for tabulation purposes.

Ambassador Gordon Giffin

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Are there any other ballots to be collected? Okay. I think that's it. We'll just—we'll just wait a second until we get the tally from the scrutineers, both on that vote and also with respect to our final numbers on attendance at the meeting, if you don't mind? It'll take a minute or two, and then we'll move on to the—finalizing the formal nature of the meeting and our discussion about the business of the Company.

I don't know if any of you watched the Academy Awards. Hopefully I'm not going to get the wrong envelope.

[off mic conversation]

Ambassador Gordon Giffin

Okay. Thank you. The vote on the advisory resolution on the Company's compensation policy was 47.29 percent in favour, so that resolution did not pass.

And now I have the final attendance numbers. We have 791 shareholders holding 126,563,105 common shares of the Company represented in person or by proxy at this meeting, representing 43.96 percent of the outstanding shares of the Company.

The formal business, I'm pleased to report, is now at an end, and will be followed by the remarks that I have alluded to previously. Accordingly, with the consent of the meeting, I now declare the formal portion of this meeting closed. Thank you for your patience.

Just a few thoughts from the Board of Directors. Again, we are certainly delighted that you took the time to join us here today to hear about the Company's record in 2016, and more

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importantly, I think, our vision for its future. When we gathered a year ago for this meeting, I told you and other shareholders that the immediate future for the Company was challenged by a very slow Alberta economy, and uncertainty due to the lack of clarity in provincial and federal climate policy. Today, I want to take a few minutes to describe why I am more optimistic today and why the Company can now chart a more clear path towards growth and enhanced profitability as we go forward.

To a great extent due to low commodity prices, which is not news to you, Alberta's economy through 2016 remained lethargic. As a result, power prices during the year hovered at or near historically low levels. TransAlta effectively dealt with this economy environment by enhancing the efficiency of its operations, and by constructive balance sheet management. While addressing these headwinds in Alberta, the Company continued its development in Australia, where among other things, the Port Hedland project will become operational this year, on time, and on budget.

In addition to enabling the Company to have a successful financial performance in 2016, these initiatives established a strong foundation for current and future profitability. Our management group devoted an enormous amount of time and effort in 2016 working with governments at the provincial and federal levels to assist in the development of a constructive policy dealing with carbon emissions. The uncertainty around the potential closure of TransAlta's coal-fired generating plants materially restricted the Company's ability to plan for the future, stressed its financing capacity, and dampened its market value. Through dedicated effort of our company leadership, we were successful

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in helping design policies that satisfies the government's goals, while providing a reasonable path forward for TransAlta.

The combination of compensation for assets that would have been stranded, a framework for conversion of some plants to natural gas, the market redesign, and a commitment in principle to our Brazeau hydro project were constructive and material accomplishments. Successfully concluding these negotiations was conclusively vital to the future of our company.

Since this extraordinary performance by management was not contemplated by or recognized in the traditional metrics of the Company's executive compensation plan, the board decided to exercise its discretion to award onetime performance bonuses to the CEO and the senior executives who were instrumental in these successes. This decision represented a continued commitment by the board to the fundamental principle of pay for performance.

A proxy advisory firm did not agree with this decision, and recommended that institutional shareholders vote against our advisory resolution on say on pay. As I reported a few minutes earlier, the outcome of that vote was approximately 47 percent in favour. While that was a reasonably close vote, it is a message that the board will pay attention to. While we believe our action was consistent, as I said, with our commitment to pay for performance, the board will certainly listen to and take into account, going forward, the advice received from shareholders in this process. I have personally spoken directly with several of our large institutional shareholders over the past two weeks, on

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compensation as well as strategic issues. Their perspective and advice is of value to the board and will help guide us going forward.

In just a moment, Dawn Farrell will provide more details about the strategic path forward for the Company.

I'll close by saying, from the board's perspective, TransAlta will remain a major provider of electricity to the Alberta market and will transform over time to generation fueled more by hydro, wind, and natural gas. The board believes that this strategic direction for the Company is well-designed, and that this management team is now positioned to grow and develop TransAlta for the future, to the benefit of all of our stakeholders.

Thank you very much. And at this point, I will ask our CEO, Dawn Farrell, if she would provide her comments.

Dawn Farrell — President and Chief Executive Officer, TransAlta Corporation

Thank you, Gordon, and welcome to everyone who has joined us here today and who are on this webcast. Now, as always when we speak publicly, we need to note the forward-looking statement. I'm not going to read it to you, and I'm not going to go over all the details, as this slide is available for review by accessing this presentation from our website. However, in summary, I will note that a number of statements that I'll make today are based on our best understanding of the circumstances and the assumptions we believe are reasonable.

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So, what a difference a year makes. At our last annual meeting, we talked about the challenges and the hard work that lay ahead in 2016 after the Alberta government's Climate Leadership Plan was announced. And more particularly, for our company, the challenge of retiring in the province over 6,000 megawatts of coal-fired generation by 2030, and replacing this with 5,000 megawatts of renewables. This set the framework for our 2016 goals, which included securing a coal transition agreement, repositioning our capital structure, and growing TransAlta Renewables. The work and dedication of our TransAlta teams in 2016 to achieve these goals was exceptional. We spent many, many long hours meeting with government officials and other stakeholders across the province, gaining insights to what would be needed in the new system to best serve the interests of all stakeholders in the province, especially our customers. And as these discussions progressed, we remain committed to the principles that you see on the slide behind you.

So what was achieved? On November 24th in 2016, the Alberta government, together with TransAlta, announced a mutually beneficial coal transition plan. It was a positive step forward towards setting the foundation for the future of this company. Now, details of the two key agreements reached with the government include: first, an off-coal agreement, which established 14 annual cash payments of \$37.4 million from the Alberta government to TransAlta totalling \$500 million, by 2030. These payments will compensate our equity and debt investors for stranded assets that cannot run on coal past 2030.

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Secondly, we signed a memorandum of understanding, or an MoU, that set out the terms for working together with the Alberta government to implement and accelerate the goals of the Climate Leadership Plan.

Bond holders, shareholders, employees, and other stakeholders, especially our customers, welcomed these agreements as they clarified how TransAlta could continue to support our investments in the Alberta market, where we have generated electricity for businesses in a very competitive fashion for over 105 years.

Now, in 2016 we also had to deliver strong financial results, including comparable EBITDA, which came in at 1.1 billion. This was 6 percent or \$60 million better than 2015. We had to generate comparable funds from operations, which was up 23 million at 763 million, and comparable free cash flow of 299 million, which was similar to 2015 despite the increased distributions to TransAlta Renewables.

These strong financial results were achieved during the lowest commodity price cycle ever experienced in Alberta, and our operations teams did a great job of achieving their availability targets.

And just to give you a sense of that, last year prices averaged \$18 a megawatt hour, significantly lower than the three-year historic average prices of \$50 a megawatt hour. And frankly, I've been in the industry for 34 years. Those are prices I've actually never seen in the history that I've been doing this.

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During that same three-year period, while facing those lower prices, we grew cash flow from generation in renewables and gas by \$105 million or approximately 23 percent.

In 2016, we also strengthened our balance sheet and advanced our goal to reposition and strengthen our capital structure. We raised over 360 million of non-recourse project financing, and we reduced our debt by over \$350 million, using a combination of the cash flow we are generating in the operations and through the sale of some assets to TransAlta Renewables.

All in all, thanks to a lot of hard work by the whole of the TransAlta team, I would say that 2016 was a strong year for our company. TransAlta's plan positions us to efficiently and profitably meet the needs of our investors and our stakeholders in the province.

Now, what's ahead of us in 2017 and beyond? So I'd like to spend the remaining part of my remarks here talking about some key decisions that we made yesterday. Yesterday, the Board of Directors of TransAlta approved what I think is a historic decision for the Company, when they approved our strategy to accelerate the transition to gas and renewables generation for the Company.

Now this strategy includes the following steps. We will retire Sundance Unit 1, which was built in 1970, and that will be effective January 1, 2018. We will mothball Sundance Unit 2 effective the same date, January 1, 2018, for a period of up to two years. And what that means is that that plant will be set aside and can be brought back into service if we want to do that in that 2020 time frame.

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We have advanced the conversion of Sundance Units 3 to 6, Keephills Units 1 and 2, from coal-fired generation to gas-fired generation, to be done in the 2021 to 2023 time frame, which now extends the cash flows and the useful life of these units until the mid-2030s. And we will take steps to secure the gas supply required for these converted units, including the construction of the required pipeline.

The retirement of Sundance Unit 1 and the mothballing of Sundance Unit 2 does reflect the limited economic viability of the units, upon the expiry of their power purchase agreements which end in 2017. It's really due to the current oversupply of the Alberta power market and the low prices that I talked about earlier. Simply, these units will not be profitable at the prices we see in the Alberta market.

Now the benefits of converting our other units to gas-fired generation for TransAlta shareholders, and for our customers, include: significantly lowering carbon intensities and emissions, and significantly lowering carbon costs. We also lowered our operating and sustaining capital costs. We increased our operating flexibility dramatically, which really sets us up for the new capacity market, and we add between 5 and 10 years of economic life to each of the converted units. So this is very, very good news for the Company. These units will be ready to be bid into the new capacity market, and we expect them to be not only economic, but extremely competitive. And there's little doubt that the cash that we're generating today will continue as we transition from coal to gas and from the PPAs to a capacity market here in Alberta.

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The work to accelerate this strategy will be intensive, interesting, and dynamic, and it's really a huge learning opportunity for our people as we move through this time of transition. The expertise, determination, and loyalty of the Alberta coal team will ensure the Company comes through the transition ready for the next era of competition here in Alberta.

So now what I'd like to do is move to our priorities for 2017, and then I'm going to share a video of our important Brazeau pump storage project, which along with our strategy announced yesterday will support our transition to becoming Canada's leading clean power company.

Our goals, which we announced earlier this year, are clear. In 2017, we will continue to advance the policy work needed to successfully transition off coal. This includes securing a long-term arrangement with the government for our Brazeau pump storage facility, which you'll see in a minute; working with stakeholders and the AESO on a capacity market; design that ensures reliability and low prices for customers; and advancing regulatory changes necessary to convert our coal plants to gas. We will finish commissioning our South Hedland gas-fired plant in Australia, and deliver new cash flows to investors in TransAlta and TransAlta Renewables. We'll grow our renewables platform by competing for contracts in the renewables RFPs in our core markets, and we'll finish executing our financing strategy to further strengthen our balance sheet. By the time the PPAs roll off in 2020, we expect our debt to be lower than where it is today.

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And then finally, we will always—as always—continue to improve our safety in every area of our business, and our environmental performance, while delivering against our 2017 financial goals and targets.

Now, following on from our newly announced strategy, I'm now adding two additional goals. So these are new, for those of you who haven't followed the other ones. The first is to work with gas suppliers and pipeline companies to secure the gas supply to our plants in the Wabamun area, and ultimately we need to be positioned to have gas online by the beginning of 2021.

The second is to accelerate what we call "Project GreenLight" in the Company. This is work we've been doing internally with our front-line employees and our management. So imagine taking a drive from Calgary to Edmonton from right here without hitting a single red light. That's the essence of GreenLight. Ultimately, this project will remove our corporate red lights and improve our competitiveness by challenging processes, challenging existing norms, and setting expectations to set us up for the future that we're headed into.

Now, there's a lot of change ahead for our TransAlta team, and I can say that we're very excited about the plan we've set and that was announced yesterday. I'm very confident about our ability to execute it. Just to remind you, in 1911, TransAlta people built the first hydro plants here in Alberta. In the '50s, our people built the first coal plants in the province. In the '80s, we built some of the first cogeneration projects that were built in Canada, and in the year 2000, we built some of Canada's first wind projects.

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Today, we can see that those who invest in renewables, and then also have competitive capacity to back them up, will be among the most competitive electricity generators. That's where we're going, and we're confident in our plans. Many thanks to the board, the employees, the management team. It's been a tremendous year. Lots of effort and lots of success.

So now, what I'd like to do is introduce you to a very exciting project that we're pursuing here in Alberta. It's a project that will complement our existing hydro, wind, and, converted gas plants. It's a project for a future where electricity prices must continue to be a competitive advantage here in Alberta, and where generating electricity without emitting carbon will be a competitive advantage for TransAlta. Following this short video, I will take any questions that you might have.

[Begin Video Presentation]

TransAlta built this facility in the 60s. It took about eight years to construct, and the intent of that was to capture water from the runoff from the glaciers and from rain. And to do that, they built the reservoir—the Brazeau Reservoir—which then has the water flowing from it into the Brazeau Canal and then to the power house, and that's where the electricity is generated. My name's Keith Yasinski. I'm a project manager here at TransAlta, working on this pumped hydro facility on the Brazeau River system.

The Brazeau hydro facility south of Edmonton has four main components to it—one being the reservoir, there's also a canal, the generating station, and a gorge—or we also call it the lower reservoir. How pump storage works is that we flow water from an upper reservoir to a lower reservoir

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through a turbine. This creates the power. But we pump it back during the nighttime, when power prices are low, and there's surplus supply. And the Brazeau hydro expansion project will take advantage when there's a surplus of renewable energy in Alberta, such as from wind and solar. The Brazeau Reservoir consists of glacier melt and rainwater that feeds water through the Brazeau Outlet Works, which is connected to the canal.

The Brazeau canal, or upper reservoir, is 16 kilometres long and up to 3 kilometres wide in sections, and it stores 27 million cubic metres of water. The generating station currently creates power from water flowing from the upper to the lower reservoir, but also will be able to pump water back up when needed. The gorge, or lower reservoir, is a 31-kilometre long dry river bed where water can rise up to 25 metres and store up to 30 million cubic metres of water. That's enough to fill 10 football stadiums.

It's very similar to that of a rechargeable battery, in that the battery needs to be recharged once spent. So once we move water from the upper reservoir to the lower, we need to pump that water back.

This project is a large undertaking, and it's going to require a lot of support throughout the province, a lot of labour, a lot of different contractors, a lot of suppliers that we'll need to all work together to build this facility. And in turn, it's going to be an economic advantage for Alberta to have it.

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There's an existing asset here, and we're able to utilize what's been built in the 60s, and what Mother Nature's provided. We're not adding a lot of infrastructure to be able to make this happen.

This project's going to provide Albertans with lower power prices, and a stable grid in a place where power is needed.

Dawn Farrell

Okay. So now we can take your questions.

Q&A

Unknown Speaker

[unintelligible]

Dawn Farrell

I think there's a mic coming. Is it over there? There's one over there. Yeah. Yeah. If you have questions, if you move to the mics we'll just go back and forth. That'd be great.

Unknown Speaker

My name's Emil Shribney (phon). I'm a shareholder. That Brazeau project looks very promising. Just doing the math, in one of your slides you said that we're receiving 37.4 annually, so when I multiply that by 14 I get \$524 million. There's a \$18 million deficiency there.

Dawn Farrell

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Sorry. Just because I said over 500?

Unknown Speaker

No. It says—

Dawn Farrell

Oh.

Unknown Speaker

—we were receiving 542, but when you multiply the 37.4 times 14 you get 524. So there's a deficiency of 18 million.

Dawn Farrell

Oh. I have a bunch of people whispering to me that it's an error on the slide, so thank you.

It's 524. You're correct.

Unknown Speaker

And—

Dawn Farrell

It's transposed. I think—what did you do? You put 542 instead of 524. Yeah. They mixed the 2 and the 4. You're right. It's 524.

Unknown Speaker

The second question is has Brookfield increased their share in the Company?

Dawn Farrell

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From the last data that I saw, Brookfield was less than 5 percent; about 4.9 percent of our company as a major shareholder.

Unknown Speaker

Okay. And thirdly, is there any chance that you'll reinstate the dividend to what we were getting in the past?

Dawn Farrell

Well, the dividend, of course, is a decision of the Board of Directors, and they consider it every time that they meet. Currently the way we have set up TransAlta and TransAlta Renewables, what we're doing with TransAlta Renewables is putting more of our stable cash flows in there, and really that is the vehicle that is more of a high-yield, high-dividend company.

In TransAlta today when we look at the work that's ahead of us with Brazeau, with our coal-to-gas conversions, and with the growth that we want to participate in, the cash that gets generated for the shareholders is currently being reinvested in that strategy. Now depending on how successful that is, what happens to power prices in the future there may be a time when the Board relooks at the dividend. But I would say in the short term it's really not in the plan.

Unknown Speaker

So I gather then I should sell my TransAlta shares and buy TransAlta Renewables?

Dawn Farrell

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If dividends are your main focus as an investor, TransAlta Renewables is a very ... Is a good dividend-paying stock. If growth is something that you want to have in your portfolio, then it's more TransAlta Corporation.

Unknown Speaker

Thank you.

Dawn Farrell

Okay.

Unknown Speaker

Mike Lawlor (phon), shareholder. I do have an issue with ...

Dawn Farrell

Oh, sorry. Were you going to finish? Okay.

Unknown Speaker

I was saying I do have an issue, fundamental issue with so many of the board not living in any of the areas that there's actually—TransAlta has any product in, has any. Like I have issue with so many of the board not living where TransAlta is.

Dawn Farrell

Well, just Tom Jenkins, who unfortunately had to fly out last night to get to something in Ottawa, he lives in Canmore.

Unknown Speaker

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I know. There's like two. And I have issue like—

Dawn Farrell

Well—

Unknown Speaker

—because there's things that affect us that live here in Alberta with TransAlta, and there's

no—

Dawn Farrell

Yeah.

Unknown Speaker

—skin in the game. There's no—they're not living with the realities of what's going on here.

Dawn Farrell

Yeah. I'll let our Chair talk about how we do our board selection because that's what the board does. But let me just comment. First of all, TransAlta has operations in Alberta; British Columbia; in Ontario; Quebec; New Brunswick; Wyoming; Washington State; Perth; and all of Western Australia. So it is a broader company than just an Alberta company.

Unknown Speaker

I know that. But I mean it's not in California; it's not in some other states like Illinois.

Dawn Farrell

Do you want to take it? Okay.

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**Unknown Speaker**

So like there's no skin in the game.

Ambassador Gordon Giffin

Well, it's a good observation. For the board, you need a diversity of experience, and in order to have people on the board who can bring experience in the operations of a major power generator and the regulatory aspects of the power markets, in financial aspects of a business you have got to have diverse people on the board. And in order to do that, it can't just be limited to Alberta to get that kind of talent because there are conflicts, there are people that are involved with other competitive companies, so you—and secondly to Dawn's point, we have a diverse geography of business.

And then lastly in terms of skin in the game, every member of the board has a significant amount of shares, and that is totally aligned with the shareholders wherever they live. And as a consequence, people have skin in the game.

Unknown Speaker

They have bought? Or shares that they've received?

Ambassador Gordon Giffin

Bought.

Unknown Speaker

Okay. Okay. Thank you.

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**Dawn Farrell**

Thank you.

Unknown Speaker

I don't know where to begin. I guess I'm not very happy with our provincial government. I think we're getting very bad governance, and I'm quite concerned that whatever we're doing in Alberta to reduce our CO2 is based on pseudo-science and corruption. And I think you may be backing the wrong horse here.

In any event, you're—well, the consumer and the taxpayer in all of this is getting royally screwed. And TransAlta, a lot of these investments I can see from a strictly business point of view it may be good for the Company to be getting cash subsidies for capital investments in Alberta, but to me it's possible that that may not be in the end a good idea even for TransAlta to be taking this money and putting some of their own money into it. I see it as a big political risk to be dancing with the devil. And I wonder how you've evaluated the political risk of putting more of the shareholders' money into Alberta when maybe Alberta isn't the place that you should be investing at all?

Dawn Farrell

So TransAlta's been in Alberta for 105 years. We have a significant asset base here, and we are ... We're about 30 percent of the generation in the province. So we're significant in terms of our support of the electricity system, and always have been.

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We don't set policy at TransAlta. Governments are elected by the people, and governments set policy. I can speak from my own experience only. I've been in the industry for 32 years. I've been working on the carbon file for 20 ... Probably 29 of those 32 years. In my career under two former CEOs I bought the first carbon offsets in 1989. I helped the Company start to think about how to invest in renewables.

The trends on carbon have been coming for a long time. I will never debate the science with anybody; there's lots of views on that. All I can do as a leader is look at the policy that's been set by both the federal government and the provincial government, and then determine how to position the Company to continue to be a company that survives for 105 years as these trends change.

So when we evaluated our strategy that we talked about yesterday and when we really brought Brazeau back out of the archives—Brazeau was a project that was conceived of in the '60s, but in the '60s hydro was overtaken by coal, and in the '80s coal was starting to be overtaken by gas—we had to look at a number of things. We had to first of all look at whether or not we believed that fundamentally the desire to produce electricity with less carbon would go away.

Our work shows that customers, all else being equal, would like low-cost electricity that is carbon-free. So the customers themselves like renewables. They like the idea of gas backing up the renewables. They just want to be clear that they want to pay the same low prices. And from my perspective, I owe it to my daughter and my granddaughters and my grandsons to ensure that they pay about the same for power as I did.

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So when we put this strategy together, we put it together to both think about the trends on electricity and where it's going; to think about how to minimize carbon taxes; how to ensure that prices stayed low; and how to navigate through political changes that will come in the future. And so I think that we did a very—there was a lot of integrity in our process; a lot of decision-making. We looked at a lot of different things.

And at the end of the day, we believe that this solution that we've come up with is a very strong shot for ensuring that—I'm an Albertan. I'm born in Calgary. A competitive electricity system is my passion. And we did a lot of work to ensure that our strategy would survive through various political changes.

Unknown Speaker

So what are the risks?

Dawn Farrell

Well, just like all strategies there were risks to staying where we were, and there are risks to changing always, right? So the risks of this strategy are there could be dramatic changes in the future as people rethink carbon. The risk to the future—the risk could be that gas prices could be a lot higher than expected. Those are the kinds of risks that we look at.

When we evaluated those risks, what we—and we have a lot of expertise on our board and we, of course, went into the industry and talked to other experts. Alberta does have a lot of gas. There

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are a lot of coal plants in the US that are shutting down, and who are actually converting to gas ahead of us because of just pure economics.

So we do believe in the next 10 years there's enough—the gas, unfortunately, has not been able to get out of here through the LNG. There's lots of gas all through the United States. So we think this is actually not a—this is a good time to get those plants set up.

The other thing is the federal rules that were in place ... That were put in place by a Conservative government had these plants shutting down already starting as early as 2019. So what we've been able to do is find a way to extend the lives of these plants and run them for longer, which we think adds a lot of benefits. But like all decisions, there's risks of staying where we're at and there's risks of changing. We believe fundamentally this will set the Company up going forward.

Okay?

Unknown Speaker

Well, if I may, I still object to the fact that you today and the provincial government and their propaganda seem to dwell on the fact that the consumer's going to get the planned lower energy prices. But if the taxpayer is paying for the capital investment then that taxpayer consumer is ending up paying, in fact, a huge amount for the electricity one way or the other. I mean the debt that the government is running up to pay for this capital cost to get cheap electricity still has to be paid by the same person.

Dawn Farrell

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I think those are concerns that you need to talk to your local MLA about in the government about. What I have to do as a leader in this province is take what I've got and try to ensure that this company survives through it, or it flourishes through it.

Unknown Speaker

Well, I may say I understand that you're not in a good position, and I appreciate that. But I still maintain that you're dancing with the devil, I guess.

Dawn Farrell

Thank you.

Unknown Speaker

Good morning. I'm Ross Gurley (phon). I'm a shareholder. Just wanted to ask about the renewables side of the equation. You talked, obviously, about Brazeau. What are your current thoughts with respect to solar and wind within particularly Alberta?

Dawn Farrell

Yeah. So we think that in terms of solar versus wind, currently wind is much more economic than solar. So when we look at the renewables calls that are coming up, we'll be focusing on extending our current wind sites and bidding those in.

Solar, though, I must say—and our team is doing quite a bit of work because TransAlta—if you're a shareholder of TransAlta we do have a bit of solar up in Massachusetts that we purchased

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last year to really get to understand that technology. What we're seeing there is the technology costs in solar are coming down dramatically; much, much faster than anybody would have anticipated.

We do have an opportunity to build and bid some solar in the Australian market where we have assets. And there's been several RFPs there, which I can say that we lost because the prices that we thought were reasonable have actually been undercut. So we're seeing a lot of really low-cost solar coming into the system, and we're starting to see some low-cost batteries coming in as well and some really interesting new technological changes.

Now in Alberta, solar I don't think will have as much of a penetration, at least today. It may in five years if the costs come down a little bit more, mostly because the sun in Northern Canada goes this way instead of that way. And so solar is fantastic over the equator ... In jurisdictions that are over the equator because they get about the same level of capacity as you would in a hydro project here in Alberta. They're not quite yet there for the Alberta market, and would require a lot more subsidization. And so we like—we tend to stick right now to wind in the Alberta market; solar in Australia.

Unknown Speaker

So roughly what kind of pricing would you require? I know it's a changing game—

Dawn Farrell

Yes.

Unknown Speaker

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—but within Alberta what would be required for solar to be economic in your view?

Dawn Farrell

I don't know. I mean we haven't really looked. I mean the solar we're not really looking at it here in Alberta. It's well above the price of wind. Brazeau, for example, that project there is right in line with a gas turbine, so it's a great economic project as we go forward here in Alberta. But currently it would be—I think—well, I'll give you a sense of what we see in Australia.

In Australia, we're seeing solar come in in the 75 to \$80 range. I'd probably put another 20, \$30 on top of that if we were looking at Alberta at this moment before we see additional technology changes.

Unknown Speaker

Great. Thank you.

Dawn Farrell

Thank you.

Unknown Speaker

Good morning. I'm Jake Vandervidi (phon). I'm a shareholder. Small question. You talked about diversity of the Company. On the Company and en masse, how much of the business that the Company does is in Alberta? How much is there in the US? How much is there in Australia? Do you have any idea how much of the business out of the 100 how much is in Alberta?

Dawn Farrell

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Yeah. If you do it on kind of an EBITDA basis, the Australian business is growing towards that 200 million out of 1.1 billion range. And then our Alberta business is about \$0.5 billion? Yeah. It's about 0.5 billion on an EBITDA basis, and then of that half remember that we have wind and hydro in that business, and then we have the coal.

The coal currently is a significant portion of the Alberta. And then as we convert it to gas, effectively gas, Alberta—will be about half Alberta, and it'll be the same—there'll be a little bit less from the gas because we're shutting a couple plants down, and then we'll have hydro and wind here.

So we're still a pretty significant player in the Alberta market. And when you think about us going forward, a lot of our plan if we were able to get Brazeau done, that's about the most we can do in this market because we can't be over a 30 percent capacity in the market because we'll have too much market share. So most of—as we look forward and we think about the future, we tend to look at growth a little bit more outside of Alberta, except for Brazeau, which is a pretty special project.

Unknown Speaker

You just answered part of the question. You are saying to us this morning TransAlta is limited to 30 percent of the Alberta market—

Dawn Farrell

We have always been, yes.

Unknown Speaker

Always been? Right?

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**Dawn Farrell**

Always. Yeah.

Unknown Speaker

So we have to go somewhere else?

Dawn Farrell

That's right.

Unknown Speaker

Okay. How much money are we putting into Brazeau in 2017 or 2018 currently? Do you have any idea?

Dawn Farrell

Oh, less than 10 million. Very—Brazeau today is a project that would require a long-term PPA with the Alberta government in order for us to build. We're putting just the money in to do some preliminary engineering, to start work with stakeholders and First Nations, and to sort of build up a ... Build up the excitement around it. If the government next year decides to call for large hydro projects, we'd participate in that. And then if we won that and we had a long-term PPA the spending would start.

Our spending—if the world worked absolutely perfectly, we would spend about 100 million in the preliminary stage by about 2020, 2021. So it's a small capital investment today because, as you know, hydro takes a long time to get through the regulatory process. And if we could—if the world

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worked for us, we would be liking ... We'd like to bring that project on in 2025. And the project's about 3 billion; needs about 600 million in equity. We would project finance it off the balance sheet, and we would be arranging construction financing through that 2021 to 2025-2026 time frame.

But that's what you've got to do if you want to bring those kinds of projects on board.

Unknown Speaker

Okay. That's down the road.

Dawn Farrell

Yeah.

Unknown Speaker

Okay. Let's go back to the conversions from the coal to the gas. Has the Company considered buying natural gas reserves?

Dawn Farrell

We have looked at that at least 10 times in my career. And I imagine that as we go forward and think about our strategy, we'll get asked that question again. But currently it's not in our plan because what we see are a number—there's a lot of gas players here in Alberta with a lot of reserves. And what I've seen in the evolution in the last five years is the ability of these companies to get their costs down dramatically makes them pretty formidable sellers of gas, and they need markets.

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So at this point I would say no, but I would never count that out because I have looked at it before. I've never been able to do it, though, in a way where it was cheaper to buy the reserves than to just buy the gas off the market.

Unknown Speaker

By the conversions we're doing or are planning in 2017, when will we need gas?

Dawn Farrell

We will need gas—we want to have our—we want to—so the way those conversions work is in 20—in our outages, our regular outages that are about 40 days, we'll extend those outages to about 65 days. And we spend about \$50 million per boiler. And those boiler conversions are really just changing out the burners, and we would do that for two of the plants ... two to three of the plants in 2021, which means the gas pipeline has to be built and supplying gas by that time frame.

So all of that, all of the work of getting the agreements in place will be done this year. We have some regulations left to come from the federal government on just the emissions factors that we can run those plants on. When all that comes together then we'll start the build.

Unknown Speaker

Okay. Can we skip to Australia for a minute and talk about—

Dawn Farrell

Sure.

Unknown Speaker

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South Hedland?

Dawn Farrell

You really know our company. This is great.

Unknown Speaker

South Hedland, is it 60 percent finished? Is it 80 percent finished?

Dawn Farrell

South Hedland is 98 percent finished. It's just in the final months of commissioning. So everything that we're working on now is testing all the machinery on the North West System making sure that we can get all the proper guarantees from the builder of the project, and just really we're in the last couple of months here.

Unknown Speaker

When is our contractual starting date for us to start generating to our customers?

Dawn Farrell

It starts—as soon as we're finished and commissioned then the contract starts, and it's a 25-year contract from the day that it starts.

Unknown Speaker

At what prices? Better than in Alberta?

Dawn Farrell

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Well, remember in—it's hard to tell—figure out pricing because gas prices in Australia are 10 ... like 8 to 10—gas prices in Australia range from \$4 to \$10. There's—they have a—it's a very different structure there. And these are behind-the-fence contracts with the local utility and a mining company.

So they basically pay us a capacity payment, and then they bring the gas to the project and run it through. But it's a good project with—it's got good returns for TransAlta Renewables and TransAlta shareholders.

Unknown Speaker

What's a good return on a capital investment so huge to TransAlta? Are we looking for 10 percent? Twenty percent?

Dawn Farrell

Yeah. It's in that range. Yeah.

Unknown Speaker

Last question: what is your projection for Alberta electrical prices for 2017 and 2018? Do you people make forecasts?

Dawn Farrell

We don't give out our forecasts. If you look at the forward curves today—and I'm looking at Jennifer, who's sitting right behind where I can't see her—it would be in the \$40 range. So the forward curve in Alberta would say \$40 a megawatt hour, which is too low to make new investments in

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Alberta. Like you wouldn't build a new plant in Alberta, which is why we have shut down Unit 1 and are mothballing Unit 2.

Unknown Speaker

Thank you for your time.

Dawn Farrell

Thank you. Great. Well listen, everybody, thanks very much. We have some coffee and cookies at the back there, and we'll take a couple minutes to talk to you all. And thank you for your attention and your time.

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