



The events of this year were unexpected and challenging, bringing with them moments of deep concern over what the future might hold. Yet step by step and hour by hour, the TransAlta team faced into every fact we could gather and took the necessary measures to keep the company strong, our people safe and our customers served.

As shareholders, you can be proud of how we are handling the COVID-19 pandemic and how we have positioned the Company for 2021 and beyond. We finished 2020 with strong financial and operational performance and we made significant progress to deliver on the strategies that are transforming our future.

On February 4, 2021, our Board of Directors announced my retirement from TransAlta effective March 31, 2021, and the appointment of John Kousinioris as our new CEO effective April 1. I am thrilled that the Board appointed John as our new CEO and supported his appointment wholeheartedly. John and I have worked together for over eight years and he has proven himself to be a respected and well-rounded leader capable of deftly navigating the ship over the next decade. He is ready to take the company into what will be an exciting time as clean electricity takes on an even more prominent and important role in fuelling our lives.

The year was marked by the resilience of our people, the performance of our diversified portfolio of investments and progress on our E²SG (economic, environment, social and governance) goals. Growing our investments in TransAlta Renewables and continuing with our investments in the transition off coal in Alberta have strengthened TransAlta's overall E²SG framework. Together, our strategic investments, ownership of the hydro assets in Alberta and positioning in competitive gas-fired generation have set us up as a strong E²SG holding in your portfolio.

Strong Performance

Despite the challenges of the year, the TransAlta team delivered strong free cash flow of \$358 million, proving once again the value of our diversified portfolio. This year, exceptional performance by our US operations and our trading floor offset the impact of COVID-19 on our Alberta operations.

Our free cash flow results of \$1.31 per share were excellent, especially considering that our Alberta thermal business was down \$159 million on a free cash flow basis compared to 2019 due to the province's economic downturn. In 2020, we returned \$61 million of capital to shareholders by purchasing and cancelling 7.35 million common shares at an average price of \$8.33 per share through our normal course issuer bid program.

Our share price climbed from \$9.28 to over \$9.67 this year and continued upward in early 2021 as investors realized that TransAlta has tremendous value in its portfolio. We also grew the dividend by six per cent for the second year. In October, we received our second instalment of the Brookfield financing and repaid \$400 of 2020 debt maturity. Now that we have completed our deleveraging program, the future is about returning capital to shareholders and funding our growth.



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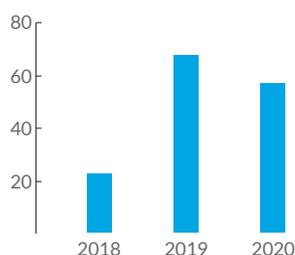
Our key indicator for safety performance is Total Injury Frequency and we set our 2020 goal as 1.17 — which is top-quartile performance. We achieved 1.67 — much higher than planned — where higher means worse performance. We set a goal and missed our target. Failures like these at TransAlta motivate all of us to do better, and we will diligently pursue improvement in 2021 for our safety culture. On a positive note, for Total Safety Reporting we recorded 40 per cent more observations for hazard and near miss reporting compared to 2019. Adjusted availability was 90.3 per cent, ahead of our 2019 performance of 90 per cent.

As I mentioned above, we experienced massive demand destruction in our Alberta business as COVID-19 profoundly impacted the provincial economy. By mid-March, almost 450 MW of load disappeared as businesses shut down and people went home to work. Into May, the loss of load grew to 1,000 MW as the drop in oil prices led to oil and gas production shut-ins as the sector tried to protect margins. Annual Alberta merchant market prices were \$8 per megawatt hour lower than expected due to this demand destruction, and sales of megawatts to the grid were hit hard. But we continued to maintain a strong financial position through 2020 due to terrific hedging work by our team and strong performance at Centralia and in our energy marketing segment. Our diversified portfolio paid off, and by November 2020, all but 150 MW of load had come back in Alberta.

In May, we decided to pull back on our growth goals, primarily so we could conserve cash in case the impacts of COVID-19 affected our customers harder than expected. Luckily, through the year, all customers paid their bills on time and we were only hit slightly on our collections. However, we ended 2020 with much stronger liquidity than expected and by year-end we had access to \$2.1 billion in liquidity, including \$703 million of cash and cash equivalents.

NCIB Repurchase of Common Shares

(\$ millions)



\$61 million

Capital Returned to Shareholders in 2020

Through continued capital allocation discipline

Delivering Strategy

We have reduced our greenhouse gas emissions by 61 per cent since 2005, which is more than any country in the world on a percentage change basis. Our gas conversion strategy means our greenhouse gas emissions are now down to just over 16 tonnes from 42 million tonnes in 2005. By the end of 2030, our emissions will be 12.5 million tonnes, an approximate 70 per cent reduction from our 2005 levels. TransAlta has made significant progress on reducing greenhouse gas emissions, which puts us at the top of the list for ESG investors.

The team delivered on our strategy in 2020. We continued to advance our conversion to gas program, and on February 1, 2021, we announced the final return to service for Sundance Unit 6, which now fires exclusively on gas. At the end of 2020, we retired Unit 1 at our Centralia facility in Washington to uphold our commitment under the Energy Transition Bill with the state. The deal that was struck in 2011 allowed us to keep both units running, free of carbon liability, in return for certain shutdown dates of the end of 2020 for Unit 1 and 2025 for Unit 2. Unit 1 ran for 20 years under our ownership, logged over 9.2 million person-hours and kept hundreds of people employed over two decades.

In November, we affirmed our commitment to proceed with the Sundance 5 repowering project in Alberta, which will convert an existing thermal coal unit into a highly efficient combined-cycle natural gas generating facility. The Sundance Unit 5 repowering project received approval from the company's Board of Directors and is on track to reach commercial operation by the fourth quarter of 2023.

We announced that we will discontinue mining operations at our Alberta Highvale coal mine at the end of 2021. This means that Keephills Unit 1 and Sundance Unit 4 will no longer run on coal, and will only run on gas after December 31, 2021. The federal government announced its intention in December 2020 to raise the carbon tax in Canada to \$170/tonne by 2030. This announcement confirmed that our decision to accelerate our off-coal strategy to the end of 2021 was prudent.

We saw significant progress in our renewables portfolio this year. In October, we announced that our 10 MW WindCharger battery storage project began commercial operation. This project had a total capital cost of approximately \$14 million, with approximately 50 per cent being funded through the support of Emissions Reduction Alberta. It is located behind the fence at the Summerview wind facility and is a first-of-its-kind example of firm, truly green electricity. It is a test of a future where batteries back up renewable and intermittent renewable energy sources.

In December, we acquired a 49 per cent interest in the Skookumchuck wind facility in Washington State. We combined this interest with our Alberta Windrise wind project and our Ada cogeneration project to complete a dropdown of these three highly contracted assets to TransAlta Renewables. This transaction was a win/win for TransAlta and TransAlta Renewables shareholders. TransAlta Renewables shareholders received \$439 million of assets from TransAlta and TransAlta continues to own a 60 per cent interest through our ownership in TransAlta Renewables. The transaction extended the contracted cash flow horizon at TransAlta Renewables and provides stability and sustainability to our \$150-million annual dividend earned from our ownership in TransAlta Renewables. This transaction gave us the confidence to also concurrently announce a dividend increase of six per cent for our TransAlta shareholders.

In December, we announced a small investment in a company called EMG International LLC, which has a technology that biologically cleans wastewater in the food processing industry. We believe that water conservation will become a key pillar of sustainability and that working with EMG to both expand their business and also market clean and renewable energy to their customer base is a low-risk and low-cost way to expand our reach to US industrial customers for E²SG offerings in cogeneration, wind, solar and now, water.

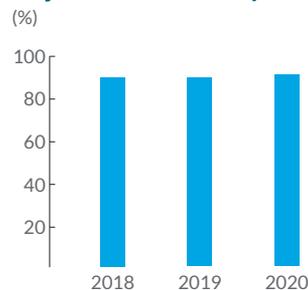
Overall, our Clean Energy Investment Plan is on track and is the right strategy for the trends ahead where customers are demanding clean, low-cost and reliable electricity. By the end of 2021, Keephills 2 and 3 will be running on gas, Sundance Unit 5 will be under construction and our coal mine will be shut down and transitioned to reclamation only. As the capital needs of our Clean Energy Investment Plan reach completion, more cash will be available to TransAlta



TransAlta is incredibly well positioned to lower greenhouse gas emissions while continuing to provide low-cost, reliable electricity to our customers. Our strategy is simple and focused, our performance is consistent, and our people are exceptional.



Adjusted Availability



\$927 million

Comparable EBITDA

A \$7 million increase over 2019 after adjustments

shareholders for re-investment, share buyback and dividends. The \$150 million of cash that TransAlta Renewables annually pays in dividends to TransAlta shareholders is a stable and consistent source of cash flow for investors that, when combined with excess cash from our Alberta business and our energy marketing team, gives us a strong base of cash flow for opportunities that are emerging in the broader energy transition.

Resilient People

For a business that prides itself on serving the community, a pandemic is a difficult challenge, but is in no way insurmountable. Our people quickly organized to protect those essential employees who had to continue to work from our facilities throughout the pandemic. By June, those who had been working from home were able to return to our offices with strong medically approved protocols for social distancing, masking and wiping all surfaces that we touched. It was disappointing to have to return to our home offices in December in Canada and the US, and 2021 will be another year of adapting to what comes with the pandemic. Yes as we have seen in 2020, the team has outstanding practices for running the company and will continue delivering on our strategy no matter what.

In 2020, we demonstrated that we are One TransAlta made up of many parts. We are truly stronger together. We achieved top-quartile results in our Organizational Health Index, a survey where our people assess TransAlta's performance and results are measured against three million other employees assessing the organizational health of their companies. It has taken us four years to move from fourth quartile to first, an achievement that could only be done thanks to the consistent commitment from leaders across the company.

I am incredibly proud that we have adopted a Diversity, Equity and Inclusion Pledge that commits the company to advance diversity and inclusion in the workplace. By undertaking this pledge, we will seek to remove systemic barriers that may prevent diverse employees from thriving, including visible minorities, Indigenous peoples, members of the LGBTQ+ community, persons with disabilities and women. For us, diversity and inclusion are about ensuring belonging for all our employees. In 2021, our plans and results will be reported to the Board of Directors.

Looking Forward

As the team looks ahead, they see a number of opportunities to expand our gas and renewables fleet in Canada, the US and Australia. While we are not the only organization pursuing such projects, we find that customers highly value the skills and capabilities that companies who specialize in electricity bring to the table. TransAlta will continue to be a company focused on technology and innovation while exploring the viability of E²SG investments in carbon capture and storage, hydrogen, pumped storage, batteries and the like. The team has over 3,000 MW in its growth portfolio, including the innovative Brazeau hydro pumped storage facility. As governments and companies align to the idea of net zero by 2050, projects like Brazeau that can store a reliable source of green energy become that much more valuable. TransAlta is poised to accelerate and deliver new EBITDA growth in 2021 and beyond.

We also expect increasing investor and stakeholder pressure to continue to reduce our emissions and green our fleet. TransAlta is incredibly well positioned to lower greenhouse gas emissions while continuing to provide low-cost, reliable electricity to our customers. Our strategy is simple and focused, our performance is consistent, and our people are exceptional.

As always, we thank you for your investment in the company and your support. I am especially grateful for our hard-working board who worked side-by-side with me over the last three years so that we could transition the leadership of TransAlta to a new CEO and a strong management team without missing a beat. Despite a worldwide pandemic and exceptional impacts to the Alberta economy, 2020 was a strong year for TransAlta. That's 100 per cent on the shoulders of our tough and resilient workforce who do their work without fanfare and by leading from every corner of the organization.



Dawn L. Farrell
President and Chief Executive Officer
March 2, 2021