ecofin Advisors Limited

07 August 2023

To: the Chairman of the Board of TransAlta Renewables,
the Chairman of the Board of TransAlta Corporation;
the President and CEO of TransAlta Corporation; and
the President of TransAlta Renewables.

Ecofin Advisors Ltd and its affiliates ("Ecofin") are the discretionary investment managers controlling over 3.2 million shares of common stock of TransAlta Renewables ("the Company"), representing approximately 3.0% of the Company's freefloat and making Ecofin the Company's largest institutional shareholder (source: Bloomberg). We hereby inform the Company Board of Directors of our intention to vote against the proposed acquisition of the Company by TranAlta Corporation ("TA") at the current offer price.

The Company's announcement on July 11, 2023 that it had entered into a definitive arrangement agreement to be acquired, was not surprising given the ongoing strategic review. However, we were disappointed to read that the board recommends the low offer price of CAD13.00 per common share. The following reasons explain our concerns about the offer and substantiate our opinion that the offer price is not reflective of the intrinsic value of the Company.

Timing of the offer: the timing of the offer is concerning from a strategic and fiduciary perspective. On December 15, 2022, the Company released its outlook for 2023, which was delivered as a warning and was taken as such by the market. The stock price fell from CAD13.72 on December 14, 2022 to CAD10.31 on December 19, 2022. In the release, the Company informed the market of developments that would affect cash flows in the coming years. In subsequent meetings with management, we asked why it didn't take action to mitigate some of these headwinds, such as:

- Why didn't management issue equity to fund growth when the share price was much higher?
- Why didn't management amend the rigid policy of a high dividend payment constraining the ability to grow, again limiting its options to address some of the medium-term headwinds?
- Why not consider farmdowns to unlock cash for growth?
- Why not exit the gas business to become a pure renewables company and free resources to grow?

In discussions with management, the Company said there were (A) no attractively valued assets to buy in order to grow (cash-on-cash), (B) not enough development opportunities, and (C) limited options they could pursue as it would depress cash availability for dividends. At the same time, valuations were not attractive to sell assets and generate cash to fund growth. This purposeful, downtrodden guidance created a single option for the Company: integrate with TA at the mercy of its willingness to pay.

In short, the board and management issued a negative release without offering any remedies. As such, we question the timing of the release and why management and board didn't offer any strategic initiative or a roadmap to address the Company's challenges.

Management expressed that market expectations, and implicitly the share price of CAD13.00, were not reflective of realities facing the Company and yet today are happy to offer the same price. Are we to accept that the offer is at an 18% premium to the prevailing share price a few months after the management memo depressed the share price?

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Valuation: based on 2025 expectations (we use 2025 to factor in higher taxes and contract pricing adjustments), at the offer price of CAD13.00, we estimate the Company to be valued on 8.1x EV/EBITDA, and 20.3x PE with a 7.1% dividend yield. Note that we use EBITDA and EPS expectations that don't include any contribution from the pipeline and that are lower than consensus (EBITDA CAD517mn vs CAD581mn consensus and EPS CAD0.64 vs CAD0.68 consensus). Those multiples compare favorably to the Company's direct peers, as presented in the table below:

2025	EV/EBITDA (x)	PE (x)	Dividend Yield (%)
Northland Power	10.0	21.7	4.7
Innergex	10.4	34.1	5.6
Boralex	10.9	23.1	2.0
Brookfield Renewables	22.8	-	5.1

It is worth noting that the Company has room to cut the dividend and still be attractive relative to peers. We are therefore at a loss to understand why the Company's board would accept an offer that undervalues the Company so much, without even considering a premium that should be rightfully paid given the benefits of synergies. Over time, with the right strategy, the Company's value should close the gap with peers and the share price reach the mid-to-high teens per share.

Key managers' interests: according to public records (source: Bloomberg), the CEO of the Company owns 4,000 shares in the Company while the CFO owns none. However, they own 118,437 shares and 27,098 shares in TA, respectively, and they both have dual roles at the Company and TA. We are not implying the existence of improper behaviour, we are observing that maximizing value for the Company's minority shareholders is factually not their sole priority.

Profile of the Company board members: we have been disappointed by the largely Fossil Fuel business experience of most independent members of the board. The experience of the independent directors is in telecoms, oil sands, oil, coal and fuels. For that reason, we have in the past voted against the appointment or re-election of some board members. As the company needs a forward-looking thinking within the dynamic renewables sector, a more diversified and relevant set of experiences would have been beneficial. As mentioned previously, the lack of options offered to ensure the perennial prosperity of the Company is badly lacking and the composition of the board might be a factor in its decision to support the "easier" option: TA's offer.

In conclusion, we believe that the fair value of the Company over the medium-term is well over the offer price. However, recognizing the value of certainty of a return near-term relative to a potential higher creation of value medium-term, we believe that a fair offer price today would be at least CAD14.50 per share.
We hope the board and TA will seriously consider our position, assess the risk of a failed offer and consider the positive prospect of converting the Company's current shareholders into TA shareholders.
We look forward to hearing from the Company and its board.

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