

TRANSALTA RENEWABLES INC.

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") contains forward-looking statements. These statements are based on certain estimates and assumptions and involve risks and uncertainties. Actual results may differ materially. See the Forward-Looking Statements section of this MD&A for additional information.

This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements of TransAlta Renewables Inc. as at and for the three and six months ended June 30, 2022 and 2021 and should also be read in conjunction with the annual audited consolidated financial statements and MD&A for the year ended Dec. 31, 2021. In this MD&A, unless the context otherwise requires, 'we', 'our', 'us', 'TransAlta Renewables' and the 'Company' refer to TransAlta Renewables Inc. and its subsidiaries and 'TransAlta' refers to TransAlta Corporation and its subsidiaries. Capitalized terms not otherwise defined herein have the respective meanings set forth in the Glossary of Key Terms. All dollar amounts in the tables presented in this MD&A are in millions of Canadian dollars except per share amounts which are presented in whole dollars to the nearest two decimals, unless otherwise noted. The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standard ("IFRS") International Accounting Standards ("IAS") 34 Interim Financial Reporting. This MD&A is dated August 3, 2022. Additional information in respect to the Company, including its Annual Information Form, is available on SEDAR at www.sedar.com and on our website at www.transaltarenewables.com. Information on or connected to our website is not incorporated by reference herein.

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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, natural gas power generation and other infrastructure sectors; ability to return to a pay out ratio of 80 to 85 per cent of cash available for distribution to the shareholders of the Company on an annual basis; the potential impact of COVID-19 on the Company and the actions undertaken by the Company or TransAlta in response to the COVID-19 pandemic; ability to achieve our 2022 Outlook, including adjusted EBITDA, FCF and CAFD (each, as defined below), interest expense, cash available for distribution, and sustaining capital and productivity expenditures; the remediation of the Kent Hills 1 and 2 wind facilities, including the timing and cost of remediation, the timing and cost to replace all 50 turbine foundations and the resulting impact on revenue; IESO's announcement of the Company's successful bid in the third quarter of 2022 with respect to the Sarnia cogeneration facility contract extension; the dividend amounts 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; principal sources of liquidity and our ability to draw on such liquidity; the impact of maturing debt on the Company's productivity projects; expectations regarding project-level debt and tax equity; 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⁽¹⁾ and production; actions to manage certain risks, including specific actions identified to manage regulatory risk; expected governmental regulatory regimes, legislation and programs, including the proposed new Clean Electricity Standard, the Clean Fuel Regulations and the Canadian Greenhouse Gas Offset Credit System Regulations and the ability to achieve a net zero electricity sector in Canada by 2035; that regulatory changes may create new opportunities for the development of renewables and energy storage projects; expectations regarding seasonality of wind, solar and hydro production; and that the Company will realize on acquisition and development opportunities from time-to-time to advance the growth of the Company. The forward-looking statements contained in this MD&A are based on many assumptions including, but not limited to, the following: renewable energy production; fair value of financial instruments, power and natural gas price forecasts, the impacts from COVID-19 not becoming significantly more onerous on the Company; our ability to access capital markets on reasonable terms; expectations regarding our decommissioning and restoration activities; and the Company being able to acquire and fund growth through project-level debt and access to credit on reasonable terms.

¹ We measure capacity as net installed 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.

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 of COVID-19; reduced labour availability impacting our ability to continue to staff our operations and facilities; our inability to realize our growth goals, including our potential inability to acquire operating or development assets from TransAlta; an increase cash taxes; 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; disruptions to our supply chain, including as it pertains to our major maintenance and growth projects; impairments and/or writedowns of assets; insurance recoveries, and in particular the Company's ability to recover costs and damages with respect to the Kent Hills 1 and 2 wind facilities; adverse impacts on our information technology systems and our internal control systems, including increased cybersecurity threats; armed hostilities, including the war in Ukraine and associated impacts; the threat of terrorism, adverse diplomatic developments or other similar events that could adversely affect our business; equipment failure and our ability to carry out or have completed the repairs in a cost-effective manner or timely manner or at all, including if the remediation and replacement of turbine foundations at the Kent Hills 1 and 2 wind facilities is more costly or time consuming than expected; the Company's failure to secure a successful bid with respect to the Sarnia cogeneration facility contract extension with the IESO; changes in general economic conditions, including interest rates and inflation; fluctuations in the value of foreign currencies, including the Canadian, U.S. 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; our contracts expiring and our inability to re-contract facilities on favourable terms, or at all; disputes with counterparties and legal and contractual proceedings involving the Company; reliance on key personnel and services provided by TransAlta, including execution of growth opportunities; the regulatory and political environments in the jurisdictions in which we operate; changes to government incentives or grants for renewable energy production; 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 for the year ended Dec. 31, 2021, which is available on SEDAR at 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.

Operations of the Company

TransAlta Renewables is one of the largest generators of wind power in Canada and is among the largest publicly traded renewable power generation companies in Canada. Our asset platform is diversified in terms of geography, generation and counterparties.

Our operations span three countries: Canada, the United States and Australia. The assets located in the United States and Australia are held through economic interests in those assets. The economic interest is not a direct ownership and consequently, the operational results of the assets in the United States and Australia are not consolidated into our financial statement results. Instead, we receive cash distributions on our investments in these economic interests, which is included in our consolidated net earnings below operating income as finance income.

We present the operational information of the assets located in the United States and Australia so that readers can assess the financial performance of these assets that generate the finance income.

In total, we own, directly or through economic interests, an aggregate of 2,996 MW of gross installed capacity⁽²⁾. 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"). There has been no change in the number of facilities or gross installed capacity since Dec. 31, 2021.

As at June 30, 2022	Owned Assets		Economic Interests				Total	
	Canada		United States		Australia			
	Gross installed capacity (MW)	Number of facilities	Gross installed capacity (MW)	Number of facilities	Gross installed capacity (MW)	Number of facilities	Gross installed capacity (MW) ⁽¹⁾	Number of facilities
Hydro	112	13	—	—	—	—	112	13
Wind & Solar ⁽²⁾⁽³⁾	1,387	22	519	7	—	—	1,906	29
Gas	499	1	29	1	450	6	978	8
Total	1,998	36	548	8	450	6	2,996	50

(1) The total gross installed capacity reflects the basis of financial consolidation of underlying assets owned, plus those in which we hold an economic interest. Megawatts are rounded to the nearest whole number and are as at June 30, 2022.

(2) Canadian Wind & Solar includes a wind battery storage facility.

(3) Following the single tower failure at the Kent Hills wind facilities in the fourth quarter of 2021, Kent Hills 1 and 2 wind facilities are currently not in operation. This has taken 150 MW of gross production offline.

² 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.

Highlights

Consolidated Financial Highlights

	3 months ended June 30,		6 months ended June 30,	
	2022	2021	2022	2021
Renewable energy production (GWh) ⁽¹⁾	1,231	1,051	2,541	2,160
Revenues	139	92	282	218
Earnings before income taxes	18	28	67	89
Adjusted EBITDA ⁽²⁾	126	97	265	220
Net earnings attributable to common shareholders	13	25	54	77
Cash flow from operating activities	28	79	131	182
Free cash flow ⁽²⁾⁽³⁾	87	71	195	170
Cash available for distribution ⁽²⁾	49	40	139	130
Net earnings per share attributable to common shareholders, basic and diluted	0.05	0.09	0.20	0.29
Dividends declared and paid per common share	0.23	0.23	0.47	0.47
Free cash flow per share ⁽²⁾⁽³⁾⁽⁴⁾	0.33	0.27	0.73	0.64
Cash available for distribution per share ⁽²⁾⁽⁵⁾	0.18	0.15	0.52	0.49

(1) Includes production from Canadian Wind, Canadian Hydro and US Wind and Solar and excludes Canadian, US 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) These items are not defined and have no standardized meaning under IFRS. Please refer to the Discussion of Operating Results, Non-IFRS Measures and Reconciliation of Non-IFRS Measures sections of this MD&A for further discussion of these items, including, where applicable, reconciliations to measures calculated in accordance with IFRS.

(3) In the fourth quarter of 2021, the adjusted funds from operations was replaced with free cash flow to better reflect the proxy for cash generated from operating activities and the composition of the metric has been changed accordingly. Comparative figures have been reclassified to conform to the current period's presentation.

(4) Free cash flow ("FCF") per share is calculated as free cash flow divided by the weighted average number of common shares outstanding during the period of 267 million shares as at June 30, 2022 (June 30, 2021 - 267 million shares).

(5) Cash available for distribution ("CAFD") per share is calculated as CAFD divided by the weighted average number of common shares outstanding during the period of 267 million shares as at June 30, 2022 (June 30, 2021 - 267 million shares).

As at	June 30, 2022	Dec. 31, 2021
Gas installed capacity (MW) ⁽¹⁾	978	978
Renewables gross installed capacity (MW) ⁽²⁾	2,018	2,018
Total assets	3,387	3,749
TEA demand loan	139	167
Debt and lease obligations ⁽³⁾	785	814
Total long-term liabilities	1,111	1,033

(1) Includes Canadian gas fired generation and US 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) Including current portion.

Renewable energy production for the three and six months ended June 30, 2022, increased by 180 GWh and 381 GWh, respectively, compared to the same periods in 2021. The increase was mainly due to the production from the recently commissioned Windrise wind facility in Canadian Wind, the acquisition of the economic interests in the North Carolina Solar facility within the US Wind segment, higher wind resources in Canada and in the US, partially offset by the extended facility outage at the Kent Hills 1 and 2 wind facilities.

The Company's revenue for the three and six months ended June 30, 2022, increased by \$47 million and \$64 million, respectively, compared to the same periods in 2021 due to higher wind resources in Canada, incremental production from the Windrise wind facility, higher environmental credit sales partially offset by the extended site outage at the Kent Hills 1 and 2 wind facilities. In addition, during the second quarter of 2021, the Company experienced unplanned steam supply outages and steam reconciliation adjustments that did not reoccur within the current period.

The Company's adjusted EBITDA for the three and six months ended June 30, 2022, increased by \$29 million and \$45 million, respectively, compared to 2021. The increase in adjusted EBITDA was a result of higher renewable energy production, an increase in environmental credit sales, the commencement of a new PPA within the Australian Gas segment and recognition of liquidated damages related to Windrise turbine availability. In addition, the prior year included the impact of liquidated damages recognized for steam supply outages within the Canadian Gas segment.

Net earnings attributable to common shareholders for the three and six months ended June 30, 2022, decreased by \$12 million and \$23 million, respectively, compared to the same periods in 2021, due to lower finance income related to subsidiaries of TransAlta, higher asset impairments, higher interest and depreciation costs associated with the commissioning and financing of the Windrise wind facility, higher income tax expense and lower foreign exchange gains. This was partially offset by higher revenues, the receipt of insurance proceeds for the replacement costs for the singular collapsed tower at the Kent Hills site, and recording liquidated damages related to turbine availability on the Windrise wind facility. Finance income related to subsidiaries of TransAlta was lower as greater distributions were classified as return of capital.

Overall, our cash flow from operating activities for the three and six months ended June 30, 2022, decreased by \$51 million compared to the same periods in 2021, primarily due to the extended facility outage at the Kent Hills 1 and 2 wind facilities, the settlement of the liquidated damages at Sarnia partly offset by lower finance income related to subsidiaries of TransAlta, an increase in wind resources in Canada, the incremental production from the Windrise wind facility and higher environmental sales.

Overall, our FCF for the three and six months ended June 30, 2022, increased by \$16 million and \$25 million, respectively, compared to the same periods in 2021, primarily due to higher adjusted EBITDA, lower current tax expense, partially offset by the settlement of the Sarnia contract liquidated damages provision. In addition, during the three months ended, June 30, 2022 there were lower sustaining capital expenditures in the Australian Gas segment. While, in the six months ended, June 30, 2022, FCF was further offset by an increase in sustaining capital expenditures relating to higher major component replacements in the Canadian Wind segment.

Overall, our CAFD for the three and six months ended June 30, 2022, increased \$9 million due to higher FCF, partially offset by the commencement of principal repayments on the South Hedland debt and higher tax equity distributions with the acquisition of the North Carolina Solar facility.

Significant and Subsequent Events

Kent Hills Wind Facilities Outage Update

On June 2, 2022, the Company announced its rehabilitation plan for the Kent Hills wind facilities together with the execution of amended and extended contracts with New Brunswick Power Corporation ("NB Power") in respect of each of the Kent Hills 1, 2 and 3 wind facilities providing for an additional 10-year period and an effective 10 per cent reduction to the original contract prices from January 2023 through December 2033. The Company also obtained a waiver for the Kent Hills wind non-recourse bonds secured by, among other things, the Kent Hills 1, 2, and 3 wind facilities ("KH Bonds") from the project bond holders and entered into a supplemental indenture with the bond holders that facilitated the rehabilitation of the Kent Hills 1 and 2 wind facilities. In addition, both parties have agreed to work in good faith to evaluate the installation of a battery energy storage system at Kent Hills and to consider a potential repowering of Kent Hills at the end of life in 2045. Refer to the Kent Hills Rehabilitation section and Liquidity and Capital Resources section of this MD&A for further detail.

Mount Keith 132kV Transmission Expansion

On May 3, 2022, the Company exercised its option to acquire an economic interest in the expansion of the Mt. Keith 132kV transmission system in Western Australia, to support the Northern Goldfields-based operations of BHP Nickel West ("BHP"). Total construction capital is estimated between AU\$50 million and AU\$53 million. Southern Cross Energy, a subsidiary of TransAlta Corporation, has entered into an engineering, procurement and construction agreement with ASX-listed GenusPlus Group Ltd for the expansion. The project is being developed under the existing PPA with BHP, which has a term of 15 years. It is expected to be completed in the second half of 2023 and will generate annual EBITDA in the range of AU\$6 million and AU\$7 million. The project will facilitate the connection of additional generating capacity to our network to support BHP's operations and increase their competitiveness as a supplier of low-carbon nickel.

Sarnia Cogeneration Facility Contract Extensions

During the second quarter of 2022, the Company executed contract extensions for the supply of electricity and/or steam with three of its industrial customers at the Sarnia cogeneration facility. These agreements will extend the delivery terms of electricity and/or steam from Dec. 31, 2022 to April 30, 2031 in one case and to Dec. 31, 2032 for the other two, with all agreements being subject to certain conditions, including the Company entering into a new contract with the Ontario Independent Electricity System Operator (the "IESO"). The current contract with the IESO, in respect of the Sarnia cogeneration facility, expires on Dec. 31, 2025. On July 19, 2021, the IESO released its Annual Acquisition Report, which included draft details for medium- and long-term procurement mechanisms for capacity for 2026 and beyond for existing and new generation. The Company bid into the procurement process developed by the IESO and is seeking to secure a contract extension for the Sarnia cogeneration facility following the end of the current contract term. The Company expects the IESO to announce the successful bids in the third quarter of 2022.

Refer to the 2021 Annual Report and our unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2022, for significant events impacting both prior and current year results.

Board of Director Change - Passing of Mr. Paul Taylor

On May 4, 2022, Mr. Paul Taylor, a member of the Board of Directors, passed away. Paul had served on the Board since the Company's initial public offering in 2013 and prior to that served in various roles at TransAlta Corporation including President of TransAlta's U.S. Operations. The Company would like to recognize his valuable contributions over the 9 years that he served as a director.

Discussion of Operating Results

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, US Gas and Australian Gas (known collectively as "the Economic Interest Investments") business segments are owned through investments in an economic interest.

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

3 months ended June 30,	Long-term average renewable energy production (GWh) ⁽¹⁾	Production (GWh)		Adjusted EBITDA ⁽²⁾	
		2022	2021	2022	2021
Canadian Wind ⁽³⁾	804	744	593	43	35
Canadian Hydro	158	159	162	7	7
US Wind and Solar	365	328	296	25	22
Total – Renewable energy	1,327	1,231	1,051	75	64
Canadian Gas		253	261	20	3
US Gas		62	79	2	4
Australian Gas		419	415	34	31
Corporate		—	—	(5)	(5)
Total		1,965	1,806	126	97
Total earnings before income taxes				18	28

(1) Long-term average is calculated on an annualized basis from the average annual energy yield predicted by our simulation model, which uses historical resource data and is run using typical periods of 15 years for wind and 30 years for hydro.

(2) This item is not defined and has no standardized meaning under IFRS. Please refer to the Non-IFRS Measures and Reconciliation of Non-IFRS Measures sections of this MD&A for further discussion of these items, including, where applicable, reconciliations to measures calculated in accordance with IFRS.

(3) Canadian Wind long-term average renewable energy production (GWh) excluding Kent Hills 1 and 2 wind facilities which are currently not in operation, is 714 GWh for the three months ended June 30, 2022.

6 months ended June 30,	Long-term average renewable energy production (GWh) ⁽¹⁾	Production (GWh)		Adjusted EBITDA ⁽²⁾	
		2022	2021	2022	2021
Canadian Wind ⁽³⁾	1,904	1,653	1,411	106	92
Canadian Hydro	202	200	202	8	8
US Wind and Solar	717	688	547	50	40
Total – Renewable energy	2,823	2,541	2,160	164	140
Canadian Gas		706	595	40	24
US Gas		124	79	4	4
Australian Gas		839	839	68	63
Corporate		—	—	(11)	(11)
Total		4,210	3,673	265	220
Total earnings before income taxes				67	89

(1) Long-term average is calculated on an annualized basis from the average annual energy yield predicted by our simulation model, which uses historical resource data and is run using typical periods of 15 years for wind and 30 years for hydro.

(2) This item is not defined and has no standardized meaning under IFRS. Please refer to the Non-IFRS Measures and Reconciliation of Non-IFRS Measures sections of this MD&A for further discussion of these items, including, where applicable, reconciliations to measures calculated in accordance with IFRS.

(3) Canadian Wind long-term average renewable energy production (GWh) excluding Kent Hills 1 and 2 wind facilities which are currently not in operation, is 1,709 GWh for the six months ended June 30, 2022.

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

Canadian Wind

Production for the three and six months ended June 30, 2022, increased by 151 GWh and 242 GWh respectively, compared to the same periods in 2021, mainly due to the additional production from the recently commissioned Windrise wind facility, higher wind resources across Canada, partially offset by the extended outage at the Kent Hills 1 and 2 wind facilities.

Adjusted EBITDA for the three and six months ended June 30, 2022 increased by \$8 million and \$14 million respectively, compared to the same periods in 2021, mainly due to the addition of Windrise wind facility and recognition of liquidated damages related to Windrise turbine availability, increase in sales of environmental credits and higher wind resources, partially offset by the extended outage at Kent Hills 1 and 2 wind facilities.

Canadian Hydro

Production and adjusted EBITDA for the three and six months ended June 30, 2022, were consistent with the same periods in 2021.

US Wind and Solar

Production for the three months ended June 30, 2022, increased by 32 GWh compared to the same period in 2021, mainly due to the acquisition of the economic interests in the North Carolina Solar facility and higher wind resources, partly offset by a decrease in production reported for the Skookumchuck wind facility due to the effective date of the economic interest acquired in 2021. For the three-month period ended June 30, 2021, production reflected six months of production due to the Company having received the economic benefits of Skookumchuck from Jan. 1, 2021 to June 30, 2021, even though the economic interest was acquired on April 1, 2021. Production for the six months ended June 30, 2022, increased by 141 GWh compared to 2021, mainly due to the acquisition of the economic interests in the North Carolina Solar facility and higher wind resources.

Adjusted EBITDA for the three months ended June 30, 2022 increased by \$3 million compared to the same period in 2021, mainly due to higher wind resources and the addition of the North Carolina Solar facility, partly offset by the recognition timing of the Skookumchuck wind facility described above. Adjusted EBITDA for the six months ended June 30, 2022, increased by \$10 million compared to 2021, mainly due to higher wind resource and the addition of the North Carolina Solar facility.

Canadian Gas

Canadian Gas is comprised solely of the Sarnia cogeneration facility. Production for the three months ended June 30, 2022, remained consistent compared to the same period in 2021. Production for the six months ended June 30, 2022, increased by 111 GWh compared to 2021, mainly due to stronger market conditions in Ontario during the first quarter of 2022. 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 passthrough of fuel costs.

Adjusted EBITDA for the three and six months ended June 30, 2022 increased by \$17 million and \$16 million respectively, compared to the same periods in 2021. During the second quarter of 2021, the Company experienced unplanned steam supply outages and steam reconciliation adjustments that did not reoccur within the current period. Additionally, a new customer was commissioned at the site in the second quarter of 2022. This was partly offset by higher fuel costs.

US Gas

Production for the three months ended June 30, 2022, decreased by 17 GWh compared to the same period in 2021, mainly as a result of the Ada Cogeneration facility reflecting six months of production in the three-month period ended June 30, 2021 to reflect the Company having received the economic benefit from Jan. 1, 2021 to June 30, 2021, even though the economic interest was acquired on April 1, 2021. Production for the six months ended June 30, 2022, increased by 45 GWh compared to 2021, mainly due to higher customer demand.

Adjusted EBITDA for the three months ended June 30, 2022 decreased by \$2 million compared to the same period in 2021, due to the recognition timing in 2021 described above. Adjusted EBITDA for the six months ended June 30, 2022, was consistent with the same period in 2021.

Australian Gas

Production for the three and six months ended June 30, 2022, remained consistent compared to the same periods in 2021. The contracts in Australia are capacity contracts and our results are largely unaffected by generation.

Adjusted EBITDA for the three and six months ended June 30, 2022 increased by \$3 million and \$5 million, respectively, compared to the same periods in 2021, mainly due to the commencement of the PPA with Fortescue Metals Group Ltd. at South Hedland in the first quarter of 2022 and lower legal fees, partially offset by unfavourable foreign exchange impacts.

Selected Quarterly Information

	Q3 2021	Q4 2021	Q1 2022	Q2 2022
Revenue	114	138	143	139
Net earnings attributable to common shareholders	20	43	41	13
Cash flow from operating activities	83	71	103	28
FCF ⁽¹⁾	64	123	108	87
CAFD ⁽¹⁾	54	91	90	49
Net earnings per share attributable to common shareholders, basic and diluted ⁽²⁾	0.07	0.16	0.15	0.05
CAFD per share ⁽¹⁾	0.20	0.34	0.34	0.18

	Q3 2020	Q4 2020	Q1 2021	Q2 2021
Revenue	95	128	126	92
Net earnings attributable to common shareholders	6	53	52	25
Cash flow from operating activities	65	49	103	79
FCF ⁽¹⁾	80	101	99	71
CAFD ⁽¹⁾	73	72	90	40
Net earnings per share attributable to common shareholders, basic and diluted ⁽²⁾	0.02	0.20	0.19	0.09
CAFD per share ⁽¹⁾	0.27	0.27	0.34	0.15

(1) These items are not defined and have no standardized meaning under IFRS. Please refer to the Discussion of Operating Results, Non-IFRS Measures and Reconciliation of Non-IFRS Measures sections of this MD&A for further discussion of these items, including, where applicable, reconciliations to measures calculated in accordance with IFRS.

(2) Basic and diluted earnings per share attributable to common shareholders is calculated each period using the weighted average common shares outstanding during the period. As a result, the sum of the earnings per share for the four quarters making up the calendar year may sometimes differ from the annual earnings per share.

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.

Net earnings attributable to common shareholders has been impacted by the following variations and events:

- Revenue related to the sale of Alberta carbon offsets and EPCs to TransAlta occurred in the first and second quarters of 2022, and in the first, third and fourth quarters of 2021, respectively;
- Liquidated damages related to turbine availability at the Windrise wind facility in the first and second quarter of 2022;
- Recognized insurance proceeds for the single collapsed tower at Kent Hills wind facilities of \$7 million in the second quarter of 2022;
- The acquisition of an economic interest in the North Carolina Solar facility in the fourth quarter of 2021;
- The commissioning of the Windrise wind facility in the fourth quarter of 2021;
- The continued extended outage of the Kent Hills 1 and 2 wind facilities from the fourth quarter of 2021 to the second quarter of 2022;
- The impact on depreciation in the fourth quarter of 2021 with accelerating the depreciation of the foundations related to Kent Hills 1 and 2 wind facilities;
- The effects of asset impairments recognized in the second quarter of 2022 and the third and fourth quarter of 2021;
- The unplanned outages at the Sarnia cogeneration facility in the second quarter of 2021;
- The acquisition of an economic interest in Skookumchuck wind facility and the Ada cogeneration facility on April 1, 2021; and
- Impact of the updated provision estimates for the transmission line loss rule proceeding during the first quarter of 2021 and the last two quarters of 2020.

Net earnings attributable to common shareholders also include various effects arising from our investments in the Economic Interest Investments as follows:

- Dividends or return of capital can vary each quarter depending on the pre-tax earnings from our economic interest investments;
- Interim results for the changes in fair value of financial assets can vary due to changes in cash flow assumptions, discount rates and forecast foreign exchange translation rates. As the Preferred Shares Tracking the Amortizing Term Loan were redeemed on Oct. 23, 2020, there are no changes in fair value of financial assets recognized in earnings subsequent to the fourth quarter of 2020; and
- Fluctuations in the strength of the Canadian dollar relative to the US dollar result in foreign exchange gains and losses on US dollar-denominated promissory notes. Foreign exchange gains were recognized in the first and second quarters of 2022 and the first, second and third quarters in 2021; and losses in the third and fourth quarters of 2020.

Strategy and Capability to Deliver Results

The Company's corporate strategy remains unchanged from that disclosed in its 2021 Annual Report. Our objectives are to (i) provide attractive 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 Company on an annual basis. The expected payout ratio range, based on our current outlook for 2022, is estimated between 88% and 102%, excluding the remediation capital associated with Kent Hills. The Company's ability to lower its current payout ratio to within the targeted range will depend on a number of factors, including the return to service of the Kent Hills 1 and 2 wind facilities, the re-contracting of facilities nearing contract maturities and the execution of additional accretive growth opportunities. Refer to the Kent Hills Rehabilitation of this MD&A for further details.

During the three and six months ended June 30, 2022, the Company has delivered on our Contracting and Environmental, Social and Governance Strategies.

Contracting Strategy

During the second quarter of 2022, the Company executed contract extensions with three industrial customers at the Sarnia cogeneration facility for the supply of electricity and/or steam. These agreements will extend the terms of the original agreements from Dec. 31, 2022 to April 30, 2031 in one case and Dec. 31, 2032 for the other two, all agreements being subject to certain conditions, including the Company entering into a new contract with the Ontario Independent Electricity System Operator (the "IESO").

The current contract with the IESO, in respect of the Sarnia cogeneration facility, expires on Dec. 31, 2025. On July 19, 2021, the IESO released its Annual Acquisition Report, which included draft details for medium- and long-term procurement mechanisms for capacity for 2026 and beyond for existing and new generation. The Company has bid into the procurement process and is seeking to secure a contract extension for the Sarnia cogeneration facility following the end of the current contract. The Company expects the IESO to announce the successful bids in the third quarter of 2022.

We have successfully executed blend-and-extend agreements with NB Power which will extend the existing power purchase agreements ("PPA") for an additional 10-year period through to December 2045. Refer to the Kent Hills Rehabilitation section of this MD&A for further details.

Environmental, Social and Governance Strategy

During the first quarter of 2022, the Company was recognized on the Clean200 global list of publicly traded companies leading the way with solutions for the transition to a clean energy future by Corporate Knights and As You Sow.

2022 Outlook

There have been no changes in our expectations on key financial targets for 2022.

The following table outlines our expectation on key financial targets for 2022:

Measure	Target	2021 Actuals
Adjusted EBITDA ⁽¹⁾	\$485 million to \$525 million	\$463 million
Free cash flow ⁽¹⁾	\$345 million to \$385 million	\$357 million
Cash available for distribution ⁽¹⁾	\$245 million to \$285 million	\$275 million

(1) These items are not defined and have no standardized meaning under IFRS. Please refer to the Reconciliation of Non-IFRS Measures section of this MD&A for further discussion of these items, including, where applicable, reconciliations to measures calculated in accordance with IFRS. See also the Additional IFRS measures and Non-IFRS Measures section of this MD&A.

The 2022 targets and forecasts are based on numerous assumptions including power and natural gas price forecasts. However, they do not include the effects of potential future acquisitions or development activities, or potential market and operational impacts relating to unplanned outages including outages at facilities of other market participants and the related impacts on market power prices. Our targets and forecast should be read in conjunction with the forward-looking information section of this MD&A, as well as the 2022 Outlook Section of the Company's 2021 Annual Report for information on key assumptions.

Operations

The following is a summary of expectations and key assumptions:

	Assumptions
Range of renewable energy production from wind, solar and hydro assets, including those owned through economic interests ⁽¹⁾	4,600 GWh to 5,200 GWh
Weighted average remaining contractual life of PPA	11
Sustaining capital	\$50 million to \$60 million

(1) The renewable energy production assumptions were updated to include the North Carolina Solar sites and for increases to resources and production of existing facilities. This update in disclosures does not impact our guidance, as it was previously reflected.

Operating Costs

We have a combination of insourced operations and maintenance and long-term service agreements with suppliers based on the model that can deliver the most value for the assets. Most of our generation from gas is sold under contracts with passthrough provisions for fuel. For gas generation with no passthrough provision, we purchase natural gas coincident with production, thereby minimizing our exposure to fluctuations in price, or contract for purchases where required.

Sustaining Capital Expenditures

Sustaining capital spend ensures our facilities operate reliably and safely over a long period of time. Sustaining capital expenditures for assets we directly own, as well as the facilities in which we own economic interests, are noted below:

3 months ended June 30,

	Canadian Wind	Canadian Hydro	US Wind and Solar	Canadian Gas	US Gas	Australian Gas	Total
2022 Total sustaining expenditures	3	—	1	2	—	—	6
2021 Total sustaining expenditures	2	1	1	1	1	4	10

6 months ended June 30,

	Canadian Wind	Canadian Hydro	US Wind and Solar	Canadian Gas	US Gas	Australian Gas	Total
2022 Total sustaining expenditures	6	—	2	3	—	3	14
2021 Total sustaining expenditures	3	1	1	1	1	4	11

Sustaining capital expenditures for the three months ended June 30, 2022, decreased by \$4 million compared to the same periods in 2021, mainly due to higher planned major maintenance at our Australian Gas facilities in 2021. Sustaining capital expenditures for the six months ended June 30, 2022, increased by \$3 million compared to the same periods in 2021, mainly due to higher major component replacements in the Wind segment and the purchase of a spare engine in the Australian Gas segment. The Kent Hills foundation rehabilitation capital expenditures have not been included as part of the sustaining capital metric. Refer to the Kent Hills Rehabilitation section of this MD&A for further details.

Kent Hills Rehabilitation

The Kent Hills 1 and 2 wind facilities are not currently in operation following the tower failure event that occurred in September 2021. This has taken approximately 150 MW of gross production offline temporarily³. Following extensive independent engineering assessments and a root cause failure analysis, it was determined that all 50 turbine foundations at the Kent Hills 1 and 2 wind facilities require full foundation replacements. The outage is expected to result in foregone revenue of approximately \$3 million per month on an annualized basis (assuming all 50 turbines at the Kent Hills 1 and 2 wind facilities are offline), based on average historical wind production, with revenue expected to be earned as the wind turbines are returned to service.

Following the identification of the foundation issues at the Kent Hills 1 and 2 wind facilities, Kent Hills Wind LP ("KHLP") provided notice to BNY Trust Company of Canada, as trustee (the "Trustee"), that events of default may have occurred under the trust indenture governing the terms of such bonds. On June 1, 2022, the Company obtained a waiver from the Trustee to remedy the events of default and concurrently entered into a supplemental indenture that facilitates the rehabilitation of the Kent Hills 1 and 2 wind facilities.

KHLP has entered into agreements with vendors to complete the rehabilitation of the Kent Hills 1 and 2 wind facilities and has commenced execution of its rehabilitation plan which consists of dismantling all 49 remaining turbines, demolishing and removing all existing tower foundations, replacing them with newly-designed foundations, reassembling the wind turbine towers and generators, replacing the wind turbine that collapsed and testing each wind turbine generator before returning it to service. Each turbine at Kent Hills 1 and 2 wind facilities will return to service as soon as its foundation is replaced and the turbine is reassembled and tested. The current estimate of the capital expenditures is approximately \$120 million, inclusive of contingency. Rehabilitation for the Kent Hills 1 and 2 wind facilities is targeted to be completed by mid-2023.

The Company is actively evaluating all options that may be available to recover the rehabilitation costs from third parties and their insurance providers and intends to pursue claims to recover costs and related damages from those parties. On June 30, 2022, the Company recognized a \$7 million insurance recovery within net operating other income, related to the replacement costs for the single collapsed tower.

In addition, during the second quarter of 2022, KHLP completed negotiations with NB Power and amended the existing power purchase agreements ("PPA") to provide NB Power with an effective 10 per cent reduction to the original contract period from January 2023 to December 2033 and to extend the original contract terms for an additional 10-year period through to December 2045. During the extended period after 2035, the contract prices in the agreements have been set to align with current competitive pricing for wind generation and include escalators intended to reflect inflation.

During the second quarter of 2022, KHLP received repayment of \$10 million of the Kent Hills Wind LP loan receivable, which was required as part of the waiver and amendment made to the KH Bonds. In addition, the loan receivable agreement with KHLP's 17 per cent partner, Natural Forces Technologies Inc was amended and its original maturity date of Oct. 2, 2022 was extended to October 2027. As at June 30, 2022, \$45 million (Dec. 31, 2021 — \$55 million) was outstanding.

³ The Kent Hills 1 and 2 wind facilities lost production is based on average historical wind production.

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 Company's key non-IFRS measures are adjusted EBITDA, FCF and CAFD. In the fourth quarter of 2021, comparable EBITDA was relabelled as adjusted EBITDA to align with industry standard terminology. The Adjusted Funds from Operations ("AFFO") was replaced with FCF to better reflect the proxy for cash generated from operating activities. The composition of the metric has been changed accordingly. Notably, tax equity distributions have been removed from the composition of AFFO in the determination of FCF and it has been included in CAFD, as it reflects a settlement of a financial liability. Comparative figures have been reclassified to conform to the current period's presentation.

Adjusted EBITDA

Adjusted EBITDA is an important metric for management since it represents our core business profitability. Interest, taxes, depreciation and amortization are not included, as differences in accounting treatments may distort our core business results. We present adjusted 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 Company with returns as if we owned the assets themselves, presenting the operational information and adjusted 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.

Adjusted EBITDA is comprised of our reported EBITDA adjusted to exclude the impact of unrealized mark-to-market gains and losses, asset impairments and insurance recoveries, plus the adjusted 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) the impact of unrealized mark-to-market gains or losses; and 5) asset impairments.

FCF

FCF represents the amount of cash that is available from operations and investments in subsidiaries of TransAlta in which we have an economic interest, to invest in growth initiatives, to make scheduled principal repayments on debt, to repay maturing debt, to pay common share dividends or to repurchase common shares. Changes in working capital are excluded so that FCF is not distorted by changes that we consider temporary in nature, reflecting, among other things, the impact of seasonal factors and the timing of receipts and payments.

FCF 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, finance income from economic interests and principal repayments on lease obligations, plus FCF of the assets owned through economic interests, which is calculated as adjusted EBITDA from the economic interests less interest expense, sustaining capital expenditures, current income tax expense, insurance recovery and working capital and other timing. FCF per share is calculated using the weighted average number of common shares outstanding during the period.

CAFD

CAFD can be used as a proxy for the cash that will be available to common shareholders of the Company. CAFD is calculated as FCF less tax equity distributions and scheduled principal repayments of amortizing debt.

One of the primary objectives of the Company is to provide reliable and stable cash flows and presenting FCF 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.

Reconciliation of Non-IFRS Measures

Reconciliation of Adjusted EBITDA to Earnings Before Income Tax

3 months ended June 30, 2022	Owned Assets				Economic Interests			Total	Investments in economic interests and adjustments	IFRS financials
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas			
Revenues ⁽¹⁾	57	10	73	—	31	7	42	220	(81)	139
Fuel, royalties and other costs ⁽²⁾	5	1	44	—	—	4	1	55	(5)	50
Gross margin	52	9	29	—	31	3	41	165	(76)	89
Operations, maintenance and administration ⁽³⁾	10	2	9	5	4	1	7	38	(12)	26
Taxes, other than income taxes	2	—	—	—	2	—	—	4	(2)	2
Net other operating income	(3)	—	—	—	—	—	—	(3)	(7)	(10)
Adjusted EBITDA⁽⁴⁾	43	7	20	(5)	25	2	34	126	(55)	71
Depreciation and amortization										(36)
Asset impairment charge										(11)
Finance income related to subsidiaries of TransAlta										3
Interest income										1
Interest expense										(12)
Foreign exchange gain										2
Earnings before income tax										18

(1) Adjusted 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.

(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.

(4) Adjusted EBITDA is a non-IFRS measure and has no standardized meaning under IFRS. Refer to the Additional IFRS Measures and Non-IFRS Measures sections for further details.

3 months ended June 30, 2021	Owned Assets				Economic Interests				Total	Investments in economic interests and adjustments	IFRS financials
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas				
Revenues ⁽¹⁾	47	11	33	—	28	10	41	170	(78)	92	
Fuel, royalties and other costs ⁽²⁾	2	2	21	—	—	4	2	31	(6)	25	
Gross margin	45	9	12	—	28	6	39	139	(72)	67	
Operations, maintenance and administration ⁽³⁾	9	1	8	5	5	2	8	38	(15)	23	
Taxes, other than income taxes	1	1	1	—	1	—	—	4	(1)	3	
Adjusted EBITDA ⁽⁴⁾	35	7	3	(5)	22	4	31	97	(56)	41	
Depreciation and amortization										(33)	
Finance income related to subsidiaries of TransAlta										20	
Interest income										2	
Interest expense										(9)	
Foreign exchange gain										7	
Earnings before income tax										28	

(1) Adjusted 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.

(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.

(4) Adjusted EBITDA is a non-IFRS measure and has no standardized meaning under IFRS. Refer to the Additional IFRS Measures and Non-IFRS Measures sections for further details.

6 months ended June 30, 2022	Owned Assets				Economic Interests			Total	Investments in economic interests and adjustments	IFRS financials
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas			
Revenues ⁽¹⁾	127	14	142	—	62	13	85	443	(161)	282
Fuel, royalties and other costs ⁽²⁾	9	2	84	—	1	7	3	106	(11)	95
Gross margin	118	12	58	—	61	6	82	337	(150)	187
Operations, maintenance and administration ⁽³⁾	19	4	17	11	8	2	14	75	(24)	51
Taxes, other than income taxes	3	—	1	—	3	—	—	7	(3)	4
Net other operating income	(10)	—	—	—	—	—	—	(10)	(7)	(17)
Adjusted EBITDA⁽⁴⁾	106	8	40	(11)	50	4	68	265	(116)	149
Depreciation and amortization										(73)
Asset impairment charge										(11)
Finance income related to subsidiaries of TransAlta										22
Interest income										2
Interest expense										(25)
Foreign exchange gain										3
Earnings before income tax										67

(1) Adjusted 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.

(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.

(4) Adjusted EBITDA is a non-IFRS measure and has no standardized meaning under IFRS. Refer to the Additional IFRS Measures and Non-IFRS Measures sections for further details.

6 months ended June 30, 2021	Owned Assets				Economic Interests				Total	Investments in economic interests and adjustments	IFRS financials
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas				
Revenues ⁽¹⁾	117	14	87	—	50	10	84	362	(144)	218	
Fuel, royalties and other costs ⁽²⁾	4	2	47	—	1	4	3	61	(8)	53	
Gross margin	113	12	40	—	49	6	81	301	(136)	165	
Operations, maintenance and administration ⁽³⁾	18	3	15	11	7	2	18	74	(27)	47	
Taxes, other than income taxes	3	1	1	—	2	—	—	7	(2)	5	
Adjusted EBITDA ⁽⁴⁾	92	8	24	(11)	40	4	63	220	(107)	113	
Depreciation and amortization										(67)	
Finance income related to subsidiaries of TransAlta										49	
Interest income										4	
Interest expense										(19)	
Foreign exchange gain										9	
Earnings before income tax										89	

(1) Adjusted 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.

(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.

(4) Adjusted EBITDA is a non-IFRS measure and has no standardized meaning under IFRS. Refer to the Additional IFRS Measures and Non-IFRS Measures sections for further details.

Reconciliation of Reported Cash Flow from Operating Activities to FCF and CAFD

	3 months ended June 30,		6 months ended June 30,	
	2022	2021	2022	2021
Cash flow from operating activities	28	79	131	182
Change in non-cash operating working capital balances	19	(19)	2	(34)
Cash flow from operations before changes in working capital	47	60	133	148
Adjustments:				
Sustaining capital expenditures – owned assets	(5)	(4)	(9)	(5)
Distributions paid to subsidiaries' non-controlling interest	—	(2)	—	(2)
Finance income – economic interests ⁽¹⁾	(3)	(20)	(22)	(49)
Principal repayments of lease obligations	(1)	(1)	(1)	(1)
FCF - economic interests ⁽¹⁾	49	38	94	79
FCF^(2, 3)	87	71	195	170
Deduct:				
Tax equity distributions	(9)	(8)	(19)	(14)
Principal repayments of amortizing debt	(29)	(23)	(37)	(26)
CAFD⁽²⁾	49	40	139	130
Weighted average number of common shares outstanding in the period (millions)	267	267	267	267
FCF per share⁽²⁾	0.33	0.27	0.73	0.64
CAFD per share⁽²⁾	0.18	0.15	0.52	0.49

(1) Refer to the Reconciliation of FCF to Finance Income Related to Subsidiaries of TransAlta below in this MD&A.

(2) These items are non-IFRS measures and have no standardized meaning under IFRS. Refer to the Additional IFRS Measures and Non-IFRS Measures sections for further details.

(3) In the fourth quarter of 2021, the adjusted funds from operations was replaced with free cash flow to better reflect the proxy for cash generated from operating activities and the composition of the metric has been changed accordingly. Comparative figures have been reclassified to conform to the current period's presentation. Please refer to the Non-IFRS Measures section of this MD&A for discussion on the composition of free cash flow.

Reconciliation of FCF to Finance Income Related to Subsidiaries of TransAlta

The following table is a reconciliation of the finance income recognized on those assets we hold an economic interest in to the FCF from those assets.

	3 months ended June 30,		6 months ended June 30,	
	2022	2021	2022	2021
Finance income related to subsidiaries of TransAlta	3	20	22	49
Tax equity distributions	9	8	19	14
Principal repayments of amortizing debt	5	—	10	—
Return of capital and redemptions	22	6	40	14
Effects of changes in working capital and other timing	10	4	3	2
FCF⁽¹⁾	49	38	94	79

(1) This item is a non-IFRS measure and has no standardized meaning under IFRS. Refer to the Additional IFRS Measures and Non-IFRS Measures sections for further details.

Reconciliation of Adjusted EBITDA to FCF and CAFD

3 months ended June 30, 2022	Owned Assets				Economic Interests			Total
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas	
Adjusted EBITDA⁽¹⁾	43	7	20	(5)	25	2	34	126
Provisions and contract liabilities	—	—	(12)	—	—	—	—	(12)
Interest expense	—	—	—	(10)	(1)	—	(6)	(17)
Current income tax expense	(1)	—	—	—	(1)	—	(5)	(7)
Realized foreign exchange gain	—	—	—	1	—	—	—	1
Sustaining capital expenditures	(3)	—	(2)	—	(1)	—	—	(6)
Interest income	—	—	—	1	—	—	2	3
Principal repayments lease obligations	(1)	—	—	—	—	—	—	(1)
FCF⁽²⁾	38	7	6	(13)	22	2	25	87
Deduct:								
Tax equity distributions	—	—	—	—	(9)	—	—	(9)
Principal repayments of amortizing debt	(24)	—	—	—	—	—	(5)	(29)
CAFD⁽²⁾	14	7	6	(13)	13	2	20	49

(1) Adjusted EBITDA is defined in the Additional IFRS Measures and Non-IFRS Measures section and reconciled to earnings before income taxes above.

(2) FCF and CAFD are defined in the Additional IFRS Measures and Non-IFRS Measures section and reconciled to cash flow from operating activities above.

3 months ended June 30, 2021	Owned Assets				Economic Interests			Total
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas	
Adjusted EBITDA⁽¹⁾	35	7	3	(5)	22	4	31	97
Provisions	—	—	12	—	—	—	—	12
Interest expense	—	—	—	(8)	(1)	—	(6)	(15)
Current income tax expense	—	—	—	(7)	(1)	—	(5)	(13)
Realized foreign exchange loss	—	—	—	1	—	—	—	1
Sustaining capital expenditures	(2)	(1)	(1)	—	(1)	(1)	(4)	(10)
Distributions paid to subsidiaries' non-controlling interest	(2)	—	—	—	—	—	—	(2)
Currency adjustment and interest income	1	—	—	1	—	—	—	2
Principal repayments lease obligations	(1)	—	—	—	—	—	—	(1)
FCF⁽²⁾	31	6	14	(18)	19	3	16	71
Deduct:								
Tax equity distributions	—	—	—	—	(8)	—	—	(8)
Principal repayments of amortizing debt	(23)	—	—	—	—	—	—	(23)
CAFD⁽²⁾	8	6	14	(18)	11	3	16	40

(1) Adjusted EBITDA is defined in the Additional IFRS Measures and Non-IFRS Measures section and reconciled to earnings before income taxes above.

(2) FCF and CAFD are defined in the Additional IFRS Measures and Non-IFRS Measures section and reconciled to cash flow from operating activities above.

6 months ended June 30, 2022	Owned Assets				Economic Interests			Total
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas	
Adjusted EBITDA⁽¹⁾	106	8	40	(11)	50	4	68	265
Provisions and contract liabilities	(1)	—	(12)	—	—	—	—	(13)
Interest expense	—	—	—	(21)	(1)	—	(12)	(34)
Current income tax expense	(1)	—	—	—	(2)	—	(10)	(13)
Realized foreign exchange gain	—	—	—	1	—	—	—	1
Sustaining capital expenditures	(6)	—	(3)	—	(2)	—	(3)	(14)
Interest income	—	—	—	2	—	—	2	4
Principal repayments lease obligations	(1)	—	—	—	—	—	—	(1)
FCF⁽²⁾	97	8	25	(29)	45	4	45	195
Deduct:								
Tax equity distributions	—	—	—	—	(19)	—	—	(19)
Principal repayments of amortizing debt	(27)	—	—	—	—	—	(10)	(37)
CAFD⁽²⁾	70	8	25	(29)	26	4	35	139

(1) Adjusted EBITDA is defined in the Additional IFRS Measures and Non-IFRS Measures section and reconciled to earnings before income taxes above.

(2) FCF and CAFD are defined in the Additional IFRS Measures and Non-IFRS Measures section and reconciled to cash flow from operating activities above.

6 months ended June 30, 2021	Owned Assets				Economic Interests			Total
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas	
Adjusted EBITDA⁽¹⁾	92	8	24	(11)	40	4	63	220
Provisions	(6)	—	12	—	—	—	—	6
Interest expense	—	—	—	(17)	(1)	—	(12)	(30)
Current income tax expense	—	—	—	(8)	(1)	—	(9)	(18)
Realized foreign exchange loss	—	—	—	1	—	—	—	1
Sustaining capital expenditures	(3)	(1)	(1)	—	(1)	(1)	(4)	(11)
Distributions paid to subsidiaries' non-controlling interest	(2)	—	—	—	—	—	—	(2)
Currency adjustment and interest income	2	—	—	2	—	—	1	5
Principal repayments lease obligations	(1)	—	—	—	—	—	—	(1)
FCF⁽²⁾	82	7	35	(33)	37	3	39	170
Deduct:								
Tax equity distributions	—	—	—	—	(14)	—	—	(14)
Principal repayments of amortizing debt	(26)	—	—	—	—	—	—	(26)
CAFD⁽²⁾	56	7	35	(33)	23	3	39	130

(1) Adjusted EBITDA is defined in the Additional IFRS Measures and Non-IFRS Measures section and reconciled to earnings before income taxes above.

(2) FCF and CAFD are defined in the Additional IFRS Measures and Non-IFRS Measures section and reconciled to cash flow from operating activities above.

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 Company. Liquidity risk is managed by maintaining sufficient liquid financial resources to fund obligations as they come due in the most cost-effective manner.

The Company's objective is to maintain 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. Between 2022 and 2024, we have \$340 million of debt maturing. The funds required for committed growth, Kent Hills wind facilities rehabilitation and sustaining capital and productivity projects are not expected to be significantly impacted by the current economic environment. Principal sources of liquidity include cash generated from operations, capital markets and funding from our existing credit facility. The Company also depends on future growth to support liquidity and to maintain the amount of cash available for distribution. The Company relies on TransAlta to, among other things, identify growth opportunities for the Company. TransAlta has recently indicated it will not be providing the Company with the opportunity to acquire two Oklahoma wind projects that TransAlta is currently constructing. There can be no assurances that the Company will be able to secure attractive acquisition or development candidates in the future (whether through our relationship with TransAlta or otherwise) or that we will be able to realize growth opportunities that increase or maintain the amount of cash available for distribution.

The payment of dividends is not guaranteed and could fluctuate with our performance. We may alter the dividend at any time and the payment of dividends will depend on, among other things, ability to realize future growth; amount of cash taxes; ability to re-contract PPAs when they expire, merchant power prices if a PPA is not renewed or re-contracted; price for environmental attributes; results of operations; financial condition; current and expected future levels of earnings and operating cash flow; liquidity requirements; market opportunities; income taxes; maintenance and growth capital expenditures; debt repayments; legal, regulatory and contractual constraints; working capital requirements; tax laws and other relevant factors.

Financial Position

The following table highlights significant changes in the Consolidated Statements of Financial Position from June 30, 2022 to Dec. 31, 2021:

	June 30, 2022	Dec. 31, 2021	Increase/ (decrease)	Primary factors explaining change
Cash and cash equivalents	218	244	(26)	Decreased due to the timing of receipts and payments.
Accounts receivable	130	120	10	Timing of receipts and collections.
Property, plant and equipment ("PPE"), net	1,755	1,897	(142)	Decreased due to depreciation, revised decommissioning provisions due to changes in discount rates, the reclassification of the Windrise transmission infrastructure from PPE to long term other assets, and the impairment of Canadian Wind and Canadian Hydro assets, partly offset by sustaining capital and the Kent Hills rehabilitation.
Investments in subsidiaries of TransAlta	1,054	1,270	(216)	Decreased due to changes in fair value and increased return of capital. Refer to Financial Instruments section of this MD&A for more details.
Other assets (including current portion)	77	64	13	Increased due to the reclassification of costs related to the Windrise transmission infrastructure from PPE to long term other assets.
TEA demand loan	139	167	(28)	Decreased due to principal payments and foreign exchange impacts.
Contract liabilities (including current portion)	7	19	(12)	Decreased due to the settlement of the liquidated damages due to the Sarnia outages.
Long-term debt (including current portion)	785	814	(29)	Decreased due to principal repayments on the Kent Hills Wind bond, New Richmond Wind bond and the Melancthon Wolfe Wind bond.
Decommissioning and other provisions (including current portion)	112	175	(63)	Decreased due to increase in discount rates.
Deferred income tax liabilities	311	301	10	The increase is mainly due to a larger portion of the income tax expense being deferred compared to the prior year.
Equity attributable to shareholders	1,827	2,074	(247)	Decrease due to dividends and other comprehensive loss from unfavourable fair value changes, partially offset by net earnings.

Debt and Lease Obligations

	As at June 30, 2022			
	Total facility limit	Utilized		Available capacity
		Outstanding letters of credit ⁽¹⁾	Drawings	
Committed credit facility	700	102	—	598

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

As at June 30, 2022, there were no drawings under the credit facility. During the second quarter of 2022, the committed credit facility was extended by one year to June 30, 2026.

The Company has an uncommitted \$150 million demand letter of credit facility, under which \$102 million of letters of credit have been issued as at June 30, 2022 (Dec. 31, 2021 – \$98 million).

Debt and lease obligations, including the TEA demand loan, totaled \$924 million as at June 30, 2022, compared to \$981 million as at Dec. 31, 2021. The decrease in debt is due to repayments of non-recourse bonds of \$27 million and partial repayment of the TEA demand loan to TransAlta Energy (Australia) of AU\$23 million. Also contributing to the decrease is favourable changes in foreign exchange on the TEA demand loan.

We are subject to customary positive and negative covenants related to debt and are not in violation of any of these covenants. In the fourth quarter of 2021, the Company provided notice to the Trustee that events of default may have occurred under the trust indenture governing the terms of the bonds. During the second quarter of 2022, the Company obtained a waiver and entered into a supplemental indenture that facilitated the rehabilitation of the Kent Hills 1 and 2 wind facilities. Upon obtaining the waiver, the Company reclassified a portion of the carrying value outstanding of \$212 million (face value \$215 million) for the KH Bonds to non-current liabilities with the exception of the scheduled principal repayments due within the next twelve months from June 30, 2022. In accordance with the supplemental indenture, Kent Hills Wind LP cannot make any distributions to its partners until the foundation replacement work has been completed.

Share Capital

On June 30, 2022, we had approximately 266.9 million (Dec. 31, 2021 – 266.9 million) common shares issued and outstanding.

As at August 3, 2022, we had approximately 266.9 million common shares issued and outstanding.

Commitments

Please refer to our Other Consolidated Analysis section of the 2021 Annual Report for a complete listing of commitments we have incurred either directly or through interests in joint operations. The Company has entered into the following material contractual commitments, as at June 30, 2022:

During the second quarter of 2022, the Company entered into an engineering, procurement and construction agreement for approximately \$37 million (AU\$41 million) related to the Mount Keith 132kV Expansion Project.

In the second quarter of 2022, the Company entered into agreements for \$86 million to complete the rehabilitation at the Kent Hills 1 and 2 wind facilities.

Contingencies

For the current material outstanding contingencies, refer to the Liquidity and Capital Resources section in our 2021 Annual Report for further details. Material changes to the contingencies have been described below.

Sarnia Outages

The Sarnia cogeneration facility experienced three separate events between May 19, 2021 and June 9, 2021 that resulted in steam interruptions to its industrial customers. As a result, the customers had submitted claims for liquidated damages. Steam supply disruptions of this nature are atypical and infrequent at the Sarnia cogeneration facility. A root cause failure analysis was completed for the three outages, which concluded that all three outages were within TransAlta (SC) LP's control. As such, liquidated damages previously recognized in contract liabilities in the amount of \$12 million have been paid by TransAlta (SC) LP in the second quarter of 2022.

There have been no other material updates to any of the contingencies in the three and six month period ended June 30, 2022.

Cash Flows

The following table highlights significant changes in the Consolidated Statements of Cash Flows:

6 months ended June 30,	2022	2021	Change	Primary factors explaining change
Cash and cash equivalents, beginning of year	244	582	(338)	
Provided by (used in):				
Operating activities	131	182	(51)	Cash flow from operating activities has decreased due to the reduction in production from the extended outage at the Kent Hills 1 and 2 wind facilities and the settlement of the Sarnia liquidated damages partly offset by increase in production from the new facilities and lower finance income as a result of increased return of capital.
Investing activities	18	(371)	389	Cash flow from investing activities has increased as there were no acquisitions in the current period. In the prior period, the Company acquired the Windrise wind project then funded its construction and acquired an economic interest in the Skookumchuck wind facility and the Ada cogeneration facility.
Financing activities	(175)	(153)	(22)	Cash flow from financing activities has decreased primarily as a result of partial principal repayment on the TEA demand loan. This repayment was made to help fund the Northern Goldfields Solar project.
Cash and cash equivalents, end of period	218	240	(22)	

Financial Instruments

Refer to Note 11 of our most recent audited annual consolidated financial statements and Note 8 of our unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2022, for details on financial instruments.

Our risk management profile and practices have not changed materially since Dec. 31, 2021.

At June 30, 2022, Level II financial instruments consisted of net risk management liabilities with a carrying value of \$10 million (Dec. 31, 2021 - \$3 million).

At June 30, 2022, Level III financial instruments consisted of financial assets with a carrying value of \$1,054 million (Dec. 31, 2021 - \$1,270 million).

At June 30, 2022 the investment in the Economic Interest Investments decreased by \$176 million compared to Dec. 31, 2021. Of this \$40 million of the decrease in fair value related to the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities which was primarily due to an increase in discount rates, partially offset by strengthening forward merchant prices and foreign exchange impacts. \$134 million of the decrease in fair value related to the Preferred Shares Tracking Australia Cash Flows which reflects an increase in discount rates and changes in foreign exchange. The Economic Interest Investments were also reduced by returns of capital of \$40 million in the same period.

Refer to Notes 6 and 8 in the unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2022 for additional information on these investments and fair value measurements.

Other Consolidated Results

Other Comprehensive Income (loss)

Other comprehensive income (loss) includes the changes in fair value of the Economic Interest Investments. These gains and losses are excluded from the consolidated statement 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 which 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.

For the six months ended June 30, 2022, we recognized a \$176 million decrease in fair value in OCI (June 30, 2021 – \$96 million decrease). See the Financial Instruments section of this MD&A for an explanation of the decrease.

See Note 7 of the audited annual consolidated financial statements for additional information related to the investments for which changes in fair value are recognized in other comprehensive income ("OCI").

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:

	3 months ended June 30,		6 months ended June 30,	
	2022	2021	2022	2021
Revenue from TransAlta PPAs	11	9	24	19
Revenue from environmental attributes ⁽¹⁾	7	—	12	7
Finance income from investments in subsidiaries of TransAlta	3	20	22	49
G&A Reimbursement Fee	4	5	9	10
Natural gas purchases	9	1	17	3
Financial power swap sales – gain	—	—	(1)	—
Interest expense on TEA demand loan	1	2	3	4
Asset optimization fee ⁽²⁾	—	—	1	1
Interest expense on credit facility and letter of credit and guarantee fees	1	—	1	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 Company'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.

Related-Party Balances

Related-party balances include the following:

As at	June 30, 2022	Dec. 31, 2021
Trade and other receivables	24	50
Finance lease receivable ⁽¹⁾	7	7
Long-term prepaid – management fee	2	2
Investments in subsidiaries of TransAlta	1,054	1,270
Accounts payable and accrued liabilities (including interest payable)	16	11
Dividends payable	38	38
TEA demand loan	139	167
Guarantees provided by TransAlta on behalf of the Company (I) ⁽²⁾	586	583
Indemnification guarantee provided by the Company to TransAlta (II) ⁽²⁾	480	516

(1) Finance lease receivable relates to the 10 MW WindCharger battery storage project.

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

II. 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.

Critical Accounting Policies and Estimates

The preparation of unaudited interim condensed consolidated 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 following were material changes in estimates in the quarter:

I. Dividends as Income or Return of Capital

During the three and six months ended June 30, 2022 and 2021, the Company determined that a portion of the dividends earned on the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities, the Preferred Shares Tracking Earnings and Distributions of US Gas and the Preferred Shares Tracking Australia Cash Flows constituted a return of capital. Distributions that were determined to be a return of capital for the three and six months ended June 30, 2022 were \$22 million and \$40 million respectively (June 30, 2021 - \$6 million and \$14 million).

II. Provisions for Decommissioning and Restoration Activities

The Company recognizes provisions for decommissioning and restoration obligations. Initial decommissioning provisions, and subsequent changes thereto, are determined using the Company's best estimate of the required cash expenditures, adjusted to reflect the risks and uncertainties inherent in the timing and amount of settlement. During the first and second quarters of 2022, the provision for the decommissioning and restoration obligations decreased as a result of higher discount rates, largely driven by increases in market benchmark rates due to political risks and higher expected inflation throughout 2022 and 2023. On average, discount rates ranged from 7.8 to 9.3 per cent (Dec. 31, 2021 — 4.6 to 6.5 per cent). The Company's current best estimate of the decommissioning and restoration provisions decreased by \$63 million, which also resulted in a decrease in the related assets in property, plant and equipment.

III. Asset Impairments

During the six months ended June 30, 2022, the Company recorded asset impairment charges of \$11 million for one of the Canadian Wind facilities and one of the Canadian Hydro facilities, primarily as a result of increases in the discount rates.

Accounting Changes

Current Accounting Changes

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's audited annual consolidated financial statements for the year ended Dec. 31, 2021, except for the adoption of new standards effective as of Jan. 1, 2022 and the early adoption of standards, interpretations or amendments that have been issued but are not yet effective.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

On May 14, 2020, the IASB issued Onerous Contracts — Cost of Fulfilling a Contract and amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs to include when assessing whether a contract will be loss-making. The amendments are effective for annual periods beginning on or after Jan. 1, 2022 and the Company adopted these amendments as of Jan. 1, 2022. The amendments are effective for contracts for which an entity has not yet fulfilled all its obligations on or after the effective date. No adjustments resulted on adoption of the amendments on Jan 1, 2022.

Future Accounting Changes

Please refer to Note 3 of the audited annual consolidated financial statements for the future accounting policies impacting the Company. In the three and six months ended, June 30, 2022, no additional future accounting policy changes impacting the Company were identified.

Risk Management

Our business activities expose us to a variety of risks and uncertainties including, but not limited to, increased regulatory changes, rapidly changing market dynamics and volatility in commodity markets. Refer to the Risk Management section and the Business Environment Section of our 2021 annual Report and the annual information form filed electronically at www.sedar.com. Our risk management profile and practices have not changed materially from Dec. 31, 2021. The following factors may contribute to those risks and uncertainties:

Regulatory and Environmental Legislation

Canada

Federal Climate Plan

On March 15, 2022, the Government of Canada's Department of Environment and Climate Change Canada ("ECCC") released a discussion paper (the "ECCC Paper") regarding a proposed new Clean Electricity Standard ("CES") to achieve a net zero electricity sector in Canada by 2035. The ECCC Paper states the government's intent to institute more stringent regulations on natural gas generation to achieve a net zero grid by 2035. TransAlta is actively engaging the federal and provincial governments to better help them understand the implications of the regulatory proposal and convey the fact that our current assets play an important role in delivering reliability, affordability, competitiveness and decarbonization.

On March 29, 2022, the Government of Canada released the 2030 Emissions Reduction Plan ("ERP"). This broad plan includes a broad set of regulatory, policy and funding initiatives designed to achieve Canada's national emissions reduction targets. Notably, the ERP relies heavily on electrification of the economy to reach Canada's national goals. TransAlta engaged the government regarding the design of the plan and will continue to engage on relevant initiatives moving forward.

Both the CES and ERP may create new opportunities for the development of renewables and energy storage projects in the lead up to 2035.

On June 8th, 2022, the Government of Canada published the final regulation creating a federal greenhouse gas ("GHG") emissions offset system in the Canada Gazette, Part II-The Canadian Greenhouse Gas Offset Credit System Regulations. This regulation creates a new GHG credit market in Canada. However, the Company cannot currently use these credits for compliance under provincial regulatory programs or generate credits from our existing facilities in the absence of changes in policy and the development of additional federal offset protocols.

The Clean Fuel Regulations ("CFR") were published in Canada Gazette, Part II on July 6, 2022. The CFR require producers and importers of liquid fossil fuels, such as gasoline and diesel, to gradually reduce the carbon intensity of these fuels beginning in December 2023. There may be opportunity for the Company to contract and build projects that reduce the lifecycle carbon intensity of fossil fuel using renewable electricity at production facilities as a compliance option under the CFR.

Ontario

Ontario held a provincial election on June 2, 2022. Premier Doug Ford was re-elected as Premier of Ontario with a majority government. Before the election, the government started engaging in policy development processes including the future of the province's Emissions Performance Standards ("EPS") carbon pricing system, a natural gas transition and development of a voluntary clean energy credit market.

The Company's Ontario thermal facility passes through carbon costs under its current contracts, minimizing the impact of any change to the EPS. TransAlta continues to engage the government on relevant policy initiatives to mitigate risk and identify areas of potential opportunity.

US

Congress continues to consider options for support for renewable energy and energy storage as a part of its broader budget discussions. TransAlta continues to monitor any potential changes for impacts on our growth plans.

Australia

Australia held a national election on May 21, 2022. The Labour Party achieved a majority government. Since the Labour Party formed the government, Australia has informed the United Nations that it will increase its Nationally Determined Contribution ("NDC") commitment to increase the country's 2030 emissions reduction goal from the current 26 to 28 percent to 43 percent below 2005 levels. The government also confirmed its intent to boost renewable electricity production to 82% of electricity supply by 2030. We continue to see low policy risk to our existing Australian assets and policy support for continued industrial decarbonization.

Controls and Procedures

Management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P"). During the six months ended June 30, 2022, the majority of our workforce supporting and executing our ICFR and DC&P returned to work and continue to work remotely on a hybrid basis. The Company has implemented appropriate controls and oversight for both in-office and remote work. There has been minimal impact to the design and performance of our internal controls.

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 Company'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 June 30, 2022, the end of the period covered by this report, our ICFR and DC&P were effective.

TransAlta Renewables Inc. Condensed Consolidated Statements of Earnings

(in millions of Canadian dollars, except per share amounts)

Unaudited	3 months ended June 30,		6 months ended June 30,	
	2022	2021	2022	2021
Revenues (Note 3)	139	92	282	218
Fuel, royalties and other costs (Note 4)	50	25	95	53
Gross margin	89	67	187	165
Operations, maintenance and administration (Note 4)	26	23	51	47
Depreciation and amortization	36	33	73	67
Asset impairment (Note 9)	11	—	11	—
Taxes, other than income taxes	2	3	4	5
Net other operating income (Note 5)	(10)	—	(17)	—
Operating income	24	8	65	46
Finance income related to subsidiaries of TransAlta (Note 6)	3	20	22	49
Interest income	1	2	2	4
Interest expense	(12)	(9)	(25)	(19)
Foreign exchange gain	2	7	3	9
Earnings before income taxes	18	28	67	89
Income tax expense (Note 7)	4	2	12	10
Net earnings	14	26	55	79
Net earnings attributable to:				
Common shareholders	13	25	54	77
Non-controlling interest	1	1	1	2
	14	26	55	79
Weighted average number of common shares outstanding in the period (millions)	267	267	267	267
Net earnings per share attributable to common shareholders, basic and diluted	0.05	0.09	0.20	0.29

See accompanying notes.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)

(in millions of Canadian dollars)

Unaudited	3 months ended June 30,		6 months ended June 30,	
	2022	2021	2022	2021
Net earnings	14	26	55	79
Other comprehensive income (loss)				
Net change in fair value of investments in subsidiaries of TransAlta that will not be reclassified subsequently to net earnings (Note 6)	(65)	9	(176)	(96)
Losses on derivatives designated as cash flow hedges, net of tax that will be reclassified subsequently to net earnings	—	(1)	—	—
Other comprehensive income (loss)	(65)	8	(176)	(96)
Total comprehensive income (loss)	(51)	34	(121)	(17)
Total comprehensive income (loss) attributable to:				
Common shareholders	(52)	33	(122)	(19)
Non-controlling interest	1	1	1	2
	(51)	34	(121)	(17)

See accompanying notes.

TransAlta Renewables Inc. Condensed Consolidated Statements of Financial Position

(in millions of Canadian dollars)

Unaudited	June 30, 2022	Dec. 31, 2021
Current assets:		
Cash and cash equivalents	218	244
Accounts receivable	130	120
Risk management assets (Note 8)	2	1
Inventory	8	8
Assets held for sale	2	—
Current portion of other assets (Note 10)	23	57
	383	430
Non-current assets:		
Property, plant and equipment (Note 9)		
Cost	3,181	3,263
Accumulated depreciation	(1,426)	(1,366)
	1,755	1,897
Finance lease receivable	7	7
Right-of-use assets	27	26
Intangible assets	87	92
Other assets (Note 10)	54	7
Investments in subsidiaries of TransAlta (Note 6)	1,054	1,270
Deferred income tax assets (Note 7)	20	20
Total assets	3,387	3,749
Current liabilities		
Accounts payable and accrued liabilities	81	82
Income tax payable	—	1
Dividends payable	63	63
Current portion of contract liabilities (Note 13)	1	13
Risk management liabilities (Note 8)	11	3
TEA demand loan (Notes 8 and 11)	139	167
Current portion of long-term debt and lease obligations (Note 11)	104	264
	399	593
Non-current liabilities		
Long-term debt and lease obligations (Notes 8 and 11)	681	550
Decommissioning provisions	112	175
Contract liabilities	6	6
Risk management liabilities (Note 8)	1	1
Deferred income tax liabilities (Note 7)	311	301
Total liabilities	1,510	1,626
Equity		
Common shares (Note 12)	3,059	3,059
Deficit	(978)	(907)
Accumulated other comprehensive loss	(254)	(78)
Equity attributable to shareholders	1,827	2,074
Non-controlling interest	50	49
Total equity	1,877	2,123
Total liabilities and equity	3,387	3,749

Commitments and contingencies (Note 13)

See accompanying notes.

TransAlta Renewables Inc. Condensed Consolidated Statements of Changes in Equity

(in millions of Canadian dollars)

Unaudited

	Common shares	Deficit	Accumulated other comprehensive loss	Attributable to shareholders	Attributable to non- controlling interest	Total
Balance, Dec. 31, 2021	3,059	(907)	(78)	2,074	49	2,123
Net earnings	—	54	—	54	1	55
Other comprehensive income (loss):						
Net change in fair value of investments in subsidiaries of TransAlta (Note 6)	—	—	(176)	(176)	—	(176)
Total comprehensive income (loss)	—	54	(176)	(122)	1	(121)
Common share dividends (Note 12)	—	(125)	—	(125)	—	(125)
Balance, June 30, 2022	3,059	(978)	(254)	1,827	50	1,877

(in millions of Canadian dollars)

	Common shares	Deficit	Accumulated other comprehensive loss	Attributable to shareholders	Attributable to non- controlling interest	Total
Balance, Dec. 31, 2020	3,059	(796)	(8)	2,255	50	2,305
Net earnings	—	77	—	77	2	79
Other comprehensive income (loss):						
Net change in fair value of investments in subsidiaries of TransAlta (Note 6)	—	—	(96)	(96)	—	(96)
Total comprehensive income (loss)	—	77	(96)	(19)	2	(17)
Common share dividends (Note 12)	—	(125)	—	(125)	—	(125)
Acquisitions of Windrise wind project (Note 9)	—	(1)	3	2	—	2
Balance, June 30, 2021	3,059	(845)	(101)	2,113	52	2,165

See accompanying notes.

TransAlta Renewables Inc. Condensed Consolidated Statements of Cash Flows

(in millions of Canadian dollars)

Unaudited	3 months ended June 30,		6 months ended June 30,	
	2022	2021	2022	2021
Operating activities				
Net earnings	14	26	55	79
Depreciation and amortization	36	33	73	67
Accretion of provisions	3	1	5	2
Deferred income tax expense (recovery) (Note 7)	3	(5)	11	2
Unrealized foreign exchange gain	(1)	(6)	(2)	(8)
Unrealized (gain) loss from risk management activities	1	(1)	1	—
Provisions and contract liabilities	(13)	12	(13)	6
Asset impairment (Note 9)	11	—	11	—
Other non-cash items	(7)	—	(8)	—
Cash flow from operations before changes in working capital	47	60	133	148
Change in non-cash operating working capital balances	(19)	19	(2)	34
Cash flow from operating activities	28	79	131	182
Investing activities				
Additions to property, plant and equipment (Note 9)	(16)	(18)	(21)	(24)
Additions to intangibles	(1)	—	(1)	—
Investments in subsidiaries of TransAlta (Note 6)	—	(146)	—	(146)
Acquisitions (Note 9)	—	—	—	(213)
Return of capital on investments in subsidiaries of TransAlta (Note 6)	22	6	40	14
Restricted cash	—	(2)	—	(2)
Repayment (advances) in loan receivable	10	(2)	10	(2)
Change in non-cash investing working capital balances	—	3	(10)	7
Other	—	(1)	—	(5)
Cash flow from (used in) investing activities	15	(160)	18	(371)
Financing activities				
Long-term debt repayments (Note 11)	(24)	(23)	(27)	(26)
Dividends paid on common shares (Note 12)	(62)	(63)	(125)	(125)
Net repayments of TEA demand loan (Note 11)	(15)	—	(21)	—
Lease obligations – principal repayment (Note 11)	(1)	(1)	(1)	(1)
Financing costs	(1)	—	(1)	(1)
Changes in non-cash financing working capital balances	—	1	—	—
Cash flow used in financing activities	(103)	(86)	(175)	(153)
Decrease in cash and cash equivalents	(60)	(167)	(26)	(342)
Cash and cash equivalents, beginning of period	278	407	244	582
Cash and cash equivalents, end of period	218	240	218	240
Cash income taxes paid	1	—	1	1
Cash interest paid	15	14	22	21

See accompanying notes.

Notes to Consolidated Financial Statements

(Tabular amounts in millions of Canadian dollars, except as otherwise noted)

1. Background and Accounting Policies

A. Formation of the Company

TransAlta Renewables Inc. together with its subsidiaries (collectively "TransAlta Renewables" or the "Company") owns and operates 13 hydro facilities, 22 wind facilities, a wind battery storage facility and one gas facility, with a total gross generating capacity of 1,998 megawatts ("MW") and holds economic interests in TransAlta Corporation's ("TransAlta") 140 MW Wyoming wind facility, 50 MW Lakeswind facility, 21 MW Mass Solar facility, 90 MW Big Level wind facility, 29 MW Antrim wind facility, 122 MW North Carolina Solar facility and a 49 percent economic interest in the 137 MW Skookumchuck wind facility (collectively "Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities"), 29 MW Ada cogeneration facility ("Preferred Shares Tracking Earnings and Distributions of US Gas") and 450 MW Australian gas-fired generation assets including a 270 kilometer gas pipeline ("Preferred Shares Tracking Australia Cash Flows"). The Company's head office is located in Calgary, Alberta.

B. Basis of Preparation

These interim condensed consolidated financial statements have been prepared by management in compliance with International Accounting Standard ("IAS") 34 Interim Financial Reporting using the same accounting policies as those used in the Company's 2021 annual consolidated financial statements, except as disclosed in Note 2(A). These interim condensed consolidated financial statements do not include all of the disclosures included in the Company's 2021 annual consolidated financial statements. Accordingly, these condensed consolidated financial statements should be read in conjunction with the Company's 2021 annual consolidated financial statements, which are available on SEDAR at www.sedar.com.

The interim condensed consolidated financial statements include the accounts of the Company and the subsidiaries that it controls.

The interim condensed consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are stated at fair value.

The interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency.

The interim condensed consolidated financial statements reflect all adjustments that consist of normal recurring adjustments and accruals that are, in the opinion of management, necessary for a fair presentation of results. The Company's results are partly seasonal due to the nature of electricity, which is generally consumed as it is generated and the nature of wind and run-of-river hydro resources, which fluctuate based on both seasonal patterns and annual weather variation. Typically, run-of-river hydro facilities generate most of their electricity and revenues during the spring and summer months when melting snow starts feeding watersheds and rivers. Inversely, wind speeds are historically greater during the cold months and lower in the warm summer months.

These interim condensed consolidated financial statements were authorized for issue by the Audit and Nominating Committee on behalf of the Board of Directors (the "Board") on August 3, 2022.

C. Use of Estimates and Significant Judgments

The preparation of these interim condensed consolidated financial statements in accordance with IAS 34 requires management to use judgment and make estimates and assumptions that could affect the reported amounts of assets, liabilities, revenue and expenses and disclosures of contingent assets and liabilities. These estimates are subject to uncertainty. Refer to Note 2(M) of the Company's 2021 annual consolidated financial statements for a more detailed discussion of the significant accounting judgments and key sources of estimation uncertainty. Actual results could differ from these estimates.

During the three and six months ended June 30, 2022, the global economy continued to recover from the COVID-19 pandemic. The Russia-Ukraine conflict has set off historic policy actions and global coordination of sanctions and commitments to reduce dependency on Russian energy including natural gas. This has contributed to global supply chain disruptions, commodity price volatility and potential increases to inherent cybersecurity risk. Energy prices have strengthened due to elevated uncertainty of global oil and natural gas supply given the war in Ukraine. Recent inflationary and supply chain dynamics coupled with rising interest rates and volatility in foreign exchange rates have created an environment that requires close monitoring. Estimates to the extent to which the geopolitical events may, directly or indirectly, impact the Company's operations, financial results and conditions in future periods are also subject to significant uncertainty. Uncertainty related to COVID-19, geopolitical events and Consumer Price Index ("CPI") inflation have been considered in the Company's estimates as at and for the period ended June 30, 2022.

Judgment was applied for the three and six months ended June 30, 2022, as follows:

I. Dividends as Income or Return of Capital

During the three and six months ended June 30, 2022 and 2021, the Company determined that a portion of the dividends earned on the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities, the Preferred Shares Tracking Earnings and Distributions of US Gas and the Preferred Shares Tracking Australia Cash Flows constituted a return of capital.

II. Provisions for Decommissioning and Restoration Activities

The Company recognizes provisions for decommissioning and restoration obligations. Initial decommissioning provisions, and subsequent changes thereto, are determined using the Company's best estimate of the required cash expenditures, adjusted to reflect the risks and uncertainties inherent in the timing and amount of settlement. During the first and second quarters of 2022, the provision for the decommissioning and restoration obligations decreased as a result of higher discount rates, largely driven by increases in market benchmark rates due to political risks and higher expected inflation throughout 2022 and 2023. The Company's current best estimate of the decommissioning and restoration provisions decreased by \$63 million, which also resulted in a decrease in the related assets in property, plant and equipment. On average, discount rates ranged from 7.8 to 9.3 per cent (Dec. 31, 2021 — 4.6 to 6.5 per cent).

III. Asset Impairments

During the six months ended June 30, 2022, the Company recorded asset impairment charges, for one of the Canadian Wind facilities and one of the Canadian Hydro facilities, primarily as a result of increases in the discount rates. Refer to Note 9 for more details.

2. Material Accounting Policies

A. Current Accounting Policy Changes

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's 2021 annual consolidated financial statements for the year ended Dec. 31, 2021, except for the adoption of new standards effective as of Jan. 1, 2022 and the early adoption of standards, interpretations or amendments that have been issued but are not yet effective.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

On May 14, 2020, the IASB issued Onerous Contracts — Cost of Fulfilling a Contract and amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs to include when assessing whether a contract will be loss-making. The amendments are effective for annual periods beginning on or after Jan. 1, 2022 and the Company adopted these amendments as of Jan. 1, 2022. The amendments are effective for contracts for which an entity has not yet fulfilled all its obligations on or after the effective date. No adjustments resulted on adoption of the amendments on Jan 1, 2022.

B. Future Accounting Policy Changes

Please refer to Note 3 of the audited annual consolidated financial statements for the future accounting policies impacting the Company. In the three and six months ended, June 30, 2022, no additional future accounting policy changes impacting the Company were identified.

C. Comparative Figures

Certain comparative figures have been reclassified to conform to the current period's presentation. These reclassifications did not impact previously reported net earnings.

3. Revenue from Contracts with Customers

A. Disaggregation of Revenue from Contracts with Customers

The majority of the Company's revenues are derived from the sale of electricity, capacity and environmental attributes, which the Company disaggregates into the following groupings for the purpose of determining how economic factors affect the recognition of revenue.

3 months ended June 30, 2022	Canadian Wind	Canadian Hydro	Canadian Gas	Total
Revenue from contracts with customers	56	10	68	134
Merchant revenue and other	1	—	4	5
Revenues	57	10	72	139

Timing of revenue recognition:

At a point in time	7	—	—	7
Over time	49	10	68	127
Revenue from contracts with customers	56	10	68	134

3 months ended June 30, 2021	Canadian Wind	Canadian Hydro	Canadian Gas	Total
Revenue from contracts with customers	46	11	33	90
Merchant revenue and other	1	—	1	2
Revenues	47	11	34	92

Timing of revenue recognition:

At a point in time	1	1	—	2
Over time	45	10	33	88
Revenue from contracts with customers	46	11	33	90

6 months ended June 30, 2022	Canadian Wind	Canadian Hydro	Canadian Gas	Total
Revenue from contracts with customers	126	14	126	266
Merchant revenue and other	1	—	15	16
Revenues	127	14	141	282

Timing of revenue recognition:

At a point in time	16	1	—	17
Over time	110	13	126	249
Revenue from contracts with customers	126	14	126	266

6 months ended June 30, 2021	Canadian Wind	Canadian Hydro	Canadian Gas	Total
Revenue from contracts with customers	116	14	83	213
Merchant revenue and other	1	—	4	5
Revenues	117	14	87	218

Timing of revenue recognition:

At a point in time	10	1	—	11
Over time	106	13	83	202
Revenue from contracts with customers	116	14	83	213

On June 2, 2022, The Company announced that it amended and extended its current power purchase agreements with New Brunswick Power Corporation ("NB Power") in respect of each of the Kent Hills 1, 2 and 3 wind facilities, representing total generating capacity of 167 MW. The amending agreements provide for a blend-and-extend of the PPAs providing NB Power with an effective 10 per cent reduction to the original contract prices from January 2023 through December 2033 and extend the original contract term for an additional 10-year period through to December 2045.

In the second quarter of 2022, the Company executed contract extensions for the supply of electricity and/or steam with three of its industrial customers at the Sarnia cogeneration facility. These agreements will extend the delivery term for electricity and/or steam from Dec. 31, 2022 to April 30, 2031, in one case and to Dec. 31, 2032, for the other two, with all agreements being subject to certain conditions, including the Company entering into a new contract with the Ontario Independent Electricity System Operator (the "IESO"). The IESO is conducting a medium-term procurement process for capacity for 2026 and beyond for existing generation. The Company bid into the process and is seeking to secure a contract extension for the Sarnia cogeneration facility following the end of the current IESO contract, which expires on Dec. 31, 2025. The Company expects the IESO to announce the successful bids in the third quarter of 2022.

B. Environmental Credits

Revenue from contracts with customers includes revenue generated from the sale of environmental credits for the three and six months ended June 30, 2022 of \$7 million and \$17 million respectively (2021 - \$2 million and \$11 million). Included in this amount for the three and six months ended June 30, 2022 was \$7 million and \$12 million respectively (2021- nil and \$7 million) related to the sale of 153,706 and 261,017 (2021- nil and 265,352) of Alberta carbon offsets and Emission Performance Credits ("EPC") to TransAlta.

At June 30, 2022, the Company held 310,310 emissions credits (Dec. 31, 2021 —356,243), which are expected to be serialized and monetized through sales to TransAlta or other third parties at market prices.

4. Expenses by Nature

Fuel, Royalties and Other Costs, and Operations, Maintenance and Administrative ("OM&A")

	3 months ended June 30,				6 months ended June 30,			
	2022		2021		2022		2021	
	Fuel, royalties and other costs	OM&A						
Fuel	42	—	16	—	78	—	36	—
Royalties, land lease costs and other direct costs	3	—	3	—	8	—	6	—
Transmission tariffs	2	—	1	—	3	—	—	—
Carbon compliance costs ⁽¹⁾	3	—	5	—	6	—	11	—
Contracted operating expenses	—	12	—	12	—	23	—	23
Other operating expenses	—	14	—	11	—	28	—	24
Total	50	26	25	23	95	51	53	47

5. Net Other Operating Income

A. Windrise Liquidated Damages

During the three and six months ended June 30, 2022, the Company recorded liquidating damages of \$3 million and \$10 million respectively related to requirements to be met by the contractor on turbine availability.

B. Kent Hills Insurance Recovery

During the three and six months ending June 30, 2022, the Company recognized insurance proceeds related to the replacement costs for the single collapsed tower at the Kent Hills wind facilities of \$7 million.

6. Finance Income Related to Subsidiaries of TransAlta

Finance income related to subsidiaries of TransAlta includes income from various interests that in aggregate and over time indirectly provide the Company with cash flows based on the cash flows of the subsidiaries. This includes Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities, Preferred Shares Tracking Earnings and Distributions of US Gas, and the Preferred Shares Tracking Australia Cash Flows (known collectively as "the Economic Interest Investments").

	3 months ended June 30,		6 months ended June 30,	
	2022	2021	2022	2021
Fee income from indirect guarantee of TEA obligations	3	2	6	5
Dividend income from investment in preferred shares tracking Australia Cash Flows	—	12	15	34
Finance income related to TEA	3	14	21	39
Dividend income from investments in preferred shares tracking earnings and distributions of US Wind and Solar facilities	—	6	1	10
Total finance income	3	20	22	49

A summary of investments in subsidiaries of TransAlta is as follows:

As at	June 30, 2022	Dec. 31, 2021
Investment in preferred shares tracking earnings and distributions of Big Level and Antrim	147	165
Investment in preferred shares tracking earnings and distributions of Mass Solar	37	45
Investment in preferred shares tracking earnings and distributions of Lakeswind	17	18
Investment in preferred shares tracking earnings and distributions of Wyoming wind	89	99
Investment in preferred shares tracking earnings and distributions of Skookumchuck	75	85
Investment in preferred shares tracking earnings and distributions of North Carolina	110	127
Total investments in preferred shares tracking earnings and distributions of US Wind and Solar facilities	475	539
Investment in preferred shares tracking earnings and distributions of Ada	30	34
Investment in preferred shares tracking Australia Cash Flows	549	697
Total investments in subsidiaries of TransAlta	1,054	1,270

Investment in Subsidiaries of TransAlta

Changes in the investments in subsidiaries of TransAlta are detailed as follows:

	Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities	Preferred Shares Tracking Earnings and Distributions of US Gas	Preferred Shares Tracking Australia Cash Flows	Total
Investment balance at Dec. 31, 2021	539	34	697	1,270
Return of capital	(24)	(2)	(14)	(40)
Net change in fair value and foreign exchange recognized in other comprehensive income ("OCI")	(40)	(2)	(134)	(176)
Investment balance at June 30, 2022	475	30	549	1,054

The \$40 million decrease in fair value related to the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities was primarily due to an increase in discount rates, partially offset by strengthening forward merchant prices and foreign exchange impacts.

The \$134 million decrease in fair value related to the Preferred Shares Tracking Australia Cash Flows as at June 30, 2022 reflects an increase in discount rates and changes in foreign exchange.

	Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities	Preferred Shares Tracking Earnings and Distributions of US Gas ⁽³⁾	Preferred Shares Tracking Australia Cash Flows	Total
Investment balance at Dec. 31, 2020	316	—	771	1,087
Investment	103	43	—	146
Return of capital	(11)	(3)	—	(14)
Net change in fair value and foreign exchange recognized in OCI	13	(6)	(103)	(96)
Investment balance at June 30, 2021	421	34	668	1,123

The \$13 million increase in fair value related to the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities was primarily due to a decrease in discount rates, partially offset by transaction costs related to the Skookumchuck wind facility that were recognized through OCI at June 30, 2021, weakening forward merchant prices in the Eastern US region and foreign exchange impacts. The decrease in discount rates was mainly due to the alignment of rates with the movement of US treasury bonds observed within the market.

On April 1, 2021, the Corporation acquired the economic interests in the Ada cogeneration facility and the Skookumchuck wind facility by acquiring a \$43 million and a \$103 million investment, respectively, in tracking preferred shares of a TransAlta subsidiary.

The \$103 million decrease in fair value related to the Preferred Shares Tracking Australia Cash Flows as at June 30, 2021 reflects a change in cash flow assumptions, including changes in foreign exchange impacts, recontracting assumptions and discount rate changes, partially offset by an adjustment to the cash flows associated with the extended PPA with BHP and the Northern Goldfields Solar Project. The changes in cash flow assumptions were reflected in the fair value at June 30, 2021, given the advanced nature of negotiations with BHP at the time.

The table below summarizes quantitative data regarding the unobservable inputs utilized in the discounted cash flow models as outlined in Note 7 of the 2021 audited annual consolidated financial statements:

Unobservable input	June 30, 2022	Dec. 31, 2021
Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities		
Discount rate (range)	7.3 % - 10.0 %	5.8 % - 8.5 %
Quarterly cash flows (range, in millions)	Average of \$1 - \$4	Average of \$1 - \$4
Preferred Shares Tracking Earnings and Distributions of US Gas		
Discount rate	13.9 %	12.4 %
Quarterly cash flows (millions)	Average of \$3	Average of \$3
Preferred Shares Tracking Australia Cash Flows		
Discount rate	8.0 %	5.5 %
Quarterly cash flows (millions)	Average of \$11	Average of \$11

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

Unobservable input ⁽¹⁾	Alternative assumption	Change in fair value as at June 30, 2022	Change in fair value as at Dec. 31, 2021
Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities⁽²⁾			
Basis point change in discount rates	-100 basis points decrease	41	51
	+100 basis points increase	(35)	(44)
Quarterly cash flows	+5% increase ⁽³⁾	24	27
	- 5% decrease ⁽³⁾	(24)	(27)
Preferred Shares Tracking Earnings and Distributions of US Gas⁽⁴⁾			
Basis point change in discount rates	-100 basis points decrease	1	1
	+100 basis points increase	—	(1)
Quarterly cash flows	+5% increase ⁽³⁾	1	2
	- 5% decrease ⁽³⁾	(1)	(2)
Preferred Shares Tracking Australia Cash Flows			
Basis point change in discount rates	-100 basis points decrease	39	58
	+100 basis points increase	(34)	(50)
Quarterly cash flows	+5% increase ⁽³⁾	27	35
	- 5% decrease ⁽³⁾	(27)	(35)

(1) Refer to note 8C IV for impacts from foreign exchange.

(2) The fair value changes presented relate to Big Level and Antrim, Mass Solar, Lakeswind, Wyoming wind, Skookumchuck and North Carolina in 2022 in total.

(3) Quarterly cash flows could vary by a higher rate than the assumed five percent factor.

(4) The fair value changes in the discount rate as at June 30, 2022 could vary but by less than \$1 million.

7. Income Taxes

The components of income tax expense are as follows:

	3 months ended June 30,		6 months ended June 30,	
	2022	2021	2022	2021
Current income tax expense	1	7	1	8
Deferred income tax expense (recovery) related to the origination and reversal of temporary differences	3	(5)	11	2
Income tax expense	4	2	12	10

Presented in the Condensed Consolidated Statements of Earnings as follows:

	3 months ended June 30,		6 months ended June 30,	
	2022	2021	2022	2021
Current income tax expense	1	7	1	8
Deferred income tax expense (recovery)	3	(5)	11	2
Income tax expense	4	2	12	10

8. Financial Instruments and Risk Management

A. Financial Assets and Liabilities – Classification and Measurement

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost.

B. Fair Value of Financial Instruments

The Company's financial instruments measured at fair value are as follows:

As at	June 30, 2022		Dec. 31, 2021	
	Fair value Level II	Fair value Level III	Fair value Level II	Fair value Level III
Preferred shares tracking Australia Cash Flows	—	549	—	697
Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities	—	475	—	539
Preferred Shares Tracking Earnings and Distributions of US Gas	—	30	—	34
Net risk management liabilities	(10)	—	(3)	—

I. Level Determinations and Classifications

The Level I, II and III classifications in the fair value hierarchy utilized by the Company 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 Company 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.

c. Level III

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

There were no changes in the Company's valuation processes, valuation techniques and types of inputs used in the fair value measurements during the period. For additional information, refer to Note 11 of the 2021 annual consolidated financial statements.

II. Commodity and Other Risk Management Assets and Liabilities

The Company's commodity-based risk management assets and liabilities relate to trading activities and certain contracting activities. Other risk management assets and liabilities include risk management assets and liabilities that are used in managing foreign-denominated receipts and expenditures, capital project expenditures and debt. To the extent applicable, changes in net risk management assets and liabilities for non-hedge positions are reflected within net earnings.

The following table summarizes the net risk management liabilities:

	Cash flow hedges	Non-hedges	
	Level II	Level II	Total
Net risk management liabilities at June 30, 2022	—	(10)	(10)
Net risk management liabilities at Dec. 31, 2021	—	(3)	(3)

Non-Hedges

a. Foreign Exchange Forward Contracts

The Company periodically enters into foreign exchange forward contracts to economically hedge future foreign denominated cash flows for which hedge accounting is not pursued. These items are classified as held for trading and changes in the fair values associated with these transactions are recognized in net earnings.

Outstanding notional amounts and fair values associated with these forward contracts are as follows:

As at June 30, 2022				
Notional amount sold	Notional amount purchased	Fair value asset (liability)		Maturity
CAD190	AUD202	(10)		2022
USD22	CAD28	—		2022
AUD75	CAD69	2		2022

b. Commodity

The Company enters into various derivative transactions as well as other contracting activities that do not qualify for hedge accounting. As a result, the related assets and liabilities are classified as fair value through profit or loss ("FVTPL"). Changes in the fair value of these derivatives are reported in earnings in the period the change occurs. The fair value of commodity derivatives as at June 30, 2022 was a \$2 million net risk management liability.

III. Financial Instruments – Not Measured at Fair Value

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and dividends payable approximates their fair value at the Condensed Consolidated Statements of Financial Position date due to the liquid nature of the asset or liability. The fair values of the loans receivable, TEA demand loan and the finance lease receivable approximate their carrying values.

The fair value of financial instruments not measured at fair value is as follows:

As at	June 30, 2022		Dec. 31, 2021	
	Fair value Level II	Carrying value	Fair value Level II	Carrying value
Loans receivable ⁽¹⁾	45	45	55	55
TEA demand loan	139	139	167	167
Long-term debt ⁽²⁾	679	762	801	792

(1) Loans receivable is included in current and non-current portion of other assets in the Condensed Consolidated Statements of Financial Position.

(2) Includes current portion of long-term debt and excludes lease obligations.

The fair value of the long-term debt is determined by calculating an implied price based on a current assessment of the yield to maturity (Note 11).

C. Nature and Extent of Risks Arising from Financial Instruments and Derivatives

I. Credit Risk

The Company's maximum exposure to credit risk at June 30, 2022, without taking into account collateral held or right of set-off, and including indirect exposures arising from the Company's investments in subsidiaries of TransAlta discussed in Note 6, is detailed as follows:

	Direct exposure		Indirect exposure	
	Receivables⁽¹⁾		Trade accounts receivable	
Counterparty credit rating				
Investment grade	52		88	
Non-investment grade	54		2	
TransAlta and subsidiaries of TransAlta	33		—	
No external rating	45		—	

(1) Includes trade accounts receivable, finance lease receivable, distributions receivable from subsidiaries of TransAlta, risk management assets and loans receivable.

II. Other Market Risks

The Company is exposed to market risks based on changes in the fair value of the Economic Interest Investments. A five per cent increase (decrease) in the value of these securities would result in an \$53 million increase (decrease) in OCI as at June 30, 2022.

III. Liquidity Risk

The following table presents the contractual maturities of the Company's financial liabilities:

	2022	2023	2024	2025	2026	2027 and thereafter	Total
Accounts payable and accrued liabilities	81	—	—	—	—	—	81
TEA demand loan ⁽¹⁾	139	—	—	—	—	—	139
Long-term debt	27	108	66	69	67	433	770
Lease obligations	—	1	1	1	1	19	23
Net risk management liabilities	9	—	—	1	—	—	10
Interest on debt and lease obligations ⁽²⁾	18	28	26	23	20	94	209
Dividends payable	63	—	—	—	—	—	63
Total	337	137	93	94	88	546	1,295

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

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

IV. Foreign Currency Rate Risk

The possible effect on net earnings and OCI for the quarters ended June 30, 2022 and 2021 due to changes in foreign exchange rates associated with financial instruments denominated in currencies other than the Company's functional currency is outlined below. The sensitivity analysis has been prepared using management's assessment that an average three cent (June 30, 2021 – three cent) increase or decrease in these currencies relative to the Canadian dollar is a reasonable potential change over the next quarter.

6 months ended June 30,	2022		2021	
	Net earnings decrease ⁽¹⁾	OCI gain ⁽¹⁾	Net earnings decrease ⁽¹⁾	OCI gain ⁽¹⁾
Currency				
USD	(1)	12	—	12
AUD	(1)	16	(1)	20
Total	(2)	28	(1)	32

(1) These calculations assume an increase in the value of this currency relative to the Canadian dollar. A decrease would have the opposite effect.

9. Property, Plant and Equipment

During the three and six months ended June 30, 2022, the Company spent \$6 million and \$11 million respectively on capitalized additions (2021 \$4 million and \$5 million) not related to the Kent Hills rehabilitation.

The Company has begun its rehabilitation plan at the Kent Hills wind facilities which consists of dismantling all 49 remaining turbines, demolishing and removing all existing tower foundations, replacing them with newly-designed foundations, reassembling the wind turbine towers and generators, replacing the wind turbine that collapsed and testing each wind turbine generator before returning it to service. For the three and six months ended June 30, 2022, the Company has capitalized additions of \$10 million.

For the six months ended June 30, 2021, the Company acquired a 100 per cent direct interest in the 207 MW Windrise wind project located in Alberta for \$213 million. The acquisition is accounted for as a business combination under common control. The Company applied the pooling of interest method to account for the acquisition of the Windrise wind project, consistent with its previously chosen accounting policies. The Windrise wind project assets and liabilities acquired were recognized at the book value previously recognized by TransAlta at Feb. 26, 2021 and not at their fair values. For the six months ended June 30, 2021, the Company recognized \$233 million on the Windrise asset acquisition in PPE and incurred during the three and six months ended June 30, 2021 an additional \$14 million and \$19 million, respectively, related to construction costs to progress finalizing the Windrise wind project.

During the second quarter of 2022, the Company recorded an impairment charge of \$5 million for one of its Canadian Wind facilities and \$6 million at one of the Canadian Hydro facilities primarily as a result of increases in the discount rates. The recoverable amount of \$152 million and \$30 million, respectively, was estimated based on fair value less cost of disposal utilizing a discounted cash flow approach and is categorized as a Level III fair value measurement.

The calculation of fair value less cost of disposal for all of the above facilities is most sensitive to the following assumptions:

Contract and Merchant discount rates	June 30, 2022
Canadian Wind	6.4 and 7.1 per cent
Canadian Hydro	5.9 and 6.4 per cent

For the three and six months ended June 30, 2022, there was no capitalized interest. For the three and six months ended June 30, 2021, the Company capitalized \$2 million and \$3 million, respectively, of interest to PP&E due to the Windrise wind project at a weighted average rate of 4.7 per cent.

10. Other Assets

As at	June 30, 2022	Dec. 31, 2021
Kent Hills Wind LP loan receivable	45	55
Prepaid expenses	32	9
Total other assets	77	64
Less: current portion	(23)	(57)
Total long-term other assets	54	7

The unsecured loan is related to an advancement by the Company's subsidiary, Kent Hills Wind LP, of the net KH bonds financing proceeds, to its 17 per cent partner. During the second quarter of 2022, the Company received a repayment of \$10 million of the Kent Hills Wind LP loan receivable, which was required as part of the waiver and amendment made to the Kent Hills Wind bond (KH bonds). In the second quarter of 2022, the loan receivable agreement was amended and its original maturity date of Oct. 2, 2022 was extended to October 2027, resulting in the classification of a portion of the loan receivable to non-current assets. The remaining terms of the original loan remain unchanged and it continues to bear interest at 4.55 per cent, with interest payable quarterly. No scheduled principal repayments are required until maturity. However, repayments may be required for amounts associated with foundation replacement capital expenditures as outlined in the amendment made to the KH Bonds.

In the first quarter of 2022, \$16 million of costs related to transmission infrastructure at the Windrise wind facility, were reclassified from Property, Plant and Equipment to Other Assets and will be amortized to net earnings (loss) over the useful life of the Windrise wind facility. In accordance with the asset transfer agreement, the ownership of these assets must be transferred to the transmission line owner upon completion of construction of the transmission infrastructure.

11. TEA Demand Loan, Debt and Lease Obligations

Amounts Outstanding

As at	June 30, 2022			Dec. 31, 2021		
	Carrying value	Face value	Interest ⁽¹⁾	Carrying value	Face value	Interest ⁽¹⁾
TEA demand loan ⁽²⁾	139	139	4.32 %	167	167	4.32 %
Long-term debt:						
Pingston bond	45	45	2.95 %	45	45	2.95 %
Melancthon Wolfe Wind bond	219	220	3.83 %	235	237	3.83 %
New Richmond Wind bond	116	117	3.96 %	120	121	3.96 %
Kent Hills Wind bond	212	215	4.45 %	221	221	4.45 %
Windrise Green bond	170	173	3.41 %	171	173	3.41 %
Total long-term debt	762	770		792	797	
Lease obligations	23			22		
	785			814		
Less: current portion of long-term debt	(103)			(263)		
Less: current portion of lease obligations	(1)			(1)		
Total long-term debt and lease obligations	681			550		

(1) Interest rate reflects the stipulated rate or the average rate weighted by principal amounts outstanding.

(2) As at June 30, 2022 the Principal amount is AU\$160 million (Dec. 31, 2021 - AU\$183 million).

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. During the three and six months ended June 30, 2022, the Company repaid TransAlta Energy (Australia) AU\$17 million and AU\$23 million respectively upon demand.

Credit Facility: The Company has a \$700 million committed syndicated credit facility, of which \$598 million was available as at June 30, 2022 (Dec. 31, 2021 - \$602 million) including the undrawn letters of credit. During the second quarter of 2022, the committed credit facility was extended by one year to June 30, 2026. The Company is in compliance with the terms of the credit facility.

Kent Hills Wind bond: In the fourth quarter of 2021, the Company disclosed that events of default may have occurred under the trust indenture governing the terms of the KH bonds. Accordingly, the Company classified the entire carrying value of the bond as current as at Dec. 31, 2021.

During the second quarter of 2022, the Company obtained a waiver and entered into a supplemental indenture that facilitates the rehabilitation of the Kent Hills 1 and 2 wind facilities. Upon obtaining the waiver, the Company has reclassified a portion of the total \$212 million carrying value (face value \$215 million) (Dec. 31, 2021 - \$221 million) outstanding to non-current liabilities, with the exception of the scheduled principal repayments due within the next twelve months from June 30, 2022. In accordance with the supplemental indenture, Kent Hills Wind LP cannot make any distributions to its partners until the foundation replacement work has been completed.

The KH bonds issued in October 2017, bears interest at 4.45 per cent, with principal and interest payable quarterly in blended payments until maturity on Nov. 30, 2033. The KH bonds is secured by a first ranking charge over all of the assets of the issuer, Kent Hills Wind LP, which primarily includes the Kent Hills 1, 2 and 3 wind facilities, which at June 30, 2022, had a combined carrying value of \$181 million (Dec. 31, 2021 - \$182 million). In the first and second quarter of 2022, the Company repaid \$3 million and \$3 million respectively of the principal.

12. Common Shares

Dividends

The declaration of dividends on the Company's common shares is at the discretion of the Board.

The following table summarizes the common share dividends declared in 2022 and 2021:

Dividends declared	Total dividends per share	Total dividends	TransAlta	Other shareholders
6 months ended June 30, 2022	0.46998	125	75	50
6 months ended June 30, 2021	0.46998	125	75	50

On May 3, 2022, the Company declared a monthly dividend of \$0.07833 per common share payable on July 29, 2022, Aug. 31, 2022 and Sept. 29, 2022.

On Aug. 3, 2022, the Company declared a monthly dividend of \$0.07833 per common share payable on Oct. 31, 2022, Nov. 30, 2022 and Dec. 30, 2022.

13. Commitments and Contingencies

For the significant commitments and contingencies outstanding, refer to Note 23 of the 2021 annual consolidated financial statements.

Kent Hills Wind Facilities Rehabilitation

In the second quarter of 2022, the Company entered into agreements for \$86 million for the rehabilitation efforts at the Kent hills 1 and 2 wind facilities.

Sarnia Outages

The Sarnia cogeneration facility experienced three separate events between May 19, 2021 and June 9, 2021 that resulted in steam interruptions to its industrial customers. As a result, the customers had submitted claims for liquidated damages. Steam supply disruptions of this nature are atypical and infrequent at the Sarnia cogeneration facility. A root cause failure analysis was completed for the three outages, which concluded that all three outages were within TransAlta (SC) LP's control. As such, liquidated damages previously recognized in contract liabilities in the amount of \$12 million have been paid by TransAlta (SC) LP in the second quarter of 2022.

There have been no further material updates other than above to any of the commitments and contingencies in the three and six month period ended June 30, 2022.

14. Related-Party Transactions and Balances

The Company has entered into certain agreements and transactions with TransAlta, which are discussed below.

A. Related-Party Transactions

Related-party transactions include the finance income related to subsidiaries of TransAlta (Note 6). Also, all derivatives of the Company are entered into on behalf of the Company by a subsidiary of TransAlta.

Significant related-party transactions that are not otherwise presented elsewhere consist of the following:

	3 months ended June 30,		6 months ended June 30,	
	2022	2021	2022	2021
Revenue from TransAlta PPAs	11	9	24	19
Revenue from environmental attributes ⁽¹⁾	7	—	12	7
G&A Reimbursement Fee	4	5	9	10
Natural gas purchases	9	1	17	3
Financial power swap sales— losses (gains)	—	—	(1)	—
Interest expense on TEA demand loan	1	2	3	4
Asset optimization fee ⁽²⁾	—	—	1	1
Interest expense on credit facility and guarantee fees	1	—	1	1

(1) The value of the 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 Company'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.

B. Related-Party Balances

Related-party balances include the investments in subsidiaries of TransAlta (Note 6), the risk management assets and liabilities (Note 8), and the TEA demand loan and long-term debt (Note 11).

Significant related-party balances that are not otherwise presented elsewhere consist of the following:

As at	June 30, 2022	Dec. 31, 2021
Trade and other receivables	24	50
Finance lease receivable	7	7
Accounts payable and accrued liabilities (including interest payable)	16	11
Dividends payable	38	38
TEA Guarantees ⁽¹⁾	480	516
Guarantees provided by TransAlta on behalf of the Company ⁽¹⁾	586	583
Long-term prepaid – management fee	2	2

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

15. Segment Disclosures

A. Description of Reportable Segments

The following tables provide each segment's results in the format that the Chief Operating Decision Maker ("CODM") organizes its segments to make operating decisions and assess performance. The tables below show the reconciliation of the total segmented results and adjusted EBITDA to the statement of earnings reported under IFRS. Prior periods have been adjusted for comparable purposes.

For internal reporting purposes, the earnings information from the Company's economic interests have been presented. Proportionate financial information is not and is not intended to be, presented in accordance with IFRS. The tables below show the reconciliation of the total segmented results to the statement of earnings reported under IFRS.

B. Reported Segment Earnings and Other Segment Information

I. Reconciliation of Adjusted EBITDA to Earnings Before Income Tax

3 months ended June 30, 2022	Owned Assets				Economic Interests			Total	Investments in economic interests and adjustments	IFRS financials
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas			
Revenues ⁽¹⁾	57	10	73	—	31	7	42	220	(81)	139
Fuel, royalties and other costs ⁽²⁾	5	1	44	—	—	4	1	55	(5)	50
Gross margin	52	9	29	—	31	3	41	165	(76)	89
Operations, maintenance and administration ⁽³⁾	10	2	9	5	4	1	7	38	(12)	26
Taxes, other than income taxes	2	—	—	—	2	—	—	4	(2)	2
Net other operating income	(3)	—	—	—	—	—	—	(3)	(7)	(10)
Adjusted EBITDA⁽⁴⁾	43	7	20	(5)	25	2	34	126	(55)	71
Depreciation and amortization										(36)
Asset impairment charge										(11)
Finance income related to subsidiaries of TransAlta										3
Interest income										1
Interest expense										(12)
Foreign exchange gain										2
Earnings before income tax										18

(1) Adjusted 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.

(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.

(4) Adjusted EBITDA is a non-IFRS measure and has no standardized meaning under IFRS.

3 months ended June 30, 2021	Owned Assets				Economic Interests			Total	Investments in economic interests and adjustments	IFRS financials
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas			
Revenues ⁽¹⁾	47	11	33	—	28	10	41	170	(78)	92
Fuel, royalties and other costs ⁽²⁾	2	2	21	—	—	4	2	31	(6)	25
Gross margin	45	9	12	—	28	6	39	139	(72)	67
Operations, maintenance and administration ⁽³⁾	9	1	8	5	5	2	8	38	(15)	23
Taxes, other than income taxes	1	1	1	—	1	—	—	4	(1)	3
Adjusted EBITDA ⁽⁴⁾	35	7	3	(5)	22	4	31	97	(56)	41
Depreciation and amortization										(33)
Finance income related to subsidiaries of TransAlta										20
Interest income										2
Interest expense										(9)
Foreign exchange gain										7
Earnings before income tax										28

(1) Adjusted 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.

(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.

(4) Adjusted EBITDA is a non-IFRS measure and has no standardized meaning under IFRS.

	Owned Assets				Economic Interests					
6 months ended June 30, 2022	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas	Total	Investments in economic interests and adjustments	IFRS financials
Revenues ⁽¹⁾	127	14	142	—	62	13	85	443	(161)	282
Fuel, royalties and other costs ⁽²⁾	9	2	84	—	1	7	3	106	(11)	95
Gross margin	118	12	58	—	61	6	82	337	(150)	187
Operations, maintenance and administration ⁽³⁾	19	4	17	11	8	2	14	75	(24)	51
Taxes, other than income taxes	3	—	1	—	3	—	—	7	(3)	4
Net other operating income	(10)	—	—	—	—	—	—	(10)	(7)	(17)
Adjusted EBITDA⁽⁴⁾	106	8	40	(11)	50	4	68	265	(116)	149
Depreciation and amortization										(73)
Asset impairment charge										(11)
Finance income related to subsidiaries of TransAlta										22
Interest income										2
Interest expense										(25)
Foreign exchange gain										3
Earnings before income tax										67

(1) Adjusted 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.

(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.

(4) Adjusted EBITDA is a non-IFRS measure and has no standardized meaning under IFRS.

6 months ended June 30, 2021	Owned Assets				Economic Interests			Total	Investments in economic interests and adjustments	IFRS financials
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas			
Revenues ⁽¹⁾	117	14	87	—	50	10	84	362	(144)	218
Fuel, royalties and other costs ⁽²⁾	4	2	47	—	1	4	3	61	(8)	53
Gross margin	113	12	40	—	49	6	81	301	(136)	165
Operations, maintenance and administration ⁽³⁾	18	3	15	11	7	2	18	74	(27)	47
Taxes, other than income taxes	3	1	1	—	2	—	—	7	(2)	5
Adjusted EBITDA ⁽⁴⁾	92	8	24	(11)	40	4	63	220	(107)	113
Depreciation and amortization										(67)
Finance income related to subsidiaries of TransAlta										49
Interest income										4
Interest expense										(19)
Foreign exchange gain										9
Earnings before income tax										89

(1) Adjusted 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.

(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.

(4) Adjusted EBITDA is a non-IFRS measure and has no standardized meaning under IFRS.

Glossary of Key Terms

AU\$ – means Australian dollars.

Australian assets – TransAlta's 450 MW Australian gas-fired generation assets that are fully operational and contracted under long-term contracts, including the 150 MW South Hedland Power Station, as well as the 270-kilometre Fortescue River Gas pipeline, the Parkeston facility, the four natural-gas and diesel-fired generation facilities that comprise Southern Cross Energy, the Fortescue River Gas Pipeline and South Hedland.

Capacity – The rated continuous load-carrying ability, expressed in megawatts, of generation equipment.

Credit facility – A \$700 million external syndicated credit facility that is fully committed for four years, expiring in 2023. The facility is subject to a number of customary covenants and restrictions in order to maintain access to the funding commitments.

Disclosure Controls and Procedures (DC&P) – Refers to controls and other procedures designed to ensure that information required to be disclosed in the reports filed by the Company or submitted under securities legislation is recorded, processed, summarized and reported within the time frame specified in applicable securities legislation. DC&P include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in its reports that it files or submits under applicable securities legislation is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Environmental credits – Renewable Energy Credits and carbon offset credits, or other tradable or saleable instruments that represent the property rights to the environmental, social and other non-power qualities of renewable electricity generation that can be sold separately from the underlying physical electricity. Carbon offsets can be voluntarily generated from any project that reduces greenhouse gas emissions and not limited to renewable energy.

G&A Reimbursement Fee – The fee payable to TransAlta under the Management, Administrative and Operational Services Agreement to compensate TransAlta for the provision of all the general administrative services as may be required or advisable for the management of the business and affairs of the Company.

Gigawatt hour (GWh) – A measure of electricity consumption equivalent to the use of 1,000 megawatts of power over a period of one hour.

Gigawatt (GW) – A measure of electric power equal to 1,000 megawatts.

Greenhouse gases (GHG) – Gases having potential to retain heat in the atmosphere, including water vapour, carbon dioxide, methane, nitrous oxide, hydrofluorocarbons and perfluorocarbons.

Management, Administrative and Operational Services Agreement – The agreement between TransAlta Corporation and TransAlta Renewables dated Aug. 9, 2013, as amended, that outlines the terms under which TransAlta manages and operates the facilities recognized as our economic interest. Under this agreement, TransAlta has been delegated, broad discretion to administer and manage the business and operations of the Company.

Megawatt (MW) – A measure of electric power equal to 1,000,000 watts.

Megawatt hour (MWh) – A measure of electricity consumption equivalent to the use of 1,000,000 watts of power over a period of one hour.

Net maximum capacity – The maximum capacity or effective rating, modified for ambient limitations, that a generating unit or power plant can sustain over a specific period, less the capacity used to supply the demand of station service or auxiliary needs.

OCI – Other Comprehensive Income.

Offset credit – The carbon emission credit in units of tonnes of CO₂e able to be used as an alternative carbon compliance mechanism to avoid carbon obligation costs from the large emitters GHG regulation. Credits are generated by completing an emission reduction project pursuant to a regulator approved quantification methodology to identify the creditable GHG reductions.

OM&A – Operations, maintenance and administration costs

Power Purchase Agreement (PPA) – A power purchase and sale agreement between a power generator and a third-party acquirer of electricity.

PP&E – Property, plant and equipment

Preferred Shares Tracking Australia Cash Flows – Preferred shares of an Australian subsidiary of TransAlta, which provide cumulative variable dividends broadly equal to the underlying net distributable profits of TEA adjusted for management fees, currency hedges, cash income taxes paid, sustaining capital expenditures and other adjustments related to timing.

Renewable Energy Credits (REC) – All right, title, interest and benefit in and to any credit, reduction right, offset, allocated pollution right, emission reduction allowance, renewable attribute or other proprietary or contractual right, whether or not tradable, resulting from the actual or assumed displacement or reduction of emissions, or other environmental characteristic, from the production of one megawatt-hour (MWh) of electrical energy from a facility utilizing certified renewable energy technology.

TEA – TransAlta Energy (Australia Pty Ltd., an Australian subsidiary of TransAlta.

TEA demand loan – The intercompany loan to the Company by TEA, issued in October 2020 as part of the South Hedland financing. The TEA demand loan is unsecured and due on demand.

Tracking Preferred Shares – Preferred shares of subsidiaries of TransAlta, which provide the Company with cumulative variable dividends broadly equal to the underlying net distributable profits of each of Wyoming wind, Lakeswind, Mass Solar, Big Level and Antrim, Skookumchuck wind facility, Ada cogeneration facility and North Carolina Solar.

TransAlta PPAs – PPAs between TransAlta and the Company providing for the purchase by TransAlta, for a fixed price, of all of the power produced by certain wind and hydro facilities. The initial price payable in 2013 by TransAlta for output was \$30.00/MWh for wind facilities and \$45.00/MWh for hydro facilities, and these amounts are adjusted annually for changes in the consumer price index. The current escalated price payable in 2022 is \$34.90/MWh for wind facilities and \$52.36/MWh for hydro facilities.

Turbine – A machine for generating rotary mechanical power from the energy of a stream of fluid (such as water, steam or hot gas). Turbines convert the kinetic energy of fluids to mechanical energy through the principles of impulse and reaction or a mixture of the two.

Unplanned outage – The shutdown of a generating unit due to an unanticipated breakdown.

US Wind and Solar assets – TransAlta's wind and solar facilities that are fully operational and contracted under long-term contracts, including the 50 MW Lakeswind, 140 MW Wyoming wind, 90 MW Big Level and 29 MW Antrim wind facilities, 21 MW Mass Solar facility, 137 MW Skookumchuck wind facility, 29 MW Ada cogeneration facility and the 122 MW North Carolina Solar facility.



TransAlta Renewables Inc.
110 - 12th Avenue S.W.
Box 1900, Station "M"
Calgary, Alberta Canada T2P 2M1

Phone
403.267.7110

Website
www.transaltarenewables.com

Registrar and Transfer Agent

Computershare Trust Company of Canada
600, 530 - 8th Avenue SW
Calgary Alberta T2P 3S8

Phone
Toll-free in North America: 1.800.564.6253
Outside North America: 1.514.982.7555

Fax
Toll-free in North America: 1.888.453.0330
Outside of North America: 1.403.267.6529

Website
www.computershare.com

Additional Information
Requests can be directed to:

Investor Inquiries

Phone
1.800.387.3598 in Canada and United States
or 403.267.2520

E-mail
investor_relations@transalta.com

Media Inquiries

Toll-free 1.855.255.9184
or 403.267.2540
TA_Media_Relations@transalta.com