TRANSALTA RENEWABLES INC.

First Quarter Report for 2021

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 months ended March 31, 2021 and 2020, and should also be read in conjunction with the annual audited consolidated financial statements and MD&A contained within our Annual Report for the year ended Dec. 31, 2020. In this MD&A, unless the context otherwise requires, 'we', 'our', 'us', 'TransAlta Renewables', and the 'Corporation' 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 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 May 11, 2021. Additional information respecting the Corporation, 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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Operations of the Corporation

As at March 31, 2021, TransAlta Renewables owned 13 hydro facilities, 20 wind facilities, a wind battery storage facility and one natural gas plant in Canada, and held economic interests in TransAlta's Wyoming, Lakeswind, Big Level and Antrim wind facilities, Mass Solar solar projects (collectively "Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities") and the Australian gas-fired generation assets ("Preferred Shares Tracking Australia Cash Flows"). The operational results of those assets in which we have an economic interest are not consolidated into our results; however, the finance income we receive on the underlying investments is included in our consolidated net earnings.

The acquisition of the 207 MW Windrise wind project from TransAlta closed on Feb. 26, 2021 and is expected to commence commercial operations in the second half of 2021. The acquisition of the 100 per cent economic interest in the 29 MW Ada cogeneration facility and the 49 per cent economic interest in the 137 MW Skookumchuck wind facility closed on April 1, 2021.

In total, we own, directly or through economic interests, an aggregate of 2,565 MW of gross generating capacity[(1)] (2,537 MW of net generating capacity[(1)]) in operation. 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").

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 and natural gas power generation and other infrastructure sectors and paying out 80 to 85 per cent of cash available for distribution to the shareholders of the Corporation on an annual basis; the realization of the anticipated benefits of the acquisition of the economic interest in the Ada cogeneration facility and the Skookumchuck wind facility; the potential impact of COVID-19 on the Corporation and the actions undertaken by the Corporation or TransAlta in response to the COVID-19 pandemic; our 2021 Outlook, including comparable EBITDA, AFFO and CAFD (each, as defined below), interest expense, cash available for distribution, and sustaining capital and productivity expenditures; the dividend amount 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; expectations regarding project-level debt; 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 and production; actions to manage certain risks, including specific actions identified to manage liquidity risk, interest rate risk, project risks and reputation risk; expected governmental regulatory regimes, legislation and programs; expectations regarding seasonality of wind and hydro production and the resulting timing of carbon offset revenues; expectations on our ability to access capital markets on reasonable terms; expectations regarding our decommissioning and restoration activities; expectations regarding the outcome of existing or potential legal or contractual claims, regulatory investigations and disputes, including the dispute with Fortescue Metals Group Ltd. ("FMG") over the commissioning of the South Hedland Power Station and the satisfaction of the settlement conditions; and that the Corporation will realize on acquisition and development opportunities from time-to-time to advance the growth of the Corporation.

(1) 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.

The forward-looking statements contained in this MD&A are based on many assumptions including, but not limited to, the following: fair value of financial instruments, power and natural gas price forecasts; renewable energy production between 4,200 GWh to 4,600 GWh; and sustaining capital and productivity expenditures in 2021 to be in the range of $30 million and $40 million; the impacts arising from COVID-19 not becoming significantly more onerous on the Corporation, which includes the Corporation being able to continue to operate as an essential service, and being able to fund growth and access to credit on reasonable terms.

Forward-looking statements are subject to a number of significant risks and uncertainties 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, duration and severity of COVID-19, which cannot currently be predicted, and which present risks including, but not limited to: restrictive directives of government and public health authorities; reduced labour availability impacting our ability to continue to staff our operations and facilities; impacts on our ability to realize our growth goals, including our ability to acquire operating or development assets from TransAlta; our ability to maintain adequate internal controls; 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; increased costs resulting from our efforts to mitigate the impact of COVID-19; deterioration of worldwide credit and financial markets that could limit our ability to obtain external financing to fund our operations and growth expenditures; a higher rate of losses on our accounts receivables due to credit defaults; further disruptions to our supply chain; impairments and/or writedowns of assets; and adverse impacts on our information technology systems and our internal control systems, including increased cybersecurity threats. Other factors that may adversely impact our forward-looking statements include, but are not limited to, risks relating to: changes in general economic conditions, including interest rates; fluctuations in the value of foreign currencies, including the Canadian, US 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, diseases, pandemics or other force majeure events; 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; disputes with counterparties and legal and contractual proceedings involving the Corporation, including the potential that the conditions to settlement with FMG are not satisfied; reliance on key personnel and services provided by TransAlta; failure to identify attractive acquisition or development candidates needed to pursue the growth strategy; the regulatory and political environments in the jurisdictions in which we operate; changes to government incentives or grants for renewable energy production; increasingly stringent environmental requirements and changes in, or liabilities under, these requirements; 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, which is available on SEDAR at www.sedar.com as well as under Risks and Uncertainties section 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.

Highlights

Consolidated Financial Highlights

	3 months ended March 31	
	2021	2020
Renewable energy production (GWh)(1)	**1,109**	1,173
Revenues	**126**	110
Net earnings attributable to common shareholders	**52**	3
Comparable EBITDA(2)	**123**	118
Adjusted funds from operations(2)	**93**	94
Cash flow from operating activities	**103**	82
Cash available for distribution(2)	**90**	91
Net earnings per share attributable to common shareholders, basic and diluted	**0.19**	0.01
Adjusted funds from operations per share(2)	**0.35**	0.35
Cash available for distribution per share(2)	**0.34**	0.34
Dividends declared per common share	**0.23**	0.23
Dividends paid per common share(3)	**0.23**	0.23

(1) Includes production from Canadian Wind, Canadian Hydro and US Wind and Solar and excludes Canadian 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) Refer to the Non-IFRS Measures section of this MD&A for further discussion of these items.
(3) Includes Dividend Reinvestment Plan ("DRIP") payments in 2020. The DRIP was suspended in the fourth quarter of 2020.

As at	**March 31, 2021**	Dec. 31, 2020
Gas installed capacity (MW)(1)	**949**	949
Renewables gross installed capacity (MW)(2)	**1,616**	1,619
Total assets	**3,585**	3,656
TEA demand loan	**193**	195
Long-term debt and lease obligations(3)	**692**	692
Total long-term liabilities	**993**	987

(1) Includes Canadian and Australian gas-fired generation in which we hold an economic interest.
(2) Includes Canadian Wind, Canadian Hydro and US Wind and Solar installed 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.

Net earnings attributable to common shareholders for the three months ended March 31, 2021, increased by $49 million compared to the same period in 2020, primarily due to higher finance income from investments in subsidiaries of TransAlta, foreign exchange gains resulting from the strengthening Australian dollar relative to the Canadian dollar and unrealized foreign exchange losses recognized in the prior period on the Preferred Shares Tracking the Amortizing Term Loan. The Preferred Shares Tracking the Amortizing Term Loan were redeemed on Oct. 23, 2020.

Renewable energy production for the three months ended March 31, 2021, decreased by 64 GWh compared to the same period in 2020. This decrease was mainly due to lower wind resources in Canadian Wind and US Wind and wind turbine blade icing events in Eastern Canada.

Comparable earnings before interest, taxes, depreciation, and amortization ("comparable EBITDA") for the three months ended March 31, 2021, increased by $5 million mainly due to the sale of 2020 environmental credits to TransAlta in the first quarter of 2021, the timing of legal fees and the strengthening of the Australian dollar relative to the Canadian dollar, partially offset by lower wind resources.

Adjusted Funds From Operations ("AFFO") and Cash Available For Distribution ("CAFD") for the three months ended March 31, 2021, were consistent to the same periods in 2020. The settlement of provisions relating to the transmission line loss proceeding, higher income tax expense and interest expense were partially offset by lower sustaining capital expenditures and foreign exchange impacts.

Refer to the Financial Instruments section of this MD&A for additional information on the changes in our investments and the Discussion of Comparable EBITDA section of this MD&A for additional information on our operating results.

Significant and Subsequent Events

Acquisition of Economic Interests in the Skookumchuck Wind Facility and the Ada Cogeneration Facility

On April 1, 2021, the Corporation completed the acquisition, through a subsidiary of TransAlta, of a 100 per cent economic interest in the 29 MW Ada cogeneration facility and a 49 per cent economic interest in the 137 MW Skookumchuck wind facility. Both facilities are fully operational. The Ada cogeneration facility is under a power purchase agreement ("PPA") until 2026. The Skookumchuck wind facility is contracted under a PPA until 2040 with an investment grade counterparty. The Corporation acquired the economic interest in the Ada cogeneration facility and the Skookumchuck wind facility by acquiring a $43 million and a $103 million investment in tracking preferred shares of a TransAlta subsidiary. The economic benefit of each transaction was effective as at Jan. 1, 2021. Distributions and returns of capital related to January through March 2021 will be recognized in the second quarter of 2021.

Acquisition of the Windrise Wind Project

The Corporation acquired a 100 per cent direct interest in the 207 MW Windrise wind project located in Alberta for $213 million. The acquisition of the Windrise wind project closed on Feb. 26, 2021, and is accounted for as a business combination under common control. The Corporation 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 have been recognized at the book value previously recognized by TransAlta at Feb. 26, 2021 and not at their fair values, including $233 million in PP&E, $21 million in net working capital liabilities and $3 million in net risk management assets. As a result, the Corporation recognized a charge to equity of $2 million for the difference between the proceeds and book value of the Windrise wind project assets.

The results of operations of the Windrise wind project have been included in the Corporation's Condensed Consolidated Statements of Earnings prospectively from the Feb. 26, 2021 acquisition date and prior period comparative financial statements have not been restated. The Windrise wind project is expected to commence commercial operations in the second half of 2021.

Board of Director Changes

On April 13, 2021, we filed our Management Proxy Circular, announcing that the Board of Directors (the "Board") is nominating three new directors to the Board at the Annual Meeting of Shareholders to be held on May 18, 2021. These nominees consist of Ms. Georganne Hodges, Ms. Kerry O'Reilly Wilks and Ms. Susan M. Ward, who each bring diverse expertise and new perspectives to the Board.

Ms. Kathryn B. McQuade is not standing for re-election and will retire from the Board immediately following the Annual Meeting of Shareholders. TransAlta Renewables acknowledges with gratitude the many contributions that Ms. McQuade has made to the Corporation.

Global Pandemic

The World Health Organization declared a Public Health Emergency of International Concern relating to COVID-19 on Jan. 30, 2020, which they subsequently declared, on March 11, 2020, as a global pandemic.

In response, TransAlta, as the manager and operator of the Corporation's business and assets, continues to operate under its business continuity plan, which focused on ensuring that: (i) TransAlta employees who can work remotely do so and (ii) TransAlta employees who operate and maintain our facilities, and who are not able to work remotely, were able to work safely and in a manner that ensures they remain healthy. All of TransAlta's offices and sites follow strict health screening and physical distancing protocols with personal protective equipment readily available. Further, TransAlta maintains travel bans aligned to local jurisdictional guidance, enhanced cleaning procedures, revised work schedules, contingent work teams and the reorganization of processes and procedures to limit contact with other employees and contractors on-site.

All of our facilities, including those which we have economic interests through TransAlta, continue to remain fully operational and are capable of meeting our customers' needs. The Corporation continues to work and serve all of our customers and counterparties under the terms of their contracts. We have not experienced interruptions to service requirements. Electricity and steam supply continue to remain a critical service requirement to all of our customers and have been deemed an essential service in our jurisdictions.

2021 Outlook

Refer to the 2021 Financial Outlook section in our 2020 annual MD&A in the Corporation's 2020 Annual Report. There have been no changes in our expectations on key financial targets for 2021.

The following table outlines our expectation on key financial targets and related assumptions for 2021:

Measure[1]	Target
Comparable EBITDA	$480 million to $520 million
Adjusted funds from operations	$335 million to $365 million
Cash available for distribution	$285 million to $315 million

(1) These items are not defined and have no standardized meaning under IFRS. Presenting these items from period to period provides management and investors with the ability to evaluate earnings trends more readily in comparison with prior periods' results. Refer to the Discussion of Consolidated Financial Results 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 2021 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 facility 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 2021 Outlook Section of the Corporation's 2020 Annual Report for information on key assumptions.

Operations

The following is a summary of expectations and key assumptions:

Range of Renewable Energy Production from wind, solar and hydro assets, including those owned through economic interests[1]	4,200 to 4,600 GWh
Weighted average remaining contractual life of PPAs	12 years
Sustaining capital and productivity expenditures[2]	$30 -$40 million

(1) Upon close of the acquisition of the economic interest in the Skookumchuck wind facility on April 1, 2021, we expect renewable energy production to be in the range of 4,500 to 5,000 GWh
(2) Upon close of the acquisitions of the economic interests in the Ada cogeneration facility and Skookumchuck wind facility on April 1, 2021, we expect the estimated total sustaining capital expenditures for owned assets and those in which we own an economic interest to be in the range of $35 million to $45 million.

Operating Costs
We have a combination of in sourced 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.

Strategy and Capability to Deliver Results

The Corporation's corporate strategy remains unchanged from that disclosed in its 2020 annual MD&A. Our objectives continue to be to (i) provide stable, consistent 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 power 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 Corporation on an annual basis.

Windrise Wind Project
The total expected construction cost of the Windrise wind project is approximately $270 million to $285 million. As at March 31, 2021, the remaining estimated cost of the project is $50 million. The project has advanced significantly, with all appropriate procedures in place to protect the construction team during the COVID-19 pandemic. As at March 31, 2021, the project is approximately 84 per cent complete and is on track to be delivered on-schedule during the second half of 2021. The bulk of the major equipment has been delivered to site and turbine erection activities have commenced. In addition, the main transmission line is progressing well and remains on track for energization during the second quarter.

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 Corporation's key non-IFRS measures are comparable EBITDA, AFFO and CAFD. Comparable EBITDA is comprised of our reported EBITDA adjusted to exclude the impact of unrealized mark-to-market gains and losses, changes in fair value of financial assets, foreign exchange gains and losses and asset impairments; plus the comparable 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; and 4) the impact of unrealized mark-to-market gains or losses. Comparable EBITDA is presented to provide management and investors with a proxy for the amount of cash generated from operating activities before net interest expense, non-controlling interest, income taxes and the impacts of timing on the finance income from subsidiaries of TransAlta in which we have an economic interest. We present comparable 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 the economic interest. Since the economic interests are designed to provide the Corporation with returns as if we owned the assets themselves, presenting the operational information and comparable 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. AFFO 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 and finance income, plus AFFO of the assets owned through economic interests, which is calculated as comparable EBITDA from the economic interests less the change in interest expense, sustaining capital expenditures, current income tax expense, tax equity distributions and currency adjustments. AFFO provides users with a proxy for the amount of cash generated from operating activities and investments in subsidiaries of TransAlta in which we have an economic interest. CAFD is calculated as AFFO less scheduled principal repayments of amortizing debt and lease obligations. CAFD can be used as a proxy for the cash that will be available to common shareholders of the Corporation. One of the primary objectives of the Corporation is to provide reliable and stable cash flows, and presenting AFFO 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.

Discussion of Comparable EBITDA

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 and Australian Gas business segments are owned through investments in an economic interest. The comparable EBITDA of the assets in which we have an economic interest is reconciled to the finance income recognized in our interim condensed consolidated financial statements in the Reconciliation of Non-IFRS Measures section of this MD&A.

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

		Production (GWh)		Comparable EBITDA	
3 months ended March 31	**Long-term average renewable energy production (GWh)(1)**	**2021**	2020	**2021**	2020
Canadian Wind	**905**	**818**	873	**57**	53
Canadian Hydro	**42**	**40**	37	**1**	—
US Wind and Solar	**264**	**251**	263	**18**	21
Total – Renewable energy	**1,211**	**1,109**	1,173	**76**	74
Canadian Gas		**334**	303	**21**	19
Australian Gas		**424**	471	**32**	30
Corporate		**—**	—	**(6)**	(5)
Total		**1,867**	1,947	**123**	118

(1) Long-term average is calculated on an annualized basis from the average annual energy yield predicted from our simulation model based on historical resource data performed over a period of typically 15 years for wind and 30 years for hydro.

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

Canadian Wind

	3 months ended March 31	
	2021	2020
Production (GWh)	**818**	873
Gross installed capacity (MW)(1)	**1,174**	1,163
Revenues(2)	**70**	67
Royalties and other costs of sales	**2**	3
Comparable gross margin	**68**	64
Operations, maintenance and administration	**9**	9
Taxes, other than income taxes	**2**	2
Comparable EBITDA	**57**	53

(1) Megawatts are rounded to the nearest whole number.
(2) Includes finance lease income adjusted for change in finance lease receivable and excludes the impact of unrealized mark-to-market gains or losses. Includes revenue generated from the sale of environmental credits of $9 million (2020 - $2 million).

Production for the three months ended March 31, 2021, decreased by 55 GWh compared to the same period in 2020, mainly due to lower wind resources and wind turbine blade icing events in Eastern Canada.

Despite the decrease in production, comparable EBITDA for the three months ended March 31, 2021, increased by $4 million compared to the same period in 2020, mainly due to the sale of 2020 environmental credits to TransAlta in the first quarter of 2021.

Canadian Hydro

	3 months ended March 31	
	2021	2020
Production (GWh)	**40**	37
Gross installed capacity (MW)	**112**	112
Revenues	**3**	3
Royalties and other costs of sales	**—**	1
Comparable gross margin	**3**	2
Operations, maintenance, and administration	**2**	2
Comparable EBITDA	**1**	—

Production and comparable EBITDA for the three months ended March 31, 2021, remained consistent compared to the same period in 2020.

US Wind and Solar

	3 months ended March 31	
	2021	2020
Production (GWh)	**251**	263
Gross installed capacity (MW)	**330**	330
Revenues	**22**	24
Royalties and other costs of sales	**1**	—
Comparable gross margin	**21**	24
Operations, maintenance and administration	**2**	2
Taxes, other than income taxes	**1**	1
Comparable EBITDA	**18**	21

Production for the three months ended March 31, 2021, decreased by 12 GWh compared to the same period in 2020, mainly due to lower wind resources at Wyoming Wind.

Comparable EBITDA for the three months ended March 31, 2021, decreased by $3 million compared to the same period in 2020, due to lower production and the timing of land lease payments.

Canadian Gas

	3 months ended March 31	
	2021	2020
Production (GWh)	**334**	303
Gross installed capacity (MW)	**499**	499
Revenue(1)	**54**	39
Fuel and purchased power	**26**	13
Comparable gross margin	**28**	26
Operations, maintenance and administration	**7**	7
Comparable EBITDA	**21**	19

(1) Excludes the impact of unrealized mark-to-market gains or losses.

Canadian gas assets consist solely of the Sarnia cogeneration facility.

Production for the three months ended March 31, 2021, increased by 31 GWh compared to the same period in 2020, mainly due to stronger market conditions in Ontario. 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.

Comparable EBITDA for the three months ended March 31, 2021, increased $2 million compared to the same period in 2020, mainly due to annual contract escalations and higher thermal margins, which were driven by gas pricing.

Australian Gas

	3 months ended March 31	
	2021	**2020**
Production (GWh)	**424**	471
Gross installed capacity (MW)	**450**	450
Revenues	**43**	39
Fuel and purchased power	**1**	2
Comparable gross margin	**42**	37
Operations, maintenance, and administration (1)	**10**	7
Comparable EBITDA	**32**	30

(1) Includes the effect of contractually fixed management costs.

Production for the three months ended March 31, 2021, decreased by 47 GWh compared to the same period in 2020, mainly due to changes in customer demand. The contracts in Australia are capacity contracts and our results are largely unaffected by generation.

Comparable EBITDA for the three months ended March 31, 2021, increased by $2 million compared to the same period in 2020, mainly due to timing of legal fees and the strengthening of the Australian dollar relative to the Canadian dollar.

Reconciliation of Non-IFRS Measures

The table below reconciles our reported cash flow from operating activities to our AFFO and CAFD:

3 months ended March 31	2021	2020
Cash flow from operating activities	**103**	82
Change in non-cash operating working capital balances	**(15)**	(18)
Cash flow from operations before changes in working capital	**88**	64
Adjustments:		
Sustaining capital expenditures – owned assets	**(1)**	(2)
Finance income – economic interests[1] (Table II)	**(29)**	(8)
AFFO — economic interests[1] (Table II)	**35**	40
AFFO	**93**	94
Deduct:		
Principal repayments of amortizing debt	**(3)**	(3)
CAFD	**90**	91
Weighted average number of common shares outstanding in the period (millions)	**267**	266
AFFO per share	**0.35**	0.35
CAFD per share	**0.34**	0.34

(1) Refer to the reconciliation of the comparable EBITDA of the facilities in which we hold an economic interest to the reported finance income table (Table II) in this MD&A.

Reconciliation of Comparable EBITDA to AFFO

3 months ended March 31	2021			2020		
	Owned assets	**Economic interests[1]**	**Total**	Owned assets	Economic interests[1]	Total
Comparable EBITDA (Table I)	**73**	**50**	**123**	67	51	118
Interest expense	**(9)**	**(6)**	**(15)**	(10)	—	(10)
Sustaining capital expenditures	**(1)**	**—**	**(1)**	(2)	(3)	(5)
Current income tax expense	**(1)**	**(4)**	**(5)**	—	(1)	(1)
Tax equity distributions	**—**	**(6)**	**(6)**	—	(6)	(6)
Realized foreign exchange loss	**—**	**—**	**—**	(3)	—	(3)
Provisions	**(6)**	**—**	**(6)**	—	—	—
Currency adjustment, reserves, interest income and other	**2**	**1**	**3**	2	(1)	1
AFFO	**58**	**35**	**93**	54	40	94

(1) Refer to Table II for a reconciliation of comparable EBITDA for the economic interests to finance income as reported and included in the Consolidated Statements of Earnings.

Table I

The tables below reconcile our reported EBITDA of our owned assets to comparable EBITDA, including the comparable EBITDA of those assets we hold an economic interest in. Since the economic interests are designed to provide the Corporation with returns as if we owned the assets ourselves, presenting the operating information and comparable EBITDA provides a more complete picture to understand the underlying nature of the investments and the resultant cash flows that would otherwise only be presented as finance income from investments. For a reconciliation of the finance income recognized on those assets we hold an economic interest in to comparable EBITDA of those assets, refer to the section labelled Table II:

3 months ended March 31, 2021	**Reported**	**Adjustments(1)**	**Economic interests**	**Comparable total**
Revenues	**126**	**1**	**65**	**192**
Fuel, royalties and other costs(2)	**28**	**—**	**2**	**30**
Gross margin	**98**	**1**	**63**	**162**
Operations, maintenance and administration(3)	**24**	**—**	**12**	**36**
Taxes, other than income taxes	**2**	**—**	**1**	**3**
Finance income (Table II)	**(29)**	**29**	**—**	**—**
Interest income	**(2)**	**2**	**—**	**—**
Foreign exchange gain	**(2)**	**2**	**—**	**—**
Earnings before interest, taxes, depreciation and amortization	**105**	**(32)**	**50**	**123**

3 months ended March 31, 2020	Reported	Adjustments(1)	Economic interests	Comparable total
Revenues	110	(1)	63	172
Fuel, royalties and other costs(2)	17	—	2	19
Gross margin	93	(1)	61	153
Operations, maintenance and administration(3)	23	—	9	32
Taxes, other than income taxes	2	—	1	3
Finance income (Table II)	(8)	8	—	—
Interest income	(2)	2	—	—
Change in fair value of financial assets	5	(5)	—	—
Foreign exchange loss	17	(17)	—	—
Earnings before interest, taxes, depreciation and amortization	56	11	51	118

(1) Adjustments made to reported EBITDA to calculate comparable EBITDA (exclude the impact of unrealized mark-to-market (gains) or losses from revenues and remove other income or losses not included in comparable EBITDA).
(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.

Table II
The table below reconciles the comparable EBITDA of the facilities in which we hold an economic interest to the reported finance income recognized in net earnings:

3 months ended March 31	**2021**			2020		
	US Wind and Solar	**Australian Gas**	**Total**	US Wind and Solar	Australian Gas	Total
Comparable EBITDA	**18**	**32**	**50**	21	30	51
Interest expense	**—**	**(6)**	**(6)**	—	—	—
Sustaining capital expenditures	**—**	**—**	**—**	(1)	(2)	(3)
Current income tax expense(1)	**—**	**(4)**	**(4)**	—	(1)	(1)
Tax equity distributions	**(6)**	**—**	**(6)**	(6)	—	(6)
Currency adjustment, reserves and other	**—**	**1**	**1**	—	(1)	(1)
AFFO of economic interests	**12**	**23**	**35**	14	26	40
Return of capital and redemptions	**(8)**	**—**	**(8)**	(14)	(46)	(60)
Effects of changes in working capital and other timing(2)	**—**	**2**	**2**	1	27	28
Finance income	**4**	**25**	**29**	1	7	8

(1) Includes withholding tax.
(2)The 2020 amount for the Australian Gas segment includes the Preferred Shares Tracking Australia Cash Flows deficit balance as discussed below.

On Jan. 24, 2020, TEA repaid AU$45 million of principal on the amortizing term loan owing to another subsidiary of TransAlta. As a result, pursuant to the terms of the tracking preferred shares that track this amortizing term loan a redemption was triggered that resulted in AU$45 million of the tracking preferred shares being redeemed, which was paid to the Corporation in Canadian dollars at spot rates. The redemption had the effect of creating a deficit balance related to the Preferred Shares Tracking Australia Cash Flows, thereby reducing the ability to declare and pay dividends on the Preferred Shares Tracking Australia Cash Flows in the first, second and third quarters of 2020. The deficiency was recouped in the fourth quarter of 2020.

Selected Quarterly Information

	Q2 2020	**Q3 2020**	**Q4 2020**	**Q1 2021**
Revenue	**103**	**95**	**128**	**126**
Net earnings attributable to common shareholders	**30**	**6**	**53**	**52**
Cash flow from operating activities	**71**	**65**	**49**	**103**
AFFO(1)	**90**	**76**	**94**	**93**
CAFD(1)	**67**	**73**	**72**	**90**
Net earnings per share attributable to common shareholders, basic and diluted	**0.11**	**0.02**	**0.20**	**0.19**
CAFD per share(1)	**0.25**	**0.27**	**0.27**	**0.34**

	Q2 2019	Q3 2019	Q4 2019	Q1 2020
Revenue	111	89	119	110
Net earnings attributable to common shareholders	31	24	48	3
Cash flow from operating activities	52	75	73	82
AFFO(1)	80	69	100	94
CAFD(1)	57	67	77	91
Net earnings per share attributable to common shareholders, basic and diluted	0.12	0.09	0.18	0.01
CAFD per share(1)	0.22	0.25	0.29	0.34

(1) Refer to the Non-IFRS Measures section of this MD&A for further discussion of these items.

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 include various effects arising from our economic interest investments through financial instruments as follows:

- Dividends or return of capital can vary each quarter depending on the pre-tax earnings from our economic interest investments (Preferred Shares Tracking Australia Cash Flows and the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities).
- Interim results for the changes in fair value of financial assets will vary due to changes in cash flow assumptions, discount rates and forecast foreign exchange translation rates.
- Fluctuations in the strength of the Canadian dollar relative to the US dollar result in foreign exchange gains and losses on US-dollar-denominated investments and promissory notes. Foreign exchange gains were recognized in the first and third quarters of 2020, the second quarter in 2020 and the first quarter in 2021, with losses in the first and third quarters of 2020 and second and fourth quarters of 2019.

Financial Instruments

Refer to Note 12 of our most recent annual consolidated financial statements and Note 7 of our interim condensed consolidated financial statements for the three months ended March 31, 2021, for details on financial instruments.

Our risk management profile and practices have not changed materially since Dec. 31, 2020.

As at March 31, 2021, Level II financial instruments were comprised of financial assets with a carrying value of $3 million related to net risk management assets (Dec. 31, 2020 - $2 million net risk management liabilities). As part of the acquisition of the Windrise wind project, the Corporation recorded a risk management asset with a notional amount of $75 million to hedge interest rate risks associated with forecasted debt issuances for the Windrise wind project expected to occur between late 2021 and early 2022. The hedge has been designated as a cash flow hedge.

As at March 31, 2021, Level III financial instruments were comprised of financial assets with a carrying value of $974 million (Dec. 31, 2020 - $1,087 million). The Investment in Preferred Shares Tracking Australia Cash Flows decreased by $94 million reflecting re-contracting assumptions, foreign exchange impacts and an increase in discount rates, partially offset by an adjustment to the cash flows associated with the extended PPA with BHP Billiton Nickel West Pty Ltd. The investment in Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities decreased by $19 million reflecting a return of capital of $8 million and $11 million primarily related to an increase in discount rates in the quarter.

Refer to Notes 3, 5 and 7 in the interim condensed consolidated financial statements for the three months ended March 31, 2021 for additional information on these investments and fair value measurements.

Other Consolidated Results

Other Comprehensive Income (OCI)

Other comprehensive income (loss) includes the changes in fair value for investments in subsidiaries of TransAlta related to the Preferred Shares Tracking Australia Cash Flows and the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities. 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.

During the three months ended March 31, 2021, we recognized a $105 million decrease in fair value in OCI (March 31, 2020 - $45 million increase). The decrease is primarily attributable to changes in cash flow assumptions and an increase in the discount rate of the Preferred Shares Tracking Australia Cash Flows and the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities.

Refer to Note 5 of the interim condensed consolidated financial statements for additional information related to the investments for which changes in fair value are recognized in OCI.

Sustaining Capital Expenditures

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 March 31	Canadian Wind	Canadian Hydro	US Wind and Solar	Canadian Gas	Australian Gas	Total
2021 Total sustaining expenditures	**1**	**—**	**—**	**—**	**—**	**1**
2020 Total sustaining expenditures	2	—	1	—	2	5

Sustaining capital expenditures for the three months ended March 31, 2021, decreased by $4 million compared to the same period in 2020, mainly due to lower planned maintenance at our Australian Gas facilities.

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 March 31	
	2021	2020
Revenue from TransAlta PPAs	**10**	8
Revenue from environmental credits[1]	**7**	—
Finance income from investments in subsidiaries of TransAlta	**29**	8
Interest income - promissory notes due from a subsidiary of TransAlta	**—**	1
G&A Reimbursement Fee[2]	**5**	4
Natural gas purchases	**2**	1
Asset optimization fee[3]	**1**	1

(1) The value of environmental credits was determined by reference to market information for similar instruments, including historical transactions with third parties.
(2) G&A Reimbursement Fee calculated based on five per cent of comparable EBITDA of the immediately prior fiscal quarter.
(3) A subsidiary of TransAlta provides asset management and optimization services for the Corporation'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	March 31, 2021	Dec. 31, 2020
Trade and other receivables	**30**	39
Accounts payable and accrued liabilities	**16**	11
Dividends payable	**38**	38
Investments in subsidiaries of TransAlta	**974**	1,087
Big Level and Antrim promissory notes	**18**	18
Finance lease receivable	**7**	7
TEA demand loan	**193**	195
Letters of credit issued by TransAlta on behalf of the Corporation[1,2]	**10**	—
Guarantees provided by TransAlta on behalf of the Corporation[1,2]	**375**	207
Long-term prepaid – management fee	**2**	2
Indemnification guarantee provided by the Corporation to TransAlta[2]	**532**	540

(1) Includes letters of credit and guarantee agreements from the acquisition of the Windrise wind project. Refer to the Significant and Subsequent Events section of this MD&A.
(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. Letters of Credit
TransAlta has provided letters of credit on behalf of the Corporation. Any amounts owed by the Corporation for obligations under the contracts to which the letters of credit pertain are reflected in the Consolidated Statements of Financial Position. All letters of credit expire within one year and are expected to be renewed, as needed, in the normal course of business. No amounts have been exercised by third parties under these arrangements.

II. Guarantees
As part of the acquisition of the Windrise wind project, TransAlta has provided a Construction Cost Guarantee whereby, upon completion of the Windrise wind project, if the construction costs exceed the guaranteed cost, TransAlta will reimburse the Corporation by up to $6 million and if the construction costs are below the guaranteed cost, the Corporation will reimburse TransAlta by up to $6 million. As at March 31, 2021, no amount has been recognized, as the probability of either occurring is still undetermined.

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

Principal sources of liquidity include cash generated from operations, capital markets and funding from our existing credit facility. The Corporation does not anticipate material issues in addressing our borrowing through 2023 and beyond on acceptable terms.

Financial Position

The following table highlights significant changes to account balances derived from the unaudited interim consolidated Statements of Financial Position from Dec. 31, 2020 to March 31, 2021:

(unaudited $ millions)	**March 31, 2021**	Dec. 31, 2020	Increase/ (decrease)	**Primary factors explaining change**
Cash and cash equivalents	**407**	582	(175)	Timing of receipts and payments and the acquisition of the Windrise wind project - Refer to the Cash Flows and the Significant and Subsequent Events sections of this MD&A for further details.
Net risk management assets (liabilities) (current and long-term)	**3**	(2)	5	Includes an interest rate derivative to hedge interest rate risks associated with forecasted debt issuances for the Windrise wind project. Refer to Financial Instruments section of this MD&A.
Property, plant and equipment, net	**1,822**	1,617	205	Increase due to the acquisition of the Windrise wind project and additions, partially offset by depreciation.
Investments in subsidiaries of TransAlta (including current portion)	**974**	1,087	(113)	Decrease due to lower fair values in Preferred Shares Tracking Australia Cash Flows and lower fair values and returns of capital on the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities.
Accounts payable and accrued liabilities	**84**	50	34	Timing of payments and accruals.
Deferred income tax liabilities	**296**	290	6	Decrease in tax loss carryforwards.
Equity attributable to shareholders	**2,143**	2,255	(112)	Decrease due to common share dividends and other comprehensive loss from unfavourable fair value changes, partially offset by net earnings.

Cash Flows

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

	3 months ended March 31		
	2021	2020	Increase/ (decrease)
Cash and cash equivalents, beginning of the period	**582**	63	519
From (used in):			
Operating activities	**103**	82	21
Investing activities	**(211)**	55	(266)
Financing activities	**(67)**	(160)	93
Cash and cash equivalents, end of the period	**407**	40	367

Cash flow from operating activities for the three months ended March 31, 2021, increased by $21 million compared to the same period in 2020 primarily due to higher finance income from investments in subsidiaries of TransAlta, the recognition of environmental credits received in the first quarter of 2021, partially offset by the settlement of provisions relating to the transmission line loss proceedings.

Cash flow from investing activities for the three months ended March 31, 2021, decreased by $266 million compared to the same period in 2020 primarily due the acquisition of the Windrise wind project and related construction costs (refer to the Significant and Subsequent Events section of this MD&A).

Cash flow from financing activities for the three months ended March 31, 2021, increased by $93 million compared to the same period in 2020 primarily due to no drawings or repayments made on the credit facility.

Debt and Lease Obligations

	As at March 31, 2021				
		Utilized			
	Total facility limit	**Outstanding letters of credit[1]**	**Drawings**	**Available capacity**	**Maturity date**
Committed credit facility	700	95	—	605	2025

(1) Letters of credit of $95 million were issued from uncommitted demand facilities, these obligations are backstopped and reduce the available capacity on the syndicated credit facility.

On March 30, 2021, the credit facility was amended to extend to June 30, 2025. As at March 31, 2021, there were no drawings under the credit facility.

We are subject to customary positive and negative covenants related to debt and are not in violation of any of these covenants.

Share Capital

On March 31, 2021, we had approximately 266.9 million (Dec. 31, 2020 - 266.9 million) common shares issued and outstanding. In the fourth quarter of 2020, the Corporation suspended its DRIP in respect of any future declared dividends until further notice.

As at May 11, 2021, we had approximately 266.9 million common shares issued and outstanding.

Litigation, Claims, and Contingencies

For the current significant outstanding contingencies, refer to the Liquidity and Capital Resources section in our 2020 Annual MD&A for further details. None of these contingencies, individually or in aggregate, are expected to result in a liability that would have a material adverse effect on the Corporation. Except as discussed below, there have been no significant changes during the three months ended March 31, 2021.

I. Line Loss Rule Proceeding
The Corporation has been participating in a transmission line loss rule proceeding before the Alberta Utilities Commission ("AUC"). The AUC directed the Alberta Electric System Operator ("AESO") to recalculate the transmission line loss factors of all Alberta generating facilities for the period from 2006-2016. The AUC approved an invoice settlement process that was broken down into three periods (2006-2009, 2010-2013, and 2014-2016). The first two invoices were received in 2020 for a cumulative amount of $7 million and have been settled. The final invoice was received in the first quarter of 2021 for an expected recovery of $0.1 million.

II. FMG Dispute
The Corporation's investment in the Australian assets is through an economic interest that provides after-tax finance income based on EBITDA of the underlying facilities. TransAlta sued FMG, seeking payment of amounts invoiced and not paid under the South Hedland PPA, as well as a declaration that the PPA is valid and in force. FMG, on the other hand, seeks a declaration that the PPA was lawfully terminated. The trial for this matter was set to start on May 3, 2021 but on May 2, 2021 the Corporation entered into a conditional settlement with FMG. The trial has been adjourned pending satisfaction of the settlement conditions. The Corporation recognizes finance income when declared on our investments in the Australian assets, inclusive of the impacts of any contingent gains when recognized by TransAlta.

Critical Accounting Policies and Estimates

The preparation of 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 duration and impact of the COVID-19 pandemic are unknown at this time. Estimates to the extent to which the COVID-19 pandemic may directly or indirectly impact the Corporation's operations, financial results and conditions in future periods are also subject to significant uncertainty. For a description of additional risks identified as a result of the pandemic, refer to the Risk Management section of our 2020 Annual Report.

Actual results could differ from these estimates due to factors such as fluctuations in interest rates, foreign exchange rates, inflation and commodity prices, and changes in economic conditions, legislation and regulations.

Significant Influence through Tracking Preferred Shares
The rights associated with the Corporation's investments in the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities provide the Corporation individually with a 3.3 per cent (cumulatively 13 per cent) voting interest in a subsidiary of TransAlta. In the event that any dividends on these preferred shares have not been paid within six months of the date at which the payout formula would have them paid, and while such amounts remain unpaid, the Corporation will have the right to appoint individually 12 per cent (cumulatively 48 per cent) of the directors of that subsidiary. Upon the close of the acquisition of economic interests in the Skookumchuck wind facility and the Ada cogeneration facility on April 1, 2021, the cumulative voting interest will be 20 per cent and the Corporation will have the right to appoint cumulatively 72 per cent of the directors in the event of unpaid dividends as discussed above.

The Corporation determined that it does not have significant influence over the TransAlta subsidiaries, in consideration of TransAlta's block ownership of the voting shares, and accordingly, the investments were determined to constitute financial assets.

Dividend as Income or Return of Capital
Judgment was applied for the three months ended March 31, 2021, in relation to the assessment of dividends as income or return of capital, as follows:

The Corporation receives dividends from its investments in the Preferred Shares Tracking Australia Cash Flows and the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities. Determining whether a dividend represents in substance a return of capital requires significant judgment. The Corporation determines the amount of dividends that represent a return of capital based on the lower of: (i) the difference, if positive, between the cost base of the shares and their fair value, at the end of the reporting period; and (ii) the actual dividend declared on the shares during the reporting period. When it is determined that a dividend represents a return of capital, the carrying amount of the related investment is reduced. During the first three months of 2021, the Corporation determined that a portion of the dividends earned on the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities constituted a return of capital.

Accounting Policy 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 Corporation's annual consolidated financial statements for the year ended Dec. 31, 2020, except for the adoption of new standards effective as of Jan. 1, 2021 and the early adoption of standards, interpretations or amendments that have been issued but are not yet effective.

Amendments to IAS 16 *Property, Plant and Equipment*: Proceeds before Intended Use

Effective Jan. 1, 2021, the Corporation early adopted amendments to IAS 16 *Property plant and equipment* ("IAS 16 Amendments"), in advance of its mandatory effective date of Jan 1, 2022. The Corporation adopted the IAS 16 Amendments retroactively. No cumulative effect of initially applying the guidance arose. The IAS 16 Amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in a manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. No adjustments resulted from early adopting the amendments.

IFRS 7 *Financial Instruments: Disclosures* — Interest Rate Benchmark Reform

London Interbank Offered Rate ("LIBOR") is scheduled to be phased out as an interest rate index readily used by corporations for financial instruments by the end of 2021. The IASB issued *Interest Rate Benchmark Reform — Phase 2* in August 2020, which amends IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures* and IFRS 16 *Leases*. The amendments were effective Jan. 1, 2021, and were adopted by the Corporation on Jan. 1, 2021.

The credit facility references US LIBOR for US-dollar drawings and the Canadian Dollar Offered Rate for Canadian drawings, and includes appropriate fallback language to replace these benchmark rates if a benchmark transition event were to occur. There was no financial impact upon adoption. As at March 31, 2021, there were no drawings under the credit facility. The Corporation is monitoring the reform and does not expect any material impact.

B. Future Accounting Policy Changes

Amendments to IAS 1 *Presentation of Financial Statements*: Material Accounting Policies

On Feb. 12, 2021, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* to require entities to disclose their material accounting policy information rather than their significant accounting policies. The amendments are effective for annual periods beginning on or after Jan. 1, 2023, but the Corporation plans to early adopt these amendments for the 2021 annual financial statements.

Risks and Uncertainties

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 2020 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, 2020. The following factors may contribute to those risks and uncertainties:

COVID-19 Global Pandemic

During the quarter, TransAlta, on behalf of the Corporation, has maintained a number of risk mitigation measures introduced in 2020 in response to the COVID-19 pandemic to keep our people safe and to ensure we are able to remain fully operational and capable of meeting our customer needs.

Overall, we continue to actively monitor the situation and advice from public health officials with a view to responding to changing recommendations and adapting our response and approach as necessary.

Regulatory and Environmental Legislation

Federal Climate Plan

On Dec. 11, 2020, the Government of Canada released its "*A Healthy Environment and a Healthy Economy*" climate plan that outlines how the federal government intends to use policies, regulations and funding to achieve Canada's Paris Agreement emissions reduction target of 30 per cent reduction from 2005 greenhouse gas emission levels. The three major aspects of the plan include increased carbon prices and obligations, increased funding for clean technology and the implementation of the Clean Fuel Regulation ("CFR"). The 2021 federal budget proposed significant spending to undertake the elements of the climate plan as well as additional measures, including support for new renewable generation and smart grids. On April 22, 2021, during a climate summit hosted by President Biden, Prime Minister Trudeau increased Canada's greenhouse gas reduction target to 40 to 45 per cent below 2005 levels by 2030. The government stated that it will consult with provinces and industry regarding many elements of the plan so significant uncertainty remains regarding the final form of the related regulations and other initiatives. TransAlta, on behalf of the Corporation, continues to engage with governments to mitigate risks and identify opportunities within the new federal plan.

Supreme Court Ruling on Federal Carbon Tax Constitutionality
On March 25, 2021, in a six to three decision, the Court ruled the *Greenhouse Gas Pollution Pricing Act* ("GGPPA") was constitutional. The Court found the "evidence clearly shows that establishing minimum national standards of GHG price stringency to reduce GHG emissions is of concern to Canada" and that the federal law is "critical to our response to an existential threat to human life in Canada and around the world". As a result, provincial governments will need to continue to impose their own carbon costs on greenhouse gas emissions in line with federal GGPPA regulations or the federal government will impose its own Output Based Pricing System and/or Carbon Tax.

President Biden's American Jobs Plan
On March 31, 2021, President Biden announced his American Jobs Plan (the "Plan") which is heavily focused on climate change. The Plan proposes to spend $2 trillion over the next decade to rebuild transportation infrastructure, make existing and new infrastructure climate change resilient, create cleaner energy systems, support the deployment of electric vehicles and ensure the job growth particularly for low income and communities of colour. The Plan requires passage in the House and the Senate so the details are likely to change in the coming months as Congress develops enacting legislation. Given the narrow Democratic control in both chambers, passage is not guaranteed.

The proposed Made in America Tax Plan would pay for the Plan's costs over 15 years by setting the corporate tax at 28 per cent, reducing the ability of corporations to avoid paying taxes in the US, and seeking agreements to establish a global minimum corporate tax.

The Plan's proposed policy of relevance to TransAlta are:
- $175 billion investment in electric vehicles;
- 100 per cent carbon free electricity sector by 2035;
- Extension of investment credits to support further renewable project development;
- Federal Grid Deployment Authority to support development of 20 gigawatts of new transmission;
- $180 billion in research and development funding for new energy technology such as storage technologies;
- 45Q tax credit expansion to support increased carbon capture use and storage installation; and
- $35 billion in research and development support for carbon capture technologies.

President Biden's Updated 2030 Emissions Reduction Commitment
On April 22, 2021, during the climate summit hosted by President Biden, the President committed to reduce US greenhouse gas emissions by 50 to 52 per cent below 2005 levels by 2030.

Controls and Procedures

Management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P"). Management has reviewed the changes as a result of changes implemented in response to COVID-19 and is reasonably assured that adjustments to process have not materially affected, or are reasonably likely to materially affect, our ICFR or DC&P.

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 Corporation'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 March 31, 2021, 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)

	3 months ended March 31	
Unaudited	**2021**	2020
Revenues (Note 4)	**126**	109
Government incentives	**—**	1
Total revenue	**126**	110
Fuel, royalties and other costs	**28**	17
Gross margin	**98**	93
Operations, maintenance and administration	**24**	23
Depreciation and amortization	**34**	34
Taxes, other than income taxes	**2**	2
Operating income	**38**	34
Finance income related to subsidiaries of TransAlta (Note 5)	**29**	8
Interest income	**2**	2
Interest expense	**(10)**	(11)
Change in fair value of financial assets (Note 5)	**—**	(5)
Foreign exchange gain (loss)	**2**	(17)
Earnings before income taxes	**61**	11
Income tax expense (Note 6)	**8**	7
Net earnings	**53**	4
Net earnings attributable to:		
Common shareholders	**52**	3
Non-controlling interest	**1**	1
	53	4
Weighted average number of common shares outstanding in the period (millions)	**267**	266
Net earnings per share attributable to common shareholders, basic and diluted	**0.19**	0.01

See accompanying notes.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)
(in millions of Canadian dollars)

	3 months ended March 31	
Unaudited	**2021**	2020
Net earnings	**53**	4
Other comprehensive income (loss)		
Net change in fair value of investments in subsidiaries of TransAlta (Note 5)	**(105)**	45
Total items that will not be reclassified subsequently to net earnings	**(105)**	45
Gains on derivatives designated as cash flow hedges, net of tax	**1**	—
Total items that will be reclassified subsequently to net earnings	**1**	—
Other comprehensive income (loss)	**(104)**	45
Total comprehensive income (loss)	**(51)**	49
Total comprehensive income (loss) attributable to:		
Common shareholders	**(52)**	48
Non-controlling interest	**1**	1
	(51)	49

See accompanying notes.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Financial Position

(in millions of Canadian dollars)

Unaudited	March 31, 2021	Dec. 31, 2020
Cash and cash equivalents	**407**	582
Accounts receivable	**131**	134
Prepaid expenses	**4**	2
Risk management assets (Note 7)	**9**	—
Inventory	**8**	7
Current portion of other assets	**18**	18
	577	743
Property, plant and equipment (Note 8)		
Cost	**3,090**	2,856
Accumulated depreciation	**(1,268)**	(1,239)
	1,822	1,617
Finance lease receivable	**7**	7
Right-of-use assets	**28**	27
Intangible assets	**100**	103
Other assets	**60**	54
Investments in subsidiaries of TransAlta (Note 5)	**974**	1,087
Deferred income tax assets	**17**	18
Total assets	**3,585**	3,656
Accounts payable and accrued liabilities	**84**	50
Income tax payable	**1**	1
Dividends payable	**63**	63
Current portion of other provisions	**—**	1
Risk management liabilities (Note 7)	**4**	1
TEA demand loan	**193**	195
Current portion of long-term debt and lease obligations (Note 9)	**53**	53
	398	364
Long-term debt and lease obligations (Notes 7 and 9)	**639**	639
Decommissioning and other provisions	**49**	51
Contract liabilities	**6**	6
Deferred revenues	**1**	—
Risk management liabilities (Note 7)	**2**	1
Deferred income tax liabilities	**296**	290
Total liabilities	**1,391**	1,351
Equity		
Common shares	**3,059**	3,059
Deficit	**(807)**	(796)
Accumulated other comprehensive loss	**(109)**	(8)
Equity attributable to shareholders	**2,143**	2,255
Non-controlling interest	**51**	50
Total equity	**2,194**	2,305
Total liabilities and equity	**3,585**	3,656

Commitments and contingencies (Note 11)

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 income (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	**—**	**52**	**—**	**52**	**1**	**53**
Other comprehensive income (loss):						
Net gains on derivatives designated as cash flow hedges, net of tax	**—**	**—**	**1**	**1**	**—**	**1**
Net change in fair value of investments of subsidiaries of TransAlta (Note 5)	**—**	**—**	**(105)**	**(105)**	**—**	**(105)**
Total comprehensive income (loss)	**—**	**52**	**(104)**	**(52)**	**1**	**(51)**
Common share dividends (Note 10)	**—**	**(62)**	**—**	**(62)**	**—**	**(62)**
Acquisition of Windrise Wind Project Assets (Note 3)	**—**	**(1)**	**3**	**2**	**—**	**2**
Balance, March 31, 2021	**3,059**	**(807)**	**(109)**	**2,143**	**51**	**2,194**

Unaudited

	Common shares	Deficit	Accumulated other comprehensive income (loss)	Attributable to shareholders	Attributable to non-controlling interest	Total
Balance, Dec. 31, 2019	3,039	(637)	(134)	2,268	45	2,313
Net earnings	—	3	—	3	1	4
Other comprehensive income:						
Net change in fair value of investments of subsidiaries of TransAlta (Note 5)	—	—	45	45	—	45
Total comprehensive income	—	3	45	48	1	49
Common share dividends (Note 10)	—	(63)	—	(63)	—	(63)
Dividend reinvestment plan (Note 10)	7	—	—	7	—	7
Balance, March 31, 2020	3,046	(697)	(89)	2,260	46	2,306

See accompanying notes.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Cash Flows
(in millions of Canadian dollars)

	3 months ended March 31	
Unaudited	**2021**	2020
Operating activities		
Net earnings	**53**	4
Depreciation and amortization	**34**	34
Accretion of provisions	**1**	1
Deferred income tax expense (Note 6)	**7**	7
Change in fair value of financial assets	**—**	5
Unrealized foreign exchange (gain) loss	**(2)**	14
Unrealized (gain) loss from risk management activities	**1**	(1)
Provisions	**(6)**	—
Cash flow from operations before changes in working capital	**88**	64
Change in non-cash operating working capital balances	**15**	18
Cash flow from operating activities	**103**	82
Investing activities		
Additions to property, plant and equipment (Note 8)	**(6)**	(2)
Repayments on promissory notes from a subsidiary of TransAlta	**—**	60
Proceeds on redemptions of investments in subsidiaries of TransAlta (Note 5)	**—**	46
Investments in subsidiaries of TransAlta (Note 5)	**—**	(61)
Acquisitions (Note 3)	**(213)**	—
Return of capital on investments in subsidiaries of TransAlta (Note 5)	**8**	14
Change in non-cash investing working capital balances	**4**	(2)
Other	**(4)**	—
Cash flow from (used in) investing activities	**(211)**	55
Financing activities		
Net decrease in borrowings under credit facilities (Note 9)	**—**	(101)
Long-term debt repayments (Note 9)	**(3)**	(3)
Dividends paid on common shares (Note 10)	**(62)**	(56)
Financing costs	**(1)**	—
Changes in non-cash financing working capital balances	**(1)**	—
Cash flow used in financing activities	**(67)**	(160)
Decrease in cash and cash equivalents	**(175)**	(23)
Cash and cash equivalents, beginning of period	**582**	63
Cash and cash equivalents, end of period	**407**	40
Cash income taxes paid	**1**	—
Cash interest paid	**7**	5

See accompanying notes.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

1. Background and Accounting Policies

A. The Corporation

TransAlta Renewables Inc. together with its subsidiaries (collectively “TransAlta Renewables” or the “Corporation”) owns and operates 13 hydro facilities, 20 wind facilities, a wind battery storage facility and one gas plant, with a total gross generating capacity of 2,565 megawatts ("MW"), and holds economic interests in TransAlta Corporation's ("TransAlta") 144 MW Wyoming Wind wind facility, 50 MW Lakeswind wind facility, 21 MW Mass Solar solar projects, 90 MW Big Level US wind facility, 29 MW Antrim US wind facility (collectively "Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities") and 450 MW Australian gas-fired generation assets including a 270 kilometer gas pipeline ("Preferred Shares Tracking Australia Cash Flows"). The Corporation’s head office is located in Calgary, Alberta.

The acquisition of the 207 MW Windrise wind project from TransAlta closed on Feb. 26, 2021 and is expected to commence commercial operations in the second half of 2021. The acquisition of the 100 per cent economic interest in the 29 MW Ada cogeneration facility and the 49 per cent economic interest in the 137 MW Skookumchuck wind facility closed on April 1, 2021.

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 Corporation's most recent 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 Corporation's annual consolidated financial statements. Accordingly, these condensed consolidated financial statements should be read in conjunction with the Corporation's most recent annual consolidated financial statements, which are available on SEDAR at www.sedar.com.

The interim condensed consolidated financial statements include the accounts of the Corporation 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 Corporation'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 Corporation'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 May 11, 2021.

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(Q) of the Corporation's most recent 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 due to factors such as fluctuations in interest rates, foreign exchange rates, inflation and commodity prices, and changes in economic conditions, legislation and regulations.

Judgment was applied for the three months ended March 31, 2021, as follows:

I. **Significant Influence through Tracking Preferred Shares**
The rights associated with the Corporation's investments in the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities provide the Corporation individually with a 3.3 per cent (cumulatively 13 per cent) voting interest in a subsidiary of TransAlta. In the event that any dividends on these preferred shares have not been paid within six months of the date at which the payout formula would have them paid, and while such amounts remain unpaid, the Corporation will have the right to appoint individually 12 per cent (cumulatively 48 per cent) of the directors of that subsidiary. Upon the close of the acquisition of economic interests in the Skookumchuck wind facility and the Ada cogeneration facility on April 1, 2021, the cumulative voting interest will be 20 per cent and the Corporation will have the right to appoint cumulatively 72 per cent of the directors in the event of unpaid dividends as discussed above.

The Corporation determined that it does not have significant influence over the TransAlta subsidiaries, in consideration of TransAlta's block ownership of the voting shares, and accordingly, the investments were determined to constitute financial assets.

II. Dividend as Income or Return of Capital
During the three months ended March 31, 2021, the Corporation determined that a portion of the dividends earned on the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities constituted a return of capital.

III. COVID-19
The outbreak of the novel strain of coronavirus ("COVID-19") has resulted in governments worldwide enacting emergency measures to constrain the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods, self-isolation, physical and social distancing and the closure of non-essential businesses, have caused significant disruption to businesses globally which has resulted in an uncertain and challenging economic environment. The duration and impact of the COVID-19 pandemic are unknown at this time. Estimates to the extent to which the COVID-19 pandemic may, directly or indirectly, impact the Corporation's operations, financial results and conditions in future periods are also subject to significant uncertainty. For a description of additional risks identified as a result of the pandemic, refer to Note 12 of the 2020 Annual Financial Statements.

2. Significant Accounting Policies

A. Current Accounting Policy 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 Corporation's annual consolidated financial statements for the year ended Dec. 31, 2020, except for the adoption of new standards effective as of Jan. 1, 2021 and the early adoption of standards, interpretations or amendments that have been issued but are not yet effective.

Amendments to IAS 16 *Property, Plant and Equipment*: Proceeds before Intended Use
Effective Jan. 1, 2021, the Corporation early adopted amendments to IAS 16 *Property plant and equipment* ("IAS 16 Amendments"), in advance of its mandatory effective date of Jan 1, 2022. The Corporation adopted the IAS 16 Amendments retroactively. No cumulative effect of initially applying the guidance arose. The IAS 16 Amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in a manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. No adjustments resulted from early adopting the amendments.

IFRS 7 *Financial Instruments: Disclosures* — Interest Rate Benchmark Reform
London Interbank Offered Rate ("LIBOR") is scheduled to be phased out as an interest rate index readily used by corporations for financial instruments by the end of 2021. The IASB issued *Interest Rate Benchmark Reform — Phase 2* in August 2020, which amends IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures* and IFRS 16 *Leases*. The amendments were effective Jan. 1, 2021, and were adopted by the Corporation on Jan. 1, 2021.

The credit facility references US LIBOR for US-dollar drawings and the Canadian Dollar Offered Rate for Canadian drawings, and includes appropriate fallback language to replace these benchmark rates if a benchmark transition event were to occur. There was no financial impact upon adoption. As at March 31, 2021, there were no drawings under the credit facility. The Corporation is monitoring the reform and does not expect any material impact.

B. Future Accounting Policy Changes

Amendments to IAS 1 *Presentation of Financial Statements*: Material Accounting Policies

On Feb. 12, 2021, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* to require entities to disclose their material accounting policy information rather than their significant accounting policies. The amendments are effective for annual periods beginning on or after Jan. 1, 2023, but the Corporation plans to early adopt these amendments for the 2021 annual financial statements.

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. Significant and Subsequent Events

Acquisition of Economic Interests in the Skookumchuck Wind Facility and the Ada Cogeneration Facility

On April 1, 2021, the Corporation completed the acquisition, through a subsidiary of TransAlta, of a 100 per cent economic interest in the 29 MW Ada cogeneration facility and a 49 per cent economic interest in the 137 MW Skookumchuck wind facility. Both facilities are fully operational. The Ada cogeneration facility is under a power purchase agreement ("PPA") until 2026. The Skookumchuck wind facility is contracted under a PPA until 2040 with an investment grade counterparty. The Corporation acquired the economic interest in the Ada cogeneration facility and the Skookumchuck wind facility by acquiring a $43 million and a $103 million investment in tracking preferred shares of a TransAlta subsidiary. The economic benefit of each transaction was effective as at Jan. 1, 2021. Distributions and returns of capital related to January through March 2021 will be recognized in the second quarter of 2021.

Acquisition of the Windrise Wind Project

The Corporation acquired a 100 per cent direct interest in the 207 MW Windrise wind project located in Alberta for $213 million. The acquisition of the Windrise wind project closed on Feb. 26, 2021, and is accounted for as a business combination under common control. The Corporation 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 have been recognized at the book value previously recognized by TransAlta at Feb. 26, 2021 and not at their fair values, including $233 million in PP&E, $21 million in net working capital liabilities and $3 million in net risk management assets. As a result, the Corporation recognized a charge to equity of $2 million for the difference between the proceeds and book value of the Windrise wind project assets.

The results of operations of the Windrise wind project have been included in the Corporation's Condensed Consolidated Statements of Earnings prospectively from the Feb. 26, 2021 acquisition date and prior period comparative financial statements have not been restated. The Windrise wind project is expected to commence commercial operations in the second half of 2021.

Global Pandemic

All of our facilities, including those which we have economic interests through TransAlta, continue to remain fully operational and are capable of meeting our customers' needs. The Corporation continues to work and serve all of our customers and counterparties under the terms of their contracts. We have not experienced interruptions to service requirements. Electricity and steam supply continue to remain a critical service requirement to all of our customers and have been deemed an essential service in our jurisdictions.

4. Revenue from Contracts with Customers

Disaggregation of Revenue

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

3 months ended March 31, 2021	**Canadian Wind**	**Canadian Hydro**	**Canadian Gas**	**Total**
Revenue from contracts with customers(1)	70	3	50	123
Other revenue(2)	—	—	3	3
Revenues	**70**	**3**	**53**	**126**
Timing of revenue recognition:				
At a point in time	9	—	—	9
Over time	61	3	50	114
Revenue from contracts with customers	70	3	50	123

3 months ended March 31, 2020	Canadian Wind	Canadian Hydro	Canadian Gas(3)	Total
Revenue from contracts with customers(1)	66	3	36	105
Other revenue(2)	1	—	3	4
Revenues	67	3	39	109
Timing of revenue recognition:				
At a point in time	2	—	—	2
Over time	64	3	36	103
Revenue from contracts with customers	66	3	36	105

(1) Revenue from contracts with customers includes revenue generated from the sale of environmental credits of $9 million at Canadian Wind (2020 - $2 million).
(2) Includes merchant revenue and other miscellaneous.
(3) During the third quarter of 2020, merchant revenue within this segment was reclassified from revenue from contracts with customers to other revenue and prior periods were adjusted.

Environmental Credits

The new Technology Innovation and Emissions Reduction ("TIER") Regulation replaced the Carbon Competitiveness Incentive Regulation ("CCIR") in the Province of Alberta on Jan. 1, 2020. Under TIER, wind projects will continue to generate carbon credits — Emission Offsets and Emission Performance Credits ("EPC") — as they did under the CCIR. Included in total revenues at March 31, 2021, was $7 million related to the sale of 265,352 Alberta carbon offsets and EPCs to TransAlta (2020 — nil).

As at March 31, 2021, the Corporation held 313,851 emissions credits (Dec. 31, 2020 — 494,993) which are expected to be serialized and monetized through sales to TransAlta or other companies at market prices.

5. Finance Income Related to Subsidiaries of TransAlta

Finance income related to subsidiaries of TransAlta is comprised of income from various interests that in aggregate and over time indirectly provide the Corporation with cash flows based on the cash flows of the subsidiaries. This includes TEA and the Wyoming Wind, Lakeswind, Mass Solar, Big Level and Antrim wind facilities.

	3 months ended March 31	
	2021	2020
Dividend income from investment in preferred shares of TEA[1]	**—**	1
Fee income from indirect guarantee of TEA obligations	**3**	3
Dividend income from investment in Preferred Shares Tracking Australia Cash Flows	**22**	—
Dividend income from investment in Preferred Shares Tracking the Amortizing Term Loan[1]	**—**	3
Finance income related to TEA	**25**	7
Dividend income from investment in Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities	**4**	1
Total finance income	**29**	8

(1) The preferred shares of TEA and Preferred Shares Tracking the Amortizing Term Loan were redeemed on Oct. 23, 2020.

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

As at	**March 31, 2021**	Dec. 31, 2020
Investment in Preferred Shares Tracking Australia Cash Flows	**677**	771
Investment in preferred shares tracking earnings and distributions of Big Level and Antrim	**128**	139
Investment in preferred shares tracking earnings and distributions of Mass Solar	**45**	48
Investment in preferred shares tracking earnings and distributions of Lakeswind	**18**	19
Investment in preferred shares tracking earnings and distributions of Wyoming Wind	**106**	110
Total investments in subsidiaries of TransAlta	**974**	1,087

Investment in Subsidiaries of TransAlta Related to TEA and US Wind and Solar
Changes in the investments in subsidiaries of TransAlta are detailed as follows:

	Preferred Shares Tracking Australia Cash Flows	**Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities**	**Total**
Investment balance at Dec. 31, 2020	771	316	1,087
Return of capital	—	(8)	(8)
Net change in fair value and foreign exchange recognized in OCI	(94)	(11)	(105)
Investment balance at March 31, 2021	**677**	**297**	**974**

The $94 million decrease in fair value related to the Preferred Shares Tracking Australia Cash Flows as at March 31, 2021 reflects a change in cash flow assumptions, including changes in the discount rate, foreign exchange impacts and re-contracting assumptions, partially offset by an adjustment to the cash flows associated with the extended PPA with BHP Billiton Nickel West Pty Ltd. ("BHP"). See Note 4 of the Annual Financial Statements for further details on the BHP contract extension.

	Preferred Shares Tracking Australia Cash Flows	Preferred shares of TEA	Preferred Shares Tracking the Amortizing Term Loan	Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities	Total
Investment balance at Dec. 31, 2019	598	42	532	320	1,492
Investment	—	—	—	61	61
Redemption	—	—	(46)	—	(46)
Foreign exchange losses recognized in earnings	—	—	(24)	—	(24)
Return of capital	—	—	—	(14)	(14)
Net change in fair value recognized in earnings	—	—	(5)	—	(5)
Net change in fair value and foreign exchange recognized in OCI	14	9	—	22	45
Investment balance at March 31, 2020	612	51	457	389	1,509

The table below summarizes quantitative data regarding the unobservable inputs utilized in the discounted cash flow models as outlined in Note 8 of the Annual Financial Statements:

Unobservable input	**March 31, 2021**	Dec. 31, 2020
Preferred Shares Tracking Australia Cash Flows		
Discount rate	**6.0 %**	5.8 %
Quarterly cash flows (millions)	**Average of $11**	Average of $13
Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities		
Discount rate (range)	**7.0 % - 11.0 %**	6.8 % - 10.3 %
Quarterly cash flows (range, in millions)	**Average of $1 - $4**	Average of $1 - $4

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	**Alternative assumption**	**Change in fair value as at March 31, 2021**	Change in fair value as at Dec. 31, 2020
Preferred Shares Tracking Australia Cash Flows			
Basis point change in discount rates	-10 basis points decrease	**5**	6
	+10 basis points increase	**(5)**	(6)
Quarterly cash flows	+1% increase(1)	**7**	8
	- 1% decrease(1)	**(7)**	(8)
Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities			
Basis point change in discount rates	-10 basis points decrease	**2**	2
	+10 basis points increase	**(2)**	(2)
Quarterly cash flows	+1% increase	**3**	3
	- 1% decrease	**(3)**	(3)

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

6. Income Taxes

The components of income tax expense are as follows:

	3 months ended March 31	
	2021	2020
Current income tax expense	**1**	—
Deferred income tax expense related to the origination and reversal of temporary differences	**7**	7
Income tax expense	**8**	7

Presented in the Condensed Consolidated Statements of Earnings as follows:

	3 months ended March 31	
	2021	2020
Current income tax expense	**1**	—
Deferred income tax expense	**7**	7
Income tax expense	**8**	7

7. Financial Instruments and Risk Management

A. Financial Assets and Liabilities - 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 Corporation's financial instruments measured at fair value are as follows:

As at	**March 31, 2021**		Dec. 31, 2020	
	Fair value Level II	**Fair value Level III**	Fair value Level II	Fair value Level III
Preferred Shares Tracking Australia Cash Flows	**—**	**677**	—	771
Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities	**—**	**297**	—	316
Net risk management assets (liabilities)	**3**	**—**	(2)	—

I. Level Determinations and Classifications

The Level I, II and III classifications in the fair value hierarchy utilized by the Corporation 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 Corporation 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 Corporation's valuation processes, valuation techniques and types of inputs used in the fair value measurements during the period. For additional information, refer to Note 12 of the 2020 Annual Financial Statements.

II. Commodity and Other Risk Management Assets and Liabilities

The Corporation'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 assets (liabilities) at March 31, 2021	**5**	**(2)**	**3**
Net risk management liabilities at Dec. 31, 2020	—	(2)	(2)

Cash Flow Hedges
As part of the acquisition of the Windrise wind project, the Corporation recorded a risk management asset with a notional amount of $75 million to hedge interest rate risks associated with forecasted debt issuances for the Windrise wind project expected to occur between late 2021 and early 2022. The hedge has been designated as a cash flow hedge.

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 Consolidated Statements of Financial Position date due to their short-term nature. The fair values of the loans receivable approximate their carrying values.

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

As at	**March 31, 2021**		Dec. 31, 2020	
	Fair value Level II	**Carrying value**	Fair value Level II	Carrying value
Loans receivable(1)	**70**	**70**	70	70
TEA demand loan	**193**	**193**	195	195
Long-term debt(2)	**705**	**668**	748	670

(1) Includes current portion of promissory notes.
(2) Includes current portion 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.

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

I. Credit Risk
The Corporation's maximum exposure to credit risk at March 31, 2021, without taking into account collateral held or right of set-off, and including indirect exposures arising from the Corporation's investments in subsidiaries of TransAlta discussed in Note 5, is detailed as follows:

	Direct exposure	Indirect exposure
Counterparty credit rating	Receivables(1)	Trade accounts receivable(2)
Investment grade	**70**	**39**
Non-investment grade	**31**	**8**
TransAlta and subsidiaries of TransAlta	**48**	**—**
No external rating	**52**	**—**

(1) Includes trade accounts receivable, distributions receivable from subsidiaries of TransAlta, and loans receivable.
(2) Includes accounts receivable of TEA. Receivables of other economic interest investments were approximately $6 million in total and are with investment grade and other high-quality counterparties.

The Corporation uses external credit ratings, as well as internal ratings in circumstances where external ratings are not available, to establish credit limits for counterparties. In certain cases, the Corporation will require security instruments such as parental guarantees, letters of credit, cash collateral or third-party credit insurance to reduce overall credit risk.

TransAlta, on behalf of the Corporation, has maintained the additional monitoring and risk mitigation measures implemented in 2020 to address the on-going impacts from the COVID-19 pandemic.

II. Other Market Risks
The Corporation is exposed to market risks based on changes in the Preferred Shares Tracking Australia Cash Flows and the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities. A one per cent increase (decrease) in the value of these securities would result in a $10 million increase (decrease) in OCI as at March 31, 2021.

III. Liquidity Risk
The following table presents the contractual maturities of the Corporation's financial liabilities:

	2021	2022	2023	2024	2025	2026 and thereafter	Total
Accounts payable and accrued liabilities	84	—	—	—	—	—	**84**
TEA demand loan(1)	193	—	—	—	—	—	**193**
Long-term debt	49	54	101	59	62	348	**673**
Lease obligations	1	1	1	1	1	19	**24**
Net risk management (assets) liabilities	(4)	1	—	—	—	—	**(3)**
Interest on long-term debt and lease obligations(2)	31	33	23	20	18	72	**197**
Dividends payable	63	—	—	—	—	—	**63**
Total	**417**	**89**	**125**	**80**	**81**	**439**	**1,231**

(1) Schedule maturity repayment of TEA demand loan on Oct. 26, 2022.
(2) Not recognized as a financial liability on the Consolidated Statements of Financial Position.

The Corporation manages liquidity risk associated with its long-term debt by preparing and revising long-term external financing plans reflecting on business plans and market availability of capital.

IV. Foreign Currency Rate Risk
The possible effect on net earnings and OCI, due to changes in foreign exchange rates associated with financial instruments denominated in currencies other than the Corporation's functional currency is outlined below. The sensitivity analysis has been prepared using management's assessment that an average three cent (March 31, 2020 – three cent) decrease in these currencies relative to the Canadian dollar is a reasonable potential change over the next quarter.

3 months ended March 31	**2021**		2020	
Currency	**Net earnings (increase) decrease(1)**	**OCI loss(1)**	Net earnings decrease(1)	OCI loss(1)
USD	**3**	**9**	1	21
AUD	**(7)**	**19**	13	22
Total	**(4)**	**28**	14	43

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

8. Property, Plant and Equipment

For the three months ended March 31, 2021, the Corporation recognized $233 million on the Windrise asset acquisition (Note 3) and incurred an additional $6 million related to construction costs to progress finalizing the Windrise wind project and other sustaining capital (March 31, 2020 - $2 million on sustaining capital).

As at March 31, 2021, the Corporation capitalized $1 million of interest to PP&E due to the Windrise wind project at a weighted average rate of 4.5 per cent.

9. Long-Term Debt and Lease Obligations

Amounts Outstanding

As at	March 31, 2021			Dec. 31, 2020		
	Carrying value	**Face value**	**Interest**[1]	Carrying value	Face value	Interest[1]
TEA demand loan[2]	**193**	**193**	**4.32 %**	195	195	4.32 %
Long-term debt:						
Pingston bond	**45**	**45**	**2.95 %**	45	45	2.95 %
Melancthon Wolfe Wind bond	**268**	**270**	**3.83 %**	268	270	3.83 %
New Richmond bond	**127**	**128**	**3.96 %**	127	128	3.96 %
Kent Hills Wind bond	**228**	**230**	**4.45 %**	230	233	4.45 %
Total long-term debt	**668**	**673**		670	676	
Lease obligations	**24**			22		
	692			692		
Less: current portion of long term debt	**(52)**			(52)		
Less: current portion of lease obligations	**(1)**			(1)		
Total long-term debt and lease obligations	**639**			639		

(1) Interest rate reflects the stipulated rate or the average rate weighted by principal amounts outstanding.
(2) Principal amount of AU$200 million.

As of March 31, 2021, neither the Corporation nor any of its subsidiaries was in violation of any positive or negative covenants related to its debt.

Credit Facility
The Corporation has a $700 million committed syndicated credit facility, of which $605 million was available as at March 31, 2021 (Dec. 31, 2020 – $608 million) including the undrawn letters of credit. The Corporation is in compliance with the terms of the credit facility. On March 30, 2021, the credit facility was amended to extend to June 30, 2025. As at March 31, 2021, there were no drawings under the credit facility

10. Common Shares

Dividends

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

The following table summarizes the common share dividends declared in 2021 and 2020:

Dividends declared	Total dividends per share	Total dividends	TransAlta	Other shareholders
3 months ended March 31, 2021	**0.23499**	**62**	**38**	**24**
3 months ended March 31, 2020	0.23499	63	38	25

On Feb. 22, 2021, the Corporation declared a monthly dividend of $0.07833 per common share payable on April 30, 2021, May 31, 2021 and June 30, 2021.

On April 29, 2021, the Corporation declared a monthly dividend of $0.07833 per common share payable on July 30, 2021, Aug. 31, 2021 and Sept. 30, 2021.

11. Commitments and Contingencies

For the significant commitments and contingencies outstanding, refer to Note 24 of the 2020 Annual Financial Statements. Except as discussed below, there have been no significant changes during the three months ended March 31, 2021.

A. Guarantees

As part of the acquisition of the Windrise wind project, TransAlta has provided a Construction Cost Guarantee whereby, upon completion of the Windrise wind project, if the construction costs exceed the guaranteed cost, TransAlta will reimburse the Corporation by up to $6 million and if the construction costs are below the guaranteed cost, the Corporation will reimburse TransAlta by up to $6 million. As at March 31, 2021, no amount has been recognized, as the probability of either occurring is still undetermined.

B. Contingencies

I. Line Loss Rule Proceeding

The Corporation has been participating in a transmission line loss rule proceeding before the Alberta Utilities Commission ("AUC"). The AUC directed the Alberta Electric System Operator ("AESO") to recalculate the transmission line loss factors of all Alberta generating facilities for the period from 2006-2016. The AUC approved an invoice settlement process that was broken down into three periods (2006-2009, 2010-2013, and 2014-2016). The first two invoices were received in 2020 for a cumulative amount of $7 million and have been settled. The final invoice was received in the first quarter of 2021 for an expected recovery of $0.1 million.

II. Fortescue Metals Group Ltd. ("FMG") Dispute

The Corporation's investment in the Australian assets is through an economic interest that provides after-tax finance income based on EBITDA of the underlying facilities. TransAlta sued FMG, seeking payment of amounts invoiced and not paid under the South Hedland PPA, as well as a declaration that the PPA is valid and in force. FMG, on the other hand, seeks a declaration that the PPA was lawfully terminated. The trial for this matter was set to start on May 3, 2021 but on May 2, 2021 the Corporation entered into a conditional settlement with FMG. The trial has been adjourned pending satisfaction of the settlement conditions. The Corporation recognizes finance income when declared on our investments in the Australian assets, inclusive of the impacts of any contingent gains when recognized by TransAlta.

12. Related-Party Transactions and Balances

The Corporation has entered into certain agreements and transactions with TransAlta, which are described in Note 25 of the 2020 Annual Financial Statements of the Corporation.

A. Related-Party Transactions

Related-party transactions include the acquisition of the Windrise wind project disclosed in Note 3 and the finance income related to subsidiaries of TransAlta disclosed in Note 5. Also, all derivatives of the Corporation are entered into on behalf of the Corporation by a subsidiary of TransAlta.

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

	3 months ended March 31	
	2021	2020
Revenue from TransAlta PPAs	**10**	8
Revenue from environmental credits(1)	**7**	—
G&A Reimbursement Fee	**5**	4
Natural gas purchases	**2**	1
Asset optimization fee(2)	**1**	1

(1) The value of the environmental credits 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 Corporation's Sarnia cogeneration plant. The Sarnia cogeneration plant 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.

All of the above transactions are with TransAlta or subsidiaries of TransAlta.

B. Related-Party Balances

Related-party balances include the investments in subsidiaries of TransAlta disclosed in Note 5, the risk management assets and liabilities disclosed in Note 7, the TEA demand loan and long-term debt disclosed in Note 9 and the cost guarantee disclosed in Note 11.

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

As at	March 31, 2021	Dec. 31, 2020
Trade and other receivables	**30**	39
Finance lease receivable	**7**	7
Accounts payable and accrued liabilities	**16**	11
Dividends payable	**38**	38
Big Level and Antrim promissory notes	**18**	18
Letters of credit issued by TransAlta on behalf of the Corporation[1,2]	**10**	—
Guarantees provided by TransAlta on behalf of the Corporation[1,2]	**375**	207
Indemnification guarantee provided by the Corporation to TransAlta[2]	**532**	540
Long-term prepaid – management fee	**2**	2

(1) Includes letters of credit and guarantee agreements from the acquisition of the Windrise wind project. See Note 3.
(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.

13. Segment Disclosures

The Corporation has four reportable segments outlined below.

3 months ended March 31, 2021	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	Total
Revenue	70	3	53	—	126
Fuel, royalties and other costs	2	—	26	—	28
Gross margin	68	3	27	—	98
Operations, maintenance and administration	9	2	7	6	24
Depreciation and amortization	23	2	9	—	34
Taxes, other than income taxes	2	—	—	—	2
Operating income (loss)	34	(1)	11	(6)	38
Finance income related to subsidiaries of TransAlta					29
Interest income					2
Interest expense					(10)
Foreign exchange gain					2
Earnings before income taxes					61

3 months ended March 31, 2020	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	Total
Revenues	67	3	39	—	109
Government incentives	1	—	—	—	1
Total revenue	68	3	39	—	110
Fuel, royalties and other costs	3	1	13	—	17
Gross margin	65	2	26	—	93
Operations, maintenance, and administration	9	2	7	5	23
Depreciation and amortization	22	2	10	—	34
Taxes, other than income taxes	2	—	—	—	2
Operating income (loss)	32	(2)	9	(5)	34
Finance income related to subsidiaries of TransAlta					8
Interest income					2
Interest expense					(11)
Change in fair value of financial assets					(5)
Foreign exchange loss					(17)
Earnings before income taxes					11

Glossary of Key Terms

Alberta Electric System Operator (AESO) – the independent system operator and regulatory authority for the Alberta Interconnected Electric System.

AUC – Alberta Utilities Commission

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 plant, 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.

Carbon Tax – Sets a carbon price per tonne of greenhouse gas emissions related to transportation fuels, heating fuels and other small emission sources.

Credit facility – A $700 million external syndicated credit facility that is fully committed for four years, expiring in 2025. 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 Corporation 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 Corporation 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.

Dividend Reinvestment Plan - On May 31, 2018, the Corporation implemented a DRIP for Canadian holders of common shares of the Corporation. Commencing with the dividend payable on July 31, 2018, eligible shareholders could elect to automatically reinvest monthly dividends into additional common shares of the Corporation. In the fourth quarter of 2020, the Corporation suspended its DRIP in respect of any future declared dividends until further notice.

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.

FVTOCI – Fair value through other comprehensive income, an accounting treatment for changes in fair value of derivative instruments under IFRS 9.

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 Corporation.

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.

IFRS – International Financial Reporting Standards

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 carbon dioxide equivalent ("CO_2e") 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.

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

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.

Preferred Shares Tracking the Amortizing Term Loan – Preferred shares of subsidiaries of TransAlta, which track the underlying economics of an amortizing term loan payable owed by TEA to another subsidiary of TransAlta. The tracking preferred shares were redeemed on Oct. 23, 2020.

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.

South Hedland or South Hedland Power Station – The 150 MW combined-cycle gas power station located in South Hedland, Western Australia.

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

TEA demand loan – The AU$200 million intercompany loan to the Corporation by TEA, issued in October 2020 as part of the South Hedland financing. The TEA loan is unsecured, due on demand and bears interest at 4.32 per cent, with interest payable quarterly until maturity on Oct. 26, 2022.

Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities – Preferred shares of subsidiaries of TransAlta, which provide the Corporation with cumulative variable dividends broadly equal to the underlying net distributable profits of each of Wyoming Wind, Lakeswind, Mass Solar, Big Level and Antrim.

TransAlta PPAs – PPAs between TransAlta and the Corporation 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.

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

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