TRANSALTA RENEWABLES INC.

Third 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 and nine months ended Sept. 30, 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 Nov. 8, 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

Operations

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

Our operations span three countries: Canada, the United States and Australia. Our assets located in the United States and Australia are held through an economic interest in those assets. As we have an economic interest and not direct ownership, the operational results of these assets are not consolidated into our financial statement results. Instead, we receive finance income on the underlying investments, which is included in our consolidated net earnings.

Since the investments in these economic interests provide us with returns as though the assets were owned directly, 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.

During the three months ended Sept. 30, 2021, Canadian Wind gross installed capacity increased by 111 MW, increasing total capacity from Canadian Wind & Solar assets from 1,174 MW to 1,285 MW. The Corporation has mainly added to its Gross Installed Capacity with the addition of the 22 turbines operating at the Windrise Wind facility as at Sept. 30, 2021 and the acquisition of two turbines adjacent to our Summerview facilities at the Old Man wind facility.

All turbine erection activities have now been completed at the Windrise wind project with final commissioning activities currently underway, the project is on track to achieve full commercial operations in November 2021. The total expected construction cost of the Windrise wind project is approximately $270 million to $285 million. As at Sept. 30, 2021, the remaining estimated cost of the project is $28 million. The project is expected to have an average annual earnings before interest, tax, depreciation and amortization ("EBITDA") contribution in the range of $20 to $22 million.

On Apr. 1, 2021, the Corporation acquired an economic interest in the 29 MW Ada cogeneration facility and a 49 per cent economic interest in the 137 MW Skookumchuk wind facility. Both facilities are fully operational. This increased our gas gross installed capacity from 949 MW to 978 MW and is our first gas facility in the United States. United States Wind gross installed capacity increased by 67 MW, increasing our wind and solar gross installed capacity in the United States to 397 MW.

In total, we own, directly or through economic interests, an aggregate of 2,772 MW of gross generating capacity[1] (2,744 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").

	Owned Assets		Economic Interests					
	Canada		United States		Australia		Total	
	Gross installed capacity (MW)	Number of facilities	Gross Installed capacity (MW)	Number of facilities	Gross installed capacity (MW)	Number of facilities	Gross installed capacity (MW)[1]	Number of facilities
Hydro	112	13	—	—	—	—	112	13
Wind & Solar[2][3]	1,285	22	397	6	—	—	1,682	28
Gas	499	1	29	1	450	6	978	8
Total	**1,896**	**36**	**426**	**7**	**450**	**6**	**2,772**	**49**

(1) The total 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, and are as at Sept. 30, 2021.
(2) Canadian Wind & Solar includes the wind battery storage facility.
(3) Additions during the quarter Include 106 MW for the Windrise wind project and 4 MW for Old Man Wind facility.

(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.

North Carolina Solar Acquisition

On Nov. 5, 2021, the Corporation acquired a 100 per cent economic interest in the 122 MW portfolio of 20 operating solar photovoltaic facilities located in North Carolina (collectively, "North Carolina Solar"). This will increase our US Wind and Solar installed capacity from 397 MW to 519 MW. The project is expected to contribute US$9 million of annual EBITDA.

Northern Goldfields Solar Project

The Corporation will provide BHP Nickel West Pty Ltd. ("BHP") with renewable electricity to its Goldfields-based operations through the construction of the Northern Goldfields Solar Project. The project comprises the 27 MW Mount Keith Solar Farm, 11 MW Leinster Solar Farm, 10 MW/5MWh Leinster battery energy storage system and interconnecting transmission infrastructure, all of which will be integrated into our existing 169 MW Southern Cross Energy North remote network in Western Australia. This will increase our wind and solar capacity by 48 MW from 1,682 MW to 1,730 MW upon completion and will be our first solar facilities in Australia. The project is expected to contribute between $8 and $9 million of annual EBITDA.

TransAlta Renewables Named on the Best 50 Corporate Citizens List

During the second quarter of 2021, the Corporation was recognized by Corporate Knights as one of the Best 50 Corporate Citizens for 2021. The Best 50 Corporate Citizens list evaluates and ranks Canadian corporations against a set of 24 key performance indicators covering environmental, social and governance ("ESG") indicators relative to their industry peers and using publicly available information. The Corporation is committed to continuous improvement on key ESG issues and to ensuring its economic value creation is balanced with a value proposition for the environment and its communities.

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.

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 statements relating 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 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 growth projects, including the timing and spend on the Windrise wind project and the Northern Goldfields Solar Project; expected annual EBITDA from the North Carolina Solar portfolio; resolution of the steam supply disruption at our Sarnia facility, including the timing thereof; the Kent Hills incident and the extent of any remediation, the timing and cost of such remediation and the impact such incident could have on the Corporation's revenues and contracts; our 2021 Outlook, including comparable EBITDA, AFFO, CAFD (each, as defined below), interest expense, and sustaining capital and productivity expenditures; the outage at Kent Hills 1 and Kent Hills 2, including the duration of such outage and the cost of foundation replacements; the Corporation having sufficient liquidity and capital resources to fund any remediation at Kent Hills 1 and Kent Hills 2; the sustainability of the dividend; the dividend amount on the tracking preferred shares; foreign exchange exposure and risk management; liquidity and capital resources, including our ability to address borrowings to 2023 and beyond on acceptable terms; principal sources of liquidity and our ability to draw on such liquidity; expectations in terms of the cost of operations and maintenance, including maintenance performed by third parties; 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 and interest rate 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 expected settlement 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.

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, discounted cash flow models, power and natural gas price forecasts; renewable energy production between 4,200 to 4,700 GWh; and sustaining capital and productivity expenditures in 2021 to be in the range of $45 million to $55 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 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, including more 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; changes in short-term and/or long-term electricity demand; changes to commodity prices; reductions in production; increased costs, including costs arising from planned and unplanned outages; inability to extend the contracts for the Corporation's facilities beyond the current term, including at the Sarnia facility; the timing associated with being cash taxable; changes to credit and financial markets that could limit our ability to obtain external financing to fund our operations and growth expenditures; counterparty credit risks, including realizing a higher rate of losses on our accounts receivables; disruptions to our supply chain, including in respect of our growth projects; impairments and/or writedowns of assets; adverse impacts on our information technology systems and our internal control systems, including increased cybersecurity threats; 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; increased costs, decreased revenue and/or inability to realize growth negatively impacting the sustainability of the current dividend level; disruptions in the source of water, wind, solar or gas resources required to operate our facilities; natural disasters, diseases, other pandemics or force majeure events; equipment failure and our ability to carry out repairs in a cost-effective or timely manner or at all; structural subordination of securities; 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, including Carbon Taxes, 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 MD&A 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 Sept. 30		9 months ended Sept. 30	
	2021	2020	**2021**	2020
Renewable energy production (GWh)(1)	**854**	864	**3,013**	3,135
Revenues	**114**	95	**332**	308
Net earnings attributable to common shareholders	**20**	6	**97**	39
Comparable EBITDA(2)	**102**	96	**322**	329
Adjusted funds from operations(2)	**57**	76	**214**	261
Cash flow from operating activities	**83**	65	**265**	218
Cash available for distribution(2)	**54**	73	**184**	232
Net earnings per share attributable to common shareholders, basic and diluted	**0.07**	0.02	**0.36**	0.15
Adjusted funds from operations per share(2)	**0.21**	0.29	**0.80**	0.98
Cash available for distribution per share(2)	**0.20**	0.27	**0.69**	0.87
Dividends declared per common share	**0.23**	0.23	**0.70**	0.70
Dividends paid per common share(3)	**0.23**	0.23	**0.70**	0.70

(1) Includes production from Canadian Wind, Canadian Hydro and US Wind and Solar and excludes Canadian, US and Australian gas-fired generation. Production is not a key revenue driver for gas-fired facilities as most of their revenues are capacity-based.
(2) These items are not defined and have no standardized meaning under IFRS. 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 Reconciliation of Non-IFRS Measures section of this MD&A for further discussion of these items, including, where applicable, reconciliations to measures calculated in accordance with IFRS. See also the Additional IFRS Measures and Non-IFRS Measures sections of this MD&A.
(3) Includes Dividend Reinvestment Plan ("DRIP") payments in 2020. The DRIP was suspended in the fourth quarter of 2020.

As at	**Sept. 30, 2021**	Dec. 31, 2020
Gas gross installed capacity (MW)(1)	**978**	949
Renewables gross installed capacity (MW)(2)	**1,794**	1,619
Total assets	**3,634**	3,656
TEA demand loan(3)	**185**	195
Long-term debt and lease obligations(4)	**665**	692
Total long-term liabilities	**1,078**	987

(1) Includes Canadian, US 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) TransAlta Energy (Australia) Pty Ltd. ("TEA"), a subsidiary of TransAlta.
(4) Including current portion.

While the Corporation delivered higher comparable EBITDA in the three months ended Sept. 30, 2021 compared to the prior year, overall the Corporation's comparable EBITDA year to date is lower than the same period in 2020 and is lower than expected. The Corporation's results have been impacted by lower wind resources throughout the year and a steam supply disruption at our Sarnia facility in the second quarter of 2021 that resulted in a provision for liquidated damages expected to be resolved later in the year or the first quarter of 2022. During the second quarter, the Corporation announced an update to the previously reported guidance. A further update has been provided as a result of the Kent HIlls 2 turbine collapse. This is further discussed in the 2021 Outlook.

Net earnings attributable to common shareholders for the three months ended Sept. 30, 2021, increased by $14 million compared to the same period in 2020, primarily due to higher finance income from investments in subsidiaries of TransAlta and no fair value losses recognized in the current period partially offset by lower production from the Canadian wind fleet and greater asset impairments.

Net earnings attributable to common shareholders for the nine months ended Sept. 30, 2021, increased by $58 million compared to the same period in 2020, primarily due to higher finance income from investments in subsidiaries of TransAlta, no fair value losses recognized in the period, partially offset by the liquidated damages recognized relating to unplanned outages, unfavourable steam reconciliation adjustment in Canadian Gas, lower wind production from the Canadian wind fleet, lower foreign exchange gains and greater asset impairments. Finance income from investments in subsidiaries was higher in the current period compared to the same period in 2020, due to higher distributions received from the Australian economic interest. No fair value losses were recognized in the period as the Preferred Shares Tracking the Amortizing Term Loan were redeemed on Oct. 23, 2020.

Renewable energy production for the three and nine months ended Sept. 30, 2021, decreased by 10 GWh and 122 GWh, respectively, compared to the same periods in 2020. This decrease was mainly due to lower wind resources in the Canadian Wind and US Wind segments, and lower water resources in the Canadian Hydro segment, partially offset by the production from the acquisition of the economic interest in the Skookumchuck wind facility.

Comparable earnings before interest, taxes, depreciation and amortization ("comparable EBITDA") for the three months ended Sept. 30, 2021, increased by $6 million, compared to the same periods in 2020, mainly due to the acquisition of Ada and Skookumchuk facilities in 2021, higher comparable EBITDA in the Canadian Gas and Australian Gas segments partially offset by lower wind production across the entire wind fleet. Comparable EBITDA for the nine months ended Sept. 30, 2021 decreased by $7 million, respectively, compared to the same periods in 2020 mainly due to lower wind resources across the wind fleet, unplanned outages, including the steam supply disruption in the Canadian Gas segment, partially offset by production from the acquisition of the economic interests of Skookumchuck and Ada.

Adjusted Funds from Operations ("AFFO") and Cash Available for Distribution ("CAFD") for the three months ended Sept. 30, 2021, each decreased by $19 million compared to the same periods in 2020. The decrease in AFFO was primarily due to higher interest expense attributable to the financing at South Hedland and sustaining capital within Australia driven by planned maintenance and a spare engine purchase for the South Hedland facility. AFFO and CAFD for the nine months ended Sept. 30, 2021, decreased by $47 million and $48 million, respectively, compared to the same periods in 2020 due to lower comparable EBITDA and higher interest expense and sustaining capital within Australia.

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 North Carolina Solar

On Nov. 5, 2021, the Corporation acquired a 100 per cent economic interest in the 122 MW portfolio of 20 operating solar photovoltaic facilities located in North Carolina (collectively, "North Carolina Solar"). The facilities are secured by long-term power purchase agreements ("PPAs") with two subsidiaries of Duke Energy ("Duke Energy"), which have an average remaining term of 12 years. Under the PPAs, Duke Energy receives the renewable electricity, capacity and environmental attributes from each facility. The Corporation acquired the economic interest in North Carolina Solar by acquiring a US$102 million investment in tracking preferred shares of a TransAlta subsidiary. The investment was funded using existing liquidity. The acquisition expands the Corporations portfolio in renewable energy and presence in the US market.

Kent Hills Wind Facility Outage

On Sept. 27, 2021, the Corporation's subsidiary, Kent Hills Wind LP, experienced a single tower failure at its 167 MW Kent Hills wind facility in Kent Hills, New Brunswick. The failure involved a collapsed tower located within the Kent Hills 2 site. There were no injuries as a result of the collapse. No one was in the area when the incident occurred and there are no homes in the immediate vicinity. The Corporation's emergency response team has secured the area to ensure safety. This incident has resulted in an impairment of $2 million being booked against the turbine.

The facility consists of 50 turbines at Kent Hills 1 and Kent Hills 2 and 5 turbines at Kent Hills 3. The turbines at the Kent Hills 1 and Kent Hills 2 sites have been taken offline pending a satisfactory independent engineering and safety assessment. The engineering assessment, which is ongoing, has identified sub-surface crack propagation at several of the foundations of the turbines located at the Kent Hills 1 and Kent Hills 2 sites. As a result, further inspection and testing will be required for all turbines at Kent Hills 1 and Kent Hills 2 to determine the required remediation plan, on a turbine-by-turbine basis. It is presently expected that the outage at Kent Hills 1 and Kent Hills 2 will require repairs or replacements for a significant portion of the existing foundations. Foundation replacements would require expenditures of approximately $1.5 million to $2.0 million per foundation. The remediation plan is expected to be implemented in 2022. The outage is expected to result in foregone revenue of approximately $3.4 million per month on an annualized basis for so long as all 50 turbines are offline, based on average historical wind production, with revenue expected to be earned as the wind turbines are returned to service. The foundation issues at the Kent Hills 1 and Kent Hills 2 sites are unique to the design of those sites and there is no indication of any foundation issue at the Kent Hills 3 site nor any other wind sites in the fleet. The Corporation is maintaining communication with all key stakeholders and keeping them fully apprised of the situation. The Corporation has notified its insurers regarding an insurance claim for both property loss and business interruption.

Please refer to the 2021 Outlook section of this MD&A for more details on our updated guidance.

Northern Goldfields Solar Project

On July 29, 2021, the Corporation announced that Southern Cross Energy, a subsidiary of the Corporation and an entity in which TransAlta Renewables owns an indirect economic interest, had reached an agreement to provide BHP Nickel West Pty Ltd. ("BHP") with renewable electricity to its Goldfields-based operations through the construction of the Northern Goldfields Solar Project. The project comprises the 27 MW Mount Keith Solar Farm, 11 MW Leinster Solar Farm, 10 MW/5MWh Leinster battery energy storage system and interconnecting transmission infrastructure, all of which will be integrated into our existing 169 MW Southern Cross Energy North remote network in Western Australia. Construction activities are scheduled to start in the first quarter of 2022 with completion of the project expected in the second half of 2022. Total construction capital of the project is estimated at approximately AU$73 million. This is the first major growth project agreed under the extended PPA that was executed in October of 2020. The Corporation continues to actively explore other growth opportunities with BHP.

Sarnia Cogeneration Facility Contract Extension

On May 12, 2021, the Corporation executed an Amended and Restated Energy Supply Agreement with one of its large industrial customers at the Sarnia cogeneration facility that provides for the supply of electricity and steam. This agreement will extend the term of the original agreement from Dec. 31, 2022 to Dec. 31, 2032. However, if TransAlta is unable to enter into a new contract with the Ontario Independent Electricity System Operator ("IESO") or enter into agreements with its other industrial customers at the Sarnia cogeneration facility that extend past Dec. 31, 2025, then this agreement will automatically terminate on Dec. 31, 2025. The current contract with the IESO in respect of the Sarnia cogeneration facility expires on Dec. 31, 2025. The Corporation is in active discussions with the three other existing industrial customers regarding agreement extensions to their supply of electricity and steam from the Sarnia cogeneration facility on comparable terms. On July 19, 2021, the IESO released an Annual Acquisition Report that included draft details for mid and long-term procurement mechanisms for capacity for 2026 and beyond for existing and new generation. The Corporation is participating in the consultation process, seeking to secure a contract extension for the Sarnia cogeneration facility following the end of the current contract.

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 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, respectively, in tracking preferred shares of a TransAlta subsidiary. The economic benefit of each transaction was effective as at Jan. 1, 2021.

Acquisition of the Windrise Wind Project

On Feb. 26, 2021, the Corporation acquired a 100 per cent direct interest in the 206 MW Windrise wind project located in Alberta for $213 million. The acquisition 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 property, plant and equipment ("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. All turbine erection activities have now been completed at the Windrise wind project with final commissioning activities currently underway, the project is on track to achieve full commercial operations in November 2021.

Board of Director Changes

On May 18, 2021, the Corporation announced that the Board of Directors (the "Board") elected three new directors to the Board: 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 did not stand for re-election and retired from the Board immediately following the Annual Meeting of Shareholders on May 18, 2021.

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 safe and healthy. TransAlta has adopted local public health authority and government guidelines in all jurisdictions in which we operate to promote the health and safety of all employees and contractors with our health and safety protocols. All of TransAlta's offices and sites follow health screening and social distancing protocols, including personal protective equipment. As of Nov. 15, 2021, TransAlta will implement a two phase mandatory rapid testing protocol for those employees that are not fully vaccinated. The first phase will commence on Nov. 15, 2021 to Jan. 31, 2022 and will be paid by TransAlta, requiring onsite testing every 72 hours at TransAlta's cost. On or about Feb. 1, 2022, those employees who are not fully vaccinated will be required to pay for testing and provide TransAlta with proof of a negative test every 72 hours. Employees can be exempt from rapid testing if they are able to provide proof of vaccination. Further, TransAlta maintains travel limitations that are aligned to local jurisdictional guidance, enhanced cleaning procedures, revised work schedules, contingent work teams and the reorganization of processes and procedures to minimize any workplace transmission of the virus.

Notwithstanding the challenges associated with the 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 with exception of Kent Hills wind facility as described above, which is not related to the pandemic. 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 as a result of COVID-19. 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. During the first nine months of 2021, we experienced weaker than anticipated results due to higher unplanned outages in the Canadian Gas segment and lower wind resources. While the unplanned outages did not have a material impact on electricity production, they did impact steam supply to our customers. Although steam supply disruptions of this nature are atypical and infrequent, these interruptions resulted in a provision for liquidated damages which we expect to resolve later this year or during the first quarter of 2022. Wind resource is cyclical and production in the first nine months of the year was 90 per cent of the long-term average production with lower wind resource in all operating regions. As a result of these factors during the first six months of 2021, AFFO and CAFD were revised due to lower comparable EBITDA and the acceleration of the acquisition of a spare turbine for the South Hedland facility.

In the third quarter of 2021, the Corporation further revised its key financial targets for 2021 downward, including a reduction to its 2021 forecasted range of cash available for distribution to $250 million to $270 million (relative to an original target of $285 million to $315 million). The reduction was due to an unexpected and ongoing outage at the Kent Hills 1 and 2 wind facilities stemming from the collapse of a wind turbine tower. At the current dividend level, this range equates to a payout ratio of 93 to 100 per cent, which is above the Corporation's target payout ratio of 80 to 85 per cent. The Corporation is currently investigating the causes of the tower failure with a view to developing a remediation plan for the facilities. It is presently expected that the outage at Kent Hills 1 and Kent Hills 2 will require repairs or replacements for a significant portion of the existing foundations. Foundation replacements would require expenditures of approximately $1.5 million to $2.0 million per foundation. The remediation plan is expected to be implemented in 2022 and is expected to adversely impact the Corporation's 2022 cash available for distribution and payout ratio. The Corporation currently has sufficient liquidity and financial capacity to fund any required remediation at Kent Hills 1 and Kent Hills 2 and remains focused on ensuring the sustainability of the dividend through internally generated cash flows and the execution of strategic growth opportunities.

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

Measure(1)	Original Target	Revised Target
Comparable EBITDA	$480 million to $520 million	$450 million to $480 million
Adjusted funds from operations	$335 million to $365 million	$300 million to $330 million
Cash available for distribution	$285 million to $315 million	$250 million to $270 million

(1) These items are not defined and have no standardized meaning under IFRS. 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 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	4,200 to 4,700 GWh
Weighted average remaining contractual life of PPAs	12 years
Sustaining capital and productivity expenditures	$45 million to $55 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, or contract for purchases where required.

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 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, US Gas 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:

3 months ended Sept. 30	Long-term average renewable energy production (GWh)(1)	Production (GWh) 2021	Production (GWh) 2020	Comparable EBITDA(2) 2021	Comparable EBITDA(2) 2020
Canadian Wind	**591**	526	548	28	32
Canadian Hydro	**164**	136	148	6	5
US Wind and Solar(3)	**210**	192	168	12	12
Total – Renewable energy	**965**	**854**	**864**	**46**	**49**
Canadian Gas		403	311	21	20
US Gas(3)		54	—	3	—
Australian Gas		405	425	36	33
Corporate		—	—	(4)	(6)
Total		**1,716**	**1,600**	**102**	**96**

(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.
(2) Comparable EBITDA is a non-IFRS measure and has no standardized meaning under IFRS. Refer to the Additional IFRS Measures and Non-IFRS Measures sections for further details.
(3) US Wind and Solar includes the Skookumchuck wind facility and US Gas is comprised of the Ada cogeneration facility which were acquired through investment in tracking preferred shares on Apr. 1, 2021. The economic benefit of the transaction was effective as at Jan. 1, 2021.

9 months ended Sept. 30	Long-term average renewable energy production (GWh)(1)	Production (GWh) 2021	Production (GWh) 2020	Comparable EBITDA(2) 2021	Comparable EBITDA(2) 2020
Canadian Wind	**2,200**	**1,936**	2,142	**120**	126
Canadian Hydro	**363**	**338**	346	**14**	14
US Wind and Solar(3)	**779**	**739**	647	**52**	53
Total – Renewable energy	**3,342**	**3,013**	3,135	**186**	193
Canadian Gas		**997**	859	**45**	58
US Gas(3)		**133**	—	**7**	—
Australian Gas		**1,244**	1,344	**99**	94
Corporate		**—**	—	**(15)**	(16)
Total		**5,387**	5,338	**322**	329

(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.
(2) Comparable EBITDA is a non-IFRS measure and has no standardized meaning under IFRS. Refer to the Additional IFRS Measures and Non-IFRS Measures sections for further details.
(3) US Wind and Solar includes the Skookumchuck wind facility and US Gas is comprised of the Ada cogeneration facility which were acquired through investment in tracking preferred shares on Apr. 1, 2021. The economic benefit of the transaction was effective as at Jan. 1, 2021. Production and comparable EBITDA disclosed for the nine months ended Sept. 30, 2021 include Jan. 1 through Sept. 30, 2021 results of the Skookumchuck wind facility and the Ada cogeneration facility.

Canadian Wind

Production for the three and nine months ended Sept. 30, 2021, decreased by 22 GWh and 206 GWh compared to the same periods in 2020, due to lower production in both Eastern and Western Canada driven by lower wind resources. Production for the nine months ended Sept. 30, 2021 was also impacted by wind turbine blade icing events in Eastern Canada.

Comparable EBITDA for the three months ended Sept. 30, 2021, decreased by $4 million, compared to the same period in 2020, mainly due to lower production. Comparable EBITDA for the nine months ended Sept. 30, 2021, decreased by $6 million compared to the same period in 2020, mainly due to lower production and the expiry of wind power production incentives, offset by the sale of 2020 environmental credits to TransAlta in the first and third quarters of 2021.

Canadian Hydro

Production for the three and nine months ended Sept. 30, 2021, decreased by 12 GWh and 8 GWh compared to the same periods in 2020, due to lower production in British Columbia and Ontario, offset by higher production in Alberta.

Comparable EBITDA for the three months ended Sept. 30, 2021, increased by $1 million, compared to the same period in 2020, mainly due to the AESO transmission line loss provision in 2020 partially offset by lower production. Comparable EBITDA for the nine months ended Sept. 30, 2021, remained consistent compared to the same period in 2020.

US Wind and Solar

Production for the three and nine months ended Sept. 30, 2021, increased by 24 GWh and 92 GWh compared to the same periods in 2020, mainly due to the nine months of production generated from Skookumchuck wind facility, partially offset by lower wind resources at the remaining wind fleet.

Comparable EBITDA for the three months ended Sept. 30, 2021, remained consistent compared to the same period in 2020, mainly due to the addition of the Skookumchuck wind facility, offset by lower production. Comparable EBITDA for the nine months ended Sept. 30, 2021, decreased by $1 million compared to the same period in 2020, mainly due to lower environmental credits sold and lower production, partially offset by the addition of the Skookumchuck wind facility.

Canadian Gas

Canadian Gas consists solely of the Sarnia cogeneration facility. Production for the three and nine months ended Sept. 30, 2021, increased by 92 GWh and 138 GWh compared to the same periods 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. During the second quarter of 2021, the Sarnia facility experienced short-term steam supply outages which had a minimal impact on production. Refer to the Sarnia Outages discussion in the Liquidity and Capital Resources section of this MD&A for more on the outages.

Comparable EBITDA for the three months ended Sept. 30, 2021, increased by $1 million compared to the same periods in 2020, mainly due to the impact of stronger gas prices on steam revenue payments, partially offset by costs related to emergent maintenance. Comparable EBITDA for the nine months ended Sept. 30, 2021 decreased by $13 million compared to the same periods in 2020, mainly due to steam interruption events and an unfavourable steam reconciliation adjustment.

US Gas

US Gas assets consists solely of the Ada cogeneration facility. The acquisition of the 100 per cent economic interest in the 29 MW Ada cogeneration facility closed on April 1, 2021, with the economic benefit of the transaction effective as at Jan. 1, 2021.

Australian Gas

Production for the three and nine months ended Sept. 30, 2021, decreased by 20 GWh and 100 GWh compared to the same periods 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 Sept. 30, 2021, increased by $3 million compared to the same period in 2020 mainly due to Solomon meter station upgrade revenue. Comparable EBITDA for the nine months ended Sept. 30, 2021, increased by $5 million compared to the same period in 2020, mainly due to the timing of legal fees, strengthening of the Australian dollar relative to the Canadian dollar and the Solomon meter station upgrade revenues recognised in 2021.

Reconciliation of Non-IFRS Measures

Reconciliation of Comparable EBITDA to Earnings Before Income Tax

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, refer to the section Reconciliation of AFFO to Finance Income from Investments in Economic Interests.

	Owned Assets				Economic Interests						
3 months ended Sept. 30, 2021	**Canadian Wind**	**Canadian Hydro**	**Canadian Gas**	**Corporate**	**US Wind and Solar[1]**	**US Gas[1]**	**Australian Gas[2]**	**Total**	**Investments in Economic Interests**	**Adjustments[2]**	**IFRS Financials**
Revenues[2]	42	9	62	—	18	6	46	183	(70)	1	**114**
Fuel, royalties and other costs[3]	3	1	34	—	1	2	1	42	(4)	—	**38**
Gross margin	**39**	**8**	**28**	**—**	**17**	**4**	**45**	**141**	**(66)**	**1**	**76**
Operations, maintenance, and administration[4]	9	2	7	4	4	1	9	36	(14)	—	**22**
Taxes, other than income taxes	2	—	—	—	1	—	—	3	(1)	—	**2**
Comparable EBITDA[5]	**28**	**6**	**21**	**(4)**	**12**	**3**	**36**	**102**	**(51)**	**1**	**52**
Depreciation and amortization	(24)	(2)	(8)	—	(9)	(2)	(7)	(52)	18	—	**(34)**
Asset impairment charge	(10)	—	—	—	—	—	—	(10)	—	—	**(10)**
Finance income related to subsidiaries of TransAlta	—	—	—	—	—	—	—	—	19	—	**19**
Finance lease income	—	—	—	—	—	—	—	—	—	1	**1**
Interest income	—	—	—	1	—	—	1	2	(1)	—	**1**
Interest expense	(4)	(1)	(1)	(3)	(2)	—	(9)	(20)	11	—	**(9)**
Foreign exchange gain	—	—	—	1	—	—	1	2	(1)	—	**1**
Adjustments:											
Finance lease adjustment[2]	1	—	—	—	—	—	(6)	(5)	6	(1)	**—**
Unrealized mark-to-market[2]	—	—	1	—	(13)	6	—	(6)	7	(1)	**—**
Interest revenue[3]	—	—	—	—	—	—	(1)	(1)	1	—	**—**
Earnings before income tax	**(9)**	**3**	**13**	**(5)**	**(12)**	**7**	**15**	**12**	**9**	**—**	**21**

(1) US Wind and Solar includes the Skookumchuck wind facility and US Gas is comprised of the Ada cogeneration facility which were acquired through investment in tracking preferred shares on Apr. 1, 2021.
(2) Comparable EBITDA excludes the impact of unrealized mark-to market gains or losses. Amounts related to economic interests include finance lease income adjusted for change in finance lease receivable.
(3) Amounts related to economic interests include interest earned on the prepayment of certain transmission costs.
(4) Amounts related to economic interests include the effect of contractually fixed management costs.
(5) Comparable EBITDA is a non-IFRS measure and has no standardized meaning under IFRS. Refer to the Additional IFRS Measures and Non-IFRS Measures sections for further details.

3 months ended Sept. 30, 2020	Owned Assets: Canadian Wind	Owned Assets: Canadian Hydro	Owned Assets: Canadian Gas	Owned Assets: Corporate	Economic Interests: US Wind and Solar	Economic Interests: US Gas	Economic Interests: Australian Gas	Total	Investments in Economic Interests	Adjustments[1]	IFRS Financials
Revenues[1]	45	10	40	—	16	—	43	154	(59)	—	95
Fuel, royalties and other costs[2]	4	3	12	—	1	—	2	22	(3)	—	19
Gross margin	41	7	28	—	15	—	41	132	(56)	—	76
Operations, maintenance, and administration[3]	8	2	7	6	2	—	8	33	(10)	—	23
Taxes, other than income taxes	1	—	1	—	1	—	—	3	(1)	—	2
Comparable EBITDA[4]	32	5	20	(6)	12	—	33	96	(45)	—	51
Depreciation and amortization	(24)	(2)	(8)	—	(9)	—	(11)	(54)	20	—	(34)
Asset impairment charge	—	(2)	—	—	—	—	—	(2)	—	—	(2)
Finance income related to subsidiaries of TransAlta	—	—	—	—	—	—	—	—	13	—	13
Interest income	1	—	—	—	—	—	1	2	(1)	—	1
Interest expense	(7)	(1)	(2)	—	(1)	—	(11)	(22)	12	—	(10)
Change in fair value of financial assets	—	—	—	—	—	—	—	—	(13)	—	(13)
Foreign exchange gain	—	—	—	3	—	—	—	3	—	—	3
Adjustments:											
Unrealized mark-to-market[1]	—	—	—	—	2	—	—	2	(2)	—	—
Interest revenue[2]	—	—	—	—	—	—	(1)	(1)	1	—	—
Management fee adjustment[3]	—	—	—	—	—	—	(1)	(1)	1	—	—
Earnings before income tax	2	—	10	(3)	4	—	10	23	(14)	—	9

(1) Comparable EBITDA excludes the impact of unrealized mark-to market gains or losses.
(2) Amounts related to economic interests include interest earned on the prepayment of certain transmission costs.
(3) Amounts related to economic interests include the effect of contractually fixed management costs.
(4) Comparable EBITDA is a non-IFRS measure and has no standardized meaning under IFRS. Refer to the Additional IFRS Measures and Non-IFRS Measures sections for further details.

	Owned Assets				Economic Interests						
9 months ended Sept. 30, 2021	**Canadian Wind**	**Canadian Hydro**	**Canadian Gas**	**Corporate**	**US Wind and Solar**[(1)]	**US Gas**[(1)]	**Australian Gas**[(2)]	**Total**	**Investments in Economic Interests**	**Adjustments**[(2)]	**IFRS Financials**
Revenues[(2)]	159	23	149	—	68	16	130	545	(214)	1	**332**
Fuel, royalties and other costs[(3)]	7	3	81	—	2	6	4	103	(12)	—	**91**
Gross margin	**152**	**20**	**68**	**—**	**66**	**10**	**126**	**442**	**(202)**	**1**	**241**
Operations, maintenance, and administration[(4)]	27	5	22	15	11	3	27	110	(41)	—	**69**
Taxes, other than income taxes	5	1	1	—	3	—	—	10	(3)	—	**7**
Comparable EBITDA[(5)]	**120**	**14**	**45**	**(15)**	**52**	**7**	**99**	**322**	**(158)**	**1**	**165**
Depreciation and amortization	(70)	(6)	(25)	—	(29)	(5)	(21)	(156)	55	—	**(101)**
Asset impairment charge	(10)	—	—	—	—	—	—	(10)	—	—	**(10)**
Finance income related to subsidiaries of TransAlta	—	—	—	—	—	—	—	—	68	—	**68**
Finance lease income	—	—	—	—	—	—	—	—	—	1	**1**
Interest income	2	—	—	3	5	—	4	14	(9)	—	**5**
Interest expense	(15)	(2)	(3)	(8)	(7)	—	(26)	(61)	33	—	**(28)**
Foreign exchange gain	—	—	—	10	—	—	1	11	(1)	—	**10**
Gain on sale of assets	—	—	—	—	—	—	1	1	(1)	—	**—**
Adjustments:											
Finance lease adjustment[(2)]	1	—	—	—	—	—	(18)	(17)	18	(1)	**—**
Unrealized mark-to-market[(2)]	—	—	1	—	(15)	11	—	(3)	4	(1)	**—**
Interest revenue[(3)]	—	—	—	—	—	—	(3)	(3)	3	—	**—**
Management fee adjustment[(4)]	—	—	—	—	—	—	(1)	(1)	1	—	**—**
Earnings before income tax	**28**	**6**	**18**	**(10)**	**6**	**13**	**36**	**97**	**13**	**—**	**110**

(1) US Wind and Solar includes the Skookumchuck wind facility and US Gas is comprised of the Ada cogeneration facility which were acquired through investment in tracking preferred shares on Apr. 1, 2021. The economic benefit of the transaction was effective as at Jan. 1, 2021. Results of the Skookumchuck wind facility and Ada cogeneration facility include Jan. 1, 2021 through Sept. 30, 2021.
(2) Comparable EBITDA excludes the impact of unrealized mark-to market gains or losses. Amounts related to economic interests include finance lease income adjusted for change in finance lease receivable.
(3) Amounts related to economic interests include interest earned on the prepayment of certain transmission costs.
(4) Amounts related to economic interests include the effect of contractually fixed management costs.
(5) Comparable EBITDA is a non-IFRS measure and has no standardized meaning under IFRS. Refer to the Additional IFRS Measures and Non-IFRS Measures sections for further details.

9 months ended Sept. 30, 2020	Owned Assets				Economic Interests						
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas	Total	Investments in Economic Interests	Adjustments[1]	IFRS Financials
Revenues[1]	167	25	117	—	65	—	121	495	(186)	(1)	308
Fuel, royalties and other costs[2]	11	5	37	—	2	—	5	60	(7)	—	53
Gross margin	156	20	80	—	63	—	116	435	(179)	(1)	255
Operations, maintenance, and administration[3]	26	5	21	16	8	—	22	98	(30)	—	68
Taxes, other than income taxes	4	1	1	—	2	—	—	8	(2)	—	6
Comparable EBITDA[4]	126	14	58	(16)	53	—	94	329	(147)	(1)	181
Depreciation and amortization	(68)	(6)	(27)	—	(26)	—	(34)	(161)	60	—	(101)
Asset impairment charge	—	(2)	—	—	—	—	—	(2)	—	—	(2)
Finance income related to subsidiaries of TransAlta	—	—	—	—	—	—	—	—	31	—	31
Interest income	2	—	—	2	—	—	3	7	(3)	—	4
Interest expense	(22)	(2)	(4)	(4)	(4)	—	(31)	(67)	35	—	(32)
Change in fair value of financial assets	—	—	—	—	—	—	—	—	(44)	—	(44)
Foreign exchange gain	—	—	—	19	—	—	—	19	—	—	19
Adjustments:											
Unrealized mark-to-market[1]	—	(1)	—	—	8	—	—	7	(8)	1	—
Interest revenue[2]	—	—	—	—	—	—	(3)	(3)	3	—	—
Management fee adjustment[3]	—	—	—	—	—	—	(3)	(3)	3	—	—
Earnings before income tax	38	3	27	1	31	—	26	126	(70)	—	56

(1) Comparable EBITDA excludes the impact of unrealized mark-to market gains or losses.
(2) Amounts related to economic interests include interest earned on the prepayment of certain transmission costs.
(3) Amounts related to economic interests include the effect of contractually fixed management costs.
(4) Comparable EBITDA is a non-IFRS measure and has no standardized meaning under IFRS. Refer to the Additional IFRS Measures and Non-IFRS Measures sections for further details.

Reconciliation of Comparable EBITDA to AFFO and CAFD

	Owned Assets				Economic Interests			
3 months ended Sept. 30, 2021	**Canadian Wind**	**Canadian Hydro**	**Canadian Gas**	**Corporate**	**US Wind and Solar[1]**	**US Gas[1]**	**Australian Gas**	**Total**
Comparable EBITDA	28	6	21	(4)	12	3	36	102
Interest expense	(4)	(1)	—	(3)	—	—	(6)	(14)
Current income tax expense	(4)	—	—	—	—	—	—	(4)
Realized foreign exchange gain	—	—	—	1	—	—	—	1
Tax equity distributions	—	—	—	—	(7)	—	—	(7)
Sustaining capital expenditures	(4)	(1)	(1)	—	—	—	(16)	(22)
Distributions paid to subsidiaries' non-controlling interest	(1)	—	—	—	—	—	—	(1)
Interest income	—	—	—	1	—	—	1	2
AFFO	15	4	20	(5)	5	3	15	57
Deduct:								
Principal repayments of amortizing debt	(3)	—	—	—	—	—	—	(3)
Principal repayments lease obligations	—	—	—	—	—	—	—	—
CAFD	12	4	20	(5)	5	3	15	54

(1) US Wind and Solar includes the Skookumchuck wind facility and US Gas is comprised of the Ada cogeneration facility which were acquired through investment in tracking preferred shares on Apr. 1, 2021.

	Owned Assets				Economic Interests			
3 months ended Sept. 30, 2020	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas	Total
Comparable EBITDA	32	5	20	(6)	12	—	33	96
Provisions	2	1	—	—	—	—	—	3
Interest expense	(6)	(1)	(2)	—	—	—	—	(9)
Current income tax expense	—	—	—	—	(1)	—	—	(1)
Tax equity distributions	—	—	—	—	(4)	—	—	(4)
Sustaining capital expenditures	(5)	—	(1)	—	—	—	—	(6)
Distributions paid to subsidiaries' non-controlling interest	(1)	—	—	—	—	—	—	(1)
Currency adjustment and interest income	—	—	—	—	—	—	(2)	(2)
AFFO	22	5	17	(6)	7	—	31	76
Deduct:								
Principal repayments of amortizing debt	(3)	—	—	—	—	—	—	(3)
Principal repayments lease obligations	—	—	—	—	—	—	—	—
CAFD	19	5	17	(6)	7	—	31	73

9 months ended Sept. 30, 2021	Owned Assets: Canadian Wind	Owned Assets: Canadian Hydro	Owned Assets: Canadian Gas	Owned Assets: Corporate	Economic Interests: US Wind and Solar[1]	Economic Interests: US Gas[1]	Economic Interests: Australian Gas	Total
Comparable EBITDA	**120**	**14**	**45**	**(15)**	**52**	**7**	**99**	**322**
Provisions and contract liabilities	**(6)**	**—**	**12**	**—**	**—**	**—**	**—**	**6**
Interest expense	**(14)**	**(2)**	**(1)**	**(8)**	**(1)**	**—**	**(18)**	**(44)**
Current income tax expense	**(12)**	**—**	**—**	**—**	**(1)**	**—**	**(9)**	**(22)**
Realized foreign exchange gain	**—**	**—**	**—**	**2**	**—**	**—**	**—**	**2**
Tax equity distributions	**—**	**—**	**—**	**—**	**(21)**	**—**	**—**	**(21)**
Sustaining capital expenditures	**(7)**	**(2)**	**(2)**	**—**	**(1)**	**(1)**	**(20)**	**(33)**
Distributions paid to subsidiaries' non-controlling interest	**(3)**	**—**	**—**	**—**	**—**	**—**	**—**	**(3)**
Interest income	**2**	**—**	**—**	**3**	**—**	**—**	**2**	**7**
AFFO	**80**	**10**	**54**	**(18)**	**28**	**6**	**54**	**214**
Deduct:								
Principal repayments of amortizing debt	**(29)**	**—**	**—**	**—**	**—**	**—**	**—**	**(29)**
Principal repayments lease obligations	**(1)**	**—**	**—**	**—**	**—**	**—**	**—**	**(1)**
CAFD	**50**	**10**	**54**	**(18)**	**28**	**6**	**54**	**184**

(1) US Wind and Solar includes the Skookumchuck wind facility and US Gas is comprised of the Ada cogeneration facility which were acquired through investment in tracking preferred shares on Apr. 1, 2021. The economic benefit of the transaction was effective as at Jan. 1, 2021. Results of the Skookumchuck wind facility and Ada cogeneration facility include Jan. 1, 2021 through Sept. 30, 2021.

9 months ended Sept. 30, 2020	Owned Assets: Canadian Wind	Owned Assets: Canadian Hydro	Owned Assets: Canadian Gas	Owned Assets: Corporate	Economic Interests: US Wind and Solar	Economic Interests: US Gas	Economic Interests: Australian Gas	Total
Comparable EBITDA	126	14	58	(16)	53	—	94	329
Provisions	3	1	—	—	—	—	—	4
Interest expense	(21)	(2)	(2)	(4)	—	—	—	(29)
Current income tax expense	(1)	—	—	—	(2)	—	(6)	(9)
Realized foreign exchange loss	—	—	—	(3)	—	—	—	(3)
Tax equity distributions	—	—	—	—	(16)	—	—	(16)
Sustaining capital expenditures	(9)	(1)	(2)	—	(1)	—	(2)	(15)
Distributions paid to subsidiaries' non-controlling interest	(4)	—	—	—	—	—	—	(4)
Currency adjustment and interest income	1	—	—	3	—	—	—	4
AFFO	95	12	54	(20)	34	—	86	261
Deduct:								
Principal repayments of amortizing debt	(28)	—	—	—	—	—	—	(28)
Principal repayments lease obligations	(1)	—	—	—	—	—	—	(1)
CAFD	66	12	54	(20)	34	—	86	232

Reconciliation of AFFO to Finance Income Related to Subsidiaries of TransAlta

3 months ended Sept. 30	2021				2020		
	US Wind and Solar[1]	**US Gas[1]**	**Australian Gas**	**Total**	US Wind and Solar	Australian Gas	Total
AFFO	**5**	**3**	**15**	**23**	7	31	38
Return of Solomon proceeds	**—**	**—**	**—**	**—**	—	8	8
Return of capital and redemptions	**(3)**	**—**	**—**	**(3)**	(4)	(8)	(12)
Effects of changes in working capital and other timing[2]	**2**	**(3)**	**—**	**(1)**	—	(21)	(21)
Finance income related to subsidiaries of TransAlta	**4**	**—**	**15**	**19**	3	10	13

9 months ended Sept. 30	2021				2020		
	US Wind and Solar[1]	**US Gas[1]**	**Australian Gas**	**Total**	US Wind and Solar	Australian Gas	Total
AFFO	**28**	**6**	**54**	**88**	34	86	120
Return of Solomon proceeds	**—**	**—**	**—**	**—**	—	8	8
Return of capital and redemptions	**(14)**	**(3)**	**—**	**(17)**	(25)	(57)	(82)
Effects of changes in working capital and other timing[2]	**—**	**(3)**	**—**	**(3)**	(4)	(11)	(15)
Finance income related to subsidiaries of TransAlta	**14**	**—**	**54**	**68**	5	26	31

(1) US Wind and Solar includes the Skookumchuck wind facility and US Gas is comprised of the Ada cogeneration facility which were acquired through investment in tracking preferred shares on Apr. 1, 2021. The economic benefit of the transaction was effective as at Jan. 1, 2021. Results of the Skookumchuck wind facility and Ada cogeneration facility include Jan. 1, 2021 through Sept. 30, 2021.
(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 owed 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.

Reconciliation of Reported Cash Flow from Operating Activities to Our AFFO and CAFD

	3 months ended Sept. 30		9 months ended Sept. 30	
	2021	2020	**2021**	2020
Cash flow from operating activities	**83**	65	**265**	218
Change in non-cash operating working capital balances	**(23)**	(7)	**(57)**	(30)
Cash flow from operations before changes in working capital	**60**	58	**208**	188
Adjustments:				
Sustaining capital expenditures – owned assets	**(6)**	(6)	**(11)**	(12)
Distributions paid to subsidiaries' non-controlling interest	**(1)**	(1)	**(3)**	(4)
Finance income related to subsidiaries of TransAlta(1)	**(19)**	(13)	**(68)**	(31)
AFFO — economic interests(1)	**23**	38	**88**	120
AFFO	**57**	76	**214**	261
Deduct:				
Principal repayments of amortizing debt	**(3)**	(3)	**(29)**	(28)
Principal repayments of lease obligations(2)	**—**	—	**(1)**	(1)
CAFD	**54**	73	**184**	232
Weighted average number of common shares outstanding in the period (millions)	**267**	266	**267**	266
AFFO per share	**0.21**	0.29	**0.80**	0.98
CAFD per share	**0.20**	0.27	**0.69**	0.87

(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 in this MD&A.
(2) Includes owned assets and economic interests.

Selected Quarterly Information

	Q4 2020	Q1 2021	Q2 2021	**Q3 2021**
Revenue	128	126	92	**114**
Net earnings attributable to common shareholders	53	52	25	**20**
Cash flow from operating activities	49	103	79	**83**
AFFO(1)	94	93	64	**57**
CAFD(1)	72	90	40	**54**
Net earnings per share attributable to common shareholders, basic and diluted	0.20	0.19	0.09	**0.07**
CAFD per share(1)	0.27	0.34	0.15	**0.20**

	Q4 2019	Q1 2020	Q2 2020	Q3 2020
Revenue	119	110	103	95
Net earnings attributable to common shareholders	48	3	30	6
Cash flow from operating activities	73	82	71	65
AFFO(1)	100	94	90	76
CAFD(1)	77	91	67	73
Net earnings per share attributable to common shareholders, basic and diluted	0.18	0.01	0.11	0.02
CAFD per share(1)	0.29	0.34	0.25	0.27

(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 has been impacted by the following variations and events:

- Revenue of $7 million and $4 million related to the sale of Alberta carbon offsets and EPCs to TransAlta occurred in the first and third quarter of 2021, respectively;
- The unplanned outages at the Sarnia gas facility in the second quarter of 2021;
- The effects of asset impairments recognized in the third quarter of 2021; and
- Impact of the updated provision estimates for the transmission line loss rule proceeding during the first quarter of 2021 and the last three quarters of 2020.

Net earnings attributable to common shareholders also 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, the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities and the Preferred Shares Tracking Earnings and Distributions of US Gas).
- 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. As the Preferred Shares Tracking the Amortizing Term Loan were redeemed on Oct. 23, 2020, there are no changes in fair value of financial assets recognized in earnings subsequent to the fourth quarter of 2020.
- 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 the second quarter in 2020 and the first, second and third quarters in 2021, with losses in the fourth quarter of 2019 and first, third and fourth quarters of 2020.

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 and nine months ended Sept. 30, 2021, for details on financial instruments.

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

As at Sept. 30, 2021, Level II financial instruments were comprised of financial assets with a carrying value of $2 million related to net risk management assets (Dec. 31, 2020 - $2 million net risk management liabilities).

As at Sept. 30, 2021, Level III financial instruments were comprised of financial assets with a carrying value of $1,136 million (Dec. 31, 2020 - $1,087 million). The investment in Preferred Shares Tracking Australia Cash Flows decreased by $87 million reflecting a change in cash flow assumptions, including unfavorable foreign exchange impacts, recontracting assumptions and discount rate changes, partially offset by an adjustment to the cash flows associated with the extended PPA with BHP and the Northern Goldfields Solar Project. The investment in Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities increased by $105 million reflecting the $103 million acquisition of Skookumchuk wind facility through an investment in tracking preferred shares of a TransAlta subsidiary, a $16 million increase in fair value primarily due to a decrease in discount rates, partially offset by transaction costs related to the Skookumchuck wind facility that were recognized through OCI, weakening forward merchant prices in the Eastern US region and foreign exchange impacts, and a return of capital of $14 million. The Preferred Shares Tracking Earnings and Distributions of US Gas increased as a result of the acquisition of the economic interest in the Ada cogeneration facility by acquiring a $43 million investment in tracking preferred shares of a TransAlta subsidiary, partially offset by a return of capital of $3 million.

Refer to Notes 3, 5 and 7 in the interim condensed consolidated financial statements for the three and nine months ended Sept. 30, 2021 for additional information on these investments and fair value measurements.

Other Consolidated Results

Foreign Exchange Gain

For the three and nine months ended Sept. 30, 2021, foreign exchange gains decreased by $2 million and $9 million, respectively, compared to the same periods in 2020. In 2020, higher foreign exchange gains arose on the investment in Preferred Shares Tracking the Amortizing Term Loan as a result of the strengthening Australian dollar. These preferred shares were redeemed in October 2020. In 2021, lower foreign exchange gains arose on the TEA demand loan as a result of the weakening Australian dollar.

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, the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities and the Preferred Shares Tracking Earnings and Distributions of US Gas. 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 second quarter of 2021, there was a decrease in discount rates on the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities, which caused an increase in the fair value on these investments. The decrease in discount rates was mainly due to the alignment of rates with the movement of US treasury bonds observed within the market.

For the three months ended Sept. 30, 2021, we recognized a $16 million increase in fair value in OCI (Sept. 30, 2020 - $154 million decrease). The increase is primarily attributable to changes in cash flow assumptions of the Preferred Shares Tracking Australia Cash Flows to reflect recontracting assumptions, partially offset by unfavourable foreign exchange rate impacts from a weakening Australian dollar.

For the nine months ended Sept. 30, 2021, we recognized a $80 million decrease in fair value in OCI (Sept. 30, 2020 - $129 million decrease). The decrease is primarily attributable to unfavourable foreign exchange rate impacts from a weakening Australian dollar, changes in cash flow assumptions of the Preferred Shares Tracking Australia Cash Flows to reflect recontracting assumptions, transaction costs related to the Skookumchuck wind facility and the Ada cogeneration facility and weakening forward merchant prices in the Eastern US region, partially offset by a decrease in the discount rates of the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities and an adjustment to the cash flows associated with the extended PPA and Northern Goldfields Solar Project with BHP.

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 Sept. 30

	Canadian Wind	Canadian Hydro	US Wind and Solar	Canadian Gas	US Gas	Australian Gas	Total
2021 Total sustaining expenditures	**4**	**1**	**—**	**1**	**—**	**16**	**22**
2020 Total sustaining expenditures	5	—	—	1	—	—	6

9 months ended Sept. 30

	Canadian Wind	Canadian Hydro	US Wind and Solar	Canadian Gas	US Gas	Australian Gas	Total
2021 Total sustaining expenditures	**7**	**2**	**1**	**2**	**1**	**20**	**33**
2020 Total sustaining expenditures	9	1	1	2	—	2	15

Sustaining capital expenditures for the three and nine months ended Sept. 30, 2021, increased by $16 million and $18 million, respectively, compared to the same periods in 2020, mainly due to planned major maintenance and the purchase of a spare engine at our Australian Gas facilities and the sustaining capital incurred within Ada cogeneration facility.

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 Sept. 30		9 months ended Sept. 30	
	2021	2020	**2021**	2020
Revenue from TransAlta PPAs	**9**	9	**28**	31
Revenue from environmental credits[(1)]	**4**	4	**11**	4
G&A Reimbursement Fee[(2)]	**3**	3	**13**	12
Natural gas purchases	**4**	1	**7**	2
Asset optimization fee[(3)]	**1**	1	**2**	2
Interest expense on credit facility and letter of credit and guarantee fees	**—**	—	**1**	1
Finance income from investments in subsidiaries of TransAlta	**19**	13	**68**	31
Interest income - promissory notes due from a subsidiary of TransAlta	**1**	—	**1**	2
Interest expense - TEA demand loan	**2**	—	**6**	—

(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.

All of these balances are with TransAlta or subsidiaries of TransAlta.

Related-Party Balances

Related-party balances include the following:

As at	Sept. 30, 2021	Dec. 31, 2020
Trade and other receivables	**20**	39
Finance lease receivable	**7**	7
Big Level and Antrim promissory notes	**19**	18
Long-term prepaid – management fee	**2**	2
Investments in subsidiaries of TransAlta	**1,136**	1,087
Accounts payable and accrued liabilities	**8**	11
Dividends payable	**38**	38
TEA demand loan	**185**	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]	**377**	207
Indemnification guarantee provided by the Corporation to TransAlta[2]	**551**	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
TransAlta has provided a Construction Cost Guarantee related to the Windrise wind project acquired on Feb. 26, 2021 whereby, upon completion of the Windrise wind project, if the construction costs exceed the guaranteed cost, TransAlta will reimburse the Corporation for up to $6 million and if the construction costs are below the guaranteed cost, the Corporation will reimburse TransAlta for up to $6 million. As at Sept. 30, 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 Sept. 30, 2021:

(unaudited $ millions)	**Sept. 30, 2021**	Dec. 31, 2020	Increase/ (decrease)	**Primary factors explaining change**
Cash and cash equivalents	**240**	582	(342)	Timing of receipts and payments and the acquisition of the Windrise wind project and economic interests in the Skookumchuck wind facility and Ada cogeneration facility- Refer to the Cash Flows and the Significant and Subsequent Events sections of this MD&A for further details.
Accounts receivable	**97**	134	(37)	Timing of receipts and collections and lower amounts receivable for dividends from related party investments.
Property, plant and equipment, net	**1,911**	1,617	294	Increase due to the acquisition of the Windrise wind project and additions, increase in wind asset reclamation, partially offset by depreciation.
Intangible assets	**95**	103	(8)	Decrease due to amortization expense
Investments in subsidiaries of TransAlta (including current portion)	**1,136**	1,087	49	Increase mainly due to the investments in the Skookumchuck wind facility and the Ada cogeneration facility, and an increase in fair value on the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities, partially offset by lower fair values in the Preferred Shares Tracking Australia Cash Flows and return of capital on the US tracking preferred shares.
Other assets (including current portion)	**82**	72	10	Increase in long-term prepaids, mainly due to the acquisition of the Windrise wind project and deferred finance costs, and advances on Kent Hills Wind promissory note.
Accounts payable and accrued liabilities	**89**	50	39	Timing of payments and accruals.
TEA demand loan	**185**	195	(10)	Due to the weakening Australian dollar relative to the Canadian dollar.
Long-term debt and lease obligations (including current portion)	**665**	692	(27)	Decreased as a result of scheduled principal repayments on non-recourse bonds.
Current portion of contract liabilities	**12**	—	12	Due to unplanned outages at the Sarnia gas facility.
Decommissioning and other provisions (including current portion)	**168**	51	117	Increased mainly due to revisions in Wind Assets estimated cash flow as estimates were updated after the review of a recent engineering study.
Equity attributable to shareholders	**2,087**	2,255	(168)	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:

	9 months ended Sept. 30		
	2021	2020	Increase/ (decrease)
Cash and cash equivalents, beginning of the period	**582**	63	519
From (used in):			
Operating activities	**265**	218	47
Investing activities	**(388)**	50	(438)
Financing activities	**(219)**	(307)	88
Cash and cash equivalents, end of the period	**240**	24	216

Cash flow from operating activities for the nine months ended Sept. 30, 2021, increased by $47 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 revenues in the first quarter of 2021, partially offset by an increase in current income tax expense.

Cash flow from investing activities for the nine months ended Sept. 30, 2021, decreased by $438 million compared to the same period in 2020 primarily due the acquisition of the Windrise wind project, acquisition of the economic interests in the Skookumchuck wind facility and the Ada cogeneration facility, acquisition of two wind turbines adjacent to Summerview for the Old Man facility and an increase in construction costs associated with the continuing construction of Windrise wind project. In 2020, the Corporation received repayment on promissory notes from a subsidiary of TransAlta and and received proceeds from a partial redemption of the Preferred Shares Tracking the Amortizing Term Loan (refer to the Significant and Subsequent Events section in our 2020 annual MD&A).

Cash flow from financing activities for the nine months ended Sept. 30, 2021, increased by $88 million compared to the same period in 2020 primarily due to no repayments made on the credit facility offset by an increase in dividends paid on common shares.

TEA Demand Loan, Debt and Lease Obligations

The TEA demand loan had a carrying value of $185 million as at Sept. 30, 2021, compared to $195 million as at Dec. 31, 2020. The decrease was a result of the weakening Australian dollar. Long-term debt and lease obligations totaled $611 million as at Sept. 30, 2021, compared to $639 million as at Dec. 31, 2020. The decrease is mainly due to scheduled principal repayments of amortizing debt. On Oct. 27, 2021, the Corporation repaid TransAlta Energy (Australia) Pty Ltd, AU$17 million of the AU$200 million principal upon demand.

The Corporation's credit facilities are summarized in the table below:

	As at Sept. 30, 2021				
		Utilized			
	Total facility limit	**Outstanding letters of credit**[1]	**Drawings**	**Available capacity**	**Maturity date**
Committed credit facility	700	94	—	606	2025

(1) Letters of credit of $94 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 Sept. 30, 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 Sept. 30, 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 Nov. 8, 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, is 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 nine months ended Sept. 30, 2021.

I. Transmission Line Loss Rule Proceeding

The Corporation has been participating in a transmission line loss rule proceeding before the Alberta Utilities Commission ("AUC"). The AUC determined that it has the ability to retroactively adjust line loss charges going back to 2006 and directed the AESO to recalculate loss factors for 2006 to 2016. The AUC approved an invoice settlement process and all three planned settlements have been received. The first two invoices were settled by the first quarter of 2021 and the third invoice settled in the second quarter of 2021, which remain subject to true-up invoices expected to be issued by the AESO in Oct. 2021 and settled at the end of Dec. 2021. The impact of the true-up invoices is estimated at $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, sought a declaration that the PPA was lawfully terminated. On May 2, 2021 the Corporation entered into a conditional settlement with FMG. The trial has been adjourned pending satisfaction of the settlement conditions, which the Corporation expects to occur before Dec. 31, 2021. The Corporation recognizes finance income when distributions are declared on investments in Australian assets, inclusive of the impacts of any contingent gains when recognized by TransAlta.

III. Sarnia Outages

The Sarnia cogeneration facility experienced three separate events between May 19 and June 9, 2021 that resulted in steam interruptions to its industrial customers. As a result, the customers have submitted claims for liquidated damages. Steam supply interruptions of this nature are atypical and infrequent at the Sarnia cogeneration facility. The Corporation commenced an investigation to determine the root cause of each of the three events, which should be completed later in the year, or the first quarter of 2022. The results of the investigation will help determine if any liquidated damages are owing and, if so, the quantum.

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.

Decommissioning
The Corporation recognizes provisions for decommissioning and restoration obligations. Initial decommissioning provisions, and subsequent changes thereto, are determined using the Corporation's best estimate of the required cash expenditures, adjusted to reflect the risks and uncertainties inherent in the timing and amount of settlement. During the third quarter of 2021, the Corporation adjusted the estimated cash flows for our wind assets as estimates were updated after the review of a recent engineering study. The Corporation's current best estimate of the decommissioning and restoration provision increased by $113 million, which also resulted in an increase in the related assets in PP&E.

As a result of the increase in the estimated decommissioning costs, the carrying amount of a wind asset exceeded its recoverable amount and the Corporation recognized an impairment of $8 million related to this wind asset.

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 and the Preferred Shares Tracking Earnings and Distributions of US Gas provide the Corporation individually with a 3.3 per cent (cumulatively 19.8 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 72 per cent) of the directors of that subsidiary.

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 nine months ended Sept. 30, 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, the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities and the Preferred Shares Tracking Earnings and Distributions of US Gas. 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 nine 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 and the Preferred Shares Tracking Earnings and Distributions of US Gas 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 International Accounting Standards Board ("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 Sept. 30, 2021, there were no drawings under the credit facility. The Corporation is monitoring the reform and does not expect any material impact.

Future Accounting Policy and National Instrument Changes

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

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

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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. The Corporation is currently assessing the potential impact of this amendment on the financial statements.

Amendments to IAS 12 Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

On May 7, 2021, the IASB issued amendments to IAS 12 *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction.* The amendments clarify that the initial recognition exemption under IAS 12 does not apply to transactions such as leases and decommissioning obligations. These transactions give rise to equal and offsetting temporary differences in which deferred tax should be recognized.

The amendments are effective for annual periods beginning on or after Jan. 1, 2023 with early application permitted. The Corporation is currently assessing the potential impact of this amendment on the financial statements.

National Instrument 52-112 Non-GAAP and Other Financial Measures Disclosure

On May 27, 2021, the Canadian Securities Administrators published the final National Instrument 52-112 *Non-GAAP and Other Financial Measures Disclosure* ("the Instrument"), effective Aug. 25, 2021 and will apply to reporting issuers for documents filed for a financial year ending on or after Oct. 15, 2021. The Instrument addresses disclosure of non-GAAP financial measures, non-GAAP ratios and other financial measures with the intent to provide clarity and consistency with respect to an issuer's disclosure obligations. The Corporation plans to apply the Instrument on its filings for the year ended Dec. 31, 2021.

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, including any 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

Canada

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. 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 a potential tax credit for carbon capture, utilization and storage ("CCUS"). On Apr. 22, 2021, Prime Minister Trudeau increased Canada's greenhouse gas reduction target from 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 continues to engage with governments to mitigate risks and identify opportunities within the new federal plan.

As part of its climate plan, the federal government committed to achieving net-zero electricity grid prior to 2050. During the 2021 federal election campaign, the government committed to achieving a net zero electricity grid by 2035 by adopting a national clean electricity standard. The government has not publicly shared how such a standard might be structured. TransAlta will actively engage the federal government as it designs the new standard. This policy may create new opportunities for the development of renewables and energy storage projects in the lead up to 2035.

Federal Carbon Pricing on GHG

On June 21, 2018, the Canadian federal *Greenhouse Gas Pollution Pricing Act* ("GGPPA") came into force. Under the GGPPA, the federal government implemented a national price on GHG emissions. On Jan. 1, 2019, the GGPPA's backstop mechanisms came into force in provinces and territories that did not have an independent carbon pricing program or where the existing program was not deemed equivalent to the federal system. The backstop mechanism has two components: a carbon levy for small emitters ("Carbon Tax") and regulation for large emitters called the Output-Based Pricing Standard ("OBPS"). The Carbon Tax sets a carbon price per tonne of GHG emissions related to transportation fuels, heating fuels and other small emission sources. The carbon price is also the OBPS compliance price for carbon obligations.

On Feb. 12, 2021, the federal government began planning for a 2022 review of the OBPS and other aspects of the GGPPA. On Jun. 5, 2021, the federal government published draft amendments to the GGPPA regulations clarifying the treatment of boilers. If adopted, this clarification will provide greater certainty regarding the treatment of gas-fired generating facilities under the OBPS. On Aug. 5, 2021, the Canadian federal government published updated benchmark criteria for provincial carbon pricing systems, which will come into force for the 2023 compliance year. TransAlta will closely engage governments regarding the review, amendments and regulatory clarification.

Ontario Transition to Provincial Emission Performance Standard ("EPS")

In the fall of 2020, the federal government confirmed the EPS met the requirements of the GGPPA permitting Ontario to transition from the OBPS to the EPS. Ontario will transition to the EPS on Jan. 1, 2022.

Ontario's proposed standalone facility electricity performance standard differs from the performance standard for cogeneration facilities. This may place cogeneration electricity at a carbon pricing disadvantage relative to standalone electricity facilities as the efficiency benefits of cogeneration are not fully realized. However, as carbon costs are passed through under current contracts, risks related to changes under the Ontario EPS are reduced.

Net Zero Emissions Accountability

The federal government has committed to a net zero emission target by 2050. The *Canadian Net-Zero Emissions Accountability Act*, which received Royal Assent on Jun. 30, 2021, requires the federal government to set an interim target for 2026 and emission targets for the years 2030, 2035, 2040 and 2045 at least 5 years before the target date. When setting targets, the government will also publish an action plan of measures that it will implement to support the achievement of the target. The federal Department of Finance will provide an annual report on costs of the measures and progress.

US

President Biden's Updated 2030 Emissions Reduction Commitment

On Apr. 22, 2021, during a climate summit hosted by President Biden, the President committed to reduce US GHG emissions by 50 to 52 per cent below 2005 levels by 2030.

The US federal government continues to consider enacting clean energy bills and tax credit incentive programs in support of the deployment of renewable energy and battery storage, along with funding for grid infrastructure. TransAlta will continue to follow these developments and take advantage of opportunities that align with our growth strategy.

President Biden Executive Order ("EO") Climate related Financial Risk
On May 25, 2021, President Biden's administration published an EO which tasks the Secretary of Treasury with the responsibility to determine the federal government and the economy's financial exposure to climate change impacts and to develop strategy documents outlining approaches to deal with the impacts of climate change. This work will likely lead to more formalized and consistent climate risk reporting by public and private sector entities.

Australia
There are no immediate policy risks to our contracted Australian assets. Our growth team continues to watch the evolution of state-level policy as Australian state governments seek to manage the reliability of their electricity systems given the ongoing retirement of coal generation and growth in renewable generation.

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 Sept. 30, 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 Sept. 30		9 months ended Sept. 30	
Unaudited	**2021**	2020	**2021**	2020
Revenues (Note 4)	**114**	94	**332**	304
Government incentives	**—**	1	**—**	4
Total revenue	**114**	95	**332**	308
Fuel, royalties and other costs	**38**	19	**91**	53
Gross margin	**76**	76	**241**	255
Operations, maintenance and administration	**22**	23	**69**	68
Depreciation and amortization	**34**	34	**101**	101
Asset impairment (Note 8)	**10**	2	**10**	2
Taxes, other than income taxes	**2**	2	**7**	6
Operating income	**8**	15	**54**	78
Finance income related to subsidiaries of TransAlta (Note 5)	**19**	13	**68**	31
Interest income	**1**	1	**5**	4
Interest expense	**(9)**	(10)	**(28)**	(32)
Change in fair value of financial assets (Note 5)	**—**	(13)	**—**	(44)
Finance lease income	**1**	—	**1**	—
Foreign exchange gain	**1**	3	**10**	19
Earnings before income taxes	**21**	9	**110**	56
Income tax expense (Note 6)	**—**	2	**10**	14
Net earnings	**21**	7	**100**	42
Net earnings attributable to:				
Common shareholders	**20**	6	**97**	39
Non-controlling interest	**1**	1	**3**	3
	21	7	**100**	42
Weighted average number of common shares outstanding in the period (millions)	**267**	266	**267**	266
Net earnings per share attributable to common shareholders, basic and diluted	**0.07**	0.02	**0.36**	0.15

See accompanying notes.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Comprehensive Income

(in millions of Canadian dollars)

Unaudited	3 months ended Sept. 30 **2021**	3 months ended Sept. 30 2020	9 months ended Sept. 30 **2021**	9 months ended Sept. 30 2020
Net earnings	**21**	7	**100**	42
Other comprehensive income (loss)				
Net change in fair value of investments in subsidiaries of TransAlta (Note 5)	**16**	154	**(80)**	129
Total items that will not be reclassified subsequently to net earnings	**16**	154	**(80)**	129
Other comprehensive income (loss)	**16**	154	**(80)**	129
Total comprehensive income	**37**	161	**20**	171
Total comprehensive income attributable to:				
Common shareholders	**36**	160	**17**	168
Non-controlling interest	**1**	1	**3**	3
	37	161	**20**	171

See accompanying notes.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Financial Position

(in millions of Canadian dollars)

Unaudited	**Sept. 30, 2021**	Dec. 31, 2020
Cash and cash equivalents	**240**	582
Accounts receivable	**97**	134
Prepaid expenses	**5**	2
Risk management assets (Note 7)	**6**	—
Inventory	**8**	7
Current portion of other assets	**19**	18
	375	743
Property, plant and equipment (Note 8)		
Cost	**3,237**	2,856
Accumulated depreciation	**(1,326)**	(1,239)
	1,911	1,617
Finance lease receivable	**7**	7
Right-of-use assets	**26**	27
Intangible assets	**95**	103
Other assets	**63**	54
Investments in subsidiaries of TransAlta (Note 5)	**1,136**	1,087
Deferred income tax assets	**21**	18
Total assets	**3,634**	3,656
Accounts payable and accrued liabilities	**89**	50
Income tax payable	**12**	1
Dividends payable	**63**	63
Provisions	**—**	1
Current portion of contract liabilities	**12**	—
Risk management liabilities (Note 7)	**1**	1
TEA demand loan (Notes 7 and 9)	**185**	195
Current portion of long-term debt and lease obligations (Note 9)	**54**	53
	416	364
Long-term debt and lease obligations (Notes 7 and 9)	**611**	639
Decommissioning provisions (Note 10)	**168**	51
Contract liabilities and deferred revenues	**7**	6
Risk management liabilities (Note 7)	**3**	1
Deferred income tax liabilities	**289**	290
Total liabilities	**1,494**	1,351
Equity		
Common shares	**3,059**	3,059
Deficit	**(887)**	(796)
Accumulated other comprehensive loss	**(85)**	(8)
Equity attributable to shareholders	**2,087**	2,255
Non-controlling interest	**53**	50
Total equity	**2,140**	2,305
Total liabilities and equity	**3,634**	3,656

Commitments and contingencies (Note 12)

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	**—**	**97**	**—**	**97**	**3**	**100**
Other comprehensive loss:						
Net change in fair value of investments of subsidiaries of TransAlta (Note 5)	**—**	**—**	**(80)**	**(80)**	**—**	**(80)**
Total comprehensive income (loss)	**—**	**97**	**(80)**	**17**	**3**	**20**
Common share dividends (Note 11)	**—**	**(187)**	**—**	**(187)**	**—**	**(187)**
Acquisition of Windrise Wind Project Assets (Note 3)	**—**	**(1)**	**3**	**2**	**—**	**2**
Balance, Sept. 30, 2021	**3,059**	**(887)**	**(85)**	**2,087**	**53**	**2,140**

Unaudited

	Common shares	Deficit	Accumulated other comprehensive 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	—	39	—	39	3	42
Other comprehensive loss:						
Net change in fair value of investments of subsidiaries of TransAlta (Note 5)	—	—	129	129	—	129
Total comprehensive income	—	39	129	168	3	171
Common share dividends (Note 11)	—	(189)	—	(189)	—	(189)
Dividend reinvestment plan (Note 11)	18	—	—	18	—	18
Balance, Sept. 30, 2020	3,057	(787)	(5)	2,265	48	2,313

See accompanying notes.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Cash Flows

(in millions of Canadian dollars)

	3 months ended Sept. 30		9 months ended Sept. 30	
Unaudited	**2021**	2020	**2021**	2020
Operating activities				
Net earnings	**21**	7	**100**	42
Depreciation and amortization	**34**	34	**101**	101
Accretion of provisions	**—**	1	**2**	3
Deferred income tax expense (recovery) (Note 6)	**(4)**	2	**(2)**	13
Change in fair value of financial assets	**—**	13	**—**	44
Unrealized foreign exchange gain	**—**	(3)	**(8)**	(22)
Unrealized (gain) loss from risk management activities	**(2)**	—	**(2)**	1
Provisions and contract liabilities	**—**	3	**6**	4
Asset impairment (Note 8)	**10**	2	**10**	2
Other non-cash items	**1**	(1)	**1**	—
Cash flow from operations before changes in working capital	**60**	58	**208**	188
Change in non-cash operating working capital balances	**23**	7	**57**	30
Cash flow from operating activities	**83**	65	**265**	218
Investing activities				
Additions to property, plant and equipment (Note 8)	**(25)**	(18)	**(49)**	(25)
Repayments on promissory notes from a subsidiary of TransAlta	**—**	10	**—**	70
Proceeds on redemptions of investments in subsidiaries of TransAlta (Note 5)	**—**	5	**—**	57
Investments in subsidiaries of TransAlta (Note 5)	**—**	(11)	**(146)**	(72)
Acquisitions (Note 3)	**—**	—	**(213)**	—
Return of capital on investments in subsidiaries of TransAlta (Note 5)	**3**	4	**17**	25
Restricted cash	**2**	—	**—**	—
Advances for loan receivable	**(1)**	(1)	**(3)**	(4)
Change in non-cash investing working capital balances	**4**	1	**11**	—
Other	**—**	(1)	**(5)**	(1)
Cash flow (used in) from investing activities	**(17)**	(11)	**(388)**	50
Financing activities				
Net decrease in borrowings under credit facilities (Note 9)	**—**	(8)	**—**	(117)
Long-term debt repayments (Note 9)	**(3)**	(3)	**(29)**	(28)
Dividends paid on common shares (Note 11)	**(62)**	(48)	**(187)**	(162)
Lease obligations – principal repayment (Note 9)	**—**	—	**(1)**	(1)
Financing costs	**(1)**	—	**(2)**	—
Changes in non-cash financing working capital balances	**—**	—	**—**	1
Cash flow used in financing activities	**(66)**	(59)	**(219)**	(307)
Decrease in cash and cash equivalents	**—**	(5)	**(342)**	(39)
Cash and cash equivalents, beginning of period	**240**	29	**582**	63
Cash and cash equivalents, end of period	**240**	24	**240**	24
Cash income taxes paid	**—**	—	**1**	1
Cash interest paid	**7**	1	**28**	20

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, 22 wind facilities, a wind battery storage facility and one gas facility, with a total gross generating capacity of 1,896 megawatts ("MW"), and holds economic interests in TransAlta Corporation's ("TransAlta") 140 MW Wyoming Wind wind facility, 50 MW Lakeswind wind facility, 21 MW Mass Solar solar projects, 90 MW Big Level wind facility, 29 MW Antrim wind facility, and a 49 percent economic interest in the 137 MW Skookumchuck wind facility (collectively "Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities"), 29 MW Ada cogeneration facility ("Preferred Shares Tracking Earnings and Distributions of US Gas") and 450 MW Australian gas-fired generation assets including a 270 kilometer gas pipeline ("Preferred Shares Tracking Australia Cash Flows"). The Corporation's head office is located in Calgary, Alberta.

B. Basis of Preparation

These interim condensed consolidated financial statements have been prepared by management in compliance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* using the same accounting policies as those used in the 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 Nov. 8, 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 nine months ended Sept. 30, 2021, as follows:

I. Decommissioning and restoration provision
The Corporation recognizes provisions for decommissioning and restoration obligations. Initial decommissioning provisions, and subsequent changes thereto, are determined using the Corporation's best estimate of the required cash expenditures, adjusted to reflect the risks and uncertainties inherent in the timing and amount of settlement. During the third quarter of 2021, the Corporation adjusted the estimated cash flows for our wind assets as estimates were updated after the review of a recent engineering study. The Corporation's current best estimate of the decommissioning and restoration provision increased by $113 million, which also resulted in an increase in the related assets in property, plant and equipment ("PP&E").

As a result of the increase in the estimated decommissioning costs, the carrying amount of a wind asset exceeded its recoverable amount and the Corporation recognized an impairment of $8 million related to this wind asset.Refer to note 8 for additional information.

II. 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 and the Preferred Shares Tracking Earnings and Distributions of US Gas provide the Corporation individually with a 3.3 per cent (cumulatively 19.8 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 72 per cent) of the directors of that subsidiary.

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.

III. Dividend as Income or Return of Capital
During the three and nine months ended Sept. 30, 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 and the Preferred Shares Tracking Earnings and Distributions of US Gas constituted a return of capital.

IV. 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 remain 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.

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The amendments are effective for annual periods beginning on or after Jan. 1, 2023 with early application permitted. The Corporation is currently assessing the potential impact of this amendment on the 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 North Carolina Solar

On Nov. 5, 2021, the Corporation acquired a 100 per cent economic interest in the 122 MW portfolio of 20 operating solar photovoltaic facilities located in North Carolina (collectively, "North Carolina Solar"). The facilities are secured by long-term power purchase agreements ("PPAs") with two subsidiaries of Duke Energy ("Duke Energy"), which have an average remaining term of 12 years. Under the PPAs, Duke Energy receives the renewable electricity, capacity and environmental attributes from each facility. The Corporation acquired the economic interest in North Carolina Solar by acquiring a US$102 million investment in tracking preferred shares of a TransAlta subsidiary. This will be classified and measured at Fair Value Through Other Comprehensive Income ("FVTOCI").

Kent Hills Wind Facility Outage

On Sept. 27, 2021, the Corporation's subsidiary, Kent Hills Wind LP, experienced a single tower failure at its 167 MW Kent Hills wind facility in Kent Hills, New Brunswick. The failure involved a collapsed tower located within the Kent Hills 2 site. There were no injuries as a result of the collapse. See note 8 for details.

The facility consists of 50 turbines at Kent Hills 1 and Kent Hills 2 and 5 turbines at Kent Hills 3. The turbines at the Kent Hills 1 and Kent Hills 2 sites have been taken offline pending a satisfactory independent engineering and safety assessment. The engineering assessment, which is ongoing, has identified sub-surface crack propagation at several of the foundations of the turbines located at the Kent Hills 1 and Kent Hills 2 sites. As a result, further inspection and testing will be required for all turbines at Kent Hills 1 and Kent Hills 2 to determine the required remediation plan, on a turbine-by-turbine basis. It is presently expected that the outage at Kent Hills 1 and Kent Hills 2 will require repairs or replacements for a significant portion of the existing foundations. Foundation replacements would require expenditures of approximately $1.5 million to $2.0 million per foundation. The remediation plan is expected to be implemented in 2022. The outage is expected to result in foregone revenue of approximately $3.4 million per month on an annualized basis for so long as all 50 turbines are offline, based on average historical wind production, with revenue expected to be earned as the wind turbines are returned to service. The foundation issues at the Kent Hills 1 and Kent Hills 2 sites are unique to the design of those sites and there is no indication of any foundation issue at the Kent Hills 3 site nor any other wind sites in the fleet. The Corporation is maintaining communication with all key stakeholders and keeping them fully apprised of the situation. The Corporation has notified its insurers regarding an insurance claim for both property loss and business interruption.

Northern Goldfields Solar Project

On July 29, 2021, the Corporation announced that Southern Cross Energy, a subsidiary of the Corporation and an entity in which TransAlta Renewables owns an indirect economic interest, had reached an agreement to provide BHP Nickel West Pty Ltd. ("BHP") with renewable electricity to its Goldfields-based operations through the construction of the Northern Goldfields Solar Project. The project comprises the 27 MW Mount Keith Solar Farm, 11 MW Leinster Solar Farm, 10 MW/5MWh Leinster battery energy storage system and interconnecting transmission infrastructure, all of which will be integrated into our existing 169 MW Southern Cross Energy North remote network in Western Australia.

Sarnia Cogeneration Facility Contract Extension

On May 12, 2021, the Corporation executed an Amended and Restated Energy Supply Agreement with one of its large industrial customers at the Sarnia cogeneration facility that provides for the supply of electricity and steam. This agreement will extend the term of the original agreement from Dec. 31, 2022 to Dec. 31, 2032. However, if TransAlta is unable to enter into a new contract with the Ontario Independent Electricity System Operator (“IESO”) or enter into agreements with its other industrial customers at the Sarnia cogeneration facility that extend past Dec. 31, 2025, then this agreement will automatically terminate on Dec. 31, 2025.

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 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, respectively, in tracking preferred shares of a TransAlta subsidiary. The economic benefit of each transaction was effective as at Jan. 1, 2021. This is classified and measured at FVTOCI.

Acquisition of the Windrise Wind Project

On Feb. 26, 2021, the Corporation acquired a 100 per cent direct interest in the 206 MW Windrise wind project located in Alberta for $213 million. The acquisition 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 property, plant and equipment ("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. All turbine erection activities have now been completed at the Windrise wind project with final commissioning activities currently underway, the project is on track to achieve full commercial operations in November 2021.

Global Pandemic

Notwithstanding the challenges associated with the pandemic, all of the Corporation's facilities, including those which the Corporation has economic interests through TransAlta, continue to remain fully operational and are capable of meeting our customers' needs with exception of Kent Hills as described above, which is not related to the pandemic. The Corporation continues to work and serve all of our customers and counterparties under the terms of their contracts. The Corporation has not experienced interruptions to service requirements as a result of COVID-19. Electricity and steam supply continue to remain a critical service requirement to all customers and have been deemed an essential service in the Corporation's 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 Sept. 30, 2021	**Canadian Wind**	**Canadian Hydro**	**Canadian Gas**	**Total**
Revenue from contracts with customers[1]	41	9	56	106
Merchant revenue and other	1	—	7	8
Revenues	**42**	**9**	**63**	**114**
Timing of revenue recognition:				
At a point in time[1]	4	—	—	4
Over time	37	9	56	102
Revenue from contracts with customers	41	9	56	106

3 months ended Sept. 30, 2020	Canadian Wind	Canadian Hydro	Canadian Gas	Total
Revenue from contracts with customers[1]	44	9	38	91
Merchant revenue and other	1	—	2	3
Revenues	45	9	40	94
Timing of revenue recognition:				
At a point in time	4	—	—	4
Over time	40	9	38	87
Revenue from contracts with customers	44	9	38	91

9 months ended Sept. 30, 2021	**Canadian Wind**	**Canadian Hydro**	**Canadian Gas**	**Total**
Revenue from contracts with customers[1]	157	23	139	319
Merchant revenue and other	2	—	11	13
Revenues	**159**	**23**	**150**	**332**
Timing of revenue recognition:				
At a point in time[1]	14	1	—	15
Over time	143	22	139	304
Revenue from contracts with customers	157	23	139	319

9 months ended Sept. 30, 2020	Canadian Wind	Canadian Hydro	Canadian Gas	Total
Revenue from contracts with customers(1)	163	23	111	297
Merchant revenue and other	1	—	6	7
Revenues	164	23	117	304
Timing of revenue recognition:				
At a point in time(1)	5	—	—	5
Over time	158	23	111	292
Revenue from contracts with customers	163	23	111	297

(1) During the first quarter of 2021, environmental credits recognized within revenue from contracts with customers were reclassified to show as recognized at a point in time and prior periods were adjusted. Revenue from contracts with customers includes revenue generated from the sale of environmental credits for the three and nine months ended September 30, 2021 of $4 million and $15 million (2020 - $4 million and $5 million).

Environmental Credits

The 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. For the three months ended Sept. 30, 2021, no emission credit sales occurred (2020 — nil). Included in total revenues for the three and nine months ended Sept. 30, 2021, was $4 million and $11 million respectively related to the sale of 131,080 and 396,432 respectively of Alberta carbon offsets and EPCs to TransAlta (2020 - $4 million and $4 million).

At Sept. 30, 2021, the Corporation held 516,256 emissions credits (Dec. 31, 2020 — 494,993) which are expected to be serialized and monetized through sales to TransAlta or other third parties 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 provide the Corporation with cash flows that track the cash flows of the underlying subsidiaries. This includes TransAlta Energy (Australia) Pty Ltd ("TEA"), Wyoming Wind, Lakeswind, Big Level and Antrim, and Skookumchuck wind facilities, Mass Solar solar facility and the Ada cogeneration facility.

	3 months ended Sept. 30		9 months ended Sept. 30	
	2021	2020	**2021**	2020
Dividend income from investment in preferred shares of TEA(1)	**—**	1	**—**	2
Fee income from indirect guarantee of TEA obligations	**3**	3	**8**	9
Dividend income from investment in Preferred Shares Tracking Australia Cash Flows	**12**	—	**46**	—
Dividend income from investment in Preferred Shares Tracking the Amortizing Term Loan(1)	**—**	6	**—**	15
Finance income related to TEA	**15**	10	**54**	26
Dividend income from investments in Preferred Shares Tracking(2) Earnings and Distributions of US Wind and Solar Facilities	**4**	3	**14**	5
Total finance income(2)	**19**	13	**68**	31

(1) The preferred shares of TEA and Preferred Shares Tracking the Amortizing Term Loan were redeemed on Oct. 23, 2020.
(2) During the three and nine months ended Sept. 30, 2021, the Corporation determined that $3 million of the dividends earned on the Preferred Shares Tracking Earnings and Distributions of US Gas constituted a return of capital (2020 - nil), and $3 million and $14 million, respectively, of the dividends earned on the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities constituted a return of capital (2020 - $4 million and $25 million).

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.

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

As at	Sept. 30, 2021	Dec. 31, 2020
Investment in Preferred Shares Tracking Australia Cash Flows	**684**	771
Investment in preferred shares tracking earnings and distributions of Big Level and Antrim	**159**	139
Investment in preferred shares tracking earnings and distributions of Mass Solar	**47**	48
Investment in preferred shares tracking earnings and distributions of Lakeswind	**21**	19
Investment in preferred shares tracking earnings and distributions of Wyoming Wind	**106**	110
Investment in preferred shares tracking earnings and distributions of Skookumchuck	**88**	—
Investment in preferred shares tracking earnings and distributions of Ada	**31**	—
Total investments in subsidiaries of TransAlta	**1,136**	1,087

Investment in Subsidiaries of TransAlta Related to TEA, US Wind and Solar and US Gas

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	Preferred Shares Tracking Earnings and Distributions of US Gas	Total
Investment balance at Dec. 31, 2020	771	316	—	1,087
Investment	—	103	43	146
Return of capital	—	(14)	(3)	(17)
Net change in fair value and foreign exchange recognized in OCI	(87)	16	(9)	(80)
Investment balance at Sept. 30, 2021	**684**	**421**	**31**	**1,136**

The $87 million decrease in fair value related to the Preferred Shares Tracking Australia Cash Flows as at Sept. 30, 2021 reflects a change in cash flow assumptions, including changes in foreign exchange impacts, recontracting assumptions and discount rate changes, partially offset by an adjustment to the cash flows associated with the extended PPA with BHP, and the Northern Goldfields Solar Project. See Note 3 for discussion on the Northern Goldfields Solar Project and Note 4 of the Annual Financial Statements for further details on the BHP contract extension.

On April 1, 2021, the Corporation acquired the economic interests in the Ada cogeneration facility and the Skookumchuck wind facility by acquiring a $43 million and a $103 million investment, respectively, in tracking preferred shares of a TransAlta subsidiary. See Note 3 for discussion on the acquisitions.

The $16 million increase in fair value related to the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities was primarily due to a decrease in discount rates, partially offset by transaction costs related to the Skookumchuck wind facility that were recognized through OCI, weakening forward merchant prices in the Eastern US region and foreign exchange impacts. The decrease in discount rates was mainly due to the alignment of rates with the movement of US treasury bonds observed within the market.

As the Preferred Shares Tracking the Amortizing Term Loan were redeemed on Oct. 23, 2020, there are no changes in fair value of financial assets recognized in earnings subsequent to the fourth quarter of 2020.

	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(1)	—	—	—	72	72
Redemption	—	—	(57)	—	(57)
Foreign exchange gains recognized in earnings	—	—	16	—	16
Return of capital	—	—	—	(25)	(25)
Net change in fair value recognized in earnings	—	—	(44)	—	(44)
Net change in fair value and foreign exchange recognized in OCI	135	1	—	(7)	129
Investment balance at Sept. 30, 2020	733	43	447	360	1,583

(1) During 2020, the Corporation subscribed for additional tracking preferred shares in a subsidiary of TransAlta, tracking earnings and distributions of Big Level and Antrim for $72 million (US$52 million). A subsidiary of TransAlta subsequently repaid to the Corporation the promissory note related to the Big Level and Antrim wind projects in the amount of $72 million (US$50 million).

The table below summarizes quantitative data regarding the unobservable inputs utilized in the discounted cash flow models as outlined in Note 7 of the Annual Financial Statements:

Unobservable input	**Sept. 30, 2021**	Dec. 31, 2020
Preferred Shares Tracking Australia Cash Flows		
Discount rate	**5.5 %**	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)	**5.7 % - 8.5 %**	6.8 % - 10.3 %
Quarterly cash flows (range, in millions)	**Average of $1 - $4**	Average of $1 - $4
Preferred Shares Tracking Earnings and Distributions of US Gas		
Discount rate	**12.3 %**	—
Quarterly cash flows (millions)	**Average of $2**	—

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 Sept. 30, 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(2)			
Basis point change in discount rates	-10 basis points decrease	**3**	2
	+10 basis points increase	**(3)**	(2)
Quarterly cash flows	+1% increase	**4**	3
	- 1% decrease	**(4)**	(3)
Preferred Shares Tracking Earnings and Distributions of US Gas(3)			
Basis point change in discount rates	-10 basis points decrease	**—**	—
	+10 basis points increase	**—**	—
Quarterly cash flows	+1% increase	**—**	—
	- 1% decrease	**—**	—

(1) Quarterly cash flows could vary by a higher rate than the assumed one percent factor.
(2) The fair value changes presented relate to Big Level and Antrim, Mass Solar, Lakeswind, Wyoming Wind and Skookumchuck (2021) in total.
(3) The fair value changes as at Sept. 30, 2021 could vary but by less than $1 million.

6. Income Taxes

The components of income tax expense are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2021	2020	**2021**	2020
Current income tax expense	**4**	—	**12**	1
Adjustments in respect of deferred income tax of previous years	**(1)**	1	**(1)**	1
Deferred income tax expense related to the origination and reversal of temporary differences	**(3)**	1	**(1)**	12
Income tax expense	**—**	2	**10**	14

Presented in the Condensed Consolidated Statements of Earnings as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2021	2020	**2021**	2020
Current income tax expense	**4**	—	**12**	1
Deferred income tax expense (recovery)	**(4)**	2	**(2)**	13
Income tax expense	**—**	2	**10**	14

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	**Sept. 30, 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	**—**	**684**	—	771
Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities	**—**	**421**	—	316
Preferred Shares Tracking Earnings and Distributions of US Gas	**—**	**31**	—	—
Net risk management assets (liabilities)	**2**	**—**	(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 assets (liabilities):

	Cash flow hedges	Non-hedges	
	Level II	Level II	Total
Net risk management assets (liabilities) at Sept. 30, 2021	**3**	**(1)**	**2**
Net risk management liabilities at Dec. 31, 2020	—	(2)	(2)

Cash Flow Hedges

The Corporation has 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 Corporation also has a foreign exchange forward contract to manage foreign exchange exposure on the remaining construction costs related to the Windrise wind project, with a notional amount of US$16 million, maturing in the fourth quarter 2021.

Non-Hedges
At Sept. 30, 2021, the Corporation had a foreign exchange forward contract with a notional amount of AU$200 million to hedge the foreign-denominated debt foreign currency risks related to the TEA demand loan, maturing 2022. Hedge accounting is not applied to these foreign currency contracts.

The Corporation also uses foreign currency contracts to manage its expected foreign operating cash flows. At Sept. 30, 2021, the Corporation had foreign exchange forward contracts with notional amounts of AU$31 million and US$9 million, both maturing in the fourth quarter 2021. Hedge accounting is not applied to these foreign currency contracts.

At Sept. 30, 2021, the Corporation had a foreign exchange forward contract with a notional amount of US$97 million to hedge the foreign-denominated foreign currency risks related the North Carolina Solar tracking preferred share purchase.

III. Financial Instruments – Not Measured at Fair Value
The carrying value of cash and cash equivalents, restricted cash, 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 TEA demand loan and loans receivable (within other assets) approximate their carrying values.

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

As at	**Sept. 30, 2021**		Dec. 31, 2020	
	Fair value Level II	**Carrying value**	Fair value Level II	Carrying value
Long-term debt[1]	**674**	**643**	748	670

(1) 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 (Note 9).

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

I. Credit Risk
The Corporation's maximum exposure to credit risk at Sept. 30, 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	**54**	**90**
Non-investment grade	**23**	**7**
TransAlta and subsidiaries of TransAlta	**46**	**—**
No external rating	**55**	**—**

(1) Includes trade accounts receivable, finance lease receivable, distributions receivable from subsidiaries of TransAlta, and loans receivable.
(2) Includes accounts receivable and finance lease receivable of TEA. Receivables of US Wind and Solar and US Gas economic interest investments were approximately $8 million in total and are with investment grade and other high-quality counterparties.

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, the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities and the Preferred Shares Tracking Earnings and Distributions of US Gas. A one per cent increase (decrease) in the value of these securities would result in a $11 million increase (decrease) in OCI as at Sept. 30, 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	89	—	—	—	—	—	**89**
TEA demand loan(1)	185	—	—	—	—	—	**185**
Long-term debt	23	54	101	59	62	348	**647**
Lease obligations	—	1	1	1	1	18	**22**
Net risk management (assets)	—	(2)	—	—	—	—	**(2)**
Interest on TEA demand loan, long-term debt and lease obligations(2)	13	32	23	20	17	69	**174**
Dividends payable	63	—	—	—	—	—	**63**
Total	**373**	**85**	**125**	**80**	**80**	**435**	**1,178**

(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 (Sept. 30, 2020 – three cent) decrease in these currencies relative to the Canadian dollar is a reasonable potential change over the next quarter.

9 months ended Sept. 30	**2021**		2020	
Currency	**Net earnings decrease (increase)(1)**	**OCI loss(1)**	Net earnings decrease(1)	OCI loss(1)
USD	**(3)**	**12**	1	11
AUD	**1**	**20**	12	20
Total	**(2)**	**32**	13	31

(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

The Corporation acquired the Windrise wind project on Feb. 26, 2021 and recorded $233 million (Note 3) in PP&E. For the three and nine months ended Sept. 30, 2021, the Corporation incurred an additional $17 million and $36 million, respectively, related to construction costs to progress finalizing the Windrise wind project, including $3 million and $6 million, respectively, of interest capitalized to PP&E due to the Windrise wind project at a weighted average rate of 4.7 per cent.

During the three and nine months ended Sept. 30, 2021, the Corporation also spent $8 million and $13 million on other additions to PP&E (2020 - $6 million and $13 million).

During the three and nine months ended Sept. 30, 2020, $12 million was spent in growth capital related to the acquisition of the WindCharger battery storage project in the Canadian Wind segment.

As at Sept. 30, 2021, there was a substantial increase in the decommission provision, which increased the related assets included in PP&E by $113 million. Please refer to Note 10 for further details.

During the three and nine months ended Sept. 30, 2021, the Corporation recognized an impairment of $2 million related to the Kent Hills Wind LP tower failure. Refer to Note 3. In addition, the Corporation recognized an impairment of $8 million related to a wind asset as result of an increase in estimated decommissioning costs after the review of a recent engineering study. Refer to Note 10. The resulting fair value less cost of disposal measurement is categorized as a Level III fair value measurement and the Corporation has adjusted the expected value down to $65 million at at Sept. 30, 2021 using discount rates of 5.0 per cent (Dec. 31, 2020 - 5.3 per cent). The key assumptions impacting the determination of fair value are electricity production, sales prices and cost inputs, which are subject to measurement uncertainty.

During the three and nine months ended Sept. 30, 2020, the Corporation recorded an impairment of $2 million due to a post-construction review of water resources which resulted in a revision to the forecasted production related to a BC hydro facility.

9. TEA Demand Loan, Debt and Lease Obligations

Amounts Outstanding

As at	Sept. 30, 2021			Dec. 31, 2020		
	Carrying value	**Face value**	**Interest(1)**	Carrying value	Face value	Interest(1)
TEA demand loan(2)	**185**	**185**	**4.32 %**	195	195	4.32 %
Long-term debt:						
Pingston Hydro bond	**45**	**45**	**2.95 %**	45	45	2.95 %
Melancthon Wolfe Wind bond	**253**	**253**	**3.83 %**	268	270	3.83 %
New Richmond Wind bond	**123**	**125**	**3.96 %**	127	128	3.96 %
Kent Hills Wind bond	**222**	**224**	**4.45 %**	230	233	4.45 %
Total long-term debt	**643**	**647**		670	676	
Lease obligations	**22**			22		
	665			692		
Less: current portion of long term debt	**(53)**			(52)		
Less: current portion of lease obligations	**(1)**			(1)		
Total long-term debt and lease obligations	**611**			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 Sept. 30, 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 $606 million was available as at Sept. 30, 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 Sept. 30, 2021, there were no drawings under the credit facility.

TEA Demand Loan
On October 27, 2021, the Corporation repaid TransAlta Energy (Australia), AU$17 million of the AU$200 million principal upon demand.

10. Decommissioning Provisions

The change in the decommissioning and restoration provision balance is outlined below:

	Total
Balance, Dec. 31, 2020	51
Accretion	**2**
Revisions in estimated cash flow	**113**
Revisions in discount rates	**2**
Balance, Sept. 30, 2021	**168**

Carrying value	
Balance, Dec. 31, 2020	51
Current portion	—
Non-current portion	51
Balance, Sept. 30, 2021	**168**
Current portion	**—**
Non-current portion	**168**

A decommissioning and restoration provision has been recognized for all generating facilities for which the Corporation is legally, or constructively, required to remove the facilities at the end of their useful lives and restore the sites to their original condition.

During the third quarter of 2021, the Corporation adjusted the wind assets decommissioning and restoration provision as estimates were updated after the review of a recent engineering study. The Corporation's current best estimate of the decommissioning and restoration provision increased by $113 million, which also resulted in an increase in the related assets in property, plant and equipment.

11. 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
9 months ended Sept. 30, 2021	**0.70497**	**187**	**113**	**74**
9 months ended Sept. 30, 2020	0.70497	189	113	76

On July 29, 2021, the Corporation declared a monthly dividend of $0.07833 per common share payable on Oct. 29, 2021, Nov. 30, 2021 and Dec. 31, 2021.

On Oct. 25, 2021, the Corporation declared a monthly dividend of $0.07833 per common share payable on Jan. 31, 2022, Feb. 28, 2022 and Mar. 31, 2022.

12. 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 and nine months ended Sept. 30, 2021.

A. Guarantees

TransAlta has provided a Construction Cost Guarantee related to the Windrise wind project acquired on Feb. 26, 2021 whereby, upon completion of the Windrise wind project, if the construction costs exceed the guaranteed cost, TransAlta will reimburse the Corporation for up to $6 million and if the construction costs are below the guaranteed cost, the Corporation will reimburse TransAlta for up to $6 million. As at Sept. 30, 2021, no amount has been recognized, as the probability of either occurring is still undetermined.

B. Commitments

The Corporation acquired economic interests in the Skookumchuck wind facility and the Ada cogeneration facility as described in Note 3, on April 1, 2021. As at Sept. 30, 2021, the Skookumchuck wind facility has a long-term service agreement of approximately $26 million committed through to 2040 and the Ada cogeneration facility has approximately $24 million committed in operating leases and natural gas purchase and transportation contracts through to 2025.

As part of the Northern Goldfields Solar Project, engineering, procurement and construction contracts have been entered into for the construction of the Northern Goldfields Solar Project. New commitments of $13 million for the remainder of 2021 and $44 million in 2022 have been entered into during the third quarter of 2021.

C. Contingencies

I. Transmission Line Loss Rule Proceeding

The Corporation has been participating in a transmission line loss rule proceeding before the Alberta Utilities Commission ("AUC"). The AUC determined that it has the ability to retroactively adjust line loss charges going back to 2006 and directed the AESO to recalculate loss factors for 2006 to 2016. The AUC approved an invoice settlement process and all three planned settlements have been received. The first two invoices were settled by the first quarter of 2021 and the third invoice settled in the second quarter of 2021, which remain subject to true-up invoices expected to be issued by the AESO in Oct. 2021 and settled at the end of Dec. 2021. The impact of the true-up invoices is estimated at $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, sought a declaration that the PPA was lawfully terminated. On May 2, 2021 the Corporation entered into a conditional settlement with FMG. The trial has been adjourned pending satisfaction of the settlement conditions, which the Corporation expects to occur before Dec. 31, 2021. The Corporation recognizes finance income when distributions are declared on investments in Australian assets, inclusive of the impacts of any contingent gains when recognized by TransAlta.

III. Sarnia Outages

The Sarnia cogeneration facility experienced three separate events between May 19 and June 9, 2021 that resulted in steam interruptions to its industrial customers. As a result, the customers have submitted claims for liquidated damages. Steam supply interruptions of this nature are atypical and infrequent at the Sarnia cogeneration facility. The Corporation commenced an investigation to determine the root cause of each of the three events, which should be completed later in the year, or the first quarter of 2022. The results of the investigation will help determine if any liquidated damages are owing and, if so, the quantum.

13. 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 acquisitions of the economic interests in the Ada cogeneration facility and the Skookumchuck wind facility (Note 3), the acquisition of the Windrise wind project (Note 3), the development fee related to the Northern Goldfields Solar Project (Note 3) and the finance income related to subsidiaries of TransAlta (Note 5). Also, all derivatives of the Corporation are entered into on behalf of the Corporation by a subsidiary of TransAlta. On Nov, 5, 2021, the Corporation acquired a economic interest in North Carolina Solar (Note 3) through a related party transaction.

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2021	2020	**2021**	2020
Revenue from TransAlta PPAs	**9**	9	**28**	31
Revenue from environmental credits[1]	**4**	4	**11**	4
G&A Reimbursement Fee[2]	**3**	3	**13**	12
Natural gas purchases	**4**	1	**7**	2
Asset optimization fee[3]	**1**	1	**2**	2
Interest income - promissory notes due from a subsidiary of TransAlta	**1**	—	**1**	2
Interest expense - TEA demand loan	**2**	—	**6**	—
Interest expense on credit facility and letter of credit and guarantee fees	**—**	—	**1**	1

(1) The environmental credits' value 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.

B. Related-Party Balances

Related-party balances include the investments in subsidiaries of TransAlta (Note 5), the risk management assets and liabilities (Note 7), the TEA demand loan and long-term debt (Note 9) and the cost guarantee (Note 12).

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

As at	**Sept. 30, 2021**	Dec. 31, 2020
Trade and other receivables	**20**	39
Finance lease receivable	**7**	7
Big Level and Antrim promissory notes	**19**	18
Long-term prepaid – management fee	**2**	2
Accounts payable and accrued liabilities	**8**	11
Dividends payable	**38**	38
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]	**377**	207
Indemnification guarantee provided by the Corporation to TransAlta[2]	**551**	540

(1) Includes letters of credit and guarantee agreements from the acquisition of the Windrise wind project on Feb. 26, 2021.
(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.

14. Segment Disclosures

The following tables provide each segment's results in the format that management organizes its segments to make operating decisions and assess performance. For internal reporting purposes, the earnings information from the Corporation's economic interests have been presented. The investments in economic interests is not, and is not intended to be, presented in accordance with IFRS. The tables below show the reconciliation of the total segmented results to the statement of earnings reported under IFRS. Prior periods have been adjusted for comparable purposes.

	Owned Assets				Economic Interests					
3 months ended Sept. 30, 2021	**Canadian Wind**	**Canadian Hydro**	**Canadian Gas**	**Corporate**	**US Wind and Solar**	**US Gas**	**Australian Gas**	**Total**	**Investments in Economic Interests**	**IFRS Financials**
Revenues	42	9	63	—	5	12	35	166	(52)	114
Government incentives	—	—	—	—	—	—	—	—	—	—
Total revenue	42	9	63	—	5	12	35	166	(52)	114
Fuel, royalties and other costs	3	1	34	—	1	2	2	43	(5)	38
Gross margin	39	8	29	—	4	10	33	123	(47)	76
Operations, maintenance and administration	9	2	7	4	4	1	9	36	(14)	22
Depreciation and amortization	24	2	8	—	9	2	7	52	(18)	34
Asset impairment	10	—	—	—	—	—	—	10	—	10
Taxes, other than income taxes	2	—	—	—	1	—	—	3	(1)	2
Operating income (loss)	(6)	4	14	(4)	(10)	7	17	22	(14)	8
Finance income related to subsidiaries of TransAlta	—	—	—	—	—	—	—	—	19	19
Interest income	—	—	—	1	—	—	1	2	(1)	1
Interest expense	(4)	(1)	(1)	(3)	(2)	—	(9)	(20)	11	(9)
Finance lease income	1	—	—	—	—	—	5	6	(5)	1
Foreign exchange gain	—	—	—	1	—	—	1	2	(1)	1
Earnings (loss) before income taxes	(9)	3	13	(5)	(12)	7	15	12	9	21

3 months ended Sept. 30, 2020	Owned Assets: Canadian Wind	Owned Assets: Canadian Hydro	Owned Assets: Canadian Gas	Owned Assets: Corporate	Economic Interests: US Wind and Solar	Economic Interests: US Gas	Economic Interests: Australian Gas	Total	Investments in Economic Interests	IFRS Financials
Revenues	45	9	40	—	18	—	43	155	(61)	94
Government incentives	—	1	—	—	—	—	—	1	—	1
Total revenue	45	10	40	—	18	—	43	156	(61)	95
Fuel, royalties and other costs	4	3	12	—	1	—	3	23	(4)	19
Gross margin	41	7	28	—	17	—	40	133	(57)	76
Operations, maintenance, and administration	8	2	7	6	2	—	9	34	(11)	23
Depreciation and amortization	24	2	8	—	9	—	11	54	(20)	34
Asset impairment	—	2	—	—	—	—	—	2	—	2
Taxes, other than income taxes	1	—	1	—	1	—	—	3	(1)	2
Operating income (loss)	8	1	12	(6)	5	—	20	40	(25)	15
Finance income related to subsidiaries of TransAlta	—	—	—	—	—	—	—	—	13	13
Interest income	1	—	—	—	—	—	1	2	(1)	1
Interest expense	(7)	(1)	(2)	—	(1)	—	(11)	(22)	12	(10)
Change in fair value of financial assets	—	—	—	—	—	—	—	—	(13)	(13)
Foreign exchange gain	—	—	—	3	—	—	—	3	—	3
Earnings (loss) before income taxes	2	—	10	(3)	4	—	10	23	(14)	9

9 months ended Sept. 30, 2021	Owned Assets Canadian Wind	Owned Assets Canadian Hydro	Owned Assets Canadian Gas	Owned Assets Corporate	Economic Interests US Wind and Solar[1]	Economic Interests US Gas[2]	Economic Interests Australian Gas	Total	Investments in Economic Interests	IFRS Financials
Revenues	159	23	150	—	53	27	96	508	(176)	332
Government incentives	—	—	—	—	—	—	—	—	—	—
Total revenue	159	23	150	—	53	27	96	508	(176)	332
Fuel, royalties and other costs	7	3	81	—	2	6	7	106	(15)	91
Gross margin	152	20	69	—	51	21	89	402	(161)	241
Operations, maintenance and administration	27	5	22	15	11	3	28	111	(42)	69
Depreciation and amortization	70	6	25	—	29	5	21	156	(55)	101
Asset impairment	10	—	—	—	—	—	—	10	—	10
Taxes, other than income taxes	5	1	1	—	3	—	—	10	(3)	7
Operating income (loss)	40	8	21	(15)	8	13	40	115	(61)	54
Finance income related to subsidiaries of TransAlta	—	—	—	—	—	—	—	—	68	68
Interest income	2	—	—	3	5	—	4	14	(9)	5
Interest expense	(15)	(2)	(3)	(8)	(7)	—	(26)	(61)	33	(28)
Finance lease income	1	—	—	—	—	—	16	17	(16)	1
Foreign exchange gain	—	—	—	10	—	—	1	11	(1)	10
Gain on sale of assets	—	—	—	—	—	—	1	1	(1)	—
Earnings (loss) before income taxes	28	6	18	(10)	6	13	36	97	13	110

(1) US Wind and Solar includes the Skookumchuck wind facility which was acquired through investment in tracking preferred shares on Apr. 1, 2021. The economic benefit of the transaction was effective as at Jan. 1, 2021. Results of the Skookumchuck wind facility include Jan. 1, 2021 through September 30, 2021 results.
(2) US Gas is comprised of the Ada cogeneration facility which was acquired through investment in tracking preferred shares on Apr. 1, 2021. The economic benefit of the transaction was effective as at Jan. 1, 2021. Results of the Ada cogeneration facility include Jan. 1, 2021 through September 30, 2021 results.

	Owned Assets				Economic Interests					
9 months ended Sept. 30, 2020	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas	Total	Investments in Economic Interests	IFRS Financials
Revenues	164	23	117	—	73	—	121	498	(194)	304
Government incentives	3	1	—	—	—	—	—	4	—	4
Total revenue	167	24	117	—	73	—	121	502	(194)	308
Fuel, royalties and other costs	11	5	37	—	2	—	8	63	(10)	53
Gross margin	156	19	80	—	71	—	113	439	(184)	255
Operations, maintenance, and administration	26	5	21	16	8	—	25	101	(33)	68
Depreciation and amortization	68	6	27	—	26	—	34	161	(60)	101
Asset impairment	—	2	—	—	—	—	—	2	—	2
Taxes, other than income taxes	4	1	1	—	2	—	—	8	(2)	6
Operating income (loss)	58	5	31	(16)	35	—	54	167	(89)	78
Finance income related to subsidiaries of TransAlta	—	—	—	—	—	—	—	—	31	31
Interest income	2	—	—	2	—	—	3	7	(3)	4
Interest expense	(22)	(2)	(4)	(4)	(4)	—	(31)	(67)	35	(32)
Change in fair value of financial assets	—	—	—	—	—	—	—	—	(44)	(44)
Foreign exchange gain	—	—	—	19	—	—	—	19	—	19
Earnings (loss) before income taxes	38	3	27	1	31	—	26	126	(70)	56

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 facility, and the four natural-gas and diesel-fired generation facilities that comprise Southern Cross Energy.

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 and Skookumchuck.

Preferred Shares Tracking Earnings and Distributions of US Gas – Preferred shares of subsidiaries of TransAlta, which provide the Corporation with cumulative variable dividends broadly equal to the underlying net distributable profits of the Ada cogeneration facility.

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.

US economic interests - Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities and the Preferred Shares Tracking Earnings and Distributions of US Gas.

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