TRANSALTA RENEWABLES INC.

Management's Discussion and Analysis

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

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

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Forward-Looking Statements

This MD&A includes forward-looking statements within the meaning of applicable Canadian securities laws. All forward-looking statements are based on our beliefs as well as assumptions based on information available at the time the assumptions were made and on management's experience and perception of historical trends, current conditions and expected future developments, as well as other factors deemed appropriate in the circumstances. Forward-looking statements are not facts, but only predictions and generally can be identified by the use of statements that include phrases such as "may," "will," "believe," "expect," "anticipate," "intend," "plan," "foresee," "potential," "enable," "continue," "forecast" or other comparable terminology. These statements are not guarantees of our future performance, results or events and are subject to risks, uncertainties and other important factors that could cause our actual performance, results or events to be materially different from that set out in or implied by the forward-looking statements.

In particular, this MD&A contains forward-looking statements pertaining to our business and anticipated future financial performance including, but not limited to: our corporate strategy, including capitalizing on strategic growth opportunities in the renewable, natural gas power generation and other infrastructure sectors; ability to return to a pay out ratio of 80 to 85 per cent of cash available for distribution to the shareholders of the Company on an annual basis; the potential impact of COVID-19 on the Company and the actions undertaken by the Company or TransAlta in response to the COVID-19 pandemic; ability to achieve our 2022 Outlook, including adjusted EBITDA, FCF and CAFD (each, as defined below), interest expense, cash available for distribution, and sustaining capital and productivity expenditures; the remediation of the Kent Hills wind facility, including the timing and cost of remediation, and the impact on revenue; the expectation that agreements will be entered into with New Brunswick Power Corporation and the terms thereof; the ability to secure waivers and amendments from the Trustee (as defined below) and holders of the non-recourse bonds secured by, among other things, the Kent Hills site (the "KH Bonds"); the dividend amounts on the tracking preferred shares; foreign exchange exposure and risk management; liquidity and capital resources, including our ability to manage borrowings through 2023 and beyond on acceptable terms; principal sources of liquidity and our ability to draw on such liquidity; expectations regarding project-level debt and tax equity; expectations in terms of the cost of operations and maintenance, including maintenance performed by third parties, and the variability of those costs; the payment of future dividends; expectations in respect of generation availability, capacity[(1)] and production; actions to manage certain risks, including specific actions identified to manage regulatory risk; expected governmental regulatory regimes, legislation and programs, including the proposed new Clean Electricity Standard and the ability to achieve a net zero electricity sector in Canada by 2035; that regulatory changes may create new opportunities for the development of renewables and energy storage projects; expectations regarding seasonality of wind and hydro production; and that the Company will realize on acquisition and development opportunities from time-to-time to advance the growth of the Company. The forward-looking statements contained in this MD&A are based on many assumptions including, but not limited to, the following: renewable energy production; fair value of financial instruments, power and natural gas price forecasts, the impacts from COVID-19 not becoming significantly more onerous on the Company; our ability to access capital markets on reasonable terms; expectations regarding our decommissioning and restoration activities; and the Company being able to acquire and fund growth through project-level debt and access to credit on reasonable terms.

[1] *We measure capacity as net installed capacity, which is consistent with industry standards. Capacity figures represent capacity owned and in operation unless otherwise stated. The gross capacity reflects the basis of consolidation of underlying assets owned, plus those in which we hold an economic interest. Net capacity deducts capacity attributable to non-controlling interest in these assets. Megawatts are rounded to the nearest whole number.*

Forward-looking statements are subject to a number of significant risks, uncertainties and assumptions that could cause actual plans, performance, results or outcomes to differ materially from current expectations. Factors that may adversely impact what is expressed or implied by forward-looking statements contained in this MD&A include risks relating to: the impact of COVID-19; reduced labour availability impacting our ability to continue to staff our operations and facilities; our inability to realize our growth goals, including our potential inability to acquire operating or development assets from TransAlta; an increase cash taxes; restricted access to capital and increased borrowing costs; decreases in short-term and/or long-term electricity demand; changes to commodity prices; reductions in production; disruptions to our supply chain, including as it pertains to our major maintenance and growth projects; impairments and/or writedowns of assets; adverse impacts on our information technology systems and our internal control systems, including increased cybersecurity threats; armed hostilities, including the war in Ukraine and associated impacts; the threat of terrorism, adverse diplomatic developments or other similar events that could adversely affect our business; equipment failure and our ability to carry out or have completed the repairs in a cost-effective manner or timely manner or at all, including if the remediation at the Kent Hills wind facilities is more costly or time consuming than expected; inability to come to a commercial agreement with New Brunswick Power Corporation or enter into a waiver and amendments with the Trustee and holders of the KH Bonds; changes in general economic conditions, including interest rates and inflation; fluctuations in the value of foreign currencies, including the Canadian, US and Australian dollars; operational risks involving our facilities, including Unplanned Outages at such facilities; disruptions in the transmission and distribution of electricity; the effects of weather and other climate-related risks; disruptions in the source of water, wind, solar or gas resources required to operate our facilities; natural disasters; equipment failure and our ability to carry out repairs in a cost-effective or timely manner or at all; the need for additional financing and the ability to access financing at a reasonable cost; structural subordination of securities; counterparty credit risk; insurance coverage; our provision for income taxes; our contracts expiring and our inability to re-contract facilities on favourable terms, or at all; disputes with counterparties and legal and contractual proceedings involving the Company; reliance on key personnel and services provided by TransAlta, including execution of growth opportunities; the regulatory and political environments in the jurisdictions in which we operate; changes to government incentives or grants for renewable energy production; and the risks associated with development projects and acquisitions. The foregoing risk factors, among others, are described in further detail in the Risk Factors section of our AIF for the year ended Dec. 31, 2021, which is available on SEDAR at www.sedar.com as well as under Risk Management in this MD&A.

Readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements included in this document are made only as of the date hereof and we do not undertake to publicly update these forward-looking statements to reflect new information, future events or otherwise, except as required by applicable laws. The purpose of the financial outlooks contained herein is to give the reader information about management's current expectations and plans and readers are cautioned that such information may not be appropriate for other purposes. In light of these risks, uncertainties and assumptions, the forward-looking events might occur to a different extent or at a different time than we have described, or might not occur at all. We cannot assure that projected performance results or events will be achieved.

Operations of the Company

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

Our operations span three countries: Canada, the United States and Australia. Our assets located in the United States and Australia are held through economic interests in those assets. As we have economic interests 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.

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

	Owned Assets		Economic Interests					
As at March 31, 2022	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)	1,387	22	519	7	—	—	1,906	29
Gas	499	1	29	1	450	6	978	8
Total	**1,998**	**36**	**548**	**8**	**450**	**6**	**2,996**	**50**

(1) The total gross installed capacity reflects the basis of financial consolidation of underlying assets owned, plus those in which we hold an economic interest. Megawatts are rounded to the nearest whole number, and are as at March 31, 2022.
(2) Canadian Wind & Solar includes a wind battery storage facility.

Kent Hills 1 and 2 wind facilities are currently not in operation following the tower failure event that occurred in September 2021. Following extensive independent engineering assessments and root cause failure analysis, it was determined that all 50 turbine foundations at the Kent Hills 1 and 2 wind facilities require a full foundation replacement. This has taken approximately 150 MW of gross production offline. The Company expects to commence the rehabilitation of the wind facilities in the second quarter of 2022 and currently expects the foundations to be fully replaced by the second half of 2023. Refer to the 2022 Outlook section and Liquidity and Capital Resources section of this MD&A for further details on the Kent Hills wind facilities outage.

TransAlta Renewables Named to Clean200 List

During the first quarter, the Company was recognized by Corporate Knights and As You Sow on the Clean200 global list of publicly traded companies leading the way with solutions for the transition to a clean energy future. The Clean200 are the largest 200 public companies ranked by green energy revenues.

[2] *We measure capacity as Net Maximum Capacity, which is consistent with industry standards. Capacity figures represent capacity owned and in operation unless otherwise stated. The gross capacity reflects the basis of consolidation of underlying assets owned, plus those in which we hold an economic interest. Net capacity deducts capacity attributable to non-controlling interest in these assets. Megawatts are rounded to the nearest whole number.*

Strategy and Capability to Deliver Results

The Company's corporate strategy remains unchanged from that disclosed in its 2021 annual MD&A. Our objectives are to (i) provide attractive returns for investors through the ownership of, and investment in, highly contracted renewable and natural gas power generation and other infrastructure assets that provide stable cash flow, primarily through long-term contracts with strong counterparties; (ii) pursue and capitalize on strategic growth opportunities in the renewable and natural gas electricity generation and other infrastructure sectors; (iii) maintain diversity in terms of geography, generation and counterparties; and (iv) pay out 80 to 85 per cent of cash available for distribution to the shareholders of the Company on an annual basis. The expected payout ratio range, based on our current outlook for 2022, is estimated between 88% and 102%, excluding the remediation capital associated with Kent Hills. The Company's ability to lower its current payout ratio to within the targeted range will depend on a number of factors, including the return to service of the Kent Hills 1 and 2 wind facilities and the execution of additional growth opportunities.

2022 Outlook

Refer to the 2022 Outlook section in our 2021 annual MD&A. There have been no changes in our expectations on key financial targets for 2022.

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

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

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

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

Operations

The following is a summary of expectations and key assumptions:

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

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

Operating Costs

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

Kent Hills Wind Facilities Outage

During the first quarter of 2022, the extended outage at Kent Hills 1 and 2 wind facilities continued and rehabilitation efforts for all of the foundations is expected to commence during the second quarter of 2022 with the aim of fully returning the wind facility to service in the second half of 2023. The outage is expected to result in foregone revenue of approximately $3.4 million per month on an annualized basis so long as all 50 turbines at Kent Hills 1 and 2 wind facilities are offline, based on average historical wind production, with revenue expected to be earned as the wind turbines are returned to service.

The Company's indirect subsidiary, Kent Hills Wind LP is in advanced stages of negotiations with New Brunswick Power Corporation regarding various commercial matters arising as a result of the outage at the Kent Hills 1 and 2 wind facilities. The Company is in negotiations to obtain a waiver and expects to enter into a supplemental indenture during the second quarter of 2022. We presently expect to commence remediation in the second quarter of 2022. Refer to the Liquidity and Capital Resources section of this MD&A for further details.

Sustaining Capital Expenditures

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

3 months ended March 31,

	Canadian Wind	Canadian Hydro	US Wind and Solar	Canadian Gas	US Gas	Australian Gas	Total
2022 Total sustaining expenditures	**3**	**—**	**1**	**1**	**—**	**3**	**8**
2021 Total sustaining expenditures	1	—	—	—	—	—	1

Sustaining capital expenditures for the three months ended March 31, 2022, increased by $7 million compared to the same period in 2021, mainly due to higher component failures in wind and the purchase of a spare engine in the Australian Gas segment.

The Kent Hills foundation rehabilitation capital expenditures were originally estimated to range from $75 million to $100 million. The current estimate of the capital expenditures is approximately $120 million, inclusive of contingency. The cost increase is a result of the adoption of a more robust foundation design, inflationary cost pressures and an accelerated timeline to return the turbines to service ahead of December 2023. We are also currently in advanced stages of discussions with New Brunswick Power Corporation and expect to enter into definitive agreements in the second quarter of 2022. In connection with the potential events of default that may have occurred under the trust indenture governing the terms of the KH Bonds, Kent Hills Wind LP is also in active negotiations with the Trustee (as defined below) and the holders of the KH Bonds to obtain a waiver and expects that it will enter into a supplemental indenture during the second quarter of 2022.

Subject to satisfactory resolution of the various commercial matters, the construction work for the rehabilitation of the Kent Hills 1 and 2 wind facilities is expected to commence during the second quarter of 2022. The Company is actively evaluating any options that may be available to recover these costs from third parties and insurance.

Highlights

Consolidated Financial Highlights

	3 months ended March 31,	
	2022	2021
Renewable energy production (GWh)(1)	**1,310**	1,109
Revenues	**143**	126
Adjusted EBITDA(2)	**139**	123
Earnings before income taxes	**49**	61
Net earnings attributable to common shareholders	**41**	52
Cash flow from operating activities	**103**	103
Free cash flow(2)	**108**	99
Cash available for distribution(2)	**90**	90
Net earnings per share attributable to common shareholders, basic and diluted	**0.15**	0.19
Dividends declared and paid per common share	**0.23**	0.23
Free cash flow per share(2)(3)	**0.40**	0.37
Cash available for distribution per share(2)(4)	**0.34**	0.34

(1) Includes production from Canadian Wind, Canadian Hydro and US Wind and Solar and excludes Canadian, US and Australian gas-fired generation. Production is not a key revenue driver for gas-fired facilities as most of their revenues are capacity-based.
(2) These items are not defined and have no standardized meaning under IFRS. Please refer to the Discussion of Operating Results, Non-IFRS Measures and Reconciliation of Non-IFRS Measures sections of this MD&A for further discussion of these items, including, where applicable, reconciliations to measures calculated in accordance with IFRS.
(3) Free cash flow ("FCF") per share is calculated as free cash flow divided by the weighted average number of common shares outstanding during the period of 267 million shares as at March 31, 2022 (March 31, 2021 - 267 million shares). In the fourth quarter of 2021, the adjusted funds from operations was replaced with free cash flow to better reflect the proxy for cash generated from operating activities and the composition of the metric has been changed accordingly. Comparative figures have been reclassified to conform to the current period's presentation.
(4) Cash available for distribution ("CAFD") per share is calculated as CAFD divided by the weighted average number of common shares outstanding during the period of 267 million shares as at March 31, 2022 (March 31, 2021 - 267 million shares).

As at	**March 31, 2022**	Dec. 31, 2021
Gas installed capacity (MW)(1)	**978**	978
Renewables gross installed capacity (MW)(2)	**2,018**	2,018
Total assets	**3,591**	3,749
TEA demand loan	**163**	167
Debt and lease obligations(3)	**811**	814
Total long-term liabilities	**1,007**	1,033

(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 capacity. The gross installed capacity reflects the basis of consolidation of underlying assets owned, plus those in which we hold an economic interest. Megawatts are rounded to the nearest whole number.
(3) Including current portion.

Renewable energy production for the three months ended March 31, 2022, increased by 201 GWh compared to the same period in 2021. This increase was mainly due to the production from the recently commissioned Windrise wind facility, the acquisition of the economic interests in the Skookumchuck wind facility and the North Carolina Solar facility, higher wind resources in Canada and in the US, partially offset by the extended facility outage at the Kent Hills 1 and 2 wind facilities.

The Company's adjusted EBITDA for the three months ended March 31, 2022, increased by $16 million compared to 2021. The increase in adjusted EBITDA was a result of higher wind resources and the incremental production from the new facilities acquired and commissioned throughout 2021. This was partially offset by the extended site outage at the Kent Hills 1 and 2 wind facilities.

Net earnings attributable to common shareholders for the three months ended March 31, 2022, decreased by $11 million compared to the same period in 2021, primarily due to the extended outage at the Kent Hills 1 and 2 wind facilities in the Canadian Wind segment and lower finance income related to subsidiaries of TransAlta due to an increase in distributions being classified as a return of capital. This decrease was partially offset by higher earnings from the addition of the Windrise wind facility, including the liquidated damages related to turbine performance at the Windrise wind facility.

Overall, our cash flow from operating activities remained consistent with the same period in 2021, primarily as the increase in production from the new facilities offset the reduction in production from the extended outage at the Kent Hills 1 and 2 wind facilities.

Overall, our FCF increased by $9 million from 2021, due to higher adjusted EBITDA and lower provisions, partially offset by increased sustaining capital expenditures within our Wind, Solar and Australian Gas segments.

CAFD has remained consistent period over period.

Significant and Subsequent Events

Mount Keith 132kV Transmission Expansion

During the second quarter of 2022, the Company announced that Southern Cross Energy, a subsidiary of TransAlta Corporation and an entity in which the Company owns an indirect economic interest, had agreed to expand the Mt. Keith 132kV transmission system in Western Australia, to support the Northern Goldfields-based operations of BHP Nickel West ("BHP"). Total construction capital of the project is estimated between AU$50-$53 million. Southern Cross Energy has entered into an engineering, procurement and construction agreement with ASX-listed GenusPlus Group Ltd for the expansion. The project is being developed under the existing PPA with BHP, which has a term of 15 years. It is expected to be completed in the second half of 2023 and will generate annual EBITDA in the range of AU$6-$7 million. In addition, the planned completion date should allow at least a portion of the project to qualify for Australia's "Temporary Full Expensing" COVID-19 tax benefit. The project will facilitate the connection of additional generating capacity to our network to support BHP's operations and increase their competitiveness as a supplier of low-carbon nickel.

The Mount Keith transmission expansion represents the second project executed under the existing PPA with BHP, following the Northern Goldfields solar and battery project that is expected to achieve commercial operation in 2022. The Company relies on TransAlta to, among other things, identify acquisition and/or development opportunities for the Company. Although TransAlta has indicated it will not be providing to the Company the opportunity to acquire two Oklahoma wind projects that TransAlta is currently constructing, TransAlta has indicated that it will continue to evaluate future opportunities that are uniquely suited to the Company's corporate attributes and strategic goals. There can be no assurances that the Company will be able to secure attractive acquisition or development candidates in the future (whether through our relationship with TransAlta or otherwise) or that we will be able to realize growth opportunities that increase or maintain the amount of cash available for distribution.

Refer to the 2021 annual MD&A and our unaudited interim condensed consolidated financial statements for the three months ended March 31, 2022, for significant events impacting both prior and current year results.

Discussion of Operating Results

The amounts discussed in this section include operational metrics and financial information related to our fuel types and include investments in the economic interests of TransAlta subsidiaries. Since the investments in these economic interests provide us with returns as if we owned the assets, presenting the operational information provides users with information to assist them in assessing the financial performance of the assets that generate the finance income related to the economic interests. All the assets in the US Wind and Solar, US Gas and Australian Gas business segments are owned through investments in an economic interest.

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

3 months ended March 31,	Long-term average renewable energy production (GWh)(1)	Production (GWh)		Adjusted EBITDA(2)	
		2022	2021	**2022**	2021
Canadian Wind(3)	**1,101**	**909**	818	**63**	57
Canadian Hydro	**45**	**41**	40	**1**	1
US Wind and Solar	**352**	**360**	251	**25**	18
Total – Renewable energy	**1,498**	**1,310**	1,109	**89**	76
Canadian Gas		**453**	334	**20**	21
US Gas		**62**	—	**2**	—
Australian Gas		**420**	424	**34**	32
Corporate		**—**	—	**(6)**	(6)
Total		2,245	1,867	**139**	123
Total earnings before income taxes				**49**	61

(1) Long-term average is calculated on an annualized basis from the average annual energy yield predicted by our simulation model, which uses historical resource data and is run using typical periods of 15 years for wind and 30 years for hydro.
(2) This item is not defined and has no standardized meaning under IFRS. Please refer to the Non-IFRS Measures and Reconciliation of Non-IFRS Measures sections of this MD&A for further discussion of these items, including, where applicable, reconciliations to measures calculated in accordance with IFRS.
(3) Canadian Wind Long-term average renewable energy production (GWh) excluding Kent Hills 1 and 2 which are currently not in operation, is 995 GWh.

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

Canadian Wind

Production for the three months ended March 31, 2022, increased by 91 GWh compared to 2021, mainly due to the additional production from the recently commissioned Windrise wind facility, higher wind resources across Canada, partially offset by the extended facility outage at the Kent Hills 1 and 2 wind facilities.

Adjusted EBITDA increased by $6 million compared to 2021, mainly due higher production and the addition of the Windrise wind facility, recognition of liquidated damages related to turbine performance, partially offset by the extended outage at Kent Hills 1 and 2 wind facilities.

Canadian Hydro

Production for the three months ended March 31, 2022, increased by 1 GWh compared to 2021, mainly due to higher production in British Columbia from higher water resources, partially offset by lower production in Alberta from lower water resources.

Adjusted EBITDA has remained consistent compared to 2021.

US Wind and Solar

Production for the three months ended March 31, 2022, increased by 109 GWh compared to 2021, mainly due to the acquisition of the economic interests in the Skookumchuck wind facility and the North Carolina Solar facility, and higher wind resources.

Adjusted EBITDA increased by $7 million compared to 2021, mainly due to higher production and the addition of new facilities.

Canadian Gas

Canadian Gas is comprised solely of the Sarnia cogeneration facility. Production for the three months ended March 31, 2022, increased by 119 GWh compared to 2021, 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.

Adjusted EBITDA decreased by $1 million compared to 2021, mainly due to higher operations, maintenance and administration costs.

US Gas

US Gas is comprised 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. Production and EBITDA for the period were in line with expectations.

Australian Gas

Production for the three months ended March 31, 2022, decreased by 4 GWh compared to 2021, mainly due to changes in customer demand. The contracts in Australia are capacity contracts and results are largely unaffected by generation.

Adjusted EBITDA increased by $2 million compared to 2021, mainly due to the settlement and dismissal of the Fortescue Metals Group Ltd. ("FMG") dispute in 2021 resulting in the commencement of the PPA with FMG at South Hedland in the first quarter of 2022 and lower legal fees, partially offset by unfavourable foreign exchange impacts.

Selected Quarterly Information

	Q2 2021	**Q3 2021**	**Q4 2021**	**Q1 2022**
Revenue	**92**	**114**	**138**	**143**
Net earnings attributable to common shareholders	**25**	**20**	**43**	**41**
Cash flow from operating activities	**79**	**83**	**71**	**103**
FCF[1]	**71**	**64**	**123**	**108**
CAFD[1]	**40**	**54**	**91**	**90**
Net earnings per share attributable to common shareholders, basic and diluted[2]	**0.09**	**0.07**	**0.16**	**0.15**
CAFD per share[1]	**0.15**	**0.20**	**0.34**	**0.34**

	Q2 2020	Q3 2020	Q4 2020	Q1 2021
Revenue	103	95	128	126
Net earnings attributable to common shareholders	30	6	53	52
Cash flow from operating activities	71	65	49	103
FCF[1]	95	80	101	99
CAFD[1]	67	73	72	90
Net earnings per share attributable to common shareholders, basic and diluted[2]	0.11	0.02	0.20	0.19
CAFD per share[1]	0.25	0.27	0.27	0.34

(1) These items are not defined and have no standardized meaning under IFRS. Please refer to the Discussion of Operating Results, Non-IFRS Measures and Reconciliation of Non-IFRS Measures sections of this MD&A for further discussion of these items, including, where applicable, reconciliations to measures calculated in accordance with IFRS.
(2) Basic and diluted earnings per share attributable to common shareholders is calculated each period using the weighted average common shares outstanding during the period. As a result, the sum of the earnings per share for the four quarters making up the calendar year may sometimes differ from the annual earnings per share.

Our business results fluctuate with seasonal variations, with the first and fourth quarters seeing the largest wind volumes and the second and third quarters recording higher hydro volumes. As wind forms a larger part of our renewable fleet, higher revenues and earnings are expected in the first and fourth quarters.

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

- Revenue of $5 million related to the sale of Alberta carbon offsets and EPCs to TransAlta occurred in the first, quarter of 2022, and $7 million, $4 million and $8 million in sales that occurred in the first, third and fourth quarters of 2021, respectively;
- Liquidated damages related to turbine performance at the Windrise wind facility in the first quarter of 2022;
- The acquisition of an economic interest in the North Carolina Solar facility in the fourth quarter of 2021;
- The commissioning of the Windrise wind facility in the fourth quarter of 2021;
- The continued extended outage of the Kent Hills 1 and 2 wind facilities from the fourth quarter of 2021 to the first quarter of 2022;
- The impact on depreciation in the fourth quarter of 2021 with accelerating the depreciation of the foundations related to Kent Hills 1 and 2 wind facilities;
- The effects of asset impairments recognized in the third and fourth quarter of 2021;
- The unplanned outages at the Sarnia cogeneration facility in the second quarter of 2021;
- The acquisition of an economic interest in Skookumchuck wind facility and the Ada cogeneration facility on April 1, 2021; and
- Impact of the updated provision estimates for the transmission line loss rule proceeding during the first quarter of 2021 and the last three quarters of 2020.

Net earnings attributable to common shareholders also include various effects arising from our investments in US Wind and Solar, US Gas and Australian Gas (known collectively as "the Economic Interest Investments") as follows:

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

Additional IFRS Measures

An additional IFRS measure is a line item, heading or subtotal that is relevant to an understanding of the financial statements but is not a minimum line item mandated under IFRS, or the presentation of a financial measure that is relevant to an understanding of the financial statements, but is not presented elsewhere in the financial statements. We have included line items entitled “gross margin” and “operating income” in our Consolidated Statements of Earnings. Presenting these line items provides management and investors with a measure of ongoing operating performance that is readily comparable from period to period.

Non-IFRS Measures

We evaluate our performance using a variety of measures to provide management and investors with an understanding of our financial position and results. Certain of the measures discussed in this MD&A are not defined under IFRS and, therefore, should not be considered in isolation, or as a substitute for, or as an alternative to, or to be more meaningful than measures as determined in accordance with IFRS when assessing our financial performance or liquidity. These measures have no standardized meaning under IFRS and may not be comparable to similar measures presented by other issuers.

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

Adjusted EBITDA

Adjusted EBITDA is an important metric for management since it represents our core business profitability. Interest, taxes, depreciation and amortization are not included, as differences in accounting treatments may distort our core business results. We present adjusted EBITDA along with operational information of the assets in which we own an economic interest so that readers can better understand and evaluate the drivers of those assets in which we have an economic interest. Since the economic interests are designed to provide the Company with returns as if we owned the assets themselves, presenting the operational information and adjusted EBITDA provides a more complete picture for readers to understand the underlying nature of the investments and the resultant cash flows that would otherwise only be presented as finance income from the investments.

Adjusted EBITDA is comprised of our reported EBITDA adjusted to exclude the impact of unrealized mark-to-market gains and losses and asset impairments, plus the adjusted EBITDA of the facilities in which we hold an economic interest, which is the facilities' reported EBITDA adjusted for: 1) finance lease income and the change in the finance lease receivable amount; 2) contractually fixed management costs; 3) interest earned on the prepayment of certain transmission costs; 4) the impact of unrealized mark-to-market gains or losses.

FCF

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

FCF is calculated as the cash flow from operating activities before changes in working capital, less sustaining capital expenditures, distributions paid to subsidiaries' non-controlling interest, finance income from economic interests and principal repayments on lease obligations, plus FCF of the assets owned through economic interests, which is calculated as adjusted EBITDA from the economic interests less interest expense, sustaining capital expenditures, current income tax expense, insurance recovery and working capital and other timing. FCF per share is calculated using the weighted average number of common shares outstanding during the period.

CAFD

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

One of the primary objectives of the Company is to provide reliable and stable cash flows, and presenting FCF and CAFD assists readers in assessing our cash flows in comparison to prior periods. See the Reconciliation of Non-IFRS Measures section of this MD&A for additional information.

Reconciliation of Non-IFRS Measures

Reconciliation of Adjusted EBITDA to Earnings Before Income Tax

	Owned Assets				Economic Interests					
3 months ended March 31, 2022	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas	Total	Investments in economic interests and adjustments	IFRS financials
Revenues[1]	70	4	69	—	31	6	43	223	(80)	**143**
Fuel, royalties and other costs[2]	4	1	40	—	1	3	2	51	(6)	**45**
Gross margin	**66**	**3**	**29**	**—**	**30**	**3**	**41**	**172**	**(74)**	**98**
Operations, maintenance, and administration[3]	9	2	8	6	4	1	7	37	(12)	**25**
Taxes, other than income taxes	1	—	1	—	1	—	—	3	(1)	**2**
Net other operating income	(7)	—	—	—	—	—	—	(7)	—	**(7)**
Adjusted EBITDA[4]	**63**	**1**	**20**	**(6)**	**25**	**2**	**34**	**139**	**(61)**	**78**
Depreciation and amortization										**(37)**
Finance income related to subsidiaries of TransAlta										**19**
Interest income										**1**
Interest expense										**(13)**
Foreign exchange gain										**1**
Earnings before income tax										**49**

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

3 months ended March 31, 2021	Owned Assets: Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	Economic Interests: US Wind and Solar	US Gas	Australian Gas	Total	Investments in economic interests and adjustments	IFRS financials
Revenues[1]	70	3	54	—	22	—	43	192	(66)	126
Fuel, royalties and other costs[2]	2	—	26	—	1	—	1	30	(2)	28
Gross margin	68	3	28	—	21	—	42	162	(64)	98
Operations, maintenance, and administration[3]	9	2	7	6	2	—	10	36	(12)	24
Taxes, other than income taxes	2	—	—	—	1	—	—	3	(1)	2
Adjusted EBITDA[4]	57	1	21	(6)	18	—	32	123	(51)	72
Depreciation and amortization										(34)
Finance income related to subsidiaries of TransAlta										29
Interest income										2
Interest expense										(10)
Foreign exchange gain										2
Earnings before income tax										61

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

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

	3 months ended March 31,	
	2022	2021
Cash flow from operating activities	**103**	103
Change in non-cash operating working capital balances	**(17)**	(15)
Cash flow from operations before changes in working capital	**86**	88
Adjustments:		
Sustaining capital expenditures – owned assets	**(4)**	(1)
Finance income – economic interests(1)	**(19)**	(29)
FCF - economic interests(1)	**45**	41
FCF(2, 3)	**108**	99
Deduct:		
Tax equity distributions	**(10)**	(6)
Principal repayments of amortizing debt	**(8)**	(3)
CAFD(2)	**90**	90
Weighted average number of common shares outstanding in the period (millions)	**267**	267
FCF per share(2)	**0.40**	0.37
CAFD per share(2)	**0.34**	0.34

(1) Refer to the Reconciliation of FCF to Finance Income Related to Subsidiaries of TransAlta below in this MD&A.
(2) These items are non-IFRS measures and have no standardized meaning under IFRS. Refer to the Additional IFRS Measures and Non-IFRS Measures sections for further details.
(3) In the fourth quarter of 2021, the adjusted funds from operations was replaced with free cash flow to better reflect the proxy for cash generated from operating activities and the composition of the metric has been changed accordingly. Comparative figures have been reclassified to conform to the current period's presentation. Please refer to the Non-IFRS Measures section of this MD&A for discussion on the composition of free cash flow.

Reconciliation of FCF to Finance Income Related to Subsidiaries of TransAlta

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

3 months ended March 31,	2022	2021
Finance income related to subsidiaries of TransAlta	**19**	**29**
Tax equity distributions	**10**	**6**
Principal repayments of amortizing debt	**5**	**—**
Return of capital and redemptions	**18**	**8**
Effects of changes in working capital and other timing	**(7)**	**(2)**
FCF(1)	**45**	**41**

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

Reconciliation of Adjusted EBITDA to FCF and CAFD

	Owned Assets				Economic Interests			
3 months ended March 31, 2022	**Canadian Wind**	**Canadian Hydro**	**Canadian Gas**	**Corporate**	**US Wind and Solar**	**US Gas**	**Australian Gas**	**Total**
Adjusted EBITDA[1]	**63**	**1**	**20**	**(6)**	**25**	**2**	**34**	**139**
Provisions	**(1)**	**—**	**—**	**—**	**—**	**—**	**—**	**(1)**
Interest expense	**—**	**—**	**—**	**(11)**	**—**	**—**	**(6)**	**(17)**
Current income tax expense	**—**	**—**	**—**	**—**	**(1)**	**—**	**(5)**	**(6)**
Sustaining capital expenditures	**(3)**	**—**	**(1)**	**—**	**(1)**	**—**	**(3)**	**(8)**
Interest income	**—**	**—**	**—**	**1**	**—**	**—**	**—**	**1**
FCF[2]	**59**	**1**	**19**	**(16)**	**23**	**2**	**20**	**108**
Deduct:								
Tax equity distributions	**—**	**—**	**—**	**—**	**(10)**	**—**	**—**	**(10)**
Principal repayments of amortizing debt	**(3)**	**—**	**—**	**—**	**—**	**—**	**(5)**	**(8)**
CAFD[2]	**56**	**1**	**19**	**(16)**	**13**	**2**	**15**	**90**

(1) Adjusted EBITDA is defined in the Additional IFRS Measures and Non-IFRS Measures section and reconciled to earnings before income taxes above.
(2) FCF and CAFD are defined in the Additional IFRS Measures and Non-IFRS Measures section and reconciled to cash flow from operating activities above.

	Owned Assets				Economic Interests			
3 months ended March 31, 2021	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas	Total
Adjusted EBITDA[1]	57	1	21	(6)	18	—	32	123
Provisions	(6)	—	—	—	—	—	—	(6)
Interest expense	—	—	—	(9)	—	—	(6)	(15)
Current income tax expense	—	—	—	(1)	—	—	(4)	(5)
Sustaining capital expenditures	(1)	—	—	—	—	—	—	(1)
Currency adjustment and interest income		—	—	2	—	—	1	3
FCF[2]	50	1	21	(14)	18	—	23	99
Deduct:								
Tax equity distributions	—	—	—	—	(6)	—	—	(6)
Principal repayments of amortizing debt	(3)	—	—	—	—	—	—	(3)
CAFD[2]	47	1	21	(14)	12	—	23	90

(1) Adjusted EBITDA is defined in the Additional IFRS Measures and Non-IFRS Measures section and reconciled to earnings before income taxes above.
(2) FCF and CAFD are defined in the Additional IFRS Measures and Non-IFRS Measures section and reconciled to cash flow from operating activities above.

Liquidity and Capital Resources

Liquidity risk arises from our ability to meet general funding needs, engage in hedging activities and manage the assets, liabilities and capital structure of the Company. Liquidity risk is managed by maintaining sufficient liquid financial resources to fund obligations as they come due in the most cost-effective manner.

The Company's objective is to maintain significant liquidity to enable us to fund growth initiatives, operational expenses, capital expenditures, distributions to the non-controlling interest, interest and principal payments on debt and dividends. Principal sources of liquidity include cash generated from operations, capital markets and funding from our existing credit facility. The Company also depends on future growth to support liquidity and to maintain the amount of cash available for distribution.

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

Financial Position

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

	March 31, 2022	Dec. 31, 2021	Increase/ (decrease)	Primary factors explaining change
Cash and cash equivalents	**278**	244	34	Increased due to the timing of receipts and payments.
Property, plant and equipment ("PPE"), net	**1,820**	1,897	(77)	Decreased due to depreciation, revised decommissioning provisions due to changes in discount rates, and the reclassification of the Windrise transmission infrastructure from PPE to long term other assets, partly offset by sustaining capital.
Investments in subsidiaries of TransAlta	**1,141**	1,270	(129)	Decreased due to changes in fair value as a result of increases in discount rates and foreign exchange impacts, as well as a return of capital for US Gas and US Wind and Solar.
Other assets (including current portion)	**83**	64	19	Increased due to the reclassification of costs related to the Windrise transmission infrastructure from PPE to long term other assets.
Decommissioning and other provisions (including current portion)	**145**	175	(30)	Decreased due to increase in discount rates.
Equity attributable to shareholders	**1,942**	2,074	(132)	Decrease due to dividends and other comprehensive loss from unfavourable fair value changes, partially offset by net earnings.

Debt and Lease Obligations

	As at March 31, 2022			
		Utilized		
	Total facility limit	Outstanding letters of credit(1)	Drawings	Available capacity
Committed credit facility	700	98	—	602

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

As at March 31, 2022, there were no drawings under the credit facility.

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

Debt and lease obligations, including the TEA demand loan, totaled $974 million as at March 31, 2022, compared to $981 million as at Dec. 31, 2021. The decrease in debt is due to repayments of non-recourse bonds of $3 million, and partial repayment of the TEA demand loan to TransAlta Energy (Australia) of AU$6 million. The decrease is partially offset by unfavourable changes in foreign exchange on the TEA demand loan.

We are subject to customary positive and negative covenants related to debt and are not in violation of any of these covenants with the exception of Kent Hills. Following the foundation issues at Kent Hills 1 and 2 wind facilities, Kent Hills Wind LP has provided notice to BNY Trust Company of Canada, as trustee (the "Trustee"), for the approximately $218 million outstanding non-recourse KH Bonds secured by, among other things, the Kent Hills 1, 2 and 3 wind facilities, that events of default may have occurred under the trust indenture governing the terms of such bonds. Upon the occurrence of any event of default, holders of more than 50 per cent of the outstanding principal amount of the KH Bonds have the right to direct the Trustee to declare the principal and interest on the KH Bonds and all other amounts due, together with any make-whole amount of $23 million (Dec. 31, 2021 — $39 million), to be immediately due and payable and to direct the Trustee to exercise rights against certain collateral. The Company is in negotiations to obtain a waiver and expects to enter into a supplemental indenture during the second quarter of 2022. The Company continues to work towards bringing the site back to full operations. Refer to the 2022 Outlook section of this MD&A for further details on the Kent Hills wind facilities outage.

Share Capital

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

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

Contingencies

For the current material outstanding contingencies, refer to the Liquidity and Capital Resources section in our 2021 annual MD&A for further details. There have been no material updates to any of the contingencies in the three month period ended March 31, 2022.

Cash Flows

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

3 months ended March 31,	**2022**	2021	Change	Primary factors explaining change
Cash and cash equivalents, beginning of year	**244**	582	(338)	
Provided by (used in):				
Operating activities	**103**	103	—	Cash flow from operating activities has remained consistent with the prior period.
Investing activities	**3**	(211)	214	Cash flow from investing activities has increased as there were no acquisitions in the current period. In the prior period, the Company acquired the Windrise wind project and funded its construction.
Financing activities	**(72)**	(67)	(5)	Cash flow from financing activities has decreased primarily as a result of partial principal repayment on the TEA demand loan. This repayment was made to help fund the Northern Goldfields Solar project.
Cash and cash equivalents, end of period	**278**	407	(129)	

Financial Instruments

Refer to Note 11 of our most recent annual consolidated financial statements and Note 5 of our interim condensed consolidated financial statements for the three months ended March 31, 2022, for details on financial instruments.

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

At March 31, 2022, Level II financial instruments consisted of net risk management liabilities with a carrying value of $1 million (Dec. 31, 2021 - $3 million).

At March 31, 2022, Level III financial instruments consisted of financial assets with a carrying value of $1,141 million (Dec. 31, 2021 – $1,270 million).

At March 31, 2022 the investment in the Economic Interest Investments decreased by $111 million compared to Dec. 31, 2021, primarily due to an increase in the discount rates and foreign exchange impacts. The Economic Interest Investments were also reduced by returns of capital of $18 million in the same period.

Refer to Notes 4 and 5 in the interim condensed consolidated financial statements for the three months ended March 31, 2022 for additional information on these investments and fair value measurements.

Other Consolidated Results

Other Comprehensive Income

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

To calculate the fair values of these investments, we use discounted cash flow models based on the underlying future cash flows of the related operations and make estimates and assumptions which are susceptible to change from period-to-period and often do impact the estimate of the fair values. Period-to-period fluctuations in fair value are generally attributed to changes in forward-looking cash flow assumptions, discount rates and foreign exchange rates.

For the three months ended March 31, 2022, we recognized a $111 million decrease in fair value in OCI (March 31, 2021 – $105 million decrease). See the Financial Instruments section of this MD&A for an explanation of the decrease.

See Note 4 of the Consolidated Financial Statements for additional information related to the investments for which changes in fair value are recognized in OCI.

Related-Party Transactions and Balances

Related-Party Transactions

Amounts recognized from transactions with TransAlta or subsidiaries of TransAlta for the referenced periods, excluding those described in the Significant and Subsequent Events section of this MD&A, are as follows:

	3 months ended March 31,	
	2022	2021
Revenue from TransAlta PPAs	**13**	10
Revenue from environmental attributes(1)	**5**	7
Finance income from investments in subsidiaries of TransAlta	**19**	29
G&A Reimbursement Fee	**5**	5
Natural gas purchases	**8**	2
Financial power swap sales – gain	**(1)**	—
Interest expense on TEA demand loan	**2**	2
Asset optimization fee(2)	**1**	1
Interest expense on credit facility and letter of credit and guarantee fees	**—**	1

(1) The value of environmental attributes was determined by reference to market information for similar instruments, including historical transactions with third parties.
(2) A subsidiary of TransAlta provides asset management and optimization services for the Company's Sarnia cogeneration facility. The Sarnia cogeneration facility is charged a fixed fee of approximately $0.125 million per quarter, plus a variable fee of 1.6 per cent of its gross margin.

Related-Party Balances

Related-party balances include the following:

As at	March 31, 2022	Dec. 31, 2021
Trade and other receivables	**34**	50
Finance lease receivable[1]	**7**	7
Long-term prepaid – management fee	**2**	2
Investments in subsidiaries of TransAlta	**1,141**	1,270
Accounts payable and accrued liabilities (including interest payable)	**17**	11
Dividends payable	**38**	38
TEA demand loan	**163**	167
Guarantees provided by TransAlta on behalf of the Company (*I*)[2]	**573**	583
Indemnification guarantee provided by the Company to TransAlta (*II*)[2]	**520**	516

(1) Finance lease receivable relates to the 10 MW WindCharger battery storage project, which was acquired in August 2020.
(2) Not recognized as a financial liability on the Consolidated Statements of Financial Position.

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

I. Guarantees

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

II. Indemnification Guarantee

As part of the acquisition of the Australian Assets, we entered into a Guarantee and Indemnification Agreement in favour of TransAlta related to certain guarantees it has provided to third parties in respect of certain obligations of TEA (the "TEA Guarantees"). We have agreed to indemnify TransAlta from and against all claims, actions, proceedings, liabilities, losses, costs, expenses or damages against or incurred by it arising out of or in connection with the TEA Guarantees and to reimburse TransAlta in full for the amount of any payment made by it under and in accordance with the TEA Guarantees, relating to actions, omissions, events and circumstances that occur on or after May 7, 2015. As consideration for this indemnity that we have provided, TransAlta is required to pay us the Canadian-dollar equivalent of the guarantor fees it receives from TEA in respect of any of the TEA Guarantees.

Critical Accounting Policies and Estimates

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that could affect the reported amounts of assets, liabilities, revenues, expenses and disclosures of contingent assets and liabilities during the period. These estimates are subject to uncertainty. The following were material changes in estimates in the quarter:

I. Dividends as Income or Return of Capital

During the three months ended March 31, 2022 and 2021, the Company determined that a portion of the dividends earned on the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities and the Preferred Shares Tracking Earnings and Distributions of US Gas constituted a return of capital.

II. Provisions for Decommissioning and Restoration Activities

The Company recognizes provisions for decommissioning and restoration obligations. Initial decommissioning provisions, and subsequent changes thereto, are determined using the Company's best estimate of the required cash expenditures, adjusted to reflect the risks and uncertainties inherent in the timing and amount of settlement. During the first quarter of 2022, the provision for the decommissioning and restoration obligations decreased as a result of higher discount rates, largely driven by increases in market benchmark rates due to political risks, and higher expected inflation throughout 2022 and 2023.

Accounting Changes

Current Accounting 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 the Company adopted these amendments as of Jan. 1, 2022. The amendments are effective for contracts for which an entity has not yet fulfilled all its obligations on or after the effective date. No adjustments resulted on adoption of the amendments on Jan 1, 2022.

Future Accounting Changes

Please refer to Note 3 of the audited annual consolidated financial statements for the future accounting policies impacting the Company. In the three months ended, March 31, 2022, no additional future accounting policy changes impacting the Company were identified.

Risk Management

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

Regulatory and Environmental Legislation

Canada

Federal Climate Plan

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

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

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

Federal Carbon Pricing on GHG

The Canadian government released an Output-based Pricing System ("OBPS") consultation paper on Dec. 10, 2021, to initiate a 2022 engagement process. TransAlta made a submission regarding the consultation paper and will closely engage governments regarding the review, amendments and regulatory clarification.

Ontario

Ontario will hold a provincial election on or before June 2, 2022. Ahead of the election, the government is engaged in policy development processes regarding the future of the province's Emissions Performance Standards ("EPS") carbon pricing system, a natural gas transition and development of a voluntary clean energy credit market.

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

US

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

Australia

Australia will hold a national election on May 21, 2022. Parties continue to release policy proposals, including policies related to energy and climate. The opposition Labour Party has promised to increase the country's 2030 emissions reduction goal and enhance government support for electrification. However, none of the policies proposed to date present significant adverse risks to the Company's performance.

Controls and Procedures

Management is responsible for establishing and maintaining adequate internal control over financial reporting (‘‘ICFR’’) and disclosure controls and procedures (“DC&P”). During the three months ended March 31, 2022, the majority of our workforce supporting and executing our ICFR and DC&P worked remotely. There has been minimal impact to the design and performance of our internal controls.

ICFR is a framework designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Consolidated Financial Statements for external purposes in accordance with IFRS. Management has used the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) in order to assess the effectiveness of the Company’s ICFR.

DC&P refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under securities legislation is recorded, processed, summarized and reported within the time frame specified in securities legislation. DC&P include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under securities legislation is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding our required disclosure.

Together, the ICFR and DC&P frameworks provide internal control over financial reporting and disclosure. In designing and evaluating our ICFR and DC&P, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and as such may not prevent or detect all misstatements, and management is required to apply its judgment in evaluating and implementing possible controls and procedures. Further, the effectiveness of ICFR is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with policies or procedures may change.

Management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our ICFR and DC&P as of the end of the period covered by this report. Based on the foregoing evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as at March 31, 2022, the end of the period covered by this report, our ICFR and DC&P were effective.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Earnings

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

	3 months ended March 31,	
Unaudited	**2022**	2021
Revenues (Note 3)	**143**	126
Fuel, royalties and other costs	**45**	28
Gross margin	**98**	98
Operations, maintenance and administration	**25**	24
Depreciation and amortization	**37**	34
Taxes, other than income taxes	**2**	2
Net other operating income	**(7)**	—
Operating income	**41**	38
Finance income related to subsidiaries of TransAlta (Note 4)	**19**	29
Interest income	**1**	2
Interest expense	**(13)**	(10)
Foreign exchange gain	**1**	2
Earnings before income taxes	**49**	61
Income tax expense	**8**	8
Net earnings	**41**	53
Net earnings attributable to:		
Common shareholders	**41**	52
Non-controlling interest	**—**	1
	41	53
Weighted average number of common shares outstanding in the period *(millions)*	**267**	267
Net earnings per share attributable to common shareholders, basic and diluted	**0.15**	0.19

See accompanying notes.

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

	3 months ended March 31,	
Unaudited	**2022**	2021
Net earnings	**41**	53
Other comprehensive loss		
Net change in fair value of investments in subsidiaries of TransAlta (Note 4)	**(111)**	(105)
Total items that will not be reclassified subsequently to net earnings	**(111)**	(105)
Gain on derivatives designated as cash flow hedges, net of tax	**—**	1
Total items that will be reclassified subsequently to net earnings	**—**	1
Other comprehensive loss	**(111)**	(104)
Total comprehensive loss	**(70)**	(51)
Total comprehensive income (loss) attributable to:		
Common shareholders	**(70)**	(52)
Non-controlling interest	**—**	1
	(70)	(51)

See accompanying notes.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Financial Position

(in millions of Canadian dollars)

Unaudited	March 31, 2022	Dec. 31, 2021
Current assets:		
Cash and cash equivalents	**278**	244
Accounts receivable	**117**	120
Risk management assets (Note 5)	**2**	1
Inventory	**7**	8
Assets held for sale	**2**	—
Current portion of other assets	**61**	57
	467	430
Non-current assets:		
Property, plant and equipment (Note 6)		
Cost	**3,215**	3,263
Accumulated depreciation	**(1,395)**	(1,366)
	1,820	1,897
Finance lease receivable	**7**	7
Right-of-use assets	**26**	26
Intangible assets	**89**	92
Other assets	**22**	7
Investments in subsidiaries of TransAlta (Note 4)	**1,141**	1,270
Deferred income tax assets	**19**	20
Total assets	**3,591**	3,749
Current liabilities		
Accounts payable and accrued liabilities	**89**	82
Income tax payable	**—**	1
Dividends payable	**63**	63
Current portion of contract liabilities	**12**	13
Risk management liabilities (Note 5)	**2**	3
TEA demand loan (Notes 5 and 7)	**163**	167
Current portion of long-term debt and lease obligations (Note 7)	**264**	264
	593	593
Non-current liabilities		
Long-term debt and lease obligations (Notes 5 and 7)	**547**	550
Decommissioning provisions (Note 8)	**145**	175
Contract liabilities	**6**	6
Risk management liabilities (Note 5)	**1**	1
Deferred income tax liabilities	**308**	301
Total liabilities	**1,600**	1,626
Equity		
Common shares (Note 9)	**3,059**	3,059
Deficit	**(928)**	(907)
Accumulated other comprehensive loss	**(189)**	(78)
Equity attributable to shareholders	**1,942**	2,074
Non-controlling interest	**49**	49
Total equity	**1,991**	2,123
Total liabilities and equity	**3,591**	3,749

Commitments and contingencies (Note 10)
Subsequent events (Note 13)

See accompanying notes.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Changes in Equity

(in millions of Canadian dollars)

Unaudited

	Common shares	**Deficit**	**Accumulated other comprehensive loss**	**Attributable to shareholders**	**Attributable to non-controlling interest**	**Total**
Balance, Dec. 31, 2021	3,059	(907)	(78)	2,074	49	2,123
Net earnings	—	41	—	41	—	41
Other comprehensive income (loss):						
Net change in fair value of investments in subsidiaries of TransAlta (Note 4)	—	—	(111)	(111)	—	(111)
Total comprehensive income (loss)	—	41	(111)	(70)	—	(70)
Common share dividends (Note 9)	—	(62)	—	(62)	—	(62)
Balance, March 31, 2022	**3,059**	**(928)**	**(189)**	**1,942**	**49**	**1,991**

(in millions of Canadian dollars)

	Common shares	Deficit	Accumulated other comprehensive loss	Attributable to shareholders	Attributable to non-controlling interest	Total
Balance, Dec. 31, 2020	3,059	(796)	(8)	2,255	50	2,305
Net earnings	—	52	—	52	1	53
Other comprehensive income (loss):						
Net gains on derivatives designated as cash flow hedges, net of tax	—	—	1	1	—	1
Net change in fair value of investments in subsidiaries of TransAlta (Note 4)	—	—	(105)	(105)	—	(105)
Total comprehensive income (loss)	—	52	(104)	(52)	1	(51)
Common share dividends (Note 9)	—	(62)	—	(62)	—	(62)
Acquisitions of Windrise Wind project	—	(1)	3	2	—	2
Balance, March 31, 2021	3,059	(807)	(109)	2,143	51	2,194

See accompanying notes.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Cash Flows

(in millions of Canadian dollars)

	3 months ended March 31,	
Unaudited	**2022**	2021
Operating activities		
Net earnings	**41**	53
Depreciation and amortization	**37**	34
Accretion of provisions	**2**	1
Deferred income tax expense	**8**	7
Unrealized foreign exchange gain	**(1)**	(2)
Unrealized loss from risk management activities	**—**	1
Provisions	**—**	(6)
Other non-cash items	**(1)**	—
Cash flow from operations before changes in working capital	**86**	88
Change in non-cash operating working capital balances	**17**	15
Cash flow from operating activities	**103**	103
Investing activities		
Additions to property, plant and equipment (Note 6)	**(5)**	(6)
Acquisitions	**—**	(213)
Return of capital on investments in subsidiaries of TransAlta (Note 4)	**18**	8
Change in non-cash investing working capital balances	**(10)**	4
Other	**—**	(4)
Cash flow from (used in) investing activities	**3**	(211)
Financing activities		
Long-term debt repayments (Note 7)	**(3)**	(3)
Dividends paid on common shares (Note 9)	**(63)**	(62)
Net repayments of TEA demand loan (Note 7)	**(6)**	—
Financing costs	**—**	(1)
Changes in non-cash financing working capital balances	**—**	(1)
Cash flow used in financing activities	**(72)**	(67)
Increase (decrease) in cash and cash equivalents	**34**	(175)
Cash and cash equivalents, beginning of period	**244**	582
Cash and cash equivalents, end of period	**278**	407
Cash income taxes paid	**—**	1
Cash interest paid	**7**	7

See accompanying notes.

Notes to Consolidated Financial Statements

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

1. Background and Accounting Policies

A. Formation of the Company

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

B. Basis of Preparation

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

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

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

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

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

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

C. Use of Estimates and Significant Judgments

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

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

Judgment was applied for the three months ended March 31, 2022, as follows:

I. Dividends as Income or Return of Capital

During the three months ended March 31, 2022 and 2021, the Company determined that a portion of the dividends earned on the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities and the Preferred Shares Tracking Earnings and Distributions of US Gas constituted a return of capital.

II. Provisions for Decommissioning and Restoration Activities

The Company recognizes provisions for decommissioning and restoration obligations. Initial decommissioning provisions, and subsequent changes thereto, are determined using the Company's best estimate of the required cash expenditures, adjusted to reflect the risks and uncertainties inherent in the timing and amount of settlement. During the first quarter of 2022, the provision for the decommissioning and restoration obligations decreased as a result of higher discount rates, largely driven by increases in market benchmark rates due to political risks, and higher expected inflation throughout 2022 and 2023. Refer to Note 8 for further details.

2. Material 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 Company's 2021 annual consolidated financial statements for the year ended Dec. 31, 2021, except for the adoption of new standards effective as of Jan. 1, 2022 and the early adoption of standards, interpretations or amendments that have been issued but are not yet effective.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

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

B. Future Accounting Policy Changes

Please refer to Note 3 of the audited annual consolidated financial statements for the future accounting policies impacting the Company. In the three months ended, March 31, 2022, no additional future accounting policy changes impacting the Company were identified.

C. Comparative Figures

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

3. Revenue from Contracts with Customers

A. Disaggregation of Revenue from Contracts with Customers

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

3 months ended March 31, 2022	Canadian Wind	Canadian Hydro	Canadian Gas	Total
Revenue from contracts with customers	70	4	58	132
Merchant revenue and other	—	—	11	11
Revenues	70	4	69	143
Timing of revenue recognition:				
At a point in time	9	1	—	10
Over time	61	3	58	122
Revenue from contracts with customers	70	4	58	132

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

B. Environmental Credits

Revenue from contracts with customers includes revenue generated from the sale of environmental credits for the three months ended March 31, 2022 of $10 million (2021 - $9 million). Included in this amount was $5 million (2021- $7 million) related to the sale of 107,311 (2021- 265,352) of Alberta carbon offsets and Emission Performance Credits ("EPC") to TransAlta.

At March 31, 2022, the Company held 342,282 emissions credits (Dec. 31, 2021 —356,243), which are expected to be serialized and monetized through sales to TransAlta or other third parties at market prices.

4. Finance Income Related to Subsidiaries of TransAlta

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

	3 months ended March 31,	
	2022	2021
Fee income from indirect guarantee of TEA obligations	**3**	3
Dividend income from investment in preferred shares tracking Australia Cash Flows	**15**	22
Finance income related to TEA	**18**	25
Dividend income from investments in preferred shares tracking earnings and distributions of US Wind and Solar facilities	**1**	4
Total finance income	**19**	29

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

As at	**March 31, 2022**	Dec. 31, 2021
Investment in preferred shares tracking earnings and distributions of Big Level and Antrim	**147**	165
Investment in preferred shares tracking earnings and distributions of Mass Solar	**42**	45
Investment in preferred shares tracking earnings and distributions of Lakeswind	**17**	18
Investment in preferred shares tracking earnings and distributions of Wyoming wind	**89**	99
Investment in preferred shares tracking earnings and distributions of Skookumchuck	**75**	85
Investment in preferred shares tracking earnings and distributions of North Carolina	**114**	127
Total investments in preferred shares tracking earnings and distributions of US Wind and Solar facilities	**484**	539
Investment in preferred shares tracking earnings and distributions of Ada	**30**	34
Investment in preferred shares tracking Australia Cash Flows	**627**	697
Total investments in subsidiaries of TransAlta	**1,141**	1,270

Investment in Subsidiaries of TransAlta Related to US Wind and Solar, US Gas and Australia Cash Flows

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

	Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities	Preferred Shares Tracking Earnings and Distributions of US Gas	Preferred Shares Tracking Australia Cash Flows	Total
Investment balance at Dec. 31, 2021	539	34	697	1,270
Return of capital	(17)	(1)	—	(18)
Net change in fair value and foreign exchange recognized in OCI	(38)	(3)	(70)	(111)
Investment balance at March 31, 2022	**484**	**30**	**627**	**1,141**

The $111 million decrease in fair value as at March 31, 2022 relating to the Economic Interest Investments was primarily due to an increase in the discount rates and foreign exchange impacts.

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

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

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

Unobservable input	**March 31, 2022**	Dec. 31, 2021
Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities		
Discount rate (range)	**6.6 % - 9.3 %**	5.8 % - 8.5 %
Quarterly cash flows (range, in millions)	**Average of $1 - $4**	Average of $1 - $4
Preferred Shares Tracking Earnings and Distributions of US Gas		
Discount rate	**13.2 %**	12.4 %
Quarterly cash flows (millions)	**Average of $3**	Average of $3
Preferred Shares Tracking Australia Cash Flows		
Discount rate	**6.5 %**	5.5 %
Quarterly cash flows (millions)	**Average of $12**	Average of $11

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

Unobservable input[1]	Alternative assumption	Change in fair value as at March 31, 2022	Change in fair value as at Dec. 31, 2021
Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities[3]			
Basis point change in discount rates	-50 basis points decrease	**21**	24
	+50 basis points increase	**(19)**	(23)
Quarterly cash flows	+5% increase[2]	**24**	27
	- 5% decrease[2]	**(24)**	(27)
Preferred Shares Tracking Earnings and Distributions of US Gas[4]			
Basis point change in discount rates	-50 basis points decrease	**—**	—
	+50 basis points increase	**—**	—
Quarterly cash flows	+5% increase[2]	**1**	**2**
	- 5% decrease[2]	**(1)**	**(2)**
Preferred Shares Tracking Australia Cash Flows			
Basis point change in discount rates	-50 basis points decrease	**24**	28
	+50 basis points increase	**(23)**	(26)
Quarterly cash flows	+5% increase[2]	**31**	35
	- 5% decrease[2]	**(31)**	**(35)**

(1) Refer to note 5C IV for impacts from foreign exchange.
(2) Quarterly cash flows could vary by a higher rate than the assumed five percent factor.
(3) The fair value changes presented relate to Big Level and Antrim, Mass Solar, Lakeswind, Wyoming wind, Skookumchuck and North Carolina in 2022 in total.
(4) The fair value changes in the discount rate as at March 31, 2022 could vary but by less than $1 million.

5. Financial Instruments and Risk Management

A. Financial Assets and Liabilities – Classification and Measurement

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

B. Fair Value of Financial Instruments

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

As at	March 31, 2022		Dec. 31, 2021	
	Fair value Level II	**Fair value Level III**	Fair value Level II	Fair value Level III
Preferred shares tracking Australia Cash Flows	**—**	**627**	—	697
Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities	**—**	**484**	—	539
Preferred Shares Tracking Earnings and Distributions of US Gas	**—**	**30**	—	34
Net risk management liabilities	**(1)**	**—**	(3)	—

I. Level Determinations and Classifications

The Level I, II and III classifications in the fair value hierarchy utilized by the Company are defined below. The fair value measurement of a financial instrument is included in only one of the three levels, the determination of which is based on the lowest level input that is significant to the derivation of the fair value.

a. Level I

Fair values are determined using inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

b. Level II

Fair values are determined, directly or indirectly, using inputs that are observable for the asset or liability, either directly or indirectly.

c. Level III

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

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

II. Commodity and Other Risk Management Assets and Liabilities

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

The following table summarizes the net risk management liabilities:

	Cash flow hedges	Non-hedges	
	Level II	Level II	Total
Net risk management liabilities at March 31, 2022	**—**	**(1)**	**(1)**
Net risk management liabilities at Dec. 31, 2021	—	(3)	(3)

Non-Hedges

a. Foreign Exchange Forward Contracts

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

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

As at March 31, 2022

Notional amount sold	Notional amount purchased	Fair value asset (liability)	Maturity
CAD188	**AUD200**	**—**	**2022**
USD30	**CAD39**	**2**	**2022**
AUD95	**CAD88**	**(2)**	**2022**

b. Commodity

The Company enters into various derivative transactions as well as other contracting activities that do not qualify for hedge accounting. As a result, the related assets and liabilities are classified as fair value through profit or loss ("FVTPL"). Changes in the fair value of these derivatives are reported in earnings in the period the change occurs. The fair value of commodity derivatives as at March 31, 2022 was a $1 million net risk management liability.

III. Financial Instruments – Not Measured at Fair Value

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

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

As at	**March 31, 2022**		Dec. 31, 2021	
	Fair value Level II	**Carrying value**	Fair value Level II	Carrying value
Loans receivable(1)	**55**	**55**	55	55
TEA demand loan	**163**	**163**	167	167
Long-term debt(2)	**748**	**789**	801	792

(1) Loans receivable is included in current portion of other assets in the Condensed Consolidated Statements of Financial Position.
(2) Includes current portion of long-term debt and excludes lease obligations.

The fair value of the long-term debt is determined by calculating an implied price based on a current assessment of the yield to maturity (Note 7).

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

I. Credit Risk

The Company's maximum exposure to credit risk at March 31, 2022, without taking into account collateral held or right of set-off, and including indirect exposures arising from the Company's investments in subsidiaries of TransAlta discussed in Note 4, is detailed as follows:

	Direct exposure	Indirect exposure[2]
Counterparty credit rating	Receivables[1]	Trade accounts receivable
Investment grade	**48**	**104**
Non-investment grade	**35**	**2**
TransAlta and subsidiaries of TransAlta	**43**	—
No external rating	**55**	**—**

(1) Includes trade accounts receivable, finance lease receivable, distributions receivable from subsidiaries of TransAlta, risk management assets and loans receivable.
(2) Includes accounts receivable and finance lease receivable of TEA, and receivables of US Wind and Solar and US Gas economic interest investments of approximately $15 million in total that are with investment grade and other high-quality counterparties.

TransAlta, on behalf of the Company, 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 Company is exposed to market risks based on changes in the fair value of the Economic Interest Investments. A five per cent increase (decrease) in the value of these securities would result in an $57 million increase (decrease) in OCI as at March 31, 2022.

III. Liquidity Risk

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

	2022	**2023**	**2024**	**2025**	**2026**	**2027 and thereafter**	**Total**
Accounts payable and accrued liabilities	89	—	—	—	—	—	**89**
TEA demand loan[1]	163	—	—	—	—	—	**163**
Long-term debt[2]	260	94	52	54	51	283	**794**
Lease obligations[2]	1	1	1	1	1	17	**22**
Net risk management liabilities	—	—	—	1	—	—	**1**
Interest on debt and lease obligations[3]	25	19	17	15	13	68	**157**
Dividends payable	63	—	—	—	—	—	**63**
Total	**601**	**114**	**70**	**71**	**65**	**368**	**1,289**

(1) Scheduled maturity repayment of TEA demand loan on Oct. 26, 2022.
(2) Includes current portion. Kent Hills Wind bond has been included in the current portion.
(3) Not recognized as a financial liability on the Condensed Consolidated Statements of Financial Position.

IV. Foreign Currency Rate Risk

The possible effect on net earnings and OCI for the years ended March 31, 2022 and 2021 due to changes in foreign exchange rates associated with financial instruments denominated in currencies other than the Company's functional currency is outlined below. The sensitivity analysis has been prepared using management's assessment that an average three cent (March 31, 2021 – three cent) increase or decrease in these currencies relative to the Canadian dollar is a reasonable potential change over the next quarter.

3 months ended March 31,	**2022**		2021	
Currency	**Net earnings decrease[1]**	**OCI gain[1]**	Net earnings increase (decrease)[1]	OCI gain[1]
USD	**(1)**	**13**	3	9
AUD	**(2)**	**17**	(7)	19
Total	**(3)**	**30**	(4)	28

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

6. Property, Plant and Equipment

During the three months ended March 31, 2022, the Company spent $5 million on sustaining capital and growth expenditures. PPE decreased by $31 million as a result of changes in the decommissioning provisions (see Note 8). For the three months ended March 31, 2021, the Company recognized $233 million on the Windrise asset acquisition and incurred an additional $6 million related to construction costs to progress finalizing the Windrise wind project and other sustaining capital.

In the first quarter of 2022, $16 million of costs related to the Windrise transmission infrastructure were reclassified from Property, Plant and Equipment to Other Assets pursuant to the asset transfer agreement, which requires that ownership of these assets be transferred to the transmission line owner.

There was no capitalized interest as at March 31, 2022. For the three months ended March 31, 2021, the Company capitalized $1 million of interest to PP&E due to the Windrise wind project at a weighted average rate of 4.5 per cent.

7. TEA Demand Loan, Debt and Lease Obligations

Amounts Outstanding

As at		**March 31, 2022**			Dec. 31, 2021	
	Carrying value	**Face value**	**Interest[1]**	Carrying value	Face value	Interest[1]
TEA demand loan[2]	**163**	**163**	**4.32 %**	167	167	4.32 %
Long-term debt:						
Pingston bond	**45**	**45**	**2.95 %**	45	45	**2.95 %**
Melancthon Wolfe Wind bond	**235**	**237**	**3.83 %**	235	237	**3.83 %**
New Richmond Wind bond	**120**	**121**	**3.96 %**	120	121	**3.96 %**
Kent Hills Wind bond	**218**	**218**	**4.45 %**	221	221	**4.45 %**
Windrise Green bond	**171**	**173**	**3.41 %**	171	173	**3.41 %**
Total long-term debt	**789**	**794**		792	797	
Lease obligations	**22**			22		
	811			814		
Less: current portion of long-term debt	**(263)**			(263)		
Less: current portion of lease obligations	**(1)**			(1)		
Total long-term debt and lease obligations	**547**			550		

(1) Interest rate reflects the stipulated rate or the average rate weighted by principal amounts outstanding.
(2) Principal amount of AU$174 million.

TEA demand loan is unsecured, due on demand and bears interest at 4.32 per cent, with interest payable quarterly until maturity on Oct. 26, 2022. In the first quarter, the Company repaid TransAlta Energy (Australia) AU$6 million of the AU$180 million principal upon demand.

Credit Facility The Company has a $700 million committed syndicated credit facility, of which $602 million was available as at March 31, 2022 (Dec. 31, 2021 – $602 million) including the undrawn letters of credit. The Company is in compliance with the terms of the credit facility.

The **Kent Hills Wind bond** issued in October 2017, bears interest at 4.45 per cent, with principal and interest payable quarterly in blended payments until maturity on Nov. 30, 2033. The Kent Hills Wind bond is secured by a first ranking charge over all of the assets of the issuer, Kent Hills Wind LP, which primarily includes the Kent Hills 1, 2 and 3 wind facilities, which at March 31, 2022, had a combined carrying value of $178 million (Dec. 31, 2021 – $182 million). In the first quarter, the Company repaid $3 million of the principal.

In the fourth quarter of 2021, the Company provided notice to BNY Trust Company of Canada, as trustee (the "Trustee") that events of default may have occurred under the trust indenture governing the terms of the bonds. Upon the occurrence of any event of default, holders of more than 50 per cent of the outstanding principal amount of the Kent Hills Bonds have the right to direct the Trustee to declare the principal and interest on the KH Bonds and all other amounts due, together with any make-whole amount of $23 million (Dec. 31, 2021 — $39 million), to be immediately due and payable and to direct the Trustee to exercise rights against certain collateral. The Company is in negotiations to obtain a waiver and expects to enter into a supplemental indenture during the second quarter of 2022. The Company continues to work to bring the site back to full operation.

8. Decommissioning Provisions

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

	Total
Balance, Dec. 31, 2021	175
Accretion	**2**
Revisions in discount rates	**(32)**
Balance, March 31, 2022	**145**

A decommissioning and restoration provision has been recognized for all generating facilities for which the Company is legally, or constructively, required to remove the facilities at the end of their useful lives and restore the sites to their original condition. The entire provisions carrying value is non-current.

During the first quarter of 2022, the Company revised the discount rates used to calculate the decommissioning provisions. The increase in discount rates was largely driven by increases in market benchmark rates due to political risks, and higher expected inflation throughout 2022 and 2023. The Company's current best estimate of the decommissioning and restoration provisions decreased by $32 million, which also resulted in a decrease in the related assets in property, plant and equipment. On average, discount rates rates ranged from 6.0 to 7.6 per cent (Dec. 31, 2021 — 4.6 to 6.5 per cent).

9. Common Shares

Dividends

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

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

Dividends declared	Total dividends per share	Total dividends	TransAlta	Other shareholders
3 months ended March 31, 2022	**0.23499**	**62**	**38**	**24**
3 months ended March 31, 2021	**0.23499**	**62**	**38**	**24**

On Feb. 17, 2022, the Company declared a monthly dividend of $0.07833 per common share payable on April 29, 2022, May 31, 2022, and June 30, 2022.

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

10. Commitments and Contingencies

For the significant commitments and contingencies outstanding, refer to Note 23 of the 2021 annual consolidated financial statements. There have been no material updates to any of the commitments and contingencies in the three month period ended March 31, 2022.

11. Related-Party Transactions and Balances

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

A. Related-Party Transactions

Related-party transactions include the finance income related to subsidiaries of TransAlta (Note 4) and in 2021, interest income related to promissory notes due from subsidiaries of TransAlta. Also, all derivatives of the Company are entered into on behalf of the Company by a subsidiary of TransAlta.

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

	3 months ended March 31,	
	2022	2021
Revenue from TransAlta PPAs	**13**	10
Revenue from environmental attributes[1]	**5**	7
G&A Reimbursement Fee	**5**	5
Natural gas purchases	**8**	2
Financial power swap sales– losses (gains)	**(1)**	—
Interest expense on TEA demand loan	**2**	2
Asset optimization fee[2]	**1**	1
Interest expense on credit facility and guarantee fees	**—**	1

(1) The value of the environmental attributes was determined by reference to market information for similar instruments, including historical transactions with third parties.
(2) A subsidiary of TransAlta provides asset management and optimization services for the Company's Sarnia cogeneration facility. The Sarnia cogeneration facility is charged a fixed fee of approximately $0.125 million per quarter, plus a variable fee of 1.6 per cent of its gross margin.

B. Related-Party Balances

Related-party balances include the investments in subsidiaries of TransAlta (Note 4), the risk management assets and liabilities (Note 5), and the TEA demand loan and long-term debt (Note 7).

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

As at	**March 31, 2022**	Dec. 31, 2021
Trade and other receivables	**34**	50
Finance lease receivable	**7**	7
Accounts payable and accrued liabilities (including interest payable)	**17**	11
Dividends payable	**38**	38
TEA Guarantees[1]	**520**	516
Guarantees provided by TransAlta on behalf of the Company[1]	**573**	583
Long-term prepaid – management fee	**2**	2

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

12. Segment Disclosures

A. Description of Reportable Segments

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

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

B. Reported Segment Earnings (Loss) and Other Segment Information

I. Reconciliation of Adjusted EBITDA to Earnings Before Income Tax

3 months ended March 31, 2022	Owned Assets				Economic Interests					
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas	Total	Investments in economic interests and adjustments	IFRS financials
Revenues[1]	70	4	69	—	31	6	43	223	(80)	**143**
Fuel, royalties and other costs[2]	4	1	40	—	1	3	2	51	(6)	**45**
Gross margin	**66**	**3**	**29**	**—**	**30**	**3**	**41**	**172**	**(74)**	**98**
Operations, maintenance, and administration[3]	9	2	8	6	4	1	7	37	(12)	**25**
Taxes, other than income taxes	1	—	1	—	1	—	—	3	(1)	**2**
Net other operating income	(7)	—	—	—	—	—	—	(7)	—	**(7)**
Adjusted EBITDA[4]	**63**	**1**	**20**	**(6)**	**25**	**2**	**34**	**139**	**(61)**	**78**
Depreciation and amortization										**(37)**
Finance income related to subsidiaries of TransAlta										**19**
Interest income										**1**
Interest expense										**(13)**
Foreign exchange gain										**1**
Earnings before income tax										**49**

(1) Adjusted EBITDA excludes the impact of unrealized mark-to-market gains or losses. Amounts related to economic interests include finance lease income adjusted for change in finance lease receivable.
(2) Amounts related to economic interests include interest earned on the prepayment of certain transmission costs.
(3) Amounts related to economic interests include the effect of contractually fixed management costs.
(4) Adjusted EBITDA is a non-IFRS measure and has no standardized meaning under IFRS.

	Owned Assets				Economic Interests					
3 months ended March 31, 2021	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar[1]	US Gas[1]	Australian Gas	Total	Investments in economic interests and adjustments	IFRS financials
Revenues[2]	70	3	54	—	22	—	43	192	(66)	126
Fuel, royalties and other costs[3]	2	—	26	—	1	—	1	30	(2)	28
Gross margin	68	3	28	—	21	—	42	162	(64)	98
Operations, maintenance, and administration[4]	9	2	7	6	2	—	10	36	(12)	24
Taxes, other than income taxes	2	—	—	—	1	—	—	3	(1)	2
Adjusted EBITDA[5]	57	1	21	(6)	18	—	32	123	(51)	72
Depreciation and amortization										(34)
Finance income related to subsidiaries of TransAlta										29
Interest income										2
Interest expense										(10)
Foreign exchange gain										2
Earnings before income tax										61

(1) US Wind and Solar includes the Skookumchuck wind facility and the North Carolina Solar facility, which were acquired on Apr. 1, 2021, and Nov. 5, 2021, respectively. US Gas includes the Ada cogeneration facility which was acquired through investment in tracking preferred shares on Apr. 1, 2021. The economic benefit of the Skookumchuck and Ada transactions were effective as at Jan. 1, 2021, and the economic benefit of the North Carolina Solar transaction was effective Nov. 5, 2021 .
(2) Adjusted EBITDA excludes the impact of unrealized mark-to-market gains or losses. Amounts related to economic interests include finance lease income adjusted for change in finance lease receivable.
(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) Adjusted EBITDA is a non-IFRS measure and has no standardized meaning under IFRS.

13. Subsequent Events

Mount Keith 132kV Transmission Expansion

During the second quarter of 2022, the Company announced that Southern Cross Energy, a subsidiary of TransAlta Corporation and an entity in which the Company owns an indirect economic interest, had agreed to expand the Mt. Keith 132kV transmission system in Western Australia, to support the Goldfields-based operations of BHP. Total construction capital of the project is estimated between AU$50-$53 million. Southern Cross Energy has entered into an engineering, procurement and construction agreement with ASX-listed GenusPlus Group Ltd for the expansion. The project is being developed under the existing PPA with BHP, and has a term of 15 years. This project will facilitate the connection of additional generating capacity to our network to support BHP's operations and increase their competitiveness as a supplier of low-carbon nickel.

Glossary of Key Terms

AU$ – means Australian dollars.

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

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

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

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

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

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

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

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

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

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

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

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

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

OCI – Other Comprehensive Income.

Offset credit – The carbon emission credit in units of tonnes of 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.

OM&A – Operations, maintenance and administration costs

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

PP&E – Property, plant and equipment

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

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

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

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

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

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

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

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

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

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