TRANSALTA RENEWABLES INC.

First Quarter Report for 2020

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, 2020 and 2019 and should also be read in conjunction with the annual audited consolidated financial statements and MD&A contained within our Annual Report for the year ended Dec. 31, 2019. In this MD&A, unless the context otherwise requires, 'we', 'our', 'us', 'TransAlta Renewables', and the 'Corporation' refer to TransAlta Renewables Inc. and its subsidiaries and 'TransAlta' refers to TransAlta Corporation and its subsidiaries. Capitalized terms not otherwise defined herein have the respective meanings set forth in the Glossary of Key Terms. All dollar amounts in the tables presented in this MD&A are in millions of Canadian dollars except per share amounts which are presented in whole dollars to the nearest two decimals, unless otherwise noted. The interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standard ("IFRS") International Accounting Standards ("IAS") 34 Interim Financial Reporting. This MD&A is dated May 11, 2020. Additional information respecting the Corporation, including its Annual Information Form, is available on SEDAR at www.sedar.com and on our website at www.transaltarenewables.com. Information on or connected to our website is not incorporated by reference herein.

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Operations of the Corporation

As at March 31, 2020, TransAlta Renewables owned 13 hydro facilities, 19 wind farms and one natural gas plant in Canada, and held economic interests in TransAlta's Wyoming, Lakeswind, Big Level and Antrim wind farms, Mass Solar solar projects and the Australian Assets. The operational results of those assets in which we have an economic interest are not consolidated into our results; however, the finance income we receive on the underlying investments is included in our consolidated net earnings.

In total, we own, directly or through economic interests, an aggregate of 2,555 MW of gross generating capacity(1) (2,527 MW of net generating capacity(1)) in operation. TransAlta manages and operates these facilities on our behalf under the terms of a Management, Administrative and Operational Services Agreement, as amended (the "Management Agreement").

Highlights

Consolidated Financial Highlights

3 months ended March 31	2020	2019
Renewable energy production (GWh)(1)	**1,173**	1,001
Revenues	**110**	127
Net earnings attributable to common shareholders	**3**	76
Comparable EBITDA(2)	**118**	116
Adjusted funds from operations(2)	**94**	94
Cash flow from operating activities	**82**	131
Cash available for distribution(2)	**91**	92
Net earnings per share attributable to common shareholders, basic and diluted	**0.01**	0.29
Adjusted funds from operations per share(2)	**0.35**	0.36
Cash available for distribution per share(2)	**0.34**	0.35
Dividends declared per common share	**0.23**	0.23
Dividends paid per common share(3)	**0.23**	0.23

(1) Includes production from Canadian Wind, Canadian Hydro and US Wind and Solar and excludes Canadian and Australian gas-fired generation. Production is not a key revenue driver for gas-fired facilities as most of their revenues are capacity-based.
(2) Refer to the Non-IFRS Measures section of this MD&A for further discussion of these items.
(3) Includes DRIP payments.

As at	March 31, 2020	Dec. 31, 2019
Gas installed capacity (MW)(1)	**949**	949
Renewables gross installed capacity (MW)(2)	**1,609**	1,609
Total assets	**3,586**	3,702
Long-term debt and lease obligations(3)	**857**	961
Total long-term liabilities	**1,126**	1,237

(1) Includes Canadian and Australian gas-fired generation.
(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 period ended March 31, 2020, increased 172 GWh compared to the same period in 2019. This increase was mainly due to higher generation in Canadian Wind and higher production due to a full quarter of operations at the Big Level and Antrim wind farms in US Wind and Solar.

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

Comparable earnings before interest, taxes, depreciation, and amortization ("Comparable EBITDA") for the three months ended March 31, 2020, increased by $2 million, mainly due to higher Comparable EBITDA from US Wind and Solar, partially offset by lower Comparable EBITDA from Canadian Wind. Comparable EBITDA from US Wind and Solar increased due to higher production at Wyoming and Lakeswind and a full quarter of operations at Big Level and Antrim. Comparable EBITDA at Canadian Wind decreased mainly due to lower wind resources in Eastern Canada, lower carbon offset revenues and lower government incentives driven by the planned expiry of the Wind Power Production Incentives in 2019, partially offset by higher wind resources in Western Canada and the timing of recognition of green attribute revenues.

Adjusted Funds From Operations ("AFFO") and Cash Available For Distribution ("CAFD") for the three months ended March 31, 2020, were impacted by higher tax equity distributions and realized foreign exchange losses which were offset by higher Comparable EBITDA, lower sustaining capital expenditures on owned assets, and lower current income tax expense. Additionally, CAFD was impacted by higher principal repayments on the amortizing debt.

Net earnings attributable to common shareholders for the three months ended March 31, 2020, decreased by $73 million. Variability in net earnings is related to the classification of the distributions received from the Corporation's investments in its economic interests as return of capital or dividends received, timing of dividends declared on the Preferred Shares Tracking Australia Cash Flows and the changes in fair value on the Preferred Shares Tracking the Amortizing Term Loan. Set out below are the key drivers of the changes arising from these investments:

- A reduction in finance income of $18 million was as a result of lower dividends received on the Preferred Shares Tracking Australia Cash Flows which were impacted by the early redemption of $45 million of the Preferred Shares Tracking the Amortizing Term Loan. Dividends on the US Wind and Solar Tracking Preferred Shares were reduced as a large portion of the distributions received were classified as a return of capital thereby reducing our investment in the economic interests of US Wind and Solar.
- The higher foreign exchange losses of $13 million and the unfavourable change in fair value of $36 million relate to the Preferred Shares Tracking the Amortizing Term Loan as result of the weakening of the Australian dollar and timing of cash flows.
- Operating income decreased by $10 million due mainly to lower revenues in Canadian Wind and an increase in depreciation expense.

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

Significant and Subsequent Events

Global Pandemic ("COVID-19")

The World Health Organization ("WHO") declared a Public Health Emergency of International Concern relating to COVID-19 on Jan. 30, 2020, which they subsequently declared, on March 11, 2020, as a global pandemic. The outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to constrain the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods, self-isolation, physical and social distancing and the closure of non-essential business, have caused significant disruption to businesses globally which has resulted in an uncertain and challenging economic environment.

TransAlta Corporation, as the manager and operator of the Corporation's business and assets, formally implemented its business continuity plan on March 9, 2020, which is focused on: (i) ensuring that employees that can work remotely do so; and (ii) ensuring that employees operating and maintaining our facilities, who are not able to work remotely, are able to work safely and in a manner that ensures they remain healthy. This plan includes health screening, enhanced cleaning arrangements, travel bans, revised schedules, contingent work teams and the reorganization of processes and procedures to limit contact with other employees and contractors on-site. Although these are unprecedented times, the Corporation remains highly diversified with facilities that are highly contracted and located in various geographies. Our cash flows have been relatively unaffected in the quarter due to the high contractedness of our asset portfolio and financial strength of our customers. We continue to have a strong balance sheet with ample liquidity to provide added flexibility during this time.

Currently, all of our facilities including those which we have economic interests through TransAlta Corporation, remain fully operational and capable of meeting our customers' needs. We have modified our operating procedures and implemented restrictions to non-essential access to our facilities to support continued operations through the pandemic. The Corporation continues to work and serve all of our customers and counterparties under the terms of their contracts. We have not experienced interruptions to service requirements. Electricity and steam supply continue to remain a critical service requirement to all of our customers and have been deemed an essential service in our jurisdictions.

Strategy and Capability to Deliver Results

The Corporation's corporate strategy remains unchanged from that disclosed in its 2019 annual MD&A. Our objectives continue to be to (i) provide stable, consistent returns for investors through the ownership of, and investment in, highly contracted renewable and natural gas power generation and other infrastructure assets that provide stable cash flow primarily through long-term contracts with strong counterparties; (ii) pursue and capitalize on strategic growth opportunities in the renewable and natural gas power generation and other infrastructure sectors; (iii) maintain diversity in terms of geography, generation and counterparties; and (iv) pay out 80 to 85 per cent of cash available for distribution to the shareholders of the Corporation on an annual basis.

Forward-Looking Statements

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

In particular, this MD&A contains forward-looking statements pertaining to our business and anticipated future financial performance including, but not limited to: the potential impact of COVID-19 on the Corporation and the actions to be undertaken by the Corporation or TransAlta in response to the COVID-19 pandemic; our 2020 Outlook, including Comparable EBITDA, AFFO and CAFD (each, as defined below), interest expense, cash available for distribution, and sustaining capital and productivity expenditures; foreign exchange exposure and risk management; seasonality of the Corporation's business; liquidity and capital resources, including our ability to manage borrowings through 2023 and beyond on acceptable terms; expectations regarding net interest payments and volume of debt; expectations regarding project level debt; tax equity proceeds currently held as reserves being released upon the payment of all outstanding project costs and the satisfaction of certain other conditions; expectations in terms of the cost of operations and maintenance, including maintenance performed by third parties, and the variability of those costs; the payment of future dividends; expectations in respect of generation availability, Capacity and production; actions to manage certain risks, including specific actions identified to manage liquidity risk, interest rate risk, project risks and reputation risk; expected governmental regulatory regimes, legislation and programs, including expectations regarding the implementation of new IFRS standards; expectations regarding seasonality of wind and hydro production; expectations on our ability to access capital markets on reasonable terms; expectations regarding our decommissioning and restoration activities; our expectations regarding the outcome of existing or potential legal or contractual claims, regulatory investigations and disputes, including the dispute with Fortescue Metals Group Ltd. ("FMG") over the commissioning of the South Hedland Power Station; and that the Corporation will realize on acquisition and development opportunities from time to time to advance the growth of the Corporation. The forward-looking statements contained in this MD&A are based on many assumptions including, but not limited to, the following: the impacts arising from COVID-19 not becoming significantly more onerous on the Corporation, which includes the Corporation being able to continue to operate as an essential service, and being able to fund growth through project level debt and access to credit on reasonable terms.

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 and the associated general economic downturn, the impact of which will largely depend on the overall severity and duration of COVID-19 and the general economic downturn, which cannot currently be predicted, and which present risks including, but not limited to: more restrictive directives of government and public health authorities; reduced labour availability impacting our ability to continue to staff our operations and facilities; impacts on our ability to realize our growth goals, including our ability to acquire operating or development assets from TransAlta; our ability to maintain adequate internal controls; restricted access to capital and increased borrowing costs; decreases in short-term and/or long-term electricity demand; further reductions in production; increased costs resulting from our efforts to mitigate the impact of COVID-19; deterioration of worldwide credit and financial markets that could limit our ability to obtain external financing to fund our operations and growth expenditures; a higher rate of losses on our accounts receivables due to credit defaults; further disruptions to our supply chain; impairments and/or write-downs of assets; and adverse impacts on our information technology systems and our internal control systems as a result of the need to increase remote work arrangements, including increased cyber security threats. Other factors that may adversely impact our forward-looking statements include, but are not limited to, risks relating to: changes in general economic conditions, including interest rates; 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; industry risk and competition; fluctuations in the value of foreign currencies; the need for additional financing and the ability to access financing at a reasonable cost; structural subordination of securities; counterparty credit risk; insurance coverage; our provision for income taxes; disputes with counterparties and legal and contractual proceedings involving the Corporation; reliance on key personnel and services provided by TransAlta; the regulatory and political environments in the jurisdictions in which we operate; increasingly stringent environmental requirements and changes in, or liabilities under, these requirements; and the risks associated with development projects and acquisitions. The foregoing risk factors, among others, are described in further detail in the Risk Factors section of our AIF, which is available on SEDAR at www.sedar.com as well as under 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.

2020 Outlook

Refer to the 2020 Financial Outlook section in our 2019 annual MD&A of the Corporation's 2019 Annual Report. There have been no changes in our expectations on key financial targets for 2020.

The following table outlines our expectation on key financial targets and related assumptions for 2020:

Measure[(1)]	**Target**
Comparable EBITDA	$445 million to $475 million
Adjusted funds from operations	$350 million to $380 million
Cash available for distribution	$300 million to $330 million

(1) These items are not defined and have no standardized meaning under IFRS. Presenting these items from period to period provides management and investors with the ability to evaluate earnings trends more readily in comparison with prior periods' results. Refer to the Discussion of Consolidated Financial Results section of this MD&A for further discussion of these items, including, where applicable, reconciliations to measures calculated in accordance with IFRS. See also the Additional IFRS measures and Non-IFRS Measures section of this MD&A.

The 2020 targets and forecasts are based on numerous assumptions including power and natural gas price forecasts. However, they do not include the effects of potential future acquisitions or development activities, or potential market and operational impacts relating to unplanned facility outages including outages at facilities of other market participants, and the related impacts on market power prices. Our targets and forecast should be read in conjunction with the forward looking information section of this MD&A, as well as the 2020 Outlook Section of the Corporation's 2019 Annual Report for information on key assumptions.

Operations

The following is a summary of expectations and key assumptions:

Range of Renewable Energy Production from wind, solar, and hydro assets, including those owned through economic interests	4,100 to 4,500 GWh
Weighted average remaining contractual life of PPAs	11 years
Sustaining capital and productivity expenditures	$20 -$30 million

Operating Costs

We have established long-term service agreements with suppliers to stabilize operations and maintenance costs. Most of our generation from gas is sold under contracts with pass-through provisions for fuel. For gas generation with no pass-through provision, we purchase natural gas coincident with production, thereby minimizing our exposure to changes in price.

Exposure to Fluctuations in Foreign Currencies

We are exposed to fluctuations in the exchange rate between the Canadian dollar and the Australian and US dollars as a result of our economic interests in the Australian Assets and the US Wind and Solar Assets. The securities acquired from TransAlta and the related dividends received are denominated in Canadian, Australian and US dollars. We aim to mitigate foreign exchange risk on foreign-denominated cash flows to ensure our ability to meet dividend requirements. Cash flows relating to the Australian Assets are predominately hedged under agreements with TransAlta until June 30, 2020. Subsequent to June 2020, we plan to enter into foreign exchange forwards to hedge Australian dollar cash flows related to the Australian Assets. In addition, we enter into foreign exchange forwards to hedge US dollar cash flows primarily related to the US Wind and Solar Assets. Any changes in foreign investments or foreign-denominated debt may change our exposure.

Additional IFRS Measures

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

Non-IFRS Measures

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

The Corporation's key non-IFRS measures are comparable earnings before interest, taxes, depreciation and amortization, adjusted funds from operations and cash available for distribution. Comparable EBITDA is comprised of our reported EBITDA adjusted to exclude the impact of unrealized mark-to-market gains and losses, change in fair value of financial assets, foreign exchange gains and losses and asset impairments; plus the Comparable EBITDA of the facilities in which we hold an economic interest, which is the facilities' reported EBITDA adjusted for: 1) finance lease income and the change in the finance lease receivable amount; 2) contractually fixed management costs; 3) interest earned on the prepayment of certain transmission costs; 4) insurance recovery; and 5) the impact of unrealized mark-to-market gains or losses. Comparable EBITDA is presented to provide management and investors with a proxy for the amount of cash generated from operating activities before net interest expense, non-controlling interest, income taxes and the impacts of timing on the finance income from subsidiaries of TransAlta in which we have an economic interest. We present Comparable EBITDA along with operational information of the assets in which we own an economic interest so that readers can better understand and evaluate the drivers of those assets in which we have the economic interest. Since the economic interests are designed to provide the Corporation with returns as if we owned the assets themselves, presenting the operational information and Comparable EBITDA provides a more complete picture for readers to understand the underlying nature of the investments and the resultant cash flows that would otherwise only be presented as finance income from the investments. AFFO is calculated as the cash flow from operating activities before changes in working capital, less sustaining capital expenditures, distributions paid to subsidiaries' non-controlling interest and finance and interest income, plus AFFO of the assets owned through economic interests, which is calculated as Comparable EBITDA from the economic interests less the change in long-term receivable, sustaining capital expenditures, current income tax expense, insurance recovery and currency adjustments. AFFO provides users with a proxy for the amount of cash generated from operating activities and investments in subsidiaries of TransAlta in which we have an economic interest. CAFD is calculated as AFFO less scheduled principal repayments of amortizing debt and lease obligations. CAFD can be used as a proxy for the cash that will be available to common shareholders of the Corporation. One of the primary objectives of the Corporation is to provide reliable and stable cash flows, and presenting AFFO and CAFD assists readers in assessing our cash flows in comparison to prior periods. See the Reconciliation of Non-IFRS Measures section of this MD&A for additional information.

Discussion of Comparable EBITDA

The amounts discussed in this section include operational metrics and financial information related to our fuel types and include investments in the economic interests of TransAlta subsidiaries. Since the investments in these economic interests provide us with returns as if we owned the assets, presenting the operational information provides users with information to assist them in assessing the financial performance of the assets that generate the finance income related to the economic interests. All the assets in the US Wind and Solar and Australian Gas business segments are owned through investments in an economic interest. The Comparable EBITDA of the assets in which we have an economic interest is reconciled to the finance income recognized in our interim condensed consolidated financial statements in the Reconciliation of Non-IFRS Measures section of this MD&A.

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

3 months ended March 31	Long-term average renewable energy production (GWh)(1)	Production (GWh) 2020	Production (GWh) 2019	Comparable EBITDA 2020	Comparable EBITDA 2019
Canadian Wind	**877**	**873**	828	**53**	59
Canadian Hydro	**45**	**37**	30	**—**	1
US Wind and Solar	**263**	**263**	143	**21**	10
Total – Renewable energy	**1,185**	**1,173**	1,001	**74**	70
Canadian Gas		**303**	439	**19**	19
Australian Gas		**471**	466	**30**	32
Corporate		**—**	—	**(5)**	(5)
Total		**1,947**	1,906	**118**	116

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

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

Canadian Wind

3 months ended March 31	2020	2019
Production (GWh)	**873**	828
Gross installed capacity (MW)(1)	**1,163**	1,169
Revenues	**67**	72
Royalties and other costs of sales	**3**	3
Comparable gross margin	**64**	69
Operations, maintenance and administration	**9**	8
Taxes, other than income taxes	**2**	2
Comparable EBITDA	**53**	59

(1) Megawatts are rounded to the nearest whole number.

Production for the three months ended March 31, 2020, increased by 45 GWh compared to the same period in 2019 mainly due to higher wind resources in Western Canada, partially offset by lower wind resources in Eastern Canada.

Comparable EBITDA for the three months ended March 31, 2020, decreased by $6 million compared to the same period in 2019, mainly due to lower wind resources in Eastern Canada, lower carbon offset revenues, and lower government incentives driven by the planned expiry of the Wind Power Production Incentives in 2019, partially offset by the timing of recognition of green attribute revenues and higher wind resources in Western Canada.

Canadian Hydro

3 months ended March 31	**2020**	2019
Production (GWh)	**37**	30
Gross installed capacity (MW)	**112**	112
Revenues	**3**	2
Royalties and other costs of sales	**1**	—
Comparable gross margin	**2**	2
Operations, maintenance, and administration	**2**	1
Comparable EBITDA	**—**	1

Production for the three months ended March 31, 2020, increased by 7 GWh compared to the same period in 2019, primarily due to higher water resources.

Despite higher production, Comparable EBITDA for three months ended March 31, 2020, decreased by $1 million compared to the same period in 2019, due to higher annual maintenance turnaround costs at our Bone Creek facility. This increase is offset by a reduction to capital spend which brings the overall turnaround costs in line with 2019.

US Wind and Solar

3 months ended March 31	**2020(1)**	2019
Production (GWh)	**263**	143
Gross installed capacity (MW)	**330**	215
Revenues	**24**	13
Royalties and other costs of sales	**—**	1
Comparable gross margin	**24**	12
Operations, maintenance and administration	**2**	2
Taxes, other than income taxes	**1**	—
Comparable EBITDA	**21**	10

(1) Includes results of the Big Level and Antrim wind farms which began commercial operation in December 2019.

Production for the three months ended March 31, 2020, increased by 120 GWh compared to the same period in 2019, mainly due to the higher wind resources and additional production from the Big Level and Antrim wind facilities which commenced commercial operation in December 2019.

Comparable EBITDA for the three months ended March 31, 2020, increased by $11 million compared to the same period in 2019, mainly due to higher production at Wyoming and Lakeswind and a full quarter of operations at Big Level and Antrim.

Canadian Gas

3 months ended March 31	2020	2019
Production (GWh)	**303**	439
Gross installed capacity (MW)	**499**	499
Revenue	**39**	52
Fuel and purchased power	**13**	26
Comparable gross margin	**26**	26
Operations, maintenance and administration	**7**	7
Comparable EBITDA	**19**	19

Canadian Gas consists solely of the Sarnia cogeneration facility.

Production for the three months ended March 31, 2020, decreased by 136 GWh compared to the same period in 2019, mainly due to lower market demand.

Despite lower production, Comparable EBITDA for the three months ended March 31, 2020, remained consistent with the same period in 2019, as lower merchant revenues were largely offset by lower fuel costs.

Australian Gas

3 months ended March 31	2020	2019
Production (GWh)	**471**	466
Gross installed capacity (MW)	**450**	450
Revenues	**39**	41
Fuel and purchased power	**2**	1
Comparable gross margin	**37**	40
Operations, maintenance, and administration (1)	**7**	8
Comparable EBITDA	**30**	32

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

Production for the three months ended March 31, 2020 increased by 5 GWh compared to 2019, mainly due to changes in customer demand. The contracts in Australia are capacity contracts and our results are not directly impacted by generation.

Comparable EBITDA for the three months ended March 31, 2020, decreased by $2 million compared with the same period in 2019, mainly due to the weakening of the Australian dollar relative to the Canadian dollar.

Reconciliation of Non-IFRS Measures

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

3 months ended March 31	2020	2019
Cash flow from operating activities	82	131
Change in non-cash operating working capital balances	(18)	(41)
Cash flow from operations before changes in working capital	64	90
Adjustments:		
Sustaining capital expenditures – owned assets	(2)	(7)
Finance and interest income – economic interests[1] (Table II)	(8)	(26)
AFFO — economic interests[1] (Table II)	40	37
AFFO	94	94
Deduct:		
Principal repayments of amortizing debt	(3)	(2)
CAFD	91	92
Weighted average number of common shares outstanding in the period (millions)	266	264
AFFO per share	0.35	0.36
CAFD per share	0.34	0.35

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

Reconciliation of Comparable EBITDA to AFFO

3 months ended March 31	2020			2019		
	Owned assets	Economic interests[1]	Total	Owned assets	Economic interests[1]	Total
Comparable EBITDA (Table I)	67	51	118	74	42	116
Interest expense	(10)	—	(10)	(10)	—	(10)
Sustaining capital expenditures	(2)	(3)	(5)	(7)	(1)	(8)
Current income tax expense	—	(1)	(1)	(1)	(2)	(3)
Tax equity distributions	—	(6)	(6)	—	(1)	(1)
Realized foreign exchange loss	(3)	—	(3)	—	—	—
Currency adjustment, reserves, interest income, and other	2	(1)	1	1	(1)	—
AFFO	54	40	94	57	37	94

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

Table I

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

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

(1) Adjustments made to Reported EBITDA to calculate Comparable EBITDA (exclude the impact of unrealized market to market (gains) or losses from revenues and remove other income or losses not included in Comparable EBITDA).
(2) Amounts related to economic interests include interest earned on the prepayment of certain transmission costs.
(3) Amounts related to economic interests include the effect of contractually fixed management costs.

3 months ended March 31	2019			
	Reported	Adjustments(1)	Economic interests	Comparable total
Revenues	127	(1)	54	180
Fuel, royalties and other costs of sales(2)	29	—	2	31
Gross margin	98	(1)	52	149
Operations, maintenance and administration(3)	21	—	10	31
Taxes, other than income taxes	2	—	—	2
Finance income (Table II)	(26)	26	—	—
Interest income (Table II)	(1)	1	—	—
Change in fair value of financial assets	(31)	31	—	—
Foreign exchange gains	4	(4)	—	—
Earnings before interest, taxes, depreciation and amortization	129	(55)	42	116

(1) Adjustments made to Reported EBITDA to calculate Comparable EBITDA (exclude the impact of unrealized market to market (gains) or losses from revenues and remove other income or losses not included in Comparable EBITDA).
(2) Amounts related to economic interests include interest earned on the prepayment of certain transmission costs.
(3) Amounts related to economic interests include the effect of contractually fixed management costs.

Table II

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

3 months ended March 31	**2020**			2019		
	US Wind and Solar[1]	**Australian Gas**	**Total**	US Wind and Solar	Australian Gas	Total
Comparable EBITDA	**21**	**30**	**51**	10	32	42
Sustaining capital expenditures	**(1)**	**(2)**	**(3)**	(1)	—	(1)
Current income tax expense	**—**	**(1)**	**(1)**	—	(2)	(2)
Tax equity distributions	**(6)**	**—**	**(6)**	(1)	—	(1)
Currency adjustment, withholding tax, reserves and other	**—**	**(1)**	**(1)**	—	(1)	(1)
AFFO of economic interests	**14**	**26**	**40**	8	29	37
Return of capital and redemptions	**(14)**	**(46)**	**(60)**	(5)	(5)	(10)
Effects of changes in working capital and other timing[2]	**1**	**27**	**28**	1	(2)	(1)
Finance income	**1**	**7**	**8**	4	22	26

(1) Includes results of the Big Level and Antrim wind farms which began commercial operation in December 2019.
(2)The 2020 amount for the Australian Gas segment includes the Tracking Preferred Shares Austrailia Cash Flows deficit balance as discussed below.

On Jan. 24, 2020, TEA repaid AU$45 million of principal on the amortizing term loan owing to another subsidiary of TransAlta. As a result, pursuant to the terms of the tracking preferred shares that track this amortizing term loan a redemption was triggered and resulted in AU$45 million of the tracking preferred shares being redeemed, which was paid to the Corporation in Canadian dollars at spot rates. The redemption is tied to operating cash at TEA and this had the effect of creating a deficit balance related to the Preferred Shares Tracking Australia Cash Flows, thereby reducing the ability of TEA to declare and pay dividends on the Preferred Shares Tracking Australia Cash Flows, until such deficiency has been recouped. Based on the expected performance for TEA in 2020, the dividend amount on the tracking preferred shares is expected to be paid by Q4 2020.

Selected Quarterly Information

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

	Q2 2018	Q3 2018	Q4 2018	Q1 2019
Revenue	107	90	140	127
Net earnings attributable to common shareholders	65	12	93	76
Cash flow from operating activities	72	78	103	131
AFFO[1]	73	67	108	94
CAFD[1]	51	65	85	92
Net earnings per share attributable to common shareholders, basic and diluted	0.26	0.05	0.35	0.29
CAFD per share[1]	0.20	0.25	0.32	0.35

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

Our business results fluctuate with seasonal variations, with the first and fourth quarters seeing the largest wind volumes and the second and third quarters recording higher hydro volumes. As wind forms a larger part of our renewable fleet, higher revenues and earnings are expected in the first and fourth quarters. In March 2019, we acquired an economic interest in the Antrim US wind development project. The Big Level and Antrim wind projects achieved commercial operations in December 2019. Net earnings attributable to common shareholders include various effects arising from our economic interest investments through financial instruments as follows:

- Dividends or return of capital can vary each quarter depending on the pre-tax earnings from our economic interest investments (Preferred Shares Tracking the Australia Cash Flows, TEA preferred shares, preferred shares tracking earnings and distributions of Wyoming Wind, Lakeswind, Big Level and Antrim, and Mass Solar and Preferred Shares Tracking the Amortizing Term Loan).
- Interim results for the changes in fair value of financial assets will vary due to changes in cash flow assumptions, discount rates and forecast foreign exchange translation rates.
- Fluctuations in the strength of the Canadian dollar relative to the Australian dollar result in foreign exchange gains and losses on Australian-dollar-denominated investments. With the exception of the fourth quarter of 2018, each quarter in 2018, 2019 and 2020 has recognized foreign exchange losses.
- Fluctuations in the strength of the Canadian dollar relative to the US dollar result in foreign exchange gains and losses on US-dollar-denominated investments and promissory notes. Foreign exchange gains were recognized in the first and third quarters of 2019, first, second and fourth quarters of 2018, with losses in the second and fourth quarter of 2019 and third quarter of 2018.

Financial Instruments

Refer to Note 13 of our most recent annual consolidated financial statements and Note 8 of our interim condensed consolidated financial statements for the three months ended March 31, 2020, for details on Financial Instruments.

Our risk management profile and practices have not changed materially since Dec. 31, 2019. During the first quarter of 2020, a subsidiary of TransAlta redeemed AU$45 million of the Preferred Shares Tracking the Amortizing Term Loan. During the three months ended March 31, 2020, we recognized a $5 million decrease in fair value in net earnings. This decrease mainly resulted from changes in fair value related to changes in discount rates and lower forecast assumptions in the Australian market.

As at March 31, 2020, Level III financial instruments were comprised of financial assets with a carrying value of $1,001 million (Dec. 31, 2019 - $918 million). The increase is primarily due to a $61 million investment in the preferred shares tracking earnings and distributions in Big Level and Antrim, favourable changes in fair value of our Australian investments, foreign exchange gains on our US Wind and Solar investments, partially offset by returns of capital on the preferred shares tracking earnings and distributions of Wyoming Wind, Lakeswind, and Mass Solar.

As at March 31, 2020, Level II financial instruments were comprised of financial assets with a carrying value of $508 million (Dec. 31, 2019 - $574 million). The decrease is primarily due to the change in timing of cash flows relating to the unscheduled redemption of the Preferred Shares Tracking the Amortizing Term Loan and impacts of changes in foreign exchange rates.

Refer to Notes 5 and 8 in the interim condensed consolidated financial statements for the three months ended March 31, 2020 for additional information on these investments and fair value measurements.

Other Consolidated Results

Other Comprehensive Income (OCI)

Other comprehensive income (loss) includes the changes in fair value for investments in subsidiaries of TransAlta related to the Preferred Shares Tracking Australia Cash Flows and the Tracking Preferred Shares and distributions of Wyoming Wind, Big Level and Antrim, Lakeswind and Mass Solar. These gains and losses are excluded from the consolidated statement of earnings.

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

During the three months ended March 31, 2020, we recognized a $45 million increase in fair value in OCI (March 31, 2019 - $2 million increase). The increase during 2020 is primarily attributable to changes in the discount rate and cash flow assumptions for the Preferred Shares Tracking Australia Cash Flows and favourable foreign exchange rate impacts on the US Wind and Solar Tracking Preferred Shares.

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

Income Taxes

Income taxes for the three months ended March 31, 2020, decreased $3 million compared to the same period in 2019 primarily due to lower earnings before certain income and expenses.

Sustaining Capital Expenditures

Sustaining capital expenditures for assets we directly own, as well as the facilities in which we own economic interests, are noted below:

3 months ended March 31	Canadian Wind	Canadian Hydro	US Wind and Solar	Canadian Gas	Australian Gas	Total
2020 Total sustaining expenditures	**2**	**—**	**1**	**—**	**2**	**5**
2019 Total sustaining expenditures	1	1	1	5	—	8

Sustaining capital expenditures for the three months ended March 31, 2020, decreased by $3 million compared to the same period in 2019, mainly due to lower planned maintenance at our Canadian Gas facility, partially offset by a higher number of planned maintenance events at our Australian Gas facilities.

Related-Party Transactions and Balances

Related-Party Transactions

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

	3 months ended March 31	
	2020	2019
Revenue from TransAlta PPAs	**8**	7
Revenue from Environmental attributes[(1)]	**—**	1
Finance income from investments in subsidiaries of TransAlta	**8**	26
Interest income - promissory notes due from a subsidiary of TransAlta	**1**	—
G&A Reimbursement Fee[(2)]	**4**	4
Natural gas purchases	**1**	6
Asset optimization fee[(3)]	**1**	1

(1) The value of Environmental Attributes was determined by reference to market information for similar instruments, including historical transactions with third parties.
(2) On Feb. 28, 2020, the G&A Reimbursement Fee was amended to a calculation based on five per cent of Comparable EBITDA of the immediately prior fiscal quarter, effective Jan. 1, 2020, without duplication for any indirect costs associated with the management, administrative, accounting, planning and other head office costs of TransAlta that reduce the dividends or distributions that would otherwise be payable to the Corporation on any of the tracking preferred shares.
(3) A subsidiary of TransAlta provides asset management and optimization services for the Corporation's Sarnia cogeneration plant. The Sarnia cogeneration plant is charged a fixed fee of approximately $0.125 million per quarter, plus a variable fee of 1.6 per cent of its gross margin.

Related-Party Balances

Related-party balances include the following:

As at	March 31, 2020	Dec. 31, 2019
Trade and other receivables	**7**	19
Accounts payable and accrued liabilities	**10**	8
Dividends payable	**38**	38
Investments in subsidiaries of TransAlta	**1,509**	1,492
Big Level and Antrim promissory notes	**62**	113
Guarantees provided by TransAlta on behalf of the Corporation(1)	**295**	314
Long-term prepaid – management fee	**2**	2
Indemnification guarantee provided by the Corporation to TransAlta(1)	**498**	512

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

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

Liquidity and Capital Resources

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

Principal sources of liquidity include cash generated from operations, capital markets and funding from our existing Credit Facility. The Corporation remains focused on any refinancing of debt obligations on acceptable terms and maintaining a manageable maturity ladder and does not anticipate material issues in addressing our borrowing through 2023 and beyond on acceptable terms.

Financial Position

The following table highlights significant changes to account balances derived from the unaudited interim consolidated Statements of Financial Position from Dec. 31, 2019 to March 31, 2020:

(unaudited $ millions)	March 31, 2020	Dec. 31, 2019	Increase/ (decrease)	Primary factors explaining change
Cash and cash equivalents	40	63	(23)	Timing of receipts and payments - See Cash flows section in this MD&A for further details.
Accounts receivable	74	90	(16)	Timing of receipts and collections and lower amounts receivable for dividends from related party investments
Property, plant and equipment, net	1,686	1,728	(42)	Decreased as a result of depreciation expense and a decrease in decommissioning provision, partially offset by additions
Investments in subsidiaries of TransAlta (including current portion)	1,509	1,492	17	Increase due to an investment in Big Level and Antrim US wind projects, higher fair values on the investments in TEA economic interests and favourable foreign exchange gains on the US Wind and Solar, partially offset by returns of capital on US Wind and Solar and redemptions and foreign exchange losses recognized on the TEA investments.
Other assets (including current portion)	111	162	(51)	Receipt of repayment for promissory notes related to the Big Level and Antrim wind development projects.
Long-term debt and lease obligations (including current portion)	857	961	(104)	Decreased as a result of repayments made on the Credit Facility and scheduled principal repayments on non-recourse bonds
Decommissioning and other provisions (including current portion)	43	56	(13)	Decrease due to increases in the March 31, 2020 discount rates due to changes in benchmark interest rates in period and higher credit risk
Deferred income tax liabilities	271	264	7	Increase in deferred tax due to increased deferred tax expense for the period
Equity attributable to shareholders	2,260	2,268	(8)	Decrease due to common share dividends, partially offset by net earnings, other comprehensive income due to favourable fair value changes, and common shares issued under DRIP

Cash Flows

The following table highlights significant changes in the Consolidated Statements of Cash Flows for the period ended three months ended March 31, 2020, compared to the same period in 2019:

3 months ended March 31	2020	2019	Increase/(decrease)
Cash and cash equivalents, beginning of the period	**63**	73	(10)
From (used in):			
Operating activities	**82**	131	(49)
Investing activities	**55**	(115)	170
Financing activities	**(160)**	(39)	(121)
Cash and cash equivalents, end of the period	**40**	50	(10)

Cash flow from operating activities for the three months ended March 31, 2020, decreased by $49 million compared to the same period in 2019 primarily due to:

- Lower cash earnings of $73 million, which was partially offset by $47 million in higher non-cash and non-operating items such as depreciation and amortization, changes in fair value of financial instruments, unrealized changes in foreign exchange rates, and changes in deferred taxes ; and
- Unfavourable changes in in working capital of $23 million related to the timing of receivables and payables.

Cash flow from investing activities for the three months ended March 31, 2020, increased by $170 million compared to the same period in 2019 primarily due to:

- Lower additions to property, plant and equipment of $6 million;
- In 2019, the Corporation executed a series of transactions in response to the enactment of anti-hybrid tax rules within Australia. This resulted in TEA redeeming the outstanding balances of the MRPS of AUD $509 million and appropriately $41 million of preferred shares of TEA for cash consideration. Immediately following these redemptions, the Corporation subscribed for AUD $550 million of Preferred Shares Tracking the Amortizing Term Loan.
- Also in 2019, the Corporation entered into an arrangement with TransAlta to acquire an economic interest in Big Level and Antrim. As part of this arrangement, the Corporation agreed to fund the construction costs for the Big Level and Antrim development through promissory notes. With the receipt of the tax-equity financing at the end of the December 2019 and the construction coming to completion, the promissory notes are being repaid and the Corporation has acquired additional tracking preferred shares in Big Level and Antrim Wind Assets.

Cash flow from financing activities for the three months ended March 31, 2020, decreased by $121 million compared to the same period in 2019 primarily due to:

- Higher repayments made on the credit facility.

Debt and Lease Obligations

	As at March 31, 2020				
		Utilized			
	Total Facility limit	Outstanding letters of credit(1)	Drawings	Available capacity	Maturity date
Committed credit facility	700	93	118	489	2023

(1) Letters of credit of $93 million were issued from uncommitted demand facilities, these obligations are backstopped and reduce the available capacity on the syndicated credit facility.

Debt and lease obligations totaled $857 million as at March 31, 2020, compared to $961 million as at Dec. 31, 2019. As at March 31, 2020, the committed credit facility utilization decreased by $101 million compared with the utilization as at Dec. 31, 2019, mainly due to repayments on borrowings under the Credit Facility of $101 million. Debt also decreased due to scheduled repayments of non-recourse bonds of $3 million.

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

Share Capital

On March 31, 2020, we had approximately 266.0 million (Dec. 31, 2019 - 265.6 million) common shares issued and outstanding. During the first quarter of 2020, the Corporation issued approximately 0.4 million common shares under the DRIP for a total equity value of $7 million.

As at May 11, 2020, we had approximately 266 million common shares issued and outstanding.

Litigation, Claims, and Contingencies

For the current significant outstanding contingencies, refer to the Liquidity and Capital Resources section in our 2019 Annual MD&A for further details. None of these contingencies, individually or in aggregate, are expected to result in a liability that would have a material adverse effect on the Corporation. Except as discussed below, there have been no significant changes during the three months ended March 31, 2020.

The Corporation's investment in the Australian Assets is through an economic interest that provides after-tax finance and interest income based on EBITDA of the underlying facilities. TransAlta sued FMG, seeking payment of amounts invoiced and not paid under the South Hedland PPA, as well as a declaration that the PPA is valid and in force. FMG, on the other hand, seeks a declaration that the PPA was lawfully terminated. This matter has been re-scheduled to proceed to trial beginning May 3, 2021, instead of June 15, 2020, but it may be delayed further, depending on the extent of continued restrictions arising from the COVID-19 pandemic. The Corporation recognizes finance and interest income when declared on our investments in the Australian Assets, inclusive of the impacts of any contingent gains when recognized by TransAlta.

The second dispute involves FMG's claims against TransAlta related to the transfer of the Solomon facility to FMG. FMG claims certain amounts related to the condition of the facility while TransAlta claims certain outstanding costs that should be reimbursed. A trial date for this matter has not yet been scheduled but it will likely not occur until 2021.

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. Actual results could differ from those 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.

The duration and impact of the COVID-19 pandemic are unknown at this time. Estimates to the extent to which the COVID-19 pandemic may, directly or indirectly impact the Corporation's operations, financial results and conditions in future periods are also subject to significant uncertainty. For a description of additional risks identified as a result of the pandemic, refer to Note 8 of the interim condensed consolidated financial statements as at March 31, 2020.

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, 2020 in relation to the assessment of dividends as income or return of capital, as follows:

The Corporation receives dividends from its investments in the Preferred Shares Tracking Australia Cash Flows, the TEA preferred shares, and the preferred shares tracking earnings and distributions of Wyoming Wind, Lakeswind, Mass Solar and Big Level and Antrim. Determining whether a dividend represents in substance a return of capital requires significant judgment. The Corporation determines the amount of dividends that represent a return of capital based on the lower of: (i) the difference, if positive, between the cost base of the shares and their fair value, at the end of the reporting period; and (ii) the actual dividend declared on the shares during the reporting period. When it is determined that a dividend represents a return of capital, the carrying amount of the related investment is reduced. During the first quarter of 2020, the Corporation determined that a portion of the dividends earned on the tracking preferred shares of Wyoming Wind, Lakeswind, and Mass Solar constituted a return of capital.

Change in Estimates

Decommissioning and other provisions

As at March 31, 2020, there was a substantial change in the discount rates used for the decommissioning provision mainly due to a substantial increase in TransAlta's credit spread due to the COVID-19 crisis, which has caused increased credit spreads for most entities. The increase in the credit spread which was partially offset by decreases in the benchmark rates. As a result, the Corporation decreased the decommissioning provision by $16 million, which resulted in a decrease in property, plant and equipment of $16 million.

Accounting Policy Changes

Current Accounting Changes

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Corporation's annual consolidated financial statements for the year ended Dec. 31, 2019, except for the adoption of new standards effective as of Jan. 1, 2020. The Corporation has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 3 Business Combinations

The Corporation has adopted the amendments to IFRS 3 *Business Combinations* ("IFRS 3 amendments") as of Jan. 1, 2020. The amendments clarify the definition of a business and introduce amendments that are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. These amendments had no impact on the consolidated financial statements as the Corporation has had no business acquisitions or asset acquisitions that have occurred subsequent to Jan. 1, 2020.

Amendments to IAS 1 and 8 - Definition of Materiality

The Corporation has adopted the amendments to the IAS 1 and 8 on Jan. 1, 2020. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of the Corporation.

Risks and Uncertainties

Our business activities expose us to a variety of risks and uncertainties including, but not limited to, increased regulatory changes, rapidly changing market dynamics and volatility in commodity markets. Refer to the Risk Management section and the Business Environment Section of our 2019 Annual Report and the annual information form filed electronically at www.sedar.com. Our risk management profile and practices have not changed materially from Dec. 31, 2019.

We have adopted a number of risk mitigation measures in response to the COVID-19 pandemic, including the formal implementation of TransAlta's business continuity plan on March 9, 2020. The Board and management have been monitoring the development of the outbreak and are continually assessing its impact on the Corporation's operations, supply chains and customers as well as, more generally, to the business and affairs of the Corporation. Potential impacts of the pandemic on the business and affairs of the Corporation include, but are not limited to: potential interruptions of production, supply chain disruptions, unavailability of employees at TransAlta, potential delays in growth projects, increased credit risk with counterparties and increased volatility in commodity prices as well as valuations of financial instruments. In addition, the broader impacts to the global economy and financial markets could have potential adverse impacts on the availability of capital for investment and the demand for power and commodity pricing.

To manage the risks resulting from COVID-19, TransAlta, as our manager under the Management Agreement, has taken a number of steps in furtherance of the Corporation's business continuity efforts:

Management Responses
- Formed a COVID-19 emergency team run by TransAlta's Chief Operating Officer, who is also the President of the Corporation;
- Regularly communicated with the Board of Directors in regard to the Corporation's response to COVID-19;
- Created a team to assess the implications of operating after the more stringent COVID-19 restrictions have been lifted and before a vaccination or cure has been distributed;
- Established a committee to consider and respond to any claims of force majeure that may be received as a result of COVID-19;
- Developed leadership plans, including contingent authorities;

Policy Changes
- Suspended all non-essential travel and require a 14-day restricted period for all TransAlta employees returning from air, bus, train or ship travel. TransAlta's employees will not be permitted on any of the Corporation's sites during this restricted period;

Employee Changes
- Provided assurances to employees that their employment with TransAlta would not be impacted by the COVID-19 pandemic;
- Implemented flexible work arrangements and shift rotations to reduce the risk to TransAlta's employees working at or from the Corporation's generating facilities or critical workstations;
- Implemented health screening procedures (i.e., questionnaires and temperature tests), enhanced cleaning measures and strict work protocols at the Corporation's generating facilities;
- Instructed all non-essential TransAlta employees to work remotely from their homes;

Operational Changes
- Modified its operating procedures and implemented restrictions to non-essential access to our facilities to support continued operations through the pandemic;
- Reviewed the supply chain risk associated with all key power generation process inputs and implemented weekly monitoring for changes in risk;
- Reached out to key supply chain contacts to determine strategies and contingencies to ensure we are able to continue to progress our growth projects, wherever possible;
- Identified new cybersecurity risks associated with phishing emails and enhanced security protocols and increased awareness of potential threats;

Financial Oversight
- Continued to monitor counterparties for changes in creditworthiness as well as monitor their ability to meet obligations; and
- Continued to monitor the situation and communicate with our Board of Directors on any foreseeable impacts and on our response to the crisis. We maintain a strong financial position and significant liquidity with our existing committed credit facilities.

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

Regulatory and Environmental Legislation

As a result of COVID-19, all North American integrated electricity market system operators and the Federal Energy Regulatory Commission have moved staff to work from home structures with the exception of their system operations staff. Planned in-person consultation processes have been cancelled and these and other stakeholder processes have been rescheduled to telephone or virtual formats and/or delayed. These actions are expected to result in delays or potential cancellation of regulatory changes and other market operation working groups' activities. Standard market activities have not been impacted.

Due to the current situation, the Alberta and Canadian federal government have also provided options to delay environmental reporting, including options to delay compliance reporting for their respective large GHG emitters programs. Facilities can still submit on the regular compliance dates.

Controls and Procedures

Management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P"). For a portion of the three months ended March 31, 2020, the majority of our workforce supporting and executing our ICFR and DC&P were working remotely. There has been minimal impact to the design and performance of internal controls. Management has reviewed the changes as a result of changes implemented in response to COVID-19 and is reasonably assured that adjustments to process have not materially affected, or are reasonably likely to materially affect, our ICFR or DC&P.

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

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

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

Management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our ICFR and DC&P as of the end of the period covered by this report. Based on the foregoing evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as at March 31, 2020, 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)	**2020**	2019
Revenues (Note 4)	**109**	125
Government incentives	**1**	2
Total revenue	**110**	127
Fuel, royalties, and other costs	**17**	29
Gross margin	**93**	98
Operations, maintenance and administration	**23**	21
Depreciation and amortization	**34**	31
Taxes, other than income taxes	**2**	2
Operating income	**34**	44
Finance income related to subsidiaries of TransAlta (Note 5)	**8**	26
Interest income (Note 6)	**2**	1
Interest expense (Note 6)	**(11)**	(11)
Change in fair value of financial assets (Note 5)	**(5)**	31
Foreign exchange loss	**(17)**	(4)
Earnings before income taxes	**11**	87
Income tax expense (Note 7)	**7**	10
Net earnings	**4**	77
Net earnings attributable to:		
Common shareholders	**3**	76
Non-controlling interest	**1**	1
	4	77
Weighted average number of common shares outstanding in the period *(millions)* (Note 12)	**266**	264
Net earnings per share attributable to common shareholders, basic and diluted	**0.01**	0.29

See accompanying notes.

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

	3 months ended March 31	
Unaudited	**2020**	2019
Net earnings	**4**	77
Other comprehensive income		
Net change in fair value of investments in subsidiaries of TransAlta (Note 5)	**45**	2
Total items that will not be reclassified subsequently to net earnings	**45**	2
Other comprehensive income	**45**	2
Total comprehensive income	**49**	79
Total comprehensive income attributable to:		
Common shareholders	**48**	78
Non-controlling interest	**1**	1
	49	79

See accompanying notes.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Financial Position

(in millions of Canadian dollars)

Unaudited	**March 31, 2020**	Dec. 31, 2019
Cash and cash equivalents	**40**	63
Accounts receivable	**74**	90
Prepaid expenses	**4**	2
Inventory	**7**	7
Current portion of other assets (Note 10)	**62**	113
Current portion of investments in subsidiaries of TransAlta (Note 5)	**17**	18
	204	293
Property, plant and equipment (Note 9)		
Cost	**2,838**	2,850
Accumulated depreciation	**(1,152)**	(1,122)
	1,686	1,728
Right-of-use assets	**28**	28
Intangible assets	**111**	114
Other assets (Notes 10)	**49**	49
Investments in subsidiaries of TransAlta (Notes 5)	**1,492**	1,474
Deferred income tax assets	**16**	16
Total assets	**3,586**	3,702
Accounts payable and accrued liabilities	**38**	37
Dividends payable	**62**	62
Risk management liabilities (Note 8)	**2**	1
Current portion of long-term debt and lease obligations (Note 11)	**52**	52
	154	152
Long-term debt and lease obligations (Notes 8 and 11)	**805**	909
Decommissioning provisions and other provisions (Note 1C)	**43**	56
Contract liabilities	**6**	6
Deferred revenues	**1**	1
Risk management liabilities (Note 8)	**—**	1
Deferred income tax liabilities	**271**	264
Total liabilities	**1,280**	1,389
Equity		
Common shares (Note 12)	**3,046**	3,039
Deficit	**(697)**	(637)
Accumulated other comprehensive loss	**(89)**	(134)
Equity attributable to shareholders	**2,260**	2,268
Non-controlling interest	**46**	45
Total equity	**2,306**	2,313
Total liabilities and equity	**3,586**	3,702

Commitments and contingencies (Note 13)

See accompanying notes.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Changes in Equity

(in millions of Canadian dollars)

Unaudited

	Common shares	**Deficit**	**Accumulated other comprehensive income (loss)**	**Attributable to shareholders**	**Attributable to non-controlling interest**	**Total**
Balance, Dec. 31, 2019	3,039	(637)	(134)	2,268	45	2,313
Net earnings	—	3	—	3	1	4
Other comprehensive income:						
Net change in fair value of investments of subsidiaries of TransAlta (Note 5)	—	—	45	45	—	45
Total comprehensive income	—	3	45	48	1	49
Common share dividends (Note 12)	—	(63)	—	(63)	—	(63)
Dividend reinvestment plan (Note 12)	7	—	—	7	—	7
Balance, March 31, 2020	**3,046**	**(697)**	**(89)**	**2,260**	**46**	**2,306**

See accompanying notes.

Unaudited

	Common shares	Deficit	Accumulated other comprehensive income (loss)	Attributable to shareholders	Attributable to non-controlling interest	Total
Balance, Dec. 31, 2018	3,011	(567)	(89)	2,355	41	2,396
Net earnings	—	76	—	76	1	77
Other comprehensive income:						
Net change in fair value of investments of subsidiaries of TransAlta (Note 5)	—	—	2	2	—	2
Total comprehensive income	—	76	2	78	1	79
Common share dividends (Note 12)	—	(62)	—	(62)	—	(62)
Dividend reinvestment plan (Note 12)	7	1	—	8	—	8
Balance, March 31, 2019	3,018	(552)	(87)	2,379	42	2,421

See accompanying notes.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Cash Flows

(in millions of Canadian dollars)

Unaudited **3 months ended March 31**	**2020**	2019
Operating activities		
Net earnings	**4**	77
Depreciation and amortization	**34**	31
Accretion of provisions	**1**	1
Deferred income tax expense (Note 7)	**7**	9
Change in fair value of financial assets	**5**	(31)
Unrealized foreign exchange (gain) loss	**14**	4
Unrealized (gain) loss from risk management activities	**(1)**	(1)
Cash flow from operations before changes in working capital	**64**	90
Change in non-cash operating working capital balances	**18**	41
Cash flow from operating activities	**82**	131
Investing activities		
Additions to property, plant and equipment (Note 9)	**(2)**	(8)
Repayments (Advances) on promissory notes from a subsidiary of TransAlta (Note 10)	**60**	(115)
Proceeds on redemptions of investments in subsidiaries of TransAlta (Note 5)	**46**	535
Investments in subsidiaries of TransAlta (Note 5)	**(61)**	(530)
Realized gain on financial instruments	**—**	1
Return of capital on investments in subsidiaries of TransAlta (Note 5)	**14**	5
Change in non-cash investing working capital balances	**(2)**	(3)
Cash flow from (used in) investing activities	**55**	(115)
Financing activities		
Net (decrease) increase in borrowings under credit facilities (Note 11)	**(101)**	18
Long-term debt repayments (Note 11)	**(3)**	(2)
Dividends paid on common shares (Note 12)	**(56)**	(55)
Cash flow used in financing activities	**(160)**	(39)
Increase (decrease) in cash and cash equivalents	**(23)**	(23)
Cash and cash equivalents, beginning of period	**63**	73
Cash and cash equivalents, end of period	**40**	50
Cash income taxes paid	**—**	1
Cash interest paid	**5**	5

See accompanying notes.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

1. Background and Accounting Policies

A. The Corporation

TransAlta Renewables Inc. together with its subsidiaries (collectively "TransAlta Renewables" or the "Corporation") owns and operates 13 hydro facilities, 19 wind farms, and one gas plant, with a total gross generating capacity of 2,555 megawatts ("MW"), and holds economic interests in TransAlta's 144 MW Wyoming Wind wind farm, 50 MW Lakeswind wind farm, 21 MW Mass Solar solar projects, 90 MW Big Level US wind development project, 29 MW Antrim US wind development project, and 450 MW Australian gas-fired generation assets including a 270 kilometer gas pipeline. The Corporation's head office is located in Calgary, Alberta.

B. Basis of Preparation

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

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

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

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

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

These interim condensed consolidated financial statements were authorized for issue by the by the Audit and Nominating Committee on behalf of the Board of Directors (the "Board") on May 11, 2020.

C. Use of Estimates and Significant Judgments

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

The outbreak of the novel strain of coronavirus ("COVID-19") has resulted in governments worldwide enacting emergency measures to constrain the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods, self-isolation, physical and social distancing and the closure of non-essential business, have caused significant disruption to businesses globally which has resulted in an uncertain and challenging economic environment. The duration and impact of the COVID-19 pandemic are unknown at this time. Estimates to the extent to which the COVID-19 pandemic may, directly or indirectly impact the Corporation's operations, financial results and conditions in future periods are also subject to significant uncertainty. For a description of additional risks identified as a result of the pandemic, refer to note 8.

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, 2020 in relation to the assessment of dividends as income or return of capital, as follows:

The Corporation receives dividends from its investments in the preferred shares tracking TransAlta Energy (Australia) Pty Ltd. ("TEA") adjusted amounts ("Australia Cash Flows"), the TEA preferred shares, and the preferred shares tracking earnings and distributions of Wyoming Wind, Lakeswind, Mass Solar and Big Level and Antrim. Determining whether a dividend represents in substance a return of capital requires significant judgment. The Corporation determines the amount of dividends that represent a return of capital based on the lower of: (i) the difference, if positive, between the cost base of the shares and their fair value, at the end of the reporting period; and (ii) the actual dividend declared on the shares during the reporting period. When it is determined that a dividend represents a return of capital, the carrying amount of the related investment is reduced. During the first quarter of 2020, the Corporation determined that a portion of the dividends earned on the tracking preferred shares of Wyoming Wind, Lakeswind, and Mass Solar constituted a return of capital.

Change in Estimates

Decommissioning and other provisions

As at March 31, 2020, there was a substantial change in the discount rates used for the decommissioning provision mainly due to a substantial increase in TransAlta's credit spread due to the COVID-19 crisis, which has caused increased credit spreads for most entities. The increase in the credit spread which was partially offset by decreases in the benchmark rates. As a result, the Corporation decreased the decommissioning provision by $16 million, which resulted in a decrease in property, plant and equipment of $16 million.

2. Significant Accounting Policies

A. Current Accounting Policy Changes

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Corporation’s annual consolidated financial statements for the year ended Dec. 31, 2019, except for the adoption of new standards effective as of Jan. 1, 2020. The Corporation has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 3 Business Combinations

The Corporation adopted the amendments to IFRS 3 *Business Combinations* ("IFRS 3 amendments") as of Jan. 1, 2020.
The amendments assist entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. Specifically, these amendments:

i. Clarify the minimum requirements for a business, whereby at minimum, an input and a substantive process that together significantly contribute to the ability to create output must be present;
ii. Remove the assessment of whether market participants are capable of replacing any missing elements so that the assessment is based on what has been acquired in its current state and condition, rather than on whether market participants are capable of replacing any missing elements, for example, by integrating the acquired activities and assets;
iii. Add guidance to help entities assess whether an acquired process is substantive, which requires more persuasive evidence when there are no outputs, because the existence of outputs provides some evidence that the acquired set of activities and assets is a business;
iv. Narrow the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities; and
v. Introduce an optional fair value concentration test, that can be applied on a transaction-by-transaction basis, to permit a simplified assessment of whether an acquired set of activities and assets are not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

These amendments had no impact on the consolidated financial statements as the Corporation has had no business acquisitions or asset acquisitions that have occurred subsequent to Jan. 1, 2020.

Amendments to IAS 1 and 8 - Definition of Materiality

The Corporation adopted the amendments to IAS 1 and 8 on Jan. 1, 2020. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements.

B. Comparative Figures

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

3. Significant and Subsequent Events

Global Pandemic

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

TransAlta Corporation, as the manager and operator of the Corporation's business and assets, formally implemented its business continuity plan on March 9, 2020, which is focused on: (i) ensuring that employees that can work remotely do so; and (ii) ensuring that employees operating and maintaining our facilities, who are not able to work remotely, are able to work safely and in a manner that ensures they remain healthy. This plan includes health screening, enhanced cleaning arrangements, travel bans, revised schedules, contingent work teams and the reorganization of processes and procedures to limit contact with other employees and contractors on-site.

Currently, all of our facilities including those which we have economic interests through TransAlta Corporation, remain fully operational and capable of meeting our customers' needs. We have modified our operating procedures and implemented restrictions to non-essential access to our facilities to support continued operations through the pandemic. The Corporation continues to work and serve all of our customers and counterparties under the terms of their contracts. We have not experienced interruptions to service requirements. Electricity and steam supply continue to remain a critical service requirement to all of our customers and have been deemed an essential service in our jurisdictions.

The Corporation continues to maintain a strong financial position in part through the long-term contracts and available liquidity of $489 million.

The Board and management have been monitoring the development of the outbreak and are continually assessing its impact to the safety of the Corporation's employees, operations, supply chains and customers as well as, more generally, to the business and affairs of the Corporation and our existing capital projects. Potential impacts of the pandemic on the business and affairs of the Corporation include, but are not limited to: potential interruptions of production, supply chain disruptions, unavailability of employees, potential delays in capital projects, increased credit risk with counterparties and increased volatility in commodity prices as well as valuations of financial instruments. In addition, the broader impacts to the global economy and financial markets could have potential adverse impacts on the availability of capital for investment and the demand for power and commodity pricing

4. Revenue from Contracts with Customers

Disaggregation of Revenue from Contracts with Customers

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

3 months ended March 31, 2020	**Canadian Wind**	**Canadian Hydro**	**Canadian Gas**	**Total**
Revenue from contracts with customers	66	3	38	107
Other revenue[1]	1	—	1	2
Revenues	**67**	**3**	**39**	**109**
Timing of revenue recognition:				
At a point in time	2	—	—	2
Over time	64	3	38	105
Revenue from contracts with customers	66	3	38	107

(1) Includes merchant revenue and other miscellaneous.

3 months ended March 31, 2019	**Canadian Wind**	**Canadian Hydro**	**Canadian Gas**	**Total**
Revenue from contracts with customers	70	2	52	124
Other revenue	—	—	1	1
Revenues	**70**	**2**	**53**	**125**
Timing of revenue recognition:				
At a point in time	3	—	—	3
Over time	67	2	52	121
Revenue from contracts with customers	70	2	52	124

5. Finance Income Related to Subsidiaries of TransAlta

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

3 months ended March 31	**2020**	2019
Dividend income from investment in preferred shares of TEA	**1**	1
Fee income from indirect guarantee of TEA obligations	**3**	3
Dividend income from investment in preferred shares tracking Australia Cash Flows	**—**	11
Dividend income from investment in preferred shares tracking amortizing term loan	**3**	7
Finance income related to TEA	**7**	22
Dividend income from investment in preferred shares tracking earnings and distributions of Mass Solar	**1**	2
Dividend income from investment in preferred shares tracking earnings and distributions of Lakeswind	**—**	1
Dividend income from investment in preferred shares tracking earnings and distributions of Wyoming Wind	**—**	1
Total finance income	**8**	26

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

As at	March 31, 2020	Dec. 31, 2019
Investment in preferred shares tracking Australia Cash Flows	**612**	598
Investment in preferred shares of TEA	**51**	42
Investment in preferred shares tracking amortizing term loan	**457**	532
Total investments in subsidiaries related to TEA	**1,120**	1,172
Investment in preferred shares tracking earnings and distributions of Big Level and Antrim	**177**	118
Investment in preferred shares tracking earnings and distributions of Mass Solar	**59**	53
Investment in preferred shares tracking earnings and distributions of Lakeswind	**31**	30
Investment in preferred shares tracking earnings and distributions of Wyoming Wind	**122**	119
Total investments in subsidiaries of TransAlta	**1,509**	1,492
Less: current portion of investments in subsidiaries of TransAlta (1)	**17**	18
Total long-term investments in subsidiaries of TransAlta	**1,492**	1,474

(1) Current portion due to quarterly redemptions of the investments in preferred shares tracking amortizing term loan.

Investment in Subsidiaries of TransAlta Related to TEA

Changes in the investments in subsidiaries of TransAlta that relate to TEA are detailed as follows:

	Preferred shares tracking Australia Cash Flows	Preferred shares of TEA (1)	Preferred shares tracking amortizing term loan (2)	Total
Investment balance at Dec. 31, 2019	598	42	532	1,172
Redemption	—	—	(46)	(46)
Foreign exchange losses recognized in earnings	—	—	(24)	(24)
Net change in fair value recognized in earnings	—	—	(5)	(5)
Net change in fair value and foreign exchange recognized in OCI	14	9	—	23
Investment balance at March 31, 2020	**612**	**51**	**457**	**1,120**

(1) Principal amount as at March 31, 2020, and Dec. 31, 2019, was AU$45 million and AU$45 million, respectively.
(2) Principal amount as at March 31, 2020, and Dec. 31, 2019, was AU$480 million and AU$530 million, respectively.

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

	MRPS[1]	Preferred shares tracking Australia Cash Flows	Preferred shares of TEA[2]	Preferred shares tracking amortizing term loan[3]	Total
Investment balance at Dec. 31, 2018	489	637	88	—	1,214
Investment	—	—	—	530	530
Redemption	(490)	—	(40)	(5)	(535)
Foreign exchange gain (loss) recognized in earnings	1	—	—	(6)	(5)
Net change in fair value recognized in earnings	—	—	—	31	31
Net change in fair value recognized in OCI	—	5	3	—	8
Investment balance at March. 31, 2019	—	642	51	550	1,243

(1) Principal amount as at March 31, 2019 and Dec. 31, 2018 was nil and AU$509 million, respectively.
(2) Principal amount as at March 31, 2019 and Dec. 31, 2018 was AU$45 million and AU$86 million, respectively.
(3) Principal amount as at March 31, 2019 was AU$545 million.

The Corporation and TransAlta executed a series of transactions in response to the enactment of anti-hybrid tax rules within Australia. In January 2019, TEA redeemed the remaining outstanding balance of the MRPS of AU$509 million and approximately AU$41 million of the preferred shares of TEA for cash consideration. Immediately following those redemptions, the Corporation subscribed for AU$550 million of preferred shares of a subsidiary of TransAlta that track the underlying economics of an amortizing term loan payable owed by TEA to another subsidiary of TransAlta. The tracking preferred shares pay dividends, as declared, broadly equal to the interest payments on the underlying loan. The tracking preferred shares are redeemed when scheduled or other principal repayments occur on the underlying loan. The dividends, as declared, and scheduled redemptions will be fixed in Canadian dollars until June 30, 2020, at the hedged rates guaranteed by TransAlta. The Corporation determined that the shares are a hybrid instrument as they include a redemption option and are therefore classified as FVTPL.

The table below summarizes quantitative data regarding the unobservable inputs utilized in the discounted cash flow models as outlined in Note 9 of the Annual Financial Statements:

Unobservable input	March 31, 2020	Dec. 31, 2019
Discount rate	**5.5 %**	5.5 %
Quarterly cash flows (millions)	**Average of $10**	Average of $10

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

Unobservable input	Alternative assumption	Change in fair value as at March 31, 2020	Change in fair value as at Dec. 31, 2019
Basis point change in discount rates	-10 basis points decrease	**6**	6
	+10 basis points increase	**(6)**	(6)
Quarterly cash flows	+1% increase[1]	**6**	6
	- 1% decrease[1]	**(6)**	(6)

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

Investments in a Subsidiary of TransAlta Related to Wyoming Wind, Big Level and Antrim, Lakeswind and Mass Solar

Changes in the investment balances are detailed as follows:

	Preferred shares tracking earnings and distributions of Wyoming Wind[1]	Preferred shares tracking earnings and distributions of Lakeswind[2]	Preferred shares tracking earnings and distributions of Mass Solar[3]	Preferred shares tracking earnings and distributions of Big Level and Antrim[4]	Total
Investment balance at Dec. 31, 2019	119	30	53	118	320
Investment	—	—	—	61	61
Return of capital	(7)	(1)	(6)	—	(14)
Net change in fair value and foreign exchange recognized in OCI	10	2	12	(2)	22
Investment balance at March 31, 2020	**122**	**31**	**59**	**177**	**389**

(1) Principal amounts as at March 31, 2020, and Dec. 31, 2019, was US$88 million and US$92 million for Wyoming Wind.
(2) Principal amounts as at March 31, 2020, and Dec. 31, 2019, was US$22 million and US$23 million for Lakeswind.
(3) Principal amounts as at March 31, 2020, and Dec. 31, 2019, was US$41 million and US$46 million for Mass Solar.
(4) Principal amounts as at March 31, 2020, and Dec. 31, 2019, was US$133 million and US$90 million for Big Level and Antrim.

During the first quarter of 2020, the Corporation subscribed for additional tracking preferred shares in a subsidiary of TransAlta, tracking earnings and distributions of Big Level and Antrim for $61 million (US$43 million). A subsidiary of TransAlta subsequently repaid to the Corporation the promissory note related to the Big Level and Antrim wind projects in the amount of $61 million (US$43 million). Refer to Note 10 for further details.

	Preferred shares tracking earnings and distributions of Wyoming Wind[1]	Preferred shares tracking earnings and distributions of Lakeswind[2]	Preferred shares tracking earnings and distributions of Mass Solar[3]	Preferred shares tracking earnings and distributions of Big Level[4]	Total
Investment balance, Dec. 31, 2018	137	33	69	42	281
Return of capital	(4)	—	(1)	—	(5)
Net change in fair value and foreign exchange recognized in OCI	(2)	(1)	(2)	(1)	(6)
Investment balance at March 31, 2019	131	32	66	41	270

(1) Principal amounts as at March 31, 2019, and Dec. 31, 2018, was US$97 million and US$100 million for Wyoming Wind.
(2) Principal amounts as at March 31, 2019, and Dec. 31, 2018, was US$23 million for Lakeswind.
(3) Principal amounts as at March 31, 2019, and Dec. 31, 2018, was US$49 million and US$50 million for Mass Solar.
(4) Principal amounts as at March 31, 2019, and Dec. 31, 2018, was US$31 million for Big Level.

The table below summarizes quantitative data regarding the unobservable inputs utilized in the discounted cash flow models as outlined in Note 9 of the Annual Financial Statements:

Unobservable input as at March 31, 2020	**Wyoming Wind**	**Lakeswind**	**Mass Solar**	**Big Level and Antrim**
Discount rate	**6.3 %**	**9.0 %**	**6.4 %**	**8.9 %**
Quarterly cash flows (millions)	Average of $3	Average of $1	Average of $1	Average of $6

Unobservable input as at Dec. 31, 2019	**Wyoming Wind**	**Lakeswind**	**Mass Solar**	**Big Level and Antrim**
Discount rate	5.6 %	8.4 %	6.3 %	7.8 %
Quarterly cash flows (millions)	Average of $3	Average of $1	Average of $1	Average of $4

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

Unobservable input	**Alternative assumption**	**Change in total fair values as at March 31, 2020**	Change in fair value as at Dec. 31, 2019
Basis point change in discount rates	-10 basis points decrease	**3**	3
	+10 basis points increase	**(3)**	(3)
Quarterly cash flows	+1% increase	**4**	3
	- 1% decrease	**(4)**	(3)

6. Interest Income and Interest Expense

The components of interest income are as follows:

3 months ended March 31	**2020**	2019
Interest income on promissory notes due from a subsidiary of TransAlta *(Note 10)*	**1**	—
Other interest income	**1**	1
Interest income	**2**	1

The components of interest expense are as follows:

3 months ended March 31	**2020**	2019
Interest on long-term debt	**9**	9
Other net interest(1)	**1**	1
Accretion of provisions	**1**	1
Interest expense	**11**	11

(1) Consists of letters of credit and guarantees, credit facility commitments, other interest and banking fees.

7. Income Taxes

The components of income tax expense (recovery) are as follows:

3 months ended March 31	**2020**	2019
Current income tax expense	**—**	1
Deferred income tax expense (recovery) arising from the writedown of deferred income tax assets	**—**	(1)
Deferred income tax expense related to the origination and reversal of temporary differences	**7**	10
Income tax expense	**7**	10

Presented in the Condensed Consolidated Statements of Earnings as follows:

3 months ended March 31	**2020**	2019
Current income tax expense	**—**	1
Deferred income tax expense	**7**	9
Income tax expense	**7**	10

8. Financial Instruments and Risk Management

A. Financial Assets and Liabilities - Measurement

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

B. Fair Value of Financial Instruments

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

As at	March 31, 2020		Dec. 31, 2019	
	Fair value Level II	**Fair value Level III**	Fair value Level II	Fair value Level III
Preferred shares tracking Australia Cash Flows	**—**	**612**	—	598
Preferred shares tracking earnings and distributions of Wyoming Wind	**—**	**122**	—	119
Preferred shares tracking earnings and distributions of Big Level and Antrim	**—**	**177**	—	118
Preferred shares tracking earnings and distributions of Mass Solar	**—**	**59**	—	53
Preferred shares tracking earnings and distributions of Lakeswind	**—**	**31**	—	30
Preferred shares tracking amortization term loan	**457**	**—**	532	—
Preferred shares of TEA	**51**	**—**	42	—
Net risk management liabilities	**(2)**	**—**	(2)	—

I. Level Determinations and Classifications

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

a. Level I

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

b. Level II

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

Fair values within the Level II category are determined through the use of quoted prices in active markets, which in some cases are adjusted for factors specific to the asset or liability, such as basis, credit valuation and location differentials. In determining Level II fair values of other net risk management assets and liabilities, the Corporation uses observable inputs other than unadjusted quoted prices that are observable for the asset or liability, such as interest rate yield curves and currency rates. For certain financial instruments where insufficient trading volume or lack of recent trades exists, the Corporation relies on similar interest or currency rate inputs and other third-party information such as credit spreads. The fair value of the preferred shares of TEA and the preferred shares tracking amortizing term loan is determined by calculating an implied price based on a current assessment of the yield to maturity.

c. Level III

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

In estimating the fair value of the preferred shares tracking Australia Cash Flows and the preferred shares tracking earnings and distributions of Wyoming Wind, Big Level and Antrim, Lakeswind and Mass Solar, the Corporation uses a discounted cash flow method, and makes estimates and assumptions about sales prices, production, capital expenditures, asset retirement costs and other related cash inflows and outflows over the life of the facilities, as well as the remaining life of the facilities. In developing these assumptions, management uses estimates of contracted and merchant prices, anticipated production levels, planned and unplanned outages, changes to regulations, and transmission capacity or constraints for the estimated remaining life of the facilities. Appropriate discount rates reflecting the risks specific to TEA, Wyoming Wind, Big Level and Antrim, Lakeswind and Mass Solar are used in the valuations. Management also develops assumptions in respect of ongoing financing and tax positions of TEA, Wyoming Wind, Big Level and Antrim, Lakeswind and Mass Solar. These estimates and assumptions are susceptible to change from period to period and actual results can, and often do, differ from the estimates, and can have either a positive or negative impact on the estimate of the fair value of the instrument, and may be material. Additional disclosures on these measurements are presented in Note 5.

II. Commodity and Other Risk Management Assets and Liabilities

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

The following table summarizes the net risk management assets (liabilities):

	Cash flow hedges	Non-hedges	
	Level II	Level II	Total
Net risk management liabilities at March 31, 2020	**—**	**(2)**	**(2)**
Net risk management liabilities at Dec. 31, 2019	—	(2)	(2)

III. Financial Instruments – Not Measured at Fair Value

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and dividends payable approximates their fair value at the Consolidated Statements of Financial Position date due to their short-term nature. The fair values of the loans receivable approximate their carrying values.

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

As at	**March 31, 2020**		Dec. 31, 2019	
	Fair value Level II	**Carrying value**	Fair value Level II	Carrying value
Long-term debt[(1)]	**908**	**834**	943	938

(1) Includes current portion and excludes lease obligations.

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

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

I. Credit Risk

The Corporation's maximum exposure to credit risk at March 31, 2020, without taking into account collateral held or right of set-off, and including indirect exposures arising from the Corporation's investments in subsidiaries of TransAlta discussed in Note 5, is detailed as follows:

	Direct exposure	Indirect exposure
Counterparty credit rating	Receivables[(1)]	Trade accounts receivable[(2)]
Investment grade	**46**	**30**
Non-investment grade	**21**	**23**
TransAlta and subsidiaries of TransAlta	**69**	**—**
No external rating	**47**	**2**

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

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

Amidst the current economic conditions resulting from the COVID-19 pandemic, TransAlta has implemented the following additional measures to monitor its counterparties for changes in their ability to meet obligations:

- daily monitoring of events impacting counterparty creditworthiness and counterparty credit downgrades;
- daily oversight and follow-up, if applicable, of accounts receivables; and
- review and monitoring of key suppliers, counterparties and customers (i.e. off-takers).

As needed, additional risk mitigation tactics will be taken to reduce the risk to TransAlta. These risk mitigation tactics may include, but are not limited to, immediate follow-up on overdue amounts, adjusting payment terms to ensure a portion of funds are received sooner, requiring additional collateral, reducing transaction terms and working closely with impacted counterparties on negotiated solutions.

II. Other Market Risks

The Corporation is exposed to market risks based on changes in the fair value of the preferred shares of TEA, the preferred shares tracking Australia Cash Flows, and the preferred shares tracking earnings and distributions of Wyoming Wind, Big Level and Antrim, Lakeswind and Mass Solar. A one per cent increase (decrease) in the value of these securities would result in a $11 million increase (decrease) in OCI as at March 31, 2020.

The Corporation is exposed to market risk based on the changes in fair value of the preferred shares tracking the amortizing term loan. A one percent increase (decrease) in the value of this security would result in a $5 million increase (decrease) in net earnings as at March 31, 2020.

III. Liquidity Risk

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

	2020	2021	2022	2023	2024	2025 and thereafter	Total
Accounts payable and accrued liabilities	38	—	—	—	—	—	**38**
Long-term debt	48	52	54	220	59	410	**843**
Lease obligations	—	1	1	1	1	19	**23**
Net risk management liabilities	2	—	—	—	—	—	**2**
Interest on long-term debt and lease obligations[1]	32	31	29	24	20	84	**220**
Dividends payable	62	—	—	—	—	—	**62**
Total	**182**	**84**	**84**	**245**	**80**	**513**	**1,188**

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

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

IV. Foreign Currency Rate Risk

The possible effect on net earnings and OCI, due to changes in foreign exchange rates associated with financial instruments denominated in currencies other than the Corporation's functional currency is outlined below. The sensitivity analysis has been prepared using management's assessment that an average three cent (Dec 31. 2019 – three cent) decrease in these currencies relative to the Canadian dollar is a reasonable potential change over the next quarter.

3 months ended March 31	**2020**		2019	
Currency	**Net earnings decrease[1]**	**OCI loss[1]**	Net earnings decrease[1]	OCI loss[1]
USD	**1**	**21**	5	14
AUD	**13**	**22**	19	19
Total	**14**	**43**	24	33

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

9. Property, Plant and Equipment

For the three months ended March 31, 2020, the Corporation spent $2 million on sustaining capital (March 31, 2019 - $8 million).

10. Other Assets

As at	March 31, 2020	Dec. 31, 2019
Big Level and Antrim promissory note *(I)* (1)	**62**	113
Kent Hills Wind LP loan receivable *(II)*	**47**	47
Long-term prepaids	**2**	2
Total other assets	**111**	162
Less: current portion	**(62)**	(113)
Total long-term other assets	**49**	49

(1) Includes US$4 million in accrued interest (Dec. 31, 2019 - US$4 million).

I. Big Level and Antrim promissory note
During the three months ended March 31, 2020, the Corporation invested $61 million (US$43 million) in tracking preferred shares (see Note 5) and received repayment of $61 million (US$43 million) of the promissory note ($60 million in repayment of principal and $1 million of accrued interest).

The interest-bearing promissory note outstanding at March 31, 2020 and Dec. 31, 2019 bears interest at 3.97 per cent. The outstanding principal and accrued interest are due to be repaid to the Corporation on Sept. 30, 2021.

II. Kent Hills Wind LP Loan Receivable
The Corporation's subsidiary, Kent Hills Wind LP, advanced $37 million of the Kent Hills Wind bond financing proceeds to its 17 per cent partner on Nov. 2, 2017 and an additional $10 million in 2019. The loan bears interest at 4.55 per cent, with interest payable quarterly, is unsecured and matures on Oct. 2, 2022.

11. Long-Term Debt and Lease Obligations

Amounts Outstanding

As at	March 31, 2020			Dec. 31, 2019		
	Carrying value	**Face value**	**Interest** (1)	Carrying value	Face value	Interest (1)
Credit facility	**118**	**119**	**2.45 %**	220	220	**3.53 %**
Pingston bond	**45**	**45**	**2.95 %**	45	45	**2.95 %**
Melancthon Wolfe Wind bond	**298**	**302**	**3.83 %**	298	302	**3.83 %**
New Richmond bond	**134**	**136**	**3.96 %**	134	136	**3.96 %**
Kent Hills Wind bond	**239**	**241**	**4.45 %**	241	244	**4.45 %**
Total long-term debt	**834**	**843**		938	947	
Lease obligations	**23**			23		
	857			961		
Less: current portion of long term debt	**(51)**			(51)		
Less: current portion of lease obligations	**(1)**			(1)		
Total long-term debt and lease obligations	**805**			909		

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

As of March 31, 2020, neither the Corporation nor any of its subsidiaries was in violation of any positive or negative covenants related to its debt.

12. Common Shares

A. Authorized and Outstanding

The Corporation is authorized to issue an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares. The common shares entitle the holders thereof to one vote per share at meetings of shareholders. The preferred shares are issuable in series and have such rights, restrictions, conditions and limitations as the Board may from time to time determine. No preferred shares have been issued.

The change in issued and outstanding common shares is as follows:

As at	March 31, 2020		Dec. 31, 2019	
	Common shares *(millions)*	Amount *(millions)*	Common shares *(millions)*	Amount *(millions)*
Issued and outstanding, beginning of period	**265.6**	**3,039**	263.4	3,011
Dividend reinvestment plan	**0.4**	**7**	2.2	28
Issued and outstanding, end of period	**266.0**	**3,046**	265.6	3,039

B. Dividends

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

The following table summarizes the common share dividends declared in 2020 and 2019:

Dividends declared	Total dividends per share	Total dividends	TransAlta	Other shareholders
three months ended March 31, 2020	**0.23499**	**63**	**38**	**25**
three months ended March 31, 2019	0.23499	62	38	24

On Feb. 28, 2020, the Corporation declared a monthly dividend of $0.07833 per common share payable on Apr. 30, 2020, May 29, 2020, and June 30, 2020.

On Apr. 27, 2020, the Corporation declared a monthly dividend of $0.07833 per common share payable on July 31, 2020, Aug. 31, 2020, and Sept 30, 2020.

13. Commitments and Contingencies

For the significant commitments and contingencies outstanding, refer to Note 23 of the 2019 Annual Financial Statements. Except as discussed below, there have been no significant changes during the three months ended March 31, 2020.

The Corporation's investment in the Australian Assets is through an economic interest that provides after-tax finance and interest income based on EBITDA of the underlying facilities. TransAlta sued FMG, seeking payment of amounts invoiced and not paid under the South Hedland PPA, as well as a declaration that the PPA is valid and in force. FMG, on the other hand, seeks a declaration that the PPA was lawfully terminated. This matter has been re-scheduled to proceed to trial beginning May 3, 2021, instead of June 15, 2020, but it may be delayed further, depending on the extent of continued restrictions arising from the COVID-19 pandemic.

The second dispute involves FMG's claims against TransAlta related to the transfer of the Solomon facility to FMG. FMG claims certain amounts related to the condition of the facility while TransAlta claims certain outstanding costs that should be reimbursed. A trial date for this matter has not yet been scheduled but it will likely not occur until 2021 at the earliest .

14. Related-Party Transactions and Balances

The Corporation has entered into certain agreements and transactions with TransAlta, which are described in Note 24 of the 2019 Annual Financial Statements of the Corporation.

A. Related-Party Transactions

Related-party transactions include the finance income related to subsidiaries of TransAlta (Note 5) and the interest income related to promissory notes due from subsidiaries of TransAlta (Note 10). Also, all derivatives of the Corporation are entered into on behalf of the Corporation by a subsidiary of TransAlta.

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

3 months ended March 31	2020	2019
Revenue from TransAlta PPAs	**8**	7
Revenue from Environmental attributes(1)	**—**	1
G&A Reimbursement Fee	**4**	4
Natural gas purchases	**1**	6
Asset optimization fee(2)	**1**	1

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

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

As reimbursement for the services provided, the Corporation pays TransAlta a fee (the "G&A Reimbursement Fee"), adjusted annually for changes in the Consumer Price Index. On Feb. 28, 2020, the Management Agreement was amended so that the G&A Reimbursement Fee is calculated quarterly in an amount equal to five per cent of total Comparable EBITDA of the immediately prior fiscal quarter, effective Jan. 1, 2020, without duplication for any indirect costs associated with the management, administrative, accounting, planning and other head office costs of TransAlta that reduce the dividends or distributions that would otherwise be payable to the Corporation on any of the tracking preferred shares. Previously, the G&A Reimbursement Fee was adjusted by an amount equal to five per cent of the amount of any increase or decrease, respectively, to the Corporation's total EBITDA resulting from the addition or divestiture of assets by the Corporation.

B. Related-Party Balances

Related-party balances include the investments in subsidiaries of TransAlta disclosed in Note 5, the risk management assets and liabilities disclosed in Note 8.

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

As at	March 31, 2020	Dec. 31, 2019
Trade and other receivables	**7**	19
Accounts payable and accrued liabilities (including interest payable)	**10**	8
Dividends payable	**38**	38
Guarantees provided by TransAlta on behalf of the Corporation (1)	**295**	314
TEA Guarantees(1)	**498**	512
Long-term prepaid – management fee	**2**	2

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

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

15. Segment Disclosures

The Corporation has four reportable segments outlined below.

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

3 months ended March 31, 2019	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	Total
Revenues	70	2	53	—	125
Government incentives	2	—	—	—	2
Total revenue	72	2	53	—	127
Fuel, royalties and other costs	3	—	26	—	29
Gross margin	69	2	27	—	98
Operations, maintenance and administration	8	1	7	5	21
Depreciation and amortization	20	3	8	—	31
Taxes, other than income taxes	2	—	—	—	2
Operating income (loss)	39	(2)	12	(5)	44
Finance income related to subsidiaries of TransAlta					26
Interest income					1
Interest expense					(11)
Change in fair value of financial assets					31
Foreign exchange loss					(4)
Earnings before income taxes					87

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 plant ("Parkeston"), the four natural-gas and diesel-fired generation facilities that comprise Southern Cross Energy ("Southern Cross"), the Fortescue River Gas Pipeline, and South Hedland.

Canadian assets – 499 MW Sarnia cogeneration plant, 98 MW Le Nordais wind farm and 7 MW Ragged Chute hydro facility that are fully operational and contracted under long-term contracts. The assets are located in Ontario and Quebec.

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.

Environmental attributes – Renewable Energy Credits and carbon offsets, 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 GHG emissions and not limited to renewable energy.

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

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

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

Gigawatt – 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.

MRPS – Australian Mandatory Redeemable Preferred Shares are non-voting and rank subordinate to all present and future secured and unsecured indebtedness, but are senior to all other classes of issued and outstanding shares in the capital of the Australian subsidiary.

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.

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.

PPA – A power purchase and sale agreement between a power generator and a third-party acquirer of electricity.

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

Preferred Shares Tracking the Amortizing Term Loan – Preferred shares of subsidiaries of TransAlta, which track the underlying economic of an amortizing term loan payable owed by TEA to another subsidiary of TransAlta. The tracking preferred shares will be redeemed when scheduled or other principal repayments occur on the underlying loan. The dividends, as declared, and scheduled redemptions will be fixed in Canadian dollars until June 30, 2020.

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

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

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

TIER – Technology Innovation and Emissions Reduction system, a GHG regulatory scheme launched by the Government of Alberta that replaced the Carbon Competitiveness incentive Regulation effective Jan. 1, 2020.

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

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

TA Power – TransAlta Power Ltd., a corporation incorporated pursuant to the federal laws of Canada and a wholly owned subsidiary of TransAlta.

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

US Wind and Solar assets – TransAlta's wind farm and solar project assets 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 farms and the 21 MW Mass Solar solar project.

TransAlta Renewables Inc.
110 - 12th Avenue S.W.
Box 1900, Station “M”
Calgary, Alberta Canada T2P 2M1
Phone
403.267.7110

Website
www.transaltarenewables.com

Registrar and Transfer Agent
Computershare Trust Company of Canada
600, 530 - 8th Avenue SW
Calgary Alberta T2P 3S8
Phone
Toll-free in North America: 1.800.564.6253
Outside North America: 1.514.982.7555

Fax
Toll-free in North America: 1.888.453.0330
Outside of North America: 1.403.267.6529
Website
www.computershare.com

Additional Information
Requests can be directed to:
Investor Inquiries

Phone
1.800.387.3598 in Canada and United States
or 403.267.2520
E-mail
investor_relations@transalta.com

Media Inquiries
Toll-free 1.855.255.9184
or 403.267.2540
TA_Media_Relations@transalta.com