

TRANSALTA RENEWABLES INC.

Management's Discussion and Analysis

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

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

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Forward-Looking Statements

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

In particular, this MD&A contains forward-looking statements pertaining to our business and anticipated future financial performance including, but not limited to: our corporate strategy, including capitalizing on strategic growth opportunities in the renewable, natural gas power generation and other infrastructure sectors, and ability to return to a pay out ratio of 80 to 85 per cent of cash available for distribution to the shareholders of the Company on an annual basis; the potential impact of COVID-19 on the Company and the actions undertaken by the Company or TransAlta in response to the COVID-19 pandemic; ability to achieve our 2022 Outlook, including adjusted EBITDA, FCF and CAFD (each, as defined below), interest expense, and sustaining capital and productivity expenditures; the remediation of the Kent Hills 1 and 2 wind facilities, including the timing and cost of remediation, the timing and cost to replace all 50 turbine foundations and the resulting impact on revenue; the dividend amounts on the tracking preferred shares; foreign exchange exposure and risk management; liquidity and capital resources, including our ability to manage borrowings through 2023 and beyond on acceptable terms; principal sources of liquidity and our ability to draw on such liquidity; the impact of maturing debt on the Company's growth and productivity projects; expectations regarding project-level debt and tax equity; expectations in terms of the cost of operations and maintenance, including maintenance performed by third parties and the variability of those costs; the payment of future dividends; expectations in respect of generation availability, capacity⁽¹⁾ and production; actions to manage certain risks, including specific actions identified to manage regulatory risk; expected governmental regulatory regimes, legislation and programs, including the proposed Clean Electricity Regulation and new tax credits for renewable generation, energy storage, and hydrogen production; that regulatory changes may create new opportunities for the development of renewables and energy storage projects; expectations regarding seasonality of wind, solar and hydro production; and that the Company will realize on acquisition and development opportunities from time-to-time to advance the growth of the Company. The forward-looking statements contained in this MD&A are based on many assumptions including, but not limited to, the following: renewable energy production; fair value of financial instruments; power and natural gas price forecasts; the impacts from COVID-19 not becoming significantly more onerous on the Company; our ability to access capital markets on reasonable terms; expectations regarding our decommissioning activities; and the Company being able to acquire and fund growth through project-level debt and access to credit on reasonable terms.

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

Forward-looking statements are subject to a number of significant risks, uncertainties and assumptions that could cause actual plans, performance, results or outcomes to differ materially from current expectations. Factors that may adversely impact what is expressed or implied by forward-looking statements contained in this MD&A include risks relating to: the impact of COVID-19; reduced labour availability impacting our ability to continue to staff our operations and facilities; our inability to realize our growth goals, including our potential inability to acquire operating or development assets from TransAlta; an increase cash taxes; restricted access to capital and increased borrowing costs; decreases in short-term and/or long-term electricity demand; changes to commodity prices; reductions in production; disruptions to our supply chain, including as it pertains to our major maintenance and growth projects; impairments and/or writedowns of assets; adverse impacts on our information technology systems and our internal control systems, including increased cybersecurity threats; armed hostilities, including the war in Ukraine and associated impacts; the threat of terrorism, adverse diplomatic developments or other similar events that could adversely affect our business; equipment failure and our ability to carry out or have completed the repairs in a cost-effective manner or timely manner or at all, including if the remediation and replacement of turbine foundations at the Kent Hills 1 and 2 wind facilities is more costly or time consuming than expected; changes in general economic conditions, including interest rates and inflation; fluctuations in the value of foreign currencies, including the Canadian, U.S. and Australian dollars; operational risks involving our facilities, including unplanned outages at such facilities; disruptions in the transmission and distribution of electricity; the effects of weather and other climate-related risks; disruptions in the source of water, wind, solar or gas resources required to operate our facilities; natural disasters; the need for additional financing and the ability to access financing at a reasonable cost; structural subordination of securities; counterparty credit risk; insurance coverage; our provision for income taxes; our contracts expiring and our inability to re-contract PPAs on favourable terms, or merchant power prices if a PPA is not re-contracted; disputes with counterparties and legal and contractual proceedings involving the Company; reliance on key personnel and services provided by TransAlta, including execution of growth opportunities; the regulatory and political environments in the jurisdictions in which we operate; changes to government incentives or grants for renewable energy production; and the risks associated with development projects and acquisitions. The foregoing risk factors, among others, are described in further detail in the Risk Factors section of our AIF for the year ended Dec. 31, 2021, which is available on SEDAR at www.sedar.com as well as under Risk Management in this MD&A.

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

Operations of the Company

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

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

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

In total, we own, directly or through economic interests, an aggregate of 2,996 MW of gross installed capacity⁽²⁾. TransAlta manages and operates these facilities on our behalf under the terms of a Management, Administrative and Operational Services Agreement, as amended (the "Management Agreement"). There has been no change in the number of facilities or gross installed capacity since Dec. 31, 2021.

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

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

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

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

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

Highlights

Consolidated Financial Highlights

	3 months ended Sept. 30		9 months ended Sept. 30	
	2022	2021	2022	2021
Renewable energy production (GWh) ⁽¹⁾	853	854	3,394	3,013
Revenues	124	114	406	332
Adjusted EBITDA ⁽²⁾	88	102	353	322
Earnings (loss) before income taxes	(26)	21	41	110
Net earnings (loss) attributable to common shareholders	(20)	20	34	97
Cash flow from operating activities	37	83	168	265
Free cash flow ⁽²⁾⁽³⁾	58	64	253	234
Cash available for distribution ⁽²⁾	46	54	185	184
Net earnings (loss) per share attributable to common shareholders, basic and diluted	(0.07)	0.07	0.13	0.36
Dividends declared and paid per common share	0.23	0.23	0.70	0.70
Free cash flow per share ⁽²⁾⁽³⁾⁽⁴⁾	0.22	0.24	0.95	0.88
Cash available for distribution per share ⁽²⁾⁽⁵⁾	0.17	0.20	0.69	0.69

(1) Includes production from Canadian Wind, Canadian Hydro and US Wind and Solar and excludes Canadian, US and Australian gas-fired generation. Production is not a key revenue driver for gas-fired facilities as most of their revenues are capacity-based.

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

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

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

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

As at	Sept. 30, 2022	Dec. 31, 2021
Gas installed capacity (MW) ⁽¹⁾	978	978
Renewables gross installed capacity (MW) ⁽²⁾	2,018	2,018
Total assets	3,365	3,749
TEA demand loan	137	167
Debt and lease obligations ⁽³⁾	782	814
Total long-term liabilities	1,102	1,033

(1) Includes Canadian gas fired generation and US and Australian gas-fired generation in which we hold an economic interest.

(2) Includes Canadian Wind, Canadian Hydro and US Wind and Solar capacity. The gross installed capacity reflects the basis of consolidation of underlying assets owned, plus those in which we hold an economic interest. Megawatts are rounded to the nearest whole number.

(3) Including current portion.

Renewable energy production for three months ended Sept. 30, 2022, was consistent with the same period in 2021, an increase in the production from the addition of the Windrise wind facility commissioned in the fourth quarter of 2021 in the Canadian Wind segment, the acquisition of the North Carolina Solar facility acquired as an Economic Investment in the fourth quarter of 2021 in the US Wind segment, and higher water resources in Western Canada were offset by the extended outage at the Kent Hills 1 and 2 wind facilities and lower wind resources in Alberta. Renewable energy production for the nine months ended Sept. 30, 2022, increased by 381 GWh, respectively, compared to the same period in 2021. The increase was mainly due to the additions of the Windrise wind facility and the North Carolina Solar facility, higher water resources in Western Canada, higher wind resources in Canada and in the US, partially offset by the extended outage at the Kent Hills 1 and 2 wind facilities.

The Company's revenue for the three months ended Sept. 30, 2022, increased by \$10 million, compared to the same period in 2021 due to increases in steam revenue, an increase in merchant power prices in Ontario and incremental production from the recent commissioning of the Windrise wind facility. This is partially offset by the extended outage at the Kent Hills 1 and 2 wind facilities, lower wind resources and lower environmental credit sales.

The Company's revenue for the nine months ended Sept. 30, 2022, increased by \$74 million compared to the same period in 2021 due to increases in steam revenue, higher wind and water resources in Canada, incremental production from the Windrise wind facility, and higher environmental credit sales, partially offset by the extended outage at the Kent Hills 1 and 2 wind facilities. In addition, during the second quarter of 2021, the Company experienced unfavourable adjustments for unplanned steam supply outages and steam reconciliation adjustments that did not reoccur within the current period.

The Company's adjusted EBITDA for the three months ended Sept. 30, 2022, decreased by \$14 million, compared to 2021. The decrease in adjusted EBITDA was a result of the extended outage at Kent Hills 1 and 2 wind facilities, a decrease in environmental credit sales and higher OM&A costs due to inflationary pressure on costs and the addition of the Windrise wind facility, partially offset by incremental production from the Windrise wind facility in Canadian Wind.

The Company's adjusted EBITDA for the nine months ended Sept. 30, 2022, increased by \$31 million, compared to 2021. The increase in adjusted EBITDA was a result of higher renewable energy production, an increase in environmental credit sales, an increase from the commencement of a new Power Purchase Agreement (PPA) within the Australian Gas segment and recognition of liquidated damages related to Windrise turbine availability. This is offset by higher OM&A from the addition of the Windrise and North Carolina facilities and increased inflationary pressure on costs. In addition, the prior year included the unfavorable impact of liquidated damages recognized for steam supply outages within the Canadian Gas segment.

Net earnings (loss) attributable to common shareholders for the three and nine months ended Sept. 30, 2022, decreased by \$40 million and \$63 million, respectively, compared to the same periods in 2021, due to lower finance income related to subsidiaries of TransAlta, higher asset impairments primarily related to higher discount rates, higher OM&A from inflationary pressure, higher OM&A, interest and depreciation costs associated with the commissioning and financing of the Windrise wind facility, and lower foreign exchange gains. This was partially offset by higher revenues. The net earnings (loss) attributable to common shareholders for the nine months ended, Sept. 30, 2022, was favorably impacted by the receipt of insurance proceeds for the replacement costs for the singular collapsed tower at the Kent Hills site, and recording liquidated damages related to turbine availability on the Windrise wind facility. Finance income related to subsidiaries of TransAlta was lower as greater distributions were classified as return of capital.

Overall, our cash flow from operating activities for the three and nine months ended Sept. 30, 2022, decreased by \$46 million and \$97 million respectively compared to the same periods in 2021, primarily due to the extended outage at the Kent Hills 1 and 2 wind facilities, lower finance income related to subsidiaries of TransAlta and movements in working capital, partially offset by an increase in wind resources in Canada, the incremental production from the Windrise wind facility and higher environmental sales. In addition, for the nine months ended Sept. 30, 2022, there was the settlement of Sarnia contract liquidated damages provision.

Overall, our FCF and CAFD for for three months ended Sept. 30, 2022, decreased by \$6 million and \$8 million, respectively, compared to the same periods in 2021, primarily due to lower adjusted EBITDA and higher interest costs associated with the financing of the Windrise wind facility, partially offset by lower sustaining capital expenditures from lower planned major maintenance. In addition, CAFD is impacted by the commencement of principal repayments on the South Hedland debt and higher tax equity distributions with the acquisition of the North Carolina Solar facility.

Overall, our FCF and CAFD for the nine months ended Sept. 30, 2022, increased by \$19 million and \$1 million, respectively, compared to the same periods in 2021, primarily due to higher adjusted EBITDA, lower current tax expense, lower sustaining capital expenditures, partially offset by the settlement of the Sarnia contract liquidated damages provision and higher interest costs associated with the financing of the Windrise wind facility. In addition, CAFD is partially offset by the commencement of principal repayments on the South Hedland debt and higher tax equity distributions with the acquisition of the North Carolina Solar facility.

Significant and Subsequent Events

Contract Renewals with the IESO at Sarnia Cogeneration and Melancthon 1 Wind Facilities

On Aug. 23, 2022, the Company announced that it was awarded capacity contracts for the Sarnia cogeneration facility and the Melancthon 1 wind facility from the Ontario Independent Electricity System Operator ("IESO") as part of the IESO's Medium-Term Capacity Procurement Request For Proposals (the "RFP"). The new capacity contracts for the Sarnia cogeneration facility and the Melancthon 1 wind facility will run from May 1, 2026 to April 30, 2031. The Company expects gross margin from the Sarnia cogeneration facility to be reduced by approximately 30 per cent per year as a result of the IESO price cap under the new contract.

Sarnia Industrial Contract Extensions

During the second quarter of 2022, the Company executed contract extensions for the supply of electricity with three industrial customers, and steam with one of these customers, at the Sarnia cogeneration facility. These agreements will extend the delivery term from Dec. 31, 2022 to April 30, 2031, in one case, and to Dec. 31, 2032, for the other two.

Kent Hills Wind Facilities Update

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

Mount Keith 132kV Transmission Expansion

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

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

Board of Director Changes

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

On Nov. 3, 2022, the Board of Directors appointed Mr. Michael Novelli to the Board of Directors as the TransAlta nominee director, pursuant to the Governance and Cooperation Agreement between TransAlta and the Company dated Aug. 9, 2013. Mr. Novelli retired from the role of Executive Vice President, Generation of TransAlta on September 30, 2022. In this role, he oversaw TransAlta's global operations across all fuel types, including those owned by the Company. Mr. Novelli has his Associate of Science Degree from the University of New York Regents College (now called Excelsior College) and completed the Director Professionalism Program with the National Association of Corporate Directors.

Discussion of Operating Results

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

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

3 months ended Sept. 30	Long-term average renewable energy production (GWh) ⁽¹⁾	Production (GWh)		Adjusted EBITDA ⁽²⁾	
		2022	2021	2022	2021
Canadian Wind ⁽³⁾	662	461	526	17	28
Canadian Hydro	159	168	136	7	6
US Wind and Solar	268	224	192	15	12
Total – Renewable energy	1,089	853	854	39	46
Canadian Gas		335	403	19	21
US Gas		64	54	1	3
Australian Gas		437	405	34	36
Corporate		—	—	(5)	(4)
Total		1,689	1,716	88	102
Total earnings (loss) before income taxes				(26)	21

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

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

(3) Canadian Wind long-term average renewable energy production (GWh) excluding Kent Hills 1 and 2 wind facilities which are currently not in operation, is 601 GWh for the three months ended Sept. 30, 2022.

9 months ended Sept. 30	Long-term average renewable energy production (GWh) ⁽¹⁾	Production (GWh)		Adjusted EBITDA ⁽²⁾	
		2022	2021	2022	2021
Canadian Wind ⁽³⁾	2,513	2,114	1,936	123	120
Canadian Hydro	361	368	338	15	14
US Wind and Solar	938	912	739	65	52
Total – Renewable energy	3,812	3,394	3,013	203	186
Canadian Gas		1,041	997	59	45
US Gas		188	133	5	7
Australian Gas		1,276	1,244	102	99
Corporate		—	—	(16)	(15)
Total		5,899	5,387	353	322
Total earnings before income taxes				41	110

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

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

(3) Canadian Wind long-term average renewable energy production (GWh) excluding Kent Hills 1 and 2 wind facilities which are currently not in operation, is 2,309 GWh for the nine months ended Sept. 30, 2022.

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

Canadian Wind

Production for the three months ended Sept. 30, 2022, decreased by 65 GWh compared to the same period in 2021, mainly due to the extended outage at the Kent Hills 1 and 2 wind facilities and lower wind resources in Alberta, partially offset by the additional production from the Windrise wind facility commissioned in the fourth quarter of 2021.

Production for the nine months ended Sept. 30, 2022, increased by 178 GWh respectively, compared to the same period in 2021, mainly due to the additional production from Windrise wind facility, higher wind resources across Canada, partially offset by the extended outage at the Kent Hills 1 and 2 wind facilities.

Adjusted EBITDA for the three months ended Sept. 30, 2022 decreased by \$11 million, compared to the same period in 2021, mainly due to lower production and the timing of environmental credit sales, partially offset by the recognition of liquidated damages payable to the Company related to Windrise turbine availability.

Adjusted EBITDA for the nine months ended Sept. 30, 2022 increased by \$3 million, compared to the same period in 2021, mainly due to higher production, recognition of liquidated damages payable to the Company related to Windrise turbine availability and an increase in sales of environmental credits, partially offset by the 2021 favourable adjustment on the AESO line loss.

Canadian Hydro

Production for the three and nine months ended Sept. 30, 2022, increased by 32 GWh and 30 GWh respectively, compared to the same periods in 2021, mainly as a result of higher water resources from a delayed spring run off.

Adjusted EBITDA for the three and nine months ended Sept. 30, 2022, were higher than the comparable periods in 2021 due to higher production. Adjusted EBITDA for the nine months ended was partially offset by the AESO line loss true-up from the first quarter of 2021.

US Wind and Solar

Production for the three and nine months ended Sept. 30, 2022, increased by 32 GWh and 173 GWh, respectively compared to the same periods in 2021 mainly due to the addition of the North Carolina Solar facility and higher wind resources partially offset by increased outages.

Adjusted EBITDA for the three and nine months ended Sept. 30, 2022 increased by \$3 million and \$13 million respectively compared to the same periods in 2021, mainly due to an increase in production.

Canadian Gas

Canadian Gas comprises solely of the Sarnia cogeneration facility. Production for the three months ended Sept. 30, 2022, decreased by 68 GWh compared to the same period in 2021 due to lower customer loads.

Production for the nine months ended Sept. 30, 2022, increased by 44 GWh compared to 2021, mainly due to stronger market conditions in Ontario during the first quarter of 2022, partially offset by lower customer loads. Due to the nature of our contracts, changes in production do not have a significant financial impact as our contracts are structured as capacity payments with customer-supplied fuel or a passthrough of fuel costs.

Adjusted EBITDA for the three months ended Sept. 30, 2022 decreased by \$2 million, compared to the same period in 2021, due to higher OM&A costs from inflationary pressure.

Adjusted EBITDA for the nine months ended Sept. 30, 2022 increased by \$14 million, compared to the same period in 2021. During the second quarter of 2021, the Company experienced unplanned steam supply outages and steam reconciliation adjustments that did not reoccur within the current period. Additionally, a new customer was commissioned at the site in the second quarter of 2022. This was partially offset by higher OM&A costs from inflationary pressure.

US Gas

Production for the three and nine months ended Sept. 30, 2022, increased by 10 GWh and 55 GWh respectively compared to the same periods in 2021, mainly due to higher customer demand.

Adjusted EBITDA for the three and nine months ended Sept. 30, 2022 decreased by \$2 million compared to the same periods in 2021, due to higher fuel costs partially offset by higher production.

Australian Gas

Production for the three and nine months ended Sept. 30, 2022, increased by 32 GWh compared to the same periods in 2021, mainly as a result of changes in customer demand. The contracts in Australia are capacity contracts and our results are largely unaffected by generation.

Adjusted EBITDA for the three months ended Sept. 30, 2022 decreased by \$2 million, compared to the same period in 2021, mainly due to unfavourable foreign exchange impacts, partially offset by the additional EBITDA from the commencement of the PPA with Fortescue Metals Group Ltd. at South Hedland in the first quarter of 2022.

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

Selected Quarterly Information

	Q4 2021	Q1 2022	Q2 2022	Q3 2022
Revenue	138	143	139	124
Net earnings (loss) attributable to common shareholders	43	41	13	(20)
Cash flow from operating activities	71	103	28	37
FCF ⁽¹⁾	123	108	87	58
CAFD ⁽¹⁾	91	90	49	46
Net earnings (loss) per share attributable to common shareholders, basic and diluted ⁽²⁾	0.16	0.15	0.05	(0.07)
CAFD per share ⁽¹⁾	0.34	0.34	0.18	0.17

	Q4 2020	Q1 2021	Q2 2021	Q3 2021
Revenue	128	126	92	114
Net earnings attributable to common shareholders	53	52	25	20
Cash flow from operating activities	49	103	79	83
FCF ⁽¹⁾	101	99	71	64
CAFD ⁽¹⁾	72	90	40	54
Net earnings per share attributable to common shareholders, basic and diluted ⁽²⁾	0.20	0.19	0.09	0.07
CAFD per share ⁽¹⁾	0.27	0.34	0.15	0.20

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

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

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

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

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

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

- Dividends or return of capital can vary each quarter depending on the pre-tax earnings from our economic interest investments;
- Interim results for the changes in fair value of financial assets can vary due to changes in cash flow assumptions, discount rates and forecast foreign exchange translation rates; and
- Fluctuations in the strength of the Canadian dollar relative to the US dollar result in foreign exchange gains and losses on US dollar-denominated promissory notes. Foreign exchange gains were recognized in the first and second quarters of 2022 and the first, second and third quarters in 2021; and losses in the third quarter of 2022 and the fourth quarter of 2020.

Strategy and Capability to Deliver Results

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

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

Contracting Strategy

During the second quarter of 2022, the Company executed contract extensions with three industrial customers at the Sarnia cogeneration facility for the supply of electricity, and for the supply of steam with one of these customers.

During the third quarter of 2022, the Company was successful in its proposals to the IESO and extended the period of contracted revenues of the Sarnia cogeneration and Melancthon 1 facilities to April 30, 2031.

We have successfully executed blend-and-extend agreements with NB Power which will extend the existing power purchase agreements ("PPA") for an additional 10-year period through to December 2045.

See the Significant and Subsequent events section of this MD&A for more details.

Environmental, Social and Governance Strategy

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

2022 Outlook

There have been no changes in our expectations on key financial targets for 2022; however, based on year to date performance we expect full year results to be near the lower end of our 2022 target.

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

Measure	2022 Target	2021 Actuals
Adjusted EBITDA ⁽¹⁾	\$485 million to \$525 million	\$463 million
Free cash flow ⁽¹⁾	\$345 million to \$385 million	\$357 million
Cash available for distribution ⁽¹⁾	\$245 million to \$285 million	\$275 million

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

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

Operations

The following is a summary of expectations and key assumptions:

	Assumptions
Range of renewable energy production from wind, solar and hydro assets, including those owned through economic interests ⁽¹⁾	4,600 GWh to 5,200 GWh
Weighted average remaining contractual life of PPA	11 years
Sustaining capital ⁽²⁾	\$40 million to \$50 million

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

(2) The sustaining capital assumptions were updated to reflect a lower than expected planned major maintenance spending.

Operating Costs

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

Sustaining Capital Expenditures

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

3 months ended Sept. 30

	Canadian Wind	Canadian Hydro	US Wind and Solar	Canadian Gas	US Gas	Australian Gas	Total
2022 Total sustaining expenditures	4	2	—	4	—	—	10
2021 Total sustaining expenditures	4	1	—	1	—	16	22

9 months ended Sept. 30

	Canadian Wind	Canadian Hydro	US Wind and Solar	Canadian Gas	US Gas	Australian Gas	Total
2022 Total sustaining expenditures	10	2	2	7	—	3	24
2021 Total sustaining expenditures	7	2	1	2	1	20	33

Sustaining capital expenditures for the three and nine months ended Sept. 30, 2022, decreased by \$12 million and \$9 million, respectively, compared to the same periods in 2021, mainly due to higher planned major maintenance at our Australian Gas facilities and US Gas facilities in 2021 and the purchase of a spare engine at our Australian Gas facilities, partially offset by higher planned maintenance at our Canadian Gas facilities in 2022 and higher Wind turbine component failures and refurbishments in Canadian Wind in 2022. The Kent Hills foundation rehabilitation capital expenditures have not been included as part of the sustaining capital metric. Refer to the Kent Hills Rehabilitation section of this MD&A for further details.

Kent Hills Rehabilitation

The Kent Hills 1 and 2 wind facilities are not currently in operation following the tower failure event that occurred in September 2021. This event has taken approximately 150 MW of gross production offline temporarily³ as the Company replaces all 50 turbine foundations at the Kent Hills 1 and 2 wind facilities. The extended outage is expected to result in foregone revenue of approximately \$3 million per month on an annualized basis (assuming all 50 turbines at the Kent Hills 1 and 2 wind facilities are offline), based on average historical wind production, with revenue expected to be earned as the wind turbines are returned to service. Each turbine at Kent Hills 1 and 2 wind facilities will return to service as soon as its foundation is replaced and the turbine is reassembled and tested.

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

Kent Hills Wind LP ("KHLP") has entered into agreements with vendors to complete the rehabilitation of the Kent Hills 1 and 2 wind facilities and has commenced execution of its rehabilitation plan. The current estimate of the capital expenditures is approximately \$120 million, inclusive of insurance proceeds. Rehabilitation for the Kent Hills 1 and 2 wind facilities is well underway including turbine disassembly and foundation demolition. During the third quarter of 2022, over half of the towers have been fully disassembled including foundation removal. Construction of new foundations has begun with the first concrete pours completed and the new wind turbine components delivered to replace the unit that was damaged. Rehabilitation is targeted to be completed by the second half of 2023 for the Kent Hills 1 and 2 wind facilities.

The Company is actively evaluating all options that may be available to recover the rehabilitation costs from third parties and their insurance providers and intends to pursue claims to recover costs and related damages from those parties.

Additional IFRS Measures

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

Non-IFRS Measures

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

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

Adjusted EBITDA

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

Adjusted EBITDA is comprised of our reported EBITDA adjusted to exclude the impact of unrealized mark-to-market gains and losses, asset impairments and insurance recoveries, plus the adjusted EBITDA of the facilities in which we hold an economic interest, which is the facilities' reported EBITDA adjusted for: 1) finance lease income and the change in the finance lease receivable amount; 2) contractually fixed management costs; 3) interest earned on the prepayment of certain transmission costs; 4) the impact of unrealized mark-to-market gains or losses; and 5) asset impairments.

FCF

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

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

CAFD

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

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

Reconciliation of Non-IFRS Measures

Reconciliation of Adjusted EBITDA to Earnings Before Income Tax

3 months ended Sept. 30, 2022	Owned Assets				Economic Interests				Total	Investments in economic interests and adjustments	IFRS financials
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas				
Revenues ⁽¹⁾	33	12	80	—	21	6	45	197	(73)	124	
Fuel, royalties and other costs ⁽²⁾	3	3	53	—	1	4	2	66	(7)	59	
Gross margin	30	9	27	—	20	2	43	131	(66)	65	
Operations, maintenance and administration ⁽³⁾	12	1	8	5	4	1	9	40	(14)	26	
Taxes, other than income taxes	2	1	—	—	1	—	—	4	(1)	3	
Net other operating income	(1)	—	—	—	—	—	—	(1)	—	(1)	
Adjusted EBITDA⁽⁴⁾	17	7	19	(5)	15	1	34	88	(51)	37	
Depreciation and amortization										(34)	
Asset impairment charge										(20)	
Finance income related to subsidiaries of TransAlta										2	
Interest income										2	
Interest expense										(12)	
Finance lease income										1	
Foreign exchange loss										(2)	
Loss before income tax										(26)	

(1) Adjusted EBITDA excludes the impact of unrealized mark-to-market gains or losses. Amounts related to economic interests include finance lease income adjusted for change in finance lease receivable.

(2) Amounts related to economic interests include interest earned on the prepayment of certain transmission costs.

(3) Amounts related to economic interests include the effect of contractually fixed management costs.

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

3 months ended Sept. 30, 2021	Owned Assets				Economic Interests			Total	Investments in economic interests and adjustments	IFRS financials
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas			
Revenues ⁽¹⁾	42	9	62	—	18	6	46	183	(69)	114
Fuel, royalties and other costs ⁽²⁾	3	1	34	—	1	2	1	42	(4)	38
Gross margin	39	8	28	—	17	4	45	141	(65)	76
Operations, maintenance and administration ⁽³⁾	9	2	7	4	4	1	9	36	(14)	22
Taxes, other than income taxes	2	—	—	—	1	—	—	3	(1)	2
Adjusted EBITDA ⁽⁴⁾	28	6	21	(4)	12	3	36	102	(50)	52
Depreciation and amortization										(34)
Asset impairment charge										(10)
Finance income related to subsidiaries of TransAlta										19
Interest income										1
Interest expense										(9)
Finance lease income										1
Foreign exchange gain										1
Earnings before income tax										21

(1) Adjusted EBITDA excludes the impact of unrealized mark-to-market gains or losses. Amounts related to economic interests include finance lease income adjusted for change in finance lease receivable.

(2) Amounts related to economic interests include interest earned on the prepayment of certain transmission costs.

(3) Amounts related to economic interests include the effect of contractually fixed management costs.

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

9 months ended Sept. 30, 2022	Owned Assets				Economic Interests				Total	Investments in economic interests and adjustments	IFRS financials
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas				
Revenues ⁽¹⁾	160	26	222	—	83	19	130	640	(234)	406	
Fuel, royalties and other costs ⁽²⁾	12	5	137	—	2	11	5	172	(18)	154	
Gross margin	148	21	85	—	81	8	125	468	(216)	252	
Operations, maintenance and administration ⁽³⁾	31	5	25	16	12	3	23	115	(38)	77	
Taxes, other than income taxes	5	1	1	—	4	—	—	11	(4)	7	
Net other operating income	(11)	—	—	—	—	—	—	(11)	(7)	(18)	
Adjusted EBITDA⁽⁴⁾	123	15	59	(16)	65	5	102	353	(167)	186	
Depreciation and amortization										(107)	
Asset impairment charge										(31)	
Finance income related to subsidiaries of TransAlta										24	
Interest income										4	
Interest expense										(37)	
Finance lease income										1	
Foreign exchange gain										1	
Earnings before income tax										41	

(1) Adjusted EBITDA excludes the impact of unrealized mark-to-market gains or losses. Amounts related to economic interests include finance lease income adjusted for change in finance lease receivable.

(2) Amounts related to economic interests include interest earned on the prepayment of certain transmission costs.

(3) Amounts related to economic interests include the effect of contractually fixed management costs.

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

9 months ended Sept. 30, 2021	Owned Assets				Economic Interests			Total	Investments in economic interests and adjustments	IFRS financials
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas			
Revenues ⁽¹⁾	159	23	149	—	68	16	130	545	(213)	332
Fuel, royalties and other costs ⁽²⁾	7	3	81	—	2	6	4	103	(12)	91
Gross margin	152	20	68	—	66	10	126	442	(201)	241
Operations, maintenance and administration ⁽³⁾	27	5	22	15	11	3	27	110	(41)	69
Taxes, other than income taxes	5	1	1	—	3	—	—	10	(3)	7
Adjusted EBITDA ⁽⁴⁾	120	14	45	(15)	52	7	99	322	(157)	165
Depreciation and amortization										(101)
Asset impairment charge										(10)
Finance income related to subsidiaries of TransAlta										68
Interest income										5
Interest expense										(28)
Finance lease income										1
Foreign exchange gain										10
Earnings before income tax										110

(1) Adjusted EBITDA excludes the impact of unrealized mark-to-market gains or losses. Amounts related to economic interests include finance lease income adjusted for change in finance lease receivable.

(2) Amounts related to economic interests include interest earned on the prepayment of certain transmission costs.

(3) Amounts related to economic interests include the effect of contractually fixed management costs.

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

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2022	2021	2022	2021
Cash flow from operating activities	37	83	168	265
Change in non-cash operating working capital balances	(4)	(23)	(2)	(57)
Cash flow from operations before changes in working capital	33	60	166	208
Adjustments:				
Sustaining capital expenditures – owned assets	(10)	(6)	(19)	(11)
Distributions paid to subsidiaries' non-controlling interest	—	(1)	—	(3)
Finance income – economic interests ⁽¹⁾	(2)	(19)	(24)	(68)
Principal repayments of lease obligations	—	—	(1)	(1)
FCF - economic interests ⁽¹⁾	37	30	131	109
FCF^(2, 3)	58	64	253	234
Deduct:				
Tax equity distributions	(8)	(7)	(27)	(21)
Principal repayments of amortizing debt	(4)	(3)	(41)	(29)
CAFD⁽²⁾	46	54	185	184
Weighted average number of common shares outstanding in the period (millions)	267	267	267	267
FCF per share⁽²⁾	0.22	0.24	0.95	0.88
CAFD per share⁽²⁾	0.17	0.20	0.69	0.69

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

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

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

Reconciliation of FCF to Finance Income Related to Subsidiaries of TransAlta

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2022	2021	2022	2021
Finance income related to subsidiaries of TransAlta	2	19	24	68
Tax equity distributions	8	7	27	21
Principal repayments of amortizing debt	1	—	11	—
Return of capital and redemptions	40	3	80	17
Effects of changes in working capital and other timing	(14)	1	(11)	3
FCF⁽¹⁾ - economic interests	37	30	131	109

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

Reconciliation of Adjusted EBITDA to FCF and CAFD

3 months ended Sept. 30, 2022	Owned Assets				Economic Interests			Total
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas	
Adjusted EBITDA⁽¹⁾	17	7	19	(5)	15	1	34	88
Provisions and contract liabilities	—	—	1	—	—	—	—	1
Interest expense	—	—	—	(12)	(1)	—	(6)	(19)
Current income tax expense	2	—	—	—	—	—	(5)	(3)
Sustaining capital expenditures	(4)	(2)	(4)	—	—	—	—	(10)
Interest income	—	—	—	2	—	—	1	3
Other	—	—	—	—	(2)	—	—	(2)
FCF⁽²⁾	15	5	16	(15)	12	1	24	58
Deduct:								
Tax equity distributions	—	—	—	—	(8)	—	—	(8)
Principal repayments of amortizing debt	(3)	—	—	—	—	—	(1)	(4)
CAFD⁽²⁾	12	5	16	(15)	4	1	23	46

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

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

3 months ended Sept. 30, 2021	Owned Assets				Economic Interests			Total
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas	
Adjusted EBITDA⁽¹⁾	28	6	21	(4)	12	3	36	102
Interest expense	—	—	—	(8)	—	—	(6)	(14)
Current income tax expense	—	—	—	(4)	—	—	—	(4)
Realized foreign exchange loss	—	—	—	1	—	—	—	1
Sustaining capital expenditures	(4)	(1)	(1)	—	—	—	(16)	(22)
Distributions paid to subsidiaries' non-controlling interest	(1)	—	—	—	—	—	—	(1)
Interest income	—	—	—	1	—	—	1	2
FCF⁽²⁾	23	5	20	(14)	12	3	15	64
Deduct:								
Tax equity distributions	—	—	—	—	(7)	—	—	(7)
Principal repayments of amortizing debt	(3)	—	—	—	—	—	—	(3)
CAFD⁽²⁾	20	5	20	(14)	5	3	15	54

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

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

9 months ended Sept. 30, 2022	Owned Assets				Economic Interests			Total
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas	
Adjusted EBITDA⁽¹⁾	123	15	59	(16)	65	5	102	353
Provisions and contract liabilities	(1)	—	(11)	—	—	—	—	(12)
Interest expense	—	—	—	(33)	(2)	—	(18)	(53)
Current income tax expense	1	—	—	—	—	—	(15)	(14)
Realized foreign exchange gain	—	—	—	1	—	—	—	1
Sustaining capital expenditures	(10)	(2)	(7)	—	(2)	—	(3)	(24)
Interest income	—	—	—	4	—	—	3	7
Principal repayments lease obligations	(1)	—	—	—	—	—	—	(1)
Other	—	—	—	—	(4)	—	—	(4)
FCF⁽²⁾	112	13	41	(44)	57	5	69	253
Deduct:								
Tax equity distributions	—	—	—	—	(27)	—	—	(27)
Principal repayments of amortizing debt	(30)	—	—	—	—	—	(11)	(41)
CAFD⁽²⁾	82	13	41	(44)	30	5	58	185

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

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

9 months ended Sept. 30, 2021	Owned Assets				Economic Interests			Total
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas	
Adjusted EBITDA⁽¹⁾	120	14	45	(15)	52	7	99	322
Provisions and contract liabilities	(6)	—	12	—	—	—	—	6
Interest expense	—	—	—	(25)	(1)	—	(18)	(44)
Current income tax expense	—	—	—	(12)	—	—	(9)	(21)
Realized foreign exchange loss	—	—	—	2	—	—	—	2
Sustaining capital expenditures	(7)	(2)	(2)	—	(1)	(1)	(20)	(33)
Distributions paid to subsidiaries' non-controlling interest	(3)	—	—	—	—	—	—	(3)
Interest income	2	—	—	3	—	—	2	7
Principal repayments lease obligations	(1)	—	—	—	—	—	—	(1)
Other	—	—	—	—	(1)	—	—	(1)
FCF⁽²⁾	105	12	55	(47)	49	6	54	234
Deduct:								
Tax equity distributions	—	—	—	—	(21)	—	—	(21)
Principal repayments of amortizing debt	(29)	—	—	—	—	—	—	(29)
CAFD⁽²⁾	76	12	55	(47)	28	6	54	184

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

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

Liquidity and Capital Resources

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

The Company's objective is to maintain significant liquidity to enable us to fund growth initiatives, operational expenses, capital expenditures, distributions to the non-controlling interest, interest and principal payments on debt and dividends. Between 2022 and 2024, we have \$334 million of debt maturing. Principal sources of liquidity include cash generated from operations, capital markets and funding from our existing credit facility. The funds required for committed growth, Kent Hills wind facilities rehabilitation and sustaining capital and productivity projects are not expected to be significantly impacted by the current economic environment. The Company also depends on future growth to support liquidity and to maintain the amount of cash available for distribution. The Company relies on TransAlta to, among other things, identify growth opportunities for the Company. TransAlta has recently indicated it will not be providing the Company with the opportunity to acquire two Oklahoma wind projects that TransAlta is currently constructing. There can be no assurances that the Company will be able to secure attractive acquisition or development candidates in the future (whether through our relationship with TransAlta or otherwise) or that we will be able to realize growth opportunities that increase or maintain the amount of cash available for distribution.

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

Financial Position

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

	Sept. 30, 2022	Dec. 31, 2021	Increase/ (decrease)	Primary factors explaining change
Cash and cash equivalents	229	244	(15)	Decreased due to the timing of receipts and payments.
Accounts receivable	135	120	15	Increased due to timing of receipts and collections and liquidated damages payable to the Company related to turbine availability at the Windrise wind facility.
Property, plant and equipment ("PPE"), net	1,738	1,897	(159)	Decreased due to depreciation, revised decommissioning provisions due to changes in discount rates, the reclassification of the Windrise wind facility transmission infrastructure from PPE to long term other assets, and the impairment of Canadian Wind and Canadian Hydro assets, partially offset by sustaining capital and the Kent Hills rehabilitation.
Intangible assets	84	92	(8)	Decrease due to amortization expense.
Investments in subsidiaries of TransAlta	1,039	1,270	(231)	Decreased due to changes in fair value and increased return of capital. Refer to Financial Instruments section of this MD&A for more details.
Accounts payable and accrued liabilities	123	82	41	Timing of payments and accruals.
Contract liabilities (including current portion)	7	19	(12)	Decreased due to the settlement of the liquidated damages due to the Sarnia outages.
TEA demand loan	137	167	(30)	Decreased due to principal payments and foreign exchange impacts.
Long-term debt (including current portion)	782	814	(32)	Decreased due to principal repayments on the Kent Hills Wind bond, New Richmond Wind bond and the Melancthon Wolfe Wind bond.
Decommissioning and other provisions	111	175	(64)	Decreased due to increase in discount rates.
Risk management liabilities (current and long-term)	16	4	12	Increased due to an increase in foreign exchange forward contract liabilities.
Equity attributable to shareholders	1,769	2,074	(305)	Decrease due to dividends and other comprehensive loss from unfavourable fair value changes, partially offset by net earnings.

Debt and Lease Obligations

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

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

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

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

Debt and lease obligations, including the TEA demand loan, totaled \$919 million as at Sept. 30, 2022, compared to \$981 million as at Dec. 31, 2021. The decrease in debt is due to repayments of non-recourse bonds of \$30 million, a partial repayment of \$20 million (AU\$23) million on the TEA demand loan, and foreign exchange impacts of \$10 million on the TEA demand loan. On Oct. 26, 2022, the Company repaid the remaining TEA demand loan. The repaid funds will be reserved within TransAlta Energy (Australia) to fund future growth in Australia, including the Northern Goldfields Solar/Battery project and the Mount Keith 132kV expansion project.

We are subject to customary positive and negative covenants related to debt and are not in violation of any of these covenants. During the second quarter of 2022, the Company obtained a waiver and entered into a supplemental indenture that facilitates the rehabilitation of the Kent Hills 1 and 2 wind facilities. Upon receipt of the waiver, the Company reclassified the bond outstanding to non-current liabilities, with the exception of the scheduled principal repayments due within twelve months from June 30, 2022. In accordance with the supplemental indenture, Kent Hills Wind LP cannot make any distributions to its partners until the foundation replacement work has been completed.

Share Capital

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

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

Commitments

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

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

For 2022, the Company has entered into agreements for \$100 million to complete the rehabilitation at the Kent Hills 1 and 2 wind facilities in 2022.

Contingencies

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

Sarnia Outages

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

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

Cash Flows

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

9 months ended Sept. 30	2022	2021	Change	Primary factors explaining change
Cash and cash equivalents, beginning of year	244	582	(338)	
Provided by (used in):				
Operating activities	168	265	(97)	Cash flow from operating activities has decreased due to the lower finance income as a result of increased return of capital, reduction in production from the extended outage at the Kent Hills 1 and 2 wind facilities and the settlement of the Sarnia liquidated damages partially offset by increase in production from the newly added Windrise wind facility.
Investing activities	59	(388)	447	Cash flow from investing activities has increased as there were no acquisitions in the current period, higher return of capital from economic investments and the Kent Hills insurance recovery. In the prior period, the Company acquired the Windrise wind project then funded its construction and acquired an economic interest in the Skookumchuck wind facility and the Ada cogeneration facility.
Financing activities	(242)	(219)	(23)	Cash flow used in financing activities has decreased primarily as a result of partial principal repayment on the TEA demand loan. This repayment was made to fund the Northern Goldfields Solar project.
Cash and cash equivalents, end of period	229	240	(11)	

Financial Instruments

Refer to Note 11 of our most recent audited annual consolidated financial statements and Note 9 of our unaudited interim condensed consolidated financial statements for the three and nine months ended Sept. 30, 2022, for details on financial instruments.

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

At Sept. 30, 2022, Level II financial instruments consisted of net risk management liabilities with a carrying value of \$13 million (Dec. 31, 2021 - \$3 million).

At Sept. 30, 2022, Level III financial instruments consisted of financial assets with a carrying value of \$1,039 million (Dec. 31, 2021 - \$1,270 million).

At Sept. 30, 2022 the investment in the Economic Interest Investments decreased by \$151 million compared to Dec. 31, 2021. Of the decrease in fair value, \$126 million was related to the Preferred Shares Tracking Australia Cash Flows which reflects an increase in discount rates and changes in foreign exchange. The remaining decrease in fair value of \$26 million was related to the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities which was primarily due to an increase in discount rates, partially offset by strengthening forward merchant prices and foreign exchange impacts. The Economic Interest Investments were also reduced by returns of capital of \$80 million in the same period.

Refer to Notes 7 and 9 in the unaudited interim condensed consolidated financial statements for the three and nine months ended Sept. 30, 2022 for additional information on these investments and fair value measurements.

Other Consolidated Results

Other Comprehensive Income (loss)

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

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

For the nine months ended Sept. 30, 2022, we recognized a \$151 million decrease in fair value in OCI (Sept. 30, 2021 – \$80 million decrease). See the Financial Instruments section of this MD&A for an explanation of the decrease.

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

Related-Party Transactions and Balances

Related-Party Transactions

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2022	2021	2022	2021
Revenue from TransAlta PPAs	7	9	31	28
Revenue from environmental attributes ⁽¹⁾	—	4	12	11
Finance income from investments in subsidiaries of TransAlta	2	19	24	68
Interest income – promissory notes and investments in subsidiaries of TransAlta	—	1	—	1
G&A Reimbursement Fee	4	3	13	13
Natural gas purchases	15	4	32	7
Financial power swap sales – gain	—	—	(1)	—
Interest expense on TEA demand loan	2	2	5	6
Asset optimization fee ⁽²⁾	1	1	2	2
Interest expense on credit facility and letter of credit and guarantee fees	—	—	1	1

(1) The value of environmental attributes was determined by reference to market information for similar instruments, including historical transactions with third parties.

(2) A subsidiary of TransAlta provides asset management and optimization services for the Company's Sarnia cogeneration facility. The Sarnia cogeneration facility is charged a fixed fee of approximately \$0.125 million per quarter, plus a variable fee of 1.6 per cent of its gross margin.

Related-Party Balances

Related-party balances include the following:

As at	Sept. 30, 2022	Dec. 31, 2021
Trade and other receivables	30	50
Finance lease receivable ⁽¹⁾	7	7
Long-term prepaid – management fee	2	2
Investments in subsidiaries of TransAlta	1,039	1,270
Accounts payable and accrued liabilities (including interest payable)	15	11
Dividends payable	38	38
TEA demand loan	137	167
Guarantees provided by TransAlta on behalf of the Company (I) ⁽²⁾	479	583
Indemnification guarantee provided by the Company to TransAlta (II) ⁽²⁾	484	516

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

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

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

I. Guarantees

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

II. Indemnification Guarantee

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

Critical Accounting Policies and Estimates

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

I. Dividends as Income or Return of Capital

During the three and nine months ended Sept. 30, 2022 and 2021, the Company determined that a portion of the dividends earned on the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities, the Preferred Shares Tracking Earnings and Distributions of US Gas and the Preferred Shares Tracking Australia Cash Flows constituted a return of capital. Distributions that were determined to be a return of capital for the three and nine months ended Sept. 30, 2022 were \$40 million and \$80 million respectively (Sept. 30, 2021 - \$3 million and \$17 million).

II. Provisions for Decommissioning Activities

The Company recognizes provisions for decommissioning obligations. Initial decommissioning provisions, and subsequent changes thereto, are determined using the Company's best estimate of the required cash expenditures, adjusted to reflect the risks and uncertainties inherent in the timing and amount of settlement. During the nine months ended Sept. 30, 2022, the provision for the decommissioning obligations decreased as a result of higher discount rates, largely driven by increases in market benchmark rates due to political risks and higher expected inflation throughout 2022 and 2023. On average, discount rates ranged from 7.9 to 9.6 per cent (Dec. 31, 2021 — 4.6 to 6.5 per cent). The Company's current best estimate of the decommissioning provisions decreased by \$71 million, which also resulted in a decrease in the related assets in property, plant and equipment.

III. Asset Impairment Charge (Reversal)

Canadian Wind

During the three and nine months ended, Sept. 30, 2022, the Company recorded an impairment charge of \$5 million and \$10 million, respectively. During the second quarter, one wind facility was impaired primarily as a result of an increase in discount rates. During the third quarter, two additional wind facilities were impaired as a result of changes in key assumptions including significant increases in discount rates and changes in estimated future cash flows.

Canadian Hydro

During the three and nine months ended, Sept. 30, 2022, the Company recorded an impairment charge of \$15 million and \$21 million, respectively. During the second quarter, an impairment of \$6 million was recorded on one of the hydro facilities primarily from an increase in discount rates. During the third quarter, three additional hydro facilities were impaired as a result of changes in key assumptions including significant increases in discount rates and changes in estimated future cash flows.

Accounting Changes

Current Accounting Changes

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's audited annual consolidated financial statements for the year ended Dec. 31, 2021, except for the adoption of new standards effective as of Jan. 1, 2022.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

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

Future Accounting Changes

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

Risk Management

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

Regulatory and Environmental Legislation

Canada

Federal Climate Plan

The Government of Canada's Department of Environment and Climate Change Canada ("ECCC") continues engagement on the proposed new Clean Electricity Regulation ("CER"), originally known as the Clean Electricity Standards ("CES"), to achieve a net-zero electricity sector in Canada by 2035. ECCC is consulting on the CER design through the fall of 2022. It is expected that the draft regulation will be published in the Canada Gazette, Part I at the end of 2022 or early in 2023. Further consultation on the draft regulation will occur in 2023.

On Nov. 3, 2022, the Government of Canada announced new tax credits for renewable generation, energy storage, and hydrogen production. TransAlta will engage the Department of Finance as it finalizes the parameters of these tax credits.

Alberta

In August 2022, the Government of Alberta launched a consultation on changes to the Technology Innovation and Emissions Reduction ("TIER") Regulation. The review is meant to amend the regulations to meet the federal carbon pricing benchmark.

Key issues under consideration include aligning with the federal carbon price escalator to \$170/tonne by 2030, increasing the stringency of TIER emissions performance standards, and ensuring net demand for emissions credits to deliver a consistent marginal price of carbon.

TransAlta has been closely engaging in the consultations and continues to advocate for an approach that supports a predictable investment and operating environment.

Ontario

During the third quarter of 2022, Ontario undertook a consultation on proposed changes to its Emissions Performance Standards ("EPS") carbon pricing system in advance of the provincial submission into the federal review process. The federal review process will occur in fourth quarter of 2022.

TransAlta has been actively involved in the consultation process and continue to advocate for an approach that supports our operations in the province. We do not anticipate any adverse impact from these policy proposals as TransAlta passes compliance costs and savings onto customers through our existing contracts.

In 2022, the IESO moved forward with procurement and planning to meet the upcoming capacity needs in the province in the short, medium and long-term. The IESO completed its medium-term RFP to procure capacity from existing generators and awarded five facilities including TransAlta's Sarnia cogeneration facility and Melancthon 1 wind facility with new contracts that will run from May 1, 2026 to April 30, 2031. It is expected that Sarnia's existing capacity contract with the IESO will be extended to the start date of the new contract. In addition, the IESO is moving forward with long-term procurement processes to secure up to 4,000 MW of capacity with commercial delivery by 2025-2027. TransAlta has qualified in the long-term procurement process. The contract awards for the procurements will be announced in 2023.

US

On Aug. 16, 2022, the Inflation Reduction Act ("IRA") was signed into law by President Biden. The Bill will invest approximately US\$369 billion in Energy Security and Climate Change programs over the next ten years. The administration estimates this funding will help reduce national carbon emissions by approximately 40 percent by 2030, lower energy costs, and increase clean energy production.

The US mid-term elections will be held on November 8, 2022. Changes in Congress and the Senate should shift the focus of the government, specifically in terms of climate policy. TransAlta will continue to monitor the results of the mid-term elections along with the development in the implementation of the IRA.

Australia

Since the Labour Party formed the government in May 21, 2022, Australia has increased its Nationally Determined Contribution ("NDC") commitment to increase the country's 2030 emissions reduction goal from the current 26 to 28 percent to 43 percent below 2005 levels. The government also confirmed its intent to boost renewable electricity production to 82% of electricity supply by 2030.

We continue to see state-level policy announcements focused on moving away from coal and toward greater reliance on renewables, hydrogen, and energy storage. We see low risk to our existing Australian assets, but policy support for continued industrial decarbonization that may support future growth.

Controls and Procedures

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

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

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

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

Management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our ICFR and DC&P as of the end of the period covered by this report. Based on the foregoing evaluation, our President and Chief Financial Officer have concluded that, as at Sept. 30, 2022, the end of the period covered by this report, our ICFR and DC&P were effective.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Earnings (Loss)

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

Unaudited	3 months ended Sept. 30		9 months ended Sept. 30	
	2022	2021	2022	2021
Revenues (Note 3)	124	114	406	332
Fuel, royalties and other costs (Note 4)	59	38	154	91
Gross margin	65	76	252	241
Operations, maintenance and administration (Note 4)	26	22	77	69
Depreciation and amortization	34	34	107	101
Asset impairment charge (Note 5)	20	10	31	10
Taxes, other than income taxes	3	2	7	7
Net other operating income (Note 6)	(1)	—	(18)	—
Operating income (loss)	(17)	8	48	54
Finance income related to subsidiaries of TransAlta (Note 7)	2	19	24	68
Interest income	2	1	4	5
Interest expense	(12)	(9)	(37)	(28)
Finance lease income	1	1	1	1
Foreign exchange (loss) gain	(2)	1	1	10
Earnings (loss) before income taxes	(26)	21	41	110
Income tax expense (recovery) (Note 8)	(6)	—	6	10
Net earnings (loss)	(20)	21	35	100
Net earnings (loss) attributable to:				
Common shareholders	(20)	20	34	97
Non-controlling interest	—	1	1	3
	(20)	21	35	100
Weighted average number of common shares outstanding in the period (millions)	267	267	267	267
Net earnings (loss) per share attributable to common shareholders, basic and diluted	(0.07)	0.07	0.13	0.36

See accompanying notes.

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

(in millions of Canadian dollars)

Unaudited	3 months ended Sept. 30		9 months ended Sept. 30	
	2022	2021	2022	2021
Net earnings (loss)	(20)	21	35	100
Other comprehensive income (loss)				
Net change in fair value of investments in subsidiaries of TransAlta that will not be reclassified subsequently to net earnings (Note 7)	25	16	(151)	(80)
Other comprehensive income (loss)	25	16	(151)	(80)
Total comprehensive income (loss)	5	37	(116)	20
Total comprehensive income (loss) attributable to:				
Common shareholders	5	36	(117)	17
Non-controlling interest	—	1	1	3
	5	37	(116)	20

See accompanying notes.

TransAlta Renewables Inc.

Condensed Consolidated Statements of Financial Position

(in millions of Canadian dollars)

Unaudited	Sept. 30, 2022	Dec. 31, 2021
Current assets		
Cash and cash equivalents	229	244
Accounts receivable	135	120
Risk management assets (Note 9)	3	1
Income taxes receivable	1	—
Inventory	8	8
Assets held for sale	6	—
Current portion of other assets (Note 11)	15	57
	397	430
Non-current assets		
Property, plant and equipment (Note 10)		
Cost	3,193	3,263
Accumulated depreciation	(1,455)	(1,366)
	1,738	1,897
Finance lease receivable	7	7
Right-of-use assets	26	26
Intangible assets	84	92
Other assets (Note 11)	54	7
Investments in subsidiaries of TransAlta (Note 7)	1,039	1,270
Deferred income tax assets (Note 8)	20	20
Total assets	3,365	3,749
Current liabilities		
Accounts payable and accrued liabilities	123	82
Income tax payable	—	1
Dividends payable	63	63
Current portion of contract liabilities (Note 14)	1	13
Risk management liabilities (Note 9)	15	3
TEA demand loan (Notes 9 and 12)	137	167
Current portion of long-term debt and lease obligations (Note 12)	105	264
	444	593
Non-current liabilities		
Long-term debt and lease obligations (Notes 9 and 12)	677	550
Decommissioning provisions (Note 1)	111	175
Contract liabilities	6	6
Risk management liabilities (Note 9)	1	1
Deferred income tax liabilities (Note 8)	307	301
Total liabilities	1,546	1,626
Equity		
Common shares (Note 13)	3,059	3,059
Deficit	(1,061)	(907)
Accumulated other comprehensive loss	(229)	(78)
Equity attributable to shareholders	1,769	2,074
Non-controlling interest	50	49
Total equity	1,819	2,123
Total liabilities and equity	3,365	3,749

Commitments and contingencies (Note 14)

See accompanying notes.

TransAlta Renewables Inc. Condensed Consolidated Statements of Changes in Equity

(in millions of Canadian dollars)

Unaudited

	Common shares	Deficit	Accumulated other comprehensive loss	Attributable to shareholders	Attributable to non- controlling interest	Total
Balance, Dec. 31, 2021	3,059	(907)	(78)	2,074	49	2,123
Net earnings	—	34	—	34	1	35
Other comprehensive income (loss):						
Net change in fair value of investments in subsidiaries of TransAlta (Note 7)	—	—	(151)	(151)	—	(151)
Total comprehensive income (loss)	—	34	(151)	(117)	1	(116)
Common share dividends (Note 13)	—	(188)	—	(188)	—	(188)
Balance, Sept. 30, 2022	3,059	(1,061)	(229)	1,769	50	1,819

(in millions of Canadian dollars)

	Common shares	Deficit	Accumulated other comprehensive loss	Attributable to shareholders	Attributable to non- controlling interest	Total
Balance, Dec. 31, 2020	3,059	(796)	(8)	2,255	50	2,305
Net earnings	—	97	—	97	3	100
Other comprehensive income (loss):						
Net change in fair value of investments in subsidiaries of TransAlta (Note 7)	—	—	(80)	(80)	—	(80)
Total comprehensive income (loss)	—	97	(80)	17	3	20
Common share dividends (Note 13)	—	(187)	—	(187)	—	(187)
Acquisitions of Windrise wind project (Note 10)	—	(1)	3	2	—	2
Balance, Sept. 30, 2021	3,059	(887)	(85)	2,087	53	2,140

See accompanying notes.

TransAlta Renewables Inc. Condensed Consolidated Statements of Cash Flows

(in millions of Canadian dollars)

Unaudited	3 months ended Sept. 30		9 months ended Sept. 30	
	2022	2021	2022	2021
Operating activities				
Net earnings (loss)	(20)	21	35	100
Depreciation and amortization	34	34	107	101
Accretion of provisions	2	—	7	2
Deferred income tax expense (recovery) (Note 8)	(5)	(4)	6	(2)
Unrealized foreign exchange gain (loss)	1	—	(1)	(8)
Unrealized (gain) loss from risk management activities	—	(2)	1	(2)
Provisions and contract liabilities	1	—	(12)	6
Asset impairment charge (Note 5)	20	10	31	10
Other non-cash items	—	1	(8)	1
Cash flow from operations before changes in working capital	33	60	166	208
Change in non-cash operating working capital balances	4	23	2	57
Cash flow from operating activities	37	83	168	265
Investing activities				
Additions to property, plant and equipment (Note 10)	(40)	(25)	(61)	(49)
Investments in subsidiaries of TransAlta (Note 7)	—	—	—	(146)
Acquisitions (Note 10)	—	—	—	(213)
Property insurance settlements (Note 6)	7	—	7	—
Return of capital on investments in subsidiaries of TransAlta (Note 7)	40	3	80	17
Repayment (advances) in loan receivable	4	(1)	14	(3)
Change in non-cash investing working capital balances	30	4	20	11
Other	—	2	(1)	(5)
Cash flow from (used in) investing activities	41	(17)	59	(388)
Financing activities				
Repayment of long-term debt (Note 12)	(3)	(3)	(30)	(29)
Dividends paid on common shares (Note 13)	(63)	(62)	(188)	(187)
Net repayments of TEA demand loan (Note 12)	—	—	(21)	—
Decrease in lease liabilities (Note 12)	—	—	(1)	(1)
Financing fees	(1)	(1)	(2)	(2)
Cash flow used in financing activities	(67)	(66)	(242)	(219)
Increase (decrease) in cash and cash equivalents	11	—	(15)	(342)
Cash and cash equivalents, beginning of period	218	240	244	582
Cash and cash equivalents, end of period	229	240	229	240
Cash income taxes paid	—	—	1	1
Cash interest paid	6	7	28	28

See accompanying notes.

Notes to Consolidated Financial Statements

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

1. Background and Accounting Policies

A. Formation of the Company

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

B. Basis of Preparation

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

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

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

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

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

C. Use of Estimates and Significant Judgments

The preparation of these unaudited interim condensed consolidated financial statements in accordance with IAS 34 requires management to use judgment and make estimates and assumptions that could affect the reported amounts of assets, liabilities, revenue and expenses and disclosures of contingent assets and liabilities. These estimates are subject to uncertainty. Refer to Note 2(M) of the Company's 2021 annual consolidated financial statements for a more detailed discussion of the significant accounting judgments and key sources of estimation uncertainty. Actual results could differ from these estimates due to factors such as fluctuations in interest rates, discount rates, foreign exchange rates, inflation and commodity prices and changes in economic conditions, legislation and regulations.

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

Judgment was applied for the three and nine months ended Sept. 30, 2022, as follows:

I. Dividends as Income or Return of Capital

During the three and nine months ended Sept. 30, 2022 and 2021, the Company determined that a portion of the dividends earned on the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities, the Preferred Shares Tracking Earnings and Distributions of US Gas and the Preferred Shares Tracking Australia Cash Flows constituted a return of capital. Refer to Note 7 for more details.

II. Provisions for Decommissioning Activities

The Company recognizes provisions for decommissioning obligations. Initial decommissioning provisions, and subsequent changes thereto, are determined using the Company's best estimate of the required cash expenditures, adjusted to reflect the risks and uncertainties inherent in the timing and amount of settlement. During the nine months ended Sept. 30, 2022, the provision for the decommissioning obligations decreased as a result of higher discount rates, largely driven by increases in market benchmark rates due to political risks and higher expected inflation throughout 2022 and 2023. The Company's current best estimate of the decommissioning provisions decreased by \$71 million, which also resulted in a decrease in the related assets in property, plant and equipment (PP&E). On average, discount rates ranged from 7.9 to 9.6 per cent as at Sept. 30, 2022 (Dec. 31, 2021 — 4.6 to 6.5 per cent).

III. Asset Impairment Charge (Reversal)

During the three and nine months ended Sept. 30, 2022, there were asset impairments recognized. Refer to Note 5 for more details.

2. Material Accounting Policies

A. Current Accounting Policy Changes

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

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

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

B. Future Accounting Policy

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

C. Comparative Figures

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

3. Revenue from Contracts with Customers

A. Disaggregation of Revenue from Contracts with Customers

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

3 months ended Sept. 30, 2022	Canadian Wind	Canadian Hydro	Canadian Gas	Total
Revenue from contracts with customers	31	12	70	113
Merchant revenue and other	1	—	10	11
Revenues	32	12	80	124

Timing of revenue recognition:

At a point in time	1	—	—	1
Over time	30	12	70	112
Revenue from contracts with customers	31	12	70	113

3 months ended Sept. 30, 2021	Canadian Wind	Canadian Hydro	Canadian Gas	Total
Revenue from contracts with customers	41	9	56	106
Merchant revenue and other	1	—	7	8
Revenues	42	9	63	114

Timing of revenue recognition:

At a point in time	4	—	—	4
Over time	37	9	56	102
Revenue from contracts with customers	41	9	56	106

9 months ended Sept. 30, 2022	Canadian Wind	Canadian Hydro	Canadian Gas	Total
Revenue from contracts with customers	157	26	196	379
Merchant revenue and other	2	—	25	27
Revenues	159	26	221	406

Timing of revenue recognition:

At a point in time	17	1	—	18
Over time	140	25	196	361
Revenue from contracts with customers	157	26	196	379

9 months ended Sept. 30, 2021	Canadian Wind	Canadian Hydro	Canadian Gas	Total
Revenue from contracts with customers	157	23	139	319
Merchant revenue and other	2	—	11	13
Revenues	159	23	150	332

Timing of revenue recognition:

At a point in time	14	1	—	15
Over time	143	22	139	304
Revenue from contracts with customers	157	23	139	319

B. Changes to Revenue Contracts

Canadian Wind

On Aug. 23, 2022, the Company announced that it was awarded a capacity contract with the Ontario Independent Electricity System Operator (the "IESO") for the Melancthon 1 wind facility, which will extend the period of contracted revenues to April 30, 2031. The wind facility's existing PPA with the IESO ends on March 3, 2026.

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

Canadian Gas

On Aug. 23, 2022, the Company announced that it was awarded a capacity contract with the IESO for the Sarnia cogeneration facility, which will extend the period of contracted revenues to April 30, 2031. The current IESO contract ends on Dec. 31, 2025. The Company expects gross margin from the Sarnia cogeneration facility to be reduced by approximately 30 per cent per year as a result of the IESO price cap under the new contract.

During the second quarter of 2022, the Company executed contract extensions for the supply of electricity with three of its industrial customers and for the supply of steam for one of these customers, at the Sarnia cogeneration facility. These agreements extend the delivery term from Dec. 31, 2022 to April 30, 2031 in one case and to Dec. 31, 2032, for the other two.

C. Environmental Credits

Revenue from contracts with customers includes revenue generated from the sale of environmental credits for the three and nine months ended Sept. 30, 2022 of \$1 million and \$18 million respectively (2021 - \$4 million and \$15 million). Included in this amount for the three and nine months ended Sept. 30, 2022 was nil and \$12 million respectively (2021- \$4 million and \$11 million) related to the sale of nil and 261,017 (2021- 131,080 and 396,432) of Alberta carbon offsets and Emission Performance Credits ("EPC") to TransAlta.

At Sept. 30, 2022, the Company held 376,820 emissions credits (Dec. 31, 2021 - 356,243), which are expected to be serialized and monetized through sales to TransAlta or other third parties at market prices.

4. Expenses by Nature

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

	3 months ended Sept. 30				9 months ended Sept. 30			
	2022		2021		2022		2021	
	Fuel, royalties and other costs	OM&A	Fuel, royalties and other costs	OM&A	Fuel, royalties and other costs	OM&A	Fuel, royalties and other costs	OM&A
Fuel	49	—	30	—	127	—	66	—
Royalties, land lease costs and other direct costs	4	—	3	—	12	—	9	—
Transmission tariffs and purchased power	2	—	—	—	5	—	—	—
Carbon compliance costs	4	—	5	—	10	—	16	—
Contracted operating expenses	—	11	—	11	—	34	—	34
Other operating expenses	—	15	—	11	—	43	—	35
Total	59	26	38	22	154	77	91	69

5. Asset Impairment Charges

	3 months ended Sept. 30		9 months ended Sept. 30	
	2022	2021	2022	2021
Canadian Wind	5	10	10	10
Canadian Hydro	15	—	21	—
Asset impairment charges	20	10	31	10

Canadian Wind

During the three and nine months ended, Sept. 30, 2022, the Company recorded net impairment charges of \$5 million and \$10 million, respectively. During the second quarter, one wind facility was impaired primarily as a result of an increase in discount rates. During the third quarter, two additional wind facilities were impaired as a result of changes in key assumptions including significant increases in discount rates and changes in estimated future cash flows. The recoverable amount of \$493 million in total for these three assets were estimated based on fair value less costs of disposal utilizing a discounted cash flow approach and are categorized as a level III fair value measurement.

During the third quarter of 2021, the Company recorded an impairment of \$8 million for a wind asset as result of an increase in estimated decommissioning costs after the review of an engineering study. The resulting fair value measurement less cost of disposal is categorized as a Level III fair value measurement and the Company has adjusted the expected value down to \$65 million as at Sept. 30, 2021 using discount rates of 5 per cent. The key assumptions impacting the determination of fair value are electricity production, sales prices and cost inputs, which are subject to measurement uncertainty.

As at Sept. 30, 2021, the Company recognized an impairment of \$2 million related to the Kent Hills Wind LP tower failure.

Canadian Hydro

During the three and nine months ended, Sept. 30, 2022, the Company recorded net impairment charges of \$15 million and \$21 million, respectively. During the second quarter, an impairment of \$6 million was recorded on one of the hydro facilities primarily from an increase in discount rates. During the third quarter, two additional hydro facilities were impaired as a result of changes in key assumptions including significant increases in discount rates and changes in estimated future cash flows and pricing. The recoverable amount of \$89 million in total for these four assets were estimated based on fair value less costs of disposal utilizing a discounted cash flow approach and are categorized as a level III fair value measurement.

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

Contract and Merchant discount rates

Canadian Wind	6.4 and 7.1 per cent
Canadian Hydro	5.9 and 6.4 per cent

6. Net Other Operating Income

A. Windrise Liquidated Damages

During the three and nine months ended Sept. 30, 2022, the Company recorded a liquidated damages recovery of \$1 million and \$11 million, respectively, related to requirements to be met by the contractor on turbine availability.

B. Kent Hills Insurance Recovery

During nine months ending Sept. 30, 2022, the Company received insurance proceeds of \$7 million related to the replacement costs for the single collapsed tower at the Kent Hills wind facilities.

7. Finance Income Related to Subsidiaries of TransAlta

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2022	2021	2022	2021
Fee income from indirect guarantee of TEA obligations	2	3	8	8
Dividend income from investment in preferred shares tracking Australia Cash Flows	—	12	15	46
Finance income related to TEA	2	15	23	54
Dividend income from investments in preferred shares tracking earnings and distributions of US Wind and Solar facilities	—	4	1	14
Total finance income	2	19	24	68

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

As at	Sept. 30, 2022	Dec. 31, 2021
Investment in preferred shares tracking earnings and distributions of Big Level and Antrim	145	165
Investment in preferred shares tracking earnings and distributions of Mass Solar	38	45
Investment in preferred shares tracking earnings and distributions of Lakeswind	16	18
Investment in preferred shares tracking earnings and distributions of Wyoming wind	94	99
Investment in preferred shares tracking earnings and distributions of Skookumchuck	75	85
Investment in preferred shares tracking earnings and distributions of North Carolina	106	127
Total investments in preferred shares tracking earnings and distributions of US Wind and Solar facilities	474	539
Investment in preferred shares tracking earnings and distributions of Ada	31	34
Investment in preferred shares tracking Australia Cash Flows	534	697
Total investments in subsidiaries of TransAlta	1,039	1,270

Investment in Subsidiaries of TransAlta

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

	Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities	Preferred Shares Tracking Earnings and Distributions of US Gas	Preferred Shares Tracking Australia Cash Flows	Total
Investment balance at Dec. 31, 2021	539	34	697	1,270
Return of capital	(39)	(4)	(37)	(80)
Net change in fair value and foreign exchange recognized in other comprehensive income ("OCI")	(26)	1	(126)	(151)
Investment balance at Sept. 30, 2022	474	31	534	1,039

The \$26 million decrease in fair value related to the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities was primarily due to an increase in discount rates, partially offset by strengthening forward merchant prices and foreign exchange impacts.

The \$126 million decrease in fair value related to the Preferred Shares Tracking Australia Cash Flows as at Sept. 30, 2022 reflects an increase in discount rates and foreign exchange impacts.

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

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

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

The decrease in fair value related to the Preferred Shares Tracking Australia Cash Flows as at Sept. 30, 2021 of \$87 million reflects a change in cash flow assumptions, including changes in foreign exchange impacts, recontracting assumptions and discount rate changes, partially offset by an adjustment to the cash flows associated with the extended PPA with BHP, and the Northern Goldfields Solar Project.

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

Unobservable input	Sept. 30, 2022	Dec. 31, 2021
Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities		
Discount rate (range)	8.1 % - 10.8 %	5.8 % - 8.5 %
Quarterly cash flows (range, in millions)	Average of \$1 - \$4	Average of \$1 - \$4
Foreign exchange rates	1.36600	1.27760
Preferred Shares Tracking Earnings and Distributions of US Gas		
Discount rate	14.7 %	12.4 %
Quarterly cash flows (millions)	Average of \$3	Average of \$3
Foreign exchange rates	1.36600	1.27760
Preferred Shares Tracking Australia Cash Flows		
Discount rate	8.0 %	5.5 %
Quarterly cash flows (millions)	Average of \$11	Average of \$11
Foreign exchange rates	0.87233	0.92728

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

Unobservable input ⁽¹⁾	Alternative assumption	Change in fair value as at Sept. 30, 2022	Change in fair value as at Dec. 31, 2021
Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities⁽²⁾			
Basis point change in discount rates	-100 basis points decrease	39	51
	+100 basis points increase	(34)	(44)
Quarterly cash flows	+5% increase ⁽³⁾	24	27
	- 5% decrease ⁽³⁾	(24)	(27)
Preferred Shares Tracking Earnings and Distributions of US Gas⁽⁴⁾			
Basis point change in discount rates	-100 basis points decrease	—	1
	+100 basis points increase	—	(1)
Quarterly cash flows	+5% increase ⁽³⁾	2	2
	- 5% decrease ⁽³⁾	(2)	(2)
Preferred Shares Tracking Australia Cash Flows			
Basis point change in discount rates	-100 basis points decrease	36	58
	+100 basis points increase	(32)	(50)
Quarterly cash flows	+5% increase ⁽³⁾	27	35
	- 5% decrease ⁽³⁾	(27)	(35)

(1) Refer to note 9C IV for impacts from foreign exchange.

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

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

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

8. Income Taxes

The components of income tax expense are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2022	2021	2022	2021
Current income tax expense (recovery)	(1)	4	—	12
Adjustments in respect of current income tax of previous years	(1)	—	(1)	—
Adjustments in respect of deferred income tax of previous years	—	(1)	—	(1)
Deferred income tax expense resulting from changes in tax rates or laws	1	—	1	—
Deferred income tax expense (recovery) related to the origination and reversal of temporary differences	(5)	(3)	6	(1)
Income tax expense (recovery)	(6)	—	6	10

Presented in the Condensed Consolidated Statements of Earnings as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2022	2021	2022	2021
Current income tax expense (recovery)	(1)	4	—	12
Deferred income tax expense (recovery)	(5)	(4)	6	(2)
Income tax expense (recovery)	(6)	—	6	10

9. Financial Instruments and Risk Management

A. Financial Assets and Liabilities – Classification and Measurement

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

B. Fair Value of Financial Instruments

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

As at	Sept. 30, 2022		Dec. 31, 2021	
	Fair value Level II	Fair value Level III	Fair value Level II	Fair value Level III
Preferred shares tracking Australia Cash Flows	—	534	—	697
Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities	—	474	—	539
Preferred Shares Tracking Earnings and Distributions of US Gas	—	31	—	34
Net risk management liabilities	(13)	—	(3)	—

I. Level Determinations and Classifications

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

a. Level I

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

b. Level II

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

c. Level III

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

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

II. Commodity and Other Risk Management Assets and Liabilities

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

The following table summarizes the net risk management liabilities:

	Cash flow hedges	Non-hedges	
	Level II	Level II	Total
Net risk management liabilities at Sept. 30, 2022	—	(13)	(13)
Net risk management liabilities at Dec. 31, 2021	—	(3)	(3)

Non-Hedges

a. Foreign Exchange Forward Contracts

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

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

As at Sept. 30, 2022

Notional amount sold	Notional amount purchased	Fair value asset (liability)	Maturity
CAD192	AUD204	(14)	2022
USD13	CAD17	(1)	2022
AUD68	CAD62	3	2022

b. Commodity

The Company enters into various derivative transactions as well as other contracting activities that do not qualify for hedge accounting. As a result, the related assets and liabilities are classified as fair value through profit or loss ("FVTPL"). Changes in the fair value of these derivatives are reported in earnings in the period the change occurs. The fair value of commodity derivatives as at Sept. 30, 2022 was a \$1 million net risk management liability.

III. Financial Instruments – Not Measured at Fair Value

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

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

As at	Sept. 30, 2022		Dec. 31, 2021	
	Fair value Level II	Carrying value	Fair value Level II	Carrying value
Loans receivable ⁽¹⁾	41	41	55	55
TEA demand loan	137	137	167	167
Long-term debt ⁽²⁾	669	759	801	792

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

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

The fair value of the long-term debt is determined by calculating an implied price based on a current assessment of the yield to maturity (Note 12).

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

I. Credit Risk

The Company's maximum exposure to credit risk at Sept. 30, 2022, without taking into account collateral held or right of set-off, and including indirect exposures arising from the Company's investments in subsidiaries of TransAlta discussed in Note 7, is detailed as follows:

Counterparty credit rating	Direct exposure	Indirect exposure
	Receivables ⁽¹⁾	Trade accounts receivable
Investment grade	36	77
Non-investment grade	69	2
TransAlta and subsidiaries of TransAlta	40	—
No external rating	41	—

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

II. Other Market Risks

The Company is exposed to market risks based on changes in the fair value of the Economic Interest Investments. A five per cent increase (decrease) in the value of these securities would result in an \$52 million increase (decrease) in OCI as at Sept. 30, 2022.

III. Liquidity Risk

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

	2022	2023	2024	2025	2026	2027 and thereafter	Total
Accounts payable and accrued liabilities	123	—	—	—	—	—	123
TEA demand loan ⁽¹⁾	137	—	—	—	—	—	137
Long-term debt	24	108	66	69	67	433	767
Lease obligations	—	1	1	1	1	19	23
Net risk management liabilities	12	—	1	—	—	—	13
Interest on debt and lease obligations ⁽²⁾	12	28	26	23	20	94	203
Dividends payable	63	—	—	—	—	—	63
Total	371	137	94	93	88	546	1,329

(1) Subsequent to the third quarter, the Company repaid the TEA loan on the maturity date with funds from a reserve account. Refer to Note 12 for further details.

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

IV. Foreign Currency Rate Risk

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

Currency	9 months ended Sept. 30		2022		2021	
	Net earnings decrease ⁽¹⁾	OCI gain ⁽¹⁾	Net earnings increase (decrease) ⁽¹⁾	OCI gain ⁽¹⁾		
USD	—	12	(3)	12		
AUD	(1)	16	1	20		
Total	(1)	28	(2)	32		

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

10. Property, Plant and Equipment

During the three and nine months ended Sept. 30, 2022, excluding the Kent Hills rehabilitation, the Company spent \$9 million and \$20 million, respectively, on PP&E.

The Company has commenced its rehabilitation plan at the Kent Hills wind facilities. For the three and nine months ended Sept. 30, 2022, the Company has capitalized additions of \$31 million and \$41 million respectively.

Excluding expenditures related to the Windrise wind project, during the three and nine months ended Sept. 30, 2021, the Company spent \$8 million and \$13 million respectively, on PP&E.

During the nine months ended Sept. 30, 2021, the Company acquired a 100 per cent direct interest in the 207 MW Windrise wind project located in Alberta for \$213 million. The acquisition is accounted for as a business combination under common control. The Company applied the pooling of interest method to account for the acquisition of the Windrise wind project, consistent with its previously chosen accounting policies. The Windrise wind project assets and liabilities acquired were recognized at the book value previously recognized by TransAlta at Feb. 26, 2021 and not at their fair values. For the nine months ended Sept. 30, 2021, the Company recognized \$233 million on the Windrise asset acquisition in PPE and incurred during the three and nine months ended Sept. 30, 2021 an additional \$17 million and \$36 million, respectively, related to construction costs to progress finalizing the project.

During the nine months ended, Sept. 30, 2022, the decommissioning provisions have been updated to reflect an increase in discount rates, resulting in a decrease in the decommissioning provision and in the related assets in PP&E of \$71 million. Please refer to Note 1 for further details. In addition, the Company has recorded \$31 million in impairments. Please refer to Note 5 for further details.

For the three and nine months ended Sept. 30, 2022, there was no capitalized interest. For the three and nine months ended Sept. 30, 2021, the Company capitalized \$3 million and \$6 million, respectively, of interest to PP&E due to the Windrise wind project at a weighted average rate of 4.7 per cent.

11. Other Assets

As at	Sept. 30, 2022	Dec. 31, 2021
Kent Hills Wind LP loan receivable	41	55
Prepaid expenses	28	9
Total other assets	69	64
Less: current portion	(15)	(57)
Total long-term other assets	54	7

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

During the three and nine months ended Sept. 30, 2022, the Company received repayments of \$4 million and \$14 million respectively of the Kent Hills Wind LP loan receivable, which were required as part of the waiver and amendment made to the KH bonds.

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

12. TEA Demand Loan, Debt and Lease Obligations

Amounts Outstanding

As at	Sept. 30, 2022			Dec. 31, 2021		
	Carrying value	Face value	Interest ⁽¹⁾	Carrying value	Face value	Interest ⁽¹⁾
TEA demand loan ⁽²⁾	137	137	4.32 %	167	167	4.32 %
Long-term debt:						
Pingston bond	45	45	2.95 %	45	45	2.95 %
Melancthon Wolfe Wind bond	219	220	3.83 %	235	237	3.83 %
New Richmond Wind bond	116	117	3.96 %	120	121	3.96 %
Kent Hills Wind bond	209	212	4.45 %	221	221	4.45 %
Windrise Green bond	170	173	3.41 %	171	173	3.41 %
Total long-term debt	759	767		792	797	
Lease obligations	23			22		
	782			814		
Less: current portion of long-term debt	(104)			(263)		
Less: current portion of lease obligations	(1)			(1)		
Total long-term debt and lease obligations	677			550		

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

(2) As at Sept. 30, 2022 the Principal amount is AU\$157 million (Dec. 31, 2021 - AU\$180 million).

TEA demand loan: Is unsecured, due on demand and bears interest at 4.32 per cent, with interest payable quarterly until maturity on Oct. 26, 2022. During the three and nine months ended Sept. 30, 2022, the Company repaid TransAlta Energy (Australia) nil and AU\$23 million respectively upon demand. Subsequent to the third quarter, the Company repaid the TEA loan on the maturity date of Oct. 26, 2022.

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

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

During the second quarter of 2022, the Company obtained a waiver and entered into a supplemental indenture that facilitates the rehabilitation of the Kent Hills 1 and 2 wind facilities. Upon obtaining the waiver, the Company reclassified the bond outstanding to non-current liabilities, with the exception of the scheduled principal repayments due within the next twelve months from June 30, 2022. In accordance with the supplemental indenture, Kent Hills Wind LP cannot make any distributions to its partners until the foundation replacement work has been completed.

The KH bonds issued in October 2017, bears interest at 4.45 per cent, with principal and interest payable quarterly in blended payments until maturity on Nov. 30, 2033. The KH bonds is secured by a first ranking charge over all of the assets of the issuer, Kent Hills Wind LP, which primarily includes the Kent Hills 1, 2 and 3 wind facilities, which at Sept. 30, 2022, had a combined carrying value of \$210 million (Dec. 31, 2021 – \$182 million).

13. Common Shares

Dividends

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

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

Dividends declared	Total dividends per share	Total dividends	TransAlta	Other shareholders
9 months ended Sept. 30, 2022	0.70497	188	113	75
9 months ended Sept. 30, 2021	0.70497	187	113	74

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

On Nov. 3, 2022, the Company declared a monthly dividend of \$0.07833 per common share payable on Jan. 31, 2023, Feb. 28, 2023 and Mar. 31, 2023.

14. Commitments and Contingencies

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

Kent Hills Wind Facilities Rehabilitation

For the nine months ended Sept. 30, 2022, the Company has entered into agreements for \$100 million for the rehabilitation efforts at the Kent Hills 1 and 2 wind facilities.

Sarnia Outages

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

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

15. Related-Party Transactions and Balances

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

A. Related-Party Transactions

Related-party transactions include the finance income related to subsidiaries of TransAlta (Note 7). Also, all derivatives of the Company are entered into on behalf of the Company by a subsidiary of TransAlta.

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2022	2021	2022	2021
Revenue from TransAlta PPAs	7	9	31	28
Revenue from environmental attributes ⁽¹⁾	—	4	12	11
G&A Reimbursement Fee	4	3	13	13
Natural gas purchases	15	4	32	7
Interest income – promissory notes and investments in subsidiaries of TransAlta	—	1	—	1
Financial power swap sales–gains	—	—	(1)	—
Interest expense on TEA demand loan	2	2	5	6
Asset optimization fee ⁽²⁾	1	1	2	2
Interest expense on credit facility and guarantee fees	—	—	1	1

(1) The value of the environmental attributes was determined by reference to market information for similar instruments, including historical transactions with third parties.

(2) A subsidiary of TransAlta provides asset management and optimization services for the Company's Sarnia cogeneration facility. The Sarnia cogeneration facility is charged a fixed fee of approximately \$0.125 million per quarter, plus a variable fee of 1.6 per cent of its gross margin.

B. Related-Party Balances

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

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

As at	Sept. 30, 2022	Dec. 31, 2021
Trade and other receivables	30	50
Finance lease receivable	7	7
Accounts payable and accrued liabilities (including interest payable)	15	11
Dividends payable	38	38
TEA Guarantees ⁽¹⁾	484	516
Guarantees provided by TransAlta on behalf of the Company ⁽¹⁾	479	583
Long-term prepaid – management fee	2	2

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

16. Segment Disclosures

A. Description of Reportable Segments

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

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

B. Reported Segment Earnings and Other Segment Information

I. Reconciliation of Adjusted EBITDA to Earnings Before Income Tax

3 months ended Sept. 30, 2022	Owned Assets				Economic Interests			Total	Investments in economic interests and adjustments	IFRS financials
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas			
Revenues ⁽¹⁾	33	12	80	—	21	6	45	197	(73)	124
Fuel, royalties and other costs ⁽²⁾	3	3	53	—	1	4	2	66	(7)	59
Gross margin	30	9	27	—	20	2	43	131	(66)	65
Operations, maintenance and administration ⁽³⁾	12	1	8	5	4	1	9	40	(14)	26
Taxes, other than income taxes	2	1	—	—	1	—	—	4	(1)	3
Net other operating income	(1)	—	—	—	—	—	—	(1)	—	(1)
Adjusted EBITDA⁽⁴⁾	17	7	19	(5)	15	1	34	88	(51)	37
Depreciation and amortization										(34)
Asset impairment charge										(20)
Finance income related to subsidiaries of TransAlta										2
Interest income										2
Interest expense										(12)
Finance lease income										1
Foreign exchange gain										(2)
Loss before income tax										(26)

(1) Adjusted EBITDA excludes the impact of unrealized mark-to-market gains or losses. Amounts related to economic interests include finance lease income adjusted for change in finance lease receivable.

(2) Amounts related to economic interests include interest earned on the prepayment of certain transmission costs.

(3) Amounts related to economic interests include the effect of contractually fixed management costs.

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

3 months ended Sept. 30, 2021	Owned Assets				Economic Interests			Total	Investments in economic interests and adjustments	IFRS financials
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas			
Revenues ⁽¹⁾	42	9	62	—	18	6	46	183	(69)	114
Fuel, royalties and other costs ⁽²⁾	3	1	34	—	1	2	1	42	(4)	38
Gross margin	39	8	28	—	17	4	45	141	(65)	76
Operations, maintenance and administration ⁽³⁾	9	2	7	4	4	1	9	36	(14)	22
Taxes, other than income taxes	2	—	—	—	1	—	—	3	(1)	2
Adjusted EBITDA ⁽⁴⁾	28	6	21	(4)	12	3	36	102	(50)	52
Depreciation and amortization										(34)
Asset impairment charge										(10)
Finance income related to subsidiaries of TransAlta										19
Interest income										1
Interest expense										(9)
Finance lease income										1
Foreign exchange gain										1
Earnings before income tax										21

(1) Adjusted EBITDA excludes the impact of unrealized mark-to-market gains or losses. Amounts related to economic interests include finance lease income adjusted for change in finance lease receivable.

(2) Amounts related to economic interests include interest earned on the prepayment of certain transmission costs.

(3) Amounts related to economic interests include the effect of contractually fixed management costs.

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

	Owned Assets				Economic Interests					
9 months ended Sept. 30, 2022	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas	Total	Investments in economic interests and adjustments	IFRS financials
Revenues ⁽¹⁾	160	26	222	—	83	19	130	640	(234)	406
Fuel, royalties and other costs ⁽²⁾	12	5	137	—	2	11	5	172	(18)	154
Gross margin	148	21	85	—	81	8	125	468	(216)	252
Operations, maintenance and administration ⁽³⁾	31	5	25	16	12	3	23	115	(38)	77
Taxes, other than income taxes	5	1	1	—	4	—	—	11	(4)	7
Net other operating income	(11)	—	—	—	—	—	—	(11)	(7)	(18)
Adjusted EBITDA⁽⁴⁾	123	15	59	(16)	65	5	102	353	(167)	186
Depreciation and amortization										(107)
Asset impairment charge										(31)
Finance income related to subsidiaries of TransAlta										24
Interest income										4
Interest expense										(37)
Finance lease income										1
Foreign exchange gain										1
Earnings before income tax										41

(1) Adjusted EBITDA excludes the impact of unrealized mark-to-market gains or losses. Amounts related to economic interests include finance lease income adjusted for change in finance lease receivable.

(2) Amounts related to economic interests include interest earned on the prepayment of certain transmission costs.

(3) Amounts related to economic interests include the effect of contractually fixed management costs.

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

9 months ended Sept. 30, 2021	Owned Assets				Economic Interests			Total	Investments in economic interests and adjustments	IFRS financials
	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas			
Revenues ⁽¹⁾	159	23	149	—	68	16	130	545	(213)	332
Fuel, royalties and other costs ⁽²⁾	7	3	81	—	2	6	4	103	(12)	91
Gross margin	152	20	68	—	66	10	126	442	(201)	241
Operations, maintenance and administration ⁽³⁾	27	5	22	15	11	3	27	110	(41)	69
Taxes, other than income taxes	5	1	1	—	3	—	—	10	(3)	7
Adjusted EBITDA ⁽⁴⁾	120	14	45	(15)	52	7	99	322	(157)	165
Depreciation and amortization										(101)
Asset impairment charge										(10)
Finance income related to subsidiaries of TransAlta										68
Interest income										5
Interest expense										(28)
Finance lease income										1
Foreign exchange gain										10
Earnings before income tax										110

(1) Adjusted EBITDA excludes the impact of unrealized mark-to-market gains or losses. Amounts related to economic interests include finance lease income adjusted for change in finance lease receivable.

(2) Amounts related to economic interests include interest earned on the prepayment of certain transmission costs.

(3) Amounts related to economic interests include the effect of contractually fixed management costs.

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

Glossary of Key Terms

AU\$ – means Australian dollars.

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

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

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

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

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

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

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

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

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

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

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

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

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

OCI – Other Comprehensive Income.

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

OM&A – Operations, maintenance and administration costs

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

PP&E – Property, plant and equipment

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

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

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

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

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

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

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

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

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



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