

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 six months ended June 30, 2018 and 2017 and should also be read in conjunction with the annual audited consolidated financial statements and MD&A contained within our Annual Report for the year ended Dec. 31, 2017. In this MD&A, unless the context otherwise requires, 'we', 'our', 'us', 'TransAlta Renewables', and the 'Corporation' refer to TransAlta Renewables Inc. and its subsidiaries and 'TransAlta' refers to TransAlta Corporation and its subsidiaries. Capitalized terms not otherwise defined herein have the respective meanings set forth in the Glossary of Key Terms. All dollar amounts in the tables presented in this MD&A are in millions of Canadian dollars except per share amounts which are presented in whole dollars to the nearest two decimals, unless otherwise noted. The interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standard ("IFRS") International Accounting Standards ("IAS") 34 *Interim Financial Reporting*. This MD&A is dated August 1, 2018. Additional information respecting the Corporation, including its Annual Information Form, is available on SEDAR at www.sedar.com and on our website at www.transaltarenewables.com. Information on or connected to our website is not incorporated by reference herein.

Operations of the Corporation

As at June 30, 2018, TransAlta Renewables owned and operated 13 hydro facilities, 18 wind farms and one gas plant in Canada, and held economic interests in TransAlta's Wyoming Wind farm, Lakeswind wind farm, Mass Solar solar projects, Australian Assets, and the Big Level and Antrim US wind development projects. See the Significant Events section for information on acquisitions in the second quarter.

In total, we own, directly or through economic interests, an aggregate of 2,407 MW of net generating Capacity⁽¹⁾ in operation. TransAlta manages and operates these facilities on our behalf under the terms of a Management, Administrative and Operational Services Agreement, as amended (the "Management Agreement").

We have an economic interest in the cash flows from, and not direct ownership of, the Australian Assets, the Wyoming Wind farm, the Lakeswind wind farm, and the Mass Solar solar projects. We also have an economic interest in the Big Level US wind development project, currently being constructed, and expect to acquire an economic interest in the Antrim US wind development project following satisfaction of certain required regulatory approvals. The operational results of these assets are not consolidated into our reported results; however, the finance income we receive on the underlying investments is included in our consolidated net earnings.

Non-IFRS Measures

We evaluate our performance using a variety of measures. Certain of the measures discussed in this MD&A are not defined under IFRS and, therefore, should not be considered in isolation 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 may not be comparable to similar measures presented by other issuers.

The Corporation's key non-IFRS measures are Comparable Earnings before Interest, Taxes, Depreciation, and Amortization ("Comparable EBITDA"), Adjusted Funds from Operations ("AFFO") and Cash Available for Distribution ("CAFD"). Comparable EBITDA is comprised of our Reported EBITDA adjusted to exclude the impact of the change in fair value of Class B shares, change in fair value of financial assets, foreign exchange gains and losses and impairment; plus the Comparable EBITDA of the facilities in which we hold an economic interest, which is the facilities' reported EBITDA adjusted for: 1) finance lease income and the change in the finance lease receivable amount; 2) contractually fixed management costs; and 3) interest earned on the prepayment of certain transmission costs. Reported EBITDA and Comparable EBITDA are presented to provide management and investors with a proxy for the amount of cash generated from operating activities before net interest expense, non-controlling interest, income taxes and the impacts of timing on the finance income from subsidiaries of TransAlta in which we have an economic interest. We present Comparable EBITDA along with operational information of the assets in which we own an economic interest so that readers can better understand and evaluate the drivers of those assets in which we have the economic interest.

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

Since the economic interests are designed to provide the Corporation with returns as if we owned the assets themselves, presenting the operational information and Comparable EBITDA of these facilities provides a more complete picture for readers to understand the underlying nature of the investments and the resultant cash flows that would otherwise only be presented as finance income from the investments. AFFO is calculated as the cash flow from operating activities before changes in working capital, less sustaining capital expenditures, distributions paid to subsidiaries' non-controlling interest and finance income, plus AFFO of the assets owned through economic interests, which is calculated as Comparable EBITDA from the economic interests less the change in long-term receivable, sustaining capital expenditures, and current income tax expense. AFFO provides users with a proxy for the amount generated from operating activities and investments in subsidiaries of TransAlta in which we have an economic interest. CAFD is calculated as AFFO less scheduled principal repayments of amortizing debt. CAFD can be used as a proxy for the cash that will be available to common shareholders of the Corporation. One of the primary objectives of the Corporation is to provide reliable and stable cash flows, and presenting AFFO and CAFD assists readers in assessing our cash flows in comparison to prior periods. See the Reconciliation of Non-IFRS Measures section of this MD&A for additional information.

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.

Forward-Looking Statements

This MD&A and other reports and filings made with securities regulatory authorities include forward-looking statements. 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" or other comparable terminology. These statements are not guarantees of our future performance and are subject to risks, uncertainties and other important factors that could cause our actual performance to be materially different from that projected.

In particular, this MD&A contains forward-looking statements pertaining to our business and anticipated future financial performance including, but not limited to: spending on growth and sustaining capital and productivity projects, including sustaining capital expenditures of subsidiaries of TransAlta in which we have an economic interest; the benefits of the recent acquisition of an interest in three renewable projects from TransAlta, including that they will be accretive on a per share basis; outstanding debt levels; our 2018 Outlook, including Comparable EBITDA, AFFO and CAFD; the acquisition of an economic interest in the Antrim US wind project on satisfaction of closing conditions; the receipt of the proceeds from the sale of the Solomon Power Station, including the payment to the Corporation of such amounts as soon as practicable based on statutory and tax requirements in Australia; the repayment of the temporary loan, including the timing thereof; the total construction and investment costs of Big Level and Antrim; renewable energy production from our wind and hydro assets in 2018; expectations relating to the DRIP (as defined below), including TransAlta's intention not to participate in the DRIP; the closing of the acquisition of two US wind projects and the costs related to such projects and expected commercial operation dates; our foreign exchange risk strategy; expectations regarding net interest and volume of debt; our ability to maintain adequate availability; expectations regarding project level debt; statutory blended tax rates and our cash tax horizon; expectations in terms of the cost of operations and maintenance, including maintenance performed by third parties, and including the variability of those costs; the payment of future dividends; expectations in respect of generation availability, Capacity and production; the timing and completion of projects under development, including the Kent Hills 3 Wind Project and the costs thereof and the funding of such costs; the anticipated financial impact to be realized from the commercial operation of the South Hedland Power Station; expected governmental regulatory regimes, legislation and programs, including the Canadian federal legislation pertaining to greenhouse gas emissions; the procurement process for renewable generation in Alberta; the value of offsets generated by our renewable facilities; expectations regarding the implementation of new IFRS standards; expectations regarding seasonality of wind and hydro production; expectations on our ability to access capital markets on reasonable terms; expectations regarding our

decommissioning and restoration activities; our expectations regarding the outcome of existing or potential legal or contractual claims, regulatory investigations and disputes, including the dispute with Fortescue Metals Group Ltd. ("FMG") over the purchase of the Solomon Power Station and the commissioning of the South Hedland Power Station; and the impact of accounting changes.

Factors that may adversely impact our forward-looking statements include, but are not limited to, risks relating to: changes in general economic conditions, including interest rates; operational risks involving our facilities, including Unplanned Outages at such facilities; risks pertaining to the timing and cost of the construction and commissioning of the Kent Hills 3 Wind Project; risks pertaining to the acquisition, construction and commissioning of our new US Wind assets; disruptions in the transmission and distribution of electricity; the effects of weather; disruptions in the source of water, wind, or gas required to operate our facilities; natural disasters; the threat of domestic terrorism, cyberattacks, and other man-made disasters; equipment failure and our ability to carry out repairs in a cost-effective or timely manner; industry risk and competition; fluctuations in the value of foreign currencies; the need for additional financing and the ability to access financing at a reasonable cost; structural subordination of securities; counterparty credit risk; insurance coverage; our provision for income taxes; disputes with counterparties and legal and contractual proceedings involving the Corporation; reliance on key personnel; the regulatory and political environments in which we operate; increasingly stringent environmental requirements and changes in, or liabilities under, these requirements; and the risks associated with development projects and acquisitions. The foregoing risk factors, among others, are described in further detail in the Risk Factors section of our Annual Information Form and Management's Discussion and Analysis for the year ended Dec. 31, 2017, which is available on SEDAR at www.sedar.com.

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. We cannot assure that projected results or events will be achieved.

Highlights

Consolidated Financial Highlights

	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Renewable energy production (GWh) ⁽¹⁾	874	886	1,878	1,896
Revenues	107	110	232	234
Net earnings attributable to common shareholders	65	22	131	49
Comparable EBITDA ⁽²⁾	98	98	209	209
Adjusted funds from operations ⁽²⁾	73	64	170	147
Cash flow from operating activities	72	73	204	173
Cash available for distribution ⁽²⁾	51	43	147	126
Net earnings per share attributable to common shareholders, basic and diluted	0.26	0.10	0.52	0.22
Adjusted funds from operations per share ⁽²⁾	0.29	0.29	0.68	0.66
Cash available for distribution per share ⁽²⁾	0.20	0.19	0.59	0.56
Dividends declared per common share	0.23	0.15	0.47	0.37
Dividends paid per common share	0.23	0.22	0.47	0.44

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

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

	June 30, 2018	Dec. 31, 2017
Gas installed capacity (MW) ⁽¹⁾	956	956
Renewables installed capacity (MW) ⁽²⁾	1,476	1,388
Total assets	3,785	3,628
Long-term debt ⁽³⁾	1,021	1,043
Total long-term liabilities	1,131	1,075

(1) Includes Australian gas-fired generation.

(2) Includes US Wind and Solar installed capacity.

(3) Including current portion.

Comparable EBITDA for both the quarter and year-to-date periods was consistent with the prior year. In our Australian Gas portfolio, the commissioning of the South Hedland Power Station in July 2017 was offset by the termination of the Solomon Power Station contract in November 2017. Higher contract prices in Canadian Wind offset the unfavourable market and hedging impacts at Canadian Gas.

For the three months ended June 30, 2018 AFFO and CAFD increased \$9 million and \$8 million, respectively, mainly due to the Australian Assets which contributed AFFO of \$32 million during the period, \$9 million more than last year.

For the six months ended June 30, 2018 AFFO and CAFD increased by \$23 million and \$21 million, respectively, mainly due to the Australian Assets which contributed AFFO of \$66 million during the period, \$24 million more than last year.

Reported net earnings attributable to common shareholders for the three months ended June 30, 2018 increased \$43 million primarily as a result of higher finance income of \$35 million this year and an \$18 million higher foreign exchange gain, which was partially offset by a \$5 million increase in interest expense and a \$5 million negative change in fair value of financial assets.

Reported net earnings attributable to common shareholders for the six months ended June 30, 2018 increased \$82 million, primarily as a result of the negative fair value change recorded for the Class B shares liability of \$46 million in the prior year and higher finance income of \$50 million in the current year, which was partially offset by a \$7 million lower foreign exchange gain, a \$3 million increase in interest expense and a \$4 million change in fair value of financial assets.

Significant Events

Acquisition of US Wind Projects

On Feb. 20, 2018, we announced that we had entered into an arrangement to acquire interests in two construction-ready projects in the Northeast United States. The wind development projects consist of: (i) a 90 Megawatt ("MW") project located in Pennsylvania which has a 15-year PPA ("Big Level") and (ii) a 29 MW project located in New Hampshire with two 20-year PPAs ("Antrim"). All three counterparties have S&P credit ratings of A+ or better. The commercial operation date for both projects is expected during the second half of 2019. A subsidiary of TransAlta acquired Big Level on March 1, 2018, whereas the acquisition of Antrim remains subject to certain closing conditions, including the receipt of a favourable regulatory ruling.

On April 20, 2018, we completed the acquisition of an economic interest in Big Level through the subscription of \$39 million (US\$31 million) of tracking preferred shares of a subsidiary of TransAlta pursuant to the arrangement entered into with TransAlta on Feb. 20, 2018. Pursuant to the arrangement with TransAlta, we expect to fund the total estimated construction and acquisition costs of US\$240 million through the subscription of additional tracking preferred shares or interest bearing promissory notes.

Canadian Gas Contract

On May 1, 2018, we entered into a contract with a leading Canadian blockchain company to supply up to 35 MW of power and provide industrial space at the Sarnia facility. The contract has a 5-year term with an extension for up to another 5 years.

Acquisition of Three Renewables Assets

On May 31, 2018, we acquired 100 per cent of the equity interests in three entities from TransAlta, which provided for, among other things, the transfer to TransAlta Renewables of the direct ownership of the 20 MW Kent Breeze wind farm

located in Ontario for a total purchase price of \$39 million. The acquisition was accounted for as a business combination under common control, as TransAlta controlled Kent Breeze prior to, and after, the acquisition by TransAlta Renewables. The assets and liabilities acquired have been recognized at the book values previously recognized by TransAlta at May 31, 2018 and not at their fair values. See Note 3 of our interim financial statements for additional information.

On May 31, 2018, we also acquired an economic interest in the 50 MW Lakeswind wind farm in Minnesota and 21 MW of solar projects located in Massachusetts ("Mass Solar"), from TransAlta. The total purchase price for the two assets was \$65 million (US\$50 million), net of the assumption of \$62 million (US\$48 million) of tax equity obligations and project debt. Our investment consists of tracking preferred shares of a subsidiary of TransAlta that provides us with an economic interest based on cash flows broadly equal to the underlying net distributable profits of the entities that own Lakeswind wind farm and Mass Solar.

The three renewable assets have an average weighted contract life of approximately 15 years. The acquired assets are a natural fit for TransAlta Renewables which focuses on diversified, highly contracted cash flows from strong counterparties.

On June 28, 2018, we subscribed for an additional \$33 million (US\$25 million) of tracking preferred shares of a subsidiary of TransAlta, in order to fund the repayment of Mass Solar's project debt.

Common Share Issuance

On June 22, 2018, we issued 11,860,000 common shares at a price of \$12.65 per share for gross proceeds of approximately \$150 million. The shares were issued under a bought deal offering through a syndicate of underwriters.

The net proceeds were used by TransAlta Renewables to partially repay drawn amounts under its Credit Facility, which were drawn to fund the recent acquisitions described above. The additional liquidity under the Credit Facility will be used for general corporate purposes, including ongoing construction costs associated with such acquisitions. TransAlta did not purchase any additional common shares and owns approximately 61 per cent of the outstanding common shares of TransAlta Renewables.

Dividend Reinvestment Plan

On May 31, 2018, the Board of Directors approved the implementation of a dividend reinvestment plan ("DRIP") for Canadian holders of common shares of TransAlta Renewables. Commencing with the dividend payable on July 31, 2018, eligible shareholders may elect to automatically reinvest monthly dividends into additional common shares of the Corporation. The price for common shares under the DRIP will be 98 per cent of the average market price of the common shares for the five trading days on which not less than 500 common shares of the Corporation are traded immediately prior to the dividend payment date. Eligible shareholders are not required to participate in the DRIP. TransAlta has indicated it does not intend to participate in the DRIP.

Management Changes

Donald Tremblay, former Chief Financial Officer ("CFO"), resigned from TransAlta and the Corporation, effective May 9, 2018. Concurrent with the resignation of Donald Tremblay, Todd Stack, the Managing Director, Corporate Controller of TransAlta, was appointed the CFO for the Corporation.

Reconciliation of Non-IFRS Measures

Presenting AFFO provides users with a proxy for the amount of cash generated from operating activities of our business and from investments in subsidiaries of TransAlta in which we have an economic interest, before changes in working capital. CAFD provides users with a proxy for the cash that will be available to common shareholders of the Corporation. One of the primary objectives of the Corporation is to provide reliable and stable cash flows, and presenting AFFO and CAFD assists readers in assessing our cash flows in comparison to prior periods. See the Non-IFRS Measures section of this MD&A for additional information. AFFO per share and CAFD per share are calculated using the weighted average number of common shares outstanding during the period.

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

	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Cash flow from operating activities	72	73	204	173
Change in non-cash operating working capital balances	32	2	1	(11)
Cash flow from operations before changes in working capital	104	75	205	162
Adjustments:				
Sustaining capital expenditures	(7)	(9)	(12)	(14)
Distributions paid to subsidiaries' non-controlling interest	–	(2)	–	(3)
Finance income - economic interests ⁽¹⁾	(59)	(24)	(96)	(47)
AFFO - economic interests ⁽¹⁾	35	24	73	49
AFFO	73	64	170	147
Deduct:				
Principal repayments of amortizing debt	(22)	(21)	(23)	(21)
CAFD	51	43	147	126
Weighted average number of common shares outstanding in the period (millions)	252	224	251	224
AFFO per share	0.29	0.29	0.68	0.66
CAFD per share	0.20	0.19	0.59	0.56

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

Presenting Comparable EBITDA provides management and investors with a proxy for the amount of cash generated from operating activities before net interest expense, non-controlling interest, income taxes and the impacts of timing on the finance income from subsidiaries of TransAlta in which we have an economic interest. We present Comparable EBITDA along with operational information of the assets in which we own an economic interest so that readers can better understand and evaluate the drivers of those assets in which we have the economic interest. See the Non-IFRS Measures section of this MD&A for additional information.

The tables below reconcile our reported EBITDA to Comparable EBITDA:

3 months ended June 30, 2018

	Reported	Adjustments	Economic interests	Comparable total
Revenues	107	–	47	154
Fuel, royalties and other costs of sales ⁽¹⁾	22	–	2	24
Gross margin	85	–	45	130
Operations, maintenance and administration ⁽²⁾	20	–	10	30
Taxes, other than income taxes	2	–	–	2
Finance income	(48)	48	–	–
Interest income	(11)	11	–	–
Change in fair value of financial assets	5	(5)	–	–
Foreign exchange gain	(2)	2	–	–
Earnings before interest, taxes, depreciation and amortization	119	(56)	35	98

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

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

6 months ended June 30, 2018

	Reported	Adjustments	Economic interests	Comparable total
Revenues	232	—	95	327
Fuel, royalties and other costs of sales ⁽¹⁾	50	—	3	53
Gross margin	182	—	92	274
Operations, maintenance and administration ⁽²⁾	41	—	20	61
Taxes, other than income taxes	4	—	—	4
Finance income	(75)	75	—	—
Interest income	(22)	22	—	—
Change in fair value of financial assets	4	(4)	—	—
Foreign exchange (gain) loss	(8)	8	—	—
Earnings before interest, taxes, depreciation, and amortization	238	(101)	72	209

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

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

3 months ended June 30, 2017

	Reported ⁽³⁾	Adjustments	Economic interests	Comparable total
Revenues ⁽¹⁾	110	—	47	157
Fuel, royalties and other costs of sales	24	—	4	28
Gross margin	86	—	43	129
Operations, maintenance and administration ⁽²⁾	20	—	9	29
Taxes, other than income taxes	2	—	—	2
Finance income	(13)	13	—	—
Interest income	(11)	11	—	—
Change in fair value of Class B shares	2	(2)	—	—
Foreign exchange loss	16	(16)	—	—
Earnings before interest, taxes, depreciation and amortization	70	(6)	34	98

(1) Amounts related to economic interests include finance lease income adjusted for change in finance lease receivable amount.

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

(3) Revenue and Fuel, royalty, and other costs of sales revised to reflect netting of intercompany gas sales with purchases. This adjustment had no effect on Comparable EBITDA.

6 months ended June 30, 2017

	Reported ⁽³⁾	Adjustments	Economic interests	Comparable total
Revenues ⁽¹⁾	234	—	94	328
Fuel, royalties and other costs of sales	51	—	7	58
Gross margin	183	—	87	270
Operations, maintenance and administration ⁽²⁾	41	—	16	57
Taxes, other than income taxes	4	—	—	4
Finance income	(25)	25	—	—
Interest income	(22)	22	—	—
Change in fair value of Class B shares	46	(46)	—	—
Foreign exchange (gain) loss	(15)	15	—	—
Earnings before interest, taxes, depreciation and amortization	154	(16)	71	209

(1) Amounts related to economic interests include finance lease income adjusted for change in finance lease receivable amount.

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

(3) Revenue and Fuel, royalty, and other costs of sales revised to reflect netting of intercompany gas sales with purchases. This adjustment had no effect on Comparable EBITDA.

The tables below reconcile the Comparable EBITDA of the facilities in which we hold an economic interest to the reported finance and interest income:

3 months ended June 30	2018			2017		
	US Wind and Solar ⁽¹⁾	Australian Gas	Total	US Wind and Solar	Australian Gas	Total
Comparable EBITDA	3	32	35	2	32	34
Sustaining capital	—	—	—	(1)	(2)	(3)
Change in long-term receivable	—	—	—	—	(6)	(6)
Other	—	1	1	—	—	—
Currency adjustment	—	(1)	(1)	—	(1)	(1)
AFFO	3	32	35	1	23	24
Return of Solomon proceeds	—	28	28	—	—	—
Return of capital	(1)	—	(1)	—	—	—
Effects of changes in working capital and timing on finance income	(2)	(1)	(3)	1	(1)	—
Finance income	—	59	59	2	22	24

3 months ended June 30	2018			2017		
	US Wind and Solar ⁽¹⁾	Australian Gas	Total	US Wind and Solar	Australian Gas	Total
Finance income	—	48	48	2	11	13
Interest income ⁽²⁾	—	11	11	—	11	11
Total finance income	—	59	59	2	22	24

6 months ended June 30	2018			2017		
	US Wind and Solar ⁽¹⁾	Australian Gas	Total	US Wind and Solar	Australian Gas	Total
Comparable EBITDA	8	64	72	8	63	71
Sustaining capital	(1)	—	(1)	(1)	(3)	(4)
Change in long-term receivable	—	—	—	—	(15)	(15)
Other	—	4	4	—	—	—
Currency adjustment	—	(2)	(2)	—	(3)	(3)
AFFO	7	66	73	7	42	49
Return of Solomon proceeds	—	28	28	—	—	—
Return of capital	(1)	—	(1)	—	—	—
Effects of changes in working capital and timing on finance income	(1)	(3)	(4)	(1)	(1)	(2)
Finance income	5	91	96	6	41	47

6 months ended June 30	2018			2017		
	US Wind and Solar ⁽¹⁾	Australian Gas	Total	US Wind and Solar	Australian Gas	Total
Finance income	5	70	75	6	19	25
Interest income ⁽²⁾	—	21	21	—	22	22
Total finance income	5	91	96	6	41	47

(1) Includes Lakeswind wind farm and Mass Solar solar projects from May 31, 2018 (see the Significant Events section of the MD&A).

(2) Commencing in the first quarter of 2018, we are required (due to the adoption of IFRS 9 - see Note 2(A)(II)) to present interest income as a separate line item on the Statement of Earnings. As a result, interest income earned on our investment in the Australian Assets is no longer included in the Finance Income line item on the Statement of Earnings.

In November 2017 FMG repurchased the Solomon Power Station from TEA for approximately US\$335 million. We had an economic interest in the cash flows generated from the Solomon Power Station. In 2017, we received approximately \$218 million of the Solomon proceeds through a combination of the redemption of a portion of the mandatory redeemable preferred shares and the redemption of a portion of the preferred shares of TEA. The remaining balance of the proceeds were loaned to us from TEA pursuant to the terms of a temporary loan agreement.

In the second quarter of 2018, we repaid to TEA approximately \$57 million of the temporary loan as disclosed in note 11. These funds were used by TEA to pay income tax related to the sale of the Solomon Power Station. In the second quarter of 2018 we recognized an additional \$28 million in dividend income on the TEA tracking preferred shares in income. This amount represents an additional TEA disbursement of the proceeds of the sale of the Solomon Power Station which are provided to us as soon as practicable based on statutory and tax requirements in Australia. This additional disbursement will be used to reduce the temporary loan, once received. The remaining balance on the temporary loan is expected to be repaid by the end of 2018.

Reconciliation of Comparable EBITDA to AFFO

3 months ended June 30	2018			2017		
	Owned assets ⁽¹⁾	Economic interests	Total	Owned assets	Economic interests	Total
Comparable EBITDA	63	35	98	64	34	98
Interest expense	(17)	—	(17)	(12)	—	(12)
Change in long-term receivable	—	—	—	—	(6)	(6)
Sustaining capital expenditures	(7)	—	(7)	(9)	(3)	(12)
Current income tax expense	(1)	—	(1)	(1)	—	(1)
Distributions paid to subsidiaries' non-controlling interest	—	—	—	(2)	—	(2)
Unrealized risk management (gain) loss	—	—	—	(2)	—	(2)
Realized foreign exchange gain (loss)	(1)	—	(1)	—	—	—
Currency adjustment	—	(1)	(1)	—	(1)	(1)
Other	1	1	2	2	—	2
AFFO	38	35	73	40	24	64

(1) Includes results of the Kent Breeze wind farm from May 31, 2018 (see the Significant Events section of the MD&A).

6 months ended June 30	2018			2017		
	Owned assets ⁽¹⁾	Economic interests	Total	Owned assets	Economic interests	Total
Comparable EBITDA	137	72	209	138	71	209
Interest expense	(27)	—	(27)	(24)	—	(24)
Change in long-term receivable	—	—	—	—	(15)	(15)
Sustaining capital expenditures	(12)	(1)	(13)	(14)	(4)	(18)
Current income tax expense	(3)	—	(3)	(3)	—	(3)
Distributions paid to subsidiaries' non-controlling interest	—	—	—	(3)	—	(3)
Unrealized risk management (gain) loss	(1)	—	(1)	(1)	—	(1)
Realized foreign exchange gain (loss)	(1)	—	(1)	—	—	—
Provisions	2	—	2	—	—	—
Currency adjustment	—	(2)	(2)	—	(3)	(3)
Other	2	4	6	5	—	5
AFFO	97	73	170	98	49	147

(1) Includes results of the Kent Breeze wind farm from May 31, 2018 (see the Significant Events section of the MD&A).

For the three and six months ended June 30, 2018, AFFO from the facilities in which we own an economic interest increased \$11 million and \$24 million, respectively, in 2018 over 2017, mainly due to no change in 2018 in the long-term receivable for Australian Gas and higher planned sustaining capital expenditures in 2017.

Discussion of Comparable EBITDA

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

The following tables summarize operational data and Comparable EBITDA by fuel type:

3 months ended June 30	Long-term average renewable energy production (GWh) ⁽¹⁾	Production (GWh)		Comparable EBITDA	
		2018	2017	2018	2017
Canadian Wind	646	621	640	41	36
Canadian Hydro	161	160	171	7	8
US Wind and Solar	94	93	75	3	2
Total - Renewable energy	901	874	886	51	46
Canadian Gas		281	283	19	24
Australian Gas		473	472	32	32
Corporate		—	—	(4)	(4)
Total		1,628	1,641	98	98

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

6 months ended June 30	Long-term average renewable energy production (GWh) ⁽¹⁾	Production (GWh)		Comparable EBITDA	
		2018	2017	2018	2017
Canadian Wind	1,533	1,465	1,484	100	95
Canadian Hydro	205	202	215	8	9
US Wind and Solar	203	211	197	8	8
Total - Renewable energy	1,941	1,878	1,896	116	112
Canadian Gas		590	609	38	43
Australian Gas		913	870	64	63
Corporate		—	—	(9)	(9)
Total		3,381	3,375	209	209

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

Renewable energy production for the three and six months ended June 30, 2018 decreased 12 GWh and 18 GWh compared to 2017, respectively. This decrease was mainly due to lower wind and water resourcing and lower market demand offset by the acquisitions of Lakeswind and Mass Solar.

Canadian Wind

	3 months ended June 30		6 months ended June 30	
	2018 ⁽¹⁾	2017	2018 ⁽¹⁾	2017
Production (GWh)	621	640	1,465	1,484
Gross installed capacity (MW)	1,149	1,132	1,149	1,132
Revenues	53	48	125	119
Royalties and other costs of sales	3	3	7	6
Comparable gross margin	50	45	118	113
Operations, maintenance and administration	7	7	15	15
Taxes, other than income taxes	2	2	3	3
Comparable EBITDA	41	36	100	95

(1) Includes the results of the Kent Breeze wind farm from the acquisition date of May 31, 2018.

Production for both the three and six months ended June 30, 2018 decreased 19 GWh compared to 2017, primarily due to higher paid curtailments and lower wind resourcing. Despite lower production, Comparable EBITDA for both the three and six months ended June 30, 2018 increased by \$5 million compared to 2017, mainly due to higher production at higher priced facilities in Eastern Canada in both periods, higher paid curtailments, and unfavourable mark to market impacts in 2017, while maintaining flat operating costs.

Canadian Hydro

	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Production (GWh)	160	171	202	215
Gross installed capacity (MW)	112	112	112	112
Revenues	9	11	12	14
Royalties and other costs of sales	1	2	1	2
Comparable gross margin	8	9	11	12
Operations, maintenance and administration	1	1	2	2
Taxes, other than income taxes	—	—	1	1
Comparable EBITDA	7	8	8	9

Production for the three and six months ended June 30, 2018 decreased 11 GWh and 13 GWh, respectively, compared to 2017, primarily due to unfavorable water resourcing. As a result, Comparable EBITDA for both the three and six months ended June 30, 2018 decreased by \$1 million compared to 2017.

US Wind and Solar

	3 months ended June 30		6 months ended June 30	
	2018 ⁽¹⁾	2017 ⁽²⁾	2018 ⁽¹⁾	2017 ⁽²⁾
Production (GWh)	93	75	211	197
Gross installed capacity (MW)	215	144	215	144
Revenues	6	5	13	12
Royalties and other costs of sales	1	1	1	1
Comparable gross margin	5	4	12	11
Operations, maintenance and administration	2	2	4	3
Comparable EBITDA	3	2	8	8

(1) Includes the results of the Lakeswind wind farm and Mass Solar solar projects from the acquisition date of May 31, 2018. Big Level and Antrim wind development projects excluded as these are in development.

(2) 2017 results consist solely of the Wyoming Wind farm.

As at June 30, 2018, US Wind and Solar consists of the Wyoming Wind farm, Lakeswind wind farm, and Mass Solar solar projects. Production for the three and six months ended June 30, 2018 increased by 18 GWh and 14 GWh, respectively, compared to 2017, primarily due to the acquisition of Lakeswind and Mass Solar. Comparable EBITDA remained consistent with the prior year.

Canadian Gas

	3 months ended June 30		6 months ended June 30	
	2018	2017 ⁽¹⁾	2018	2017
Production (GWh)	281	283	590	609
Gross installed capacity (MW)	506	506	506	506
Revenue	45	51	95	101
Fuel and purchased power	18	19	42	43
Comparable gross margin	27	32	53	58
Operations, maintenance, and administration	8	8	15	15
Comparable EBITDA	19	24	38	43

(1) Revenue and Fuel and purchased power revised to reflect netting of intercompany gas sales with purchases. This adjustment had no effect on Comparable EBITDA.

The Sarnia facility is highly contracted and therefore, its revenues are not typically impacted by fluctuations in production. Canadian Gas consists solely of the Sarnia facility. Comparable EBITDA for both the three and six months ended June 30, 2018 decreased by \$5 million compared to 2017, primarily due to unfavourable market and hedging impacts.

Australian Gas

	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Production (GWh)	473	472	913	870
Gross installed capacity (MW)	450	425	450	425
Revenues	41	28	82	54
Finance lease income ⁽¹⁾	—	14	—	28
Fuel and purchased power ⁽²⁾	1	(3)	2	(6)
Comparable gross margin	40	39	80	76
Operations, maintenance and administration ⁽³⁾	8	7	16	13
Comparable EBITDA	32	32	64	63

(1) 2017 Finance lease income adjusted for change in finance lease receivable.

(2) Commencing in the third quarter of 2017, adjusted for interest earned on the prepayment of certain transmission costs.

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

Comparable EBITDA for both the three and six months ended June 30, 2018 remained consistent with 2017. Comparable EBITDA from the South Hedland Power Station was offset by the termination of the Solomon Power Station contract. Due to the nature of our contracts, the increased production from the change in customer load does not have a significant financial impact as revenues are generally derived from capacity payments and fuel costs are passed through to the customers.

Regulatory and Environmental Legislation

Refer to the Regulatory and Environmental Legislation section of our 2017 Annual MD&A for further details that supplement the recent developments discussed below.

Alberta

The Alberta Electric System Operator (“AESO”) intends to procure up to 5,000 MW of renewable generation under the Renewable Electricity Program (“REP”) by 2030 to meet the 30 per cent target for renewable generation established by the Government of Alberta.

The AESO, with government approval, announced, on April 4, 2018, initial details of Round 2 and 3 of the Renewable Electricity Program ("REP") request for proposals and continues to work on a roadmap to outline future calls for proposals. The Round 2 call has an indigenous equity requirement of 25% and will procure 300 MW of renewable energy projects. Round 3 has a target volume of 400 MW of renewable projects capable of interconnecting with the existing transmission or distribution grid. The contracts awarded under the Round 2 and 3 REP process will be structured as contracts for differences. The AESO will award the contracts in December 2018 with target online dates being prior to June 31, 2021.

The request for qualifications ("RFQ") stage of Rounds 2 and 3 closed on June 21, 2018. The AESO's evaluation of the RFQ submissions is in progress with the selection of qualified respondents expected by mid-September. The selection of successful proponents and execution of contracts is expected to be completed by the end of 2018.

The Carbon Competitiveness Incentive Regulation ("CCIR") replaced the Specified Gas Emitters Regulation on Jan. 1, 2018. The Government of Alberta has confirmed offset crediting will continue and that credits will be fungible under the CCIR on a one-to-one basis, providing for the continuance of this revenue stream of the Corporation. The government has limited carbon credit usage initially to 50 per cent rising to 60 per cent over time of covered entities' compliance requirements. The CCIR will allow all renewables generation not currently receiving carbon crediting to do so post-2018 by opting into the CCIR. These incremental carbon credits would not be delivered until mid-2019. The CCIR program is positive to the Corporation as the wind facilities not currently receiving credits are now expected to be eligible for carbon crediting.

Ontario

On July 3, 2018, the newly elected government, revoked Ontario's cap and trade program and other green programs that were funded by carbon-pricing. Further details have not yet been provided and there has been no indication that existing contracted facilities will be negatively impacted.

Liquidity and Capital Resources

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

Our liquidity needs are met through a variety of sources, including cash generated from operations, our line of credit, capital markets and funding from TransAlta. Our primary uses of funds are operational expenses, capital expenditures, distributions to the non-controlling interest, and interest and principal payments on debt and dividends.

Financial Position

The following table highlights significant changes in the Consolidated Statements of Financial Position from Dec. 31, 2017 to June 30, 2018:

	Increase/ (decrease)	Primary factors explaining change
Cash and cash equivalents	4	Timing of receipts and payments
Trade and other receivables	(14)	Timing of receipts and seasonality of production
Prepaid expenses	7	Timing of payments for insurance and property tax
Property, plant, and equipment, net	(24)	Depreciation expense partially offset by additions and acquisitions
Intangible assets	24	Increase due to the acquisition of Kent Breeze offset by amortization
Investments in subsidiaries of TransAlta	147	Increase due to acquisition of tracking preferred shares in Big Level, Lakeswind and Mass Solar
Deferred income tax assets	10	Tax effect of share issuance costs and acquisitions during the quarter
Long-term debt (including current portion)	(22)	Decrease due to repayment of the Canadian Asset working capital loan and TEA loan and repayments on long-term debt offset by an increase in the Credit Facility
Deferred income tax liabilities	13	Decrease in tax loss carryforwards
Equity attributable to shareholders	165	Increase due to common shares issued, net earnings in the period and IFRS 9 fair value adjustment partially offset by dividends declared during the period

Cash Flows

The following tables highlight significant changes in the Condensed Consolidated Statements of Cash Flows for the three and six months ended June 30, 2018, compared to the same periods in 2017:

3 months ended June 30	2018	2017	Change	Primary factors explaining change
Cash and cash equivalents, beginning of period	59	51	8	
Provided by (used in):				
Operating activities	72	73	(1)	Higher cash earnings of \$29 million and unfavourable changes in working capital of \$30 million
Investing activities	(197)	(10)	(187)	Higher investments in subsidiaries of TransAlta of \$140 million, acquisitions of subsidiaries of TransAlta of \$39 million and additions to property, plant and equipment of \$14 million
Financing activities	90	(99)	189	Net proceeds on issuance of common shares of \$144 million and increased net borrowings of \$54 million, partially offset by an increase in dividends paid on common shares of \$10 million
Cash and cash equivalents, end of period	24	15	9	

6 months ended June 30	2018	2017	Change	Primary factors explaining change
Cash and cash equivalents, beginning of period	20	15	5	
Provided by (used in):				
Operating activities	204	173	31	Higher cash earnings of \$43 million and unfavourable changes in working capital of \$12 million
Investing activities	(203)	(36)	(167)	Higher investments in subsidiaries of TransAlta of \$118 million, acquisitions of subsidiaries of TransAlta of \$39 million and additions to property, plant and equipment of \$14 million
Financing activities	3	(137)	140	Net proceeds on issuance of common shares of \$144 million and increased net borrowings of \$14 million, partially offset by an increase in dividends paid on common shares of \$20 million
Cash and cash equivalents, end of period	24	15	9	

Debt

Debt, including amounts owing to TransAlta, totalled \$1,021 million as at June 30, 2018, compared to \$1,043 million as at Dec. 31, 2017. The decrease in debt as at June 30, 2018 is due to a partial repayment of \$57 million on the TEA loan and the full repayment of the \$6 million Canadian Assets working capital loan, partially offset by increased drawings of \$64 million on the Credit Facility.

As at June 30, 2018, we had a \$500 million syndicated Credit Facility available to us for general corporate purposes, including financing ongoing working capital requirements, construction capital requirements, growth opportunities and the repayment of outstanding borrowings. As at June 30, 2018, there was \$91 million (Dec. 31, 2017 - \$27 million) of credit utilized under the facility which was comprised of actual drawings. We also have an uncommitted \$100 million demand letter of credit facility, under which \$67 million of letters of credit have been issued as at June 30, 2018 (Dec. 31, 2017 - \$69 million).

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

At June 30, 2018, \$139 million of our debt was due to TransAlta (Dec. 31, 2017 - \$202 million), which is comprised of the TEA loan.

The Melancthon Wolfe Wind, Pingston, New Richmond and Kent Hills Wind bonds are subject to customary financing conditions and covenants that restrict the Corporation's ability to access funds generated by the facilities' operations. Upon meeting certain distribution tests, typically performed once per quarter, the funds can be distributed by the subsidiary entities to their respective parent entity. These restrictions include the ability to meet a debt service coverage ratio prior to distribution. Funds in these entities that have accumulated since the second quarter test will remain there until the next debt service coverage ratio can be calculated in the third quarter of 2018. As at June 30, 2018, \$22 million of cash was subject to these financial restrictions.

Additionally, the Melancthon Wolfe Wind, Pingston, New Richmond and Kent Hills Wind bonds require that certain reserve accounts be established and funded through cash held on deposit and/or by providing letters of credit. The Corporation has elected to use letters of credit as at June 30, 2018. Accordingly, no cash was subject to these restrictions.

The Corporation has \$31 million (Dec. 31, 2017 - \$30 million) of cash related to its Kent Hills Wind bond financing that is held in a construction reserve account. The restricted cash will be released from the construction reserve account upon satisfaction of certain conditions, including the Kent Hills 3 wind expansion project achieving commercial operation.

Share Capital

On June 30, 2018 we had approximately 262.4 million common shares issued and outstanding (Dec. 31, 2017 - 250.5 million). On June 22, 2018, the Corporation issued approximately 11.9 million common shares at a price of \$12.65 per share for gross proceeds of approximately \$150 million. On August 1, 2018, we had approximately 262.5 million common shares issued and outstanding, of which approximately 0.1 million were issued on July 31, 2018 under the DRIP.

Other Consolidated Results

Interest Expense

The components of interest expense are shown below:

	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Interest on long-term debt	10	8	18	18
Interest on convertible debenture	—	3	—	5
Interest on TEA loan	2	—	3	—
Other interest ⁽¹⁾	5	1	6	1
Accretion of provisions	—	—	1	1
Interest expense	17	12	28	25

(1) Consists of letters of credit and guarantees, credit facility commitments, other interest and banking fees. For the three and six months ended June 30, 2018, interest on letters of credit and guarantees pledged by TransAlta was nil (2017 - \$1 million). For the three and six months ended June 30, 2018, other interest includes approximately \$4 million of costs that were written off due to project level financing that is no longer practicable and \$1 million of transaction costs relating to the acquisition of Kent Breeze, and the acquisition of economic interests in Lakeswind and Mass Solar (see Note 3).

Income Taxes

Income tax expense for the three and six months ended June 30, 2018 decreased \$1 million and \$5 million, respectively compared to 2017. Although we had higher earnings before income taxes, certain income and expenses related to our investments in subsidiaries of TransAlta do not result in an accounting tax expense.

Other Comprehensive Income ("OCI")

During the three and six months ended June 30, 2018, we recognized a nil and \$4 million, respectively, increase in fair value in OCI (2017 - \$34 million, and \$48 million increase, respectively). The changes in the financial assets at fair value through other comprehensive income ("FVTOCI") during the period are primarily attributable to the Australian Tracking Preferred Shares. See Note 5 of our interim condensed consolidated financial statements for additional information.

Sustaining Capital Expenditures

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

3 months ended June 30

	Canadian Wind	Canadian Hydro	US Wind and Solar	Canadian Gas	Australian Gas	Total
2018 Total sustaining expenditures	1	—	—	6	—	7
2017 Total sustaining expenditures	2	—	1	7	2	12

6 months ended June 30

	Canadian Wind	Canadian Hydro	US Wind and Solar	Canadian Gas	Australian Gas	Total
2018 Total sustaining expenditures	2	1	1	9	—	13
2017 Total sustaining expenditures	4	1	1	9	3	18

Sustaining capital expenditures for both the three and six months ended June 30, 2018 decreased by \$5 million compared with 2017. Sustaining capital for the three and six months ended June 30, 2018 were mainly attributed to refurbishments and generator replacements in the wind fleet and planned major maintenance at our Canadian Gas facility. Sustaining capital expenditures for Australia were higher in 2017 due to planned major maintenance.

2018 Outlook

The following table outlines our expectation on key financial targets for 2018:

Measure	Target
Comparable EBITDA	\$400 million to \$420 million
Adjusted funds from operations	\$315 million to \$340 million
Cash available for distribution	\$260 million to \$290 million

Operations

Production

We expect renewable energy production from our wind, solar and hydro assets in 2018 to be in the range of 3,600 to 4,000 GWh. This includes expected generation from economic interests in the renewable Canadian and US assets acquired on May 31, 2018. Contracts for gas-fired generation primarily provide compensation for capacity, and accordingly, production is not a significant performance indicator of these assets.

Contracted Cash Flows

Through the use of PPAs, including the TransAlta PPAs and the recent acquisitions discussed in Note 3, our facilities and those in which we have an economic interest have a weighted average remaining contractual life of approximately 12 years.

Operating Costs

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

Exposure to Fluctuations in Foreign Currencies

We are exposed to fluctuations in the exchange rate between the Canadian and the Australian and US dollars as a result of our economic interest in the Wyoming Wind farm, Big Level and Antrim development projects, Lakeswind wind farm, Mass Solar solar projects, and the Australian Assets. The securities acquired from TransAlta and the related dividends received are denominated in Canadian, Australian and US dollars. TransAlta has agreed to provide us with protection against fluctuations in the exchange rates until June 30, 2020 on cash flows from the Australian Assets. Any changes in foreign investments or foreign-denominated debt may change our exposure. All of our other assets are located in Canada.

We may acquire equipment from foreign suppliers in various foreign currencies for future capital projects, which could create exposure to fluctuations in the value of the Canadian dollar related to those currencies. We have exposure to the euro and US dollars due to the Kent Hills 3 expansion project. We entered into foreign exchange forward contracts to hedge the euro and US dollar equipment costs related to the Kent Hills 3 expansion.

We expect to spend approximately US\$240 million in total to construct and commission the Big Level and Antrim development projects. We anticipate using foreign exchange contracts to manage the foreign exchange exposure created by these projects.

In addition, we entered into foreign exchange forward contracts to hedge US dollar cash flows primarily related to the Wyoming Wind farm, Lakeswind wind farm and Mass Solar solar projects. Our strategy is to mitigate foreign exchange risk on foreign-denominated cash flows to ensure our ability to meet dividend requirements.

Interest on Long-Term Debt

Exposure to interest rate risk is not significant as interest rates on long-term debt are largely fixed. Interest on long-term debt for 2018 is expected to be lower than 2017, due to replacing high interest rate debt with lower interest rate debt. This is partially offset by higher banking and credit facility charges. In 2017, we entered into a syndicated credit agreement giving us access to \$500 million in direct borrowings at a variable interest rate. Changes in interest rates can affect the amount of interest expense incurred.

Net Debt, Liquidity and Capital Resources

If there are low wind volumes, low hydro resources, low solar resources or unexpected maintenance costs, we may need additional liquidity in the future. We expect to maintain adequate available liquidity under our Credit Facility.

Income Taxes

The Corporation's statutory blended tax rate is expected to remain at 26 per cent. The effective income tax rate can change depending on the mix of earnings from various countries and certain deductions that do not fluctuate with earnings.

The Corporation's anticipated cash tax horizon is subject to risks, uncertainties, and other factors that could cause the cash tax horizon to occur sooner than our current projection of approximately three years. In particular, our anticipated cash tax horizon is subject to risk pertaining to a change in our operations, asset base, corporate structure, or changes to tax legislation, regulations, or interpretations. In the event we become cash taxable sooner than projected, our CAFD, and our dividend could decrease.

Capital Expenditures

Sustaining Capital

Our sustaining capital is comprised of the ongoing capital costs associated with maintaining the existing generating capacity of our facilities. The facilities of TransAlta in which we own economic interests also incur sustaining capital expenditures. While we are not required to fund these expenditures, they reduce the finance income from these investments.

For 2018, our estimate for total sustaining capital expenditures for owned assets and those in which we own an economic interest ranges from \$30 million to \$40 million. We also expect to spend approximately \$5 million on productivity capital.

Kent Hills 3 Wind Expansion

Total construction costs of our 17.25 MW Kent Hills 3 wind expansion project in New Brunswick are expected to be approximately \$36 million. To date we have spent \$23 million. Our partner on the existing Kent Hills facilities is participating in the expansion project and owns a 17 per cent interest. They will be funding their share of the total project costs. Our target completion date is the fourth quarter of 2018.

US Wind Projects

In April 2018, we entered into a Contribution Agreement with several subsidiaries of TransAlta related to our funding of the construction and other capital costs of the Big Level and Antrim wind development projects. In 2018 and 2019, we expect to invest a total of US\$240 million in these projects. To date we funded approximately US\$31 million. See the Significant Events section of this MD&A.

Financing

Financing for these capital expenditures is expected to be provided by cash flow from operating activities, capital markets transactions and our Credit Facility.

Contingencies

In the normal course of business, we may become party to litigation, proceedings, or regulatory investigations. While we are not directly involved in the ongoing dispute with FMG over the purported termination of the South Hedland PPA, the results of the litigation could impact the finance income received as a result of our economic interest in the Australian Assets. In addition, a second matter involves FMG's claims against TransAlta related to the transfer of the Solomon Power Station to FMG. FMG claims certain amounts related to the condition of the facility while TransAlta claims certain outstanding costs that should be reimbursed.

Financial Instruments

Refer to Note 12 of our most recent annual consolidated financial statements and Note 8 of our interim condensed consolidated financial statements for three and six months ended June 30, 2018 for details on Financial Instruments. Also, refer to the Financial Instruments section of our most recent annual MD&A for additional details. Our risk management profile and practices have not changed materially since Dec. 31, 2017, except for the requirement to measure the preferred shares tracking earnings and distributions of Wyoming Wind at fair value. Our investments in financial instruments related to the Big Level wind development project, Lakeswind wind farm and Mass Solar solar projects which are also measured at fair value. (See Note 3, 5 and 8.)

At June 30, 2018, Level III financial instruments were comprised of financial assets with a carrying value of \$892 million (Dec. 31, 2017 - \$616 million). The increase is due to the change in fair value of the preferred shares tracking earnings and distributions of Wyoming Wind farm, and the addition of the preferred shares tracking earnings of Lakeswind wind farm, Mass Solar solar projects and the Big Level wind development project. Refer to Notes 2, 5 and 8 in the interim condensed consolidated financial statements for the three and six months ended June 30, 2018 for additional information on these measurements.

Related-Party Transactions and Balances

Related-Party Transactions

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

	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Revenue from TransAlta PPAs	9	9	18	19
Revenue from Green Attributes ⁽¹⁾	—	—	1	—
Finance income from investments in subsidiaries of TransAlta	48	13	75	25
Interest income from investments in subsidiaries of TransAlta	11	11	21	22
G&A Reimbursement Fee ⁽²⁾	4	5	8	9
Natural gas purchases	2	1	5	3
Power swap sales (financial)	—	2	—	2
Interest expense on convertible debenture	—	4	—	6
Interest expense on TEA loan	2	—	3	—
Asset optimization fee ⁽³⁾	—	—	1	1
Realized foreign exchange gain on hedge of TEA contribution agreement	—	—	—	1
Interest expense on credit facility and letter of credit and guarantee fees	—	1	—	1

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

(2) Includes portion charged directly to Wyoming Wind.

(3) A subsidiary of TransAlta provides asset management and optimization services for the Corporation's Sarnia facility. The Sarnia 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	June 30, 2018	Dec. 31, 2017
Trade and other receivables	49	37
Accounts payable and accrued liabilities (including interest payable)	8	11
Dividends payable	38	37
Investments in subsidiaries of TransAlta	1,584	1,437
Canadian Assets working capital loan	—	6
TEA loan	139	196
Letters of credit issued by TransAlta on behalf of the Corporation ⁽¹⁾	1	1
Guarantees provided by TransAlta on behalf of the Corporation ⁽¹⁾	105	105
Indemnification guarantee provided by the Corporation to TransAlta ⁽¹⁾	554	921

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

All of these balances are with TransAlta or subsidiaries of TransAlta. The indemnification guarantee provided by the Corporation to TransAlta decreased by \$367 million during the three and six months ended June 30, 2018, mainly due to the cancellation of two significant guarantees due to the repurchase of the Solomon Power Station by the customer and the completion of the South Hedland Power Station.

Accounting Changes

Critical Accounting Estimates

The critical accounting estimates made were consistent with those outlined in our most recent annual MD&A for Dec. 31, 2017.

Current Accounting Changes

IFRS 9 - Financial Instruments

Effective January 1, 2018, we adopted IFRS 9. IFRS 9 introduces new requirements for:

- 1) The classification and measurement of financial assets and liabilities
- 2) The recognition and measurement of impairment of financial assets
- 3) General hedge accounting

In accordance with the transition provisions of the standard, we have elected not to restate prior periods. The cumulative impact of adopting IFRS 9 was recognized at the initial date of application as outlined below.

a. Classification and Measurement

We hold preferred shares of subsidiaries of TransAlta related to TEA and preferred shares of TEA, which under IFRS 9 are required to be measured at fair value through profit or loss ("FVTPL"). We have irrevocably elected to measure these investments at fair value through other comprehensive income ("FVTOCI"). Under IFRS 9, gains or losses recognized in OCI for investments in equity instruments designated at fair value through OCI are not subsequently reclassified to net earnings. This change led to an opening balance sheet adjustment, reclassifying \$137 million from deficit to accumulated other comprehensive income, arising from the 2017 impairments on the preferred shares tracking adjusted TEA amounts. In addition to this, the opening balance sheet was adjusted by reducing deficit by \$3 million to measure the preferred shares in subsidiaries of TransAlta related to Wyoming Wind LLC at fair value through profit loss "FVTPL" instead of cost, as was permitted under IAS 39.

b. Impairment of Financial Assets

IFRS 9 introduces a new impairment model for financial assets. The expected credit loss model requires the loss allowance for a financial asset is measured at an amount equal to the lifetime expected credit loss if its credit risk has increased significantly.

Management reviewed and assessed our existing financial assets for impairment using reasonable and supportable information in accordance with the expected credit loss model required by IFRS 9 to determine the credit risk of the respective items at the date they were initially recognized, and compared that to the credit risk as at January 1, 2018. There were no significant increases in credit risk determined upon application of IFRS 9.

c. General Hedge Accounting

We have applied the IFRS 9 hedge accounting requirements prospectively on Jan. 1, 2018. The hedging relationships designated by the Corporation under IAS 39 are identical to those that qualify as hedging relationships under IFRS 9.

d. IAS 1 - Presentation of Financial Statements

IFRS 9 amended IAS 1 to require that interest income be presented as a separate line item on the Statements of Net Earnings. We have applied this requirement on Jan. 1, 2018 and have revised the comparative period accordingly.

IFRS 15 - Revenue from Contracts with Customers

On Jan. 1, 2018, we adopted IFRS 15 using the modified retrospective method as allowed with the practical expedient election. The cumulative effect of initially applying IFRS 15 was nil. Comparative information has not been restated and is reported under IAS 18 Revenue (IAS 18).

Refer to Notes 2, 4 and 5 of the financial statements for additional information and disclosures related to IFRS 9 and 15.

Future Accounting Changes

IFRS 16 Leases

In January 2016, the International Accounting Standards Board ("IASB") issued IFRS 16 *Leases*, which replaces the current IFRS guidance on leases. Under current guidance, lessees are required to determine if the lease is a finance or operating lease, based on specified criteria. Finance leases are recognized on the statement of financial position, while operating leases are not. Under IFRS 16, lessees must recognize a lease liability and a right-of-use asset for virtually all lease contracts. An optional exemption to not recognize certain short-term leases and leases of low value can be applied by lessees. For lessors, the accounting remains essentially unchanged. IFRS 16 is effective for annual periods beginning on or after Jan. 1, 2019, with early application permitted if IFRS 15 is also applied at the same time. The standard is required to be adopted either retrospectively or using a modified retrospective approach. IFRS 16 will be applied by the Corporation on January 1, 2019.

We have prepared a detailed project plan and continue to complete scoping activities and have begun some contract assessments under IFRS 16. We anticipate that most of the effort under the implementation plan will occur in mid-to-late 2018. It is not yet possible to make a reliable estimate of the potential impact of IFRS 16 on our financial statements and disclosures.

Selected Quarterly Information

	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Revenue	91	134	125	107
Net earnings (loss) attributable to common shareholders	(73)	33	66	65
Cash flow from operating activities	87	30	132	72
AFFO	70	111	97	73
CAFD	70	88	96	51
Net earnings (loss) per share attributable to common shareholders, basic and diluted	(0.30)	0.13	0.26	0.26
CAFD per share	0.29	0.35	0.38	0.20

	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Revenue	45	94	124	110
Net earnings (loss) attributable to common shareholders	23	26	27	22
Cash flow from operating activities	62	69	100	73
AFFO	55	91	83	64
CAFD	55	69	83	43
Net earnings (loss) per share attributable to common shareholders, basic and diluted	0.10	0.12	0.12	0.10
CAFD per share	0.25	0.31	0.37	0.19

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. On Jan. 6, 2016, we acquired an economic interest in the Canadian Assets and on Nov. 30, 2016 we acquired ownership of the Canadian Assets. In April 2018, we acquired economic interests in the Big Level wind development project and in May 2018 we acquired Kent Breeze directly and economic interests in Lakeswind wind farm and Mass Solar solar projects. Our earnings after these investments include various effects arising from financial instruments:

- Foreign exchange gains on Australian-dollar-denominated instruments in the first quarter of 2018, first and fourth quarters of 2017 and the third quarter of 2016, with losses in the second quarter of 2018, second and third quarters of 2017 and the fourth quarter of 2016.
- Foreign exchange gains on US-dollar-denominated instruments in the first and second quarters of 2018, with losses in the first three quarters of 2017.
- In the third and fourth quarters of 2017, we recognized an impairment on the Australian Tracking Preferred Shares. Effective Jan. 1, 2018, with the adoption of IFRS 9, gains or losses recognized in OCI for investments in equity instruments designated at FVTOCI are not reclassified subsequently to net earnings.

Controls and Procedures

Management has evaluated, with the participation of our President and acting Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our report is accumulated and communicated to management, including our President and acting Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, management is required to apply its judgment in evaluating and implementing possible controls and procedures.

There has been no change in the internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on the foregoing evaluation, our President and acting Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2018, the end of the period covered by this report, our disclosure controls and procedures and our internal controls over financial reporting were effective.

TransAlta Renewables Inc.

Condensed Consolidated Statements of Earnings

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

	3 months ended June 30		6 months ended June 30	
	2018	2017 (Restated)*	2018	2017 (Restated)*
Unaudited				
Revenues (Note 4)	95	99	206	210
Government incentives	5	4	10	9
Lease revenue	7	7	16	15
Total revenue	107	110	232	234
Fuel, royalties, and other costs	22	24	50	51
Gross margin	85	86	182	183
Operations, maintenance and administration	20	20	41	41
Depreciation and amortization	30	28	60	56
Taxes, other than income taxes	2	2	4	4
Operating income	33	36	77	82
Finance income related to subsidiaries of TransAlta (Note 5)	48	13	75	25
Interest income (Note 6)	11	11	22	22
Interest expense (Note 6)	(17)	(12)	(28)	(25)
Change in fair value of financial assets (Note 5)	(5)	—	(4)	—
Change in fair value of Class B shares	—	(2)	—	(46)
Foreign exchange gain (loss)	2	(16)	8	15
Earnings before income taxes	72	30	150	73
Income tax expense (Note 7)	6	7	17	22
Net earnings	66	23	133	51
Net earnings attributable to:				
Common shareholders	65	22	131	49
Non-controlling interest	1	1	2	2
	66	23	133	51
Weighted average number of common shares outstanding in the year (millions), basic and diluted (Note 12)				
	252	224	251	224
Net earnings (loss) per share attributable to common shareholders, basic and diluted	0.26	0.10	0.52	0.22

*See Note 2(A) for prior period restatement.

See accompanying notes.

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

Unaudited	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Net earnings	66	23	133	51
Other comprehensive income (loss)				
Gains on derivatives designated as cash flow hedges, net of tax	(1)	—	—	—
Financial assets - fair value through other comprehensive income (Notes 2 and 5)	1	—	4	—
Total items that will not be reclassified subsequently to net earnings	—	—	4	—
Losses on derivatives designated as cash flow hedges, net of tax	—	—	—	(1)
Reclassification of losses on derivatives designated as cash flow hedges to net earnings, net of tax	—	—	—	1
Available-for-sale financial assets - net change in fair value (Note 5)	—	34	—	48
Total items that will be reclassified subsequently to net earnings	—	34	—	48
Other comprehensive income	—	34	4	48
Total comprehensive income	66	57	137	99
Total comprehensive income attributable to:				
Common shareholders	65	56	135	97
Non-controlling interest	1	1	2	2
	66	57	137	99

See accompanying notes.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Financial Position
(in millions of Canadian dollars)

Unaudited	June 30, 2018	Dec. 31, 2017
Cash and cash equivalents	24	20
Accounts receivable	102	116
Prepaid expenses	9	2
Risk management assets (Note 8)	—	1
Inventory	6	6
	141	145
Property, plant, and equipment (Note 9)		
Cost	2,819	2,805
Accumulated depreciation	(974)	(936)
	1,845	1,869
Intangible assets (Note 3)	127	103
Restricted cash (Note 11)	31	30
Other assets (Note 10)	38	35
Investments in subsidiaries of TransAlta (Note 5)	1,584	1,437
Deferred income tax assets	19	9
Total assets	3,785	3,628
Accounts payable and accrued liabilities	38	41
Dividends payable (Note 12)	62	59
Current portion of decommissioning and other provisions	3	2
Risk management liabilities (Note 8)	—	4
Current portion of long-term debt (Note 11)	187	250
	290	356
Long-term debt (Note 11)	834	793
Decommissioning provisions and other provisions	44	42
Deferred revenues	8	8
Deferred income tax liabilities	245	232
Total liabilities	1,421	1,431
Equity		
Common shares (Note 12)	2,999	2,854
Deficit (Note 2)	(548)	(701)
Accumulated other comprehensive income (loss) ("AOCI") (Note 2)	(125)	8
Equity attributable to shareholders	2,326	2,161
Non-controlling interest	38	36
Total equity	2,364	2,197
Total liabilities and equity	3,785	3,628

Commitments and contingencies (Note 13)

See accompanying notes.

TransAlta Renewables Inc.

Condensed Consolidated Statements of Changes in Equity

(in millions of Canadian dollars)

6 months ended June 30, 2018

Unaudited	Common shares	Deficit	Accumulated other comprehensive income (loss)	Attributable to shareholders	Attributable to non-controlling interest	Total
Balance, Dec. 31, 2017	2,854	(701)	8	2,161	36	2,197
Impacts of change in accounting policy (Note 2):						
Reclassification of impairment on available-for-sale financial assets to AOCI	–	137	(137)	–	–	–
Fair value adjustment on available-for-sale financial asset	–	3	–	3	–	3
Adjusted balance, Jan. 1, 2018	2,854	(561)	(129)	2,164	36	2,200
Net earnings	–	131	–	131	2	133
Other comprehensive income:						
Net change in financial assets at fair value through other comprehensive income (Note 5)	–	–	4	4	–	4
Total comprehensive income	–	131	4	135	2	137
Completion of public share offering (Note 12)	145	–	–	145	–	145
Common share dividends (Note 12)	–	(121)	–	(121)	–	(121)
Acquisitions (Note 3)	–	3	–	3	–	3
Balance, June 30, 2018	2,999	(548)	(125)	2,326	38	2,364

See accompanying notes.

6 months ended June 30, 2017

Unaudited	Common shares	Deficit ⁽¹⁾	Accumulated other comprehensive income	Attributable to shareholders	Attributable to non-controlling interest	Total
Balance, Dec. 31, 2016	2,469	(488)	45	2,026	35	2,061
Net earnings (loss)	–	49	–	49	2	51
Other comprehensive income:						
Net change in fair value of available-for-sale financial assets (Note 5)	–	–	48	48	–	48
Total comprehensive income	–	49	48	97	2	99
Common share dividends (Note 12)	–	(82)	–	(82)	–	(82)
Distributions to non-controlling interest	–	–	–	–	(3)	(3)
Balance, June 30, 2017	2,469	(521)	93	2,041	34	2,075

(1) Prior period adjustment to the original net book value of certain property, plant, and equipment related to the acquisition of TransAlta's Sarnia cogeneration plant.

See accompanying notes.

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

Unaudited	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Operating activities				
Net earnings	66	23	133	51
Depreciation and amortization	30	28	60	56
Accretion of provisions (Note 6)	—	—	1	1
Deferred income tax expense (Note 7)	5	6	14	19
Change in fair value of Class B shares	—	2	—	46
Change in fair value of financial assets	5	—	4	—
Unrealized foreign exchange (gain) loss	(3)	15	(9)	(14)
Unrealized (gain) loss from risk management activities	—	(2)	(1)	(1)
Provisions	—	1	2	1
Other non-cash items	1	2	1	3
Cash flow from operations before changes in working capital	104	75	205	162
Change in non-cash operating working capital balances	(32)	(2)	(1)	11
Cash flow from operating activities	72	73	204	173
Investing activities				
Additions to property, plant and equipment (Note 9)	(23)	(9)	(28)	(14)
Proceeds on sale of assets	1	—	1	—
Investments in subsidiaries of TransAlta (Note 5)	(140)	—	(140)	(22)
Acquisitions (Note 3)	(39)	—	(39)	—
Return of capital on investments in subsidiaries of TransAlta (Note 5)	1	—	1	—
Change in non-cash investing working capital balances	4	(1)	3	—
Other	(1)	—	(1)	—
Cash flow used in investing activities	(197)	(10)	(203)	(36)
Financing activities				
Net increase (decrease) in borrowings under credit facility (Note 11)	91	(27)	64	(2)
Repayments of Canadian Assets working capital loan and TEA loan (Note 11)	(63)	—	(63)	(13)
Long-term debt repayments	(22)	(21)	(23)	(21)
Net proceeds on issuance of common shares (Note 12)	144	—	144	—
Dividends paid on common shares (Note 12)	(60)	(50)	(119)	(99)
Distributions to non-controlling interest	—	(2)	—	(3)
Other	—	1	—	1
Cash flow used in financing activities	90	(99)	3	(137)
Increase (decrease) in cash and cash equivalents	(35)	(36)	4	—
Cash and cash equivalents, beginning of period	59	51	20	15
Cash and cash equivalents, end of period	24	15	24	15
Cash income taxes paid	2	3	3	3
Cash interest paid	18	24	22	24

See accompanying notes.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

1. Background and Accounting Policies

A. The Corporation

TransAlta Renewables Inc. ("TransAlta Renewables" or the "Corporation"), a subsidiary of TransAlta Corporation ("TransAlta"), owns and operates 13 hydro facilities, 18 wind farms, and one gas plant, with a total installed capacity of 1,767 megawatts ("MW") and holds economic interests in TransAlta's 144 MW Wyoming Wind wind farm, 50 MW Lakeswind wind farm, 21 MW Mass Solar solar projects, 90 MW Big Level and 29 MW Antrim US wind development projects (subject to certain closing conditions), and 450 MW Australian gas-fired generation assets including a 270 kilometre gas pipeline. These assets are substantially all contracted. The Corporation's head office is located in Calgary, Alberta.

B. Basis of Preparation

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

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

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

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

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

These interim condensed consolidated financial statements were authorized for issue by the Audit Committee on behalf of the Board of Directors on Aug. 1, 2018.

C. Use of Estimates and Significant Judgments

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

Judgment was applied in the first and second quarters of 2018 in relation to the assessment of dividends as income or return of capital, as follows:

The Corporation receives dividends from its investments in the preferred shares tracking adjusted TransAlta Energy (Australia) Pty Ltd ("TEA") amounts, the TEA preferred shares, and the preferred shares tracking earnings and distributions of TransAlta Wyoming Wind, Lakeswind, Mass Solar, and the Big Level and Antrim US wind development projects.

Determining whether a dividend represents in substance a return of capital requires significant judgment. The Corporation determines the amount of dividends that represent a return of capital based on the lower of: (i) the difference, if positive, between the cost base of the shares and their fair value, at the end of the reporting period; and (ii) the actual dividend declared on the shares during the reporting period. When it is determined that a dividend represents a return of capital, the carrying amount of the related investment is reduced. No return of capital arose in the first quarter of 2018. During the second quarter, the Corporation determined that the dividend earned in that quarter on the tracking preferred shares of Wyoming Wind constituted a return of capital.

Judgment was applied in the second quarter of 2018 in relation to the classification of investments in equity securities of subsidiaries of TransAlta, as follows:

The Corporation invests in tracking preferred shares which can have characteristics of both equity and debt instruments ("hybrid instruments") and therefore require judgment to determine if the shares are an equity instrument or a hybrid instrument, which determines if the changes in the fair value should be recognized as fair value through profit or loss ("FVTPL"), or at fair value through other comprehensive income ("FVTOCI"). During the second quarter, the Corporation determined that the tracking preferred shares related to Lakeswind and Mass Solar are hybrid instruments because they include a redemption option and were required to be classified as FVTPL. The tracking preferred shares related to Big Level were determined to be equity instruments and were elected as FVTOCI.

2. Accounting Changes

A. Current Accounting Changes

I. Prior Period Comparative Adjustment

The prior period adjustment to Revenues and Fuel, royalties, and other costs is to reflect netting of intercompany gas sales and purchases at Canadian Gas. This adjustment had no effect on Net Earnings.

II. Adoption of New Accounting Standards

IFRS 15 - Revenue from Contracts with Customers

The Corporation has adopted international financial reporting standard ("IFRS") 15 *Revenue from Contracts with Customers* (IFRS 15) with an initial adoption date of January 1, 2018. As a result, the Corporation has changed its accounting policy for revenue recognition. Full details on the Corporation's accounting policy for revenue can be found below.

The Corporation has elected to adopt IFRS 15 retrospectively with the modified retrospective method of transition practical expedient and has elected to apply IFRS 15 only to contracts that are not completed contracts at the date of initial application. The cumulative effect of initially applying IFRS 15 was nil. Comparative information has not been restated and is reported under IAS 18 *Revenue* (IAS 18). Refer to the Corporation's 2017 audited financial statements for information on its prior accounting policy.

The majority of the Corporation's revenues from contracts with customers are derived from the sale of electricity, capacity, and Green Attributes. Green Attributes are Renewable Energy Certificates and carbon offsets, or other tradable or saleable instruments that represent the property rights to the environmental, social and other non-power qualities of renewable electricity generation that can be sold separately from the underlying physical electricity.

The Corporation evaluates whether the contracts it enters into meet the definition of a contract with a customer at the inception of the contract and on an ongoing basis if there is an indication of significant changes in facts and circumstances. Revenue is measured based on the transaction price specified in a contract with a customer. Revenue is recognized when control of the good or services is transferred to the customer. For certain contracts, revenue may be recognized at the invoiced amount, as permitted using the invoice practical expedient, if such amount corresponds directly with the Corporation's performance to date. The Corporation excludes amounts collected on behalf of third parties from revenue.

Performance Obligations

The majority of the Corporation's revenues from contracts with customers are derived from the sale of electricity, capacity, and Green Attributes. Each promised good or service is accounted for separately as a performance obligation if it is distinct. The Corporation's contracts may contain more than one performance obligation.

Transaction Price

The Corporation allocates the transaction price in the contract to each performance obligation. The transaction price allocated to performance obligations may include variable consideration. Variable consideration is included in the transaction price for each performance obligation when it is highly probable that a significant reversal of the cumulative variable revenue will not occur. Variable consideration includes both variability in quantity and pricing. The consideration contained in the Corporation's contracts with customers is primarily variable. Variable consideration is assessed at each reporting period to determine whether the constraint is lifted.

Recognition

The nature, timing of recognition of satisfied performance obligations, and payment terms for the Corporation's goods and services are described below:

Contract Power

The sale of contract power refers to the delivery of units of electricity to a customer under the terms of a contract. Customers pay a contractually specified price for the output at the end of predefined contractual periods (i.e., monthly). Obligations to deliver electricity are satisfied over time and revenue is recognized using a units based output measure (i.e., megawatt hours). Contracts for power are typically long term in nature and payments are typically received on a monthly basis.

Capacity

Capacity refers to the availability of an asset to deliver goods or services. Customers typically pay for capacity for each defined time period (i.e., monthly) in an amount representative of availability of the asset for the defined time period. Obligations to deliver capacity are satisfied over time and revenue is recognized using a time based measure. Contracts for capacity are typically long term in nature. Payments are typically received from customers on a monthly basis.

Green Attributes

Green Attributes refers to the delivery of renewable energy certificates, green attributes, and other similar items. Customers may contract for renewable energy certificates in conjunction with the purchase of power in which case the customer pays in the month subsequent to the delivery of the power. Alternatively, when Green Attributes are sold separately, customers pay upon delivery. Obligations to deliver Green Attributes are satisfied at a point in time, generally upon delivery of the item.

A contract liability is recognized when the Corporation receives consideration before the performance obligations have been satisfied. A contract asset is recognized when the Corporation has rights to consideration for the completion of a performance obligation before it has invoiced the customer. The Corporation recognizes unconditional rights to consideration separately as a receivable. Contract assets and receivables are evaluated at each reporting period to determine whether there is any objective evidence that they are impaired.

Significant Judgments

Identification of performance obligations

Where contracts contain multiple promises for goods or services, management exercises judgment in determining whether goods or services constitute distinct goods or services or a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer. The determination of a performance obligation affects whether the transaction price is recognized at a point in time or over time. Management considers both the mechanics of the contract and the economic and operating environment of the contract in determining whether the goods or services in a contract are distinct.

Transaction price

In determining the transaction price and estimates of variable consideration, management considers past history of customer usage in estimating the goods and services to be provided to the customer. The Corporation also considers the historical production levels and operating conditions for its variable generating assets.

Satisfaction of performance obligations

The satisfaction of performance obligations requires management to make judgments as to when control of the underlying good or service transfers to the customer. Determining when a performance obligation is satisfied affects the timing of revenue recognition. Management considers both customer acceptance of the good or service, and the impact of laws and regulations such as certification requirements, in determining when this transfer occurs. Management also applies judgment in determining whether the invoice practical expedient permits recognition of revenue at the invoiced amount, if that invoiced amount corresponds directly with the entity's performance to date.

IFRS 9 - Financial Instruments

Effective Jan. 1, 2018, the Corporation adopted IFRS 9, which introduces new requirements for:

- 1) The classification and measurement of financial assets and liabilities
- 2) The recognition and measurement of impairment of financial assets
- 3) General hedge accounting

In accordance with the transition provisions of the standard, the Corporation has elected not to restate prior periods. The cumulative impact of adopting IFRS 9 was recognized at the initial date of application. Comparative period information is reported under IAS 39. Refer to the Corporation's most recent annual report for information on its prior accounting policy.

a. Classification and Measurement

IFRS 9 introduces the requirement to classify and measure financial assets based on their contractual cash flow characteristics and the business model under which the Corporation holds the financial asset. All financial assets and financial liabilities, including derivatives, are recognized at fair value on the consolidated statements of financial position when the Corporation becomes party to the contractual provisions of a financial instrument or non-financial derivative contract. Financial assets must be classified and measured at either amortized cost, FVTPL, or FVTOCI.

Financial assets whose contractual cash flows arise on specified dates, consist solely of principal and interest, and are held within a business model whose objective is to collect the contractual cash flows are subsequently measured at amortized cost. Financial assets measured at FVTOCI are those which have contractual cash flows arising on specific dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows and to sell the financial asset. All other financial assets and equity investments are subsequently measured at FVTPL.

At initial recognition, the Corporation may irrevocably elect to measure particular investments in equity instruments at FVTOCI that would otherwise be measured at FVTPL. When an equity investment is designated as measured at FVTOCI, the cumulative gain or loss previously recognized in other comprehensive income is not subsequently reclassified to profit or loss.

Financial liabilities are classified as FVTPL when the financial liability is held for trading. All other financial liabilities are subsequently measured at amortized cost.

The Corporation may enter into a variety of derivative financial instruments to manage its exposure to commodity price risk, interest rate risk, and foreign currency exchange risk, including fixed price financial swaps, long-term physical power sale contracts, and foreign exchange forward contracts. Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently measured at their fair value at the end of each reporting period. The resulting gain or loss is recognized in net earnings immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in net earnings is dependent on the nature of the hedging relationship.

The Corporation's management reviewed and assessed its existing financial instruments as at Jan. 1, 2018. Based on the facts and circumstances that existed at that date and at the instrument's initial date of recognition, the following classification and measurements resulted:

Financial instrument	IAS 39 category	IFRS 9 classification
Cash and cash equivalents	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Risk management assets - derivatives held for trading	Held for trading	FVTPL
Risk management assets - derivatives designated as hedging instruments	Derivatives designated as hedging instruments	FVTOCI
Loan receivable (other assets)	Loans and receivables	Amortized cost
Investments in subsidiaries of TransAlta related to TEA - debt instrument	Loans and receivables	Amortized cost
Investments in subsidiaries of TransAlta related to TEA - equity instrument	Available-for-sale	FVTOCI
Investments in subsidiaries of TransAlta related to Wyoming Wind - debt instrument	Available-for-sale	FVTPL
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Dividends payable	Other financial liabilities	Amortized cost
Risk management liabilities - derivatives held for trading	Held for trading	FVTPL
Risk management liabilities - derivatives designated as hedging instruments	Derivatives designated as hedging instruments	FVTOCI
Long-term debt	Other financial liabilities	Amortized cost

The Corporation holds preferred shares of a subsidiary of TransAlta that provides dividends in reference to TEA and preferred shares of TEA, which under IFRS 9 are required to be measured at FVTPL. The Corporation has irrevocably elected to present changes in fair value of these investments at FVTOCI. Under IFRS 9, gains or losses recognized in Other Comprehensive Income ("OCI") for investments in equity instruments designated at fair value through OCI are not subsequently reclassified to net earnings. This change led to an opening balance sheet adjustment, reclassifying \$137 million from deficit to accumulated other comprehensive income, arising from the 2017 impairments on the preferred shares tracking adjusted TEA amounts. In addition, the opening balance sheet was adjusted by increasing the investment balance, and reducing deficit, by \$3 million, respectively, to measure the preferred shares of a subsidiary of TransAlta that provides dividends in reference to Wyoming Wind LLC at FVTPL instead of cost, which was the best representation of fair value under IAS 39.

The classification and measurement requirements of IFRS 9 have had no other impacts to the Corporation's financial position, profit or loss, other comprehensive income or total comprehensive income upon initial application.

b. Impairment of Financial Assets

IFRS 9 introduces a new impairment model for financial assets. The expected credit loss model requires entities to account for expected credit losses on financial assets at the date of initial recognition, and to account for changes in expected credit losses at each reporting date to reflect changes in credit risk. The loss allowance for a financial asset is measured at an amount equal to the lifetime expected credit loss if its credit risk has increased significantly since initial recognition, or if the financial asset is a purchased or originated credit-impaired financial asset. If the credit risk on a financial asset has not increased significantly since initial recognition, its loss allowance is measured at an amount equal to the 12-month expected credit loss.

IFRS 9 permits a simplified approach for measuring the loss allowance for trade receivables, contract assets, and lease receivables at an amount equal to lifetime expected credit losses. The Corporation measures its loss allowance trade receivables and contract assets recognized under IFRS 15 using the simplified approach.

The assessment of the expected credit loss is based on historical data, and adjusted by forward-looking information. Forward-looking information utilized includes Standard & Poor's credit ratings and forecasted default rates over time.

The Corporation's management reviewed and assessed its existing financial assets for impairment using reasonable and supportable information in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognized, and compared that to the credit risk as at Jan. 1, 2018. There were no significant increases in credit risk determined upon application of IFRS 9 and no loss allowance was recognized.

c. General Hedge Accounting

IFRS 9 retains the three types of hedges (cash flow, fair value, and net investment) hedges, but increases flexibility as to the types of transactions that are eligible for hedge accounting.

The effectiveness test of IAS 39 is replaced by the principle of an "economic relationship", which requires that the hedging instrument and the hedged item have values that generally move in opposite directions because of the hedged risk. Additionally, retrospective hedge effectiveness testing is no longer required under IFRS 9.

In accordance with IFRS 9's transition provisions for hedge accounting, the Corporation has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on Jan. 1, 2018, and comparative figures have not been restated. The Corporation's qualifying hedging relationships under IAS 39 in place as at Jan. 1, 2018 also qualified for hedge accounting in accordance with IFRS 9, and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on Jan. 1, 2018. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment.

In certain cases, the Corporation purchases non-financial items in a foreign currency, for which it enters into foreign exchange contracts to hedge foreign currency risk on the anticipated payments. Both IAS 39 and IFRS 9 require hedging gains and losses to be basis adjusted to the initial carrying amount of non-financial hedged items once recognized, but under IFRS 9, these adjustments are no longer considered reclassification adjustments and do not affect other comprehensive income. Under IFRS 9, these amounts will be directly transferred to the asset and will be reflected in the statement of changes in equity as a reclassification from accumulated other comprehensive income.

The application of IFRS 9 hedge accounting requirements had no other impact on the results and financial position of the Corporation for the current or prior periods.

d. IAS 1 - Presentation of Financial Statements

IFRS 9 amended IAS 1 to require that interest income be presented as a separate line item on the Statements of Net Earnings. The Corporation has applied this requirement on Jan. 1, 2018 and has revised the comparative periods accordingly.

B. Future Accounting Changes

IFRS 16 Leases

In January 2016, the International Accounting Standards Board ("IASB") issued IFRS 16 *Leases*, which replaces the current IFRS guidance on leases. Under current guidance, lessees are required to determine if the lease is a finance or operating lease, based on specified criteria. Finance leases are recognized on the statement of financial position, while operating leases are not. Under IFRS 16, lessees must recognize a lease liability and a right-of-use asset for virtually all lease contracts. An optional exemption to not recognize certain short-term leases and leases of low value can be applied by lessees. For lessors, the accounting remains essentially unchanged. IFRS 16 is effective for annual periods beginning on or after Jan. 1, 2019. The standard is required to be adopted either retrospectively or using a modified retrospective approach.

The Corporation has prepared a detailed project plan and continues to complete its scoping activities and has begun some contract assessments under IFRS 16. The Corporation anticipates that most of the effort under the implementation plan will occur in mid-to-late 2018. It is not yet possible to make a reliable estimate of the potential impact of IFRS 16 on the Corporation's financial statements and disclosures.

3. Significant Events

Acquisition of US Wind Projects

On Feb. 20, 2018, the Corporation announced it had entered into an arrangement to acquire interests in two construction-ready projects in the Northeast United States. The wind development projects consist of: (i) a 90 Megawatt ("MW") project located in Pennsylvania which has a 15-year Power Purchase Agreement ("PPA") ("Big Level") and (ii) a 29 MW project

located in New Hampshire with two 20-year PPAs ("Antrim"). All three counterparties have S&P credit ratings of A+ or better. The commercial operation date for both projects is expected during the second half of 2019. A subsidiary of TransAlta acquired Big Level on March 1, 2018, whereas the acquisition of Antrim remains subject to certain closing conditions, including the receipt of a favourable regulatory ruling.

On April 20, 2018, the Corporation completed the acquisition of an economic interest in Big Level through the subscription of \$39 million (US\$31 million) of tracking preferred shares of a subsidiary of TransAlta pursuant to the arrangement entered into with TransAlta on Feb. 20, 2018. Pursuant to the arrangement with TransAlta, the Corporation expects to fund the total estimated construction and acquisition costs of US\$240 million through the subscription of additional tracking preferred shares or interest bearing promissory notes.

Canadian Gas Contract

On May 1, 2018, the Corporation entered into a contract with a leading Canadian blockchain company to supply up to 35 MW of power and provide industrial space at the Sarnia facility. The contract has a 5-year term with an extension for up to another 5 years.

Acquisition of Three Renewables Assets

On May 31, 2018, the Corporation acquired 100 per cent of the equity interests in three entities from TransAlta, which provided for, among other things, the transfer to TransAlta Renewables of the direct ownership of the 20 MW Kent Breeze wind farm located in Ontario for a total purchase price of \$39 million. The acquisition was accounted for as a business combination under common control, as TransAlta controlled Kent Breeze prior to, and after, the acquisition by the Corporation. IFRS 3 *Business Combinations* requires fair value accounting for acquisitions and provides guidance for common control transactions. Under established IFRS practice, common control transactions are generally accounted for using either the fair value or the pooling of interest (book value) methods of accounting. The Corporation applied the pooling of interest method to account for the acquisition, consistent with its previously chosen accounting policies. The assets and liabilities acquired have been recognized at the book values previously recognized by TransAlta at May 31, 2018 and not at their fair values. As a result, a \$3 million adjustment to equity was recognized in Deficit.

On May 31, 2018, the Corporation acquired an economic interest in the 50 MW Lakeswind wind farm in Minnesota and 21 MW of solar projects located in Massachusetts ("Mass Solar"), from TransAlta Corporation. The total purchase price for the two assets was \$65 million (US\$50 million), net of the assumption of \$62 million (US\$48 million) of tax equity obligations and project debt. The Corporation's investment consists of tracking preferred shares of a subsidiary of TransAlta that provides the Corporation with an economic interest based on cash flows broadly equal to the underlying net distributable profits (after satisfaction of tax equity and debt obligations) of the entities that own Lakeswind wind farm and Mass Solar.

On June 28, 2018, the Corporation subscribed for an additional \$33 million (US\$25 million) of tracking preferred shares of a subsidiary of TransAlta, in order to fund the repayment of Mass Solar's project debt.

Common Share Issuance

On June 22, 2018, the Corporation issued 11,860,000 common shares at a price of \$12.65 per share for gross proceeds of approximately \$150 million. The shares were issued under a bought deal offering through a syndicate of underwriters.

The net proceeds were used by TransAlta Renewables to partially repay drawn amounts under its credit facility, which were drawn to fund the recent acquisitions described above. The additional liquidity under the Credit Facility will be used for general corporate purposes, including ongoing construction costs associated with such acquisitions. TransAlta did not purchase any additional common shares and owns approximately 61 per cent of the outstanding common shares of TransAlta Renewables.

Dividend Reinvestment Plan

On May 31, 2018, the Board of Directors approved the implementation of a dividend reinvestment plan ("DRIP") for Canadian holders of common shares of TransAlta Renewables. Commencing with the dividend payable on July 31, 2018, eligible shareholders may elect to automatically reinvest monthly dividends into additional common shares of the Corporation. The price for common shares under the DRIP will be 98 per cent of the average market price of the common shares for the five trading days on which not less than 500 common shares of the Corporation are traded immediately prior to the dividend payment date. Eligible shareholders are not required to participate in the DRIP. TransAlta Corporation does not intend to participate in the DRIP.

4. Revenue from Contracts with Customers

Disaggregation of Revenue From Contracts with Customers

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

3 months ended June 30, 2018	Canadian Wind	Canadian Hydro	Canadian Gas	Total
Revenue from contracts with customers	42	7	45	94
Other revenue	1	—	—	1
Revenues	43	7	45	95

Timing of revenue recognition

At a point in time	—	—	—	—
Over time	42	7	45	94
Revenue from contracts with customers	42	7	45	94

6 months ended June 30, 2018	Canadian Wind	Canadian Hydro	Canadian Gas	Total
Revenue from contracts with customers	101	9	94	204
Other revenue	1	—	1	2
Revenues	102	9	95	206

Timing of revenue recognition

At a point in time	3	—	—	3
Over time	98	9	94	201
Revenue from contracts with customers	101	9	94	204

5. Finance Income Related to Subsidiaries of TransAlta

Finance income related to subsidiaries of TransAlta is comprised of income from various interests that in aggregate and over time indirectly provide the Corporation with cash flows based on those of TEA and TransAlta Wyoming Wind and Lakeswind and Mass Solar from May 31, 2018 (see Note 3).

	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Dividend income from investment in preferred shares of TEA	1	1	3	2
Fee income from indirect guarantee of TEA obligations	2	6	6	11
Dividend income from investment in preferred shares tracking adjusted TEA amounts	45	4	61	6
Finance income related to TEA	48	11	70	19
Dividend income from investment in preferred shares tracking earnings and distributions of Wyoming Wind	—	2	5	6
Total finance income	48	13	75	25
Finance income related to TEA	48	11	70	19
Interest income from investment in mandatory redeemable preferred shares of TEA ⁽¹⁾ (Note 6)	11	11	21	22
Total income related to TEA	59	22	91	41

(1) Effective Jan. 1, 2018, interest income is required to be presented as a separate line item on the statements of earnings (see Note 2).

Finance income is recognized in cash flows from operating activities in the condensed Consolidated Statements of Cash Flows. Foreign exchange gains and losses related to monetary investments in subsidiaries of TransAlta are recognized within foreign exchange gain (loss) in the Condensed Consolidated Statements of Earnings.

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

As at	June 30, 2018	Dec. 31, 2017
Investment in MRPS	598	601
Investment in preferred shares tracking adjusted TEA amounts	620	616
Investment in preferred shares of TEA	94	94
Total investments in subsidiaries related to TEA	1,312	1,311
Investment in preferred shares tracking earnings and distributions of TransAlta Big Level	41	
Investment in preferred shares tracking earnings and distributions of TransAlta Mass Solar	69	–
Investment in preferred shares tracking earnings and distributions of TransAlta Lakeswind	31	–
Investment in preferred shares tracking earnings and distributions of TransAlta Wyoming Wind	131	126
Total investments in subsidiaries of TransAlta	1,584	1,437

Investment in Subsidiaries of TransAlta Related to TEA

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

	MRPS ⁽¹⁾	Preferred shares tracking adjusted TEA amounts	Preferred shares of TEA ⁽²⁾	Total
Investment balance at Dec. 31, 2017	601	616	94	1,311
Unrealized foreign exchange gain (loss) recognized in earnings	(3)	–	–	(3)
Net change in fair value recognized in OCI	–	4	–	4
Investment balance at June 30, 2018	598	620	94	1,312

(1) Principal amount as at June 30, 2018 and Dec. 31, 2017, was AUD620 million.

(2) Principal amount as at June 30, 2018 and Dec. 31, 2017, was AUD86 million.

	MRPS ⁽¹⁾	Preferred shares tracking adjusted TEA amounts	Preferred shares of TEA ⁽²⁾	Total
Investment balance at Dec. 31, 2016	613	841	52	1,506
Additional investments	13	–	9	22
Unrealized foreign exchange gain (loss) recognized in earnings	12	–	–	12
Net change in fair value recognized in OCI	–	40	8	48
Investment balance at June 30, 2017	638	881	69	1,588

(1) Principal amount as at June 30, 2017 and Dec. 31, 2016, was AUD654 million and AUD641 million, respectively.

(2) Principal amount as at June 30, 2017 and Dec. 31, 2016, was AUD63 million and AUD54 million, respectively.

The Corporation estimated the fair value of the preferred shares tracking adjusted TEA amounts utilizing significant unobservable inputs such as TEA's long-range forecast as part of a discounted cash flow model, as outlined in Note 8(B)(I)(c). Key assumptions in respect of significant unobservable inputs used in the fair value measurement include the discount rate and the quarterly cash flows from the instrument and guarantee fees. The forecast extends over 30 years, which is consistent with the expected cash flow periods. The table below summarizes quantitative data regarding these unobservable inputs:

Unobservable input	June 30, 2018	Dec. 31, 2017
Discount rate	6.7%	6.7%
Quarterly cash flows	Average of \$11	Average of \$11

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

Unobservable input	Alternative assumption	Change in fair value as at June 30, 2018	Change in fair value as at Dec. 31, 2017
Basis point change in discount rates	-10 basis points decrease	5.0	5.0
	+10 basis points increase	(5.0)	(5.0)
Quarterly cash flows	+1% increase	6.0	6.0
	- 1% decrease	(6.0)	(6.0)

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

The investment in preferred shares of a subsidiary of TransAlta related to Wyoming Wind provides cumulative variable cash dividends, when declared, that are broadly equal to the pre-tax earnings and distributable profits of Wyoming Wind. The preferred shares are accounted for as FVTPL, however, in the comparative period they were accounted for at cost.

During the second quarter, the Corporation acquired an economic interest in the Big Level development project. The Corporation's investment consists of tracking preferred shares in a subsidiary of TransAlta that provides the Corporation with an economic interest based on cash flows broadly equal to the underlying net distributable profits of the entities that own Big Level. The Corporation has irrevocably elected to present changes in fair value of this investment as FVTOCI so as to not distort net earnings with unrealized changes in fair value, which can be temporary in nature and may arise due to factors not specifically related to the underlying future cash flows of the investments.

In addition, during the second quarter, the Corporation acquired an economic interest in each of the Lakeswind wind farm and the Mass Solar solar projects from TransAlta Corporation. The Corporation's investments consist of tracking preferred shares in a subsidiary of TransAlta that provide the Corporation with economic interests based on cash flows broadly equal to the underlying net distributable profits (after satisfaction of tax equity obligations) of each of the entities that own Lakeswind and Mass Solar. The investments are accounted for as FVTPL.

Changes in the investment balances are detailed as follows:

	As at June 30, 2018				June 30, 2017	
	Preferred shares tracking earnings and distributions of Wyoming Wind	Preferred shares tracking earnings and distributions of Big Level	Preferred shares tracking earnings and distributions of Lakeswind	Preferred shares tracking earnings and distributions of Mass Solar	Total	Preferred shares tracking earnings and distributions of Wyoming Wind
Investment balance beginning of period	126	—	—	—	126	139
IFRS 9 recognition at fair value	3	—	—	—	3	—
Adjusted balance, Jan. 1, 2018	129	—	—	—	129	—
Additional/ initial investments ⁽¹⁾	—	41	30	69	140	—
Redemption	—	—	—	—	—	—
Return of capital	(1)	—	—	—	(1)	—
Unrealized foreign exchange gain (loss) recognized in earnings or OCI	7	2	1	—	10	(5)
Net change in fair value recognized in earnings	(4)	—	—	—	(4)	—
Net change in fair value recognized in OCI	—	(2)	—	—	(2)	—
Investment balance end of period	131	41	31	69	272	134

(1) Big Level investment includes acquisition costs represented by a US\$2 million development fee paid to TransAlta.

Principal amounts as at June 30, 2018 were USD\$100 million for Wyoming Wind, USD\$31 million for Big Level, USD\$23 million for Lakeswind and USD\$52 million for Mass Solar. Principal amount as at Dec. 31, 2017 was USD\$100 million for Wyoming Wind.

Principal amount as at June 30, 2017 and Dec. 31, 2016, was USD\$103 million for Wyoming Wind.

The Corporation estimated the fair value of the preferred shares tracking earnings and distributions of Wyoming Wind, Big Level, Lakeswind and Mass Solar utilizing significant unobservable inputs such as long-range forecasts as part of a

discounted cash flow model, as outlined in Note 8(B)(l)(c). Key assumptions in respect of significant unobservable inputs used in the fair value measurements include the discount rate and the quarterly cash flows from the instruments. The table below summarizes quantitative data regarding these unobservable inputs as at June 30, 2018:

Unobservable input	Wyoming Wind	Big Level	Mass Solar	Lakeswind
Discount rate	6.6%	8.0%	7.5%	9.7%
Quarterly cash flows	Average of \$3	Average of \$3	Average of \$1	Average of \$1

The forecasts extend over the expected operating lives of the underlying facilities, which ranges from 16 years to 32 years.

The following table summarizes the impact on the fair value measurements of a change in the above unobservable inputs to reflect reasonably possible alternative assumptions as at June 30, 2018:

Unobservable input	Alternative assumption	Change in fair value as at June 30, 2018 ⁽¹⁾
Basis point change in discount rates	-10 basis points decrease	1
	+10 basis points increase	(1)
Quarterly cash flows	+1% increase	1
	- 1% decrease	(1)

(1) The fair value changes presented relate only to Wyoming Wind as the changes for Big Level, Mass Solar and Lakeswind each resulted in a fair value change of less than \$1 million for each unobservable input alternative assumption.

6. Interest Expense and Interest Income

The components of interest expense are as follows:

	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Interest on long-term debt	10	8	18	18
Interest on convertible debenture	—	3	—	5
Interest on TEA loan	2	—	3	—
Other interest ⁽¹⁾	5	1	6	1
Accretion of provisions	—	—	1	1
Interest expense	17	12	28	25

(1) Consists of letters of credit and guarantees, credit facility commitments, other interest and banking fees. For the three and six months ended June 30, 2018, interest on letters of credit and guarantees pledged by TransAlta was nil (2017 - \$1 million). For the three and six months ended June 30, 2018, other interest includes approximately \$4 million of costs that were written off due to project level financing that is no longer practicable and \$1 million of transaction costs relating to the acquisitions of Kent Breeze, Lakeswind and Mass Solar (see Note 3).

The components of interest income are as follows:

	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Interest income from investment in MRPS of TEA (Note 5)	11	11	21	22
Other interest income	—	—	1	—
Interest income	11	11	22	22

7. Income Taxes

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

	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Current income tax expense	1	1	3	3
Deferred income tax expense related to the origination and reversal of temporary differences	5	6	14	19
Income tax expense	6	7	17	22

Presented in the Condensed Consolidated Statements of Earnings as follows:

	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Current income tax expense	1	1	3	3
Deferred income tax expense	5	6	14	19
Income tax expense	6	7	17	22

8. Financial Instruments and Risk Management

A. Financial Assets and Liabilities – Measurement

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

B. Fair Value of Financial Instruments

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

As at	June 30, 2018		Dec. 31, 2017	
	Fair value Level II	Fair value Level III	Fair value Level II	Fair value Level III
Preferred shares tracking adjusted TEA amounts	–	620	–	616
Preferred shares tracking earnings and distributions of Wyoming Wind ⁽¹⁾	–	131	–	–
Preferred shares tracking earnings and distributions of Big Level	–	41	–	–
Preferred shares tracking earnings and distributions of Mass Solar	–	69	–	–
Preferred shares tracking earnings and distributions of Lakeswind	–	31	–	–
Preferred shares of TEA	94	–	94	–
Net risk management liabilities	–	–	(3)	–

(1) Investment is measured at cost in 2017.

I. Level Determinations and Classifications

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

a. Level I

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

b. Level II

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

Fair values within the Level II category are determined through the use of quoted prices in active markets, which in some cases are adjusted for factors specific to the asset or liability, such as basis, credit valuation and location differentials. The Corporation's commodity risk management Level II financial instruments include over-the-counter derivatives with values based on observable commodity futures curves and derivatives with inputs validated by broker quotes or other publicly available market data providers. Level II fair values are also determined using valuation techniques, such as option pricing models and regression or extrapolation formulas, where the inputs are readily observable, including commodity prices for similar assets or liabilities in active markets, and implied volatilities for options.

In determining Level II fair values of other risk management assets and liabilities and the TEA preferred shares measured and carried at fair value, the Corporation uses observable inputs other than unadjusted quoted prices that are observable for the asset or liability, such as interest rate yield curves and currency rates. For certain financial instruments where insufficient trading volume or lack of recent trades exists, the Corporation relies on similar interest or currency rate inputs and other third-party information such as credit spreads. The fair value of the TEA preferred shares is determined by calculating an implied price based on a current assessment of the yield to maturity.

c. Level III

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

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

II. Commodity and Other Risk Management Assets and Liabilities

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

The following table summarizes the net risk management assets (liabilities) as at June 30, 2018 and Dec. 31, 2017:

	Cash flow hedges		Non-hedges	Total
	Level II	Level II		
Net risk management assets (liabilities) at June 30, 2018	–	–	–	–
Net risk management liabilities at Dec. 31, 2017	–	(3)	(3)	(3)

III. Financial Instruments – Not Measured at Fair Value

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

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

As at	June 30, 2018		Dec. 31, 2017	
	Fair value Level II	Carrying value	Fair value Level II	Carrying value
MRPS	606	598	605	601
Loan receivable ⁽¹⁾	38	38	38	38
Long-term debt ⁽¹⁾	990	1,021	1,019	1,043

(1) Includes current portion.

The fair value of the Corporation's unsecured debentures is determined using prices observed in secondary markets. The fair value of the MRPS and other long-term debt is determined by calculating an implied price based on a current assessment of the yield to maturity.

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

I. Credit Risk

The Corporation's maximum exposure to credit risk at June 30, 2018, without taking into account collateral held or right of set-off, and including indirect exposures arising from the Corporation's investment in preferred shares tracking adjusted TEA amounts, is detailed as follows:

Counterparty credit rating	Direct exposure		Indirect exposure ⁽²⁾
	Receivables ⁽¹⁾	MRPS	Trade accounts receivable
Investment grade	91	—	45
Non-investment grade	8	—	18
No external rating	38	598	—

(1) Includes trade accounts receivable, distributions receivable from subsidiaries of TransAlta, risk management assets, and the loan receivable (see Note 10).

(2) Includes accounts receivable of TEA. Receivables of other economic interest investments were approximately \$3 million in total and are with investment grade and other high quality counterparties.

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

II. Other Market Risks

The Corporation is exposed to market risks based on changes in the fair value of the preferred shares of TEA, the preferred shares tracking adjusted TEA amounts and the preferred shares tracking earnings and distributions of Wyoming Wind, Big Level, Lakeswind and Mass Solar. A one per cent increase (decrease) in the value of these securities would result in a \$2 million increase (decrease) in net income and a \$8 million increase (decrease) in other comprehensive income as at June 30, 2018.

III. Liquidity Risk

The following table presents the contractual maturities of the Corporation's financial liabilities as at June 30, 2018:

	2018	2019	2020	2021	2022	2023 and thereafter	Total
Accounts payable and accrued liabilities	38	—	—	—	—	—	38
Long-term debt	163	49	51	52	145	570	1,030
Interest on long-term debt ⁽¹⁾	22	33	32	29	26	108	250
Dividends payable	62	—	—	—	—	—	62
Total	285	82	83	81	171	678	1,380

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

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

IV. Foreign Currency Rate Risk

The possible effect on net earnings and OCI, due to changes in foreign exchange rates associated with financial instruments denominated in currencies other than the Corporation's functional currency is outlined below. The sensitivity analysis has been prepared using management's assessment that an average four cent (2017 – four cent) increase or decrease in these currencies relative to the Canadian dollar is a reasonable potential change over the next quarter.

6 months ended June 30	2018		2017	
Currency	Net earnings increase ⁽¹⁾	OCI gain ⁽¹⁾	Net earnings increase ⁽¹⁾	OCI gain ⁽¹⁾
USD	6	7	5	19
AUD	15	11	22	34
EUR	–	–	–	1
Total	21	18	27	54

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

9. Property, Plant, and Equipment

A reconciliation of the changes in the carrying amount of property, plant, and equipment ("PP&E") is as follows:

	Hydro generation	Wind generation ⁽¹⁾	Gas generation	Capital spares and other	Total
As at Dec. 31, 2017	189	1,341	321	18	1,869
Additions	1	17	8	2	28
Acquisitions (Note 3)	–	4	–	–	4
Depreciation	(4)	(33)	(16)	–	(53)
Revisions and additions to decommissioning costs	–	–	(1)	–	(1)
Disposals and retirements	(1)	–	(1)	–	(2)
Transfers	–	1	–	(1)	–
As at June 30, 2018	185	1,330	311	19	1,845

(1) Wind generation includes an opening and closing balance of \$9 million and \$23 million, respectively, related to assets under construction. There were \$14 million of additions in the three and six months ended June 30, 2018.

10. Other Assets

On Nov. 2, 2017, the Corporation's subsidiary, Kent Hills Wind LP, advanced \$39 million of the Kent Hills Wind bond financing proceeds to its 17 per cent partner. The loan bears interest at 4.55 per cent, with interest payable quarterly, commencing on Dec. 31, 2017, is unsecured and matures on Oct. 2, 2022. The Corporation may, at any time, demand repayment of any advances outstanding for the purpose of funding any capital required for the construction of the Kent Hills 3 expansion project. The balance of the loan receivable is \$38 million at June 30, 2018. The current portion of \$3 million is included in accounts receivable and the long-term portion of \$35 million is included in Other Assets.

11. Long-Term Debt

A. Amounts Outstanding

As at	June 30, 2018			Dec. 31, 2017		
	Carrying value	Face value	Interest ⁽¹⁾	Carrying value	Face value	Interest ⁽¹⁾
Credit facility	91	91	3.12%	27	27	2.75%
Pingston bond	45	45	2.95%	45	45	2.95%
Melancthon Wolfe Wind bond	350	354	3.83%	367	372	3.83%
New Richmond bond	143	146	3.96%	146	148	3.96%
Kent Hills Wind bond	253	255	4.45%	256	258	4.45%
TEA loan ⁽²⁾	139	139	3.16%	196	196	2.80%
Canadian Assets working capital loan	—	—	—	6	6	—
	1,021	1,030		1,043	1,052	
Less: current portion	(187)	(187)		(250)	(250)	
Total long-term debt	834	843		793	802	

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

(2) AUD141 million as at June 30, 2018 (Dec. 31, 2017 - AUD199 million)

As at June 30, 2018, the Corporation had a \$500 million (Dec. 31, 2017 - \$500 million) committed syndicated credit facility, of which \$342 million was available (Dec. 31, 2017 - \$404 million). The Corporation is in compliance with the terms of the credit facility. As at June 30, 2018, there was \$91 million (Dec. 31, 2017 - \$27 million) of credit utilized under the facility which was comprised of actual drawings. The Corporation also had an uncommitted \$100 million demand letter of credit facility, under which \$67 million of letters of credit have been issued as at June 30, 2018 (Dec. 31, 2017 - \$69 million).

The \$500 million credit facility is the primary source of short-term liquidity after the cash flow generated from the Corporation's business. Interest rates on the credit facility vary depending on the type of borrowing selected: Canadian prime, bankers' acceptances, LIBOR, or US base rate in accordance with a pricing grid that is standard for such a facility. The agreement is fully committed for four years, expiring in 2022.

In May 2018, the Corporation repaid \$57 million (AUD\$58 million) of the TEA loan. The remaining balance is due on the earlier of receipt of a demand notice and Dec. 31, 2018.

B. Restrictions

The Melancthon Wolfe Wind, Pingston, New Richmond and Kent Hills Wind bonds are subject to customary financing conditions and covenants that restrict the Corporation's ability to access funds generated by the facilities' operations. Upon meeting certain distribution tests, typically performed once per quarter, the funds can be distributed by the subsidiary entities to their respective parent entity. These restrictions include the ability to meet a debt service coverage ratio prior to distribution. Funds in these entities that have accumulated since the second quarter test will remain there until the next debt service coverage ratio can be calculated in the third quarter of 2018. As at June 30, 2018, \$22 million of cash was subject to these financial restrictions (Dec. 31, 2017 - \$14 million).

C. Security

The Melancthon Wolfe Wind, Pingston, New Richmond, and Kent Hills Wind bonds are secured by a first ranking charge over all of the respective assets, including property, plant and equipment with a total carrying amount of \$1,028 million (Dec. 31, 2017 - \$1,038 million) of the Corporation's subsidiaries that issued the bonds, being Melancthon Wolfe Wind L.P., Pingston Power Inc., New Richmond Wind L.P. and Kent Hills Wind L.P., respectively.

D. Restricted Cash

The Corporation has \$31 million (Dec. 31, 2017 - \$30 million) of cash related to its Kent Hills Wind bond financing, which is held in a construction reserve account. The restricted cash will be released from the construction reserve account upon satisfaction of certain conditions, including the Kent Hills 3 wind expansion project achieving commercial operations.

Additionally, the Melancthon Wolfe Wind, Pingston, New Richmond, and Kent Hills Wind bonds require that certain reserve accounts be established and funded through cash held on deposit and/or by providing letters of credit. The Corporation has elected to use letters of credit as at June 30, 2018. Accordingly, no cash was subject to these restrictions.

12. Common Shares

A. Authorized and Outstanding

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

The number of common shares issued and outstanding was approximately 262 million as at June 30, 2018, 250 million as at Dec. 31, 2017, and 224 million as at June 30, 2017. On June 22, 2018, the Corporation issued approximately 12 million common shares at a price of \$12.65 per share for proceeds of approximately \$145 million, net of \$6 million in issuance costs less tax effects of \$1 million (see Note 3).

B. Dividends

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

The following table summarizes the common share dividends declared in 2018 and 2017:

Dividends declared	Total dividends per share	Total dividends	TransAlta	Other shareholders
Six months ended June 30, 2018	0.46998	121	76	45
Six months ended June 30, 2017	0.36665	82	49	33

On May 31, 2018, the Corporation declared a monthly dividend of \$0.07833 per common share payable on each of July 31, 2018, August 31, 2018 and September 28, 2018.

C. Dividend Reinvestment Plan (DRIP)

Commencing with the dividend payable on July 31, 2018, eligible shareholders may elect to automatically reinvest monthly dividends into additional common shares of the Corporation. The price for common shares under the DRIP will be 98 per cent of the average market price of the common shares for the five trading days on which not less than 500 common shares of the Corporation are traded immediately prior to the dividend payment date. Common shares under the DRIP will be issued from treasury.

13. Commitments and Contingencies

A. Litigation

In the normal course of business, the Corporation may become party to litigation, proceedings, or regulatory investigations. While the Corporation is not directly involved in the ongoing dispute with FMG over the purported termination of the South Hedland PPA, the results of the litigation could impact the finance income received as a result of the Corporation's economic interest in the Australian Assets. In addition, a second matter involves FMG's claims against TransAlta related to the transfer of the Solomon Power Station to FMG. FMG claims certain amounts related to the condition of the facility while TransAlta claims certain outstanding costs that should be reimbursed.

B. Guarantees

As part of the acquisition of the Australian Assets, the Corporation entered into a Guarantee and Indemnification Agreement in favour of TransAlta related to certain guarantees TransAlta has provided to third parties in respect of certain obligations of TEA (the "TEA Guarantees"). The Corporation has agreed to indemnify TransAlta from and against all claims, actions, proceedings, liabilities, losses, costs, expenses or damages against or incurred by TransAlta arising out of or in connection with the TEA Guarantees and to reimburse TransAlta in full for the amount of any payment made by TransAlta under and in accordance with the TEA Guarantees, relating to actions, omissions, events and circumstances that occur. As at June 30, 2018, the total amounts guaranteed by the Corporation were \$554 million (Dec. 31, 2017 - \$921 million). The decrease of \$367 million was mainly due to the cancellation in May 2018 of two significant guarantees due to the repurchase of the Solomon Power Station by the customer and the completion of the South Hedland Power Station.

C. Growth

The Corporation has committed future expenditures of \$13 million related to its Kent Hills 3 Wind expansion project.

D. Contribution Commitment

In April 2018, the Corporation entered into a Contribution Agreement with several subsidiaries of TransAlta related to funding the construction and other capital costs of the Big Level and Antrim wind development projects (see Note 3). In 2018 and 2019, we expect to invest a total of US\$240 million in these projects. To date, we funded approximately US\$31 million.

14. Related-Party Transactions and Balances

The Corporation has entered into certain agreements and transactions with TransAlta, which are discussed in more detail in Note 25 of the Corporation's most recent annual report, and in Note 3.

A. Related-Party Transactions

Related-party transactions include the finance income related to investments in subsidiaries of TransAlta (Note 5) and interest income related to investments in subsidiaries of TransAlta (Note 6). Also, all financial instruments and derivatives of the Corporation are entered into on behalf of the Corporation by a subsidiary of TransAlta.

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

	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Revenue from TransAlta PPAs	9	9	18	19
Revenue from Green Attributes ⁽¹⁾	—	—	1	—
G&A Reimbursement Fee ⁽²⁾	4	5	8	9
Natural gas purchases	2	1	5	3
Power swap sales (financial)	—	2	—	2
Interest expense on convertible debenture	—	4	—	6
Interest expense on TEA loan	2	—	3	—
Asset optimization fee ⁽³⁾	—	—	1	1
Realized foreign exchange gain on hedge of TEA contribution agreement	—	—	—	1
Interest expense on TAC credit facility, letters of credit and guarantees	—	1	—	1

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

(2) Includes portion charged directly to the Wyoming Wind farm.

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

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

B. Related-Party Balances

Related-party balances include the investments in subsidiaries of TransAlta disclosed in Note 5, the risk management assets and liabilities disclosed in Note 8, the Canadian Assets working capital loan and the TEA loan disclosed in Note 11, and the guarantees provided by the Corporation on behalf of TransAlta and TEA disclosed in Note 13.

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

As at	June 30, 2018	Dec. 31, 2017
Trade and other receivables	49	37
Accounts payable and accrued liabilities (including interest payable)	8	11
Dividends payable	38	37
Letters of credit issued by TransAlta on behalf of the Corporation	1	1
Guarantees provided by TransAlta on behalf of the Corporation	105	105

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

15. Segment Disclosures

3 months ended June 30, 2018	Canadian Wind ⁽¹⁾	Canadian Hydro	Canadian Gas	Corporate	Total
Revenues	43	7	45	—	95
Government incentives	5	—	—	—	5
Lease revenue	5	2	—	—	7
Total revenue	53	9	45	—	107
Fuel, royalties and other costs	3	1	18	—	22
Gross margin	50	8	27	—	85
Operations, maintenance and administration	7	1	8	4	20
Depreciation and amortization	19	3	8	—	30
Taxes, other than income taxes	2	—	—	—	2
Operating income (loss)	22	4	11	(4)	33
Finance income related to subsidiaries of TransAlta					48
Interest income					11
Interest expense					(17)
Change in fair value of financial assets					(5)
Foreign exchange gain					2
Earnings before income taxes					72

(1) Includes results of Kent Breeze wind farm from May 31, 2018 (see Note 3).

6 months ended June 30, 2018	Canadian Wind ⁽¹⁾	Canadian Hydro	Canadian Gas	Corporate	Total
Revenues	102	9	95	—	206
Government incentives	10	—	—	—	10
Lease revenue	13	3	—	—	16
Total revenue	125	12	95	—	232
Fuel, royalties and other costs	7	1	42	—	50
Gross margin	118	11	53	—	182
Operations, maintenance, and administration	15	2	15	9	41
Depreciation and amortization	37	5	18	—	60
Taxes, other than income taxes	3	1	—	—	4
Operating income (loss)	63	3	20	(9)	77
Finance income related to subsidiaries of TransAlta					75
Interest income					22
Interest expense					(28)
Change in fair value of financial assets					(4)
Foreign exchange gain					8
Earnings before income taxes					150

(1) Includes results of Kent Breeze wind farm from May 31, 2018 (see Note 3).

3 months ended June 30, 2017	Canadian Wind	Canadian Hydro	Canadian Gas ⁽¹⁾	Corporate	Total
Revenues	40	8	51	—	99
Government incentives	4	—	—	—	4
Lease revenue	4	3	—	—	7
Total revenue	48	11	51	—	110
Fuel, royalties and other costs	3	2	19	—	24
Gross margin	45	9	32	—	86
Operations, maintenance and administration	7	1	8	4	20
Depreciation and amortization	17	3	8	—	28
Taxes, other than income taxes	2	—	—	—	2
Operating income (loss)	19	5	16	(4)	36
Finance income related to subsidiaries of TransAlta ⁽²⁾					13
Interest income ⁽²⁾					11
Interest expense ⁽²⁾					(12)
Foreign exchange loss					(16)
Change in fair value of Class B shares					(2)
Earnings before income taxes					30

(1) Prior period adjustment to Revenues, and Fuel, royalties, and other costs to reflect netting of intercompany gas sales and purchases. This adjustment had no effect on Gross margin.

(2) IFRS 9 amended IAS 1 to require that interest income be presented as a separate line item on the Statements of Net Earnings. The Corporation has applied this requirement on Jan. 1, 2018 and has revised the comparative periods accordingly.

6 months ended June 30, 2017	Canadian Wind	Canadian Hydro	Canadian Gas ⁽¹⁾	Corporate	Total
Revenues	99	10	101	—	210
Government incentives	9	—	—	—	9
Lease revenue	11	4	—	—	15
Total revenue	119	14	101	—	234
Fuel, royalties and other costs	6	2	43	—	51
Gross margin	113	12	58	—	183
Operations, maintenance and administration	15	2	15	9	41
Depreciation and amortization	36	5	15	—	56
Taxes, other than income taxes	3	1	—	—	4
Operating income (loss)	59	4	28	(9)	82
Finance income related to subsidiaries of TransAlta ⁽²⁾					25
Interest income ⁽²⁾					22
Interest expense ⁽²⁾					(25)
Foreign exchange gain					15
Change in fair value of Class B shares					(46)
Earnings before income taxes					73

(1) Prior period adjustment to Revenues, and Fuel, royalties, and other costs to reflect netting of intercompany gas sales and purchases. This adjustment had no effect on Gross margin.

(2) IFRS 9 amended IAS 1 to require that interest income be presented as a separate line item on the Statements of Net Earnings. The Corporation has applied this requirement on Jan. 1, 2018 and has revised the comparative periods accordingly.

Glossary of Key Terms

Australian Assets – TransAlta's 450 MW Australian gas-fired generation assets that are fully operational and contracted under long-term contracts, as well as the 270-kilometre Fortescue River Gas pipeline.

Australian Tracking Preferred Shares – Preferred shares of a TransAlta subsidiary, which provide cumulative variable dividends broadly equal to the underlying net distributable profits of TEA.

Canadian Assets – Collectively, the 506 MW Sarnia cogeneration plant, 98 MW Le Nordais wind farm and 7 MW Ragged Chute hydro facility that are fully operational and contracted under long-term contracts. The assets are located in Ontario and Quebec.

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

Credit Facility - The \$500 million external syndicated credit facility that is fully committed for four years, expiring in 2021. The facility is subject to a number of customary covenants and restrictions in order to maintain access to the funding commitments.

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 affairs of the Corporation.

Gigawatt - A measure of electric power equal to 1,000 megawatts.

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

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

Green Attributes – Renewable energy certificates and carbon offsets, or other tradable or saleable instruments that represent the property rights to the environmental, social and other non-power qualities of renewable electricity generation that can be sold separately from the underlying physical electricity.

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

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

MRPS – Australian Mandatory Redeemable Preferred Shares which are non-voting and rank subordinate to all present and future secured and unsecured indebtedness, but are senior to all other classes of issued and outstanding shares in the capital of the Australian subsidiary. The MRPS have a stated dividend rate of 7.4 per cent.

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.

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

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

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

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

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

US Wind Development Projects - The wind development projects consisting of the 90 MW project located in Pennsylvania which has a 15-year PPA and the 29 MW project located in New Hampshire with two 20-year PPAs.

Wyoming Wind – TransAlta's 144 MW wind farm in Wyoming.

TransAlta renewables^{inc.}

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

Website
www.transaltarenewables.com

AST Trust Company (Canada)
P.O. Box 700 Station "B"
Montreal, Québec
H3B 3K3
Phone
Toll-free in North America: 1.800.387.0825
Toronto/outside North America: 416.682.3860
E-mail
inquiries@astfinancial.com

Fax
514.985.8843
Website
www.astfinancial.com/ca-en

Additional Information
Requests can be directed to:

Investor Inquiries

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

Media Inquiries
Toll-free 1.855.255.9184
or 403.267.2540