

TRANSALTA RENEWABLES INC.

Second Quarter Report for 2020

Management's Discussion and Analysis

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

This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements of TransAlta Renewables Inc. as at and for the three and six months ended June 30, 2020 and 2019 and should also be read in conjunction with the annual audited consolidated financial statements and MD&A contained within our Annual Report for the year ended Dec. 31, 2019. In this MD&A, unless the context otherwise requires, 'we', 'our', 'us', 'TransAlta Renewables', and the 'Corporation' refer to TransAlta Renewables Inc. and its subsidiaries and 'TransAlta' refers to TransAlta Corporation and its subsidiaries. Capitalized terms not otherwise defined herein have the respective meanings set forth in the Glossary of Key Terms. All dollar amounts in the tables presented in this MD&A are in millions of Canadian dollars except per share amounts which are presented in whole dollars to the nearest two decimals, unless otherwise noted. The interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standard ("IFRS") International Accounting Standards ("IAS") 34 Interim Financial Reporting. This MD&A is dated July 30, 2020. Additional information respecting the Corporation, including its Annual Information Form, is available on SEDAR at www.sedar.com and on our website at www.transaltarenewables.com. Information on or connected to our website is not incorporated by reference herein.

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Operations of the Corporation

As at June 30, 2020, TransAlta Renewables owned 13 hydro facilities, 19 wind farms and one natural gas plant in Canada, and held economic interests in TransAlta's Wyoming, Lakeswind, Big Level and Antrim wind farms, Mass Solar solar projects and the Australian Assets. The operational results of those assets in which we have an economic interest are not consolidated into our results; however, the finance income we receive on the underlying investments is included in our consolidated net earnings.

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

Highlights

Consolidated Financial Highlights

	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Renewable energy production (GWh) ⁽¹⁾	1,098	867	2,271	1,868
Revenues	103	111	213	238
Net earnings attributable to common shareholders	30	31	33	107
Comparable EBITDA ⁽²⁾	115	111	233	227
Adjusted funds from operations ⁽²⁾	90	80	184	174
Cash flow from operating activities	71	52	153	183
Cash available for distribution ⁽²⁾	67	57	158	149
Net earnings per share attributable to common shareholders, basic and diluted	0.11	0.12	0.12	0.41
Adjusted funds from operations per share ⁽²⁾	0.34	0.30	0.69	0.66
Cash available for distribution per share ⁽²⁾	0.25	0.22	0.59	0.56
Dividends declared per common share	0.23	0.23	0.47	0.47
Dividends paid per common share ⁽³⁾	0.23	0.23	0.47	0.47

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

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

(3) Includes DRIP payments.

As at	June 30, 2020	Dec. 31, 2019
Gas installed capacity (MW) ⁽¹⁾	949	949
Renewables gross installed capacity (MW) ⁽²⁾	1,609	1,609
Total assets	3,478	3,702
Long-term debt and lease obligations ⁽³⁾	825	961
Total long-term liabilities	1,110	1,237

(1) Includes Canadian and Australian gas-fired generation.

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

(3) Including current portion.

Renewable energy production for the three and six months ended June 30, 2020, increased by 231 GWh and 403 GWh compared to the same period in 2019. This increase was mainly due to higher wind resource in Canadian Wind and higher production at US Wind and Solar as a result of a full half year of operations at the Big Level and Antrim wind farms.

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

Comparable earnings before interest, taxes, depreciation, and amortization ("Comparable EBITDA") for the three and six months ended June 30, 2020, increased by \$4 million and \$6 million, respectively, mainly due to higher Comparable EBITDA from US Wind and Solar, partially offset by lower Comparable EBITDA from Canadian Wind and Canadian Gas. Comparable EBITDA from US Wind and Solar increased due to higher production at Wyoming and Lakeswind, a full half year of Big Level and Antrim facilities being in operation, and higher environmental credits sold at the Mass Solar facilities. Comparable EBITDA at Canadian Wind decreased mainly due to lower carbon offset revenues, lower government incentives driven by the planned expiry of certain Wind Power Production Incentives in 2019, the timing of recognition of green attribute revenues, and insurance proceeds received in 2019 for a wind turbine fire at the Summerview facility, partially offset by higher wind resources. Comparable EBITDA at Canadian Gas decreased mainly due to lower merchant power prices.

Adjusted Funds From Operations ("AFFO") for the three and six months ended June 30, 2020, increased by \$10 million in both periods and Cash Available For Distribution ("CAFD") for the three and six months ended June 30, 2020, increased by \$10 million and \$9 million compared to the same periods in 2019, primarily due to higher Comparable EBITDA, lower sustaining capital expenditures, partially offset by higher tax equity distributions.

Net earnings attributable to common shareholders for the three months ended June 30, 2020, decreased by \$1 million compared to the same period in 2019, as a result of lower comparable EBITDA from Canadian Wind and Canadian Gas and an increase in unrealized losses due to the change in the fair value of financial assets offset by foreign exchange gains resulting from the strengthening Australian dollar relative to the Canadian dollar since the first quarter. The unfavourable change in fair value of financial assets is largely due to changes in discount rates on the preferred shares tracking the amortizing term loan in Australia. Income tax expense increased period over period by \$17 million, mainly due to the recognition in 2019 of a deferred income tax recovery of \$18 million related to a decrease in the Alberta corporate tax rate.

Net earnings attributable to common shareholders for the six months ended June 30, 2020 compared to the same period in 2019, decreased by \$74 million, as a result of lower comparable EBITDA from Canadian Wind and Canadian Gas, a decrease in finance income, an increase in unrealized losses due to a change in the fair value of financial assets and an increase in income tax expense, offset by foreign exchange gains resulting from the strengthening Australian dollar relative to the Canadian dollar. Income tax expense increased period over period by \$14 million, mainly due to the recognition in 2019 of a deferred income tax recovery of \$18 million related to a decrease in the Alberta corporate tax rate. Variability in finance income and the change in fair value of financial assets is significantly related to the classification of the distributions received from the Corporation's investments in its economic interests as return of capital or dividends received, timing of dividends declared on the Preferred Shares Tracking Australia Cash Flows, changes in fair value on the Preferred Shares Tracking the Amortizing Term Loan and foreign exchange impacts. Set out below are the key drivers of the changes arising from these investments:

- A reduction in finance income of \$21 million was as a result of lower dividends received on the Preferred Shares Tracking Australia Cash Flows which were impacted by the early redemption of \$AU45 million of the Preferred Shares Tracking the Amortizing Term Loan. Dividends on the US Wind and Solar Tracking Preferred Shares were reduced as a large portion of the distributions received were classified as a return of capital thereby reducing our investments in the economic interests of the US Wind and Solar Assets.
- A higher foreign exchange gain of \$46 million, as result of the strengthening of the Australian and US dollars relative to the Canadian dollar since year-end
- An unfavourable change in fair value of \$64 million, relating to the Preferred Shares Tracking the Amortizing Term Loan due to the timing of cash flows assumptions and discount rate changes.

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

Significant and Subsequent Events

Global Pandemic ("COVID-19")

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

TransAlta, as the manager and operator of the Corporation's business and assets, formally implemented its business continuity plan on March 9, 2020, which focused on: (i) ensuring that TransAlta employees that could work remotely did so; and (ii) TransAlta employees that operate and maintain our facilities, who were not able to work remotely, were able to work safely and in a manner that ensured they remained healthy. During the second quarter of 2020, TransAlta began a staggered approach to bring its employees that were working remotely back to the office. All of TransAlta's offices and sites follow strict health screening and physical distancing protocols with personal protective equipment readily available. Further, TransAlta maintains travel bans aligned to local jurisdictional guidance, enhanced cleaning procedures, revised work schedules, contingent work teams and the reorganization of processes and procedures to limit contact with other employees and contractors on-site.

All of our facilities including those which we have economic interests through TransAlta, continue to remain fully operational and capable of meeting our customers' needs. We have modified our operating procedures and TransAlta has implemented safety protocols that are allowing all its office employees to now return to sites across the fleet by the end of July. The Corporation continues to work and serve all of our customers and counterparties under the terms of their contracts. We have not experienced interruptions to service requirements. Electricity and steam supply continue to remain a critical service requirement to all of our customers and have been deemed an essential service in our jurisdictions.

Strategy and Capability to Deliver Results

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

Forward-Looking Statements

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

In particular, this MD&A contains forward-looking statements pertaining to our business and anticipated future financial performance including, but not limited to: our corporate strategy, including capitalizing on strategic growth opportunities in the renewable and natural gas power generation and other infrastructure sectors and paying out 80 to 85 per cent of cash available for distribution to the shareholders of the Corporation on an annual basis; the potential impact of COVID-19 on the Corporation and the actions to be undertaken by the Corporation or TransAlta in response to the COVID-19 pandemic; our 2020 Outlook, including Comparable EBITDA, AFFO and CAFD (each, as defined below), interest expense, cash available for distribution, and sustaining capital and productivity expenditures; the dividend amount on the Preferred Shares Tracking Australian Cash Flows; foreign exchange exposure and risk management; seasonality of the Corporation's business, including our plan to enter into foreign exchange forwards to hedge Australian dollar cash flows related to the Australian Assets; liquidity and capital resources, including our ability to manage borrowings through 2023 and beyond on acceptable terms; changes to the Alberta tax rate; principal sources of liquidity and our ability to draw on such liquidity; expectations regarding net interest payments and volume of debt; expectations regarding project level debt; tax equity proceeds currently held as reserves being released upon the payment of all outstanding project costs and the satisfaction of certain other conditions; expectations in terms of the cost of operations and maintenance, including maintenance performed by third parties, and the variability of those

costs; the payment of future dividends; expectations in respect of generation availability, Capacity and production; actions to manage certain risks, including specific actions identified to manage liquidity risk, interest rate risk, project risks and reputation risk; expected governmental regulatory regimes, legislation and programs, including expectations regarding the implementation of new IFRS standards; expectations regarding seasonality of wind and hydro production; expectations on our ability to access capital markets on reasonable terms; expectations regarding our decommissioning and restoration activities; expectations regarding the outcome of existing or potential legal or contractual claims, regulatory investigations and disputes, including the dispute with Fortescue Metals Group Ltd. ("FMG") over the commissioning of the South Hedland Power Station; and that the Corporation will realize on acquisition and development opportunities from time-to-time to advance the growth of the Corporation. The forward-looking statements contained in this MD&A are based on many assumptions including, but not limited to, the following: the impacts arising from COVID-19 not becoming significantly more onerous on the Corporation, which includes the Corporation being able to continue to operate as an essential service, and being able to fund growth through project level debt and access to credit on reasonable terms.

Forward-looking statements are subject to a number of significant risks, uncertainties and assumptions that could cause actual plans, performance, results or outcomes to differ materially from current expectations. Factors that may adversely impact what is expressed or implied by forward-looking statements contained in this MD&A include risks relating to the impact of COVID-19 and the associated general economic downturn, the impact of which will largely depend on the overall severity and duration of COVID-19 and the general economic downturn, which cannot currently be predicted, and which present risks including, but not limited to: more restrictive directives of government and public health authorities; reduced labour availability impacting our ability to continue to staff our operations and facilities; impacts on our ability to realize our growth goals, including our ability to acquire operating or development assets from TransAlta; our ability to maintain adequate internal controls; restricted access to capital and increased borrowing costs; decreases in short-term and/or long-term electricity demand; further reductions in production; increased costs resulting from our efforts to mitigate the impact of COVID-19; deterioration of worldwide credit and financial markets that could limit our ability to obtain external financing to fund our operations and growth expenditures; a higher rate of losses on our accounts receivables due to credit defaults; further disruptions to our supply chain; impairments and/or write-downs of assets; and adverse impacts on our information technology systems and our internal control systems as a result of the need to increase remote work arrangements, including increased cyber security threats. Other factors that may adversely impact our forward-looking statements include, but are not limited to, risks relating to: changes in general economic conditions, including interest rates; operational risks involving our facilities, including Unplanned Outages at such facilities; disruptions in the transmission and distribution of electricity; the effects of weather and other climate-related risks; disruptions in the source of water, wind, solar or gas resources required to operate our facilities; natural disasters; equipment failure and our ability to carry out repairs in a cost-effective or timely manner or at all; industry risk and competition; fluctuations in the value of foreign currencies; the need for additional financing and the ability to access financing at a reasonable cost; structural subordination of securities; counterparty credit risk; insurance coverage; our provision for income taxes; disputes with counterparties and legal and contractual proceedings involving the Corporation; reliance on key personnel and services provided by TransAlta; the regulatory and political environments in the jurisdictions in which we operate; increasingly stringent environmental requirements and changes in, or liabilities under, these requirements; and the risks associated with development projects and acquisitions. The foregoing risk factors, among others, are described in further detail in the Risk Factors section of our AIF, which is available on SEDAR at www.sedar.com as well as under Risk Management in this MD&A.

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

2020 Outlook

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

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

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

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

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

Operations

The following is a summary of expectations and key assumptions:

Range of Renewable Energy Production from wind, solar, and hydro assets, including those owned through economic interests	4,200 to 4,600 GWh
Weighted average remaining contractual life of PPAs	11 years
Sustaining capital and productivity expenditures	\$20 - \$30 million

Operating Costs

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

Exposure to Fluctuations in Foreign Currencies

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

Additional IFRS Measures

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

Non-IFRS Measures

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

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

Discussion of Comparable EBITDA

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

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

3 months ended June 30	Long-term average renewable energy production (GWh) ⁽¹⁾	Production (GWh)		Comparable EBITDA	
		2020	2019	2020	2019
Canadian Wind	638	720	585	42	47
Canadian Hydro	158	161	159	8	7
US Wind and Solar	210	217	123	20	8
Total – Renewable energy	1,006	1,098	867	70	62
Canadian Gas		245	222	19	23
Australian Gas		448	453	31	32
Corporate		–	–	(5)	(6)
Total		1,791	1,542	115	111

(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	
		2020	2019	2020	2019
Canadian Wind	1,516	1,594	1,413	95	106
Canadian Hydro	203	198	189	8	8
US Wind and Solar	473	479	266	41	18
Total – Renewable energy	2,192	2,271	1,868	144	132
Canadian Gas		548	661	38	42
Australian Gas		919	919	61	64
Corporate		–	–	(10)	(11)
Total		3,738	3,448	233	227

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

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

Canadian Wind

	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Production (GWh)	720	585	1,594	1,413
Gross installed capacity (MW) ⁽¹⁾	1,164	1,169	1,164	1,169
Revenues	56	56	123	128
Royalties and other costs of sales	4	3	7	6
Comparable gross margin	52	53	116	122
Operations, maintenance and administration	9	9	18	17
Insurance recovery	—	(4)	—	(4)
Taxes, other than income taxes	1	1	3	3
Comparable EBITDA	42	47	95	106

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

Production for the three months ended June 30, 2020, increased by 135 GWh compared to the same period in 2019, mainly due to higher wind resources in Western and Eastern Canada. Production for the six months ended June 30, 2020, increased by 181 GWh compared to the same period in 2019, mainly due to higher wind resources in Western Canada, partially offset by lower wind resources in Eastern Canada.

Despite the increases in production, Comparable EBITDA for the three and six months ended June 30, 2020, decreased by \$5 million and \$11 million compared to the same periods in 2019, mainly due to lower carbon offset revenues, lower government incentives driven by the planned expiry of certain Wind Power Production Incentives in 2019, the timing of recognition of green attribute revenues, and insurance proceeds received in 2019 for a wind turbine fire at the Summerview facility.

Canadian Hydro

	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Production (GWh)	161	159	198	189
Gross installed capacity (MW)	112	112	112	112
Revenues	11	10	14	12
Royalties and other costs of sales	1	1	2	1
Comparable gross margin	10	9	12	11
Operations, maintenance, and administration	1	1	3	2
Taxes, other than income taxes	1	1	1	1
Comparable EBITDA	8	7	8	8

Production for the three and six months ended June 30, 2020, increased by 2 GWh and 9 GWh compared to the same periods in 2019, primarily due to higher water resources.

Comparable EBITDA for three and six months ended June 30, 2020, remained consistent with the same periods in 2019. Despite higher production, there was higher annual maintenance costs at our Bone Creek, Upper Mamquam, and Taylor facilities. The increase in maintenance costs at the Bone Creek facility was offset by a reduction to capital spend in the first quarter of 2020, which brings the overall turnaround costs in line with 2019.

US Wind and Solar

	3 months ended June 30		6 months ended June 30	
	2020 ⁽¹⁾	2019	2020 ⁽¹⁾	2019
Production (GWh)	217	123	479	266
Gross installed capacity (MW)	330	211	330	211
Revenues	25	11	49	24
Royalties and other costs of sales	1	—	1	1
Comparable gross margin	24	11	48	23
Operations, maintenance and administration	4	2	6	4
Taxes, other than income taxes	—	1	1	1
Comparable EBITDA	20	8	41	18

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

Production for the three and six months ended June 30, 2020, increased by 94 GWh and 213 GWh compared to the same periods in 2019, mainly due to higher wind resources and production from the Big Level and Antrim wind facilities which commenced commercial operations in December 2019.

Comparable EBITDA for the three and six months ended June 30, 2020, increased by \$12 million and \$23 million compared to the same periods in 2019, mainly due to higher production at Wyoming and Lakeswind, a full half year of operations at the Big Level and Antrim facilities which were commissioned in December 2019, and higher environmental credits sold at the Mass Solar facility.

Canadian Gas

	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Production (GWh)	245	222	548	661
Gross installed capacity (MW)	499	499	499	499
Revenue	38	45	77	97
Fuel and purchased power	12	14	25	40
Comparable gross margin	26	31	52	57
Operations, maintenance and administration	7	8	14	15
Comparable EBITDA	19	23	38	42

Canadian Gas consists solely of the Sarnia cogeneration facility.

Production for the three and six months ended June 30, 2020, increased by 23 GWh and decreased by 113 GWh compared to the same periods in 2019. The increase in production for the three months ended June 30, 2020, was mainly due to higher customer demand partially offset by lower merchant market demand. The decrease in production for the six months ended June 30, 2020, was due to lower market demand in 2020.

Comparable EBITDA for the three and six months ended June 30, 2020, decreased by \$4 million compared to the same periods in 2019, due to lower merchant power prices.

Australian Gas

	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Production (GWh)	448	453	919	919
Gross installed capacity (MW)	450	450	450	450
Revenues	39	40	78	81
Fuel and purchased power	1	1	3	2
Comparable gross margin	38	39	75	79
Operations, maintenance, and administration ⁽¹⁾	7	7	14	15
Comparable EBITDA	31	32	61	64

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

Production for the three months ended June 30, 2020 decreased by 5 GWh, mainly due to changes in customer demand and was consistent for the six months ended June 30, 2020, compared to 2019. The contracts in Australia are capacity contracts and our results are not directly impacted by generation.

Comparable EBITDA for the three and six months ended June 30, 2020, decreased by \$1 million and \$3 million compared to the same periods in 2019, mainly due to the weakening of the Australian dollar relative to the Canadian dollar.

Reconciliation of Non-IFRS Measures

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

	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Cash flow from operating activities	71	52	153	183
Change in non-cash operating working capital balances	(5)	19	(23)	(22)
Cash flow from operations before changes in working capital	66	71	130	161
Adjustments:				
Sustaining capital expenditures – owned assets	(4)	(10)	(6)	(17)
Current income tax	(1)	–	(1)	–
Distributions paid to subsidiaries' non-controlling interest	(3)	(4)	(3)	(4)
Finance and interest income – economic interests ⁽¹⁾ (Table II)	(10)	(13)	(18)	(39)
AFFO – economic interests ⁽¹⁾ (Table II)	42	36	82	73
AFFO	90	80	184	174
Deduct:				
Principal repayments of amortizing debt	(22)	(22)	(25)	(24)
Principal repayments of lease obligations	(1)	(1)	(1)	(1)
CAFD	67	57	158	149
Weighted average number of common shares outstanding in the period (millions)	266	264	266	264
AFFO per share	0.34	0.30	0.69	0.66
CAFD per share	0.25	0.22	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 (Table II) in this MD&A.

Reconciliation of Comparable EBITDA to AFFO

3 months ended June 30	2020			2019		
	Owned assets	Economic interests ⁽¹⁾	Total	Owned assets	Economic interests ⁽¹⁾	Total
Comparable EBITDA (Table I)	64	51	115	71	40	111
Interest expense	(10)	—	(10)	(10)	—	(10)
Sustaining capital expenditures	(4)	—	(4)	(10)	(2)	(12)
Current income tax expense	(1)	(6)	(7)	—	(2)	(2)
Tax equity distributions	—	(6)	(6)	—	(2)	(2)
Distributions paid to subsidiaries' non-controlling interest	(3)	—	(3)	(4)	—	(4)
Realized foreign exchange loss	—	—	—	(2)	—	(2)
Insurance recovery	—	—	—	(4)	—	(4)
Currency adjustment, reserves, interest income, and other	2	3	5	3	2	5
AFFO	48	42	90	44	36	80

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

6 months ended June 30	2020			2019		
	Owned assets	Economic interests ⁽¹⁾	Total	Owned assets	Economic interests ⁽¹⁾	Total
Comparable EBITDA (Table I)	131	102	233	145	82	227
Interest expense	(20)	—	(20)	(20)	—	(20)
Sustaining capital expenditures	(6)	(3)	(9)	(17)	(3)	(20)
Current income tax expense	(1)	(7)	(8)	(1)	(4)	(5)
Tax equity distributions	—	(12)	(12)	—	(3)	(3)
Distributions paid to subsidiaries' non-controlling interest	(3)	—	(3)	(4)	—	(4)
Realized foreign exchange loss	(3)	—	(3)	(1)	—	(1)
Insurance recovery	—	—	—	(4)	—	(4)
Currency adjustment, reserves, interest income, and other	4	2	6	3	1	4
AFFO	102	82	184	101	73	174

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

Table I

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

3 months ended June 30, 2020

	Reported	Adjustments ⁽¹⁾	Economic interests	Comparable total
Revenues	103	2	64	169
Fuel, royalties and other costs of sales ⁽²⁾	17	—	2	19
Gross margin	86	2	62	150
Operations, maintenance and administration ⁽³⁾	22	—	11	33
Taxes, other than income taxes	2	—	—	2
Finance income (Table II)	(10)	10	—	—
Interest income (Table II)	(1)	1	—	—
Change in fair value of financial assets	26	(26)	—	—
Foreign exchange gain	(33)	33	—	—
Earnings before interest, taxes, depreciation and amortization	80	(16)	51	115

(1) Adjustments made to Reported EBITDA to calculate Comparable EBITDA (exclude the impact of unrealized market to market (gains) or losses from revenues and remove other income or losses not included in Comparable EBITDA).

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

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

6 months ended June 30, 2020

	Reported	Adjustments ⁽¹⁾	Economic interests	Comparable total
Revenues	213	1	127	341
Fuel, royalties and other costs of sales ⁽²⁾	34	—	4	38
Gross margin	179	1	123	303
Operations, maintenance and administration ⁽³⁾	45	—	20	65
Taxes, other than income taxes	4	—	1	5
Finance income (Table II)	(18)	18	—	—
Interest income (Table II)	(3)	3	—	—
Change in fair value of financial assets	31	(31)	—	—
Foreign exchange gain	(16)	16	—	—
Earnings before interest, taxes, depreciation and amortization	136	(5)	102	233

(1) Adjustments made to Reported EBITDA to calculate Comparable EBITDA (exclude the impact of unrealized market to market (gains) or losses from revenues and remove other income or losses not included in Comparable EBITDA).

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

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

3 months ended June 30, 2019

	Reported	Adjustments ⁽¹⁾	Economic interests	Comparable total
Revenues	111	—	51	162
Fuel, royalties and other costs of sales ⁽²⁾	18	—	1	19
Gross margin	93	—	50	143
Operations, maintenance and administration ⁽³⁾	24	—	9	33
Taxes, other than income taxes	2	—	1	3
Insurance recovery	(4)	—	—	(4)
Finance income (Table II)	(13)	13	—	—
Interest income (Table II)	(3)	3	—	—
Change in fair value of financial assets	(2)	2	—	—
Foreign exchange gain	26	(26)	—	—
Earnings before interest, taxes, depreciation and amortization	63	8	40	111

(1) Adjustments made to Reported EBITDA to calculate Comparable EBITDA (exclude the impact of unrealized market to market (gains) or losses from revenues and remove other income or losses not included in Comparable EBITDA).

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

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

6 months ended June 30, 2019

	Reported	Adjustments ⁽¹⁾	Economic interests	Comparable total
Revenues	238	(1)	105	342
Fuel, royalties and other costs of sales ⁽²⁾	47	—	3	50
Gross margin	191	(1)	102	292
Operations, maintenance and administration ⁽³⁾	45	—	19	64
Taxes, other than income taxes	4	—	1	5
Insurance recovery	(4)	—	—	(4)
Finance income (Table II)	(39)	39	—	—
Interest income (Table II)	(4)	4	—	—
Change in fair value of financial assets	(33)	33	—	—
Foreign exchange loss	30	(30)	—	—
Earnings before interest, taxes, depreciation and amortization	192	(47)	82	227

(1) Adjustments made to Reported EBITDA to calculate Comparable EBITDA (exclude the impact of unrealized market to market (gains) or losses from revenues and remove other income or losses not included in Comparable EBITDA).

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

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

Table II

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

3 months ended June 30	2020			2019		
	US Wind and Solar ⁽¹⁾	Australian Gas	Total	US Wind and Solar	Australian Gas	Total
Comparable EBITDA	20	31	51	8	32	40
Sustaining capital expenditures	—	—	—	—	(2)	(2)
Current income tax expense ⁽²⁾	(1)	(3)	(4)	—	(2)	(2)
Tax equity distributions	(6)	—	(6)	(2)	—	(2)
Currency adjustment, reserves and other	—	1	1	—	2	2
AFFO of economic interests	13	28	42	6	30	36
Return of capital and redemptions	(7)	(4)	(11)	(4)	(22)	(26)
Effects of changes in working capital and other timing ⁽³⁾	(5)	(16)	(21)	—	3	3
Finance income	1	8	10	2	11	13

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

(2) Includes withholding tax.

(3) The 2020 amount for the Australian Gas segment includes the Tracking Preferred Shares Australia Cash Flows deficit balance as discussed below.

6 months ended June 30	2020			2019		
	US Wind and Solar ⁽¹⁾	Australian Gas	Total	US Wind and Solar	Australian Gas	Total
Comparable EBITDA	41	61	102	18	64	82
Sustaining capital expenditures	(1)	(2)	(3)	(1)	(2)	(3)
Current income tax expense ⁽²⁾	(1)	(6)	(7)	—	(4)	(4)
Tax equity distributions	(12)	—	(12)	(3)	—	(3)
Insurance recovery	—	—	—	—	—	—
Currency adjustment, reserves and other	—	2	2	—	1	1
AFFO of economic interests	27	55	82	14	59	73
Return of capital and redemptions	(21)	(49)	(70)	(9)	(27)	(36)
Effects of changes in working capital and other timing ⁽³⁾	(4)	10	6	1	1	2
Finance income	2	16	18	6	33	39

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

(2) Includes withholding tax.

(3) The 2020 amount for the Australian Gas segment includes the Tracking Preferred Shares Australia Cash Flows deficit balance as discussed below.

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

Selected Quarterly Information

	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Revenue	89	119	110	103
Net earnings attributable to common shareholders	24	48	3	30
Cash flow from operating activities	75	73	82	71
AFFO ⁽¹⁾	69	100	94	90
CAFD ⁽¹⁾	67	77	91	67
Net earnings per share attributable to common shareholders, basic and diluted	0.09	0.18	0.01	0.11
CAFD per share ⁽¹⁾	0.25	0.29	0.34	0.25

	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Revenue	90	140	127	111
Net earnings attributable to common shareholders	12	93	76	31
Cash flow from operating activities	78	103	131	52
AFFO ⁽¹⁾	67	108	94	80
CAFD ⁽¹⁾	65	85	92	57
Net earnings per share attributable to common shareholders, basic and diluted	0.05	0.35	0.29	0.12
CAFD per share ⁽¹⁾	0.25	0.32	0.35	0.22

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

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

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

Financial Instruments

Refer to Note 13 of our most recent annual consolidated financial statements and Note 8 of our interim condensed consolidated financial statements for the three and six months ended June 30, 2020, for details on Financial Instruments.

Our risk management profile and practices have not changed materially since Dec. 31, 2019. During the first quarter of 2020, a subsidiary of TransAlta redeemed AU\$45 million of the Preferred Shares Tracking the Amortizing Term Loan. During the three and six months ended June 30, 2020, we recognized a \$26 million and \$31 million decrease in fair value in net earnings, respectively. This decrease mainly resulted from changes in fair value related to changes in discount rates and lower forecast assumptions in the Australian market.

As at June 30, 2020, Level III financial instruments were comprised of financial assets with a carrying value of \$927 million (Dec. 31, 2019 - \$918 million). The increase is primarily due to a \$61 million investment in the preferred shares tracking earnings and distributions in Big Level and Antrim, foreign exchange gains on our Australian and US Wind and Solar investments, partially offset by unfavourable changes in fair value of our Australian and Big Level and Antrim investments and returns of capital on the preferred shares tracking earnings and distributions of Wyoming Wind, Big Level and Antrim, Lakeswind, and Mass Solar.

As at June 30, 2020, Level II financial instruments (except for the risk management assets) were comprised of financial assets with a carrying value of \$509 million (Dec. 31, 2019 - \$574 million). The decrease is primarily due to the change in timing of cash flows relating to the unscheduled redemption of the Preferred Shares Tracking the Amortizing Term Loan and an increase in discount rates during the second quarter, partially offset by favourable changes in foreign exchange rates.

Refer to Notes 5 and 8 in the interim condensed consolidated financial statements for the three and six months ended June 30, 2020 for additional information on these investments and fair value measurements.

Other Consolidated Results

Other Comprehensive Income (OCI)

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

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

During the three months ended June 30, 2020, we recognized a \$70 million decrease in fair value in OCI (June 30, 2019 - \$91 million decrease). The decrease is primarily attributable to changes in the discount rates for the Preferred Shares Tracking Australia Cash Flows and the US Wind and Solar Tracking Preferred Share, partially offset by favourable foreign exchange rate impacts on the Preferred Shares Tracking Australia Cash Flows.

For the six months ended June 30, 2020, we recognized a \$25 million decrease in fair value in OCI (June 30, 2019 - \$89 million decrease). The decrease during 2020 is primarily attributable to changes in the discount rate and cash flow assumptions for the Preferred Shares Tracking Australia Cash Flows and changes in the discount rates for the US Wind and Solar Tracking Preferred Shares, partially offset by favourable foreign exchange rate impacts on the Preferred Shares Tracking Australia Cash Flows and the US Wind and Solar Tracking Preferred Shares.

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

Income Taxes

Income taxes for the three and six months ended June 30, 2020, increased by \$17 million and \$14 million, respectively, compared to the same periods in 2019, partially due to higher earnings before certain income and expenses. In the second quarter of 2019, the Corporation recognized a deferred income tax recovery of \$18 million related to a decreased in the Alberta corporate tax rate from 12% to 8%. The lower tax rate will be phased in as follows: 11% effective Jan. 1, 2020, 9% effective Jan. 1, 2021, and 8% effective Jan. 1, 2022.

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
2020 Total sustaining expenditures	2	1	—	1	—	4
2019 Total sustaining expenditures	3	1	—	6	2	12

6 months ended June 30						
	Canadian Wind	Canadian Hydro	US Wind and Solar	Canadian Gas	Australian Gas	Total
2020 Total sustaining expenditures	4	1	1	1	2	9
2019 Total sustaining expenditures	4	2	1	11	2	20

Sustaining capital expenditures for the three and six months ended June 30, 2020, decreased by \$8 million and \$11 million compared to the same periods in 2019, mainly due to lower planned maintenance at our Canadian Gas facility and Canadian Hydro facilities.

Related-Party Transactions and Balances

Related-Party Transactions

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

	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Revenue from TransAlta PPAs	10	8	22	15
Revenue from Environmental attributes ⁽¹⁾	—	8	—	9
Finance income from investments in subsidiaries of TransAlta	10	13	18	39
Interest income - promissory notes due from a subsidiary of TransAlta	1	2	2	2
G&A Reimbursement Fee ⁽²⁾	5	4	9	8
Natural gas purchases	—	—	1	6
Financial power swap sales - gain	—	(1)	—	(1)
Asset optimization fee ⁽³⁾	—	—	1	1

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

(2) On Feb. 28, 2020, the G&A Reimbursement Fee was amended to a calculation based on five per cent of Comparable EBITDA of the immediately prior fiscal quarter, effective Jan. 1, 2020, without duplication for any indirect costs associated with the management, administrative, accounting, planning and other head office costs of TransAlta that reduce the dividends or distributions that would otherwise be payable to the Corporation on any of the tracking preferred shares.

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

Related-Party Balances

Related-party balances include the following:

As at	June 30, 2020	Dec. 31, 2019
Trade and other receivables	4	19
Accounts payable and accrued liabilities	8	8
Dividends payable	38	38
Investments in subsidiaries of TransAlta	1,436	1,492
Big Level and Antrim promissory notes	61	113
Guarantees provided by TransAlta on behalf of the Corporation ⁽¹⁾	289	314
Long-term prepaid – management fee	2	2
Indemnification guarantee provided by the Corporation to TransAlta ⁽¹⁾	529	512

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

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

Liquidity and Capital Resources

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

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

Financial Position

The following table highlights significant changes to account balances derived from the unaudited interim consolidated Statements of Financial Position from Dec. 31, 2019 to June 30, 2020:

(unaudited \$ millions)	June 30, 2020	Dec. 31, 2019	Increase/ (decrease)	Primary factors explaining change
Cash and cash equivalents	29	63	(34)	Timing of receipts and payments - See cash flows section in this MD&A for further details
Accounts receivable	66	90	(24)	Timing of receipts and collections and lower amounts receivable for dividends from related party investments
Property, plant and equipment, net	1,668	1,728	(60)	Decreased as a result of depreciation expense and a decrease in decommissioning provision, partially offset by additions
Intangible assets	107	114	(7)	Decrease due to amortization expense
Investments in subsidiaries of TransAlta (including current portion)	1,436	1,492	(56)	Decrease due to returns of capital on US Wind and Solar, redemptions on the preferred shares tracking amortizing loan and fair value changes in the investments, partially offset by an investment in Big Level and Antrim US wind projects in the first quarter of 2020 and favourable foreign exchange gains on the US Wind and Solar and Australian investments - Refer to Note 5 and 8 of the interim Financial Statements for further details
Other assets (including current portion)	113	162	(49)	Receipt of repayment for promissory notes related to the Big Level and Antrim wind development projects
Long-term debt and lease obligations (including current portion)	825	961	(136)	Decreased as a result of repayments made on the Credit Facility and scheduled principal repayments on non-recourse bonds
Deferred income tax liabilities	277	264	13	Increase in deferred tax due to increased deferred tax expense for the period
Equity attributable to shareholders	2,162	2,268	(106)	Decrease due to common share dividends and other comprehensive income due to unfavourable fair value changes, partially offset by net earnings, common shares issued under DRIP

Cash Flows

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

	6 months ended June 30		
	2020	2019	Increase/ (decrease)
Cash and cash equivalents, beginning of the period	63	73	(10)
From (used in):			
Operating activities	153	183	(30)
Investing activities	61	(136)	197
Financing activities	(248)	(101)	(147)
Cash and cash equivalents, end of the period	29	19	10

Cash flow from operating activities for the six months ended June 30, 2020, decreased by \$30 million compared to the same period in 2019 primarily due to:

- Lower earnings of \$74 million, which was partially offset by \$43 million in higher non-cash and non-operating items such as depreciation and amortization, changes in fair value of financial instruments, unrealized foreign exchange gains, and deferred income taxes.

Cash flow from investing activities for the six months ended June 30, 2020, increased by \$197 million compared to the same period in 2019 primarily due to:

- In 2019, the Corporation executed a series of transactions in response to the enactment of anti-hybrid tax rules within Australia. This resulted in TEA redeeming the outstanding balances of the MRPS of AU\$509 million in 2019 and approximately AU\$41 million of preferred shares of TEA for cash consideration. Immediately following these redemptions, the Corporation subscribed for AU\$550 million of Preferred Shares Tracking the Amortizing Term Loan.
- Also in 2019, the Corporation entered into an arrangement with TransAlta to acquire an economic interest in Big Level and Antrim. As part of this arrangement, the Corporation agreed to fund the construction costs for the Big Level and Antrim development through promissory notes, resulting in a cash outflow of \$115 million in 2019. During 2020, the Corporation has received \$60 million on the outstanding promissory notes.
- Lower additions to property, plant and equipment of \$10 million.

Cash flow from financing activities for the six months ended June 30, 2020, decreased by \$147 million compared to the same period in 2019 primarily due to higher repayments made on the credit facility.

Debt and Lease Obligations

	As at June 30, 2020				
	Total Facility limit	Utilized			Maturity date
		Outstanding letters of credit ⁽¹⁾	Drawings	Available capacity	
Committed credit facility	700	91	111	498	2023

(1) Letters of credit of \$91 million were issued from uncommitted demand facilities, these obligations are backstopped and reduce the available capacity on the syndicated credit facility.

Debt and lease obligations totaled \$825 million as at June 30, 2020, compared to \$961 million as at Dec. 31, 2019. As at June 30, 2020, the committed credit facility utilization decreased by \$109 million compared with the utilization as at Dec. 31, 2019, mainly due to repayments on borrowings under the Credit Facility of \$109 million. Debt also decreased due to scheduled repayments of non-recourse bonds of \$25 million.

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

Share Capital

On June 30, 2020, we had approximately 266.4 million (Dec. 31, 2019 - 265.6 million) common shares issued and outstanding. During the six months ended June 30, 2020, the Corporation issued approximately 0.8 million common shares under the DRIP for a total equity value of \$12 million.

As at July 30, 2020, we had approximately 266 million common shares issued and outstanding.

Litigation, Claims, and Contingencies

For the current significant outstanding contingencies, refer to the Liquidity and Capital Resources section in our 2019 Annual MD&A for further details. None of these contingencies, individually or in aggregate, are expected to result in a liability that would have a material adverse effect on the Corporation. Except as discussed below, there have been no significant changes during the six months ended June 30, 2020.

I. Line Loss Rule Proceeding

The Corporation has been participating in a transmission line loss rule proceeding before the Alberta Utilities Commission ("AUC"). The AUC directed the Alberta Electric System Operator ("AESO") to recalculate the transmission line loss factors of all Alberta generating facilities for the period from 2006-2016. After recalculating the transmission losses using an updated methodology, the AESO further directed the AUC to issue a single invoice to all generating facilities with a cash settlement date of June 2021. The AESO responded by seeking approval from the AUC to instead use a "pay-as-you-go" settlement whereby the AESO would be permitted to issue a separate invoice for each historical year as loss factors are recalculated. The AUC recently ruled on the AESO's request and approved an invoice settlement process that will be instead broken down into three periods (2014-2016, 2010-2013, and 2006-2009) with the first invoice for line losses issued (and payable) in 2020.

With the AESO recently publishing its final loss factors for the period from 2014-2016 using the AUC-approved methodology, we are more confident with respect to the amount that the Corporation will be invoiced regarding the Corporation's wind and hydro assets. It is anticipated that the first invoice will require the Corporation to make a payment of approximately \$1 million related to its wind and hydro facilities.

The estimated amounts continue to be uncertain and the AESO's recalculated loss factors remain subject to further review and change. Based on the information currently available, it is anticipated that the Corporation faces an aggregate liability of approximately \$1 million.

II. FMG Disputes

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

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

Critical Accounting Policies and Estimates

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that could affect the reported amounts of assets, liabilities, revenues, expenses and disclosures of contingent assets and liabilities during the period. These estimates are subject to uncertainty. Actual results could differ from those estimates due to factors such as fluctuations in interest rates, foreign exchange rates, inflation and commodity prices, and changes in economic conditions, legislation and regulations.

The duration and impact of the COVID-19 pandemic are unknown at this time. Estimates to the extent to which the COVID-19 pandemic may, directly or indirectly impact the Corporation's operations, financial results and conditions in future periods are also subject to significant uncertainty. For a description of additional risks identified as a result of the pandemic, refer to Note 8 of the interim condensed consolidated financial statements as at June 30, 2020.

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

Judgment was applied for the six months ended June 30, 2020, in relation to the assessment of dividends as income or return of capital, as follows:

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

Change in Estimates

Decommissioning and other provisions

During the first half of 2020, there was significant volatility in the discount rates used for the decommissioning provision mainly due to an increase in Corporation's indicative credit spreads due to the COVID-19 crisis, which has caused increased credit spreads for most entities. The increase in the credit spreads in the first quarter was partially offset by decreases in the benchmark rates. As a result, during the first quarter, the Corporation decreased the decommissioning provision by \$16 million, which resulted in a similar decrease in property, plant and equipment. During the second quarter, the discount rates used for the decommissioning provision decreased due to the reduction in Corporation's indicative credit spread, resulting in a partial reversal of the first quarter increase in the provision. On a year-to-date basis, the decommissioning provision decreased by \$4 million, which resulted in a similar decrease in property, plant and equipment.

Accounting Policy Changes

Current Accounting Changes

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

IFRS 3 Business Combinations

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

Amendments to IAS 1 and 8 - Definition of Materiality

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

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

Risks and Uncertainties

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

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

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

Management Responses

- Formed a COVID-19 emergency team run by TransAlta's Chief Operating Officer, who is also the President of the Corporation;
- Regularly communicating with the Board of Directors in regard to the Corporation's response to COVID-19;
- Created a team run by TransAlta, to develop, implement and update COVID-19 safety protocols, including a back to office and site strategy which will remain in place until a vaccination or cure has been distributed;
- Established a committee to consider and respond to any claims of force majeure that may be received as a result of COVID-19;
- Developed leadership plans, including contingent authorities;

Policy Changes

- Aligned all non-essential travel and quarantine requirements with local jurisdictional guidance for all TransAlta employees and contractors returning from air, bus, train or ship travel for all jurisdictions in which we operate;

Employee Changes

- Provided assurances to TransAlta's employees that their employment with TransAlta would not be impacted by the COVID-19 pandemic;
- Developed and implemented COVID-19 specific back to office protocols to ensure all TransAlta locations and the Corporation's sites remain safe;
- Requested and received an essential workers quarantine exemption approval from Alberta Health to minimize disruptions in the event international technical assistance is required for our Alberta assets;
- Implemented health screening procedures (i.e., questionnaires and temperature tests), enhanced cleaning measures and strict work protocols at TransAlta's offices and facilities and the Corporation's generating facilities in accordance with TransAlta's back to office and site strategy;

Operational Changes

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

Financial Oversight

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

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

Regulatory and Environmental Legislation

As a result of COVID-19, all North American integrated electricity market system operators and the Federal Energy Regulatory Commission have moved staff to work from home structures with the exception of their system operations staff. Planned in-person consultation processes have been cancelled and these and other stakeholder processes have been rescheduled to telephone or virtual formats and/or delayed. These actions are expected to result in delays or potential cancellation of regulatory changes and other market operation working groups' activities. Standard market activities have not been impacted. Consultations and related activities now take place virtually and are starting to form a new normal whereby work and decisions making is getting back to pre-COVID-19 timelines.

Due to COVID-19, the Alberta and Canadian federal government provided options to delay environmental reporting, including options to delay compliance reporting for their respective large GHG emitters programs. Facilities were still able to submit reports on their regular compliance dates. As the economies have opened up, some governments have restarted environmental reporting requirements. However, reporting deadlines for large emitter GHG programs will remain delayed for this compliance year as these delays were enacted through temporary changes to regulations.

Controls and Procedures

Management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P"). For the six months ended June 30, 2020, the majority of our workforce supporting and executing our ICFR and DC&P were working remotely. There has been minimal impact to the design and performance of internal controls. Management has reviewed the changes as a result of changes implemented in response to COVID-19 and is reasonably assured that adjustments to process have not materially affected, or are reasonably likely to materially affect, our ICFR or DC&P.

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

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

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

Management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our ICFR and DC&P as of the end of the period covered by this report. Based on the foregoing evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as at June 30, 2020, the end of the period covered by this report, our ICFR and DC&P were effective.

TransAlta Renewables Inc.

Condensed Consolidated Statements of Earnings

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

(Unaudited)	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Revenues (Note 4)	101	108	210	233
Government incentives	2	3	3	5
Total revenue	103	111	213	238
Fuel, royalties, and other costs	17	18	34	47
Gross margin	86	93	179	191
Operations, maintenance and administration	22	24	45	45
Depreciation and amortization	33	32	67	63
Taxes, other than income taxes	2	2	4	4
Insurance recovery	—	(4)	—	(4)
Operating income	29	39	63	83
Finance income related to subsidiaries of TransAlta (Note 5)	10	13	18	39
Interest income (Note 6)	1	3	3	4
Interest expense (Note 6)	(11)	(11)	(22)	(22)
Change in fair value of financial assets (Note 5)	(26)	2	(31)	33
Foreign exchange gain (loss)	33	(26)	16	(30)
Earnings before income taxes	36	20	47	107
Income tax expense (recovery) (Note 7)	5	(12)	12	(2)
Net earnings	31	32	35	109
Net earnings attributable to:				
Common shareholders	30	31	33	107
Non-controlling interest	1	1	2	2
	31	32	35	109
Weighted average number of common shares outstanding in the period (millions) (Note 12)	266	264	266	264
Net earnings per share attributable to common shareholders, basic and diluted	0.11	0.12	0.12	0.41

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	
	2020	2019	2020	2019
Net earnings	31	32	35	109
Other comprehensive income				
Net change in fair value of investments in subsidiaries of TransAlta (Note 5)	(70)	(91)	(25)	(89)
Total items that will not be reclassified subsequently to net earnings	(70)	(91)	(25)	(89)
Other comprehensive loss	(70)	(91)	(25)	(89)
Total comprehensive income (loss)	(39)	(59)	10	20
Total comprehensive income (loss) attributable to:				
Common shareholders	(40)	(60)	8	18
Non-controlling interest	1	1	2	2
	(39)	(59)	10	20

See accompanying notes.

TransAlta Renewables Inc.

Condensed Consolidated Statements of Financial Position

(in millions of Canadian dollars)

Unaudited	June 30, 2020	Dec. 31, 2019
Cash and cash equivalents	29	63
Accounts receivable	66	90
Prepaid expenses	6	2
Inventory	7	7
Current portion of other assets (Note 10)	61	113
Current portion of investments in subsidiaries of TransAlta (Note 5)	19	18
	188	293
Property, plant and equipment (Note 9)		
Cost	2,850	2,850
Accumulated depreciation	(1,182)	(1,122)
	1,668	1,728
Right-of-use assets	28	28
Intangible assets	107	114
Other assets (Notes 10)	52	49
Investments in subsidiaries of TransAlta (Notes 5)	1,417	1,474
Deferred income tax assets	18	16
Total assets	3,478	3,702
Accounts payable and accrued liabilities	41	37
Dividends payable	63	62
Current portion of decommissioning and other provisions	1	–
Risk management liabilities (Note 8)	2	1
Current portion of long-term debt and lease obligations (Note 11)	52	52
	159	152
Long-term debt and lease obligations (Notes 8 and 11)	773	909
Decommissioning provisions and other provisions (Note 1C)	52	56
Contract liabilities	6	6
Deferred revenues	1	1
Risk management liabilities (Note 8)	1	1
Deferred income tax liabilities	277	264
Total liabilities	1,269	1,389
Equity		
Common shares (Note 12)	3,051	3,039
Deficit	(730)	(637)
Accumulated other comprehensive loss	(159)	(134)
Equity attributable to shareholders	2,162	2,268
Non-controlling interest	47	45
Total equity	2,209	2,313
Total liabilities and equity	3,478	3,702

Commitments and contingencies (Note 13)

See accompanying notes.

TransAlta Renewables Inc.

Condensed Consolidated Statements of Changes in Equity

(in millions of Canadian dollars)

Unaudited

	Common shares	Deficit	Accumulated other comprehensive income (loss)	Attributable to shareholders	Attributable to non-controlling interest	Total
Balance, Dec. 31, 2019	3,039	(637)	(134)	2,268	45	2,313
Net earnings	—	33	—	33	2	35
Other comprehensive income:						
Net change in fair value of investments of subsidiaries of TransAlta (Note 5)	—	—	(25)	(25)	—	(25)
Total comprehensive income	3,039	(604)	(159)	2,276	47	2,323
Common share dividends (Note 12)	—	(126)	—	(126)	—	(126)
Dividend reinvestment plan (Note 12)	12	—	—	12	—	12
Balance, June 30, 2020	3,051	(730)	(159)	2,162	47	2,209

See accompanying notes.

Unaudited

	Common shares	Deficit	Accumulated other comprehensive income (loss)	Attributable to shareholders	Attributable to non-controlling interest	Total
Balance, Dec. 31, 2018	3,011	(567)	(89)	2,355	41	2,396
Net earnings	—	107	—	107	2	109
Other comprehensive income:						
Net change in fair value of investments of subsidiaries of TransAlta (Note 5)	—	—	(89)	(89)	—	(89)
Total comprehensive income	—	107	(89)	18	2	20
Common share dividends (Note 12)	—	(124)	—	(124)	—	(124)
Dividend reinvestment plan (Note 12)	14	—	—	14	—	14
Balance, June 30, 2019	3,025	(584)	(178)	2,263	43	2,306

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	
	2020	2019	2020	2019
Operating activities				
Net earnings	31	32	35	109
Depreciation and amortization	33	32	67	63
Accretion of provisions	1	1	2	2
Deferred income tax expense (recovery) (Note 7)	4	(12)	11	(3)
Change in fair value of financial assets	26	(2)	31	(33)
Unrealized foreign exchange (gain) loss	(33)	24	(19)	28
Unrealized (gain) loss from risk management activities	2	–	1	(1)
Provisions	1	–	1	–
Other non-cash items	1	(4)	1	(4)
Cash flow from operations before changes in working capital	66	71	130	161
Change in non-cash operating working capital balances	5	(19)	23	22
Cash flow from operating activities	71	52	153	183
Investing activities				
Additions to property, plant and equipment (Note 9)	(5)	(9)	(7)	(17)
Repayments (advances) on promissory notes from a subsidiary of TransAlta (Note 10)	–	–	60	(115)
Proceeds on redemptions of investments in subsidiaries of TransAlta (Note 5)	6	5	52	540
Investments in subsidiaries of TransAlta (Note 5)	–	(21)	(61)	(551)
Recovery of property insurance settlements	–	4	–	4
Return of capital on investments in subsidiaries of TransAlta (Note 5)	7	21	21	26
Advances for loan receivable	(3)	(4)	(3)	(4)
Other	–	1	–	2
Change in non-cash investing working capital balances	1	(18)	(1)	(21)
Cash flow from (used in) investing activities	6	(21)	61	(136)
Financing activities				
Net (decrease) increase in borrowings under credit facilities (Note 11)	(8)	16	(109)	34
Long-term debt repayments (Note 11)	(22)	(22)	(25)	(24)
Dividends paid on common shares (Note 12)	(58)	(55)	(114)	(110)
Lease obligations – principal repayment (Note 11)	(1)	(1)	(1)	(1)
Changes in non-cash financing working capital balances	1	–	1	–
Cash flow used in financing activities	(88)	(62)	(248)	(101)
Decrease in cash and cash equivalents	(11)	(31)	(34)	(54)
Cash and cash equivalents, beginning of period	40	50	63	73
Cash and cash equivalents, end of period	29	19	29	19
Cash income taxes paid	1	–	1	1
Cash interest paid	14	15	19	20

See accompanying notes.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

1. Background and Accounting Policies

A. The Corporation

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

B. Basis of Preparation

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

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

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

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

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

These interim condensed consolidated financial statements were authorized for issue by the Audit and Nominating Committee on behalf of the Board of Directors (the "Board") on July 30, 2020.

C. Use of Estimates and Significant Judgments

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

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

Judgment was applied for the three and six months ended June 30, 2020, in relation to the assessment of dividends as income or return of capital, as follows:

The Corporation receives dividends from its investments in the preferred shares tracking TransAlta Energy (Australia) Pty Ltd. ("TEA") adjusted amounts ("Australia Cash Flows"), the TEA preferred shares, and the preferred shares tracking

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

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

Change in Estimates

Decommissioning and other provisions

During the first half of 2020, there was significant volatility in the discount rates used for the decommissioning provision mainly due to an increase in Corporation's indicative credit spreads due to the COVID-19 crisis, which has caused increased credit spreads for most entities. The increase in the credit spreads in the first quarter was partially offset by decreases in the benchmark rates. As a result, during the first quarter, the Corporation decreased the decommissioning provision by \$16 million, which resulted in a similar decrease in property, plant and equipment. During the second quarter, the discount rates used for the decommissioning provision decreased due to the reduction in Corporation's indicative credit spread, resulting in a partial reversal of the first quarter increase in the provision. On a year-to-date basis, the decommissioning provision decreased by \$4 million, which resulted in a similar decrease in property, plant and equipment.

2. Significant Accounting Policies

A. Current Accounting Policy Changes

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

IFRS 3 Business Combinations

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

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

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

Amendments to IAS 1 and 8 - Definition of Materiality

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

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

B. Comparative Figures

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

3. Significant and Subsequent Events

Global Pandemic

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

In response, TransAlta, as the manager and operator of the Corporation's business and assets, formally implemented its business continuity plan on March 9, 2020, which focused on: (i) ensuring that TransAlta employees that could work remotely did so; and (ii) TransAlta employees that operate and maintain our facilities, who were not able to work remotely, were able to work safely and in a manner that ensured they remained healthy. During the second quarter of 2020, TransAlta began a staggered approach to bring its employees that were working remotely back to the office. All of TransAlta's offices and sites follow strict health screening and physical distancing protocols with personal protective equipment readily available. Further, TransAlta maintains travel bans aligned to local jurisdictional guidance, enhanced cleaning procedures, revised work schedules, contingent work teams and the reorganization of processes and procedures to limit contact with other employees and contractors on-site.

All of our facilities including those which we have economic interests through TransAlta, continue to remain fully operational and capable of meeting our customers' needs. We have modified our operating procedures and TransAlta has implemented safety protocols that are allowing all its office employees to now return to sites across the fleet by the end of July. The Corporation continues to work and serve all of our customers and counterparties under the terms of their contracts. We have not experienced interruptions to service requirements. Electricity and steam supply continue to remain a critical service requirement to all of our customers and have been deemed an essential service in our jurisdictions.

The Corporation continues to maintain a strong financial position in part through the long-term contracts and available liquidity of \$498 million.

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

4. Revenue from Contracts with Customers

Disaggregation of Revenue from Contracts with Customers

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

3 months ended June 30, 2020	Canadian Wind	Canadian Hydro	Canadian Gas	Total
Revenue from contracts with customers	54	11	38	103
Other revenue ⁽¹⁾	(2)	—	—	(2)
Revenues	52	11	38	101

Timing of revenue recognition:

At a point in time	—	—	—	—
Over time	54	11	38	103
Revenue from contracts with customers	54	11	38	103

(1) Includes merchant revenue and other miscellaneous.

6 months ended June 30, 2020	Canadian Wind	Canadian Hydro	Canadian Gas	Total
Revenue from contracts with customers	119	14	76	209
Other revenue ⁽¹⁾	—	—	1	1
Revenues	119	14	77	210

Timing of revenue recognition:

At a point in time	1	—	—	1
Over time	118	14	76	208
Revenue from contracts with customers	119	14	76	209

(1) Includes merchant revenue and other miscellaneous.

3 months ended June 30, 2019	Canadian Wind	Canadian Hydro	Canadian Gas	Total
Revenue from contracts with customers	53	10	44	107
Other revenue	—	—	1	1
Revenues	53	10	45	108

Timing of revenue recognition:

At a point in time	7	—	—	7
Over time	46	10	44	100
Revenue from contracts with customers	53	10	44	107

6 months ended June 30, 2019	Canadian Wind	Canadian Hydro	Canadian Gas	Total
Revenue from contracts with customers	123	12	96	231
Other revenue	—	—	2	2
Revenues	123	12	98	233
Timing of revenue recognition:				
At a point in time	10	—	—	10
Over time	113	12	96	221
Revenue from contracts with customers	123	12	96	231

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 the cash flows of the subsidiaries. This includes TEA, TransAlta Wyoming Wind LLC, Lakeswind, Mass Solar, and the Big Level and Antrim wind projects.

	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Dividend income from investment in preferred shares of TEA	—	—	1	1
Fee income from indirect guarantee of TEA obligations	3	3	6	6
Dividend income from investment in preferred shares tracking Australia Cash Flows	—	—	—	11
Dividend income from investment in preferred shares tracking amortizing term loan	6	8	9	15
Finance income related to TEA	9	11	16	33
Dividend income from investment in preferred shares tracking earnings and distributions of Mass Solar	—	1	1	3
Dividend income from investment in preferred shares tracking earnings and distributions of Lakeswind	—	1	—	2
Dividend income from investment in preferred shares tracking earnings and distributions of Wyoming Wind	1	—	1	1
Total finance income	10	13	18	39

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

As at	June 30, 2020	Dec. 31, 2019
Investment in preferred shares tracking Australia Cash Flows	573	598
Investment in preferred shares of TEA	48	42
Investment in preferred shares tracking amortizing term loan	461	532
Total investments in subsidiaries related to TEA	1,082	1,172
Investment in preferred shares tracking earnings and distributions of Big Level and Antrim	156	118
Investment in preferred shares tracking earnings and distributions of Mass Solar	53	53
Investment in preferred shares tracking earnings and distributions of Lakeswind	27	30
Investment in preferred shares tracking earnings and distributions of Wyoming Wind	118	119
Total investments in subsidiaries of TransAlta	1,436	1,492
Less: current portion of investments in subsidiaries of TransAlta⁽¹⁾	19	18
Total long-term investments in subsidiaries of TransAlta	1,417	1,474

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

Investment in Subsidiaries of TransAlta Related to TEA

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

	Preferred shares tracking Australia Cash Flows	Preferred shares of TEA ⁽¹⁾	Preferred shares tracking amortizing term loan ⁽²⁾	Total
Investment balance at Dec. 31, 2019	598	42	532	1,172
Redemption	—	—	(52)	(52)
Foreign exchange gains recognized in earnings	—	—	12	12
Net change in fair value recognized in earnings	—	—	(31)	(31)
Net change in fair value and foreign exchange recognized in OCI	(25)	6	—	(19)
Investment balance at June 30, 2020	573	48	461	1,082

(1) Principal amount as at June 30, 2020, and Dec. 31, 2019, was AU\$45 million and AU\$45 million, respectively.

(2) Principal amount as at June 30, 2020, and Dec. 31, 2019, was AU\$475 million and AU\$530 million, respectively.

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

	MRPS ⁽¹⁾	Preferred shares tracking Australia Cash Flows	Preferred shares of TEA ⁽²⁾	Preferred shares tracking amortizing term loan ⁽³⁾	Total
Investment balance at Dec. 31, 2018	489	637	88	—	1,214
Investment	—	—	—	530	530
Redemption	(490)	—	(40)	(10)	(540)
Foreign exchange gain (loss) recognized in earnings	1	—	—	(27)	(26)
Return of capital	—	(17)	—	—	(17)
Net change in fair value recognized in earnings	—	—	—	33	33
Net change in fair value recognized in OCI	—	(67)	—	—	(67)
Investment balance at June 30, 2019	—	553	48	526	1,127

(1) Principal amount as at June 30, 2019 and Dec. 31, 2018 was nil and AU\$509 million, respectively.

(2) Principal amount as at June 30, 2019 and Dec. 31, 2018 was AU\$45 million and AU\$86 million, respectively.

(3) Principal amount as at June 30, 2019 was AU\$540 million.

The Corporation and TransAlta executed a series of transactions in response to the enactment of anti-hybrid tax rules within Australia. In January 2019, TEA redeemed the remaining outstanding balance of the MRPS of AU\$509 million and approximately AU\$41 million of the preferred shares of TEA for cash consideration. Immediately following those redemptions, the Corporation subscribed for AU\$550 million of preferred shares of a subsidiary of TransAlta that track the underlying economics of an amortizing term loan payable owed by TEA to another subsidiary of TransAlta.

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

Unobservable input	June 30, 2020	Dec. 31, 2019
Discount rate	6.6 %	5.5 %
Quarterly cash flows (millions)	Average of \$10	Average of \$10

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

Unobservable input	Alternative assumption	Change in fair value as at June 30, 2020	Change in fair value as at Dec. 31, 2019
Basis point change in discount rates	-10 basis points decrease	5	6
	+10 basis points increase	(5)	(6)
Quarterly cash flows	+1% increase ⁽¹⁾	6	6
	-1% decrease ⁽¹⁾	(6)	(6)

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

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

Changes in the investment balances are detailed as follows:

	Preferred shares tracking earnings and distributions of Wyoming Wind ⁽¹⁾	Preferred shares tracking earnings and distributions of Lakeswind ⁽²⁾	Preferred shares tracking earnings and distributions of Mass Solar ⁽³⁾	Preferred shares tracking earnings and distributions of Big Level and Antrim ⁽⁴⁾	Total
Investment balance at Dec. 31, 2019	119	30	53	118	320
Investment	—	—	—	61	61
Return of capital	(9)	(2)	(7)	(3)	(21)
Net change in fair value and foreign exchange recognized in OCI	8	(1)	7	(20)	(6)
Investment balance at June 30, 2020	118	27	53	156	354

(1) Principal amounts as at June 30, 2020, and Dec. 31, 2019, was US\$85 million and US\$92 million for Wyoming Wind.

(2) Principal amounts as at June 30, 2020, and Dec. 31, 2019, was US\$22 million and US\$23 million for Lakeswind.

(3) Principal amounts as at June 30, 2020, and Dec. 31, 2019, was US\$41 million and US\$46 million for Mass Solar.

(4) Principal amounts as at June 30, 2020, and Dec. 31, 2019, was US\$131 million and US\$90 million for Big Level and Antrim.

During 2020, the Corporation subscribed for additional tracking preferred shares in a subsidiary of TransAlta, tracking earnings and distributions of Big Level and Antrim for \$61 million (US\$43 million). A subsidiary of TransAlta subsequently repaid to the Corporation the promissory note related to the Big Level and Antrim wind projects in the amount of \$61 million (US\$42 million). Refer to Note 10 for further details.

	Preferred shares tracking earnings and distributions of Wyoming Wind ⁽¹⁾	Preferred shares tracking earnings and distributions of Lakeswind ⁽²⁾	Preferred shares tracking earnings and distributions of Mass Solar ⁽³⁾	Preferred shares tracking earnings and distributions of Big Level ⁽⁴⁾	Total
Investment balance, Dec. 31, 2018	137	33	69	42	281
Investment	–	–	–	21	21
Return of capital	(6)	–	(3)	–	(9)
Net change in fair value and foreign exchange recognized in OCI	(15)	(2)	(3)	(2)	(22)
Investment balance at June 30, 2019	116	31	63	61	271

(1) Principal amounts as at June 30, 2019, and Dec. 31, 2018, was US\$96 million and US\$100 million for Wyoming Wind.

(2) Principal amounts as at June 30, 2019, and Dec. 31, 2018, was US\$23 million for Lakeswind.

(3) Principal amounts as at June 30, 2019, and Dec. 31, 2018, was US\$48 million and US\$50 million for Mass Solar.

(4) Principal amounts as at June 30, 2019, and Dec. 31, 2018, was US\$47 million and US\$31 million for Big Level.

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

Unobservable input as at June 30, 2020	Wyoming Wind	Lakeswind	Mass Solar	Big Level and Antrim
Discount rate	6.7 %	9.7 %	6.7 %	9.7 %
Quarterly cash flows (millions)	Average of \$3	Average of \$1	Average of \$1	Average of \$5

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

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

Unobservable input	Alternative assumption	Change in total fair value as at June 30, 2020	Change in fair value as at Dec. 31, 2019
Basis point change in discount rates	-10 basis points decrease	3	3
	+10 basis points increase	(3)	(3)
Quarterly cash flows	+1% increase	4	3
	- 1% decrease	(4)	(3)

6. Interest Income and Interest Expense

The components of interest income are as follows:

	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Interest income on promissory notes due from a subsidiary of TransAlta (Note 10)	1	2	2	2
Other interest income	–	1	1	2
Interest income	1	3	3	4

The components of interest expense are as follows:

	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Interest on long-term debt	8	9	17	18
Interest on lease obligations	1	—	1	—
Other net interest ⁽¹⁾	1	1	2	2
Accretion of provisions	1	1	2	2
Interest expense	11	11	22	22

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

7. Income Taxes

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

	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Current income tax expense	1	—	1	1
Deferred income tax expense (recovery) arising from the write down of deferred income tax assets	—	—	—	(1)
Deferred income tax expense (recovery) resulting from changes in tax rates or laws	—	(18)	—	(18)
Deferred income tax expense related to the origination and reversal of temporary differences	4	6	11	16
Income tax expense (recovery)	5	(12)	12	(2)

In the second quarter of 2019, the Corporation recognized a deferred income tax recovery of \$18 million related to a decrease in the Alberta corporate tax rate from 12 per cent to 8 per cent. The lower tax rates will be phased in as follows: 11 per cent effective July 1, 2019, 10 per cent effective Jan. 1, 2020, 9 per cent effective Jan. 1, 2021, and 8 per cent effective Jan. 1, 2022.

Presented in the Condensed Consolidated Statements of Earnings as follows:

	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Current income tax expense	1	—	1	1
Deferred income tax expense (recovery)	4	(12)	11	(3)
Income tax expense (recovery)	5	(12)	12	(2)

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, 2020		Dec. 31, 2019	
	Fair value Level II	Fair value Level III	Fair value Level II	Fair value Level III
Preferred shares tracking Australia Cash Flows	–	573	–	598
Preferred shares tracking earnings and distributions of Wyoming Wind	–	118	–	119
Preferred shares tracking earnings and distributions of Big Level and Antrim	–	156	–	118
Preferred shares tracking earnings and distributions of Mass Solar	–	53	–	53
Preferred shares tracking earnings and distributions of Lakeswind	–	27	–	30
Preferred shares tracking amortization term loan	461	–	532	–
Preferred shares of TEA	48	–	42	–
Net risk management liabilities	(3)	–	(2)	–

I. Level Determinations and Classifications

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

a. Level I

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

b. Level II

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

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

c. Level III

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

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

negative impact on the estimate of the fair value of the instrument, and may be material. Additional disclosures on these measurements are presented in Note 5.

II. Commodity and Other Risk Management Assets and Liabilities

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

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

	Cash flow hedges	Non-hedges	Total
	Level II	Level II	
Net risk management liabilities at June 30, 2020	–	(3)	(3)
Net risk management liabilities at Dec. 31, 2019	–	(2)	(2)

III. Financial Instruments – Not Measured at Fair Value

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

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

As at	June 30, 2020		Dec. 31, 2019	
	Fair value Level II	Carrying value	Fair value Level II	Carrying value
Long-term debt ⁽¹⁾	889	803	943	938

(1) Includes current portion and excludes lease obligations.

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

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

I. Credit Risk

The Corporation's maximum exposure to credit risk at June 30, 2020, without taking into account collateral held or right of set-off, and including indirect exposures arising from the Corporation's investments in subsidiaries of TransAlta discussed in Note 5, is detailed as follows:

Counterparty credit rating	Direct exposure	Indirect exposure
	Receivables ⁽¹⁾	Trade accounts receivable ⁽²⁾
Investment grade	35	33
Non-investment grade	27	24
TransAlta and subsidiaries of TransAlta	65	–
No external rating	50	3

(1) Includes trade accounts receivable, distributions receivable from subsidiaries of TransAlta, and loans receivable.

(2) Includes accounts receivable of TEA. Receivables of other economic interest investments were approximately \$8 million in total and are with investment grade and other high-quality counterparties.

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

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

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

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

II. Other Market Risks

The Corporation is exposed to market risks based on changes in the fair value of the preferred shares of TEA, the preferred shares tracking Australia Cash Flows, and the preferred shares tracking earnings and distributions of Wyoming Wind, Big Level and Antrim, Lakeswind and Mass Solar. A one per cent increase (decrease) in the value of these securities would result in a \$10 million increase (decrease) in OCI as at June 30, 2020.

The Corporation is exposed to market risk based on the changes in fair value of the preferred shares tracking the amortizing term loan. A one percent increase (decrease) in the value of this security would result in a \$5 million increase (decrease) in net earnings as at June 30, 2020.

III. Liquidity Risk

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

	2020	2021	2022	2023	2024	2025 and thereafter	Total
Accounts payable and accrued liabilities	41	—	—	—	—	—	41
Long-term debt	26	52	54	212	59	410	813
Lease obligations	—	1	1	1	1	18	22
Net risk management liabilities	3	—	—	—	—	—	3
Interest on long-term debt and lease obligations ⁽¹⁾	31	30	28	24	20	84	217
Dividends payable	63	—	—	—	—	—	63
Total	164	83	83	237	80	512	1,159

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

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

IV. Foreign Currency Rate Risk

The possible effect on net earnings and OCI, due to changes in foreign exchange rates associated with financial instruments denominated in currencies other than the Corporation's functional currency is outlined below. The sensitivity analysis has been prepared using management's assessment that an average three cent (June 30, 2019 – four cent) decrease in these currencies relative to the Canadian dollar is a reasonable potential change over the next quarter.

6 months ended June 30	2020		2019	
	Net earnings decrease ⁽¹⁾	OCI loss ⁽¹⁾	Net earnings decrease ⁽¹⁾	OCI loss ⁽¹⁾
Currency				
USD	1	11	4	13
AUD	12	14	19	20
Total	13	25	23	33

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

9. Property, Plant and Equipment

For the three and six months ended June 30, 2020, the Corporation spent \$4 million and \$6 million on sustaining capital (June 30, 2019 - \$9 million and \$17 million) and an additional \$1 million in growth capital related to both periods for the Canadian Gas segment.

10. Other Assets

As at	June 30, 2020	Dec. 31, 2019
Big Level and Antrim promissory note (I) ⁽¹⁾	61	113
Kent Hills Wind LP loan receivable (II)	50	47
Long-term prepaids	2	2
Total other assets	113	162
Less: current portion	(61)	(113)
Total long-term other assets	52	49

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

I. Big Level and Antrim promissory note

During the six months ended June 30, 2020, the Corporation invested \$61 million (US\$43 million) in tracking preferred shares (see Note 5) and received repayment of \$61 million (US\$43 million) of the outstanding promissory note (\$60 million in repayment of principal and \$1 million of accrued interest).

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

II. Kent Hills Wind LP Loan Receivable

The Corporation's subsidiary, Kent Hills Wind LP, advanced \$37 million of the Kent Hills Wind bond financing proceeds to its 17 per cent partner on Nov. 2, 2017, \$10 million in 2019 and an additional \$3 million in 2020. The loan bears interest at 4.55 per cent, with interest payable quarterly, is unsecured and matures on Oct. 2, 2022.

11. Long-Term Debt and Lease Obligations

Amounts Outstanding

As at	June 30, 2020			Dec. 31, 2019		
	Carrying value	Face value	Interest ⁽¹⁾	Carrying value	Face value	Interest ⁽¹⁾
Credit facility	111	111	1.73 %	220	220	3.53 %
Pingston bond	45	45	2.95 %	45	45	2.95 %
Melancthon Wolfe Wind bond	281	287	3.83 %	298	302	3.83 %
New Richmond bond	130	132	3.96 %	134	136	3.96 %
Kent Hills Wind bond	236	238	4.45 %	241	244	4.45 %
Total long-term debt	803	813		938	947	
Lease obligations	22			23		
	825			961		
Less: current portion of long term debt	(51)			(51)		
Less: current portion of lease obligations	(1)			(1)		
Total long-term debt and lease obligations	773			909		

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

As of June 30, 2020, neither the Corporation nor any of its subsidiaries was in violation of any positive or negative covenants related to its debt.

12. Common Shares

A. Authorized and Outstanding

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

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

As at	June 30, 2020		Dec. 31, 2019	
	Common shares (millions)	Amount (millions)	Common shares (millions)	Amount (millions)
Issued and outstanding, beginning of period	265.6	3,039	263.4	3,011
Dividend reinvestment plan	0.8	12	2.2	28
Issued and outstanding, end of period	266.4	3,051	265.6	3,039

B. Dividends

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

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

Dividends declared	Total dividends per share	Total dividends	TransAlta	Other shareholders
6 months ended June 30, 2020	0.46998	126	75	51
6 months ended June 30, 2019	0.46998	124	75	49

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

On July 30, 2020, the Corporation declared a monthly dividend of \$0.07833 per common share payable on Oct. 30, 2020, Nov. 30, 2020, and Dec 31, 2020.

13. Commitments and Contingencies

For the significant commitments and contingencies outstanding, refer to Note 23 of the 2019 Annual Financial Statements. Except as discussed below, there have been no significant changes during the three and six months ended June 30, 2020.

I. Line Loss Rule Proceeding

The Corporation has been participating in a transmission line loss rule proceeding before the Alberta Utilities Commission ("AUC"). The AUC directed the Alberta Electric System Operator ("AESO") to recalculate the transmission line loss factors of all Alberta generating facilities for the period from 2006-2016. After recalculating the transmission losses using an updated methodology, the AESO further directed the AUC to issue a single invoice to all generating facilities with a cash settlement date of June 2021. The AESO responded by seeking approval from the AUC to instead use a "pay-as-you-go" settlement whereby the AESO would be permitted to issue a separate invoice for each historical year as loss factors are recalculated. The AUC recently ruled on the AESO's request and approved an invoice settlement process that will be instead broken down into three periods (2014-2016, 2010-2013, and 2006-2009) with the first invoice for line losses issued (and payable) in 2020.

With the AESO recently publishing its final loss factors for the period from 2014-2016 using the AUC-approved methodology, we are more confident with respect to the amount that the Corporation will be invoiced regarding the Corporation's wind and hydro assets. It is anticipated that the first invoice will require the Corporation to make a payment of approximately \$1 million related to its wind and hydro facilities.

The estimated amounts continue to be uncertain and the AESO's recalculated loss factors remain subject to further review and change. Based on the information currently available, it is anticipated that the Corporation faces an aggregate liability of approximately \$1 million.

II. FMG Disputes

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

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

14. Related-Party Transactions and Balances

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

A. Related-Party Transactions

Related-party transactions include the finance income related to subsidiaries of TransAlta disclosed in Note 5 and the interest income related to promissory notes due from subsidiaries of TransAlta disclosed in Note 6. Also, all derivatives of the Corporation are entered into on behalf of the Corporation by a subsidiary of TransAlta.

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

	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Revenue from TransAlta PPAs	10	8	22	15
Revenue from Environmental attributes ⁽¹⁾	—	8	—	9
G&A Reimbursement Fee	5	4	9	8
Natural gas purchases	—	—	1	6
Financial power swap sales- losses (gains)	—	(1)	—	(1)
Asset optimization fee ⁽²⁾	—	—	1	1

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

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

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

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

B. Related-Party Balances

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

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

As at	June 30, 2020	Dec. 31, 2019
Trade and other receivables	4	19
Accounts payable and accrued liabilities	8	8
Dividends payable	38	38
Big Level and Antrim loan receivable	61	113
Guarantees provided by TransAlta on behalf of the Corporation ⁽¹⁾	289	314
TEA Guarantees ⁽¹⁾	529	512
Long-term prepaid – management fee	2	2

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

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

15. Segment Disclosures

The Corporation has four reportable segments outlined below.

3 months ended June 30, 2020	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	Total
Revenues	52	11	38	–	101
Government incentives	2	–	–	–	2
Total revenue	54	11	38	–	103
Fuel, royalties and other costs	4	1	12	–	17
Gross margin	50	10	26	–	86
Operations, maintenance and administration	8	2	7	5	22
Depreciation and amortization	22	2	9	–	33
Taxes, other than income taxes	2	–	–	–	2
Operating income (loss)	18	6	10	(5)	29
Finance income related to subsidiaries of TransAlta					10
Interest income					1
Interest expense					(11)
Change in fair value of financial assets					(26)
Foreign exchange gain					33
Earnings before income taxes					36

6 months ended June 30, 2020	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	Total
Revenues	119	14	77	–	210
Government incentives	3	–	–	–	3
Total revenue	122	14	77	–	213
Fuel, royalties and other costs	7	2	25	–	34
Gross margin	115	12	52	–	179
Operations, maintenance and administration	18	3	14	10	45
Depreciation and amortization	44	4	19	–	67
Taxes, other than income taxes	3	1	–	–	4
Operating income (loss)	50	4	19	(10)	63
Finance income related to subsidiaries of TransAlta					18
Interest income					3
Interest expense					(22)
Change in fair value of financial assets					(31)
Foreign exchange gain					16
Earnings before income taxes					47

3 months ended June 30, 2019	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	Total
Revenues	53	10	45	–	108
Government incentives	3	–	–	–	3
Total revenue	56	10	45	–	111
Fuel, royalties and other costs	3	1	14	–	18
Gross margin	53	9	31	–	93
Operations, maintenance and administration	9	1	8	6	24
Depreciation and amortization	21	2	9	–	32
Taxes, other than income taxes	1	1	–	–	2
Insurance recovery	(4)	–	–	–	(4)
Operating income (loss)	26	5	14	(6)	39
Finance income related to subsidiaries of TransAlta					13
Interest income					3
Interest expense					(11)
Change in fair value of financial assets					2
Foreign exchange loss					(26)
Earnings before income taxes					20

6 months ended June 30, 2019	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	Total
Revenues	123	12	98	—	233
Government incentives	5	—	—	—	5
Total revenue	128	12	98	—	238
Fuel, royalties and other costs	6	1	40	—	47
Gross margin	122	11	58	—	191
Operations, maintenance, and administration	17	2	15	11	45
Depreciation and amortization	41	5	17	—	63
Taxes, other than income taxes	3	1	—	—	4
Insurance recovery	(4)	—	—	—	(4)
Operating income (loss)	65	3	26	(11)	83
Finance income related to subsidiaries of TransAlta					39
Interest income					4
Interest expense					(22)
Change in fair value of financial assets					33
Foreign exchange loss					(30)
Earnings before income taxes					107

Glossary of Key Terms

AU\$ – means Australian dollars.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

US Wind and Solar assets – TransAlta's wind farm and solar project assets that are fully operational and contracted under long-term contracts, including the 50 MW Lakeswind, 140 MW Wyoming Wind, 90 MW Big Level and 29 MW Antrim wind farms and the 21 MW Mass Solar solar project.

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