TransAlta renewables inc.

TransAlta Renewables Inc.
Third Quarter Report for 2017

Management's Discussion and Analysis

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

This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements of TransAlta Renewables Inc. as at and for the three and nine months ended Sept. 30, 2017 and 2016 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, 2016. 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 their 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 Nov. 2, 2017. Additional information respecting the Corporation, including its Annual Information Form, is available on SEDAR at www.sedar.com and on our website at www.transaltarenewables.com. Information on or connected to our website is not incorporated by reference herein.

Operations of the Corporation

As at Sept. 30, 2017, TransAlta Renewables owned 13 hydro facilities, 17 wind farms, and one gas plant, and held economic interests in the cash flows from the Wyoming Wind Farm and Australian Assets.

In total, we own, directly or through economic interests, an aggregate of 2,441 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.

We have an economic interest in the cash flows from, and not direct ownership of, the Wyoming Wind Farm and the Australian Assets. The operational results of these assets are not consolidated into our reported results; however, the finance income we receive on the underlying investments is included in our consolidated net earnings.

Non-IFRS Measures

We evaluate our performance using a variety of measures. Certain of the measures discussed in this MD&A are not defined under IFRS and, therefore, should not be considered in isolation or as an alternative to or to be more meaningful than measures as determined in accordance with IFRS, when assessing our financial performance or liquidity. These measures may not be comparable to similar measures presented by other issuers and should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS.

The Corporation's key non-IFRS measures are Reported Earnings before Interest, Taxes, Depreciation, and Amortization ("Reported EBITDA"), Comparable Earnings before Interest, Taxes, Depreciation, and Amortization ("Comparable EBITDA"), Adjusted Funds from Operations ("AFFO") and Cash Available for Distribution ("CAFD"). Comparable EBITDA is comprised of our Reported EBITDA adjusted to include Comparable EBITDA of the facilities in which we hold an economic interest in cash flows, which is their Reported EBITDA adjusted for: 1) finance lease income and the change in the finance lease receivable amount; 2) contractually fixed management costs; and 3) interest earned on the prepayment of certain transmission costs.

(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.

Reported EBITDA and Comparable EBITDA are presented to provide management and investors with a proxy for the amount of cash generated from operating activities before net interest expense, non-controlling interest, income taxes, and the impacts of timing on the finance income from subsidiaries of TransAlta in which we have an economic interest. We present Comparable EBITDA along with operational information of the assets in which we own an economic interest in the cash flows so that readers can better understand and evaluate the drivers of those assets. Since the economic interests are designed to provide the Corporation with returns as if we owned the assets themselves, presenting the operational information and Comparable EBITDA provides a more complete picture for readers to understand the underlying nature of the investments and the resultant cash flows that would otherwise only be presented as finance income from the investments. AFFO is calculated as the cash flow from operating activities before changes in working capital, less sustaining capital expenditures, distributions paid to subsidiaries' non-controlling interest and finance income, plus AFFO of the assets owned through economic interests, which is calculated as Comparable EBITDA from the economic interests less the change in long-term receivable, sustaining capital expenditures, and current income tax expense. AFFO provides users with a proxy for the amount from operating activities and investments in subsidiaries of TransAlta in which we have an economic interest. CAFD is calculated as AFFO less scheduled principal repayments of amortizing debt. CAFD can be used as a proxy for the cash that will be available to common shareholders of the Corporation. One of the primary objectives of the Corporation is to provide reliable and stable cash flows, and presenting AFFO and CAFD assists readers in assessing our cash flows in comparison to prior periods.

See the Reconciliation of Non-IFRS Measures section of this MD&A for additional information.

Additional IFRS Measures

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

Forward-Looking Statements

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

In particular, this MD&A contains forward-looking statements pertaining to our business and anticipated future financial performance including, but not limited to: spending on growth and sustaining capital and productivity projects, including sustaining capital expenditures of subsidiaries of TransAlta in which we have an economic interest; our 2017 Outlook, including Comparable EBITDA, AFFO, and CAFD; renewable energy production from our wind and hydro assets in 2017; our foreign exchange risk strategy; expectations regarding net interest and volume of debt; our ability to maintain adequate availability; expectations regarding project level debt; statutory blended tax rates and cash tax horizon; expectations in terms of the cost of operations, sustaining capital and other capital spending, and maintenance, including maintenance performed by third parties, and including the variability of those costs; the payment of future dividends; expectations in respect of generation availability, Capacity, and production; the timing and completion of projects under development, including the Kent Hills 3 Wind Project and the costs thereof and the funding of such costs; the anticipated financial impact to be realized from the commercial operation of the South Hedland Facility; expected governmental regulatory regimes, legislation and programs, including the procurement process for renewable generation in Alberta and the expected impact on us, as well as the cost of complying with resulting regulations and laws; the value of offsets generated by our wind facilities; expectations regarding the implementation of new IFRS standards; expectations regarding seasonality of wind and hydro production; expectations for the ability to access capital markets on reasonable terms; the terms related to the acquisition by Fortescue Metals Group Ltd. ("FMG") of the Solomon Power Station, including the timing, associated acquisition price, and use of proceeds; our expectations regarding the outcome of existing or potential legal or contractual claims, regulatory investigations, and disputes, including the dispute with FMG over the commissioning of the South Hedland Facility; and the impact of accounting changes.

Factors that may adversely impact our forward-looking statements include, but are not limited to, risks relating to: changes in general economic conditions, including interest rates; operational risks involving our facilities, including Unplanned Outages at such facilities; risks pertaining to the timing and cost of the construction and commissioning of the Kent Hills 3 Wind Project; disruptions in the transmission and distribution of electricity; the effects of weather; disruptions in the source of water, wind, or gas required to operate our facilities; natural disasters; the threat of domestic terrorism, cyberattacks, and other man-made disasters; equipment failure and our ability to carry out repairs in a cost-effective or timely manner; industry risk and competition; fluctuations in the value of foreign currencies; the need for additional financing and the ability to access financing at a reasonable cost; structural subordination of securities; counterparty credit risk; insurance coverage; our provision for income taxes; disputes with counterparties and legal and contractual proceedings involving the Corporation; reliance on key personnel; the regulatory and political environments in 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 Annual Information Form and our annual MD&A for the year ended Dec. 31, 2016. All documents are available on SEDAR at www.sedar.com.

Readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements included in this document are made only as of the date hereof and we do not undertake to publicly update these forward-looking statements to reflect new information, future events, or otherwise, except as required by applicable laws. In light of these risks, uncertainties, and assumptions, the forward-looking events might occur to a different extent or at a different time than we have described, or might not occur. We cannot assure that projected results or events will be achieved.

Highlights

Consolidated Financial Highlights

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	**2017**	2016
Renewable energy production (GWh)[1]	**604**	682	**2,500**	2,566
Revenues	**94**	45	**335**	165
Net earnings (loss) attributable to common shareholders	**(73)**	23	**(24)**	(28)
Reported EBITDA[2]	**(21)**	61	**133**	82
Comparable EBITDA[2]	**96**	83	**306**	286
Adjusted funds from operations[2]	**70**	55	**217**	193
Cash flow from operating activities	**87**	62	**260**	213
Cash available for distribution[2]	**70**	55	**196**	176
Net earnings (loss) per share attributable to common shareholders, basic and diluted	**(0.30)**	0.10	**(0.10)**	(0.13)
Adjusted funds from operations per share[2]	**0.29**	0.25	**0.94**	0.87
Cash available for distribution per share[2]	**0.29**	0.25	**0.85**	0.79
Dividends declared per common share	**0.23**	0.22	**0.60**	0.66
Dividends paid per common share	**0.22**	0.22	**0.66**	0.66

As at	Sept. 30, 2017	Dec. 31, 2016
Gas installed capacity (MW)[3]	**1,081**	931
Renewables installed capacity (MW)	**1,388**	1,388
Total assets	**3,768**	3,841
Long-term debt[4]	**930**	827
Total long-term liabilities	**1,195**	1,237

Comparable EBITDA for the quarter totalled $96 million, a $13 million increase over last year, driven by the South Hedland Facility achieving commercial operation on July 28, 2017. For the year-to-date, Comparable EBITDA totalled $306 million compared to $286 million for the comparative period, up $20 million, mainly due to increased Comparable EBITDA from our Australian Gas and Canadian Wind portfolios.

Our AFFO for the three and nine months ended Sept. 30, 2017 increased $15 million and $24 million, respectively. CAFD also increased $15 million and $20 million for the three and nine months ended Sept. 30, 2017, respectively. The increases in AFFO and CAFD are mainly attributable to the increase in Comparable EBITDA.

Reported net earnings attributable to common shareholders decreased $96 million and increased $4 million for the three and nine months ended Sept. 30, 2017, respectively. For the three months ended Sept. 30, 2017, the impairment of the Australian Tracking Preferred Shares of $114 million and higher foreign exchange losses of $56 million were partially offset by the fair value change on the Class B shares liability of $85 million. Year-to-date, the impairment of the Australian Tracking Preferred Shares was partially offset by the change in the Class B shares liability of $127 million.

(1) Includes production from the Wyoming Wind Farm 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 Australian gas-fired generation.
(4) Including current portion.

Significant and Subsequent Events

South Hedland Facility and Conversion of Class B Shares

On July 28, 2017, our South Hedland Facility achieved commercial operation. On Aug. 1, 2017, we converted the 26.1 million Class B shares held by TransAlta into 26.4 million common shares. The Class B shares were converted at a ratio greater than 1:1 because the construction and commissioning costs for the project were below the referenced costs agreed upon in the amended contribution agreement, as filed on SEDAR, between us and TransAlta. As a result of commissioning of the facility, the dividend was increased by approximately 7 per cent from $0.88 per share to $0.94 per share annually.

On Aug. 1, 2017, FMG notified TransAlta that, in its view, the South Hedland Facility has not yet satisfied the requisite performance criteria under the South Hedland power purchase agreement (the "PPA") between FMG and TransAlta. In our view, all conditions to establish commercial operations have been fully satisfied under the terms of the PPA with FMG and we continue to work with our customer to reach an agreement. Horizon Power has not disputed commercial operation.

Kent Hills Wind Project

During the second quarter, we entered into a long-term contract with the New Brunswick Power Corporation ("NB Power") for the sale of all power generated by an additional 17.25 MW of capacity from the Kent Hills wind project.

This is an expansion project of our existing Kent Hills wind farms, increasing the total operating capacity of the Kent Hills wind farms to approximately 167 MW. As part of the regulatory process, we have submitted an Environmental Impact Assessment to the Province of New Brunswick in September 2017. Provided environmental approvals are received, we expect to begin the construction phase in the spring of 2018.

At the same time, the term of the Kent Hills 1 contract with NB Power was extended from 2033 to 2035, matching the life of Kent Hills 2 and Kent Hills 3 wind projects.

On Oct. 2, 2017 we closed an approximate $260 million bond offering, by way of a private placement, which is secured by, among other things, a first ranking charge over all assets of Kent Hills Wind LP, a subsidiary of the Corporation. The bonds are amortizing and bear interest at an annual rate of 4.454 per cent, payable quarterly and maturing Nov. 30, 2033. Proceeds from the financing will partly fund the expansion at Kent Hills, with the remaining proceeds, net of $30 million held in a construction reserve account, being distributed to each partner in the Kent Hills wind project.

Syndicated Credit Facility

On July 24, 2017, we entered into a syndicated credit agreement giving us access to a $500 million committed credit facility. The agreement is fully committed for four years, expiring in 2021. The facility is subject to a number of customary covenants and restrictions in order to maintain access to the funding commitments. In conjunction with the new credit agreement, the $350 million credit facility provided by TransAlta was cancelled.

Termination of Solomon PPA Contract

On Aug. 1, 2017, we received notice that FMG intends to repurchase the Solomon Power Station from TEC Pipe Pty Ltd., a wholly-owned subsidiary of TransAlta, for approximately US$335 million. We have an economic interest in the cash flows generated from the Solomon Power Station. FMG completed its acquisition of the Solomon Power Station on Nov. 1, 2017 and TEC Pipe Pty Ltd received approximately US$325 million from FMG for the repurchase. FMG has held back approximately US$7 million from the purchase price. It is our view that this US$7 million should not be held back and we expect to recover all, or a significant portion of this amount from FMG. We expect to utilize the proceeds to repay the credit facility used to fund the development of the South Hedland Facility and to repay the $215 million convertible debenture issued to TransAlta. The repayment of the convertible debenture will reduce our interest expense by approximately $10 million per year in each of the years 2018 through 2020 and eliminates the potential for additional common shares to be issued in 2021 upon conversion.

As a result of FMG's intention to repurchase of the Solomon Power Station, we recognized an impairment during the period on the Australian Tracking Preferred Shares in the amount of $114 million. Although our investment in the Australian business is designed to provide us with the net underlying cash flows as if we owned the assets directly, the fair value of the investment in the Australian Tracking Preferred Shares does not depreciate in line with the assets. The fair value is based on the underlying cash flows of the Australian business and is impacted by foreign currency and discount rate assumptions. Over time the accounting value of the Australian Tracking Preferred Shares was also increased to reflect lower discount rates. The impairment arose due to changes in the timing and nature of the future cash flows, which changed as a result of the termination. Since acquiring the investment in 2015, the Solomon Power Station has generated over $100 million of free cash flow. The third quarter dividend of approximately $28 million on the Australian Tracking Preferred Shares was considered a return of capital and not dividend income. Refer to Notes 1(C) and 4 of the financial statements for additional information.

Unsecured Debentures Early Redemption

On Sept. 27, 2017, we provided notice that we will be early redeeming all of the unsecured debentures issued by our subsidiary, Canadian Hydro Developers, Inc. on Oct. 12, 2017, with a weighted average interest rate of 6.3 per cent. The debentures were scheduled to mature in June of 2018. On Oct. 12, 2017 we redeemed the unsecured debentures for $201 million in total, comprised of principal of $191 million, an early redemption premium of $6 million, and accrued interest of $4 million. Due to timing of the notice, a $6 million loss was recognized for the three and nine months ended Sept. 30, 2017, and is included in net interest expense.

Management and Board Changes

The Corporation announced on Nov. 2, 2017, the appointment of John Kousinioris as President of the Corporation, and a member of the Board of Directors. Mr. Kousinioris is the Chief Legal and Compliance Officer for TransAlta and will take on this role in addition to his duties at TransAlta.

Brett Gellner will remain on the Board of TransAlta Renewables, and as Chief Investment Officer of TransAlta. Mr. Gellner will dedicate his time to evaluating and pursuing growth opportunities for both TransAlta and the Corporation.

Mr. Kousinioris replaces Aron Willis on the Board of Directors of TransAlta Renewables. Mr. Willis will continue in his role as Senior Vice-President for both TransAlta and the Corporation.

Reconciliation of Non-IFRS Measures

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

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
Cash flow from operating activities	87	62	260	213
Change in non-cash operating working capital balances	(34)	(8)	(45)	(27)
Adjusted cash flow from operations before changes in working capital	53	54	215	186
Adjustments:				
Sustaining capital expenditures	(7)	(4)	(21)	(7)
Distributions paid to subsidiaries' non-controlling interest	(1)	(2)	(4)	(5)
Finance Income	(21)	(39)	(68)	(112)
AFFO - economic interests[1]	46	46	95	131
AFFO	70	55	217	193
Deduct:				
Principal repayments of amortizing debt	-	-	(21)	(17)
Comparable CAFD	70	55	196	176
Weighted average number of common shares outstanding in the period (millions)	242	224	230	223
AFFO per share	0.29	0.25	0.94	0.87
Comparable CAFD per share	0.29	0.25	0.85	0.79

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

The tables below reconcile our Reported EBITDA to Comparable EBITDA:

3 months ended Sept. 30, 2017	Reported	Adjustments	Economic interests	Comparable total
Revenues[2]	94	-	58	152
Royalties and other costs of sales[3]	24	-	2	26
Gross margin	70	-	56	126
Operations, maintenance, and administration[4]	19	-	9	28
Taxes, other than income taxes	2	-	-	2
Finance income related to subsidiaries of TransAlta	(21)	21	-	-
Change in fair value of Class B shares	(44)	44	-	-
Foreign exchange loss	21	(21)	-	-
Impairment of investment	114	(114)	-	-
Earnings before interest, taxes, depreciation, and amortization	(21)	70	47	96

(1) Refer to the Reconciliation of the Comparable EBITDA of the facilities in which we hold an economic interest to the reported finance income table in this MD&A.
(2) Amounts related to economic interests include finance lease income adjusted for change in finance lease receivable amount.
(3) Commencing in the third quarter of 2017, amounts related to economic interests include interest earned on the prepayment of certain transmission costs.
(4) Amounts related to economic interests include the effect of the contractually fixed management costs.

9 months ended Sept. 30, 2017

	Reported	Adjustments	Economic interests	Comparable total
Revenues(1)	335	-	152	487
Royalties and other costs of sales(2)	82	-	9	91
Gross margin	253	-	143	396
Operations, maintenance, and administration(3)	60	-	24	84
Taxes, other than income taxes	6	-	-	6
Finance income related to subsidiaries of TransAlta	(68)	68	-	-
Change in fair value of Class B shares	2	(2)	-	-
Foreign exchange loss	6	(6)	-	-
Impairment of investment	114	(114)	-	-
Earnings before interest, taxes, depreciation, and amortization	133	54	119	306

3 months ended Sept. 30, 2016

	Reported	Adjustments	Economic interests(4)	Comparable total
Revenues(1)	45	-	102	147
Royalties and other costs of sales	2		31	33
Gross margin	43	-	71	114
Operations, maintenance, and administration(3)	13	-	16	29
Taxes, other than income taxes	2	-	-	2
Finance income related to subsidiaries of TransAlta	(39)	39	-	-
Change in fair value of Class B shares	41	(41)	-	-
Foreign exchange gain	(35)	35	-	-
Earnings before interest, taxes, depreciation, and amortization	61	(33)	55	83

9 months ended Sept. 30, 2016

	Reported	Adjustments	Economic interests(4)	Comparable total
Revenues(1)	165	-	297	462
Royalties and other costs of sales	8	-	78	86
Gross margin	157	-	219	376
Operations, maintenance, and administration(3)	39	-	45	84
Taxes, other than income taxes	6	-	-	6
Finance income related to subsidiaries of TransAlta	(112)	112	-	-
Change in fair value of Class B shares	129	(129)	-	-
Foreign exchange loss	13	(13)	-	-
Earnings before interest, taxes, depreciation, and amortization	82	30	174	286

(1) Amounts related to economic interests include finance lease income adjusted for change in finance lease receivable amount.
(2) Commencing in the third quarter of 2017, 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 the contractually fixed management costs.
(4) Includes results for the Canadian Assets, which were acquired on Nov. 30, 2016.

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

3 months ended Sept. 30	2017			2016					
	U.S. Wind	Australian Gas	Total	Canadian Wind[1]	Canadian Hydro[1]	U.S. Wind	Canadian Gas[1]	Australian Gas	Total
Comparable EBITDA	1	46	47	1	-	2	19	33	55
Sustaining capital	(1)	(5)	(6)	(1)	-	(1)	(1)	(6)	(9)
Change in long term receivable	-	9	9	-	-	-	-	-	-
Current income tax expense	-	-	-	-	-	-	(3)	-	(3)
Unrealized risk management gain	-	-	-	-	-	-	3	-	3
Reserves and other	-	(4)	(4)	-	-	-	-	-	-
AFFO	-	46	46	-	-	1	18	27	46
Return of capital	-	(28)	(28)	-	-	-	(10)	-	(10)
Effects of changes in working capital and other timing on finance income	-	3	3	1	-	5	(3)	-	3
Finance income	-	21	21	1	-	6	5	27	39

9 months ended Sept. 30	2017			2016					
	U.S. Wind	Australian Gas	Total	Canadian Wind[1]	Canadian Hydro[1]	U.S. Wind	Canadian Gas[1]	Australian Gas	Total
Comparable EBITDA	9	110	119	7	1	10	60	96	174
Sustaining capital	(2)	(8)	(10)	(2)	-	(2)	(4)	(12)	(20)
Change in long term receivable	-	(6)	(6)	-	-	-	-	(15)	(15)
Current income tax expense	-	-	-	-	-	-	(9)	-	(9)
Unrealized risk management gain	-	-	-	-	-	-	2	-	2
Reserves and other	-	(4)	(4)	-	-	-	-	-	-
Currency adjustment	-	(4)	(4)	-	-	-	-	(1)	(1)
AFFO	7	88	95	5	1	8	49	68	131
Return of capital	-	(28)	(28)	-	-	-	(17)	-	(17)
Effects of changes in working capital and other timing on finance income	(1)	2	1	-	-	2	(4)	-	(2)
Finance income	6	62	68	5	1	10	28	68	112

(1) On Nov. 30, 2016, we acquired the Canadian Assets.

The tables below reconcile Comparable EBITDA to AFFO for owned assets and economic interests:

	2017			2016		
3 months ended Sept. 30	**Owned Assets**	**Economic Interests**	**Total**	Owned Assets	Economic Interests	Total
Comparable EBITDA	49	47	96	28	55	83
Interest expense	(14)	-	(14)	(12)	-	(12)
Change in long term receivable	-	9	9	-	-	-
Sustaining capital expenditures	(7)	(6)	(13)	(4)	(9)	(13)
Current income tax expense	(2)	-	(2)	(1)	(3)	(4)
Distributions paid to subsidiaries' non-controlling interest	(1)	-	(1)	(2)	-	(2)
Unrealized risk management gain	1	-	1	-	3	3
Realized foreign exchange gain	1	-	1	1	-	1
Reserves and other	-	(4)	(4)	-	-	-
Other	(3)	-	(3)	(1)	-	(1)
AFFO	24	46	70	9	46	55

	2017			2016		
9 months ended Sept. 30	**Owned Assets**	**Economic Interests**	**Total**	Owned Assets	Economic Interests	Total
Comparable EBITDA	187	119	306	112	174	286
Interest expense	(38)	-	(38)	(36)	-	(36)
Change in long term receivable	-	(6)	(6)	-	(15)	(15)
Sustaining capital expenditures	(21)	(10)	(31)	(7)	(20)	(27)
Current income tax expense	(5)	-	(5)	(4)	(9)	(13)
Distributions paid to subsidiaries' non-controlling interest	(4)	-	(4)	(5)	-	(5)
Unrealized risk management gain	-	-	-	-	2	2
Realized foreign exchange gain	2	-	2	-	-	-
Reserves and other	-	(4)	(4)	-	-	-
Currency adjustment	-	(4)	(4)	-	(1)	(1)
Other	1	-	1	2	-	2
AFFO	122	95	217	62	131	193

Discussion of Comparable EBITDA

The amounts provided for in this section include operational metrics and financial information related to our fuel types which include investments in the economic interests in the cash flows from certain 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 more information to be able to assess the performance of the assets that generate the finance income related to the economic interests. All the assets in the U.S. Wind and Australian Gas discussions are owned through an investment in an economic interest. The Canadian Wind comparative period includes the results of the Le Nordais wind farm, the Canadian Hydro comparative period includes the results of the Ragged Chute hydro facility, and the Canadian Gas comparative period includes the results of the Sarnia cogeneration plant for Jan. 6 through Sept. 30, 2016. We own these assets in 2017, but for the comparative period, we held our interest in such assets as an investment in an economic interest. The Comparable EBITDA of the assets in which we have an economic interest in the cash flows 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 Sept. 30	Long-term average renewable energy production (GWh)[1]	Production (GWh)		Comparable EBITDA	
		2017	2016	2017	2016
Canadian Wind	507	418	485	26	27
Canadian Hydro	176	146	127	8	6
U.S. Wind	54	40	70	1	2
Total - Renewable energy	737	604	682	35	35
Canadian Gas		322	451	19	19
Australian Gas		476	389	46	33
Corporate		-	-	(4)	(4)
Total		1,402	1,522	96	83

9 months ended Sept. 30	Long-term average renewable energy production (GWh)[1]	Production (GWh)		Comparable EBITDA	
		2017	2016	2017	2016
Canadian Wind	1,980	1,902	1,952	121	116
Canadian Hydro	381	361	360	17	17
U.S. Wind	243	237	254	9	10
Total - Renewable energy	2,604	2,500	2,566	147	143
Canadian Gas		931	1,055	62	60
Australian Gas		1,346	1,132	110	96
Corporate		-	-	(13)	(13)
Total		4,777	4,753	306	286

Renewable energy production for the three and nine months ended Sept. 30, 2017 is lower than the long-term average renewable energy production and last year. Total Comparable EBITDA for the quarter was higher due to increased earnings in Australian Gas from the South Hedland Facility. Year-to-date, total Comparable EBITDA increased $20 million compared to 2016, due to increased earnings in Australian Gas from the South Hedland Facility and higher Comparable EBITDA at Canadian Wind resulting from higher green attribute revenue and lower operating costs.

Canadian Wind

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
Production *(GWh)*	418	485	1,902	1,952
Gross installed capacity *(MW)*	1,132	1,132	1,132	1,132
Revenues	37	40	156	154
Royalties and other costs of sales	2	2	8	7
Comparable gross margin	35	38	148	147
Operations, maintenance, and administration	8	10	23	27
Taxes, other than income taxes	1	1	4	4
Comparable EBITDA	26	27	121	116

Production for the three and nine months ended Sept. 30, 2017 was below our long-term average and decreased 67 GWh and 50 GWh, respectively, compared to 2016, due to lower wind resource.

(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.

Comparable EBITDA decreased $1 million for the three months ended Sept. 30, 2017. The lower revenues due to lower production were partially offset by lower operating expenses resulting from long-term service contracts renegotiated in the third quarter of 2016.

For the nine months ended Sept. 30, 2017, Comparable EBITDA increased $5 million. Increased green attribute revenue in the first quarter of 2017 contributed to higher Comparable EBITDA. Lower production in the third quarter offset impacts to Comparable EBITDA of higher production in the second quarter. Lower operating costs due to long-term service contracts renegotiated in the third quarter of 2016 offset the decrease in production.

Canadian Hydro

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	**2017**	2016
Production *(GWh)*	**146**	127	**361**	360
Gross installed capacity *(MW)*	**112**	112	**112**	112
Revenues	**9**	8	**23**	23
Royalties and other costs of sales	**-**	-	**2**	2
Comparable gross margin	**9**	8	**21**	21
Operations, maintenance, and administration	**1**	1	**3**	2
Taxes, other than income taxes	**-**	1	**1**	2
Comparable EBITDA	**8**	6	**17**	17

Production for the three and nine months ended Sept. 30, 2017 increased 19 GWh and 1 GWh respectively, compared to 2016, due to higher water resource. Comparable EBITDA for the three months ended Sept. 30, 2017 increased $2 million, mainly due to favourable contract volumes and pricing. Comparable EBITDA for the nine months ended Sept. 30, 2017 remained consistent with 2016.

U.S. Wind

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	**2017**	2016
Production *(GWh)*	**40**	70	**237**	254
Gross installed capacity *(MW)*	**144**	144	**144**	144
Revenues	**2**	4	**14**	15
Royalties and other costs of sales	**-**	-	**1**	1
Comparable gross margin	**2**	4	**13**	14
Operations, maintenance, and administration	**1**	2	**4**	4
Comparable EBITDA	**1**	2	**9**	10

Production at the Wyoming Wind Farm for the three months and nine months ended Sept. 30, 2017 decreased 31 GWh and 18 GWh, respectively, compared to 2016, due to weaker wind resource. Lower production resulted in lower Comparable EBITDA of $1 million for the three and nine months ended Sept. 30, 2017, compared to 2016.

Canadian Gas

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	**2017**	2016[1]
Production *(GWh)*	**322**	451	**931**	1,055
Gross installed capacity *(MW)*	**506**	506	**506**	506
Revenues	**48**	52	**156**	140
Fuel and purchased power	**22**	26	**72**	60
Comparable gross margin	**26**	26	**84**	80
Operations, maintenance, and administration	**6**	7	**21**	20
Taxes, other than income taxes	**1**	-	**1**	-
Comparable EBITDA	**19**	**19**	**62**	**60**

For the three months ended Sept. 30, 2017, Comparable EBITDA remained consistent with 2016.

For the nine months ended Sept. 30, 2017, Comparable EBITDA increased $2 million from 2016. Unrealized mark-to-market and hedging gains on financial contracts that do not qualify as hedges for accounting, but provide us economic hedges, were partially offset by higher water treatment costs.

The Sarnia cogeneration facility is highly contracted and is therefore not typically impacted by fluctuations in production.

Australian Gas

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	**2017**	2016
Production *(GWh)*	**476**	389	**1,346**	1,132
Gross installed capacity *(MW)*	**575**	425	**575**	425
Revenues	**43**	30	**97**	89
Finance lease income[2]	**13**	13	**41**	41
Fuel and purchased power[3]	**(2)**	(5)	**(8)**	(16)
Comparable gross margin	**54**	38	**130**	114
Operations, maintenance, and administration[4]	**8**	5	**20**	18
Comparable EBITDA	**46**	33	**110**	96

Comparable EBITDA for the three and nine months ended Sept. 30, 2017, increased $13 million and $14 million, respectively, compared to 2016, due to the South Hedland Facility achieving commercial operation on July 28, 2017. Due to the nature of our contracts, the increased production from the change in customer load does not have a significant financial impact as revenues are generally derived from capacity payments and fuel costs are passed through to the customers.

Regulatory and Environmental Legislation

Refer to the Regulatory and Environmental Legislation section of our 2016 Annual MD&A for further details that supplement the recent developments discussed below.

Alberta

We estimate the Alberta Electric System Operator ("AESO") will need to procure up to 4,100MW of new wind and other renewable generation under the Renewable Energy Program ("REP") by 2030 to meet the 30 per cent target for renewable generation established by the Government of Alberta. The AESO completed its consultation on the Round 1 Request for Proposal ("RFP") process for the REP in the first quarter of 2017 and is currently in the process of procuring the first 400MW

(1) Period from Jan. 6 to Sept. 30, 2016.
(2) Finance lease income adjusted for change in finance lease receivable.
(3) Commencing in the third quarter of 2017, adjusted for interest earned on the prepayment of certain transmission costs.
(4) Includes the effect of contractually fixed management costs.

of renewable generation. All of TransAlta's projects were selected as qualified bidders in the final phase of the RFP with final bids submitted on Oct. 12, 2017. Projects will be awarded a Renewable Energy Supply Agreement in December 2019 that is a contract for differences providing awarded bidders with a fixed price for energy. Projects will be expected to reach commercial operation by 2019.

The government has indicated that the AESO will provide details related to Round 2 and subsequent REP RFPs but has delayed discussions on the roadmap for procurements to meet the REP target. At this time, the date for further discussion has not been set. The government has consulted on how future RFPs will include community and indigenous requirements and potentially have carve-outs for specific technology types but details are not yet available. It was also noted that subsequent procurements for renewable generation may take place in parallel and at a more rapid pace.

The Output-based Allocation Regulation ("OBA") will replace the current Specified Gas Emitters Regulation ("SGER") on Jan. 1, 2018. Under SGER, some of our wind facilities receive offset carbon credits based on generation. SGER covered entities can use these credits for SGER carbon compliance purposes, which provides us with a revenue stream. The government has confirmed SGER offset crediting will continue and credits will be fungible under the OBA, ensuring the continuance of this revenue stream. The government has limited carbon credit usage to 30 percent of covered entities' compliance requirements, reducing demand and unit pricing for offset credits. Nonetheless, increased carbon compliance pricing to up to $30 per tonne of carbon dioxide equivalents should mitigate price reductions, supporting stable revenues.

Ontario

In 2016, Ontario put regulations into effect to implement a Greenhouse Gas cap-and-trade program, effective Jan. 1, 2017. Gas-fired electricity generation will be regulated at the gas distribution level. Our gas-fired generation facility in Ontario will not be significantly impacted by virtue of change-in-law provisions within existing contracts.

Liquidity and Capital Resources

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

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

Financial Position

The following chart highlights significant changes in the Condensed Consolidated Statements of Financial Position from Dec. 31, 2016 to Sept. 30, 2017:

	Increase/ (decrease)	Primary factors explaining change
Trade and other receivables	(11)	Timing of receipts
Property, plant, and equipment, net	(43)	Increased depreciation expense due to the acquisition of the Canadian Assets on Nov. 30, 2016, partially offset by additions
Intangible assets	(7)	Amortization
Investments in subsidiaries of TransAlta	(9)	Decrease in the Australian Tracking Preferred Shares primarily due to impairment and in tracking preferred shares of TransAlta Wyoming Wind LLC due to the weakening US dollar, partially offset by increases in MRPS and preferred shares of TEA for additional investments in Australian Assets.
Deferred income tax assets	(5)	Increase in taxable temporary differences
Accounts payable and accrued liabilities	13	Timing of payments and accruals
Dividends payable	(10)	Timing of dividend declarations
Long-term debt (including current portion)	103	Increase in the Credit Facility offset by repayments made on the Melancthon Wolfe and New Richmond bonds as well as on the Canadian Assets working capital loan
Class B shares liability	(384)	Class B shares converted to common shares on Aug. 1, 2017
Decommissioning and other provisions	13	Increase due to the acquisition of the Canadian Assets on Nov. 30, 2016
Deferred income tax liabilities	13	Decrease in tax loss carryforwards
Equity attributable to shareholders	178	Issuance of common shares for Class B shares conversion, partially offset by net loss and dividends declared for the period

Cash Flows

The following chart highlights significant changes in the Consolidated Statements of Cash Flows for the three and nine months ended Sept. 30, 2017 compared to the same period in 2016:

3 months ended Sept. 30	2017	2016	Change	Primary factors explaining change
Cash and cash equivalents, beginning of period	15	12	3	
Provided by (used in):				
Operating activities	87	62	25	Favourable changes in working capital of $26 million offset by lower cash earnings of $1 million
Investing activities	(168)	4	(172)	Increase in investment in subsidiaries of TransAlta of $165 million, unfavourable change in non-cash investing working capital of $23 million, and an increase in additions to property, plant, and equipment of $8 million, partially offset by an increase in return of capital of $18 million and an increase in realized gains on financial instruments of $6 million
Financing activities	78	(58)	136	Increase in net credit facility borrowings of $139 million, partially offset by an increase in dividends paid on common shares of $4 million
Cash and cash equivalents, end of period	12	20	(8)	

9 months ended Sept. 30	2017	2016	Change	Primary factors explaining change
Cash and cash equivalents, beginning of period	15	2	13	
Provided by (used in):				
Operating activities	260	213	47	Higher cash earnings of $29 million and favourable changes in working capital of $18 million
Investing activities	(204)	(224)	20	Decrease in investment in subsidiaries of TransAlta of $34 million, as well as an increase in realized gains on financial instruments of $6 million and an increase in return of capital of $11 million, partially offset by an increase in additions to property, plant, and equipment of $15 million and unfavourable changes in non-cash investing working capital of $16 million
Financing activities	(59)	29	(88)	Lower net proceeds on issuance of common shares of $162 million, lower long-term debt proceeds of $159 million, and higher repayments of the Canadian Assets working capital loan of $13 million, partially offset by an increase in net credit facility borrowings of $218 million and lower long-term debt repayments of $33 million
Cash and cash equivalents, end of period	12	20	(8)	

Debt

Debt, including amounts owing to TransAlta, totalled $1,145 million (face value of $1,143 million) as at Sept. 30, 2017, compared to $1,042 million (face value of $1,050 million) as at Dec. 31, 2016. Debt increased from Dec. 31, 2016, primarily due to an increase in the credit facility of $132 million as at Sept. 30, 2017, which was partially offset by the scheduled semi-annual principal repayments of $18 million on the Melancthon Wolfe bond and $3 million on the New Richmond bond. Refer to Note 15 of our most recent annual consolidated financial statements for details on the Melancthon Wolfe and New Richmond bonds.

As at Sept. 30, 2017, we had a $500 million syndicated Credit Facility available to us for general corporate purposes, including financing ongoing working capital requirements, construction capital requirements, growth opportunities, and for repayment of outstanding borrowings. As at Sept. 30, 2017, $147 million was drawn and outstanding on the Credit Facility. At Dec. 31, 2016, $15 million was outstanding on the TransAlta credit facility. This external syndicated Credit Facility replaced the credit facility with TransAlta, as discussed in Note 9 of our interim condensed consolidated financial statements. We also have an uncommitted $100 million demand letter of credit facility, under which $69 million of letters of credit have been issued as at Sept. 30, 2017.

At Sept. 30, 2017, including the convertible debenture and the Canadian Assets working capital loan, $221 million of debt was due to TransAlta (Dec. 31, 2016 - $249 million, including the TransAlta credit facility).

The unsecured debentures include restrictive covenants requiring the cash proceeds received from the sale of certain assets to be reinvested into similar renewable assets or in the repayment of the non-recourse debentures. On Oct. 12, 2017, we early redeemed these debentures (see the Significant and Subsequent Events section of this MD&A).

The Melancthon Wolfe Wind, Pingston, and New Richmond bonds are subject to customary financing conditions and covenants that may restrict our ability to access funds generated by the facilities' operations. Upon meeting certain distribution tests, typically performed once per quarter, the funds are able to be distributed by the subsidiary entities to their respective parent entity. These conditions include meeting a debt service coverage ratio prior to distribution, which was met by these entities in the third quarter. However, funds in these entities that have accumulated since the third quarter test, will remain there until the next debt service coverage ratio can be calculated in the fourth quarter of 2017. As at Sept. 30, 2017, $11 million of cash was subject to these financial restrictions.

Additionally, the Melancthon Wolfe Wind and New Richmond bonds require that certain reserve accounts be established and funded through cash held on deposit and/or by providing letters of credit. We have elected to use letters of credit as at Sept. 30, 2017. Accordingly, no cash was subject to these restrictions.

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

Share Capital

On Sept. 30, 2017 and Nov. 2, 2017, we had 250 million common shares and nil Class B shares issued and outstanding (Dec. 31, 2016 - 224 million common shares and 26 million Class B shares issued and outstanding).

On July 28, 2017, the South Hedland Facility achieved commercial operation and on Aug. 1, 2017, we converted the 26.1 million Class B shares into 26.4 million common shares.

The convertible debenture will mature on Dec. 31, 2020. On the maturity date, TransAlta will have the right, at its sole option, to convert the outstanding principal amount of the convertible debenture, in whole or in part, into common shares of the Corporation at a conversion price of $13.16 per common share. If on the maturity date TransAlta exercises its conversion option in full, we will issue 16.3 million common shares to TransAlta. If TransAlta does not exercise its conversion option, we may satisfy the principal obligation through the issuance of common shares with a unit value corresponding to 95 per cent of the then-current common share value or repay the debenture with cash. The Corporation expects to repay the $215 million convertible debenture with proceeds received from the repurchase of the Solomon Power Station by FMG (See the Significant and Subsequent Events section of this MD&A).

On July 28, 2017, the Board of Directors declared a dividend of $0.07833 per common share payable on Oct. 31, 2017 and Nov. 30, 2017.

On Nov. 2, 2017, the Board of Directors declared a dividend of $0.07833 per common share payable on Dec. 31, 2017, Jan. 31, 2018, and Feb. 28, 2018.

Other Consolidated Results

Net Interest Expense

The components of net interest expense are shown below:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	**2017**	2016
Interest on debt	**10**	9	**28**	27
Interest on convertible debenture	**3**	3	**8**	8
Loss on redemption of unsecured debenture	**6**	-	**6**	1
Other net interest[1]	**1**	-	**2**	-
Accretion of provisions	**1**	1	**2**	1
Net interest expense	**21**	13	**46**	37

Class B Shares Liability

As at Sept. 30, 2017, nil Class B shares were outstanding (Dec. 31, 2016 – 26.1 million). The South Hedland Facility achieved commercial operation on July 28, 2017 and, as a result, the 26.1 million Class B shares were converted into 26.4 million common shares. Subsequent to conversion, no further changes in fair value will arise.

Income Taxes

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

Other Comprehensive Income ("OCI")

During the three and nine months ended Sept. 30, 2017, we recognized an $88 million and a $40 million decrease, respectively, in fair value in OCI (Sept. 30, 2016 - $50 million and $17 million increase, respectively). The changes in the fair value of available-for-sale financial assets during the periods are primarily attributable to the Australian Tracking Preferred Shares. See Note 4 of our interim condensed consolidated financial statements for additional information.

Sustaining Capital Expenditures

Sustaining capital expenditures for assets we directly own, as well as the facilities in which we own economic interests, are noted below for the three and nine months ended Sept. 30, 2017 and 2016:

3 months ended Sept. 30

	Canadian Wind	Canadian Hydro	U.S Wind	Canadian Gas	Australian Gas	Total
2017 Total sustaining capital expenditures	**4**	**1**	**1**	**2**	**5**	**13**
2016 Total sustaining capital expenditures	3	1	1	1	6	12

(1) Consists of letters of credit and guarantees, credit facility commitments, other interest and banking fees. During the three and nine months ended Sept. 30, 2017 interest on letters of credit and guarantees pledged by TransAlta were nil and $1 million, respectively.

Sustaining capital for the three months ended Sept. 30, 2017 increased $1 million compared to 2016, due to increased spending in Canadian Wind and Canadian Gas. The majority of sustaining capital spent in Canadian Gas related to a planned gas turbine major overhaul at the Sarnia cogeneration plant. Canada Wind's sustaining capital spend increased $1 million due to turbine repairs at Wolfe Island.

9 months ended Sept. 30	Canadian Wind	Canadian Hydro	U.S Wind	Canadian Gas	Australian Gas	Total
2017 Total sustaining capital expenditures	**8**	**2**	**2**	**11**	**8**	**31**
2016 Total sustaining capital expenditures	7	2	2	4	12	27

Sustaining capital for the nine months ended Sept. 30, 2017 increased $4 million compared to 2016, due to increased spending in Canadian Gas, partially offset by lower spending in Australian Gas. Year-to-date wind turbine repairs at Wolfe Island increased sustaining capital spend in Canada Wind. The majority of sustaining capital spent in Canadian Gas related to a planned gas turbine major overhaul at the Sarnia cogeneration plant.

We also incurred $1 million on productivity capital on the Melancthon Wolfe Wind 1 turbine.

2017 Outlook

The following table outlines our expectations on key financial targets for 2017:

Measure	Target
Comparable EBITDA	$425 million to $450 million
Adjusted funds from operations	$320 million to $330 million
Cash available for distribution	$235 million to $260 million

Operations

Production

We expect renewable energy production from our wind and hydro assets in 2017 to be in the range of 3,500 to 3,800 GWh. This includes expected generation from the renewable Wyoming Wind Farm. Contracts for gas-fired generation primarily provide compensation for Capacity, and accordingly, production is not a significant performance indicator.

Contracted Cash Flows

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

Operating Costs

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

Exposure to Fluctuations in Foreign Currencies

We are exposed to fluctuations in the exchange rate between the Canadian and the US and Australian dollars as a result of our economic interest in the Wyoming Wind Farm and the Australian Assets (including the remaining construction costs for the South Hedland Facility). We also have exposure to the Euro due to the Kent Hills 3 expansion project. The securities acquired from TransAlta and the related dividends received are denominated in Canadian, Australian and US dollars. TransAlta has agreed to provide us with protection against fluctuations in the exchange rates on the first five years of cash flows from the Australian Assets and for the cost of constructing the South Hedland Facility. Any changes in foreign investments or foreign-denominated debt may change our exposure. All our other assets are located in Canada. We may acquire equipment from foreign suppliers in various foreign currencies for future capital projects, which could create exposure to fluctuations in the value of the Canadian dollar relative to these currencies.

Our strategy is to mitigate foreign exchange risk on foreign denominated cash flows to ensure our ability to meet dividend requirements. Cash flows relating to the Australian Assets are predominantly hedged under agreements with TransAlta. In addition, we entered into foreign exchange forwards to hedge US dollar cash flows primarily related to the Wyoming Wind Farm.

Net Interest Expense

Net interest for 2017 is expected to be higher than 2016, due to a higher volume of debt. On July 24, 2017, we entered into a syndicated credit agreement giving us access to $500 million in direct borrowings at a variable interest rate. As a result, we have some exposure to interest rate risk. Interest rates on the rest of our long-term debt are fixed. Changes in interest rates can affect the amount of net interest expense incurred.

Net Debt, Liquidity and Capital Resources

If there are low wind volumes, low hydro resources, or unexpected maintenance costs, we may need additional liquidity in the future. We expect to maintain adequate available liquidity under our new credit facility (see the Significant and Subsequent Events section of this MD&A).

The Corporation manages liquidity risk associated with debentures by preparing and revising long-term external financing plans reflecting business plans and market availability of capital. The Corporation anticipates refinancing its maturing debt based on reasonable commercial terms, primarily through project-level debt, if required.

The expected receipt of the Solomon PPA contract termination proceeds from TransAlta and its Australian subsidiaries have allowed us to revise the timing of our future project level financings against fully contracted assets. We do not anticipate raising any additional project level debt in the next 12 to 18 months.

Income Taxes

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

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

Capital Expenditures

Sustaining Capital

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

For 2017, our estimate of total sustaining capital expenditures for owned assets and those in which we own an economic interest, ranges from $40 million to $45 million.

Construction of South Hedland

During the quarter, the final stages of construction of our South Hedland Facility, including reliability runs, were completed. The facility achieved commercial operation on July 28, 2017. On July 19, 2017, we funded $160 million of project expenditures which related to infrastructure acquisition and network, water, and gas access deposits. We expect to contribute approximately $47 million for the remainder of 2017.

Kent Hills Wind 3 Expansion

Total construction costs of our 17.25 MW Kent Hills 3 wind expansion in New Brunswick are expected to be approximately $39 million. To date we have spent $3 million and expect to spend an additional $1 million in 2017. Our 17 per cent partner on the existing Kent Hills facilities is participating in the expansion project and will also own a 17 per cent interest. They will be funding their share of the total project costs. Our target completion date is the fourth quarter of 2018.

Financing

Financing for these capital expenditures is expected to be provided by cash flow from operating activities, capital market transactions, and our new credit facility (see the Significant and Subsequent Events section of this MD&A).

Financial Instruments

Refer to Note 12 of our most recent annual consolidated financial statements and Note 7 of our interim condensed consolidated financial statements for the three and nine months ended Sept. 30, 2017 for details on Financial Instruments. Also, refer to the Financial Instruments section of our most recent annual MD&A for additional details. Our risk management profile and practices have not changed materially since Dec. 31, 2016, except that in the first quarter of 2017 we discontinued hedge accounting for a cash flow hedge on our US$20 million debt, which was early redeemed on Oct. 12, 2017.

At Sept. 30, 2017, Level III financial instruments were comprised of financial assets with a carrying value of $653 million (Dec. 31, 2016 - $841 million) and financial liabilities with a carrying value of nil (Dec. 31, 2016 - $384 million). The decrease in the net asset position is mainly attributable to the impairment recognized on the Australian Tracking Preferred Shares and the conversion of the Class B shares. Refer to Notes 4, 7, and 11 in the interim condensed consolidated financial statements for the three and nine months ended Sept. 30, 2017 for additional information on these measurements.

Related-Party Transactions and Balances

Related-Party Transactions

Amounts recognized from transactions with TransAlta or subsidiaries of TransAlta are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	**2017**	2016
Revenue from TransAlta PPAs	**7**	7	**26**	27
Finance income related to subsidiaries of TransAlta	**21**	39	**68**	112
G&A Reimbursement Fee	**2**	4	**11**	12
Interest expense	**3**	2	**9**	8
Asset optimization fee[(1)]	**1**	-	**2**	-
Realized foreign exchange gain on hedge of contribution commitment	**5**	-	**6**	-

(1) Certain subsidiaries of TransAlta provide asset management and optimization services and procure gas for the Corporation's Sarnia cogeneration plant. The Sarnia cogeneration plant is charged a fixed fee of approximately $0.125 million per quarter, plus a variable fee of 1.6 per cent of its gross margin.

Related-Party Balances

Related-party balances include the following:

As at	Sept. 30, 2017	Dec. 31, 2016
Trade and other receivables	31	36
Accounts payable and accrued liabililities (including interest payable)	7	11
Dividends payable	25	29
Investments in subsidiaries of TransAlta	1,636	1,645
Convertible debenture	215	215
Class B shares liability	-	384
Credit Facility	-	15
Canadian Assets working capital loan	6	19
Letters of credit issued by TransAlta on behalf of the Corporation	1	60
Guarantees provided by TransAlta on behalf of the Corporation	108	58
Indemnification guarantee provided by the Corporation to TransAlta	917	925

All these balances are with TransAlta or subsidiaries of TransAlta.

Accounting Changes

Critical Accounting Estimates

The critical accounting estimates were made consistent with our most recent annual MD&A for Dec. 31, 2016.

Future Accounting Changes

Accounting standards that have been previously issued by the International Accounting Standards Board ("IASB") but are not yet effective, and have not been applied by us, include IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers,* and IFRS 16 *Leases*. Refer to *Note 3* of our most recent annual consolidated financial statements for information regarding the requirements of IFRS 9, IFRS 15, and IFRS 16. We continue to make progress on its implementation plan for each standard. As part of each implementation plan, a centralized project team has been created to manage project activities. A stakeholder committee has been formed to oversee the implementation process and includes individuals from the relevant functions and business units.

With respect to IFRS 9, we are in the process of completing the assessment of the classification and measurement portion of the standards. A classification and measurement change has been identified that may lead to a material opening balance sheet adjustment related to a reclassification between retained earnings and AOCI, arising as a result of the current period impairment on the Australian Tracking Preferred Shares. Activities to identify and calculate impacts from the impairment portion of the standard are substantially complete and are not anticipated to be material. Our current estimate of the time and effort necessary to complete our plan for IFRS 9 extends into late 2017. Additional impacts may be determined as the implementation is completed.

With respect to IFRS 15, we have substantially completed the review and accounting assessment of our revenue streams and underlying contracts with customers and the quantification of impacts will commence in the fourth quarter of 2017. The majority of our revenues within the scope of IFRS 15 are earned through the sale of energy and green attributes under long-term contracts. In addition, the review of process and disclosure requirements continues. Commentary on implementation issues specific to the power and utilities industry is in the process of being discussed and issued by standard setters in the United States. This commentary is currently being reviewed in relation to our long-term contracts and other arrangements.

We expect to use the modified retrospective method of transition. Under this method, the comparative disclosures presented in the consolidated financial statements as at and for the year ended Dec. 31, 2018 will not be restated. Instead, we will recognize the cumulative impact of the initial application of the standard in retained earnings as at Jan. 1, 2018.

Our current estimate of the time and effort necessary to complete our implementation plan for IFRS 15 extends into late 2017. It is not yet possible to make a reliable estimate of the impact IFRS 15 will have on the financial statements and disclosures.

We are in the process of completing our initial scoping assessment for IFRS 16 and have prepared a detailed project plan. We anticipate that most of the effort under the implementation plan will occur in late 2017 through mid-2018. It is not yet possible to make reliable estimates of the potential impact of IFRS 16 on the financial statements and disclosures.

Selected Quarterly Information

	Q4 2016	Q1 2017	Q2 2017	Q3 2017
Revenue	94	129	112	94
Net earnings attributable to common shareholders	26	27	22	(73)
Cash flow from operating activities	69	100	73	87
AFFO	91	83	64	70
CAFD	69	83	43	70
Net earnings per share attributable to common shareholders, basic and diluted	0.12	0.12	0.10	(0.30)
CAFD per share	0.31	0.37	0.19	0.29

	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Revenue	75	68	52	45
Net earnings (loss) attributable to common shareholders	107	(36)	(15)	23
Cash flow from operating activities	59	81	70	62
AFFO	78	82	55	55
CAFD	78	82	38	55
Net earnings (loss) per share attributable to common shareholders, basic and diluted	0.56	(0.16)	(0.07)	0.10
CAFD per share	0.41	0.37	0.17	0.25

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 generation forms a larger part of our renewable fleet, higher revenues and earnings are expected in the first and fourth quarters. On Jan. 6, 2016, we acquired an economic interest in the cash flows generated by the Canadian Assets, adding 611 MW to our existing Capacity, and subsequently, on Nov. 30, 2016, we acquired ownership of the Canadian Assets. In May 2015, we acquired an economic interest in the cash flows generated by the Australian Assets, and approximately doubled our capitalization. The earnings after this investment include various effects arising from financial instruments, which have impacted net earnings attributable to common shareholders for the above noted quarters as following:

- Unfavourable changes in the fair value of the Class B shares liability in all previous quarters.
- Foreign exchange losses on the Australian-dollar-denominated instruments in the third and second quarters of 2017, the first, second, and fourth quarters of 2016, with gains in the first quarter of 2017, third quarter of 2016, and the fourth quarter of 2015.
- In the third quarter of 2017, recognized an impairment on the Australian Tracking Preferred Shares.

Controls and Procedures

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

There has been no change in the internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on the foregoing evaluation, our President and Designated Chief Executive Officer and Chief Financial Officer have concluded that, as of Sept. 30, 2017, the end of the period covered by this report, our disclosure controls and procedures and our internal controls over financial reporting were effective.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Earnings (Loss)
(in millions of Canadian dollars, except as otherwise noted)

	3 months ended Sept. 30		9 months ended Sept. 30	
Unaudited	2017	2016	2017	2016
Revenues	85	34	302	130
Government incentives	3	4	12	14
Lease revenue	6	7	21	21
Total revenue	94	45	335	165
Royalties and other costs of sales	24	2	82	8
Gross margin	70	43	253	157
Operations, maintenance, and administration	19	13	60	39
Depreciation and amortization	29	19	85	55
Taxes, other than income taxes	2	2	6	6
Operating income	20	9	102	57
Finance income related to subsidiaries of TransAlta *(Note 4)*	21	39	68	112
Net interest expense *(Note 5)*	(21)	(13)	(46)	(37)
Change in fair value of Class B shares *(Note 11)*	44	(41)	(2)	(129)
Foreign exchange gain (loss)	(21)	35	(6)	(13)
Impairment of investment *(Note 4)*	(114)	-	(114)	-
Earnings (loss) before income taxes	(71)	29	2	(10)
Income tax expense *(Note 6)*	1	5	23	15
Net earnings (loss)	(72)	24	(21)	(25)
Net earnings (loss) attributable to:				
Common shareholders	(73)	23	(24)	(28)
Non-controlling interest	1	1	3	3
	(72)	24	(21)	(25)
Weighted average number of common shares outstanding in the period *(millions) (Note 12)*	242	224	230	223
Net earnings (loss) per share attributable to common shareholders, basic and diluted *(Note 12)*	(0.30)	0.10	(0.10)	(0.13)

See accompanying notes.

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

	3 months ended Sept. 30		9 months ended Sept. 30	
Unaudited	2017	2016	2017	2016
Net earnings (loss)	(72)	24	(21)	(25)
Losses on derivatives designated as cash flow hedges, net of tax	-	-	(1)	(1)
Reclassification of losses on derivatives designated as cash flow hedges to net earnings, net of tax	-	-	1	1
Available-for-sale financial assets - net change in fair value *(Note 4)*	(202)	50	(154)	17
Reclassification of impairment on available-for-sale-financial assets to net earnings *(Note 4)*	114	-	114	-
Total items that will be reclassified subsequently to net earnings	(88)	50	(40)	17
Other comprehensive income (loss)	(88)	50	(40)	17
Total comprehensive income (loss)	(160)	74	(61)	(8)
Total comprehensive income (loss) attributable to:				
Common shareholders	(161)	73	(64)	(11)
Non-controlling interest	1	1	3	3
	(160)	74	(61)	(8)

See accompanying notes.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Financial Position

(in millions of Canadian dollars)

Unaudited	Sept. 30, 2017	Dec. 31, 2016
Cash and cash equivalents *(Note 9)*	12	15
Trade and other receivables	76	87
Prepaid expenses	4	2
Risk management assets *(Note 7)*	2	-
Income taxes receivable	-	1
Inventory	6	4
	100	109
Property, plant, and equipment *(Note 8)*		
Cost	2,797	2,772
Accumulated depreciation	(910)	(842)
	1,887	1,930
Intangible assets	106	113
Other assets	3	3
Investments in subsidiaries of TransAlta *(Note 4)*	1,636	1,645
Deferred income tax assets	36	41
Total assets	3,768	3,841
Accounts payable and accrued liabilities	44	31
Current portion of decommissioning and other provisions	4	3
Risk management liabilities *(Note 7)*	2	-
Dividends payable *(Note 12)*	39	49
Current portion of Class B shares liability *(Note 11)*	-	384
Current portion of long-term debt *(Note 9)*	240	70
	329	537
Long-term debt *(Note 9)*	690	757
Convertible debenture *(Note 10)*	215	215
Decommissioning provisions	39	26
Deferred revenues	6	7
Deferred income tax liabilities	245	232
Total liabilities	1,524	1,774
Equity		
Common shares *(Note 12)*	2,854	2,469
Deficit	(649)	(482)
Accumulated other comprehensive income	5	45
Equity attributable to shareholders	2,210	2,032
Non-controlling interest	34	35
Total equity	2,244	2,067
Total liabilities and equity	3,768	3,841

Commitments and contingencies (Note 13)
Subsequent events (Note 16)
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	Equity attributable to shareholders	Non-controlling interest	Total
Balance, Dec. 31, 2016	2,469	(482)	45	2,032	35	2,067
Net earnings (loss)	-	(24)	-	(24)	3	**(21)**
Other comprehensive loss:						
Net change in fair value of available-for-sale financial assets *(Note 4)*	-	-	(40)	(40)	-	**(40)**
Total comprehensive income (loss)	-	(24)	(40)	(64)	3	**(61)**
Common shares issued to TransAlta *(Notes 11 and 12)*	385	-	-	385	-	**385**
Common share dividends *(Note 12)*	-	(143)	-	(143)	-	**(143)**
Distributions to non-controlling interest	-	-	-	-	(4)	**(4)**
Balance, Sept. 30, 2017	**2,854**	**(649)**	**5**	**2,210**	**34**	**2,244**

Unaudited	Common Shares	Deficit	Accumulated other comprehensive income	Equity attributable to shareholders	Non-controlling interest	Total
Balance, Dec. 31, 2015	2,152	(169)	6	1,989	37	2,026
Net earnings (loss)	-	(28)	-	(28)	3	(25)
Other comprehensive income:						
Net change in fair value available-for-sale financial assets *(Note 4)*	-	-	17	17	-	17
Total comprehensive income (loss)	-	(28)	17	(11)	3	(8)
Common shares issued to TransAlta *(Note 3)*	152	-	-	152	-	152
Public offering	165	-	-	165	-	165
Common share dividends *(Note 12)*	-	(150)	-	(150)	-	(150)
Distributions to non-controlling interest	-	-	-	-	(5)	(5)
Balance, Sept. 30, 2016	2,469	(347)	23	2,145	35	2,180

See accompanying notes.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Cash Flows

(in millions of Canadian dollars)

Unaudited	3 months ended Sept. 30 2017	3 months ended Sept. 30 2016	9 months ended Sept. 30 2017	9 months ended Sept. 30 2016
Operating activities				
Net earnings (loss)	(72)	24	(21)	(25)
Depreciation and amortization	29	19	85	55
Accretion of provisions *(Note 5)*	1	1	2	1
Deferred income tax expense (recovery) *(Note 6)*	(1)	4	18	11
Change in fair value of Class B shares *(Note 11)*	(44)	42	2	130
Unrealized foreign exchange (gain) loss	22	(34)	8	13
Unrealized loss from risk management activities	1	-	-	-
Provisions	-	-	1	-
Impairment of investment *(Note 4)*	114	-	114	-
Other non-cash items	3	(2)	6	1
Cash flow from operations before changes in working capital	53	54	215	186
Change in non-cash operating working capital balances	34	8	45	27
Cash flow from operating activities	87	62	260	213
Investing activities				
Additions to property, plant, and equipment *(Note 8)*	(11)	(3)	(25)	(10)
Investment in subsidiaries of TransAlta *(Note 4)*	(165)	-	(187)	(221)
Realized gain on financial instruments	6	-	6	-
Return of capital on investment in subsidiaries of TransAlta *(Note 4)*	28	10	28	17
Change in non-cash investing working capital balances	(26)	(3)	(26)	(10)
Cash flow used in (from) investing activities	(168)	4	(204)	(224)
Financing activities				
Net increase (decrease) in borrowings under credit facility *(Note 9)*	134	(5)	132	(86)
Repayments of Canadian Assets working capital loan *(Note 9)*	-	-	(13)	-
Issuance of long-term debt	-	-	-	159
Long-term debt repayments	-	-	(21)	(54)
Net proceeds on issuance of common shares	-	-	-	162
Dividends paid on common shares *(Note 12)*	(54)	(50)	(153)	(145)
Distributions to non-controlling interest	(1)	(2)	(4)	(5)
Other	(1)	(1)	-	(2)
Cash flow from (used in) financing activities	78	(58)	(59)	29
Cash flow from (used in) operating, investing, and financing activities	(3)	8	(3)	18
Increase (decrease) in cash and cash equivalents	(3)	8	(3)	18
Cash and cash equivalents, beginning of period	15	12	15	2
Cash and cash equivalents, end of period	12	20	12	20
Cash income taxes paid	1	1	4	4
Cash interest paid	2	-	26	22

See accompanying notes.

Notes to Condensed Consolidated Financial Statements
(Unaudited)
(Tabular amounts in millions of Canadian dollars, except as otherwise noted)

1. Background and Accounting Policies

A. The Corporation
TransAlta Renewables Inc. ("TransAlta Renewables" or the "Corporation"), a subsidiary of TransAlta Corporation ("TransAlta"), owns and operates 13 hydro facilities, 17 wind farms, and one gas plant, with a total installed capacity of 1,747 megawatts ("MW") and holds economic interests in TransAlta's 144 MW Wyoming wind farm and 575 MW Australian gas-fired generation assets, including the 150 MW South Hedland Facility that was commissioned on July 28, 2017, as well as a 270 kilometre gas pipeline. These assets are substantially all contracted. The Corporation's head office is located in Calgary, Alberta.

B. Basis of Preparation
These interim condensed consolidated financial statements have been prepared by management in compliance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* using the same accounting policies as those used in the Corporation's most recent annual consolidated financial statements. 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 winter months and lower in the warm summer months.

These interim condensed consolidated financial statements were authorized for issue by the Audit Committee on behalf of the Board of Directors on Nov. 2, 2017.

C. Use of Estimates and Significant Judgments

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

Judgment was applied in the first, second, and third quarters of 2017 in relation to the assessment of dividends as income or return of capital, as follows:

The Corporation receives dividends from its investment in the preferred shares tracking adjusted TransAlta Energy (Australia) Pty Ltd ("TEA") amounts. Determining whether a dividend represents in substance a return of capital requires significant judgment. The Corporation determines the amount of dividends that represent a return of capital based on the lower of: i) the difference, if positive, between the cost base of the shares and their fair value, at the end of the reporting period; and ii) the actual dividend declared on the shares during the reporting period. When it is determined that a dividend represents a return of capital, the carrying amount of the related investment is reduced. No return of capital arose in the first or second quarters of 2017. During the third quarter, the Corporation determined that the dividend earned in that quarter on the preferred shares tracking adjusted TEA amounts constituted a return of capital.

2. Accounting Changes

A. Future Accounting Changes

Accounting standards that have been previously issued by the International Accounting Standards Board ("IASB") but are not yet effective, and have not been applied by the Corporation, include International Financial Reporting Standards ("IFRS") 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers,* and IFRS 16 *Leases*. Refer to Note 3 of the Corporation's most recent annual consolidated financial statements for information regarding the requirements of IFRS 9, IFRS 15, and IFRS 16. The Corporation continues to make progress on its implementation plan for each standard. As part of each implementation plan, a centralized project team has been created to manage project activities. A stakeholder committee has been formed to oversee the implementation process and it includes individuals from the relevant functions and business units.

With respect to IFRS 9, the Corporation is in the process of completing the assessment of the classification and measurement portion of the standards. A classification and measurement change has been identified that may lead to a material opening balance sheet adjustment related to a reclassification between retained earnings and accumulated other comprehensive income ("AOCI"), arising as a result of the current period impairment on the preferred shares tracking adjusted TEA amounts. Activities to identify and calculate impacts from the impairment portion of the standard are substantially complete and are not anticipated to be material. The Corporation's current estimate of the time and effort necessary to complete the Corporation's implementation plan for IFRS 9 extends into late 2017. Additional impacts may be determined as the implementation is completed.

With respect to IFRS 15, the Corporation has substantially completed the review and accounting assessment of its revenue streams and underlying contracts with customers and the quantification of impacts will commence in the fourth quarter of 2017. The majority of the Corporation's revenues within the scope of IFRS 15 are earned through the sale of energy and green attributes under long-term contracts. In addition, the review of process and disclosure requirements continues. Commentary on implementation issues specific to the power and utilities industry is in the process of being discussed and issued by standard setters in the United States. This commentary is currently being reviewed in relation to the Corporation's long-term contracts and other arrangements.

The Corporation expects to use the modified retrospective method of transition. Under this method, the comparative disclosures presented in the consolidated financial statements as at and for the year ended Dec. 31, 2018 will not be restated. Instead, the Corporation will recognize the cumulative impact of the initial application of the standard in retained earnings as at Jan. 1, 2018.

The Corporation's current estimate of the time and effort necessary to complete the Corporation's implementation plan for IFRS 15 extends into late 2017. It is not yet possible to make a reliable estimate of the impact IFRS 15 will have on the financial statements and disclosures.

The Corporation is in the process of completing its initial scoping assessment for IFRS 16 and has prepared a detailed project plan. The Corporation anticipates that most of the effort under the implementation plan will occur in late 2017 through mid-2018. It is not yet possible to make reliable estimates of the potential impact of IFRS 16 on the Corporation's financial statements and disclosures.

3. Significant Events

2017

South Hedland Facility and Conversion of Class B Shares

On July 28, 2017, commissioning of the South Hedland Facility was achieved and on Aug. 1, 2017, the Corporation converted the 26.1 million Class B Shares held by TransAlta into 26.4 million common shares. The Class B shares were converted at a ratio greater than 1:1 because the construction and commissioning costs for the project were below the referenced costs agreed upon in the amended contribution agreement, as filed on SEDAR, between the Corporation and TransAlta. On the conversion date, the carrying amount of the Class B shares liability of $385 million was derecognized and the common shares issued on conversion were recognized at that same amount.

On Aug. 1, 2017, Fortescue Metals Group Ltd. ("FMG") notified TransAlta that in its view the South Hedland Facility has not yet satisfied the requisite performance criteria under the South Hedland power purchase agreement (the "PPA") between FMG and TransAlta. In the Corporation's view, all conditions to establish commercial operations have been fully satisfied under the terms of the PPA with FMG and the Corporation will continue to work with FMG to reach an agreement. Horizon Power has not disputed commercial operation.

Kent Hills Wind Project

During the second quarter of 2017, the Corporation entered into a long-term contract with the New Brunswick Power Corporation ("NB Power") for the sale of all power generated by an additional 17.25 MW of capacity from the Kent Hills wind project.

This is an expansion project of the Corporation's existing Kent Hills wind farms, increasing the total operating capacity of the Kent Hills wind farms to approximately 167 MW. As part of the regulatory process, the Corporation submitted an Environmental Impact Assessment to the Province of New Brunswick in September 2017. Provided environmental approvals are received, the Corporation expects to begin the construction phase during the spring of 2018.

At the same time, the term of the Kent Hills 1 contract with NB Power was extended from 2033 to 2035 matching the life of the Kent Hills 2 and Kent Hills 3 wind projects.

Syndicated Credit Facility

On July 24, 2017, the Corporation entered into a syndicated credit agreement giving the Corporation access to $500 million in direct borrowings or letters of credit. The agreement is fully committed for four years, expiring in 2021. The facility is subject to a number of customary covenants and restrictions in order to maintain access to the funding commitments. In conjunction with the new credit agreement, the $350 million credit facility provided by TransAlta was cancelled.

Termination of Solomon PPA

On Aug. 1, 2017, the Corporation received notice that FMG intends to repurchase the Solomon Power Station from TEC Pipe Pty Ltd., a wholly-owned subsidiary of TransAlta, for approximately US$335 million. The Corporation has an economic interest in the cash flows from the Solomon Power Station (see Note 4 for additional information). FMG completed its acquisition of the Solomon Power Station on Nov. 1, 2017 and TEC Pipe Pty Ltd received approximately US$325 million from FMG for the repurchase. FMG has held back approximately US$7 million from the purchase price. It is the Corporation's view that this US$7 million should not be held back and the Corporation expects to recover all, or a significant portion of this amount from

FMG. The Corporation expects to utilize the proceeds to repay the credit facility used to fund the development of the South Hedland Facility and to repay the $215 million convertible debenture issued to TransAlta.

2016

Investment in TransAlta's Sarnia Cogeneration Plant, Le Nordais Wind Farm, and Ragged Chute Hydro Facility

On Jan. 6, 2016, the Corporation invested in an economic interest based on the cash flows of TransAlta's Sarnia cogeneration plant, Le Nordais wind farm, and Ragged Chute hydro facility (collectively, the "Canadian Assets") for a combined value of approximately $540 million. The Corporation's investment consisted of the acquisition of tracking preferred shares of a subsidiary of TransAlta that provided the Corporation with an economic interest based on cash flows broadly equal to the underlying net distributable profits of the entities that own the Canadian Assets. As consideration, the Corporation provided to TransAlta, $173 million in cash, 15,640,583 common shares with a value of $152 million, and a $215 million convertible unsecured subordinated debenture. The Corporation funded the cash consideration of the purchase price primarily through the issuance of 17,692,750 common shares by way of public offering at a price of $9.75 per share.

On Nov. 30, 2016, the preferred shares tracking adjusted Canadian Assets amounts were redeemed by the issuing subsidiary of TransAlta at their fair value of $520 million. Also on Nov. 30, 2016, the Corporation acquired direct ownership of the Canadian Assets from a subsidiary of TransAlta for a purchase price of $520 million. The redemption of the preferred shares and the acquisition of the direct ownership in the Canadian Assets were subject to a set-off arrangement and resulted in no cash payments being made. The Corporation also acquired working capital and certain capital spares totalling $19 million, through the issuance of a non-interest-bearing loan (see Note 9).

4. 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 TEA and TransAlta Wyoming Wind LLC, and, in 2016, the Canadian Assets.

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	**2017**	2016
Interest income from investment in mandatory redeemable preferred shares of TEA ("MRPS")	**13**	11	**35**	31
Dividend income from investment in preferred shares	**2**	1	**4**	2
Fee income from indirect guarantee of TEA obligations	**6**	6	**17**	18
Dividend income from investment in preferred shares tracking adjusted TEA amounts	**-**	9	**6**	17
Total finance income related to TEA	**21**	27	**62**	68
Dividend income from investment in preferred shares tracking adjusted Canadian Assets amounts	**-**	6	**-**	34
Dividend income from investment in preferred shares tracking earnings and distributions of TransAlta Wyoming Wind LLC	**-**	6	**6**	10
Total	**21**	39	**68**	112

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

As at	Sept. 30, 2017	Dec. 31, 2016
Investment in MRPS	739	613
Investment in preferred shares tracking adjusted TEA amounts	653	841
Investment in preferred shares of TEA	116	52
Total investments in subsidiaries related to TEA	1,508	1,506
Investment in preferred shares tracking earnings and distributions of TransAlta Wyoming Wind LLC	128	139
Total investments in subsidiaries of TransAlta	1,636	1,645

Investment in Subsidiaries of TransAlta Related to TEA:

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

	MRPS(1)	Preferred shares tracking adjusted TEA amounts	Preferred shares of TEA(2)	Total
Investment balance at Dec. 31, 2016	613	841	52	1,506
Additional investment	129	-	58	187
Unrealized foreign exchange losses recognized in earnings	(3)	-	-	(3)
Return of capital(3)	-	(28)	-	(28)
Impairment of investment	-	(114)		(114)
Net change in fair value recognized in OCI	-	(46)	6	(40)
Investment balance at Sept. 30, 2017	**739**	**653**	**116**	**1,508**

(1) Principal amount as at Sept. 30, 2017 was AUD$769 million (Dec. 31, 2016 - AUD$641 million).

(2) Principal amount as at Sept. 30, 2017 was AUD$112 million (Dec. 31, 2016 - AUD$54 million).

(3) See Note 1 (C).

During the third quarter, the fair value of the preferred shares tracking adjusted TEA amounts decreased by $228 million. As a result of FMG's intention to repurchase of the Solomon Power Station, the Corporation recognized an impairment during the period on the preferred shares tracking adjusted TEA amounts in the amount of $114 million. Although the Corporation's investment in the Australian business is designed to provide the Corporation with the net underlying cash flows as if the Corporation owned the assets directly, the fair value of the investment in the preferred shares tracking adjusted TEA amounts does not depreciate in line with the assets. The fair value is based on the underlying cash flows of the Australian business and is impacted by foreign currency and discount rate assumptions. Over time the accounting value of the preferred tracking shares adjusted TEA was also increased to reflect lower discount rates. The impairment arose due to changes in the timing and nature of the future cash flows, which changed as a result of the termination. Since acquiring the investment in 2015, the Solomon power station has generated over $100 million of free cash flow. The third quarter dividend of approximately $28 million on the preferred shares tracking adjusted TEA amounts was considered a return of capital and not dividend income. Refer to Notes 1(C) and 3 of the financial statements for additional information.

	MRPS(1)	Preferred shares tracking adjusted TEA amounts	Preferred shares of TEA(2)	Total
Investment balance at Dec. 31, 2015	589	804	29	1,422
Additional investment	34	-	14	48
Unrealized foreign exchange losses recognized in earnings	(6)	-	-	(6)
Net change in fair value recognized in OCI	-	12	5	17
Investment balance at Sept. 30, 2016	617	816	48	1,481

(1) Principal amount as at Sept. 30, 2016 was AUD$627 million (Dec. 31, 2015 - AUD$592 million).

(2) Principal amount as at Sept. 30, 2016 was AUD$47 million (Dec. 31, 2015 - AUD$32 million).

The Corporation estimated the fair value of the preferred shares tracking adjusted TEA amounts utilizing significant unobservable inputs such as TEA's long-range forecast as part of a discounted cash flow model, as outlined in Note 7(B)(I)(c).

Key assumptions in respect of significant unobservable inputs used in the fair value measurement include the discount rate and the quarterly cash flows from the instrument and guarantee fees. The forecast extends over 31 years. The table below summarizes quantitative data regarding these unobservable inputs:

Unobservable input	Sept. 30, 2017	Dec. 31, 2016
Discount rate	**6.7 per cent**	7.2 per cent
Quarterly cash flows	**Average of $10.7**	Average of $15.6

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 Sept. 30, 2017	Change in fair value as at Dec. 31, 2016
Discount rate	-10 basis points decrease	**4.8**	7.3
	+10 basis points increase	**(4.7)**	(7.1)
Quarterly cash flows	+1% increase	**6.5**	8.4
	- 1% decrease	**(6.5)**	(8.4)

5. Net Interest Expense

The components of net interest expense are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	**2017**	2016
Interest on long-term debt	**10**	9	**28**	27
Interest on convertible debenture	**3**	3	**8**	8
Loss on redemption of unsecured debentures (See Note 16)	**6**	-	**6**	1
Other net interest[1]	**1**	-	**2**	-
Accretion of provisions	**1**	1	**2**	1
Net interest expense	**21**	13	**46**	37

(1) Consists of letters of credit and guarantee fees, credit facility commitment fees, other interest and banking fees. For the three and nine months ended Sept. 30, 2017, interest on letters of credit and guarantees pledged by TransAlta were nil and $1 million, respectively.

6. Income Taxes

The components of income tax expense are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	**2017**	2016
Current income tax expense	**2**	1	**5**	4
Deferred income tax recovery arising from the reversal of a writedown of deferred tax assets	**-**	-	**-**	(1)
Deferred income tax expense (recovery) related to the origination and reversal of temporary differences	**(1)**	4	**18**	8
Deferred income tax expense related to investment in subsidiary	**-**	-	**-**	3
Deferred income tax expense resulting from changes in tax rates	**-**	-	**-**	1
Income tax expense	**1**	5	**23**	15

Presented in the Condensed Consolidated Statements of Earnings (Loss) as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	**2017**	2016
Current income tax expense	**2**	1	**5**	4
Deferred income tax expense (recovery)	**(1)**	4	**18**	11
Income tax expense	**1**	5	**23**	15

7. 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	Sept. 30, 2017		Dec. 31, 2016	
	Fair value Level II	**Fair value Level III**	Fair value Level II	Fair value Level III
Preferred shares tracking adjusted TEA amounts[1]	**-**	**653**	-	841
Preferred shares of TEA	**116**	**-**	52	-
Net risk management assets	**-**	**-**	-	-
Class B shares liability	**-**	**-**	-	(384)

(1) Excludes TransAlta Wyoming Wind LLC as the investment in preferred shares is measured at cost.

I. Level I, II, and III Fair Value Measurements

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

a. Level I

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

b. Level II

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

Fair values within the Level II category are determined through the use of quoted prices in active markets, which in some cases are adjusted for factors specific to the asset or liability, such as basis, credit valuation, and location differentials.

The Corporation's commodity risk management Level II financial instruments include over-the-counter derivatives with values based on observable commodity futures curves and derivatives with inputs validated by broker quotes or other publicly available market data providers. Level II fair values are also determined using valuation techniques, such as option pricing models and regression or extrapolation formulas, where the inputs are readily observable, including commodity prices for similar assets or liabilities in active markets, and implied volatilities for options.

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

c. Level III

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

In estimating the fair value of the preferred shares tracking adjusted TEA amounts, 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 are used in the valuations. Management also develops assumptions in respect of ongoing financing and tax positions of TEA. These estimates and assumptions are susceptible to change from period to period and actual results can, and often do, differ from the estimates, and can have either a positive or negative impact on the estimate of the fair value of the instrument, and such differences may be material. Additional disclosures on these measurements are presented in Note 4.

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 hedging foreign currency exposures, including those related to the South Hedland Facility contribution agreement described in Note 13(D).

The net risk management assets and liabilities as at Sept. 30, 2017 were nil (Dec. 31, 2016 – nil).

The reduction in net risk management assets and liabilities of $7 million from June 30, 2017 is primarily attributable to settlements of the hedge on contribution commitments, and is reflected in foreign exchange gains and losses.

During the first quarter of 2017, the Corporation discontinued hedge accounting for its cash flow hedge of its US$20 million debt. The cumulative gain on the cash flow hedge will continue to be deferred in AOCI and will be reclassified to net earnings when the forecasted transaction occurs.

III. Financial Instruments – Not Measured at Fair Value

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

As at	Sept. 30, 2017		Dec. 31, 2016	
	Fair value Level II	Carrying value	Fair value Level II	Carrying value
MRPS	748	739	613	613
Convertible debenture	212	215	216	215
Long-term debt(1)	902	930	831	827

(1) Includes current portion.

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

The book value of other short-term financial assets and liabilities (cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities, and dividends payable) approximates fair value due to the liquid nature of the asset or liability.

The Corporation's investment in the preferred shares tracking earnings and distributions of TransAlta Wyoming Wind LLC continues to be measured at cost under similar conditions as described in Note 12(B)(IV) of the Corporation's most recent annual consolidated financial statements.

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

The following discussion is limited to specific risk measures, which are more fully discussed in Note 12(C) of the Corporation's most recent annual consolidated financial statements.

I. Credit Risk

The Corporation's maximum exposure to credit risk at Sept. 30, 2017, without taking into account collateral held or right of set-off, and including indirect exposures arising from the Corporation's investment in preferred shares tracking adjusted TEA amounts, is detailed as follows:

Component	Amount	Key risk assessment factors
Direct exposure		
Trade accounts receivable	48	Approximately 69% of the Corporation's receivables are due from investment-grade counterparties. As at Sept.30, 2017, $31 million of receivables are owing from TransAlta. TransAlta maintains investment grade ratings from three credit rating agencies. At Sept. 30, 2017, the Corporation had three unrelated customers whose outstanding balances each accounted for greater than 10 per cent of the total third-party trade accounts receivable outstanding. The Corporation has evaluated the risk of default related to these customers to be minimal.
Distributions receivable from subsidiaries of TransAlta	28	As the distribution declarations were made by paying entities and having regard to the sufficiency of funds available, the risk of default has been assessed as minimal.
MRPS	739	The MRPS form TEA's least subordinate significant form of long-term financing, which benefits from TEA's contract and counterparty profile.
Total - Direct exposure	815	
Indirect exposure		
Accounts receivable and finance lease receivable of TEA	489	TEA had one unrelated below investment grade customer whose outstanding balances accounted for 89% of total trade accounts receivable and finance lease receivable. As a result of the termination of the Solomon PPA (See Note 3) TEA expects to receive payment of the $412 million finance lease receivable balance in November 2017.
Total	1,304	

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. As at Sept. 30, 2017, no significant component of the amounts forming part of the Corporation's exposure to credit risk was either past due or impaired.

II. Other Market Risks

The Corporation is exposed to market risks based on changes in the fair value of the preferred shares of TEA, and the preferred shares tracking adjusted TEA amounts. A one per cent increase (decrease) in the value of these securities would result in a $8 million increase (decrease) in other comprehensive income.

III. Liquidity Risk

The following table presents the contractual maturities of the Corporation's financial liabilities as at Sept. 30, 2017, including committed contributions under the terms of the Contribution Agreement:

	2017	2018	2019	2020	2021	2022 and thereafter	Total
Accounts payable and accrued liabilities	44	-	-	-	-	-	**44**
Long-term debt	212	48	40	40	188	403	**931**
Convertible debenture(1)	-	-	-	215	-	-	**215**
Net risk management (asset) liability	(1)	1	-	-	-	-	**-**
Interest on long-term debt(2)	27	25	23	22	19	65	**181**
Interest on convertible debenture(2)	2	10	10	9	-	-	**31**
Dividends payable	39	-	-	-	-	-	**39**
South Hedland contribution commitment(2)	47	-	-	-	-	-	**47**
Total	**370**	**84**	**73**	**286**	**207**	**468**	**1,488**

(1) The Corporation may settle the obligation in common shares if the holder's conversion option is not exercised.

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

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

IV. Foreign Currency Rate Risk

The foreign currency risk sensitivities outlined below are limited to the risks that arise on financial instruments denominated in currencies other than the Corporation's functional currency.

The possible effect on net earnings and other comprehensive income, due to changes in foreign exchange rates associated with financial instruments denominated in currencies other than the Corporation's functional currency, is outlined below. The sensitivity analysis has been prepared using management's assessment that an average four cent (2016 – four cent) increase or decrease in these currencies relative to the Canadian dollar is a reasonable potential change over the next quarter.

9 months ended Sept. 30	2017		2016	
Currency	Net earnings increase(1)	OCI gain(1)	Net earnings increase(1)	OCI gain(1)
USD	**5**	**7**	3	17
AUD	**16**	**24**	23	29
Total	**21**	**31**	26	46

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

8. Property, Plant, and Equipment

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

	Hydro generation	Wind generation	Gas generation	Capital spares and other	Total
As at Dec. 31, 2016	193	1,384	329	24	1,930
Additions	2	12	12	(1)	25
Depreciation	(6)	(47)	(23)	-	(76)
Retirements	(1)	-	-	-	(1)
Revisions and additions to decommissioning costs	2	3	5	-	10
Transfers	-	1	5	(7)	(1)
As at Sept. 30, 2017	190	1,353	328	16	1,887

9. Long-Term Debt

A. Amounts Outstanding

As at	Sept. 30, 2017			Dec. 31, 2016		
	Carrying value	Face value	Interest(1)	Carrying value	Face value	Interest(1)
Credit facility(2)	147	147	2.70%	15	15	2.88%
Unsecured debentures(3)	197	191	6.30%	193	193	6.31%
Pingston bond	45	45	2.95%	45	45	2.95%
Melancthon Wolfe Wind bond	385	390	3.83%	402	407	3.83%
New Richmond bond	150	152	3.96%	153	155	3.96%
Canadian Assets working capital loan	6	6	-	19	19	-
	930	931		827	834	
Less: current portion	(240)	(240)		(70)	(70)	
Total long-term debt	690	691		757	764	

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

(2) The Corporation has a $500 million syndicated credit facility (Dec. 31, 2016 - $350 million with TransAlta) which is available for general corporate purposes, including financing ongoing working capital requirements.

(3) Includes US$20.0 million (Dec. 31, 2016 - US$20.0 million) unsecured debentures. On Oct. 12, 2017, the Corporation redeemed the unsecured debentures (See Note 3 and Note 16 for additional information).

As at Sept. 30, 2017, the Corporation had $500 million (Dec. 31, 2016 – nil) committed credit facility, of which $353 million was available (Dec. 31, 2016 – nil). As at Sept. 30, 2017, $147 million was drawn under the credit facility (Dec. 31, 2016 - $15 million). The Corporation is in compliance with the terms of the credit facility. The Corporation also has an uncommitted $100 million demand letter of credit facility, under which $69 million of letters of credit have been issued as at Sept. 30, 2017 (Dec. 31, 2016 – nil).

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

B. Restrictions

Unsecured debentures contain restrictive covenants requiring the cash proceeds received from the sale of certain assets to be reinvested into similar renewable assets or in the repayment of the unsecured debentures.

The Melancthon Wolfe Wind, Pingston, and New Richmond bonds are subject to customary financing conditions and covenants that may restrict the Corporation's ability to access funds generated by the facilities' operations. Upon meeting certain distribution tests, typically performed once per quarter, the funds are able to be distributed by the subsidiary entities to their respective parent entity. These conditions include meeting a debt service coverage ratio prior to distribution, which was met by these entities in the third quarter. However, funds in these entities that have accumulated since the third quarter test, will remain there until the next debt service coverage ratio can be calculated in the fourth quarter of 2017. As at Sept. 30, 2017, $11 million of cash was subject to these financial restrictions.

Additionally, the Melancthon Wolfe Wind and New Richmond bonds require that certain reserve accounts be established and funded through cash held on deposit and/or by providing letters of credit. The Corporation has elected to use letters of credit as at Sept. 30, 2017. Accordingly, no cash was subject to these restrictions.

C. Security

The Melancthon Wolfe Wind, Pingston, and New Richmond bonds are secured by a first ranking charge over all of the respective assets, including PP&E with a total carrying amount of $846 million (Dec. 31, 2016 - $870 million), of the Corporation's subsidiaries that issued the bonds, being Melancthon Wolfe Wind L.P., Pingston Power Inc., and New Richmond Wind L.P., respectively.

10. Convertible Debenture

As part of the Canadian Assets investment on Jan. 6, 2016, the Corporation issued a $215 million convertible unsecured subordinated debenture to TransAlta. The debenture is on an interest-only basis at a coupon rate of 4.5 per cent per annum, payable semi-annually in arrears on Sept. 30 and Dec. 31, and will mature on Dec. 31, 2020. See Note 18 of the Corporation's most recent annual consolidated financial statements for more information about the convertible debenture.

The Corporation intends to repay the $215 million convertible debenture issued to TransAlta using proceeds received from FMG's repurchase of the Solomon Power Station (See Note 3 for additional information).

11. Class B Shares Liability

As at Sept. 30, 2017, nil Class B shares are outstanding (Dec. 31, 2016 – 26.1 million). On July 28, 2017, commissioning of the South Hedland Facility was achieved and on Aug. 1, 2017, the Corporation converted the 26.1 million Class B Shares into 26.4 million common shares. The Class B shares were converted at a ratio greater than 1:1 because the construction and commissioning costs for the project were below the referenced costs agreed upon in the amended contribution agreement, as filed on SEDAR, between the Corporation and TransAlta. On the conversion date, the $385 million carrying amount of the Class B shares liability was derecognized and the common shares issued on conversion were recognized at that same amount.

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 of Directors (the "Board") may from time to time determine. No preferred shares have been issued.

The change in issued and outstanding common shares during the nine months ended Sept. 30, 2017 and 2016 are as follows:

	9 months ended Sept. 30			
	2017		2016	
	Common shares *(millions)*	Amount *(millions)*	Common shares *(millions)*	Amount *(millions)*
Issued and outstanding, beginning of period	**224**	**2,469**	191	2,152
Issued to TransAlta	**26**	**385**	15	152
Public offering[1]	**-**	**-**	18	165
Issued and outstanding, end of period	**250**	**2,854**	224	2,469

(1) 2016 is net of issuance costs of $8 million ($10 million issuance costs, less tax effects of $2 million).

B. Dividends

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

The following table summarizes the common share dividends declared within the nine months ended Sept. 30, 2017 and 2016, excluding dividend equivalent payments, which are discussed more in Note 4 of the Corporation's most recent annual consolidated financial statements.

Dividends declared	Total dividends per share	Total dividends	TransAlta	Other shareholders
Period ended Sept. 30, 2017	**0.60164**	**143**	**89**	**54**
Period ended Sept. 30, 2016	0.66330	150	89	61

On July 28, 2017, the Corporation declared a dividend of $0.07833 per common share payable on Oct. 31, 2017 and Nov. 30, 2017.

On Nov. 2, 2017, the Corporation declared a dividend of $0.07833 per common share payable on Dec. 31, 2017, Jan. 31, 2018, and Feb. 28, 2018.

C. Diluted Earnings per Share

As at Sept. 30, 2017 the Corporation's potentially dilutive instruments included the $215 million convertible debenture, which is convertible, at TransAlta's option, into 16 million common shares on the maturity date of the debenture. For the third quarter and year-to-date periods of 2017 and 2016, there is no dilutive effect on earnings per share from the convertible debenture.

13. Commitments and Contingencies

A. Litigation

In the normal course of business, the Corporation may become party to litigation. There are currently no known claims that the Corporation has determined as being significant enough to require disclosure.

B. Guarantees

As part of the investment in the Australian Assets, the Corporation entered into a Guarantee and Indemnification Agreement in favour of TransAlta related to certain guarantees TransAlta has provided to third parties in respect of certain obligations of TEA (the "TEA Guarantees"). The Corporation has agreed to indemnify TransAlta from and against all claims, actions, proceedings, liabilities, losses, costs, expenses, or damages against or incurred by TransAlta arising out of or in connection with the TEA Guarantees and to reimburse TransAlta in full for the amount of any payment made by TransAlta under and in accordance with the TEA Guarantees, relating to actions, omissions, events, and circumstances that occur. As at Sept. 30, 2017, the total amounts guaranteed by the Corporation were $917 million (Dec. 31, 2016 - $925 million).

C. Line Loss Rule Proceeding

TransAlta is participating in a line loss rule proceeding ("LLRP") that is currently before the Alberta Utilities Commission ("AUC"). The AUC determined that it has the ability to retroactively adjust line loss rates going back to 2006 and directed the Alberta Electric System Operator (the "AESO") to, among other things, perform such retroactive calculations. The various decisions by the AUC are, however, subject to appeal and challenge. The Corporation may also incur additional transmission charges as a result of the LLRP from 2013 onward. The outcome of the LLRP, however, currently remains uncertain and the total potential exposure faced by TransAlta and the Corporation, if any, cannot be calculated with certainty until retroactive calculations using a Commission-approved methodology are made available, and until the Commission determines what methodology will be used for retroactive calculations. The AESO expects retroactive calculations for each year using a Commission-approved methodology to begin to be available following the AUC decision on Module C of the LLRP, which is expected to be issued in late 2017. As a result, no provision has been recorded at this time.

D. Commitments

As at Sept. 30, 2017, the remaining costs under the South Hedland contribution agreement are estimated to be approximately $47 million (AUD$48 million). Refer to Note 4 of the Corporation's most recent annual consolidated financial statements for additional information on the contribution agreement.

14. Related Party Transactions and Balances

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

A. Related Party Transactions

Related party transactions include the finance income related to subsidiaries of TransAlta (Note 4). Also, all financial instruments and derivatives that relate to the Corporation are entered into on behalf of the Corporation by a subsidiary of TransAlta.

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	**2017**	2016
Revenue from TransAlta PPAs	**7**	7	**26**	27
Revenue from green attributes(1)	**1**	-	**1**	-
G&A Reimbursement Fee(1)	**2**	4	**11**	12
Interest expense	**3**	2	**9**	8
Asset optimization fee(2)	**1**	-	**2**	-
Realized foreign exchange gain on hedge on contribution commitment	**5**	-	**6**	-

(1) Includes portion charged directly to the Wyoming wind farm.

(2) Certain subsidiaries of TransAlta provide asset management and optimization services and procure gas 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 these transactions are with TransAlta or subsidiaries of TransAlta.

B. Related Party Balances

Related party balances include the investments in subsidiaries of TransAlta disclosed in Note 4, the risk management assets and liabilities disclosed in Note 7, the Canadian Asset working capital loan disclosed in Note 9, the convertible debenture disclosed in Note 10, and the guarantees provided by the Corporation on behalf of TransAlta and TEA disclosed in Note 13.

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

As at	Sept. 30, 2017	Dec. 31, 2016
Trade and other receivables	31	36
Accounts payable and accrued liabililities (including interest payable)	7	11
Dividends payable	25	29
Letters of credit issued by TransAlta on behalf of the Corporation	1	60
Guarantees provided by TransAlta on behalf of the Corporation	108	58

All these balances are with TransAlta or subsidiaries of TransAlta.

15. Segment Disclosures

3 months ended Sept. 30, 2017	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	Total
Revenues	31	6	48	-	85
Government incentives	3	-	-	-	3
Lease revenue	3	3	-	-	6
Total revenue	37	9	48	-	94
Royalties and other costs	2	-	22	-	24
Gross margin	35	9	26	-	70
Operations, maintenance, and administration	8	1	6	4	19
Depreciation and amortization	19	2	8	-	29
Taxes, other than income taxes	1	-	1	-	2
Operating income (loss)	7	6	11	(4)	20
Finance income related to subsidiaries of TransAlta					21
Net interest expense					(21)
Change in fair value of Class B shares					44
Foreign exchange loss					(21)
Impairment of investment					(114)
Loss before income taxes					(71)

9 months ended Sept. 30, 2017	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	Total
Revenues	130	16	156	-	302
Government incentives	12	-	-	-	12
Lease revenue	14	7	-	-	21
Total revenue	156	23	156	-	335
Royalties and other costs	8	2	72	-	82
Gross margin	148	21	84	-	253
Operations, maintenance, and administration	23	3	21	13	60
Depreciation and amortization	55	7	23	-	85
Taxes, other than income taxes	4	1	1	-	6
Operating income (loss)	66	10	39	(13)	102
Finance income related to subsidiaries of TransAlta					68
Net interest expense					(46)
Change in fair value of Class B shares					(2)
Foreign exchange loss					(6)
Impairment of investment					(114)
Earnings before income taxes					2

3 months ended Sept 30, 2016	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	Total
Revenues	29	5	-	-	34
Government Incentives	4	-	-	-	4
Lease revenue	4	3	-	-	7
Total revenue	37	8	-	-	45
Royalties and other costs	2	-	-	-	2
Gross margin	35	8	-	-	43
Operations, maintenance, and administration	8	1	-	4	13
Depreciation and amortization	17	2	-	-	19
Taxes, other than income taxes	1	1	-	-	2
Operating income (loss)	9	4	-	(4)	9
Finance income related to subsidiaries of TransAlta					39
Net interest expense					(13)
Change in fair value of Class B shares					(41)
Foreign exchange gain					35
Earnings before income taxes					29

9 months ended Sept 30, 2016	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	Total
Revenues	114	16	-	-	130
Government Incentives	14	-	-	-	14
Lease revenue	16	5	-	-	21
Total revenue	144	21	-	-	165
Royalties and other costs	7	1	-	-	8
Gross margin	137	20	-	-	157
Operations, maintenance, and administration	24	2	-	13	39
Depreciation and amortization	50	5	-	-	55
Taxes, other than income taxes	4	2	-	-	6
Operating income (loss)	59	11	-	(13)	57
Finance income related to subsidiaries of TransAlta					112
Net interest expense					(37)
Change in fair value of Class B shares					(129)
Foreign exchange loss					(13)
Loss before income taxes					(10)

16. Subsequent Events

Kent Hills Wind Project

On Oct. 2, 2017 the Corporation closed an approximate $260 million bond offering, by way of a private placement, which is secured by, among other things, a first ranking charge over all assets of Kent Hills Wind LP, a subsidiary of the Corporation. The bonds are amortizing and bear interest at an annual rate of 4.454 per cent, payable quarterly and maturing Nov. 30, 2033. Proceeds from the financing will partly fund the expansion at Kent Hills, with the remaining proceeds, net of $30 million held in a construction reserve account, being distributed to each partner in the Kent Hills wind project.

Unsecured Debentures Early Redemption

On Sept. 27, 2017, the Corporation provided notice that it will be early redeeming all of the unsecured debentures issued by its subsidiary, Canadian Hydro Developers, Inc. on Oct. 12, 2017, with a weighted average interest rate of 6.3 per cent. The debentures were scheduled to mature in June of 2018. On Oct. 12, 2017, the Corporation redeemed the unsecured debentures for $201 million in total, comprised of principal of $191 million, an early redemption premium of $6 million, and accrued interest of $4 million. A $6 million early redemption premium was recognized for the three and nine months ended Sept. 30, 2017 and is included in net interest expense.

Glossary of Key Terms

Australian Assets - TransAlta's 575 MW Australian gas-fired generation assets that are fully operational and contracted under long-term contracts, including the 150 MW South Hedland Facility, as well as the 270-kilometre Fortescue River Gas pipeline.

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

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

Capacity - the rated continuous load-carrying ability, expressed in Megawatts, of generation equipment.

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

Gigawatt - a measure of electric power equal to 1,000 Megawatts.

GWh - means Gigawatt hour which is a measure of electricity consumption equivalent to the use of 1,000 Megawatts of power over a period of one hour.

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

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

MWh - means Megawatt hour which is 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.

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

South Hedland or South Hedland Facility – 150 MW combined-cycle gas power station in South Hedland, Western Australia

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

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

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

Wyoming Wind Farm - TransAlta's 144 MW wind farm in Wyoming.

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