TransAlta renewables inc.

TRANSALTA RENEWABLES INC.

THIRD QUARTER REPORT FOR 2013

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 ("Financial Statements") of TransAlta Renewables Inc. as at and for the three and nine months ended Sept. 30, 2013 and 2012 and should also be read in conjunction with the audited combined financial statements of The Business in Respect of the Acquired Assets and MD&A as contained in the final long form prospectus available on SEDAR. In this MD&A, unless the context otherwise requires, 'we', 'our', 'us', 'TransAlta Renewables", and the 'Corporation' refers to TransAlta Renewables Inc. and 'TransAlta' and the 'Parent' refers to TransAlta Corporation and its subsidiaries. The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain financial measures included in this MD&A do not have a standardized meaning as prescribed by IFRS. 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. See the Non-IFRS Measures section of this MD&A for additional information. This MD&A is dated Oct. 29, 2013. Additional information respecting the Corporation is available on SEDAR at www.sedar.com.

FORMATION OF THE CORPORATION

We incorporated on May 28, 2013 under the Canada Business Corporations Act and have been formed to own a portfolio of renewable power generation facilities. We had no active operations from the date of incorporation until Aug. 9, 2013 when we indirectly acquired 28 wind and hydroelectric generating assets (the "Acquired Assets") from TransAlta (the "Acquisition") and completed an initial public offering of 22.1 million common shares. See the "Significant Events" section of this MD&A for further discussion.

RESULTS OF OPERATIONS

The results of operations are presented on a consolidated basis. All dollar amounts in the tables presented in this MD&A are in thousands of Canadian dollars unless otherwise noted. Some of the accounting policies require management to make estimates or assumptions that in some cases may relate to matters that are inherently uncertain. Some of the critical accounting policies and estimates include: revenue recognition, valuation and useful life of Property, Plant, and Equipment, financial instruments, decommissioning and restoration provisions, and income taxes. See the "Critical Accounting Judgments and Key Sources of Estimation Uncertainty Critical Accounting Policies and Estimates" section of the audited combined financial statements of The Business in Respect of the Acquired Assets as contained in the final long form prospectus for further discussion.

The results of operations for periods prior to the Acquisition on Aug. 9, 2013 have been prepared in accordance with the financial reporting framework specified in subsection 3.11(6) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for carve-out financial statements. Historically, financial statements have not been prepared by TransAlta for the Acquired Assets as they had not been operated as a separate business by TransAlta. Accordingly, the results of operations for periods prior to the Acquisition reflect the results of operations for the Acquired Assets in a manner consistent with how TransAlta managed the Acquired Assets and as though the Acquired Assets had been a separate company. All material assets and liabilities specifically identified to the Acquired Assets and all material revenues and expenses specifically attributable to the Acquired Assets and allocations of overhead expenses have been included in the results of operation for periods prior to the Acquisition. These may not necessarily reflect the financial position, results of operations, or cash flows that the Acquired Assets might have had in the past had they existed as a separate business during the periods prior to the Acquisition.

HIGHLIGHTS

Third Quarter Highlights

Operational Results

- Gross margins increased $1.8 million to $41.0 million quarter over quarter primarily due to higher contract hydro prices, higher hydro volumes, and the commencement of commercial operations at New Richmond, partially offset by lower wind prices and volumes.
- Production increased 19 gigawatt hours ("GWh") to 543 GWh compared to 2012.
- Operations, Maintenance, and Administration ("OM&A") costs increased $1.3 million to $10.0 million compared to the same period in 2012 due to the new Management, Administration and Operational Services Agreement ("Management and Operational Services Agreement") with TransAlta and the commencement of commercial operations at New Richmond.
- Depreciation and amortization expense decreased $2.3 million to $16.3 million compared to the same period in 2012 due to a lower depreciable base caused by asset impairments.

Financial Highlights

- Funds from Operations ("FFO") increased $0.6 million to $21.9 million compared to the prior year.
- Comparable Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA") increased $0.3 million in the quarter to $29.1 million compared to 2012.
- Comparable earnings were $4.0 million ($0.03 per share), up from $2.8 million ($0.02 per share) in 2012. The increase in comparable earnings is primarily due to higher operating gross margins and lower depreciation and amortization expense, partially offset by higher OM&A costs.
- Reported net earnings attributable to common shareholders were $1.2 million ($0.01 per share), down from $2.8 million ($0.02 per share) in 2012. The change is driven by the increase in gross margins and non-comparable asset impairment charges of $2.7 million.

Year-To-Date Highlights

Operational Results

- Gross margins increased $22.7 million to $165.5 million year over year, primarily due to higher wind and hydro prices, higher hydro volumes, and the commencement of commercial operations at New Richmond, partially offset by lower wind volumes.
- Production increased 13 GWh to 2,043 GWh compared to 2012.
- OM&A costs decreased $0.6 million to $29.3 million compared to the same period in 2012 due to lower compensation costs as a result of restructuring in the fourth quarter of 2012, partially offset by the Management and Operational Services Agreement with TransAlta and the commencement of commercial operations at our New Richmond wind farm.
- Depreciation and amortization expense increased $0.2 million to $55.8 million compared to the same period in 2012 primarily due to the commencement of commercial operations at New Richmond partially offset by a lower depreciable base caused by asset impairments.

Financial Highlights

- FFO increased $22.1 million to $108.9 million compared to the prior year.
- Comparable EBITDA increased $23.1 million to $130.7 million compared to 2012.
- Comparable earnings were $37.5 million ($0.33 per share), up from $20.7 million ($0.18 per share) in 2012. The increase in comparable earnings is primarily due to higher operating gross margins and lower OM&A costs, partially offset by higher depreciation and amortization expense.
- Reported net earnings attributable to common shareholders were $34.7 million ($0.30 per share), up from $13.6 million ($0.12 per share) in 2012. The change is driven by the increase in gross margins and the following non-comparable amounts, net of tax:
    - Decrease in asset impairment charges of $6.6 million
    - Decrease in gain on sale of assets of $2.3 million

The following table depicts key financial results and statistical operating data:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2013	2012	**2013**	2012
Production (GWh)	**543**	524	**2,043**	2,030
Revenues	**43,535**	41,896	**175,392**	152,473
Gross margin(1)	**41,007**	39,234	**165,538**	142,820
Operating income(1)	**9,105**	10,104	**71,176**	39,055
Comparable operating income(2)	**12,768**	10,104	**74,839**	52,055
Net earnings attributable to common shareholders(3)	**1,207**	2,812	**34,723**	13,569
Net earnings per share attributable to common shareholders, basic and diluted(3)	**0.01**	0.02	**0.30**	0.12
Comparable net earnings per share(2)	**0.03**	0.02	**0.33**	0.18
Comparable EBITDA(2)	**29,092**	28,765	**130,669**	107,638
Funds from operations(2)	**21,935**	21,317	**108,890**	86,768
Funds from operations per share(2)	**0.19**	0.19	**0.95**	0.76
Cash flow from operating activities	**25,172**	23,286	**124,138**	80,343
Cash available for distribution(2)	**20,053**	20,054	**101,378**	79,657
Dividends paid per common share	**0.05**	-	**0.05**	-

As at	**Sept. 30, 2013**	Dec. 31, 2012
Total assets	**1,881,936**	2,237,406
Total long-term liabilities	**716,265**	501,471

NET EARNINGS ATTRIBUTABLE TO COMMON SHAREHOLDERS

The primary factors contributing to the change in net earnings attributable to common shareholders for the three and nine months ended Sept. 30, 2013 are presented below:

	3 months ended Sept. 30	**9 months ended Sept. 30**
Net earnings attributable to common shareholders, 2012	2,812	13,569
Increase in operating gross margins	1,773	22,718
(Increase) decrease in operations, maintenance, and administration costs	(1,297)	575
Decrease (increase) in depreciation and amortization expense	2,337	(247)
Decrease in foreign exchange gain	(701)	(1,452)
Decrease in gain on sale of assets	-	(3,000)
(Increase) decrease in asset impairment charges	(3,663)	9,337
Increase in net interest expense	(210)	(1,450)
Decrease (increase) in income tax expense	325	(4,585)
Other	(169)	(742)
Net earnings attributable to common shareholders, 2013	**1,207**	**34,723**

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

(2) These items are not defined under IFRS. Presenting these items from period to period provides management and investors with the ability to evaluate earnings trends more readily in comparison with prior periods' results. Refer to the Non-IFRS Measures section of this MD&A for further discussion of these items, including, where applicable, reconciliations to measures calculated in accordance with IFRS.

(3) A non-controlling interest exists in the Kent Hills wind farm which is not presented as a part of net earnings attributable to common shareholders.

Operating gross margins for the three and nine months ended Sept. 30, 2013 increased by $1.8 million and $22.7 million, respectively, compared to the same period in 2012, due to higher wind and hydro prices, higher hydro volumes, and the commencement of commercial operations at New Richmond, partially offset by lower wind volumes.

OM&A costs for the three months ended Sept. 30, 2013 increased compared to the same period in 2012 primarily due to the new Management and Operational Services Agreement with TransAlta and the commencement of commercial operations at New Richmond.

For the nine months ended Sept. 2013, OM&A costs decreased compared to the same period in 2012 primarily due to lower compensation costs as a result of restructuring in the fourth quarter of 2012, partially offset by the Management and Operational Services Agreement with TransAlta and the commencement of commercial operations at our New Richmond wind farm.

Depreciation and amortization expense for the three months ended Sept. 30, 2013 decreased compared to the same period in 2012 primarily due to a lower depreciable base caused by asset impairments.

For the nine months ended Sept. 30, 2013, depreciation and amortization expense increased compared to the same period in 2012 primarily due to the commencement of commercial operations at New Richmond partially offset by a lower depreciable base caused by asset impairments.

Foreign exchange gain for the three and nine months ended Sept. 30, 2013 decreased compared to the same periods in 2012 primarily due to unfavourable changes in foreign exchange rates.

Gain on sale of assets for the nine months ended Sept. 30, 2013 decreased compared to the same period in 2012 primarily due to the release of a contingent provision on the sale of the Grande Prairie biomass facility in 2012.

Asset impairment charges for the three months ended Sept. 30, 2013 increased compared to the same period in 2012 due to the recognition of asset impairment charges on hydro assets during the quarter.

For the nine months ended Sept. 30, 2013, asset impairment charges decreased as impairment assessments are dependent on market-related factors, including price expectations, at the time an impairment review is undertaken and may vary from period to period.

Interest expense for the three and nine months ended Sept. 30, 2013 increased compared to the same periods in 2012 due to interest on amortizing term loan and lower capitalized interest.

Income tax expense for the three months ended Sept. 30, 2013 decreased compared to the same period in 2012 due lower pretax earnings and the effect of certain tax adjustments that do not fluctuate with earnings.

For the nine months ended Sept. 30, 2013, income tax expense increased compared to the same period in 2012 due to higher pre-tax earnings.

SIGNIFICANT EVENTS

Three months ended Sept. 30, 2013

Acquisition of Generating Assets

On Aug. 9, 2013, we indirectly acquired 28 wind and hydroelectric generating assets from TransAlta by purchasing all of the issued and outstanding shares of two of TransAlta's subsidiaries: Canadian Hydro Developers, Inc. ("CHD") and Western Sustainable Power Inc. The purchase price of $1.7 billion was satisfied by indirectly assuming outstanding debentures of CHD in the aggregate principal sum of $0.4 billion and consideration transferred of $1.3 billion, as follows:

Consideration Transferred	Amount
Issuance of 66,666,667 Common Shares at $10 per share	**666,667**
Issuance of Closing Note	**187,000**
Issuance of Short Term Note	**250,000**
Issuance of Acquisition Note	**30,000**
Issuance of Amortizing Term Loan	**200,000**
Total	**1,333,667**

The Acquisition was accounted for as a business combination under common control which results when the business subject to the acquisition is ultimately controlled by the same party before and after the business combination transaction. TransAlta controlled the Acquired Assets prior to the Aug. 9, 2013 acquisition by TransAlta Renewables and continues to indirectly control the Acquired Assets after the acquisition date by virtue of its approximate 80.7 per cent ownership of our common shares. We have used the pooling of interests, or book value, method of accounting to account for the Acquired Assets in the current and comparative periods. The financial statements of the Acquired Assets and TransAlta Renewables have been combined together at book values, as if we had always owned the Acquired Assets, with the exception of the recognition of a $205.8 million reduction in the carrying amount of certain hydroelectric and wind generating facilities resulting from a revaluation based on the terms of the TransAlta Power Purchase Agreements ("TransAlta PPAs"). See Note 12 of our Financial Statements for further discussion.

Initial Public Offering of Common Shares

On July 31, 2013, we filed a final prospectus to qualify the distribution of 20.0 million of our common shares, to be issued pursuant to the terms of an Underwriting Agreement at a price of $10.00 per common share (the "Offering"). We granted to the underwriters an option (the "Over-Allotment Option"), exercisable in whole or in part for a period of 30 days following Closing, to purchase, at the Offering price, up to an additional 3.0 million common shares (representing 15 per cent of the common shares offered under the prospectus).

On Aug. 9, 2013, we completed the Offering and issued 20.0 million common shares for gross proceeds of $200.0 million. The net proceeds of the Offering were used by TransAlta Renewables to repay a portion of the Closing Note issued to TransAlta. On Aug. 29, 2013, the underwriters exercised their Over-Allotment Option in part to purchase an additional 2.1 million common shares at the offering price of $10.00 per common share for gross proceeds of $21.0 million. We used the net proceeds received from the partial exercise of the Over-Allotment Option to repay a portion of the amount outstanding under the Acquisition Note issued to TransAlta. The remaining principal amount of $9.0 million outstanding under the Acquisition Note after such payment has been converted into 0.9 million common shares on the basis of one common share for each $10.00 owing to TransAlta under the Acquisition Note.

Immediately prior to the closing of the Offering, we repaid the $250.0 million Short Term Note issued to TransAlta by the indirect issuance to TransAlta of 25.0 million common shares at a deemed price of $10.00 per common share.

After consideration of the Offering and other common share issuances, TransAlta, directly and indirectly, holds 92.6 million common shares, representing approximately 80.7 per cent of our common shares.

Asset Impairment Charges

During the three and nine months ended Sept. 30, 2013, we recognized a total pre-tax impairment charge of $3.7 million related to two contracted hydro assets within the renewables fleet. The assets were impaired primarily due to an increase in future capital and operating expenses that resulted from the completion of condition assessments. The annual impairment assessments are based on estimates of fair value less costs to sell derived from long range forecasts.

Nine months ended Sept. 30, 2013

New Richmond

On March 13, 2013, our 68 megawatt ("MW") New Richmond wind farm began commercial operations. The total cost of the project remains at approximately $212.4 million.

SUBSEQUENT EVENTS

Acquisition of Wind Farm

On Oct. 21, 2013, we announced the acquisition, through TransAlta, of the economic interest in a 144 MW wind farm in Wyoming from an affiliate of NextEra Energy Resources, LLC. The wind farm is fully operational and contracted under a long-term power purchase agreement until 2028 with an investment grade counterparty. We will fund the acquisition through a U.S.$102 million loan from TransAlta. We expect to repay the loan with free cash flow from operations over the first 36 months and through a long-term debt refinancing that is expected to be completed in conjunction with our other financing needs.

The acquisition is subject to regulatory approvals and is expected to close by the end of December 2013.

The acquisition establishes a platform in the United States for future growth, provides additional geographic and asset diversification, and is expected to be accretive to our cash available for distribution per share by approximately two to three per cent.

RESULTS OF OPERATIONS: *TransAlta Renewables owns and operates hydro facilities and wind farms in Western and Eastern Canada. At Sept. 30, 2013, our generating assets had 1,234 MW of gross generating capacity[(1)] in operation (1,112 MW net ownership interest).*

The results of operations are as follows:

	2013				2012	
3 months ended Sept. 30	**Total**	**Comparable adjustments[(2)]**	**Comparable total[(2)]**	**Per produced MWh**	Comparable total[(2)]	Per produced MWh
Revenues	**32,312**	**-**	**32,312**	**59.51**	34,732	66.28
Government incentives	**3,542**	**-**	**3,542**	**6.52**	3,892	7.43
Lease revenue	**7,681**	**-**	**7,681**	**14.15**	3,272	6.24
Total revenue	**43,535**	**-**	**43,535**	**80.17**	41,896	79.95
Royalties and other	**2,528**	**-**	**2,528**	**4.66**	2,662	5.08
Gross margin	**41,007**	**-**	**41,007**	**75.51**	39,234	74.87
Operations, maintenance, and administration	**10,015**	**-**	**10,015**	**18.44**	8,718	16.64
Depreciation and amortization	**16,324**	**-**	**16,324**	**30.06**	18,661	35.61
Asset impairment charges	**3,663**	**(3,663)**	**-**	**-**	-	-
Taxes, other than income taxes	**1,900**	**-**	**1,900**	**3.50**	1,751	3.34
Operating income	**9,105**	**3,663**	**12,768**	**23.51**	10,104	19.28
Production (GWh)			**543**		524	
Installed capacity (GWh)			**2,725**		2,575	

	2013				2012	
9 months ended Sept. 30	**Total**	**Comparable adjustments**	**Comparable total**	**Per produced MWh**	Comparable total	Per produced MWh
Revenues	**144,642**	**-**	**144,642**	**70.80**	130,364	64.22
Government incentives	**15,547**	**-**	**15,547**	**7.61**	16,575	8.17
Lease revenue	**15,203**	**-**	**15,203**	**7.44**	5,534	2.73
Total revenue	**175,392**	**-**	**175,392**	**85.85**	152,473	75.11
Royalties and other	**9,854**	**-**	**9,854**	**4.82**	9,653	4.76
Gross margin	**165,538**	**-**	**165,538**	**81.03**	142,820	70.35
Operations, maintenance and administration	**29,326**	**-**	**29,326**	**14.35**	29,901	14.73
Depreciation and amortization	**55,830**	**-**	**55,830**	**27.33**	55,583	27.38
Asset impairment charges	**3,663**	**(3,663)**	**-**	**-**	-	-
Taxes, other than income taxes	**5,543**	**-**	**5,543**	**2.71**	5,281	2.60
Operating income	**71,176**	**3,663**	**74,839**	**36.64**	52,055	25.64
Production (GWh)			**2,043**		2,030	
Installed capacity (GWh)			**8,085**		7,668	

(1) We measure capacity as net maximum capacity (see glossary for definition of this and other key terms), which is consistent with industry standards. Capacity figures represent capacity owned and in operation unless otherwise stated.

(2) Comparable figures are not defined under IFRS. Refer to the Non-IFRS Measures section of this MD&A for further discussion of these items, including, where applicable, reconciliations to net earnings attributable to common shareholders and cash flow from operating activities.

Production and Gross Margins

Production volumes, comparable revenues, royalties and other, and gross margins based on geographical regions are presented below.

3 months ended Sept. 30, 2013	Installed (GWh)	Production (GWh)	Revenues	Royalties and other	Gross margin	Revenues per produced MWh	Royalties and other per produced MWh	Gross margin per produced MWh
Western Canada wind	1,084	149	6,704	767	5,937	44.99	5.15	39.84
Eastern Canada wind	1,361	252	25,836	1,121	24,715	102.52	4.45	98.07
Hydro	280	142	10,995	640	10,355	77.43	4.51	72.92
	2,725	543	43,535	2,528	41,007	80.17	4.66	75.51

3 months ended Sept. 30, 2012	Installed (GWh)	Production (GWh)	Revenues	Royalties and other	Gross margin	Revenues per produced MWh	Royalties and other per produced MWh	Gross margin per produced MWh
Western Canada wind	1,084	161	9,801	766	9,035	60.88	4.76	56.12
Eastern Canada wind	1,211	228	22,292	1,210	21,082	97.77	5.31	92.46
Hydro	280	135	9,803	686	9,117	72.61	5.08	67.53
	2,575	524	41,896	2,662	39,234	79.95	5.08	74.87

9 months ended Sept. 30, 2013	Installed (GWh)	Production (GWh)	Revenues	Royalties and other	Gross margin	Revenues per produced MWh	Royalties and other per produced MWh	Gross margin per produced MWh
Western Canada wind	3,217	739	51,607	3,970	47,637	69.83	5.37	64.46
Eastern Canada wind	4,036	987	100,288	4,422	95,866	101.61	4.48	97.13
Hydro	832	317	23,497	1,462	22,035	74.12	4.61	69.51
	8,085	2,043	175,392	9,854	165,538	85.85	4.82	81.03

9 months ended Sept. 30, 2012	Installed (GWh)	Production (GWh)	Revenues	Royalties and other	Gross margin	Revenues per produced MWh	Royalties and other per produced MWh	Gross margin per produced MWh
Western Canada wind	3,229	798	40,234	3,605	36,629	50.42	4.52	45.90
Eastern Canada wind	3,604	923	91,718	4,660	87,058	99.37	5.05	94.32
Hydro	835	309	20,521	1,388	19,133	66.41	4.49	61.92
	7,668	2,030	152,473	9,653	142,820	75.11	4.76	70.35

Western Canada Wind

Production for the three and nine months ended Sept. 30, 2013 decreased 12 gigawatt hours (“GWh”) and 59 GWh, compared to the same periods in 2012 primarily due to lower wind volumes.

Gross margin for the three months ended Sept. 30, 2013 decreased $3.1 million compared to the same period in 2012, primarily due to TransAlta PPAs and lower wind volumes.

For the nine months ended Sept. 30, 2013, gross margin increased $11.0 million compared to the same period in 2012, primarily due to higher merchant prices prior to entering into TransAlta PPAs, partially offset by lower wind volumes.

Eastern Canada Wind

Production for the three and nine months ended Sept. 30, 2013 increased 24 GWh and 64 GWh compared to the same periods in 2012, primarily due to the commencement of commercial operations at New Richmond partially offset by lower wind volumes.

For the three and nine months ended Sept. 30, 2013, gross margins increased $3.6 million and $8.8 million, respectively, compared to the same periods in 2012, primarily due to the commencement of commercial operations at New Richmond and higher contract prices.

Hydro

Production for the three months ended Sept. 30, 2013 increased 7 GWh compared to the same period in 2012, primarily due to lower unplanned outages.

For the nine months ended Sept. 30, 2013, production increased 8 GWh compared to the same period in 2012, primarily due to higher hydro volumes as a result of higher run-off and lower unplanned outages.

Gross margins for the three and nine months ended Sept. 30, 2013 increased $1.2 million and $2.9 million, respectively, compared to the same periods in 2012, primarily due to higher contract prices and volume levels.

Operations, Maintenance, and Administration Expense

OM&A expense for the three months ended Sept. 30, 2013 increased $1.3 million compared to the same period in 2012, primarily due to the Management and Operational Services Agreement with TransAlta and the commencement of commercial operations at New Richmond.

For the nine months ended Sept. 30, 2013, OM&A expense decreased $0.6 million compared to the same period in 2012, primarily due to lower compensation costs as a result of restructuring in the fourth quarter of 2012, partially offset by the Management and Operational Services Agreement with TransAlta and the commencement of commercial operations at our New Richmond wind farm.

Depreciation and Amortization Expense

Depreciation and amortization expense for the three months ended Sept. 30, 2013 decreased $2.3 million compared to the same period in 2012, primarily due to a lower depreciable base caused by asset impairments. Please refer to the Significant Events section of this MD&A.

For the nine months ended Sept. 30, 2013, depreciation and amortization expense increased $0.3 million compared to the same period in 2012, primarily due to the commencement of commercial operations at New Richmond, partially offset by a lower depreciable base caused by asset impairments.

NET INTEREST EXPENSE

The components of net interest expense are shown below:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2013	2012	**2013**	2012
Interest on debt	**7,183**	7,371	**21,279**	19,362
Interest on letters of credit and guarantees pledged by TransAlta	**58**	1,055	**2,283**	3,101
Capitalized interest	**-**	(1,333)	**(2,147)**	(2,408)
Interest income	**(5)**	(3)	**(11)**	(8)
Interest expense	**7,236**	7,090	**21,404**	20,047
Accretion of provisions	**231**	167	**640**	547
Net interest expense	**7,467**	7,257	**22,044**	20,594

The change in net interest expense for the three and nine months ended Sept. 30, 2013, compared to the same periods in 2012, is shown below:

	3 months ended Sept. 30	9 months ended Sept. 30
Net interest expense, 2012	7,257	20,594
Lower debt levels	(4)	(23)
Higher interest on Amortizing Term Loan	1,162	1,162
Higher accretion	64	93
Unfavourable foreign exchange impacts	16	28
Lower capitalized interest	1,333	261
Lower interest on letters of credit and guarantees	(997)	(818)
Lower financing costs	(7)	(8)
Lower interest income	(2)	(3)
Higher (lower) interest charged from TransAlta for capital projects	(1,333)	814
Other	(22)	(56)
Net interest expense, 2013	**7,467**	**22,044**

INCOME TAXES

A reconciliation of income taxes and effective tax rates on earnings, excluding non-comparable items, is presented below:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2013	2012	**2013**	2012
Earnings before income taxes	**2,067**	3,978	**48,463**	22,674
Income attributable to non-controlling interests	**(473)**	(454)	**(1,812)**	(1,762)
Asset impairment charges	**3,663**	-	**3,663**	13,000
Gain on sale of assets	**-**	-	**-**	(3,000)
Earnings attributable to common shareholders, excluding non-comparable items, subject to tax	**5,257**	3,524	**50,314**	30,912
Income tax expense	**387**	712	**11,928**	7,343
Income tax recovery related to asset impairment charges	**916**	-	**916**	3,613
Income tax expense related to gain on sale of assets	**-**	-	**-**	(750)
Income tax expense excluding non-comparable items	**1,303**	712	**12,844**	10,206
Effective tax rate on earnings attributable to common shareholders excluding non-comparable items (%)	**25**	20	**26**	33

The income tax expense excluding non-comparable items for the three and nine months ended Sept. 30, 2013 increased compared to the same periods in 2012 due to higher comparable earnings and the effect of certain tax adjustments in the prior year that do not fluctuate with earnings.

The effective tax rate on earnings attributable to common shareholders excluding non-comparable items for the three months ended Sept. 30, 2013 increased compared to the same period in 2012 due to the effect of certain tax adjustments in the prior year that do not fluctuate with earnings.

For the nine months ended Sept. 30, 2013, the effective tax rate on earnings attributable to common shareholders excluding non-comparable items decreased compared to the same period in 2012 due to the effect of certain tax adjustments in the prior year that do not fluctuate with earnings.

NON-CONTROLLING INTERESTS

Net earnings attributable to non-controlling interests for the three and nine months ended Sept. 30, 2013 increased compared to the same periods in 2012 primarily due to higher earnings at Kent Hills wind farm.

FINANCIAL POSITION

The following chart highlights significant changes in the Condensed Consolidated Statements of Financial Position from Dec. 31, 2012 to Sept. 30, 2013:

	Increase/ (Decrease)	Primary factors explaining change
Cash and cash equivalents	3,395	Timing of receipts and payments
Accounts receivable	3,379	Timing of customer receipts
Due from related parties	(131,171)	Repaid during formation of Corporation
Property, plant, and equipment, net	(223,915)	Asset revaluation and amortization net of additions
Intangible assets	(6,213)	Amortization
Accounts payable and accrued liabilities	4,484	Timing of payments
Dividends payable	14,333	Dividends declared on common shares during the quarter
Long-term debt (including current portion)	201,872	Issuance of Amortizing Term Loan
Deferred income tax liabilities	33,399	Increase in income tax provisions due to the formation of the Corporation
Net parental investment	(1,659,196)	Transferred to common share equity due to the formation of the Corporation
Equity attributable to shareholders	1,048,605	Formation of the Corporation and net earnings for the period

FINANCIAL INSTRUMENTS

Refer to the audited combined financial statements of The Business in Respect of the Acquired Assets as contained in the final long form prospectus available on SEDAR and *Note 11* of our Financial Statements for details on Financial Instruments. Refer to the Risk Factors section contained in the final long form prospectus available on SEDAR and *Note 11* of our Financial Statements for further details on our risks and how we manage them. Our risk management profile and practices have not changed materially from Dec. 31, 2012.

We may enter into commodity transactions involving non-standard features for which market observable data is not available. These are defined under IFRS as Level III financial instruments. Level III financial instruments are not traded in an active market and fair value is, therefore, developed using valuation models based upon internally developed assumptions or inputs. Our Level III fair values are determined using data such as unit availability, transmission congestion, or demand profiles.

We also have various contracts with terms that extend beyond five years. As forward market prices are not available for the full period of these contracts, the value of these contracts must be derived by reference to a forecast that is based on a combination of external and internal fundamental modeling, including discounting. As a result, these contracts are classified in Level III. These contracts are for specified prices with counterparties that we believe to be creditworthy.

Fair values are validated on a quarterly basis by using reasonably possible alternative assumptions as inputs to valuation techniques, and any material differences are disclosed in the notes to the financial statements.

At Sept. 30, 2013, total Level III financial instruments had a net carrying value of nil (Dec. 31, 2012 - $0.2 million net asset).

STATEMENTS OF CASH FLOWS

The following charts highlight significant changes in the Condensed Consolidated Statements of Cash Flows for the three and nine months ended Sept. 30, 2013 compared to the same periods in 2012:

3 months ended Sept. 30	**2013**	2012	**Primary factors explaining change**
Cash and cash equivalents, beginning of period	**2,094**	3,511	
Provided by (used in):			
Operating activities	**25,172**	23,286	Favourable changes in working capital of $1.3 million and higher cash earnings of $0.6 million
Investing activities	**(3,499)**	(52,587)	Decrease in additions to PP&E and intangibles of $44.5 million and an increase in investing non-cash working capital balances of $5.8 million, partially offset by a decrease in realized risk management gains of $1.3 million
Financing activities	**(17,167)**	28,119	Increase in repayment of closing note and partial repayment of acquisition note of $208.0 million, increase in repayment of net parental investment and other related party amounts of $38.1 million, and an increase in dividends paid on common shares of $5.4 million, partially offset by increase in net proceeds on issuance of common shares of $206.9 million
Cash and cash equivalents, end of period	**6,600**	2,329	

9 months ended Sept. 30	**2013**	2012	**Primary factors explaining change**
Cash and cash equivalents, beginning of period	**3,205**	3,990	
Provided by (used in):			
Operating activities	**124,138**	80,343	Higher cash earnings of $22.1 million and favourable changes in working capital of $21.7 million
Investing activities	**(54,688)**	(113,912)	Decrease in additions to PP&E and intangibles of $65.2 million an increase in realized risk management gains of $7.8 million, and a decrease in investing non-cash working capital balances of $12.9 million
Financing activities	**(66,055)**	31,908	Increase in repayment of closing note and partial repayment of acquisition note of $208.0 million, increase in repayment of net parental investment and other related party amounts of $91.8 million, and an increase in dividends paid on common shares of $5.4 million, partially offset by increase in net proceeds on issuance of common shares of $206.9 million
Cash and cash equivalents, end of period	**6,600**	2,329	

LIQUIDITY AND CAPITAL RESOURCES

Liquidity risk arises from our ability to meet general funding needs, engage in trading and 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 and funding from TransAlta. Our primary uses of funds are operational expenses, capital expenditures, distributions to non-controlling limited partners, interest and principal payments on debt, and dividends.

Debt

Long-term debt totalled $574.6 million as at Sept. 30, 2013 compared to $372.7 million as at Dec. 31, 2012. Long-term debt increased from Dec. 31, 2012 primarily due to the issuance of the Amortizing Term Loan, unfavourable changes in foreign exchange rates, and the amortization of deferred financing costs.

Share Capital

On Oct. 29, 2013, we had 114.7 million common shares issued and outstanding. At Sept. 30, 2013, we had 114.7 million common shares issued and outstanding.

During the three and nine months ended Sept. 30, 2013, 114.7 million common shares were issued. Please refer to the Significant Events section of this MD&A for further discussion.

Due to Related Party

At Sept. 30, 2013, the Corporation's related party borrowings due to TransAlta totalled $200.0 million (Dec. 31, 2012 - $131.2 million due from TransAlta).

2013 OUTLOOK

Business Environment

Environmental Legislation

There are ongoing discussions between the federal and provincial governments regarding a national Air Quality Management System for air pollutants. In Alberta's recently released Clean Air Strategy, the province indicated that its provincial air quality management system will operationalize any national system. Our current outlook is that, for Alberta, provincial regulations will be considered as equivalent to any future national framework.

On Jan. 21, 2013, the Ontario government released a discussion paper for public input on reducing Greenhouse Gas ("GHG") emissions in the province, with the stated intent of developing GHG regulations for all major industrial sectors by 2015. No specific targets or regulatory approaches have yet been proposed.

We continue to closely monitor the progress and risks associated with environmental legislation changes on our future operations.

The siting, construction, and operation of electrical energy facilities requires interaction with many stakeholders. Recently, certain stakeholders have brought actions against government agencies and owners over alleged adverse impacts of wind projects. We are monitoring these claims in order to assess the risk associated with these activities.

Economic Environment

We expect moderate growth in Alberta and low growth in Eastern Canada in 2013. Global events are monitored to assess their potential impact on the economy and supplier and commodity counterparty relationships.

Operations

Contracted Cash Flows

Through the use of long-term contracts and TransAlta PPAs, all of our capacity is currently contracted. Substantially all of our capacity is contracted over the next 10 to 20 years.

Operations, Maintenance, and Administration Costs

We expect OM&A costs for 2013 to increase primarily due to the commencement of operations at the New Richmond wind farm.

Exposure to Fluctuations in Foreign Currencies

All of our assets are located in Canada so there is minimal exposure to fluctuations in foreign currencies. Our strategy is to minimize the impact of fluctuations in the Canadian dollar against the U.S. dollar and Euro by entering into foreign exchange contracts.

Net Interest Expense

We are not exposed to interest rate risk from long-term debt as all instruments bear interest at a fixed rate. We expect net interest for 2013 to be approximately $30.0 million.

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 Working Capital Credit Facility (“WC Facility”) with TransAlta.

Accounting Estimates

A number of our accounting estimates, including those outlined in the Critical Accounting Judgments and Key Sources of Estimation Uncertainty section of our Financial Statements, are based on the current economic environment and outlook. As a result of the current economic environment, market fluctuations could impact, among other things, future commodity prices, foreign exchange rates, and interest rates, which could, in turn, impact future earnings and the unrealized gains or losses associated with our risk management assets and liabilities and asset valuation for our asset impairment calculations.

Income Taxes

The effective tax rate on earnings excluding non-comparable items for 2013 is expected to be approximately 25 per cent, which is equivalent to the statutory tax rate of 25 per cent.

Capital Expenditures

Sustaining Capital and Productivity Expenditures

For 2013, our estimate for total sustaining capital and productivity expenditures, net of any contributions received, is $9.0 million to $10.0 million.

Financing

Financing for these capital expenditures is expected to be provided by cash flow from operating activities and existing borrowing capacity. The funds required for sustaining capital and productivity projects are not expected to be significantly impacted by the current economic environment due to the highly contracted nature of our cash flows and our financial position.

RELATED PARTIES TRANSACTIONS AND BALANCES

Prior to the Aug. 9, 2013 acquisition of the Acquired Assets and separation of TransAlta Renewables as a stand-alone public entity, the Acquired Assets were historically managed and operated in the normal course of business by TransAlta along with other TransAlta operations and affiliates and not as a separate business.

After the Acquisition, we entered into certain agreements and transactions with TransAlta as follows:

Management and Operational Services Agreement

Under the Management and Operational Services Agreement, TransAlta provides all the general administrative services as may be required or advisable for the management of our affairs. As compensation for the services provided, TransAlta Renewables will pay TransAlta a fee (the “G&A Reimbursement Fee”) equal to $10.0 million per annum, adjusted annually for changes in the Consumer Price Index (“CPI”). The G&A Reimbursement Fee is payable in equal quarterly installments. The G&A Reimbursement Fee will be increased or decreased by an amount equal to 5.0 per cent of the amount of any increases or decreases, respectively, to our total Earnings Before Interest, Taxes, Depreciation, and Amortization resulting from the addition or divestiture of assets by the Corporation.

During the three and nine months ended Sept. 30, 2013, a pro-rated amount of $1.5 million was recognized as an OM&A expense by the Corporation for the G&A Reimbursement Fee.

TransAlta also provides operational and maintenance services under the Management and Operational Services Agreement, which generally includes all services as may be necessary or requested for the operation and maintenance of our wind and hydro facilities. TransAlta will be reimbursed for all out-of-pocket and third party fees and costs, including salaries, wages and benefits associated with managing and operating the facilities not captured by the G&A Reimbursement Fee.

The Management and Operational Services Agreement has an initial 20 year term, which is automatically renewed for further successive terms of five years after the expiry of the initial term or any renewal term, unless terminated by either party.

TransAlta PPAs

On Aug. 9, 2013, we entered into agreements for each of our merchant wind and hydroelectric facilities, providing for the purchase by TransAlta, for a fixed price, of all of the power produced by such merchant facilities. The price payable by TransAlta for output under the TransAlta PPAs is $30.00 per MWh for wind facilities and $45.00 per MWh for hydroelectric facilities, which amounts will be adjusted annually for changes in the CPI. TransAlta is required to only purchase power that is actually produced. Each TransAlta PPA has a term of 20 years or end of asset life, where end of asset life is less than 20 years.

During the three and nine months ended Sept. 30, 2013, $3.9 million was recognized as revenue for power sold pursuant to the TransAlta PPAs.

Working Capital Credit Facility

The Corporation entered into a $100.0 million unsecured WC Facility with TransAlta as the lender. Borrowings under the WC Facility bear interest at the Bankers' Acceptance Rate plus a 200 basis point credit spread per annum. Currently, the borrowing rate is approximately 3.25 per cent. The WC Facility will be made available for general corporate purposes including financing and working capital requirements.

As at Sept. 30, 2013, no amounts have been drawn under the WC Facility.

Amortizing Term Loan

We issued a $200.0 million Amortizing Term Loan in favour of TransAlta. Refer to Note 15 of our Financial Statements.

During the three and nine months ended Sept. 30, 2013, $1.2 million was recognized as interest expense related to borrowings under the Amortizing Term Loan. Refer to Note 7 of our Financial Statements.

Trade Accounts Receivable and Payable

At Sept. 30, 2013, $27.5 million (Dec. 31, 2012 - $1.0 million) and $20.8 million (Dec. 31, 2012 - $3.1 million) was included in accounts receivable and accounts payable, respectively, related to power sales, operating costs, and capital expenditures due from or to TransAlta or other subsidiaries of TransAlta.

Letters of Credit

TransAlta has provided letters of credits on our behalf. Any amounts we owe for obligations under the contracts to which the letters of credit pertain are reflected in the Condensed Consolidated Statements of Financial Position. All letters of credit expire within one year and are expected to be renewed, as needed, in the normal course of business. The total outstanding letters of credit as at Sept. 30, 2013 was $4.5 million (Dec. 31, 2012 - $5.8 million) with nil (Dec. 31, 2012 - nil) amounts exercised by third parties under these arrangements. We pay the associated interest and fees on these letters of credit. Refer to Note 7 of our financial Statements.

Guarantees

TransAlta has entered into guarantee agreements totaling $226.5 million on our behalf. Two guarantees totaling $206.0 million related to the New Richmond wind facility. If we do not perform under the accompanying agreements, the counterparty may present claim for payment from TransAlta. We pay the associated interest and fees on these guarantees. Refer to Note 7 of our Financial Statements.

Pension and Other Post-Employment Benefit Plans

We do not sponsor any pension, post-employment, or employee savings plans. However, employees of TransAlta providing operational services to the Corporation participate in certain funded final salary pension plans sponsored by TransAlta. TransAlta also provides other health and dental plans to its retired employees. There is no contractual agreement or stated policy between the Corporation and TransAlta for charging the net defined benefit costs. The net periodic benefit costs associated with employees that are beneficiaries of pensions and other employment plans are included in the reimbursement to TransAlta of operational and maintenance costs under the Management and Operational Services Agreement. These costs are included in OM&A expenses in the Condensed Consolidated Statements of Earnings.

All obligations pursuant to these plans are obligations of TransAlta and as such are not included in our Condensed Consolidated Statements of Financial Position. The Parent contributes to these plans. The amount contributed to these plans by the Parent on our behalf cannot be determined.

Financial Instruments and Derivatives

Financial instruments and derivatives that relate to the Corporation are entered into on our behalf by another TransAlta entity.

PRE-ACQUISITION RELATIONSHIP WITH PARENT

The Acquired Assets have historically been managed and operated in the normal course of business by TransAlta along with other TransAlta operations and affiliates. Financial statements have not historically been prepared by TransAlta for the Acquired Assets as they had not been operated as a separate business. Certain shared costs have been allocated to the Acquired Assets and reflected as expenses in the pre-Acquisition period financial statements. Management of TransAlta and the Corporation consider the allocation methodologies used to be reasonable and appropriate reflections of the related expenses attributable to the Acquired Assets; however, the expenses reflected in the pre-Acquisition period financial statements may not be indicative of the actual expenses that would have been incurred during the periods presented if we had historically operated as a separate entity. In addition, the expenses reflected in the pre-Acquisition period financial statements may not be indicative of expenses that we will incur in the future. Transactions between TransAlta and the Acquired Assets prior to the Acquisition have been identified as related party transactions in the pre-Acquisition period financial statements. It is possible that the terms of the transactions with TransAlta and its affiliates are not the same as those that would result from transactions among unrelated parties. In the opinion of TransAlta's management, all adjustments have been reflected that are necessary for a fair presentation of the pre-Acquisition period financial statements. Additional information related to the preparation of the pre-Acquisition period financial statements is as follows:

Net Parental Investment

TransAlta's net investment in the Acquired Assets is presented as "Net parental investment" and is shown in lieu of shareholders' equity in the pre-Acquisition period financial statements as there was no share ownership relationship between TransAlta and the Acquired Assets (as the Acquired Assets were not a separate legal entity). Changes in net parental investment include net cash transfers and other transfers to and from the Parent and the Acquired Assets.

Cash Management

The Acquired Assets historically participated in TransAlta's centralized cash management programs. For certain of the Acquired Assets, cash receipts were received and disbursements were made by the Parent, with any excess cash being retained by TransAlta. Changes in the net cash retained by the Parent for these facilities are, for purposes of the pre-Acquisition period financial statements, reflected through Net Transfers from Parent on the Consolidated Statements of Changes in Equity. For the remaining operating facilities, cash receipts and disbursements were managed directly by the company that owned the facility, and cash not required for near-term operating requirements was transferred to centralized bank accounts, maintained by TransAlta. For these operating facilities, cash transfers to and from the Parent were recorded through the Senior Loan, which is discussed below under Related Party Loans. Cash retained by TransAlta on behalf of the Acquired Assets was not kept in specific separate accounts and was instead comingled with cash from other TransAlta entities.

After the Acquisition, cash generated by TransAlta Renewables is maintained in separate accounts owned by TransAlta Renewables, and not comingled with cash from other TransAlta entities. Credit support is provided to TransAlta Renewables by TransAlta through the WC Facility.

Allocation of Corporate Costs

Allocated costs include TransAlta charges including, but not limited to: corporate accounting, human resources, government affairs, information technology, shared real estate expenses, legal, treasury, and pension and other post-employment benefits. These costs are included in OM&A expenses. The costs were allocated to the Acquired Assets based on GWh of production. Note that these expenses may have been different had the Acquired Assets been a separate entity during the periods presented. For the three and nine months ended Sept. 30, 2013, these pre-tax costs were $0.2 million and $3.5 million, respectively. For the three and nine months ended Sept. 30, 2012, these pre-tax costs were $1.3 million and $6.0 million, respectively.

After the Acquisition, these costs form part of the G&A Reimbursement Fee.

Income Taxes

TransAlta's historic consolidated financial statements included the operations of the Acquired Assets. For purposes of the financial statements prior to the Acquisition, current and deferred income taxes for certain of the Acquired Assets that were not held in separate legal entities, were computed and reported on a "legal entity" basis. Income taxes as presented herein represent an allocation of current and deferred income taxes of TransAlta to these Acquired Assets in a manner that is systematic, rational, and consistent with the asset and liability method prescribed by IFRS. Under the liability method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards. Accordingly, the sum of the amounts allocated to these Acquired Assets' tax provisions may not equal the historical consolidated provision. Current and deferred income taxes for those Acquired Assets that were held in separate legal entities represent the income taxes related to that separate legal entity, including deferred income tax assets recognized for the benefit expected from losses available for carryforward to the extent that is probable that future taxable earnings will be available against which the loses can be applied.

After the Acquisition, current and deferred income taxes are computed and reported on the basis of the legal entities that comprise the consolidated group.

Pension and Other Post-Employment Benefit Plans

We do not sponsor any pension, post-employment, or employee savings plan. However, employees of TransAlta providing operational services to the Acquired Assets participated in certain funded final salary pension plans sponsored by TransAlta. TransAlta also provides other health and dental plans to its retired employees. There is no contractual agreement or stated policy between the Acquired Assets and TransAlta for charging the net defined benefit costs (note that the Acquired Assets comprised parts of multiple legal entities).

All obligations pursuant to these plans are obligations of TransAlta and as such are not included in the pre-Acquisition period financial statements. TransAlta allocated to the Acquired Assets, the net periodic benefit costs associated with employees that are beneficiaries of pensions and other employment plans. These costs are included in OM&A expenses in the pre-Acquisition period financial statements.

After the Acquisition date, these costs are included in the reimbursement to TransAlta of operational and maintenance costs under the Management and Operational Services Agreement.

Financial Instruments and Derivatives

Financial instruments and derivatives that related to the Acquired Assets were entered into on behalf of the Acquired Assets by another TransAlta entity.

Related Party Loans

Prior to the Acquisition, borrowing agreements existed between our CHD subsidiary and TransAlta or certain subsidiaries of TransAlta. All loans are non-interest bearing and due on demand. The amounts receivable (payable) are shown below:

As at	**Sept. 30, 2013**	Dec. 31, 2012
Senior loan with TransAlta(1)	**-**	14,254
Loan with TransAlta subsidiary(2)	**-**	117,811
Loan with TransAlta subsidiary(3)	**-**	(894)

(1) Maximum amount of $300 million.

(2) Maximum amount of $150 million.

(3) Maximum amount of $20 million.

Coincident with the Acquisition, these loans have been reclassified against Net Parental Investment or paid out in cash.

CURRENT ACCOUNTING CHANGES

Adoption of New or Amended IFRS

On Jan. 1, 2013, we adopted the following new accounting standards that were previously issued by the International Accounting Standard Board (“IASB”):

IFRS 10 *Consolidated Financial Statements*

IFRS 10 replaces the parts of International Accounting Standard (“IAS”) 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and Standing Interpretations Committee (“SIC”) Interpretation 12 *Consolidation - Special Purpose Entities*. IFRS 10 defines the principle of control, establishes control as the basis for determining when entities are to be consolidated, and provides guidance on how to apply the principle of control to identify whether an investor controls an investee. Under IFRS 10, an investor controls an investee when it has all of the following: (i) power over the investee; (ii) exposure, or rights, to variable returns from the investee; and (iii) the ability to affect those returns.

We applied IFRS 10 retrospectively by reassessing whether, on Jan. 1, 2013, we had control of all of our previously consolidated entities. As a result of adopting IFRS 10, no changes arose in the entities we controlled and consolidated.

IFRS 11 *Joint Arrangements*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. IFRS 11 provides for a principles-based approach to the accounting for joint arrangements that requires an entity to recognize its contractual rights and obligations arising from its involvement in joint arrangements. A joint arrangement is an arrangement in which two or more parties have joint control. Under IFRS 11, joint arrangements are classified as either a joint operation or a joint venture, whereas under IAS 31, they were classified as a jointly controlled asset, jointly controlled operation or a jointly controlled entity. IFRS 11 requires the use of the equity method of accounting for interests in joint ventures, whereas IAS 31 permitted a choice of the equity method or proportionate consolidation for jointly controlled entities. Under IFRS 11, for joint operations, each party recognizes its respective share of the assets, liabilities, revenues and expenses of the arrangement, generally resulting in proportionate consolidation accounting.

We applied IFRS 11 retrospectively by reassessing the type of, and accounting for, each joint arrangement in existence at Jan. 1, 2013. No significant impacts resulted.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 contains enhanced disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates, and consolidated and unconsolidated structured entities (special purpose entities). The objective of IFRS 12 is that an entity should disclose information that helps financial statement users evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial statements. Disclosures arising from the adoption of IFRS 12 can be found in Note 10 of our Financial Statements.

IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance for all fair value measurements required by other IFRS, clarifies the definition of fair value, and enhances disclosures about fair value measurements. IFRS 13 applies when other IFRS require or permit fair value measurements or disclosures. IFRS 13 specifies how an entity should measure fair value and disclose fair value information. It does not specify when an entity should measure an asset, a liability, or its own equity instrument at fair value. Our adoption of IFRS 13, prospectively on Jan. 1, 2013, did not have a material financial impact upon the consolidated financial position or results of operations, however, certain new or enhanced disclosures are required and can be found in Note 11 of our Financial Statements.

IFRS 7 *Financial Instruments: Disclosures*

Amendments to IFRS 7 include disclosures about all recognized financial instruments that are set off in accordance with IAS 32. The amendments also require disclosure of information about recognized financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. No significant impacts resulted.

Annual Improvements 2009-2011

In May 2012, the IASB issued a collection of necessary, non-urgent amendments to several IFRS resulting from its annual improvements process. We have applied the amendments, as applicable, on Jan. 1, 2013. None of the amendments, which are generally technical and narrow in scope, had a material financial impact upon the consolidated financial position or results of operations.

FUTURE ACCOUNTING CHANGES

Additional new or amended accounting standards that have been previously issued by the IASB but are not yet effective, and have not yet been applied, are as follows: IFRS 9 *Financial Instruments*, IAS 32 *Financial Instruments: Presentation*, and *Investment Entities* (Amendments to IFRS 10 and 11 and IAS 27). Please refer to the audited combined financial statements of The Business in Respect of the Acquired Assets and MD&A as contained in the final long form prospectus available on SEDAR for more 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 (loss)" in our Condensed Consolidated Statements of Earnings (Loss) for the three and nine months ended Sept. 30, 2013 and 2012. Presenting these line items provides management and investors with a measurement of ongoing operating performance that is readily comparable from period to period.

NON-IFRS MEASURES

We evaluate our performance and the performance of our business segments using a variety of measures. Those discussed below, and elsewhere 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 net earnings attributable to common shareholders or cash flow from operating activities, as determined in accordance with IFRS, when assessing our financial performance or liquidity. These Non-IFRS measures are not necessarily comparable to a similarly titled measure of another company.

Presenting earnings on a comparable basis, comparable gross margin, comparable operating income, and comparable EBITDA from period to period provides management and investors with supplemental information to evaluate earnings trends in comparison with results from prior periods.

Other adjustments to earnings, such as those included in the earnings on a comparable basis calculation, have also been excluded as management believes these transactions are not representative of our business operations. Earnings on a comparable basis per share are calculated using the weighted average common shares outstanding during the period.

Net Earnings on a Comparable Basis

Net earnings on a comparable basis are reconciled to net earnings attributable to common shareholders below:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2013	2012	**2013**	2012
Net earnings attributable to common shareholders	**1,207**	2,812	**34,723**	13,569
Asset impairment charges, net of tax	**2,747**	-	**2,747**	9,387
Gain on sale of assets, net of tax	**-**	-	**-**	(2,250)
Net earnings on a comparable basis	**3,954**	2,812	**37,470**	20,706
Weighted average number of common shares outstanding in the period	**114.7**	114.7	**114.7**	114.7
Net earnings on a comparable basis per share	**0.03**	0.02	**0.33**	0.18

For comparative purposes the common shares issued under the Offering, including the Over-Allotment Option, have been assumed to be outstanding as of the beginning of each period, including periods prior to the Acquisition, presented. We have no dilutive or potentially dilutive instruments.

Comparable Operating Income

A reconciliation of comparable operating income is as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2013	2012	**2013**	2012
Operating income	**9,105**	10,104	**71,176**	39,055
Asset impairment charges	**3,663**	-	**3,663**	13,000
Comparable operating income	**12,768**	10,104	**74,839**	52,055

Comparable EBITDA

Presenting comparable EBITDA from period to period provides management and investors with a proxy for the amount of cash generated from operating activities before net interest expense, non-controlling interests, income taxes, and working capital adjustments.

A reconciliation of comparable EBITDA to operating income is as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2013	2012	**2013**	2012
Operating income	**9,105**	10,104	**71,176**	39,055
Asset impairment charges	**3,663**	-	**3,663**	13,000
Depreciation and amortization	**16,324**	18,661	**55,830**	55,583
Comparable EBITDA	**29,092**	28,765	**130,669**	107,638

Funds from Operations

Presenting funds from operations from period to period provides management and investors with a proxy for the amount of cash generated from operating activities, before changes in working capital, and provides the ability to evaluate cash flow trends more readily in comparison with results from prior periods.

	3 months ended Sept. 30		9 months ended Sept. 30	
	2013	2012	**2013**	2012
Cash flow from operating activities	**25,172**	23,286	**124,138**	80,343
Change in non-cash operating working capital balances	**(3,237)**	(1,969)	**(15,248)**	6,425
Funds from operations	**21,935**	21,317	**108,890**	86,768
Weighted average number of common shares outstanding in the period	**114.7**	114.7	**114.7**	114.7
Funds from operations per share	**0.19**	0.19	**0.95**	0.76

For comparative purposes the common shares issued under the Offering, including the Over-Allotment Option, have been assumed to be outstanding as of the beginning of each period, including periods prior to the Acquisition, presented. We have no dilutive or potentially dilutive instruments.

Cash Available for Distribution

Cash available for distribution represents the amount of cash generated from operations by our business, before changes in working capital that is available to invest in growth initiatives, make scheduled principal repayments of debt, pay additional common share dividends, or repurchase common shares. Changes in working capital are excluded so as to not distort free cash flow with changes that we consider temporary in nature, reflecting, among other things, the impact of seasonal factors and the timing of capital projects.

Sustaining capital and productivity expenditures for the three and nine months ended Sept. 30, 2013 represent total additions to property, plant, and equipment and intangibles per the Condensed Consolidated Statements of Cash Flows less $0.7 million and $30.4 million, respectively, that we have invested in growth projects.

The reconciliation between cash flow from operating activities and cash available for distribution is outlined below:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2013	2012	**2013**	2012
Cash flow from operating activities	**25,172**	23,286	**124,138**	80,343
Add (deduct):				
Changes in non-cash operating working capital	**(3,237)**	(1,969)	**(15,248)**	6,425
Sustaining capital and productivity expenditures	**(1,372)**	(668)	**(4,740)**	(3,948)
Distributions paid to subsidiaries' non-controlling interests	**(510)**	(462)	**(2,772)**	(2,730)
Scheduled principal repayments of debt	**-**	(133)	**-**	(433)
Cash available for distribution	**20,053**	20,054	**101,378**	79,657

We seek to maintain sufficient cash balances and working capital credit facilities to fund periodic net cash outflows related to our business.

FORWARD-LOOKING STATEMENTS

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

In particular, this MD&A contains forward-looking statements pertaining to our business and anticipated financial performance including, for example: the closing of the acquisition of the Wyoming wind farm; the timing and the completion and commissioning of projects under development, including major projects, and their attendant costs; spend on growth and sustaining capital and productivity projects; expectations in terms of the cost of operations, capital spend, and maintenance, and the variability of those costs; the impact of certain hedges on future reported earnings and cash flows; expectations related to future earnings and cash flow from operating and contracting activities; expectations for demand for electricity in both the short term and long term, and the resulting impact on electricity prices; expected impacts of fewer anticipated turnarounds, load growth, and increased capacity on power prices; expectations in respect of generation availability, capacity, and production; expected financing of our capital expenditures; expected governmental regulatory regimes and legislation and their expected impact on us, as well as the cost of complying with resulting regulations and laws; our trading strategy and the risk involved in these strategies; estimates of future tax rates, future tax expense, and the adequacy of tax provisions; accounting estimates; anticipated growth rates in our markets; expectations for the outcome of existing or potential legal and contractual claims; expectations for the ability to access capital markets at reasonable terms; the estimated impact of changes in interest rates and the value of the Canadian dollar relative to the U.S. dollar; the monitoring of our exposure to liquidity risk; expectations in respect to the global economic environment; and our credit practices.

Factors that may adversely impact our forward-looking statements include risks relating to: the regulatory and political environments in the jurisdictions in which we operate; environmental requirements and changes in, or liabilities under, these requirements; changes in general economic conditions including interest rates; operational risks involving our facilities, including unplanned outages at such facilities; disruptions in the transmission and distribution of electricity; the effects of weather; disruptions in the source of water or wind required to operate our facilities; natural disasters; the threat of domestic terrorism and cyber-attacks; equipment failure and our ability to carry out repairs in a cost effective manner or timely manner; industry risk and competition; fluctuations in the value of foreign currencies; the need for additional financing; structural subordination of securities; counterparty credit risk; insurance coverage; our provision for income taxes; legal and contractual proceedings involving the Corporation; reliance on key personnel; labour relations matters; development projects and acquisitions; and the satisfactory receipt of applicable regulatory approvals for the closing of the Wyoming acquisition . The foregoing risk factors, among others, are described in further detail in the Risk Factors section contained in the final long form prospectus available on SEDAR.

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.

TRANSALTA RENEWABLES INC.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands of Canadian dollars except where noted)

	3 months ended Sept. 30		**9 months ended Sept. 30**	
Unaudited	**2013**	2012	**2013**	2012
Revenues	**32,312**	34,732	**144,642**	130,364
Government incentives *(Note 3)*	**3,542**	3,892	**15,547**	16,575
Lease revenue *(Note 4)*	**7,681**	3,272	**15,203**	5,534
Total revenue	**43,535**	41,896	**175,392**	152,473
Royalties and other *(Note 5)*	**2,528**	2,662	**9,854**	9,653
Gross margin	**41,007**	39,234	**165,538**	142,820
Operations, maintenance, and administration *(Note 5)*	**10,015**	8,718	**29,326**	29,901
Depreciation and amortization	**16,324**	18,661	**55,830**	55,583
Asset impairment charges *(Note 6)*	**3,663**	-	**3,663**	13,000
Taxes, other than income taxes	**1,900**	1,751	**5,543**	5,281
Operating income	**9,105**	10,104	**71,176**	39,055
Foreign exchange gain (loss)	**430**	1,131	**(891)**	561
Net interest expense *(Note 7)*	**(7,467)**	(7,257)	**(22,044)**	(20,594)
Other income (expense)	**(1)**	-	**222**	652
Gain on sale of assets *(Note 8)*	**-**	-	**-**	3,000
Earnings before income taxes	**2,067**	3,978	**48,463**	22,674
Income tax expense *(Note 9)*	**387**	712	**11,928**	7,343
Net earnings	**1,680**	3,266	**36,535**	15,331
Net earnings attributable to:				
Common shareholders	**1,207**	2,812	**34,723**	13,569
Non-controlling interest *(Note 10)*	**473**	454	**1,812**	1,762
	1,680	3,266	**36,535**	15,331
Weighted average number of common shares outstanding in the period *(millions) (Note 18)*	**114.7**	114.7	**114.7**	114.7
Net earnings per share attributable to common shareholders, basic and diluted *(Note 18)*	**0.01**	0.02	**0.30**	0.12

See accompanying notes.

TRANSALTA RENEWABLES INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

	3 months ended Sept. 30		9 months ended Sept. 30	
Unaudited	**2013**	2012	**2013**	2012
Net earnings	**1,680**	3,266	**36,535**	15,331
Gains (losses) on derivatives designated as cash flow hedges, net of tax[(1)]	**30**	(1,356)	**74**	(3,083)
Reclassification of losses on derivatives designated as cash flow hedges to non-financial assets, net of tax[(2)]	**-**	2,166	**1,265**	3,040
Total items that will not be reclassified subsequently to net earnings	**30**	810	**1,339**	(43)
Gains (losses) on derivatives designated as cash flow hedges, net of tax[(3)]	**(5)**	358	**34**	634
Reclassification of gains on derivatives designated as cash flow hedges to net earnings, net of tax[(4)]	**(35)**	(184)	**(250)**	(1,167)
Total items that will be reclassified subsequently to net earnings	**(40)**	174	**(216)**	(533)
Other comprehensive income (loss)	**(10)**	984	**1,123**	(576)
Total comprehensive income	**1,670**	4,250	**37,658**	14,755
Total comprehensive income attributable to:				
Common shareholders	**1,197**	3,796	**35,846**	12,993
Non-controlling interest	**473**	454	**1,812**	1,762
	1,670	4,250	**37,658**	14,755

(1) Net of income tax expense of $10 and $25 for the three and nine months ended Sept. 30, 2013 (2012 - $420 and $1,026 recovery), respectively.

(2) Net of income tax recovery of nil and $422 for the three and nine months ended Sept. 30, 2013 (2012 - $722 and $1,013 recovery), respectively.

(3) Net of income tax of nil and expense of $11 for the three and nine months ended Sept. 30, 2013 (2012 - $120 and $284 expense), respectively.

(4) Net of income tax recovery of $2 and expense of $137 for the three and nine months ended Sept. 30, 2013 (2012 - $61 and $397 expense), respectively.

See accompanying notes.

TRANSALTA RENEWABLES INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands of Canadian dollars)

Unaudited	**Sept. 30, 2013**	Dec. 31, 2012
Cash and cash equivalents *(Note 11)*	**6,600**	3,205
Accounts receivable *(Notes 11 and 22)*	**45,786**	42,407
Prepaid expenses	**3,808**	2,157
Risk management assets *(Note 11)*	**60**	944
Income taxes receivable	**854**	674
Inventory	**114**	157
Due from related parties *(Notes 11 and 23)*	**-**	131,171
	57,222	180,715
Property, plant and equipment *(Note 12)*		
Cost	**2,010,120**	2,184,118
Accumulated depreciation	**(295,538)**	(245,621)
	1,714,582	1,938,497
Intangible assets *(Note 13)*	**107,048**	113,261
Risk management assets *(Note 11)*	**13**	-
Other assets *(Note 14)*	**3,071**	4,933
Total assets	**1,881,936**	2,237,406
Accounts payable and accrued liabilities *(Notes 11 and 22)*	**40,800**	36,316
Risk management liabilities *(Note 11)*	**9**	7
Income taxes payable	**832**	-
Dividends payable	**14,333**	-
Current portion of long-term debt *(Notes 11,15, and 22)*	**21,636**	-
	77,610	36,323
Long-term debt *(Notes 11,15, and 22)*	**552,969**	372,733
Decommissioning provisions *(Note 16)*	**12,577**	10,945
Deferred revenues *(Note 17)*	**7,083**	7,544
Deferred income tax liabilities	**143,585**	110,186
Risk management liabilities *(Note 11)*	**51**	63
Net parental investment	**-**	1,660,166
Common shares *(Note 18)*	**1,223,845**	-
Retained earnings	**(175,393)**	-
Accumulated other comprehensive income (loss)	**153**	(970)
Equity attributable to shareholders	**1,048,605**	1,659,196
Non-controlling interest *(Note 10)*	**39,456**	40,416
Total equity	**1,088,061**	1,699,612
Total liabilities and equity	**1,881,936**	2,237,406

Commitments and contingencies *(Note 21)*

Subsequent events *(Note 24)*

See accompanying notes.

TRANSALTA RENEWABLES INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in thousands of Canadian dollars)

9 months ended Sept. 30, 2013

Unaudited	Net parental investment	Common shares	Retained earnings	Accumulated other comprehensive income (loss)	Attributable to shareholders	Attributable to non-controlling interest	Total
Balance, Dec. 31, 2012	1,660,166	-	-	(970)	1,659,196	40,416	1,699,612
Net earnings[1]	35,487	-	(764)	-	34,723	1,812	36,535
Other comprehensive income (loss)	-	-	-	1,123	1,123	-	1,123
Total comprehensive income (loss)	35,487	-	(764)	1,123	35,846	1,812	37,658
Changes in capitalization by Parent *(Note 2)*	(682,231)	-	(154,877)	-	(837,108)	-	(837,108)
Completion of share offering to Parent *(Note 18)*	(1,013,422)	1,013,422	-	-	-	-	-
Completion of public share offering *(Note 18)*	-	210,423	-	-	210,423	-	210,423
Common share dividends	-	-	(19,752)	-	(19,752)	-	(19,752)
Distributions to non-controlling interest	-	-	-	-	-	(2,772)	(2,772)
Balance, Sept. 30, 2013	**-**	**1,223,845**	**(175,393)**	**153**	**1,048,605**	**39,456**	**1,088,061**

(1) Net earnings (loss) for the period is split between Net parental investment for the period prior to Aug, 9 2013 and Retained earnings for the period after the formation of the Corporation.

9 months ended Sept. 30, 2012

Unaudited	Net parental investment	Accumulated other comprehensive loss	Total net parental investment	Attributable to non-controlling interest	Total
Balance, Dec. 31, 2011	1,635,254	(3,503)	1,631,751	40,889	1,672,640
Net earnings	13,569	-	13,569	1,762	15,331
Other comprehensive income (loss)	-	(576)	(576)	-	(576)
Total comprehensive income (loss)	13,569	(576)	12,993	1,762	14,755
Net transfers to Parent	(22,516)	-	(22,516)	-	(22,516)
Distributions to non-controlling interest	-	-	-	(1,989)	(1,989)
Balance, Sept. 30, 2012	**1,626,307**	**(4,079)**	**1,622,228**	**40,662**	**1,662,890**

See accompanying notes.

TRANSALTA RENEWABLES INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

	3 months ended Sept. 30		9 months ended Sept. 30	
Unaudited	**2013**	2012	**2013**	2012
Operating activities				
Net earnings	**1,680**	3,266	**36,535**	15,331
Depreciation and amortization	**16,324**	18,661	**55,830**	55,583
Gain on sale of assets *(Note 8)*	**-**	-	**-**	(3,000)
Accretion of provisions *(Notes 7 and 16)*	**231**	167	**640**	547
Decommissioning and restoration costs settled	**-**	(16)	**-**	(115)
Deferred income tax expense *(Note 9)*	**313**	712	**10,667**	6,621
Unrealized foreign exchange (gain) loss	**(430)**	(2,147)	**689**	(1,944)
Unrealized (gain) loss from risk management activities *(Note 11)*	**(226)**	453	**(105)**	(92)
Provisions	**-**	(100)	**-**	(100)
Asset impairment charges *(Note 6)*	**3,663**	-	**3,663**	13,000
Deferred credits	**180**	(75)	**-**	(231)
Other non-cash items	**200**	396	**971**	1,168
Cash flow from operations before changes in working capital	**21,935**	21,317	**108,890**	86,768
Change in non-cash operating working capital balances *(Note 19)*	**3,237**	1,969	**15,248**	(6,425)
Cash flow from operating activities	**25,172**	23,286	**124,138**	80,343
Investing activities				
Additions to property, plant, and equipment *(Note 12)*	**(1,827)**	(46,727)	**(35,012)**	(99,914)
Additions to intangibles	**(287)**	64	**(138)**	(422)
Proceeds on sale of assets	**-**	-	**-**	264
Change in other assets	**(289)**	(111)	**-**	830
Realized risk management gain (loss)	**81**	1,424	**2,416**	(5,336)
Change in non-cash investing working capital balances	**(1,478)**	(7,237)	**(22,255)**	(9,334)
Other	**301**	-	**301**	-
Cash flow used in investing activities	**(3,499)**	(52,587)	**(54,688)**	(113,912)
Financing activities				
Repayment of net parental investment and related party advances *(Note 23)*	**(10,136)**	28,714	**(56,762)**	35,071
Long-term debt repayments *(Note 15)*	**-**	(133)	**-**	(433)
Net proceeds on issuance of common shares *(Note 18)*	**206,898**	-	**206,898**	-
Repayment of Closing and Acquisition Notes to TransAlta	**(208,000)**	-	**(208,000)**	-
Dividends paid on common shares *(Note 18)*	**(5,419)**	-	**(5,419)**	-
Distributions to non-controlling interest *(Note 10)*	**(510)**	(462)	**(2,772)**	(2,730)
Cash flow from (used in) financing activities	**(17,167)**	28,119	**(66,055)**	31,908
Increase (decrease) in cash and cash equivalents	**4,506**	(1,182)	**3,395**	(1,661)
Cash and cash equivalents, beginning of period	**2,094**	3,511	**3,205**	3,990
Cash and cash equivalents, end of period	**6,600**	2,329	**6,600**	2,329
Cash income taxes paid	**227**	345	**607**	1,067
Cash interest paid	**6,072**	5,780	**22,313**	20,137

See accompanying notes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

1. BACKGROUND AND ACCOUNTING POLICIES

A. Formation of the Corporation

TransAlta Renewables Inc. (the “Corporation” or “TransAlta Renewables”) was incorporated on May 28, 2013 under the Canada Business Corporations Act and has been formed to own a portfolio of renewable power generation facilities. The Corporation had no active operations from the date of incorporation until Aug. 9, 2013 when it indirectly acquired 28 wind and hydroelectric generating assets (the “Acquired Assets”) from TransAlta Corporation (“TransAlta” or the “Parent”) (the ”Acquisition”) and completed an initial public offering of 22.1 million common shares (see Note 2).

B. Basis of Preparation

The unaudited interim condensed consolidated financial statements (“Financial Statements”) include the accounts of the Corporation and, from Aug. 9, 2013, the subsidiaries, Canadian Hydro Developers, Inc. (“CHD”) and Western Sustainable Power Inc. (“WSP”) that it controls. These Financial Statements also include the combined financial statements of the Acquired Assets for all periods prior to the Acquisition, as the Acquired Assets are ultimately controlled by TransAlta before and after the Acquisition and there has been no substantive change in operations (see Note 2).

These Financial Statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* using the same accounting policies as those used in the Audited Combined Financial Statements of The Business in Respect of the Acquired Assets as contained in the Corporation’s final long form prospectus available on SEDAR, except as outlined in Note 1(D).

These Financial Statements have been prepared on a historical cost basis, except for certain financial assets and liabilities, which are stated at fair value.

These Financial Statements reflect all adjustments which 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 cannot be stored; and the nature of wind and run-of-river hydroelectric resources, which fluctuate based on both seasonal patterns and annual weather variation. Typically, run-of-river hydroelectric facilities generate most of their electricity and revenues during the spring and summer months when the melting snow starts feeding the watersheds and the rivers. Inversely, wind speeds are historically greater during the cold winter months when the air density is at its peak.

These Financial Statements are presented in Canadian dollars, which is the Corporation’s functional currency. All financial information presented in the tables is in Canadian dollars and has been rounded to the nearest thousand unless otherwise noted.

These Financial Statements were authorized for issue by the Board of Directors on Oct. 29, 2013.

C. Basis of Preparation Prior to the Acquisition

The comparative financial statements as at Dec. 31, 2012 and for the three and nine months ended Sept. 30, 2012, and the current period financial statements from Jan. 1, 2013 to Aug. 8, 2013, have been prepared in accordance with IAS 34 *Interim Financial Reporting* using the using the same accounting policies as those used in the Audited Combined Financial Statements of The Business in Respect of the Acquired Assets as contained in the Corporation's final long form prospectus available on SEDAR, except as outlined in Note 1(D), and the financial reporting framework specified in subsection 3.11(6) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for carve-out financial statements.

Historically, financial statements have not been prepared by TransAlta for the Acquired Assets as they had not been operated as a separate business by TransAlta. Accordingly, the financial statements for periods prior to the Acquisition reflect the financial statements for the Acquired Assets in a manner consistent with how TransAlta managed the Acquired Assets and as though the Acquired Assets had been a separate company. All material assets and liabilities specifically identified to the Acquired Assets and all material revenues and expenses specifically attributable to the Acquired Assets and allocations of overhead expenses have been presented in the financial statements for periods prior to the Acquisition. The financial statements for periods prior to the Acquisition may not necessarily reflect the financial position, results of operations, or cash flows that the Acquired Assets might have had in the past had they existed as a separate business during the periods prior to the Acquisition (see Note 23).

D. Adoption of New or Amended IFRS

On Jan. 1, 2013, the Corporation adopted the following new accounting standards that were previously issued by the International Accounting Standards Board ("IASB"):

I. IFRS 10 *Consolidated Financial Statements*

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and Standing Interpretations Committee ("SIC") Interpretation 12 *Consolidation - Special Purpose Entities*. IFRS 10 defines the principle of control, establishes control as the basis for determining when entities are to be consolidated, and provides guidance on how to apply the principle of control to identify whether an investor controls an investee. Under IFRS 10, an investor controls an investee when it has all of the following: (i) power over the investee; (ii) exposure, or rights, to variable returns from the investee; and (iii) the ability to affect those returns.

IFRS 10 was applied retrospectively by the Corporation by reassessing whether, on Jan. 1, 2013, the Corporation had control of all of its previously consolidated entities. As a result of adopting IFRS 10, no changes arose in the entities controlled and consolidated by the Corporation.

II. IFRS 11 *Joint Arrangements*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. IFRS 11 provides for a principles-based approach to the accounting for joint arrangements that requires an entity to recognize its contractual rights and obligations arising from its involvement in joint arrangements. A joint arrangement is an arrangement in which two or more parties have joint control. Under IFRS 11, joint arrangements are classified as either a joint operation or a joint venture, whereas under IAS 31, they were classified as a jointly controlled asset, jointly controlled operation or a jointly controlled entity. IFRS 11 requires the use of the equity method of accounting for interests in joint ventures, whereas IAS 31 permitted a choice of the equity method or proportionate consolidation for jointly controlled entities. Under IFRS 11, for joint operations, each party recognizes its respective share of the assets, liabilities, revenues and expenses of the arrangement, generally resulting in proportionate consolidation accounting.

IFRS 11 was applied retrospectively by the Corporation by reassessing the type of, and accounting for, each joint arrangement in existence at Jan. 1, 2013. No significant impacts resulted.

III. IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 contains enhanced disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates, and consolidated and unconsolidated structured entities (special purpose entities). The objective of IFRS 12 is that an entity should disclose information that helps financial statement users evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial statements. Disclosures arising from the adoption of IFRS 12 can be found in Note 10.

IV. IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance for all fair value measurements required by other IFRS; clarifies the definition of fair value; and enhances disclosures about fair value measurements. IFRS 13 applies when other IFRS require or permit fair value measurements or disclosures. IFRS 13 specifies how an entity should measure fair value and disclose fair value information. It does not specify when an entity should measure an asset, a liability, or its own equity instrument at fair value. The Corporation's adoption of IFRS 13, prospectively on Jan. 1, 2013, did not have a material financial impact upon the consolidated financial position or results of operations.

V. IFRS 7 *Financial Instruments: Disclosures*

Amendments to IFRS 7 include disclosures about all recognized financial instruments that are set off in accordance with IAS 32. The amendments also require disclosure of information about recognized financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. No significant impacts resulted.

VI. Annual Improvements 2009-2011

In May 2012, the IASB issued a collection of necessary, non-urgent amendments to several IFRS resulting from its annual improvements process. The amendments, as applicable, have been applied by the Corporation on Jan. 1, 2013. None of the amendments, which are generally technical and narrow in scope, had a material financial impact upon the consolidated financial position or results of operations.

E. Prior Year Accounting Changes

In June 2011, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* to improve the consistency and clarity of the presentation of items of comprehensive income by requiring that items presented in OCI be grouped on the basis of whether they are at some point reclassified from OCI to net earnings or not. The amendments to IAS 1 were effective on Jan. 1, 2013 and were adopted for the 2012 fiscal year. The items presented within Condensed Consolidated Statements of Comprehensive Income have been reorganized to comply with the required groupings.

F. Comparative Figures

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

G. Future Accounting Changes

Additional new or amended accounting standards that have been previously issued by the IASB but are not yet effective, and have not been applied by the Corporation, are as follows: IFRS 9 *Financial Instruments,* IAS 32 *Financial Instruments: Presentation, and Investment Entities* (Amendments to IFRS10 and 11 and IAS 27). Please refer to the Audited Combined Financial Statements of the Business in respect of the Acquired Assets as contained in the Corporation's long form prospectus available on SEDAR for more information.

2. SIGNIFICANT EVENTS

A. Acquisition of Generating Assets

On Aug. 9, 2013, the Corporation indirectly acquired 28 wind and hydroelectric generating assets from TransAlta by purchasing all of the issued and outstanding shares of two of TransAlta's subsidiaries: CHD and WSP. The purchase price of $1.7 billion was satisfied by indirectly assuming outstanding debentures of CHD in the aggregate principal sum of $0.4 billion and consideration transferred of $1.3 billion, as follows:

Consideration Transferred	Amount
Issuance of 66,666,667 Common Shares at $10 per share	**666,667**
Issuance of Closing Note	**187,000**
Issuance of Short Term Note	**250,000**
Issuance of Acquisition Note	**30,000**
Issuance of Amortizing Term Loan	**200,000**
Total	**1,333,667**

The Acquisition was accounted for as a business combination under common control which results when the business subject to the acquisition is ultimately controlled by the same party before and after the business combination transaction. TransAlta controlled the Acquired Assets prior to the Aug. 9, 2013 acquisition by TransAlta Renewables and continues to indirectly control the Acquired Assets after the acquisition date by virtue of its approximate 80.7 per cent ownership of the Corporation's common shares. The acquisition method of business combination accounting as prescribed by IFRS 3 *Business Combinations*, which requires that the assets and liabilities acquired are stated at their fair values, does not apply. Consequently, as there are no other IFRSs that specifically apply to this type of transaction, the Corporation has applied the guidance issued by the United States Financial Accounting Standards Board ("FASB") in Subtopic 805-50, Related Issues, of Topic 805 Business Combinations, as contained in the FASB Accounting Standards Codification. As a result, the pooling of interests, or book value, method of accounting has been used by TransAlta Renewables to account for the Acquired Assets in the current and comparative periods.

The financial statements of the Acquired Assets and the Corporation have been combined together at book values, as if the Acquired Assets had always been owned by TransAlta Renewables, with the exception of the recognition of a reduction in the carrying amount of certain hydroelectric and wind generating facilities resulting from a revaluation based on the terms of the TransAlta Power Purchase Agreements (“TransAlta PPAs”). The revaluation resulted in a pre-tax reduction of $205.8 million in the carrying amount of the facilities (see Note 12) with the corresponding after-tax amount of $154.9 million being charged to retained earnings.

B. Initial Public Offering of Common Shares

On July 31, 2013, the Corporation filed a final prospectus to qualify the distribution of 20.0 million of its common shares, to be issued pursuant to the terms of an Underwriting Agreement at a price of $10.00 per common share (the "Offering"). The Corporation granted to the underwriters an option (the "Over-Allotment Option"), exercisable in whole or in part for a period of 30 days following Closing, to purchase, at the Offering price, up to an additional 3.0 million common shares.

On Aug. 9, 2013, the Corporation completed the Offering and issued 20.0 million common shares for gross proceeds of $200.0 million. The net proceeds of the Offering were used by TransAlta Renewables to repay the Closing Note issued to TransAlta. On Aug. 29, 2013, the underwriters exercised their Over-Allotment Option in part to purchase an additional 2.1 million common shares at the offering price of $10.00 per common share for gross proceeds of $21.0 million. The Corporation used the net proceeds received from the partial exercise of the Over-Allotment Option to repay a portion of the amount outstanding under the Acquisition Note issued to TransAlta. The remaining principal amount of $9.0 million outstanding under the Acquisition Note after such payment has been converted into 0.9 million common shares on the basis of one common share for each $10.00 owing to TransAlta under the Acquisition Note.

Immediately prior to the closing of the Offering, the Corporation repaid the $250.0 million Short Term Note issued to TransAlta by the indirect issuance to TransAlta of 25.0 million common shares at a deemed price of $10.00 per common share.

After consideration of the Offering and other common share issuances, TransAlta, directly and indirectly, holds 92.6 million common shares, representing approximately 80.7 per cent of the common shares of TransAlta Renewables.

C. Changes in Capitalization by the Parent

As a result of the Acquisition, the completion of the Offering, and the separation of the Corporation as a separate stand-alone entity, the Net parental investment previously attributed to the Acquired Assets changed as follows: i) $408.0 million was converted into debt, comprised of the $200.0 million Amortizing term loan, the $187.0 million Closing note and the $21.0 million of the Acquisition note, of which the Closing note and the Acquisition note were repaid in cash.; ii) amounts due from related parties, including increases in these amounts since Dec. 31, 2012, totalling approximately $198.2, were reclassified from the Statement of Financial Position against the Net parental investment; and iii) the Corporation’s deferred income tax liabilities were increased by approximately $76.0 million, with a corresponding offset in Net parental investment, for the tax benefit that remained with TransAlta associated with non-capital losses related to certain wind facilities.

3. GOVERNMENT INCENTIVES

Certain of the Corporation’s wind facilities are eligible to receive incentives under the Wind Power Production Incentive or the EcoENERGY for Renewable Power incentive programs sponsored by the Canadian federal government to encourage the development of clean power generation projects in Canada.

4. LEASE REVENUE

Several of the Corporation's wind and hydroelectric power purchase agreements or other long-term agreements for the sale of electrical energy meet the criteria of operating leases, whereby the Corporation is the lessor and the customer is the lessee. Revenues earned under these contracts are reported as lease revenue.

5. EXPENSES BY NATURE

Expenses classified by nature are as follows:

	3 months ended Sept. 30, 2013		3 months ended Sept. 30, 2012	
	Royalties and other	**Operations, maintenance, and administration**	Royalties and other	Operations, maintenance, and administration
Royalties	**1,934**	**-**	2,199	-
Purchased power	**594**	**-**	463	-
Salaries and benefits	**-**	**2,696**	-	2,182
Other operating expenses	**-**	**7,319**	-	6,536
Total	**2,528**	**10,015**	2,662	8,718

	9 months ended Sept. 30, 2013		9 months ended Sept. 30, 2012	
	Royalties and other	**Operations, maintenance, and administration**	Royalties and other	Operations, maintenance, and administration
Royalties	**7,056**	**-**	8,017	-
Purchased power	**2,798**	**-**	1,636	-
Salaries and benefits	**-**	**6,787**	-	6,012
Other operating expenses	**-**	**22,539**	-	23,889
Total	**9,854**	**29,326**	9,653	29,901

6. ASSET IMPAIRMENT CHARGES

During the three and nine months ended Sept. 30, 2013, the Corporation recognized a pre-tax impairment charge of $3.7 million related to two hydro generating assets. These assets were impaired primarily due to an increase in capital and operating expenses that resulted from the completion of condition assessments. The annual impairment assessments are based on estimates of fair value less costs to sell, derived from long range forecasts.

During 2012, the Corporation recognized a pre-tax impairment charge of $13.0 million related to three wind and one hydro generating asset. The impairments resulted from the completion of the annual impairment assessment based on estimates of fair value less costs to sell, derived from long range forecasts and prices evidenced in the market place. The assets were impaired primarily due to expectations regarding lower market prices estimated using a combination of third-party and internal price forecasts. Had the TransAlta PPA's been in effect in 2012, the valuation adjustment would have been recorded at that time and the assets would not have been impaired.

7. NET INTEREST EXPENSE

The components of interest expense are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2013	2012	**2013**	2012
Interest on long-term debt	**7,183**	7,371	**21,279**	19,362
Interest on letters of credit and guarantees pledged by TransAlta *(Notes 22 and 23)*	**58**	1,055	**2,283**	3,101
Capitalized interest *(Note 12)*	**-**	(1,333)	**(2,147)**	(2,408)
Interest income	**(5)**	(3)	**(11)**	(8)
Interest expense	**7,236**	7,090	**21,404**	20,047
Accretion of provisions *(Note 16)*	**231**	167	**640**	547
Net interest expense	**7,467**	7,257	**22,044**	20,594

8. DISPOSALS

During 2012, the Corporation realized a pre-tax gain of $3.0 million related to the 2011 sale of its biomass facility located in Grande Prairie. The gain resulted from the release of the remaining consideration related to the achievement of the Environmental Attribute Conditions by the purchaser in 2012. The sale was effective Sept. 1, 2011 and closed on Oct. 1, 2011 and resulted in the Corporation realizing a pre-tax gain of $8.7 million in 2011.

9. INCOME TAXES

The components of income tax expenses are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2013	2012	**2013**	2012
Current income tax expense	**74**	-	**1,261**	722
Deferred income tax expense	**313**	712	**10,667**	6,621
Income tax expense	**387**	712	**11,928**	7,343

10. NON-CONTROLLING INTEREST

The Corporation's operations that have a non-controlling interest are as follows:

Operation	Non-controlling interest
Kent Hills wind farm	17% - Natural Forces Technologies Inc.

Summarized financial information relating to Kent Hills as follows:

	3 months ended Sept.		9 months ended Sept.	
	2013	2012	**2013**	2012
Results of operations				
Revenues	**6,947**	6,354	**22,735**	22,595
Net earnings and total comprehensive income	**2,785**	2,686	**10,691**	10,492
Amounts attributable to the non-controling interest:				
Net earnings and total comprehensive income	**473**	454	**1,812**	1,762
Distributions paid to Natural Forces Technologies Inc.	**510**	462	**2,772**	2,730

As at	Sept. 30, 2013	Dec. 31, 2012
Financial position		
Current assets	**13,398**	4,520
Long-term assets	**229,412**	236,079
Current liabilities	**(2,838)**	(566)
Long-term liabilities	**(417)**	(406)
Total equity	**(239,555)**	(239,627)
Equity attributable to the non-controlling interest	**(39,456)**	(40,416)

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

A. Financial Assets and Liabilities – Classification and Measurement

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The following table highlights the carrying amounts and classifications of the financial assets and liabilities:

Carrying value of financial instruments as at Sept. 30, 2013

	Cash flow hedges	**Derivatives classified as held for trading**	**Loans and receivables**	**Other financial assets and liabilities**	**Total**
Financial assets					
Cash and cash equivalents	-	-	-	6,600	**6,600**
Accounts receivable	-	-	45,786	-	**45,786**
Risk management assets					
Current	12	48	-	-	**60**
Long-term	13	-	-	-	**13**
Financial liabilities			.		
Accounts payable and accrued liabilities	-	-	-	40,800	**40,800**
Risk management liabilities					
Current	1	8	-	-	**9**
Long-term	2	49	-	-	**51**
Long-term debt(1)	-	-	-	574,605	**574,605**

(1) Includes current portion.

Carrying value of financial instruments as at Dec. 31, 2012

	Cash flow hedges	Derivatives classified as held for trading	Loans and receivables	Other financial assets and liabilities	Total
Financial assets					
Cash and cash equivalents	-	-	-	3,205	3,205
Accounts receivable	-	-	42,407	-	42,407
Risk management assets					
Current	677	267	-	-	944
Due from related parties	-	-	131,171	-	131,171
Financial liabilities					
Accounts payable and accrued liabilities	-	-	-	36,316	36,316
Risk management liabilities					
Current	7	-	-	-	7
Long-term	6	57	-	-	63
Long-term debt	-	-	-	372,733	372,733

B. Fair Value of Financial Instruments

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable and willing parties who are under no compulsion to act. Fair values can be determined by reference to prices for that instrument in active markets to which the Corporation has access. In the absence of an active market, the Corporation determines fair values based on valuation models or by reference to other similar products in active markets.

Fair values determined using valuation models require the use of assumptions. In determining those assumptions, the Corporation looks primarily to external readily observable market inputs. In limited circumstances, the Corporation uses inputs that are not based on observable market data.

I. Level Determinations and Classifications

The Level I, II and III classifications in the fair value hierarchy utilized by the Corporation are defined below:

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.

b. Level II

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

Fair values falling 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.

Level II fair values 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.

Level II fair values of other risk management assets and liabilities are determined using valuation techniques, such as discounted cash flow methods. The Corporation uses observable inputs other than unadjusted quoted prices that are observable for the asset or liability, such as interest rate yield curves, credit valuation adjustments, 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.

c. Level III

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

The Corporation may enter into commodity transactions for which market-observable data is not available. In these cases, Level III fair values are determined using valuation techniques such as the Mark-to-forecast model with inputs that are based on historical data such as unit availability, transmission congestion, demand profiles for individual non-standard deals and structured products, and/or volatilities and correlations between products derived from historical prices.

The Corporation also has various contracts with terms that extend beyond a liquid trading period. As forward price forecasts are not available for the full period of these contracts, the value of these contracts is derived by reference to a forecast that is based on a combination of external and internal fundamental modelling, including discounting. As a result, these contracts are classified in Level III.

The Corporation has a Commodity Exposure Management Policy (“the Policy”), which governs both proprietary and hedging commodity transactions. The Policy defines and specifies the controls and management responsibilities associated with commodity trading activities, as well as the nature and frequency of required reporting of such activities.

Methodologies and procedures regarding commodity-based Level III fair value measurements are determined by the Corporation's Risk Management department. Level III fair values are calculated within the Corporation's Energy Trading Risk Management system based on underlying contractual data and observable and non-observable inputs. Development of non-observable inputs requires the use of judgment. To ensure reasonability, system generated Level III fair value measurements are reviewed and validated by Risk Management and Finance Departments. Review occurs formally on a quarterly basis or more frequently if daily review and monitoring procedures identify unexpected changes to fair value, or changes to key parameters.

The effect of using reasonably possible alternative assumptions as inputs to valuation techniques from which the Level III commodity fair values are determined at Sept. 30, 2013 is estimated to be +/- $0.1 million (Dec. 31, 2012 - $0.2 million). Fair values are stressed for volumes and prices. The volumes are stressed up and down one standard deviation from historically available production data. Prices are stressed for longer term deals where there are no liquid market quotes using various internal and external forecasting sources to establish a high and a low price range.

II. Financial Instruments not Recognized at Fair Value

The carrying value of cash, accounts receivable, and accounts payable and accrued liabilities approximates their fair value at the statement of financial position date due to their short-term nature. The fair value of the Corporation's long-term debt as at Sept. 30, 2013 was $594.6 million (Dec. 31, 2012 - $396.6 million) all of which is included in the Level II category. The fair value of other long-term debt is determined by calculating an implied priced based on a current assessment of the yield to maturity. The fair value of the Corporation's debentures is determined using prices observed in secondary markets.

C. Risk Management Assets and Liabilities

I. Commodity

The Corporation's commodity-based risk management assets and liabilities relate to trading activities and certain contracting activities.

The following tables summarize the key factors impacting the fair value of the net risk management assets and liabilities by classification level during the nine months ended Sept. 30, 2013 and 2012, respectively:

	Cash flow hedges	Non-hedges	Total		
	Level II	Level III	Level II	Level III	Total
Net risk management assets (liabilities) at Dec. 31, 2012	(11)	210	(11)	210	**199**
Changes attributable to:					
Market price changes on existing contracts	(9)	(20)	(9)	(20)	**(29)**
Contracts settled	31	(199)	31	(199)	**(168)**
Net risk management assets (liabilities) at Sept. 30, 2013	**11**	**(9)**	**11**	**(9)**	**2**
Additional level III information:					
Total losses included in earnings before income taxes		(20)		(20)	(20)
Unrealized losses included in earnings before income taxes related to net liabilities held at Sept. 30, 2013		(219)		(219)	(219)

	Cash flow hedges		Non-hedges	Total		
	Level II	Level III	Level III	Level II	Level III	Total
Net risk management assets (liabilities) at Dec. 31, 2011	(75)	19	(783)	(75)	(764)	(839)
Changes attributable to:						
Market price changes on existing contracts	28	(14)	843	28	829	857
Contracts settled	32	(5)	314	32	309	341
Net risk management assets (liabilities) at Sept. 30, 2012	(15)	-	374	(15)	374	359
Additional level III information:						
Losses recognized in OCI		(14)	-		(14)	(14)
Total gains (losses) included in earnings before income taxes		(5)	843		838	838
Unrealized gains included in earnings before income taxes related to net assets held at Sept. 30, 2012		-	1,157		1,157	1,157

II. Other Risk Management Assets and Liabilities

Other risk management assets and liabilities include risk management assets and liabilities that are used in both hedge and non-hedge foreign exchange or interest rate risk management transactions.

The following tables summarize the key factors impacting the fair value of the net risk management assets and liabilities by classification level during the nine months ended Sept. 30, 2013 and 2012, respectively:

	Cash flow hedges	
	Level II	**Total**
Net risk management assets at Dec. 31, 2012	675	**675**
Changes attributable to:		
New contracts	11	**11**
Contracts settled	(675)	**(675)**
Net risk management assets at Sept. 30, 2013	11	**11**

	Cash flow hedges	
	Level II	Total
Net risk management liabilities at Dec. 31, 2011	(5,622)	(5,622)
Changes attributable to:		
Market price changes on existing contracts	(514)	(514)
New contracts	20	20
Contracts settled	5,147	5,147
Net risk management liabilities at Sept. 30, 2012	(969)	(969)

III. Cash Flow Hedges

Commodity Risk Management

The Corporation has entered into various contracts for differences ("CFDs") with other parties whereby the other parties have agreed to pay to the Corporation a contracted power price for an aggregate of approximately 33,270 megawatt hours ("MWh") per year of electricity, maturing from 2013 to 2019.

During the three and nine months ended Sept. 30, 2013, nil and $0.1 million of pre-tax gains (Sept. 30, 2012 – nil and nil) were reclassified from accumulated other comprehensive income to net earnings due to the de-designation of certain hedges.

Other Risk Management

During the period the Corporation entered into a foreign currency cash flow hedge on the U.S $20 million CHD debenture.

D. Nature and Extent of Risks Arising from Financial Instruments

The following discussion is limited to the nature and extent of risks arising from financial instruments.

I. Credit Risk

Credit risk is the risk that customers or counterparties will cause a financial loss for the Corporation by failing to discharge their obligations, and the risk to the Corporation associated with changes in creditworthiness of entities with which commercial exposures exist. The Corporation actively manages its exposure to credit risk by assessing the ability of counterparties to fulfill their obligations under the related contracts prior to entering into such contracts. The Corporation makes detailed assessments of the credit quality of all counterparties and, where appropriate, obtains corporate guarantees, cash collateral, and/or letters of credit to support the ultimate collection of these receivables. For commodity trading, the Corporation sets strict credit limits for each counterparty and monitors exposures on a daily basis. If credit limits are exceeded, the Corporation will request collateral from the counterparty or halt trading activities with the counterparty.

The Corporation has limited exposure to credit risk, as the majority of its power sales contracts are with TransAlta Corporation, governments and large utility customers with extensive operations in British Columbia, Alberta, Ontario, and Québec. The counterparties to the financial derivative contracts described above are primarily municipal and provincial government agencies with strong credit ratings. Given the size of the counterparties, and the relative size of the CFD's, the counterparty credit risk is considered to be low. Historically, the Corporation has not had collection issues associated with its receivables and the aging of receivables is reviewed on a regular basis to ensure the timely collection of amounts owing to the Corporation.

The Corporation's maximum exposure to credit risk at Sept. 30, 2013, without taking into account collateral held or right of set-off, is represented by the current carrying amounts of accounts receivable and risk management assets as per the Condensed Consolidated Statements of Financial Position.

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. As at Sept. 30, 2013, all of the Corporation's counterparties were considered investment grade.

At Sept. 30, 2013, the Corporation had three unrelated counterparties whose net settlement position each accounted for greater than 10 per cent of the total trade receivables outstanding. The Corporation has evaluated the risk of default related to these counterparties to be minimal.

II. Liquidity Risk

Liquidity risk relates to the Corporation's ability to access capital to be used in commodity hedging, capital projects, debt refinancing, and general corporate purposes. The Corporation is focused on maintaining a strong financial position.

The Corporation manages its liquidity risk associated with its financial liabilities (primarily long-term debt and risk management liabilities) by utilizing cash flow generated from operations and borrowing arrangements with TransAlta. The Corporation is in compliance with all financial covenants relating to its debt obligations as at Sept. 30, 2013.

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

	2013	2014	2015	2016	2017	2018 and thereafter	Total
Accounts payable and accrued liabilities	40,800	-	-	-	-	-	**40,800**
Long-term debt	-	21,636	177,574	50,467	24,413	305,010	**579,100**
Net risk management (assets) liabilities	(50)	(2)	(7)	(1)	4	43	**(13)**
Interest on long-term debt [1]	5,589	30,003	25,553	19,109	17,441	15,626	**113,321**
Total	46,339	51,637	203,120	69,575	41,858	320,679	**733,208**

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

III. Currency Risk

From time to time, the Corporation conducts transactions in currencies other than its functional currency, such as the U.S. Dollar or the Euro. The Corporation manages these risks by entering into foreign currency cash flow hedges where considered necessary.

IV. Interest Rate Risk

All of the Corporation's long-term debt, as described in Note 15, is comprised of fixed interest rate debt and, as such, the Corporation is not exposed to interest rate risk.

The Corporation's interest rate risk management strategy is to minimize cash flow volatility due to interest rate risk by ensuring all of its long-term debt has fixed interest rates.

V. Market Risk

The Corporation has exposure to movements in certain commodity prices related to its CFDs, which are impacted by changes in the forward price of electricity in Alberta. Changes in market prices associated with cash flow hedges do not affect net earnings in the period in which the price change occurs. Instead, changes in fair value are deferred through OCI until settlement.

Value at Risk ("VaR") is the most commonly used metric employed to track and manage the market risk associated with commodity and other derivatives. A VaR measure gives, for a specific confidence level, an estimated maximum pre-tax loss that could be incurred over a specified period. VaR is used to determine the potential change in value of the Corporation's risk management assets and liabilities, over a three day period within a 95 per cent confidence level, resulting from normal market fluctuations. VaR is estimated using the historical variance/covariance approach. VaR associated with the Corporation's net commodity risk management assets and liabilities at Sept. 30, 2013 was nil (Dec. 31, 2012 - $0.2 million).

12. PROPERTY, PLANT, AND EQUIPMENT

The changes in the cost of major categories of property, plant, and equipment and related accumulated depreciation are as follows:

	Hydro generation	Wind generation	Assets under construction[1]	Capital spares and other	Total
Cost					
As at Dec. 31, 2012	253,131	1,735,493	188,884	6,610	2,184,118
Additions	5	-	34,470	537	35,012
Retirements	(438)	(98)	-	-	(536)
Revisions and additions to decommissioning costs	(253)	1,245	-	-	992
Impairments	(3,663)	-	-	-	(3,663)
Revaluation[2]	(3,804)	(201,999)	-	-	(205,803)
Transfers	1,256	218,835	(220,091)	-	-
As at Sept. 30, 2013	**246,234**	**1,753,476**	**3,263**	**7,147**	**2,010,120**
Accumulated depreciation					
As at Dec. 31, 2012	44,296	201,325	-	-	245,621
Depreciation	5,313	44,660	-	-	49,973
Retirements	(29)	(27)	-	-	(56)
As at Sept. 30, 2013	**49,580**	**245,958**	**-**	**-**	**295,538**
Carrying amount					
As at Dec. 31, 2012	208,835	1,534,168	188,884	6,610	1,938,497
As at Sept. 30, 2013	**196,654**	**1,507,518**	**3,263**	**7,147**	**1,714,582**

(1) Comprised primarily of costs relating to New Richmond which was commissioned in March 2013.

(2) On acquisition, the carrying amount of certain wind and hydroelectric facilities were revalued by the Corporation based on the TransAlta PPA's (see Note 2).

For the three and nine months ended Sept. 30, 2013, nil and $2.1 million (Sept. 30, 2012 - $1.3 million and $2.4 million), respectively, of interest was capitalized to PP&E at a weighted average rate of nil and 5.46 per cent (Sept. 30, 2012 - 5.43 per cent and 5.39 per cent), respectively.

The Corporation has transmission connection facilities for Kent Hills that are leased under a finance lease (see Note 14). The net carrying amount included in wind generation as at Sept. 30, 2013 was $5.3 million (Dec. 31, 2012 - $5.5 million).

13. INTANGIBLE ASSETS

The Corporation's intangible assets are comprised primarily of values associated with certain power contracts that arose on TransAlta's acquisition of CHD whereby the market price of electricity to be delivered under the contracts exceeded the contracted price. These intangible assets are being amortized over the terms of the related power contracts.

14. OTHER ASSETS

Other assets are comprised of the following:

As at	Sept. 30, 2013	Dec. 31, 2012
Prepaid transmission costs	**3,071**	3,120
Long-term prepaids and other	**-**	1,813
Total	**3,071**	4,933

Prepaid transmission costs relate to amounts paid in advance under the finance lease arrangement for the transmission connection facilities (see Note 12).

15. LONG-TERM DEBT

A. Amounts Outstanding

As at	Sept. 30, 2013			Dec. 31, 2012		
	Carrying value	**Face value**	**Interest[1]**	Carrying value	Face value	Interest[1]
Unsecured debentures	**339,824**	**344,100**	**5.91%**	338,069	343,404	5.90%
Secured debenture	**34,781**	**35,000**	**5.28%**	34,664	35,000	5.28%
Amortizing term loan	**200,000**	**200,000**	**4.00%**	-	-	-
	574,605	**579,100**		372,733	378,404	
Less: current portion	**(21,636)**	**(21,636)**		-	-	
Total long-term debt	**552,969**	**557,464**		372,733	378,404	

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

On Aug. 9, 2013, the Corporation issued a $200.0 million Amortizing Term Loan in favour of TransAlta as partial consideration for the acquisition of wind and hydroelectric generating assets from TransAlta (see Note 2(A)). The loan has a term of eight years, bears interest at 4.0 per cent, with principal and interest payable semi-annually.

Unsecured Debentures bear interest at fixed rates ranging from 5.33 per cent to 7.31 per cent, with interest payable semi-annually and no principal repayments until maturity, which ranges from 2015 to 2018. These debentures are unsecured. Included in this amount is $20.6 million (Dec. 31, 2012 - $19.9 million) of Series 5 debentures which have a principal amount of U.S.$20.0 million.

Secured Debenture bears interest at 5.28 per cent, with interest payable semi-annually and no principal repayments until maturity in February 2015, and is secured by the Pingston hydroelectric facility, without recourse to joint venture participants.

B. Restrictions

Unsecured debentures include restrictive covenants requiring the proceeds received from the sale of assets to be reinvested into similar renewable assets.

16. DECOMMISSIONING AND RESTORATION PROVISION

The change in the decommissioning and restoration provision balance is outlined below:

	Decommissioning and restoration
Balance, Dec. 31, 2012	10,945
Liabilities incurred in period	1,391
Accretion of provisions *(Note 7)*	640
Revisions in discount rate	(399)
Balance, Sept. 30, 2013	**12,577**

A decommissioning and restoration provision has been recognized for all generating facilities for which the Corporation is legally, or constructively, required to remove the facilities at the end of their useful lives and restore the sites to their original condition. The Corporation estimates that the undiscounted amount of cash flow required to settle the decommissioning and restoration obligations is approximately $133.0 million which will be incurred between 2029 and 2060. The majority of the costs will be incurred between 2030 and 2050. A discount rate of 7.0 per cent and an inflation rate 2.3 per cent were used to calculate the carrying value of the decommissioning and restoration provision.

17. DEFERRED REVENUES

Deferred revenue primarily consists of a payment received under an Electricity Purchase Agreement for the option, by the purchaser, to extend the term of the contract. This amount is being amortized on a straight-line basis into revenue over the original term of the contract.

18. COMMON SHARES

A. Authorized and Outstanding

The Corporation is authorized to issue an unlimited number of common shares 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.

The Corporation's issued and outstanding common shares are as follows:

	3 months ended Sept. 30, 2013	
	Common shares *(millions)*	**Amount** *(thousands)*
Issued and outstanding, beginning of period	-	-
Issued on acquisition of Acquired Assets	**66.7**	**666,667**
Issued on settlement of Acquisition Note	**0.9**	**9,000**
Issued on settlement of Short Term Note	**25.0**	**250,000**
Valuation adjustments[1]	-	**87,755**
Shares issued to parent	**92.6**	**1,013,422**
Initial public offering, including underwriters' over-allotment[2]	**22.1**	**210,423**
Issued and outstanding, end of period	**114.7**	**1,223,845**

(1) Arises due to the use of the continuity of interest method of accounting.

(2) Net of after-tax issuance costs of $10.6 million ($14.1 million issuance costs, less tax-effects of $3.5 million).

B. Dividends

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

On Aug. 9, 2013, the Board declared a dividend in the amount of $0.04726 per common share for the period from Aug. 9, 2013 to Aug. 31, 2013 paid on Sept. 30, 2013 for shareholders of record at the close of business on Sept. 3, 2013.

On the same date, the Board also declared dividends of $0.0625 per common share payable on Oct. 31, 2013 for shareholders of record at the close of business on Oct. 1, 2013, and on Nov. 29, 2013 for shareholders of record at the close of business on Nov. 1, 2013.

During the three months ended Sept. 30, 2013, total dividends of $15.9 million were declared on common shares owned by TransAlta, of which $4.4 million was paid in the period.

C. Earnings Per Share

Basic earnings per share is based on net income attributable to the common shareholders and is calculated based upon the weighted-average number of common shares outstanding during the periods presented. For comparative purposes, the Corporation's common shares issued under the Offering, including the Over-Allotment Option, have been assumed to be outstanding as of the beginning of each period, including periods prior to the Acquisition, presented. The Corporation has no dilutive or potentially dilutive instruments.

19. CHANGES IN NON-CASH OPERATING WORKING CAPITAL

	3 months ended Sept. 30		9 months ended Sept. 30	
	2013	2012	**2013**	2012
Source (use):				
Accounts receivable	**(20,569)**	3,067	**(4,236)**	6,592
Prepaid expenses	**(2,701)**	1,637	**(4,412)**	(274)
Inventory	**(28)**	(42)	**43**	(99)
Income taxes receivable	**2**	(346)	**(179)**	(346)
Accounts payable and accrued liabilities	**26,740**	(2,338)	**23,226**	(12,402)
Income taxes payable	**(89)**	(19)	**832**	-
Other	**(118)**	10	**(26)**	104
Change in non-cash operating working capital	**3,237**	1,969	**15,248**	(6,425)

20. JOINT OPERATIONS

The Corporation's joint operations at Sept. 30, 2013 include the following:

Joint operations	Ownership *(per cent)*	Description
Soderglen	50	Wind generation facilities in Alberta operated by the Corporation
Pingston	50	Hydro facility in British Columbia operated by the Corporation
McBride Lake	50	Wind generation facilities in Alberta operated by the Corporation

21. COMMITMENTS AND CONTINGENCIES

A. Contracts for Differences

The Corporation has entered into various CFDs with other parties whereby the other parties have agreed to pay to the Corporation a contracted power price for an aggregate of approximately 33,270 MWh per year of electricity, maturing from 2013 to 2019.

B. Contracts for Goods and Services

In the ordinary course of operations, the Corporation routinely enters into contracts for goods and services. The Corporation has several long-term service agreements in place for repairs and maintenance that may be required on turbines at wind facilities, including a 15 year agreement related to the recently commissioned New Richmond facility that requires future payments over the term of approximately $42.0 million. In addition, as outlined in Note 22, the Corporation has entered into an agreement with TransAlta for general administrative services for a fixed fee of $10.0 million per annum (see Note 22).

C. 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 significant enough to require disclosure.

22. RELATED PARTIES TRANSACTIONS AND BALANCES

Prior to the Aug. 9, 2013 acquisition of the Acquired Assets and separation of TransAlta Renewables as a stand-alone public entity, the Acquired Assets were historically managed and operated in the normal course of business by TransAlta along with other TransAlta operations and affiliates and not as a separate business.

After the Acquisition, the Corporation entered into certain agreements and transactions with TransAlta as follows:

A. Management, Administrative and Operational Services Agreement (the "Management and Operational Services Agreement")

Under the Management and Operational Services Agreement, TransAlta provides all the general administrative services as may be required or advisable for the management of the affairs of the Corporation. As compensation for the services provided, the Corporation will pay TransAlta a fee (the "G&A Reimbursement Fee") equal to $10.0 million per annum, adjusted annually for changes in the Consumer Price Index ("CPI"). The G&A Reimbursement Fee is payable in equal quarterly installments. The G&A Reimbursement Fee will be increased or decreased by an amount equal to 5.0 per cent of the amount of any increases or decreases, respectively, to the Corporation's total Earnings Before Interest, Taxes, Depreciation, and Amortization resulting from the addition or divestiture of assets by the Corporation.

During the three and nine months ended Sept. 30, 2013, a pro-rated amount of $1.5 million was recognized as an OM&A expense by the Corporation for the G&A Reimbursement Fee.

TransAlta also provides operational and maintenance services under the Management and Operational Services Agreement, which generally includes all services as may be necessary or requested for the operation and maintenance of the Corporation's wind and hydro facilities. TransAlta will be reimbursed for all out-of-pocket and third party fees and costs, including salaries, wages and benefits associated with managing and operating the facilities not captured by the G&A Reimbursement Fee.

The Management and Operational Services Agreement has an initial 20 year term, which is automatically renewed for further successive terms of five years after the expiry of the initial term or any renewal term, unless terminated by either party.

B. TransAlta PPAs

On Aug. 9, 2013, the Corporation entered into agreements for each of its merchant wind and hydroelectric facilities, providing for the purchase by TransAlta, for a fixed price, of all of the power produced by such merchant facilities. The price payable by TransAlta for output under the TransAlta PPAs is $30.00 per MWh for wind facilities and $45.00 per MWh for hydroelectric facilities, which amounts will be adjusted annually for changes in the CPI. TransAlta is required to only purchase power that is actually produced. Each TransAlta PPA has a term of 20 years or end of asset life, where end of asset life is less than 20 years.

During the three and nine months ended Sept. 30, 2013, $3.9 million was recognized as Revenue by the Corporation for power sold pursuant to the TransAlta PPAs.

C. Working Capital Credit Facility

The Corporation entered into a $100.0 million unsecured working capital credit facility ("WC Facility") with TransAlta as the lender. Borrowings under the WC Facility bear interest at the Bankers' Acceptance Rate plus a 200 basis point credit spread per annum. Currently, the borrowing rate is approximately 3.25 per cent. The WC Facility will be made available for general corporate purposes including financing and working capital requirements.

As at Sept. 30, 2013, no amounts have been drawn under the WC Facility.

D. Amortizing Term Loan

The Corporation issued a $200.0 million Amortizing Term Loan in favour of TransAlta (see Note 15).

During the three and nine months ended Sept. 30, 2013, $1.2 million was recognized as interest expense by the Corporation related to borrowings under the Amortizing Term Loan (see Note 7).

E. Trade Accounts Receivable and Payable

At Sept. 30, 2013, $27.5 million (Dec. 31, 2012 - $1.0 million) and $20.8 million (Dec. 31, 2012 - $3.1 million) was included in accounts receivable and accounts payable, respectively, related to power sales, operating costs, and capital expenditures due from or to TransAlta or other subsidiaries of TransAlta.

F. Letters of Credit

TransAlta has provided letters of credits on behalf of the Corporation. Any amounts owed by the Corporation for obligations under the contracts to which the letters of credit pertain are reflected in the Condensed Consolidated Statements of Financial Position. All letters of credit expire within one year and are expected to be renewed, as needed, in the normal course of business. The total outstanding letters of credit as at Sept. 30, 2013 was $4.5 million (Dec. 31, 2012 - $5.8 million) with nil (Dec. 31, 2012 - nil) amounts exercised by third parties under these arrangements. The Corporation pays the associated interest and fees on these letters of credit (see Note 7).

G. Guarantees

TransAlta has entered into guarantee agreements totalling $226.5 million on behalf of the Corporation. Two guarantees totalling $206.0 million relate to the New Richmond wind facility. If the Corporation does not perform under the accompanying agreements, the counterparty may present claim for payment from TransAlta. The Corporation pays the associated interest and fees on these guarantees (see Note 7).

H. Pension and Other Post-Employment Benefit Plans

The Corporation does not sponsor any pension, post-employment, or employee savings plans. However, employees of TransAlta providing operational services to the Corporation participate in certain funded final salary pension plans sponsored by TransAlta. TransAlta also provides other health and dental plans to its retired employees. There is no contractual agreement or stated policy between the Corporation and TransAlta for charging the net defined benefit costs. The net periodic benefit costs associated with employees that are beneficiaries of pensions and other employment plans are included in the reimbursement to TransAlta of operational and maintenance costs under the Management and Operational Services Agreement. These costs are included in OM&A expenses in the Condensed Consolidated Statements of Earnings.

All obligations pursuant to these plans are obligations of TransAlta and as such are not included in the Corporation's Condensed Consolidated Statements of Financial Position. The Parent contributes to these plans. The amount contributed to these plans by the Parent on the Corporation's behalf cannot be determined.

I. Financial Instruments and Derivatives

Financial instruments and derivatives that relate to the Corporation are entered into on behalf of the Corporation by another TransAlta entity.

23. PRE-ACQUISITION RELATIONSHIP WITH PARENT

The Acquired Assets have historically been managed and operated in the normal course of business by TransAlta along with other TransAlta operations and affiliates. Financial statements have not historically been prepared by TransAlta for the Acquired Assets as they had not been operated as a separate business. Certain shared costs have been allocated to the Acquired Assets and reflected as expenses in the pre-Acquisition period financial statements. Management of TransAlta and the Corporation consider the allocation methodologies used to be reasonable and appropriate reflections of the related expenses attributable to the Acquired Assets, however, the expenses reflected in the pre-Acquisition period financial statements may not be indicative of the actual expenses that would have been incurred during the periods presented if the Corporation historically operated as a separate entity. In addition, the expenses reflected in the pre-Acquisition period financial statements may not be indicative of expenses that will be incurred in the future by the Corporation. Transactions between TransAlta and the Acquired Assets prior to the Acquisition have been identified as related party transactions in the pre-Acquisition period financial statements. It is possible that the terms of the transactions with TransAlta and its affiliates are not the same as those that would result from transactions among unrelated parties. In the opinion of TransAlta's management, all adjustments have been reflected that are necessary for a fair presentation of the pre-Acquisition period financial statements. Additional information related to the preparation of the pre-Acquisition period financial statements is as follows:

A. Net Parental Investment

TransAlta's net investment in the Acquired Assets is presented as "Net parental investment" and is shown in lieu of shareholders' equity in the pre-Acquisition period financial statements as there was no share ownership relationship between TransAlta and the Acquired Assets (as the Acquired Assets were not a separate legal entity). Changes in net parental investment include net cash transfers and other transfers to and from the Parent and the Acquired Assets.

B. Cash Management

The Acquired Assets historically participated in TransAlta's centralized cash management programs. For certain of the Acquired Assets, cash receipts were received and disbursements were made by the Parent, with any excess cash being retained by TransAlta. Changes in the net cash retained by the Parent for these facilities are, for purposes of the pre-Acquisition period financial statements, reflected through Net Transfers from Parent on the Condensed Consolidated Statements of Changes in Equity. For the remaining operating facilities, cash receipts and disbursements were managed directly by the company that owned the facility, and cash not required for near-term operating requirements was transferred to centralized bank accounts, maintained by TransAlta. For these operating facilities, cash transfers to and from the Parent were recorded through the Senior Loan, which is discussed below under Related Party Loans. Cash retained by TransAlta on behalf of the Acquired Assets was not kept in specific separate accounts and was instead comingled with cash from other TransAlta entities.

After the Acquisition, cash generated by TransAlta Renewables is maintained in separate accounts owned by TransAlta Renewables, and not commingled with cash from other TransAlta entities. Credit support is provided to TransAlta Renewables by TransAlta through the WC Facility.

C. Allocation of Corporate Costs

Allocated costs include TransAlta charges including, but not limited to: corporate accounting, human resources, government affairs, information technology, shared real estate expenses, treasury, pension and other post-employment benefits, and legal. These costs are included in OM&A expenses. The costs were allocated to the Acquired Assets based on gigawatt hours of production. Note that these expenses may have been different had the Acquired Assets been a separate entity during the periods presented. For the three and nine months ended Sept. 30, 2013, these pre-tax costs were $0.2 million and $3.5 million, respectively. For the three and nine months ended Sept. 30, 2012, these pre-tax costs were $1.3 million and $6.0 million, respectively.

After the Acquisition, these costs form part of the G&A Reimbursement Fee.

D. Income Taxes

TransAlta's historic consolidated financial statements included the operations of the Acquired Assets. For purposes of the financial statements prior to the Acquisition, current and deferred taxes for certain of the Acquired Assets that were not held in separate legal entities, were computed and reported on a "legal entity" basis. Income taxes as presented herein represent an allocation of current and deferred income taxes of TransAlta to the Acquired Assets in a manner that is systematic, rational, and consistent with the asset and liability method prescribed by IFRS. Under the liability method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards. Accordingly, the sum of the amounts allocated to the Acquired Assets' tax provisions may not equal the historical consolidated provision. Current and deferred income taxes for those Acquired assets that were held in separate legal entities represent the income taxes related to that separate legal entity, including deferred income tax assets recognized for the benefit expected from losses available for carry forward to the extent that is probable that future taxable earnings will be available against which the losses can be applied.

After the Acquisition, current and deferred income taxes are computed and reported on the basis of the legal entities that comprise the consolidated group.

E. Pension and Other Post-Employment Benefit Plans

The Corporation does not sponsor any pension, post-employment, or employee savings plan. However, the employees of TransAlta providing operational services to the Acquired Assets participated in certain funded final salary pension plans sponsored by TransAlta. TransAlta also provides other health and dental plans to its retired employees. There is no contractual agreement or stated policy between the Acquired Assets and TransAlta for charging the net defined benefit costs (note that the Acquired Assets comprised parts of multiple legal entities).

All obligations pursuant to these plans are obligations of TransAlta and as such are not included in the pre-Acquisition period financial statements. TransAlta allocated to the Acquired Assets, the net periodic benefit costs associated with employees that are beneficiaries of pensions and other employment plans. These costs are included in OM&A expenses in the pre-Acquisition period financial statements.

After the Acquisition date, these costs are included in the reimbursement to TransAlta of operational and maintenance costs under the Management and Operational Services Agreement.

F. Financial Instruments and Derivatives

Financial instruments and derivatives that related to the Acquired Assets were entered into on behalf of the Acquired Assets by another TransAlta entity.

G. Related Party Loans

Prior to the Acquisition, borrowing agreements existed between the Corporation's CHD subsidiary and TransAlta or certain subsidiaries of TransAlta. All loans were non-interest bearing and due on demand. The amounts receivable (payable) are shown below:

As at	**Sept. 30, 2013**	Dec. 31, 2012
Senior loan with TransAlta[1]	-	14,254
Loan with TransAlta subsidiary[2]	-	117,811
Loan with TransAlta subsidiary[3]	-	(894)

(1) Maximum amount of $300 million.

(2) Maximum amount of $150 million.

(3) Maximum amount of $20 million.

Coincident with the Acquisition, these loans have been reclassified against Net parental investment, or paid out in cash.

24. SUBSEQUENT EVENTS

On Oct. 21, 2013, TransAlta Renewables announced the acquisition, through TransAlta, of the economic interest in a 144 megawatt wind farm in Wyoming from an affiliate of NextEra Energy Resources, LLC. The wind farm is fully operational and contracted under a long-term PPA until 2028 with an investment grade counterparty. TransAlta Renewables will fund the acquisition through a U.S.$102 million loan from TransAlta. The acquisition is subject to regulatory approvals and is expected to close by the end of December 2013.

GLOSSARY OF KEY TERMS

Amortizing Term Loan - A $200 million, unsecured, Amortizing Term Loan from TransAlta.

Availability - A measure of the time, expressed as a percentage of continuous operation 24 hours a day, 365 days a year that a generating unit is capable of generating electricity, regardless of whether or not it is actually generating electricity.

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

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

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

Greenhouse Gas (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.

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

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

Power Purchase Arrangement (PPA) - A long-term arrangement established by regulation for the sale of electric energy from formerly regulated generating units to PPA Buyers.

Renewable Power - Power generated from renewable terrestrial mechanisms including wind, geothermal, and solar with regeneration.

TransAlta PPA - a PPA to be entered into on or before Closing between TransAlta and a Merchant Subsidiary in respect of the Merchant Facilities owned by such Merchant Subsidiary.

Turnaround: Periodic planned shutdown of a generating unit for major maintenance and repairs. Duration is normally in weeks. The time is measured from unit shutdown to putting the unit back on line.

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

Uprate - To increase the rated electrical capability of a power generating facility or unit.

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

Website
www.transaltarenewables.com

CIBC Mellon Trust Company
P.O. Box 7010 Adelaide Street Station
Toronto, Ontario Canada M5C 2W9
Phone
Toll-free in North America: 1.800.387.0825
Toronto or outside North America: 416.643.5500
Fax
416.643.5501
Website
www.cibcmellon.com

FOR MORE INFORMATION

Media and Investor Inquiries
Investor Relations
Phone
1.800.387.3598 in Canada and United States
or 403.267.2520
Fax
403.267.2590
E-mail
investor_relations@transalta.com