MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements of TransAlta Renewables Inc. as at and for the three and nine months ended Sept. 30, 2014 and 2013 and should also be read in conjunction with the audited consolidated financial statements and MD&A contained within our 2013 Annual Report. In this MD&A, unless the context otherwise requires, 'we', 'our', 'us', 'TransAlta Renewables', and the 'Corporation' refer to TransAlta Renewables Inc. and 'TransAlta' refers to TransAlta Corporation and its subsidiaries. All dollar amounts in the tables presented in this MD&A are in thousands of Canadian dollars, unless otherwise noted. The condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standard ("IFRS") IAS 34 *Interim Financial Reporting*. 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. 31, 2014. Additional information respecting the Corporation is available on SEDAR at www.sedar.com and on our website at www.transaltarenewables.com.

OPERATIONS OF THE CORPORATION

On Aug. 9, 2013, we indirectly acquired 28 wind and hydroelectric ("hydro") generating assets (the "Acquired Assets") from TransAlta (the "Acquisition") and completed an initial public offering ("IPO") of 22.1 million common shares. Prior to that, we had no active operations. On Dec. 20, 2013, we completed the acquisition of an economic interest in a wind farm in Wyoming ("Wyoming Wind Farm"). Please refer to the Significant Events section of our 2013 Annual MD&A for more information.

RESULTS OF OPERATIONS

The results of operations are presented on a consolidated basis. The results of operations for periods prior to the Acquisition on Aug. 9, 2013, included in the comparative results for the three and nine months ended Sept. 30, 2013, have been prepared in accordance with IFRS using consistent accounting policies as those outlined in Note 2 of our 2013 audited consolidated financial statements. Historically, financial statements had not been prepared 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 on Aug. 9, 2013, 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. 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. Similarly, non-IFRS measures for those same periods also do not purport to reflect what these might have been had the Acquired Assets existed as a separate business. For purposes of presenting comparative amounts per share, the Corporation's common shares issued under its IPO have been assumed to be outstanding as of the beginning of each period presented. We have no dilutive or potentially dilutive instruments.

HIGHLIGHTS

Consolidated Highlights

	3 months ended Sept. 30		9 months ended Sept. 30	
	2014	2013	**2014**	2013
Production (GWh)(1)	**612**	543	**2,336**	2,043
Revenues	**42,596**	43,535	**160,574**	175,392
Operating income(2)	**9,467**	9,105	**57,485**	71,176
Comparable operating income(3)	**9,682**	12,768	**63,924**	74,839
Net earnings (loss) attributable to common shareholders(4)	**(31)**	1,207	**26,993**	34,723
Comparable EBITDA(3)	**28,244**	29,092	**119,100**	130,669
Funds from operations(3)	**19,556**	21,935	**92,860**	108,890
Cash flow from operating activities	**17,318**	25,172	**98,310**	124,138
Cash available for distribution(3)	**6,131**	20,053	**45,902**	101,378
Net earnings per share attributable to common shareholders, basic and diluted(4)(5)	**-**	0.01	**0.24**	0.30
Comparable net earnings (loss) (3)(4)	**(31)**	3,954	**26,993**	37,470
Comparable net earnings per share(3)(4)	**-**	0.03	**0.24**	0.33
Funds from operations per share(3)(5)	**0.17**	0.19	**0.81**	0.95
Cash available for distribution per share(3)(5)	**0.05**	0.17	**0.40**	0.88
Dividends paid per common share(5)	**0.19**	0.05	**0.58**	0.05

As at	**Sept. 30, 2014**	Dec. 31, 2013
Total assets	**1,950,065**	2,013,638
Total long-term liabilities	**688,842**	846,724

Third Quarter Highlights

- Comparable earnings before interest, taxes, depreciation, and amortization ("EBITDA") and funds from operations ("FFO") decreased $0.8 million and $2.4 million, respectively, in the quarter, primarily due to the $1.8 million incremental cost of the G&A Reimbursement Fee and the impact of lower prices under the TransAlta PPAs compared to previous merchant prices in Western Canada, in line with the terms of the contracts established under the IPO in August 2013. Excluding the effects of the change in the contracts established under the IPO, comparable EBITDA increased $1.0 million and FFO decreased $0.6 million. The impacts of higher wind volumes and an adjustment to royalty and other revenue-based costs have been largely offset by the effects of lower water resource and higher outages at hydro facilities in Western Canada.

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(1) Includes production from our economic interest in the Wyoming Wind Farm for the three and nine months ended Sept. 30, 2014 of 54 GWh and 296 GWh, respectively (2013 – nil).

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

(3) 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.

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

(5) Amounts are presented in whole numbers to the nearest two decimals.

- Reported net earnings attributable to common shareholders was essentially nil ($0.00 per share) down from reported net earnings of $1.2 million ($0.01 per share) in 2013, primarily due to the increase in net interest expense and higher depreciation and amortization, partially offset by asset impairment charges in the prior year.
- Comparable net earnings attributable to common shareholders was essentially nil ($0.00 per share) down from comparable net earnings of $4.0 million ($0.03 per share) in 2013, primarily due to the increase in net interest expense and higher depreciation and amortization, partially offset by lower income tax expense.
- Production increased 69 gigawatt hours ("GWh") to 612 GWh compared to 2013, primarily due to our economic interest in the Wyoming Wind Farm and higher wind resource, partially offset by lower water resource, and higher outages at hydro facilities in Western Canada.

Year-To-Date Highlights

- Comparable EBITDA decreased $11.6 million and FFO decreased $16.0 million, compared to 2013, primarily due to a $20.4 million impact of lower prices under the TransAlta PPAs compared to previous merchant prices in Western Canada and the incremental cost of the G&A Reimbursement Fee, in line with the terms of the contracts established as part of the IPO in August, 2013. Excluding the effects of the change in the contracts established under the IPO, comparable EBITDA and FFO increased $8.8 million and $4.4 million, respectively. This increase is primarily due to a full nine months of production at New Richmond which commenced operations on March 13, 2013, higher wind volumes and contract price escalation at other Eastern Canada facilities, and dividend income from our investment in the Wyoming Wind preferred shares, partially offset by lower wind volumes, lower water resource and higher outages at hydro facilities in Western Canada.
- Reported net earnings attributable to common shareholders was $27.0 million ($0.24 per share) down from $34.7 million ($0.30 per share) in 2013, primarily due to the decrease in comparable EBITDA and an increase in net interest expense, partially offset by asset impairment charges in the prior year and lower tax expense.
- Comparable net earnings attributable to common shareholders was $27.0 million ($0.24 per share) down from $37.5 million ($0.33 per share) in 2013, primarily due to the decrease in comparable EBITDA and an increase in net interest expense, partially offset by lower tax expense.
- Production increased 293 GWh hours to 2,336 GWh compared to 2013, primarily due to our economic interest in the Wyoming Wind Farm, a full nine months of production at New Richmond, and higher wind volumes at other Eastern Canada facilities, partially offset by lower wind volumes in Western Canada, lower water resource, and higher outages at hydro facilities in Western Canada.

SIGNIFICANT EVENTS

Secondary offering of TransAlta Renewables shares by TransAlta

On April 29, 2014, TransAlta completed a secondary public offering of 11,950,000 common shares of the Corporation at a price of $11.40 per common share. As a result of the offering, TransAlta's ownership interest has been reduced from approximately 80.7 per cent to approximately 70.3 per cent. We did not receive any of the proceeds from the sale of common shares, as these shares were owned and held by TransAlta.

OPERATIONAL RESULTS

TransAlta Renewables owns and operates wind farms and hydro facilities in Western and Eastern Canada and holds an economic interest in the Wyoming Wind Farm. At Sept. 30, 2014, our generating assets had 1,283 megawatt ("MW") of gross generating capacity[(1)] in operation (1,255 MW net interest[(1)]). The full capacity of the facilities in which we have an interest is 1,376 MW[(1)].

The results of operations are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2014	2013	**2014**	2013
Revenues	**33,533**	32,312	**128,138**	144,642
Government incentives	**3,885**	3,542	**15,050**	15,547
Lease revenue[(2)]	**5,178**	7,681	**17,386**	15,203
Total revenue	**42,596**	43,535	**160,574**	175,392
Royalties and other	**1,332**	2,528	**8,826**	9,854
Comparable gross margin[(3)]	**41,264**	41,007	**151,748**	165,538
Operations, maintenance, and administration	**11,458**	10,015	**33,686**	29,326
Taxes, other than income taxes	**1,777**	1,900	**5,401**	5,543
Dividend income from investment in preferred shares	**(215)**	-	**(6,439)**	-
Comparable EBITDA[(3)]	**28,244**	29,092	**119,100**	130,669
Depreciation and amortization	**18,562**	16,324	**55,176**	55,830
Comparable operating income[(3)]	**9,682**	12,768	**63,924**	74,839
Production (GWh)[(4)]	**612**	543	**2,336**	2,043
Gross installed capacity (MW)[(1)]	**1,283**	1,139	**1,283**	1,139
Net installed capacity (MW)[(1)]	**1,255**	1,111	**1,255**	1,111

Comparable gross margin for the three months ended Sept. 30, 2014 increased by $0.3 million compared to the same period in 2013, factoring in a $0.9 million impact of lower prices under the TransAlta PPAs compared to previous merchant prices in Western Canada, in line with the terms of the contracts established as part of the IPO in August, 2013. Excluding the effects of the change in contracts established under the IPO, comparable gross margin increased $1.2 million. The increase is primarily due to higher wind volumes to an adjustment to royalty and other revenue-based costs, partially offset by lower water resource, and higher outages at hydro facilities in Western Canada.

For the nine months ended Sept. 30, 2014, comparable gross margin decreased by $13.8 million compared to the same period in 2013, primarily due to a $17.6 million impact of lower prices under the TransAlta PPAs compared to previous merchant prices in Western Canada, in line with the terms of the contracts established as part of the IPO in August, 2013. Excluding the effects of the change in contracts established under the IPO, comparable gross margin increased $3.8 million. This increase is primarily due to a full nine months of production at New Richmond which commenced operations on March 13, 2013 and higher wind volumes and contract price escalation at other Eastern Canada facilities, partially offset by lower wind volumes, lower water resource, and higher outages at hydro facilities in Western Canada.

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(1) We measure capacity as net maximum capacity (see Glossary of Key Terms for definition of this and other key terms), which is consistent with industry standards. Capacity figures represent capacity in operation unless otherwise stated. Gross capacity reflects the basis of consolidation of underlying assets owned, plus those in which we hold an economic interest. Net capacity deducts capacity attributable to non-controlling interest in these assets.

(2) Under IFRS the agreements for the sale of electrical energy for the Akolkolex, Bone Creek, and New Richmond facilities are considered operating leases. Accordingly, revenues earned for sale of electrical energy produced by these facilities are reported as lease revenue.

(3) 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.

(4) Includes production from our economic interest in the Wyoming Wind Farm for the three and nine months ended Sept. 30, 2014 of 54 GWh and 296 GWh, respectively (2013 – nil).

Operations, maintenance, and administration (“OM&A”) expense for the three and nine months ended Sept. 30, 2014 increased $1.4 million and $4.4 million, respectively, compared to the same periods in 2013, primarily due to a net increase in corporate costs under the G&A Reimbursement Fee that came into effect upon formation of the Corporation in August 2013.

Dividend income from the investment in preferred shares associated with the Wyoming Wind Farm, acquired in December 2013, for the three and nine months ended Sept. 30, 2014, is $0.2 million and $6.4 million, respectively.

Production and Gross Margins

3 months ended Sept. 30, 2014	**Gross installed capacity (MW)(1)**	**Production (GWh)(1)**	**Revenues**	**Royalties and other**	**Gross margin**	**Revenues per produced MWh(2)**	**Royalties and other per produced MWh(2)**	**Gross margin per produced MWh(2)**
Western Canada wind	**418**	**164**	**6,824**	**(735)**	**7,559**	**41.61**	**(4.48)**	**46.09**
Eastern Canada wind	**616**	**282**	**28,958**	**1,481**	**27,477**	**102.69**	**5.25**	**97.44**
Hydro	**105**	**112**	**6,814**	**586**	**6,228**	**60.84**	**5.23**	**55.61**
	1,139	**558**	**42,596**	**1,332**	**41,264**	**76.34**	**2.39**	**73.95**

3 months ended Sept. 30, 2013	Gross installed capacity (MW)	Production (GWh)	Revenues	Royalties and other	Gross margin	Revenues per produced MWh(2)	Royalties and other per produced MWh(2)	Gross margin per produced MWh(2)
Western Canada wind	418	149	6,704	767	5,937	44.99	5.15	39.84
Eastern Canada wind	616	252	25,836	1,121	24,715	102.52	4.45	98.07
Hydro	105	142	10,995	640	10,355	77.43	4.51	72.92
	1,139	543	43,535	2,528	41,007	80.17	4.66	75.51

9 months ended Sept. 30, 2014	**Gross installed capacity (MW)(1)**	**Production (GWh)(1)**	**Revenues**	**Royalties and other**	**Gross margin**	**Revenues per produced MWh(2)**	**Royalties and other per produced MWh(2)**	**Gross margin per produced MWh(2)**
Western Canada wind	**418**	**668**	**29,539**	**1,422**	**28,117**	**44.22**	**2.13**	**42.09**
Eastern Canada wind	**616**	**1,121**	**115,382**	**5,977**	**109,405**	**102.93**	**5.33**	**97.60**
Hydro	**105**	**251**	**15,653**	**1,427**	**14,226**	**62.36**	**5.69**	**56.67**
	1,139	**2,040**	**160,574**	**8,826**	**151,748**	**78.71**	**4.33**	**74.38**

9 months ended Sept. 30, 2013	Gross installed capacity (MW)	Production (GWh)	Revenues	Royalties and other	Gross margin	Revenues per produced MWh(2)	Royalties and other per produced MWh(2)	Gross margin per produced MWh(2)
Western Canada wind	418	739	51,607	3,970	47,637	69.83	5.37	64.46
Eastern Canada wind	616	987	100,288	4,422	95,866	101.61	4.48	97.13
Hydro	105	317	23,497	1,462	22,035	74.12	4.61	69.51
	1,139	2,043	175,392	9,854	165,538	85.85	4.82	81.03

Western Canada Wind

Our Western Canada wind assets consist of 10 facilities with a total gross and net generating capacity of 418 MW.

Production for the three months ended Sept. 30, 2014 increased 15 GWh compared to the same period in 2013 due to higher wind volumes.

For the nine months ended Sept. 30, 2014, production decreased 71 GWh compared to the same period in 2013, primarily due to lower wind volumes.

(1) Excludes capacity and production from the Wyoming Wind Farm.

(2) The amounts per MWh are presented in whole dollars to the nearest two decimals.

Gross margin for the three months ended Sept. 30, 2014 increased $1.6 million compared to the same period in 2013, primarily due to the royalty and other revenue-based costs adjustment made in the quarter and higher production, partially offset by lower prices under the TransAlta PPAs compared to previous merchant prices. The royalty and other revenue based costs adjustment aligns revenue-based costs with the revenue base of the TransAlta PPAs for the period since August 9, 2013.

For the nine months ended Sept. 30, 2014, gross margin decreased $19.5 million compared to the same period in 2013, primarily due to lower prices under the TransAlta PPAs compared to the previous merchant prices, lower revenue and government incentives in relation to reduced production, and lower emission reduction credit sales, partially offset by the royalty and other revenue-based costs adjustments on TransAlta PPAs.

Eastern Canada Wind

Our Eastern Canada wind assets consist of 6 facilities with a total gross generating capacity of 616 MW (591 MW net ownership interest).

Production for the three months ended Sept. 30, 2014 increased 30 GWh compared to the same period in 2013, primarily due to higher wind volumes.

For the nine months ended Sept. 30, 2014, production increased 134 GWh compared to the same period in 2013, primarily due to higher wind volumes and a full nine months of production at New Richmond.

Gross margin for the three months ended Sept. 30, 2014 increased $2.8 million compared to the same period in 2013, primarily due to higher production.

For the nine months ended Sept. 30, 2014, gross margin increased $13.5 million compared to the same period in 2013, primarily due to higher production, higher government incentives in relation to increased production, and contract price escalations, partially offset by higher royalties.

Hydro

Our Hydro assets consist of 12 facilities with a total gross and net generating capacity of 105 MW.

Production for the three and nine months ended Sept. 30, 2014 decreased 30 GWh and 66 GWh, respectively, compared to the same periods in 2013, primarily due to lower water resource and higher outages in Western Canada.

Gross margin for the three and nine months ended Sept. 30, 2014 decreased $4.1 million and $7.8 million, respectively, compared to the same periods in 2013, primarily due to lower production and higher outages at our higher priced facilities in Western Canada, and lower prices under the TransAlta PPAs compared to previous merchant prices.

Economic Interest in Wyoming Wind Farm

We have an economic interest in the 144 MW Wyoming Wind Farm which is fully operational and contracted under a long-term PPA until 2028 with an investment grade counterparty. As we have an economic interest, and not direct ownership, the operational results of the Wyoming Wind Farm are not consolidated into our results. However, the dividends we receive on our Wyoming Wind Preferred Shares are included in our consolidated results, and are based on the pre-tax earnings from the Wyoming Wind Farm.

For the three and nine months ended Sept. 30, 2014, dividends of $0.2 million and $6.4 million, respectively, were recognized as income during the periods. After considering the Wyoming Wind Acquisition Loan interest expense of $0.9 million and $3.0 million, the incremental effect on earnings for the periods is a decrease of $0.7 million and an increase of $3.4 million, respectively.

For the three and nine months ended Sept. 30, 2014, production at the Wyoming Wind Farm was 54 GWh and 296 GWh, respectively.

NET INTEREST EXPENSE

The components of net interest expense are shown below:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2014	2013	**2014**	2013
Interest on debt	**8,777**	7,183	**26,671**	21,279
Interest on letters of credit and guarantees pledged by TransAlta	**1**	58	**25**	2,283
Capitalized interest	**-**	-	**-**	(2,147)
Interest income	**(11)**	(5)	**(16)**	(11)
Interest expense	**8,767**	7,236	**26,680**	21,404
Accretion of provisions	**245**	231	**703**	640
Net interest expense	**9,012**	7,467	**27,383**	22,044

The change in net interest expense for the three and nine months ended Sept. 30, 2014, compared to the same periods in 2013, is shown below:

	3 months ended Sept. 30	**9 months ended Sept. 30**
Net interest expense, 2013	7,467	22,044
Higher interest from addition of Amortizing Term and Wyoming Wind Acquisition Loans	1,640	7,519
Other	(38)	78
Lower interest on letters of credit and guarantees	(57)	(2,258)
Net interest expense, 2014	**9,012**	**27,383**

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	
	2014	2013	**2014**	2013
Earnings before income taxes	**673**	2,067	**36,318**	48,463
Income attributable to non-controlling interest	**(722)**	(473)	**(2,408)**	(1,812)
Asset impairment charges	**-**	3,663	**-**	3,663
Earnings (loss) attributable to common shareholders excluding non-comparable items subject to tax	**(49)**	5,257	**33,910**	50,314
Income tax expense (recovery)	**(18)**	387	**6,917**	11,928
Income tax expense related to asset impairment charges	**-**	916	**-**	916
Income tax expense (recovery) excluding non-comparable items	**(18)**	1,303	**6,917**	12,844
Effective tax rate on earnings (loss) attributable to common shareholders excluding non-comparable items(%)	**37**	25	**20**	26

The income tax expense (recovery) excluding non-comparable items for the three and nine months ended Sept. 30, 2014 decreased compared to the same periods in 2013, due to lower earnings and certain earnings that are not subject to tax.

The effective tax rate on earnings attributable to common shareholders excluding non-comparable items for the nine months ended Sept. 30, 2014 decreased compared to the same period in 2013, due to certain earnings that are not subject to tax.

NON-CONTROLLING INTEREST

Natural Forces Technologies Inc. owns a 17 per cent interest in the Kent Hills 1 and 2 wind farms, which have 150 MW of gross generating capacity.

Net earnings attributable to the non-controlling interest for the three and nine months ended Sept. 30, 2014 increased $0.2 million and $0.6 million, respectively, compared to the same periods in 2013, primarily due to higher wind volumes.

FINANCIAL POSITION

The following chart highlights significant changes in the Condensed Consolidated Statements of Financial Position from Dec. 31, 2013 to Sept. 30, 2014:

	Increase/ (Decrease)	Primary factors explaining change
Cash and cash equivalents	(14,731)	Timing of receipts and payments
Accounts receivable	(13,569)	Timing of customer receipts and seasonality of revenue
Prepaid expenses	3,332	Annual insurance and property tax premiums paid in the period
Property, plant, and equipment, net	(42,039)	Depreciation, partially offset by additions
Intangible assets	(4,887)	Amortization
Investment in preferred shares	5,189	Increase due to favourable changes in foreign exchange rates
Deferred income tax assets	2,515	Increase in tax loss carryforwards
Bank overdraft	(891)	Addition of master banking agreement to allow offset
Accounts payable and accrued liabilities	(4,527)	Timing of payments
Dividends payable	(14,525)	Payment of dividends declared on common shares
Long-term debt (including current portion)	(31,018)	Principal repayments on the amortizing term loan and Wyoming Wind Acquisition Loan, partially offset by unfavourable changes in foreign exchange rates
Decommissioning and other provisions	4,615	Asset retirement obligation accretion and change in discount rate
Deferred income tax liabilities	8,717	Decreases in tax loss carryforwards and increases in taxable temporary differences
Equity attributable to shareholders	(24,504)	Net earnings for the period, offset by dividends declared
Non-controlling interests	(1,304)	Kent Hills earnings, net of distributions

FINANCIAL INSTRUMENTS

Refer to *Note 13* of the Corporation's most recent annual consolidated financial statements and *Note 8* of our interim condensed consolidated financial statements as at and for the period ended Sept. 30, 2014 for details on Financial Instruments. Also refer to the Financial Instruments section of our most recent Annual MD&A for additional details. Our risk management profile and practices have not changed materially from Dec. 31, 2013.

During the second quarter of 2014, we de-designated the cash flow hedge of the foreign-exchange exposure on the U.S.$20 million debt. No significant reclassifications from accumulated other comprehensive income arose as a result of this discontinuation of hedge accounting. Prospective fluctuations in foreign exchange on this debt are expected to be offset by the investment in preferred shares, net of the effects of the Wyoming Wind Acquisition Loan.

STATEMENTS OF CASH FLOWS

The following chart highlights significant changes in the Condensed Consolidated Statements of Cash Flows for the three and nine months ended Sept. 30, 2014 compared to the same periods in 2013:

3 months ended Sept. 30	2014	2013	Primary factors explaining change
Cash and cash equivalents, beginning of period	**22,094**	2,094	
Provided by (used in):			
Operating activities	**17,318**	25,172	Lower cash earnings of $2.4 million and unfavourable changes in working capital of $5.5 million
Investing activities	**(1,182)**	(3,499)	Favourable change in non-cash investing working capital balances of $1.6 million, and decrease in additions to property, plant and equipment of $0.5 million, and a decrease in additions to intangibles of $0.3 million
Financing activities	**(33,754)**	(17,167)	Decrease in net proceeds on issuance of common shares of $206.9 million, increase in dividends paid on common shares of $16.7 million, and an increase in the repayment of long-term debt of $11.0 million, partially offset by a decrease in repayment of closing and acquisition notes of $208.0 million and decrease in repayment of net parental investment and related party advances of $10.1 million
Translation of foreign currency cash	**49**	-	
Cash and cash equivalents, end of period	**4,525**	6,600	

9 months ended Sept. 30	2014	2013	Primary factors explaining change
Cash and cash equivalents, net of bank overdraft, beginning of period	**18,365**	3,205	
Provided by (used in):			
Operating activities	**98,310**	124,138	Lower cash earnings of $16.0 million and unfavourable changes in working capital of $9.8 million
Investing activities	**(4,225)**	(54,688)	Decrease in additions to plant, property and equipment of $30.3 million and a favourable change in non-cash investing working capital of $22.4 million, partially offset by a decrease in realized risk management gains of $2.4 million
Financing activities	**(107,966)**	(66,055)	Decrease in net proceeds on issuance of common shares of $206.9 million, increase in dividends paid on common shares of $60.6 million, increase in repayment of long-term debt of $38.2 million, and an increase in distributions to non-controlling interest $0.9 million, partially offset by a decrease in repayment of closing and acquisition notes of $208.0 million and a decrease in repayment of net parental investment and related party advances of $56.8 million
Translation of foreign currency cash	**41**	-	
Cash and cash equivalents, end of period	**4,525**	6,600	

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 interest, interest and principal payments on debt, and dividends.

Debt

Long-term debt, including amounts owing to TransAlta, totalled $653.2 million at Sept. 30, 2014, compared to $684.2 million Dec. 31, 2013. Long-term debt decreased from Dec. 31, 2013 primarily due to principal payments made during the period.

At Sept. 30, 2014, $275.3 million of our long-term debt was due to TransAlta (Dec. 31, 2013 - $308.5 million).

The Corporation anticipates refinancing its maturing debt based on reasonable commercial terms.

Working Capital Credit Facility

We have a $100.0 million unsecured working capital credit facility with TransAlta available to us. The facility is available for general corporate purposes, including financing ongoing working capital requirements. At Sept. 30, 2014, no amounts were drawn on the facility.

Share Capital

On Sept. 30, 2014 and Oct. 31, 2014, we had 114.7 million common shares issued and outstanding.

During the nine months ended Sept. 30, 2014, no common shares were issued.

On Oct. 31, 2014, we declared dividends of $0.06416 per common share payable on Dec. 31, 2014, Jan. 30, 2015 and Feb. 27, 2015.

2014 OUTLOOK

Business Environment

Economic Environment

We expect moderate growth in Alberta and low growth in Eastern Canada for the remainder of 2014. We monitor global events to assess their potential impact on the economy and our supplier and commodity counterparty relationships.

Counterparty credit risk is monitored and we operate in accordance with established risk management policies. We do not anticipate any material change to our existing credit practices and continue to deal primarily with investment grade counterparties.

Environmental Legislation

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

Changes in current environmental legislation do have, and will continue to have, an impact upon our operations and our business. The regulatory framework applicable to electricity generation varies between regions. Over the past few decades, a number of regions have restructured their power markets, allowing power to be generated by independent power producers. Generally, there has been broad support from governments to facilitate growth in renewable power generation through the development of incentives and long-term revenue arrangements designed to encourage the adoption of renewable power.

In addition, government climate change policies and regulations can have an impact on our operations and business in that they frequently influence government support for renewables generation, or influence the price competitiveness of renewables generation in comparison to fossil-fuel based generation.

Operations

Production

Including production from the Wyoming Wind facility and a full year of contribution from all facilities, we expect production in 2014 to be in the range of 3,325 to 3,475 GWh. Production from owned facilities is in line with our expectations and long-term average of 3,060 GWh, which was disclosed in the IPO.

Contracted Cash Flows

Through the use of PPAs, including the TransAlta PPAs, all of our capacity is currently contracted and substantially all of our capacity is contracted over the next 10 to 20 years. In addition, for 2014, approximately 77 per cent and 100 per cent of the environmental attributes from our wind and hydro facilities, respectively, have been sold.

Operations, Maintenance, and Administration Costs

We expect OM&A costs for 2014 to increase primarily due to a full year of operations at New Richmond. However, we have long-term service agreements in place for many of our wind facilities, which allow us to stabilize costs. Over time, OM&A costs are also expected to increase due to inflation. Due to the acquisition of the economic interest in the Wyoming Wind Farm, the G&A Reimbursement Fee increased by an additional $0.4 million in 2014. Refer to the Related Party Transactions and Balances section of this MD&A for a complete list of related party transactions.

Wyoming Wind Economic Interest

We expect dividends on the Wyoming Wind Preferred Shares to be in the range of U.S.$8.0 to U.S.$9.5 million in 2014. Actual dividend amounts may vary from this range as the dividends are based on pre-tax earnings and free cash flow generated by the Wyoming Wind Farm.

Exposure to Fluctuations in Foreign Currencies

In 2014, we expect that we will be exposed to fluctuations in the exchange rate between Canadian and U.S. dollars as a result of our economic interest in the Wyoming Wind Farm, as both the Wyoming Wind Preferred Shares and the related dividends received are denominated in U.S. dollars. However, these exposures will be partially offset by the U.S.-denominated Wyoming Wind Acquisition Loan and U.S.$20.0 million debenture and the related payment of U.S.-denominated interest, thereon.

All of our other assets are located in Canada, and as a result, there is minimal additional exposure to fluctuations in foreign currencies. We may acquire equipment from foreign suppliers for future capital projects, which could create exposure to fluctuations in the value of the Canadian dollar relative to these currencies.

Our strategy is to minimize the impact, if any, of fluctuations in the Canadian dollar against the U.S. dollar, euro, and other currencies by entering into foreign exchange contracts, to the extent that foreign denominated expenses and revenues do not offset.

Net Interest Expense

We are not exposed to interest rate risk from long-term debt as all instruments bear interest at fixed rates. Net interest for 2014 is expected to increase compared to 2013 due to interest on loans from TransAlta and lower capitalized interest.

Liquidity and Capital Resources

If there are low wind volumes, low hydro resource, 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 with TransAlta.

The Corporation manages liquidity risk associated with debentures due in 2015 and beyond through preparing and revising long-term external financing plans reflecting business plans and market availability of capital.

The Corporation anticipates refinancing its maturing debt based on reasonable commercial terms.

Income Taxes

The effective tax rate on earnings excluding non-comparable items for 2014 is expected to be approximately 20 to 25 per cent, which varies from the statutory tax rate of 25 per cent, primarily due to certain earnings that are not subject to tax.

Accounting Estimates

A number of our accounting estimates, including those outlined in the Critical Accounting Policies and Estimates section of our most recent annual MD&A, 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 asset valuations for our asset impairment calculations.

Capital Expenditures

Our capital expenditures are primarily sustaining in nature.

Sustaining Capital

Our sustaining capital is comprised of the ongoing capital costs associated with maintaining the existing generating capacity of our facilities. For 2014, our estimate for total sustaining capital expenditures, net of any contributions received, is allocated among the following:

Category	Description	Spend to date[1] in 2014	Expected spend in 2014
Routine capital	Expenditures to maintain our existing generating capacity	2,861	3,872
Planned maintenance	Regularly scheduled maintenance	2,153	4,999
Total sustaining expenditures		**5,014**	**8,871**

Financing

Financing for these capital expenditures is expected to be provided by cash flow from operating activities and existing borrowing capacity through TransAlta.

RELATED PARTY TRANSACTIONS AND BALANCES

Post-Acquisition Relationship with TransAlta

After the Acquisition, we entered into certain agreements and transactions with TransAlta. Please refer to the Related Party Transactions and Balances section of our most recent Annual MD&A for more information.

A. Related Party Transactions

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

	3 months ended Sept. 30		**9 months ended Sept. 30**	
	2014	2013	**2014**	2013
Revenue from TransAlta PPAs	**6,099**	3,887	**21,105**	3,887
Royalty and other revenue-based costs adjustments	**1,457**	-	**1,457**	-
Preferred share dividends	**215**	-	**6,439**	-
G&A Reimbursement Fee	**2,619**	1,451	**7,761**	1,451
Interest expense on amortizing term loan	**1,848**	1,162	**5,650**	1,162
Interest expense on letters of credit and guarantees	**1**	58	**25**	2,283
Interest expense on Wyoming Wind Acquisition Loan	**954**	-	**3,031**	-

(1) As at Sept. 30, 2014

B. Related Party Balances

Related party balances include the following balances:

As at	Sept. 30, 2014	Dec. 31, 2013
Trade accounts receivable	**3,901**	10,232
Trade accounts payable	**2,399**	5,048
Dividends payable	**10,344**	23,600
Interest payable	**997**	3,311
Investment in preferred shares	**114,514**	109,325
Net risk management assets (liabilities)	**161**	(104)
Amortizing term loan	**178,364**	200,000
Wyoming Wind Acquisition Loan	**96,962**	108,528
Letters of credit issued by TransAlta on behalf of the Corporation	**4,503**	4,503
Guarantees provided by TransAlta on behalf of the Corporation	**226,500**	226,500

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

Pre-Acquisition Relationship with TransAlta

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 results for periods prior to Aug. 9, 2013 were not historically prepared for the Acquired Assets as they had not been operated as a separate business. Please refer to the Related Party Transactions and Balances section of our 2013 Annual MD&A for more information.

Allocation of Corporate Costs

Certain shared costs have been allocated to the Acquired Assets and reflected as expenses in the pre-Acquisition period financial statements. Allocated corporate costs include TransAlta charges for, 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 comparative three and nine months ended Sept. 30, 2013, these pre-tax costs were $0.2 million and $3.5 million, respectively.

ADDITIONAL IFRS MEASURES

An additional IFRS measure is a line item, heading, or subtotal that is relevant to an understanding of the financial statements but is not a minimum line item mandated under IFRS, or the presentation of a financial measure that is relevant to an understanding of the financial statements but is not presented elsewhere in the financial statements. We have included line items entitled “gross margin” and “operating income” in our Condensed Consolidated Statements of Earnings for the three and nine months ended Sept. 30, 2014 and 2013. 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 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.

Typically, for comparability purposes, we exclude the impact of asset impairment charges and other adjustments to earnings, such as gains on sales of assets, as management believes these transactions are not representative of our business operations. We also exclude the income tax expense related to changes in corporate income tax rates as these amounts relate to the impact of the rate change on future income taxes as opposed to the impact on current earnings.

Earnings on a comparable basis per share are calculated using the weighted average common shares outstanding during the period.

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 interest, income taxes, and working capital adjustments.

Comparable operating income and EBITDA also include the dividend income from the preferred share investment in the Wyoming Wind Farm. The dividend income is used as a proxy for the operating income and EBITDA of Wyoming Wind.

A reconciliation of comparable results to reported results is as follows:

	3 months ended Sept. 30, 2014			9 months ended Sept. 30, 2014		
	Reported	Comparable adjustments	Comparable total	Reported	Comparable adjustments	Comparable total
Revenues	42,596	-	42,596	160,574	-	160,574
Royalties and other	1,332	-	1,332	8,826	-	8,826
Gross margin	**41,264**	**-**	**41,264**	**151,748**	**-**	**151,748**
Operations, maintenance, and administration	11,458	-	11,458	33,686	-	33,686
Taxes, other than income taxes	1,777	-	1,777	5,401	-	5,401
Dividend income from investment in preferred shares	-	(215) (1)	(215)	-	(6,439) (1)	(6,439)
Earnings before interest, taxes, depreciation, and amortization	**28,029**	**215**	**28,244**	**112,661**	**6,439**	**119,100**
Depreciation and amortization	18,562	-	18,562	55,176	-	55,176
Operating income	**9,467**	**215**	**9,682**	**57,485**	**6,439**	**63,924**
Foreign exchange gain (loss)	3	-	3	(223)	-	(223)
Earnings before interest and taxes	**9,470**	**215**	**9,685**	**57,262**	**6,439**	**63,701**
Dividend income from investment in preferred shares	(215)	215	-	(6,439)	6,439	-
Net interest expense	9,012	-	9,012	27,383	-	27,383
Income tax expense (recovery)	(18)	-	(18)	6,917	-	6,917
Net earnings	**691**	**-**	**691**	**29,401**	**-**	**29,401**
Non-controlling interest	722	-	722	2,408	-	2,408
Net earnings (loss) attributable to TransAlta Renewables common shareholders	**(31)**	**-**	**(31)**	**26,993**	**-**	**26,993**
Weighted average number of common shares outstanding in the period (millions)	114.7	-	114.7	114.7	-	114.7
Net earnings per share attributable to common shareholders	**-**	**-**	**-**	**0.24**	**-**	**0.24**

(1) The dividend income is used as a proxy for the operating income and EBITDA of the Wyoming Wind Farm.

	3 months ended Sept. 30, 2013			9 months ended Sept. 30, 2013		
	Reported	Comparable adjustments	Comparable total	Reported	Comparable adjustments	Comparable total
Revenues	43,535	-	43,535	175,392	-	175,392
Royalties and other	2,528	-	2,528	9,854	-	9,854
Gross margin	41,007	-	41,007	165,538	-	165,538
Operations, maintenance, and administration	10,015	-	10,015	29,326	-	29,326
Asset impairment charges	3,663	(3,663) (1)	-	3,663	(3,663) (1)	-
Taxes, other than income taxes	1,900	-	1,900	5,543	-	5,543
Earnings before interest, taxes, depreciation, and amortization	25,429	3,663	29,092	127,006	3,663	130,669
Depreciation and amortization	16,324	-	16,324	55,830	-	55,830
Operating income	9,105	3,663	12,768	71,176	3,663	74,839
Foreign exchange gain (loss)	430	-	430	(891)	-	(891)
Other income (expense)	(1)	-	(1)	222	-	222
Earnings before interest and taxes	9,534	3,663	13,197	70,507	3,663	74,170
Net interest expense	7,467	-	7,467	22,044	-	22,044
Income tax expense	387	916 (2)	1,303	11,928	916 (2)	12,844
Net earnings	1,680	2,747	4,427	36,535	2,747	39,282
Non-controlling interest	473	-	473	1,812	-	1,812
Net earnings attributable to TransAlta Renewables common shareholders	1,207	2,747	3,954	34,723	2,747	37,470
Weighted average number of common shares outstanding in the period (millions)	114.7	-	114.7	114.7	-	114.7
Net earnings per share attributable to common shareholders	0.01	-	0.03	0.30	-	0.33

Funds from Operations

Presenting FFO 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.

	3 months ended Sept. 30		**9 months ended Sept. 30**	
	2014	2013	**2014**	2013
Cash flow from operating activities	**17,318**	25,172	**98,310**	124,138
Change in non-cash operating working capital balances	**2,238**	(3,237)	**(5,450)**	(15,248)
Funds from operations	**19,556**	21,935	**92,860**	108,890
Weighted average number of common shares outstanding in the period (millions)	**114.7**	114.7	**114.7**	114.7
Funds from operations per share	**0.17**	0.19	**0.81**	0.95

Cash Available for Distribution

Cash available for distribution represents the amount of cash generated from operations by our business, before changes in working capital and after non-discretionary payments. Cash available for distribution can be used to invest in growth initiatives, make early principal repayments of debt, pay additional common share dividends, or repurchase common shares.

Sustaining capital and productivity expenditures represent total additions to PP&E and intangibles per the Condensed Consolidated Statements of Cash Flows less what we have invested in growth projects. For the three and nine months ended Sept. 30, 2014 and 2013, we invested nil (2013 - $0.7 million) and nil (2013 - $30.4 million), respectively, in growth projects.

(1) Non-comparable items.

(2) Net tax effect of non-comparable items.

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	
	2014	2013	**2014**	2013
Cash flow from operating activities	**17,318**	25,172	**98,310**	124,138
Add (deduct):				
Changes in non-cash operating working capital	**2,238**	(3,237)	**(5,450)**	(15,248)
Sustaining capital expenditures	**(1,741)**	(1,372)	**(5,014)**	(4,740)
Distributions paid to subsidiaries' non-controlling interest	**(727)**	(510)	**(3,712)**	(2,772)
Principal repayments of debt	**(10,957)**	-	**(38,232)**	-
Cash available for distribution	**6,131**	20,053	**45,902**	101,378
Weighted average number of common shares outstanding in the period (millions)	**114.7**	114.7	**114.7**	114.7
Cash available for distribution per share	**0.05**	0.17	**0.40**	0.88

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

CURRENT ACCOUNTING CHANGES

On Jan. 1, 2014, we adopted the amended disclosure requirements of IAS 36 *Impairment of Assets*. The change did not significantly impact disclosures presented this period.

FUTURE ACCOUNTING CHANGES

Accounting standards that have been previously issued by the International Accounting Standard Board (“IASB”) but are not yet effective, and have not been applied by the Corporation include:

I. IFRS 9 *Financial Instruments*

In July 2014, on completion of the impairment phase of the project to reform accounting for financial instruments and replace IAS 39 *Financial Instruments: Recognition and Measurement*, the IASB issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 includes guidance, some which was previously issued by the IASB, on the classification and measurement of financial assets and financial liabilities, impairment of financial assets (i.e. recognition of credit losses), and a new hedge accounting model. Please refer to Note 3 of the Corporation’s most recent annual consolidated financial statements for information regarding previously issued sections of IFRS 9.

The new requirements for impairment of financial assets introduce an expected-loss impairment model which requires more timely recognition of expected credit losses. IAS 39 impairment requirements are based on an incurred loss model where credit losses are not recognized until there is evidence of a trigger event.

IFRS 9 is effective for annual periods beginning on or after Jan. 1, 2018 with early application permitted. We are assessing the impact of adopting this standard on our consolidated financial statements.

II. IFRS 15 *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* which replaces existing revenue recognition guidance with a single comprehensive accounting model. The model specifies that an entity recognizes revenue when (or as) it transfers promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. IFRS 15 is effective for annual reporting periods beginning on or after Jan. 1, 2017 with early application permitted. We are assessing the impact of adopting this standard on our consolidated financial statements.

SELECTED QUARTERLY INFORMATION

	Q4 2013	**Q1 2014**	**Q2 2014**	**Q3 2014**
Revenue	**69,949**	**67,965**	**50,013**	**42,596**
Net earnings (loss) attributable to common shareholders	**15,535**	**21,134**	**5,890**	**(31)**
Net earnings per share attributable to common shareholders, basic and diluted	**0.13**	**0.18**	**0.05**	**-**
Comparable net earnings per share	**0.15**	**0.18**	**0.05**	**-**

	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Revenue	67,344	60,917	70,940	43,535
Net earnings attributable to common shareholders	18,522	14,004	19,512	1,207
Net earnings per share attributable to common shareholders, basic and diluted	0.16	0.12	0.17	0.01
Comparable net earnings per share	0.16	0.12	0.17	0.03

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

FORWARD-LOOKING STATEMENTS

This MD&A, the documents incorporated herein by reference, and other reports and filings made with securities regulatory authorities include forward-looking statements. All forward-looking statements are based on our beliefs as well as assumptions based on information available at the time the 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, but not limited to, for example: 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; expectations related to future earnings and cash flow from operating and contracting activities; the anticipated impact of our economic interest in the Wyoming Wind Farm on cash available for distribution; the payment of future dividends; expectations for demand for electricity in both the short term and long term, and the resulting impact on electricity 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; estimates of future tax rates, future tax expense, and the adequacy of tax provisions; accounting estimates; anticipated growth rates in our markets; 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 regarding entering into additional financial instruments; expectations in respect to the global economic environment; estimated cash flow required to settle decommissioning and restoration activities; and expectations regarding borrowing rates and our credit practices.

Factors that may adversely impact our forward-looking statements include risks relating to: changes in general economic conditions including interest rates; operational risks involving our facilities, including unplanned outages at such facilities; disruptions in the transmission and distribution of electricity; the effects of weather; disruptions in the source of water or wind required to operate our facilities; natural disasters; the threat of domestic terrorism, cyber-attacks and other man-made disasters; equipment failure and our ability to carry out repairs in a cost-effective or timely manner; industry risk and competition; fluctuations in the value of foreign currencies; the need for additional financing; 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; the regulatory and political environments in the jurisdictions in which we operate; environmental requirements and changes in, or liabilities under, these requirements; and development projects and acquisitions. The foregoing risk factors, among others, are described in further detail in the Risk Factors section of our 2014 AIF for the year ended Dec. 31, 2013 and our 2013 Annual MD&A, both available on SEDAR at www.sedar.com.

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

TRANSALTA RENEWABLES INC.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

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

Unaudited	3 months ended Sept. 30 2014	2013	9 months ended Sept. 30 2014	2013
Revenues	**33,533**	32,312	**128,138**	144,642
Government incentives	**3,885**	3,542	**15,050**	15,547
Lease revenue	**5,178**	7,681	**17,386**	15,203
Total revenue	**42,596**	43,535	**160,574**	175,392
Royalties and other *(Note 3)*	**1,332**	2,528	**8,826**	9,854
Gross margin	**41,264**	41,007	**151,748**	165,538
Operations, maintenance, and administration	**11,458**	10,015	**33,686**	29,326
Depreciation and amortization	**18,562**	16,324	**55,176**	55,830
Asset impairment charges *(Note 4)*	**-**	3,663	**-**	3,663
Taxes, other than income taxes	**1,777**	1,900	**5,401**	5,543
Operating income	**9,467**	9,105	**57,485**	71,176
Dividend income from investment in preferred shares *(Note 10)*	**215**	-	**6,439**	-
Net interest expense *(Note 5)*	**(9,012)**	(7,467)	**(27,383)**	(22,044)
Foreign exchange gain (loss)	**3**	430	**(223)**	(891)
Other income (expense)	**-**	(1)	**-**	222
Earnings before income taxes	**673**	2,067	**36,318**	48,463
Income tax expense (recovery) *(Note 6)*	**(18)**	387	**6,917**	11,928
Net earnings	**691**	1,680	**29,401**	36,535
Net earnings (loss) attributable to:				
Common shareholders	**(31)**	1,207	**26,993**	34,723
Non-controlling interest *(Note 7)*	**722**	473	**2,408**	1,812
	691	1,680	**29,401**	36,535
Weighted average number of common shares outstanding in the period *(millions) (Note 12)*	**114.7**	114.7	**114.7**	114.7
Net earnings per share attributable to common shareholders, basic and diluted *(Note 12)*	**-**	0.01	**0.24**	0.30

See accompanying notes.

TRANSALTA RENEWABLES INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands of Canadian dollars)

	3 months ended Sept. 30		9 months ended Sept. 30	
Unaudited	**2014**	2013	**2014**	2013
Net earnings	**691**	1,680	**29,401**	36,535
Gains (losses) on derivatives designated as cash flow hedges, net of tax(1)	**(56)**	30	**(85)**	74
Reclassification of losses on derivatives designated as cash flow hedges to non-financial assets, net of tax(2)	**-**	-	**-**	1,265
Total items that will not be reclassified subsequently to net earnings	**(56)**	30	**(85)**	1,339
Gains (losses) on derivatives designated as cash flow hedges, net of tax(3)	**(2)**	(5)	**286**	34
Reclassification of (gains) losses on derivatives designated as cash flow hedges to net earnings, net of tax(4)	**2**	(35)	**(200)**	(250)
Total items that will be reclassified subsequently to net earnings	**-**	(40)	**86**	(216)
Other comprehensive income (loss)	**(56)**	(10)	**1**	1,123
Total comprehensive income	**635**	1,670	**29,402**	37,658
Total comprehensive income (loss) attributable to:				
Common shareholders	**(87)**	1,197	**26,994**	35,846
Non-controlling interest *(Note 7)*	**722**	473	**2,408**	1,812
	635	1,670	**29,402**	37,658

(1) Net of income tax recovery of 21 and 31 for the three and nine months ended Sept. 30, 2014 (2013 - 10 and 25 expense), respectively.

(2) Net of income tax recovery of 422 for the nine months ended Sept. 30, 2013.

(3) Net of income tax recovery of 1 and tax expense of 98 for the three and nine months ended Sept. 30, 2014 (2013 - nil and 11 expense), respectively.

(4) Net of income recovery of 1 and tax expense of 29 for the three and nine months ended Sept. 30, 2014 (2013 - 2 recovery and 137 expense), respectively.

See accompanying notes.

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

Unaudited	Sept. 30, 2014	Dec. 31, 2013
Cash and cash equivalents	**4,525**	19,256
Accounts receivable	**23,844**	37,413
Prepaid expenses	**5,707**	2,375
Risk management assets *(Note 8)*	**807**	22
Inventory	**40**	140
	34,923	59,206
Property, plant, and equipment *(Note 9)*		
Cost	**2,028,047**	2,021,386
Accumulated depreciation	**(363,087)**	(314,387)
	1,664,960	1,706,999
Intangible assets	**100,397**	105,284
Risk management assets *(Note 8)*	**6**	14
Other assets	**2,999**	3,059
Investment in preferred shares *(Note 10)*	**114,514**	109,325
Deferred income tax assets	**32,266**	29,751
Total assets	**1,950,065**	2,013,638
Bank overdraft	**-**	891
Accounts payable and accrued liabilities	**26,740**	31,267
Risk management liabilities *(Note 8)*	**544**	73
Income taxes payable	**35**	364
Dividends payable *(Note 12)*	**14,714**	29,239
Current portion of deferred revenue	**425**	425
Current portion of long-term debt *(Note 11)*	**177,514**	37,596
	219,972	99,855
Long-term debt *(Note 11)*	**475,683**	646,619
Decommissioning provisions	**17,025**	12,410
Deferred revenues	**6,658**	6,977
Deferred income tax liabilities	**189,368**	180,651
Risk management liabilities *(Note 8)*	**108**	67
Total liabilities	**908,814**	946,579
Equity		
Common shares *(Note 12)*	**1,223,845**	1,223,845
Deficit	**(220,768)**	(196,263)
Accumulated other comprehensive income	**188**	187
Equity attributable to shareholders	**1,003,265**	1,027,769
Non-controlling interest *(Note 7)*	**37,986**	39,290
Total equity	**1,041,251**	1,067,059
Total liabilities and equity	**1,950,065**	2,013,638

Contingencies *(Note 13)*

See accompanying notes.

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

9 months ended Sept. 30, 2014

Unaudited	Common shares	Deficit	Accumulated other comprehensive income	Attributable to shareholders	Attributable to non-controlling interest	Total
Balance, Dec. 31, 2013	1,223,845	(196,263)	187	1,027,769	39,290	1,067,059
Net earnings	-	26,993	-	26,993	2,408	**29,401**
Other comprehensive income:						
Net gains on derivatives designated as cash flow hedges, net of tax	-	-	1	1	-	**1**
Total comprehensive income	-	26,993	1	26,994	2,408	**29,402**
Common share dividends *(Note 12)*	-	(51,498)	-	(51,498)	-	**(51,498)**
Distributions to non-controlling interest	-	-	-	-	(3,712)	**(3,712)**
Balance, Sept. 30, 2014	**1,223,845**	**(220,768)**	**188**	**1,003,265**	**37,986**	**1,041,251**

9 months ended Sept. 30, 2013

Unaudited	Net parental investment	Common Shares	Deficit	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 (loss)	35,487	-	(764)	-	34,723	1,812	36,535
Other comprehensive income:							
Net gains on derivatives designated as cash flow hedges, net of tax	-	-	-	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	(682,231)	-	(154,877)	-	(837,108)	-	(837,108)
Completion of share offering to parent	(1,013,422)	1,013,422	-	-	-	-	-
Completion of public share offering	-	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

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	**2014**	2013	**2014**	2013
Operating activities				
Net earnings	**691**	1,680	**29,401**	36,535
Depreciation and amortization	**18,562**	16,324	**55,176**	55,830
Accretion of provisions *(Note 5)*	**245**	231	**703**	640
Deferred income tax expense (recovery) *(Note 6)*	**(185)**	313	**6,165**	10,667
Unrealized foreign exchange (gain) loss	**(38)**	(430)	**542**	689
Unrealized (gain) loss from risk management activities	**5**	(226)	**42**	(105)
Asset impairment charges	**-**	3,663	**-**	3,663
Deferred credits	**-**	180	**-**	-
Other non-cash items	**276**	200	**831**	971
Cash flow from operations before changes in working capital	**19,556**	21,935	**92,860**	108,890
Change in non-cash operating working capital balances	**(2,238)**	3,237	**5,450**	15,248
Cash flow from operating activities	**17,318**	25,172	**98,310**	124,138
Investing activities				
Additions to property, plant, and equipment *(Note 9)*	**(1,340)**	(1,827)	**(4,691)**	(35,012)
Additions to intangibles	**-**	(287)	**(16)**	(138)
Proceeds on sale of assets	**57**	-	**369**	-
Change in other assets	**-**	(289)	**-**	-
Realized risk management (loss) gain	**(14)**	81	**(14)**	2,416
Change in non-cash investing working capital balances	**115**	(1,478)	**128**	(22,255)
Other	**-**	301	**(1)**	301
Cash flow used in investing activities	**(1,182)**	(3,499)	**(4,225)**	(54,688)
Financing activities				
Repayment of net parental investment and related party advances	**-**	(10,136)	**-**	(56,762)
Long-term debt repayments	**(10,957)**	-	**(38,232)**	-
Net proceeds on issuance of common shares	**-**	206,898	**-**	206,898
Repayment of closing and acquisition notes to TransAlta	**-**	(208,000)	**-**	(208,000)
Dividends paid on common shares *(Note 12)*	**(22,070)**	(5,419)	**(66,022)**	(5,419)
Distributions to non-controlling interest	**(727)**	(510)	**(3,712)**	(2,772)
Cash flow used in financing activities	**(33,754)**	(17,167)	**(107,966)**	(66,055)
Cash flow from (used in) operating, investing, and financing activities	**(17,618)**	4,506	**(13,881)**	3,395
Effect of translation on foreign currency cash	**49**	-	**41**	-
Increase (decrease) in cash and cash equivalents	**(17,569)**	4,506	**(13,840)**	3,395
Cash and cash equivalents, net of bank overdraft, beginning of period	**22,094**	2,094	**18,365**	3,205
Cash and cash equivalents, end of period	**4,525**	6,600	**4,525**	6,600
Cash income taxes paid	**219**	227	**1,081**	607
Cash interest paid	**8,397**	6,072	**25,918**	22,313

See accompanying notes.

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 was 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 ("hydro") generating assets (the "Acquired Assets") from TransAlta Corporation ("TransAlta" or the "Parent") (the "Acquisition") and completed an initial public offering ("IPO") of 22.1 million common shares. Information regarding the Acquisition and IPO can be found in Note 4 of the Corporation's most recent annual consolidated financial statements.

B. Basis of Preparation

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

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

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

The unaudited interim condensed consolidated financial statements reflect all adjustments that consist of normal recurring adjustments and accruals that are, in the opinion of management, necessary for a fair presentation of results. The 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 hydro resources, which fluctuate based on both seasonal patterns and annual weather variation. Typically, run-of-river hydro facilities generate most of their electricity and revenues during the spring and summer months when 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 unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on Oct. 31, 2014.

C. Use of Estimates

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

D. Basis of Preparation Prior to the Acquisition

The unaudited interim condensed consolidated financial statements for the Sept. 30, 2013 comparative period include the combined financial statements of the Acquired Assets, as the Acquired Assets are ultimately controlled by TransAlta before and after the Acquisition and there has been no substantive change in operations.

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 results for periods prior to the Aug. 9, 2013 Acquisition included in the comparative financial statements for the three and nine months ended Sept. 30, 2013 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 Corporation. 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 15).

2. ACCOUNTING CHANGES

A. Adoption of New or Amended IFRS

On Jan. 1, 2014, the Corporation adopted the amended disclosure requirements of IAS 36 *Impairment of Assets.* The change did not significantly impact disclosures presented this period.

B. Comparative Figures

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

C. Future Accounting Changes

Accounting standards that have been previously issued by the International Accounting Standard Board ("IASB") but are not yet effective, and have not been applied by the Corporation include:

III. IFRS 9 *Financial Instruments*

In July 2014, on completion of the impairment phase of the project to reform accounting for financial instruments and replace IAS 39 *Financial Instruments: Recognition and Measurement*, the IASB issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 includes guidance, some which was previously issued by the IASB, on the classification and measurement of financial assets and financial liabilities, impairment of financial assets (i.e. recognition of credit losses), and a new hedge accounting model. Please refer to Note 3 of the Corporation's most recent annual consolidated financial statements for information regarding previously issued sections of IFRS 9.

The new requirements for impairment of financial assets introduce an expected-loss impairment model which requires more timely recognition of expected credit losses. IAS 39 impairment requirements are based on an incurred loss model where credit losses are not recognized until there is evidence of a trigger event.

IFRS 9 is effective for annual periods beginning on or after Jan. 1, 2018 with early application permitted. The Corporation is assessing the impact of adopting this standard on its consolidated financial statements.

IV. IFRS 15 *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* which replaces existing revenue recognition guidance with a single comprehensive accounting model. The model specifies that an entity recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. IFRS 15 is effective for annual reporting periods beginning on or after Jan. 1, 2017 with early application permitted. The Corporation is assessing the impact of adopting this standard on its consolidated financial statements.

3. ROYALTY AND OTHER COST ADJUSTMENTS

During the three and nine months ended Sept. 30, 2014, $1.5 million was recognized as a reduction in royalties and other costs. The Corporation and TransAlta adjusted the way in which these revenue-based royalties are calculated to align the costs incurred by the Corporation with the revenue base of the TransAlta PPAs. Of the amount, $1.2 million relates to the period from inception, on Aug. 9, 2013, to June 30, 2014 ($0.6 million for the period from inception to Dec. 31, 2013).

4. ASSET IMPAIRMENT CHARGES

During the three and nine months ended Sept. 30, 2014, the Corporation recognized an impairment charge of $1.5 million and an impairment reversal of $1.5 million (three and nine months ended Sept. 30, 2013 - impairment charges of $3.7 million), all related to various Ontario hydro facilities. Revisions to capital and operating plans were the main drivers of the impairment outcomes.

5. NET INTEREST EXPENSE

The components of net interest expense are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2014	2013	**2014**	2013
Interest on long-term debt	**8,777**	7,183	**26,671**	21,279
Interest on letters of credit and guarantees pledged by TransAlta	**1**	58	**25**	2,283
Capitalized interest	**-**	-	**-**	(2,147)
Interest income	**(11)**	(5)	**(16)**	(11)
Interest expense	**8,767**	7,236	**26,680**	21,404
Accretion of provisions	**245**	231	**703**	640
Net interest expense	**9,012**	7,467	**27,383**	22,044

6. INCOME TAXES

The components of income tax expense are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2014	2013	**2014**	2013
Current income tax expense	**167**	74	**884**	501
Adjustments in respect of current income tax of previous years	-	-	**(132)**	760
Adjustments in respect of deferred income tax of previous years	**93**	-	**269**	(760)
Deferred income tax expense (recovery) related to the origination and reversal of temporary differences	**(278)**	313	**5,896**	11,427
Income tax expense (recovery)	**(18)**	387	**6,917**	11,928

Presented in the Condensed Consolidated Statements of Earnings as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2014	2013	**2014**	2013
Current income tax expense	**167**	74	**752**	1,261
Deferred income tax expense (recovery)	**(185)**	313	**6,165**	10,667
Income tax expense (recovery)	**(18)**	387	**6,917**	11,928

7. NON-CONTROLLING INTEREST

The non-controlling interest in the Corporation's operations is comprised of a 17% interest in the Kent Hills wind farm.

Summarized financial information relating to the Kent Hills wind farm is as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2014	2013	**2014**	2013
Results of operations				
Revenues	**8,058**	6,947	**26,056**	22,735
Net earnings and total comprehensive income	**4,249**	2,785	**14,165**	10,691

As at	Sept. 30, 2014	Dec. 31, 2013
Financial position		
Current assets	**4,466**	5,708
Long-term assets	**220,894**	227,256
Current liabilities	**(1,376)**	(1,435)
Long-term liabilities	**(537)**	(414)
Total equity	**(223,447)**	(231,115)

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

A. Financial Assets and Liabilities – Measurement

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

B. Fair Value of Financial Instruments

I. Financial Instruments – Measured at Fair Value

During the nine months ended Sept. 30, 2014, fluctuations in the net risk management position are principally attributable to the hedge of U.S.$20 million foreign-denominated debt arising prior to its de-designation in the second quarter. The changes have been recognized in other comprehensive income.

The derivatives previously designated as part of the cash flow hedge on foreign-denominated debt, and now classified as non-hedge derivatives, are classified as a Level II fair value measurement, for which the Corporation uses observable inputs other than unadjusted quoted prices that are observable for the financial instrument, such as credit valuation adjustments and currency rates.

Other financial instruments measured at fair value are described in Note 13(B) of the Corporation's most recent annual consolidated financial statements.

II. Financial Instruments – Not Measured at Fair Value

The fair value of long-term debt is as follows:

	Fair value				Total carrying
	Level I	Level II	Level III	Total	value
Long-term debt[(1)] - Sept. 30, 2014	**-**	**683,117**	**-**	**683,117**	**653,197**
Long-term debt[(1)] - Dec. 31, 2013	-	700,723	-	700,723	684,215

(1) Includes current portion

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

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

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

The following discussion is limited to specific risk measures, which are more fully discussed in Note 13(C) of the most recent annual consolidated financial statements.

I. Credit Risk

The Corporation's maximum exposure to credit risk at Sept. 30, 2014, 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, 2014, all of the Corporation's counterparties were considered investment grade.

At Sept. 30, 2014, the Corporation had two unrelated customers whose outstanding balances 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 customers to be minimal.

II. Liquidity Risk

The following table presents the contractual maturities of the Corporation's financial liabilities as at Sept. 30, 2014:

	2014	2015	2016	2017	2018	2019 and thereafter	Total
Accounts payable and accrued liabilities	26,740	-	-	-	-	-	26,740
Long-term debt	-	194,292	67,184	24,413	287,716	82,511	656,116
Net risk management (assets) liabilities	(258)	(7)	(3)	2	2	103	(161)
Interest on long-term debt [1]	11,172	39,656	30,917	26,959	18,153	7,226	134,083
Dividends payable	14,714	-	-	-	-	-	14,714
Total	52,368	233,941	98,098	51,374	305,871	89,840	831,492

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

The Corporation manages liquidity risk associated with debentures due in 2015 and beyond through preparing and revising long-term external financing plans reflecting business plans and market availability of capital.

9. PROPERTY, PLANT, AND EQUIPMENT

A reconciliation of the changes in the carrying amount of property, plant & equipment is as follows:

	Hydro generation	Wind generation	Capital spares and other	Total
As at Dec. 31, 2013	195,636	1,503,751	7,612	1,706,999
Additions	**536**	**2,846**	**1,309**	**4,691**
Depreciation	**(5,361)**	**(43,680)**	**-**	**(49,041)**
Revisions and additions to decommissioning costs	**2,501**	**1,411**	**-**	**3,912**
Disposals	**(41)**	**(1,211)**	**-**	**(1,252)**
Transfers	**-**	**(349)**	**-**	**(349)**
As at Sept. 30, 2014	**193,271**	**1,462,768**	**8,921**	**1,664,960**

10. INVESTMENT IN PREFERRED SHARES

The investment in preferred shares as at Sept. 30, 2014 and Dec. 31, 2013 is comprised of the U.S.$102.7 million investment in Class A preferred shares of a subsidiary of TransAlta, and represents the Corporation's economic interest in the Wyoming wind farm.

Dividend income from the investment in preferred shares is recognized when dividends are declared. Monthly declarations of dividends track pre-tax earnings of the Wyoming wind farm. Dividends received are recognized in cash flows from operating activities in the Condensed Consolidated Statements of Cash Flows.

11. LONG-TERM DEBT

A. Amounts Outstanding

As at	Sept. 30, 2014			Dec. 31, 2013		
	Carrying value	**Face value**	**Interest[1]**	Carrying value	Face value	Interest[1]
Unsecured debentures[2]	**342,932**	**345,790**	**5.91%**	340,866	344,780	5.91%
Secured debenture	**34,939**	**35,000**	**5.28%**	34,821	35,000	5.28%
Amortizing term loan	**178,364**	**178,364**	**4.00%**	200,000	200,000	4.00%
Wyoming Wind Acquisition Loan[3]	**96,962**	**96,962**	**4.00%**	108,528	108,528	4.00%
	653,197	**656,116**		684,215	688,308	
Less: current portion	**(177,514)**	**(177,514)**		(37,596)	(37,596)	
Total long-term debt	**475,683**	**478,602**		646,619	650,712	

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

(2) Includes U.S.$20.0 million (2013 - U.S.$20.0 million).

(3) U.S.$87.0 million (2013 - U.S.$102.0 million).

The Corporation has a $100.0 million working capital credit facility with TransAlta. As at Sept. 30, 2014 and Dec. 31, 2013, no amounts were drawn on this facility.

The Corporation anticipates refinancing its maturing debt based on reasonable commercial terms.

B. Restrictions

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

12. 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.

On Aug. 9, 2013 the Corporation issued 66.7 million common shares to TransAlta for acquisition of the Acquired Assets. On Aug. 9, 2013, the Corporation completed an IPO and issued 22.1 million common shares for gross proceeds of $221.0 million. The net proceeds were used to repay short-term notes issued to the Corporation by TransAlta on acquisition of the Acquired Assets. Additionally, the Corporation issued 25.9 million common shares to TransAlta for settlement of such short-term notes.

During the nine months ended Sept. 30, 2014 no common shares were issued.

The Corporation had 114.7 million issued and outstanding common shares as at Sept. 30, 2014 and Dec. 31, 2013. No preferred shares have been issued.

B. Dividends

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

The following table summarizes the common share dividends declared and paid or payable within the nine months ended Sept. 30, 2014 and 2013:

Date declared	Payment date	Dividend per share *($)*	Total dividends	TransAlta	Other shareholders
Aug. 9, 2013	Sept. 30, 2013	0.04726	5,419	4,375	1,044
Aug. 9, 2013	Oct. 31, 2013	0.06250	7,167	5,786	1,381
Aug. 9, 2013	Nov. 29, 2013	0.06250	7,167	5,786	1,381
Oct. 29, 2013	Dec. 31, 2013	0.06250	7,167	5,786	1,381
Oct. 29, 2013	Jan. 31, 2014	0.06250	7,167	5,786	1,381
Dec. 20, 2013	Feb. 28, 2014	0.06416	7,357	5,938	1,419
Dec. 20, 2013	Mar. 28, 2014	0.06416	7,357	5,938	1,419
Dec. 20, 2013	Apr. 30, 2014	0.06416	7,357	5,938	1,419
Feb. 13, 2014	May 30, 2014	0.06416	7,357	5,172	2,185
May 2, 2014	June 30, 2014	0.06416	7,357	5,172	2,185
May 2, 2014	July 31, 2014	0.06416	7,357	5,172	2,185
May 2, 2014	Aug. 29, 2014	0.06416	7,357	5,172	2,185
July 28, 2014	Sept. 30, 2014	0.06416	7,357	5,172	2,185
July 28, 2014	Oct. 31, 2014	0.06416	7,357	5,172	2,185
July 28, 2014(1)	Nov. 28, 2014	0.06416	7,357	5,172	2,185

(1) TransAlta and other shareholders' respective shares of this dividend will be confirmed based on their holdings at the close of business on November 3, 2014.

On Oct. 31, 2014, the Corporation declared dividends of $0.06416 per common share payable on Dec. 31, 2014, Jan. 30, 2015 and Feb. 27, 2015.

C. Earnings per Share

Basic earnings per share is based on net earnings 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 its IPO have been assumed to be outstanding as of the beginning of each period presented. The Corporation has no dilutive or potentially dilutive instruments.

D. Secondary Offering

On April 29, 2014, TransAlta completed a secondary public offering of 11,950,000 common shares of the Corporation at a price of $11.40 per common share. As a result of the offering, TransAlta's ownership interest has been reduced from approximately 80.7 per cent to approximately 70.3 per cent. The Corporation did not receive any of the proceeds from the sale of common shares, as these shares were owned and held by TransAlta.

13. CONTINGENCIES

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

14. RELATED PARTY 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 which are discussed in more detail in Note 27 of the Corporation's most recent annual consolidated financial statements.

A. Related Party Transactions

Related party transactions include the dividend income from the investment in preferred shares, as well as the royalty and other cost adjustments disclosed in Note 3 and the interest on letters of credit and guarantees pledged by TransAlta disclosed in Note 5.

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

	3 months ended Sept. 30		**9 months ended Sept. 30**	
	2014	2013	**2014**	2013
Revenue from TransAlta PPAs	**6,099**	3,887	**21,105**	3,887
G&A Reimbursement Fee	**2,619**	1,451	**7,761**	1,451
Interest expense on amortizing term loan	**1,848**	1,162	**5,650**	1,162
Interest expense on Wyoming Wind Acquisition Loan	**954**	-	**3,031**	-

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

B. Related Party Balances

Related party balances include the investment in preferred shares, the risk management assets and liabilities, as well as the amortizing term loan, Wyoming Wind Acquisition Loan, and credit facility disclosed in Note 11.

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

As at	**Sept. 30, 2014**	Dec. 31, 2013
Trade accounts receivable	**3,901**	10,232
Trade accounts payable	**2,399**	5,048
Dividends payable	**10,344**	23,600
Interest payable	**997**	3,311
Letters of credit issued by TransAlta on behalf of the Corporation	**4,503**	4,503
Guarantees provided by TransAlta on behalf of the Corporation	**226,500**	226,500

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

15. 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 results for periods prior to Aug. 9, 2013 were not historically prepared for the Acquired Assets as they had not been operated as a separate business. 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. See Note 28 of the Corporation's most recent annual consolidated financial statements for additional information on the relationship and transactions not discussed below:

Allocation of Corporate Costs

Certain shared costs were allocated to the Acquired Assets and reflected as expenses in the pre-Acquisition period financial statements. These allocated corporate costs include TransAlta charges for, 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 operations, maintenance, and administration 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 comparative three months and nine months ended Sept. 30, 2013, these pre-tax costs were $0.2 million and $3.5 million, respectively.

GLOSSARY OF KEY TERMS

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

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

Force Majeure – Literally means "greater force". A force majeure clause excuses a party from liability if an unforeseen event beyond the control of that party prevents it from performing its obligations under the contract.

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.

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

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

Reserve Margin – An indication of a market's capacity to meet unusual demand or deal with unforeseen outages/shutdowns of generating capacity.

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

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

Working Capital Credit Facility - A $100 million unsecured working capital credit facility with TransAlta. The facility is available for general corporate purposes including financing ongoing working capital requirements.

Wyoming Wind Acquisition Loan – A U.S.$102 million unsecured loan from TransAlta to fund the December, 2013 acquisition of the economic interest in the 144 MW wind farm in Wyoming.

Wyoming Wind Preferred Shares – A U.S.$102.7 million investment in Class A Preferred Shares of a TransAlta subsidiary to acquire the economic interest in the 144 MW wind farm in Wyoming.

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