TransAlta Renewables Inc. Annual Report 2013

TransAlta renewables inc.

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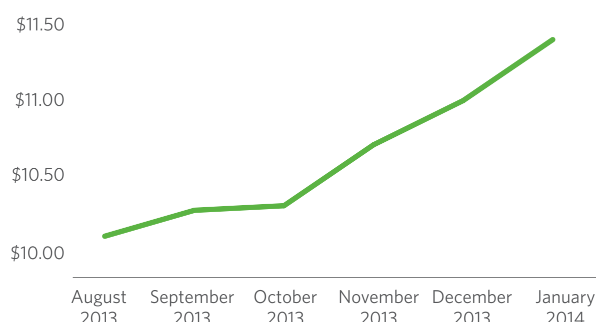
Letter to Shareholders

2013 marked the launch of TransAlta Renewables, one of Canada's premier renewable power companies. The $220 million Initial Public Offering (IPO) was completed in August, establishing a renewables company with over 1,200 MW of generating capacity from 29 fully contracted assets spanning five regions in Canada.

TransAlta Renewables was created to provide investors with an attractive investment, including:

- Canada's largest fleet of wind generation
- A highly diversified asset base
- Stable cash flows through long-term contracts
- A strong balance sheet
- Proven technologies

Share Price Performance Since IPO



TransAlta Renewables demonstrated its commitment to delivering attractive returns through a combination of growth and yield by acquiring an economic interest in a long-term contracted, 144 MW wind farm in Wyoming. The transaction, announced in October, marked TransAlta Renewables' first investment in the United States, and not only increased the size of the company, but also provided further diversification. The acquisition was immediately accretive to cash flow available for distributions and resulted in the Board of Directors approving an increase in the annualized dividend from $0.75 to $0.77 per share, a 2.7% increase in just a four-month time period.

With the dividend increase associated with the Wyoming transaction, TransAlta Renewables has delivered strong total shareholder returns since the IPO.

Going forward, TransAlta Corporation, as majority owner and sponsor, is focused on growing TransAlta Renewables to create value for both sets of shareholders. The outlook for renewable energy continues to look promising and TransAlta Renewables is well positioned to participate in that sector.

As TransAlta Renewables continues to expand its portfolio, it will remain disciplined in the returns it seeks from new investments and will finance them in a manner that maintains a strong balance sheet and financial flexibility.

The Management team and the Board of Directors at TransAlta Renewables are very proud of the creation of the company and excited about its future growth prospects. We believe we are well positioned to continue to grow the company and deliver consistent and reliable value to you.

Sincerely,

Brett M. Gellner
President and Designated Chief Executive Officer

Allen R. Hagerman
Chair of the Board

February 13, 2014

Map of Operations

Generation Facilities

hydro plants

wind-powered plants

Plant Summary

As of January 31, 2014	Facility	Capacity (MW)[1]	Ownership (%)	Net capacity ownership interest (MW)[1]	Fuel	Revenue source[2]	Contract expiry date
Western Canada 18 Facilities	Taylor Hydro, AB	13	100%	13	Hydro	TransAlta PPA	2033
	Belly River, AB	3	100%	3	Hydro	TransAlta PPA	2033
	Waterton, AB	3	100%	3	Hydro	TransAlta PPA	2033
	St. Mary, AB	2	100%	2	Hydro	TransAlta PPA	2033
	Upper Mamquam, BC	25	100%	25	Hydro	PPA	2025
	Pingston, BC	45	50%	23	Hydro	PPA	2023
	Bone Creek, BC	19	100%	19	Hydro	PPA	2031
	Akolkolex, BC	10	100%	10	Hydro	PPA	2015
	Summerview 1, AB	70	100%	70	Wind	TransAlta PPA	2033
	Summerview 2, AB	66	100%	66	Wind	TransAlta PPA	2033
	Ardenville, AB	69	100%	69	Wind	TransAlta PPA	2033
	Blue Trail, AB	66	100%	66	Wind	TransAlta PPA	2033
	Castle River, AB[3]	44	100%	44	Wind	TransAlta PPA	2027
	McBride Lake, AB	75	50%	38	Wind	PPA	2023
	Soderglen, AB	71	50%	35	Wind	TransAlta PPA	2033
	Cowley North, AB	20	100%	20	Wind	TransAlta PPA	2031
	Sinnott, AB	7	100%	7	Wind	TransAlta PPA	2031
	Macleod Flats, AB	3	100%	3	Wind	TransAlta PPA	2033
Total Western Canada		**610**		**515**			

Plant Summary

As of January 31, 2014	Facility	Capacity (MW)[1]	Ownership (%)	Net capacity ownership interest (MW)[1]	Fuel	Revenue source[2]	Contract expiry date
Eastern Canada 10 Facilities	Misema, ON	3	100%	3	Hydro	PPA	2027
	Galetta, ON	2	100%	2	Hydro	PPA	2030
	Appleton, ON	1	100%	1	Hydro	PPA	2030
	Moose Rapids, ON	1	100%	1	Hydro	PPA	2030
	Wolfe Island, ON	198	100%	198	Wind	PPA	2029
	Melancthon, ON[4]	200	100%	200	Wind	PPA	2026-2028
	Kent Hills, NB[4]	150	83%	125	Wind	PPA	2033-2035
	New Richmond, QC	68	100%	68	Wind	PPA	2032
Total Eastern Canada		**622**		**597**			
United States 1 Facility	Wyoming Wind[5]	144	100%	144	Wind	PPA	2028
Total U.S.		**144**		**144**			
Total		**1,376**		**1,255**			

1 Megawatts are rounded to the nearest whole number; columns may not add due to rounding.
2 PPA refers to Power Purchase Agreement.
3 Includes seven individual turbines at other locations.
4 Comprised of two facilities.
5 The Company holds an economic interest in this facility.

Management's Discussion and Analysis

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*This Management's Discussion and Analysis ("MD&A") should be read in conjunction with our 2013 audited consolidated financial statements and our 2014 Annual Information Form ("AIF"). Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for Canadian publicly accountable enterprises. 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. All dollar amounts in the tables are in thousands of Canadian dollars, unless otherwise noted. In this MD&A, unless the context otherwise requires, 'we', 'our', 'us', 'TransAlta Renewables', and the 'Corporation' refer to TransAlta Renewables Inc. and 'TransAlta' and the 'Parent' refer to TransAlta Corporation and its subsidiaries. Capitalized terms not otherwise defined herein have their respective meanings set forth in the Glossary of Key Terms. This MD&A is dated Feb. 13, 2014. Additional information respecting TransAlta Renewables, including our 2014 AIF for the year ended Dec. 31, 2013, is available on SEDAR at **www.sedar.com** and on our website at **www.transaltarenewables.com**.*

Formation of the Corporation

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

The results of operations for periods prior to the Acquisition on Aug. 9, 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 have 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 reflect the results of operations for the Acquired Assets in a manner consistent with how TransAlta managed the Acquired Assets and as though the Acquired Assets had been a separate company. All material assets and liabilities specifically identified to the Acquired Assets and all material revenues and expenses specifically attributable to the Acquired Assets and allocations of overhead expenses have been included in the results of operation for periods prior to the Acquisition. These may not necessarily reflect the financial position, results of operations, or cash flows that the Acquired Assets might have had in the past had they existed as a separate business during the periods prior to the Acquisition.

Highlights

Operational Results

- Gross margins increased $24.9 million to $231.6 million year over year, primarily due to higher wind volumes from the commencement of commercial operations at New Richmond and higher prices, partially offset by lower hydro volumes and lost wind volumes and revenues due to the impact of the December 2013 extreme weather conditions in Eastern Canada.
- Production increased 80 gigawatt hours ("GWh") to 2,855 GWh compared to 2012, primarily due to the commencement of commercial operations at New Richmond, partially offset by lower wind volumes and lower water resources.

Financial Highlights

- Funds from Operations ("FFO") increased $22.8 million to $154.0 million compared to the prior year, primarily due to higher cash earnings.
- Comparable Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA") increased $24.7 million to $184.1 million compared to 2012, primarily due to higher wind volumes from the commencement of commercial operations at New Richmond and higher prices, partially offset by lower hydro volumes and lost wind volumes and revenues due to the impact of the December 2013 extreme weather conditions in Eastern Canada.
- Comparable earnings were $54.6 million ($0.48 per share), up from $39.6 million ($0.35 per share) in 2012, primarily due to higher operating gross margins due to the commencement of commercial operations at New Richmond, partially offset by higher depreciation and interest expense.
- Reported net earnings attributable to common shareholders were $50.3 million ($0.44 per share), up from $32.1 million ($0.28 per share) in 2012. The increase is due to the commencement of commercial operations at New Richmond, partially offset by higher depreciation and interest expense, and the following non-comparable amounts, net of tax:
  - Decrease in asset impairment charges of $7.0 million
  - Decrease in gain on sale of assets of $2.2 million
  - Increase in income tax expense of $1.6 million related to changes in provincial income tax rates.

Acquisition of Wind Farm

On Dec. 20, 2013, we completed the acquisition of an economic interest in a 144 megawatt ("MW") wind farm in Wyoming ("Wyoming Wind Farm") through a subsidiary of TransAlta. The wind farm is fully operational and contracted under a long-term power purchase agreement ("PPA") until 2028 with an investment grade counterparty. Refer to the Significant Events section of this MD&A for further details.

Summary of Results

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

Year ended Dec. 31	2013	2012
Production *(GWh)*	**2,885**	2,805
Revenues	**245,341**	219,817
Gross margin[1]	**231,632**	206,703
Operating income[1]	**103,842**	72,326
Comparable operating income[2]	**107,505**	85,326
Net earnings attributable to common shareholders[3]	**50,258**	32,091
Net earnings per share attributable to common shareholders, basic and diluted[3]	**0.44**	0.28
Comparable net earnings per share[2]	**0.48**	0.35
Comparable EBITDA[2]	**184,094**	159,383
Funds from operations[2]	**153,957**	131,129
Funds from operations per share[2]	**1.34**	1.14
Cash flow from operating activities	**161,836**	116,914
Cash available for distribution[2]	**142,495**	120,301
Dividends paid per common share[4]	**0.23**	–

Business Environment

Overview of Our Business

We own 16 wind and 12 hydro generating facilities that were acquired from TransAlta on Aug. 9, 2013. TransAlta manages and operates these facilities on our behalf under the terms of a Management and Operational Services Agreement. The facilities are situated on land leased from third parties under long-term leases. Our facilities are located in five provinces within Canada: British Columbia, Alberta, Ontario, Quebec, and New Brunswick. Our power generating capacity is among the largest of any publicly traded renewable independent power producer ("IPP") in Canada, with more wind power generating capacity than any other Canadian publicly traded IPP. All of our generation output is sold under long-term PPAs with TransAlta ("TransAlta PPAs") or PPAs with other investment grade counterparties.

We also have an economic interest in the 144 MW Wyoming Wind Farm. The wind farm is fully operational and contracted under a long-term PPA until 2028 with an investment grade counterparty. Refer to the Significant Events section of this MD&A for further details.

Our business is cyclical 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.

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

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

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

4 Dividends paid per common share are presented in whole dollars to the nearest two decimals.

Demand and Supply

Economic growth is the main driver of longer-term changes in the demand for electricity. Historically, demand for electricity in both Western and Eastern Canada has grown at an average rate of one to three per cent per year. In recent years, demand growth has been weaker in Eastern Canada due to economic conditions, while Western Canada has shown steady growth, primarily influenced by growth in Alberta.

Reserve margins measure available capacity in a market over and above the capacity needed to meet normal peak demand levels. Falling reserve margins indicate that generation capacity is becoming relatively scarce and results in increased power prices. During 2013, reserve margins decreased in Eastern Canada and increased in Western Canada.

Generally, market demand and supply conditions and changes in such conditions do not have a significant impact on our operations due to our highly contracted position.

Transmission

Transmission refers to the bulk delivery system of power and energy between generating units and wholesale and/or retail customers. Power lines serve as the physical path, transporting electricity from generating units to customers. Transmission capacity refers to the ability of the transmission line, or lines, to safely and reliably transport electricity in an amount that balances the dispatched generating supply with demand, and allows for contingency situations on the system. Transmission constraints are physical limitations to power flow that can occur on a transmission system. Constraints may impact our operations by forcing production curtailments at impacted sites.

Environmental Legislation

Generation of electricity from wind and hydro sources results in low environmental impacts when compared to other fuel types. Wind power facilities do not produce any emissions. They can be erected with minimal disturbance to the environment and utilize a known, predictable and recurring resource. Run-of-river hydro generation produces virtually no emissions and returns the original fuel source, water, into the river. Run-of-river facilities provide a smaller hydro generation option with a smaller footprint than traditional reservoir technology and operate with the seasonality of water flow within a given area. Run-of-river facilities also have a minimal impact on surrounding vegetation, fish, bird, and wildlife habitats.

Although our operations generally have low environmental impacts, our activities are subject to stringent environmental laws and regulations promulgated and administered by federal, provincial, and municipal governments where we operate. These laws and regulations generally concern use of water, wildlife, wetlands preservation, remediation of contamination, waste disposal requirements, preservation of archaeological artifacts, endangered species preservation, and noise limitations, among others. Our operations must be in compliance with the applicable environmental laws and regulations and we must also obtain or comply with any necessary environmental permits pursuant to such laws and regulations.

Economic Environment

The economic environment in Eastern Canada showed signs of weakness in 2013, whereas in Western Canada, low to moderate growth occurred. Economic conditions impact economic growth, which in turn can have a direct impact on the overall demand for electricity.

Contracted Cash Flows

All of our wind and hydro facilities are fully contracted. Nine wind and four hydro facilities are contracted under long-term PPAs with TransAlta. The remaining wind and hydro facilities are contracted with government-owned corporations and large utility customers. The earliest contract expiry date is 2015 for our 10 MW Akolkolex hydro facility, while the remaining PPAs and other long-term contracts generally expire between 2023 and 2035.

The Wyoming Wind Farm, in which we have an economic interest, is contracted under a long-term PPA until 2028.

In addition to contracting for power, long-term and short-term contracts have been entered into to sell the environmental attributes from our wind and hydro facilities. For 2013, 100 per cent and 94 per cent of the environmental attributes from our wind and hydro facilities, respectively, have been sold.

Electricity Prices

Wind and run-of-river hydro are generally not dispatchable fuels, therefore, in merchant markets, production from these types of facilities may not be able to secure the average pool price. However, as discussed under Contracted Cash Flows, we are generally not exposed to merchant electricity prices given our fully contracted position.

Strategy and Capability to Deliver Results

Our objectives are to (i) create stable, consistent returns for investors through the ownership of contracted renewable power generation assets that provide stable cash flow through long-term PPAs with creditworthy counterparties, including TransAlta; (ii) pursue and capitalize on strategic growth opportunities in the renewable power generation sector; and (iii) pay out a portion of cash available for distribution to the shareholders of the Corporation on a monthly basis. Our strategies and capabilities to deliver on our objectives are as follows:

Financial Strategy

Our financial strategy is to maintain a strong financial position to provide a solid foundation for our core business and growth. A strong financial position improves our ability to create stable, consistent returns. At present, we primarily rely on TransAlta for financing and liquidity support.

Contracting Strategy

Through the use of PPAs, including the TransAlta PPAs, all of our capacity is currently contracted. Substantially all of the capacity is contracted over the next 10 to 20 years.

Operational Strategy

Our wind and hydro facilities have an established operating history and performance. Except for the New Richmond wind facility, which commenced operations in March 2013, the assets have been in operation from approximately three to 23 years.

We have long-term service agreements in place for many of our wind facilities, which allow us to stabilize costs.

TransAlta provides management, administrative, and operational services to the Corporation. The members of TransAlta's management team who are responsible for managing our operations have extensive experience in the power generation business, including managing the facilities prior to us acquiring them. The employees of TransAlta providing operational services at our facilities are the same individuals who have performed such services for TransAlta. TransAlta and its predecessors have been engaged in the production and sale of electric energy since 1909, with its first operations being in hydro generation. TransAlta was the first company to own and operate more than 1,000 net MW of wind generation capacity in Canada. TransAlta is among Canada's largest non-regulated electricity generation and energy marketing companies.

Growth Strategy

Our growth strategy is to acquire high-quality renewable power generation facilities that generate stable cash flows, with the objective of achieving returns on invested capital. The successful execution of a growth strategy that depends primarily on acquiring operating assets requires careful timing and business judgment, as well as the resources to complete the due diligence and evaluation of such assets.

We anticipate capitalizing on growth opportunities primarily in the following areas:

- acquisitions and other growth opportunities in renewables in Canada and the U.S.;
- acquisitions of assets from TransAlta;
- industry consolidation; and
- acquisitions and other growth opportunities in new markets and other technologies or investment classes.

Performance Metrics

We have key measures that, in our opinion, are critical to evaluating how we are progressing towards meeting our goals. These measures, which include a mix of operational, risk management, and financial metrics, are discussed below.

Productivity

Our operations, maintenance, and administration ("OM&A") costs reflect the costs associated with operating our facilities. These costs can fluctuate due to the timing and nature of planned maintenance activities. The remainder of OM&A costs reflects the cost of day-to-day operations. Our goal is to offset the impact of inflation on our recurring operating costs as much as possible through cost control and targeted productivity initiatives. We measure our ability to maintain productivity based on comparable OM&A per installed megawatt hour ("MWh") of capacity.

Cash Available for Distribution

We believe that cash available for distribution is an operating performance measure and an indicator of financial performance. As we intend to distribute a significant portion of our cash available for distribution on an ongoing basis, management believes that, in addition to net cash provided by operations, cash available for distribution is a useful non-IFRS measure that provides investors and financial analysts the information necessary to assess the ongoing operating performance and the highlights of the key trends in the continuing business. However, there is no standard definition of cash available for distribution prescribed by IFRS, and other issuers may calculate similarly described measures differently. We focus our base business on delivering stable cash flows. In addition, our goal is to steadily grow comparable EBITDA and cash flows through the acquisition of new assets.

Significant Events

Our consolidated financial results include the following significant events:

2013

Acquisition of Economic Interest in Wyoming Wind Farm

On Dec. 20, 2013, we completed the acquisition of an economic interest in a 144 MW wind farm in Wyoming. The wind farm was purchased by a subsidiary of TransAlta. We acquired the economic interest in the Wyoming Wind Farm through our U.S.$102.7 million ($109.7 million) investment in the Class A Preferred Shares of a TransAlta subsidiary ("Wyoming Wind Preferred Shares"). The Class A Preferred Shares effectively transfer all of the free cash flow from the Wyoming Wind Farm to the Corporation, through dividends based on the pre-tax net earnings generated by the wind farm, and return of capital provisions. We funded the acquisition of the economic interest through a U.S.$102.0 million ($108.9 million) loan from TransAlta ("Wyoming Wind Acquisition Loan").

TransAlta acquired the wind farm from an affiliate of NextEra Energy Resources, LLC for total cash consideration transferred of U.S.$102.7 million. The wind farm is fully operational and contracted under a long-term PPA until 2028 with an investment grade counterparty.

The acquisition is the first wind project in the Western United States for the Corporation and for TransAlta and aligns with our strategy of growing our renewables platform. It is expected to be accretive to our cash available for distribution per share by approximately two to three per cent.

Ice Storm – Eastern Canada

In late December 2013, extreme weather conditions impacted our operations in parts of Ontario and Atlantic Canada, causing icing on turbine blades and consequently requiring us to shut down some of the wind turbines. The impact ranged from 7 to 12 days of downtime at each of the affected facilities, a total of 25.6 GWh of lost production, and approximately $2.6 million in total lost revenues. Operations at all impacted sites have returned to normal.

Acquisition of Generating Assets

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

Consideration Transferred	Amount
Issuance of 66,666,667 common shares at $10 per share	666,667
Issuance of closing note	187,000
Issuance of short term note	250,000
Issuance of acquisition note	30,000
Issuance of amortizing term loan	200,000
Total	**1,333,667**

The Acquisition was accounted for as a business combination under common control which results when the business subject to the acquisition is ultimately controlled by the same party before and after the business combination transaction. TransAlta controlled the Acquired Assets prior to the Aug. 9, 2013 acquisition by TransAlta Renewables and continues to indirectly control the Acquired Assets after the acquisition date by virtue of its approximate 80.7 per cent ownership of our common shares. We have used the pooling of interests, or book value, method of accounting to account for the Acquired Assets in the current and comparative periods. The financial statements of the Acquired Assets and TransAlta Renewables have been combined together at book values, as if we had always owned the Acquired Assets, with the exception of the recognition of a $205.8 million reduction in the carrying amount of certain hydro and wind generating facilities resulting from a revaluation based on the terms of the TransAlta PPAs. Refer to Note 14 of our 2013 audited consolidated financial statements for further discussion.

Initial Public Offering of Common Shares

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

On Aug. 9, 2013, we completed the Offering and issued 20.0 million common shares for gross proceeds of $200.0 million. The net proceeds of the Offering were used by TransAlta Renewables to repay a portion of the closing note issued to TransAlta. On Aug. 29, 2013, the underwriters exercised their Over-Allotment Option in part to purchase an additional 2.1 million common shares at the offering price of $10.00 per common share for gross proceeds of $21.0 million. We used the proceeds received from the partial exercise of the Over-Allotment Option to repay a portion of the amount outstanding under the $30.0 million acquisition note issued to TransAlta. The remaining principal amount of $9.0 million outstanding under the acquisition note after such payment has been converted into 0.9 million common shares on the basis of one common share for each $10.00 owing to TransAlta under the acquisition note.

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

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

Asset Impairment Charges

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

New Richmond

On March 13, 2013, our 68 MW New Richmond wind farm began commercial operations. The total cost of the project was approximately $226.8 million.

2012

Asset Impairment Charges

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

Results of Operations

TransAlta Renewables owns and operates hydro facilities and wind farms in Western and Eastern Canada and holds an economic interest in the 144 MW Wyoming Wind Farm. At Dec. 31, 2013, our generating assets had 1,232 MW of gross generating capacity[1] in operation (1,111 MW net ownership interest).

The results of operations are as follows:

Year ended Dec. 31	2013	2012
Revenues	**200,822**	189,504
Government incentives	**22,019**	23,369
Lease revenue[2]	**22,500**	6,944
Total revenue	**245,341**	219,817
Royalties and other	**13,709**	13,114
Comparable gross margin[3]	**231,632**	206,703
Operations, maintenance, and administration	**40,963**	40,828
Taxes, other than income taxes	**6,575**	6,492
Comparable EBITDA[3]	**184,094**	159,383
Depreciation and amortization	**76,589**	74,057
Comparable operating income[3]	**107,505**	85,326
Production *(GWh)*[4]	**2,885**	2,805
Installed capacity *(GWh)*[4]	**9,741**	9,170

Comparable gross margin for the year ended Dec. 31, 2013 increased by $24.9 million compared to 2012, primarily due to higher wind volumes from the commencement of commercial operations at New Richmond and higher prices, partially offset by lower hydro volumes and lost wind volumes and revenues due to the impact of the December 2013 extreme weather conditions in Eastern Canada.

Depreciation and amortization expense for the year ended Dec. 31, 2013 increased $2.5 million compared to 2012, primarily due to the commencement of commercial operations at New Richmond, partially offset by a lower depreciable asset base.

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 owned and in operation unless otherwise stated.*

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 *Production and installed capacity do not include results from our economic interest in the Wyoming Wind Farm.*

Production and Gross Margins

Year ended Dec. 31, 2013	Installed *(GWh)*	Production *(GWh)*	Revenues	Royalties and other	Gross margin	Revenues per produced MWh[1]	Royalties and other per produced MWh[1]	Gross margin per produced MWh[1]
Western Canada wind	3,653	1,090	72,635	5,447	67,188	66.64	5.00	61.64
Eastern Canada wind	5,168	1,428	145,613	6,431	139,182	101.97	4.50	97.47
Hydro	920	367	27,093	1,831	25,262	73.82	4.99	68.83
	9,741	2,885	245,341	13,709	231,632	85.04	4.75	80.29

Year ended Dec. 31, 2012	Installed *(GWh)*	Production *(GWh)*	Revenues	Royalties and other	Gross margin	Revenues per produced MWh[1]	Royalties and other per produced MWh[1]	Gross margin per produced MWh[1]
Western Canada wind	3,663	1,121	63,247	4,376	58,871	56.42	3.90	52.52
Eastern Canada wind	4,585	1,301	129,796	7,012	122,784	99.77	5.39	94.38
Hydro	922	383	25,879	1,726	24,153	67.57	4.51	63.06
Biomass	–	–	895	–	895	–	–	–
	9,170	2,805	219,817	13,114	206,703	78.37	4.68	73.69

Western Canada Wind

Our Western Canada assets consist of 10 wind facilities with a total gross generating capacity of 491 MW (418 MW net ownership interest).

Production for the year ended Dec. 31, 2013 decreased 31 GWh compared to 2012 primarily due to lower wind volumes.

For the year ended Dec. 31, 2013, gross margin increased $8.3 million compared to 2012, primarily due to higher merchant prices prior to entering into the TransAlta PPAs, partially offset by higher royalties and transmission costs and lower wind volumes.

Eastern Canada Wind

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

Production for the year ended Dec. 31, 2013 increased 127 GWh compared to 2012, primarily due to the commencement of commercial operations at New Richmond in March 2013.

For the year ended Dec. 31, 2013, gross margins increased $16.4 million compared to 2012, primarily due to the commencement of commercial operations at New Richmond in March 2013 and lower royalties and transmission costs at other facilities.

Hydro

Our hydro assets consist of 12 facilities with a total gross generating capacity of 127 MW (105 MW net ownership interest).

Although four of our hydro facilities are located in Southern Alberta, they are not located on waterways that were affected by the severe flooding in the summer of 2013. Accordingly, our operations were not impacted.

Production for the year ended Dec. 31, 2013 decreased 16 GWh compared to 2012, primarily due to lower water resources in Western Canada, partially offset by lower unplanned outages.

For the year ended Dec. 31, 2013, gross margin increased $1.1 million compared to 2012, primarily due to higher average prices, partially offset by lower water resources in Western Canada.

1 The amounts per MWh are presented in whole dollars to the nearest two decimals.

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 will not be consolidated into our results; however, the dividends we receive on our Wyoming Wind Preferred Shares will be included in our consolidated results and are based on the pre-tax net earnings from the Wyoming Wind Farm. Refer to the Significant Events section of this MD&A for further details.

For the period Dec. 20 to Dec. 31, 2013 production from the Wyoming Wind Farm was 24 GWh.

Net Interest Expense

The components of net interest expense are shown below:

Year ended Dec. 31	2013	2012
Interest on debt	**29,436**	27,606
Interest on letters of credit and guarantees pledged by TransAlta	**2,297**	4,156
Capitalized interest	**(2,147)**	(4,621)
Interest income	**(15)**	(42)
Interest expense	**29,571**	27,099
Accretion of provisions	**848**	730
Net interest expense	**30,419**	27,829

For the year ended Dec. 31, 2013, net interest expense increased compared to 2012 primarily due to the increase in interest on the Amortizing Term Loan, offset by lower interest costs related to the letters of credit and guarantees pledged by TransAlta and lower capitalized interest.

Non-Controlling Interest

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

Since we have a controlling interest in Kent Hills, 100 per cent of the earnings, assets, and liabilities are consolidated into our financial statements. Non-controlling interest on the Consolidated Statements of Earnings and Consolidated Statements of Financial Position relate to the earnings and net assets attributable to the portion of Kent Hills that we do not own. On the Consolidated Statements of Cash Flows, cash paid to the minority owners of Kent Hills is shown in the finance section as distributions to non-controlling interest.

Net earnings attributable to the non-controlling interest for the year ended Dec. 31, 2013 of $2.6 million is comparable to $2.7 million in 2012.

Income Taxes

Our income tax rates and tax expense are based on the earnings generated in each jurisdiction in which we operate and any permanent differences between how pre-tax income is calculated for accounting and tax purposes. If there is a timing difference between when an expense or revenue item is recognized for accounting and tax purposes, these differences result in deferred income tax assets or liabilities and are measured using the income tax rate expected to be in effect when these temporary differences reverse. The impact of any changes in future income tax rates on deferred income tax assets or liabilities is recognized in earnings in the period the new rates are enacted.

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

Year ended Dec. 31	2013	2012
Earnings before income taxes	72,710	48,329
Income attributable to non-controlling interest	(2,617)	(2,653)
Asset impairment charges	3,663	13,000
Gain on sale of assets	–	(2,987)
Earnings attributable to common shareholders excluding non-comparable items subject to tax	73,756	55,689
Income tax expense	19,835	13,585
Income tax recovery related to asset impairment charges	916	3,250
Income tax expense related to gain on sale of assets	–	(747)
Income tax expense related to changes in corporate income tax rates[1]	(1,594)	–
Income tax expense excluding non-comparable items	19,157	16,088
Effective tax rate on earnings attributable to common shareholders excluding non-comparable items (%)	26	29

For the year ended Dec. 31, 2013, income tax expense excluding non-comparable items increased compared to 2012 due to higher comparable earnings, the effect of certain prior year tax adjustments that do not fluctuate with earnings, and an increase in provincial tax rates.

For the year ended Dec. 31, 2013, the effective tax rate on earnings attributable to common shareholders excluding non-comparable items decreased compared to 2012 due to the effect of certain prior year tax adjustments that do not fluctuate with earnings.

Financial Position

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

	Increase/ (decrease)	Primary factors explaining change
Cash and cash equivalents	16,051	Timing of receipts and payments
Accounts receivable	(4,994)	Timing of customer receipts
Due from related parties	(131,171)	Repaid during formation of Corporation
Property, plant, and equipment, net	(231,498)	Asset revaluation and amortization net of additions
Intangible assets	(7,977)	Amortization
Investment in preferred shares	109,325	Acquisition of economic interest in Wyoming Wind Farm
Deferred income tax assets	4,441	Tax on share issuance costs and increase in tax loss carryforwards
Accounts payable and accrued liabilities	(4,624)	Timing of payments and accruals
Dividends payable	29,239	Dividends declared on common shares during the year
Long-term debt (including current portion)	311,482	Issuance of Amortizing Term Loan and Wyoming Wind Acquisition Loan
Deferred income tax liabilities	45,155	Increase in income tax provisions due to the formation of the Corporation and reversal of temporary timing differences
Net parental investment	(1,660,166)	Transferred to common share equity due to the formation of the Corporation
Equity attributable to shareholders	1,027,769	Formation of the Corporation and net earnings for the year

1 *Impact of rate changes on future income taxes.*

Financial Instruments

Financial instruments can be used to manage exposure to interest rates, commodity prices, and currency fluctuations, as well as other market risks. TransAlta enters into financial instrument and derivative contracts with external counterparties on our behalf. Financial instruments are accounted for using the fair value method of accounting. The initial recognition of fair value and subsequent changes in fair value can affect reported earnings in the period the change occurs if hedge accounting is not elected. Otherwise, these changes in fair value will generally not affect earnings until the financial instrument is settled.

The two types of financial instruments that we primarily use are: (1) those that are used in relation to energy trading activities, commodity hedging activities, and other contracting activities; and (2) those used in the hedging of foreign denominated debt, projects, and expenditures.

We may enter into commodity transactions for which market observable data is not available. These are defined under IFRS as Level III financial instruments. Level III financial instruments are not traded in an active market and fair value is, therefore, developed using valuation models based upon internally developed assumptions or inputs. Our Level III fair values may be determined using data such as transmission congestion, demand profiles for individual and non-standard deals and structured products, and/or volatilities and correlations between products derived from historical prices, depending on the nature of the underlying instrument.

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

At Dec. 31, 2013, total Level III financial instruments had a net carrying value of $0.1 million net liability (Dec. 31, 2012 – $0.2 million net asset).

Statements of Cash Flows

The following chart highlights significant changes in the Consolidated Statements of Cash Flows for the years ended Dec. 31, 2013 and 2012:

Year ended Dec. 31	2013	2012	Primary factors explaining change
Cash and cash equivalents, beginning of year	**3,205**	3,990	
Provided by (used in):			
Operating activities	**161,836**	116,914	Higher cash earnings of $22.1 million and favourable changes in working capital of $22.9 million
Investing activities	**(167,044)**	(156,554)	Investment in Wyoming Wind Farm Preferred Shares for $109.7 million and an unfavourable change in non-cash operating working capital balances of $24.8 million, partially offset by a decrease in additions to property, plant, and equipment ("PP&E") of $118.6 million and an increase in realized risk management gains of $5.4 million
Financing activities	**20,368**	38,855	Increase in repayment of closing note and partial repayment of acquisition note of $208.0 million, increase in repayment of net parental investment and other related party amounts of $100.3 million, and an increase in dividends paid on common shares of $26.9 million, partially offset by an increase in net proceeds on issuance of common shares of $206.9 million and the issuance of long-term debt for $108.9 million
Cash and cash equivalents, net of bank overdraft, end of year	**18,365**	3,205	

Liquidity and Capital Resources

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

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

Debt

Long-term debt, including amounts owing to TransAlta, totalled $684.2 million as at Dec. 31, 2013 compared to $372.7 million as at Dec. 31, 2012. Long-term debt increased from Dec. 31, 2012 primarily due to the issuance, to TransAlta, of the Amortizing Term Loan and the Wyoming Wind Acquisition Loan. Refer to Note 18 of our 2013 audited consolidated financial statements.

Share Capital

On Dec. 31, 2013 and Feb. 13, 2014, we had 114.7 million common shares issued and outstanding.

Due to Related Party

At Dec. 31, 2013, $308.5 million of our long-term debt was due to TransAlta (Dec. 31, 2012 – $131.2 million in advances due from TransAlta).

Working Capital Credit Facility

We have a $100.0 million unsecured working capital credit facility with TransAlta available to us. Borrowings under the facility bear interest at the Bankers' Acceptance Rate ("BA Rate") plus a 200 basis point credit spread per annum. Currently, the expected borrowing rate is approximately 3.25% and will vary based on the credit spread over the BA Rate. The facility is available for general corporate purposes, including financing ongoing working capital requirements. At Dec. 31, 2013, no amounts are outstanding under the facility.

Capital Structure

Our capital structure consists of the following components as shown below:

As at Dec. 31	**2013**		2012	
	Amount	**%**	Amount	%
Debt, net of available cash and cash equivalents[1]	**665,850**	**38**	369,528	18
Non-controlling interest	**39,290**	**2**	40,416	2
Equity attributable to shareholders	**1,027,769**	**60**	1,659,196	80
Total capital	**1,732,909**	**100**	2,069,140	100

Commitments

Payments required under the Corporation's contractual obligations are as follows:

	Long-term service agreements	**General administrative services**	**Equipment leases**	**Long-term debt**	**Interest on long-term debt**	**Total**
2014	17,927	10,363	520	37,596	34,345	100,751
2015	14,287	10,570	508	193,534	29,255	248,154
2016	9,482	10,782	532	66,427	22,173	109,396
2017	5,841	10,997	561	24,413	19,867	61,679
2018	7,270	11,217	591	283,827	12,163	315,068
2019 and thereafter	41,040	191,869	601	82,511	5,889	321,910
Total	**95,847**	**245,798**	**3,313**	**688,308**	**123,692**	**1,156,958**

1 *The Corporation includes available cash and cash equivalents net of bank overdraft as a reduction in the calculation of capital as capital is managed internally and evaluated by management using a net debt position.*

Unconsolidated Structured Entities or Arrangements

Disclosure is required of all unconsolidated structured entities or arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities, or variable interest entities that are reasonably likely to materially affect liquidity or the availability of, or requirements for, capital resources. We currently have no such unconsolidated structured entities or arrangements.

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 the acquisition of an 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; expectations for the outcome of existing or potential legal and contractual claims; expectations for the ability to access capital markets at reasonable terms; the estimated impact of changes in interest rates and the value of the Canadian dollar relative to the U.S. dollar; the monitoring of our exposure to liquidity risk; expectations 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 this MD&A and in our 2014 AIF for the year ended Dec. 31, 2013 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.

2014 Outlook

Business Environment

Demand and Supply

We expect growth in electricity demand in Canada to vary from an average rate of one per cent in Eastern Canada to as high as two to three per cent in Western Canada. The expected stronger growth in Western Canada is as a result of several large oil sands projects that should bring new demand over the next several years.

New supply in the near term and intermediate term is expected to come primarily from investment in renewable energy and natural gas-fired generation across most North American markets. This expectation is driven by the relatively low prices in the natural gas market combined with a continued expectation that greenhouse gas legislation of some form is still expected in the U.S. and certain Canadian jurisdictions. Green technologies have gained favour with regulators and the general public, creating increasing pressure to supply power using renewable resources such as wind, hydro, geothermal, and solar. In Alberta, there are currently 300 MW of wind generation facilities under construction and approximately 1,000 MW have received regulatory approval. In total, approximately 2,300 MW of wind generation is in the Alberta Electric System Operator interconnection queue.

In Ontario, there is currently 104 MW of wind in the commissioning stages and 479 MW of wind under construction. In addition, 1,651 MW of contracted wind is set to come online during the 2014 to mid-2015 time frame, of which approximately 18 per cent has received notice to proceed approval from the Ontario Power Authority.

In Quebec, there are currently 659 MW of wind projects under construction and a further 293 MW in the planning stages. In November 2013, Hydro-Québec Distribution issued a request for tenders for the development of a further 450 MW of wind power, with the expectation for commissioning these facilities before the end of 2017.

However, not all announced generation is expected to be built and some projects cannot be developed prior to transmission expansions.

Economic Environment

We expect moderate growth in Alberta and low growth in Eastern Canada in 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 the 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.

Transmission

Historically, transmission systems have been designed to serve loads in their local area only, and interties between jurisdictions that were built for reliability served only a small fraction of the local generation capacity or load. We believe future transmission lines will need to connect beyond provincial and state borders as there is a desire to improve efficiency by transmitting large quantities of electricity from one region to another. We expect that such inter-regional lines will either be alternating current or direct current high-voltage lines. The reinforcement of aging transmission systems is required to alleviate constraints, reduce transmission line losses, and allow for the development of additional generation.

In the North American market, we believe investment in transmission capacity has not kept pace with the growth in demand for electricity. In addition, lead times in new transmission infrastructure projects are significant, subject to extensive consultation processes with landowners, and subject to regulatory requirements that can change frequently. As a result, existing generation or additions of generating capacity may not have ready access to markets until key bulk transmission upgrades and additions are completed. However, existing transmission upgrade and reinforcement projects currently underway in Southern Alberta are expected to alleviate transmission constraints in that region.

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 applying 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 IPPs. 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

We expect production in 2014 to be in line with the 3,059 GWh long-term average for our facilities and slightly higher than 2013 due to the full year of production expected from the New Richmond facility.

Contracted Cash Flows

Through the use of PPAs, including the TransAlta PPAs, all of our capacity is currently contracted. Substantially all of our capacity is contracted over the next 10 to 20 years. In addition, for 2014, approximately 76 per cent and 95 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 the commencement of operations at the New Richmond wind farm. 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.

Wyoming Wind Economic Interest

We expect dividends on the Wyoming Wind Preferred Shares we own to be in the range of $8.0 to $9.0 million in 2014. Actual dividend amounts may vary from this range as the dividends are based on pre-tax earnings 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 the 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 the related payment of U.S.-denominated interest, as well as the U.S.-denominated interest on our U.S.$20.0 million CHD debenture.

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 related 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.

Net Interest Expense

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

Liquidity and Capital Resources

If there are low wind volumes, low hydro resources, or unexpected maintenance costs, we may need additional liquidity in the future. We expect to maintain adequate available liquidity under our working capital credit facility with TransAlta.

Income Taxes

The effective tax rate on earnings excluding non-comparable items for 2014 is expected to be approximately 24 to 29 per cent, which is comparable to the statutory tax rate of 25 per cent.

Accounting Estimates

A number of our accounting estimates, including those outlined in the Significant Accounting Judgments and Key Sources of Estimation Uncertainty section of our 2013 audited consolidated financial statements, are based on the current economic environment and outlook. As a result of the current economic environment, market fluctuations could impact, among other things, future commodity prices, foreign exchange rates, and interest rates, which could, in turn, impact future earnings and asset valuation for our asset impairment calculations.

Capital Expenditures

Sustaining Capital and Productivity Expenditures

Our sustaining capital is comprised of the ongoing capital costs associated with maintaining the existing generating capacity of our facilities. Productivity expenditures relate to capital associated with improvement projects.

For 2014, our estimate for total sustaining capital and productivity expenditures, net of any contributions received, is allocated among the following:

Category	Description	Spend in 2013	Expected spend in 2014
Routine Capital	Expenditures to maintain our existing generating capacity	4,909	5,298
Planned maintenance	Regularly scheduled maintenance	2,574	5,266
Total sustaining expenditures		**7,483**	**10,564**
Productivity capital	Projects to improve production or lower costs	42	–
Total sustaining and productivity expenditures		**7,525**	**10,564**

Financing

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

Risk Management

Our business activities expose us to a variety of risks including, but not limited to, increased regulatory changes, rapidly changing market dynamics, and volatility in commodity markets. Our goal is to manage these risks so that we are reasonably protected from an unacceptable level of earnings or financial exposure while still enabling business development. We use a multi-level risk management oversight structure to manage the risks arising from our business activities, the markets in which we operate, and the political environments and structures with which we interface.

The responsibilities of various stakeholders of our risk management oversight structure are described below:

The Board of Directors ("Board") The Board is responsible for the stewardship of the Corporation. The Board has absolute and exclusive power, control, and authority over the property and affairs of the Corporation. Subject to the provisions of the CBCA, the Board may delegate certain of those powers and authority that the Board, or independent members of the Board, as applicable, deem necessary or desirable to effect the actual administration of the duties of the Board. Pursuant to the Management and Operational Services Agreement, the Board has delegated broad discretion to administer and manage the business and affairs of the Corporation to TransAlta. Nonetheless, the Board retains certain responsibilities that are described in the Board of Directors' Charter.

The Audit Committee ("Committee") The Committee's primary role is to assist the Board in fulfilling its oversight responsibilities regarding our internal controls, financial reporting, and risk management processes.

The Committee is directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review, or attest services, including the resolution of disagreements between the external auditor and management. The external auditor will report directly to the Committee. The Committee is also responsible for reviewing and approving hiring policies regarding current and former partners and employees of the external auditor. In addition, the Committee pre-approves all non-audit services undertaken by the external auditor.

The Committee is responsible for establishing and maintaining satisfactory procedures for the receipt, retention, and treatment of complaints and for the confidential, anonymous submission of questionable accounting or auditing matters. The Committee is accountable to the Board and provides a report to the Board at each regularly scheduled Board meeting outlining the results of the Committee's activities and any reviews it has undertaken.

Risk Controls

Our risk controls have several key components:

Enterprise Tone

We strive to foster beliefs and actions that are true to, and respectful of, our many stakeholders. We do this by investing in communities where we live and work, operating and growing sustainably, putting safety first, and being responsible to the many groups and individuals with whom we work.

Policies

We maintain a comprehensive set of enterprise-wide policies. These policies establish delegated authorities and limits for business transactions, as well as allow for an exception approval process. Periodic reviews and audits are performed to ensure compliance with these policies. All employees and directors are required to sign a corporate code of conduct on an annual basis.

Risk Factors

Risk is an inherent factor of doing business. The following section addresses some, but not all, risk factors that could affect our future results and our activities in mitigating those risks. These risks do not occur in isolation, but must be considered in conjunction with each other.

Risks Relating to Our Business, Industry and Operating Environment

Our facilities may experience equipment failure.

The Corporation's power generation facilities may not continue to perform as they have in the past due to a number of factors, including equipment failure due to wear and tear, latent defect, design error, operator error, and early obsolescence. These factors, among others, could adversely affect the amount of power produced, and thus the revenues and cash available for distribution. Unplanned outages or prolonged downtime for maintenance and repair typically increase operation and maintenance expenses and reduce revenues. To the extent that a facility's equipment requires longer than forecasted downtimes for maintenance and repair, or suffers disruptions of power generation for other reasons, our business, operating results, financial condition, or prospects could be adversely affected.

There can be no assurance that our maintenance program will be able to detect potential failures in our facilities prior to occurrence or eliminate all adverse consequences in the event of failure. While we may maintain an inventory of, or otherwise make arrangements to obtain, spare parts to replace critical equipment to protect against certain operating risks, this may not be adequate to cover lost revenues or increased expenses and penalties that could result if we are unable to operate our generation facilities at a level necessary to comply with sales contracts.

We are party to significant third-party contracts and the failure of such third parties to fulfill their contractual obligations could have a material adverse effect.

We sell the majority of our power and, in some cases, renewable energy credits, to third parties under long-term PPAs. If, for any reason, any of the purchasers of power under such PPAs are unable or unwilling to fulfill their contractual obligations under the relevant PPA, or if they refuse to accept delivery of power pursuant to the relevant PPA, our assets, liabilities, business, financial condition, results of operations, and cash flow could be materially and adversely affected as we may not be able to replace the agreement with another agreement on equivalent terms and conditions. External events, such as a severe economic downturn, could impair the ability of some counterparties to the PPAs or some end-use customers to pay for electricity received.

In addition, we enter into contracts with third parties for materials and generation equipment, which often require deposits to be made prior to equipment and other goods and services being provided or delivered. Should one or more of these third parties be unable to meet their obligations under the contracts, such an occurrence could result in possible loss of revenue, delay in return to service, and increase in operating costs.

We could suffer lost revenues or increased expenses and penalties if we are unable to operate our generation facilities at a level necessary to comply with our PPAs.

The ability of our facilities to generate the maximum amount of power that can be sold under PPAs is an important determinant of our revenues. Under certain PPAs, if the facility delivers less than the required quantity of electricity in a given contract year, we may be required to make penalty payments to the relevant purchaser. The payment of any such penalties could adversely affect our revenues and profitability.

We are subject to extensive government regulation, incentive mechanisms, and supervision in a number of jurisdictions, which may impact our financial performance, limit our flexibility and, in the event of non-compliance, could result in adverse actions by regulatory authorities against us.

The market for electricity generation is heavily influenced by federal, provincial, and local government regulations and policies. These regulations and policies often relate to the encouragement of renewable energy development, electricity pricing, and interconnection.

Our inability to predict, influence, or respond appropriately to changes in law or regulatory frameworks, including any inability to obtain expected or contracted increases in electricity tariff rates or tariff adjustments for increased expenses, could adversely impact our results of operations. Furthermore, changes in laws or regulations, or changes in the application or interpretation of regulatory provisions in jurisdictions where we operate (particularly where long-term tariffs or PPAs are subject to regulatory review or approval), could adversely affect our business.

Any of the foregoing events may result in lower revenues, higher costs, and/or lower margins for the affected projects, which would adversely affect our results of operations.

We hold permits and licenses from various regulatory authorities for the construction and operation of our facilities. These licenses and permits are critical to our operations. The majority of these permits and licenses are long term in nature, reflecting the anticipated useful life of the facilities. In some cases these permits may need to be renewed prior to the end of the anticipated useful life of such facilities and there is no guarantee that such renewals will be granted. These permits and licenses require our compliance with the terms thereof. In addition, delays may occur in obtaining necessary government approvals required for future power projects.

Our business is subject to stringent environmental laws and regulations.

Our activities are subject to stringent environmental laws and regulations promulgated and administered by federal, provincial, and municipal governments where we operate. These laws and regulations generally concern use of water, wildlife, wetlands preservation, remediation of contamination, waste disposal requirements, preservation of archaeological artifacts, endangered species preservation, and noise limitations, among others. Failure to comply with applicable environmental laws and regulations or to obtain or comply with any necessary environmental permits pursuant to such laws and regulations could result in fines or other sanctions being levied against us. Environmental laws and regulations affecting power generation and distribution are complex and have tended to become more stringent over time. These laws and regulations have imposed, and proposed laws and regulations could impose in the future, additional costs.

Unexpected changes in the cost of maintenance or in the cost and durability of components for our facilities may adversely affect results of operations.

Unexpected increases in our cost structure that are beyond our control could materially adversely impact our financial performance. Examples of such costs include, but are not limited to: unexpected increases in the cost of procuring materials and services required for maintenance activities, and unexpected replacement or repair costs associated with equipment underperformance or lower-than-anticipated durability.

The power generation industry has certain inherent risks related to worker health and safety and the environment that could cause us to suffer unanticipated expenditures or to incur fines, penalties, or other consequences material to our business and operations.

The ownership and operation of renewable power generation assets carries an inherent risk of liability related to worker health and safety and the environment, including the risk of government-imposed orders to remedy unsafe conditions and/or to remediate or otherwise address environmental contamination; potential penalties for contravention of health, safety, and environmental laws; licenses, permits, and other approvals; and potential civil liability. Compliance with health, safety, and environmental laws (and any future changes) and the requirements of licenses, permits, and other approvals are expected to remain material to our business. The occurrence of any of these events or any changes, additions to, or more rigorous enforcement of, health, safety, and environmental laws, licenses, permits, or other approvals could have a significant impact on operations and/or result in additional material expenditures.

Our facilities and operations are exposed to effects of natural disasters and other catastrophic events outside of our control and such events could result in a material adverse effect.

Our facilities and operations are exposed to potential interruption and damage or partial or full loss, resulting from environmental disasters (e.g. floods, high winds, fires, ice storms, and earthquakes), equipment failures, and the like. In the event of an environmental disaster, terrorist attack, act of war, or other natural, man-made, or technical catastrophe, all or some parts of our generation facilities and infrastructure systems may be disrupted. The occurrence of a significant event that disrupts the ability of our renewable power generation assets to produce or sell power for an extended period, including events that preclude existing customers under PPAs from purchasing electricity, could have a material negative impact on our business. The occurrence of such an event may not release us from performing our obligations pursuant to PPAs or other agreements with third parties. In addition, many of our generation facilities are located in remote areas that make access for repair of damage difficult.

Our facilities rely on national and regional transmission systems and related facilities that are owned and operated by third parties and have both regulatory and physical constraints that could impede access to electricity markets.

Our power generation facilities depend on electric transmission systems and related facilities owned and operated by third parties to deliver the electricity we generate to delivery points where ownership changes and we are paid. These grids operate with both regulatory and physical constraints that in certain circumstances may impede access to electricity markets. There may be instances in system emergencies in which our power generation facilities are physically disconnected from the power grid, or their production curtailed, for short periods of time. Most of our electricity sales contracts do not provide for payments to be made if electricity is not delivered.

Dam failures may result in lost generating capacity, increased maintenance and repair costs and other liabilities.

A natural or man-made disaster, and certain other events, could potentially cause dam failures that could impact our hydro facilities and result in a loss of generating capacity, damage to the environment, or damage and harm to third parties or the public. Such failures could require us to incur significant expenditures of capital and other resources, or expose us to significant liabilities for damages. There can be no assurance that our dam safety program will be able to detect potential dam failures prior to occurrence or eliminate all adverse consequences in the event of failure. Other safety regulations could change from time to time, potentially impacting costs and operations. We manage this risk by following preventative maintenance procedures and obtaining insurance coverage; however, in the event of a sufficiently large dam failure, insurance coverage, if available, may not be adequate and we may suffer a material adverse effect.

A significant increase in water rental costs could result in a material adverse effect.

We are required to make rental payments for water rights. Significant increases in water rental costs in the future or changes in the way that governmental authorities in the jurisdictions in which our hydro assets are located regulate water supply could have a material adverse effect on our business, operating results, financial condition, or prospects.

We may be adversely affected if the supply of water is materially reduced.

Hydro power generation facilities require continuous water flow for their operation. Shifts in weather or climate patterns, seasonal precipitation, the timing and rate of melting, run off, and other factors beyond our control may reduce the water flow to our facilities. Any material reduction in the water flow to the facilities would limit our ability to produce and sell electricity from these facilities and could have a material adverse effect on us. In addition, there is an increasing level of regulation respecting the use, treatment, and discharge of water, and respecting the licensing of water rights in jurisdictions where we operate. Any such change in regulations could have a material adverse effect on us.

Variation in wind levels may negatively impact the amount of electricity generated at our wind facilities.

Wind is naturally variable; therefore, the level of electricity production from our wind facilities will also be variable. In addition, the strength and consistency of the wind resource at the wind facilities may vary from what we anticipate due to a number of factors including: the extent to which site-specific historic wind data and wind forecasts accurately reflect actual long-term wind speeds, strength, and consistency; the potential impact of climatic factors; the accuracy of assumptions relating to, among other things, weather, icing, and soiling of wind turbines, site access, wake and line losses and wind shear; the potential impact of topographical variations; and the potential for electricity losses to occur before delivery.

A reduced amount of wind at the location of one or more of our wind facilities over an extended period may reduce the production from such facilities, as well as any environmental attributes that accrue to us, and reduce our revenues and profitability.

Risks Relating to Our Relationship with TransAlta

TransAlta can exercise substantial influence over us and we are highly dependent on TransAlta as manager. TransAlta is not necessarily required to act in the best interest of the Corporation or its shareholders, and the liability of TransAlta is limited in certain respects.

TransAlta is the majority shareholder of the Corporation and is also responsible for the management and operation of the Corporation. In addition, TransAlta is able to nominate directors to the Board and we rely on TransAlta exclusively to identify acquisition and growth opportunities. As a result, TransAlta is able to exercise substantial influence over our operations, administration, and growth. We depend on the management and administration services provided by or under the direction of TransAlta under the Management and Operational Services Agreement. TransAlta personnel and support staff that provide services to us are not required to have as their primary responsibility our management and administration or to act exclusively for us. Even if we are not satisfied with the manner in which TransAlta performs its services under the Management and Operational Services Agreement, we are not entitled to replace TransAlta as manager prior to the expiry of the initial 20-year term, unless certain events occur. Under the terms of the Governance and Cooperation Agreement, TransAlta is not required to allocate any minimum level of dedicated resources for the pursuit of renewable power generation opportunities for us, nor is TransAlta required to offer any specific opportunities to us. Any failure to effectively manage our operations or to implement our growth strategy could have a material adverse effect on our business, financial condition, and results of operations.

The Management and Operational Services Agreement and the Governance and Cooperation Agreement with TransAlta do not impose any duty on TransAlta to act in our best interest, and TransAlta is not prohibited from engaging in other business activities that may compete with ours. Additionally, although TransAlta and its affiliates will have access to material confidential information and will be subject to confidentiality obligations, the Management and Operational Services Agreement does not contain general confidentiality provisions. In addition, it is possible that conflicts of interest may arise between us and TransAlta and that such conflicts may be resolved in a manner that is not in our best interests or the best interests of our shareholders.

Under the Management and Operational Services Agreement, the liability of TransAlta is limited to the fullest extent permitted by law to conduct involving bad faith, fraud, or wilful misconduct or, in the case of a criminal matter, actions that were known to have been unlawful, except that TransAlta is liable for liabilities arising from gross negligence. In addition, we have agreed to indemnify TransAlta to the fullest extent permitted by law from and against any claims, liabilities, losses, damages, costs, or expenses incurred by an indemnified person or threatened in connection with our operations, investments, and activities or in respect of or arising from the Management and Operational Services Agreement or the services provided by TransAlta.

Risks Relating to Accounting and Financing Activities

We may be unable to refinance existing indebtedness on terms comparable to existing terms, if at all.

We will be required to refinance certain indebtedness as it becomes due from time to time, including indebtedness under debentures issued by CHD that begin maturing in 2015. There is no guarantee that we will be able to obtain financing to repay the principal amount of such indebtedness and, if we do, that such financing will be available on terms comparable to existing terms or that are acceptable to us. If we do obtain new indebtedness at materially higher interest rates or on more punitive principal repayment terms than the terms of the existing debt, it is likely to have a negative effect on our financial results and cash available for distribution.

We may be unable to finance our business or the growth of our business.

Recovery of the capital investment in renewable power projects generally occurs over a long period of time. As a result, we must obtain funds from equity or debt financings, including tax equity transactions, or from government grants, to help finance the acquisition of projects and to help pay the general and administrative costs of operating our business. Our ability to arrange financing, either at the corporate level or at the subsidiary level (including non-recourse project debt), and the costs of such capital are dependent on numerous factors, including: (i) general economic and capital market conditions; (ii) credit availability from TransAlta, banks and other financial institutions; (iii) investor confidence in us and the markets in which we conduct operations; (iv) our financial performance and the financial performance of our subsidiaries; (v) our level of indebtedness and compliance with covenants in our debt agreements; and (vi) our cash flow.

An increase in interest rates or a reduction in the availability of project debt financing could reduce the number of renewable power projects that we are able to finance. Although our borrowings have fixed-rate interest payments, an increase in interest rates could lower our return on investment. We may not be able to obtain needed funds on terms acceptable to us, or at all for these or other reasons. If we are unable to raise additional funds when needed, we could be required to delay acquisition and construction of projects, reduce the scope of projects, abandon or sell some or all of our projects or generation facilities, or default on our contractual commitments in the future, any of which could adversely affect our business, financial condition, and results of operations.

Risks Relating to the Growth of Our Business

We may face significant competition for the acquisition of high-quality renewable power projects and may not successfully complete and integrate acquisitions.

Our business plan includes growth through identifying suitable acquisition opportunities, pursuing such opportunities, consummating acquisitions, and effectively integrating acquisitions with our existing business. There can be no assurance that we will be able to identify attractive acquisition candidates in the future (whether through our relationship with TransAlta or otherwise), that we will be able to make acquisitions that increase the amount of cash available for distribution, or that acquisitions will be successfully integrated into our existing operations. It is likely we will face significant competition for acquisition opportunities from other renewable power companies as well as traditional energy companies and, to the extent that any opportunities are identified, we may be unable to effect acquisitions due to a lack of necessary capital resources.

Any acquisition could involve potential risks, including an increase in indebtedness, the inability to successfully integrate operations, the inability to retain PPAs and feed-in-tariff rates, the potential disruption of our ongoing business, the diversion of management's attention from other business concerns, and the possibility that we will pay more than the acquired company or interest is worth. There may also be liabilities that we failed to discover, or were unable to discover, in our due diligence prior to the consummation of the acquisition, and we may not be indemnified for some or all of these liabilities. In addition, our funding requirements associated with acquisitions and integration costs may reduce the funds available to pay dividends.

Our growth strategy is focused on the acquisition of high-quality renewable power projects and there is no certainty we will be successful in pursuing this strategy.

Our growth strategy is to acquire high-quality renewable power generation facilities that generate stable cash flows, with the objective of achieving returns on invested capital. However, there is no certainty that we will be able to acquire high-quality renewable power generation facilities at attractive prices to supplement our growth. The successful execution of a growth strategy that depends primarily on acquiring operating assets requires careful timing and business judgment, as well as the resources to complete the due diligence and evaluation of such assets. We may underestimate the costs of acquiring renewable power generating facilities or may be unable to quickly and efficiently integrate new acquisitions into our existing operations.

Critical Accounting Policies and Estimates

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

In the process of applying the Corporation's accounting policies, which are described below, management has to make judgments and estimates about matters that are highly uncertain at the time the estimate is made and that could significantly affect the amounts recognized in the consolidated financial statements. Different estimates with respect to key variables used in the calculations, or changes to estimates, could potentially have a material impact on the Corporation's financial position or performance. The key judgments and sources of estimation uncertainty are described below:

Revaluation of PP&E and Intangible Assets

On formation, the Corporation entered into fixed price TransAlta PPAs for certain wind and hydro facilities. Consequently, the Corporation revalued the carrying amount of the PP&E of these facilities. The revaluation was based on the present value of the discounted cash flows expected to be generated by the facilities over their estimated remaining useful lives. In determining the underlying cash flows of each facility, management was required to make estimates and assumptions about anticipated production levels, royalties, and other costs of production, planned and unplanned outages, fixed operating costs, asset retirement costs, other related cash inflows or outflows over the life of the facilities, changes to regulations, and transmission capacity or constraints. As a result of the valuation, the carrying amount of these facilities was reduced by $205.8 million.

Impairment of PP&E

Impairment exists when the carrying amount of an asset exceeds its recoverable amount, which is the higher of its fair value less cost to sell and its value in use. An assessment is made at each reporting date as to whether there is any indication that an impairment loss may exist or that a previously recognized impairment loss may no longer exist or may have decreased. In determining fair value less costs to sell, information about third-party transactions for similar assets is used and if none is available, other valuation techniques, such as discounted cash flows, are used. Value in use is computed using the present value of management's best estimates of future cash flows based on the current use and present condition of the asset. In estimating either fair value less costs to sell or value in use using discounted cash flow methods, estimates and assumptions must be made about sales prices, production, asset retirement costs, and other related cash inflows or outflows over the life of the plants, which can range from 25 to 50 years. In developing these assumptions, management uses estimates of contracted prices, anticipated production levels, planned and unplanned outages, changes to regulations, and transmission capacity or constraints for the remaining life of the plant. Appropriate discount rates reflecting the risks specific to the asset under review are used in the assessment. These estimates and assumptions are susceptible to change from period to period and actual results can, and often do, differ from the estimates, and can have either a positive or negative impact on the estimate of the impairment charge, and may be material. All of the Corporation's generating assets are contracted under the TransAlta PPAs or are contracted under other PPAs with various third parties.

Income Taxes

Preparation of the consolidated financial statements involves determining an estimate of, or provision for, income taxes in each of the jurisdictions in which the Corporation operates. The process also involves making an estimate of income taxes currently payable and income taxes expected to be payable or recoverable in future periods, referred to as deferred income taxes. Deferred income taxes result from the effects of temporary differences due to items that are treated differently for tax and accounting purposes. The tax effects of these differences are reflected in the Consolidated Statements of Financial Position as deferred income tax assets and liabilities. Management must exercise judgment in its assessment of continually changing tax interpretations, regulations, and legislation, to ensure deferred income tax assets and liabilities are complete and fairly presented. Differing assessments and applications than the Corporation's estimates could materially impact the amount recognized for deferred income tax assets and liabilities.

Provisions for Decommissioning and Restoration Activities

We recognize decommissioning and restoration provisions for PP&E in the period in which they are incurred if there is a legal or constructive obligation to reclaim the plant and/or site and if a reasonable estimate of a fair value can be determined. The fair value of the liability is described as the amount at which the liability could be settled in a current transaction between willing parties. Expected values are probability weighted to deal with the risks and uncertainties inherent in the timing and amount of settlement of many decommissioning and restoration provisions. Expected values are discounted at the risk-free interest rate adjusted to reflect the market's evaluation of our credit standing.

At Dec. 31, 2013, the total provision recognized for decommissioning and restoration activities was $12.4 million. We estimate the undiscounted amount of cash flow required to settle these provisions is approximately $133 million, which will be incurred between 2029 and 2060. The majority of the costs will be incurred between 2030 and 2050.

Factor	Increase	Approximate net earnings decrease
Discount rate	1%	93
Undiscounted cash flows	10%	66

Useful Life of PP&E

Each significant component of an item of PP&E is depreciated over its estimated useful life. Estimated useful lives are determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset, existing long-term sales agreements and contracts, current and forecasted demand, the potential for technological obsolescence, and regulations. The useful lives of PP&E are reviewed at least annually to ensure they continue to be appropriate.

Related Party Transactions and Balances

Post-Acquisition Relationship with TransAlta

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, agreements and transactions with TransAlta are as follows:

Wyoming Wind Farm

To fund the acquisition of our economic interest in the Wyoming Wind Farm, we borrowed U.S.$102.0 million ($108.9 million) from TransAlta under the Wyoming Wind Acquisition Loan. We have indirectly acquired the economic interest in the Wyoming Wind Farm through our investment in the U.S.$102.7 million ($109.7 million) Wyoming Wind Preferred Shares issued by a TransAlta subsidiary. Please see the Significant Events section of this MD&A for further details.

Management and Operational Services Agreement

Under the Management and Operational Services Agreement, TransAlta provides all the general administrative services as may be required or advisable for the management of our affairs. As compensation for the services provided, TransAlta Renewables pays TransAlta a fee ("G&A Reimbursement Fee") equal to $10.0 million per annum, adjusted annually for changes in the Consumer Price Index ("CPI"). The G&A Reimbursement Fee is payable in equal quarterly installments. The G&A Reimbursement Fee will be increased or decreased by an amount equal to 5.0 per cent of the amount of any increases or decreases, respectively, to our total EBITDA resulting from the addition or divestiture of assets by the Corporation. Due to the acquisition of the economic interest in the Wyoming Wind Farm, the G&A Reimbursement Fee will increase by an additional $0.4 million in 2014.

For the year ended Dec. 31, 2013, a pro-rated amount of $4.0 million was recognized as an OM&A expense by the Corporation for the G&A Reimbursement Fee.

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

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

TransAlta PPAs

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

For the year ended Dec. 31, 2013, $13.9 million was recognized as revenue for power sold pursuant to the TransAlta PPAs.

Working Capital Credit Facility

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

As at Dec. 31, 2013, no amounts have been drawn under the facility.

Amortizing Term Loan and Wyoming Wind Acquisition Loan

We have a $200.0 million Amortizing Term Loan and a $108.5 million Wyoming Wind Acquisition Loan outstanding and payable to TransAlta. Refer to Note 18 of our 2013 audited consolidated financial statements.

For the year ended Dec. 31, 2013, $3.3 million was recognized as interest expense related to borrowings under these loans. Refer to Note 9 of our 2013 audited consolidated financial statements.

Trade Accounts Receivable and Payable

At Dec. 31, 2013, $10.2 million (Dec. 31, 2012 – $1.0 million) and $8.4 million (Dec. 31, 2012 – $3.1 million) was included in accounts receivable and accounts payable, respectively, related to power sales, operating costs, accrued interest, and capital expenditures due from or to TransAlta or other subsidiaries of TransAlta.

Letters of Credit

TransAlta has provided letters of credits on our behalf. Any amounts we owe for obligations under the contracts to which the letters of credit pertain are reflected in the Consolidated Statements of Financial Position. All letters of credit expire within one year and are expected to be renewed, as needed, in the normal course of business. The total outstanding letters of credit as at Dec. 31, 2013 was $4.5 million (Dec. 31, 2012 – $5.8 million) with nil (Dec. 31, 2012 – nil) amounts exercised by third parties under these arrangements. We pay the associated interest and fees on these letters of credit. Refer to Note 9 of our 2013 audited consolidated financial statements.

Guarantees

TransAlta has entered into guarantee agreements totalling $226.5 million on our behalf. Two guarantees totalling $206.0 million relate to the New Richmond wind facility. If we do not perform under the related agreements, the counterparty may present claim for payment from TransAlta. We pay the associated interest and fees on these guarantees. Refer to Note 9 of our 2013 audited consolidated financial statements.

Pension and Other Post-Employment Benefit Plans

We do not sponsor any pension, post-employment, or employee savings plans. However, employees of TransAlta providing both operational and administrative services to the Corporation participate in certain funded final salary pension plans sponsored by TransAlta. TransAlta also provides other health and dental plans to its retired employees. There is no contractual agreement or stated policy between the Corporation and TransAlta for charging these costs. However, the costs associated with these plans form part of the operational costs and the G&A Reimbursement Fee under the Management and Operational Services Agreement with TransAlta. These costs are included in OM&A expenses in the Consolidated Statements of Earnings.

All obligations pursuant to these plans are obligations of TransAlta and as such are not included in our Consolidated Statements of Financial Position.

Financial Instruments and Derivatives
Financial instruments and derivatives that relate to the Corporation are entered into on our behalf by a subsidiary of TransAlta.

Governance and Cooperation Agreement
Pursuant to the Governance and Cooperation Agreement, TransAlta serves as the primary vehicle through which we will acquire and/or develop renewable power projects. The Governance and Cooperation Agreement provides, among other things, that we will rely on TransAlta exclusively to: (i) identify acquisition and/or development opportunities for us (the "Opportunities"), (ii) evaluate the Opportunities for their suitability, (iii) present Opportunities suitable for, and meeting the strategic goals and objectives of, the Corporation to the Board for assessment and approval, and (iv) execute and complete any Opportunities approved by the Board. TransAlta and its affiliates are not required to allocate any minimum level of dedicated resources for the pursuit of renewable power generation opportunities nor shall TransAlta or its affiliates be required to offer any specific opportunities to us. Approval of any Opportunities involving a transfer of interests from TransAlta or its affiliates to us must be supported and approved by a majority of the independent directors of the Board.

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

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

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

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

Allocation of Corporate Costs
Allocated costs include TransAlta charges including, but not limited to: corporate accounting, human resources, government affairs, information technology, shared real estate expenses, legal, treasury, and pension and other post-employment benefits. These costs are included in OM&A expenses. The costs were allocated to the Acquired Assets based on GWh of production. Note that these expenses may have been different had the Acquired Assets been a separate entity during the periods presented. For the year ended Dec. 31, 2013, these pre-tax costs were $3.5 million (2012 – $8.3 million).

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

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

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

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

All obligations pursuant to these plans are obligations of TransAlta and as such are not included in the pre-Acquisition period financial statements. TransAlta included in its allocation to the Acquired Assets, the costs associated with these plans. These costs form part of OM&A expenses in the pre-Acquisition period financial statements.

After the Acquisition date, these costs are addressed under the Management and Operational Services Agreement.

Financial Instruments and Derivatives
Financial instruments and derivatives that related to the Acquired Assets were entered into on behalf of the Acquired Assets by a subsidiary of TransAlta.

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

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

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

1 *Maximum amount of $300 million.*
2 *Maximum amount of $150 million.*
3 *Maximum amount of $20 million.*

Current Accounting Changes

Adoption of New or Amended IFRS

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

IFRS 10 *Consolidated Financial Statements*

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

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

IFRS 11 *Joint Arrangements*

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

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

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 contains enhanced disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates, and consolidated and unconsolidated structured entities (special purpose entities). The objective of IFRS 12 is that an entity should disclose information that helps financial statement users evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial statements. Disclosures arising from the adoption of IFRS 12 can be found in Note 12 of our 2013 audited consolidated financial statements.

IFRS 13 *Fair Value Measurement*

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

IFRS 7 *Financial Instruments: Disclosures*

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

Annual Improvements 2009-2011

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

Future Accounting Changes

New or amended applicable accounting standards that have been previously issued by the IASB but are not yet effective, and have not been applied by the Corporation, are as follows:

IFRS 9 *Financial Instruments*
In November 2009, the IASB issued IFRS 9 *Financial Instruments*, which replaced the classification and measurement requirements in IAS 39 *Financial Instruments: Recognition and Measurement* for financial assets. Financial assets must be classified and measured at either amortized cost or at fair value through profit or loss or through other comprehensive income ("OCI") depending on the basis of the entity's business model for managing the financial asset, and the contractual cash flow characteristics of the financial asset.

In October 2010, the IASB issued additions to IFRS 9 regarding financial liabilities. The new requirements address the problem of volatility in net earnings arising from an issuer choosing to measure a liability at fair value and require that the portion of the change in fair value due to changes in the entity's own credit risk be presented in OCI, rather than within net earnings.

In November 2013, the IASB issued amendments to IFRS 9 that introduce a new general hedge accounting model intended to be simpler and more closely focus on how an entity manages its risks. Additional amendments to IFRS 9 allow a reporting entity to present changes in its own credit risk associated with liabilities designated at fair value through profit or loss in OCI.

The IASB also removed the Jan. 1, 2015 mandatory effective date from IFRS 9. The IASB will decide on a new effective date when the entire IFRS 9 project is closer to completion. Entities may still early-adopt the finalized and issued provisions of IFRS 9.

The Corporation does not expect that any material impacts will result from these standards; however, continues to assess the impact of adopting these amendments on the consolidated financial statements.

IAS 36 *Impairment of Assets (Recoverable Amount Disclosures)*
In May 2013, the IASB issued amendments to the disclosure requirements of IAS 36 *Impairment of Assets*. The amendments clarify that the recoverable amount of an asset or cash-generating unit is to be disclosed only in periods in which an impairment loss has been recognized or reversed. Additional disclosures regarding the level of the IFRS 13 fair value hierarchy and information about valuation techniques and key assumptions are required, in certain circumstances, when an impairment loss or reversal has been recognized and the recoverable amount is based on fair value less costs to sell. The amended disclosure requirements apply retrospectively to annual reporting periods beginning on or after Jan. 1, 2014.

Additional IFRS Measures

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

We exclude the impact of asset impairment charges and other adjustments to earnings, such as the gain on sale of assets, as management believes these transactions are not representative of our business operations. We have also excluded 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.

Reconciliation to Net Earnings Attributable to Common Shareholders

Gross margin and operating income are reconciled to net earnings attributable to common shareholders below:

Year ended Dec. 31	2013			2012		
	Reported	Comparable adjustments	Comparable total	Reported	Comparable adjustments	Comparable total
Revenues	245,341	–	245,341	219,817	–	219,817
Royalties and other	13,709	–	13,709	13,114	–	13,114
Gross margin	231,632	–	231,632	206,703	–	206,703
Operations, maintenance, and administration	40,963	–	40,963	40,828	–	40,828
Taxes, other than income taxes	6,575	–	6,575	6,492	–	6,492
Earnings before interest, taxes, depreciation, and amortization	184,094	–	184,094	159,383	–	159,383
Depreciation and amortization	76,589	–	76,589	74,057	–	74,057
Asset impairment charges	3,663	(3,663)[1]	–	13,000	(13,000)[1]	–
Operating income	103,842	3,663	107,505	72,326	13,000	85,326
Foreign exchange gain (loss)	(935)	–	(935)	190	–	190
Other income	222	–	222	655	–	655
Gain (loss) on sale of assets	–	–	–	2,987	(2,987)[1]	–
Gain on step acquisition	–	–	–	–	–	–
Earnings before interest and taxes	103,129	3,663	106,792	76,158	10,013	86,171
Net interest expense	30,419	–	30,419	27,829	–	27,829
Income tax expense	19,835	(678)[2,3]	19,157	13,585	2,503[2]	16,088
Net earnings	52,875	4,341	57,216	34,744	7,510	42,254
Non-controlling interest	2,617	–	2,617	2,653	–	2,653
Net earnings attributable to TransAlta Renewables common shareholders	50,258	4,341	54,599	32,091	7,510	39,601
Weighted average number of common shares outstanding in the period *(millions)*	114.7	114.7	114.7	114.7	114.7	114.7
Net earnings per share attributable to common shareholders	0.44	0.04	0.48	0.28	0.07	0.35

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 more readily in comparison with results from prior periods.

Year ended Dec. 31	2013	2012
Cash flow from operating activities	161,836	116,914
Change in non-cash operating working capital balances	(7,879)	14,215
Funds from operations	153,957	131,129
Weighted average number of common shares outstanding in the period *(millions)*	114.7	114.7
Funds from operations per share	1.34	1.14

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

1 *Non-comparable items.*
2 *Net tax effect of non-comparable items.*
3 *Impact of rate changes on future income taxes.*

Cash Available for Distribution

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

Sustaining capital and productivity expenditures for the year ended Dec. 31, 2013 and 2012 represent total additions to PP&E and intangibles per the Consolidated Statements of Cash Flows less $39.1 million (Dec. 31, 2012 – $159.6 million) that we have invested in growth projects.

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

Year ended Dec. 31	2013	2012
Cash flow from operating activities	**161,836**	116,914
Add (deduct):		
Changes in non-cash operating working capital	**(7,879)**	14,215
Sustaining capital and productivity expenditures	**(7,719)**	(6,171)
Distributions paid to subsidiaries' non-controlling interest	**(3,743)**	(4,131)
Scheduled principal repayments of debt	**–**	(526)
Cash available for distribution	**142,495**	120,301

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

Selected Annual Information

Year ended Dec. 31	2013	2012	2011
Revenues	**245,341**	219,817	239,421
Net earnings attributable to common shareholders	**50,258**	32,091	49,150
Dividends paid per common share	**0.23**	–	–

As at Dec. 31	2013	2012	2011
Total assets	**2,013,638**	2,262,716	2,229,057
Total long-term liabilities	**846,299**	526,356	520,645

Selected Quarterly Information

	Q1 2013	**Q2 2013**	**Q3 2013**	**Q4 2013**
Revenue	**60,917**	**70,940**	**43,535**	**69,949**
Net earnings attributable to common shareholders	**14,004**	**19,512**	**1,207**	**15,535**
Net earnings per share attributable to common shareholders, basic and diluted	**0.12**	**0.17**	**0.01**	**0.13**
Comparable earnings per share	**0.12**	**0.17**	**0.03**	**0.15**

	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Revenue	62,478	48,099	41,896	67,344
Net earnings attributable to common shareholders	17,602	(6,845)	2,812	18,522
Net earnings (loss) per share attributable to common shareholders, basic and diluted	0.15	(0.06)	0.02	0.16
Comparable earnings per share	0.13	0.03	0.02	0.16

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.

Controls and Procedures

Management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating and implementing possible controls and procedures.

There has been no change in the internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on the foregoing evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of Dec. 31, 2013, the end of the period covered by this report, our disclosure controls and procedures were effective at a reasonable assurance level.

Consolidated Financial Statements

Management's Report

To the Shareholders of TransAlta Renewables Inc.

The consolidated financial statements and other financial information included in this annual report have been prepared by management. It is management's responsibility to ensure that sound judgment, appropriate accounting principles and methods, and reasonable estimates have been used to prepare this information. They also ensure that all information presented is consistent.

Management is also responsible for establishing and maintaining internal controls and procedures over the financial reporting process. The internal control system includes an internal audit function and an established business conduct policy that applies to all employees. In addition, TransAlta Renewables Inc. has a code of conduct that can be viewed on TransAlta Renewables Inc.'s website (www.transaltarenewables.com). Management believes the system of internal controls, review procedures, and established policies provide reasonable assurance as to the reliability and relevance of financial reports. Management also believes that TransAlta Renewables Inc.'s operations are conducted in conformity with the law and with a high standard of business conduct.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out its responsibilities principally through its Audit Committee ("the Committee"). The Committee, which consists solely of independent directors, reviews the financial statements and annual report and recommends them to the Board for approval. The Committee meets with management, internal auditors, and external auditors to discuss internal controls, auditing matters, and financial reporting issues. Internal and external auditors have full and unrestricted access to the Committee. The Committee also recommends the firm of external auditors to be appointed by the shareholders.

Brett M. Gellner
President and
Designated Chief Executive Officer

David J. Koch
Vice-President and Controller
and Designated Chief Financial Officer

February 13, 2014

Management's Annual Report on Internal Control over Financial Reporting

To the Shareholders of TransAlta Renewables Inc.

The following report is provided by management in respect of TransAlta Renewables Inc.'s internal control over financial reporting as defined in the Canadian Securities Administrators' National Instrument 52-109.

TransAlta Renewables Inc.'s management is responsible for establishing and maintaining adequate internal control over financial reporting for TransAlta Renewables Inc.

Management has used the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework to evaluate the effectiveness of TransAlta Renewables Inc.'s internal control over financial reporting. Management believes that the COSO framework is a suitable framework for its evaluation of TransAlta Renewables Inc.'s internal control over financial reporting because it is free from bias, permits reasonably consistent qualitative and quantitative measurements of TransAlta Renewables Inc.'s internal controls, is sufficiently complete so that those relevant factors that would alter a conclusion about the effectiveness of TransAlta Renewables Inc.'s internal controls are not omitted, and is relevant to an evaluation of internal control over financial reporting.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper overrides. Because of such limitations, there is a risk that material missatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process, and it is possible to design safeguards into the process to reduce, though not eliminate, this risk.

Management has assessed the effectiveness of TransAlta Renewables Inc.'s internal control over financial reporting, as at December 31, 2013, and has concluded that such internal control over financial reporting is effective.

Brett M. Gellner
President and
Designated Chief Executive Officer

David J. Koch
Vice-President and Controller
and Designated Chief Financial Officer

February 13, 2014

Independent Auditors' Report of Registered Public Accounting Firm

To the Shareholders of TransAlta Renewables Inc.

We have audited the accompanying consolidated financial statements of TransAlta Renewables Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of TransAlta Renewables Inc. as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years ended December 31, 2013 and 2012 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Ernst & Young LLP

Chartered Accountants
Calgary, Canada

February 13, 2014

Consolidated Statements of Earnings

Year ended Dec. 31 *(in thousands of Canadian dollars, except as otherwise noted)*	**2013**	2012
Revenues	**200,822**	189,504
Government incentives *(Note 5)*	**22,019**	23,369
Lease revenue *(Note 6)*	**22,500**	6,944
Total revenue	**245,341**	219,817
Royalties and other *(Note 7)*	**13,709**	13,114
Gross margin	**231,632**	206,703
Operations, maintenance, and administration *(Note 7)*	**40,963**	40,828
Depreciation and amortization	**76,589**	74,057
Asset impairment charges *(Note 8)*	**3,663**	13,000
Taxes, other than income taxes	**6,575**	6,492
Operating income	**103,842**	72,326
Foreign exchange gain (loss)	**(935)**	190
Net interest expense *(Note 9)*	**(30,419)**	(27,829)
Other income	**222**	655
Gain on sale of assets *(Note 10)*	**–**	2,987
Earnings before income taxes	**72,710**	48,329
Income tax expense *(Note 11)*	**19,835**	13,585
Net earnings	**52,875**	34,744
Net earnings attributable to:		
Common shareholders	**50,258**	32,091
Non-controlling interest *(Note 12)*	**2,617**	2,653
	52,875	34,744
Weighted average number of common shares outstanding in the period *(millions) (Note 21)*	**114.7**	114.7
Net earnings per share attributable to common shareholders, basic and diluted *(Note 21)*	**0.44**	0.28

See accompanying notes.

Consolidated Statements of Comprehensive Income

Year ended Dec. 31 *(in thousands of Canadian dollars)*	**2013**	2012
Net earnings	**52,875**	34,744
Gains (losses) on derivatives designated as cash flow hedges, net of tax[1]	**161**	(2,267)
Reclassification of losses on derivatives designated as cash flow hedges to non-financial assets, net of tax[2]	**1,265**	5,326
Total items that will not be reclassified subsequently to net earnings	**1,426**	3,059
Gains on derivatives designated as cash flow hedges, net of tax[3]	**434**	515
Reclassification of gains on derivatives designated as cash flow hedges to net earnings, net of tax[4]	**(703)**	(1,041)
Total items that will be reclassified subsequently to net earnings	**(269)**	(526)
Other comprehensive income	**1,157**	2,533
Total comprehensive income	**54,032**	37,277
Total comprehensive income attributable to:		
Common shareholders	**51,415**	34,624
Non-controlling interest *(Note 12)*	**2,617**	2,653
	54,032	37,277

1 *Net of income tax expense of 53 for the year ended Dec. 31, 2013 (2012 – 756 recovery).*

2 *Net of income tax recovery of 422 for the year ended Dec. 31, 2013 (2012 – 1,775 recovery).*

3 *Net of income tax expense of 145 for the year ended Dec. 31, 2013 (2012 – 238 expense).*

4 *Net of income tax expense of 324 for the year ended Dec. 31, 2013 (2012 – 354 expense).*

See accompanying notes.

Consolidated Statements of Financial Position

As at Dec. 31 *(in thousands of Canadian dollars)*	**2013**	2012
Cash and cash equivalents *(Note 13)*	**19,256**	3,205
Accounts receivable *(Notes 13 and 27)*	**37,413**	42,407
Prepaid expenses	**2,375**	2,157
Risk management assets *(Note 13)*	**22**	944
Income taxes receivable	**-**	674
Inventory	**140**	157
Due from related parties *(Notes 13 and 27)*	**-**	131,171
	59,206	180,715
Property, plant, and equipment *(Note 14)*		
Cost	**2,021,386**	2,184,118
Accumulated depreciation	**(314,387)**	(245,621)
	1,706,999	1,938,497
Intangible assets *(Note 15)*	**105,284**	113,261
Risk management assets *(Note 13)*	**14**	-
Other assets *(Note 16)*	**3,059**	4,933
Investment in preferred shares *(Note 17)*	**109,325**	-
Deferred income tax assets *(Note 11)*	**29,751**	25,310
Total assets	**2,013,638**	2,262,716
Bank overdraft *(Note 13)*	**891**	-
Accounts payable and accrued liabilities *(Notes 13 and 27)*	**31,692**	36,316
Risk management liabilities *(Note 13)*	**73**	7
Income taxes payable	**364**	-
Dividends payable *(Note 21)*	**29,239**	-
Current portion of deferred revenues *(Note 20)*	**425**	425
Current portion of long-term debt *(Notes 13, 18, and 27)*	**37,596**	-
	100,280	36,748
Long-term debt *(Notes 13, 18, and 27)*	**646,619**	372,733
Decommissioning provisions *(Note 19)*	**12,410**	10,945
Deferred revenues *(Note 20)*	**6,552**	7,119
Deferred income tax liabilities *(Note 11)*	**180,651**	135,496
Risk management liabilities *(Note 13)*	**67**	63
Total liabilities	**946,579**	563,104
Equity		
Net parental investment	**-**	1,660,166
Common shares *(Note 21)*	**1,223,845**	-
Deficit	**(196,263)**	-
Accumulated other comprehensive income (loss)	**187**	(970)
Equity attributable to shareholders	**1,027,769**	1,659,196
Non-controlling interest *(Note 12)*	**39,290**	40,416
Total equity	**1,067,059**	1,699,612
Total liabilities and equity	**2,013,638**	2,262,716

Commitments and contingencies *(Note 26)*

See accompanying notes.

On behalf of the Board:

Allen R. Hagerman
Director

Kathryn A.B. McQuade
Director

Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars)

	Net parental investment	Common shares	Retained earnings (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[1]	35,487	–	14,771	–	50,258	2,617	**52,875**
Other comprehensive income:							
Net gains on derivatives designated as cash flow hedges, net of tax	–	–	–	1,157	1,157	–	**1,157**
Total comprehensive income	35,487	–	14,771	1,157	51,415	2,617	**54,032**
Changes in capitalization by Parent *(Note 4)*	(682,231)	–	(154,877)	–	(837,108)	–	**(837,108)**
Completion of share offering to Parent *(Note 21)*	(1,013,422)	1,013,422	–	–	–	–	**-**
Completion of public share offering *(Note 21)*	–	210,423	–	–	210,423	–	**210,423**
Common share dividends *(Note 21)*	–	–	(56,157)	–	(56,157)	–	**(56,157)**
Distributions to non-controlling interest	–	–	–	–	–	(3,743)	**(3,743)**
Balance, Dec. 31, 2013	**–**	**1,223,845**	**(196,263)**	**187**	**1,027,769**	**39,290**	**1,067,059**

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

See accompanying notes.

(in thousands of Canadian dollars)

	Net parental investment	Accumulated other comprehensive income (loss)	Total net parental investment	Attributable to non-controlling interest	Total
Balance, Dec. 31, 2011	1,635,254	(3,503)	1,631,751	40,889	1,672,640
Net earnings	32,091	–	32,091	2,653	34,744
Other comprehensive income:					
Net gains on derivatives designated as cash flow hedges, net of tax	–	2,533	2,533	–	2,533
Total comprehensive income	32,091	2,533	34,624	2,653	37,277
Net transfer to Parent[1]	(7,179)	–	(7,179)	–	(7,179)
Distributions to non-controlling interest	–	–	–	(3,126)	(3,126)
Balance, Dec. 31, 2012	1,660,166	(970)	1,659,196	40,416	1,699,612

1 See Note 28.

See accompanying notes.

Consolidated Statements of Cash Flows

Year ended Dec. 31 *(in thousands of Canadian dollars)*	**2013**	2012
Operating activities		
Net earnings	**52,875**	34,744
Depreciation and amortization *(Note 23)*	**76,589**	74,030
Gain on sale of assets *(Note 10)*	**-**	(2,987)
Accretion of provisions *(Notes 9 and 19)*	**848**	730
Decommissioning and restoration costs settled	**-**	(115)
Deferred income tax expense *(Note 11)*	**17,994**	12,813
Unrealized foreign exchange (gain) loss	**785**	(568)
Unrealized gain from risk management activities *(Note 13)*	**(49)**	(1,054)
Provisions	**-**	(100)
Asset impairment charges *(Note 8)*	**3,663**	13,000
Deferred credits	**-**	(283)
Other non-cash items	**1,252**	919
Cash flow from operations before changes in working capital	**153,957**	131,129
Change in non-cash operating working capital balances *(Note 22)*	**7,879**	(14,215)
Cash flow from operating activities	**161,836**	116,914
Investing activities		
Additions to property, plant, and equipment *(Note 14)*	**(46,798)**	(165,377)
Additions to intangibles *(Note 15)*	**-**	(422)
Proceeds on sale of assets	**-**	287
Investment in preferred shares *(Note 17)*	**(109,695)**	-
Change in other assets	**-**	210
Realized risk management gain (loss)	**3,180**	(2,185)
Change in non-cash investing working capital balances	**(13,893)**	10,933
Other	**162**	-
Cash flow used in investing activities	**(167,044)**	(156,554)
Financing activities		
Increase in (repayment of) net parental investment and related party advances *(Note 28)*	**(56,762)**	43,512
Issuance of long-term debt *(Note 18)*	**108,895**	-
Long-term debt repayments *(Note 18)*	**-**	(526)
Net proceeds on issuance of common shares *(Note 21)*	**206,898**	-
Repayment of closing and acquisition notes to TransAlta	**(208,000)**	-
Dividends paid on common shares *(Note 21)*	**(26,920)**	-
Distributions to non-controlling interest *(Note 12)*	**(3,743)**	(4,131)
Cash flow from financing activities	**20,368**	38,855
Increase (decrease) in cash and cash equivalents	**15,160**	(785)
Cash and cash equivalents, beginning of year	**3,205**	3,990
Cash and cash equivalents, net of bank overdraft, end of year	**18,365**	3,205
Cash income taxes paid	**802**	1,256
Cash interest paid	**29,901**	29,149

See accompanying notes.

Notes to Consolidated Financial Statements

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

1. Corporate Information

A. Formation of the Corporation

TransAlta Renewables Inc. (the "Corporation" or "TransAlta Renewables") was incorporated on May 28, 2013 under the *Canada Business Corporations Act* and has been formed to own a portfolio of renewable power generation facilities. The Corporation had no active operations from the date of incorporation until Aug. 9, 2013 when it indirectly acquired 28 wind and hydroelectric ("hydro") generating assets (the "Acquired Assets") from TransAlta Corporation ("TransAlta" or the "Parent") (the "Acquisition") and completed an initial public offering of 22.1 million common shares (see Note 4).

B. Basis of Preparation

These consolidated financial statements have been prepared by management in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements include the accounts of the Corporation and the subsidiaries, Canadian Hydro Developers, Inc. ("CHD") and Western Sustainable Power Inc. ("WSP"), that it controls. Control exists when the Corporation is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The consolidated financial statements also include the combined financial statements of the Acquired Assets for all periods prior to the Acquisition, as the Acquired Assets are ultimately controlled by TransAlta before and after the Acquisition and there has been no substantive change in operations (see Note 4).

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

The 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.

The consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional and presentation currency. All financial information presented in the tables is in Canadian dollars and has been rounded to the nearest thousand dollars unless otherwise noted.

These consolidated financial statements were authorized for issue by the Board of Directors on Feb. 13, 2014.

C. Basis of Preparation Prior to the Acquisition

The comparative financial statements as at Dec. 31, 2012 and for the year ended Dec. 31, 2012, and the current period financial statements from Jan. 1, 2013 to Aug. 8, 2013, have been prepared in accordance with IFRS using the using the same accounting policies as outlined in Note 2.

Historically, financial statements have not been prepared by TransAlta for the Acquired Assets as they had not been operated as a separate business by TransAlta. Accordingly, the financial statements for periods prior to the Acquisition reflect the financial statements for the Acquired Assets in a manner consistent with how TransAlta managed the Acquired Assets and as though the Acquired Assets had been a separate 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 28).

2. Significant Accounting Policies

A. Revenue Recognition

The majority of the Corporation's revenues are derived from the sale of physical power. Electrical energy sales are recognized: i) at the time of generation and delivery to the purchasing party as metered at the point of interconnection with the transmission system; ii) when the amount of the revenue can be measured reliably; iii) when it is probable that the economic benefits will flow to the Corporation; and iv) when the costs incurred or to be incurred in respect of the transaction can be reliably measured.

Renewable Energy Certificates sales are recognized at the time of delivery to the purchasing party.

Revenues are measured at the fair value of the consideration received or receivable.

In certain situations, a power purchase agreement ("PPA") may contain, or be considered, a lease. Revenues associated with non-lease elements are recognized as goods or services revenues as outlined above. Revenues associated with leases are recognized as outlined in Note 2(O).

B. Foreign Currency Translation

The Corporation's functional currency is Canadian dollars. Foreign currency denominated monetary assets and liabilities are translated at exchange rates in effect on the statement of financial position date. Transactions denominated in a currency other than the functional currency are translated at the exchange rate in effect on the transaction date. The resulting exchange gains or losses are included in net earnings in the period in which they arise.

C. Financial Instruments and Hedges

I. Financial Instruments

Financial assets and financial liabilities, including derivatives and certain non-financial derivatives, are recognized on the Consolidated Statements of Financial Position from the point when the Corporation becomes a party to the contract. All financial instruments, except for certain non-financial derivative contracts that meet the Corporation's own use requirements, are measured at fair value upon initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as: at fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Classification of the financial instrument is determined at inception depending on the nature and purpose of the financial instrument.

Financial assets and financial liabilities classified or designated as at fair value through profit or loss are measured at fair value with changes in fair values recognized in net earnings. Financial assets classified as either held-to-maturity or as loans and receivables, and other financial liabilities, are measured at amortized cost using the effective interest method of amortization.

Financial assets are derecognized when the contractual rights to receive cash flows expire. Financial liabilities are removed from the Consolidated Statements of Financial Position when the obligation is discharged, cancelled, or expired.

Derivative instruments that are embedded in financial or non-financial contracts that are not already required to be recognized at fair value are treated and recognized as separate derivatives if their risks and characteristics are not closely related to their host contracts and the contract is not measured at fair value. Changes in the fair values of these and other derivative instruments are recognized in net earnings with the exception of the effective portion of derivatives designated as cash flow hedges, which are recognized in Other Comprehensive Income ("OCI").

Transaction costs are expensed as incurred for financial instruments classified or designated as at fair value through profit or loss. For other financial instruments, such as debt instruments, transaction costs are recognized as part of the carrying amount of the financial instrument. The Corporation uses the effective interest method of amortization for any transaction costs or fees, premiums, or discounts earned or incurred for financial instruments measured at amortized cost.

II. Hedges

Where hedge accounting can be applied and the Corporation chooses to seek hedge accounting treatment, a hedge relationship is designated as a fair value hedge or a cash flow hedge. A hedging relationship qualifies for hedge accounting if, at inception, it is formally designated and documented as a hedge, and the hedge is expected to be highly effective at inception and on an ongoing basis. The documentation includes identification of the hedging instrument and hedged item or transaction, the nature of the risk being hedged, the Corporation's risk management objectives and strategy for undertaking the hedge, and how hedge effectiveness will be assessed. The process of hedge accounting includes linking derivatives to specific assets and liabilities on the Consolidated Statements of Financial Position or to specific firm commitments or highly probable anticipated transactions.

The Corporation formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used are highly effective in offsetting changes in fair values or cash flows of hedged items. If the above hedge criteria are not met or the Corporation does not apply hedge accounting, the derivative is accounted for on the Consolidated Statements of Financial Position at fair value, with subsequent changes in fair value recorded in net earnings in the period of change.

Cash Flow Hedges

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in OCI and any ineffective portion is recognized in net earnings. Hedge effectiveness is achieved if the derivatives' cash flows are highly effective at offsetting the cash flows of the hedged item and the timing of the cash flows is similar. All components of each derivative's change in fair value are included in the assessment of cash flow hedge effectiveness. If hedging criteria are met, as described above, the fair values of the hedges are recorded in risk management assets or liabilities with changes in fair value being reported in OCI. On settlement, gains or losses on these derivatives are recognized in net earnings in the same period and financial statement caption as the hedged exposure or in the cost of the asset acquired if the hedge relates to a non-financial asset. If hedge accounting is discontinued, the amounts previously recognized in Accumulated Other Comprehensive Income (Loss) ("AOCI") are reclassified to net earnings during the periods when the variability in the cash flows of the hedged item affects net earnings. Gains or losses on derivatives are reclassified to net earnings from AOCI immediately when the forecasted transaction is no longer expected to occur within the time period specified in the hedge documentation.

D. Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and highly liquid investments with original maturities of three months or less.

E. Inventory

Purchased emission credits and allowances are recorded as inventory at cost and are carried at the lower of weighted average cost and net realizable value. Credits granted to, or internally generated by, the Corporation are recorded at nil.

Proprietary trading of emissions allowances that meet the definition of a derivative are accounted for using the fair value method of accounting. Allowances that do not satisfy the criteria of a derivative are accounted for using the accrual method.

F. Property, Plant, and Equipment

The Corporation's investment in property, plant, and equipment ("PP&E") is initially measured at the original cost of each component at the time of construction, purchase, or acquisition. A component is a tangible portion of an asset that can be separately identified and depreciated over its own expected useful life, and is expected to provide a benefit for a period in excess of one year. Original cost includes items such as materials, labour, borrowing costs, and other directly attributable costs, including the initial estimate of the cost of decommissioning and restoration. Costs are recognized as PP&E assets if it is probable that future economic benefits will be realized and the cost of the item can be measured reliably.

The cost of capital spares is capitalized and classified as PP&E, as these items can only be used in connection with an item of PP&E.

Planned life-cycle maintenance for hydro facilities is performed at regular intervals and includes inspection, repair, and maintenance of existing components, and the replacement of existing components. Costs incurred are capitalized in the period in which maintenance activities occur and are amortized on a straight-line basis over the term until the next lifecycle maintenance event. Expenditures incurred for the replacement of components are capitalized and amortized over the estimated useful life of such components.

The cost of routine repairs and maintenance and the replacement of minor parts are charged to net earnings as incurred.

Subsequent to initial recognition and measurement at cost, all classes of PP&E continue to be measured using the cost model and are reported at cost less accumulated depreciation and impairment losses, if any.

An item of PP&E or a component is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the income statement when the asset is derecognized.

The estimate of the useful lives of each component of PP&E is based on current facts and past experience, and takes into consideration existing long-term sales agreements and contracts, current and forecasted demand, and the potential for technological obsolescence. The useful life is used to estimate the rate at which the component of PP&E is depreciated. PP&E assets are subject to depreciation when the asset is considered to be available for use, which is typically upon commencement of commercial operations. Each significant component of an item of PP&E is depreciated to its residual value over its estimated useful life, using the straight-line method. Estimated useful lives, residual values, and depreciation methods are reviewed annually and are subject to revision based on new or additional information. The effect of a change in useful life, residual value, or depreciation method is accounted for prospectively.

Estimated useful lives of the components of depreciable assets, categorized by asset class, are as follows:

Hydro generation	30-50 years
Wind generation	5-30 years
Capital spares and other	2-10 years

The Corporation capitalizes borrowing costs on capital invested in projects under construction (see Note 2(K)). Upon commencement of commercial operations, capitalized borrowing costs, as a portion of the total cost of the asset, are amortized over the estimated useful life of the related asset.

G. Intangible Assets

Intangible assets acquired in a business combination are recognized at their fair value at the date of acquisition. Intangible assets acquired separately are recognized at cost. Internally generated intangible assets arising from development projects are recognized when certain criteria related to the feasibility of internal use or sale, and probable future economic benefits, of the intangible asset are demonstrated. Intangible assets are initially recognized at cost, which is comprised of all directly attributable costs necessary to create, produce, and prepare the intangible asset to be capable of operating in the manner intended by management.

Subsequent to initial recognition, intangible assets continue to be measured using the cost model, and are reported at cost less accumulated amortization and impairment losses, if any. Amortization is included in Depreciation and amortization in the Consolidated Statements of Earnings.

Amortization commences when the intangible asset is available for use, and is computed on a straight-line basis over the intangible asset's estimated useful life. Estimated useful lives of intangible assets may be determined, for example, with reference to the term of the related contract or license agreement. The estimated useful lives and amortization methods are reviewed at each year-end with the effect of any changes being accounted for prospectively. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually.

Intangible assets include power sale contracts with fixed prices higher than market prices at the date of acquisition, software, and intangibles under development. Estimated useful lives of intangible assets are as follows:

Software	2-7 years
Power sale contracts	1-25 years

H. Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Corporation reviews the net carrying amount of PP&E and finite life intangible assets to determine whether there is any indication that an impairment loss may exist.

Factors that could indicate that an impairment exists include significant underperformance relative to historical or projected operating results, significant changes in the manner in which an asset is used, or in the Corporation's overall business strategy; or significant negative industry or economic trends. In some cases, these events are clear. However, in many cases, a clearly identifiable event indicating possible impairment does not occur. Instead, a series of individually insignificant events occur over a period of time leading to an indication that an asset may be impaired.

The Corporation's operations, the market, and business environment are routinely monitored, and judgments and assessments are made to determine whether an event has occurred that indicates a possible impairment. If such an event has occurred, an estimate is made of the recoverable amount of the asset. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model, such as discounted cash flows, is used. Value in use is the present value of the estimated future cash flows expected to be derived from the asset from its continued use and ultimate disposal. If the recoverable amount is less than the carrying amount of the asset, an asset impairment loss is recognized in net earnings, and the asset's carrying amount is reduced to its recoverable amount.

At each reporting date, an assessment is made whether there is any indication that an impairment loss previously recognized may no longer exist or may have decreased. If such indication exists, the recoverable amount of the asset is estimated and the impairment loss previously recognized is reversed if there has been an increase in the asset's recoverable amount. Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the lesser of the revised estimate of its recoverable amount or the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized previously. A reversal of an impairment loss is recognized in net earnings.

I. Income Taxes

Income tax expense comprises current and deferred income tax. Current income tax is the expected income tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to income taxes in respect of previous years.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes (temporary differences). Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the tax laws that have been enacted or substantively enacted at the reporting date.

A deferred income tax asset is recognized for unused tax losses, tax credits, and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which such losses can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related income tax benefit will be realized.

J. Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that the Corporation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. A legal obligation can arise through a contract, legislation, or other operation of law. A constructive obligation arises from an entity's actions whereby through an established pattern of past practice, published policies, or a sufficiently specific current statement, the entity has indicated it will accept certain responsibilities and has thus created a valid expectation that it will discharge those responsibilities. The amount recognized as a provision is the best estimate, remeasured at each period-end, of the expenditures required to settle the present obligation considering the risks and uncertainties associated with the obligation. Where expenditures are expected to be incurred in the future, the obligation is measured at its present value using a current market-based, risk-adjusted interest rate.

The Corporation records a decommissioning and restoration provision for all generating facilities for which it is legally or constructively required to remove the facilities at the end of their useful lives and restore the site. For some hydro facilities, the Corporation is required to remove the generating equipment, but is not required to remove the structures. Initial decommissioning provisions are recognized at their present value when incurred. Each reporting date, the Corporation determines the present value of the provision using the current discount rates that reflect the time value of money and associated risks. The Corporation recognizes the initial decommissioning and restoration provisions, as well as changes resulting from revisions to cost estimates and period-end revisions to the market-based, risk-adjusted discount rate, as a cost of the related PP&E (see Note 2(F)). The accretion of the net present value discount is charged to net earnings each period and is included in net interest expense.

Changes in other provisions resulting from revisions to estimates of expenditures required to settle the obligation or period-end revisions to the market-based, risk-adjusted discount rate are recognized in net earnings. The accretion of the net present value discount is charged to net earnings each period and is included in net interest expense.

K. Borrowing Costs

The Corporation capitalizes borrowing costs that are directly attributable to, or relate to general borrowings used for, the construction of qualifying assets. Qualifying assets are assets that take a substantial period of time to prepare for their intended use and typically include generating facilities or other assets that are constructed over periods of time exceeding 12 months. Borrowing costs are considered to be directly attributable if they could have been avoided if the expenditure on the qualifying asset had not been made. Borrowing costs that are capitalized are included in the cost of the related PP&E component. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use are complete.

All other borrowing costs are expensed in the period in which they are incurred.

L. Non-Controlling Interests

Non-controlling interests arise from contractual arrangements between the Corporation and other parties, whereby the other party has acquired an interest in a specified asset or operation, and the Corporation retains control.

Subsequent to acquisition, the carrying amount of non-controlling interests is increased or decreased by the non-controlling interest's share of subsequent changes in equity and payments to the non-controlling interest. Total comprehensive income is attributed to the non-controlling interests even if this results in the non-controlling interests having a negative balance.

M. Joint Arrangements

A joint arrangement is a contractual arrangement that establishes the terms by which two or more parties agree to undertake and jointly control an economic activity. The Corporation's joint arrangements are generally classified as joint operations.

A joint operation arises when two or more parties have joint control or joint ownership of one or more assets contributed to, or acquired for and dedicated to, the purpose of the joint operation. Generally, each party takes a share of the output from the asset and each bears an agreed upon share of the costs incurred in respect of the joint operation. The Corporation reports its interests in joint operations in its consolidated financial statements using the proportionate consolidation method by recognizing the assets, liabilities, revenues, and expenses in respect of its interest in the joint operation that it has a right to.

N. Government Incentives

Government incentives are recognized when the Corporation has reasonable assurance that it will comply with the conditions associated with the incentive and that the incentive will be received. When the incentive relates to an expense or revenue item, it is recognized in net earnings over the same period in which the related costs or revenues are recognized. When the incentive relates to an asset, it is recognized as a reduction of the carrying amount of PP&E and released to earnings as a reduction in depreciation expense over the expected useful life of the related asset.

O. Leases

A lease is an arrangement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time.

PPAs may contain, or may be considered, leases where the fulfillment of the arrangement is dependent on the use of a specific asset (i.e. a generating facility) and the arrangement conveys to the customer the right to use that asset.

Where the Corporation determines that the contractual provisions of a PPA contain, or is, a lease and result in the Corporation retaining the principal risks and rewards of ownership of the asset, the arrangement is an operating lease. For operating leases, the asset is, or continues to be, capitalized as PP&E and depreciated over its useful life. Rental income, including contingent rents, from operating leases, is recognized over the term of the arrangement and is reflected in revenue on the Consolidated Statements of Earnings. Contingent rent may arise when payments due under the PPA are not fixed in amount but vary based on a future factor such as the amount of use or production.

P. Significant Accounting Judgments and Key Sources of Estimation Uncertainty

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

In the process of applying the Corporation's accounting policies, which are described above, management has to make judgments and estimates about matters that are highly uncertain at the time the estimate is made and that could significantly affect the amounts recognized in the consolidated financial statements. Different estimates with respect to key variables used in the calculations, or changes to estimates, could potentially have a material impact on the Corporation's financial position or performance. The key judgments and sources of estimation uncertainty are described below:

I. Revaluation of PP&E

On formation, the Corporation entered into fixed price power purchase agreements with TransAlta ("TransAlta PPAs") for certain wind and hydro facilities. Consequently, the Corporation revalued the carrying amount of the PP&E of these facilities. The revaluation was based on the present value of the discounted cash flows expected to be generated by the facilities over their estimated remaining useful lives. In determining the underlying cash flows of each facility, management was required to make estimates and assumptions about anticipated production levels, royalties and other costs of production, planned and unplanned outages, fixed operating costs, asset retirement costs, other related cash inflows or outflows over the life of the facilities, changes to regulations, and transmission capacity or constraints. As a result of the valuation, the carrying amount of these facilities was reduced by $205.8 million (see Note 14).

II. Significant Influence

The rights associated with the Corporation's investment in the preferred shares of a subsidiary of TransAlta provide the Corporation with a 25 per cent voting interest in that subsidiary. Under IFRS, a 20 per cent voting interest is presumed to provide the holder with significant influence over the investee. Significant influence is the power to participate in the financial and operating policy decisions of an investee. Despite the Corporation's 25 per cent voting interest, management has determined that the Corporation does not have significant influence over the TransAlta subsidiary because the other 75 per cent voting interest in that subsidiary is owned directly or indirectly by TransAlta, and as a result, control is held by TransAlta.

III. Consolidation of Kent Hills Wind Farm

Under IFRS, the Corporation is required to consolidate all entities that it controls. The Corporation consolidates the Kent Hills wind farm as a subsidiary. Kent Hills is subject to a joint venture agreement but is not an incorporated entity. The Corporation has determined that Kent Hills is considered an entity as it is sufficiently ring-fenced to be considered a deemed separate entity. Kent Hills is considered ring-fenced because the assets, liabilities, and results of operations of Kent Hills are separate from the Corporation and the joint venture agreement specifies how Kent Hills is to be managed. The Corporation controls Kent Hills through its 83 per cent ownership, accordingly, consolidation is required.

IV. Impairment of PP&E

Impairment exists when the carrying amount of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. An assessment is made at each reporting date as to whether there is any indication that an impairment loss may exist or that a previously recognized impairment loss may no longer exist or may have decreased. In determining fair value less costs to sell, information about third-party transactions for similar assets is used and if none is available, other valuation techniques, such as discounted cash flows, are used. Value in use is computed using the present value of management's best estimates of future cash flows based on the current use and present condition of the asset. In estimating either fair value less costs to sell or value in use using discounted cash flow methods, estimates and assumptions must be made about sales prices, production, asset retirement costs, and other related cash inflows or outflows over the life of the facilities, which can range from 25 to 50 years. In developing these assumptions, management uses estimates of contracted prices, anticipated production levels, planned and unplanned outages, changes to regulations, and transmission capacity or constraints for the remaining life of the facilities. Appropriate discount rates reflecting the risks specific to the asset under review are used in the assessments. These estimates and assumptions are susceptible to change from period to period and actual results can, and often do, differ from the estimates, and can have either a positive or negative impact on the estimate of the impairment charge, and may be material. All of the Corporation's generating assets are contracted under the TransAlta PPAs or other PPAs with various third parties.

V. Income Taxes

Preparation of the consolidated financial statements involves determining an estimate of, or provision for, income taxes in each of the jurisdictions in which the Corporation operates. The process also involves making an estimate of income taxes currently payable and income taxes expected to be payable or recoverable in future periods, referred to as deferred income taxes. Deferred income taxes result from the effects of temporary differences due to items that are treated differently for tax and accounting purposes. The tax effects of these differences are reflected in the Consolidated Statements of Financial Position as deferred income tax assets and liabilities. Management must exercise judgment in its assessment of continually changing tax interpretations, regulations, and legislation to ensure deferred income tax assets and liabilities are complete and fairly presented. Differing assessments and applications than the Corporation's estimates could materially impact the amount recognized for deferred income tax assets and liabilities.

VI. Provisions for Decommissioning and Restoration Activities

The Corporation recognizes provisions for decommissioning and restoration obligations as outlined in Note 2(J) and Note 19. Initial decommissioning provisions, and subsequent changes thereto, are determined using the Corporation's best estimate of the required cash expenditures, adjusted to reflect the risks and uncertainties inherent in the timing and amount of settlement. The estimated cash expenditures are present valued using a current, risk-adjusted, market-based, pre-tax discount rate. A change in estimated cash flows, market interest rates, or timing could have a material impact on the carrying amount of the provision.

VII. Useful Life of PP&E

Each significant component of an item of PP&E is depreciated over its estimated useful life. Estimated useful lives are determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset, existing long-term sales agreements and contracts, current and forecasted demand, the potential for technological obsolescence, and regulations. The useful lives of PP&E are reviewed at least annually to ensure they continue to be appropriate.

3. Accounting Changes

A. Current Year Accounting Changes

On Jan. 1, 2013, the Corporation adopted the following new accounting standards that were previously issued by the IASB:

I. IFRS 10 *Consolidated Financial Statements*

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

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

II. IFRS 11 *Joint Arrangements*

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

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

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

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

IV. IFRS 13 *Fair Value Measurement*

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

V. IFRS 7 *Financial Instruments: Disclosures*

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

VI. *Annual Improvements 2009-2011*

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

B. Prior Year Accounting Changes

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

C. 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.

The Corporation had previously presented deferred income tax assets and liabilities on a net basis, even though there wasn't a legal right of offset. As a result, the deferred tax income assets and liabilities have been reclassified to present the deferred income tax assets and liabilities on a gross basis.

D. Future Accounting Changes

New or amended applicable accounting standards that have been previously issued by the IASB but are not yet effective, and have not been applied by the Corporation, are as follows:

I. IFRS 9 *Financial Instruments*

In November 2009, the IASB issued IFRS 9 *Financial Instruments*, which replaced the classification and measurement requirements in IAS 39 *Financial Instruments: Recognition and Measurement* for financial assets. Financial assets must be classified and measured at either amortized cost or at fair value through profit or loss or through OCI depending on the basis of the entity's business model for managing the financial asset, and the contractual cash flow characteristics of the financial asset.

In October 2010, the IASB issued additions to IFRS 9 regarding financial liabilities. The new requirements address the problem of volatility in net earnings arising from an issuer choosing to measure a liability at fair value and require that the portion of the change in fair value due to changes in the entity's own credit risk be presented in OCI, rather than within net earnings.

In November 2013, the IASB issued amendments to IFRS 9 that introduce a new general hedge accounting model intended to be simpler and more closely focus on how an entity manages its risks. Additional amendments to IFRS 9 allow a reporting entity to present changes in its own credit risk associated with liabilities designated at fair value through profit or loss in OCI.

The IASB also removed the Jan. 1, 2015 mandatory effective date from IFRS 9. The IASB will decide on a new effective date when the entire IFRS 9 project is closer to completion. Entities may still early adopt the finalized and issued provisions of IFRS 9.

The Corporation does not expect that any material impacts will result from these standards; however, continues to assess the impact of adopting these amendments on the consolidated financial statements.

II. IAS 36 *Impairment of Assets (Recoverable Amount Disclosures)*

In May 2013, the IASB issued amendments to the disclosure requirements of IAS 36 *Impairment of Assets*. The amendments clarify that the recoverable amount of an asset or cash-generating unit is to be disclosed only in periods in which an impairment loss has been recognized or reversed. Additional disclosures regarding the level of the IFRS 13 fair value hierarchy and information about valuation techniques and key assumptions are required, in certain circumstances, when an impairment loss or reversal has been recognized and the recoverable amount is based on fair value less costs to sell. The amended disclosure requirements apply retrospectively to annual reporting periods beginning on or after Jan. 1, 2014.

4. Significant Events

A. Acquisition of Generating Assets

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

Consideration Transferred	Amount
Issuance of 66,666,667 common shares at $10 per share	666,667
Issuance of closing note	187,000
Issuance of short term note	250,000
Issuance of acquisition note	30,000
Issuance of amortizing term loan	200,000
Total	**1,333,667**

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

The financial statements of the Acquired Assets and the Corporation have been combined together at book values, as if the Acquired Assets had always been owned by TransAlta Renewables, with the exception of the recognition of a reduction in the carrying amount of certain hydro and wind generating facilities resulting from a revaluation based on the terms of the TransAlta PPAs. The revaluation resulted in pre-tax reductions of $205.8 million in the carrying amount of the facilities (see Note 14) and $0.7 million in the carrying amount of intangible assets (see Note 15), with the corresponding after-tax amount of $154.9 million being charged to retained earnings (deficit).

B. Initial Public Offering of Common Shares

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

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

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

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

C. Changes in Capitalization by the Parent

As a result of the Acquisition, the completion of the Offering, and the separation of the Corporation as a separate stand-alone entity, the Net parental investment previously attributed to the Acquired Assets changed as follows: i) $408.0 million was converted into debt, comprised of the $200.0 million Amortizing Term Loan, the $187.0 million closing note and the $21.0 million of the acquisition note, of which the closing note and the acquisition note were repaid in cash; ii) amounts due from related parties, including increases in these amounts since Dec. 31, 2012, totalling approximately $197.3, were reclassified from the Consolidated Statements of Financial Position against the Net parental investment; and iii) the Corporation's deferred income tax liabilities were increased by approximately $76.6 million, with a corresponding offset in Net parental investment, for the tax benefit that remained with TransAlta associated with non-capital losses related to certain wind facilities.

5. Government Incentives

Certain of the Corporation's wind and hydro facilities are eligible to receive incentives under the Wind Power Production Incentive or the EcoENERGY for Renewable Power incentive programs sponsored by the Canadian federal government to encourage the development of clean power generation projects in Canada. Qualifying facilities receive specified incentive payments for every kilowatt hour of energy production for a period of up to ten years from commissioning.

6. Lease Revenue

Several of the Corporation's wind and hydro PPAs for the sale of electrical energy meet the criteria of operating leases, whereby the Corporation is the lessor and the customer is the lessee. Revenues earned under these contracts are reported as lease revenue.

7. Expenses by Nature

Expenses classified by nature are as follows:

Year ended Dec. 31	**2013**		2012	
	Royalties and other	**Operations, maintenance, and administration**	Royalties and other	Operations, maintenance, and administration
Royalties and land lease costs[1]	**9,856**	**-**	10,838	-
Transmission tariffs	**3,853**	**-**	2,276	-
Contracted operating expenses	**-**	**8,730**	-	4,396
Other operating expenses	**-**	**32,233**	-	36,432
Total	**13,709**	**40,963**	13,114	40,828

1 Includes gross overriding royalties from 1.00 per cent to 2.00 per cent of revenue from electrical energy produced at four hydro plants that are payable in return for engineering services previously performed and costs related to land leases.

8. Asset Impairment Charges

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

During 2012, the Corporation recognized a pre-tax impairment charge of $13.0 million related to three wind and one hydro generating asset. The impairments resulted from the completion of the annual impairment assessment based on estimates of fair value less costs to sell, derived from the Corporation's long range forecasts and prices evidenced in the marketplace. The assets were impaired primarily due to expectations regarding lower market prices estimated using a combination of third-party and internal price forecasts. Had the TransAlta PPAs been in effect in 2012, the valuation adjustment described in Note 4(C) would have been recorded at that time and the assets would not have been impaired.

9. Net Interest Expense

The components of net interest expense are as follows:

Year ended Dec. 31	2013	2012
Interest on long-term debt	**29,436**	27,606
Interest on letters of credit and guarantees pledged by TransAlta *(Note 27)*	**2,297**	4,156
Capitalized interest *(Note 14)*	**(2,147)**	(4,621)
Interest income	**(15)**	(42)
Interest expense	**29,571**	27,099
Accretion of provisions *(Note 19)*	**848**	730
Net interest expense	**30,419**	27,829

10. Acquisition and Disposals

A. Acquisition

Wyoming Wind

On Dec. 20, 2013, the Corporation completed the acquisition, through a subsidiary of TransAlta, of an economic interest in a 144 megawatt wind farm in Wyoming ("Wyoming Wind Farm"). The Corporation acquired the economic interest in the Wyoming Wind Farm by acquiring a U.S.$102.7 million ($109.7 million) investment in the Class A Preferred Shares of a TransAlta subsidiary. The Class A Preferred Shares pay dividends based on the pre-tax net earnings of the Wyoming Wind Farm. See Note 17 for additional information regarding the investment in the preferred shares.

The Corporation financed the acquisition of the economic interest through a U.S.$102.0 million ($108.9 million) loan from TransAlta ("Wyoming Wind Acquisition Loan") (see Note 18).

TransAlta acquired the wind farm from an affiliate of NextEra Energy Resources, LLC for total cash consideration transferred of U.S.$102.7 million. The wind farm is fully operational and contracted under a PPA until 2028 with an investment grade counterparty. The acquisition is the first wind project in the Western United States for the Corporation and TransAlta, and aligns with the Corporation's strategy of growing its renewables platform.

B. Disposals

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

11. Income Taxes

A. Consolidated Statements of Earnings

I. Rate Reconciliation

Year ended Dec. 31	2013	2012
Earnings before income taxes	**72,710**	48,329
Net earnings attributable to non-controlling interests	**(2,617)**	(2,653)
Adjusted earnings before income taxes	**70,093**	45,676
Statutory Canadian federal and provincial income tax rate *(%)*	**25.0**	25.0
Expected income tax expense	**17,523**	11,419
Increase in income taxes resulting from:		
Non-taxable capital losses	**-**	611
Writedown of deferred income tax assets	**-**	635
Statutory and other rate differences	**1,891**	-
Other	**421**	920
Income tax expense	**19,835**	13,585
Effective tax rate *(%)*	**28**	30

II. Components of Income Tax Expense

Year ended Dec. 31	2013	2012
Current income tax expense	**1,081**	772
Adjustments in respect of current income tax of previous years	**760**	-
Adjustments in respect of deferred income tax of previous years	**(1,128)**	-
Deferred income tax expense related to the origination and reversal of temporary differences	**17,231**	12,813
Deferred income tax expense resulting from changes in tax rates	**1,891**	-
Income tax expense	**19,835**	13,585

Year ended Dec. 31	2013	2012
Current income tax expense	**1,841**	772
Deferred income tax expense	**17,994**	12,813
Income tax expense	**19,835**	13,585

B. Consolidated Statements of Changes in Equity

The aggregate current and deferred income tax related to items charged or credited to equity is as follows:

Year ended Dec. 31	2013	2012
Income tax expense (recovery) related to:		
Cash flow hedges, net	**296**	903
Common share issue costs	**(3,526)**	-
Income tax expense (recovery) reported in equity	**(3,230)**	903

C. Components of Deferred Income Tax Liability

Significant components of the Corporation's deferred income tax liabilities are as follows:

As at Dec. 31	2013	2012
Net operating and capital loss carryforwards	**(217,929)**	(292,724)
Property, plant, and equipment	**368,855**	402,691
Risk management assets and liabilities, net	**(26)**	219
Net deferred income tax liability	**150,900**	110,186

12. Non-Controlling Interest

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

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

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

Year ended Dec. 31	2013	2012
Results of operations		
Revenues	**31,717**	32,331
Net earnings and total comprehensive income	**15,426**	15,756
Amounts attributable to the non-controlling interest:		
Net earnings and total comprehensive income	**2,617**	2,653
Distributions paid to Natural Forces Technologies Inc.	**3,743**	4,131

As at Dec. 31	2013	2012
Financial position		
Current assets	**5,035**	4,520
Long-term assets	**227,256**	236,079
Current liabilities	**(762)**	(566)
Long-term liabilities	**(414)**	(406)
Total equity	**(231,115)**	(239,627)
Equity attributable to the non-controlling interest	**(39,290)**	(40,416)

13. Financial Instruments and Risk Management

A. Financial Assets and Liabilities – Classification and Measurement

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost (see Note 2). The following table outlines the carrying amounts and classifications of the financial assets and liabilities:

Carrying value of financial instruments as at Dec. 31, 2013

	Cash flow hedges	Derivatives classified as held for trading	Loans and receivables	Other financial assets and liabilities	Total
Financial assets					
Cash and cash equivalents	–	–	–	19,256	19,256
Accounts receivable	–	–	37,413	–	37,413
Risk management assets					
Current	22	–	–	–	22
Long-term	14	–	–	–	14
Investment in preferred shares	–	–	–	109,325	109,325
Financial liabilities					
Bank overdraft	–	–	–	891	891
Accounts payable and accrued liabilities	–	–	–	31,692	31,692
Risk management liabilities					
Current	73	–	–	–	73
Long-term	2	65	–	–	67
Long-term debt[1]	–	–	–	684,215	684,215

1 *Includes current portion.*

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

	Cash flow hedges	Derivatives classified as held for trading	Loans and receivables	Other financial assets and liabilities	Total
Financial assets					
Cash and cash equivalents	–	–	–	3,205	3,205
Accounts receivable	–	–	42,407	–	42,407
Risk management assets					
Current	677	267	–	–	944
Due from related parties	–	–	131,171	–	131,171
Financial liabilities					
Accounts payable and accrued liabilities	–	–	–	36,316	36,316
Risk management liabilities					
Current	7	–	–	–	7
Long-term	6	57	–	–	63
Long-term debt[1]	–	–	–	372,733	372,733

1 *Includes current portion.*

B. Fair Value of Financial Instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values can be determined by reference to prices for that instrument in active markets to which the Corporation has access. In the absence of an active market, the Corporation determines fair values based on valuation models or by reference to other similar products in active markets.

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

I. Level Determinations and Classifications

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

a. Level I

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

b. Level II

Fair values are determined using inputs, other than quoted prices included in Level I, that are observable for the asset or liability, either directly or indirectly.

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

Level II fair values of other risk management assets and liabilities are determined using valuation techniques, such as discounted cash flow methods. The Corporation uses observable inputs other than unadjusted quoted prices that are observable for the asset or liability, such as interest rate yield curves, credit valuation adjustments, and currency rates. For certain financial instruments where insufficient trading volume or lack of recent trades exists, the Corporation relies on similar interest or currency rate inputs and other third-party information such as credit spreads.

c. Level III

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

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

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

TransAlta has a Commodity Exposure Management Policy that governs both proprietary and hedging commodity transactions undertaken by TransAlta on behalf of the Corporation, and defines and specifies the controls and management responsibilities associated with commodity trading activities, as well as the nature and frequency of required reporting of such activities.

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

II. Commodity and Other Risk Management Assets and Liabilities

The Corporation's commodity-based risk management assets and liabilities relate to trading activities and certain contracting activities. Other risk management assets and liabilities include risk management assets and liabilities that are used in hedging foreign currency exposures.

The following tables summarize the key factors impacting the fair value of the Corporation's risk management assets and liabilities by classification level during the years ended Dec. 31, 2013 and 2012, respectively:

	Cash flow hedges	**Non-hedges**	**Total**		
	Level II	**Level III**	**Level II**	**Level III**	**Total**
Net risk management assets at Dec. 31, 2012	664	210	664	210	874
Changes attributable to:					
Market price changes on existing contracts	(3)	(7)	(3)	(7)	(10)
New contracts	(56)	–	(56)	–	(56)
Contracts settled	(644)	(268)	(644)	(268)	(912)
Net risk management liabilities at Dec. 31, 2013	**(39)**	**(65)**	**(39)**	**(65)**	**(104)**
Additional Level III information:					
Total losses included in earnings before income taxes		(7)		(7)	(7)
Unrealized losses included in earnings before income taxes related to net liabilities held at Dec. 31, 2013		(275)		(275)	(275)

	Cash flow hedges		Non-hedges	Total		
	Level II	Level III	Level III	Level II	Level III	Total
Net risk management assets (liabilities) at Dec. 31, 2011	(5,697)	19	(783)	(5,697)	(764)	(6,461)
Changes attributable to:						
Market price changes on existing contracts	29	(14)	588	29	574	603
New contracts	675	–		675	–	675
Contracts settled	5,657	(5)	405	5,657	400	6,057
Net risk management assets at Dec. 31, 2012	664	–	210	664	210	874
Additional Level III information:						
Total losses recognized in OCI		(19)	–		(19)	(19)
Total gains included in earnings before income taxes		–	588		588	588
Unrealized gains included in earnings before income taxes related to net assets held at Dec. 31, 2012		–	993		993	993

To the extent applicable, changes in net risk management assets and liabilities for non-hedge positions are reflected within net earnings.

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

The anticipated settlement of the contracts outstanding at Dec. 31, 2013, over each of the next five calendar years and thereafter, is as follows:

		2014	2015	2016	2017	2018	2019 and thereafter	Total
Hedges	Level II	(51)	8	4	–	–	–	(39)
Non-hedges	Level III	–	–	(2)	(3)	(3)	(57)	(65)
Total	Level II	(51)	8	4	–	–	–	(39)
	Level III	–	–	(2)	(3)	(3)	(57)	(65)
Total net assets (liabilities)		**(51)**	**8**	**2**	**(3)**	**(3)**	**(57)**	**(104)**

III. Financial Instruments not Recognized at Fair Value

The carrying value of cash, accounts receivable, investment in preferred shares, and accounts payable and accrued liabilities approximates their fair value at the statement of financial position date due to their short-term nature.

The fair value of the Corporation's long-term debt as at Dec. 31, 2013 was $700.7 million (Dec. 31, 2012 – $396.6 million) all of which is included in Level II. 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.

IV. Cash Flow Hedges

a. *Foreign Currency Rate Risk Management*

The Corporation uses foreign exchange forward contracts to hedge a portion of its future foreign-denominated receipts and expenditures and foreign exchange forward contracts to manage foreign exchange exposure on foreign-denominated debt.

As at Dec. 31

2013				2012			
Notional amount sold	**Notional amount purchased**	**Fair value liability**	**Maturity**	Notional amount sold	Notional amount purchased	Fair value liability	Maturity
CAD 21,544	**USD 20,000**	**(72)**	**2014**	–	–	–	–
CAD 2,577	**EUR 1,763**	**16**	**2014**	31,592	EUR 24,517	675	2013

During the year ended Dec. 31, 2013, the Corporation entered into a foreign currency cash flow hedge on its U.S.$20.0 million CHD debenture.

b. *Effect of Cash Flow Hedges*

The following tables summarize the pre-tax amounts recognized in and reclassified out of OCI related to cash flow hedges:

Year ended Dec. 31, 2013

	Effective portion			**Ineffective portion**	
Derivatives in cash flow hedging relationships	**Pre-tax gain (loss) recognized in OCI**	**Location of (gain) loss reclassified from OCI**	**Pre-tax (gain) loss reclassified from OCI**	**Location of (gain) recognized in earnings**	**Pre-tax (gain) recognized in earnings**
Commodity contracts	**(3)**	Revenue	**(307)**	Revenue	**–**
Foreign exchange forwards on project hedges	**214**	Property, plant, and equipment	**1,687**	Foreign exchange (gain) loss	**–**
Foreign exchange forwards on U.S. debt hedges	**582**	Foreign exchange (gain) loss	**(720)**	Foreign exchange (gain) loss	**–**
OCI impact	**793**	**OCI impact**	**660**	**Net earnings impact**	**–**

Year ended Dec. 31, 2012					
	Effective portion			Ineffective portion	
Derivatives in cash flow hedging relationships	Pre-tax gain (loss) recognized in OCI	Location of (gain) loss reclassified from OCI	Pre-tax (gain) loss reclassified from OCI	Location of (gain) recognized in earnings	Pre-tax (gain) recognized in earnings
Commodity contracts	753	Revenue	(1,395)	Revenue	–
Foreign exchange forwards on project hedges	(3,023)	Property, plant, and equipment	7,101	Foreign exchange (gain) loss	–
OCI impact	(2,270)	OCI impact	5,706	Net earnings impact	–

Over the next 12 months, the Corporation estimates that an insignificant amount of gains (losses) will be reclassified from AOCI to net earnings.

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

I. Credit Risk

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

The Corporation has limited exposure to credit risk, as the majority of its power sales contracts are with TransAlta Corporation, governments and large utility customers with extensive operations. Historically, the Corporation has not had collection issues associated with its receivables and the aging of receivables is reviewed on a regular basis to ensure the timely collection of amounts owing to the Corporation.

The Corporation's maximum exposure to credit risk at Dec. 31, 2013, without taking into account collateral held or right of set-off, is represented by the current carrying amounts of accounts receivable and risk management assets as per the 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 Dec. 31, 2013, significantly all of the Corporation's counterparties were considered investment grade. The aging of the Corporation's receivables at Dec. 31 is as follows:

As at Dec. 31	**2013**	2012
Gross accounts receivable	**37,413**	40,045
Receivables between 60-120 days	**–**	2,362
Total accounts receivable	**37,413**	42,407

At Dec. 31, 2013, 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

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

The Corporation manages its liquidity risk associated with its financial liabilities by utilizing cash flow generated from operations and borrowing arrangements with TransAlta. The Corporation is in compliance with all financial covenants relating to its debt obligations as at Dec. 31, 2013.

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

	2014	2015	2016	2017	2018	2019 and thereafter	Total
Accounts payable and accrued liabilities	31,692	–	–	–	–	–	31,692
Long-term debt[1]	37,596	193,534	66,427	24,413	283,827	82,511	688,308
Net risk management (assets) liabilities	51	(8)	(2)	3	3	57	104
Interest on long-term debt[2]	34,345	29,255	22,173	19,867	12,163	5,889	123,692
Total	**103,684**	**222,781**	**88,598**	**44,283**	**295,993**	**88,457**	**843,796**

1 *Excludes impacts of derivatives.*
2 *Not recognized as a financial liability on the Consolidated Statements of Financial Position.*

III. Foreign Currency Rate Risk

From time to time, the Corporation conducts transactions in currencies other than its functional currency, such as the U.S. dollar or the euro. The Corporation manages these risks by entering into foreign currency cash flow hedges where considered necessary. In addition, exposure to fluctuations in the exchange rate between the Canadian and U.S. dollars may arise as a result of the economic interest in the Wyoming Wind Farm as distributions received on the investment will be denominated in U.S. dollars. However, this exposure will be partially offset by the payment of U.S.-denominated interest on the Corporation's Wyoming Wind Acquisition Loan from TransAlta related to the investment.

The possible effect on net earnings and OCI, for the years ended Dec. 31, 2013 and 2012, due to changes in foreign exchange rates associated with financial instruments denominated in currencies other than the functional currency, is outlined below. The sensitivity analysis has been prepared using management's assessment that an average five cent (2012 – five cent) increase or decrease in these currencies relative to the Canadian dollar is a reasonable potential change over the next quarter.

Year ended Dec. 31	2013		2012	
Currency	Net earnings decrease[1]	OCI gain[1]	Net earnings decrease[1]	OCI gain[1]
EUR	–	71	–	981
Total	**–**	**71**	–	981

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

IV. Interest Rate Risk

All of the Corporation's long-term debt, as described in Note 18, is comprised of fixed interest rate debt and, as such, the Corporation is not exposed to interest rate risk.

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

V. Market Risk – Commodity Price Risk

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

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

14. Property, Plant, and Equipment

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

	Hydro generation	Wind generation	Assets under construction[1]	Capital spares and other	Total
Cost					
As at Dec. 31, 2011	252,126	1,746,318	32,591	3,727	2,034,762
Additions	26	266	166,421	(1,336)	165,377
Disposals	(279)	(1,214)	–	–	(1,493)
Revisions and additions to decommissioning costs	(1,344)	(590)	–	–	(1,934)
Asset impairment charges *(Note 8)*	(1,364)	(11,636)	–	–	(13,000)
Transfers	3,966	2,349	(10,128)	4,219	406
As at Dec. 31, 2012	253,131	1,735,493	188,884	6,610	2,184,118
Additions	2,062	4,771	38,963	1,002	46,798
Disposals	(430)	(251)	–	–	(681)
Revisions and additions to decommissioning costs	(486)	1,103	–	–	617
Asset impairment charges *(Note 8)*	(3,663)	–	–	–	(3,663)
Revaluation[2]	(3,804)	(201,999)	–	–	(205,803)
Transfers	140	227,707	(227,847)	–	–
As at Dec. 31, 2013	**246,950**	**1,766,824**	**–**	**7,612**	**2,021,386**
Accumulated depreciation					
As at Dec. 31, 2011	10,450	169,340	–	–	179,790
Depreciation	34,311	31,583	–	–	65,894
Disposals	(73)	(45)	–	–	(118)
Transfers	(392)	447	–	–	55
As at Dec. 31, 2012	44,296	201,325	–	–	245,621
Depreciation	7,041	61,798	–	–	68,839
Disposals	(23)	(50)	–	–	(73)
As at Dec. 31, 2013	**51,314**	**263,073**	**–**	**–**	**314,387**
Carrying amount					
As at Dec. 31, 2012	208,835	1,534,168	188,884	6,610	1,938,497
As at Dec. 31, 2013	**195,636**	**1,503,751**	**–**	**7,612**	**1,706,999**

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

2 *On acquisition, the carrying amount of certain wind and hydro facilities was revalued by the Corporation based on the TransAlta PPAs (see Note 4).*

For the year ended Dec. 31, 2013, $2.1 million (Dec. 31, 2012 – $4.6 million) of interest was capitalized to PP&E at a weighted average rate of 5.46 per cent (Dec. 31, 2012 – 5.41 per cent).

The Corporation has transmission connection facilities for the Kent Hills wind farm that are leased under a finance lease (see Note 16). The net carrying amount included in wind generation as at Dec. 31, 2013 was $5.3 million (Dec. 31, 2012 – $5.5 million).

15. Intangible Assets

A reconciliation of the changes in the carrying value of intangible assets is as follows:

	Power contracts[1]	Software	Intangibles under development	Total
Cost				
As at Dec. 31, 2011	134,498	322	1,080	135,900
Additions	–	–	422	422
Disposals	–	(29)	–	(29)
Transfers	2	1,617	(1,502)	117
As at Dec. 31, 2012	134,500	1,910	–	136,410
Additions	–	(137)	–	(137)
Revaluation[2]	–	(700)	–	(700)
As at Dec. 31, 2013	**134,500**	**1,073**	**–**	**135,573**
Accumulated amortization				
As at Dec. 31, 2011	16,176	83	–	16,259
Amortization	6,803	274	–	7,077
Disposals	–	(28)	–	(28)
Transfers	(159)	–	–	(159)
As at Dec. 31, 2012	22,820	329	–	23,149
Amortization	6,855	285	–	7,140
As at Dec. 31, 2013	**29,675**	**614**	**–**	**30,289**
Carrying amount				
As at Dec. 31, 2012	111,680	1,581	–	113,261
As at Dec. 31, 2013	**104,825**	**459**	**–**	**105,284**

1 *Comprised of values associated with certain power contracts that arose on TransAlta's acquisition of CHD whereby the price of electricity to be delivered under the contracts exceeded the market price.*
2 *On acquisition, the carrying amount of certain intangible assets was revalued by the Corporation based on the TransAlta PPAs (see Note 4).*

16. Other Assets

Other assets are comprised of the following:

As at Dec. 31	**2013**	2012
Prepaid transmission costs	**3,059**	3,120
Long-term prepaids and other	**–**	1,813
Total	**3,059**	4,933

Prepaid transmission costs relate to amounts paid in advance under the finance lease arrangement for the Kent Hills wind farm transmission connection facilities (see Note 14).

17. Preferred Shares

On Dec. 20, 2013, the Corporation acquired an economic interest in the Wyoming Wind Farm by investing U.S.$102.7 million in 1,027,491 Class A Preferred Shares of a subsidiary of TransAlta (see Note 10).

The preferred shares are entitled to receive monthly, cumulative cash dividends that are based on, and track to, the pre-tax net earnings of the Wyoming Wind Farm. The preferred shares are retractable by the Corporation, and redeemable by the issuer, at any time after three years from the investment date of Dec. 20, 2013, or upon the occurrence of specific events related to the liquidation or sale of TransAlta's interest in the Wyoming Wind Farm. The retraction and redemption price is equal to the initial issue price of the preferred shares plus 95 per cent of the excess of the fair value of the Wyoming Wind Farm, at the retraction or redemption date, over the initial cost of the Wyoming Wind Farm.

18. Long-Term Debt

A. Amounts Outstanding

As at Dec. 31	2013			2012		
	Carrying value	**Face value**	**Interest[1]**	Carrying value	Face value	Interest[1]
Unsecured debentures	**340,866**	**344,780**	**5.91%**	338,069	343,404	5.91%
Secured debenture	**34,821**	**35,000**	**5.28%**	34,664	35,000	5.28%
Amortizing term loan	**200,000**	**200,000**	**4.00%**	–	–	–
Wyoming Wind Acquisition Loan	**108,528**	**108,528**	**4.00%**	–	–	–
	684,215	**688,308**		372,733	378,404	
Less: current portion	**(37,596)**	**(37,596)**		–	–	
Total long-term debt	**646,619**	**650,712**		372,733	378,404	

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

Amortizing Term Loan On Aug. 9, 2013, the Corporation issued a $200.0 million unsecured loan in favour of TransAlta as partial consideration for the acquisition of wind and hydro generating assets from TransAlta (see Note 4(A)). The loan has a term of eight years and bears interest at 4.0 per cent, with principal and interest payments of $14.7 million due semi-annually.

Wyoming Wind Acquisition Loan On Dec. 20, 2013, the Corporation borrowed U.S.$102.0 million ($108.9 million) from TransAlta to finance its acquisition of the economic interest in the Wyoming Wind Farm (see Note 10). The loan is unsecured and bears interest at 4.0 per cent per annum, payable quarterly. Principal repayments of at least $15.0 million in aggregate are required in each of 2014, 2015, and 2016. The remaining principal balance outstanding on the maturity date of Dec. 31, 2018 is due at that time.

Unsecured Debentures bear interest at fixed rates ranging from 5.33 per cent to 7.31 per cent, with interest payable semi-annually and no principal repayments until maturity, which ranges from 2015 to 2018. These debentures are unsecured. Included in this amount is $21.3 million (Dec. 31, 2012 – $19.9 million) of Series 5 debentures which have a principal amount of U.S.$20.0 million.

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

B. Restrictions

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

C. Principal Repayments

	2014	**2015**	**2016**	**2017**	**2018**	**2019 and thereafter**	**Total**
Principal repayments	37,596	193,534	66,427	24,413	283,827	82,511	**688,308**

19. Decommissioning and Restoration Provision

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

	Decommissioning and restoration
Balance, Dec. 31, 2011	12,272
Liabilities settled	(115)
Accretion	730
Revisions in estimated cash flows	(297)
Revisions in discount rates	(1,637)
Reversals	(8)
Balance, Dec. 31, 2012	10,945
Liabilities incurred	1,391
Accretion	848
Revisions in discount rates	(774)
Balance, Dec. 31, 2013	**12,410**

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

20. Deferred Revenues

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

21. Common Shares

A. Authorized and Outstanding

The Corporation is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. The common shares entitle the holders thereof to one vote per share at meetings of shareholders. The preferred shares are issuable in series and have such rights, restrictions, conditions, and limitations as the Board of Directors (the "Board") may from time to time determine.

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

As at Dec. 31	2013	
	Common shares *(millions)*	Amount *(thousands)*
Issued and outstanding, beginning of year	–	–
Issued on acquisition of acquired assets	66.7	666,667
Issued on settlement of acquisition note	0.9	9,000
Issued on settlement of short term note	25.0	250,000
Valuation adjustments[1]	–	87,755
Shares issued to parent	92.6	1,013,422
Initial public offering, including underwriters' over-allotment[2]	22.1	210,423
Issued and outstanding, end of year	114.7	1,223,845

1 *Arises due to the use of the continuity of interest method of accounting.*
2 *Net of after-tax issuance costs of $10.6 million ($14.1 million issuance costs, less tax-effects of $3.5 million).*

B. Dividends

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

The following table summarizes the common share dividends declared in 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	7,356	5,938	1,418
Dec. 20, 2013	Apr. 30, 2014	0.06416	7,357	5,938	1,419
Total		**0.48974**	**56,157**	**45,333**	**10,824**

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 the Offering, including the Over-Allotment Option, have been assumed to be outstanding as of the beginning of each period presented, including periods prior to the Acquisition. The Corporation has no dilutive or potentially dilutive instruments.

22. Changes in Non-Cash Operating Working Capital

Year ended Dec. 31	2013	2012
Source (use):		
Accounts receivable	**4,136**	(8,559)
Prepaid expenses	**(3,761)**	106
Inventory	**15**	(142)
Income taxes receivable	**(179)**	(484)
Accounts payable and accrued liabilities	**6,475**	(5,636)
Income taxes payable	**1,218**	396
Other	**(25)**	104
Change in non-cash operating working capital	**7,879**	(14,215)

23. Depreciation and Amortization

The reconciliation between depreciation and amortization reported on the Consolidated Statements of Earnings and the Consolidated Statements of Cash Flows is presented below:

Year ended Dec. 31	2013	2012
Depreciation and amortization expense on the Consolidated Statements of Earnings	**76,589**	74,057
Asset retirements	**-**	(27)
Depreciation and amortization expense on the Consolidated Statements of Cash Flows	**76,589**	74,030

24. Capital

The Corporation's objectives in managing its capital are to ensure it is able to support day-to-day operations and meet required financial obligations, as well as to provide for growth opportunities and ensure stable and predictable distributions to shareholders. The Corporation's capital is comprised of the following:

As at Dec. 31	2013	2012	Increase/ (decrease)
Current portion of long-term debt	**37,596**	–	37,596
Less: available cash and cash equivalents[1]	**(18,365)**	(3,205)	(15,160)
	19,231	(3,205)	22,436
Long-term debt	**646,619**	372,733	273,886
Equity			
Common shares	**1,223,845**	–	1,223,845
Net parental investment	**-**	1,660,166	(1,660,166)
Retained earnings	**(196,263)**	–	(196,263)
Accumulated other comprehensive income (loss)	**187**	(970)	1,157
Non-controlling interest	**39,290**	40,416	(1,126)
	1,713,678	2,072,345	(358,667)
Total capital	**1,732,909**	2,069,140	(336,231)

1 *The Corporation includes available cash and cash equivalents net of bank overdraft as a reduction in the calculation of capital as capital is managed internally and evaluated by management using a net debt position. In this regard, these funds may be available, and used, to facilitate repayment of debt.*

The Corporation's capital structure has changed coincident with its separation from TransAlta and its inception as a separate, stand-alone entity on Aug. 9, 2013.

Although the Corporation's CHD subsidiary has issued certain debentures, the related financial covenant provisions do not require CHD to meet minimum debt-to-capitalization ratios. CHD was in compliance with all financial covenants relating to its debt obligations. Additionally, the Amortizing Term Loan and Wyoming Wind Acquisition Loan from TransAlta do not require the Corporation to maintain specified debt to capitalization or other ratios.

The Corporation will be required to refinance, or otherwise repay, the CHD debentures as they become due, beginning in 2015 through 2018 (see Note 18). There is no guarantee that cash flow from operations will be sufficient, nor that the Corporation will be able to obtain financing, to repay the principal amounts of these debentures.

Dividends on the Corporation's common shares are at the discretion of the Board. In determining the payment and level of future dividends, the Board considers the financial performance, results of operations, cash flow and needs, with respect to financing ongoing operations and growth, balanced against returning capital to shareholders.

25. Joint Operations

The Corporation's joint operations at Dec. 31, 2013 include the following:

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

26. Commitments and Contingencies

A. Contracts for Goods and Services

In the ordinary course of operations, the Corporation routinely enters into contracts for the purchase of goods and services and for leases of equipment. The Corporation also has several long-term service agreements in place for repairs and maintenance that may be required on turbines at wind facilities, including a 15-year agreement that became effective in 2013 relating to the recently commissioned New Richmond facility. In addition, in 2013 the Corporation entered into an agreement with TransAlta for general and administrative services for a fixed fee of $10.0 million per annum (see Note 27).

Approximate future payments under these contractual obligations are as follows:

	Long-term service agreements	General administrative services	Equipment leases	Total
2014	17,927	10,363	520	28,810
2015	14,287	10,570	508	25,365
2016	9,482	10,782	532	20,796
2017	5,841	10,997	561	17,399
2018	7,270	11,217	591	19,078
2019 and thereafter	41,040	191,869	601	233,510
Total	**95,847**	**245,798**	**3,313**	**344,958**

B. Litigation

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.

27. 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 as follows:

A. Management, Administrative and Operational Services Agreement

Under the Management, Administrative and Operational Services Agreement ("Management and Operational Services Agreement"), TransAlta provides all the general administrative services as may be required or advisable for the management of the affairs of the Corporation. As compensation for the services provided, the Corporation will pay TransAlta a fee (the "G&A Reimbursement Fee") equal to $10.0 million per annum, adjusted annually for changes in the Consumer Price Index ("CPI"). The G&A Reimbursement Fee is payable in equal quarterly installments. The G&A Reimbursement Fee will be increased or decreased by an amount equal to 5.0 per cent of the amount of any increases or decreases, respectively, to the Corporation's total Earnings Before Interest, Taxes, Depreciation, and Amortization resulting from the addition or divestiture of assets by the Corporation. Due to the acquisition of the economic interest in the Wyoming Wind Farm, the G&A Reimbursement Fee will increase by an additional $0.4 million in 2014.

During 2013, a pro-rated amount of $4.0 million was recognized as an operations, maintenance, and administration ("OM&A") expense by the Corporation for the G&A Reimbursement Fee.

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

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

B. TransAlta PPAs

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

During 2013, $13.9 million was recognized as revenue by the Corporation for power sold pursuant to the TransAlta PPAs.

C. Working Capital Credit Facility

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

As at Dec. 31, 2013, no amounts have been drawn under the facility.

D. Amortizing Term Loan

The Corporation issued a $200.0 million Amortizing Term Loan in favour of TransAlta (see Note 18).

During 2013, $3.2 million was recognized as interest expense by the Corporation related to borrowings under the Amortizing Term Loan and is included in interest on long-term debt (see Note 9).

E. Wyoming Wind Acquisition Loan

The Corporation borrowed U.S.$102.0 million ($108.9 million) from TransAlta to finance its acquisition of the economic interest in the Wyoming Wind Farm (see Notes 10 and 17).

During 2013, $0.1 million was recognized as interest expense by the Corporation related to borrowings under the Wyoming Wind Acquisition Loan and is included in interest on long-term debt (see Note 9).

F. Investment in Preferred Shares

The Corporation has a U.S.$102.7 million ($109.7 million) investment in preferred shares issued by a TransAlta subsidiary (see Notes 10 and 17).

G. Trade Accounts Receivable and Payable

At Dec. 31, 2013, $10.2 million (Dec. 31, 2012 – $1.0 million) and $8.4 million (Dec. 31, 2012 – $3.1 million) was included in accounts receivable and accounts payable, respectively, related to power sales, operating costs, accrued interest, and capital expenditures due from or to TransAlta or other subsidiaries of TransAlta.

H. Letters of Credit

TransAlta has provided letters of credits on behalf of the Corporation. Any amounts owed by the Corporation for obligations under the contracts to which the letters of credit pertain are reflected in the Consolidated Statements of Financial Position. All letters of credit expire within one year and are expected to be renewed, as needed, in the normal course of business. The total outstanding letters of credit as at Dec. 31, 2013 was $4.5 million (Dec. 31, 2012 – $5.8 million) with nil (Dec. 31, 2012 – nil) amounts exercised by third parties under these arrangements. The Corporation pays the associated interest and fees on these letters of credit (see Note 9).

I. Guarantees

TransAlta has entered into guarantee agreements totalling $226.5 million on behalf of the Corporation. Two guarantees totalling $206.0 million relate to the New Richmond wind facility. If the Corporation does not perform under the related agreements, the counterparty may present claim for payment from TransAlta. The Corporation pays the associated interest and fees on these guarantees (see Note 9).

J. Pension and Other Post-Employment Benefit Plans

The Corporation does not sponsor any pension, post-employment, or employee savings plans. However, employees of TransAlta providing both operational and administrative services to the Corporation participate in certain funded final salary pension plans sponsored by TransAlta. TransAlta also provides other health and dental plans to its retired employees. There is no contractual agreement or stated policy between the Corporation and TransAlta for charging these costs. However, the costs associated with these plans form part of the operational costs and the G&A Reimbursement Fee under the Management and Operational Services Agreement with TransAlta. These costs are included in OM&A expenses in the Consolidated Statements of Earnings.

All obligations pursuant to these plans are obligations of TransAlta and as such are not included in the Corporation's Consolidated Statements of Financial Position.

K. Financial Instruments and Derivatives

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

L. Transactions with Key Management Personnel

The Corporation's key management personnel include the members of its Board of Directors and its Corporate Officers. Key management personnel compensation is as follows, and includes director's fees paid to external directors and an apportionment of compensation earned by the Corporate Officers from TransAlta.

Year ended Dec. 31	2013[1]
Total compensation	348
Comprising:	
Short-term employee benefits	260
Post-employment benefits	24
Share-based payment	56
Other long-term benefits	8

1 *For the period from Aug. 9, 2013 to Dec. 31, 2013.*

28. Pre-Acquisition Relationship with Parent

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

A. Net Parental Investment

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

B. Cash Management

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

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

C. Allocation of Corporate Costs

Allocated costs include TransAlta charges including, but not limited to: corporate accounting, human resources, government affairs, information technology, shared real estate expenses, 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 gigawatt hours of production. Note that these expenses may have been different had the Acquired Assets been a separate entity during the periods presented. For the year ended Dec. 31, 2013, these pre-tax costs were $3.5 million (Dec. 31, 2012 – $8.3 million).

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

D. Income Taxes

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

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

E. Pension and Other Post-Employment Benefit Plans

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

All obligations pursuant to these plans are obligations of TransAlta and as such are not included in the pre-Acquisition period financial statements. TransAlta included in its allocation to the Acquired Assets, the costs associated with these plans. These costs form part of OM&A expenses in the pre-Acquisition period financial statements.

After the Acquisition date, these costs are addressed under the Management and Operational Services Agreement.

F. Financial Instruments and Derivatives

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

G. Related Party Loans

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

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

1 Maximum amount of $300 million.
2 Maximum amount of $150 million.
3 Maximum amount of $20 million.

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

29. Significant Customers

In addition to revenue from TransAlta under the TransAlta PPAs (see Note 27), which represented 29 per cent of total revenues, revenues from two other customers each exceeded 10 per cent of the Corporation's total revenues, and represented 41 per cent and 13 per cent of total revenues, 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 price payable by TransAlta for output is $30.00 per 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 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.

Shareholder and Corporate Information

Annual Meeting

The Annual Meeting of Shareholders will be held at 11:00 a.m. MDT on May 2, 2014 at the Metropolitan Conference Centre, 333 - 4th Avenue S.W., Calgary, Alberta.

Transfer Agent

CST Trust Company*
P.O. Box 700 Station "B"
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E-mail
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Fax
514.985.8843

Website
www.canstockta.com

Exchange

Toronto Stock Exchange (TSX)

Ticker Symbols

TransAlta Renewables Inc.
common shares: **TSX: RNW**

Voting Rights

Common shareholders receive one vote for each common share held.

* *CST Trust Company has succeeded CIBC Mellon Trust Company as our transfer agent. On November 1, 2010, CIBC Mellon Trust Company sold its issuer services business to Canadian Stock Transfer Company Inc. which operated the business on their behalf until August 30, 2013, at which time CST Trust Company, an affiliate of Canadian Stock Transfer Company Inc., received federal approval to commence business.*

Special Services for Registered Shareholders[1]

Service	Description
Direct deposit for dividend payments	Automatically have dividend payments deposited to your bank account
Account consolidations	Eliminate costly duplicate mailings by consolidating account registrations
Address changes and share transfers	Receive tax slips and dividends without the delays resulting from address and ownership changes

To use these services please contact our transfer agent.
1 *Also available to non-registered shareholders.*

Dividend Declaration for Common Shares

Dividends on our common shares are at the discretion of the Board. In determining the payment and level of future dividends, the Board considers our financial performance, our results of operations, cash flow and needs with respect to financing ongoing operations and growth, balanced against returning capital to shareholders. The Board continues to focus on growing distributable cash flow.

Common Share Dividends Declared

Payment Date	Record Date	Ex-Dividend Date	Dividend
Sept. 30, 2013	Sept. 3, 2013	Aug. 29, 2013	$0.04726[1]
Oct. 31, 2013	Oct. 1, 2013	Sept. 27, 2013	$0.06250
Nov. 29, 2013	Nov. 1, 2013	Oct. 30, 2013	$0.06250
Dec. 31, 2013	Dec. 2, 2013	Nov. 28, 2013	$0.06250
Jan. 31, 2014	Jan. 2, 2014	Dec. 30, 2013	$0.06250
Feb. 28, 2014	Feb. 3, 2014	Jan. 30, 2014	$0.06416[2]
March 28, 2014	March 3, 2014	Feb. 27, 2014	$0.06416
April 30, 2014	April 1, 2014	March 28, 2014	$0.06416

Common share dividends are to be paid on or about the last business day of each calendar month, to shareholders of record as of the close of the first business day of each calendar month. Dividends are paid in Canadian dollars.
1 *The first dividend paid on TransAlta Renewables' Common Shares is based on the period from Aug. 9, 2013 to Aug. 31, 2013.*
2 *On Dec. 19, 2013, we declared an increase in the monthly dividend. The increase resulted in an annualized dividend of $0.77 per share, an increase to the prior annualized dividend of 2.7 per cent.*

Submission of Concerns Regarding Accounting or Auditing Matters

TransAlta Renewables has adopted a procedure for employees, officers, or others to report concerns or complaints regarding accounting or other matters on an anonymous, confidential basis to the Audit Committee of the Board of Directors. Such submissions may be directed to the Chair of the Audit Committee.

Corporate Governance

TransAlta Renewables' Corporate Governance Guidelines, Audit Committee Charter and Code of Conduct are available on our website at www.transaltarenewables.com.

Ethics Help-Line

The Board of Directors has established an anonymous and confidential toll-free telephone number, fax line and e-mail address for employees, contractors, shareholders and other stakeholders to call with respect to accounting irregularities, ethical violations, or any other matters they wish to bring to the attention of the Board.

The Ethics Help-Line number is **1.888.806.6646**
Fax: **403.267.7985**
E-mail: **ethics_helpline@transalta.com**

Any communications to the Board of Directors may also be sent to
corporate_secretary@transalta.com

Corporate Officers

Brett M. Gellner
President and Designated
Chief Executive Officer

Cynthia Johnston
Chief Operating Officer

David J. Koch
Vice-President and Controller and
Designated Chief Financial Officer

Maryse C.C. St.-Laurent
Vice-President and
Corporate Secretary

Todd J. Stack
Vice-President
and Treasurer

Additional Information

Requests can be directed to:

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* *In accordance with the Management, Administrative and Operational Services Agreement between TransAlta Corporation and TransAlta Renewables Inc., a copy of which is available on www.sedar.com, TransAlta Corporation provides investor relations services to TransAlta Renewables.*

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TransAlta renewables inc