Unlocking Value



Annual Report 2014

Letter to Shareholders

2014 marked the first full year for TransAlta Renewables, one of Canada's largest renewable power companies. Since going public in August 2013, the company has delivered strong shareholder returns through a combination of an attractive dividend yield and share price appreciation of over 25%.

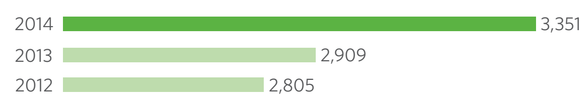
A portion of the company's success has been due to growth. During 2014, we realized a full year of production from our 68 MW New Richmond wind farm in Quebec which started up in March 2013 and a full year from our economic interest in the 144 MW Wyoming wind farm, an investment we made in December 2013. As a result, our production increased by over 15% in 2014 compared to 2013.

We also continued to benefit from having a diversified fleet of assets. Wind and hydro production was below average in Western Canada in 2014, but that was largely offset by higher wind production in Eastern Canada and Wyoming.

Looking forward, we remain focused on continuing to grow the company. Our growth strategy remains unchanged in that we expect to grow through a combination of investments in assets of our sponsor and majority shareholder, TransAlta Corporation ("TransAlta"), and third parties.

Share Price Performance Since Initial Public Offering

Production *(GWh)*



TransAlta has publicly communicated its strategy to potentially have TransAlta Renewables invest in some of its gas-fired, renewable and other infrastructure assets in order to fund its growth strategy and strengthen its balance sheet. These potential transactions will provide TransAlta Renewables with opportunities to grow its dividend and the company. The company's growth strategy also includes potential third-party acquisitions and investments. We will remain disciplined in terms of the returns we expect from both sponsored and third-party transactions in order to provide long-term value for our shareholders.

In 2015 and beyond, we are looking forward to continuing to deliver steady returns to our shareholders, and continuing to drive value through a combination of operational excellence and growth.

Sincerely,

Brett M. Gellner
President and Designated Chief Executive Officer

Allen R. Hagerman
Chair of the Board

February 12, 2015

Map of Operations

Generation Facilities

hydro *wind*

Plant Summary

As of January 31, 2015	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, 2015	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	2033
Total Eastern Canada		**622**		**597**			
United States 1 Facility	Wyoming Wind[5]	144	100%	144	Wind	PPA	2028
Total United States		**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 We hold an economic interest in this facility.

Management's Discussion and Analysis

Table of Contents

*This Management's Discussion and Analysis ("MD&A") should be read in conjunction with our 2014 audited consolidated financial statements and our 2015 Annual Information Form ("AIF") for the year ended Dec. 31, 2014. 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. 12, 2015. Additional information respecting TransAlta Renewables, including our 2015 AIF, is available on SEDAR at **www.sedar.com** and on our website at **www.transaltarenewables.com**.*

Operations of the Corporation

On Aug. 9, 2013, we indirectly acquired 28 wind and hydroelectric ("hydro") generating assets (the "Acquired Assets") from TransAlta (the "Acquisition") and completed an initial public offering ("IPO") of 22.1 million common shares for gross proceeds of $221.0 million. Prior to that, we had no active operations. Net proceeds were used to repay indebtedness outstanding from the Acquisition.

Our results of operations are presented on a consolidated basis. The results of operations for the period prior to the Acquisition on Aug. 9, 2013 and included in the comparative results for the year ended Dec. 31, 2013 have been prepared in accordance with IFRS using consistent accounting policies as those outlined in Note 2 of our audited consolidated financial statements. Historically, financial statements had not been prepared for the Acquired Assets as they had not been operated as a separate business by TransAlta. Accordingly, the results of operations for periods prior to the Acquisition 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 operations. 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 period prior to the Acquisition. Similarly, non-IFRS measures for that same period also do not purport to reflect what these might have been had the Acquired Assets existed as a separate business. For purposes of presenting comparative amounts per share, the Corporation's common shares issued under its IPO and those issued to TransAlta on the Acquisition have been assumed to be outstanding as of the beginning of the comparative period presented. We have no dilutive or potentially dilutive instruments.

On Dec. 20, 2013, we completed the acquisition of an economic interest in a wind farm in Wyoming ("Wyoming Wind Farm") by purchasing Class A Preferred Shares of a subsidiary of TransAlta, which itself indirectly acquired the wind farm from a third party at that date. The preferred shares are entitled to receive monthly cumulative cash dividends that are based on, and track to, the pre-tax earnings and distributions of Wyoming Wind LLC. As we have an economic interest, and not direct ownership, the operational results of the Wyoming Wind Farm are not consolidated into our results, and we account for the investment at cost. We recognize dividend income from the investment when it is declared.

Highlights

Consolidated Highlights

Year ended Dec. 31	2014	2013
Production *(GWh)*[1]	**3,351**	2,909
Revenues	**233,444**	245,341
Operating income[2]	**93,018**	103,842
Comparable operating income[3]	**102,349**	107,505
Net earnings attributable to common shareholders	**48,658**	50,258
Comparable net earnings attributable to common shareholders	**48,910**	54,599
Comparable EBITDA[3]	**176,300**	184,094
Funds from operations[3]	**141,180**	153,957
Cash flow from operating activities	**143,383**	161,836
Cash available for distribution[3]	**89,734**	142,495
Net earnings per share attributable to common shareholders, basic and diluted[4]	**0.42**	0.44
Comparable net earnings per share[3,4]	**0.43**	0.48
Funds from operations per share[3,4]	**1.23**	1.34
Cash available for distribution per share[3,4]	**0.78**	1.24
Dividends paid per common share[4]	**0.77**	0.23

As at Dec. 31	2014	2013
Total assets	**1,964,157**	2,013,638
Total long-term liabilities	**682,005**	846,724

Financial Highlights

- Comparable Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA") and Funds from Operations ("FFO") decreased in 2014 compared to 2013, primarily due to a $21.2 million impact of lower prices under the TransAlta PPAs compared to previous merchant prices in Western Canada and the incremental cost of the G&A Reimbursement Fee, in line with the terms of the contracts established as part of the IPO in August 2013. Excluding the effects of the contracts established under the IPO, comparable EBITDA and FFO increased $13.4 million and $8.4 million, respectively. The increases are primarily due to dividend income from our investment in the Wyoming Wind Preferred Shares, a full year of production at New Richmond which commenced operations in March 2013, and higher wind volumes and contract price escalation at Eastern Canada facilities, partially offset by lower wind volumes, lower water resource, and higher outages at hydro facilities, all in Western Canada. The increase in FFO has also been partially offset by higher interest, primarily due to higher average debt levels following the 2013 acquisitions.
- Production increased 442 gigawatt hours ("GWh") to 3,351 GWh compared to 2013, primarily due to our economic interest in the Wyoming Wind Farm, a full year of production at New Richmond, and higher wind volumes at other Eastern Canada facilities, partially offset by lower wind volumes, lower water resource, and higher outages at hydro facilities, all in Western Canada.
- Reported net earnings attributable to common shareholders was $48.7 million ($0.42 per share) down from $50.3 million ($0.44 per share) in 2013, primarily due to the decrease in comparable EBITDA and an increase in net interest expense, partially offset by asset impairment charges in the prior year and lower tax expense.
- Comparable net earnings attributable to common shareholders was $48.9 million ($0.43 per share) down from $54.6 million ($0.48 per share) in 2013, primarily due to the decrease in comparable EBITDA and an increase in net interest expense, partially offset by lower tax expense.

1 *Includes production from our economic interest in the Wyoming Wind Farm.*

2 *This item is an additional IFRS measure. Refer to the Additional IFRS Measures section of this MD&A for further discussion of this item.*

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

4 *Amounts in this and other tables are presented in whole dollars to the nearest two decimals.*

Business Environment

Overview of Our Business

TransAlta Renewables owns and operates 12 hydro facilities and 16 wind farms in Western and Eastern Canada and holds an economic interest in the Wyoming Wind Farm. At Dec. 31, 2014, our generating assets had 1,283 megawatts ("MW") of gross generating capacity[1] in operation (1,255 MW net interest[1]). The full capacity of the facilities in which we have an interest is 1,376 MW.[1] TransAlta manages and operates these facilities on our behalf under the terms of a Management, Administrative and Operational Services Agreement ("Management Agreement"). The facilities are situated on land leased from third parties under long-term leases. Our Canadian facilities are located in five provinces within Canada: British Columbia, Alberta, Ontario, Québec, 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 Power Purchase Agreements ("PPAs") with TransAlta ("TransAlta PPAs") or PPAs with other investment grade counterparties.

Our business is cyclical due to the nature of electricity, which is generally consumed as it is generated; and the nature of wind and run-of-river hydro resources, which fluctuate based on both seasonal patterns and naturally occurring weather variation. Typically, run-of-river hydro facilities generate most of their electricity and revenues during the spring and summer months when melting snow starts feeding watersheds and rivers. Inversely, wind speeds are historically greater during the cold winter months and lower in the warm summer months.

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 from oil and gas investment. This dynamic is expected to reverse in 2015, as low oil and gas prices are expected to slow economic growth in the West, while the East is expected to benefit from lower energy costs and currency depreciation.

The economic environment in Eastern Canada showed moderate growth in 2014, which accelerated through the year with the increase led by the export sector. In Western Canada, growth was strong, but slowed in the latter half as oil prices declined.

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 2014 reserve margins increased in both Eastern and 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.

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. Gross capacity reflects the basis of consolidation of underlying assets owned, plus those in which we hold an economic interest. Net capacity deducts capacity attributable to non-controlling interest in these assets.*

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 protection, 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.

Contracted Cash Flows

All of our wind and hydro facilities have contracts in place for the sale of electricity they produce. 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. We are currently reviewing re-contracting strategies for Akolkolex.

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 2014, approximately 91 per cent and 98 per cent of the environmental attributes from our wind and hydro facilities, respectively, were sold.

Strategy and Capability to Deliver Results

Our objectives are to (i) create stable, consistent returns for investors through the ownership of contracted renewable and, potentially, natural gas power generation and other infrastructure assets that provide stable cash flow through long-term contracts with creditworthy counterparties, including TransAlta; (ii) pursue and capitalize on strategic growth opportunities in the renewable and, potentially, natural gas power generation and other infrastructure sectors; 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 nine to 21 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 four to 24 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 perform such services for TransAlta.

Growth Strategy

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

TransAlta has stated intentions of raising financing by selling certain contracted assets to us. Assets that are being considered for acquisition by us include TransAlta's Alberta hydro facilities, Australian assets, certain Canadian gas-fired facilities in Alberta and Ontario, and other renewable facilities. Acquisitions from TransAlta will be subject to independent assessments.

Other longer-term growth opportunities may also be sought, primarily through acquisitions, industry consolidation, and other growth opportunities in new markets, other technologies or investment classes.

Results of Operations

Year ended Dec. 31	2014	2013
Revenues	**186,865**	200,822
Government incentives	**21,134**	22,019
Lease revenue[1]	**25,445**	22,500
Total revenue	**233,444**	245,341
Royalties and other costs	**12,951**	13,709
Comparable gross margin[2]	**220,493**	231,632
Operations, maintenance, and administration	**46,605**	40,963
Taxes, other than income taxes	**6,919**	6,575
Dividend income from investment in preferred shares	**(9,331)**	–
Comparable EBITDA[2]	**176,300**	184,094
Depreciation and amortization	**73,951**	76,589
Comparable operating income[2]	**102,349**	107,505
Production *(GWh)*	**3,351**	2,909
Gross installed capacity *(MW)*[3]	**1,283**	1,283
Net installed capacity *(MW)*[3]	**1,255**	1,255

Comparable gross margin for the year ended Dec. 31, 2014 decreased by $11.1 million compared to 2013, primarily due to an $18.3 million impact of lower prices under the TransAlta PPAs compared to previous merchant prices in Western Canada, in line with the terms of the contracts established as part of the IPO in August 2013. Excluding the effects of contracts established under the IPO, comparable gross margin increased $7.2 million. This increase is primarily due to a full year of production at New Richmond, which commenced operations in March 2013, and higher wind volumes and contract price escalation at other Eastern Canada facilities, partially offset by lower wind volumes, lower water resource, and higher outages at hydro facilities, all in Western Canada.

Operations, maintenance, and administration ("OM&A") expense for the year ended Dec. 31, 2014 increased by $5.6 million compared to 2013, primarily due to a net increase in corporate costs under the G&A Reimbursement Fee that came into effect upon formation of the Corporation in August 2013 and a full year of operations at New Richmond.

Depreciation and amortization expense for the year ended Dec. 31, 2014 decreased $2.6 million compared to 2013, primarily due to the lower cost base associated with the revaluation of some assets made upon the Acquisition.

Dividend income from the investment in preferred shares associated with the Wyoming Wind Farm, acquired in December 2013, for the year ended Dec. 31, 2014, is $9.3 million.

1 *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 the sale of electrical energy produced by these facilities are reported as lease revenue.*

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

3 *We measure capacity as Net Maximum Capacity, which is consistent with industry standards. Capacity figures represent capacity owned and in operation unless otherwise stated. Gross capacity reflects the basis of consolidation of underlying assets owned, plus those in which we hold an economic interest. Net capacity deducts capacity attributable to non-controlling interest in these assets.*

Production and Gross Margins

Year ended Dec. 31, 2014	Gross installed capacity (MW)	Production (GWh)	Revenues	Royalties and other costs	Gross margin	Revenues per produced MWh[1]	Royalties and other costs per produced MWh[1]	Gross margin per produced MWh[1]
Western Canada wind	418	1,024	48,806	2,838	45,968	47.66	2.77	44.89
Eastern Canada wind	616	1,580	162,907	8,303	154,604	103.11	5.26	97.85
Hydro	105	340	21,731	1,810	19,921	63.91	5.32	58.59
Total – owned facilities	**1,139**	**2,944**	**233,444**	**12,951**	**220,493**	**79.29**	**4.40**	**74.89**
Wyoming Wind Farm	144	407	18,894	581	18,313	46.42	1.43	44.99
Total	**1,283**	**3,351**						

Year ended Dec. 31, 2013	Gross installed capacity (MW)	Production (GWh)	Revenues	Royalties and other costs	Gross margin	Revenues per produced MWh[1]	Royalties and other costs per produced MWh[1]	Gross margin per produced MWh[1]
Western Canada wind	418	1,090	72,635	5,447	67,188	66.64	5.00	61.64
Eastern Canada wind	616	1,428	145,613	6,431	139,182	101.97	4.50	97.47
Hydro	105	367	27,093	1,831	25,262	73.82	4.99	68.83
Total – owned facilities	1,139	2,885	245,341	13,709	231,632	85.04	4.75	80.29
Wyoming Wind Farm	144	24	1,066	–	1,066	44.42	–	44.42
Total	1,283	2,909						

Western Canada Wind
Production for the year ended Dec. 31, 2014 decreased 66 GWh compared to 2013, primarily due to lower wind volumes.

For the year ended Dec. 31, 2014, gross margin decreased $21.2 million compared to 2013, primarily due to lower prices under the TransAlta PPAs compared to the previous merchant prices, lower revenue and government incentives in relation to reduced production, and lower emission reduction credit sales.

Eastern Canada Wind
Production for the year ended Dec. 31, 2014 increased 152 GWh compared to 2013, primarily due to higher wind volumes and a full year of production at New Richmond.

For the year ended Dec. 31, 2014, gross margin increased $15.4 million compared to 2013, primarily due to higher production, higher government incentives in relation to increased production, and contract price escalations, partially offset by higher royalties.

Hydro
Production for the year ended Dec. 31, 2014 decreased 27 GWh compared to 2013, primarily due to lower water resource and higher outages in Western Canada.

Gross margin for the year ended Dec. 31, 2014 decreased $5.3 million compared to 2013, primarily due to lower production and higher outages at our higher priced facilities in Western Canada, and lower prices under the TransAlta PPAs compared to previous merchant prices.

Economic Interest in Wyoming Wind Farm
For the year ended Dec. 31, 2014, production from the Wyoming Wind Farm was 407 GWh (2013 – 24 GWh). The increase is due to a full year of production following the acquisition of the economic interest on Dec. 20, 2013.

Dividend income from the preferred shares associated with the Wyoming Wind Farm was $9.3 million for the year ended Dec. 31, 2014 (2013 – nil). Of this amount, $8.2 million is based on pre-tax earnings and $1.1 million is based on cash distributions of Wyoming Wind LLC in excess of pre-tax earnings. Dividend income can differ from earnings and distributions of Wyoming Wind LLC due to, amongst other factors, changes in the short- and long-term capitalization of Wyoming Wind LLC, recognition of non-cash expenses, and the effects of timing of earnings, distributions, and dividend declarations.

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

Other Consolidated Results

Net Interest Expense

The components of net interest expense are shown below:

Year ended Dec. 31	2014	2013
Interest on long-term debt	35,567	29,436
Interest on letters of credit and guarantees pledged by TransAlta	40	2,297
Capitalized interest	-	(2,147)
Interest income	(22)	(15)
Accretion of provisions	955	848
Net interest expense	**36,540**	30,419

For the year ended Dec. 31, 2014, net interest expense increased compared to 2013, primarily due to higher average debt levels associated with the 2013 acquisitions, offset by lower interest costs related to the letters of credit and guarantees pledged by TransAlta and lower capitalized interest following commissioning of the New Richmond wind farm.

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	2014	2013
Earnings before income taxes	65,592	72,710
Income attributable to non-controlling interest	(3,355)	(2,617)
Asset impairment charges	-	3,663
Earnings attributable to common shareholders excluding non-comparable items subject to tax	**62,237**	73,756
Income tax expense	13,579	19,835
Income tax recovery related to asset impairment charges	-	916
Income tax expense related to writedown of deferred income tax assets	(252)	-
Income tax expense related to changes in corporate income tax rates[1]	-	(1,594)
Income tax expense excluding non-comparable items	**13,327**	19,157
Effective tax rate on earnings attributable to common shareholders excluding non-comparable items (%)	**21**	26

For the year ended Dec. 31, 2014, income tax expense excluding non-comparable items decreased compared to 2013, primarily due to lower comparable earnings and the effect of dividend income not subject to tax.

For the year ended Dec. 31, 2014, the effective tax rate on earnings attributable to common shareholders excluding non-comparable items decreased compared to 2013 due to dividend income not subject to tax.

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

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 financing activities section as distributions to non-controlling interest.

Net earnings attributable to the non-controlling interest for the year ended Dec. 31, 2014 increased by $0.7 million to $3.4 million compared to 2013, primarily due to higher wind volumes.

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, capital markets, and funding from TransAlta. Our primary uses of funds are operational expenses, capital expenditures, distributions to the non-controlling interest, interest and principal payments on debt, and dividends.

Financial Position

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

	Increase/ (decrease)	Primary factors explaining change
Cash and cash equivalents	**4,470**	Timing of receipts and payments
Accounts receivable	**(1,746)**	Timing of revenue and customer receipts
Property, plant, and equipment, net	**(56,719)**	Depreciation, partially offset by additions
Intangible assets	**(6,624)**	Amortization
Investment in preferred shares	**9,854**	Increase due to changes in foreign exchange rates
Deferred income tax assets	**2,498**	Increase in income tax loss carryforwards
Dividends payable	**(14,525)**	Timing of dividend declarations
Long-term debt (including current portion)	**(25,760)**	Principal repayments on the amortizing term loan and Wyoming Wind Acquisition Loan, partially offset by changes in foreign exchange rates
Decommissioning and other provisions	**3,877**	Accretion and changes in discount rate
Deferred income tax liabilities	**14,883**	Decrease in income tax loss carryforwards and increase in taxable temporary differences
Equity attributable to shareholders	**(24,861)**	Net earnings for the period, offset by dividends declared

Cash Flows

The following chart highlights significant changes in the Consolidated Statements of Cash Flows for the years ended Dec. 31, 2014 and 2013:

Year ended Dec. 31	2014	2013	Primary factors explaining change
Cash and cash equivalents, beginning of year	**18,365**	3,205	
Provided by (used in):			
Operating activities	**143,383**	161,836	Lower cash earnings of $12.8 million and unfavourable changes in working capital of $5.7 million
Investing activities	**(7,044)**	(167,044)	Decrease in investment in preferred shares of $109.7 million, decrease in additions to property, plant, and equipment of $38.6 million, and a favourable change in non-cash investing working capital of $14.4 million, partially offset by a decrease in realized risk management gains of $3.0 million
Financing activities	**(131,124)**	20,368	Decrease in net proceeds on issuance of common shares of $206.9 million, decrease in the issuance of long-term debt of $108.9 million, increase in dividends paid on common shares of $61.2 million, increase in repayment of long-term debt of $38.2 million, and an increase in distributions to non-controlling interest of $1.1 million, partially offset by a decrease in repayment of closing and acquisition notes of $208.0 million and a decrease in repayment of net parental investment and related party advances of $56.8 million
Translation of foreign currency cash	**146**	–	
Cash and cash equivalents, net of bank overdraft, end of year	**23,726**	18,365	

Debt

Long-term debt, including amounts owing to TransAlta, totalled $658.5 million as at Dec. 31, 2014 compared to $684.2 million as at Dec. 31, 2013. Long-term debt decreased from Dec. 31, 2013, primarily due to principal repayments on the Amortizing Term Loan and Wyoming Wind Acquisition Loan, partially offset by unfavourable changes in foreign exchange rates. Refer to Note 16 of our 2014 audited consolidated financial statements.

At Dec. 31, 2014, $279.3 million of our long-term debt was due to TransAlta (2013 – $308.5 million).

Share Capital

On Dec. 31, 2014 and Feb. 12, 2015, we had 114.7 million common shares issued and outstanding.

On Feb. 12, 2015, the Corporation declared monthly dividends of $0.06416 per common share, payable on March 31, 2015, April 30, 2015 and May 29, 2015.

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

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. As at Dec. 31, 2014, the expected borrowing rate is approximately 3.30% 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, 2014 and 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	2014		2013	
	Amount	%	Amount	%
Debt, net of available cash and cash equivalents[1]	**634,729**	**38**	665,850	38
Non-controlling interest	**37,847**	**2**	39,290	2
Equity attributable to shareholders	**1,002,908**	**60**	1,027,769	60
Total capital	**1,675,484**	**100**	1,732,909	100

Commitments

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

	Long-term service agreements	General administrative services	Water rentals and equipment leases	Long-term debt	Interest on long-term debt	Total
2015	16,794	10,684	423	194,974	29,444	**252,319**
2016	14,182	10,899	428	67,866	22,272	**115,647**
2017	10,660	11,117	432	24,413	19,905	**66,527**
2018	12,186	11,350	294	291,211	12,089	**327,130**
2019	12,429	11,577	301	26,422	2,630	**53,359**
2020 and thereafter	58,726	188,634	4,006	56,088	1,966	**309,420**
Total	**124,977**	**244,261**	**5,884**	**660,974**	**88,306**	**1,124,402**

Subsequent Event

On Feb. 11, 2015, the Corporation and its partner issued bonds secured by their jointly owned Pingston facility. Our share of gross proceeds was $45 million. The bonds bear interest at the annual fixed interest rate of 2.95 per cent, payable semi-annually with no principal repayments until maturity in May 2023. Proceeds were used to repay the $35 million secured debenture bearing interest at 5.28 per cent. Excess proceeds, net of transaction costs, are to be used for general corporate purposes.

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.*

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, including maintenance performed by third parties, and including the variability of those costs; expectations related to future earnings and cash flow from operating and contracting activities; incentive levels from government assistance; the anticipated impact of our economic interest in the Wyoming Wind Farm on cash available for distribution; the payment of future dividends; expectations for demand for electricity in both the short term and long term, and the resulting impact on electricity prices; expectations in respect of generation availability, capacity, and production; expected financing of our capital expenditures; expected governmental regulatory regimes and legislation such as Alberta's greenhouse gas program and their expected impact on us, as well as the cost of complying with resulting regulations and laws; estimates of future tax rates, future tax expense, and the adequacy of tax provisions; accounting estimates; anticipated growth rates in our markets; potential legal and contractual claims; expectations for the ability to access capital markets at reasonable terms; the estimated impact of changes in interest rates and the value of the Canadian dollar relative to the U.S. dollar; the monitoring of our exposure to liquidity risk; expectations regarding entering into additional financial instruments; expectations in respect to the global economic environment; estimated cash flow required to settle decommissioning and restoration activities; and expectations regarding borrowing rates and our credit practices.

Factors that may adversely impact our forward-looking statements include risks relating to: changes in general economic conditions, including interest rates; operational risks involving our facilities, including unplanned outages at such facilities; disruptions in the transmission and distribution of electricity; the effects of weather; disruptions in the source of water or wind required to operate our facilities; natural disasters; the threat of domestic terrorism, cyberattacks and other man-made disasters; equipment failure and our ability to carry out repairs in a cost-effective or timely manner; industry risk and competition; fluctuations in the value of foreign currencies; the need for additional financing; 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 Management section of this MD&A and in our 2015 AIF for the year ended Dec. 31, 2014 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.

2015 Outlook

Business Environment

Economic Environment

We expect low growth in Western Canada in 2015. The slowdown in the oil and gas sector is expected to cut economic growth as a result of investment slowdown and lower consumer spending. Growth in Eastern Canada is expected to improve to moderate rates in 2015, driven largely by exports supported by the U.S. recovery and the strengthening U.S. dollar.

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

Environmental Legislation

Alberta's current greenhouse gas program is set to be revised in mid-2015. The value realized from our environmental attributes generated in the province may be impacted by the program's terms. Revenue from environmental attributes generated in Alberta amounted to $7.5 million in 2014 and $10.2 million in 2013.

Operations

Production

Including production from the Wyoming Wind Farm, we expect production in 2015 to be in the range of 3,250 to 3,550 GWh.

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 nine to 21 years. In addition, for 2015, approximately 75 per cent and 96 per cent of the environmental attributes from our wind and hydro facilities, respectively, have been sold.

Government Incentives

Certain of our 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. We are expecting a reduction in revenues in 2015 associated with the expiry of the Summerview 1 incentives in September 2014. Incentives earned at Summerview 1 amounted to $1.0 million in 2014.

Operations, Maintenance, and Administration Costs

We expect OM&A costs for 2015 to remain consistent with 2014. 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 expected to increase due to inflation.

Economic Interest in Wyoming Wind

We expect consistent dividends from our investment in the Wyoming Wind Preferred Shares in 2015 compared to 2014.

Exposure to Fluctuations in Foreign Currencies

In 2015, 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, our U.S.$20.0 million debenture, and the related payment of U.S.-denominated interest, thereon. Any changes in foreign investments or foreign-denominated debt may change our exposure.

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 or unplanned maintenance 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, to the extent that foreign-denominated expenses and revenues do not offset.

Net Interest Expense

We are not exposed to interest rate risk from long-term debt as all instruments bear interest at a fixed rate. Net interest for 2015 is expected to be lower than 2014, primarily due to the lower carrying value and principal repayments on the Amortizing Term Loan and Wyoming Wind Acquisition Loan. However, changes in the value of the Canadian dollar relative to the U.S. dollar can affect the amount of interest expense incurred.

Liquidity and Capital Resources

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

The Corporation manages liquidity risk associated with debentures due in 2015 and beyond by preparing and revising long-term external financing plans reflecting business plans and market availability of capital. The Corporation anticipates refinancing its maturing debt based on reasonable commercial terms.

Income Taxes

The effective tax rate on earnings excluding non-comparable items for 2015 is expected to be approximately 20 to 25 per cent, which is lower than the statutory tax rate of 25 per cent, primarily due to certain earnings that are not subject to tax.

Capital Expenditures

Sustaining Capital

Our sustaining capital is comprised of the ongoing capital costs associated with maintaining the existing generating capacity of our facilities.

For 2015, our estimate for total sustaining capital, net of any contributions received, is allocated among the following:

Category	Description	Spend in 2014[1]	Expected spend in 2015[1]
Routine capital	Expenditures to maintain our existing generating capacity	**4**	1-2
Planned maintenance	Regularly scheduled maintenance	**5**	6-7
Total sustaining expenditures		**9**	**7-9**

Financing

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

1 *Amounts reported in millions of dollars.*

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, cash available for distribution, or financial exposure while still enabling business development. We use a multilevel 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 (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 *Canada Business Corporations Act*, 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 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's (the "Committee") 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 and 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 reports directly to the Committee. The Committee is also responsible for reviewing and approving the Corporation's hiring policies regarding the hiring of 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

Under the Management Agreement, TransAlta provides all the general administrative and operational services as may be required or advisable for the management of the affairs of the Corporation and operation and maintenance of our wind and hydro facilities. TransAlta maintains 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 TransAlta's compliance with these policies. All TransAlta employees are required to sign a corporate code of conduct on an annual basis. Our Directors and Officers are also required to sign a similar 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, delays in return to service, and an 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 protection, 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 natural or man-made 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 is transferred. 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, runoff, 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 produced from our wind facilities will also be variable. In addition, the strength and consistency of the wind resource at our wind facilities may vary from what we anticipate due to a number of factors including: the extent to which our site-specific historic wind data and wind forecasts accurately reflects actual long-term wind speeds, strength, and consistency; the potential impact of climatic factors; the accuracy of our assumptions relating to, among other things, weather, icing, degradation, site access, wake and wind shear, and line losses; and the potential impact of topographical variations. 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 related to that production, 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 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 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 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 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 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 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 our wholly owned subsidiary Canadian Hydro Developers, Inc. 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 contracted renewable and natural gas power projects and other infrastructure assets, and there is no certainty we will be successful in pursuing this strategy.

Our growth strategy is to acquire stable cash flows associated with high-quality contracted renewable and natural gas power generation facilities and other infrastructure assets, with the objective of achieving returns on invested capital. However, there is no certainty that we will be able to acquire these types of assets at attractive prices to supplement our growth. The successful execution of the growth strategy 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 financial performance of any acquisition or may be unable to quickly and efficiently integrate new acquisitions into our existing operations.

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 derivative contracts with external counterparties on our behalf. Derivative 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, 2014, total Level III financial instruments had a net carrying value of $0.1 million net liability (2013 – $0.1 million net liability).

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 and intangible assets 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 in 2013.

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 of disposal 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 of disposal, 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 of disposal 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 and 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.

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 amounts 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. The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation. 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, 2014, the total provision recognized for decommissioning and restoration activities was $16.3 million (2013 – $12.4 million). We estimate the undiscounted amount of cash flow required to settle these provisions is approximately $133 million (2013 – $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%	123
Undiscounted cash flows	10%	78

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.

Acquisition of Generating Assets

The Acquisition was accounted for as a business combination under common control, as TransAlta controlled the Acquired Assets both prior to and after the acquisition date. The pooling of interests, or book value, method of accounting was used by TransAlta Renewables to account for the Acquired Assets in the 2013 comparative period. The financial statements of the Acquired Assets and the Corporation were 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, as discussed in this section of the MD&A under Revaluation of PP&E and Intangible Assets.

Related Party Transactions and Balances

Post-Acquisition Relationship with TransAlta

After the Acquisition, we entered into certain agreements and transactions with TransAlta that are discussed in more detail below.

Related Party Transactions

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

Year ended Dec. 31	2014	2013
Revenue from TransAlta PPAs *(I)*	**31,376**	13,930
Royalties and other revenue-based costs adjustments *(II)*	**1,523**	–
Dividend income from Wyoming Wind Preferred Shares	**9,331**	–
G&A Reimbursement Fee *(III)*	**10,380**	3,951
Interest expense on amortizing term loan	**7,448**	3,178
Interest expense on Wyoming Wind Acquisition Loan	**4,021**	123
Interest expense on letters of credit and guarantees	**40**	2,297

I. TransAlta PPAs

We have agreements with TransAlta for certain wind and hydro facilities, providing for the purchase by TransAlta, for a fixed price, of all of the power produced by such facilities. The initial price payable by TransAlta in 2013 for output under the TransAlta PPAs 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 ("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.

II. Royalties and Other Costs Adjustment

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

III. Management Agreement

Under the Management Agreement, TransAlta provides all the general administrative services, including key management personnel services, as may be required or advisable for the management of the affairs of the Corporation. As compensation for the services provided, we pay TransAlta a fee (the "G&A Reimbursement Fee"), adjusted annually for changes in the CPI. The G&A Reimbursement Fee is increased or decreased by an amount equal to 5.0 per cent of the amount of any increase or decrease, respectively, to the Corporation's total EBITDA resulting from the addition or divestiture of assets by the Corporation.

TransAlta also provides operational and maintenance services under the Management 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 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.

IV. 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.

Related Party Balances

Related party balances include the following:

As at Dec. 31	2014	2013
Investment in preferred shares	**119,179**	109,325
Trade accounts receivable	**7,136**	10,232
Trade accounts payable	**3,142**	5,048
Dividends payable	**10,345**	23,600
Interest payable	**2,795**	3,311
Net risk management liabilities	**117**	104
Amortizing term loan *(I)*	**178,364**	200,000
Wyoming Wind Acquisition Loan *(II)*	**100,912**	108,528
Letters of credit issued by TransAlta on behalf of the Corporation *(III)*	**4,503**	4,503
Guarantees provided by TransAlta on behalf of the Corporation *(IV)*	**226,500**	226,500

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

I. Amortizing Term Loan

We issued an unsecured loan in favour of TransAlta as partial consideration for the 2013 acquisition of wind and hydro generating assets from TransAlta. The loan has a term of seven years and bears interest at 4.0 per cent, with principal and interest payments of $14.7 million due semi-annually.

II. Wyoming Wind Acquisition Loan

This is a U.S.-denominated loan from TransAlta to finance the acquisition of the economic interest in Wyoming Wind LLC. The loan is unsecured and bears interest at 4.0 per cent, payable quarterly. Principal repayments of at least U.S.$15.0 million in aggregate are required in each of 2015 and 2016. The remaining principal balance outstanding on the maturity date of Dec. 31, 2018 is due at that time.

III. 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. No amounts have been exercised by third parties under these arrangements.

IV. Guarantees

TransAlta has entered into several 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.

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 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:

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 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.

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.

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' 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.

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 the costs associated with these plans in its allocation to the Acquired Assets. These costs form part of the OM&A expenses in the pre-Acquisition period financial statements.

After the Acquisition date, these costs are addressed under the Management 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.

Current Accounting Changes

On Jan. 1, 2014, we adopted the following amendments that were previously issued by the International Accounting Standard Board ("IASB"):

IAS 36 *Impairment of Assets*
We adopted the amended recoverable amount disclosure requirements of IAS 36 *Impairment of Assets*. The amended disclosure requirements did not have an impact on the consolidated financial statements, as impairment charges did not meet significance requirements for incremental disclosure.

IAS 24 *Related Party Disclosures – Key Management Personnel Services*
As part of the Annual Improvements issued in December 2013, the IASB amended IAS 24 to clarify that a management entity providing key management personnel services to an entity is a related party of the entity. As a result, the amounts incurred for such services must be disclosed as a related party transaction. However, disclosure of the components of compensation paid by the management entity is not required. We receive key management personnel services from our Parent. The amendments apply to our annual reporting period beginning on Jan. 1, 2015, but have been adopted early and applied to the 2014 fiscal year. Comparative period disclosures have been restated to remove allocations of compensation paid by the Parent in the course of providing services to us.

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 us, are as follows:

IFRS 9 *Financial Instruments*
In July 2014, on completion of the impairment phase of the project to reform accounting for financial instruments and replace IAS 39 *Financial Instruments: Recognition and Measurement*, the IASB issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 includes guidance on the classification and measurement of financial assets and financial liabilities, impairment of financial assets (i.e. recognition of credit losses), and a new hedge accounting model.

Under the classification and measurement requirements for financial assets, financials 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.

The classification requirements for financial liabilities are unchanged from IAS 39. IFRS 9 measurement requirements address the problem of volatility in net earnings arising from an issuer choosing to measure certain liabilities 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.

The new general hedge accounting model is intended to be simpler and more closely focus on how an entity manages its risks, replaces the IAS 39 effectiveness testing requirements with economic relationship effectiveness criteria, and eliminates the requirement for retrospective assessment of hedge effectiveness.

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

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

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

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.

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

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

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

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.

Earnings on a Comparable Basis

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

Year ended Dec. 31	2014			2013		
	Reported	**Comparable adjustments**	**Comparable total**	Reported	Comparable adjustments	Comparable total
Revenues	**233,444**	**–**	**233,444**	245,341	–	245,341
Royalties and other costs	**12,951**	**–**	**12,951**	13,709	–	13,709
Gross margin	**220,493**	**–**	**220,493**	231,632	–	231,632
Operations, maintenance, and administration	**46,605**	**–**	**46,605**	40,963	–	40,963
Asset impairment charges	**–**	**–**	**–**	3,663	(3,663)[3]	–
Taxes, other than income taxes	**6,919**	**–**	**6,919**	6,575	–	6,575
Dividend income from investment in preferred shares	**–**	**(9,331)[1]**	**(9,331)**	–	–	–
Earnings before interest, taxes, depreciation, and amortization	**166,969**	**9,331**	**176,300**	180,431	3,663	184,094
Depreciation and amortization	**73,951**	**–**	**73,951**	76,589	–	76,589
Operating income	**93,018**	**9,331**	**102,349**	103,842	3,663	107,505
Dividend income from investment in preferred shares	**9,331**	**(9,331)[1]**	**–**	–	–	–
Foreign exchange loss	**(217)**	**–**	**(217)**	(935)	–	(935)
Other income	**–**	**–**	**–**	222	–	222
Earnings before interest and taxes	**102,132**	**–**	**102,132**	103,129	3,663	106,792
Net interest expense	**36,540**	**–**	**36,540**	30,419	–	30,419
Income tax expense	**13,579**	**(252)[2]**	**13,327**	19,835	(678)[4]	19,157
Net earnings	**52,013**	**252**	**52,265**	52,875	4,341	57,216
Non-controlling interest	**3,355**	**–**	**3,355**	2,617	–	2,617
Net earnings attributable to common shareholders	**48,658**	**252**	**48,910**	50,258	4,341	54,599
Weighted average number of common shares outstanding in the year *(millions)*	**114.7**	**–**	**114.7**	114.7	–	114.7
Net earnings per share attributable to common shareholders	**0.42**	**0.01**	**0.43**	0.44	0.04	0.48

1 The dividend income is used as a proxy for operating income and EBITDA of the Wyoming Wind Farm.
2 Income tax expense related to writedown of deferred income tax assets.
3 Non-comparable item.
4 Income tax expense related to changes in corporate tax rates, net of tax effect of other non-comparable item.

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	2014	2013
Cash flow from operating activities	**143,383**	161,836
Change in non-cash operating working capital balances	**(2,203)**	(7,879)
Funds from operations	**141,180**	153,957
Weighted average number of common shares outstanding in the year *(millions)*	**114.7**	114.7
Funds from operations per share	**1.23**	1.34

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 additional non-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 for the year ended Dec. 31, 2014 and 2013 represent total additions to PP&E and intangibles per the Consolidated Statements of Cash Flows less what we have invested in growth projects. For the year ended Dec. 31, 2014 we invested nil (2013 – $39.1 million) in growth projects.

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

Year ended Dec. 31	2014	2013
Cash flow from operating activities	**143,383**	161,836
Add (deduct):		
Changes in non-cash operating working capital	**(2,203)**	(7,879)
Sustaining capital expenditures	**(8,416)**	(7,719)
Distributions paid to subsidiaries' non-controlling interest	**(4,798)**	(3,743)
Scheduled principal repayments of debt	**(38,232)**	–
Cash available for distribution	**89,734**	142,495
Weighted average number of common shares outstanding in the year *(millions)*	**114.7**	114.7
Cash available for distribution per share	**0.78**	1.24

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

Fourth Quarter Results

Consolidated Highlights

Three months ended Dec. 31	2014	2013
Production *(GWh)*[1]	1,015	866
Revenues	72,870	69,949
Operating income[2]	35,533	32,666
Comparable operating income[3]	38,425	32,666
Net earnings attributable to common shareholders	21,665	15,535
Comparable net earnings attributable to common shareholders[3]	21,917	17,129
Comparable EBITDA[3]	57,200	53,425
Funds from operations[3]	48,320	45,067
Cash flow from operating activities	45,073	37,698
Cash available for distribution[3]	43,832	40,979
Net earnings per share attributable to common shareholders, basic and diluted	0.19	0.13
Comparable net earnings per share[3]	0.19	0.15
Funds from operations per share[3]	0.42	0.39
Cash available for distribution per share[3]	0.38	0.36
Dividends paid per common share	0.19	0.18

Financial Highlights

- Comparable EBITDA and FFO increased $3.8 million and $3.3 million, respectively, in the quarter, primarily due to dividend income from our investment in the Wyoming Wind Preferred Shares, higher wind volumes and contract price escalation at Eastern Canada facilities, and higher hydro volumes, partially offset by lower emission reduction credit sales in Western Canada.
- Reported net earnings attributable to common shareholders was $21.7 million ($0.19 per share) up from $15.5 million ($0.13 per share) in 2013, primarily due to the increase in comparable EBITDA and lower tax expense.
- Comparable net earnings attributable to common shareholders was $21.9 million ($0.19 per share) up from $17.1 million ($0.15 per share) in 2013, primarily due to the increase in comparable EBITDA.
- Production increased 149 GWh to 1,015 GWh compared to 2013, primarily due to a full period of production for Wyoming Wind, higher hydro volumes, and better wind volumes in Eastern Canada.

1 Includes production from our economic interest in the Wyoming Wind Farm.

2 This item is an additional IFRS measure. Refer to the Additional IFRS Measures section of this MD&A for further discussion of this item.

3 These items are not defined under IFRS. Presenting these items from period to period provides management and investors with the ability to evaluate earnings and cash flow 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 and to the following sub-section, where applicable, for reconciliations to measures calculated in accordance with IFRS.

Operational Results

The results of operations are as follows:

Three months ended Dec. 31	2014	2013
Revenues	58,727	56,180
Government incentives	6,084	6,472
Lease revenue[1]	8,059	7,297
Total revenue	**72,870**	69,949
Royalties and other costs	4,125	3,855
Comparable gross margin[2]	**68,745**	66,094
Operations, maintenance, and administration	12,919	11,637
Taxes, other than income taxes	1,518	1,032
Dividend income from investment in preferred shares	(2,892)	–
Comparable EBITDA[2]	**57,200**	53,425
Depreciation and amortization	18,775	20,759
Comparable operating income[2]	**38,425**	32,666
Production *(GWh)*	1,015	866
Gross installed capacity *(MW)*[3]	1,283	1,283
Net installed capacity *(MW)*[3]	1,255	1,255

Comparable gross margin for the three months ended Dec. 31, 2014 increased by $2.7 million compared to the same period in 2013, primarily due to higher wind volumes and contract price escalation at Eastern Canada facilities and higher hydro volumes, partially offset by lower emission reduction credit sales in Western Canada.

There was no dividend income in the comparative period, due to the one-month lag in dividend declarations.

1 *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 the sale of electrical energy produced by these facilities are reported as lease revenue.*

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

3 *We measure capacity as Net Maximum Capacity, which is consistent with industry standards. Capacity figures represent capacity in operation unless otherwise stated. Gross capacity reflects the basis of consolidation of underlying assets owned, plus those in which we hold an economic interest. Net capacity deducts capacity attributable to non-controlling interest in these assets.*

Production and Gross Margins

Three months ended Dec. 31, 2014	**Gross installed capacity *(MW)***	**Production *(GWh)***	**Revenues**	**Royalties and other costs**	**Gross margin**	**Revenues per produced MWh[1]**	**Royalties and other costs per produced MWh[1]**	**Gross margin per produced MWh[1]**
Western Canada wind	**418**	**356**	**19,267**	**1,416**	**17,851**	**54.12**	**3.98**	**50.14**
Eastern Canada wind	**616**	**459**	**47,525**	**2,326**	**45,199**	**103.54**	**5.07**	**98.47**
Hydro	**105**	**89**	**6,078**	**383**	**5,695**	**68.29**	**4.30**	**63.99**
Total – owned facilities	**1,139**	**904**	**72,870**	**4,125**	**68,745**	**80.61**	**4.56**	**76.05**
Wyoming Wind Farm	**144**	**111**	**5,313**	**155**	**5,158**	**47.86**	**1.40**	**46.46**
Total	**1,283**	**1,015**						

Three months ended Dec. 31, 2013	Gross installed capacity *(MW)*	Production *(GWh)*	Revenues	Royalties and other costs	Gross margin	Revenues per produced MWh[1]	Royalties and other costs per produced MWh[1]	Gross margin per produced MWh[1]
Western Canada wind	418	351	21,028	1,477	19,551	59.91	4.21	55.70
Eastern Canada wind	616	441	45,325	2,009	43,316	102.78	4.56	98.22
Hydro	105	50	3,596	369	3,227	71.92	7.38	64.54
Total – owned facilities	1,139	842	69,949	3,855	66,094	83.07	4.58	78.49
Wyoming Wind Farm	144	24	1,066	–	1,066	44.42	–	44.42
Total	1,283	866						

Western Canada Wind

Production for the three months ended Dec. 31, 2014 increased 5 GWh compared to the same period in 2013 due to lower operational curtailments offsetting lower wind volumes.

Gross margin for the three months ended Dec. 31, 2014 decreased $1.7 million compared to the same period in 2013, primarily due to lower emission reduction credit sales and lower government incentives following the expiration of the Summerview 1 incentives in September.

Eastern Canada Wind

Production for the three months ended Dec. 31, 2014 increased 18 GWh compared to the same period in 2013, primarily due to higher wind volumes.

Gross margin for the three months ended Dec. 31, 2014 increased $1.9 million compared to the same period in 2013, primarily due to higher production and contract price escalation.

Hydro

Production for the three months ended Dec. 31, 2014 increased 39 GWh compared to the same period in 2013, primarily due to higher water resource.

Gross margin for the three months ended Dec. 31, 2014 increased $2.5 million compared to the same period in 2013, primarily due to higher production.

Economic Interest in Wyoming Wind Farm

Production and gross margin for the three months ended Dec. 31, 2014 increased 87 GWh and $4.1 million, respectively, compared to the same period in 2013, primarily due to a full period of production following the acquisition of the economic interest on Dec. 20, 2013.

For the three months ended Dec. 31, 2014, dividends of $2.9 million were recognized as income during the period. After considering the Wyoming Wind Acquisition Loan interest expense of $1.0 million, the incremental effect on earnings for the period is an increase of $1.9 million.

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

Earnings on a Comparable Basis

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

Three months ended Dec. 31	2014			2013		
	Reported	Comparable adjustments	Comparable total	Reported	Comparable adjustments	Comparable total
Revenues	**72,870**	**-**	**72,870**	69,949	-	69,949
Royalties and other costs	**4,125**	**-**	**4,125**	3,855	-	3,855
Gross margin	**68,745**	**-**	**68,745**	66,094	-	66,094
Operations, maintenance, and administration	**12,919**	**-**	**12,919**	11,637	-	11,637
Taxes, other than income taxes	**1,518**	**-**	**1,518**	1,032	-	1,032
Dividend income from investment in preferred shares	**-**	**(2,892)**[1]	**(2,892)**	-	-	-
Earnings before interest, taxes, depreciation, and amortization	**54,308**	**2,892**	**57,200**	53,425	-	53,425
Depreciation and amortization	**18,775**	**-**	**18,775**	20,759	-	20,759
Operating income	**35,533**	**2,892**	**38,425**	32,666	-	32,666
Dividend income from investment in preferred shares	**2,892**	**(2,892)**[1]	**-**	-	-	-
Foreign exchange gain (loss)	**6**	**-**	**6**	(44)	-	(44)
Earnings before interest and taxes	**38,431**	**-**	**38,431**	32,622	-	32,622
Net interest expense	**9,157**	**-**	**9,157**	8,375	-	8,375
Income tax expense	**6,662**	**(252)**[2]	**6,410**	7,907	(1,594)[3]	6,313
Net earnings	**22,612**	**252**	**22,864**	16,340	1,594	17,934
Non-controlling interest	**947**	**-**	**947**	805	-	805
Net earnings attributable to common shareholders	**21,665**	**252**	**21,917**	15,535	1,594	17,129
Weighted average number of common shares outstanding in the period *(millions)*	**114.7**	**-**	**114.7**	114.7	-	114.7
Net earnings per share attributable to common shareholders	**0.19**	**-**	**0.19**	0.13	0.02	0.15

Funds from Operations

Three months ended Dec. 31	2014	2013
Cash flow from operating activities	**45,073**	37,698
Change in non-cash operating working capital balances	**3,247**	7,369
Funds from operations	**48,320**	45,067
Weighted average number of common shares outstanding in the period *(millions)*	**114.7**	114.7
Funds from operations per share	**0.42**	0.39

Cash Available for Distribution

Three months ended Dec. 31	2014	2013
Cash flow from operating activities	**45,073**	37,698
Add (deduct):		
Changes in non-cash operating working capital	**3,247**	7,369
Sustaining capital expenditures	**(3,402)**	(3,117)
Distributions paid to subsidiaries' non-controlling interest	**(1,086)**	(971)
Cash available for distribution	**43,832**	40,979
Weighted average number of common shares outstanding in the period *(millions)*	**114.7**	114.7
Cash available for distribution per share	**0.38**	0.36

1 *The dividend income is used as a proxy for operating income and EBITDA of the Wyoming Wind Farm.*
2 *Income tax expense related to writeoff of deferred income tax assets.*
3 *Income tax expense related to changes in corporate tax rates.*

Selected Quarterly Information

	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Revenue	**67,965**	**50,013**	**42,956**	**72,870**
Net earnings attributable to common shareholders	**21,134**	**5,890**	**(31)**	**21,665**
Net earnings per share attributable to common shareholders, basic and diluted	**0.18**	**0.05**	**-**	**0.19**
Comparable earnings per share	**0.18**	**0.05**	**-**	**0.19**

	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

Our business results fluctuate with seasonal variations, with the first and fourth quarters seeing largest wind volumes and the second and third recording higher hydro volumes. As wind forms a larger part of our portfolio, higher revenues and earnings are expected in the first and fourth quarters. The first three quarters of 2013 benefited from the higher merchant prices in Western Canada than the lower prices under the TransAlta PPAs established in August 2013 as part of the IPO, with Q2 2013 being the first quarter with a full period of operations at New Richmond wind facility. In December 2013 we also acquired an economic interest in the 144 MW Wyoming Wind Farm through the purchase of preferred shares and started receiving dividends from it in Q1 2014.

Controls and Procedures

Management has evaluated, with the participation of our designated Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports is accumulated and communicated to management, including our designated Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, management 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 designated Chief Executive Officer and Chief Financial Officer have concluded that, as of Dec. 31, 2014, 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. TransAlta Corporation provides general administrative services to the Corporation under a Management, Administrative and Operational Services Agreement. Employees of TransAlta Corporation providing such services are required to adhere to TransAlta Corporation's business conduct policy. 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 (the "Board") 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.

B. Gellner

Brett M. Gellner
President and
Designated Chief Executive Officer

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

February 12, 2015

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") 2013 framework to evaluate the effectiveness of TransAlta Renewables Inc.'s internal control over financial reporting. Management believes that the COSO 2013 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 misstatements 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, 2014, and has concluded that such internal control over financial reporting is effective.

B. Gellner

Brett M. Gellner
President and
Designated Chief Executive Officer

February 12, 2015

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

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, 2014 and 2013, and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, 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.

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. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes 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, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Ernst & Young LLP

Chartered Accountants
Calgary, Canada

February 12, 2015

Consolidated Statements of Earnings

Year ended Dec. 31 *(in thousands of Canadian dollars, except as otherwise noted)*	**2014**	2013
Revenues	**186,865**	200,822
Government incentives *(Note 5)*	**21,134**	22,019
Lease revenue *(Note 6)*	**25,445**	22,500
Total revenue	**233,444**	245,341
Royalties and other costs *(Note 7)*	**12,951**	13,709
Gross margin	**220,493**	231,632
Operations, maintenance, and administration *(Note 7)*	**46,605**	40,963
Depreciation and amortization	**73,951**	76,589
Asset impairment charges *(Note 8)*	**-**	3,663
Taxes, other than income taxes	**6,919**	6,575
Operating income	**93,018**	103,842
Dividend income from investment in preferred shares *(Note 15)*	**9,331**	-
Net interest expense *(Note 9)*	**(36,540)**	(30,419)
Foreign exchange loss	**(217)**	(935)
Other income	**-**	222
Earnings before income taxes	**65,592**	72,710
Income tax expense *(Note 10)*	**13,579**	19,835
Net earnings	**52,013**	52,875
Net earnings attributable to:		
Common shareholders	**48,658**	50,258
Non-controlling interest *(Note 11)*	**3,355**	2,617
	52,013	52,875
Weighted average number of common shares outstanding in the year *(millions) (Note 19)*	**114.7**	114.7
Net earnings per share attributable to common shareholders, basic and diluted	**0.42**	0.44

See accompanying notes.

Consolidated Statements of Comprehensive Income

Year ended Dec. 31 *(in thousands of Canadian dollars)*	**2014**	2013
Net earnings	**52,013**	52,875
Gains (losses) on derivatives designated as cash flow hedges, net of tax[1]	**(92)**	161
Reclassification of losses on derivatives designated as cash flow hedges to non-financial assets, net of tax[2]	**-**	1,265
Total items that will not be reclassified subsequently to net earnings	**(92)**	1,426
Gains on derivatives designated as cash flow hedges, net of tax[3]	**346**	434
Reclassification of gains on derivatives designated as cash flow hedges to net earnings, net of tax[4]	**(203)**	(703)
Total items that will be reclassified subsequently to net earnings	**143**	(269)
Other comprehensive income	**51**	1,157
Total comprehensive income	**52,064**	54,032
Total comprehensive income attributable to:		
Common shareholders	**48,709**	51,415
Non-controlling interest *(Note 11)*	**3,355**	2,617
	52,064	54,032

1 Net of income tax recovery of 33 for the year ended Dec. 31, 2014 (2013 – 53 expense).
2 Net of income tax recovery of 422 for the year ended Dec. 31, 2013.
3 Net of income tax expense of 50 for the year ended Dec. 31, 2014 (2013 – 145 expense).
4 Net of income tax expense of 29 for the year ended Dec. 31, 2014 (2013 – 324 expense).

See accompanying notes.

Consolidated Statements of Financial Position

As at Dec. 31 *(in thousands of Canadian dollars)*	**2014**	2013
Cash and cash equivalents *(Note 12)*	**23,726**	19,256
Accounts receivable *(Notes 12 and 24)*	**35,667**	37,413
Prepaid expenses	**1,395**	2,375
Risk management assets *(Note 12)*	**15**	22
Inventory	**–**	140
	60,803	59,206
Property, plant, and equipment *(Note 13)*		
Cost	**2,029,682**	2,021,386
Accumulated depreciation	**(379,402)**	(314,387)
	1,650,280	1,706,999
Intangible assets *(Note 14)*	**98,660**	105,284
Risk management assets *(Note 12)*	**5**	14
Other assets	**2,981**	3,059
Investment in preferred shares *(Note 15)*	**119,179**	109,325
Deferred income tax assets *(Note 10)*	**32,249**	29,751
Total assets	**1,964,157**	2,013,638
Bank overdraft *(Note 12)*	**–**	891
Accounts payable and accrued liabilities *(Notes 12 and 24)*	**30,893**	31,267
Risk management liabilities *(Note 12)*	**9**	73
Income taxes payable	**405**	364
Dividends payable *(Note 19)*	**14,714**	29,239
Current portion of deferred revenues *(Note 18)*	**425**	425
Current portion of long-term debt *(Notes 12, 16, and 24)*	**194,951**	37,596
	241,397	99,855
Long-term debt *(Notes 12, 16, and 24)*	**463,504**	646,619
Decommissioning provisions *(Note 17)*	**16,287**	12,410
Deferred revenues *(Note 18)*	**6,552**	6,977
Deferred income tax liabilities *(Note 10)*	**195,534**	180,651
Risk management liabilities *(Note 12)*	**128**	67
Total liabilities	**923,402**	946,579
Equity		
Common shares *(Note 19)*	**1,223,845**	1,223,845
Deficit	**(221,175)**	(196,263)
Accumulated other comprehensive income	**238**	187
Equity attributable to shareholders	**1,002,908**	1,027,769
Non-controlling interest *(Note 11)*	**37,847**	39,290
Total equity	**1,040,755**	1,067,059
Total liabilities and equity	**1,964,157**	2,013,638

Commitments and contingencies *(Note 23)*

Subsequent event *(Note 27)*

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)

	Common shares	Deficit	Accumulated other comprehensive income	Attributable to shareholders	Attributable to non-controlling interest	Total
Balance, Dec. 31, 2013	1,223,845	(196,263)	187	1,027,769	39,290	**1,067,059**
Net earnings	–	48,658	–	48,658	3,355	**52,013**
Other comprehensive income:						
Net gains on derivatives designated as cash flow hedges, net of tax	–	–	51	51	–	**51**
Total comprehensive income	–	48,658	51	48,709	3,355	**52,064**
Common share dividends	–	(73,570)	–	(73,570)	–	**(73,570)**
Distributions to non-controlling interest	–	–	–	–	(4,798)	**(4,798)**
Balance, Dec. 31, 2014	**1,223,845**	**(221,175)**	**238**	**1,002,908**	**37,847**	**1,040,755**

See accompanying notes.

(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 *(Notes 4 and 19)*	(1,013,422)	1,013,422	–	–	–	–	–
Completion of public share offering *(Notes 4 and 19)*	–	210,423	–	–	210,423	–	210,423
Common share dividends	–	–	(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.

Consolidated Statements of Cash Flows

Year ended Dec. 31 *(in thousands of Canadian dollars)*	**2014**	2013
Operating activities		
Net earnings	**52,013**	52,875
Depreciation and amortization	**73,951**	76,589
Accretion of provisions *(Notes 9 and 17)*	**955**	848
Deferred income tax expense *(Note 10)*	**12,396**	17,994
Unrealized foreign exchange loss	**695**	785
Unrealized (gain) loss from risk management activities	**62**	(49)
Asset impairment charges	**-**	3,663
Other non-cash items	**1,108**	1,252
Cash flow from operations before changes in working capital	**141,180**	153,957
Change in non-cash operating working capital balances *(Note 20)*	**2,203**	7,879
Cash flow from operating activities	**143,383**	161,836
Investing activities		
Additions to property, plant, and equipment *(Note 13)*	**(8,192)**	(46,798)
Additions to intangibles *(Note 14)*	**(16)**	-
Proceeds on sale of assets	**371**	-
Investment in preferred shares *(Note 15)*	**-**	(109,695)
Realized risk management gain	**220**	3,180
Change in non-cash investing working capital balances	**572**	(13,893)
Other	**1**	162
Cash flow used in investing activities	**(7,044)**	(167,044)
Financing activities		
Repayment of net parental investment and related party advances *(Note 25)*	**-**	(56,762)
Issuance of long-term debt *(Note 16)*	**-**	108,895
Long-term debt repayments *(Note 16)*	**(38,232)**	-
Net proceeds on issuance of common shares *(Note 19)*	**-**	206,898
Repayment of closing and acquisition notes to TransAlta	**-**	(208,000)
Dividends paid on common shares *(Note 19)*	**(88,094)**	(26,920)
Distributions to non-controlling interest *(Note 11)*	**(4,798)**	(3,743)
Cash flow from (used in) financing activities	**(131,124)**	20,368
Increase in cash and cash equivalents	**5,215**	15,160
Effect of translation on foreign currency cash	**146**	-
Increase in cash and cash equivalents	**5,361**	15,160
Cash and cash equivalents, net of bank overdraft, beginning of year	**18,365**	3,205
Cash and cash equivalents, net of bank overdraft, end of year	**23,726**	18,365
Cash income taxes paid	**1,142**	802
Cash interest paid	**34,412**	29,901

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. ("TransAlta Renewables" or the "Corporation") was incorporated on May 28, 2013 under the *Canada Business Corporations Act* and has been formed to own a portfolio of renewable and, potentially, natural gas power generation facilities or other infrastructure assets. 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 (the "IPO") of 22.1 million common shares (see Note 4). The Corporation's head office is located in Calgary, Alberta.

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 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 is generally consumed as it is generated; and the nature of wind and run-of-river hydro resources, which fluctuate based on both seasonal patterns and annual weather variation. Typically, run-of-river hydro facilities generate most of their electricity and revenues during the spring and summer months when melting snow starts feeding watersheds and rivers. Inversely, wind speeds are historically greater during the cold winter months and lower in the warm summer months.

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 on Feb. 12, 2015.

C. Basis of Preparation Prior to the Acquisition

The comparative financial statements for the year ended Dec. 31, 2013 include the combined financial statements of the Acquired Assets for the period from Jan. 1, 2013 to Aug. 8, 2013, and have been prepared in accordance with IFRS 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 company. All material assets and liabilities specifically identified to the Acquired Assets and all material revenues and expenses specifically attributable to the Acquired Assets and allocations of overhead expenses have been presented in the financial statements for periods prior to the Acquisition. The financial statements for periods prior to the Acquisition may not necessarily reflect the financial position, results of operations, or cash flows that the Acquired Assets might have had in the past had they existed as a separate business during the periods prior to the Acquisition (see Note 25).

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 reliably measured; 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 at the end of the reporting period. 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 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. Available-for-sale financial assets are those non-derivative financial assets that are designated as such or that have not been classified as another type of financial asset, and are measured at fair value through Other Comprehensive Income ("OCI"). Available-for-sale financial assets are measured at cost if fair value is not reliably measurable.

Financial assets are assessed for impairment on an ongoing basis and at reporting dates. An impairment may exist if an incurred loss event has arisen that has an impact on the recoverability of the financial asset. Factors that may indicate an incurred loss event and related impairment may exist include, for example: a debtor is experiencing significant financial difficulty, or a debtor has or it is probable that they will enter bankruptcy or other financial reorganization. The carrying amount of financial assets, such as receivables, is reduced for impairment losses through the use of an allowance account, and the loss is recognized in net earnings.

Financial assets are derecognized when the contractual rights to receive cash flows expire. Financial liabilities are derecognized 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 is recognized in 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 recognized assets and liabilities 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 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.

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 derivative's 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, 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 ("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 is included in net earnings 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 depreciated 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 licence agreement. The estimated useful lives and amortization methods are reviewed annually with the effect of any changes being accounted for prospectively.

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 assesses whether there is any indication that PP&E and finite life intangible assets are impaired.

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 occurs 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 of disposal and its value in use. Fair value is the price that would be received to sell an asset 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 by the Corporation. 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 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 and tax credits 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 Interest

A non-controlling interest arises 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 the non-controlling interest 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 interest even if this results in the non-controlling interest 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 that have joint control have rights to the assets, and obligations for the liabilities, relating to the arrangement. 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 rent, 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. Earnings per Share

Basic earnings per share is calculated by dividing earning attributable to common shareholders by the weighted average number of common shares outstanding during the periods presented. For the 2013 comparative period, the Corporation's common shares issued under the IPO and to TransAlta on the Acquisition have been assumed to be outstanding as of the beginning of the period. The Corporation has no dilutive or potentially dilutive instruments.

Q. 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 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 and Intangible Assets

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 and intangible assets 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 in 2013 (see Note 13).

II. Significant Influence through Wyoming Wind Preferred Shares

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 1 and 2 ("Kent Hills") Wind Farms

Under IFRS, the Corporation is required to consolidate all entities that it controls. The Corporation consolidates Kent Hills 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 of disposal 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 of disposal, 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 of disposal or value in use using discounted cash flow methods, estimates and assumptions must be made about sales prices, production, capital expenditures, asset retirement costs, and other related cash inflows and 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 amounts 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 17. 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. Adoption of New or Amended IFRS

On Jan. 1, 2014, the Corporation adopted the following amendments that were previously issued by the IASB:

I. IAS 36 *Impairment of Assets*

The Corporation adopted the amended recoverable amount disclosure requirements of IAS 36 *Impairment of Assets*. The amended disclosure requirements did not have an impact on the consolidated financial statements, as impairment charges did not meet significance requirements for incremental disclosure.

II. IAS 24 *Related Party Disclosures – Key Management Personnel Services*

As part of the Annual Improvements issued in December 2013, the IASB amended IAS 24 to clarify that a management entity providing key management personnel services to an entity is a related party of the entity. As a result, the amounts incurred for such services must be disclosed as a related party transaction. However, disclosure of the components of compensation paid by the management entity is not required. The Corporation receives key management personnel services from its Parent. The amendments apply to the Corporation's annual reporting period beginning on Jan. 1, 2015, but have been adopted early and applied to the 2014 fiscal year. Comparative period disclosures have been restated to remove allocations of compensation paid by the Parent in the course of providing services to the Corporation.

B. Comparative Figures

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

C. Future Accounting Changes

Accounting standards that have been previously issued by the IASB, but are not yet effective and have not been applied by the Corporation include:

I. IFRS 9 *Financial Instruments*

In July 2014, on completion of the impairment phase of the project to reform accounting for financial instruments and replace IAS 39 *Financial Instruments: Recognition and Measurement*, the IASB issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 includes guidance on the classification and measurement of financial assets and financial liabilities, impairment of financial assets (i.e. recognition of credit losses), and a new hedge accounting model.

Under the classification and measurement requirements 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.

The classification requirements for financial liabilities are unchanged from IAS 39. IFRS 9 measurement requirements address the problem of volatility in net earnings arising from an issuer choosing to measure certain liabilities 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.

The new general hedge accounting model is intended to be simpler and more closely focus on how an entity manages its risks, replaces the IAS 39 quantitative effectiveness testing requirements with economic relationship effectiveness criteria, and eliminates the requirement for retrospective assessment of hedge effectiveness.

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

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

II. IFRS 15 *Revenue from Contracts with Customers*

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

4. Significant Events

A. 2014

Secondary Offering of TransAlta Renewables Shares by TransAlta

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

B. 2013

I. 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[1]	187,000
Issuance of short-term note[1]	250,000
Issuance of acquisition note[1]	30,000
Issuance of amortizing term loan	200,000
Total	**1,333,667**

1 *The closing note and $21.0 million of the acquisition note were repaid in 2013 in cash by the Corporation. The short-term note and $0.9 million of the acquisition note were settled in 2013 by issuing 25.9 million common shares to TransAlta.*

The Acquisition was accounted for as a business combination under common control, as TransAlta controlled the Acquired Assets prior to the Aug. 9, 2013 acquisition by TransAlta Renewables and continued to indirectly control the Acquired Assets after the acquisition date. IFRS 3 *Business Combinations* requires fair value accounting for acquisitions and does not provide guidance for common control transactions. Under established IFRS practice, common control transactions are generally accounted for using either the fair value or the pooling of interest (book value) methods of accounting. The Corporation has chosen to apply the pooling of interest method to account for the Acquired Assets in the 2013 comparative period. The financial statements of the Acquired Assets and the Corporation were 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 13) and $0.7 million in the carrying amount of intangible assets (see Note 14), with the corresponding after-tax amount of $154.9 million charged to retained earnings (deficit).

II. Initial Public Offering of Common Shares

In August 2013, the Corporation completed an IPO and issued 20.0 million common shares for gross proceeds of $200.0 million and an additional 2.1 million common shares to the underwriters who exercised their over-allotment option in part, for gross proceeds of $21.0 million. The Corporation used the total net proceeds to repay to TransAlta a portion of the indebtedness outstanding from the Acquisition.

After consideration of the IPO and other common share issuances, TransAlta, directly and indirectly, held 92.6 million common shares, which represented approximately 80.7 per cent of the common shares of TransAlta Renewables.

III. Changes in Capitalization by the Parent

As a result of the Acquisition, the completion of the IPO, and the separation of the Corporation as a separate stand-alone entity, the net parental investment previously attributed to the Acquired Assets in 2013 changed as follows: i) $408.0 million was converted into debt, of which $208.0 million was repaid in cash; ii) amounts due from related parties, including increases in these amounts since Dec. 31, 2012, totalling approximately $197.3 million, were reclassified 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.

IV. Acquisition of Economic Interest in the Wyoming Wind Farm

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 wind farm is fully operational and contracted under a PPA until 2028 with an investment grade counterparty. 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 (see Note 15).

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 16).

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	**2014**		2013	
	Royalties and other costs	**Operations, maintenance, and administration**	Royalties and other costs	Operations, maintenance, and administration
Royalties and land lease costs	**10,846**	**-**	9,856	-
Transmission tariffs	**2,105**	**-**	3,853	-
Contracted operating expenses	**-**	**8,403**	-	8,730
Other operating expenses	**-**	**38,202**	-	32,233
Total	**12,951**	**46,605**	13,709	40,963

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

8. Asset Impairment Charges

During 2014, the Corporation recognized a pre-tax impairment charge of $1.5 million and an impairment reversal of $1.5 million (2013 – charge of $3.7 million), all related to various Ontario hydro facilities. Revisions to capital and operating plans were the main drivers of the impairment outcomes.

9. Net Interest Expense

The components of net interest expense are as follows:

Year ended Dec. 31	2014	2013
Interest on long-term debt	**35,567**	29,436
Interest on letters of credit and guarantees pledged by TransAlta *(Note 24)*	**40**	2,297
Capitalized interest *(Note 13)*	**-**	(2,147)
Interest income	**(22)**	(15)
Accretion of provisions *(Note 17)*	**955**	848
Net interest expense	**36,540**	30,419

10. Income Taxes

A. Consolidated Statements of Earnings

I. Rate Reconciliation

Year ended Dec. 31	2014	2013
Earnings before income taxes	**65,592**	72,710
Net earnings attributable to non-controlling interests	**(3,355)**	(2,617)
Adjusted earnings before income taxes	**62,237**	70,093
Statutory Canadian federal and provincial income tax rate *(%)*	**25.0**	25.0
Expected income tax expense	**15,559**	17,523
Increase (decrease) in income taxes resulting from:		
Writedown of deferred income tax assets	**252**	-
Statutory and other rate differences	**-**	1,891
Dividend income not subject to tax	**(2,333)**	-
Other	**101**	421
Income tax expense	**13,579**	19,835
Effective tax rate *(%)*	**22**	28

II. Components of Income Tax Expense

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

Year ended Dec. 31	2014	2013
Current income tax expense	**1,315**	1,081
Adjustments in respect of current income tax of previous years	**(132)**	760
Adjustments in respect of deferred income tax of previous years	**102**	(1,128)
Deferred income tax expense arising from the writedown of deferred income tax assets	**252**	-
Deferred income tax expense related to the origination and reversal of temporary differences	**12,042**	17,231
Deferred income tax expense resulting from changes in tax rates	**-**	1,891
Income tax expense	**13,579**	19,835

Year ended Dec. 31	2014	2013
Current income tax expense	**1,183**	1,841
Deferred income tax expense	**12,396**	17,994
Income tax expense	**13,579**	19,835

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	2014	2013
Income tax expense (recovery) related to:		
Cash flow hedges	**(12)**	296
Common share issue costs	**-**	(3,526)
Income tax recovery reported in equity	**(12)**	(3,230)

C. Components of Net Deferred Income Tax Liability

Significant components of the Corporation's net deferred income tax (asset) liability are as follows:

As at Dec. 31	2014	2013
Net operating and capital loss carryforwards	**(214,511)**	(217,929)
Property, plant, and equipment	**377,740**	368,855
Risk management assets and liabilities, net	**56**	(26)
Net deferred income tax liability	**163,285**	150,900

The net deferred income tax liability presented in the Consolidated Statements of Financial Position is as follows:

As at Dec. 31	2014	2013
Deferred income tax assets	**(32,249)**	(29,751)
Deferred income tax liabilities	**195,534**	180,651
Net deferred income tax liability	**163,285**	150,900

11. Non-Controlling Interest

The Corporation's non-controlling interest is comprised of Natural Forces Technologies Inc. 17% interest in Kent Hills. Summarized financial information relating to Kent Hills is as follows:

Year ended Dec. 31	2014	2013
Results of operations		
Revenues	**36,156**	31,717
Net earnings and total comprehensive income	**19,735**	15,426

As at Dec. 31	2014	2013
Financial position		
Current assets	**6,654**	5,708
Long-term assets	**218,950**	227,256
Current liabilities	**(2,452)**	(1,435)
Long-term liabilities	**(520)**	(414)
Total equity	**222,632**	231,115

12. 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(C)). The following table outlines the carrying amounts and classifications of the financial assets and liabilities:

Carrying value as at Dec. 31, 2014

	Cash flow hedges	Derivatives classified as held for trading	Loans and receivables	Available-for-sale[1]	Other financial liabilities	Total
Financial assets						
Cash and cash equivalents	-	-	23,726	-	-	23,726
Accounts receivable	-	-	35,667	-	-	35,667
Risk management assets						
Current	15	-	-	-	-	15
Long-term	5	-	-	-	-	5
Investment in preferred shares	-	-	-	119,179	-	119,179
Financial liabilities						
Accounts payable and accrued liabilities	-	-	-	-	30,893	30,893
Dividends payable	-	-	-	-	14,714	14,714
Risk management liabilities						
Current	6	3	-	-	-	9
Long-term	-	128	-	-	-	128
Long-term debt[2]	-	-	-	-	658,455	658,455

1 *Measured at cost (see section B.III. of this note).*
2 *Includes current portion.*

Carrying value as at Dec. 31, 2013

	Cash flow hedges	Derivatives classified as held for trading	Loans and receivables	Available-for-sale[1]	Other financial 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	-	-	-	-	31,267	31,267
Dividends payable	-	-	-	-	29,239	29,239
Risk management liabilities						
Current	73	-	-	-	-	73
Long-term	2	65	-	-	-	67
Long-term debt[2]	-	-	-	-	684,215	684,215

1 *Measured at cost (see section B.III. of this note).*
2 *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 may have 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, 2014 and 2013, respectively:

	Cash flow hedges	**Non-hedges**	**Non-hedges**	**Total**		
	Level II	**Level II**	**Level III**	**Level II**	**Level III**	**Total**
Net risk management liabilities at Dec. 31, 2013	(39)	–	(65)	(39)	(65)	**(104)**
Changes attributable to:						
Market price changes on existing contracts	382	–	(63)	382	(63)	**319**
Market price changes on new contracts	–	(3)	–	(3)	–	**(3)**
Contracts settled	(5)	(324)	–	(329)	–	**(329)**
Discontinued hedge accounting on certain contracts	(324)	324	–	–	–	**–**
Net risk management assets (liabilities) at Dec. 31, 2014	**14**	**(3)**	**(128)**	**11**	**(128)**	**(117)**
Additional Level III information:						
Total losses included in earnings before income taxes			(63)		(63)	**(63)**
Unrealized losses included in earnings before income taxes related to net liabilities held at Dec. 31, 2014			(63)		(63)	**(63)**

	Cash flow hedges	Non-hedges	Non-hedges	Total		
	Level II	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)
Market price changes on 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)

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, 2014 is estimated to be +/– $0.1 million (2013 +/– $0.1 million). Fair values are stressed for volumes and prices. The variable 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.

III. Financial Instruments not Recognized at Fair Value

The carrying value of cash, bank overdraft, accounts receivable, accounts payable and accrued liabilities, and dividends payable 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, 2014 was $682.1 million (2013 – $700.7 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.

The Corporation's investment in the Class A Preferred Shares of a subsidiary of TransAlta (see Note 15) has been designated as available-for-sale. The investment can fluctuate in value based on fluctuations in fair value of the member units of Wyoming Wind LLC. There are no quoted prices for an identical instrument in an active market for either instrument. The Corporation has determined that the fair value of the investment in preferred shares is not reliably measurable as the probabilities of the various estimates cannot be reasonably assessed, notably because of the related party nature of the investment. Accordingly, the investment in preferred shares is measured at cost. The Corporation intends to realize the value of the investment over time and through mutual agreement with TransAlta.

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 to manage foreign exchange exposure on foreign-denominated debt.

As at Dec. 31	2014			2013			
Notional amount sold	**Notional amount purchased**	**Fair value liability**	**Maturity**	Notional amount sold	Notional amount purchased	Fair value asset (liability)	Maturity
CAD 2,494	**EUR 1,763**	**(5)**	**2015**	CAD 2,577	EUR 1,763	16	2014
–	**–**	**–**	**–**	CAD 21,544	USD 20,000	(72)	2014

b. *Effect of Cash Flow Hedges*

The following tables summarize the pre-tax amounts recognized in and reclassified out of OCI related to the effective portion of cash flow hedges. No significant ineffectiveness has been recognized.

Year ended Dec. 31, 2014

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**
Commodity contracts	**(1)**	Revenue	**2**
Foreign exchange forwards on project hedges	**(124)**	Property, plant, and equipment	**–**
Foreign exchange forwards on U.S. debt	**396**	Foreign exchange (gain) loss	**(234)**
OCI impact	**271**	**OCI impact**	**(232)**

Year ended Dec. 31, 2013

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
Commodity contracts	(3)	Revenue	(307)
Foreign exchange forwards on project hedges	214	Property, plant, and equipment	1,687
Foreign exchange forwards on U.S. debt	582	Foreign exchange (gain) loss	(720)
OCI impact	793	OCI impact	660

V. Non-Hedges

The Corporation periodically enters into foreign exchange forwards to hedge future foreign-denominated cash flows for which hedge accounting is not pursued. These items are classified as held for trading, and changes in the fair values associated with these transactions are recognized in net earnings.

Outstanding notional amounts and fair values associated with these forward contracts are as follows:

As at Dec. 31	2014				2013		
Notional amount sold	**Notional amount purchased**	**Fair value liability**	**Maturity**	Notional amount sold	Notional amount purchased	Fair value asset (liability)	Maturity
CAD 5,016	**USD 4,300**	**(3)**	**2015**	–	–	–	–

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, 2014, without taking into account collateral held or right of set-off, is represented by the current carrying amounts of accounts receivable and risk management assets as per the 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, 2014 and 2013, significantly all of the Corporation's counterparties were considered investment grade. The aging of the Corporation's receivables is as follows:

As at Dec. 31	2014	2013
Receivables less than 60 days	**33,327**	37,413
Receivables between 60-120 days	**1,725**	-
Receivables over 120 days	**615**	-
Total accounts receivable	**35,667**	37,413

At Dec. 31, 2014, the Corporation had two unrelated customers whose outstanding balances each accounted for greater than 10 per cent of the total trade receivables outstanding. The Corporation has evaluated the risk of default related to these customers to be minimal.

II. Liquidity Risk

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, 2014.

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

	2015	2016	2017	2018	2019	2020 and thereafter	Total
Accounts payable and accrued liabilities	30,893	–	–	–	–	–	**30,893**
Long-term debt	194,974	67,866	24,413	291,211	26,422	56,088	**660,974**
Net risk management (assets) liabilities	(6)	(2)	4	5	5	111	**117**
Interest on long-term debt[1]	29,444	22,272	19,905	12,089	2,630	1,966	**88,306**
Dividends payable	14,714	–	–	–	–	–	**14,714**
Total	**270,019**	**90,136**	**44,322**	**303,305**	**29,057**	**58,165**	**795,004**

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

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

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 are denominated in U.S. dollars. However, this exposure is partially offset by the payment of U.S.-denominated interest on the Corporation's Wyoming Wind Acquisition Loan and on U.S.-denominated debentures.

The possible effect on net earnings and OCI, for the years ended Dec. 31, 2014 and 2013, due to changes in foreign exchange rates associated with financial instruments denominated in currencies other than the Corporation's functional currency, is outlined below. The sensitivity analysis has been prepared using management's assessment that an average four cent (2013 – 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	**2014**		2013	
Currency	**Net earnings increase[1]**	**OCI gain[1]**	Net earnings decrease[1]	OCI gain[1]
USD	**2**	**–**	–	–
EUR	**–**	**53**	–	71
Total	**2**	**53**	–	71

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 16, 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. Commodity Price Risk

The Corporation's contractual profile minimizes commodity price risk by selling substantially all power under long-term contracts.

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, 2014 was nil (2013 – nil).

13. 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	Capital spares and other	Total
Cost					
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
Impairment charges *(Note 8)*	(3,663)	–	–	–	(3,663)
Revaluation[1]	(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**
Additions	806	5,757	–	1,629	**8,192**
Disposals	(163)	(2,200)	–	–	**(2,363)**
Revisions and additions to decommissioning costs	1,856	1,066	–	–	**2,922**
Impairment charges *(Note 8)*	(1,500)	–	–	–	**(1,500)**
Impairment reversals *(Note 8)*	1,572	–	–	–	**1,572**
Transfers	–	(222)	–	(305)	**(527)**
As at Dec. 31, 2014	**249,521**	**1,771,225**	**–**	**8,936**	**2,029,682**
Accumulated depreciation					
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**
Depreciation	7,143	58,298	–	–	**65,441**
Impairment reversals *(Note 8)*	72	–	–	–	**72**
Disposals	(65)	(405)	–	–	**(470)**
Transfers	–	(28)	–	–	**(28)**
As at Dec. 31, 2014	**58,464**	**320,938**	**–**	**–**	**379,402**
Carrying amount					
As at Dec. 31, 2013	195,636	1,503,751	–	7,612	1,706,999
As at Dec. 31, 2014	**191,057**	**1,450,287**	**–**	**8,936**	**1,650,280**

1 *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 of interest was capitalized to PP&E at a weighted average rate of 5.46 per cent. For the year ended Dec. 31, 2014, no interest was capitalized to PP&E.

The Corporation has transmission connection facilities for Kent Hills that are leased under a finance lease. The net carrying amount included in wind generation as at Dec. 31, 2014 was $5.0 million (2013 – $5.3 million).

14. Intangible Assets

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

	Power contracts[1]	Software	Total
Cost			
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**
Additions	–	16	**16**
Transfers	–	348	**348**
As at Dec. 31, 2014	**134,500**	**1,437**	**135,937**
Accumulated amortization			
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**
Amortization	6,844	144	**6,988**
As at Dec. 31, 2014	**36,519**	**758**	**37,277**
Carrying amount			
As at Dec. 31, 2013	104,825	459	105,284
As at Dec. 31, 2014	**97,981**	**679**	**98,660**

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).*

15. Investment in Preferred Shares

On Dec. 20, 2013, the Corporation acquired an economic interest in Wyoming Wind LLC, itself acquired at that date by TransAlta, by investing U.S.$102.7 million in 1,027,491 Class A Preferred Shares of a subsidiary of TransAlta. Wyoming Wind LLC's only operation is the Wyoming Wind Farm.

The preferred shares are entitled to receive monthly, cumulative cash dividends that are based on, and track to, the pre-tax earnings and distributions of Wyoming Wind LLC. The preferred shares are retractable by the Corporation, and redeemable by the issuer, at any time after Dec. 20, 2016, or upon the occurrence of specific events related to the liquidation or sale of the interest in Wyoming Wind LLC. The retraction and redemption price is equal to the initial issue price of the preferred shares plus, if positive, 95 per cent of the excess of the fair value of the Wyoming Wind LLC member unit, at the retraction or redemption date, over the initial issue price.

Summarized financial information relating to Wyoming Wind LLC is as follows:

Year ended Dec. 31	2014	2013
Results of operations		
Revenues	**18,894**	1,066
Net earnings and total comprehensive income	**8,798**	874
Cash flows		
Additions to PP&E	**1,706**	443
Distributions to owner	**8,217**	–

As at Dec. 31	2014	2013
Financial position		
Current assets	**4,867**	1,089
Long-term assets	**120,315**	112,636
Current liabilities	**(1,487)**	(1,427)
Long-term liabilities	**(3,577)**	(2,743)
Equity	**120,118**	109,555

Dividend income from the preferred shares associated with the Wyoming Wind Farm was $9.3 million for the year ended Dec. 31, 2014 (2013 – nil).

The components of dividends earned are as follows:

Year ended Dec. 31	2014
Dividends based on pre-tax earnings	8,265
Dividends based on cash distributions in excess of pre-tax earnings	1,066
Total dividend income	**9,331**

16. Long-Term Debt

A. Amounts Outstanding

As at Dec. 31	2014			2013		
	Carrying value	**Face value**	**Interest**[1]	Carrying value	Face value	Interest[1]
Unsecured debentures	**344,201**	**346,698**	**5.91%**	340,866	344,780	5.91%
Secured debenture	**34,978**	**35,000**	**5.28%**	34,821	35,000	5.28%
Amortizing term loan	**178,364**	**178,364**	**4.00%**	200,000	200,000	4.00%
Wyoming Wind Acquisition Loan[2]	**100,912**	**100,912**	**4.00%**	108,528	108,528	4.00%
	658,455	**660,974**		684,215	688,308	
Less: current portion	**(194,951)**	**(194,951)**		(37,596)	(37,596)	
Total long-term debt	**463,504**	**466,023**		646,619	650,712	

1 *Interest rate reflects the stipulated rate or the average rate weighted by principal amounts outstanding.*
2 *U.S.$87.0 million (2013 – U.S.$102.0 million).*

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 $23.2 million (2013 – $21.3 million) of Series 5 debentures that 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 (see Note 27).

Amortizing Term Loan is an unsecured loan in favour of TransAlta issued as partial consideration for the 2013 acquisition of wind and hydro generating assets from TransAlta (see Note 4). The loan has a term of seven 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 is a U.S.-denominated loan from TransAlta to finance the acquisition of the economic interest in Wyoming Wind LLC. The loan is unsecured and bears interest at 4.0 per cent, payable quarterly. Principal repayments of at least U.S.$15.0 million in aggregate are required in each of 2015 and 2016. The remaining principal balance outstanding on the maturity date of Dec. 31, 2018 is due at that time.

The Corporation has 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. As at Dec. 31, 2014, the borrowing rate is approximately 3.30 per cent. The facility is made available for general corporate purposes, including financing and working capital requirements. As at Dec. 31, 2014 and 2013, no amounts have been drawn under the facility.

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

	2015	2016	2017	2018	2019	2020 and thereafter	Total
Principal repayments	194,974	67,866	24,413	291,211	26,422	56,088	**660,974**

17. Decommissioning Provisions

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

	Decommissioning and restoration
Balance, Dec. 31, 2012	10,945
Liabilities incurred	1,391
Accretion	848
Revisions in discount rates	(774)
Balance, Dec. 31, 2013	**12,410**
Accretion	**955**
Revisions in discount rates	**2,922**
Balance, Dec. 31, 2014	**16,287**

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 flows 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.

18. 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 amortized on a straight-line basis into revenue over the original term of the contract.

19. Common Shares

A. Authorized and Outstanding

The Corporation is authorized to issue an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares. The common shares entitle the holders thereof to one vote per share at meetings of shareholders. The preferred shares are issuable in series and have such rights, restrictions, conditions, and limitations as the Board may from time to time determine.

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

As at Dec. 31	**2014**		2013	
	Common shares *(millions)*	**Amount** *(thousands)*	Common shares *(millions)*	Amount *(thousands)*
Issued and outstanding, beginning of year	**114.7**	**1,223,845**	–	–
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	**114.7**	**1,223,845**	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**	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 2014 and 2013:

Dividends declared	Total dividends per share	Total dividends	TransAlta	Other shareholders
Year ended Dec. 31, 2014	**0.64160**	**73,570**	**51,720**	**21,850**
Year ended Dec. 31, 2013	0.48974	56,157	45,333	10,824

On Feb. 12, 2015, the Corporation declared monthly dividends of $0.06416 per common share, payable on March 31, 2015, April 30, 2015, and May 29, 2015.

20. Change in Non-Cash Operating Working Capital

Year ended Dec. 31	**2014**	2013
Source (use):		
Accounts receivable	**1,745**	4,136
Prepaid expenses	**1,058**	(3,761)
Inventory	**140**	15
Income taxes receivable	**–**	(179)
Accounts payable and accrued liabilities	**(780)**	6,475
Income taxes payable	**40**	1,218
Other	**–**	(25)
Change in non-cash operating working capital	**2,203**	7,879

21. 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	2014	2013	Increase/ (decrease)
Current portion of long-term debt	**194,951**	37,596	157,355
Less: available cash and cash equivalents[1]	**(23,726)**	(18,365)	(5,361)
	171,225	19,231	151,994
Long-term debt	**463,504**	646,619	(183,115)
Equity			
Common shares	**1,223,845**	1,223,845	–
Deficit	**(221,175)**	(196,263)	(24,912)
Accumulated other comprehensive income	**238**	187	51
Non-controlling interest	**37,847**	39,290	(1,443)
	1,504,259	1,713,678	(209,419)
Total capital	**1,675,484**	1,732,909	(57,425)

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 and its objectives in managing capital have not changed since Dec. 31, 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 16). There is no guarantee that cash flow from operations will be sufficient, or 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.

22. Joint Operations

The Corporation's joint operations at Dec. 31, 2014 and 2013 include the following:

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

23. 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. In addition, the Corporation has an agreement with TransAlta for general and administrative services.

Approximate future payments under these and other contractual obligations are as follows:

	Long-term service agreements	General administrative services	Water rentals and equipment leases	Total
2015	16,794	10,684	423	**27,901**
2016	14,182	10,899	428	**25,509**
2017	10,660	11,117	432	**22,209**
2018	12,186	11,350	294	**23,830**
2019	12,429	11,577	301	**24,307**
2020 and thereafter	58,726	188,634	4,006	**251,366**
Total	**124,977**	**244,261**	**5,884**	**375,122**

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.

24. Related Party Transactions and Balances

After the Acquisition, the Corporation entered into certain agreements and transactions with TransAlta that are discussed in more detail below.

A. Related Party Transactions

Related party transactions include the dividend income from the investment in preferred shares, as well as the royalty and other costs adjustments disclosed in Note 7 and the interest on letters of credit and guarantees pledged by TransAlta disclosed in Note 9. Also, all financial instruments, derivatives, and transactions involving renewable energy certificates that relate to the Corporation are entered into on behalf of the Corporation by a subsidiary of TransAlta.

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

Year ended Dec. 31	**2014**	2013
Revenue from TransAlta PPAs *(I)*	**31,376**	13,930
G&A Reimbursement Fee *(II)*	**10,380**	3,951
Interest expense on amortizing term loan	**7,448**	3,178
Interest expense on Wyoming Wind Acquisition Loan	**4,021**	123

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

I. TransAlta PPAs

The Corporation has agreements with TransAlta for certain wind and hydro facilities, providing for the purchase by TransAlta, for a fixed price, of all of the power produced by such facilities. The initial price payable by TransAlta in 2013 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 are adjusted annually for changes in the Consumer Price Index ("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.

II. Management, Administrative and Operational Services Agreement ("Management Agreement")

Under the Management Agreement, TransAlta provides all the general administrative services, including key management personnel services, as may be required or advisable for the management of the affairs of the Corporation. As compensation for the services provided, the Corporation pays TransAlta a fee (the "G&A Reimbursement Fee"), adjusted annually for changes in the CPI. The G&A Reimbursement Fee is increased or decreased by an amount equal to 5.0 per cent of the amount of any increase or decrease, respectively, to the Corporation's total Earnings Before Interest, Taxes, Depreciation, and Amortization resulting from the addition or divestiture of assets by the Corporation.

TransAlta also provides operational and maintenance services under the Management 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 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. Related Party Balances

Related party balances include the investment in preferred shares, the risk management assets and liabilities, as well as the Amortizing Term Loan, Wyoming Wind Acquisition Loan, and the working capital credit facility.

Significant related party balances with TransAlta or subsidiaries of TransAlta that are not otherwise presented elsewhere consist of the following:

As at Dec. 31	2014	2013
Trade accounts receivable	**7,136**	10,232
Trade accounts payable	**3,142**	5,048
Interest payable	**2,795**	3,311
Dividends payable	**10,345**	23,600
Letters of credit issued by TransAlta on behalf of the Corporation *(I)*	**4,503**	4,503
Guarantees provided by TransAlta on behalf of the Corporation *(II)*	**226,500**	226,500

I. 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. No amounts have been exercised by third parties under these arrangements.

II. Guarantees

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.

C. Key Management Personnel Services

The Corporation's key management personnel include the members of its Board and its Corporate Officers. Key management personnel services from Corporate Officers are provided through TransAlta and its subsidiaries and are part of the G&A Reimbursement Fee. Amounts incurred directly by the Corporation are as follows:

Year ended Dec. 31	2014	2013 *(Restated)*[1]
Total compensation	**350**	155
Comprised of:		
Short-term employee benefits	**127**	155
Share-based payments	**223**	–

1 *See Note 3(A).*

25. 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.

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 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.

26. Significant Customers

In addition to revenue from TransAlta under the TransAlta PPAs (see Note 24), which represented 13 per cent of total revenues, revenues from two other customers each exceeded 10 per cent of the Corporation's total revenues, and represented 42 per cent and 14 per cent of total revenues, respectively.

27. Subsequent Event

On Feb. 11, 2015, the Corporation and its partner issued bonds secured by their jointly owned Pingston facility. The Corporation's share of gross proceeds was $45 million. The bonds bear interest at the annual fixed interest rate of 2.95 per cent, payable semi-annually with no principal repayments until maturity in May 2023. Proceeds were used to repay the $35 million secured debenture bearing interest at 5.28 per cent. Excess proceeds, net of transaction costs, are to be used for general corporate purposes.

Glossary of Key Terms

Amortizing Term Loan
An unsecured, Amortizing Term Loan from TransAlta, with an initial amount in 2013 of $200 million.

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

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

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

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

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

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

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

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, of all of the power produced by certain wind and hydro facilities. The initial price payable in 2013 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
An unsecured loan from TransAlta to fund the acquisition of the economic interest in the 144 MW wind farm in Wyoming with an initial amount in 2013 of U.S. $102 million.

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 10:00 a.m. MST on May 1, 2015 at the Hotel Arts, 119 - 12 Avenue S.W., Calgary, Alberta.

Transfer Agent

CST Trust Company*
P.O. Box 700 Station "B"
Montreal, Quebec
H3B 3K3

Phone
North America:
1.800.387.0825 toll-free
Toronto/outside North America:
416.682.3860

E-mail
inquiries@canstockta.com

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
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 our ongoing operations and growth, balanced against returning capital to shareholders. The Board continues to focus on growing distributable cash flow.

Common Share Dividends Declared in 2014

Payment Date	Record Date	Ex-Dividend Date	Dividend
May 30, 2014	May 1, 2014	April 29, 2014	$0.06416
June 30, 2014	June 2, 2014	May 29, 2014	$0.06416
July 31, 2014	July 2, 2014	June 27, 2014	$0.06416
Aug. 29, 2014	Aug. 1, 2014	July 30, 2014	$0.06416
Sept. 30, 2014	Sept. 2, 2014	Aug. 28, 2014	$0.06416
Oct. 31, 2014	Oct. 1, 2014	Sept. 29, 2014	$0.06416
Nov. 28, 2014	Nov. 3, 2014	Oct. 30, 2014	$0.06416
Dec. 31, 2014	Dec. 1, 2014	Nov. 27, 2014	$0.06416
Jan. 30, 2015	Jan. 2, 2015	Dec. 30, 2014	$0.06416
Feb. 27, 2015	Feb. 2, 2015	Jan. 29, 2015	$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.

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 Legal and
Corporate Secretary

Todd J. Stack
Vice-President and Treasurer

Additional Information

Requests can be directed to:

Investor Relations*
TransAlta Corporation
110 - 12th Avenue S.W.
P.O. Box 1900, Station "M"
Calgary, Alberta
T2P 2M1

Phone
North America:
1.800.387.3598 toll-free
Calgary/outside North America:
403.267.2520

E-mail
investor_relations@transalta.com

Fax
403.267.7405

Website
www.transaltarenewables.com

* *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.*

In an effort to be environmentally responsible, please notify your financial institution to avoid duplicate mailings of this annual report.

This report was printed in Canada. The paper, paper mills, and printer are all certified by the Forest Stewardship Council, an international network that promotes environmentally appropriate and socially beneficial management of the world's forests.

Design & Production: One Design Inc.
Printing: McAra Printing

TransAlta Renewables Inc.
110 - 12th Avenue SW
Box 1900, Station "M"
Calgary, Alberta
Canada T2P 2M1
403.267.7110
www.transaltarenewables.com

TransAlta renewables inc