TransAlta renewables inc.

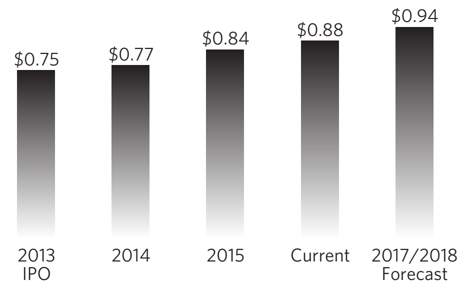
TransAlta Renewables Inc.

2015 Annual Report

Letter to Shareholders

2015 was a year of significant growth and diversification for TransAlta Renewables. The company completed two major transactions that were accretive to cash flow per share and allowed us to increase the dividend.

25% Dividend Growth



The first transaction was a $1.8 billion investment in the cash flows of TransAlta's Australia gas-fired generation and pipeline assets, including the South Hedland project which is currently under construction and expected to start up mid-2017. This transaction significantly diversified the company's cash flows in terms of technology, number of assets, geography and counterparties. All of these assets are under long-term contracts and have relatively low risk profiles.

The second transaction, which closed in January 2016, was the $540 million investment in the cash flows from TransAlta's Sarnia cogeneration facility, Le Nordais wind farm and Ragged Chute hydro facility. These assets are also under long-term contracts and further enhanced the company's cash flow diversification and size.

With these two transactions, and the growth previously achieved in 2013, TransAlta Renewables now has investments in 40 facilities in Canada, the United States and Western Australia. In addition, these and other transactions have allowed the company to significantly increase the dividend. Once the South Hedland project comes on-stream in 2017, the company will have increased the dividend by 25% since the initial public offering (IPO) in August 2013. We funded these transactions by successfully raising $390 million in two public equity offerings, as well as issuing a $215 million convertible debenture and shares to TransAlta.

The company also delivered on a number of other important initiatives in 2015. The 150 megawatt (MW) South Hedland gas-fired generation construction project made significant progress and is on target to begin operating in mid-2017. Once commissioned, this project will receive capacity payments under a 25-year agreement with Horizon Power (the Western Australia state-owned utility) and Fortescue Metals Group.

The company completed two long-term debt financings at the project level, raising $487 million at attractive interest rates. Proceeds from these financings have been used to repay existing debt and partly fund the construction of South Hedland in 2015. The company was also able to attract AIMCo (Alberta Investment Management Corporation), one of Canada's largest and most diversified institutional investment managers, as a significant shareholder. Finally, the company re-contracted the 55 MW Australian Parkeston facility to 2026.

As we move forward into 2016, the company remains focused on delivering strong operating and financial performance from existing assets, advancing the South Hedland project, and pursuing additional growth opportunities provided they meet our return and risk expectations. The company will also continue to pursue long-term project level debt financing to repay maturing debt and finance the construction of the South Hedland facility.

We accomplished a lot in 2015 and look forward to continuing to deliver solid performance in 2016 and beyond.

Sincerely,

Brett M. Gellner
President and Designated Chief Executive Officer

Allen R. Hagerman
Chair of the Board

February 11, 2016

Management's Discussion and Analysis

Table of Contents

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with our 2015 audited consolidated financial statements and our 2016 Annual Information Form ("AIF") for the year ended Dec. 31, 2015. 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, except amounts per share, which are presented in whole dollars to the nearest two decimals. In this MD&A, unless the context otherwise requires, "we", "our", "us", "TransAlta Renewables", and the "Corporation" refer to TransAlta Renewables Inc. and "TransAlta" refers to TransAlta Corporation and its subsidiaries. Capitalized terms not otherwise defined herein have their respective meanings set forth in the Glossary of Key Terms. This MD&A is dated Feb. 11, 2016. Additional information respecting TransAlta Renewables, including our 2016 AIF, is available on SEDAR at www.sedar.com and on our website at www.transaltarenewables.com. Information on or connected to our website is not incorporated by reference herein.

Operations of the Corporation

TransAlta Renewables owns and operates 12 hydro facilities and 16 wind farms in Western and Eastern Canada with a total installed capacity of 1,139 megawatts ("MW") and holds economic interests in TransAlta's 144 MW Wyoming wind farm and 425 MW Australian gas-fired generation assets, as well as a recently commissioned 270 kilometre gas pipeline. These assets are substantially all contracted. On Jan. 6, 2016, we acquired economic interests in TransAlta's Sarnia cogeneration plant, Le Nordais wind farm and Ragged Chute hydro facility totalling 611 MW of highly contracted power generation assets located in Ontario and Quebec.

As we do not have direct ownership of the facilities in which we hold an economic interest, the operational results are not consolidated into our results; however, the finance income we receive from our economic interests is included in our consolidated results. The finance income is generally representative of the cash available for distribution generated by the assets. The MD&A provides disclosure on the performance of all generating facilities owned by TransAlta Renewables either directly or through our economic interests. Refer to the Significant and Subsequent Events section of this MD&A for further details.

Non-IFRS Measures

We evaluate our performance using a variety of measures. Certain of these measures discussed in this MD&A are not defined under IFRS and, therefore, should not be considered in isolation or as an alternative to or to be more meaningful than 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 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. During 2015, we have adjusted the way certain of these measures are calculated. Comparative and year-to-date comparable measures have been restated accordingly. See the Earnings on a Comparable Basis and the Adjusted Funds from Operations and Comparable Cash Available for Distribution sections of this MD&A for additional information.

Additional IFRS Measures

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

Forward-Looking Statements

This MD&A and other reports and filings made with securities regulatory authorities include forward-looking statements. All forward-looking statements are based on our beliefs as well as assumptions based on information available at the time the 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: spending on growth and sustaining capital and productivity projects, including sustaining capital expenditures of subsidiaries of TransAlta in which we have an economic interest; expectations in terms of the cost of operations, capital spending, 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 recontracting of our Akolkolex facility; 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; expectations and plans for future growth, including expansion into existing and new markets and other forms of power generation and acquisition activities, including acquisition activities involving TransAlta; expectations regarding the Transaction, including the expected increase to the dividend following the South Hedland project being fully commissioned; the timing and completion and commissioning of projects under development, including the South Hedland project and the costs thereof and the funding of such costs; expected governmental regulatory regimes and legislation such as Alberta's greenhouse gas programs and their expected impact on us, as well as the cost of complying with resulting regulations and laws and the value of offsets generated by our wind facilities; estimates of future tax rates, future tax expense, and the adequacy of tax provisions; accounting estimates; expectations regarding operations, maintenance and administration costs; anticipated growth rates in our markets; potential legal and contractual claims; expectations for the ability to access capital markets on reasonable terms and the amount that we expect to raise through project financing; the estimated or potential impact of changes in interest rates and expense and changes in the value of the Canadian dollar relative to the US dollar and the Australian dollar; the monitoring of our exposure to liquidity risk; expectations regarding the impact of the slowdown in the oil and gas sector, and the general slowdown of the Australian economy; 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; risks pertaining to the Transaction, including the timing and cost of the construction and commissioning of the South Hedland project; disruptions in the transmission and distribution of electricity; the effects of weather; disruptions in the source of water, wind, or gas required to operate our facilities; natural disasters; the threat of domestic terrorism, cyberattacks, and other man-made disasters; equipment failure and our ability to carry out repairs in a cost-effective or timely manner; industry risk and competition; fluctuations in the value of foreign currencies; the need for additional financing and the ability to access financing at a reasonable cost; structural subordination of securities; counterparty credit risk; insurance coverage; our provision for income taxes; legal and contractual proceedings involving the Corporation; reliance on key personnel; the regulatory and political environments in the jurisdictions in which we operate; increasingly stringent environmental requirements and changes in, or liabilities under, these requirements; and development projects and acquisitions. The foregoing risk factors, among others, are described in further detail in the Risk Factors section of our 2016 AIF for the year ended Dec. 31, 2015 and our MD&A. Additional risks related to the Transaction are described in the prospectus associated with the offering. All documents are available on SEDAR at www.sedar.com.

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

Highlights

Consolidated Financial Highlights

Year ended Dec. 31	2015	2014	2013(1)
Renewable energy production (GWh)(2)	3,262	3,351	2,909
Revenues	235,690	233,444	245,341
Net earnings attributable to common shareholders	194,892	48,658	50,258
Comparable net earnings attributable to common shareholders(3)	149,331	48,910	54,599
Comparable EBITDA(3)	260,824	181,236	184,982
Adjusted funds from operations(3)	200,031	130,704	143,383
Cash flow from operating activities	188,588	143,383	161,836
Comparable cash available for distribution(3)	177,456	92,472	143,383
Net earnings per share attributable to common shareholders, basic and diluted(4)	1.18	0.42	0.44
Comparable net earnings per share(3)(4)	0.91	0.43	0.48
Adjusted funds from operations per share(3)(4)	1.22	1.14	1.25
Comparable cash available for distribution per share(3)(4)	1.08	0.81	1.25
Dividends declared per common share(4)	0.82	0.64	0.49
Dividends paid per common share(4)	0.81	0.77	0.23

As at Dec. 31	2015	2014	2013
Gas installed capacity (MW)(5)	425	-	-
Renewables installed capacity (MW)	1,283	1,283	1,283
Total assets	3,336,024	1,964,157	2,013,638
Total long-term liabilities	1,119,977	682,005	846,724

- Comparable earnings before interest, taxes, depreciation, and amortization ("EBITDA") increased $79.6 million in 2015 compared to 2014, due to the acquisition of the economic interest in the Australian Assets which has contributed $79.6 million in EBITDA since May.
- Adjusted Funds from Operations ("AFFO") increased $69.3 million in 2015 compared to 2014, primarily due to the increase in comparable EBITDA, partially offset by sustaining capital expenditures associated with planned maintenance of the Australian Assets.
- Renewable energy production decreased 89 GWh to 3,262 GWh compared to 2014, primarily due to a return to normal wind volumes in Eastern Canada and lower than normal wind volumes at Wyoming Wind after strong generation in 2014. Our long-term average generation from our portfolio should be approximately 3,504 GWh annually.
- Comparable net earnings attributable to common shareholders in 2015 increased by $100.4 million compared to 2014, primarily due to the increase in comparable EBITDA discussed above and foreign exchange gains due to the effect of the increasing value of the Australian dollar on our investments in the Australian Assets ($31.6 million), partly offset by higher tax expense ($4.9 million). Risks of changes in foreign currencies impacting our cash flows from this investment are mitigated for the period extending to June 30, 2020, and accordingly, this unrealized gain relates to investment balances anticipated to be outstanding after that date.

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(1) Refer to "Comparative Financial Information" within the Critical Accounting Policies and Estimates section of this MD&A.
(2) Includes production from Wyoming Wind and excludes Australian gas-fired generation.
(3) These items are not defined under IFRS and the way they are calculated changed during 2015. 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 and to "Adjusted Funds from Operations and Comparable Cash Available for Distribution" within the Highlights 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.
(5) Includes capacity from the Australian gas-fired generation facilities.

- Reported net earnings attributable to common shareholders increased by $146.2 million, primarily due to the increase in income following the investment in the Australian Assets ($71.7 million), changes in fair value of the Class B shares due to the decrease in our common share price ($35.6 million), and foreign exchange gains associated with our investment and an economic hedge on our investment ($52.2 million), partially offset by higher income tax expense ($17.2 million).The decrease in net earnings in 2014 compared to 2013 is primarily due to the decrease in comparable EBITDA
  associated with contracts established as part of the initial public offering in August 2013, and an increase in net interest expense, partially offset by the addition of Wyoming Wind in December 2013 and lower tax expense.

Highlights

During the year, we continued to strengthen our financial condition, improve our operating performance, and grow our portfolio of highly contracted assets through the following initiatives:

- During 2015, and including the recent investment on Jan. 6, 2016, we acquired economic interests in over $2.3 billion in contracted assets of TransAlta:
  - On May 7, 2015, we acquired an economic interest based on the cash flows of the Australian Assets for an initial investment of $1,284 million. TransAlta's Australian Assets presently include 425 MW gas-fired facilities that are operational and contracted under long-term contracts, as well as the recently commissioned 270 kilometre gas pipeline.
  - As part of the Transaction on May 7, 2015, we have agreed to fund the construction and commissioning of the 150 MW South Hedland project for an estimated construction cost of approximately $491 million. We expect to fund these costs over an approximate two-year time period, until the anticipated commissioning of the South Hedland project in mid-2017.
  - On Jan. 6, 2016, we acquired an economic interest based on the cash flows of the Sarnia cogeneration plant, Le Nordais wind farm and Ragged Chute hydro facility totalling 611 MW of highly contracted power generation assets located in Ontario and Quebec (the "Canadian Assets") for a total investment of $540 million.

  We funded the initial cash consideration of these investments through two public share offerings, totalling nearly $400 million.
- On Feb. 11, 2015, we refinanced maturing debt at our Pingston hydro facility. Our share of gross proceeds was $45 million. Proceeds were used to repay the existing $35 million secured bond with excess proceeds used for general corporate purposes.
- On Oct. 1, 2015, we closed the financing on a $442 million bond offering for our indirect wholly owned subsidiary, Melancthon Wolfe Wind LP, which is secured by a first-ranking charge over the Melancthon and Wolfe Island wind farms. Project-level debt allows us to align the maturity profile of the principal with the realization of value from our assets, and will be the central piece of our financing strategy to repay existing debt and fund the construction of the South Hedland project.
- As a result of the acquisition of the economic interest in the Australian Assets and Canadian Assets, we increased our annual dividend rate per share by $0.11 over the past year, an increase of 14 per cent.

Operational Results

Year ended Dec. 31	Long-term average renewable energy production (GWh)(1)	Production (GWh) 2015	Production (GWh) 2014	Comparable EBITDA 2015	Comparable EBITDA 2014
Canadian Wind	**2,729**	**2,604**	2,604	**165,839**	163,887
Canadian Hydro	**425**	**351**	340	**16,979**	14,976
US Wind	**350**	**307**	407	**10,230**	14,267
Total - Renewable energy	**3,504**	**3,262**	3,351	**193,048**	193,130
Australian Gas	**-**	**938**	-	**79,592**	-
Corporate	**-**	-	-	**(11,816)**	(11,894)
Total	**3,504**	**4,200**	3,351	**260,824**	181,236

(1) *Long-term average is calculated on an annualized basis from the average annual energy yield predicted from our simulation model based on historical inflow data performed over a period of typically 15 years for wind and 30 years for hydro.*

- Canada Wind: Comparable EBITDA increased slightly by $2.0 million in 2015 as higher generation from the portfolio in Alberta and reductions in operations, maintenance, and administration costs more than offset a return to more normal generation from our portfolio in Eastern Canada.
- Canada Hydro: Comparable EBITDA increased $2.0 million to $17.0 million in 2015 compared to $15.0 million in 2014, primarily due to an increase in availability from fewer planned outages at our facilities in British Columbia.
- U.S. Wind: Comparable EBITDA decreased $4.1 million to $10.2 million in 2015 compared to $14.3 million in 2014, primarily due to lower than normal wind volumes after strong generation in 2014.
- Australia Gas: Comparable EBITDA for the period from May 7, 2015 to Dec. 31, 2015 was $79.6 million. Business operations and results have been in line with expectations when we acquired the portfolio.
- Corporate: Consists primarily of contracted management costs from TransAlta for Canadian operations.

Adjusted Funds from Operations and Comparable Cash Available for Distribution

AFFO and Comparable Cash Available for Distribution ("Comparable CAFD") provide investors with a proxy for the amount of cash generated from operating activities and investments in subsidiaries of TransAlta before changes in working capital, and provide the ability to evaluate cash flow trends more readily in comparison with results from prior periods.

Beginning in 2015, AFFO includes sustaining capital expenditures and distributions to non-controlling interests, and both AFFO and Comparable CAFD exclude the effects of timing and working capital on distributions from subsidiaries of TransAlta in which we hold an economic interest. Comparative years have been restated to reflect this methodology.

AFFO per share and Comparable CAFD per share are calculated as follows using the weighted average number of common shares outstanding during the year.

Year ended Dec. 31	2015	2014	2013
Cash flow from operating activities	188,588	143,383	161,836
Change in non-cash operating working capital balances	26,823	(2,203)	(7,879)
Change in non-cash operating working capital of Wyoming Wind LLC	(203)	2,738	888
Adjusted cash flow from operations before changes in working capital	215,208	143,918	154,845
Sustaining capital expenditures	(10,406)	(8,416)	(7,719)
Distributions paid to subsidiaries' non-controlling interest	(4,859)	(4,798)	(3,743)
Effect of timing on finance income related to TEA	88	-	-
AFFO	200,031	130,704	143,383
Deduct:			
Principal repayments of amortizing debt	(22,575)	(38,232)	-
Comparable CAFD	177,456	92,472	143,383
Weighted average number of common shares outstanding in the year (millions)	164.5	114.7	114.7
AFFO per share	1.22	1.14	1.25
Comparable CAFD per share	1.08	0.81	1.25

A reconciliation of comparable EBITDA to AFFO is as follows:

Year ended Dec. 31	2015	2014	2013
Comparable EBITDA	260,824	181,236	184,982
Interest expense	(35,091)	(35,585)	(29,571)
Provisions	270	-	-
Sustaining capital expenditures - owned assets	(10,406)	(8,416)	(7,719)
Sustaining capital expenditures - investments in subsidiaries of TransAlta	(7,646)	(1,707)	-
Current income tax expense	(3,128)	(1,183)	(1,841)
Other non-operating items - investments in subsidiaries of TransAlta	(1,179)	(491)	-
Distributions paid to subsidiaries' non-controlling interest	(4,859)	(4,798)	(3,743)
Other income	-	-	222
Other non-cash items	1,246	1,648	1,053
AFFO	200,031	130,704	143,383

For the year ended Dec. 31, 2015, AFFO increased $69.3 million compared to 2014, primarily due to the increase in comparable EBITDA, partially offset by sustaining capital expenditures associated with maintenance of the Australian Assets.

AFFO for the year ended Dec. 31, 2014 decreased $12.7 million compared to 2013, primarily due to lower comparable EBITDA, higher interest expense and sustaining capital expenditures associated with maintenance of Wyoming Wind.

Comparable CAFD for the year ended Dec. 31, 2015 increased $85.0 million compared to 2014, primarily due to the increase in AFFO. As we transition financing towards non-recourse project-level debt, we expect the principal repayments to more closely mirror the contractual profile of our assets.

For the year ended Dec. 31, 2014, Comparable CAFD decreased $50.9 million compared to 2013, primarily due to the principal repayments on the amortizing debt and lower AFFO.

Business Environment

Overview of Our Business

Following the acquisition of an economic interest in the Canadian Assets from TransAlta on Jan. 6, 2016, we own directly or through economic interests 2,319 MW of capacity[1] in operation. TransAlta manages and operates these facilities on our behalf under the terms of a Management, Administrative and Operational Services Agreement, as amended ("Management Agreement"). Our facilities are located in Canada, U.S. and Australia. Our power generating capacity is among the largest of any publicly traded renewable independent power producer ("IPP") in Canada. Substantially all of our generation output is sold under long-term Power Purchase Agreements ("PPAs") with a weighted average duration of approximately 15 years[2].

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 generation is 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 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 has now reversed, with Eastern Canada showing moderate growth and Western Canada in a recession due to the collapse in oil prices.

In Western Australia, depressed commodity prices combined with the completion of the large iron ore and LNG expansion projects are driving a slowdown in the economy that we expect to continue through 2016. The prevailing theme is one of reduced spending (by companies and governments) and driving for operational efficiencies. Asset sales are expected to remain strong as companies evaluate and restructure their balance sheets to mitigate the impact of lower revenue forecasts. The Department of Treasury for Western Australia has forecasted Australia's annual state product growth to range from 1.5 per cent to 3.0 per cent from 2016 to 2019.

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.

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.

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(1) We measure capacity as Net Maximum Capacity (see Glossary of Key Terms for definition of this and other key terms), which is consistent with industry standards. Capacity figures represent capacity 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.

(2) Weighted based on 2015 facility EBITDA less sustaining capital for all facilities owned and those in which we hold an economic interest as at Jan. 6, 2016. The weighted average has been further adjusted to include forecast EBITDA and sustaining capital expenditures of the South Hedland project, based on long-range forecasts.

Although our operations generally have low environmental impacts, our activities are subject to stringent environmental laws and regulations promulgated and administered by federal, provincial, state, 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, air emissions, 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.

Gas-fired generation has substantially lower greenhouse gas ("GHG") and other air pollutant emissions compared to coal. It is increasingly attractive to jurisdictions that are reducing coal to meet emission reduction objectives. The operational flexibility allowed by gas generation enables it to back up intermittent renewable generation, and its high capacity factor provides value to industrial and mining customers in need of high reliability. Cogeneration is a form of gas generation used at the Sarnia facility in which a portion of the steam generated by combined-cycle operation is used in industrial applications, giving rise to further efficiency and value to customers.

On April 13, 2015, the Ontario government announced that Ontario will be implementing a GHG cap-and-trade system in an effort to reduce emissions and fight climate change. The cap-and-trade system will impose a hard ceiling on the GHG emissions allowed in each sector of the economy. The details of the cap-and-trade system (such as specifics on a potential cap, covered sectors, or anticipated launch date) currently remain absent but will be developed through stakeholder consultations. At this current stage of policy development, we are anticipating no impact on the operations of the business as the GHG attributes are bundled with the power sold to the counterparty in the province.

In Australia, the Senate recently passed amendments to the country's Renewable Energy Target Scheme ("RET"). The RET was initially introduced in 2001 with three objectives: to establish a mandatory renewable energy target to be achieved in 2020; to provide incentives for large-scale renewable energy generators in the form of one large-scale generation certificate earned for each MWh of generation; and, to require retailers and wholesale industrial customers to purchase a specified volume of their electricity from large-scale renewable sourced electricity or incur a penalty of AUD$65/MWh on any shortfall. The amendments reduced the annual targets for large-scale renewable sourced electricity down from 41,000 GWh in 2020 to 33,000 GWh in 2020, a level that will be held constant until 2030. It is estimated that this will require an additional 5,000-6,000 MW of new capacity to be installed to add to the slightly more than 4,000 MW already operating. Since the Australian Assets are fully contracted it is not expected that these amendments will have a significant impact.

On Nov. 22, 2015, the Government of Alberta announced the Climate Leadership Plan (the "Plan"). In respect of the power generation sector, the Plan targets the retirement of coal generation in the Province of Alberta by 2030, replacement of two-thirds of the retiring coal-fired generation with renewable generation (to achieve a 30 per cent share of generation by 2030), and establishment of a new system of GHG obligations and allowances benchmarked against highly efficient gas-fired generation beginning in 2018, at the increased price of $30 per tonne. The Government of Alberta has further stated intentions of providing compensation to coal-fired generators as part of its commitment to treat them fairly and not unnecessarily strand capital.

Contracted Cash Flows

Substantially all of our wind, hydro, and gas facilities have contracts in place for the sale of electricity they produce. Most of our wind and hydro facilities located in Alberta 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 Australian gas facilities are contracted to mining companies in Western Australia. The earliest contract expiry date in Australia was 2016 for the 55 MW Parkeston gas facility that was recently re-contracted until 2026, while the remaining PPAs and other long-term contracts generally expire between 2023 and 2042.

In addition to contracting for power, long-term and short-term contracts have been entered into to sell the green attributes from our wind and hydro facilities. For 2015, approximately 93 per cent and 100 per cent of the green 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, and investment in, highly contracted renewable and natural gas power generation and other infrastructure assets that provide stable cash flow primarily through long-term contracts with strong counterparties; (ii) pursue and capitalize on strategic growth opportunities in the renewable and natural gas power generation and other infrastructure sectors; (iii) maintain diversity in terms of geography, generation and counterparties; and (iv) pay out 80 to 85 per cent of cash available for distribution to the shareholders of the Corporation on an annual 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. Our sponsor, TransAlta, provides support for financing and liquidity.

Contracting Strategy

Through the use of PPAs, including the TransAlta PPAs, our facilities and those in which we have an economic interest are highly contracted. Substantially all of the capacity is contracted over the next eight years, and gradually decreasing thereafter over a period extending to 27 years. As noted earlier, the weighted average contractual life of our PPAs is approximately 15 years.

Operational Strategy

Our wind, hydro, and gas facilities have an established track record of operating history and performance. Except for the recently commissioned gas pipeline in Western Australia and the South Hedland project currently under construction, the assets have been in operation from approximately three to 25 years.

We have long-term service agreements in place for many of our wind and gas-fired facilities, which allow us to maintain our assets and predict maintenance 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 highly 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, our sponsor, has indicated that the sale of certain of its contracted assets to us could form one source of its financing. Assets that have been identified as candidates for acquisition by us include certain renewable facilities in Canada and the United States. Acquisitions from TransAlta will be subject to independent assessments and approval by the independent directors of the TransAlta Renewables Board.

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.

Significant and Subsequent Events

Increase in Dividend

As a result of the acquisition of the economic interest in the Australian Assets and Canadian Assets described below, we increased our annual dividend rate per share by $0.11 over the past year, resulting in an increase of 14 per cent. Since our initial public offering in 2013, we have increased our dividend by 17 per cent, a compound annual growth rate of approximately seven per cent. We expect to increase the dividend by an additional six to seven per cent when South Hedland is commissioned in 2017.

Investment in TransAlta's Western Australian Portfolio

On May 7, 2015, we acquired an economic interest that is based on the cash flows of the Australian Assets. TransAlta continues to own, manage, and operate the Australian Assets. The investment agreement provides us with certain protections in relation to exchange rates, the cost to complete the construction of the South Hedland project, and the timing of the commencement of its commercial operation.

Initial Investment

Our initial investment was set at $1,284 million and consists of an economic interest based on cash flows of TransAlta Energy (Australia) Pty Ltd. ("TEA") broadly equal to the underlying net distributable profits of the Australian Assets.

As consideration, we paid to TransAlta $216.9 million in cash and issued 58,270,933 common shares and 26,086,956 Class B shares. The Class B shares provide voting rights equivalent to the common shares, are non-dividend paying, and will convert to common shares when the South Hedland project is fully commissioned. The number of common shares that TransAlta will receive on the conversion of the Class B shares will be adjusted based on the actual amount that we fund for the construction and commissioning of the South Hedland project relative to the budgeted costs. In the event that the construction amount funded by us exceeds the budgeted costs, TransAlta will receive fewer common shares upon conversion and, comparably, TransAlta will receive more common shares in the event we fund less than the budgeted costs.

We funded the cash proceeds through the public offering of 17,858,423 subscription receipts at a price of $12.65 per subscription receipt. In total, we received net proceeds of approximately $217 million.

Commitment to Fund Construction of the South Hedland project

As part of the Transaction, we have agreed to fund the construction and commissioning of the South Hedland project (the "Contribution Agreement"). The estimated construction cost we expect to fund is approximately $491 million (AUD$507 million), which we expect to fund through a combination of internally generated cash flow and borrowings under a credit facility with TransAlta. We expect to fund these costs over an approximate two year time period, until the anticipated commissioning of the South Hedland project in mid-2017. To protect against adverse fluctuations in the exchange rate between the Canadian and Australian dollars over this period, and the impact such fluctuations will have on the total Canadian dollar funding cost, we entered into a hedge agreement with TransAlta, whereby the cost of the Australian dollars has been fixed at $0.9684 Canadian per Australian dollar. The hedge on the contribution commitment is considered a held-for-trading derivative and accordingly it is accounted for at fair value through profit and loss.

Additional information on the Transaction is available in the prospectus of the Corporation dated April 8, 2015 filed under the Corporation's profile on SEDAR at www.sedar.com.

Since May, we have invested an additional AUD$181 million in the Australian Assets through the Contribution Agreement.

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

On Nov. 23, 2015, we entered into an agreement with TransAlta, pursuant to which we agreed to acquire an economic interest based on the cash flows of the Canadian Assets for a total value of $540 million. The Canadian Assets consist of approximately 611 MW of highly contracted power generation assets located in Ontario and Quebec. Our investment consists of the acquisition of tracking preferred shares of a subsidiary of TransAlta that will provide us with an economic interest based on cash flows broadly equal to the underlying net distributable profits of the Canadian Assets. TransAlta will continue to own, manage, and operate the Canadian Assets. As at Dec. 31, 2015, a substantive closing condition remained outstanding and the investment in Canadian Assets and associated financing are not reflected in these financial statements and this MD&A. The transaction was subsequently approved by the shareholders, excluding TransAlta, on Jan. 6, 2016, and closed on that date.

As consideration, we paid TransAlta approximately $173 million in cash, issued 15,640,583 common shares with a value of $152 million, and issued a $215 million convertible unsecured debenture.

In order to fund the cash consideration payable to TransAlta, we issued 15,385,000 subscription receipts at a price of $9.75 per subscription receipt for gross proceeds of approximately $150 million. In addition, we granted an over-allotment option to the underwriters to purchase up to an additional 2,307,750 subscription receipts on the same terms and at the same price for gross proceeds of up to approximately $23 million. The offering and the over-allotment closed on Dec. 2, 2015. The proceeds from the sale of the subscription receipts were directed to an escrow agent and invested in a demand deposit account with a Canadian chartered bank until the approval of the acquisition by the shareholders, excluding TransAlta, at a special meeting held on Jan. 6, 2016.

The $215 million convertible debenture issued to TransAlta is interest only at a coupon of 4.5 per cent per annum payable semi-annually in arrears on June 30th and December 31st and will mature on Dec. 31, 2020. On the maturity date, TransAlta will have the right, at its sole option, to convert the outstanding debenture, in whole or in part, into common shares at a conversion price of $13.16 per common share, being a 35 per cent premium to the offering price. The debenture is a direct unsecured obligation of the Corporation ranking subordinate to all liabilities, except liabilities which by their terms rank in rights of payment equally with or subordinate to the debenture. The debenture will rank equal with all subordinate debentures issued by the Corporation from time to time.

Additional information on the transaction is available in the prospectus supplement dated Nov. 25, 2015 filed under the Corporation's profile on SEDAR at www.sedar.com.

Alberta Specified Gas Emitters Regulation

On June 29, 2015, the Alberta government announced an increase to its provincial Specified Gas Emitters Regulation ("SGER").

- On Jan 1, 2016, an increase in the GHG reduction obligation for large emitters from 12 per cent to 15 per cent of emissions, with the compliance price of the technology fund rising from $15 per tonne to $20 per tonne.
- On Jan. 1, 2017, a further increase to a 20 per cent reduction requirement and a $30 per tonne compliance price.

On Nov. 22, 2015, the Government of Alberta announced the Climate Leadership Plan. The Plan established several environmental and energy targets for Alberta, including:

- the phase-out of emissions from coal-fired generation by 2030,
- the replacement of two-thirds of the retiring coal-fired generation with renewable generation, and
- the objective of achieving up to 30 per cent of Alberta's electricity production from renewables by 2030.

The Province of Alberta will develop the associated regulations as well as a compensation plan for coal units in 2016. The Plan will replace the SGER framework for the electricity sector in 2018.

The GHG offsets created by our Alberta wind facilities are expected to increase in value through 2017, as greenhouse gas emitters can use them as compliance instruments in place of contributing to the technology fund. As part of the Climate Leadership Plan, the Government has stated its intention to establish a new system of obligations and allowances, benchmarked against highly efficient gas generation, beginning in 2018. The initial compliance price would be set at $30 per tonne, escalating annually.

South Hedland Power Project

Construction of the 150 MW gas-fired South Hedland project commenced in January 2015. The civil construction phase is progressing with all major foundation footings complete, with the exception of the steam turbine. Manufacturing and factory acceptance testing of primary electrical equipment has been completed. Major equipment was received on site. Installation and testing of the main underground fuel gas pipeline was completed. Integration of the existing balance-of-plant control systems within the overall station control system and associated plant operation, monitoring and communication requirements is progressing well.

During the year we invested AUD$181 million to advance the construction of the project.

Parkeston Recontracting

We executed an extension to our PPA to supply power to the Kalgoorlie Consolidated Gold Mine from its 55 MW share of the Parkeston power station until October 2026 with options for early termination available to either party beginning in 2021. The risks associated with the extended power purchase agreement remain consistent with the original contract. The contract extension will continue to provide stable cash flow for the business.

Senior Leadership Team Appointments

During the third quarter, Donald Tremblay was appointed to the role of Chief Financial Officer. Mr. Tremblay is also the Chief Financial Officer at TransAlta Corporation and is responsible for financial policy, planning and reporting, tax, treasury, risk management, internal audit, and investor relations. John Kousinioris was appointed to the role of Corporate Secretary. Mr. Kousinioris is also the Chief Legal and Compliance Officer and Corporate Secretary at TransAlta Corporation and is responsible for directing the Company's legal affairs, regulatory compliance and corporate secretarial matters, government relations and sustainable development initiatives. These two appointments demonstrate the commitment of our sponsor to the success of TransAlta Renewables.

Financing

On Feb. 11, 2015, we refinanced maturing debt at our Pingston hydro 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 bond bearing interest at 5.28 per cent. Excess proceeds, net of transaction costs, are to be used for general corporate purposes.

On Sept. 1, 2015, the unsecured debentures totaling $120 million and bearing interest at 5.33 per cent, matured and were paid out by drawing on the credit facility provided by TransAlta.

On Oct. 1, 2015, we closed the financing on a $442 million bond offering for our indirect wholly owned subsidiary, Melancthon Wolfe Wind LP, which is secured by a first ranking charge over the Melancthon and Wolfe Island wind farms. The bonds are amortizing and bear interest at a rate of 3.834 per cent, payable semi-annually, and mature on December 31, 2028. Net proceeds were used to repay the Amortizing Term Loan of $155.8 million and Wyoming Wind Acquisition Loan of $116.7 million (US$87 million) to TransAlta in full, with the balance paying down amounts due on the $350 million credit facility with TransAlta.

Discussion of Additional Information

Canadian Wind

Year ended Dec. 31	2015	2014
Production *(GWh)*	2,604	2,604
Gross installed capacity *(MW)*	1,034	1,034
Revenues	211,959	211,713
Royalties and other costs of sales	11,038	11,141
Comparable gross margin	200,921	200,572
Operations, maintenance, and administration	29,649	31,383
Taxes, other than income taxes	5,433	5,302
Comparable EBITDA	165,839	163,887
Depreciation and amortization	67,826	66,475
Comparable operating income	98,013	97,412
Sustaining capital	9,004	7,610

Production for the year ended Dec. 31, 2015 was the same as 2014, as improved wind volumes in Western Canada offset the lower wind volumes in Eastern Canada.

For the year ended Dec. 31, 2015, comparable EBITDA increased $2.0 million compared to 2014, primarily due to lower operations, maintenance and administration costs from contract manpower savings and fewer outages.

For the year ended Dec. 31, 2015, sustaining capital increased $1.4 million compared to 2014, primarily due to bearing replacements at Wolfe Island.

Canadian Hydro

Year ended Dec. 31	2015	2014
Production *(GWh)*	351	340
Gross installed capacity *(MW)*	105	105
Revenues	23,731	21,731
Royalties and other costs of sales	1,837	1,810
Comparable gross margin	21,894	19,921
Operations, maintenance, and administration	3,043	3,337
Taxes, other than income taxes	1,872	1,608
Comparable EBITDA	16,979	14,976
Depreciation and amortization	6,854	7,301
Comparable operating income	10,125	7,675
Sustaining capital	1,229	806

Production for the year ended Dec. 31, 2015 increased 11 GWh compared to 2014, primarily due to fewer unplanned outages in Western Canada in 2015.

For the year ended Dec. 31, 2015, comparable EBITDA increased $2.0 million compared to 2014, primarily due to higher production.

For the year ended Dec. 31, 2015, sustaining capital increased $0.4 million compared to 2014, primarily due to general equipment repair and replacement.

U.S. Wind

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

Year ended Dec. 31	2015	2014
Production *(GWh)*	307	407
Gross installed capacity *(MW)*	144	144
Gross margin	16,153	18,313
Operating costs[1]	(5,923)	(4,046)
Comparable EBITDA	10,230	14,267
Sustaining capital	(568)	(1,707)
Change in working capital	203	(2,738)
Cash available for distribution	9,865	9,822
Finance income from Wyoming Wind	9,372	9,331

For the year ended Dec. 31, 2015, production from Wyoming Wind decreased 100 GWh compared to 2014, primarily due to lower than normal wind volumes after strong generation in 2014.

For the year ended Dec. 31, 2015, comparable EBITDA decreased $4.0 million compared to 2014, primarily due to lower production. Operating costs increased primarily due to the allocation of corporate management fees to the wind farm in 2015. Operating results of the wind farm were also positively impacted by a stronger US dollar in 2015.

Our investment in U.S. Wind is through an economic interest. Finance income for the year ended Dec. 31, 2015 was consistent compared to 2014, as lower EBITDA was offset by lower sustaining capital expenditures and stabilization of working capital following the first year after acquisition.

(1) Excludes depreciation and amortization.

Australian Gas

Summarized comparable financial information relating to the Australian Assets is as follows:

	May 7 to Dec. 31 2015[1]
Production *(GWh)*	938
Gross installed capacity *(MW)*	425
Gross margin[2]	61,937
Finance lease income[3]	32,226
Operating costs[4]	(14,571)
Comparable EBITDA	79,592
Less: cash finance expense[5]	(718)
Less: cash tax expense[2]	-
Sustaining capital	(7,078)
Currency adjustment[6]	32
Cash available for distribution	71,828
Finance income from the Australian Assets	71,740

We began earning income from the Australian Assets following the closing of the Transaction on May 7, 2015.

The availability of the Australian Assets power stations was 93.8 per cent for the year ended Dec. 31, 2015, which is in line with TransAlta's long-range forecasts for these assets.

Business operations and results for the Australian Assets have been in line with the historical experience of TransAlta prior to our investment, except for the contribution from the Fortescue Gas River Pipeline, following its commissioning on March 19, 2015. The project, TransAlta's first pipeline, was completed within a nine-month time frame and now provides gas to the Solomon power station.

Sustaining capital includes the costs of the major overhaul of a LM6000 gas turbine completed during the third quarter. Sustaining capital expenditures reduce distributions for the period in which they are incurred.

Our investment in the Australian portfolio is through an economic interest. Finance income for the year totalled $71.7 million, in line with cash available for distribution.

Corporate

Corporate costs for the year ended Dec. 31, 2015 have decreased $0.1 million to $11.8 million compared to 2014, primarily due to the allocation of the management fee attributable to Wyoming Wind directly to the operating cost of the business ($1 million), offset by increased costs related to the investment in the Australian Assets.

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(1) Including results of the period from April 1 to June 30, 2015, on a pro rata basis.
(2) Adjusted to exclude pre-investment amounts accruing to TransAlta.
(3) Finance lease income adjusted for change in finance lease receivable amount.
(4) Excludes depreciation and amortization and includes the effect of contractually fixed management costs.
(5) Excludes cash finance expense accruing to TransAlta Renewables.
(6) Average AUD and USD converted to CAD at hedge rates of 0.98 and 1.24, respectively.

Other Consolidated Results

Net Interest Expense

The components of net interest expense are shown below:

Year ended Dec. 31	2015	2014
Interest on long-term debt	35,021	35,567
Fee for letters of credit and guarantees pledged by TransAlta	227	40
Interest income	(157)	(22)
Accretion of provisions	997	955
Net interest expense	**36,088**	36,540

For the year ended Dec. 31, 2015, net interest expense decreased compared to 2014, primarily due to refinancing debt at lower rates, partially offset by a strengthening US dollar on debt denominated in US dollars.

Class B Shares

As at Dec. 31, 2015, 26,086,956 Class B shares were outstanding (Dec. 31, 2014 – nil). As Class B shares are convertible into common shares at a variable rate, they are classified as liabilities and their change in value is recognized in net earnings. Changes in value of Class B shares of $35.6 million recognized this year are unrealized and relate to the change in value of underlying common shares during the period (net of the effect of estimated foregone dividends, as discounted using a risk-free rate for the period to conversion). Additional information on Class B shares is presented in Note 18 of our consolidated financial statements.

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	2015	2014
Earnings before income taxes	229,119	65,592
Income attributable to non-controlling interest	(3,480)	(3,355)
Change in fair value of class B shares	(35,649)	-
Economic hedge on South Hedland contribution commitment	(22,428)	-
Comparable earnings attributable to common shareholders subject to tax	167,562	62,237
Comparable income tax adjustments:		
Income tax expense related to economic hedge on South Hedland contribution commitment	(3,028)	-
Income tax expense related to writeoff of deferred income tax assets[(1)]	(1,506)	(252)
Income tax expense related to changes in corporate income tax rates[(2)]	(3,782)	-
Income tax expense related to Transaction fair value differences at initial recognition	(4,200)	-
Total comparable income tax expense adjustments	(12,516)	(252)
Income tax expense	30,747	13,579
Comparable income tax expense	18,231	13,327
Comparable effective tax rate on comparable earnings attributable to common shareholders (%)	11	21

Comparable income tax expense for the year ended Dec. 31, 2015 increased compared to 2014, primarily due to an increase in comparable earnings offset by an adjustment in respect of prior years. Certain earnings included in comparable earnings are not subject to tax.

The comparable effective tax rate on comparable earnings attributable to common shareholders for the year ended Dec. 31, 2015 decreased compared to 2014, primarily due to an adjustment in respect of prior years and the effect of the increase in dividend income and foreign exchange gains not subject to tax or subject to lower tax.

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. The 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 of $3.5 million for the year ended Dec. 31, 2015 were consistent with 2014.

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(1) Relates to the write down of the deferred tax assets on realized and unrealized foreign exchange capital losses as we do not expect to realize capital gains in the foreseeable future.
(2) Impact of increase in Alberta income tax rate from 10 per cent to 12 per cent.

Liquidity and Capital Resources

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

Our liquidity needs are met through a variety of sources, including cash generated from operations, capital markets, and 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, 2014 to Dec. 31, 2015:

	Increase/ (decrease)	Primary factors explaining change
Cash and cash equivalents	(21,485)	Timing of receipts and payments
Accounts receivable	26,592	Timing of revenue and customer receipts
Property, plant, and equipment, net	(77,426)	Depreciation
Intangible assets	(6,938)	Amortization
Investments in subsidiaries of TransAlta	1,445,900	Increase due to the acquisition of economic interest in the Australian Assets
Accounts payable and accrued liabilities	(16,758)	Timing of payments
Dividends payable	11,997	Issuance of common shares as part of the Transaction
Long-term debt (including current portion)	138,912	Issuance of bonds, borrowings under the credit facility and refinancing of our Pingston facility, partially offset by the repayment of the matured unsecured debentures and the repayment of the Amortizing Term Loan and Wyoming Wind Acquisition Loan
Decommissioning and other provisions	(9,141)	Changes in discount rate, partially offset by accretion
Class B shares liability	241,394	Issuance of Class B shares as part of the Transaction
Deferred income tax liabilities	19,602	Decrease in income tax loss carryforwards and increase in taxable temporary differences
Equity attributable to shareholders	986,553	Net earnings for the period, common shares issued, and an increase in fair value of available-for-sale financial assets recognized in other comprehensive income, partially 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, 2015 and 2014:

Year ended Dec. 31	2015	2014	Primary factors explaining change
Cash and cash equivalents, net of bank overdraft, beginning of year	23,726	18,365	
Provided by (used in):			
Operating activities	188,588	143,383	Higher cash earnings of $74.2 million and unfavourable changes in working capital of $29.0 million
Investing activities	(409,877)	(7,044)	Increase in investment in subsidiaries of TransAlta of $392.0 million, and an unfavourable change in non-cash investing working capital of $9.3 million
Financing activities	198,956	(131,124)	Issuance of long-term debt of $487.1 million, net proceeds on issuance of common shares of $213.5 million, and borrowings under the credit facility of $86.3 million, partly offset by an increase in repayment of long-term debt of $408.7 million, increase in dividends paid on common shares of $42.2 million, and an increase in debt issuance costs $6.0 million
Translation of foreign currency cash	848	146	
Cash and cash equivalents, end of year	2,241	23,726	

Debt

Debt, including amounts owing to TransAlta, totalled $797.4 million as at Dec. 31, 2015 compared to $658.5 million as at Dec. 31, 2014. Long-term debt increased from Dec. 31, 2014, primarily due to funding the construction of the South Hedland project. During the year, proceeds from two project financings totaling approximately $490 million were used to repay in full existing maturing debt of $155 million, $156 million of the Amortizing Term Loan to TransAlta relating to the initial acquisition of wind and hydro projects in 2013, as well as $114 million of debt to TransAlta in place to fund the acquisition of Wyoming Wind.

At Dec. 31, 2015, including our credit facility, $86.3 million of our long-term debt was due to TransAlta (2014 – $279.3 million).

We have a $350 million unsecured credit facility with TransAlta available to us. The facility is available for general corporate purposes, including financing ongoing working capital requirements. At Dec. 31, 2015, $86.3 million was drawn on the facility (2014 – nil) to support the construction of the South Hedland project. The credit facility increased from $100 million following the investment in the Australian Assets as described in the Significant and Subsequent Events section of this MD&A.

Share Capital

On Feb. 11, 2016, we had 224.1 million common shares and 26.1 million Class B shares issued and outstanding. At Dec. 31, 2015 we had 190.8 million common shares and 26.1 million Class B shares issued and outstanding.

During the year ended Dec. 31, 2015, 76.1 million common shares and 26.1 million Class B shares were issued. Information on shares issued is presented in the Significant and Subsequent Events section of this MD&A.

In conjunction with the closing of the acquisition of an economic interest in the Canadian Assets on Jan. 6, 2016, the Corporation declared a dividend increase of five per cent resulting in cash dividends of $0.07333 per common share payable on Feb. 29, 2016.

On Feb. 11, 2016, the Corporation declared monthly dividends of $0.07333 per common share, payable on March 31, 2016, April 29, 2016, and May 31, 2016.

On Nov. 26, 2015, TransAlta, our sponsor, completed a sale to Alberta Investment Management Corporation ("AIMCo") of TransAlta Renewables common shares for gross proceeds of $200 million (the "AIMCo Investment"). As a result, TransAlta's ownership interest was reduced from approximately 76.1 per cent to approximately 66.6 per cent (including the Class B common shares). We did not receive any of the proceeds from the sale of common shares, as these shares were owned and held by TransAlta.

As part of the AIMCo Investment, we have granted to AIMCo a pre-emptive right to purchase such number of common shares of the Corporation in respect of any future offerings of common shares, or securities convertible into common shares, in order to allow AIMCo to maintain its proportionate shareholdings in the Corporation, provided that AIMCo's ownership remains above a specific threshold.

Capital Structure

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

As at Dec. 31	2015		2014	
	Amount	%	Amount	%
Debt, net of available cash and cash equivalents[1]	**795,126**	**28**	634,729	38
Non-controlling interest	**36,468**	**1**	37,847	2
Equity attributable to shareholders	**1,989,461**	**71**	1,002,908	60
Total capital	**2,821,055**	**100**	1,675,484	100

Commitments

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

	South Hedland commitment	Long-term service agreements	General administrative services[2]	Water rentals and equipment leases	Long-term debt	Interest on long-term debt	Total
2016	99,745	12,920	15,229	344	148,055	40,734	**317,027**
2017	215,953	9,940	15,706	352	35,357	29,517	**306,825**
2018	-	11,409	16,031	359	240,349	21,146	**289,294**
2019	-	11,637	16,351	366	33,554	13,884	**75,792**
2020	-	11,918	16,678	373	32,472	12,608	**74,049**
2021 and thereafter	-	27,604	249,741	742	314,793	46,980	**639,860**
Total	**315,698**	**85,428**	**329,736**	**2,536**	**804,580**	**164,869**	**1,702,847**

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

(2) Includes an increase as a result of the investment in the Canadian assets.

2016 Outlook

Business Environment

Economic Environment

Through the use of PPAs, including TransAlta PPAs, substantially all of our owned facilities and the Australian Assets are currently contracted, and we therefore expect to see no significant impact of the slowing Western Canada and Australian economies on our business.

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

As noted in the Significant and Subsequent Events section of this MD&A, Alberta's current GHG program has been renewed and expanded. We expect value realized from our green attributes generated in the province in 2016 to be consistent with 2015. Revenue from green attributes generated in Alberta amounted to $11.1 million in 2015 and $7.5 million in 2014. The GHG offsets created by our Alberta wind facilities are expected to increase in value through 2017.

As part of the Climate Leadership Plan, the Government of Alberta has stated its intention to establish a new system of obligations and allowances, benchmarked against highly efficient gas generation, beginning in 2018. The initial compliance price would be set at $30 per tonne, escalating annually.

Operations

Production

We expect renewable energy production from our wind and hydro assets in 2016 to be in the range of 3,500 to 3,850 GWh. This includes expected generation from economic interests in the renewable Canadian Assets acquired on Jan. 6, 2016. The gas-fired generation primarily provides compensation for capacity, and accordingly, production is not a significant performance indicator of that business.

Contracted Cash Flows

As detailed in the Business Environment section of this MD&A, our facilities and those in which we have an economic interest have a weighted average contractual life remaining of approximately 15 years. In addition, for 2016, approximately 72 per cent and 100 per cent of the green attributes from our wind and hydro facilities, respectively, have been sold.

The contract with respect to our 10 MW Akolkolex facility expired in April 2015, but its terms remain unchanged until we finalize the renewal process.

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 10 years from commissioning. The incentives associated with Melancthon 1 and Soderglen expire in September 2016.

Operating Costs

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

Exposure to Fluctuations in Foreign Currencies

We are exposed to fluctuations in the exchange rate between the Canadian and the US and Australian dollars as a result of our economic interests in Wyoming Wind and the Australian Assets (including the remaining construction costs for the South Hedland project). The securities acquired from TransAlta and the related dividends received are denominated in Canadian, Australian and US dollars. TransAlta has agreed to provide the Corporation with protection against fluctuations in the exchange rates on the first five years of cash flows from the Australian Assets and for the cost of constructing the South Hedland project, which is expected to be completed in 2017. Any changes in foreign investments or foreign-denominated debt may change our exposure. All of our other assets are located in Canada. We may acquire equipment from foreign suppliers in various foreign currencies for future capital projects, which could create exposure to fluctuations in the value of the Canadian dollar related to these currencies.

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

Net Interest Expense

Exposure to interest rate risk is not significant as interest rates on long-term debt are largely fixed. Net interest for 2016 is expected to be higher than 2015, due to a higher volume of debt. However, changes in the value of the Canadian dollar relative to the US 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 credit facility with TransAlta.

The Corporation manages liquidity risk associated with debentures due in 2016 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 2016 is expected to be approximately 10 to 15 per cent, which is lower than the statutory tax rate of 27 per cent primarily due to certain earnings that are not subject to tax.

Finance income earned in relation to our economic interests in subsidiaries of TransAlta is net of certain tax amounts.

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 2016, our estimate for total sustaining capital is allocated among the following:

Category	Description	Spend in 2015 (1)	Expected spend in 2016 (1)
Routine capital	Expenditures to maintain our existing generating capacity	6	2 - 3
Planned maintenance	Regularly scheduled maintenance	4	4 - 5
Total sustaining expenditures		10	6 - 8

In addition, in 2016 we expect to spend approximately $3.8 million on productivity initiatives.

The facilities of TransAlta in which we own economic interests also incur sustaining capital expenditures. While we are not required to fund these expenditures, they reduce the finance income from these investments. For 2016, estimated sustaining capital expenditures of the facilities that we do not own, but in which we own economic interests, ranges from $37 to $40 million.

Construction of South Hedland

In 2016, we anticipate investing $100 million in the construction of the South Hedland project. We expect that the power station will be commissioned in the second quarter of 2017.

Financing

Financing for these capital expenditures is expected to be provided by cash flow from operating activities and a drawdown on the credit facility provided by 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, a copy of which is available on SEDAR.

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 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.

For some risk factors we show the after-tax effect on net earnings of changes in certain key variables. The analysis is based on business conditions in 2015 and includes the indirect effects of risks on the facilities in which we have an economic interest. The actions that we describe as being part of our management of these risks include those carried by TransAlta as owner of those facilities. Each item in the sensitivity analysis assumes all other potential variables are held constant. While these sensitivities are applicable to the period and the magnitude of changes on which they are based, they may not be applicable in other periods, under other economic circumstances, or for a greater magnitude of changes. The changes in rates should also not be assumed to be proportionate to earnings in all instances.

Volume Risk

Volume risk relates to the variances from our expected production. For example, the financial performance of our wind and hydro operations is highly dependent upon the availability of their input resources in a given year. Shifts in weather or climate patterns, seasonal precipitation, and the timing and rate of melting and runoff may impact the water flow to our facilities. The strength and consistency of the wind resource at our facilities may impact production. The operation of thermal plants can also be impacted by ambient temperatures and the availability of water and fuel. Where we are unable to produce sufficient quantities of output in relation to contractually specified volumes we may be required to pay penalties or purchase replacement power in the market.

We manage volume risk by:

- actively managing our assets and their condition in order to be proactive in plant maintenance so that our plants are available to produce when required,
- placing our facilities in locations that we believe to have adequate resources to generate electricity to meet the requirements of our contracts. However, we cannot guarantee that these resources will be available when we need them or in the quantities that we require,
- diversifying our fuels and geography as one way of mitigating regional or fuel-specific events, and
- entering into supply contracts for fuel, or requiring provision thereof from our customers.

Generation Equipment and Technology Risk

There is a risk of equipment failure due to wear and tear, latent defect, design error, or operator error, among other things, which could have a material adverse effect on the Corporation. Although our generation facilities have generally operated in accordance with expectations, there can be no assurance that they will continue to do so. Our plants are exposed to operational risks such as failures due to cyclic, thermal, and corrosion damage in generators and turbines, and other issues that can lead to outages and increased volume risk. If plants do not meet availability or production targets specified in their PPA or other long-term contracts, we may be required to compensate the purchaser for the loss in the availability of production or record reduced energy or capacity payments.

As well, we are exposed to procurement risk for specialized parts that may have long lead times. If we are unable to procure these parts when they are needed for maintenance activities, we could face an extended period where our equipment is unavailable to produce electricity.

We manage our generation equipment and technology risk by:

- operating our generating facilities within defined and proven operating standards that are designed to maximize the availability of our generating facilities for the longest period of time,
- performing preventative maintenance on a regular basis,
- adhering to a comprehensive plant maintenance program and regular turnaround schedules,
- adjusting maintenance plans by facility to reflect the equipment type and age,
- having sufficient business interruption coverage in place in the event of an extended outage,
- having force majeure clauses in our thermal and other PPAs and other long-term contracts,
- using technology in our generating facilities that is selected and maintained with the goal of maximizing the return on those assets,
- monitoring technological advances and evaluating their impact upon our existing generating fleet and related maintenance programs,
- negotiating strategic supply agreements with selected vendors to ensure key components are available in the event of a significant outage,
- entering into long-term arrangements with our strategic supply partners to ensure availability of critical spare parts, and
- developing a long-term asset management strategy with the objective of maximizing the life cycles of our existing facilities and/or replacement of selected generating assets.

Environmental Compliance Risk

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.

Environmental compliance risks are risks to our business associated with existing and/or changes in environmental regulations. New emission reduction objectives for the power sector are being established by governments in the regions in which we operate. We anticipate continued and growing scrutiny by investors relating to sustainability performance. These changes to regulations may affect our earnings by imposing additional costs on the generation of electricity, such as emission caps, requiring additional capital investments in emission capture technology, or requiring us to invest in offset credits. It is anticipated that these compliance costs will increase due to increased political and public attention to environmental concerns, with a potential negative impact on our natural gas facilities and uncertain impact on our renewable facilities.

We manage environmental compliance risk by:

- seeking continuous improvement in numerous performance metrics such as emissions, safety, land and water impacts, and environmental incidents,
- having an International Organization for Standardization and Occupational Health and Safety Assessment Series-based environmental health and safety management system in place that is designed to continuously improve performance,
- committing significant experienced resources to work with regulators to advocate that regulatory changes are well designed and cost effective,
- developing compliance plans that address how to meet or exceed emission standards,
- purchasing and selling green attributes,
- investing in renewable energy projects, and
- incorporating change in law provisions in contracts that allow recovery of certain compliance costs from our customers.

We strive to be in compliance with all environmental regulations relating to operations and facilities. Compliance with both regulatory requirements and management system standards is regularly audited through our performance assurance policy.

Credit Risk

Credit risk is the risk to our business associated with changes in the creditworthiness of entities with which we have commercial exposures. This risk results from the ability of a counterparty to either fulfill its financial or performance obligations to us or where we have made a payment in advance of the delivery of a product or service. The inability to collect cash due to us or to receive products or services may have an adverse impact upon our net earnings and cash flows. We are also exposed indirectly to the credit risks of TEA through our investment in preferred shares tracking adjusted TEA amounts.

We and TransAlta manage our exposure to credit risk by:

- establishing and adhering to policies that define credit limits based on the creditworthiness of counterparties, contract term limits, and the credit concentration with any specific counterparty,
- requiring formal sign-off on contracts that include commercial, financial, legal, and operational reviews,
- requiring security instruments, such as parental guarantees, letters of credit, cash collateral or third-party credit insurance that can be collected if a counterparty fails to fulfill its obligation or goes over its limits, and
- reporting our exposure using a variety of methods that allow key decision-makers to assess credit exposure by counterparty. This reporting allows us to assess credit limits for counterparties and the mix of counterparties based on their credit ratings.

If established credit exposure limits are exceeded, we take steps to reduce this exposure, such as requesting collateral, if applicable, or by halting commercial activities with the affected counterparty. However, there can be no assurances that we will be successful in avoiding losses as a result of a contract counterparty not meeting its obligations.

Our credit risk management profile and practices have not changed materially from Dec. 31, 2014, with the exception of our indirect exposures arising from our investment in the Australian Assets. We had no material counterparty losses in 2015. We continue to keep a close watch on changes and trends in the market and the impact these changes could have on our business activities, and will take appropriate actions as required, although no assurance can be given that we will always be successful.

On Dec. 17, 2015, Moody's downgraded the senior unsecured rating on TransAlta's US bonds one notch from Baa3 to Ba1. TransAlta maintains investment grade ratings with stable outlooks from three credit rating agencies including BBB- by Standard & Poor's, BBB by DBRS, and BBB- by Fitch Ratings.

A summary of our direct and indirect credit exposures at Dec. 31, 2015 is provided below:

Counterparty credit rating	Direct exposure	Indirect exposure
Investment grade	**72,685**	17,824
Non-investment grade	**-**	453,300
No external rating, Mandatory Redeemable Preferred Shares of TEA	**589,396**	-

The indirect exposure includes accounts receivable and finance lease receivable of TEA, comprised of one unrelated non-investment grade customer. Risk of significant loss arising from this counterparty has been assessed as low in the near term, but could increase to moderate in an environment of sustained low commodity prices over the mid- to long-term. Our assessment takes into consideration the counterparty's financial position, external rating assessments, and how TEA provides its services in an area of the counterparty's lower-cost operations, and TransAlta's other credit management practices.

Currency Rate Risk

We have exposure primarily to the US and Australian currencies as a result of our investments in subsidiaries of TransAlta, our equipment purchases, our commitment to fund the construction of the South Hedland project, and our US-denominated debt. Changes in the values of these currencies in relation to the Canadian dollar may affect our earnings or the value of our foreign investments to the extent that these positions or cash flows are not hedged or the hedges are ineffective.

We manage our currency rate risks as follows:

- entering into contractual arrangements with TransAlta to fix in Canadian dollars, the US- and Australian-denominated income from all sources arising from our investment in the Australian Assets. The exchange rates at which we will recognize income denominated in US and Australian dollars is fixed until June 30, 2020,
- entering into an agreement with TransAlta to fix the Canadian dollar cost of the Australian dollars expected to be required to fund the construction of the South Hedland project, and
- offsetting, our US dollar cash flows primarily related to the Wyoming Wind assets by US-dollar-denominated interest expense and foreign exchange forward contracts. Going forward, we may enter into forward foreign exchange contracts, as considered necessary, to hedge other foreign-denominated cash flows.

As at Dec. 31, 2015, a four cent increase or decrease in the Australian dollar relative to the Canadian dollar would increase or decrease net earnings of the Corporation by $19 million, and result in an increase or decrease in other comprehensive income ("OCI"), including underlying valuation impacts of non-monetary available-for-sale securities, of $34 million.

The Class A Tracking Preferred Shares ("TPS") contain embedded US-denominated cash flows. A four cent increase or decrease in the US dollar relative to the Canadian dollar relative to this indirect exposure would increase or decrease OCI of the Corporation by $16 million.

Liquidity Risk

Liquidity risk arises from our ability to meet general funding needs, and manage the assets, liabilities, and capital structure of the Corporation. Our liquidity needs are met through a variety of sources, including capital markets, cash generated from operations, and funding from TransAlta. Our primary uses of funds are operational expenses, capital expenditures, interest and principal payments on debt, funding growth, and dividends.

We manage liquidity risk by:

- maintaining sufficient liquid financial resources to fund obligations as they come due in the most cost-effective manner,
- preparing and revising longer-term financing plans to reflect changes in business plans and the market availability of capital, and
- maintaining a $350 million unsecured credit facility with TransAlta to support potential liquidity requirements.

Interest Rate Risk

Changes in interest rates can impact our borrowing costs and changes in our cost of capital may also affect the feasibility of new growth initiatives.

We manage interest rate risk by establishing and adhering to policies that include:

- employing a combination of fixed and floating rate debt instruments, and
- monitoring the mixture of floating and fixed rate debt and adjusting where necessary to ensure a continued efficient mixture of these types of debt.

At Dec. 31, 2015, approximately 11 per cent (2014 – nil) of our total debt portfolio was subject to changes in floating interest rates.

Project Management Risk
On capital projects, we face risks associated with cost overruns, delays, and performance.

We manage project risks by:
- ensuring all projects are reviewed to see that established processes and policies are followed, risks have been properly identified and quantified, input assumptions are reasonable, and returns are realistically forecasted prior to senior management and Board approvals,
- using consistent and disciplined project management methodology and processes,
- performing detailed analysis of project economics prior to construction or acquisition and by determining our asset contracting strategy to ensure the right mix of contracted and merchant capacity prior to commencement of construction,
- partnering with those who have previously been able to deliver projects economically and on budget,
- developing and following through with comprehensive plans that include critical paths identified, key delivery points, and backup plans,
- managing project closeouts so that any learnings from the project are incorporated into the next significant project,
- fixing the price and availability of the equipment, foreign currency rates, warranties, and source agreements as much as is economically feasible prior to proceeding with the project,
- entering into labour agreements to provide security around cost and productivity, and
- in the case of the construction of the South Hedland project, by incorporating an adjustment mechanism that provides a compensating effect to contributions above or below the target budget through the issuance of fewer or more common shares upon conversion, of the Class B shares. We have obtained further protections with respect to the risk of the power station being commissioned after June 1, 2017, through compensating features embedded in the terms of the TPS.

Human Resource Risk
Human resource risk relates to the potential impact upon our business as a result of changes in the workplace. Human resource risk can occur in several ways:
- potential disruption as a result of labour action at our generating facilities,
- reduced productivity due to turnover in positions,
- inability to complete critical work due to vacant positions,
- failure to maintain fair compensation with respect to market rate changes, and
- reduced competencies due to insufficient training, failure to transfer knowledge from existing employees, or insufficient expertise within current employees.

We manage this risk by:
- monitoring industry compensation and aligning salaries with those benchmarks,
- using incentive pay to align employee goals with corporate goals,
- monitoring and managing target levels of employee turnover, and
- ensuring new employees have the appropriate training and qualifications to perform their jobs.

Regulatory and Political Risk
Regulatory and political risk describes the risk to our business associated with potential changes to the existing regulatory structures and the political influence upon those structures. This risk can come from market re-regulation, increased oversight and control, structural or design changes in markets, or other unforeseen influences. Market rules are often dynamic and we are not able to predict whether there will be any material changes in the regulatory environment or the ultimate effect of changes in the regulatory environment on our business. This risk includes the qualification of our Alberta facilities to the generation of tradable GHG allowances as part of the transition from the SGER to new regulation to be formulated to give effect to the Climate Leadership Plan, in 2018, as well as the influence of regulation on the value of allowances or credits generated.

We manage these risks systematically through TransAlta's legal and regulatory compliance programs, which are reviewed periodically to ensure their effectiveness, as well as through our government relations team. We work with governments, regulators, electric system operators, and other stakeholders to resolve issues as they arise. We are actively monitoring changes to market rules and market design, and we engage in market-sponsored stakeholder engagement processes. Through these and other avenues, we engage in advocacy and policy discussions at a variety of levels. These stakeholder negotiations have allowed us to engage in proactive discussions with governments over the longer term.

International investments are subject to unique risks and uncertainties relating to the political, social, and economic structures of the respective country and such country's regulatory regime. We mitigate this risk through the use of non-recourse financing and insurance.

Transmission Risk
Access to transmission lines and transmission capacity for existing and new generation are key in our ability to deliver energy produced at our power plants to our customers. The risks associated with the aging existing transmission infrastructure in the markets in which we operate continue to increase because new connections to the power system are consuming transmission capacity quicker than it is being added by new transmission developments.

Reputation Risk
Our reputation is one of our most valued assets. Reputation risk relates to the risk associated with our business because of changes in opinion from the general public, private stakeholders, governments, and other entities.

We manage reputation risk by:

- striving to build viable relationships based on mutual understanding leading to workable solutions with our neighbours and other community stakeholders in the regions where we operate,
- clearly communicating our business objectives and priorities to a variety of stakeholders on a routine basis,
- maintaining positive relationships with various levels of government,
- pursuing sustainable development as a longer-term corporate strategy,
- ensuring that each business decision is made with integrity and in line with our corporate values,
- communicating the impact and rationale of business decisions to stakeholders in a timely manner, and
- maintaining strong corporate values that support reputation risk management initiatives.

Corporate Structure Risk
TransAlta
TransAlta is the majority shareholder of the Corporation and is also responsible for the management and operation of the Corporation pursuant to the Management Agreement. In addition, TransAlta is able to nominate directors to the Board and we rely on TransAlta to identify acquisition and growth opportunities. As a result, TransAlta is able to exercise substantial influence over our operations, administration, and growth. 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. Our risk management procedures in respect of this corporate structure risk include incorporating Board members that are independent of TransAlta.

Other
We conduct a significant amount of business through subsidiaries and partnerships. Our ability to meet and service debt obligations is dependent upon the results of operations of our subsidiaries and the payment of funds by our subsidiaries in the form of distributions, loans, dividends, or otherwise. In addition, our subsidiaries may be subject to statutory or contractual restrictions that limit their ability to distribute cash to us.

General Economic Conditions
Changes in general economic conditions impact product demand, revenue, operating costs, the timing and extent of capital expenditures, the net recoverable value of property, plant and equipment ("PP&E"), financing costs, credit and liquidity risk, and counterparty risk.

Investment in TransAlta's Australian Assets and Canadian Assets
Following the investments in economic interests in assets owned by TransAlta, some, but not all, additional risk factors that could affect our future results, and our activities in mitigating those risks, are outlined below:

Nature of interests
TransAlta indirectly retains legal title to the Australian Assets and Canadian Assets and we have no legal rights in respect of the Australian Assets and Canadian Assets. Rather, we own securities providing an economic interest based on the cash flows from the assets broadly equal to the underlying net distributable profits. This means that we are not be able to dispose of the Australian Assets and Canadian Assets or exercise other rights of ownership of the Australian Assets and Canadian Assets, nor do we have any ability to directly oversee or manage the ownership and operation of the Australian Assets and Canadian Assets. Consequently, the rights to us in relation to the Australian Assets and Canadian Assets may be of less value compared to direct ownership of the Australian Assets and Canadian Assets.

Insufficient funds to satisfy distributions
We are entitled to receive quarterly preferential cash dividend payments on the TPS issued by a subsidiary of TransAlta. This subsidiary's only source of income is the distributions it receives from a 43 per cent owned limited partnership with TransAlta. In turn, the assets the limited partnership owns are the Australian Assets and Canadian Assets. There can be no certainty that the Australian Assets and Canadian Assets will generate sufficient income, such that the distributions it pays will, in aggregate, be sufficient to satisfy the dividend payments in respect of the TPS.

Effective Jan. 6, 2016, TransAlta and a subsidiary of TransAlta signed a funding support agreement pursuant to which, among other things, TransAlta agreed to subscribe for securities of the subsidiary that issued the TPS upon receipt of a funding notice to ensure that the subsidiary of TransAlta has sufficient funds to satisfy the dividend payable on the TPS.

Dependence on financial performance of the Australian and Canadian Assets
The value of our common shares depends, in part, on the financial performance and profitability derived from the Australian Assets and Canadian Assets. Any decline in the financial performance of the Australian Assets and Canadian Assets or adverse change in such other factors could have an adverse effect on us and the value and market price of our common shares. In addition, the Australian Assets and Canadian Assets are potentially subject to the liabilities attributed to TransAlta, even if those liabilities arise from lawsuits, contracts or indebtedness that do not relate or are otherwise attributed to the assets or the Corporation.

Income Tax Risk
Our operations are complex and located in several countries. The computation of the provision for income taxes involves tax interpretations, regulations, and legislation that are continually changing. Our tax filings are subject to audit by taxation authorities. Management believes that it has adequately provided for income taxes as required by IFRS, based on all information currently available.

The Corporation and the subsidiaries of TransAlta in which we hold economic interests are subject to changing laws, treaties, and regulations in and between countries. Various tax proposals in the countries we operate in could result in changes to the basis on which deferred taxes are calculated or could result in changes to income or non-income tax expense. There has recently been an increased focus on issues related to the taxation of multinational corporations. A change in tax laws, treaties or regulations, or in the interpretation thereof, could result in a materially higher income or non-income tax expense that could have a material adverse impact to the Corporation.

The sensitivity of changes in income tax rates upon our net earnings is shown below:

Factor	Increase or decrease (%)	Approximate impact on net earnings
Tax rate	1	900

The effective tax rate on comparable earnings before income taxes and other items for 2015 was 11 per cent. The effective income tax rate can change depending on the mix of earnings from various countries and certain deductions that do not fluctuate with earnings.

Legal Contingencies

We are occasionally named as a party in various claims and legal proceedings that arise during the normal course of our business. We review each of these claims, including the nature of the claim, the amount in dispute or claimed, and the availability of insurance coverage. There can be no assurance that any particular claim will be resolved in our favour or that such claims may not have a material adverse effect on us.

Other Contingencies

We maintain a level of insurance coverage deemed appropriate by management. There were no significant changes to our insurance coverage during renewal of the insurance policies on Dec. 31, 2015, except that the deductible for 2015 catastrophic losses (earthquake, flood, and wind) was increased. Our insurance coverage may not be available in the future on commercially reasonable terms. There can be no assurance that our insurance coverage will be adequate to fully compensate for potential losses incurred. In the event of a significant economic event, the insurers may not be capable of paying all claims in full.

Growth Risk

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. 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. 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.

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, the effective portion of the changes in fair value will generally not affect earnings until the financial instrument is settled.

The two types of derivative 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.

Following the close of our investment in securities of the Australian Assets, we acquired or issued the following financial instruments:

- As the Class B shares are convertible into common shares at a variable rate, they are classified as a financial liability and not as equity. We have chosen to designate the Class B shares as a financial liability to be carried at fair value through profit and loss.
- The Australian-dollar-denominated Mandatory Redeemable Preferred Shares ("MRPS") are classified as a loan and receivable financial asset and are carried at amortized cost. We recognize the resulting foreign exchange gains or losses in net earnings.
- The TPS and Australian-dollar-denominated preferred shares have been designated as available-for-sale financial assets and are measured at fair value with changes recognized in OCI. Changes in foreign exchange forms part of the fair value change recognized in OCI.
- The hedge on the contribution commitment is considered a held-for-trading derivative and accordingly we are required to account for this as at fair value through profit and loss.

At Dec. 31, 2015, Level III financial instruments were comprised of financial assets with a carrying value of $803.9 million and financial liabilities with a carrying value of $241.5 million (2014 - $0.1 million net liability). The increase is attributable to the TPS and the Class B shares liability. Refer to the following Critical Accounting Policies and Estimates section for additional information on these measurements.

Financial instruments give rise to credit risk, foreign currency risk, interest risk, and liquidity risk. Refer to the Risk Management section of this document for a discussion thereof and our management strategies. We chose to accept market risk that arises from our investment in TPS and preferred shares, and from issued Class B shares.

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:

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 instruments in active markets to which we have access. In the absence of an active market, we determine 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, we look primarily to external readily observable market inputs. In limited circumstances, we use inputs that are not based on observable market data.

Level Determinations and Classifications

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

a. Level I

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

b. Level II

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

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

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

In determining Level II fair values of other risk management assets and liabilities and the preferred shares of TEA measured and carried at fair value, we use observable inputs other than unadjusted quoted prices that are observable for the asset or liability, such as interest rate yield curves and currency rates. For certain financial instruments where insufficient trading volume or lack of recent trades exists, we rely on similar interest or currency rate inputs and other third-party information such as credit spreads. The fair value of the preferred shares of TEA is determined using a discounted cash flow methodology based on inputs including interest and currency rates and a discount rate reflecting the risks specific to TEA.

c. Level III

Fair values are determined using inputs for the asset or liability that are not readily observable. The two largest financial instruments within this category are the TPS and the Class B shares.

In estimating the fair value of the TPS, we use a discounted cash flow method, and make estimates and assumptions about sales prices, production, capital expenditures, asset retirement costs, and other related cash inflows and outflows over the life of the facilities, as well as the remaining life of the facilities. In developing these assumptions, we use estimates of contracted prices, anticipated production levels, planned and unplanned outages, changes to regulations, and transmission capacity or constraints for the estimated remaining life of the facilities. Appropriate discount rates reflecting the risks specific to TEA are used in the valuations. Management also develops assumptions in respect of ongoing financing and tax positions of TEA. These estimates and assumptions are susceptible to change from period to period and actual results can, and often do, differ from the estimates, and can have either a positive or negative impact on the estimate of the fair value of the instrument, and may be material. The model extends over 32 years. The table below summarizes quantitative data regarding these unobservable inputs:

Unobservable input	Inception date (May 7, 2015)	Dec. 31, 2015
Discount rate	7.2 per cent	7.6 per cent
Quarterly cash flows	Average of 15,400	Average of 15,640

The estimated fair value of the TPS increased from $796.0 million to $803.9 million between the period from issuance to Dec. 31, 2015. The changes in the fair value are primarily attributable to gains on foreign exchange and delayed capital spend, offset by the increased discount rate and revised MRPS redemption methodology.

The following table summarizes the impact on the fair value measurement of a change in the unobservable inputs to reflect reasonably possible alternative assumptions:

Unobservable input	Alternative assumption	Change in fair value as at Dec. 31, 2015
Basis point change in discount rates	-10 basis points decrease	7,264
	+10 basis points increase	(7,148)
Quarterly cash flows	+1% increase	8,039
	- 1% decrease	(8,039)

Estimates of the fair value of the Class B shares liability can vary based on the estimated cost of construction and commissioning of the South Hedland project by TEA, which can vary based on emergent or unforeseen capital needs of the project, or release of uncommitted planned contingency funds. A one per cent increase or decrease in costs would have resulted in a $4 million corresponding decrease or increase in fair value, respectively. A one-month delay or acceleration in achieving commissioning would have resulted in a corresponding $2 million decrease or increase in fair value, respectively. Fair value of the Class B shares primarily fluctuates due to changes in value of the underlying common shares, which is an observable input.

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. Substantially 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. An assessment must also be made to determine the likelihood that the Company's future taxable income will be sufficient to permit the recovery of deferred income tax assets. To the extent that such recovery is not probable, deferred income tax assets must be reduced. 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, 2015, the total provision recognized for decommissioning and restoration activities was $7.1 million (2014 - $16.3 million). We estimate the undiscounted amount of cash flow required to settle these provisions is approximately $133 million (2014 - $133 million), which will be incurred between 2029 and 2060. The majority of the costs will be incurred between 2030 and 2050. The decrease in the current year decommissioning provision is driven by a change in the discount rate.

Factor	Increase	Approximate net earnings decrease
Discount rate	1%	71
Undiscounted cash flows	10%	69

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.

Comparative Financial Information (2013)

On Aug. 9, 2013, we indirectly acquired 28 wind and 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.

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.

Related-Party Transactions and Balances

Related-Party Transactions

Amounts recognized from transactions with TransAlta or subsidiaries of TransAlta, excluding those described in the Significant and Subsequent Events section of this MD&A, are as follows:

Year ended Dec. 31	2015	2014
Revenue from TransAlta PPAs *(I)*	**34,403**	31,376
Decrease in royalties and other costs *(II)*	**47**	1,523
Revenue from emission reduction credits[1]	**2,328**	-
Finance income related to subsidiaries of TransAlta	**81,112**	9,331
G&A Reimbursement Fee *(III)*	**10,600**	10,380
Interest expense on Amortizing Term Loan	**5,087**	7,448
Interest expense on Wyoming Wind Acquisition Loan	**3,392**	4,021
Fee for letters of credit and guarantees	**227**	40
Interest expense on credit facility	**717**	-
Realized foreign exchange loss on hedge contribution commitment	**191**	-

(1) The value of green attributes was determined by reference to market information for similar instruments, including historical transactions with third parties, with the transaction ultimately reviewed and approved by the Corporation's independent members of the Board of Directors.

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 price paid by TransAlta in 2015 for output under the TransAlta PPAs was approximately $30.88 per MWh for wind facilities and $46.30 per MWh for hydro facilities, which 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, 2015, nil (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 we incur with the revenue base of the TransAlta PPAs. Of the 2014 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. The amount for 2015 includes the portion charged directly to Wyoming Wind.

On Jan. 6, 2016 the G&A Reimbursement Fee was revised to approximately $15.2 million in 2016 which reflects the impact of CPI adjustments and the acquisition of the economic interest in Wyoming Wind, the Australian Assets, and the Canadian Assets.

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 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 (including the acquisition of the Australian Assets and Canadian Assets) 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	2015	2014
Accounts receivable	30,160	7,136
Trade accounts payable	4,001	3,142
Dividends payable	16,573	10,345
Interest payable	-	2,795
Investment in subsidiaries of TransAlta	1,565,079	119,179
Net risk management assets (liabilities)	9,213	(117)
Amortizing Term Loan	-	178,364
Wyoming Wind Acquisition Loan	-	100,912
Class B shares liability	241,394	-
Amount drawn on credit facility	86,307	-
Letters of credit issued by TransAlta on behalf of the Corporation *(I)*	31,095	4,503
Guarantees provided by TransAlta on behalf of the Corporation *(II)*	226,000	226,500
Indemnification guarantee provided by the Corporation to TransAlta *(III)*	1,012,640	-

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

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

TransAlta has entered into several guarantee agreements totalling $226 million on behalf of the Corporation. Two guarantees totalling $206 million relate to the New Richmond wind facility. If the Corporation does not perform under the related agreements, the counterparty may present a claim for payment from TransAlta. The Corporation pays the associated interest and fees on these guarantees.

III. Indemnification Guarantee

As part of the Transaction, we entered into a Guarantee and Indemnification Agreement in favour of TransAlta related to certain guarantees it has provided to third parties in respect of certain obligations of TEA (the "TEA Guarantees"). We have agreed to indemnify TransAlta from and against all claims, actions, proceedings, liabilities, losses, costs, expenses, or damages against or incurred by it arising out of or in connection with the TEA Guarantees and to reimburse TransAlta in full for the amount of any payment made by it under and in accordance with the TEA Guarantees, relating to actions, omissions, events, and circumstances that occur on or after May 7, 2015. As consideration for this indemnity that we have provided, TransAlta is required to pay us the Canadian dollar equivalent of the guarantor fees it receives from TEA in respect of any of the TEA Guarantees.

Future Accounting Changes

New or amended applicable accounting standards that have been previously issued by the International Accounting Standards Board ("IASB") but are not yet effective, and have not been applied by us, 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 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. In 2015, the effective date of IFRS 15 was delayed by one year. IFRS 15 is now effective for annual reporting 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 16 *Leases*
In January 2016, the IASB issued IFRS 16 *Leases*, which replaces the current IFRS guidance on leases. Under current guidance, lessees are required to determine if the lease is a finance or operating lease, based on specified criteria. Finance leases are recognized on the statement of financial position, while operating leases are not. Under IFRS 16, lessees must recognize a lease liability and a right-of-use asset for virtually all lease contracts. An optional exemption to not recognize certain short-term leases and leases of low value can be applied by lessees. For lessors, the accounting remains essentially unchanged. IFRS 16 is effective for annual periods beginning on or after Jan. 1, 2019, with early application permitted if IFRS 15 is also applied at the same time. We are assessing the impact of adopting this standard on our consolidated financial statements.

Earnings on a Comparable Basis

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. Following completion of the Transaction, we also exclude the earnings impact of the hedge of the South Hedland contribution commitment and the change in fair value of the Class B shares. These gains or losses are unrealized and are recognized in earnings as a result of applying IFRS requirements to these financial instruments. Refer to the Financial Instruments section of this MD&A for further information on these items. We also exclude the income tax expense related to the Transaction, 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 number of common shares outstanding during the period.

Beginning in 2015, comparable operating income and EBITDA also include the comparable EBITDA of Wyoming Wind and the Australian Assets. In prior periods we used to reclassify all the finance income from these sources into comparable EBITDA. Adjustments for comparative and cumulative periods have been restated to reflect the current methodology.

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 the impacts of timing and sustaining capital expenditures on finance income from subsidiaries of TransAlta.

Earnings on a Comparable Basis

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

Year ended Dec. 31	2015			
	Reported	Comparable adjustments		Comparable total
Revenues	235,690	-		235,690
Royalties and other costs	12,875	-		12,875
Gross margin	222,815	-		222,815
Operations, maintenance, and administration	45,340	-		45,340
Taxes, other than income taxes	7,314	-		7,314
Comparable EBITDA of Wyoming Wind and Australian Assets	-	(89,822)	(1)	(89,822)
Insurance recovery	(841)	-		(841)
Earnings before interest, taxes, depreciation, and amortization	171,002	89,822		260,824
Depreciation and amortization	74,754	-		74,754
Operating income	96,248	89,822		186,070
Finance income (charge) related to subsidiaries of TransAlta	81,112	(89,822)	(1)	(8,710)
Net interest expense	(36,088)	-		(36,088)
Change in fair value of Class B shares	35,649	(35,649)	(2)	-
Foreign exchange gain	52,198	(22,428)	(3)	29,770
Earnings before income taxes	229,119	(58,077)		171,042
Income tax expense	30,747	(12,516)	(4)	18,231
Net earnings	198,372	(45,561)		152,811
Non-controlling interest	3,480	-		3,480
Net earnings attributable to common shareholders	194,892	(45,561)		149,331
Weighted average number of common shares outstanding in the year (millions)	164.5	164.5		164.5
Net earnings per share attributable to common shareholders	1.18	(0.27)		0.91

Year ended Dec. 31	2014			
	Reported	Comparable adjustments		Comparable total
Revenues	233,444	-		233,444
Royalties and other	12,951	-		12,951
Gross margin	220,493	-		220,493
Operations, maintenance, and administration	46,605			46,605
Taxes, other than income taxes	6,919	-		6,919
Comparable EBITDA of Wyoming Wind	-	(14,267)	(1)	(14,267)
Earnings before interest, taxes, depreciation, and amortization	166,969	14,267		181,236
Depreciation and amortization	73,951	-		73,951
Operating income	93,018	14,267		107,285
Finance income (charge) related to subsidiaries of TransAlta	9,331	(14,267)	(1)	(4,936)
Net interest expense	(36,540)	-		(36,540)
Foreign exchange loss	(217)	-		(217)
Earnings before income taxes	65,592	-		65,592
Income tax expense	13,579	(252)	(4)	13,327
Net earnings	52,013	252		52,265
Non-controlling interest	3,355	-		3,355
Net earnings attributable to common shareholders	48,658	252		48,910
Weighted average number of common shares outstanding in the year (millions)	114.7	114.7		114.7
Net earnings per share attributable to common shareholders	0.42	0.01		0.43

(1) Comparable EBITDA of Wyoming Wind and the Australian Assets.
(2) Class B shares are treated as liabilities at fair value through profit and loss for accounting purposes.
(3) Unrealized and realized losses on the economic hedge on contribution commitment.
(4) Income tax expense comparable adjustments are detailed in the "Income Taxes" within the Other Consolidated Results section of this MD&A.

Year ended Dec. 31		2013		
	Reported	Comparable adjustments		Comparable total
Revenues	245,341	-		245,341
Royalties and other	13,709	-		13,709
Gross margin	231,632	-		231,632
Operations, maintenance, and administration	40,963			40,963
Asset impairment charges	3,663	(3,663)	(1)	-
Taxes, other than income taxes	6,575	-		6,575
Comparable EBITDA of Wyoming Wind	-	(888)	(2)	(888)
Earnings before interest, taxes, depreciation, and amortization	180,431	4,551		184,982
Depreciation and amortization	76,589	-		76,589
Operating income	103,842	4,551		108,393
Finance income (charge) related to subsidiaries of TransAlta	-	(888)	(2)	(888)
Net interest expense	(30,419)	-		(30,419)
Foreign exchange loss	(935)	-		(935)
Other income	222	-		222
Earnings before income taxes	72,710	3,663		76,373
Income tax expense	19,835	(678)	(3)	19,157
Net earnings	52,875	4,341		57,216
Non-controlling interest	2,617	-		2,617
Net earnings attributable to common shareholders	50,258	4,341		54,599
Weighted average number of common shares outstanding in the year (millions)	114.7	114.7		114.7
Net earnings per share attributable to common shareholders	0.44	0.04		0.48

(1) Non-comparable item
(2) Comparable EBITDA of Wyoming Wind.
(3) Income tax expense related to changes in corporate tax rates and net tax effect of other non-comparable item.

Fourth Quarter Results

Consolidated Financial Highlights

Three months ended Dec. 31	2015	2014
Gas installed capacity (MW)	425	-
Renewables installed capacity (MW)	1,283	1,283
Renewable energy production (GWh)(1)	983	1,015
Revenues	75,003	72,870
Net earnings attributable to common shareholders	107,420	21,665
Comparable net earnings attributable to common shareholders(2)	86,037	21,917
Comparable EBITDA(2)	94,633	58,452
Adjusted funds from operations(2)	79,135	44,526
Cash flow from operating activities	58,956	45,073
Comparable cash available for distribution(2)	79,135	44,526
Net earnings per share attributable to common shareholders, basic and diluted(3)	0.56	0.19
Comparable net earnings per share(2)(3)	0.45	0.19
Adjusted funds from operations per share(2)(3)	0.41	0.39
Comparable cash available for distribution per share(2)(3)	0.41	0.39
Dividends declared per common share(3)	0.21	0.19
Dividends paid per common share(3)	0.21	0.19

- Comparable EBITDA and AFFO increased $36.2 million and $34.6 million, respectively, in the fourth quarter, primarily due to the addition of comparable EBITDA from our investment in the Australian Assets, better wind resource and availability in Eastern Canada, and favourable green attribute sales in Alberta.
- Renewable energy production decreased 32 GWh to 983 GWh compared to 2014, primarily due to lower wind resource at Wyoming Wind and lower hydro volumes in Western Canada, partially offset by higher wind volumes in Eastern Canada.
- Comparable net earnings attributable to common shareholders increased by $64.1 million, primarily due to the increase in comparable EBITDA and the foreign exchange gains due to the effect of the increasing value of the Australian dollar on some of our investments in the Australian Assets, partially offset by a higher income tax expense. Risks of changes in foreign currencies impacting our cash flows from this investment are mitigated for the period extending to June 30, 2020, and accordingly, this unrealized gain relates to investment balances anticipated to be outstanding after that date.
- Reported net earnings attributable to common shareholders increased by $85.8 million, primarily due to the increase in income following the investment in the Australian Assets and foreign exchange gains, partially offset by a higher income tax expense.

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(1) Includes production from Wyoming Wind and excludes Australian gas-fired generation.

(2) These items are not defined under IFRS and the way they are calculated changed during 2015. 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 "Earnings on a Comparable Basis and Adjusted Funds from Operations and Comparable Cash Available for Distribution" within this section of this MD&A for reconciliations to measures calculated in accordance with IFRS.

(3) Amounts in this and other tables are presented in whole dollars to the nearest two decimals.

Operational Results

	Production (GWh)		Comparable EBITDA	
Three months ended Dec. 31, 2015	**2015**	2014	**2015**	2014
Canadian Wind	**831**	815	**58,758**	52,960
Canadian Hydro	**57**	89	**3,421**	4,291
US Wind	**95**	111	**3,452**	4,144
Total - Renewable energy	**983**	1,015	**65,631**	61,395
Australian Gas	**358**	-	**31,073**	-
Corporate	**-**	-	**(2,071)**	(2,943)
Total	**1,341**	1,015	**94,633**	58,452

- Canada Wind: Comparable EBITDA increased $5.8 million to $58.8 million in the fourth quarter of 2015 compared to the same period in 2014, primarily due to favourable green attribute pricing and sales in Western Canada and higher availability and wind resource in Eastern Canada.
- Canada Hydro: Comparable EBITDA decreased $0.9 million to $3.4 million in the fourth quarter of 2015 compared to the same period in 2014, primarily due to lower production at our facilities in Western Canada, partly offset by an insurance recovery from an outage event.
- U.S. Wind: Comparable EBITDA decreased $0.7 million to $3.5 million in the fourth quarter of 2015 compared to the same period in 2014, primarily due to lower availability and higher operating costs resulting from a corporate cost allocation, partially offset by favourable foreign exchange rates.
- Australia Gas: Comparable EBITDA for the fourth quarter of 2015 was $31.1 million. Business operations and results of TEA have been in line with the historical experience of TransAlta prior to our investment, except for the contribution from the Fortescue Gas River Pipeline, following its commissioning on March 19, 2015.
- Corporate: Corporate costs have decreased $0.9 million in the fourth quarter of 2015 compared to the same period in 2014, primarily due to the allocation of the management fee attributable to Wyoming Wind directly to the operating cost of the business in 2015.

Adjusted Funds from Operations and Comparable Cash Available for Distribution

AFFO per share and Comparable CAFD per share are calculated as follows using the weighted average number of common shares outstanding during the year.

Three months ended Dec. 31	2015	2014
Cash flow from operating activities	**58,956**	45,073
Change in non-cash operating working capital balances	**22,456**	3,247
Change in non-cash operating working capital of Wyoming Wind LLC	**2,103**	694
Adjusted cash flow from operations before changes in working capital	**83,515**	49,014
Adjustments:		
Sustaining capital expenditures	**(3,209)**	(3,402)
Distributions paid to subsidiaries' non-controlling interest	**(1,195)**	(1,086)
Effect of timing on finance income related to TEA	**24**	-
AFFO and Comparable CAFD	**79,135**	44,526
Weighted average number of common shares outstanding in the period (millions)	**190.8**	114.7
AFFO per share	**0.41**	0.39
Comparable CAFD per share	**0.41**	0.39

A reconciliation of comparable EBITDA to AFFO is as follows:

Three months ended Dec. 31	2015	2014
Comparable EBITDA	94,633	58,452
Interest expense	(8,960)	(8,905)
Provisions	270	-
Sustaining capital expenditures - owned assets	(3,209)	(3,402)
Sustaining capital expenditures - investments in subsidiaries of TransAlta	(1,515)	(406)
Current income tax expense	(1,416)	(431)
Other non-operating items - investments in subsidiaries of TransAlta	302	(152)
Distributions paid to subsidiaries' non-controlling interest	(1,195)	(1,086)
Other non-cash items	225	456
AFFO	79,135	44,526

AFFO and Comparable CAFD for the three months ended Dec. 31, 2015 increased $34.6 million compared to the same period in 2014, primarily due to the increase in comparable EBITDA, partly offset by sustaining capital expenditures of the Australian Assets.

Earnings on a Comparable Basis

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

Three months ended Dec. 31	2015				2014			
	Reported	Comparable adjustments		Comparable total	Reported	Comparable adjustments		Comparable total
Revenues	75,003	-		75,003	72,870	-		72,870
Royalties and other costs of sales	3,693	-		3,693	4,125	-		4,125
Gross margin	71,310	-		71,310	68,745	-	-	68,745
Operations, maintenance, and administration	9,876	-		9,876	12,919	-		12,919
Taxes, other than income taxes	1,874	-		1,874	1,518	-		1,518
Comparable EBITDA of Wyoming Wind and Australian Assets	-	(34,525)	(1)	(34,525)	-	(4,144)	(1)	(4,144)
Insurance recovery	(548)	-		(548)	-	-		-
Earnings before interest, taxes, depreciation, and amortization	60,108	34,525		94,633	54,308	4,144		58,452
Depreciation and amortization	18,610	-		18,610	18,775	-		18,775
Operating income	41,498	34,525		76,023	35,533	4,144		39,677
Finance income (charge) related to subsidiaries of TransAlta	31,185	(34,525)	(1)	(3,340)	2,892	(4,144)	(1)	(1,252)
Net interest expense	(9,189)	-		(9,189)	(9,157)			(9,157)
Change in fair value of Class B shares	(7,782)	7,782	(2)	-	-	-		-
Foreign exchange gains	66,189	(29,744)	(3)	36,445	6	-		6
Earnings before income taxes	121,901	(21,962)		99,939	29,274	-		29,274
Income tax expense (recovery)	13,372	(579)	(4)	12,793	6,662	(252)	(5)	6,410
Net earnings	108,529	(21,383)		87,146	22,612	252		22,864
Non-controlling interest	1,109	-		1,109	947	-		947
Net earnings attributable to common shareholders	107,420	(21,383)		86,037	21,665	252		21,917
Weighted average number of common shares outstanding in the period (millions)	190.8	190.8		190.8	114.7	114.7		114.7
Net earnings per share attributable to common shareholders	0.56	(0.11)		0.45	0.19	-		0.19

(1) Comparable EBITDA of Wyoming Wind and the Australian Assets.
(2) Class B shares are treated as liabilities at fair value through profit and loss for accounting purposes.
(3) Unrealized and realized losses on the economic hedge on contribution commitment.
(4) Income tax expense on comparable adjustments.
(5) Income tax expense related to writedown of deferred income tax assets.

Selected Quarterly Information

	Q1 2015	Q2 2015	Q3 2015	Q4 2015
Revenue	68,156	51,277	41,254	75,003
Net earnings attributable to common shareholders	19,650	7,167	60,655	107,420
Comparable AFFO	41,872	40,137	38,887	79,135
Comparable CAFD	30,696	40,137	27,488	79,135
Net earnings per share attributable to common shareholders, basic and diluted	0.17	0.04	0.32	0.56
Comparable earnings per share	0.17	0.14	0.11	0.45
Comparable cash available for distribution per share	0.27	0.25	0.14	0.41

	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Revenue	67,965	50,013	42,596	72,870
Net earnings (loss) attributable to common shareholders	21,134	5,890	(31)	21,665
Comparable AFFO	45,856	22,591	17,731	44,526
Comparable CAFD	18,581	22,591	6,774	44,526
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
Comparable cash available for distribution per share	0.16	0.20	0.06	0.39

Our business results fluctuate with seasonal variations, with the first and fourth quarters seeing the largest wind volumes and the second and third recording higher hydro volumes. As wind forms a larger part of our renewable fleet, higher revenues and earnings are expected in the first and fourth quarters. In May 2015, we acquired an economic interest in the Australian Assets, and approximately doubled our capitalization. The earnings after this investment include various effects arising from financial instruments:

- Favourable changes in the fair value of the Class B shares in the third quarter of 2015, and unfavourable changes in the second and fourth quarters of 2015.
- Foreign exchange gains on Australian-dollar-denominated instruments in the fourth quarter of 2015 and losses in the second and third quarters of 2015.

Changes in the fair value of Class B shares and a portion of the foreign exchange gains or losses are eliminated on a comparable basis.

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, 2015, the end of the period covered by this report, our disclosure controls and procedures and our internal controls over financial reporting were effective at a reasonable assurance level.

Consolidated Financial Statements

Management's Report

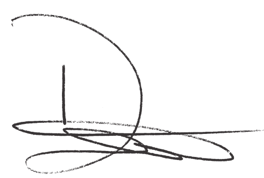
To the Shareholders of TransAlta Renewables Inc.

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 TransAlta Renewables Inc. 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.

Brett M. Gellner
President and Designated Chief Executive Officer



Donald Tremblay
Chief Financial Officer

February 11, 2016

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, 2015, and has concluded that such internal control over financial reporting is effective.

B. Gellner

Brett M. Gellner
President and Designated Chief Executive Officer

Donald Tremblay
Chief Financial Officer

February 11, 2016

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, 2015 and 2014, 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, 2015 and 2014, 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 Professional Accountants
Calgary, Canada

February 11, 2016

Consolidated Statements of Earnings

Year ended Dec. 31 *(in thousands of Canadian dollars, except as otherwise noted)*	**2015**	2014
Revenues	**187,124**	186,865
Government incentives *(Note 5)*	**19,700**	21,134
Lease revenue *(Note 6)*	**28,866**	25,445
Total revenue	**235,690**	233,444
Royalties and other costs *(Note 7)*	**12,875**	12,951
Gross margin	**222,815**	220,493
Operations, maintenance, and administration *(Note 7)*	**45,340**	46,605
Depreciation and amortization	**74,754**	73,951
Taxes, other than income taxes	**7,314**	6,919
Insurance recoveries	**(841)**	-
Operating income	**96,248**	93,018
Finance income related to subsidiaries of TransAlta *(Note 8)*	**81,112**	9,331
Net interest expense *(Note 9)*	**(36,088)**	(36,540)
Change in fair value of Class B shares	**35,649**	-
Foreign exchange gain (loss)	**52,198**	(217)
Earnings before income taxes	**229,119**	65,592
Income tax expense *(Note 10)*	**30,747**	13,579
Net earnings	**198,372**	52,013
Net earnings attributable to:		
Common shareholders	**194,892**	48,658
Non-controlling interest *(Note 11)*	**3,480**	3,355
	198,372	52,013
Weighted average number of common shares outstanding in the year *(millions) (Note 19)*	**164.5**	114.7
Net earnings per share attributable to common shareholders, basic and diluted	**1.18**	0.42

See accompanying notes.

Consolidated Statements of Comprehensive Income

Year ended Dec. 31 *(in thousands of Canadian dollars)*	2015	2014
Net earnings	198,372	52,013
Losses on derivatives designated as cash flow hedges, net of tax(1)	(45)	(92)
Reclassification of gains on derivatives designated as cash flow hedges to non-financial assets, net of tax(2)	(130)	-
Total items that will not be reclassified subsequently to net earnings	(175)	(92)
Gains on derivatives designated as cash flow hedges, net of tax(3)	891	346
Reclassification of gains on derivatives designated as cash flow hedges to net earnings, net of tax(4)	(1,155)	(203)
Available-for-sale financial assets - net change in fair value *(Note 8)*	6,266	-
Total items that will be reclassified subsequently to net earnings	6,002	143
Other comprehensive income	5,827	51
Total comprehensive income	204,199	52,064
Total comprehensive income attributable to:		
Common shareholders	200,719	48,709
Non-controlling interest *(Note 11)*	3,480	3,355
	204,199	52,064

(1) Net of income tax recovery of 9 for the year ended Dec. 31, 2015 (2014 - 33 recovery).

(2) Net of income tax expense of 48 for the year ended Dec. 31, 2015 (2014 - Nil).

(3) Net of income tax expense of 136 for the year ended Dec. 31, 2015 (2014 - 50 expense).

(4) Net of income tax expense of 174 for the year ended Dec. 31, 2015 (2014 - 29 expense).

See accompanying notes.

Consolidated Statements of Financial Position

As at Dec. 31 *(in thousands of Canadian dollars)*	2015	2014 (Restated)*
Cash and cash equivalents *(Note 12)*	2,241	23,726
Accounts receivable *(Notes 12 and 24)*	62,259	35,667
Prepaid expenses	2,427	1,395
Risk management assets *(Note 12)*	4,000	15
Income taxes receivable	443	-
Inventory	2,923	4,081
	74,293	64,884
Property, plant, and equipment *(Note 13)*		
Cost	2,011,909	2,025,601
Accumulated depreciation	(443,136)	(379,402)
	1,568,773	1,646,199
Intangible assets *(Note 14)*	91,722	98,660
Risk management assets *(Note 12)*	6,426	5
Other assets	2,902	2,981
Investment in subsidiaries of TransAlta *(Note 8)*	1,565,079	119,179
Deferred income tax assets *(Note 10)*	26,829	32,249
Total assets	3,336,024	1,964,157
Accounts payable and accrued liabilities *(Notes 12 and 24)*	14,135	30,893
Other provisions	270	-
Risk management liabilities *(Note 12)*	351	9
Income taxes payable	171	405
Dividends payable *(Note 19)*	26,711	14,714
Current portion of deferred revenues *(Note 17)*	425	425
Current portion of long-term debt *(Notes 12,15, and 24)*	148,055	194,951
	190,118	241,397
Long-term debt *(Notes 12,15, and 24)*	649,312	463,504
Class B shares liability *(Note 18)*	241,394	-
Decommissioning provisions *(Note 16)*	7,146	16,287
Deferred revenues *(Note 17)*	6,127	6,552
Risk management liabilities *(Note 12)*	862	128
Deferred income tax liabilities *(Note 10)*	215,136	195,534
Total liabilities	1,310,095	923,402
Equity		
Common shares *(Note 19)*	2,151,951	1,223,845
Deficit	(168,555)	(221,175)
Accumulated other comprehensive income	6,065	238
Equity attributable to shareholders	1,989,461	1,002,908
Non-controlling interest *(Note 11)*	36,468	37,847
Total equity	2,025,929	1,040,755
Total liabilities and equity	3,336,024	1,964,157

* See Note 3(A) for prior period restatements.

Commitments and contingencies *(Note 23)*

Subsequent event *(Note 26)*

See accompanying notes.

On behalf of the Board:

A. R. Hagerman

Allen R. Hagerman
Director

Kathryn B McQuade

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, 2014	1,223,845	(221,175)	238	1,002,908	37,847	**1,040,755**
Net earnings	-	194,892	-	194,892	3,480	**198,372**
Other comprehensive income:						
Net losses on derivatives designated as cash flow hedges, net of tax	-	-	(439)	(439)	-	**(439)**
Net change in fair value of available-for-sale financial assets	-	-	6,266	6,266	-	**6,266**
Total comprehensive income	-	194,892	5,827	200,719	3,480	**204,199**
Common shares issued to TransAlta	711,516	-	-	711,516	-	**711,516**
Public offering	216,590	-	-	216,590	-	**216,590**
Common share dividends	-	(142,272)	-	(142,272)	-	**(142,272)**
Distributions to non-controlling interest	-	-	-	-	(4,859)	**(4,859)**
Balance, Dec. 31, 2015	**2,151,951**	**(168,555)**	**6,065**	**1,989,461**	**36,468**	**2,025,929**

See accompanying notes.

(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.

Consolidated Statements of Cash Flows

Year ended Dec. 31 *(in thousands of Canadian dollars)*	2015	2014
Operating activities		
Net earnings	198,372	52,013
Depreciation and amortization	74,754	73,951
Accretion of provisions *(Notes 9 and 16)*	997	955
Deferred income tax expense *(Note 10)*	27,619	12,396
Change in fair value of Class B shares *(Note 18)*	(35,650)	-
Unrealized foreign exchange (gain) loss	(51,664)	695
Unrealized (gain) loss from risk management activities	(20)	62
Provisions	270	-
Other non-cash items	733	1,108
Cash flow from operations before changes in working capital	215,411	141,180
Change in non-cash operating working capital balances *(Note 20)*	(26,823)	2,203
Cash flow from operating activities	188,588	143,383
Investing activities		
Additions to property, plant, and equipment *(Note 13)*	(8,835)	(8,192)
Additions to intangibles *(Note 14)*	-	(16)
Proceeds on sale of assets	67	371
Investment in subsidiaries of TransAlta *(Note 8)*	(391,963)	-
Realized risk management gain (loss)	(428)	220
Change in non-cash investing working capital balances	(8,718)	572
Other	-	1
Cash flow used in investing activities	(409,877)	(7,044)
Financing activities		
Net increase in borrowings under credit facilities *(Note 15)*	86,300	-
Issuance of long-term debt *(Note 15)*	487,058	-
Debt issuance costs	(5,982)	-
Long-term debt repayments *(Note 15)*	(446,951)	(38,232)
Net proceeds on issuance of common shares *(Note 19)*	213,533	-
Dividends paid on common shares *(Note 19)*	(130,275)	(88,094)
Distributions to non-controlling interest *(Note 11)*	(4,859)	(4,798)
Change in non-cash financing working capital balances	132	-
Cash flow from (used in) financing activities	198,956	(131,124)
Increase (decrease) in cash and cash equivalents	(22,333)	5,215
Effect of translation on foreign currency cash	848	146
Increase (decrease) in cash and cash equivalents	(21,485)	5,361
Cash and cash equivalents, net of bank overdraft, beginning of year	23,726	18,365
Cash and cash equivalents, end of year	2,241	23,726
Cash interest received from investment in MRPS	22,714	-
Cash dividends received from investment in subsidiaries of TransAlta	30,939	9,331
Cash income taxes paid	3,807	1,142
Cash interest paid	38,978	34,412

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 natural gas power generation facilities, and other infrastructure assets. The Corporation is a majority-owned subsidiary of TransAlta Corporation ("TransAlta"). 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 certain 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. 11, 2016.

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. Green attributes sales are recognized at the time of delivery to the purchasing party. Green attributes are renewable energy certificates and carbon offsets, or other tradable or salable instruments that represent the property rights to the environmental, social, and other nonpower qualities of renewable electricity generation that can be sold separately from the underlying physical electricity. 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).

Dividend income from investments is recognized when the right to receive payment has been established, usually on declaration of dividends by the paying entity's Board of Directors. Dividends characterized as a return of capital are recognized as a reduction in the cost of the related investment.

Interest income on financial assets classified as loans and receivables is accrued on a passage of time basis based on the principal outstanding and the applicable stated interest rates. Guarantee fee income is also accrued on the basis of the period and amounts over which the guarantee is provided.

B. Foreign Currency Translation

The Corporation's functional currency is the Canadian dollar. 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 entered or it is probable that they will enter, bankruptcy or other financial reorganization. Additionally, a significant or prolonged decline in the fair value, as compared to the cost, of a financial asset classified as available-for-sale may be an indicator of impairment. The carrying amount of financial assets 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

I. Emission Credits

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.

II. Parts, Materials, and Supplies

Parts, materials, and supplies are recorded at the lower of cost, measured at moving average cost, and net realizable value.

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 life-cycle 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 earnings attributable to common shareholders by the weighted average number of common shares outstanding in the year.

The Corporation has no dilutive or potentially dilutive instruments. Class B shares are excluded from the calculation.

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 and such differences could be material.

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. Significant Influence through Tracking Preferred Shares

The Corporation has invested in preferred shares of subsidiaries of TransAlta that pay dividends on a basis tracking certain financial results of other subsidiaries of TransAlta. 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.

The rights associated with the Corporation's investment in the preferred shares of a subsidiary of TransAlta tracking financial results of TransAlta Wyoming Wind LLC provide the Corporation with a 25 per cent voting interest in that subsidiary. In the event any dividends have not been paid within six months of the date at which the payout formula would have them paid, and while such amounts remain unpaid, the Corporation will have the right to appoint 75 per cent of the Directors.

The investment in the preferred shares of a subsidiary of TransAlta tracking financial results of TransAlta Energy (Australia) Pty Ltd. ("TEA") does not provide the Corporation with any voting rights, unless and until the subsidiary fails to pay four quarterly dividends on the dates when due in accordance with the payout formula, whether or not consecutive, and whether or not such dividends have been declared. Thereafter, but only for so long as any such dividend remains in arrears, the Corporation is entitled to elect 30 per cent of the Directors of the subsidiary. The investment agreement provides the Corporation with rights to financial information and further protections against adverse changes in the operation and financial structure of TEA through post-closing covenants.

The Corporation determined that it does not have significant influence over the TransAlta subsidiaries, in consideration of TransAlta's block ownership of the voting shares, and accordingly, the investments were determined to constitute financial assets.

II. Dividends as Income or Return of Capital

The Corporation receives significant dividends from its investment in preferred shares tracking adjusted TEA amounts ("TPS"). Determining whether a dividend represents in substance a return of capital requires significant judgment. The Corporation determines the amount of dividends that represents a return of capital based on the lower of: i) the difference, if positive, between the cost base of the preferred shares tracking adjusted TEA amounts and their fair value, at the end of the reporting period; and ii) the actual dividend declared on the preferred shares tracking adjusted TEA amounts during the reporting period. When it is determined that a dividend represents a return of capital, the carrying amount of the investment is reduced. The Corporation did not determine any dividend earned during the period to constitute a return of capital.

III. Financial Instrument Fair Values

During the year ended Dec. 31, 2015, the Corporation entered into financial instruments and derivatives that are accounted for at fair value, with the initial and subsequent changes in fair value affecting earnings and other comprehensive income in the period the change occurs. The fair values of financial instruments and derivatives are classified within three levels, with Level III fair values determined using inputs for the asset or liability that are not readily observable. These fair value levels are outlined and discussed in more detail in Note 12. Some of the Corporation's fair values are included in Level III because they require the use of internal valuation techniques or models to determine fair value. The determination of the fair value of these contracts can be complex and relies on judgments and estimates concerning operating revenue, costs, discount rates, and business alternatives, among other factors. These fair value estimates may not necessarily be indicative of the amounts that could be realized or settled, and changes in these assumptions could affect the reported fair value of the financial instruments. Fair values can fluctuate significantly and can be favourable or unfavourable depending on current market conditions.

IV. 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, and accordingly, consolidation is required.

V. 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.

VI. 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. An assessment must also be made to determine the likelihood that the Company's future taxable income will be sufficient to permit the recovery of deferred income tax assets. To the extent that such recovery is not probable, deferred income tax assets must be reduced. 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.

VII. Provisions for Decommissioning and Restoration Activities

The Corporation recognizes provisions for decommissioning and restoration obligations as outlined in Note 2(J) and Note 16. 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.

VIII. Useful Life of PP&E

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

3. Accounting Changes

A. Current Accounting Changes

Inventory Reclassification

During the fourth quarter of 2015, the Corporation finalized changes to its accounting system to improve tracking and management of parts, materials, and supplies that are expected to be consumed in the production process. Previously, these items were comprised in other capital spare parts. As a result, approximately $2.9 million was reclassified to Inventory in current assets from Property, Plant, and Equipment. The Corporation restated the Comparative Consolidated Statements of Financial Position as at Dec. 31, 2014 to similarly reclassify parts, materials, and supplies to Inventory in the amount of $4.1 million.

B. 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. In 2015, the IASB delayed the effective date of IFRS 15 by one year. IFRS 15 is now effective for annual reporting 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.

III. IFRS 16 *Leases*
In January 2016, the IASB issued IFRS 16 *Leases*, which replaces the current IFRS guidance on leases. Under current guidance, lessees are required to determine if the lease is a finance or operating lease, based on specified criteria. Finance leases are recognized on the statement of financial position, while operating leases are not. Under IFRS 16, lessees must recognize a lease liability and a right-of-use asset for virtually all lease contracts. An optional exemption to not recognize certain short-term leases and leases of low value can be applied by lessees. For lessors, the accounting remains essentially unchanged.

IFRS 16 is effective for annual periods beginning on or after Jan. 1, 2019, with early application permitted if IFRS 15 is also applied at the same time.

The Corporation is assessing the impact of adopting this standard on its consolidated financial statements.

4. Significant Events

A. 2015

Investment in TransAlta's Western Australian Portfolio
On May 7, 2015, the Corporation invested in an economic interest that is based on the cash flows of TransAlta's Australian assets (the "Transaction"). The Transaction was originally announced on March 23, 2015. TransAlta's Australia assets, held by TEA, presently consists of 425 MW of power generation from six gas-fueled operating facilities and the 150 MW South Hedland Power Station project, currently under construction, as well as the recently commissioned 270 kilometre gas pipeline (the "Australian Assets"). TransAlta will continue to own, manage, and operate the Australian Assets. The Transaction was set at $1.78 billion, and consists of an initial investment and a commitment to fund the remaining construction costs for the South Hedland project. The investment agreement provides the Corporation with certain protections in relation to exchange rates, the cost to complete the construction of the South Hedland project, and the timing of the commencement of its commercial operation.

Initial Investment
The Corporation's initial investment was set at $1,284 million and consists of securities of TEA, which provide the Corporation a priority return on invested capital (Mandatory Redeemable Preferred Shares or "MRPS"); Class A Preferred shares issued by another subsidiary of TransAlta, which provide an economic interest based on cash flows of the Australian Assets broadly equal to the underlying net distributable profits of TEA (preferred shares tracking adjusted TEA amounts); and a return based on guarantees of TEA obligations indirectly assumed by the Corporation.

As consideration, the Corporation provided to TransAlta $216.9 million in cash and issued 58,270,933 common shares and 26,086,956 Class B shares. The Class B shares provide voting rights equivalent to the common shares and are non-dividend paying, and will convert to common shares when the South Hedland project is fully commissioned. The number of common shares that TransAlta will receive on the conversion of the Class B shares will be adjusted based on the actual amount that the Corporation funds for the construction and commissioning of the South Hedland project relative to the budgeted costs. In the event that the construction amount funded by the Corporation exceeds the budgeted costs, TransAlta will receive fewer common shares upon conversion and, comparably, TransAlta will receive more common shares in the event that the Corporation funds less than the budgeted costs.

The Corporation funded the cash proceeds through the public issuance of 17,858,423 subscription receipts at a price of $12.65 per subscription receipt. The offering closed in two parts on April 15 and 23, 2015. In total, the Corporation received approximately $226 million in gross proceeds, and incurred $8.2 million in share issue costs, net of $2.5 million income tax recovery. Upon the closing of the Transaction, each holder of a subscription receipt received one common share of the Corporation and a cash dividend equivalent payment of $0.06416 for each subscription receipt held. As a result, the Corporation issued 17,858,423 common shares and paid a total dividend equivalent of $1.1 million.

Upon closing of the Transaction on May 7, 2015, the Transaction values were revised to fair values on that day in accordance with IFRS requirements, as described in Note 12.

Commitment to Fund Construction of the South Hedland Project

The remaining budgeted costs to be funded by the Corporation in connection with the construction and commissioning of the South Hedland project (through the "Contribution Agreement") were estimated at approximately $491 million (AUD$507 million) at closing, and are expected to be funded through a combination of internally generated cash flow and borrowings under a credit facility. Under the Contribution Agreement, when funds are required by TEA for construction purposes, the Corporation will subscribe for and purchase preferred shares, MRPS, or other securities issued by TEA, all which will be denominated and payable in Australian dollars. The Corporation expects to fund these costs over an approximate two-year time period, until the anticipated commissioning of the South Hedland project in mid-2017. To protect against adverse fluctuations in the exchange rate between the Canadian and Australian dollars over this period, and the impact such fluctuations will have on the total Canadian dollar funding cost, the Corporation entered into a hedge agreement with TransAlta, whereby the cost of the Australian dollars has been fixed at $0.9684 Canadian per Australian dollar. The hedge on contribution commitment is considered a held-for-trading derivative and accordingly it is accounted for at fair value through profit and loss.

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

On Nov. 23, 2015, the Corporation entered into an investment agreement with TransAlta, pursuant to which it agreed to acquire an economic interest based on the cash flows of TransAlta's Sarnia cogeneration plant, Le Nordais wind farm and Ragged Chute hydro facility (the "Canadian Assets") for a combined value of approximately $540 million. The Canadian Assets consist of approximately 611 MW of highly contracted power generation assets located in Ontario and Quebec. The Corporation's investment consists of the acquisition of tracking preferred shares of a subsidiary of TransAlta that will provide the Corporation with an economic interest based on cash flows broadly equal to the underlying net distributable profits of the entities that own the Canadian Assets. TransAlta will continue to own, manage, and operate the Canadian Assets. As at Dec. 31, 2015, a substantive closing condition remained outstanding and accordingly the investment in Canadian Assets and associated financing are not reflected in these financial statements. On Jan. 6, 2016, the Corporation announced the closing of the investment in the Canadian Assets for a combined value of $540 million. Refer to Note 26 for further details.

The Corporation financed the investment through a combination of cash, unsecured debentures, and shares issued to TransAlta.

In order to fund the cash consideration payable to TransAlta, TransAlta Renewables issued 15,385,000 subscription receipts at a price of $9.75 per subscription receipt for gross proceeds of approximately $150 million on Nov. 25, 2015. In addition, TransAlta Renewables granted an over-allotment option to the underwriters to purchase up to 2,307,750 subscription receipts at the same price for gross proceeds of up to approximately $23 million. The underwriters exercised in full the over-allotment option. The offering and the over-allotment option closed on Dec. 2, 2015. The Corporation received approximately $173 million in gross proceeds ($166 million in net proceeds). The proceeds from the sale of the subscription receipts were directed to an escrow agent and invested in a demand deposit account with a Canadian chartered bank.

Sale of TransAlta Renewables Shares by TransAlta

On Nov. 26, 2015, TransAlta completed the sale to Alberta Investment Management Corporation ("AIMCo") of 20,512,820 TransAlta Renewables common shares for proceeds of $200 million. As a result, TransAlta's ownership interest was reduced from approximately 76.1 per cent to approximately 66.6 per cent (including the Class B common shares). The Corporation did not receive any of the proceeds from the sale of common shares, as these shares were owned and held by TransAlta.

As part of the AIMCo investment, the Corporation has granted to AIMCo a pre-emptive right to purchase such number of common shares of the Corporation in respect of any future offerings of common shares, or securities convertible into common shares, in order to allow AIMCo to maintain its proportionate shareholdings in the Corporation, provided that AIMCo's ownership remains above a specific threshold.

B. 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 was 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.

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 10 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. Expense by Nature

Expenses classified by nature are as follows:

Year ended Dec. 31	2015		2014	
	Royalties and other costs	Operations, maintenance, and administration	Royalties and other costs	Operations, maintenance, and administration(1)
Royalties and land lease costs	10,450	-	10,846	-
Transmission tariffs	2,425	-	2,105	-
Contracted operating expenses	-	17,933	-	18,783
Other operating expenses	-	27,407	-	27,822
Total	12,875	45,340	12,951	46,605

(1) The G&A Reimbursement Fee has been reclassified to contracted operating expenses to conform with the current period's presentation. This reclassification did not impact previously reported net earnings.

In 2014, 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. During the year ended Dec. 31, 2015, nil (2014 – $1.5 million) was recognized as a reduction in royalties and other costs. Of the 2014 amount, $0.6 million relates to 2013.

8. Finance Income Related to Subsidiaries of TransAlta

Finance income related to subsidiaries of TransAlta is comprised of income from various interests that in aggregate and over time indirectly provide the Corporation with cash flows that track to those of TEA and TransAlta Wyoming Wind LLC, respectively. Finance income earned is as follows:

Year ended Dec. 31	2015	2014
Interest income from investment in mandatory redeemable preferred shares of TEA	22,870	-
Dividend income from investment in preferred shares of TEA	235	-
Fee income from indirect guarantee of TEA obligations	12,414	-
Dividend income from investment in preferred shares tracking adjusted TEA amounts	36,221	-
Total finance income related to TEA	71,740	-
Dividend income from investment in preferred shares tracking earnings and distributions of TransAlta Wyoming Wind LLC	9,372	9,331
Total	81,112	9,331

Finance income is recognized in cash flows from operating activities in the Consolidated Statements of Cash Flows. Foreign exchange gains and losses related to monetary investments in subsidiaries of TransAlta are recognized within foreign exchange gain (loss) in the Consolidated Statements of Earnings.

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

As at Dec. 31	2,015	2,014
Investment in mandatory redeemable preferred shares of TEA	589,396	-
Investment in preferred shares tracking adjusted TEA amounts	803,900	-
Investment in preferred shares of TEA	29,127	-
Total investments in subsidiaries related to TEA	1,422,423	-
Investment in preferred shares tracking earnings and distributions of TransAlta Wyoming Wind LLC	142,656	119,179
Total investment in subsidiaries of TransAlta	1,565,079	119,179

Interest income from the investment in MRPS and preferred shares of TEA represents income realized from the average coupon rates. The Corporation also receives a fee for providing an indemnity in respect of those guarantees of TransAlta disclosed in Note 23. Ultimately, these cash flows are deducted from the TEA amounts that form the basis for dividends payable. That basis is broadly comprised of earnings before interest, income taxes, depreciation, and amortization, plus net cash interest, less cash taxes, sustaining capital expenditures, and other adjustments. Income from all Australian sources is fixed in Canadian dollars at the following exchange rates:

	2015	2016	2017	2018	2019	Thereafter until June 30, 2020
Income denominated in AUD	0.98	0.96	0.96	0.94	0.94	0.94
Income denominated in USD	1.24	1.24	1.24	1.24	1.24	1.20

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

	Mandatory Redeemable Preferred Shares of TEA[1]	Preferred shares tracking adjusted TEA amounts	Preferred shares of TEA[2]	Total
Issuance on initial investment *(Note 12)*	423,152	795,983	-	**1,219,135**
Additional investment	144,312	-	30,778	**175,090**
Unrealized foreign exchange gains recognized in earnings	21,932	-	-	**21,932**
Net change in fair value recognized in OCI	-	7,917	(1,651)	**6,266**
Investment balance at Dec. 31, 2015	**589,396**	**803,900**	**29,127**	**1,422,423**

(1) Principal amount at the date of issuance on May 7th, 2015 was AUD$443,527 and an investment of AUD$149,200 during the third and fourth quarters. The total principal amount as at Dec. 31, 2015 was AUD$592,727.

(2) Principal amount of additional investment and as at Dec. 31, 2015 was AUD$31,800.

During the third and fourth quarters of 2015, the Corporation made an additional investment in MRPS and preferred shares of TEA as part of the Contribution Agreement in connection with the construction of the South Hedland project. The preferred shares of TEA are non-voting and rank subordinate to all present and future secured and unsecured indebtedness of TEA, subordinate to the MRPS, but senior to all other classes of issued and outstanding shares in the capital of TEA. The dividends are non-cumulative and payable quarterly at a rate of 7.4 per cent per annum. The preferred shares have been designated as an available-for-sale financial asset.

The Corporation estimated the fair value of the TPS utilizing significant unobservable inputs such as TEA's long-range forecast as part of a discounted cash flow model, as outlined in Note 12(B)(I)(c). Key assumptions in respect of significant unobservable inputs used in the fair value measurement include the discount rate and the quarterly cash flows from the instrument and guarantee fees. The model extends over 32 years. The table below summarizes quantitative data regarding these unobservable inputs:

Unobservable input	Inception date (May 7, 2015)	Dec. 31, 2015
Discount rate	7.2 per cent	7.6 per cent
Quarterly cash flows	Average of 15,400	Average of 15,640

The changes in the fair value of the TPS from issuance to Dec. 31, 2015 are primarily attributable to gains on foreign exchange and delayed capital spend, partially offset by the increased discount rate and revised MRPS redemption methodology.

The following table summarizes the impact on the fair value measurement of a change in the unobservable inputs to reflect reasonably possible alternative assumptions:

Unobservable input	Alternative assumption	Change in fair value as at Dec. 31, 2015
Basis point change in discount rates	-10 basis points decrease	7,264
	+10 basis points increase	(7,148)
Quarterly cash flows	+1% increase	8,039
	- 1% decrease	(8,039)

9. Net Interest Expense

The components of net interest expense are as follows:

Year ended Dec. 31	2015	2014
Interest on long-term debt	35,021	35,567
Fee for letters of credit and guarantees pledged by TransAlta *(Note 24)*	227	40
Interest income	(157)	(22)
Accretion of provisions *(Note 16)*	997	955
Net interest expense	36,088	36,540

10. Income Taxes

A. Consolidated Statements of Earnings

I. Rate Reconciliation

Year ended Dec. 31	2015	2014
Earnings before income taxes	229,119	65,592
Net earnings attributable to non-controlling interests	(3,480)	(3,355)
Adjusted earnings before income taxes	225,639	62,237
Statutory Canadian federal and provincial income tax rate (%)[1]	26.0	25.0
Expected income tax expense	58,666	15,559
Increase (decrease) in income taxes resulting from:		
Non-taxable capital (gains) losses	(11,577)	-
Writedown of deferred income tax assets	1,506	252
Adjustments in respect of deferred income tax of previous years	(1,530)	-
Statutory and other rate differences	3,782	-
Change in fair value of Class B shares	(9,269)	-
Transaction fair value differences at initial recognition	4,200	-
Dividend income not subject to tax	(17,729)	(2,333)
Other	2,698	101
Income tax expense	30,747	13,579
Effective tax rate (%)	14	22

(1) Change in tax rate due to increase in Alberta income tax rate from 10 per cent to 12 per cent, effective July 1, 2015.

II. Components of Income Tax Expense

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

Year ended Dec. 31	2015	2014
Current income tax expense	3,286	1,315
Adjustments in respect of current income tax of previous years	(158)	(132)
Adjustments in respect of deferred income tax of previous years	(1,371)	102
Deferred income tax expense arising from the writedown of deferred income tax assets	1,506	252
Deferred income tax expense resulting from changes in tax rates or laws	3,782	-
Deferred income tax expense related to the origination and reversal of temporary differences	23,702	12,042
Income tax expense	30,747	13,579

Year ended Dec. 31	2015	2014
Current income tax expense	3,128	1,183
Deferred income tax expense	27,619	12,396
Income tax expense	30,747	13,579

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	2015	2014
Income tax expense (recovery) related to:		
Cash flow hedges	(95)	(12)
Common share issue costs	(2,502)	-
Income tax recovery reported in equity	(2,597)	(12)

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	2015	2014
Net operating and capital loss carryforwards	(197,792)	(214,511)
Property, plant, and equipment	381,631	377,740
Foreign exchange differences on US-denominated debt	3,408	-
Risk management assets and liabilities, net	1,060	56
Net deferred income tax liability	188,307	163,285

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

As at Dec. 31	2015	2014
Deferred income tax assets	(26,829)	(32,249)
Deferred income tax liabilities	215,136	195,534
Net deferred income tax liability	188,307	163,285

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	2015	2014
Results of operations		
Revenues	36,154	36,156
Net earnings and total comprehensive income	20,471	19,735

As at Dec. 31	2015	2014
Financial position		
Current assets	5,004	6,654
Long-term assets	210,388	218,950
Current liabilities	(601)	(2,452)
Long-term liabilities	(271)	(520)
Total equity	(214,520)	(222,632)

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)). Following the close of the Transaction described in Note 4, the Corporation is party to new financial instruments. The MRPS of TEA have been classified as loans and receivables, the TPS and the preferred shares of TEA have been classified as available-for-sale, and the Class B shares issued have been classified as a financial liability at fair value through profit or loss. The hedge on contribution commitment has been classified as a held-for-trading derivative.

The following table outlines the carrying amounts and classifications of the financial assets and liabilities:

Carrying value as at Dec. 31, 2015	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	-	-	2,241	-	-	2,241
Accounts receivable	-	-	62,259	-	-	62,259
Risk management assets						
Current	10	3,990	-	-	-	4,000
Long-term	1,014	5,412	-	-	-	6,426
Investment in subsidiaries of TransAlta	-	-	589,396	975,683	-	1,565,079
Financial liabilities						
Accounts payable and accrued liabilities	-	-	-	-	14,135	14,135
Class B shares liability					241,394	241,394
Dividends payable	-	-	-	-	26,711	26,711
Risk management liabilities						
Current	-	351	-	-	-	351
Long-term	-	862	-	-	-	862
Long-term debt(2)	-	-	-	-	797,367	797,367

(1) Includes investment in the Wyoming Wind LLC, which is measured at cost of $142.7 million (US$102.7 million) (see section B.IV. of this note).

(2) Includes current portion.

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 subsidiaries of TransAlta	-	-	-	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.IV. 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. The fair value measurement of a financial instrument is included in only one of the three levels, the determination of which is based on the lowest level input that is significant to the derivation of the fair value.

a. Level I

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

b. Level II

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

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

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

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

c. Level III

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

In estimating the fair value of the preferred shares tracking adjusted TEA amounts, the Corporation uses a discounted cash flow method, and makes estimates and assumptions about sales prices, production, capital expenditures, asset retirement costs, and other related cash inflows and outflows over the life of the facilities, as well as the remaining life of the facilities. In developing these assumptions, management uses estimates of contracted prices, anticipated production levels, planned and unplanned outages, changes to regulations, and transmission capacity or constraints for the estimated remaining life of the facilities. Appropriate discount rates reflecting the risks specific to TEA are used in the valuations. Management also develops assumptions in respect of ongoing financing and tax positions of TEA. These estimates and assumptions are susceptible to change from period to period and actual results can, and often do, differ from the estimates, and can have either a positive or negative impact on the estimate of the fair value of the instrument, and may be material. Additional disclosures on this measurement are presented in Note 8.

Estimates of the fair value of the Class B shares liability can vary based on the estimated cost of construction and commissioning of the South Hedland project by TEA, which can vary based on emergent or unforeseen capital needs of the project, or release of uncommitted planned contingency funds. Additional disclosures on this measurement are presented in Note 18.

TransAlta enters into commodity risk management contracts on behalf of the Corporation. These contracts may include commodity transactions for which market-observable data is not available or contracts with terms that extend beyond a liquid trading period where forward price forecasts are not available for the full period of the contract. In these cases, Level III fair values are determined by TransAlta personnel 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, volatilities and correlations between products derived from historical prices, and/or a combination of external and internal fundamental modelling, including discounting.

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. Fair Values at Initial Recognition – Transaction

Financial instruments exchanged in the Transaction were initially recognized at fair value on May 7, 2015. Usually, transaction prices are the best evidence of fair value. Because the terms of the Transaction were finalized on March 23, 2015, valuation differences from the originally estimated initial investment value of $1,284 million have arisen. These changes result from variations in foreign exchange rates and equity prices in the intervening period. Further changes arose from the recognition of the benefit to the Corporation of the non-participation feature of Class B shares.

Fair value of the least observable financial instrument exchanged at that date, the preferred shares tracking adjusted TEA amounts, was determined by reference to the net value of other instruments at closing date, as follows:

Instrument	Fair value level	Primary valuation basis	Value
Common shares issued to TransAlta	I	Closing common share price on May 7th, 2015	712,071
Class B shares issued to TransAlta	III	Closing common share price on May 7th, 2015, minus the present value of estimated $0.07 per share monthly dividend, discounted using a risk free rate for the period to conversion, assuming South Hedland on schedule and costs at target	277,043
Cash consideration to TransAlta	I	Cash value	216,873
Derivative hedge liability on contribution commitment	II	Currency rates	13,148
Mandatory redeemable preferred shares	II	Discounted cash flows, using interest, currency and discount rates	(423,152)
Tracking preferred shares	III	Net value	795,983

III. Commodity and Other Risk Management Assets and Liabilities

The Corporation's commodity-based risk management assets and liabilities relate to trading activities and certain contracting activities. Other risk management assets and liabilities include risk management assets and liabilities that are used in hedging foreign currency exposures, including those related to the Contribution Agreement described in Note 4.

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, 2015 and 2014, respectively:

	Cash flow hedges	Non-hedges	Non-hedges	Total		
	Level II	Level II	Level III	Level II	Level III	Total
Net risk management assets (liabilities) at Dec. 31, 2014	14	(3)	(128)	11	(128)	(117)
Changes attributable to:						
Market price changes on existing contracts	5	-	20	5	20	25
Market price changes on new contracts	1,015	8,296	-	9,311	-	9,311
Contracts settled	(9)	3	-	(6)	-	(6)
Net risk management assets (liabilities) at Dec. 31, 2015	**1,025**	**8,296**	**(108)**	**9,321**	**(108)**	**9,213**
Additional Level III information:						
Total gains included in earnings before income taxes			20		20	20
Unrealized gain included in earnings before income taxes related to net liabilities held at Dec. 31, 2015			20		20	20

	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)

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, 2015 is estimated to be +/- $0.1 million (2014 +/– $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.

IV. Financial Instruments not Recognized at Fair Value

The carrying value of cash and cash equivalents, accounts receivable, short-term investment, accounts payable and accrued liabilities, subscription receipt liability, 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 MRPS of TEA and long-term debt is as follows:

	Fair Value				
	Level I	Level II	Level III	Total	Carrying value
Mandatory redeemable preferred shares of TEA - Dec. 31, 2015	**-**	**570,049**	**-**	**570,049**	**589,396**
Long-term debt(1) - Dec. 31, 2015	**-**	**802,896**	**-**	**802,896**	**797,367**
Long-term debt(1) - Dec. 31, 2014	-	682,121	-	682,121	658,455

(1) Includes current portion

The fair value of the Corporation's debentures is determined using prices observed in secondary markets. The fair value of the MRPS is determined using a discounted cash flow methodology based on inputs including interest and currency rates and a discount rate reflecting the risks specific to TEA. The fair value of 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 preferred shares of a subsidiary of TransAlta tracking earnings and distributions of TransAlta Wyoming Wind LLC (see Note 8) has been designated as available-for-sale. The investment can fluctuate in value based on fluctuations in fair value of the member units of TransAlta 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.

V. 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.

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

As at Dec. 31	2015				2014		
Notional amount sold	Notional amount purchased	Fair value asset	Maturity	Notional amount sold	Notional amount purchased	Fair value liability	Maturity
Foreign Exchange Forward Contracts - foreign-denominated receipts/expenditures							
-	-	-	-	CAD 2,494	EUR 1,763	(5)	2015
Foreign Exchange Forward Contracts - foreign-denominated debt							
CAD 26,462	USD 20,000	1,014	2018	-	-	-	-

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, 2015			
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	13	Revenue	(23)
Foreign exchange forwards on project hedges	(54)	Property, plant, and equipment	(178)
Foreign exchange forwards on US debt	1,014	Foreign exchange (gain) loss	(1,306)
OCI impact	**973**	**OCI impact**	**(1,507)**

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 US debt	396	Foreign exchange (gain) loss	(234)
OCI impact	271	OCI impact	(232)

VI. Non-Hedges

a. Foreign Exchange Forward Contracts

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		2015			2014		
Notional amount sold	Notional amount purchased	Fair value liability	Maturity	Notional amount sold	Notional amount purchased	Fair value liability	Maturity
USD 19,500	CAD 25,806	(1,106)	2016-2018	CAD 5,016	USD 4,300	(3)	2015

b. Contribution Commitment

As outlined in Note 4, the Corporation entered into a hedge agreement with TransAlta related to its commitment to fund the Australian-dollar-denominated construction of the South Hedland project.

The outstanding notional amounts and fair values are as follows:

As at Dec. 31		2015			2014		
Notional amount sold	Notional amount purchased	Fair value asset	Maturity	Notional amount sold	Notional amount purchased	Fair value asset	Maturity
CAD 315,698	AUD 326,000	9,402	2016-2017	-	-	-	-

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, letters of credit, or third-party insurance 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 direct exposure to credit risk, as the majority of its power sales contracts are with TransAlta, 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 aging of the Corporation's receivables is as follows:

As at Dec. 31	2015	2014
Receivables less than 60 days	61,917	33,327
Receivables between 60 - 120 days	13	1,725
Receivables over 120 days	329	615
Total accounts receivable	**62,259**	35,667

The Corporation's maximum exposure to credit risk at Dec. 31, 2015, without taking into account collateral held or right of set-off, and including indirect exposure arising from the Corporation's investment in preferred shares tracking adjusted TEA amounts, is detailed as follows:

Component	Amount	Key risk assessment factors
Direct exposure		
Accounts receivable and risk management assets	72,685	The Corporation's counterparties were primarily investment grade. At Dec. 31, 2015, the Corporation had two unrelated customers whose outstanding balances each accounted for greater than 10 per cent of the total third-party trade accounts receivable outstanding. The Corporation has evaluated the risk of default related to these customers to be minimal. On Dec.17, 2015, Moody's downgraded the senior unsecured rating on TransAlta's US bonds 1 notch from Baa3 to Ba1 (outlook stable). TransAlta maintains investment grade ratings with stable outlooks from three credit rating agencies including BBB- by Standard & Poor's, BBB by DBRS, and BBB- by Fitch Ratings. The outstanding balance also includes a dividend receivable of $14.9 million on the tracking preferred shares from a subsidiary of TransAlta. As the dividend declaration was made while considering the sufficiency of funds available, the risk of default has been assessed as minimal.
MRPS	589,396	The MRPS form TEA's least subordinate significant form of long-term financing, which benefits from TEA's contract and counterparty profile.
Total - Direct exposure	662,081	
Indirect exposure		
Accounts receivable and finance lease receivable of TEA	471,124	TEA had one unrelated below investment grade customer whose outstanding balances accounted for 96% of total trade accounts receivable and finance lease receivable outstanding. Risk of significant loss arising from this counterparty has been assessed as low in the near term, but could increase to moderate in an environment of sustained low commodity prices over the mid- to long term. Our assessment takes into consideration the counterparty's financial position, external rating assessments, and how TEA provides its services in an area of the counterparty's lower-cost operations, and TransAlta's other credit risk management practices.
Total	1,133,205	

II. Other Market Risks

Following the closing of the Transaction, the Corporation is exposed to additional market risks, based on changes in the fair values of the Class B shares, the preferred shares tracking adjusted TEA amounts, and the preferred shares of TEA. A one per cent increase (decrease) in the value of these securities would result in a $2.4 million decrease (increase) in net earnings, and an $8.3 million increase (decrease) in OCI, respectively.

III. 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, capital market transactions, and borrowing arrangements with TransAlta. The Corporation is in compliance with all financial covenants relating to its debt obligations as at Dec. 31, 2015.

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

	2016	2017	2018	2019	2020	2021 and thereafter	Total
Accounts payable and accrued liabilities	14,135	-	-	-	-	-	**14,135**
Long-term debt	148,055	35,357	240,349	33,554	32,472	314,793	**804,580**
Net risk management (assets) liabilities	(3,649)	(5,049)	(623)	-	-	108	**(9,213)**
Interest on long-term debt(1)	40,734	29,517	21,146	13,884	12,608	46,980	**164,869**
Dividends payable	26,711	-	-	-	-	-	**26,711**
Contribution commitment(1)	99,745	215,953	-	-	-	-	**315,698**
Total	**325,731**	**275,778**	**260,872**	**47,438**	**45,080**	**361,881**	**1,316,780**

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

The Corporation manages liquidity risk associated with debentures and the contribution commitment by preparing and revising long-term financing plans reflecting business plans and market availability of capital.

The Class B shares liability will be settled by the issuance of common shares, and accordingly, does not give rise to liquidity risk.

IV. Foreign Currency Rate Risk

The Corporation has exposure to various currencies, such as the US and Australian dollars, as a result of investments in subsidiaries of TransAlta. Following the closing of the Transaction the Corporation has mitigated the anticipated incremental exposure to the Australian- and US-dollar-denominated cash flows arising from the Transaction for the period through June 30, 2020 through the use of contractual agreements with TransAlta (see Notes 4 and 8).

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

The possible effect on net earnings and OCI, for the years ended Dec. 31, 2015 and 2014, 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 (2014 – four 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	2015		2014	
Currency	**Net earnings increase(1)**	**OCI gain(1)**	Net earnings increase(1)	OCI gain(1)
USD	**2,464**	**15,845**	2	-
AUD	**19,498**	**34,353**	-	-
EUR	**-**	**-**	-	53
Total	**21,962**	**50,198**	2	53

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

V. Interest Rate Risk

Interest rate risk arises as the future cash flows of a financial instrument can fluctuate due to changes in market interest rates, which can impact the Corporation's borrowing costs.

All of the Corporation's long-term debt except its credit facility, as described in Note 15, is comprised of fixed interest rate debt. The possible effect on net earnings due to changes in market interest rates affecting the Corporation's floating rate debt is outlined below. The sensitivity analysis has been prepared using management's assessment that a 15 basis point increase or decrease is a reasonable potential change over the next quarter in market interest rates.

Year ended Dec. 31	2015		2014	
	Net earnings increase(1)	OCI gain(1)	Net earnings increase(1)	OCI gain(1)
Basis point change	95	-	-	-

(1) These calculations assume a decrease in market interest rates. A increase would have the opposite effect.

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

VI. Commodity Price Risk

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

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	Capital spares and other	Total
Cost				
As at Dec. 31, 2013	246,950	1,766,824	7,612	2,021,386
Additions	806	5,757	1,629	8,192
Disposals and retirements	(163)	(2,200)	-	(2,363)
Revisions and additions to decommissioning costs	1,856	1,066	-	2,922
Impairment charges	(1,500)	-	-	(1,500)
Impairment reversals	1,572	-	-	1,572
Transfers[1]	-	(222)	(4,386)	(4,608)
As at Dec. 31, 2014[1]	249,521	1,771,225	4,855	2,025,601
Additions	1,381	6,429	1,025	**8,835**
Disposals and retirements	7	(3,763)	-	**(3,756)**
Adjustments with TransAlta	-	(8,242)	-	**(8,242)**
Revisions and additions to decommissioning costs	(6,152)	(3,986)	-	**(10,138)**
Transfers	-	777	(1,168)	**(391)**
As at Dec. 31, 2015	**244,757**	**1,762,440**	**4,712**	**2,011,909**
Accumulated depreciation				
As at Dec. 31, 2013	51,314	263,073	-	314,387
Depreciation	7,143	58,298	-	65,441
Impairment reversals	72	-	-	72
Disposals and retirements	(65)	(405)	-	(470)
Transfers	-	(28)	-	(28)
As at Dec. 31, 2014	58,464	320,938	-	379,402
Depreciation	6,374	58,154	-	**64,528**
Disposals and retirements	139	(933)	-	**(794)**
As at Dec. 31, 2015	**64,977**	**378,159**	**-**	**443,136**
Carrying amount				
As at Dec. 31, 2014	191,057	1,450,287	4,855	1,646,199
As at Dec. 31, 2015	**179,780**	**1,384,281**	**4,712**	**1,568,773**

(1) *Restated - see Note 3A.*

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, 2015 was $4.7 million (2014 – $5.0 million).

During the first quarter of 2015, the Corporation recognized an adjustment to give effect to an indemnity from TransAlta for the benefit of the Corporation in respect to a dispute for final disbursements in relation to a construction project completed prior to the formation of the Corporation. As a result, during 2015, the Corporation received $10.0 million from TransAlta, applied a reduction to PP&E of $8.2 million, and recognized a liability of $1.2 million in excess of a previously recognized accounts payable amount.

14. Intangible Assets

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

	Power sale contracts(1)	Software	Total
Cost			
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
Transfers	-	392	**392**
As at Dec. 31, 2015	**134,500**	**1,829**	**136,329**
Accumulated amortization			
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
Amortization	7,125	205	**7,330**
As at Dec. 31, 2015	**43,644**	**963**	**44,607**
Carrying amount			
As at Dec. 31, 2014	97,981	679	98,660
As at Dec. 31, 2015	**90,856**	**866**	**91,722**

(1) Comprised of values associated with certain power sale contracts that arose on TransAlta's acquisition of CHD whereby the price of electricity to be delivered under the contracts exceeded the market price.

15. Long-Term Debt

A. Amounts Outstanding

As at Dec. 31	2015			2014		
	Carrying value	Face value	Interest(1)	Carrying value	Face value	Interest(1)
Credit facility	86,307	86,307	2.84%	-	-	-
Unsecured debentures (2)	230,021	231,268	6.25%	344,201	346,698	5.91%
Pingston bond	44,791	45,000	2.95%	34,978	35,000	5.28%
Melancthon-Wolfe Wind bond	436,248	442,005	3.83%	-	-	-
Amortizing Term Loan	-	-	-	178,364	178,364	4.00%
Wyoming Wind Acquisition Loan	-	-	-	100,912	100,912	4.00%
	797,367	804,580		658,455	660,974	
Less: current portion	(148,055)	(148,055)		(194,951)	(194,951)	
Total long-term debt	649,312	656,525		463,504	466,023	

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

(2) Includes US$20.0 million (Dec. 21, 2014 - US$20.0 million).

Unsecured Debentures bear interest at fixed rates ranging from 5.69 per cent to 7.31 per cent, with interest payable semi-annually and no principal repayments until maturity, which ranges from 2016 to 2018. These debentures are unsecured. Included in this amount is $27.8 million (2014 – $23.2 million) of Series 5 debentures that have a principal amount of US$20.0 million.

Pingston Bond bears interest at 2.95 per cent, with interest payable semi-annually and no principal repayments until maturity in May 2023, and is secured by the Pingston hydro facility, which at Dec. 31, 2015 had a carrying value of $48 million. On Feb. 11, 2015, the Corporation and its partner refinanced and paid out the maturing secured debenture bearing interest at 5.28 per cent.

Melancthon-Wolfe Wind Bond bears interest at 3.834 per cent, with principal and interest payable semi-annually in blended payments until maturity on Dec. 31, 2028 and is secured by a first ranking charge over all assets of the issuer, the Melancthon and Wolfe Island wind farms, which at Dec. 31, 2015 had a combined carrying value of $646 million. The net proceeds were used to repay the Amortizing Term Loan and Wyoming Acquisition Loan to TransAlta in full, with the balance partially paying down the credit facility.

Credit Facility The Corporation has a $350 million credit facility with TransAlta (2014 – $100 million). Borrowings under the facility bear interest at the Bankers' Acceptance Rate plus a 200 basis point credit spread per annum. As at Dec. 31, 2015, the borrowing rate is approximately 2.84 per cent. The facility is made available for general corporate purposes, including financing ongoing working capital requirements.

B. Restrictions

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

The Melancthon-Wolfe Wind and Pingston bonds are subject to customary financing conditions and covenants that restrict the Corporation's ability to access funds generated by the facilities' operations.

C. Principal Repayments

	2016	2017	2018	2019	2020	2021 and thereafter	Total
Principal repayments	148,055	35,357	240,349	33,554	32,472	314,793	**804,580**

16. Decommissioning Provisions

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

	Decommissioning and restoration
Balance, Dec. 31, 2013	12,410
Accretion	955
Revisions in discount rates	2,922
Balance, Dec. 31, 2014	16,287
Accretion	**997**
Revisions in discount rates	**(10,138)**
Balance, Dec. 31, 2015	**7,146**

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 million, which will be incurred between 2029 and 2060. The majority of the costs will be incurred between 2030 and 2050.

17. 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.

18. Class B Shares

As at Dec. 31, 2015, there are 26,086,956 Class B shares outstanding (2014 – nil), following closing of the Transaction. The characteristics of Class B shares are described in Note 4. As the Class B shares are convertible into common shares at a variable rate, they are classified as liabilities and their change in value is recognized in net earnings. Changes in the value of the Class B shares are unrealized and relate to the change in value of underlying common shares during the period, net of the effect of estimated foregone dividends, as discounted using a risk-free rate for the period to conversion.

Estimated commissioning date and total costs for the construction of the South Hedland project represent significant unobservable inputs to the valuation. At inception and on Dec. 31, 2015, commissioning is anticipated as scheduled and costs were estimated to be at target. A one per cent increase or decrease in costs would have resulted in a $4 million corresponding decrease or increase in fair value, respectively. A one-month delay or acceleration in achieving commissioning would have resulted in a corresponding $2 million decrease or increase in fair value, respectively.

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. No preferred shares have been issued.

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

As at Dec. 31	2015		2014	
	Common shares *(millions)*	Amount *(thousands)*	Common shares *(millions)*	Amount *(thousands)*
Issued and outstanding, beginning of year	114.7	1,223,845	114.7	1,223,845
Issued to TransAlta	58.2	711,516	-	-
Public offering[1]	17.9	216,590	-	-
Issued and outstanding, end of year	190.8	2,151,951	114.7	1,223,845

(1) Net of after-tax issuance costs of $8.2 million ($10.7 million issuance costs, less tax-effects of $2.5 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 2015 and 2014:

Dividends declared	Total dividends per share	Total dividends	TransAlta	Other shareholders
Year ended Dec. 31, 2015	**0.82248**	**142,272**	**98,708**	**43,564**
Year ended Dec. 31, 2014	0.64160	73,570	51,720	21,850

In conjunction with the closing of the Canadian Asset acquisition on Jan. 6, 2016, the Corporation declared a dividend increase of five per cent resulting in cash dividends of $0.07333 per common share payable on Feb. 29, 2016.

On Feb. 11, 2016, the Corporation declared monthly dividends of $0.07333 per common share, payable on March 31, 2016, April 29, 2016, and May 31, 2016.

20. Change in Non-Cash Operating Working Capital

Year ended Dec. 31	2015	2014
Source (use):		
Accounts receivable	(17,841)	1,745
Prepaid expenses	(953)	1,058
Inventory	1,297	140
Accounts payable and accrued liabilities	(8,649)	(780)
Income taxes payable	(234)	40
Change in non-cash operating working capital	(26,823)	2,203

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	2015	2014	Increase/ (decrease)
Current portion of long-term debt	148,055	194,951	(46,896)
Less: available cash and cash equivalents	(2,241)	(23,726)	21,485
	145,814	171,225	(25,411)
Long-term debt	649,312	463,504	185,808
Equity			
Common shares	2,151,951	1,223,845	928,106
Deficit	(168,555)	(221,175)	52,620
Accumulated other comprehensive income	6,065	238	5,827
Non-controlling interest	36,468	37,847	(1,379)
	2,675,241	1,504,259	1,170,982
Total capital	2,821,055	1,675,484	1,145,571

The Corporation's capital structure was comprised of a larger percentage of debt in 2014 compared to 2015. This was driven by the nature of the transactions in 2015 that were financed utilizing a larger proportion of equity, as compared to the mix of debt and equity making up the Corporation's capital structure in 2014. The Corporation is focused on matching long-term amortizing debt to assets with long-term contracts. Despite this difference in the capital structure from 2014, the Corporation's objectives in managing capital have not changed since Dec.31, 2014.

CHD unsecured debentures of $230 million (Dec. 31, 2014 – $344 million) issued by the Corporation's Canadian Hydro Developers, Inc. subsidiary include restrictive covenants requiring the cash proceeds received from the sale of assets to be reinvested into similar renewable assets or in the repayment of the debentures.

The Melancthon-Wolfe Wind bond of $442 million (Dec. 31, 2014 – nil), and the Pingston bond of $45 million (Dec. 31, 2014 – $35 million) are secured by renewable generation facilities and are subject to customary financing restrictions, which restrict the Corporation's ability to access funds generated by the facilities' operations.

At Dec. 31, 2015, TransAlta Renewables was in compliance with all financial covenants to its debt obligations.

The Corporation will be required to fund construction of South Hedland (Note 23(C)) and refinance, or otherwise repay, the unsecured debentures as they become due (Note 15) through 2018. 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, 2015 and 2014 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(1)	Water rentals and equipment leases	Total
2016	12,920	15,229	344	**28,493**
2017	9,940	15,706	352	**25,998**
2018	11,409	16,031	359	**27,799**
2019	11,637	16,351	366	**28,354**
2020	11,918	16,678	373	**28,969**
2021 and thereafter	27,604	249,741	742	**278,087**
Total	**85,428**	**329,736**	**2,536**	**417,700**

(1) Includes an increase as a result of the investment in the Canadian Assets outlined in Notes 4 and 26.

B. Guarantees

As part of the Transaction, the Corporation entered into a Guarantee and Indemnification Agreement in favour of TransAlta related to certain guarantees TransAlta has provided to third parties in respect of certain obligations of TEA (the "TEA Guarantees"). The Corporation has agreed to indemnify TransAlta from and against all claims, actions, proceedings, liabilities, losses, costs, expenses, or damages against or incurred by TransAlta arising out of or in connection with the TEA Guarantees and to reimburse TransAlta in full for the amount of any payment made by TransAlta under and in accordance with the TEA Guarantees, relating to actions, omissions, events, and circumstances that occur on or after May 7, 2015. As at Dec. 31, 2015, the total amounts guaranteed by the Corporation were $1,013 million.

As consideration for this indemnity, TransAlta is required to pay the Corporation the Canadian dollar equivalent of the guarantor fees it receives from TEA in respect of any of the TEA Guarantees, subject to the fixed rate conversion as described in Note 8.

C. Contribution Commitment

As described in Note 4, the Corporation entered into a Contribution Agreement to fund the remaining costs for the construction and commissioning of the South Hedland project, which at Dec. 31, 2015 are estimated to be approximately $316 million (AUD$326 million), including effect of the economic hedge.

D. 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

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 royalty and other revenue-based cost adjustments (Note 7), the fee for letters of credit and guarantees pledged by TransAlta (Note 9), finance income related to subsidiaries of TransAlta (Note 8), and the adjustment in respect of PP&E (Note 13). Also, all financial instruments and derivatives 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	2015	2014
Revenue from TransAlta PPAs *(I)*	34,403	31,376
Revenue from green attributes[1]	2,328	-
G&A Reimbursement Fee[2] *(II)*	10,600	10,380
Interest expense on Amortizing Term Loan	5,087	7,448
Interest expense on Wyoming Wind Acquisition Loan	3,392	4,021
Interest expense on credit facility	717	-
Realized foreign exchange loss on hedge contribution commitment	191	-

(1) The value of the green attributes was determined by reference to market information for similar instruments, including historical transactions with third parties, with the transactions ultimately reviewed and approved by the Corporation's independent members of the Board of Directors.

(2) Includes portion charged directly to the Wyoming Wind Farm.

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 fixed prices 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 five 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. On Jan. 6, 2016, the G&A Reimbursement Fee was revised to approximately $15.2 million in 2016, which reflects the impact of CPI adjustments and the acquisition of the economic interest in the Wyoming wind farm, the Australian Assets, and the Canadian Assets.

B. Related-Party Balances

Related-party balances include the investments in subsidiaries of TransAlta disclosed in Note 8, the risk management assets and liabilities disclosed in Note 12; the Amortizing Term Loan, Wyoming Wind Acquisition Loan, and the credit facility disclosed in Note 15; the Class B shares liability disclosed in Note 18; and guarantees provided by the Corporation on behalf of TransAlta and TEA disclosed in Note 23.

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

As at Dec. 31	2015	2014
Accounts receivable	30,160	7,136
Trade accounts payable	4,001	3,142
Interest payable	-	2,795
Dividends payable	16,573	10,345
Letters of credit issued by TransAlta on behalf of the Corporation *(I)*	31,095	4,503
Guarantees provided by TransAlta on behalf of the Corporation *(II)*	226,000	226,500

I. Letters of Credit

TransAlta has provided letters of credit 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	2015	2014
Total compensation	552	350
Comprised of:		
Short-term employee benefits	396	127
Share-based payments	156	223

25. Significant Customers

In addition to revenue from TransAlta under the TransAlta PPAs (see Note 24), which represented 15 per cent of total revenues, revenues from two other customers each exceeded 10 per cent of the Corporation's total revenues, and represented 39 per cent and 14 per cent of total revenues, respectively.

26. Subsequent Event

On Jan. 6, 2016, the Corporation announced the closing of the transaction which results in the investment in the Canadian Assets for a combined value of $540 million (see Note 4).

As consideration, the Corporation provided to TransAlta $172.5 million in cash, issued 15,640,583 common shares with a value of $152.5 million, and issued a $215 million in convertible unsecured subordinated debenture. The debenture issued by the Corporation to TransAlta on an interest-only basis at a coupon of 4.5 per cent per annum payable semi-annually in arrears on June 30th and Dec. 31st will mature on Dec. 31, 2028. On the maturity date, TransAlta will have the right, at its sole option, to convert the outstanding principal amount of the debenture, in whole or in part, into common shares of the Corporation at a conversion price of $13.16 per common share, being a 35 per cent premium to the offering price on the closing date of the investment in the Canadian Assets. The debenture is a direct unsecured obligation of the Corporation ranking subordinate to all liabilities, except liabilities which by their terms rank in rights of payment equally with or subordinate to the debenture. The debenture ranks equal with all subordinate debenture issued by the Corporation from time to time.

The Corporation funded the cash proceeds through the issuance of 17,692,750 subscription receipts at a price of $9.75 per subscription receipt. Upon the closing of the transaction, each holder of subscription receipts received one common share of the Corporation and a cash dividend equivalent payment of $0.07 for each subscription receipt held. As a result, the Corporation issued 17,692,750 common shares and paid a total dividend equivalent of $1.2 million.

Plant Summary

As of January 6, 2016	Facility	Capacity (MW)[1]	Ownership (%)	Net capacity ownership interest (MW)[1]	Region	Revenue source[2]	Contract expiry date
Wind 18 Facilities	Summerview 1, AB	70	100%	70	Western Canada	TransAlta PPA	2033
	Summerview 2, AB	66	100%	66	Western Canada	TransAlta PPA	2033
	Ardenville, AB	69	100%	69	Western Canada	TransAlta PPA	2033
	Blue Trail, AB	66	100%	66	Western Canada	TransAlta PPA	2033
	Castle River, AB[3]	44	100%	44	Western Canada	TransAlta PPA	2027
	McBride Lake, AB	75	50%	38	Western Canada	PPA	2024
	Soderglen, AB	71	50%	35	Western Canada	TransAlta PPA	2033
	Cowley North, AB	20	100%	20	Western Canada	TransAlta PPA	2031
	Sinnott, AB	7	100%	7	Western Canada	TransAlta PPA	2031
	Macleod Flats, AB	3	100%	3	Western Canada	TransAlta PPA	2033
	Melancthon, ON[4]	200	100%	200	Eastern Canada	PPA	2026-2028
	Wolfe Island, ON	198	100%	198	Eastern Canada	PPA	2029
	Kent Hills, NB[4]	150	83%	125	Eastern Canada	PPA	2033-2035
	Le Nordais, QC[5]	98	100%	98	Eastern Canada	PPA	2033
	New Richmond, QC	68	100%	68	Eastern Canada	PPA	2033
	Wyoming, WY[5]	144	100%	144	United States	PPA	2028
Total Wind		**1,347**		**1,248**			
Hydro 13 Facilities	Taylor Hydro, AB	13	100%	13	Western Canada	TransAlta PPA	2033
	Belly River, AB	3	100%	3	Western Canada	TransAlta PPA	2033
	Waterton, AB	3	100%	3	Western Canada	TransAlta PPA	2033
	St. Mary, AB	2	100%	2	Western Canada	TransAlta PPA	2033
	Upper Mamquam, BC	25	100%	25	Western Canada	PPA	2025
	Pingston, BC	45	50%	23	Western Canada	PPA	2023
	Bone Creek, BC	19	100%	19	Western Canada	PPA	2031
	Akolkolex, BC[6]	10	100%	10	Western Canada	PPA	2015
	Ragged Chute, ON[5]	7	100%	7	Eastern Canada	PPA	2029
	Misema, ON	3	100%	3	Eastern Canada	PPA	2027
	Galetta, ON	2	100%	2	Eastern Canada	PPA	2030
	Appleton, ON	1	100%	1	Eastern Canada	PPA	2030
	Moose Rapids, ON	1	100%	1	Eastern Canada	PPA	2030
Total Hydro		**134**		**112**			
Gas 8 Facilities	Sarnia, ON[5]	506	100%	506	Eastern Canada	PPA	2022-2025
	Southern Cross, WA[5][7][8]	245	100%	245	Australia	PPA	2023
	South Hedland, WA[5][8][9]	150	100%	150	Australia	PPA	2042
	Solomon, WA[5][8]	125	100%	125	Australia	PPA	2028
	Parkeston, WA[5]	110	50%	55	Australia	PPA	2026
Total Gas		**1,136**		**1,081**			
Total		**2,617**		**2,441**			

(1) Megawatts are rounded to the nearest whole number; columns may not add due to rounding.
(2) PPA refers to Power Purchase Agreement.
(3) Includes seven individual turbines at other locations.
(4) Comprised of two facilities.
(5) The Company holds an economic interest in this facility.
(6) Contract terms are unchanged until the buyer finalizes the renewal process.
(7) Comprised of four facilities.
(8) Gas/diesel.
(9) Plant is under construction and expected to be fully commissioned in mid-2017.

Glossary of Key Terms

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

Australian Assets
TransAlta's 425 MW Australian gas-fired generation assets that are fully operational and contracted under long-term contracts, and the 150 MW South Hedland Power Station project, currently under construction, as well as the recently commissioned 270 kilometre Fortescue River Gas Pipeline.

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

Credit Facility
A $350 million unsecured credit facility with TransAlta. The facility is available for general corporate purposes, including financing ongoing working capital requirements.

G&A Reimbursement Fee
The fee payable to TransAlta under the Management, Administrative and Operational Services Agreement to compensate TransAlta for the provision of all the general administrative services as may be required or advisable for the management of the affairs of the Corporation.

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.

Green Attributes
Renewable Energy Certificates and Carbon Offsets, or other tradable or salable instrument that represent the property rights to the environmental, social, and other nonpower qualities of renewable electricity generation that can be sold separately from the underlying physical electricity.

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.

Preferred Shares
An investment in the preferred shares of TransAlta Energy (Australia) Pty Ltd (TEA). We are entitled to receive non-cumulative dividends on the preferred shares at a rate of 7.4 per cent per annum.

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

TransAlta Energy (Australia) Pty Ltd (TEA)
An Australian subsidiary of TransAlta.

Tracking Preferred Shares (TPS)
An investment in the Tracking preferred shares of a TransAlta subsidiary, which provide cumulative variable dividends broadly equal to the underlying net distributable profits of TEA.

Transaction
Investment in an economic interest that is based on the cash flows of TransAlta's Australian Assets.

TransAlta PPAs
PPAs between TransAlta and the Corporation providing for the purchase by TransAlta, for a fixed price, all of the power produced by certain wind and hydro facilities. The initial price payable in 2013 by TransAlta for output was $30.00/MWh for wind facilities and $45.00/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.

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 US$102 million.

Wyoming Wind
TransAlta's 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 April 28, 2016 at Hotel Arts, 119 - 12 Avenue SW, 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, 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 building sustainable earnings and cash flow growth.

Common Share Dividends Declared in 2015

Payment Date	Record Date	Ex-Dividend Date	Dividend
March 31, 2015	March 2, 2015	February 26, 2015	$0.06416
April 30, 2015	April 1, 2015	March 30, 2015	$0.06416
May 29, 2015	May 1, 2015	April 29, 2015	$0.06416
June 30, 2015	June 1, 2015	May 28, 2015	$0.07
July 31, 2015	July 2, 2015	June 29, 2015	$0.07
August 31, 2015	August 4, 2015	July 30, 2015	$0.07
September 30, 2015	September 1, 2015	August 28, 2015	$0.07
October 30, 2015	October 1, 2015	September 29, 2015	$0.07
November 30, 2015	November 2, 2015	October 29, 2015	$0.07
December 31, 2015	December 1, 2015	November 27, 2015	$0.07
January 29, 2016	January 4, 2016	December 30, 2015	$0.07

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 Helpline

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

The Ethics Helpline phone number is **1.855.374.3801 (U.S./Canada)** and **1.800.339276 (Australia)**
Internet portal: **transalta.ethicspoint.com**
E-mail: **TA_ethics_helpline@transalta.com**

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

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

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Corporate Officers

Brett M. Gellner
President and Designated Chief Executive Officer

Donald Tremblay
Chief Financial Officer

Cynthia Johnston
Chief Operating Officer

John H. Kousinioris
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.*

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.