



**TRANSALTA RENEWABLES INC.  
2015 ANNUAL INFORMATION FORM  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**February 12, 2015**

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## **PRESENTATION OF INFORMATION**

Unless otherwise noted, the information contained in this annual information form ("Annual Information Form" or "AIF") is given as at or for the year ended December 31, 2014. Unless the context otherwise requires, all references to the "Company" and to "TransAlta Renewables", "we", "our" and "us" herein refer to TransAlta Renewables Inc. and its subsidiaries on a consolidated basis and, when in reference to information prior to August 9, 2013, includes reference to TransAlta Corporation and its subsidiaries on a consolidated basis to the extent that such reference is in relation to the Initial Assets that were acquired by TransAlta Renewables on August 9, 2013. Capitalized terms not defined in the body of this AIF shall have the specific meanings set forth in Appendix "B" hereto. References to "TransAlta" herein refer to TransAlta Corporation and its subsidiaries, other than the Company. In this AIF, references to "\$" or "dollars" are to Canadian dollars and all amounts in this AIF are stated in Canadian dollars unless otherwise indicated. TransAlta Renewables prepares its financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

## **SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS**

Certain statements contained in this Annual Information Form and the documents incorporated herein by reference constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "contemplate", "continue", "estimate", "expect", "intend", "propose", "might", "may", "will", "shall", "project", "should", "could", "would", "believe", "predict", "forecast", "pursue", "potential" and "capable" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. No assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this Annual Information Form should not be unduly relied upon. These statements speak only as of the date of this Annual Information Form. In addition, this Annual Information Form may contain forward-looking statements attributed to third-party industry sources.

In particular, this Annual Information Form contains forward-looking statements pertaining to the following: expectations and plans for future growth, including expansion into existing and new markets and other forms of power generation and acquisition activities; the need for additional capital and the expected sources of, and access to, such capital; the availability of sufficient liquidity for future growth and payment of dividends to shareholders; the Company's dividend policy and the amounts expected to be paid under that policy; the Company's expectations regarding currency and interest rate fluctuations; the Company's expectations regarding future G&A Reimbursement Fees; possible changes in the regulatory regimes of the jurisdictions in which the Company operates or intends to operate; the Company's expectations regarding the ability of TransAlta to operate the Company's renewable assets effectively; expectations for the growth in demand for electricity in Canada and the U.S.; the possibility of transferring assets held by TransAlta to the Company; the Company's expectations regarding the availability of industry consolidation opportunities in the future; expectations in relation to the effect of government regulation, incentives and taxation regimes on the Company's revenues, expenses and cash dividends; expectations in relation to the cost competitiveness of renewable power relative to other sources of power generation; expectations on the life span of assets in operation; expectations for the retirement of aging energy facilities and the development, construction or operation of new renewable energy facilities including TransAlta's involvement in sourcing opportunities for the Company; the potential for a new power purchase and sale agreement with British Columbia Hydro Power Authority ("BC Hydro") in respect to the Akolkolex hydro facility; expectations of the Company with respect to the SGER; expectations of management of the Company with respect to the average annual long-term generation from the Company's generation facilities; and expectations regarding TransAlta's continued ownership of common shares in the capital of TransAlta Renewables ("Common Shares").

With respect to forward-looking statements contained in this Annual Information Form and the documents incorporated by reference herein, assumptions have been made regarding, among other things, the matters referred to below: that the cost and availability of materials used in the construction of renewable energy facilities in the jurisdictions in which the Company conducts and intends to conduct its business will remain consistent in all material respects with the current environment for the cost and availability of such materials; that the production from the Company's operating facilities will be consistent in all material respects with the Company's expectations; that there will be no material changes to existing legislation, including the

regulatory framework governing electricity generation, transmission and distribution, taxation of renewable power producers, renewable power incentive programs or environmental matters that could adversely impact the renewable power sector as a whole or the applicable tariffs and incentives in any of the jurisdictions in which the Company conducts and will conduct its business; that there will be no material defaults by the counterparties to agreements with the Company and such agreements will not be terminated prior to their scheduled expiry; that TransAlta will have the ability to obtain qualified personnel and equipment in a timely and cost-efficient manner in order to provide services to the Company in accordance with the terms of the Management and Operational Services Agreement; that TransAlta will make available to the Company acquisition or growth opportunities from time to time to facilitate growth of the Company; that the Company will continue to have access to wind and water resources in amounts consistent with the amounts expected by the Company and required to fulfill the obligations of the Company under its PPAs; that general economic and industry conditions in the jurisdictions in which the Company conducts and will conduct its business will remain stable in relation to current general and industry conditions; that the operating and maintenance costs of the Company will be consistent in all material respects with the Company's budgeted amounts; and the continued management and support of the Company by TransAlta.

Actual results could differ materially from those anticipated in these forward-looking statements. Factors that may adversely impact our forward-looking statements include risks relating to: fluctuations in market prices; the regulatory and political environments in the jurisdictions in which the Company operates; environmental requirements and changes in, or liabilities under, these requirements; changes in general economic conditions including interest rates; operational risks involving the Company's facilities; disruptions in the transmission and distribution of electricity; the effects of weather; disruptions in the source of water or wind required to operate our facilities; natural disasters; equipment failure; industry risk and competition; the need for additional financing; structural subordination of securities; counterparty credit risk; insurance coverage; reliance on key personnel; labour relations matters; and development projects and acquisitions. The foregoing risk factors, among others, are described in further detail under the heading "Risk Factors" in this Annual Information Form and in the documents incorporated by reference in this Annual Information Form, including our Management's Discussion and Analysis for the year ended December 31, 2014 (the "Annual MD&A").

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 AIF 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 at all. We cannot assure that projected results or events will be achieved.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

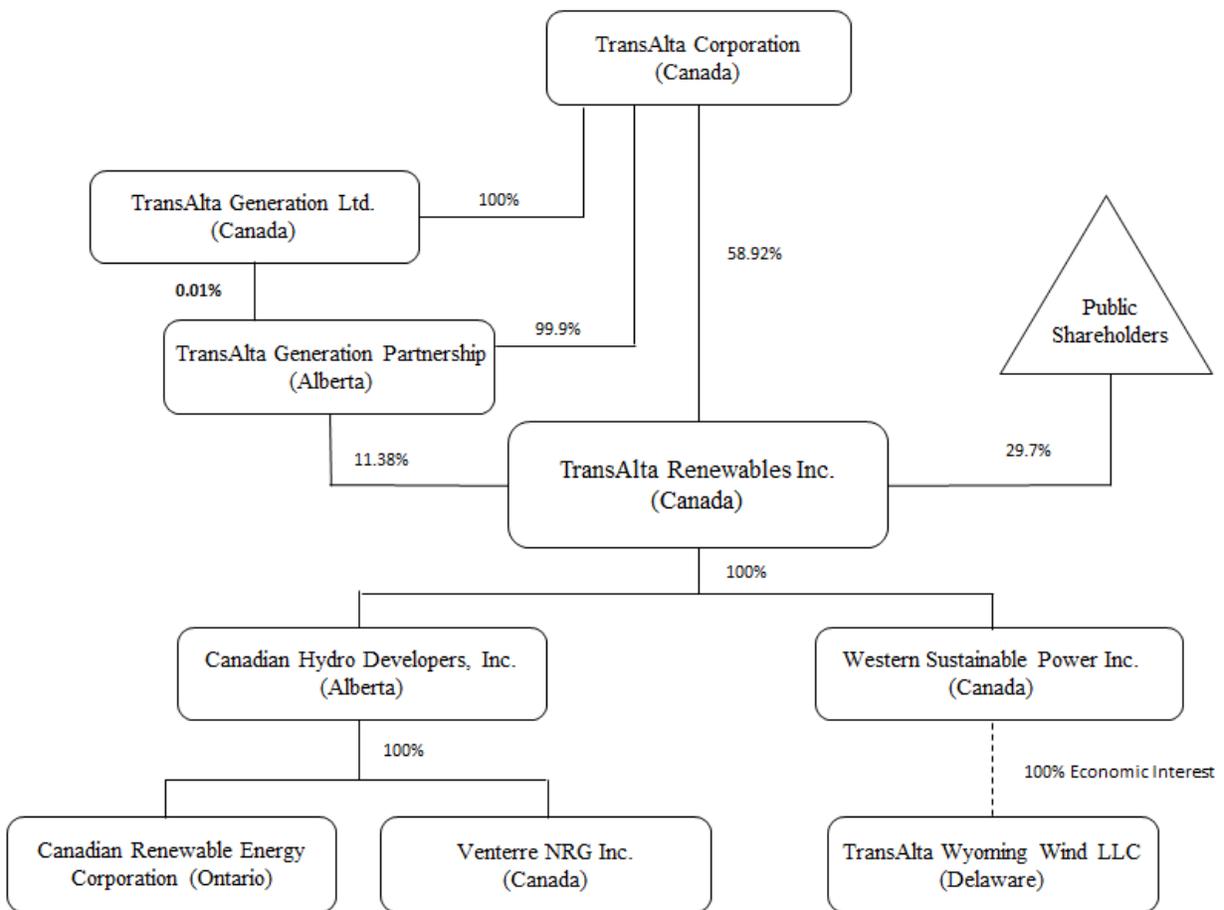
TransAlta Renewables' audited consolidated financial statements for the year ended December 31, 2014 and related Annual MD&A are hereby specifically incorporated by reference in this AIF. Copies of these documents are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") under TransAlta Renewables' SEDAR profile at [www.sedar.com](http://www.sedar.com).

## CORPORATE STRUCTURE

### Name and Incorporation

TransAlta Renewables was incorporated under the *Canada Business Corporation Act* (the "CBCA") on May 28, 2013 as 8532290 Canada Ltd. On June 18, 2013, the Company amended its articles, changing its name to TransAlta Renewables Inc. The head and registered office of the Company is located at 110 – 12th Avenue S.W., Calgary, Alberta T2P 2M1.

As of December 31, 2014, the principal subsidiaries and principal shareholders of TransAlta Renewables and their respective jurisdictions of formation are set out below:



## OVERVIEW

TransAlta Renewables is the largest generator of wind power in Canada and is among the largest publicly traded renewable power generation companies in Canada. Our asset platform is diversified in terms of geography, generation and counterparties and consists of 16 wind facilities and 12 hydroelectric facilities with an ownership interest of 1,111 MW of net generating capacity, located in the provinces of British Columbia, Alberta, Ontario, Québec and New Brunswick. In addition, we also hold an economic interest in the 144 MW Wyoming Wind Farm. Our assets have been in operation from four to 24 years, with a weighted average years of operation by capacity of 7.8 years.

The Company was formed to own a portfolio of power generation facilities. Our objectives are to (i) create stable, consistent returns for investors through the ownership of contracted renewable and, potentially, natural gas power generation and other infrastructure assets that provide stable cash flow through long-term contracts with creditworthy counterparties, including TransAlta; (ii) pursue and capitalize on strategic growth opportunities in the renewable and, potentially, natural gas power generation and other infrastructure sectors; and (iii) pay out a portion of cash available for distribution to the shareholders of the Company on a monthly basis.

Generation output from our assets is sold pursuant to long-term PPAs with investment grade counterparties, including public power authorities, load-serving utilities and TransAlta. We have also entered into long-term PPAs with TransAlta for those assets which, prior to August 9, 2013, were not subject to a PPA. Pursuant to the PPAs with TransAlta, TransAlta is obligated to purchase, for a fixed price, all of the power produced from such facilities. In addition to contracting for power, long-term and short-term contracts have been entered into to sell the environmental attributes from certain of our wind and hydroelectric facilities. See "*Business of TransAlta Renewables - Power Sales, Grants and Incentives*".

### TransAlta Renewables Map of Operations

The following map depicts the location of our facilities as of December 31, 2014, including the Wyoming Wind Farm in which we own an economic interest.



## GENERAL DEVELOPMENT OF THE BUSINESS

TransAlta Renewables was formed on May 28, 2013. On August 9, 2013, in connection with the closing the \$200 million initial public offering of our Common Shares, we indirectly acquired an aggregate of 28 wind and hydroelectric assets from TransAlta for aggregate consideration of approximately \$1.7 billion. See "*Acquisition of the Initial Assets from TransAlta*". The significant events and conditions affecting our business are as follows:

### 2015

#### **Pingston Project Debt Refinancing**

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

### 2014

#### **Common Share Secondary Offering by TransAlta**

On April 29, 2014, the Company and TransAlta completed a secondary offering of an aggregate of 11,950,000 Common Shares held by TransAlta at a price of \$11.40 per Common Share, resulting in gross proceeds to TransAlta of \$136.2 million. The Company did not receive any of the proceeds from the sale of these Common Shares as they were owned and held, directly and indirectly, by TransAlta. Following completion of the offering, TransAlta owns directly and indirectly approximately 70.3 per cent of our outstanding Common Shares.

### 2013

#### **Monthly Dividend Increase**

On December 20, 2013, we announced that our Board of Directors (the "Board") had declared dividends of \$0.06416 per Common Share payable on each of February 28, 2014, March 28, 2014 and April 30, 2014 to shareholders of record at the close of business on February 3, 2014, March 3, 2014 and April 1, 2014, respectively. This resulted in an annualized dividend of \$0.77 per Common Share, an increase of 2.7 per cent over the prior annualized dividend.

#### **Acquisition of Economic Interest in Wyoming Wind Farm**

On December 20, 2013, the Company completed the acquisition of an economic interest in a 144 MW wind farm in the state of Wyoming. The wind farm was purchased by a subsidiary of TransAlta. The Company acquired the economic interest in the Wyoming Wind Farm through our U.S.\$102.7 million (\$109.7 million) investment in the Wyoming Wind Preferred Shares. The Wyoming Wind Preferred Shares effectively transfer all of the free cash flow from the Wyoming Wind Farm to the Company, through dividends based on the pre-tax net earnings generated by the wind farm, and the return of capital provisions. The Company funded the acquisition of the economic interest through a U.S.\$102.0 million (\$108.9 million) loan from TransAlta. The wind farm is fully operational and contracted under a long-term PPA until 2028 with an investment grade counterparty.

#### **Ice Storm – Eastern Canada**

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

#### **Acquisition of the Initial Assets from TransAlta**

On August 9, 2013, the Company indirectly acquired 28 wind and hydroelectric generating assets from TransAlta (the "Initial Assets") by purchasing all of the issued and outstanding shares in Western Sustainable Power Inc.

("Western Sustainable Power") and Canadian Hydro Developers, Inc. ("CHD") pursuant to a purchase and sale agreement dated August 9, 2013 between the Company and TransAlta (the "Purchase and Sale Agreement"). The aggregate purchase price for the Initial Assets was approximately \$1.7 billion, which was satisfied through the issuance of Common Shares, the entering into various short term and long term loan agreements and the assumption of certain outstanding indebtedness. The Company filed a Business Acquisition Report in respect of the acquisition of the Initial Assets, a copy of which may be found on [www.sedar.com](http://www.sedar.com).

#### **Initial Public Offering of Common Shares**

On August 9, 2013, the Company completed an initial public offering of 20.0 million Common Shares at \$10.00 per share (the "Offering") for gross proceeds of \$200.0 million. On August 29, 2013, the underwriters partially exercised their over-allotment option to purchase an additional 2.1 million Common Shares at the offering price of \$10.00 per Common Share for gross proceeds of \$21.0 million. The Company used the net proceeds received from the Offering to repay indebtedness incurred in connection with our acquisition of the Initial Assets.

After closing of the Offering, including the over-allotment, TransAlta, directly and indirectly, held 92.6 million Common Shares, representing approximately 80.7 per cent of our issued and outstanding Common Shares.

#### **New Richmond**

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

## **BUSINESS OF TRANSALTA RENEWABLES**

### **Asset Platform**

Our generation facilities consist of 16 wind facilities and 12 hydroelectric facilities located in the provinces of British Columbia, Alberta, Ontario, Québec, and New Brunswick. We also hold an economic interest in a wind facility in the State of Wyoming. The following information summarizes our wind and hydroelectric facilities as at December 31, 2014.

### ***Wind Facilities***

TransAlta Renewables owns approximately 1,007 MW of net wind generation capacity in 16 wind farms, with 10 wind farms in Alberta, three in Ontario, one in Québec, and two in New Brunswick. We also hold an economic interest in the Wyoming Wind Farm. All of the wind projects are managed by TransAlta pursuant to the Management and Operational Services Agreement and are situated on lands owned by unrelated parties and subject to long-term leases (see "*Material Contracts - Management and Operational Services Agreement*"). All of the facilities have also entered into long-term service agreements with TransAlta or independent third parties, which expire at different times. Upon expiry, we expect that these existing agreements will be renewed or alternate agreements will be struck with either TransAlta or other independent third parties, provided that reasonable commercial terms can be obtained.

As well as contracting for power, we enter into long-term and short-term contracts to sell the environmental attributes from our merchant wind facilities. These activities help to ensure earnings consistency from these assets. For 2014, we sold approximately 91 per cent of the environmental attributes from our wind facilities. The remaining 9 per cent of available attributes that were generated in late 2014 are anticipated to be sold in 2015. For 2015, we have sold approximately 75 per cent of the environmental attributes from our wind facilities to date. Generally, for facilities under long-term contract, the benefit of the environmental attributes generated flow through to the contract holder. See "*Business of TransAlta Renewables - Power Sales, Grants and Incentives*".

All of the electricity generated and sold by our Canadian wind division (with the exception of Macleod Flats and New Richmond) are from facilities that are EcoLogo ("EcoLogo") certified. We are an EcoLogo certified distributor of Alternative Source Electricity through Environment Canada's Environmental Choice program. EcoLogo certification is granted to products with environmental performance that meet or exceed all government, industrial safety and performance standards.

The following table summarizes our wind generation facilities:

Facility Name	Province/ State	Ownership (%)	Net Capacity Ownership Interest (MW) <sup>(1)</sup>	Commercial Operation Date	PPA Counterparty	Contract Expiry Date
Ardenville .....	AB	100	69	2010	TransAlta	2033
Blue Trail .....	AB	100	66	2009	TransAlta	2033
Castle River .....	AB	100	44	1997, 2001	TransAlta	2027
Cowley North .....	AB	100	20	2001	TransAlta	2031
Macleod Flats .....	AB	100	3	2005	TransAlta	2033
McBride Lake .....	AB	50	38	2003	ENMAX	2024
Sinnott .....	AB	100	7	2001	TransAlta	2031
Soderglen .....	AB	50	35	2006	TransAlta	2033
Summerview 1 .....	AB	100	70	2004	TransAlta	2033
Summerview 2 .....	AB	100	66	2010	TransAlta	2033
Melancthon 1 .....	ON	100	68	2006	OPA	2026
Melancthon 2 .....	ON	100	132	2008	OPA	2028
Wolfe Island .....	ON	100	198	2009	OPA	2029
New Richmond .....	QC	100	68	2013	Hydro Québec	2033
Kent Hills 1 .....	NB	83	80	2008	NB Power	2033
Kent Hills 2 .....	NB	83	45	2010	NB Power	2035
Wyoming Wind Farm <sup>(2)</sup> .....	WY	100	144	2003	Investment Grade Counterparty	2028
<b>Total Wind Net Capacity .....</b>			<b>1,151</b>			

Notes:

- (1) MW are net amounts and are rounded to the nearest whole number; column does not add due to rounding.
- (2) The Company holds an economic interest in this facility, and does not hold this facility directly or indirectly. See "General Development of the Business – Acquisition of Economic Interest in Wyoming Wind Farm."

#### *Ardenville*

The 69 MW Ardenville wind facility is a wholly owned facility that is comprised of 23, 3.0 MW Vestas V90 wind turbines on 80 metre towers, and is located approximately eight kilometres south of Fort Macleod, Alberta, adjacent to the Company's Macleod Flats wind facility. This facility began commercial operations in November 2010. Generation from this facility is subject to the terms of a PPA with TransAlta ("TransAlta PPA") that terminates in 2033. The Ardenville wind farm creates offset credits until November 2023, and is entitled to receive EcoENERGY payments until 2020.

#### *Blue Trail*

The 66 MW Blue Trail wind facility is a wholly owned facility that is comprised of 22, 3.0 MW Vestas V90 wind turbines on 80 metre towers, and is located in southern Alberta, near Fort Macleod. This facility began commercial operations in November 2009. Generation from this facility is subject to the terms of a TransAlta PPA that terminates in 2033. The Blue Trail wind farm creates offset credits until September 2022, and is entitled to receive EcoENERGY payments until 2019.

#### *Castle River*

The 44 MW Castle River wind facility is a wholly owned facility that is comprised of 66 Vestas wind turbines (three Vestas V44 600 kW wind turbines and 63 Vestas V47 660 kW wind turbines) on 50 metre towers, and is located southwest of Pincher Creek, Alberta. This facility also includes an additional six turbines, totalling 4 MW, that are located individually in the Cardston County and Hillspring areas of south western Alberta. This facility began commercial operations in stages from November 1997 through to July 2001. Generation from this facility is subject to the terms of a TransAlta PPA that terminates in 2027.

#### *Cowley North*

The 20 MW Cowley North wind facility is a wholly owned facility that is comprised of 15, 1.3 MW Nordex N60 wind turbines on 65 metre towers, and is located near the towns of Cowley and Pincher Creek, in southern Alberta. This facility began commercial operations in the fall of 2001. Generation from this facility is subject to the terms of a TransAlta PPA that terminates in 2031.

### *Macleod Flats*

The three MW Macleod Flats wind facility is wholly owned, consisting of a single 3.0 MW Vestas V90 wind turbine on a 67 metre tower, and is located south of Fort Macleod, Alberta. This facility began commercial operations in January 2005. Generation from this facility is subject to the terms of a TransAlta PPA that terminates in 2033. The Macleod Flats wind facility creates offset credits until October 2017.

### *McBride Lake*

The 75 MW McBride Lake wind facility, which is equally owned with ENMAX Generation Portfolio Inc., is comprised of 114 Vestas V47 (660 kW) wind turbines on 50 metre towers, and is located south of Fort Macleod, Alberta. This facility began commercial operations in June 2003. Generation from this facility is sold under a 20-year PPA with ENMAX Energy Corp. that terminates in 2024.

### *Sinnott*

The seven MW Sinnott wind facility is a wholly owned facility that is comprised of five, 1.3 MW Nordex N60 wind turbines on 65 metre towers, and is located directly east of the Cowley North wind facility and north of Pincher Creek, Alberta. This facility began commercial operations in the fall of 2001. Generation from this facility is subject to the terms of a TransAlta PPA that terminates in 2031.

### *Soderglen*

The 71 MW Soderglen wind facility, which is equally owned with Nexen Inc., is comprised of 47, 1.5 MW GE SLE wind turbines on 65 metre towers, and is located southwest of Fort Macleod. This facility began commercial operations in September 2006. Generation from this facility is subject to the terms of a TransAlta PPA that terminates in 2033 (which excludes that portion of generation that is owned by Nexen Energy ULC). Soderglen is entitled to receive WPPI payments until 2016.

### *Summerview*

#### *Summerview 1*

The 70 MW Summerview 1 wind facility is a wholly owned facility that is comprised of 39, 1.8 MW Vestas V80 wind turbines on 67 metre towers, and is located approximately 15 kilometres northeast of Pincher Creek, Alberta. This facility began commercial operations in September 2004. Generation from this facility is subject to the terms of a TransAlta PPA that terminates in 2033. Summerview 1 creates offset credits until December 2016.

#### *Summerview 2*

The 66 MW Summerview 2 wind facility is a wholly owned facility that is comprised of 22, 3.0 MW Vestas V90 wind turbines on 80 metre towers, and is also located northeast of Pincher Creek, Alberta. This facility began commercial operations in February 2010. Generation from this facility is subject to the terms of a TransAlta PPA that terminates in 2033. The Summerview 2 wind farm expansion creates offset credits until November 2022 and is entitled to receive EcoENERGY payments until 2020.

### *Melancthon*

#### *Melancthon 1*

The 68 MW Melancthon 1 wind facility is a wholly owned facility that is comprised of 45, 1.5 MW GE wind turbines on 80 metre towers, and is located in Melancthon Township near Shelburne, Ontario. This facility began commercial operations in

March 2006. Generation from this facility is sold to the OPA pursuant to a PPA that terminates in 2026. Melancthon 1 is entitled to receive WPPI payments until 2016.

#### *Melancthon 2*

The 132 MW Melancthon 2 wind facility is a wholly owned facility that is comprised of 88, 1.5 MW GE wind turbines on 80 metre towers, and is located adjacent to Melancthon 1, in Melancthon and Amaranth Townships, Ontario. This facility began commercial operations in November 2008. Generation from this facility is sold to the OPA pursuant to a PPA that terminates in 2028. Melancthon 2 is entitled to receive EcoENERGY payments until 2018.

#### *Wolfe Island*

The 198 MW Wolfe Island wind facility is a wholly owned facility that is comprised of 86, 2.3 MW Siemens SWT 93 wind turbines on 80 metre towers, and is located on Wolfe Island, near Kingston, Ontario. This facility began commercial operations in June 2009. Generation from this facility is sold to the OPA pursuant to a PPA that terminates in 2029. Wolfe Island is entitled to receive EcoENERGY payments until 2019.

#### *New Richmond*

The 68 MW New Richmond wind facility is a wholly owned facility that is comprised of 27, 2.0 MW and six, 2.3 MW Enercon E82 wind turbines on 100 metre towers, and is located in New Richmond, Québec. This facility began commercial operations in March 2013. Generation from this facility is sold under a 20-year Electricity Supply Agreement with Hydro Québec Distribution that terminates in 2033.

#### *Kent Hills*

##### *Kent Hills 1*

The 96 MW Kent Hills 1 wind facility, in which the Company has an 83 per cent interest, is comprised of 32, 3.0 MW Vestas V90 wind turbines on 80 metre towers, and is located near Moncton, New Brunswick. This facility began commercial operations in December 2008. Natural Forces Technologies Inc., an Atlantic Canada based wind developer, co-developed this project with TransAlta and exercised its option to purchase 17 per cent of the Kent Hills 1 project in May 2009. Generation from this facility is sold under a 25-year PPA with New Brunswick Power that terminates in 2033. Kent Hills 1 is entitled to receive EcoENERGY payments until 2018.

##### *Kent Hills 2*

The 54 MW Kent Hills 2 wind facility expansion, in which the Company has an 83 per cent interest, is comprised of 18, 3.0 MW Vestas V90 wind turbines on 80 metre towers. Natural Forces Technologies Inc. owns the remaining 17 per cent interest. The facility began commercial operations in November 2010. Generation from this facility is sold under a 25-year PPA with New Brunswick Power that terminates in 2035. Kent Hills 2 is entitled to receive EcoENERGY payments until 2020.

#### *Wyoming*

The 144 MW Wyoming wind facility is comprised of 80, 1.8 MW Vestas V80 wind turbines on 67 meter towers, and is located near Evanston, Wyoming. It began commercial operations in December 2003. The Company owns its economic interest in this facility through our ownership of the Wyoming Wind Preferred Shares. Generation from this facility is sold under a PPA with an investment grade counterparty which terminates in 2028. See "General Development of the Business – Acquisition of Economic Interest in Wyoming Wind Farm".

## Hydroelectric Facilities

We own approximately 105 MW of net hydroelectric generation capacity across nine different river systems in the provinces of British Columbia, Alberta and Ontario. All of the hydroelectric facilities are run-of-river, and the electricity generated and sold by these assets are from facilities that are EcoLogo certified. All of the hydroelectric facilities are operated by TransAlta under the terms of the Management and Operational Services Agreement, and are situated on lands subject to long-term leases.

As well as contracting for power, we enter into long-term and short-term contracts to sell the environmental attributes from our hydro facilities. These activities help to ensure earnings consistency from these assets. For 2014, we sold approximately 98 per cent of the available environmental attributes from our hydro facilities. For 2015, we have sold approximately 96 per cent of the environmental attributes from our hydro facilities to date. Generally, for facilities under long-term contract, the benefit of the environmental attributes generated flow through to the contract holder.

The following table summarizes our hydroelectric facilities:

Facility Name	Province	Ownership (%)	Net Capacity Ownership Interest (MW)	Commercial Operation Date	PPA Counterparty	Contract Expiry Date
Akolkolex .....	BC	100	10	1995	BC Hydro	2015
Bone Creek .....	BC	100	19	2011	BC Hydro	2031
Pingston .....	BC	50	23	2003, 2004	BC Hydro	2023
Upper Mamquam.....	BC	100	25	2005	BC Hydro	2025
Belly River.....	AB	100	3	1991	TransAlta	2033
St. Mary .....	AB	100	2	1992	TransAlta	2033
Taylor Hydro .....	AB	100	13	2000	TransAlta	2033
Waterton .....	AB	100	3	1992	TransAlta	2033
Appleton .....	ON	100	1	1994	OPA	2030
Galetta.....	ON	100	2	1998	OPA	2030
Misema .....	ON	100	3	2003	OPA	2027
Moose Rapids.....	ON	100	1	1997	OPA	2030
<b>Total Hydroelectric Net Capacity....</b>			<b>105</b>			

### Akolkolex

Akolkolex is a run-of-river hydroelectric facility with installed capacity of 10 MW, located on the Akolkolex River, south of Revelstoke, British Columbia. This wholly owned facility utilizes two horizontal Chongqing Francis turbines on a common shaft with a single Chongqing generator. This facility began commercial operations in April 1995. Generation from this facility is sold to BC Hydro under a PPA that terminates in 2015. Preliminary discussions with BC Hydro have begun on a new PPA for Akolkolex that would commence upon expiry of the existing PPA.

### Bone Creek

Bone Creek is a run-of-river hydroelectric facility with installed capacity of 19 MW, located on Bone Creek, 90 kilometres south of the town of Valemount, British Columbia. The wholly owned facility utilizes two 9.5 MW horizontal turbine generator units, with twin Francis double draft tube Litostroj turbines and direct drive INDAR horizontal generators. This facility began commercial operations in June 2011. Generation from the facility is sold to BC Hydro under a PPA that terminates in 2031. Bone Creek is entitled to receive EcoENERGY incentive payments until 2020.

### Pingston

Pingston is a run-of-river hydroelectric facility with installed capacity of 45 MW, located on Pingston Creek, southwest of Revelstoke, British Columbia and down river of the Company's Akolkolex facility. Pingston, which is equally owned with Brookfield Renewable Power Inc., utilizes three 15 MW horizontal Pelton turbines and Leroy Somer generators. This facility began commercial operations in May 2003. Generation from the facility is sold to BC Hydro under a PPA that terminates in 2023.

### *Upper Mamquam*

Upper Mamquam is a run-of-river hydroelectric facility with installed capacity of 25 MW, located on the Mamquam River, east of Squamish, British Columbia, and north of Vancouver. The wholly owned facility utilizes two horizontal axis double Litoströj Francis turbines and Leroy Somer generators. This facility began commercial operations in July 2005. Generation from the facility is sold to BC Hydro under a PPA that terminates in 2025.

### *Belly River*

Belly River is a run-of-river hydroelectric facility with installed capacity of three MW, located on the Waterton St. Mary Headworks Irrigation Canal System, east of the Waterton Reservoir, approximately 75 kilometres southwest of Lethbridge, Alberta. This wholly owned facility utilizes a double Alstom Francis turbine and an Alstom generator. This facility began commercial operations in March 1991. Generation from this facility is subject to the terms of a TransAlta PPA that terminates in 2033.

### *St. Mary*

St. Mary is a run-of-river hydroelectric facility with installed capacity of two MW, located at the base of the St. Mary Dam on the Waterton Reservoir, near Magrath, in Southern Alberta. This wholly owned facility utilizes a horizontal double Alstom Francis turbine and a Kato generator. This facility began commercial operations in December 1992. Generation from this facility is subject to the terms of a TransAlta PPA that terminates in 2033.

### *Taylor Hydro*

The Taylor facility is a run-of-river hydroelectric facility with installed capacity of 13 MW, and is located adjacent to the Taylor Coulee Chute on the Waterton St. Mary Headworks Irrigation Canal System, which is owned by the Government of Alberta. The wholly owned facility utilizes a horizontal Andritz Kaplan turbine and a GE generator. This facility began commercial operations in May 2000. Generation from this facility is subject to the terms of a TransAlta PPA that terminates in 2033.

### *Waterton*

Waterton is a run-of-river hydroelectric facility with installed capacity of three MW, located at the base of the Waterton Dam on the Waterton Reservoir, near Hillspring, southwest of Lethbridge, Alberta. This wholly owned facility utilizes a horizontal double Alstom Francis turbine and a Kato generator. This facility began commercial operations in November 1992. Generation from this facility is subject to the terms of a TransAlta PPA that terminates in 2033.

### *Appleton*

Appleton is a run-of-river hydroelectric facility with installed capacity of one MW, located on the Mississippi River, near Almonte, Ontario. This wholly owned facility utilizes two, Canadian Hydro Components, fixed blade propeller turbines and one adjustable speed Andritz Kaplan turbine, with three Siemens generators. This facility began commercial operations in March 1994. Generation from this facility is sold to the OPA pursuant to a PPA that terminates in 2030.

### *Galetta*

Galetta is a run-of-river hydroelectric facility with installed capacity of two MW, located on the Mississippi River, near Galetta, Ontario. This wholly owned facility utilizes two fixed blade propeller turbines and two horizontal quad-Francis camel-back Canadian Hydro Components turbines, with four Siemens generators. This facility was originally built in 1907 and retrofitted in 1998. Generation from this facility is sold to the OPA pursuant to a PPA that terminates in 2030.

### *Misema*

Misema is a run-of-river hydroelectric facility with installed capacity of three MW, located on the Misema River, close to Englehart, in northern Ontario. This wholly owned facility utilizes one horizontal axis double Litostroj Francis turbine with a Leroy Somer generator. This facility began commercial operations in April 2003. Generation from this facility is sold to the OPA pursuant to a PPA that terminates in 2027.

### *Moose Rapids*

Moose Rapids is a run-of-river hydroelectric facility with installed capacity of one MW, located on the Wanapitei River, near Sudbury, in northern Ontario. This wholly owned facility utilizes two, Canadian Hydro Components, slant axis fixed blade propeller mini-turbines and one slant axis adjustable speed Andritz Kaplan mini turbine with three Siemens generators. This facility began commercial operations in November 1997. Generation from this facility is sold to the OPA pursuant to a PPA that terminates in 2030.

## **TransAlta Power Purchase and Sale Agreements**

On August 9, 2013, certain of our subsidiaries (each a "Merchant Subsidiary") entered into a TransAlta PPA providing for the purchase by TransAlta, for a fixed price, of all of the power produced by the facilities whose power had previously been sold on a merchant basis (a "Merchant Facility").

The price payable by TransAlta for output under each TransAlta PPA was initially set at \$30.00/MWh for wind facilities and \$45.00/MWh for hydroelectric facilities, which amounts are adjusted annually for changes in the consumer price index ("CPI").

Under the terms of each TransAlta PPA, the applicable Merchant Subsidiary agrees to use its reasonable commercial efforts to maximize the amount of energy generated at its Merchant Facilities over the term of the applicable TransAlta PPA; however, the Merchant Subsidiary is under no obligation to deliver any specified amount of energy and, in no event, shall any penalties or curtailment payments be payable under the applicable TransAlta PPA. The Merchant Subsidiaries assume all operating and generating risk and TransAlta will only be required to purchase power that is actually produced.

Each Merchant Subsidiary retains all the environmental attributes (including any renewable energy credits ("RECs")) derived from or arising in connection with its Merchant Facilities; however, TransAlta is obligated to use reasonable commercial efforts to sell such environmental attributes for and on behalf of such Merchant Subsidiary in a timely manner as and when they come into existence, with the full proceeds in connection with any such sales being for the benefit of the applicable Merchant Subsidiary.

TransAlta has dispatch rights for hydroelectric output produced by the Merchant Subsidiaries under the applicable TransAlta PPAs. Dispatchable Wind Rules come into effect in Alberta on April 1, 2015 as established by the Alberta Electric System Operator ("AESO"). As part of the Dispatchable Wind Rule changes, pool participants for wind aggregated generating facilities are able to voluntarily offer into the energy market merit order at prices greater than \$0.00/MWh. TransAlta has dispatch rights for wind output produced by the Merchant Subsidiaries under the applicable TransAlta PPAs. Only selected facilities are qualified to be dispatchable. TransAlta is obligated to pay for available output not dispatched by TransAlta in the event that power generation from qualified wind facilities is dispatched.

Each TransAlta PPA has a term of 20 years or end of asset life, where end of asset life is less than 20 years. Each TransAlta PPA may be terminated by: (a) the mutual agreement of the parties; (b) the Merchant Subsidiary upon the occurrence of a material default by TransAlta; and (c) TransAlta (i) upon the occurrence of a material default by the Merchant Subsidiary; (ii) upon a "Change of Control" of the Company, being the acquisition by any person or group of persons acting jointly and in concert (other than TransAlta and its affiliates) of more than 50 per cent of the issued and outstanding Common Shares; or (iii) upon a "Change of Control" of the Merchant Subsidiary, being the acquisition by any person or group of persons acting jointly and in concert (other than the Company and its affiliates) of more than 50 per cent of the issued and outstanding voting securities of the Merchant Subsidiary.

## **Power Sales, Grants and Incentives**

There are a number of means of generating revenue and utilizing incentives across the power generation industry. In the renewable generation sector, government support to promote investment into renewable power generation sources has been evidenced through long-term PPAs or alternative contracts such as those pursuant to the feed-in-tariff programs, a government policy mechanism used to support the adoption of renewable power. For facilities not subject to a PPA, the facility's owner may elect to use derivative contracts, such as power hedge contracts, to secure a fixed price for its power production or alternatively sell its production at prevailing market prices.

In addition to government supported PPAs, additional incentives supported by governments have been used to stimulate investment in renewable power. These incentives have typically included incentive payments based on generation from renewable power facilities, capital cost grants, tax credits and environmental attributes to meet certain emission standards.

Governments may provide tax incentives or cash grants to promote and facilitate investment in renewable power. In Canada, several federal and provincial programs have been commissioned to promote the development of renewable power, such as the wind power production incentive of the Canadian federal government ("WPPI") and EcoENERGY, an incentive program sponsored by the Canadian federal government to encourage the development of clean power generation projects ("EcoENERGY") (each as described below), as well as tax credits such as accelerated depreciation incentives which enable renewable power producers to deduct the capital cost of these assets at a rate faster than accounting depreciation, which benefits a project's economics.

### *WPPI and EcoENERGY*

The WPPI program is a Canadian federal government program that provides incentive payments to producers of wind energy for eligible wind projects for the first 10 years of the project's operating life. The Canadian government initially targeted \$920 million in incentives over 15 years to develop 4.0 GW of wind power generation, equivalent to the amount of power needed by approximately one million average Canadian homes. Under the program, wind power projects were eligible to receive an incentive payment of between \$0.008/kWh and \$0.012/kWh for the first 10 years of operation, depending upon the commissioning date. The WPPI program was replaced by the EcoENERGY program in 2007, but this change did not affect the existing entitlements of projects receiving payment under the original WPPI program.

On January 19, 2007, the Canadian federal government announced the \$1.48 billion EcoENERGY program to encourage the development of clean power generation projects including wind, small hydro, biomass, solar, geothermal, tidal, and wave technologies that generate very low emissions in Canada. An incentive of \$0.01/kWh for up to 10 years was offered to eligible projects with the program intending to support 4.0 GW of new renewable energy capacity. No new contribution agreements were signed after March 31, 2011, but EcoENERGY payments will carry on for existing eligible projects until March 31, 2021. At March 31, 2011, 104 projects qualified for approximately \$1.4 billion in funding from the EcoENERGY program, representing the investment of nearly 4.5 GW of renewable capacity.

The following facilities are currently receiving payments under the WPPI program or the EcoENERGY program. See "*Business of TransAlta Renewables - Asset Platform*".

**Assets of the Company Receiving WPPI Payments**

- Melancthon 1
- Soderglen

**Assets of the Company Receiving EcoENERGY Payments**

- Wolfe Island
- Kent Hills 1 and 2
- Summerview 2
- Bone Creek
- Melancthon 2
- Ardenville
- Blue Trail

*Accelerated depreciation*

The Canadian federal government provides for accelerated depreciation for tax purposes for the full range of renewable power generation projects, as well as certain high-efficiency cogeneration equipment. Class 43.1 depreciation was introduced in 1994 and provides a 30 per cent declining balance accelerated capital cost allowance rate for renewable assets. Class 43.2 was introduced in 2005 and allows for depreciation of up to 50 per cent for renewable investments made before 2020. Additionally, in Canada, certain expenses incurred by Independent Power Producers ("IPPs") during the pre-production development phase may qualify for the Canadian Renewable and Conservation Expense, which provides a 100 per cent tax deduction for a portion of the overall costs to develop the project and can be carried forward indefinitely.

*Offset credits*

In 2007, the *Specified Gas Emitters Regulation*, a greenhouse gas regulatory scheme, was launched by the Government of Alberta (the "SGER"). The SGER regulates industrial facilities that emit greenhouse gases above a specified threshold. The regulated facilities are required to meet annual greenhouse gas limits by reducing their emission intensity, purchasing emission offsets or paying \$15 per tonne of excess emission into the Climate Change and Emissions Management Fund. The SGER allows for some renewable generating facilities in Alberta to create emission offsets for a period of up to 13 years. The SGER was previously set to expire in September 2014; however, it has now been extended to the end of June 2015. Since the inception of the SGER, on average in excess of three million tonnes of emissions offsets have been used by compliance entities annually. A number of our facilities are based in Alberta and generate offset credits. See "*Business of TransAlta Renewables - Asset Platform*".

**Assets of the Company Generating Offset Credits**

- Summerview 1 and 2
- Ardenville
- Blue Trail
- Macleod Flats

*Renewable energy credit sales*

RECs may be used for a buyer's voluntary or mandatory compliance needs, and are typically subject to independent verification against predetermined criteria that varies by the applicable REC program. Value is generally determined by vintage (year of creation), eligibility in compliance regimes, technology/method used to create the credit, and other region/buyer specific parameters. Generally, the stricter the criteria for creating a REC, the higher is the obtainable price for the REC. RECs may be bundled for sale with power in a PPA or other bilateral contract, or they may be exchanged in isolation.

**Competitive Environment**

We are among the largest publicly traded renewable power generation companies in Canada. We own 16 wind facilities and 12 hydroelectric facilities located in the provinces of British Columbia, Alberta, Ontario, Québec, and New Brunswick. We also hold the economic interest in a wind farm in the State of Wyoming.

Over the long term, significant investment requirements for new generation are expected to be required and such requirements will vary by Province and State. Capacity growth is primarily driven by two key factors: first, capacity requirements to meet increased demand and sufficient reserve margins; and second, the need to replace retired power facilities, ensuring that economic, environmental, and reliability targets are met. Many of the expected retirements will come

from the coal fleet in Canada as federal policy has mandated a greening of the power sector through fixed retirement dates for coal plants. According to the National Energy Board in Canada ("NEB") and the United States Energy Information Administration, renewable power generation is expected to be one of the fastest growing sources of power generation in both Canada and the U.S., increasing at a compound annual growth rate of 1.1 per cent in Canada between 2012 to 2035 and 1.7 per cent in the U.S. between 2012 to 2040.

#### *Canadian Power Industry*

The Conference Board of Canada has estimated that nearly \$300 billion of electricity infrastructure spending will be required to meet Canada's electricity needs by 2030, with power generation representing approximately 67 per cent of the required investment, or nearly \$200 billion. The NEB projects future capacity increases in all Canadian provinces in its 2013 Energy Future report. The largest increases are expected in Ontario, Québec, British Columbia and Alberta. The NEB expects Canada will shift its power generation portfolio mix towards cleaner power generation sources.

The Canadian power generation market is largely comprised of geographically distinct markets, with wide variance in terms of electricity supply mix among the provinces and territories. Each province has developed a power sector driven by its unique economic, natural resource, regulatory and geographic make-up.

The abundance of hydroelectric resources in British Columbia, Manitoba, Québec and Newfoundland and Labrador has contributed to a generation fleet driven primarily by hydroelectric power in those provinces. Alberta, Nova Scotia and Saskatchewan have historically relied more heavily on coal power, but this is expected to change dramatically by 2030 due to federal regulation. Ontario and New Brunswick have relatively diversified generation fleets, relying on nuclear, thermal, wind and hydroelectric power. Although the sources are diversified, all markets have experienced significant growth in renewable energy capacity including wind, solar, and bio-energy, and the Company believes that this growth in renewable power capacity will continue.

#### *Wind Generation in Canada*

According to the Canadian Wind Energy Association ("CanWEA"), Canada is the ninth largest producer of wind energy in the world, with installed capacity of 9.2 GW as of December 2014. This includes nearly three GW of new wind capacity installed over the last two years.

Growth in wind generation in Canada is expected to continue, with CanWEA forecasting installed wind capacity to reach 12 GW by 2016. The NEB predicts similarly robust growth for the future, forecasting wind generation capacity to climb to 16 GW by 2035. This growth in wind generation capacity through 2035 is expected to increase wind generation capacity as a per cent of total power generation capacity from four per cent in 2012 to over nine per cent by 2035.

#### *Hydro Generation in Canada*

Canada is a world leader in hydroelectric power generation and the NEB forecasts that hydro will continue as a principal source of power generation through 2035. Each of Manitoba, Québec and Newfoundland and Labrador produce over 90 per cent of their respective electricity needs from hydroelectric power generation. Given provincial planned projects, Canadian hydro-based capacity is expected to expand significantly, from 77 GW in 2012 to 85 GW by 2035, and continue to represent the majority of power generation capacity in Canada.

#### *U.S. Power Industry*

The Energy Information Association (the "EIA") is projecting overall electricity generation to increase by approximately 0.9 per cent annually between 2012 and 2040, with renewable energy and natural gas representing the fastest growing segments of power generation, with production expected to increase at a compounded annual growth rate of 1.7 per cent and 1.4 per cent, respectively, during this period. According to the EIA, renewable energy generation in the U.S. currently accounts for 12 per cent of total power generation and is expected to represent approximately 16 per cent of total electricity generation by

2040. The contribution of renewables to total generation in the electric power sector varies widely at the state level due to geographical limitations, availability of resources, and government policy considerations.

We believe that renewable energy production in the U.S. will continue to grow; such growth being driven by the continuing increase in demand for electricity, the retirement of coal and nuclear power generation facilities, implementation of renewable portfolio standards in 29 states as well as other government incentive programs, improvement in the cost and competitiveness of renewable energy generation technologies and the potential continuation of government incentive programs.

### **Competitive Strengths**

We believe that we are well positioned to achieve our business strategy due to our competitive strengths, which include the following:

*Wind Generation* – We are the largest owner and operator of wind generation in Canada. Our management team has developed key relationships with customers, and suppliers that provide a competitive advantage in the development, operations and marketing of wind generation.

*Significant scale and diversified portfolio* - Our asset platform is diversified in terms of geography, generation and counterparties. We own 16 wind facilities and 12 hydroelectric facilities with an ownership interest of 1,255 MW of net generating capacity, located in the provinces of British Columbia, Alberta, Ontario, Québec, New Brunswick, and the state of Wyoming. This scale and diversification provides cash flow stability and reduces risk associated with operating facilities in a single jurisdiction and fuel type.

*Established operating history* - Our assets have an established operating and performance history. The assets have been in operation from four to 24 years, with the weighted average years of operation by capacity being 7.8 years, which includes the Wyoming Wind Farm. Furthermore, the average availability of the wind assets for the year ended December 31, 2013 was 95.1 per cent and for the year ended December 31, 2014 was 95.8 per cent. With this history of generation production, we are better able to predict future production.

*Strategic sponsorship with industry leader and experienced operator* – TransAlta, our manager and operator, and its predecessors, have been engaged in the production and sale of electric energy since 1909, with its first operations being in hydroelectric generation. TransAlta is among Canada's largest non-regulated electricity generation and energy marketing companies with approximately 8,184 MW<sup>1</sup> of net generating capacity. TransAlta has been operating hydroelectric facilities for more than 100 years and was the first company to own and operate more than 1,000 net MW of wind generation capacity in Canada. TransAlta has significantly grown its renewables business from approximately 800 net MW in 2000 to over 2,100 net MW as at December 31, 2014 (including the Initial Assets for this purpose).

*Growth in target markets and technologies* - We anticipate a significant need for investment in power generation infrastructure in Canada and the U.S., principally driven by the replacement of aging facilities and an anticipated increase in industrial activity and population growth. In addition, we anticipate that clean power generation sources, including both renewables and natural gas facilities, will experience the largest percentage growth, as jurisdictions continue to establish environmental based production targets and other infrastructure assets.

*Industry consolidation* - We believe that we are well-positioned to pursue consolidation opportunities, given our scale and financial flexibility, as well as our relationship with TransAlta. In Canada and the U.S., there is over 70 GW of installed wind capacity with over 150 unique owners of generation greater than 20 MW, and over 170 GW of hydroelectric power

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<sup>1</sup> 8,557 MW if TransAlta Renewables' assets are included at 100 per cent.

capacity (including pumped storage), with more than 200 unique owners of generation greater than 10 MW. These owners and their projects are expected to provide us with acquisition opportunities.

*Additional markets and technologies* - While we presently intend to focus primarily on Canada and the U.S., we may consider expanding our operations into new markets. We will also assess growth opportunities in other forms of clean power generation, including solar, geothermal and gas powered facilities, as well as other power related infrastructure assets, such as transmission. Our manager and operator, TransAlta, has experience in many of these clean power generating technologies.

*Stable cash flow base* – Through the use of PPAs, 100 per cent of our capacity is currently contracted. The Company's PPAs have a weighted average remaining term of approximately 16 years (based on net capacity and including the Wyoming Wind Farm). The net revenue received under these contractual arrangements helps to minimize short-term revenue fluctuations due to the variable price of electricity.

*Management team* – Our management team has substantial industry, international, government, investment and market experience.

*Environment* – We are a recognized leader in sustainable development and we have taken early preventative action on a number of environmental fronts in advance of regulation.

### **Seasonality and Cyclicity**

The business of the Company is cyclical due to: (i) the nature of electricity, which cannot be stored; and (ii) the nature of wind and run-of-river hydroelectric resources, which fluctuate based on both seasonal patterns and annual weather variation.

Typically, run-of-river hydroelectric facilities generate most of their electricity and revenues during the spring and summer months when the melting snow starts feeding the watersheds and the rivers. Inversely, wind speeds are historically greater during the cold winter months when the air density is at its peak. The Company's strategy of technological and geographical diversification reduces the Company's exposure to the variations of any one natural resource in any one region. Since the Company's operations are presently based mainly on power generation from wind, its financial results in any one quarter may not, however, be representative of all quarters. See "*Risk Factors*".

### **Environmental Risk Management**

We are subject to environmental regulation governing the construction and operation of our asset base, which requires us to obtain operating licenses and permits. To ensure compliance, we work closely with local and regional authorities to address all environmental matters and to comply with licensing and permitting requirements.

### **Ongoing and Recently Passed Environmental Legislation**

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

Pursuant to SGER which regulates greenhouse gas (GHG) emissions in Alberta, several of the Company's facilities are eligible to generate saleable emissions offsets. Since the Company does not have compliance obligation under the SGER, the emissions offsets are calculated annually and then marketed. When first enacted, the SGER included a sunset clause whereby it would automatically expire on September 1, 2014. In July 2014, the Alberta Government extended for six months the SGER and then again extended it in December 2014 to now expire at the end of June 2015. Neither one of these extensions included any changes to the underlying regulation.

## ***Regulatory Framework***

### *Alberta*

Since January 1, 1996, new generating capacity initiatives in Alberta have been undertaken by IPPs and have been subject to market forces, rather than rate regulation. Power from commercial generation is cleared through a wholesale electricity market. Power is dispatched in accordance with an economic merit order administered by the AESO, based upon offers by generators to sell power. The Market Surveillance Administrator for the Province of Alberta is an independent entity responsible for monitoring and investigating the market behaviour of market participants, including the AESO and the Balancing Pool, and enforcing compliance with all applicable legislation, regulations, AESO and AUC rules. The AUC oversees electricity industry matters, including new power plant and transmission facilities, the distribution and sale of electricity and retail natural gas. The AUC is also responsible for approving the AESO's rules and for determining penalties and sanctions on any participant found to have contravened market rules.

### *Ontario*

Ontario's electricity market is a hybrid market that includes a wholesale spot electricity market, as well as regulated prices for certain electricity consumers and long-term contracts for the purchase of power issued by the OPA. The Ontario Ministry of Energy takes a lead role in defining the electricity mix to be procured by the OPA, which has the mandate to develop a detailed integrated power supply plan, to procure the electricity generation in that plan and to manage contracts for privately owned generation. The Independent Electric System Operator in Ontario ("IESO") is responsible for managing the Ontario wholesale market and for ensuring the reliability of the electric system in Ontario. As of January 2015, the OPA and the IESO merged into a single entity. Their mandates, which is to increase the amount of clean and renewable energy in Ontario's electric system, remains unchanged. The electricity sector is regulated by the Ontario Energy Board.

Ontario's Long-Term Energy Plan, released in December 2013, calls for a target of 10.7 GW of renewable energy capacity from wind, solar and bio-energy by 2021. The current level of renewable energy capacity from wind, solar and bio-energy in the province is approximately 4,500 MWs. Included in this total is over 1,300 MW of distribution connected solar generation. Current hydro capacity is over 8,100 MW. By 2025, it is estimated that 20,000 MW of renewable energy (including hydro) will be online.

### *British Columbia*

British Columbia's electricity is provided primarily by BC Hydro, a Crown Corporation that is regulated by the British Columbia Utilities Commission. Electricity is traded with other markets through BC Hydro's trading arm and wholly owned subsidiary, Powerex Company. While British Columbia is not a deregulated market like Alberta, the British Columbia Government has taken steps since 2003 to diversify the market and to promote new generation by IPPs. In particular, BC Hydro was directed by the British Columbia Government to acquire electricity supply on a competitive basis from IPPs, thus resulting in the various open calls for power supply held over the last 10 years. IPPs can bid into requests for proposals from BC Hydro, which, if successful, result in long-term PPAs with BC Hydro. The BC government has also indicated it will be moving forward with BC Hydro's large scale Site C hydro project, which is expected to come online in 2024.

### *Québec*

*The Régie de l'énergie* is Québec's regulatory authority with primary jurisdiction over the economic regulation of the electricity sector. Québec is served principally by Hydro Québec, a government owned entity with major cost-competitive hydroelectric resources, which has an almost exclusive right to distribute electricity throughout the Province of Québec. Most of Hydro Québec's generation stations are located at substantial distances from consumer centers. As a result, Québec's transmission system is one of the most extensive and comprehensive in North America, comprising more than 33,000 kilometres of lines. In May 2006, the Québec government released an energy strategy that requires private developers to partner with local communities in order to develop energy projects. In all cases, an agreement with Hydro Québec on the price of the electricity produced is required before a project can obtain governmental approval. To meet Québec's increasing demand, Hydro Québec Distribution initiated a system of competitive bidding. Supply contracts are awarded on the basis of

the lowest tendered price and factors such as applicable transmission costs. As of December 2014, Québec had an installed capacity of 2,645 MW of wind power.

#### *New Brunswick*

In 2004, New Brunswick enacted the *Electricity Act* (New Brunswick), pursuant to which the province's electricity market changed to enable the creation of a competitive environment for eligible wholesale, industrial, and municipal utility customers. The *Electricity Act* (New Brunswick) provides that, as generating assets are retired or as additional supply is required, standard service suppliers (i.e., the distribution companies) will procure new supply through the competitive market. This means that any new resources required by New Brunswick Power Distribution Company will be acquired through procurement processes open to both IPPs as well as the New Brunswick Power Generation Company. The *Electricity from Renewable Resources Regulation* requires that New Brunswick Power Generation Company acquire 10 per cent of its electricity supply from the renewable sources by the year 2016. Under the province's 2011 Energy Blueprint Energy Action Plan, the province has indicated its decision to increase New Brunswick's Renewable Portfolio Standard to a minimum of 40 per cent of New Brunswick Power Generation Company in-province sales by 2020.

On October 1, 2013, a new *Electricity Act* was enacted, which is designed to allow the New Brunswick Power Holding Corporation to operate more efficiently, increase transparency, and continue to provide stable electricity rates. The new *Electricity Act* resulted in the formation of the New Brunswick Power Corporation, a new, vertically integrated Crown utility arising from the amalgamation of New Brunswick Power Distribution and Customer Service Corporation, the New Brunswick System Operator and the New Brunswick Electric Finance Company.

In order to meet its 40 per cent renewable mandate by 2020, New Brunswick Power Corporation has included a 75 MW small scale renewable program in its 2014 integrated resource plan. The remainder of the mandate is expected to be reached through a combination of existing resources, energy efficiency initiatives and imports.

#### *Wyoming*

The Wyoming Public Service Commission (the "Commission") has the power to regulate and supervise every "public utility," which includes the four investor-owned electric utilities in Wyoming, as well as certain natural gas, electric, telecommunications, water, and pipeline services. For regulated electric utilities, the Commission approves regulated rates, reviews integrated resource plans, approves mergers and acquisitions and grants certificates of public convenience and necessity for large facilities (e.g. power plants and transmission lines). The Commission does not have regulatory authority over the Wyoming Wind Farm or the power generated therefrom because such generation is sold at wholesale. The Federal Power Act gives the Federal Energy Regulatory Commission ("FERC") ratemaking jurisdiction over public utilities engaged in wholesale sales of electricity and the transmission of electricity in interstate commerce. The Federal Power Act also provides FERC with the authority to certify and oversee an electric reliability organization which promulgates and enforces mandatory reliability standards applicable to all users, owners, and operators of the bulk-power system. FERC has certified the North American Electric Reliability Corporation ("NERC") as the electric reliability organization. NERC has promulgated mandatory reliability standards, and NERC, in conjunction with the regional reliability organizations that operate under FERC's and NERC's authority and oversight, enforces those mandatory reliability standards.

### **RISK FACTORS**

Readers should consider carefully the risk factors set forth below as well as the other information contained and incorporated by reference in this AIF. For a further discussion of risk factors affecting TransAlta Renewables, please refer to "Risk Factors" in the Annual MD&A, which is incorporated by reference herein.

A reference herein to a material adverse effect on the Company means such an effect on the Company on its business, financial condition, results of operations, or its cash flows, as the context requires.

***The operation and maintenance of the Company's facilities involves risks that may materially and adversely affect the Company's business.***

The revenue generated by the Company's power generation facilities is dependent on the amount of electricity generated by them. The ability of the Company's power generation facilities to generate the amount of power expected is a primary determinant in the amount of revenues that will be received by the Company. A number of different factors, including: equipment failure due to wear and tear, latent defect, design error, operator error, slow response to outages due to underperforming monitoring systems, changes in wind or water flows, and vandalism or theft could adversely affect the amount of power produced, and thus the revenues and cash available for distribution. Unplanned outages or prolonged downtime for maintenance and repair typically increase operation and maintenance expenses and reduce revenues as a result of selling less electricity. Although the Company's generation facilities have generally operated in accordance with expectations, there can be no assurance that they will continue to do so. To the extent that a facility's equipment requires longer than forecasted down times for maintenance and repair, or suffers disruptions of power generation for other reasons, the Company's business, operating results, financial condition or prospects could be adversely affected.

There can be no assurance that the Company's maintenance program will be able to detect potential failures in its facilities prior to occurrence or eliminate all adverse consequences in the event of failure. In addition, weather related interference, work stoppages and other unforeseen problems may disrupt the operation and maintenance of the Company's facilities and may materially and adversely affect the Company.

While the Company may maintain an inventory of, or otherwise make arrangements to obtain, spare parts to replace critical equipment and maintain insurance for property damage to protect against certain operating risks, these protections may not be adequate to cover lost revenues or increased expenses and penalties which could result if the Company is unable to operate its generation facilities at a level necessary to comply with sales contracts.

***The Company may fail to meet financial expectations.***

The Company's quarterly revenue and results of operations are difficult to predict and fluctuate from quarter to quarter. The Company's quarterly results of operations are influenced by a number of factors, including the risks described in this AIF, many of which are outside of the Company's control, which may cause such results to fall below market expectations.

Although the Company bases its planned operating expenses in part on the Company's expectations of future revenue, a significant portion of the Company's expenses are relatively fixed in the short-term. If revenue for a particular quarter is lower than expected, the Company likely will be unable to proportionately reduce its operating expenses for that quarter, which will adversely affect the Company's results of operations for that quarter.

***The Company is party to significant third party contracts and the failure of such third parties to fulfill their contractual obligations could have a material adverse effect on the Company.***

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

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

***The Company could suffer lost revenues or increased expenses and penalties if the Company is unable to operate its generation facilities at a level necessary to comply with its PPAs.***

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

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

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

The Company's inability to predict, influence or respond appropriately to changes in law or regulatory frameworks, including any inability to obtain expected or contracted increases in electricity tariff rates or tariff adjustments for increased expenses, could adversely impact the Company's results of operations. Furthermore, changes in laws, regulations or changes in the application or interpretation of regulatory provisions in jurisdictions where the Company operates (particularly where long term tariffs or PPAs are subject to regulatory review or approval), could adversely affect the Company's business. These include, but are not limited to: (a) changes in applicable PPA rates, including changes in the timing of PPA rate increases or decreases; (b) adverse changes in laws, regulations or policies or their interpretation; and (c) other changes related to licensing or permitting which affect the Company's ability to conduct its business in an orderly fashion.

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

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

***The Company's business is subject to stringent environmental laws and regulations.***

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

***Negative public or community response to wind and hydroelectric facilities could adversely affect the Company's projects.***

Negative public or community response to wind and/or hydroelectric power facilities could adversely affect the Company's ability to operate the Company's facilities. This type of negative response could lead to legal, public relations and other challenges that impede the Company's ability to meet the Company's development and construction targets, achieve commercial operations for a facility on schedule or generate revenues. While public opposition is usually of greatest concern

during the development stage of renewable assets, which is when the public has the ability to provide comments and appeal regulatory permits, continued opposition could have an impact on operations. An increase in opposition to the Company's requests for permits or successful challenges or appeals to permits issued to it could materially adversely affect the Company's plans. Legal requirements, changes in scientific knowledge and public complaints regarding issues such as noise generated by wind turbines could impact the operation of certain of the Company's renewable assets in the future.

***Changes in general economic conditions may have a material adverse effect on the Company.***

Adverse changes in general economic and market conditions could negatively impact demand for electricity, revenue, operating costs, timing and extent of capital expenditures, the net recoverable value of plant, property and equipment, results of financing efforts, credit risk and counterparty risk, which could cause the Company to suffer a material adverse effect.

***The Company depends on certain partners that may have interests or objectives which conflict with the objectives of the Company and such differences could have a negative impact on the Company.***

The Company has entered into various types of arrangements with communities or joint venture partners for the operation of its facilities. Certain of these partners may have or develop interests or objectives which are different from or even in conflict with the objectives of the Company. Any such differences could have a negative impact on the success of the Company's facilities. The Company is sometimes required, through the permitting and approval process, to notify and consult with various stakeholder groups, including landowners, First Nations and municipalities. Any unforeseen delays in this process may negatively impact the ability of the Company to complete any given facility on time or at all.

***The Company may be unsuccessful in the defence of legal actions.***

In the normal course of business, the Company may become party to legal action. There can be no assurance that the Company will be successful in the defence of these claims and legal actions or that any claim or legal action that is decided adverse to the Company will not materially and adversely affect the Company.

***The Company may experience fluctuations in the price of environmental attributes.***

Current market conditions may limit our ability to hedge sufficient volumes of our anticipated environmental attributes, leaving us exposed to the risk of falling prices for environmental attributes. Future prices for these attributes are also subject to the risk that regulatory changes will adversely affect prices.

***The reduction, elimination or expiration of government subsidies and economic incentives could adversely affect the Company's prospects for growth.***

The Company seeks to take full advantage of government policies that promote renewable power generation and enhance the economic feasibility of renewable power projects. Renewable power generation sources currently benefit from various incentives in the form of FITs, rebates, tax credits, renewable portfolio standards (a U.S. government policy mechanism used to support the adoption of renewable power by setting a targeted percentage of a jurisdiction's total electricity procurement from renewable power) and other incentives throughout the markets in which the Company participates or intends to participate in. The removal or phasing-out of any such incentives could adversely affect the Company's revenues as well as its prospects for growth as these incentives enhance the economic feasibility of developing and building renewable power projects.

***Unexpected changes in the cost of maintenance or in the cost and durability of components for the Company's facilities may adversely affect its results of operations.***

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

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

The ownership and operation of the Company's renewable power generation assets carry an inherent risk of liability related to worker health and safety and the environment, including the risk of government imposed orders to remedy unsafe conditions and/or to remediate or otherwise address environmental contamination, potential penalties for contravention of health, safety and environmental laws, licenses, permits and other approvals, and potential civil liability. Compliance with health, safety and environmental laws (and any future changes) and the requirements of licenses, permits and other approvals are expected to remain material to the Company's business. The occurrence of any of these events or any changes, additions to or more rigorous enforcement of, health, safety and environmental laws, licenses, permits or other approvals could have a significant impact on operations and/or result in additional material expenditures. As a consequence, no assurances can be given that additional environmental and workers' health and safety issues relating to presently known or unknown matters will not require unanticipated expenditures, or result in fines, penalties or other consequences (including changes to operations) material to its business and operations.

***The Company's facilities and operations are exposed to effects of natural disasters and other catastrophic events outside of the Company's control and such events could result in a material adverse effect.***

The Company's facilities and operations are exposed to potential interruption and damage, partial or full loss, resulting from environmental disasters (e.g. floods, high winds, fires, ice storms, and earthquakes), other seismic activity, equipment failures and the like. There can be no assurance that in the event of an earthquake, hurricane, tornado, tsunami, typhoon, terrorist attack, act of war or other natural, manmade or technical catastrophe, all or some parts of the Company's generation facilities and infrastructure systems will not be disrupted. The occurrence of a significant event which disrupts the ability of the Company's renewable power generation assets to produce or sell power for an extended period, including events which preclude existing customers under PPAs from purchasing electricity, could have a material negative impact on the business of the Company. The Company's generation assets could be exposed to effects of severe weather conditions, natural and man-made disasters and potentially other catastrophic events. The occurrence of such an event may not release the Company from performing its obligations pursuant to PPAs or other agreements with third parties. In addition, many of the Company's generation facilities are located in remote areas which make access for repair of damage difficult.

***The Company's revenues may be reduced upon expiration or termination of PPAs.***

The Company sells power under PPAs, including those that embody FITs, which expire at various times. Currently, the Company's PPAs have a weighted average remaining term of approximately 17 years (based on net capacity and including the Wyoming Wind Farm) and the earliest scheduled termination of any of these will occur in the second quarter of 2015. In addition, these PPAs may be subject to termination in certain circumstances, including default by the facility or plant owner or operator. When a PPA expires or is terminated, it is possible that the price received by the relevant facility or plant for power under subsequent selling arrangements may be reduced significantly. It is also possible that PPAs negotiated after the initial PPAs have run their course may not be available at prices that permit the continued operation of the affected facility or plant on a profitable basis. If this occurs, the affected facility or plant may be forced to permanently cease operations.

***The Company's communications and monitoring technology and operating systems may experience interruptions or breaches in security which could subject the Company to increased operating costs and other liabilities.***

The Company relies on technology, mainly on computer, telephone, satellite, cellular and related networks and infrastructure, to conduct its business and monitor the production of its generation facilities. These systems and infrastructure could be vulnerable to unforeseen problems, including, but not limited to vandalism and theft. The Company's operations are dependent upon its ability to protect its operating technology against damage from fire, power loss, telecommunications failure or a similar catastrophic event. Any damage or failure that causes an interruption in operations could have an adverse effect on its customers. Additionally, the Company must be able to protect its generation facility infrastructure against physical damage, security breaches and service disruption from any of a variety of causes. Theft, vandalism, and other disruptions could jeopardize the security of information stored in and transmitted through the Company's systems and network infrastructure, and could result in significant set-backs, potential liabilities, and deter future customers. While the

Company has systems, policies, hardware, practices, and procedures designed to prevent or limit the effect of the failure, interruptions or security breaches of its generation facility and their infrastructure, there can be no assurance that these measures will be sufficient and that such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed in a timely manner.

***The Company is not able to insure against all potential risks and may become subject to higher insurance premiums.***

The Company's business is exposed to the risks inherent in the construction and operation of electricity generation facilities, such as breakdowns, manufacturing defects, natural disasters, theft, terrorist attacks and sabotage. The Company is also exposed to environmental risks. The Company maintains insurance policies, covering usual and customary risks associated with its business, with credit worthy insurance carriers. The Company's insurance policies, however, do not cover losses as a result of force majeure, natural disasters, terrorist attacks or sabotage, among other things. In addition, the Company generally does not maintain insurance for certain environmental risks, such as environmental contamination. The Company's insurance policies are subject to annual review by the respective insurers and may not be renewed at all or on similar or favourable terms. A significant uninsured loss or a loss significantly exceeding the limits of the Company's insurance policies or the failure to renew such insurance policies on similar or favourable terms could have a material adverse effect on the Company's business, financial condition and results of operations.

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

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

The Company's power generation facilities may also be subject to changes in regulations governing the cost and characteristics of use of the transmission and distribution systems to which its power generation facilities are connected. The Company's power generation facilities in the future may not be able to secure access to interconnection or transmission capacity at reasonable prices, in a timely fashion or at all, which could then cause delays and additional costs in attempting to negotiate or renegotiate PPAs or to construct new projects. In addition, the Company may not benefit from preferential arrangements in the future. Any such increased costs and delays could delay the commercial operation dates of the Company's new projects and negatively impact the Company's revenues and financial condition.

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

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

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

The Company is required to make rental payments for water rights. Significant increases in water rental costs in the future or changes in the way that governmental authorities in the jurisdictions in which the Company's hydroelectric assets are located

regulate water supply could have a material adverse effect on the Company's business, operating results, financial condition or prospects.

***The Company may be adversely affected if its supply of water is materially reduced.***

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

***Variations in weather can affect demand for electricity and the Company's ability to generate electricity.***

Wind is naturally variable; therefore, the level of electricity production from the Company's wind facilities will also be variable. In addition, the strength and consistency of the wind resource at the Company's wind facilities may vary from what the Company anticipates due to a number of factors including: the extent to which site-specific historic wind data and wind forecasts accurately reflects actual long-term wind speeds, strength and consistency; the potential impact of climatic factors; the accuracy of assumptions relating to, among other things, weather, icing and soiling of wind turbines, site access, wake and line losses and wind shear; the potential impact of topographical variations; and the potential for electricity losses to occur before delivery. A reduced amount of wind at the location of one or more of the Company's wind facilities over an extended period may reduce the production from such facilities, as well as any environmental attributes that accrue to the Company and reduce the Company's revenues and profitability.

Due to the nature of the Company's business, its earnings are sensitive to weather variations from period to period. Variations in winter weather affect the demand for electrical heating requirements. Variations in summer weather affect the demand for electrical cooling requirements. These variations in demand translate into spot market price volatility. Variations in precipitation also affect water supplies, which in turn affect the Company's hydroelectric assets.

Ice can accumulate on wind turbine blades in the winter months. The accumulation of ice on wind turbine blades depends on a number of factors, including temperature, ambient humidity and wind. The accumulation of ice on wind turbine blades can have a significant impact on energy yields, could result in the wind turbine experiencing more down time potentially reducing the life expectancy of the wind turbine and revenue. Extreme cold temperatures can also impact the ability for wind turbines to operate effectively and this could result in wind turbines experiencing more downtime and reduced production.

## **Growth of the Company's Business**

***The Company's growth strategy is focused on the acquisition of high quality contracted renewable and natural gas power generation facilities and other infrastructure assets. The Company may face significant competition for the acquisition of high quality renewable power projects and may not successfully complete and integrate acquisitions.***

The Company's growth strategy is to acquire high quality contracted renewable and natural gas power generation facilities and other infrastructure assets that generate stable cash flows, with the objective of achieving returns on invested capital. However, there is no certainty that the Company will be successful in pursuing this strategy. There can be no assurance that the Company will be able to identify attractive acquisition candidates in the future (whether through its relationship with TransAlta or otherwise), that the Company will be able to make acquisitions that increase the amount of cash available for distribution, or that acquisitions will be successfully integrated into the Company's existing operations. The Company believes that it is likely to face significant competition for acquisition opportunities and, to the extent that any opportunities are identified, the Company may be unable to effect acquisitions due to a lack of necessary capital resources.

The Company competes with other renewable power companies as well as traditional energy companies, which may have greater financial and other resources for new business. The Company competes with other renewable power companies

primarily for acquisition opportunities, and with other power companies for access to transmission or distribution networks. The Company also competes with other power companies for the limited pool of personnel with requisite industry knowledge and experience. Any failures to successfully prevail in such competition will negatively affect the Company's long term growth prospects.

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

***The Company is dependent on access to parts and equipment from certain key suppliers and the Company may be adversely affected if these relationships are not maintained.***

The Company's ability to compete and expand will be dependent on having access, at a reasonable cost, to equipment, parts and components which are technologically and economically competitive with those utilized by the Company's competitors. Although the Company has individual framework agreements with various suppliers, there can be no assurance that these relationships with suppliers will be maintained. If they are not maintained, the Company's ability to compete may be impaired due to lack of access to these sources of equipment, parts or components.

***Risks relating to growth projects and acquisitions may materially adversely affect the Company.***

Growth projects and acquisitions that the Company undertakes may be subject to execution and capital cost risks, including, but not limited to, cost escalations, construction delays, shortages of raw materials or skilled labor and capital constraints. The occurrences of these risks could have a material and adverse impact on the Company, its financial condition, results of operations and cash flows.

Expansion of the Company's business through growth projects and acquisitions may place increased demands on management, operating systems, internal controls and financial and physical resources. In addition, the process of integrating acquired businesses or growth projects may involve unforeseen difficulties. Failure to successfully manage or integrate any acquired businesses or growth projects could have a material adverse impact on the Company, its financial condition, results of operations and cash flows. Further, the Company cannot make assurances that it will be successful in integrating any acquisition or that the commercial opportunities or operational synergies of any acquisition will be realized as expected.

With respect to acquisitions, the Company cannot make assurances that the Company will identify suitable transactions or that it will have access to sufficient resources, through the capital markets or otherwise, to pursue and complete any identified acquisition opportunities on a timely basis and at a reasonable cost. Any acquisition that the Company proposes or completes would be subject to normal commercial risks that the transaction may not be completed on the terms negotiated, on time, or at all. An unavoidable level of risk remains regarding potential undisclosed or unknown liabilities relating to any acquisition. The existence of such undisclosed liabilities may have a material adverse impact on the Company's business, financial condition, results of operations and cash flows.

***The Company may pursue acquisitions in new markets that are subject to foreign laws or regulation that are more onerous than the laws and regulations to which the Company is currently subject.***

The Company may pursue acquisitions in new markets that are subject to regulation by various foreign governments and regulatory authorities and to the application of foreign laws. Such foreign laws or regulations may not provide for the same type of legal certainty and rights, in connection with the Company's contractual relationships in such countries, as are afforded to the Company currently, which may adversely affect the Company's ability to receive revenues or enforce its rights in connection with its foreign operations. In addition, the laws and regulations of some countries may limit the Company's ability to hold a majority interest in some of the projects that it may acquire, thus limiting its ability to control the operation of such projects. Any existing or new operations may also be subject to significant political, economic and

financial risks, which vary by country, and may include: (a) changes in government policies or personnel; (b) changes in general economic conditions; (c) restrictions on currency transfer or convertibility; (d) changes in labour relations; (e) political instability and civil unrest; (f) regulatory or other changes in the local electricity market; and (g) breach or repudiation of important contractual undertakings by governmental entities and expropriation and confiscation of assets and facilities for less than fair market value.

### **Risks Relating to the Company's Relationship with TransAlta**

***TransAlta exercises substantial influence over the Company and the Company highly dependent on TransAlta as its manager. TransAlta is not necessarily required to act in the best interest of the Company or its shareholders, and the liability of TransAlta is limited in certain respects.***

TransAlta is the majority shareholder of the Company and is also responsible for the management and operation of the Company. In addition, TransAlta is able to nominate directors to the Board and the Company relies on TransAlta exclusively to identify acquisition and growth opportunities. As a result, TransAlta is able to exercise substantial influence over the Company's operations, administration, and growth. The Company depends on the management and administration services provided by or under the direction of TransAlta under the Management and Operational Services Agreement. TransAlta personnel and support staff that provide services to the Company are not required to have as their primary responsibility the Company's management and administration or to act exclusively for us. Even if the Company is not satisfied with the manner in which TransAlta performs its services under the Management and Operational Services Agreement, the Company is not entitled to replace TransAlta as manager prior to the expiry of the initial 20-year term, unless: (i) the agreement is terminated by the written agreement of TransAlta and the Company or (ii) TransAlta beneficially owns directly or indirectly less than 10% of the issued and outstanding Common Shares and the Management and Operational Services Agreement has been terminated. Under the terms of the Governance and Cooperation Agreement, TransAlta is not required to allocate any minimum level of dedicated resources for the pursuit of renewable power generation opportunities for the Company, nor is TransAlta required to offer any specific opportunities to the Company. Any failure to effectively manage the Company's operations or to implement the Company's growth strategy could have a material adverse effect on the Company's business, financial condition, and results of operations.

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

***The Company may not recognize the benefits it anticipates from its relationship with TransAlta.***

The Company's relationship with TransAlta is expected to be an important factor in the growth and success of the Company's business. There are no assurances that the Company will be able to maintain its relationship with TransAlta or realize the benefits it anticipates from its relationship with TransAlta. If the Company is unable to successfully execute on this strategic relationship, the Company's overall growth could be impaired and the Company's operational and financial performance could be lower than expected.

***The departure of some or all of TransAlta's key employees could prevent the Company from achieving its objectives.***

The Company depends on the diligence, skill and business contacts of TransAlta's employees and the information and opportunities they generate during the normal course of their activities. TransAlta has experienced departures of key employees in the past and this could also occur in the future and the Company cannot predict the impact that any such departures will have on the Company's ability to achieve its objectives. The departure of a significant number of TransAlta's key employees for any reason, or the failure to appoint qualified or effective successors in the event of such departures, could have a material adverse effect on the Company's ability to achieve its objectives. The Governance and Cooperation

Agreement and Management and Operational Services Agreement do not require TransAlta to maintain the employment of any of its employees or to cause any particular employees to provide services to the Company.

***The role and ownership of TransAlta may change, which could create uncertainty for the Company.***

The arrangement between the Company and TransAlta does not require TransAlta to maintain any ownership level in the Company. Accordingly, TransAlta may transfer its interest in the Company to a third party, including in a merger or consolidation or in a transfer of all or substantially all of its assets, without the consent of the Company's shareholders. The Company cannot predict with any certainty the effect that any such transfer would have on the trading price of the Common Shares or the Company's ability to raise capital or make investments in the future. As a result, the future of the Company would be uncertain and the Company's business, financial condition and results of operations may suffer.

***The interests of TransAlta and the Company's management structure may create significant conflicts of interest that may not be resolved in a manner that is in the best interests of the Company or the best interests of its public shareholders.***

The Company's ownership and management structure involves a number of relationships that may give rise to conflicts of interest between the Company and the public shareholders, on the one hand, and TransAlta, on the other hand. In certain instances, the interests of TransAlta may differ from the interests of the Company and its public shareholders, including with respect to the types of acquisitions made, the timing and amount of distributions by the Company, the reinvestment of returns generated by operations, the use of leverage when making acquisitions and the appointment of outside advisors and service providers. See "Material Contracts".

***The liability of TransAlta is limited under the Management and Operational Services Agreement and the Company has agreed to indemnify TransAlta against claims that it may face in connection with providing services to the Company, which may lead it to assume greater risks when making decisions relating to the Company than it otherwise would if acting solely for its own account.***

Under the Management and Operational Services Agreement, TransAlta has not assumed any responsibility other than to provide or arrange for the provision of the services described in the Management and Operational Services Agreement in good faith and will not be responsible for any action that the Company takes in following or declining to follow its advice or recommendations. In addition, under the Management and Operational Services Agreement, the liability of TransAlta is limited to the fullest extent permitted by law to conduct involving bad faith, fraud or wilful misconduct or, in the case of a criminal matter, actions that were known to have been unlawful, except that TransAlta is liable for liabilities arising from gross negligence. In addition, the Company has agreed to indemnify TransAlta to the fullest extent permitted by law from and against any claims, liabilities, losses, damages, costs or expenses incurred by an indemnified person or threatened in connection with the Company's operations, investments and activities or in respect of or arising from the Management and Operational Services Agreement or the services provided by TransAlta, except to the extent that the claims, liabilities, losses, damages, costs or expenses are determined to have resulted from the conduct in respect of which such persons have liability as described above. These protections may result in TransAlta tolerating greater risks when making decisions than otherwise would be the case, including determining when to use leverage in connection with acquisitions. The indemnification arrangements to which TransAlta will be a party may also give rise to legal claims for indemnification that would be adverse to the Company and its shareholders.

**Risks Relating to Accounting and Finance Activities**

***The Company may be unable to finance its business or the growth of its business.***

Recovery of the capital investment in renewable power projects generally occurs over a long period of time. As a result, the Company must obtain funds from equity or debt financings, including tax equity transactions, or from government grants, to help finance the acquisition of projects and to help pay the general and administrative costs of operating the Company's business. The Company's ability to arrange financing, either at the corporate level or at the subsidiary level (including non-recourse project debt), and the costs of such capital are dependent on numerous factors, including: (a) general economic and capital market conditions; (b) credit availability from TransAlta, banks and other financial institutions; (c) investor confidence in the Company and the markets in which it conducts operations; (d) the Company's financial performance and

the financial performance of the Company's subsidiaries; (e) the Company's level of indebtedness and compliance with covenants in its debt agreements; and (f) the Company's cash flow.

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

***The Company may be unable to refinance existing indebtedness on terms comparable to existing terms, if at all.***

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

***The Company may be subject to foreign exchange risk.***

The Company may be exposed to changes in the Canadian dollar in relation to foreign currency denominated equipment purchases or in relation to investments in foreign assets. As an example, we have exposure to U.S. currency as a result of our economic interest in the Wyoming Wind Farm and our U.S. denominated debt. Changes in the values of these currencies relative to the Canadian dollar could negatively impact our earnings, cash flows or the value of our foreign investments. While we attempt to manage this risk through the use of hedging instruments, and by matching revenues and expenses by currency at the Corporate level, there can be no assurance that these risk management efforts can be done on a cost effective basis or will be effective, and fluctuations in these exchange rates may have an effect on our business.

***If the Company's project assets become impaired, significant charges to earnings may be required.***

The Company may be required to record charges to earnings if project assets become impaired. Such a charge might have a significant impact on the Company's financial position and results of operations. The Company will review project assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

## **Risks Related to the Common Shares**

***The market price for the Common Shares may be volatile.***

The market price for Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including the following: (a) actual or anticipated fluctuations in the Company's results of operations; (b) recommendations by securities research analysts; (c) changes in the economic performance or market valuations of other companies that investors deem comparable to the Company; (d) the loss or resignation of executive officers and other key personnel of the Company; (e) sales or perceived sales of additional Common Shares; (f) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors which prove to be ill considered; and (g) trends, concerns, technological or competitive developments, regulatory changes and other related issues in the renewable power generation industry or the Company's target markets.

Financial markets have experienced significant price and volume fluctuations in recent years that have particularly affected the market prices of equity securities of companies and such fluctuations have, in many cases, been unrelated to the operating

performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Common Shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values which may result in impairment losses. Certain institutional investors may base their investment decisions on consideration of the Company's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the Common Shares by those institutions, which could adversely affect the trading price of the Common Shares.

***The Company's cash dividend payments are not guaranteed.***

The payment of dividends under the Company's dividend policy is not guaranteed and could fluctuate with the performance of the Company. The Board has the discretion to determine the amount of dividends to be declared and paid to shareholders. The Company may alter its dividend policy at any time and the payment of dividends will depend on, among other things, results of operations; financial condition; current and expected future levels of earnings; operating cash flow; liquidity requirements; market opportunities; income taxes; maintenance and growth capital expenditures; debt repayments; legal, regulatory and contractual constraints; working capital requirements; tax laws and other relevant factors. The Company's short and long-term borrowings may prohibit the Company from paying dividends at any time at which a default or event of default would exist under such debt, or if a default or event of default would exist as a result of paying the dividend.

Over time, the Company's capital and other cash needs may change significantly from its current needs, which could affect whether the Company pays dividends and the amount of any dividends it may pay in the future. If the Company continues to pay dividends at the current level, it may not retain a sufficient amount of cash to finance growth opportunities, meet any large unanticipated liquidity requirements or fund its operations in the event of a significant business downturn. The Board, subject to the requirements of the Company's bylaws and other governance documents, may amend, revoke or suspend the Company's dividend policy at any time. A decline in the market price or liquidity, or both, of the Common Shares could result if the Board establishes large reserves that reduce the amount of monthly dividends paid or if the Company reduces or eliminates the payment of dividends, which could result in losses to shareholders.

The Company will be dependent on the operations of its facilities for its cash availability. The actual amount of cash available for dividends to holders of Common Shares will depend upon numerous factors relating to each of the Company's generation facilities including: the strength and consistency of the wind resources at the wind power facilities of the Company, the availability of water flows in respect of the hydroelectric facilities, operating performance of its generation facilities, profitability, changes in revenues, fluctuations in working capital, capital expenditure levels, applicable laws, compliance with contracts and contractual restrictions contained in the instruments governing any indebtedness. Any reduction in the amount of cash available for distribution from its generation facilities will reduce the amount of cash available for the Company to pay dividends to holders of Common Shares.

***The Common Share price could decline due to the potential for share issuances by the Company for other purposes.***

The Board may issue an unlimited number of Common Shares without any vote or action by the Company's shareholders, subject to the rules of the Toronto Stock Exchange (the "TSX") or any other stock exchange on which the Company's securities may be listed from time to time. The Company may make future acquisitions or enter into financings or other transactions involving the issuance of securities. If the Company issues any additional equity, the percentage ownership of existing shareholders will be reduced and diluted and the price of the Common Shares could decline.

***TransAlta's rights under the Investor Liquidity Agreement could negatively impact the Company's share price if exercised.***

TransAlta holds, directly and indirectly, 70.3 per cent of our issued and outstanding Common Shares. The Investor Liquidity Agreement provides for Demand Registration rights in favour of TransAlta that enables TransAlta to require the Company to qualify by prospectus or register, as applicable, all or a portion of the Common Shares held, directly and indirectly, by TransAlta for a distribution to the public in Canada. The Investor Liquidity Agreement also provides TransAlta with incidental, or piggy-back, qualification rights. Where the Company proposes to make a distribution, for its own account or for the account of any other holder of securities of the Company, TransAlta will have the right to include a specified number

of its Common Shares in the distribution, subject to certain limitations. Sales of Common Shares owned, directly and indirectly, by TransAlta through the Investor Liquidity Agreement or otherwise could exert downwards pressure on the trading price of the Common Shares and could impair the future ability of the Company to raise capital through the sale of its equity securities.

## **EMPLOYEE AND GOVERNANCE MATTERS**

The officers of TransAlta Renewables are Brett Gellner, President and Designated Chief Executive Officer, Cynthia Johnston, Chief Operating Officer, David Koch, Vice-President and Controller and Designated Chief Financial Officer, Maryse St.-Laurent, Vice-President Legal and Corporate Secretary, and Todd Stack, Vice-President and Treasurer. Management and administrative services are provided by TransAlta through the Management and Operational Services Agreement. See "*Material Contracts - Management and Operational Services Agreement*". Accordingly, we do not have any direct employees.

The employees of TransAlta who provide general and administrative services to us pursuant to the Management and Operational Services Agreement are the same individuals who previously performed similar services for TransAlta when TransAlta owned the Initial Assets. Accordingly, we expect that we and TransAlta will achieve certain managerial, administrative and operational efficiencies, thereby reducing the overall costs associated with managing and operating the business of TransAlta Renewables. It is anticipated that TransAlta's knowledge and expertise in relation to our asset base will contribute to their effective operation and utilization. The standards and practices employed by TransAlta have been recognized by several leading sustainability indexes, including the Dow Jones Sustainability North America Index, the FTSE4Good Index and the Jantzi Social Index. TransAlta regularly achieves world class safety performance rankings for its industry.

### **Management and Operational Services Agreement**

On August 9, 2013, we entered into the management, administrative and operational services agreement with TransAlta pursuant to which TransAlta, on a sole and exclusive basis, provides us with all the general administrative services as may be required or advisable for the management of the affairs of the Company (the "Management and Operational Services Agreement").

The management services provided by TransAlta under the Management and Operational Services Agreement include, but are not be limited to: (i) ensuring that we comply with our continuous disclosure and other obligations under Canadian Securities Laws; (ii) managing our financing, borrowing and investing activities; (iii) developing, implementing and monitoring our strategic plan; (iv) providing us with investor relations services including the calling and holding of all meetings of our shareholders; (v) computing any dividends to our shareholders and overseeing the payment thereof; (vi) undertaking all required acts and responsibilities in connection with the acquisition and disposition of our assets and property; (vii) providing accounting and bookkeeping services, including for the preparation of our annual and interim financial statements and the preparation and filing of all tax returns; (viii) providing information technology services and making available all information technology equipment as may be reasonably necessary; (ix) managing any litigation and other legal services; (x) providing risk management services; (xi) providing office space, equipment and personnel as may be reasonably necessary; (xii) arranging for audit, legal and other third party professional and non-professional services; and (xiii) generally providing all other services as may be necessary, or requested by us, for the management and administration of TransAlta Renewables.

The operational and maintenance services provided by TransAlta under the Management and Operational Services Agreement include, but are not be limited to: (i) administering and causing us and each of our operating subsidiaries (the "Operating Entities") to perform and satisfy our and their obligations under all material contracts; (ii) providing or securing operational, management and maintenance services; (iii) providing procurement and logistical services; (iv) providing engineering, technical and evaluation services; (v) providing environment, health and safety services; (vi) ensuring proper training of personnel and the provision of necessary equipment and services; (vii) obtaining and maintaining all permits, authorities and consents required for the conduct of business by the Operating Entities; and (viii) generally providing all other services as may be necessary or requested for the operation and maintenance of the assets held by the Operating Entities.

Pursuant to the Management and Operational Services Agreement, TransAlta has agreed to: (i) perform all services under the Management and Operational Services Agreement in compliance with applicable laws, (ii) observe or cause to be observed and performed on our behalf, in all material respects, all agreements from time to time entered into for and on our behalf and (iii) not commingle the funds of TransAlta Renewables with any party. In the exercise of its powers and authority under the Management and Operational Services Agreement, TransAlta is required to exercise the powers and discharge its duties thereunder honestly, in good faith and in the best interests of the Company and in connection therewith shall exercise that degree of care, diligence and skill that a reasonably prudent manager of a Corporation in Canada, having responsibilities of a similar nature to those under the agreement, would exercise in comparable circumstances. TransAlta is prohibited from entering into or committing to any transaction which, in accordance with Applicable Laws, or pursuant to the requirements of any other written agreement between the Company and TransAlta or any of their respective subsidiaries or affiliates, requires the approval of our independent directors or the approval of our shareholders, unless such approval is first obtained.

TransAlta and its personnel are obligated to devote as much time as is reasonably necessary for the proper discharge of its services under the Management and Operational Services Agreement. We expressly consent in the Management and Operational Services Agreement to TransAlta and its affiliates (other than us) and their respective officers, directors and employees engaging in any business or activities whatsoever, including those that may be in competition or conflict with our business and/or our interests; provided that in the event of a material conflict between our interests and the interests of TransAlta, TransAlta is required to provide written notice to us setting forth particulars of such conflict and, thereafter, our independent directors shall be responsible to take all such actions and make all such decisions relating to such matter.

In connection with the services provided under the Management and Operational Services Agreement, we pay TransAlta an annual fee (the "G&A Reimbursement Fee"), which fee is meant to cover TransAlta's management, administrative, accounting, planning and other head office costs associated with providing services to us under the Management and Operational Services Agreement. The G&A Reimbursement Fee was initially set at \$10,000,000 per annum and is adjusted annually for changes in the CPI and increases or decreases of 5 per cent of the earnings before interest, tax, and depreciation associated with additions or divestitures of assets. The G&A Reimbursement Fee is payable in equal quarterly installments. The G&A Reimbursement Fee is expected to be \$10,684,000 in 2015 which reflects the impact of the acquisition of the economic interest in the Wyoming Wind Farm. This amount may be varied to reflect future growth.

The G&A Reimbursement Fee is reviewed periodically, and in any event no less than once every five years, to consider, in good faith, whether any adjustments to the G&A Reimbursement Fee are required to reflect changing economic circumstances, regulatory requirements and/or the additional or reduced, as the case may be, time, effort and expense in administering our asset base.

In addition to the G&A Reimbursement Fee, we also reimburse TransAlta for all out-of-pocket and third party fees and costs, including salaries, wages and benefits associated with managing and operating the assets held by our Operating Entities not captured by the G&A Reimbursement Fee. We directly incur and are responsible for any costs associated with (i) insurance, (ii) compensation for our independent directors, (iii) direct engagement of third party experts for assessing or valuing a growth opportunity, (iv) third party audit and legal fees, and (v) all other costs associated with being a publicly traded reporting issuer.

The reimbursement of expenses to TransAlta, including through the G&A Reimbursement Fee, or its affiliates is not intended to provide TransAlta or its affiliates with any financial gain or loss.

TransAlta, its affiliates and associates and each of their respective directors, officers and employees are not, either directly or indirectly, liable, answerable or accountable to TransAlta Renewables or any of our shareholders, for any loss or damage resulting from the performance or non-performance of management services (including any mistake or error of judgment), unless such loss or damage resulted from the fraud, wilful default or gross negligence of such party.

Each of TransAlta Renewables and TransAlta, and their respective directors, officers and employees, are indemnified by the other party in certain circumstances arising under the Management and Operational Services Agreement.

The Management and Operational Services Agreement has an initial 20 year term; provided, however, that the agreement shall be 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 not less than 180 days prior to the expiration of the initial term or any renewal term, as the case may be. The Management and Operational Services Agreement may be terminated by: (a) mutual agreement; (b) TransAlta Renewables upon the occurrence of a material default by TransAlta; and (c) TransAlta (i) upon the occurrence of a material default by TransAlta Renewables or (ii) upon a "Change of Control" of TransAlta Renewables, being the acquisition by any person or group of persons acting jointly and in concert (other than us and our affiliates) of more than 50 per cent of the issued and outstanding Common Shares. In addition, the Management and Operational Services Agreement may be terminated by TransAlta Renewables by a majority vote of our independent directors at any time following TransAlta's direct and indirect ownership in the Company falling below 20 per cent.

### **Governance and Cooperation Agreement**

On August 9, 2013 we entered into the governance and cooperation agreement which governs various aspects of our relationship with TransAlta (the "Governance and Cooperation Agreement"). Pursuant to the Governance and Cooperation Agreement, we and TransAlta have agreed, among other things, that TransAlta will serve as the primary vehicle through which TransAlta Renewables and our affiliates acquire and/or develop renewable power projects.

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

The Board is currently comprised of six individuals, three of whom are appointed by TransAlta, three of whom are independent (pursuant to NI 52-110) and all of whom are "financially literate" as defined in NI 52-110 (subject to available exemptions in NI 52-110). See "*Directors and Officers - Directors*". TransAlta is entitled to nominate a majority of the directors of TransAlta Renewables for so long as the percentage of outstanding Common Shares beneficially owned directly or indirectly by TransAlta is not less than 35 per cent of the issued and outstanding Common Shares. If the percentage of outstanding Common Shares beneficially owned directly or indirectly by TransAlta is less than 35 per cent but greater than or equal to 10 per cent, TransAlta shall be entitled to nominate its proportionate share of the directors of TransAlta Renewables (rounded up to the next whole number) based on the percentage of outstanding Common Shares beneficially owned directly or indirectly by TransAlta. Finally, irrespective of the percentage of outstanding Common Shares beneficially owned directly or indirectly by TransAlta, TransAlta will be entitled to nominate one director of TransAlta Renewables for so long as the Management and Operational Services Agreement is in effect. The nominees of TransAlta to the Board may be directors, officers or employees of TransAlta or its affiliates, or other persons, at TransAlta's discretion. Board nominees of TransAlta who are directors, officers or employees of TransAlta or its affiliates are not entitled to any compensation from TransAlta Renewables, except as described herein. Subject to any requirements of the CBCA, TransAlta is entitled to nominate for appointment or election to the Board a replacement director for any nominee director of TransAlta who ceases for any reason to be a director of the Board, provided TransAlta remains, at that time, entitled to appoint such director.

To the fullest extent permitted by law, we will indemnify all directors, officers, former directors and former officers of TransAlta Renewables, as applicable, and all persons who act or acted at our request as a director or officer, or an individual acting in a similar capacity, of another person, and his or her heirs and legal personal representatives, against all costs, charges and expenses, including any amount paid to settle any action or satisfy a judgment, reasonably incurred by him or her in respect of any civil, criminal, administrative, investigative or other proceeding in which the individual is involved because of that association with TransAlta Renewables or such other person if, (i) he or she acted honestly and in good faith with a view to the best interests of TransAlta Renewables or such other person, as the case may be; and (ii) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, he or she had reasonable grounds for believing that his or her conduct was lawful.

Under the Governance and Cooperation Agreement, the Company has also provided TransAlta with certain pre-emptive rights to participate in future offerings of securities in the Company. Provided TransAlta beneficially owns directly or

indirectly not less than 10 per cent of the issued and outstanding Common Shares and subject to limited exceptions, if TransAlta Renewables proposes to issue any Common Shares or other equity securities (the "Offered Securities"), or any option or other right to acquire Offered Securities or other securities convertible into or exercisable or exchangeable for Offered Securities (the "Convertible Securities"), we will first offer TransAlta the opportunity to subscribe for and acquire that number of Offered Securities or Convertible Securities equal in amount to TransAlta's then outstanding proportionate interest in the Common Shares or any such lesser amount as TransAlta may elect to subscribe for at the subscription price as determined by the Board. If any of the Offered Securities or Convertible Securities are not subscribed for by TransAlta within the applicable periods provided for in the Governance and Cooperation Agreement, we may proceed to offer such unsubscribed Offered Securities or Convertible Securities within the period of 90 days after the expiration of such applicable period to any person, provided the price at which such Offered Securities or Convertible Securities are issued is not less than the subscription price offered to TransAlta and the terms of payment for such Offered Securities or Convertible Securities are not more favourable to such person than the terms of payment offered to TransAlta. The foregoing pre-emptive right will also apply to any debt securities or securities convertible into debt securities issued by us on the basis that TransAlta shall be offered the right to subscribe for up to that percentage of the total aggregate principal amount of debt securities or number of securities convertible into debt securities to be issued equal to the percentage of outstanding Common Shares beneficially owned directly or indirectly by TransAlta.

The Governance and Cooperation Agreement also provides that, under the circumstances set forth in the Governance and Cooperation Agreement, we will provide TransAlta and TransAlta's board of directors with certain financial and other information and data with respect to TransAlta Renewables and its business, properties, financial positions, results of operations and prospects, as may reasonably be required by TransAlta to meet its reporting obligations. In addition, we are obligated to: (a) maintain effective disclosure controls and procedures and to comply with applicable securities laws in a manner substantially similar to TransAlta's internal practices; (b) provide financial reports to TransAlta in connection with each meeting of the board of directors of TransAlta and meeting of the audit committee of TransAlta; (c) prepare all financial information to be provided by us to TransAlta or filed with any securities regulatory authority, in accordance with the same accounting principles as applied by TransAlta; (d) consult with TransAlta as to the timing of any financial guidance in respect of TransAlta Renewables for a current or future period that we intend to publish or otherwise make public, and give TransAlta the opportunity to review the information therein relating to TransAlta Renewables and to comment thereon; and (e) cooperate fully, and use commercially reasonable efforts to cause the auditors of TransAlta Renewables to cooperate fully, with TransAlta to the extent reasonably requested by TransAlta in the preparation of any filings made by TransAlta with any securities regulator pursuant to applicable securities laws.

The Governance and Cooperation Agreement will continue in force until the earlier of (a) the date on which the Governance and Cooperation Agreement is terminated by the written agreement of TransAlta and TransAlta Renewables, or (b) the date on which (i) TransAlta beneficially owns directly or indirectly less than 10 per cent of the issued and outstanding Common Shares, and (ii) the Management and Operational Services Agreement has been terminated in accordance with its terms.

### **Investor Liquidity Agreement**

On August 9, 2013, we entered into the investor liquidity agreement with TransAlta (the "Investor Liquidity Agreement") which provides that TransAlta and any direct or indirect transferee of TransAlta who shall become party to the Investor Liquidity Agreement (each a "Holder") may, at any time and from time to time, make a written request to TransAlta Renewables to file a prospectus in any jurisdiction or jurisdictions of Canada in which we are at the relevant time a reporting issuer in respect of the distribution of all or part of the Common Shares then held by the Holder ("Registrable Securities"), subject to certain restrictions as discussed below (a "Demand Registration"). Upon receipt of a Demand Registration, we will be required to use our reasonable commercial efforts to file a prospectus in order to permit the offer and sale or other disposition or distribution in Canada of all or any portion of the Common Shares held, directly or indirectly, by the Holder. We may satisfy this obligation through the use of a shelf prospectus and applicable shelf prospectus supplements and, in connection therewith, each Holder agrees to reasonably cooperate with us in connection with the filing of such shelf prospectus.

The Demand Registration rights are subject to certain limitations including that: (a) other than in respect of a prospectus supplement, we shall not be obligated to file a prospectus in respect of a Demand Registration within 75 days after the effective date of a previous Demand Registration; or (b) we shall not be obligated to file a prospectus in respect of a Demand

Registration unless the request is for a number of Registrable Securities with a market value that is equal to at least \$50,000,000 as of the date of such request for Demand Registration. In the event that a majority of the independent members of the Board determine in good faith and acting reasonably that any Demand Registration should not be made or continued because it would materially adversely affect a pending or proposed material acquisition, merger, recapitalization, consolidation, reorganization or similar transaction, or negotiations, discussions or pending proposals with respect thereto, or would require the disclosure of material non-public information that, in the good faith judgement of a majority of the independent members of the Board would have a material adverse effect on TransAlta Renewables and its subsidiaries taken as a whole, or a material adverse effect on any of TransAlta Renewables or any of our significant subsidiaries (a "Valid Business Reason") then, (i) we will have the right to postpone the filing of a prospectus (or prospectus supplement, as applicable) until such Valid Business Reason no longer exists, provided that such postponement shall not extend for a period of more than 90 days after receipt of the request for such Demand Registration and provided further that such right may not be exercised by us more than once in any 12 month period; (ii) we may cause a prospectus (or prospectus supplement, as applicable) that has been filed pursuant to a Demand Registration request to be withdrawn, or a majority of the independent members of the Board, as applicable, may postpone amending or supplementing any previously filed prospectus pursuant to a Demand Registration request until such Valid Business Reason no longer exists, provided that such withdrawal or postponement shall not extend for a period of more than 90 days, and provided further that such right may not be exercised by us more than once in any 12 month period; and (iii) we will give written notice of our determination to defer filing, postpone the amendment of or withdraw a prospectus (or prospectus supplement, as applicable) and of the fact that the Valid Business Reason for such deferral, postponement or withdrawal no longer exists, in each case, promptly after the occurrence thereof. If we defer the filing of a prospectus, or withdraw a filed prospectus, and if the Holder within 30 days after receipt of a notice of deferral or withdrawal from TransAlta Renewables advises us in writing that it has determined to withdraw such request for a Demand Registration, then such Demand Registration and the request therefor will be deemed to be withdrawn and such request will be deemed not to have been given for purposes of determining whether such Holder has exercised its right to a Demand Registration permitted to such Holder.

If at any time we propose to file a preliminary prospectus with respect to the distribution of any Common Shares to the public, then we will, at that time, give prompt notice of the proposed distribution to each Holder, which notice will offer each Holder the opportunity to qualify for distribution such number of Registrable Securities as such holder may request. We will use commercially reasonable efforts to include in such prospectus such Registrable Securities as the Holders may request (a "Piggy-Back Registration"), unless our underwriter or agent determines, acting reasonably, that including such Registrable Securities in the distribution would adversely affect the distribution by TransAlta Renewables.

In the case of a prospectus filed in connection with a Demand Registration, the Holder will pay all applicable fees and expenses incident to TransAlta Renewables performance of, or compliance with, the terms of the Demand Registration customarily paid by issuers or sellers of securities, excluding listing expenses of stock exchanges and the fees and disbursements of legal counsel for TransAlta Renewables, which will be paid by the Company. In the case of a Piggy-Back Registration or our participation in a Demand Registration, such fees and expenses will be allocated between the Holder(s), as applicable, and us in an equitable manner having regard to the proportion of the number of Common Shares sold by each relative to the total number of Common Shares sold pursuant to the prospectus.

All underwriting discounts and commissions, transfer taxes attributable to a sale of Registrable Securities, and any out-of-pocket expenses of the underwriters in connection with each prospectus filed in connection with a Demand Registration or Piggy-Back Registration, other than the fees and expenses described in the preceding paragraph, will be borne by the Holder(s), as applicable, and any other participating sellers (including the Company, if applicable) in proportion to the number of Common Shares sold by each relative to the total number of Common Shares sold pursuant to the prospectus.

The Investor Liquidity Agreement will continue in force until the earlier of the date on which: (a) there are no longer any outstanding Registrable Securities; (b) the Holders, collectively, beneficially own, directly or indirectly, 10 per cent or less of the issued and outstanding Common Shares; or (c) the Investor Liquidity Agreement is terminated by written agreement of all the persons who, at the time such agreement is terminated, are the holders of all Registrable Securities.

## CAPITAL AND LOAN STRUCTURE

### General

Our authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preferred shares, issuable in series ("Preferred Shares"). As at February 12, 2015, there were 114,666,668 Common Shares and no Preferred Shares issued and outstanding.

### Common Shares

Holders of Common Shares are entitled to one vote per Common Share at meetings of shareholders of the Company, except meetings at which only holders of another particular class or series shall have the right to vote. Holders of Common Shares are not entitled to vote separately as a class upon any proposal to amend the articles of the Company in the manner referred to in paragraphs (a), (b) or (e) of subsection 176(1) of the CBCA.

Subject to the rights of the Preferred Shares and any other shares of the Company ranking senior to the Common Shares with respect to the payment of dividends, holders of the Common Shares are entitled to receive dividends, exclusive of any other shares of the Company, if, as and when declared by the Board. Holders of the Common Shares are also entitled to share equally in any distribution of the assets of the Company upon liquidation, dissolution, bankruptcy or winding-up of the Company or any other distribution of its assets among the shareholders of the Company for the purpose of winding-up its affairs (such event referred to herein as a "Distribution"). Such participation is subject to the preferences accorded to holders of the Preferred Shares and other shares of the Company ranking senior to the Common Shares with respect to payment on a Distribution. The Common Shares are not convertible into any other class of shares.

### Preferred Shares

The Preferred Shares are issuable in series and have such rights, restrictions, conditions and limitations as the Board may from time to time determine. Holders of Preferred Shares are not entitled to vote separately as a series upon any proposal to amend the articles of the Company in the manner referred to in paragraphs (a), (b) or (e) of subsection 176(1) of the CBCA.

Subject to the rights of holders of any other shares of the Company ranking senior to the Preferred Shares with respect to the payment of dividends, holders of the Preferred Shares are entitled to receive payment of dividends, in priority to holders of the Common Shares and any other shares ranking junior to the Preferred Shares with respect to the payment of dividends. Holders of the Preferred Shares are entitled to be paid rateably with holders of each other series of Preferred Shares the amount of accumulated dividends, if any, specified as being payable preferentially to holders of such series. In the event of a Distribution, holders of each series of Preferred Shares are entitled, in priority to holders of Common Shares or any other shares of the Company ranking junior to the Preferred Shares with respect to payment on a Distribution, to be paid rateably with holders of each other series of Preferred Shares the amount, if any, specified as being payable preferentially to holders of such series on a Distribution.

### Wyoming Wind Acquisition Loan

The Company borrowed U.S.\$102.0 million (\$108.9 million) from TransAlta to finance its acquisition of the economic interest in the Wyoming Wind Farm. The loan is unsecured and bears interest at 4.0 per cent per annum, payable quarterly. Principal repayments of at least U.S.\$15.0 million in aggregate are required in each of 2015 and 2016. A payment of U.S.\$15.0 million was made on March 31, 2014. Any remaining principal balance outstanding on the maturity date of December 31, 2018 is due at that time.

### Amortizing Term Loan from TransAlta

On August 9, 2013, we finalized and entered into a \$200 million unsecured amortizing term loan from TransAlta (the "Amortizing Term Loan"). The Amortizing Term Loan has a term of eight years and bears interest at a rate of 4.00 per cent, with principal and interest payable semi-annually.

## **CHD Debt**

CHD has issued unsecured debentures in the aggregate principal amount of \$323 million and U.S.\$20 million. These debentures bear interest at fixed rates ranging from 5.33 per cent to 7.31 per cent per annum, with interest payable semi-annually and no principal repayments until maturity, with maturities ranging from 2015 to 2018. These debentures are unsecured and the only recourse is to CHD and its assets. In February 2015, the Company and its partner issued bonds secured by their jointly owned Pingston facility. CHD's share of gross proceeds was \$45 million. This debenture bears interest at 2.95 per cent per annum, with interest payable semi-annually and no principal repayments until maturity in May 2023.

## **Working Capital Credit Facility**

On August 9, 2013, we finalized and entered into a \$100 million unsecured working capital credit facility with TransAlta as lender (the "Credit Facility"). The Credit Facility bears interest at the average annual yield for one month Canadian dollar bankers' acceptances (expressed as a rate per annum) as quoted on Reuters CDOR page (or such other page as may, from time to time, replace such page on that service for the purpose of displaying quotations for bankers' acceptances accepted by leading Canadian financial institutions) (the "BA Rate") plus a 200 basis point credit spread per annum. Currently, the borrowing rate is approximately 3.30 per cent and will vary based on the credit spread over the BA Rate. This facility has been made available for general corporate purposes including financing ongoing working capital requirements, and is currently undrawn.

## **CREDIT RATINGS**

TransAlta Renewables Inc. is not rated. However, Canadian Hydro Developers, Inc. has an issuer rating from Dominion Bond Rating Service Limited ("DBRS"). The issuer rating for CHD pertains to the senior unsecured long term debt issued by this entity. CHD's outstanding senior unsecured long term debt is supported only by the assets which it owns, and not by any other assets owned by TransAlta Renewables and held outside of CHD.

### **Issuer Rating of CHD**

CHD has an issuer rating of BBB (stable) from DBRS.

### **Senior Unsecured Long-term Debt**

As of December 31, 2014, CHD had a senior unsecured long-term debt rating of BBB (stable) by DBRS. The ratings for debt instruments range from a high of AAA to a low of D for DBRS.

According to the DBRS rating system, debt securities rated BBB are of adequate credit quality. The capacity for the payment of financial obligations is considered acceptable, but the entity may be vulnerable to future events. "High" or "Low" subcategories indicate the relative standing within a rating category for all rating categories other than AAA and D. DBRS also assigns rating trends of "positive," "stable," or "negative" to each of its ratings. The rating trend indicates the direction in which DBRS considers the rating is headed should present tendencies continue, or in some cases, unless challenges are addressed.

### **Note Regarding Credit Ratings**

The foregoing information relating to CHD's credit ratings is provided as it relates to our financing costs, liquidity and operations. Specifically, credit ratings affect our ability to obtain short-term and long-term financing and the cost of such financing. Additionally, our ability to engage in certain collateralized business activities on a cost effective basis depends on our credit ratings. A reduction in the current rating on CHD's debt by DBRS, particularly a downgrade below investment grade ratings, or a negative change in its ratings outlook could adversely affect our cost of financing and access to sources of liquidity and capital. In addition, changes in credit rating may affect our ability to, and the associated costs of, (i) entering

into ordinary course derivative or hedging transactions and may require us to post additional collateral under certain of our contracts, and (ii) entering into and maintaining ordinary course contracts with customers and suppliers on acceptable terms.

Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. The credit ratings accorded to the outstanding CHD securities by DBRS, are not recommendations to purchase, hold or sell such securities inasmuch as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that the ratings will remain in effect for any given period or that a rating will not be revised or withdrawn entirely by DBRS in the future if, in its judgement, circumstances so warrant.

We have paid for rating services fees to DBRS, but have not paid for other rating agency services during the last two years.

## DIVIDENDS

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

TransAlta Renewables has declared and paid the following dividends per share on its outstanding Common Shares:

Period	Dividend Payment Date	Dividend per Common Share
2013	September 30	\$0.06250
	October 31	\$0.06250
	November 29	\$0.06250
	December 31	\$0.06250
2014	January 31	\$0.06250
	February 28	\$0.06416
	March 28	\$0.06416
	April 30	\$0.06416
	May 30	\$0.06416
	June 30	\$0.06416
	July 31	\$0.06416
	August 29	\$0.06416
	September 30	\$0.06416
	October 31	\$0.06416
	November 28	\$0.06416
	December 31	\$0.06416
2015	January 30	\$0.06416

On October 31, 2014, the Board declared cash dividends of \$0.06416 per Common Share, payable on February 27, 2015 to shareholders of record at the close of business on February 2, 2015.

On February 12, 2015, the Board declared cash dividends of \$0.06416 per Common Share, payable on each of March 31, 2015, April 30, 2015 and May 29, 2015, to shareholders of record at the close of business on March 2, 2015, April 1, 2015 and May 1, 2015, respectively.

## MARKET FOR SECURITIES

Our Common Shares are listed on the TSX under the symbol "RNW". The following table sets forth the reported high and low trading prices and trading volumes of our Common Shares as reported by the TSX for the periods indicated:

Month	Price (\$)		Volume
	High	Low	
<b>2014</b>			
January	11.44	10.89	593,035
February	11.60	10.85	751,241
March	11.65	11.03	745,014
April	11.79	11.12	2,251,143
May	11.44	11.14	2,361,142
June	11.92	11.29	2,243,721
July	12.11	11.58	2,034,447
August	11.79	11.30	2,042,486
September	11.79	11.33	1,268,904
October	12.32	11.30	1,452,410
November	12.47	11.67	1,261,773
December	12.09	11.00	1,283,261
<b>2015</b>			
January	13.13	11.48	1,541,067
February 1-12	12.87	12.40	709,324

## DIRECTORS AND OFFICERS

### Directors

The name, province or state and country of residence of each of our directors as at February 12, 2015, their respective position and office and their respective principal occupation during the five preceding years, are set out below. The year in which each director was appointed to serve to the Board is also set out below. Each director is appointed to serve until the next annual meeting of TransAlta Renewables or until his or her successor is elected or appointed.

Name, Province (State) and Country of Residence <sup>(1)</sup>	Year first became Director	Principal Occupation
<b>David W. Drinkwater</b> <sup>(2)(3) (4) (5)</sup> Toronto, Canada	2013	<p>Mr. Drinkwater is a Senior Advisor to Rothschild Canada. Prior thereto, Mr. Drinkwater was the Chairman of Rothschild Canada from April 15, 2009 to July 1, 2013. Prior thereto, Mr. Drinkwater was the Chief Legal Officer of Nortel Networks Corporation from December 19, 2005 to December 31, 2008 and Senior Advisor from then to March 31, 2009. From May 2007 to November 2007, he was also Acting Chief Financial Officer of Nortel Networks Corporation. From August 2004 to December 2005, he acted as an independent consultant and corporate director. From April 2003 to July 2004, Mr. Drinkwater served as Executive Vice President and Chief Financial Officer at Ontario Power Generation Inc. From December 1998 to March 2003, Mr. Drinkwater was Executive Vice President, Corporate Development and Legal Affairs at Ontario Power Generation.</p> <p>Mr. Drinkwater holds an LL.M. from the London School of Economics, an LL.B from Dalhousie University and a B.A. in Business Administration from the Richard Ivey School of Business at the University of Western Ontario.</p> <p>Mr. Drinkwater is a member of the Audit Committee.</p>

**Brett M. Gellner**  
Alberta, Canada

2013 Mr. Gellner is President and Designated Chief Executive Officer of the Company. Mr. Gellner is also the Chief Investment Officer of TransAlta and is responsible for all financial policy, planning and reporting, as well as mergers and acquisitions, tax, treasury, risk management, internal audit, and investor relations. Mr. Gellner was Chief Financial Officer of TransAlta from 2010 to 2014 and prior thereto, was Vice-President, Commercial Operations and Mergers & Acquisitions at TransAlta. Prior to joining TransAlta, Mr. Gellner spent 12 years in investment banking covering the power, pipeline, midstream and forest products sectors.

Mr. Gellner has a Master's degree specializing in economics from the University of Alberta and holds a Chartered Financial Analyst designation. He has also completed the Advanced Management Program at Harvard University.

**Allen R. Hagerman**<sup>(2)</sup>  
Alberta, Canada

2013 Mr. Hagerman is a corporate director. Prior to December 31, 2014, he was Executive Vice President of Canadian Oil Sands Limited, an oil sands mining and upgrading entity. Prior to 2007, Mr. Hagerman was Chief Financial Officer of Canadian Oil Sands Limited. Mr. Hagerman is a director and chair of the audit committee of Precision Drilling Corporation and a director of the Calgary Exhibition and Stampede. He is also a member of the Financial Executives Institute and a past President of Financial Executives Institute, Calgary Chapter, as well as a past Chair of the Alberta Children's Hospital Foundation. Previous board positions include lead director of Capital Power Income L.P., director of Syncrude Canada Ltd. and Governor of the University of Calgary. He is a fellow of the Institute of Chartered Accountants of Alberta and received their Distinguished Service Award.

Mr. Hagerman is a Chartered Accountant and holds a Bachelor of Commerce from the University of Alberta and a Master of Business Administration from Harvard Business School. He also holds an ICD.D. certification from the Institute of Corporate Directors and is a member of the ICD Calgary Chapter.

Mr. Hagerman is the Chair of the Board and a member of the Audit Committee.

**Cynthia Johnston**  
Alberta, Canada

2013 Ms. Johnston is the Chief Operating Officer of the Company. Ms. Johnston is also the Executive Vice-President, Corporate Services of TransAlta and is responsible for Information Technology, Supply Chain Management, Engineering & Construction, Land, and TransAlta's Project Management Office. Prior to this role, she was TransAlta's Vice-President of Renewable Operations, accountable for TransAlta's wind and hydroelectric generation operations across five Canadian provinces. Preceding TransAlta, she spent over five years with FortisAlberta Inc., leading regulatory and legal affairs.

Ms. Johnston has over 28 years of experience in the electricity industry and has a Bachelor of Arts in Economics from the University of Calgary and a Master of Arts in Applied Economics from the University of Victoria

**Kathryn A. B. McQuade**<sup>(2)(6)</sup>  
Nevada, U.S.A.

2013 Ms. McQuade is currently an independent business person and trustee for the Kathryn B. McQuade Foundation. Ms. McQuade served as Senior Advisor of Canadian Pacific Railway Company from November 1, 2012 to May 15, 2013. Prior thereto, Ms. McQuade served as the Chief Financial Officer of Canadian Pacific Railway Company from September 4, 2008 to her retirement on November 1, 2012.

Ms. McQuade joined Canadian Pacific Railway Limited in June 2007 as Executive Vice President and Chief Operating Officer. Prior to joining Canadian Pacific Railway Limited, Ms. McQuade served as Executive Vice President - Planning and Chief Information Officer at Norfolk Southern Corporation where she spent 27 years in key information technology, strategic planning and finance leadership positions, including Vice-President, Internal Audit and Senior Vice-President, Finance. She currently serves as a director on Altria Group, Inc., a public tobacco corporation, where she is a member of the Audit Committee, Compensation Committee and Finance Committee. She also served as a director of several privately-held companies. From October 2013, Ms. McQuade is emerita status of the Board of Trustees of The College of William & Mary Foundation. She previously served as a director of Shenandoah Life Insurance Company, TTX Company, Consolidated Rail Corporation and North West Upgrading Inc.

Ms. McQuade is a Certified Public Accountant and holds a Bachelor of Business Administration in Accounting with a minor in Mathematics from the College of William and Mary in Virginia. She also completed the Advanced Management Program at Harvard.

Ms. McQuade is the Chair of the Audit Committee.

**Paul H. E. Taylor**  
British Columbia, Canada

2013

Mr. Taylor is currently an independent business person. Previously, Mr. Taylor served as the President, U.S. Operations and Executive Vice-President, Canadian Coal of TransAlta until March 31, 2014 and was responsible for leading the commercial coal and sustainability teams in both Canada and the U.S. In the late 1990s, while serving as TransAlta's Senior Vice-President, Corporate Development, he was involved in the establishment of TransAlta Power, L.P. His energy experience includes serving as President and Chief Executive Officer of NaiKun Wind Energy Group, an offshore wind developer. Mr. Taylor also has extensive public sector experience including serving as Chief of Staff to the Premier of British Columbia, British Columbia's Deputy Minister of Finance and Secretary to the Treasury Board and President and Chief Executive Officer of the Insurance Corporation of British Columbia and various roles within Alberta Treasury. Mr. Taylor has served on private and public sector boards including NaiKun Wind Energy Group, BC Forestry Investment & Innovation, TransAlta New Zealand, TransAlta Power Ltd., The Conference Board of Canada, the World Wildlife Fund — Canada and as the Chair of the Insurance Corporation of British Columbia.

Notes:

- (1) The following directors are Canadian residents: David W. Drinkwater, Brett M. Gellner, Allen R. Hagerman, Cynthia Johnston, and Paul H.E. Taylor.
- (2) Independent director.
- (3) Mr. Drinkwater was a director of Hollinger Inc. from August 2005 to June 2008. Mr. Drinkwater agreed to join the Hollinger Inc. board of directors at the request of a shareholder to deal with certain management misconduct. On August 1, 2007, Hollinger Inc. obtained an initial court order granting it creditor protection under the *Companies' Creditors Arrangement Act* (Canada) and made a concurrent application for a companion order under Chapter 15 of the United States Bankruptcy Code.
- (4) Mr. Drinkwater was a director of Hollinger Inc. from August 2005 to June 2008. Hollinger Inc. was the subject of several cease trade orders issued between 2004 and 2008, due to its failure to file financial statements on a timely basis, and Mr. Drinkwater became subject to certain such orders as a result of his appointment as a director.
- (5) Mr. Drinkwater became an officer of Nortel Networks Corporation and Nortel Networks Limited on December 19, 2005. On January 14, 2009, Nortel Networks Corporation, Nortel Networks Limited and certain other Canadian subsidiaries initiated creditor protection proceedings under the *Companies' Creditors Arrangement Act* (Canada). Certain U.S. subsidiaries filed voluntary petitions in the United States under Chapter 11 of the United States Bankruptcy Code, and certain Europe, Middle East and Africa subsidiaries made consequential filings in Europe and the Middle East. Mr. Drinkwater resigned as an officer of Nortel Networks Corporation and Nortel Networks Limited effective March 31, 2009.
- (6) Ms. McQuade was a director of Shenandoah Life Insurance Corporation from August 2006 to February 2009. In February 2009, Shenandoah Life Insurance Corporation was placed in rehabilitation with the State Corporation Commission of the Commonwealth of Virginia appointed as receiver. In August 2009, Shenandoah Life Insurance Corporation was acquired by Prosperity Life Insurance Group LLC, subject to receiving the approval of the Virginia State Corporation Commission. On June 24, 2011, the receiver filed an application with the Virginia State Corporation Commission for a final order approving the rehabilitation plan and acquisition of control and a final order terminating the rehabilitation. Following a hearing, the plan was

approved on October 20, 2011 by the Virginia State Corporation Commission and, at a special meeting on December 15, 2011, the policyholders supported the plan of conversion following which Shenandoah Life Insurance Corporation exited receivership and is currently a subsidiary of Prosperity Life Insurance Group LLC.

## **Additional Information Regarding Directors and Officers**

### *Conflicts of interest*

Certain of our directors and executive officers are engaged in, and may continue to be engaged in, other activities in the industries in which we operate from time to time. The Management and Operational Services Agreement does not prohibit TransAlta from competing with the Company and its affiliates, except where any new activities proposed to be engaged in by TransAlta would give rise to, or would be reasonably likely to give rise to, a material adverse change in the financial affairs of the Company unless the Company declined to pursue such activities and they have been, or are reasonably likely to be, undertaken by third parties.

The CBCA provides that in the event that an officer or director is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or material transaction or proposed material contract or proposed material transaction, such officer or director shall disclose the nature and extent of his or her interest and shall refrain from voting to approve such contract or transaction, unless otherwise provided under the CBCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the CBCA.

The Management and Operational Services Agreement provides that TransAlta may not, without first obtaining the approval of a majority of the independent members of the Board, (i) dispose of any material assets or equipment which are used in operating or maintaining the business of the Company, other than in the ordinary course of business or as provided for in the annual management plan; or (ii) enter into any transaction for and on behalf of Company or an affiliate thereof with TransAlta or an affiliate of TransAlta except relating to the delegation of TransAlta's responsibilities under the Management and Operational Services Agreement; or (iii) provide any consent or waiver of contractual terms or conditions in favour of or for the benefit of, TransAlta or any of its affiliates pursuant to any contract or agreement between TransAlta or any of its affiliates and the Company. Further, TransAlta may not materially deviate from an annual management plan without prior approval of a majority of the Board, unless required to safeguard life or property or minimize economic loss to the Company's business and time does not reasonably permit TransAlta to obtain the required written approval. Finally, TransAlta may not enter into or commit to any transaction which requires the approval of the independent directors without obtaining such approval.

As at the date hereof, the Company is not aware of any existing or potential material conflicts of interest between the Company and any director or officer of the Company.

### *Indebtedness*

The Company is not aware of any individuals who are either current or former executive officers, directors or employees of the Company and who have indebtedness outstanding as at the date hereof (whether entered into in connection with the purchase of securities of the Company or otherwise) that is owing to: (i) the Company, or (ii) another entity where such indebtedness is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company.

### *Indemnification and insurance*

Pursuant to the Management and Operational Services Agreement, TransAlta has acquired and maintains liability insurance for its directors and officers, as well as those of its subsidiaries, including the Company. There have been no claims made or paid under this insurance to date.

The Company has entered into indemnification agreements with its directors and officers. The indemnification agreements require that the Company indemnify and hold the indemnitees harmless to the greatest extent permitted by law for liabilities arising out of the indemnitees' service to the Company as directors and officers, if the indemnitees acted honestly and in good faith with a view to the best interests of the Company and, with respect to criminal or administrative actions or proceedings

that are enforced by monetary penalty, if the indemnitee had no reasonable grounds to believe that his or her conduct was unlawful. The indemnification agreements also provide for the advancement of defence expenses to the indemnitees by the Company.

## Officers

The name, province or state and country of residence of each of our officers as at February 12, 2015, their respective position and office and their respective principal occupation during the five preceding years, are set out below.

<b>Name</b>	<b>Principal Occupation</b>	<b>Date of Appointment</b>	<b>Residence</b>
Brett M. Gellner	Mr. Gellner is the President and Designated Chief Executive Officer of the Company and Chief Investment Officer of TransAlta. Prior thereto, he was the Chief Financial Officer of TransAlta until August 2013.	July 26, 2013	Alberta, Canada
Cynthia Johnston	Ms. Johnston is the Chief Operating Officer of the Company and Executive Vice-President, Corporate Services of TransAlta since September 2011. Prior thereto, she was TransAlta's Vice-President of Renewable Operations since 2009.	May 28, 2013	Alberta, Canada
David J. Koch	Mr. Koch is Vice-President and Controller and Designated Chief Financial Officer of the Company and Vice-President and Controller of TransAlta since May 2011. Prior thereto, he was Vice-President, Financial Operations of TransAlta since 2006.	July 26, 2013	Alberta, Canada
Maryse C. C. St.-Laurent	Ms. St.-Laurent is the Vice-President Legal and Corporate Secretary of the Company and the Vice-President Legal and Corporate Secretary of TransAlta since 2014. Prior thereto she was Vice-President and Corporate Secretary of TransAlta since 2009.	May 28, 2013	Alberta, Canada
Todd J. Stack	Mr. Stack is the Vice-President and Treasurer of the Company and Vice-President and Treasurer of TransAlta since November, 2012. Prior thereto he was Treasurer of TransAlta from 2011 and Assistant Treasurer of TransAlta from 2010.	May 28, 2013	Alberta, Canada

## Director and Officer Shareholdings

As of February 12, 2015, the directors and executive officers of TransAlta Renewables, as a group, beneficially owned, directly or indirectly, or exercised control or direction over an aggregate of 55,000 of our Common Shares. This constitutes less than one per cent of our outstanding Common Shares.

## INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as otherwise disclosed herein, no director or executive officer of TransAlta Renewables, no person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over more than ten per cent of our Common Shares, and no associate or affiliate of any of them, has or has had any material interest, direct or indirect, in any transaction involving TransAlta Renewables since the date of incorporation or in any proposed transactions that has materially affected or will materially affect us. See "*General Development of the Business - Acquisition of the Initial Assets from TransAlta*".

## **INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND SENIOR OFFICERS**

Since the date of incorporation, there has been no indebtedness outstanding to TransAlta Renewables from any of our directors, executive officers, senior officers or associates of any such directors, nominees or senior officers.

## **CORPORATE CEASE TRADE ORDERS, BANKRUPTCIES OR SANCTIONS**

### **Corporate Cease Trade Orders**

Except as otherwise disclosed herein, no director, executive officer or controlling security holder of TransAlta Renewables is, as at the date of this Annual Information Form, or has been, within the past ten years before the date hereof, a director or executive officer of any other issuer that, while that person was acting in that capacity:

- (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days; or
- (ii) was subject to an event that resulted, after the person ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days; or
- (iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

### **Personal Bankruptcies**

No director, executive officer or controlling security holder of TransAlta Renewables has, within the ten years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold such person's assets.

### **Penalties or Sanctions**

No director, executive officer or controlling security holder of TransAlta Renewables has:

- (i) been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, other than penalties for late filing of insider reports; or
- (ii) been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

## MATERIAL CONTRACTS

The following are the only material contracts, other than those contracts entered into in the ordinary course of business, which the Company or any of its subsidiaries has entered into since January 1, 2014 or has entered into prior to January 1, 2014 but which contract is still in effect.

- (a) TransAlta PPAs - See "*Business of TransAlta Renewables - TransAlta Power Purchase and Sale Agreements*".
- (b) Management and Operational Services Agreement - See "*Employee and Governance Matters - Management and Operational Services Agreement*".
- (c) Governance and Cooperation Agreement - See "*Employee and Governance Matters - Governance and Cooperation Agreement*".
- (d) Investor Liquidity Agreement - See "*Employee and Governance Matters - Investor Liquidity Agreement*".

## PROMOTER

TransAlta may be considered a promoter of TransAlta Renewables within the meaning of applicable Canadian securities laws. To the knowledge of TransAlta Renewables, as of the date of this Annual Information Form, TransAlta beneficially owns, controls or directs, directly or indirectly, 80,616,668 Common Shares representing 70.3 per cent of the issued and outstanding Common Shares.

TransAlta and TransAlta Renewables have entered into certain contracts whereby value will be received by TransAlta Renewables either directly or indirectly from TransAlta and, in return for such value, TransAlta will receive consideration from TransAlta Renewables. See "*Material Contracts*".

TransAlta Renewables entered into the Purchase and Sale Agreement pursuant to which we acquired the Initial Assets by purchasing all of the issued and outstanding shares of Western Sustainable Power and CHD from TransAlta for approximately \$1.7 billion which was determined through negotiations with the underwriting syndicate involved in the Offering after taking into consideration, among other things, the valuation multiples of publicly traded companies that were deemed comparable to the Initial Assets. See "*General Development of the Business - Acquisition of the Initial Assets from TransAlta*". For additional information regarding the Initial Assets, see "*Business of TransAlta Renewables - Asset Platform*".

## CONFLICTS OF INTEREST

Circumstances may arise where members of the Board serve as directors or officers of companies which are in competition to the interests of TransAlta Renewables. No assurances can be given that opportunities identified by such member of the Board will be provided to us. However, our policies provide that each director and executive officer must comply with the disclosure requirements of the CBCA regarding any material interest. If a declaration of material interest is made, the declaring director shall not vote on the matter if put to a vote of the Board. In addition, the declaring director and executive officer may be requested to recuse himself or herself from the meeting when such matter is being discussed.

Under the Management and Operational Services Agreement, in the event that the interests of TransAlta come into material conflict with the interests of the Company, TransAlta shall give written notice to the Company setting out the particulars of the conflict, and the independent directors of the Company shall be responsible to make decisions relating to the conflict matter. The decision and any determinations made by the independent directors of the Company shall be the actions taken by TransAlta Renewables.

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

TransAlta Renewables is occasionally named as a party in claims and legal proceedings which 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 claim may not have a material adverse effect on TransAlta Renewables. The Purchase and Sale Agreement provides for the indemnification of the Company by TransAlta for all costs, expenses and liabilities which the Company may incur in relation to certain pre-existing claims or disputes relating to the Initial Assets. Since the transfer of assets to the Company, there have been no new claims or legal proceedings.

## **TRANSFER AGENT AND REGISTRAR**

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. On August 30, 2013, CST Trust Company, an affiliate of Canadian Stock Transfer Company Inc., received federal approval to commence business formerly operated by Canadian Stock Transfer Company Inc. and CIBC Mellon Trust Company. The Company's Common Shares are transferrable in Calgary and Toronto.

## **INTERESTS OF EXPERTS**

Ernst & Young LLP, Chartered Accountants, 1000, 440 – 2nd Avenue, S.W., Calgary, Alberta, T2P 5E9 are the auditors of TransAlta Renewables.

Our auditors, Ernst & Young LLP, are independent in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

## **ADDITIONAL INFORMATION**

Additional information in relation to TransAlta Renewables may be found under TransAlta Renewables profile on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information including directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans (all where applicable), is contained in our Management Proxy Circular for the most recent annual meeting of shareholders that involved the election of directors and can be found on TransAlta Renewables profile on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional financial information is provided in our audited consolidated financial statements as at and for the year ended December 31, 2014 and in the related Annual MD&A, each of which is incorporated by reference in this AIF. See "*Documents Incorporated by Reference*".

## **AUDIT COMMITTEE**

### **Mandate of the Audit Committee**

The Board's Audit Committee consists of three Directors, being Kathryn A.B. McQuade (Chair), David W. Drinkwater and Allen R. Hagerman, all of whom are independent and financially literate for the purposes of NI 52-110. Each of the members of the Audit Committee possesses: (i) an understanding of the accounting principles used by the Company to prepare its financial statements; (ii) the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves; (iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience actively supervising one or more individuals engaged in such activities; and (iv) an understanding of internal controls and procedures for financial reporting. The Audit Committee meets at least once each financial quarter to fulfill its mandate.

The specific responsibilities of the Audit Committee are set out in the Audit Committee Charter, a copy of which is attached to this Annual Information Form as Appendix "A". The Audit Committee's primary role is to assist the Board in fulfilling its oversight responsibilities regarding the Company's financial reporting, internal controls, and risk identification and management processes.

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

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

### **Audit Committee Charter**

The Charter of the Audit Committee is attached as Appendix "A".

### **Relevant Education and Experience of Audit Committee Members**

The following is a brief summary of the education or experience of each member of the Audit Committee that is relevant to the performance of their responsibilities as a member of the Audit Committee, including any education or experience that has provided the member with an understanding of the accounting principles that we use to prepare our annual and interim financial statements.

<b>Name of Audit Committee Member</b>	<b>Relevant Education and Experience</b>
<b>Kathryn A.B McQuade</b>	Ms. McQuade is a Certified Public Accountant and holds a Bachelor of Business Administration in Accounting with a minor in Mathematics from the College of William and Mary in Virginia. She also completed the Advanced Management Program at Harvard. Ms. McQuade has served as Chief Financial Officer, Chief Operations Officer and Chief Information Officer of public companies.
<b>David W. Drinkwater</b>	Mr. Drinkwater holds an LL.M. from the London School of Economics, an LL.B. from Dalhousie University and a B.A. in Business Administration from the Richard Ivey School of Business at the University of Western Ontario. Mr. Drinkwater has been the Acting Chief Financial Officer and the Chief Financial Officer of public companies and is currently a Senior Advisor to a global financial advisory group.
<b>Allen R. Hagerman</b>	Mr. Hagerman is a Chartered Accountant and holds a Bachelor of Commerce from the University of Alberta and a Master of Business Administration from Harvard Business School. He also holds an ICD.D. certification from the Institute of Corporate Directors and is a fellow of the Institute of Chartered Accountants of Alberta. Mr. Hagerman is also a member of the Financial Executives Institute and a past President of Financial Executives Institute, Calgary Chapter. Mr. Hagerman has been the Chief Financial Officer of a number of public companies and a director and chair of the audit committee of a public company.

## Fees Paid to Ernst & Young LLP

For the years ended December 31, 2014 and December 31, 2013, Ernst & Young LLP and its affiliates were paid \$613,170 and \$100,000 respectively, as detailed below:

### Ernst & Young LLP

Year Ended December 31	2014	2013
Audit Fees	\$ 539,000	100,000
Audit-related fees	69,000	0
Tax fees	5,170	0
All other fees	0	0
<b>Total</b>	<b>\$ 613,170</b>	<b>100,000</b>

No other audit firms provided audit services in 2014 or 2013.

The nature of each category of fees is described below:

#### *Audit Fees*

Audit fees were paid for professional services rendered by the auditors for the audit of our annual financial statements or services provided in connection with statutory and regulatory filings or engagements, including the translation from English to French of our financial statements and other documents. Total audit fees for 2014 include payments related to 2013 in the amount of \$312,000.

#### *Audit-Related Fees*

The audit-related fees in 2014 were primarily for work performed by Ernst & Young LLP in relation to compliance and regulatory reporting, debt issuances and miscellaneous accounting advice provided to the Company.

#### *Tax Fees*

The tax fees for 2014 relate to various tax related matters in our domestic and foreign operations.

#### *All Other Fees*

Nil

## Pre-Approval Policies and Procedures

The Audit Committee has adopted a policy which prohibits TransAlta, as our manager, from engaging the auditors for "prohibited" categories of non-audit services. Pre-approval must be obtained from the audit committee for permitted categories of non-audit services. This policy also provides authority to the Chair of the Audit Committee to approve such non-audit services during the quarter and report such approval to the committee at its next regularly scheduled meeting. The Audit Committee also granted management the authority to approve *de minimus* permissible non-audit services (which are in the aggregate no greater than five per cent of the total fees paid to the external auditors, or \$30,658.50) provided such services are reported to the Audit Committee at its next scheduled meeting.

## **APPENDIX "A" - AUDIT COMMITTEE CHARTER**

### **TRANSALTA RENEWABLES INC.**

#### **AUDIT COMMITTEE CHARTER**

##### **A. ESTABLISHMENT OF COMMITTEE AND PROCEDURES**

###### **1. Composition of Committee**

The Audit Committee (the “**Committee**”) of the Board of Directors (the “**Board**”) of TransAlta Renewables Inc. (the “**Company**”) shall consist of not less than three Directors. No member of the Committee shall be an officer or employee of the Company nor shall they be an officer or employee of TransAlta Corporation (the “**Manager**”). The Committee shall comply with the independence and financial literacy requirements set forth in Part 3 of Canadian Securities Regulators’ National Instrument 52-110 Audit Committees (“**NI 52-110**”). Determinations as to whether the Committee and each member of the Committee satisfied the requirements of Part 3 of NI 52-110 and this Section A.1 shall be made by the Board.

###### **2. Appointment of Committee Members**

Members of the Committee, who shall be chosen solely from its independent members, shall be appointed from time to time by the Board, and shall hold office until the next annual meeting of shareholders, or until their successors are earlier appointed, or until they cease to be Directors of the Company.

###### **3. Vacancies**

Where a vacancy occurs at any time in the membership of the Committee resulting in the membership being reduced to less than three members, the Board shall take action to fill the vacancy.

###### **4. Committee Chair**

The Board shall, among the members of the Committee, appoint a Chair for the Committee. If the Chair of the Committee is not present at any meeting of the Committee, one of the members of the Committee who is present at the meeting shall be chosen by the Committee to preside at the meeting.

###### **5. Secretary of Committee**

The Committee shall appoint a Secretary who need not be a director of the Company.

###### **6. Meetings**

The Chair of the Committee may call a meeting of the Committee. The Committee shall meet at least quarterly and at such other time during each year as it deems appropriate. In addition, the Chair of the Committee or any two members may call a special meeting of the Committee at any time. The Committee shall also meet in separate executive sessions at the end of each in person meeting and may at its discretion do so at the end of any meeting, however such may be conducted.

###### **7. Quorum**

A majority of the members of the Committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak to each other shall constitute a quorum.

## **8. Notice of Meetings**

Notice of the time and place of every meeting shall be given in writing (including by way of written facsimile communication or email) to each member of the Committee at least 48 hours prior to the time fixed for such meeting; provided, however, that a member may in any manner waive notice of a meeting; and attendance of a member at a meeting constitutes a waiver of notice of the meeting, except where a member attends for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called. Notice of every meeting shall also be provided to the external and internal auditors.

## **9. Attendance at Meetings**

At the invitation of the Chair of the Committee, other Board members and, officers of the Company or, if required, officers and employees of the Manager, the external auditors, and other experts or consultants may attend meetings of the Committee.

## **10. Procedure, Records and Reporting**

Subject to any statute or the articles and by-laws of the Company, the Committee shall fix its own procedures at meetings, keep records of its proceedings and report to the Board generally at the next scheduled meeting of the Board.

## **11. Review of Charter and Evaluation of Committee**

The Committee shall evaluate its performance and review and assess the adequacy of its Charter at least annually or otherwise, as it deems appropriate, and if necessary propose changes to the Board for review and approval.

## **12. Outside Experts and Advisors**

The Committee Chair, on behalf of the Committee, or any of its members is authorized, at the expense of the Company, when deemed necessary or desirable, to retain independent counsel, outside experts and other advisors to advise the Committee independently on any matter. The retention of such counsel, expert or advisor in no way requires the Committee to act in accordance with the recommendations of such counsel, expert or advisor.

## **B. DUTIES AND RESPONSIBILITIES OF THE CHAIR**

The fundamental responsibility of the Chair of the Committee is to effectively manage the duties of the Committee.

The Chair is responsible for:

1. Ensuring that the Committee is properly organized so that it functions effectively and meets its obligations and responsibilities.
2. Establishing the frequency of Committee meetings, duly convening the same and confirming that quorum is present when required.
3. Working with management and the Manager on the development of agendas and related materials for the meetings.
4. Making suggestions and providing feedback to management and the Manager regarding information that is or should be provided to the Committee to permit it to properly make decisions when decisions are required.

5. Providing leadership to the Committee and assisting the Committee in reviewing and monitoring its responsibilities.
6. Reporting to the Board on the recommendations and decisions of the Committee.
7. Chair meetings of the Committee.

#### **C. MANDATE OF THE COMMITTEE**

The Committee provides assistance to the Board in fulfilling its oversight responsibilities with respect to: (i) the integrity of the Company's financial statements and financial reporting process; (ii) the systems of internal financial controls established by the Manager; (iii) the risk identification assessment conducted by the Manager and the programs established by the Manager in response to such assessment; (iv) the internal audit function; (v) compliance with accounting and finance based legal and regulatory requirements; and (vi) the external auditors' qualifications, independence and performance. In so doing, it is the Committee's responsibility to maintain an open avenue of communication between it and the external auditors, the internal auditors, management and the Manager of the Company.

The function of the Committee is oversight. Management and the Manager are responsible for the preparation, presentation and integrity of the interim and annual financial statements and related disclosure documents. Management and the Manager are also responsible for maintaining appropriate accounting and financial reporting policies and systems of internal controls and procedures to comply with accounting standards, applicable laws and regulations which provide reasonable assurances that assets are safeguarded and transactions are authorized, executed, recorded and reported properly.

The Committee's role is to provide meaningful and effective oversight so that the Company's assets are protected and safeguarded within reasonable business limits. The Committee reports to the Board on its risk oversight responsibilities.

#### **D. DUTIES AND RESPONSIBILITIES OF THE COMMITTEE**

##### **1. Audit and Financial Matters**

##### ***A) Duties and Responsibilities Related to the External Auditors Qualifications***

- (a) The Committee shall have direct responsibility for the compensation and oversight of the external auditors including nominating the external auditors to the Board for appointment by the shareholders at the Company's general annual meeting. In performing its function, the Committee shall:
  - (i) review the experience and qualifications of the external auditors' senior personnel who are providing audit services to the Company and the quality control procedures of the external auditors, including obtaining confirmation that the external auditors are in compliance with required regulatory requirements;
  - (ii) review and approve annually the external auditors audit plan;
  - (iii) review and approve the basis and amount of the external auditors' fees and confirm with the Company's Chief Financial Officer that appropriate funding for payment of compensation to the external auditors has been provided for;
  - (iv) review and discuss annually with the external auditors all relationships that the external auditors and their affiliates have with the Company and its affiliates in order to determine the external auditors' independence, including, without limitation, (A) requesting, receiving and reviewing, at least annually, a

- formal written statement from the external auditors delineating all relationships that may reasonably be thought to bear on the independence of the external auditors with respect to the Company, (B) discussing with the external auditors any relationships or services that the external auditors believe may affect their objectivity and professional skepticism; (C) evaluating the communication and interaction with the external auditor including quality of service consideration; and (D) recommending that the Board take appropriate action in response to the external auditors' report to satisfy itself of the external auditors' independence;
- (v) perform, every five years, and in conjunction with the change of audit partner, (A) comprehensive review of the external auditor which takes into consideration the impact of the tenure of the audit firm on audit quality, trends in the audit firm's performance and expertise in the industry, incidences of independence threats and the effectiveness of safeguards to mitigate those threats, (B) the responsiveness of the audit firm to changes in the entity's business and suggestions for improvement from regulators, the audit committee and/or management, (C) the consistency and rigour of the professional skepticism applied by the external auditor, and the quality of the engagement team and its communications, review of the CPAB inspection findings since the previous comprehensive review and how the audit firm responded to these findings, and (D) following this comprehensive review, an evaluation on whether the audit firm should be retained as the Company's external auditor;
  - (vi) inform the external auditors and the Manager that the external auditors shall have direct access to the Committee at all times, as well as the Committee to the external auditors;
  - (vii) instruct the external auditors that they are ultimately accountable to the Committee as representatives of the shareholders of the Company; and
  - (viii) at least annually, obtain and review the external auditors' report with respect to the auditing firm's internal quality-control procedures, any material issues raised by the most recent internal quality- control review or peer review of the auditing firm, any inquiry or investigation by governmental or professional authorities within the preceding five years undertaken respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with any such issues.

***B) Duties and Responsibilities Related to Financial Reporting and the Audit Process***

- (a) Pre-approve all audit related services including all non-prohibited non-audit services to be provided by the external auditors. The Chair of the Committee may approve, between meetings, all audit related services including all non-prohibited non-audit services to be provided by the external auditors, and shall report to the Committee at its next scheduled meeting the exercise of this delegated authority;
- (b) Review with management, the Manager and the external auditors the Company's financial reporting documents and processes in connection with the annual audit and the preparation of the financial statements, including, without limitation, the annual audit plan of the external auditors, the judgment of the external auditors as to the quality, not just the acceptability, of and the appropriateness of the Company's accounting principles as applied in its financial reporting and the degree of aggressiveness, conservatism or discretion applied by the Company with respect to the accounting principles and underlying estimates adopted;
- (c) Review with management, the Manager and the external auditors all financial statements and financial disclosure; and
  - (i) recommend to the Board for approval the Company's audited annual financial statements including the notes thereto and the related "Management's Discussion and Analysis";

- (ii) review any report or opinion to be rendered in connection therewith and report to the Board as required;
  - (iii) review with the external auditors the cooperation they received during the course of their review and their access to all records, data and information requested;
  - (iv) discuss with management, the Manager and the external auditors all significant transactions which are not a regular part of the Company's business;
  - (v) review the processes in the formulating of sensitive accounting estimates and the reasonableness of the estimates;
  - (vi) review with management, the Manager and the external auditors any changes in accounting principles, practices or policies considering their applicability to the business and financial impact;
  - (vii) review with management, the Manager and the external auditors alternative treatments of financial information within generally accepted accounting principles, the use of such alternative treatments and that preferred by the external auditors; and
  - (viii) satisfy itself that there are no unresolved issues between management, the Manager and the external auditors that could reasonably be expected to materially affect the financial statements.
- (d) Review with management, the Manager and the external auditors the Company's interim financial statements, including the notes thereto, the related "Management's Discussion and Analysis", the related earnings release, and approve their release to the public as required;
  - (e) Review quarterly with management, the Manager, and as necessary, outside legal advisors and the Company's external auditors, the effectiveness of the Company's internal controls to confirm that the Company is in compliance with its policies and legal and regulatory requirements;
  - (f) Discuss with management, the Manager and the external auditors any correspondence from or with regulators or governmental agencies, any employee complaints or any published reports that raise material issues regarding the Company's financial statements or accounting policies; and
  - (g) Review with the CEO and Chief Financial Officer (the "CFO") the processes undertaken by them and the Manager, to satisfy the requirements for certification relating to the Company's periodic and annual reports to be filed with securities regulators, to confirm that the information required to be disclosed is recorded, processed, summarized and reported within the time periods specified for the reporting period. Obtain assurances from the CEO and CFO as to the adequacy and effectiveness of the Company's disclosure controls and procedures and systems of internal control over financial reporting and that any fraud involving any employees of the Manager or the officers of the Company is reported to the Committee.
- C) *Duties and Responsibilities Related to Financial Planning***
- (a) Review and recommend to the Board for approval the Company's issuance and redemption of all securities, bonds and other financial instruments (including the review of all public filings to effect any of the issuances or redemptions), financial commitments and limits, and any material changes underlying any of these commitments;
  - (b) Review annually the Company's annual tax plan; and
  - (c) Receive regular updates with respect to the Company's financial obligations, loans, credit facilities, credit position and financial liquidity.

## **2. Governance**

- (a) On behalf of the Committee, the Chair shall review all public disclosure of material financial information extracted or derived from the Company's financial statements prior to dissemination to the public;
- (b) Review with management and the Manager at least annually the approach and nature of financial information and earnings guidance to be disclosed to analysts and rating agencies;
- (c) Review quarterly with management and the Manager, and, if necessary, outside legal advisors, significant legal, compliance or regulatory matters that may have a material effect on the Company's financial statements;
- (d) Discuss with the external auditors their perception of the Company's financial and accounting personnel, any recommendations which the external auditors may have, including those contained in the management letter, with respect to improving internal financial controls, choice of accounting principles or management reporting systems, and review all management letters from the external auditors together with written responses thereto;
- (e) Review with management and the Manager, the external auditors and, as necessary, external legal counsel, any litigation, claim or contingency, including tax assessments, that could have a material effect upon the financial position of the Company, and the manner in which these may be or have been disclosed in the financial statements;
- (f) Receive annually an IT update from the Manager, focused on IT systems which support the business including cyber security programs in place to address potential cyber threats;
- (g) Review annually the fees of the Manager to confirm compliance with the Management and Operational Services Agreement;
- (h) Review the Manager's processes relating to the assessment of potential fraud, programs and controls to mitigate the risk of fraud and the processes put in place for monitoring the risks within targeted areas;
- (i) Require the Manager to maintain procedures for the confidential receipt, retention and treatment of complaints by employees, officers, contractors or other stakeholders of the Manager and those of the Company regarding accounting, internal and disclosure controls, auditing or legal violations;
- (j) Review all incidents, complaints or information reported through the Company's Ethics Help Line relating to the Company and follow-up with Management to confirm that the matter is investigated as required;
- (k) Review the Manager's policy with respect to its hiring policies for employees or former employees of the external auditors; and
- (l) Report annually to shareholders on the work of the Committee during the year.

## **3. Internal Audit**

- (a) Review and consider, as appropriate, any significant reports and recommendations made by management's and/or the Manager's internal audit team relating to the assets of the Company;
- (b) Review annually the scope and plans for the work of the internal audit group, with respect to the Company's assets and require management and/or the Manager to undertake the internal audit work required to safeguard the assets of the Company;

- (c) Recognize and advise management and/or the Manager that their internal auditors shall have unfettered access to the Committee, and shall meet in camera with such internal auditor; and
- (d) Review with management and the Manager the adequacy of the systems of internal control and procedures.

**E. COMPLIANCE AND POWERS OF THE COMMITTEE**

- (a) The responsibilities of the Committee comply with applicable Canadian laws and regulations, such as the rules of the Canadian Securities Administrators, and with the disclosure and listing requirements of the Toronto Stock Exchange, as they exist on the date hereof. This Charter is reviewed annually to confirm compliance with such standards.
- (b) The Committee may, at the request of the Board or on its own initiative, investigate such other matters as are considered necessary or appropriate in carrying out its mandate.

## APPENDIX "B" GLOSSARY OF TERMS

This Annual Information Form includes the following defined terms:

"**AESO**" means the Alberta Electric System Operator.

"**Amortizing Term Loan**" means the \$200 million unsecured amortizing term loan from TransAlta.

"**AUC**" means the Alberta Utilities Commission.

"**BA Rate**" means, in respect of a Bankers' Acceptance being accepted by a lender on any date, the average annual yield for Canadian dollar bankers' acceptances (expressed as a rate per annum) as quoted on Reuters CDOR page (or such other page as may, from time to time, replace such page on that service for the purpose of displaying quotations for bankers' acceptances accepted by leading Canadian financial institutions).

"**BC Hydro**" means the British Columbia Hydro Power Authority.

"**Board**" means the board of directors of the Company.

"**CHD**" means Canadian Hydro Developers, Inc.

"**Common Shares**" means common shares in the capital of the Company.

"**Company**" means TransAlta Renewables Inc.

"**CPI**" means the consumer price index published monthly in Statistics Canada Publication 62-001-X "The Consumer Price Index".

"**Credit Facility**" means the \$100 million unsecured working capital credit facility between TransAlta, as lender, and the Company, as borrower, dated August 9, 2013.

"**Demand Registration**" means a written request, pursuant to the terms of the Investor Liquidity Agreement, from TransAlta and any direct or indirect transferee of TransAlta who shall become party to the Investor Liquidity Agreement to the Company to file a prospectus under applicable Canadian securities laws qualifying the distribution to the public of all or a part of the Common Shares held by TransAlta and any direct or indirect transferee of TransAlta who shall become party to the Investor Liquidity Agreement.

"**EcoENERGY**" means EcoENERGY for Renewable Power, an incentive program sponsored by the Canadian federal government to encourage the development of clean power generation projects.

"**EcoLogo**" means Environment Canada's Environmental Choice program. EcoLogo certification is granted to products with environmental performance that meet or exceed all government, industrial safety and performance standards; thus, offering public assurance that the facilities from which power is generated are low impact and non-polluting.

"**Governance and Cooperation Agreement**" means the governance and cooperation agreement between the Company and TransAlta dated August 9, 2013.

"**GW**" means gigawatt, or 1,000 MW.

"**Initial Assets**" means the certain wind and hydroelectric power generation assets held by Western Sustainable Power and CHD indirectly acquired by the Company pursuant to the Purchase and Sale Agreement.

"**Investor Liquidity Agreement**" means the investor liquidity agreement between TransAlta and the Company dated August 9, 2013.

"**IFRS**" means the International Financial Reporting Standards as issued by the International Accounting Standards Board.

"**IPP**" means independent power producers.

"**kW**" means kilowatt, or 1,000 watts.

**"Management and Operational Services Agreement"** means the management, administrative and operational services agreement between the Company and TransAlta dated August 9, 2013.

**"Merchant Facilities"** means those generating facilities that formed part of the Initial Assets and whose power had been sold on a merchant basis prior to August 9, 2013.

**"Merchant Subsidiaries"** means certain subsidiaries of the Company that were Merchant Facilities immediately prior to August 9, 2013, and **"Merchant Subsidiary"** is any one of them.

**"MW"** means megawatt, or 1,000 kW.

**"NI 52-110"** means National Instrument 52-110 *Audit Committees*.

**"OPA"** means Ontario Power Authority.

**"PPA"** means power purchase agreement.

**"Preferred Shares"** means preferred shares in the capital of the Company, issuable in one or more series.

**"Purchase and Sale Agreement"** means the purchase and sale agreement dated August 9, 2013 between the Company and TransAlta pursuant to which the Company acquired all of the issued and outstanding shares of Canadian Hydro Developers and Western Sustainable Power.

**"RECs"** means all right, title, interest and benefit in and to any credit, reduction right, offset, allocated pollution right, emission reduction allowance, renewable attribute or other proprietary or contractual right, whether or not tradable, resulting from the actual or assumed displacement or reduction of emissions, or other environmental characteristic, from the production of one MWh of electrical energy from a facility utilizing certified renewable energy technology.

**"SGER"** means the *Specified Gas Emitters Regulation*, a greenhouse gas regulatory scheme launched by the Government of Alberta.

**"TransAlta"** means TransAlta Corporation.

**"TransAlta PPA"** means the power purchase agreements between TransAlta and the Company providing for the purchase by TransAlta, for a fixed price, all of the power produced by the Merchant Facilities. The price payable by TransAlta for output is \$30.00 per MWh for wind facilities and \$45.00 per MWh for hydro facilities, which amounts are adjusted annually for changes in the consumer price index.

**"TSX"** means the Toronto Stock Exchange.

**"Western Sustainable Power"** means Western Sustainable Power Inc.

**"WPPI"** means the wind power production incentive of the Canadian federal government to encourage the development of clean power generation projects in Canada.

**"Wyoming Wind Preferred Shares"** means the Class A Preferred Shares of a TransAlta subsidiary, the terms of which effectively entitle the holders of such preferred shares to the free cash flow from the Wyoming Wind Farm through dividends, based on the pre-tax net earnings generated by the Wyoming Wind Farm, and the return of capital.