



**TransAlta Renewables Inc.**

**Consolidated Financial Statements**

*December 31, 2014*

# Consolidated Financial Statements

## Management's Report

### To the Shareholders of TransAlta Renewables Inc.

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

Management is also responsible for establishing and maintaining internal controls and procedures over the financial reporting process. The internal control system includes an internal audit function and an established business conduct policy. TransAlta Corporation provides general administrative services to the Corporation under a Management, Administrative and Operational Services Agreement. Employees of TransAlta Corporation providing such services are required to adhere to TransAlta Corporation's business conduct policy. In addition, TransAlta Renewables Inc. has a code of conduct that can be viewed on TransAlta Renewables Inc.'s website ([www.transaltarenewables.com](http://www.transaltarenewables.com)). Management believes the system of internal controls, review procedures, and established policies provide reasonable assurance as to the reliability and relevance of financial reports. Management also believes that TransAlta Renewables Inc.'s operations are conducted in conformity with the law and with a high standard of business conduct.

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



**Brett M. Gellner**  
President and  
Designated Chief Executive Officer

February 12, 2015



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

## Management's Annual Report on Internal Control over Financial Reporting

### To the Shareholders of TransAlta Renewables Inc.

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

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

Management has used the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 2013 framework to evaluate the effectiveness of TransAlta Renewables Inc.'s internal control over financial reporting. Management believes that the COSO 2013 framework is a suitable framework for its evaluation of TransAlta Renewables Inc.'s internal control over financial reporting because it is free from bias, permits reasonably consistent qualitative and quantitative measurements of TransAlta Renewables Inc.'s internal controls, is sufficiently complete so that those relevant factors that would alter a conclusion about the effectiveness of TransAlta Renewables Inc.'s internal controls are not omitted, and is relevant to an evaluation of internal control over financial reporting.

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

Management has assessed the effectiveness of TransAlta Renewables Inc.'s internal control over financial reporting, as at December 31, 2014, and has concluded that such internal control over financial reporting is effective.



**Brett M. Gellner**  
President and  
Designated Chief Executive Officer

February 12, 2015



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

## Independent Auditors' Report of Registered Public Accounting Firm

### To the Shareholders of TransAlta Renewables Inc.

We have audited the accompanying consolidated financial statements of TransAlta Renewables Inc., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the Consolidated Financial Statements

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

#### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

#### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of TransAlta Renewables Inc. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

*Ernst + Young LLP*

Chartered Accountants  
Calgary, Canada

February 12, 2015

## Consolidated Statements of Earnings

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

See accompanying notes.

## Consolidated Statements of Comprehensive Income

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

<sup>1</sup> Net of income tax recovery of 33 for the year ended Dec. 31, 2014 (2013 - 53 expense).

<sup>2</sup> Net of income tax recovery of 422 for the year ended Dec. 31, 2013.

<sup>3</sup> Net of income tax expense of 50 for the year ended Dec. 31, 2014 (2013 - 145 expense).

<sup>4</sup> Net of income tax expense of 29 for the year ended Dec. 31, 2014 (2013 - 324 expense).

See accompanying notes.

## Consolidated Statements of Financial Position

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

Commitments and contingencies (Note 23)

Subsequent event (Note 27)

See accompanying notes.



On behalf of the Board:

**Allen R. Hagerman**  
Director



**Kathryn A.B. McQuade**  
Director

## Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars)

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

See accompanying notes.

(in thousands of Canadian dollars)

	Net parental investment	Common shares	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Attributable to shareholders	Attributable to non-controlling interest	Total
Balance, Dec. 31, 2012	1,660,166	-	-	(970)	1,659,196	40,416	1,699,612
Net earnings <sup>1</sup>	35,487	-	14,771	-	50,258	2,617	52,875
Other comprehensive income:							
Net gains on derivatives designated as cash flow hedges, net of tax	-	-	-	1,157	1,157	-	1,157
Total comprehensive income	35,487	-	14,771	1,157	51,415	2,617	54,032
Changes in capitalization by Parent (Note 4)	(682,231)	-	(154,877)	-	(837,108)	-	(837,108)
Completion of share offering to Parent (Notes 4 and 19)	(1,013,422)	1,013,422	-	-	-	-	-
Completion of public share offering (Notes 4 and 19)	-	210,423	-	-	210,423	-	210,423
Common share dividends	-	-	(56,157)	-	(56,157)	-	(56,157)
Distributions to non-controlling interest	-	-	-	-	-	(3,743)	(3,743)
Balance, Dec. 31, 2013	-	1,223,845	(196,263)	187	1,027,769	39,290	1,067,059

<sup>1</sup> Net earnings for the period is split between net parental investment for the period prior to Aug. 9, 2013 and retained earnings (deficit) for the period after the formation of the Corporation.

See accompanying notes.

## Consolidated Statements of Cash Flows

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

See accompanying notes.

# Notes to Consolidated Financial Statements

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

## 1. Corporate Information

### A. Formation of the Corporation

TransAlta Renewables Inc. ("TransAlta Renewables" or the "Corporation") was incorporated on May 28, 2013 under the *Canada Business Corporations Act* and has been formed to own a portfolio of renewable and, potentially, natural gas power generation facilities or other infrastructure assets. The Corporation had no active operations from the date of incorporation until Aug. 9, 2013 when it indirectly acquired 28 wind and hydroelectric ("hydro") generating assets (the "Acquired Assets") from TransAlta Corporation ("TransAlta" or the "Parent") (the "Acquisition") and completed an Initial Public Offering (the "IPO") of 22.1 million common shares (see Note 4). The Corporation's head office is located in Calgary, Alberta.

### B. Basis of Preparation

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

The consolidated financial statements include the accounts of the Corporation and the subsidiaries, Canadian Hydro Developers, Inc. ("CHD") and Western Sustainable Power Inc. ("WSP"), that it controls. Control exists when the Corporation is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

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

The consolidated financial statements reflect all adjustments that consist of normal recurring adjustments and accruals that are, in the opinion of management, necessary for a fair presentation of results. The Corporation's results are partly seasonal due to the nature of electricity, which is generally consumed as it is generated; and the nature of wind and run-of-river hydro resources, which fluctuate based on both seasonal patterns and annual weather variation. Typically, run-of-river hydro facilities generate most of their electricity and revenues during the spring and summer months when melting snow starts feeding watersheds and rivers. Inversely, wind speeds are historically greater during the cold winter months and lower in the warm summer months.

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

These consolidated financial statements were authorized for issue by the Board on Feb. 12, 2015.

### C. Basis of Preparation Prior to the Acquisition

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

Historically, financial statements have not been prepared by TransAlta for the Acquired Assets as they had not been operated as a separate business by TransAlta. Accordingly, the financial statements for periods prior to the Acquisition reflect the financial statements for the Acquired Assets in a manner consistent with how TransAlta managed the Acquired Assets and as though the Acquired Assets had been a separate company. All material assets and liabilities specifically identified to the Acquired Assets and all material revenues and expenses specifically attributable to the Acquired Assets and allocations of overhead expenses have been presented in the financial statements for periods prior to the Acquisition. The financial statements for periods prior to the Acquisition may not necessarily reflect the financial position, results of operations, or cash flows that the Acquired Assets might have had in the past had they existed as a separate business during the periods prior to the Acquisition (see Note 25).

## 2. Significant Accounting Policies

### A. Revenue Recognition

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

Renewable energy certificates sales are recognized at the time of delivery to the purchasing party.

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

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

### B. Foreign Currency Translation

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

### C. Financial Instruments and Hedges

#### I. Financial Instruments

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

Financial assets and financial liabilities classified or designated as at fair value through profit or loss are measured at fair value with changes in fair values recognized in net earnings. Financial assets classified as either held-to-maturity or as loans and receivables, and other financial liabilities, are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are those non-derivative financial assets that are designated as such or that have not been classified as another type of financial asset, and are measured at fair value through Other Comprehensive Income ("OCI"). Available-for-sale financial assets are measured at cost if fair value is not reliably measurable.

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

Financial assets are derecognized when the contractual rights to receive cash flows expire. Financial liabilities are derecognized when the obligation is discharged, cancelled, or expired.

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

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

## II. Hedges

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

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

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

## D. Cash and Cash Equivalents

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

## E. Inventory

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

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

## F. Property, Plant, and Equipment

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

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

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

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

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

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

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

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

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

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

## G. Intangible Assets

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

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

Amortization commences when the intangible asset is available for use, and is computed on a straight-line basis over the intangible asset's estimated useful life. Estimated useful lives of intangible assets may be determined, for example, with reference to the term of the related contract or licence agreement. The estimated useful lives and amortization methods are reviewed annually with the effect of any changes being accounted for prospectively.

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

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

## H. Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Corporation assesses whether there is any indication that PP&E and finite life intangible assets are impaired.

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

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

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

## I. Income Taxes

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

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

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

## J. Provisions

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

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

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

**K. Borrowing Costs**

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

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

**L. Non-Controlling Interest**

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

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

**M. Joint Arrangements**

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

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

**N. Government Incentives**

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

**O. Leases**

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

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

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

**P. Earnings per Share**

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

## Q. Significant Accounting Judgments and Key Sources of Estimation Uncertainty

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

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

The key judgments and sources of estimation uncertainty are described below:

### I. Revaluation of PP&E and Intangible Assets

On formation, the Corporation entered into fixed price power purchase agreements with TransAlta ("TransAlta PPAs") for certain wind and hydro facilities. Consequently, the Corporation revalued the carrying amount of the PP&E and intangible assets of these facilities. The revaluation was based on the present value of the discounted cash flows expected to be generated by the facilities over their estimated remaining useful lives. In determining the underlying cash flows of each facility, management was required to make estimates and assumptions about anticipated production levels, royalties and other costs of production, planned and unplanned outages, fixed operating costs, asset retirement costs, other related cash inflows or outflows over the life of the facilities, changes to regulations, and transmission capacity or constraints. As a result of the valuation, the carrying amount of these facilities was reduced by \$205.8 million in 2013 (see Note 13).

### II. Significant Influence through Wyoming Wind Preferred Shares

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

### III. Consolidation of Kent Hills 1 and 2 ("Kent Hills") Wind Farms

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

### IV. Impairment of PP&E

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

**V. Income Taxes**

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

**VI. Provisions for Decommissioning and Restoration Activities**

The Corporation recognizes provisions for decommissioning and restoration obligations as outlined in Note 2(J) and Note 17. Initial decommissioning provisions, and subsequent changes thereto, are determined using the Corporation's best estimate of the required cash expenditures, adjusted to reflect the risks and uncertainties inherent in the timing and amount of settlement. The estimated cash expenditures are present valued using a current, risk-adjusted, market-based, pre-tax discount rate. A change in estimated cash flows, market interest rates, or timing could have a material impact on the carrying amount of the provision.

**VII. Useful Life of PP&E**

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

**3. Accounting Changes****A. Adoption of New or Amended IFRS**

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

**I. IAS 36 Impairment of Assets**

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

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

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

**B. Comparative Figures**

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

## C. Future Accounting Changes

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

### I. IFRS 9 *Financial Instruments*

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

Under the classification and measurement requirements for financial assets, financial assets must be classified and measured at either amortized cost or at fair value through profit or loss or through OCI, depending on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset.

The classification requirements for financial liabilities are unchanged from IAS 39. IFRS 9 measurement requirements address the problem of volatility in net earnings arising from an issuer choosing to measure certain liabilities at fair value and require that the portion of the change in fair value due to changes in the entity's own credit risk be presented in OCI, rather than within net earnings.

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

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

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

### II. IFRS 15 *Revenue from Contracts with Customers*

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

## 4. Significant Events

### A. 2014

#### Secondary Offering of TransAlta Renewables Shares by TransAlta

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

## B. 2013

### I. Acquisition of Generating Assets

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

Consideration Transferred	Amount
Issuance of 66,666,667 common shares at \$10 per share	666,667
Issuance of closing note <sup>1</sup>	187,000
Issuance of short-term note <sup>1</sup>	250,000
Issuance of acquisition note <sup>1</sup>	30,000
Issuance of amortizing term loan	200,000
<b>Total</b>	<b>1,333,667</b>

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

The Acquisition was accounted for as a business combination under common control, as TransAlta controlled the Acquired Assets prior to the Aug. 9, 2013 acquisition by TransAlta Renewables and continued to indirectly control the Acquired Assets after the acquisition date. IFRS 3 *Business Combinations* requires fair value accounting for acquisitions and does not provide guidance for common control transactions. Under established IFRS practice, common control transactions are generally accounted for using either the fair value or the pooling of interest (book value) methods of accounting. The Corporation has chosen to apply the pooling of interest method to account for the Acquired Assets in the 2013 comparative period. The financial statements of the Acquired Assets and the Corporation were combined together at book values, as if the Acquired Assets had always been owned by TransAlta Renewables, with the exception of the recognition of a reduction in the carrying amount of certain hydro and wind generating facilities resulting from a revaluation based on the terms of the TransAlta PPAs. The revaluation resulted in pre-tax reductions of \$205.8 million in the carrying amount of the facilities (see Note 13) and \$0.7 million in the carrying amount of intangible assets (see Note 14), with the corresponding after-tax amount of \$154.9 million charged to retained earnings (deficit).

### II. Initial Public Offering of Common Shares

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

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

### III. Changes in Capitalization by the Parent

As a result of the Acquisition, the completion of the IPO, and the separation of the Corporation as a separate stand-alone entity, the net parental investment previously attributed to the Acquired Assets in 2013 changed as follows: i) \$408.0 million was converted into debt, of which \$208.0 million was repaid in cash; ii) amounts due from related parties, including increases in these amounts since Dec. 31, 2012, totalling approximately \$197.3 million, were reclassified against the net parental investment; and iii) the Corporation's deferred income tax liabilities were increased by approximately \$76.6 million, with a corresponding offset in net parental investment, for the tax benefit that remained with TransAlta associated with non-capital losses related to certain wind facilities.

#### IV. Acquisition of Economic Interest in the Wyoming Wind Farm

On Dec. 20, 2013, the Corporation completed the acquisition, through a subsidiary of TransAlta, of an economic interest in a 144 megawatt wind farm in Wyoming ("Wyoming Wind Farm"). The wind farm is fully operational and contracted under a PPA until 2028 with an investment grade counterparty. The Corporation acquired the economic interest in the Wyoming Wind Farm by acquiring a U.S.\$102.7 million (\$109.7 million) investment in the Class A Preferred Shares of a TransAlta subsidiary (see Note 15).

The Corporation financed the acquisition of the economic interest through a U.S.\$102.0 million (\$108.9 million) loan from TransAlta ("Wyoming Wind Acquisition Loan") (see Note 16).

### 5. Government Incentives

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

### 6. Lease Revenue

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

### 7. Expenses by Nature

Expenses classified by nature are as follows:

Year ended Dec. 31	2014		2013	
	Royalties and other costs	Operations, maintenance, and administration	Royalties and other costs	Operations, maintenance, and administration
Royalties and land lease costs	10,846	-	9,856	-
Transmission tariffs	2,105	-	3,853	-
Contracted operating expenses	-	8,403	-	8,730
Other operating expenses	-	38,202	-	32,233
<b>Total</b>	<b>12,951</b>	<b>46,605</b>	13,709	40,963

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

### 8. Asset Impairment Charges

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

## 9. Net Interest Expense

The components of net interest expense are as follows:

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

## 10. Income Taxes

### A. Consolidated Statements of Earnings

#### I. Rate Reconciliation

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

#### II. Components of Income Tax Expense

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

Year ended Dec. 31	2014	2013
Current income tax expense	1,315	1,081
Adjustments in respect of current income tax of previous years	(132)	760
Adjustments in respect of deferred income tax of previous years	102	(1,128)
Deferred income tax expense arising from the writedown of deferred income tax assets	252	-
Deferred income tax expense related to the origination and reversal of temporary differences	12,042	17,231
Deferred income tax expense resulting from changes in tax rates	-	1,891
<b>Income tax expense</b>	<b>13,579</b>	<b>19,835</b>
<b>Year ended Dec. 31</b>	<b>2014</b>	<b>2013</b>
Current income tax expense	1,183	1,841
Deferred income tax expense	12,396	17,994
<b>Income tax expense</b>	<b>13,579</b>	<b>19,835</b>

**B. Consolidated Statements of Changes in Equity**

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

<b>Year ended Dec. 31</b>	<b>2014</b>	<b>2013</b>
Income tax expense (recovery) related to:		
Cash flow hedges	(12)	296
Common share issue costs	-	(3,526)
<b>Income tax recovery reported in equity</b>	<b>(12)</b>	<b>(3,230)</b>

**C. Components of Net Deferred Income Tax Liability**

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

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

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

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

**11. Non-Controlling Interest**

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

<b>Year ended Dec. 31</b>	<b>2014</b>	<b>2013</b>
<b>Results of operations</b>		
Revenues	36,156	31,717
Net earnings and total comprehensive income	19,735	15,426
<b>As at Dec. 31</b>	<b>2014</b>	<b>2013</b>
<b>Financial position</b>		
Current assets	6,654	5,708
Long-term assets	218,950	227,256
Current liabilities	(2,452)	(1,435)
Long-term liabilities	(520)	(414)
Total equity	222,632	231,115

## 12. Financial Instruments and Risk Management

### A. Financial Assets and Liabilities – Classification and Measurement

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

#### Carrying value as at Dec. 31, 2014

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

<sup>1</sup> Measured at cost (see section B.III. of this note).

<sup>2</sup> Includes current portion.

#### Carrying value as at Dec. 31, 2013

	Cash flow hedges	Derivatives classified as held for trading	Loans and receivables	Available-for-sale <sup>1</sup>	Other financial liabilities	Total
<b>Financial assets</b>						
Cash and cash equivalents	-	-	19,256	-	-	19,256
Accounts receivable	-	-	37,413	-	-	37,413
Risk management assets						
Current	22	-	-	-	-	22
Long-term	14	-	-	-	-	14
Investment in preferred shares	-	-	-	109,325	-	109,325
<b>Financial liabilities</b>						
Bank overdraft	-	-	-	-	891	891
Accounts payable and accrued liabilities	-	-	-	-	31,267	31,267
Dividends payable	-	-	-	-	29,239	29,239
Risk management liabilities						
Current	73	-	-	-	-	73
Long-term	2	65	-	-	-	67
Long-term debt <sup>2</sup>	-	-	-	-	684,215	684,215

<sup>1</sup> Measured at cost (see section B.III. of this note).

<sup>2</sup> Includes current portion.

## B. Fair Value of Financial Instruments

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

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

### I. Level Determinations and Classifications

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

#### a. Level I

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

#### b. Level II

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

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

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

#### c. Level III

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

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

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

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

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

## II. Commodity and Other Risk Management Assets and Liabilities

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

The following tables summarize the key factors impacting the fair value of the Corporation's risk management assets and liabilities by classification level during the years ended Dec. 31, 2014 and 2013, respectively:

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

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

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

The effect of using reasonably possible alternative assumptions as inputs to valuation techniques from which the Level III commodity fair values are determined at Dec. 31, 2014 is estimated to be +/- \$0.1 million (2013 +/- \$0.1 million). Fair values are stressed for volumes and prices. The variable volumes are stressed up and down one standard deviation from historically available production data. Prices are stressed for longer-term deals where there are no liquid market quotes using various internal and external forecasting sources to establish a high and a low price range.

### III. Financial Instruments not Recognized at Fair Value

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

The fair value of the Corporation's long-term debt as at Dec. 31, 2014 was \$682.1 million (2013 - \$700.7 million) all of which is included in Level II. The fair value of the Corporation's debentures is determined using prices observed in secondary markets. The fair value of other long-term debt is determined by calculating an implied price based on a current assessment of the yield to maturity.

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

### IV. Cash Flow Hedges

#### a. Foreign Currency Rate Risk Management

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

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

#### b. Effect of Cash Flow Hedges

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

Year ended Dec. 31, 2014			
Derivatives in cash flow hedging relationships	Pre-tax gain (loss) recognized in OCI	Location of (gain) loss reclassified from OCI	Pre-tax (gain) loss reclassified from OCI
Commodity contracts	(1)	Revenue	2
Foreign exchange forwards on project hedges	(124)	Property, plant, and equipment	-
Foreign exchange forwards on U.S. debt	396	Foreign exchange (gain) loss	(234)
<b>OCI impact</b>	<b>271</b>	<b>OCI impact</b>	<b>(232)</b>

Year ended Dec. 31, 2013			
Derivatives in cash flow hedging relationships	Pre-tax gain (loss) recognized in OCI	Location of (gain) loss reclassified from OCI	Pre-tax (gain) loss reclassified from OCI
Commodity contracts	(3)	Revenue	(307)
Foreign exchange forwards on project hedges	214	Property, plant, and equipment	1,687
Foreign exchange forwards on U.S. debt	582	Foreign exchange (gain) loss	(720)
<b>OCI impact</b>	<b>793</b>	<b>OCI impact</b>	<b>660</b>

## V. Non-Hedges

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

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

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

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

### I. Credit Risk

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

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

The Corporation's maximum exposure to credit risk at Dec. 31, 2014, without taking into account collateral held or right of set-off, is represented by the current carrying amounts of accounts receivable and risk management assets as per the Consolidated Statements of Financial Position.

The Corporation uses external credit ratings, as well as internal ratings in circumstances where external ratings are not available, to establish credit limits for counterparties. As at Dec. 31, 2014 and 2013, significantly all of the Corporation's counterparties were considered investment grade. The aging of the Corporation's receivables is as follows:

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

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

### II. Liquidity Risk

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

The Corporation manages its liquidity risk associated with its financial liabilities by utilizing cash flow generated from operations and borrowing arrangements with TransAlta. The Corporation is in compliance with all financial covenants relating to its debt obligations as at Dec. 31, 2014.

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

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

<sup>1</sup> Not recognized as a financial liability on the Consolidated Statements of Financial Position.

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

### III. Foreign Currency Rate Risk

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

The possible effect on net earnings and OCI, for the years ended Dec. 31, 2014 and 2013, due to changes in foreign exchange rates associated with financial instruments denominated in currencies other than the Corporation's functional currency, is outlined below. The sensitivity analysis has been prepared using management's assessment that an average four cent (2013 - five cent) increase or decrease in these currencies relative to the Canadian dollar is a reasonable potential change over the next quarter.

Year ended Dec. 31	2014		2013	
	Net earnings increase <sup>1</sup>	OCI gain <sup>1</sup>	Net earnings decrease <sup>1</sup>	OCI gain <sup>1</sup>
USD	2	-	-	-
EUR	-	53	-	71
<b>Total</b>	<b>2</b>	<b>53</b>	<b>-</b>	<b>71</b>

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

### IV. Interest Rate Risk

All of the Corporation's long-term debt, as described in Note 16, is comprised of fixed interest rate debt and, as such, the Corporation is not exposed to interest rate risk.

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

### V. Commodity Price Risk

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

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

Value at Risk ("VaR") is the most commonly used metric employed to track and manage the market risk associated with commodity and other derivatives. A VaR measure gives, for a specific confidence level, an estimated maximum pre-tax loss that could be incurred over a specified period. VaR is used to determine the potential change in value of the Corporation's risk management assets and liabilities, over a three-day period within a 95 per cent confidence level, resulting from normal market fluctuations. VaR is estimated using the historical variance - covariance approach. VaR associated with the Corporation's net commodity risk management assets and liabilities at Dec. 31, 2014 was nil (2013 - nil).

### 13. Property, Plant, and Equipment

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

	Hydro generation	Wind generation	Assets under construction	Capital spares and other	Total
<b>Cost</b>					
As at Dec. 31, 2012	253,131	1,735,493	188,884	6,610	2,184,118
Additions	2,062	4,771	38,963	1,002	46,798
Disposals	(430)	(251)	-	-	(681)
Revisions and additions to decommissioning costs	(486)	1,103	-	-	617
Impairment charges (Note 8)	(3,663)	-	-	-	(3,663)
Revaluation <sup>1</sup>	(3,804)	(201,999)	-	-	(205,803)
Transfers	140	227,707	(227,847)	-	-
<b>As at Dec. 31, 2013</b>	<b>246,950</b>	<b>1,766,824</b>	<b>-</b>	<b>7,612</b>	<b>2,021,386</b>
Additions	806	5,757	-	1,629	8,192
Disposals	(163)	(2,200)	-	-	(2,363)
Revisions and additions to decommissioning costs	1,856	1,066	-	-	2,922
Impairment charges (Note 8)	(1,500)	-	-	-	(1,500)
Impairment reversals (Note 8)	1,572	-	-	-	1,572
Transfers	-	(222)	-	(305)	(527)
<b>As at Dec. 31, 2014</b>	<b>249,521</b>	<b>1,771,225</b>	<b>-</b>	<b>8,936</b>	<b>2,029,682</b>
<b>Accumulated depreciation</b>					
As at Dec. 31, 2012	44,296	201,325	-	-	245,621
Depreciation	7,041	61,798	-	-	68,839
Disposals	(23)	(50)	-	-	(73)
<b>As at Dec. 31, 2013</b>	<b>51,314</b>	<b>263,073</b>	<b>-</b>	<b>-</b>	<b>314,387</b>
Depreciation	7,143	58,298	-	-	65,441
Impairment reversals (Note 8)	72	-	-	-	72
Disposals	(65)	(405)	-	-	(470)
Transfers	-	(28)	-	-	(28)
<b>As at Dec. 31, 2014</b>	<b>58,464</b>	<b>320,938</b>	<b>-</b>	<b>-</b>	<b>379,402</b>
<b>Carrying amount</b>					
As at Dec. 31, 2013	195,636	1,503,751	-	7,612	1,706,999
<b>As at Dec. 31, 2014</b>	<b>191,057</b>	<b>1,450,287</b>	<b>-</b>	<b>8,936</b>	<b>1,650,280</b>

<sup>1</sup> On acquisition, the carrying amount of certain wind and hydro facilities was revalued by the Corporation based on the TransAlta PPAs (see Note 4).

For the year ended Dec. 31, 2013, \$2.1 million of interest was capitalized to PP&E at a weighted average rate of 5.46 per cent. For the year ended Dec. 31, 2014, no interest was capitalized to PP&E.

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

## 14. Intangible Assets

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

	Power contracts <sup>1</sup>	Software	Total
<b>Cost</b>			
As at Dec. 31, 2012	134,500	1,910	136,410
Additions	-	(137)	(137)
Revaluation <sup>2</sup>	-	(700)	(700)
As at Dec. 31, 2013	134,500	1,073	<b>135,573</b>
Additions	-	16	<b>16</b>
Transfers	-	348	<b>348</b>
<b>As at Dec. 31, 2014</b>	<b>134,500</b>	<b>1,437</b>	<b>135,937</b>
<b>Accumulated amortization</b>			
As at Dec. 31, 2012	22,820	329	23,149
Amortization	6,855	285	7,140
As at Dec. 31, 2013	29,675	614	<b>30,289</b>
Amortization	6,844	144	<b>6,988</b>
<b>As at Dec. 31, 2014</b>	<b>36,519</b>	<b>758</b>	<b>37,277</b>
<b>Carrying amount</b>			
As at Dec. 31, 2013	104,825	459	105,284
<b>As at Dec. 31, 2014</b>	<b>97,981</b>	<b>679</b>	<b>98,660</b>

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

<sup>2</sup> On acquisition, the carrying amount of certain intangible assets was revalued by the Corporation based on the TransAlta PPAs (see Note 4).

## 15. Investment in Preferred Shares

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

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

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

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

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

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

The components of dividends earned are as follows:

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

## 16. Long-Term Debt

### A. Amounts Outstanding

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

<sup>1</sup> Interest rate reflects the stipulated rate or the average rate weighted by principal amounts outstanding.

<sup>2</sup> U.S.\$87.0 million (2013 - U.S.\$102.0 million).

**Unsecured Debentures** bear interest at fixed rates ranging from 5.33 per cent to 7.31 per cent, with interest payable semi-annually and no principal repayments until maturity, which ranges from 2015 to 2018. These debentures are unsecured. Included in this amount is \$23.2 million (2013 - \$21.3 million) of Series 5 debentures that have a principal amount of U.S.\$20.0 million.

**Secured Debenture** bears interest at 5.28 per cent, with interest payable semi-annually and no principal repayments until maturity in February 2015, and is secured by the Pingston hydro facility, without recourse to joint venture participants (see Note 27).

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

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

The Corporation has a \$100.0 million unsecured working capital credit facility with TransAlta as the lender. Borrowings under the facility bear interest at the Bankers' Acceptance Rate plus a 200 basis point credit spread per annum. As at Dec. 31, 2014, the borrowing rate is approximately 3.30 per cent. The facility is made available for general corporate purposes, including financing and working capital requirements. As at Dec. 31, 2014 and 2013, no amounts have been drawn under the facility.

**B. Restrictions**

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

**C. Principal Repayments**

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

**17. Decommissioning Provisions**

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

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

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

**18. Deferred Revenues**

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

## 19. Common Shares

### A. Authorized and Outstanding

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

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

As at Dec. 31	2014		2013	
	Common shares (millions)	Amount (thousands)	Common shares (millions)	Amount (thousands)
Issued and outstanding, beginning of year	114.7	1,223,845	-	-
Issued on acquisition of Acquired Assets	-	-	66.7	666,667
Issued on settlement of acquisition note	-	-	0.9	9,000
Issued on settlement of short-term note	-	-	25.0	250,000
Valuation adjustments <sup>1</sup>	-	-	-	87,755
<b>Shares issued to Parent</b>	<b>114.7</b>	<b>1,223,845</b>	92.6	1,013,422
Initial public offering, including underwriters' over-allotment <sup>2</sup>	-	-	22.1	210,423
<b>Issued and outstanding, end of year</b>	<b>114.7</b>	<b>1,223,845</b>	114.7	1,223,845

<sup>1</sup> Arises due to the use of the continuity of interest method of accounting.

<sup>2</sup> Net of after-tax issuance costs of \$10.6 million (\$14.1 million issuance costs, less tax-effects of \$3.5 million).

### B. Dividends

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

The following table summarizes the common share dividends declared in 2014 and 2013:

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

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

## 20. Change in Non-Cash Operating Working Capital

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

## 21. Capital

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

The Corporation's capital is comprised of the following:

As at Dec. 31	2014	2013	Increase/ (decrease)
Current portion of long-term debt	194,951	37,596	157,355
Less: available cash and cash equivalents <sup>1</sup>	(23,726)	(18,365)	(5,361)
	171,225	19,231	151,994
Long-term debt	463,504	646,619	(183,115)
Equity			
Common shares	1,223,845	1,223,845	-
Deficit	(221,175)	(196,263)	(24,912)
Accumulated other comprehensive income	238	187	51
Non-controlling interest	37,847	39,290	(1,443)
	1,504,259	1,713,678	(209,419)
<b>Total capital</b>	<b>1,675,484</b>	<b>1,732,909</b>	<b>(57,425)</b>

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

The Corporation's capital structure and its objectives in managing capital have not changed since Dec. 31, 2013.

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

The Corporation will be required to refinance, or otherwise repay, the CHD debentures as they become due, beginning in 2015 through 2018 (see Note 16). There is no guarantee that cash flow from operations will be sufficient, or that the Corporation will be able to obtain financing, to repay the principal amounts of these debentures.

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

## 22. Joint Operations

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

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

## 23. Commitments and Contingencies

### A. Contracts for Goods and Services

In the ordinary course of operations, the Corporation routinely enters into contracts for the purchase of goods and services and for leases of equipment. The Corporation also has several long-term service agreements in place for repairs and maintenance that may be required on turbines at wind facilities. In addition, the Corporation has an agreement with TransAlta for general and administrative services.

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

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

### B. Litigation

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

## 24. Related Party Transactions and Balances

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

### A. Related Party Transactions

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

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

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

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

#### I. TransAlta PPAs

The Corporation has agreements with TransAlta for certain wind and hydro facilities, providing for the purchase by TransAlta, for a fixed price, of all of the power produced by such facilities. The initial price payable by TransAlta in 2013 for output under the TransAlta PPAs is \$30.00 per MWh for wind facilities and \$45.00 per MWh for hydro facilities, and these amounts are adjusted annually for changes in the Consumer Price Index ("CPI"). TransAlta is required to only purchase power that is actually produced. Each TransAlta PPA has a term of 20 years or end of asset life, where end of asset life is less than 20 years.

## II. Management, Administrative and Operational Services Agreement (“Management Agreement”)

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

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

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

## B. Related Party Balances

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

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

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

### I. Letters of Credit

TransAlta has provided letters of credits on behalf of the Corporation. Any amounts owed by the Corporation for obligations under the contracts to which the letters of credit pertain are reflected in the Consolidated Statements of Financial Position. All letters of credit expire within one year and are expected to be renewed, as needed, in the normal course of business. No amounts have been exercised by third parties under these arrangements.

### II. Guarantees

Two guarantees totalling \$206.0 million relate to the New Richmond wind facility. If the Corporation does not perform under the related agreements, the counterparty may present claim for payment from TransAlta.

## C. Key Management Personnel Services

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

Year ended Dec. 31	2014	2013 (Restated) <sup>1</sup>
Total compensation	350	155
Comprised of:		
Short-term employee benefits	127	155
Share-based payments	223	-

<sup>1</sup> See Note 3(A).

## 25. Pre-Acquisition Relationship with Parent

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

### A. Net Parental Investment

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

### B. Cash Management

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

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

### C. Allocation of Corporate Costs

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

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

#### **D. Income Taxes**

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

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

#### **E. Pension and Other Post-Employment Benefit Plans**

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

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

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

#### **F. Financial Instruments and Derivatives**

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

### **26. Significant Customers**

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

### **27. Subsequent Event**

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