

**TransAlta Renewables Reports Fourth Quarter Results for 2013**

**CALGARY, Alberta (February 14, 2014)** – TransAlta Renewables Inc. (the “Company”) (TSX: RNW) today reported fourth quarter Comparable EBITDA<sup>(1)</sup> of \$53.4 million. Comparable Net Earnings for the fourth quarter were \$17.1 million, or \$0.15 per share. Reported Net Earnings attributed to common shareholders were \$15.5 million. During the fourth quarter, the Company declared monthly dividends of \$0.06416 per share for holders of record on February 3, 2014, March 3, 2014 and April 1, 2014 payable on each of February 28, 2014, March 28, 2014 and April 30, 2014, respectively. Today, the Company also declared a dividend of \$0.06416 per share for holders of record on May 1, 2013 payable on May 30, 2014.

In December, the Company successfully completed its acquisition of an economic interest in the 144 megawatt (“MW”) wind farm in Wyoming which was originally announced on October 21, 2013.

“TransAlta Renewables’ fourth quarter and full year results exhibit the strength of our renewables portfolio and its ability to generate strong cash flows for our shareholders,” said Brett Gellner, President of the Company. “The acquisition of an economic interest the Wyoming Wind Farm in the fourth quarter demonstrates our commitment to grow and, as a result, we were able to increase the annual dividend.”

The financial information in this news release represents carve out data derived from the accounting records of TransAlta Corporation up to and including August 8, 2013, in addition to the Company’s actual results since August 9, 2013. Financial information for 2012 is also based on carve out data from TransAlta Corporation. More details in regards to the basis of measurement can be found in the final prospectus of the Company dated July 31, 2013.

Historical financial information is not directly comparable to current results due to the implementation of certain commercial arrangements between the Company and TransAlta Corporation that took effect upon closing of the Company’s initial public offering (“IPO”) on August 9, 2013, including the entering into of firm priced power purchase agreements for generating facilities whose power was previously sold on a merchant basis. Prior to the IPO, these commercial arrangements did not exist and the Company’s assets were held directly or indirectly by TransAlta Corporation.

**Summary Results****Q4 2013 compared to Q4 2012**

- Comparable EBITDA of \$53.4 million up from \$51.7 million for the same period last year
- Funds from operations of \$45.1 million up from \$44.4 million for the same period last year
- Production of 842 GWh, up from 775 GWh for the same period last year

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(1) Comparable EBITDA refers to Earnings before interest, taxes, depreciation and amortization including finance lease income and adjusted for certain other items. Comparable EBITDA is not defined under IFRS. Presenting this measure from period to period provides supplemental information to help management and shareholders evaluate earnings’ and cash flow trends in comparison with prior periods’ results. Refer to the Non-IFRS Measures section of the Management’s Discussion and Analysis (“MD&A”) for further discussion of these items.

## Full year 2013 compared to full year 2012

- Comparable EBITDA of \$184.1 million up from \$159.4 million for the same period last year
- Funds from operations of \$154.0 million up from \$131.1 million for the same period last year
- Production of 2,885 GWh, up from 2,805 GWh for the same period last year

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

### Fourth Quarter and Full Year 2013 Highlights

In \$CAD thousands, unless otherwise stated	3 months ended Dec. 31, 2013	3 months ended Dec. 31, 2012	12 months ended Dec. 31, 2013	12 months ended Dec. 31, 2012
Production (GWh)	842	775	2,885	2,805
Revenue	69,949	67,344	245,341	219,817
Net earnings attributable to common shareholders	15,535	18,522	50,258	32,091
Comparable EBITDA	53,425	51,745	184,094	159,383
Funds from operations <sup>(1)</sup>	45,067	44,361	153,957	131,129
Cash flow from operating activities	37,698	36,571	161,836	116,914
Cash available for distribution <sup>(1)</sup>	40,979	40,644	142,495	120,301
Comparable earnings <sup>(1)</sup>	17,129	18,532	54,599	39,601
Basic and diluted earnings per common share	0.13	0.16	0.44	0.28
Comparable earnings per share <sup>(1)</sup>	0.15	0.16	0.48	0.35
Funds from operations per share <sup>(1)</sup>	0.39	0.39	1.34	1.14
Cash available for distribution per share <sup>(1)</sup>	0.36	-	1.24	-
Dividends paid per common share	0.18	-	0.23	-

TransAlta Renewables is in the process of filing its Annual Information Form, Audited Consolidated Financial Statements and accompanying notes, as well as the MD&A. These documents will be available today through TransAlta Renewables' website at [www.transaltarenewables.com](http://www.transaltarenewables.com) or through SEDAR at [www.sedar.com](http://www.sedar.com).

A complete copy of TransAlta Renewables' fourth quarter extended news release is available in the Investors Centre section of our website: [www.transaltarenewables.com](http://www.transaltarenewables.com).

Note: All financial figures are in Canadian dollars unless noted otherwise.

### About TransAlta Renewables Inc.

*TransAlta Renewables owns 28 wind and hydroelectric power generation facilities, having an aggregate installed generating capacity of 1,232 MW, in which it holds a net ownership interest of approximately 1,111 MW. TransAlta Renewables' power generating capacity is among the largest of any publicly-traded renewable independent power producer ("IPP") in Canada, with more wind power generating capacity than any other Canadian publicly-traded IPP. TransAlta Renewables' strategy is focused on*

<sup>(1)</sup> Cash available for distribution represents the amount the cash generated from operations by our business, before changes in working capital and after sustaining and productivity capital, distributions to non-controlling interest and scheduled principal repayments of debts. Funds from operations, cash available for distribution, comparable earnings, comparable earnings per share, funds from operations per share, and cash available for distribution per share are not defined under IFRS. Presenting these measures from period to period provides supplemental information to help management and shareholders evaluate earnings' and cash flow trends in comparison with prior periods' results. Refer to the Non-IFRS Measures section of the MD&A for further discussion of these items.

*the efficient operation of its portfolio of renewable power generation assets and expanding its asset base through the acquisition of additional renewable power generation facilities in operation or under construction. TransAlta Renewables objective is to (i) create stable, consistent returns for investors through the ownership of contracted renewable power generation assets that provide stable cash flow through long-term power purchase agreements with creditworthy counterparties, including TransAlta; (ii) pursue and capitalize on strategic growth opportunities in the renewable power generation sector; and (iii) pay out a portion of cash available for distribution to the shareholders of TransAlta Renewables on a monthly basis.*

#### **Cautionary Statement Regarding Forward Looking Information**

*This news release may contain forward looking statements, including statements regarding the business and anticipated financial performance of the Company. These forward-looking statements are not historical facts but reflect the Company's current expectations concerning future plans, actions and results. These statements are subject to a number of risks and uncertainties that could cause actual plans, actions and results to differ materially from current expectations including, but not limited to, the ability to successfully obtain regulatory approvals; changes in tax, environmental, and other laws and regulations; competitive factors in the renewable power industry; operational breakdowns, failures, or other disruptions; changes in economic and market conditions; and other risks and uncertainties discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time and as also set forth in the Company's MD&A and 2014 Annual Information Form. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this news release. The Company disclaims any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.*

#### **Cautionary Statement Regarding use of Non-IFRS Accounting Measures**

*This news release contains references to EBITDA and Funds from Operations which are not generally accepted accounting measures under IFRS and therefore may differ from definitions of EBITDA and Funds from Operations used by other entities. We believe that EBITDA and Funds from Operations are useful supplemental measures that may assist investors in assessing the financial performance and the cash anticipated to be generated by our operating portfolio. Neither EBITDA nor Funds from Operations should be considered as the sole measure of our performance and should not be considered in isolation from, or as a substitute for, analysis of our financial statements prepared in accordance with IFRS. Refer to the Non-IFRS measures section of the MD&A for further explanation.*

Note: All financial figures are in Canadian dollars unless noted otherwise.

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## **BASIS OF PRESENTATION**

This news release should be read in conjunction with our 2013 audited consolidated financial statements and 2013 Annual Management's Discussion and Analysis ("MD&A"). In this news release, unless the context otherwise requires, 'we', 'our', 'us', 'TransAlta Renewables', and the 'Corporation' refers to TransAlta Renewables Inc. and 'TransAlta' and the 'Parent' refers to TransAlta Corporation and its subsidiaries. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar amounts in the tables presented in this news release are in thousands of Canadian dollars unless otherwise noted. Certain financial measures included in this news release do not have a standardized meaning as prescribed by IFRS. These measures may not be comparable to similar measures presented by other issuers and should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. See the Non-IFRS Measures section of this news release for additional information. Capitalized items not otherwise defined herein have their respective meanings set forth under Glossary of Key Terms. Additional information respecting the Corporation, including our 2014 Annual Information Form ("AIF") for the year ended Dec. 31, 2013, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **FORMATION OF THE CORPORATION**

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

## **RESULTS OF OPERATIONS**

The results of operations are presented on a consolidated basis. Some of the accounting policies require management to make estimates or assumptions that in some cases may relate to matters that are inherently uncertain. Some of the critical accounting policies and estimates include: valuation and useful life of property, plant, and equipment ("PP&E"), decommissioning and restoration provisions, and income taxes. See the "Critical Accounting Judgments and Key Sources of Estimation Uncertainty" section of the audited consolidated financial statements within our 2013 Annual Report for further discussion.

The results of operations for periods prior to the Acquisition on Aug. 9, 2013 have been prepared in accordance with IFRS using consistent accounting policies those outlines in Note 2 of our 2013 audited consolidated financial statements. Historically, financial statements have not been prepared for the Acquired Assets as they had not been operated as a separate business by TransAlta. Accordingly, the results of operations for periods prior to the Acquisition reflect the results of operations for the Acquired Assets in a manner consistent with how TransAlta managed the Acquired Assets and as though the Acquired Assets had been a separate company. All material assets and liabilities specifically identified to the Acquired Assets and all material revenues and expenses specifically attributable to the Acquired Assets and allocations of overhead expenses have been included in the results of operation for periods prior to the Acquisition. These may not necessarily reflect the financial position, results of operations, or cash flows that the Acquired Assets might have had in the past had they existed as a separate business during the periods prior to the Acquisition.

## HIGHLIGHTS

### Fourth Quarter Highlights

#### Operational Results

- Gross margins increased \$2.2 million to \$66.1 million quarter over quarter, primarily due to higher wind volumes from the commencement of commercial operations at New Richmond, partially offset by lower hydro volumes, lower prices, and lost wind volumes and revenues due to the impact of the December 2013 extreme weather conditions in Eastern Canada.
- Production increased 67 gigawatt hours (“GWh”) to 842 GWh compared to 2012, primarily due to the commencement of commercial operations at New Richmond, partially offset by lower water resources and lost wind volumes due to the impact of the December 2013 extreme weather conditions in Eastern Canada.
- Operations, Maintenance, and Administration (“OM&A”) costs increased \$0.7 million to \$11.6 million compared to the same period in 2012, primarily due to the commencement of commercial operations at our New Richmond wind farm.

#### Financial Highlights

- Funds from Operations (“FFO”) were \$45.1 million compared to \$44.4 million in the prior quarter.
- Comparable Earnings Before Interest, Taxes, Depreciation, and Amortization (“EBITDA”) increased \$1.7 million in the quarter to \$53.4 million compared to 2012.
- Comparable earnings were \$17.1 million (\$0.15 per share), down from \$18.5 million (\$0.16 per share) in 2012, primarily due to increases in depreciation and net interest expense.
- Reported net earnings attributable to common shareholders were \$15.3 million (\$0.13 per share), down from \$18.5 million (\$0.16 per share) in 2012. The change is driven by the increase in depreciation expense and net interest expense as well as an increase in non-comparable income tax expense of \$1.6 million related to a change in the provincial income tax rates.

#### Acquisition of Wind Farm

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

## SUMMARY OF RESULTS

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

	3 months ended Dec. 31		Year ended Dec. 31	
	2013	2012	2013	2012
Production (GWh)	842	775	2,885	2,805
Revenues	69,949	67,344	245,341	219,817
Gross margin <sup>(1)</sup>	66,094	63,883	231,632	206,703
Operating income <sup>(1)</sup>	32,666	33,271	103,842	72,326
Comparable operating income <sup>(2)</sup>	32,666	33,271	107,505	85,326
Net earnings attributable to common shareholders <sup>(3)</sup>	15,535	18,522	50,258	32,091
Net earnings per share attributable to common shareholders, basic and diluted <sup>(3)</sup>	0.13	0.16	0.44	0.28
Comparable net earnings per share <sup>(2)</sup>	0.15	0.16	0.48	0.35
Comparable EBITDA <sup>(2)</sup>	53,425	51,745	184,094	159,383
Funds from operations <sup>(2)</sup>	45,067	44,361	153,957	131,129
Funds from operations per share <sup>(2)</sup>	0.39	0.39	1.34	1.14
Cash flow from operating activities	37,698	36,571	161,836	116,914
Cash available for distribution <sup>(2)</sup>	40,979	40,644	142,495	120,301
Dividends paid per common share <sup>(4)</sup>	0.18	-	0.23	-

  

As at	Dec. 31, 2013	Dec. 31, 2012
Total assets	2,013,638	2,262,716
Total long-term liabilities	846,299	526,356

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

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

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

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

## **SIGNIFICANT EVENTS**

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

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

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

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

### **Ice Storm – Eastern Canada**

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

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

The results of operations are as follows:

	3 months ended Dec. 31		Year ended Dec. 31	
	2013	2012	2013	2012
Revenues	56,180	59,140	200,822	189,504
Government incentives	6,472	6,794	22,019	23,369
Lease revenue <sup>(2)</sup>	7,297	1,410	22,500	6,944
<b>Total revenue</b>	<b>69,949</b>	<b>67,344</b>	<b>245,341</b>	<b>219,817</b>
Royalties and other	3,855	3,461	13,709	13,114
<b>Comparable gross margin<sup>(3)</sup></b>	<b>66,094</b>	<b>63,883</b>	<b>231,632</b>	<b>206,703</b>
Operations, maintenance, and administration	11,637	10,927	40,963	40,828
Taxes, other than income taxes	1,032	1,211	6,575	6,492
<b>Comparable EBITDA<sup>(3)</sup></b>	<b>53,425</b>	<b>51,745</b>	<b>184,094</b>	<b>159,383</b>
Depreciation and amortization	20,759	18,474	76,589	74,057
<b>Comparable operating income<sup>(3)</sup></b>	<b>32,666</b>	<b>33,271</b>	<b>107,505</b>	<b>85,326</b>
Production (GWh) <sup>(4)</sup>	842	775	2,885	2,805
Installed capacity (GWh) <sup>(4)</sup>	2,455	2,307	9,741	9,170

Comparable gross margin for the three months ended Dec. 31, 2013 increased by \$2.2 million compared to the same periods in 2012, primarily due to higher wind volumes from the commencement of commercial operations at New Richmond, partially offset by lower hydro volumes, lower prices, and lost wind volumes and revenues due to the impact of the December 2013 extreme weather conditions in Eastern Canada.

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

OM&A expense for the three months ended Dec. 31, 2013 increased \$0.7 million compared to the same period in 2012, primarily due to the commencement of commercial operations at our New Richmond wind farm.

Depreciation and amortization expense for the three months and year ended Dec. 31, 2013 increased \$2.3 million and \$2.5 million, respectively, compared to the same periods in 2012, primarily due to the commencement of commercial operations at New Richmond, partially offset by a lower depreciable asset base.

(1) We measure capacity as net maximum capacity (see Glossary of Key Terms for definition of this and other key terms), which is consistent with industry standards. Capacity figures represent capacity owned and in operation unless otherwise stated.

(2) Under IFRS the agreements for the sale of electrical energy for the Akolkolex, Bone Creek and New Richmond facilities are considered operating leases. Accordingly, revenues earned for sale of electrical energy produced by these facilities are reported as lease revenue.

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

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



## Production and Gross Margins

3 months ended Dec. 31, 2013	Installed (GWh)	Production (GWh)	Revenues	Royalties and other	Gross margin	Revenues per produced MWh <sup>(1)</sup>	Royalties and other per produced MWh <sup>(1)</sup>	Gross margin per produced MWh <sup>(1)</sup>
Western Canada wind	921	351	21,028	1,477	19,551	59.91	4.21	55.69
Eastern Canada wind	1,302	441	45,325	2,009	43,316	102.78	4.56	98.21
Hydro	232	50	3,596	369	3,227	71.92	7.38	64.54
	<b>2,455</b>	<b>842</b>	<b>69,949</b>	<b>3,855</b>	<b>66,094</b>	<b>83.07</b>	<b>4.58</b>	<b>78.48</b>

3 months ended Dec. 31, 2012	Installed (GWh)	Production (GWh)	Revenues	Royalties and other	Gross margin	Revenues per produced MWh <sup>(1)</sup>	Royalties and other per produced MWh <sup>(1)</sup>	Gross margin per produced MWh <sup>(1)</sup>
Western Canada wind	921	323	23,013	771	22,242	71.25	2.39	68.86
Eastern Canada wind	1,154	378	38,078	2,352	35,726	100.74	6.22	94.52
Hydro	232	74	5,358	338	5,020	72.41	4.57	67.84
Biomass	-	-	895	-	895	-	-	-
	<b>2,307</b>	<b>775</b>	<b>67,344</b>	<b>3,461</b>	<b>63,883</b>	<b>86.90</b>	<b>4.47</b>	<b>82.43</b>

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

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

### Western Canada Wind

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

Production for the three months ended Dec. 31, 2013 increased 28 GWh compared to the same periods in 2012 primarily due to higher wind volumes.

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

Gross margin for the three months ended Dec. 31, 2013 decreased \$2.7 million compared to the same period in 2012, primarily due to lower overall prices in 2013 and higher royalties and transmission costs, partially offset by higher wind volumes.

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

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

### *Eastern Canada Wind*

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

Production for the three months and year ended Dec. 31, 2013 increased 63 GWh and 127 GWh, respectively, compared to the same periods in 2012, primarily due to the commencement of commercial operations at New Richmond in March 2013.

For the three months and year ended Dec. 31, 2013, gross margin increased \$7.6 million and \$16.4 million, respectively, compared to the same periods in 2012, primarily due to the commencement of commercial operations at New Richmond in March 2013 and lower royalties and transmission costs at other facilities.

### *Hydro*

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

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

Production for the three months and year ended Dec. 31, 2013 decreased 24 GWh and 16 GWh, respectively, compared to the same periods in 2012, primarily due to lower water resources in Western Canada, partially offset by lower unplanned outages.

Gross margin for the three months ended Dec. 31, 2013 decreased \$1.8 million compared to the same period in 2012, primarily due to lower water resources in Western Canada and lower prices.

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

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

We have an economic interest in the 144 MW Wyoming Wind Farm which is fully operational and contracted under a long-term PPA until 2028 with an investment grade counterparty. As we have an economic interest, and not direct ownership, the operational results of the Wyoming Wind Farm will not be consolidated into our results, however, the dividends we receive on our Wyoming Wind Preferred Shares will be included in our consolidated results, and are based on the pre-tax net earnings from the Wyoming Wind Farm. Refer to the Significant Events section of this MD&A for further details.

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

## NET INTEREST EXPENSE

The components of net interest expense are shown below:

	3 months ended Dec. 31		Year ended Dec. 31	
	2013	2012	2013	2012
Interest on debt	8,157	8,244	29,436	27,606
Interest on letters of credit and guarantees pledged by TransAlta	14	1,055	2,297	4,156
Capitalized interest	-	(2,213)	(2,147)	(4,621)
Interest income	(4)	(34)	(15)	(42)
<b>Interest expense</b>	<b>8,167</b>	<b>7,052</b>	<b>29,571</b>	<b>27,099</b>
Accretion of provisions	208	183	848	730
<b>Net interest expense</b>	<b>8,375</b>	<b>7,235</b>	<b>30,419</b>	<b>27,829</b>

The change in net interest expense for the three months and year ended Dec. 31, 2013, compared to the same periods in 2012, is shown below:

	3 months ended	Year ended
	Dec. 31	Dec. 31
Net interest expense, 2012	7,235	27,829
Higher interest on Amortizing Term Loan	2,149	3,311
Lower capitalized interest	2,213	2,474
Higher accretion	25	118
Unfavourable foreign exchange impacts	22	50
Lower interest income	30	27
Other	14	3
Lower interest on letters of credit and guarantees	(1,041)	(1,859)
Lower interest charged from TransAlta for capital projects	(2,213)	(1,400)
Lower financing costs	(59)	(67)
Higher interest income from resolution of certain outstanding tax matters	-	(42)
Lower debt levels	-	(25)
<b>Net interest expense, 2013</b>	<b>8,375</b>	<b>30,419</b>

## INCOME TAXES

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

	3 months ended Dec. 31		Year ended Dec. 31	
	2013	2012	2013	2012
Earnings before income taxes	24,247	25,655	72,710	48,329
Income attributable to non-controlling interest	(805)	(891)	(2,617)	(2,653)
Asset impairment charges	-	-	3,663	13,000
Gain on sale of assets	-	13	-	(2,987)
<b>Earnings attributable to common shareholders excluding non-comparable items subject to tax</b>	<b>23,442</b>	<b>24,777</b>	<b>73,756</b>	<b>55,689</b>
Income tax expense	7,907	6,242	19,835	13,585
Income tax recovery related to asset impairment charges	-	-	916	3,250
Income tax (expense) recovery related to gain on sale of assets	-	3	-	(747)
Income tax expense related to changes in corporate income tax rates <sup>(1)</sup>	(1,594)	-	(1,594)	-
<b>Income tax expense excluding non-comparable items</b>	<b>6,313</b>	<b>6,245</b>	<b>19,157</b>	<b>16,088</b>
<b>Effective tax rate on earnings attributable to common shareholders excluding non-comparable items (%)</b>	<b>27</b>	<b>25</b>	<b>26</b>	<b>29</b>

<sup>(1)</sup> Impact of rate changes on future income taxes

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

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

The effective tax rate on earnings attributable to common shareholders excluding non-comparable items for the three months ended Dec. 31, 2013 increased compared to the same period in 2012 due to an increase in provincial tax rates.

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

## NON-CONTROLLING INTEREST

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

Net earnings attributable to the non-controlling interest for the three months and year ended Dec. 31, 2013 were comparable to the same periods in 2012.

## STATEMENTS OF CASH FLOWS

The following charts highlight significant changes in the Condensed Consolidated Statements of Cash Flows for the three months and year ended Dec. 31, 2013 compared to the same periods in 2012:

<b>3 months ended Dec. 31</b>	<b>2013</b>	<b>2012</b>	<b>Primary factors explaining change</b>
Cash and cash equivalents, beginning of period	<b>6,600</b>	2,329	
Provided by (used in):			
Operating activities	<b>37,698</b>	36,571	Higher cash earnings of \$0.7 million and favourable changes in working capital of \$0.4 million
Investing activities	<b>(112,356)</b>	(42,642)	Investment in Wyoming Wind Preferred Shares for \$109.7 million and an unfavourable change in non-cash operating working capital balances of \$11.9 million, offset by a decrease in additions to PP&E of \$53.7 million
Financing activities	<b>86,423</b>	6,947	Issuance of long-term debt of \$109.9 million, primarily offset by an increase in dividends paid of \$21.5 million and repayment of net parental investment and other related party amounts of \$8.4 million
Cash and cash equivalents, net of bank overdraft, end of period	<b>18,365</b>	3,205	
<b>Year ended Dec. 31</b>	<b>2013</b>	<b>2012</b>	<b>Primary factors explaining change</b>
Cash and cash equivalents, beginning of year	<b>3,205</b>	3,990	
Provided by (used in):			
Operating activities	<b>161,836</b>	116,914	Higher cash earnings of \$22.1 million and favourable changes in working capital of \$22.9 million
Investing activities	<b>(167,044)</b>	(156,554)	Investment in Wyoming Wind Farm Preferred Shares for \$109.7 million and an unfavourable change in non-cash operating working capital balances of \$24.8 million, partially offset by a decrease in additions to PP&E of \$118.6 million and an increase in realized risk management gains of \$5.4 million
Financing activities	<b>20,368</b>	38,855	Increase in repayment of closing note and partial repayment of acquisition note of \$208.0 million, increase in repayment of net parental investment and other related party amounts of \$100.3 million, and an increase in dividends paid on common shares of \$26.9 million, partially offset by an increase in net proceeds on issuance of common shares of \$206.9 million and the issuance of long-term debt for \$108.9 million
Cash and cash equivalents, net of bank overdraft, end of year	<b>18,365</b>	3,205	

## **LIQUIDITY AND CAPITAL RESOURCES**

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

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

### ***Debt***

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

### ***Share Capital***

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

During the three months and year ended Dec. 31, 2013, nil and 114.7 million, respectively, common shares were issued.

### ***Due to Related Party***

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

### ***Working Capital Credit Facility***

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

## **2014 OUTLOOK**

### ***Business Environment***

#### **Demand and Supply**

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

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

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

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

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

### **Economic Environment**

We expect moderate growth in Alberta and low growth in Eastern Canada in 2014. We monitor global events to assess their potential impact on the economy and our supplier and commodity counterparty relationships.

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

### **Transmission**

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

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

## **Environmental Legislation**

The siting, construction, and operation of electrical energy facilities requires interaction with many stakeholders. Recently, within the renewables industry, certain stakeholders have brought actions against government agencies and owners over alleged adverse impacts of wind projects. We are monitoring the activities and claims within the industry in order to assess the associated risks.

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

In addition, government climate change policies and regulations can have an impact on our operations and business in that they frequently influence government support for renewables generation, or influence the price competitiveness of renewables generation in comparison to fossil-fuel based generation.

## **Operations**

### **Production**

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

### **Contracted Cash Flows**

Through the use of PPAs, including the TransAlta PPAs, all of our capacity is currently contracted. Substantially all of our capacity is contracted over the next 10 to 20 years. In addition, for 2014, approximately 76 per cent and 95 per cent of the environmental attributes from our wind and hydro facilities, respectively, have been sold.

### **Operations, Maintenance, and Administration Costs**

We expect OM&A costs for 2014 to increase primarily due to the commencement of operations at the New Richmond wind farm. However, we have long-term service agreements in place for many of our wind facilities, which allow us to stabilize costs. Over time, OM&A costs are also expected to increase due to inflation.

### **Wyoming Wind Economic Interest**

We expect dividends on the Wyoming Wind Preferred Shares we own to be in the range of \$8.0 to \$9.0 million in 2014. Actual dividend amounts may vary from this range as the dividends are based on pre-tax earnings generated by the Wyoming Wind Farm.

### **Exposure to Fluctuations in Foreign Currencies**

In 2014, we expect that we will be exposed to fluctuations in the exchange rate between the Canadian and U.S. dollars as a result of our economic interest in the Wyoming Wind Farm, as both the Wyoming Wind Preferred Shares and the related dividends received are denominated in U.S. dollars. However, these exposures will be partially offset by the U.S.-denominated Wyoming Wind Acquisition Loan and the related payment of U.S.-denominated interest, as well as the U.S.-denominated interest on our U.S.\$20.0 million CHD debenture.



All of our other assets are located in Canada, and as a result, there is minimal additional exposure to fluctuations in foreign currencies. We may acquire equipment from foreign suppliers for future capital projects, which could create exposure to fluctuations in the value of the Canadian dollar related to these currencies.

Our strategy is to minimize the impact, if any, of fluctuations in the Canadian dollar against the U.S. dollar, euro and other currencies by entering into foreign exchange contracts.

#### **Net Interest Expense**

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

#### **Liquidity and Capital Resources**

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

#### **Income Taxes**

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

#### **Accounting Estimates**

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

#### **Capital Expenditures**

##### **Growth**

##### **New Richmond**

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

##### **Sustaining Capital and Productivity Expenditures**

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

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

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

## **Financing**

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

## **RELATED PARTY TRANSACTIONS AND BALANCES**

### ***Post-Acquisition Relationship with TransAlta***

Prior to the Aug. 9, 2013 acquisition of the Acquired Assets and separation of TransAlta Renewables as a stand-alone public entity, the Acquired Assets were historically managed and operated in the normal course of business by TransAlta along with other TransAlta operations and affiliates and not as a separate business. After the Acquisition, we entered into certain agreements and transactions with TransAlta as follows:

#### **Wyoming Wind Farm**

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

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

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

During the three months and year ended Dec. 31, 2013, a pro-rated amount of \$2.5 million and \$4.0 million was recognized as an OM&A expense by the Corporation for the G&A Reimbursement Fee.

TransAlta also provides operational and maintenance services under the Management and Operational Services Agreement, which generally includes all services as may be necessary or requested for the operation and maintenance of our wind and hydro facilities.

TransAlta is reimbursed for all out-of-pocket and third-party fees and costs, including salaries, wages, and benefits associated with managing and operating the facilities not captured by the G&A Reimbursement Fee.

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

#### **TransAlta PPAs**

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

During the three months and year ended Dec. 31, 2013, \$10.0 million and \$13.9 million was recognized as revenue for power sold pursuant to the TransAlta PPAs.

#### **Working Capital Credit Facility**

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

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

#### **Amortizing Term Loan and Wyoming Wind Acquisition Loan**

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

During the three months and year ended Dec. 31, 2013, \$2.1 million and \$3.3 million was recognized as interest expense related to borrowings under these loans.

#### **Trade Accounts Receivable and Payable**

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

#### **Letters of Credit**

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

## **Guarantees**

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

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

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

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

## **Financial Instruments and Derivatives**

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

## **Governance and Cooperation Agreement**

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

## ***Pre-Acquisition Relationship with TransAlta***

The Acquired Assets have historically been managed and operated in the normal course of business by TransAlta along with other TransAlta operations and affiliates. Financial statements have not historically been prepared for the Acquired Assets as they had not been operated as a separate business. Certain shared costs have been allocated to the Acquired Assets and reflected as expenses in the pre-Acquisition period financial statements. Management of TransAlta and the Corporation consider the allocation methodologies used to be reasonable and appropriate reflections of the related expenses attributable to the Acquired Assets; however, the expenses reflected in the pre-Acquisition period financial statements may not be indicative of the actual expenses that would have been incurred during the periods presented if we had historically operated as a separate entity. In addition, the expenses reflected in the pre-Acquisition period financial statements may not be indicative of expenses that we will incur in the future. Transactions between TransAlta and the Acquired Assets prior to the Acquisition have been identified as related party transactions in the pre-Acquisition period financial statements. It is possible that the terms of the transactions with TransAlta and its

affiliates are not the same as those that would result from transactions among unrelated parties. In the opinion of TransAlta's management, all adjustments have been reflected that are necessary for a fair presentation of the pre-Acquisition period financial statements. Additional information related to the preparation of the pre-Acquisition period financial statements is as follows:

#### **Net Parental Investment**

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

#### **Cash Management**

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

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

#### **Allocation of Corporate Costs**

Allocated costs include TransAlta charges including, but not limited to: corporate accounting, human resources, government affairs, information technology, shared real estate expenses, legal, treasury, and pension and other post-employment benefits. These costs are included in OM&A expenses. The costs were allocated to the Acquired Assets based on GWh of production. Note that these expenses may have been different had the Acquired Assets been a separate entity during the periods presented. For the three months and year ended Dec. 31, 2013, these pre-tax costs were nil and \$3.5 million, respectively. For the three months and year ended Dec. 31, 2012, these pre-tax costs were \$2.3 million and \$8.3 million, respectively.

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

#### **Income Taxes**

TransAlta's historic consolidated financial statements included the operations of the Acquired Assets. For purposes of the financial statements prior to the Acquisition, current and deferred income taxes for certain of the Acquired Assets that were not held in separate legal entities were computed and reported on a "legal entity" basis. Income taxes as presented herein represent an allocation of current and deferred income taxes of TransAlta to these Acquired Assets in a manner that is systematic, rational, and consistent with the asset and liability method prescribed by IFRS. Under the liability method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Accordingly, the sum of

the amounts allocated to these Acquired Assets' tax provisions may not equal the historical consolidated income tax provision. Current and deferred income taxes for those Acquired Assets that were held in separate legal entities represent the income taxes related to that separate legal entity, including deferred income tax assets recognized for the benefit expected from losses available for carryforward to the extent that is probable that future taxable earnings will be available against which the losses can be applied.

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

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

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

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

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

#### **Financial Instruments and Derivatives**

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

#### **Related Party Loans**

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

<b>As at</b>	<b>Dec. 31, 2013</b>	<b>Dec. 31, 2012</b>
Senior loan with TransAlta <sup>(1)</sup>	-	14,254
Loan with TransAlta subsidiary <sup>(2)</sup>	-	117,811
Loan with TransAlta subsidiary <sup>(3)</sup>	-	(894)

*(1) Maximum amount of \$300 million.*

*(2) Maximum amount of \$150 million.*

*(3) Maximum amount of \$20 million.*

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

## **ADDITIONAL IFRS MEASURES**

An additional IFRS measure is a line item, heading, or subtotal that is relevant to an understanding of the financial statements but is not a minimum line item mandated under IFRS, or the presentation of a financial measure that is relevant to an understanding of the financial statements but is not presented elsewhere in the financial statements. We have included line items entitled “gross margin” and “operating income” in our Consolidated Statements of Earnings for the three months and year ended Dec. 31, 2013 and 2012. Presenting these line items provides management and investors with a measurement of ongoing operating performance that is readily comparable from period to period.

## **NON-IFRS MEASURES**

We evaluate our performance using a variety of measures. Those discussed below, and elsewhere in this MD&A, are not defined under IFRS and, therefore, should not be considered in isolation or as an alternative to or to be more meaningful than net earnings attributable to common shareholders or cash flow from operating activities, as determined in accordance with IFRS, when assessing our financial performance or liquidity. These Non-IFRS measures are not necessarily comparable to a similarly titled measure of another company.

We exclude the impact of asset impairment charges and other adjustments to earnings, such as the gain on sale of assets, as management believes these transactions are not representative of our business operations. We have also excluded the income tax expense related to changes in corporate income tax rates as these amounts relate to the impact of the rate change on future income taxes as opposed to the impact on current earnings.

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

Presenting comparable EBITDA from period to period provides management and investors with a proxy for the amount of cash generated from operating activities before net interest expense, non-controlling interest, income taxes, and working capital adjustments.

	3 months ended Dec. 31, 2013			Year ended Dec. 31, 2013		
	Reported	Comparable adjustments	Comparable total	Reported	Comparable adjustments	Comparable total
Revenues	69,949	-	69,949	245,341	-	245,341
Royalties and other	3,855	-	3,855	13,709	-	13,709
<b>Gross margin</b>	<b>66,094</b>	<b>-</b>	<b>66,094</b>	<b>231,632</b>	<b>-</b>	<b>231,632</b>
Operations, maintenance, and administration	11,637	-	11,637	40,963	-	40,963
Taxes, other than income taxes	1,032	-	1,032	6,575	-	6,575
<b>Earnings before interest, taxes, depreciation, and amortization</b>	<b>53,425</b>	<b>-</b>	<b>53,425</b>	<b>184,094</b>	<b>-</b>	<b>184,094</b>
Depreciation and amortization	20,759	-	20,759	76,589	-	76,589
Asset impairment charges	-	-	-	3,663	(3,663) <sup>(1)</sup>	-
<b>Operating income</b>	<b>32,666</b>	<b>-</b>	<b>32,666</b>	<b>103,842</b>	<b>3,663</b>	<b>107,505</b>
Foreign exchange loss	(44)	-	(44)	(935)	-	(935)
Other income	-	-	-	222	-	222
<b>Earnings before interest and taxes</b>	<b>32,622</b>	<b>-</b>	<b>32,622</b>	<b>103,129</b>	<b>3,663</b>	<b>106,792</b>
Net interest expense	8,375	-	8,375	30,419	-	30,419
Income tax expense	7,907	(1,594) <sup>(2) (3)</sup>	6,313	19,835	(678) <sup>(2) (3)</sup>	19,157
<b>Net earnings</b>	<b>16,340</b>	<b>1,594</b>	<b>17,934</b>	<b>52,875</b>	<b>4,341</b>	<b>57,216</b>
Non-controlling interest	805	-	805	2,617	-	2,617
<b>Net earnings attributable to TransAlta Renewables common shareholders</b>	<b>15,535</b>	<b>1,594</b>	<b>17,129</b>	<b>50,258</b>	<b>4,341</b>	<b>54,599</b>
Weighted average number of common shares outstanding in the period (millions)	114.7	114.7	114.7	114.7	114.7	114.7
<b>Net earnings per share attributable to common shareholders</b>	<b>0.13</b>	<b>0.02</b>	<b>0.15</b>	<b>0.44</b>	<b>0.04</b>	<b>0.48</b>

	3 months ended Dec. 31, 2012			Year ended Dec. 31, 2012		
	Reported	Comparable adjustments	Comparable total	Reported	Comparable adjustments	Comparable total
Revenues	67,344	-	67,344	219,817	-	219,817
Royalties and other	3,461	-	3,461	13,114	-	13,114
<b>Gross margin</b>	<b>63,883</b>	<b>-</b>	<b>63,883</b>	<b>206,703</b>	<b>-</b>	<b>206,703</b>
Operations, maintenance, and administration	10,927	-	10,927	40,828	-	40,828
Taxes, other than income taxes	1,211	-	1,211	6,492	-	6,492
<b>Earnings before interest, taxes, depreciation, and amortization</b>	<b>51,745</b>	<b>-</b>	<b>51,745</b>	<b>159,383</b>	<b>-</b>	<b>159,383</b>
Depreciation and amortization	18,474	-	18,474	74,057	-	74,057
Asset impairment charges	-	-	-	13,000	(13,000) <sup>(1)</sup>	-
<b>Operating income</b>	<b>33,271</b>	<b>-</b>	<b>33,271</b>	<b>72,326</b>	<b>13,000</b>	<b>85,326</b>
Foreign exchange gain (loss)	(371)	-	(371)	190	-	190
Other income	3	-	3	655	-	655
Gain (loss) on sale of assets	(13)	13 <sup>(1)</sup>	-	2,987	(2,987) <sup>(1)</sup>	-
<b>Earnings before interest and taxes</b>	<b>32,890</b>	<b>13</b>	<b>32,903</b>	<b>76,158</b>	<b>10,013</b>	<b>86,171</b>
Net interest expense	7,235	-	7,235	27,829	-	27,829
Income tax expense	6,242	3 <sup>(2)</sup>	6,245	13,585	2,503 <sup>(2)</sup>	16,088
<b>Net earnings</b>	<b>19,413</b>	<b>10</b>	<b>19,423</b>	<b>34,744</b>	<b>7,510</b>	<b>42,254</b>
Non-controlling interest	891	-	891	2,653	-	2,653
<b>Net earnings attributable to TransAlta Renewables common shareholders</b>	<b>18,522</b>	<b>10</b>	<b>18,532</b>	<b>32,091</b>	<b>7,510</b>	<b>39,601</b>
Weighted average number of common shares outstanding in the period (millions)	114.7	114.7	114.7	114.7	114.7	114.7
<b>Net earnings per share attributable to common shareholders</b>	<b>0.16</b>	<b>-</b>	<b>0.16</b>	<b>0.28</b>	<b>0.07</b>	<b>0.35</b>

(1) Non-comparable items.

(2) Net tax effect of non-comparable items.

(3) Impact of rate changes on future income taxes.



### ***Funds from Operations***

Presenting FFO from period to period provides management and investors with a proxy for the amount of cash generated from operating activities, before changes in working capital, and provides the ability to evaluate cash flow trends more readily in comparison with results from prior periods.

	<b>3 months ended Dec. 31</b>		<b>Year ended Dec. 31</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Cash flow from operating activities	<b>37,698</b>	36,571	<b>161,836</b>	116,914
Change in non-cash operating working capital balances	<b>7,369</b>	7,790	<b>(7,879)</b>	14,215
<b>Funds from operations</b>	<b>45,067</b>	44,361	<b>153,957</b>	131,129
Weighted average number of common shares outstanding in the period (millions)	<b>114.7</b>	114.7	<b>114.7</b>	114.7
<b>Funds from operations per share</b>	<b>0.39</b>	0.39	<b>1.34</b>	1.14

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

### ***Cash Available for Distribution***

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

Sustaining capital and productivity expenditures for the three months and year ended Dec. 31, 2013 represent total additions to PP&E and intangibles per the Consolidated Statements of Cash Flows less \$8.7 million and \$39.1 million, respectively, that we have invested in growth projects.

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

	<b>3 months ended Dec. 31</b>		<b>Year ended Dec. 31</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Cash flow from operating activities	<b>37,698</b>	36,571	<b>161,836</b>	116,914
Add (deduct):				
Changes in non-cash operating working capital	<b>7,369</b>	7,790	<b>(7,879)</b>	14,215
Sustaining capital and productivity expenditures	<b>(3,117)</b>	(2,223)	<b>(7,719)</b>	(6,171)
Distributions paid to subsidiaries' non-controlling interest	<b>(971)</b>	(1,401)	<b>(3,743)</b>	(4,131)
Scheduled principal repayments of debt	-	(93)	-	(526)
<b>Cash available for distribution</b>	<b>40,979</b>	40,644	<b>142,495</b>	120,301

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

## FUTURE ACCOUNTING CHANGES

Additional new or amended applicable accounting standards that have been previously issued by the International Accounting Standards Board but are not yet effective, and have not yet been applied, are as follows: IFRS 9 *Financial Instruments*, and International Accounting Standard 36 *Impairment of Assets (Recoverable Amount Disclosures)*. Please refer to the Future Accounting Changes section of our 2013 Annual MD&A for more information.

## SELECTED QUARTERLY INFORMATION

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

  

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

Basic and diluted earnings per share ("EPS") attributable to common shareholders and comparable EPS are calculated each period using the weighted average common shares outstanding during the period. As a result, the sum of the EPS for the four quarters making up the calendar year may sometimes differ from the annual EPS.

## FORWARD-LOOKING STATEMENTS

This news release includes forward-looking statements. All forward-looking statements are based on our beliefs as well as assumptions based on information available at the time the assumption was made and on management's experience and perception of historical trends, current conditions, and expected future developments, as well as other factors deemed appropriate in the circumstances. Forward-looking statements are not facts, but only predictions and generally can be identified by the use of statements that include phrases such as "may", "will", "believe", "expect", "anticipate", "intend", "plan", "foresee", "potential", "enable", "continue", or other comparable terminology. These statements are not guarantees of our future performance and are subject to risks, uncertainties, and other important factors that could cause our actual performance to be materially different from that projected.

In particular, this news release contains forward-looking statements pertaining to our business and anticipated financial performance including, but not limited to, for example: spend on growth and sustaining capital and productivity projects; expectations in terms of the cost of operations, capital spend, and maintenance, and the variability of those costs; expectations related to future earnings and cash flow from operating and contracting activities; the anticipated impact of the acquisition of an economic interest in the Wyoming Wind Farm on cash available for distribution; the payment of future dividends; expectations for demand for electricity in

both the short term and long term, and the resulting impact on electricity prices; expectations in respect of generation availability, capacity, and production; expected financing of our capital expenditures; expected governmental regulatory regimes and legislation and their expected impact on us, as well as the cost of complying with resulting regulations and laws; estimates of future tax rates, future tax expense, and the adequacy of tax provisions; accounting estimates; anticipated growth rates in our markets; expectations for the outcome of existing or potential legal and contractual claims; expectations for the ability to access capital markets at reasonable terms; the estimated impact of changes in interest rates and the value of the Canadian dollar relative to the U.S. dollar; the monitoring of our exposure to liquidity risk; expectations regarding entering into additional financial instruments; expectations in respect to the global economic environment; estimated cash flow required to settle decommissioning and restoration activities; and expectations regarding borrowing rates and our credit practices.

Factors that may adversely impact our forward-looking statements include risks relating to: changes in general economic conditions including interest rates; operational risks involving our facilities, including unplanned outages at such facilities; disruptions in the transmission and distribution of electricity; the effects of weather; disruptions in the source of water or wind required to operate our facilities; natural disasters; the threat of domestic terrorism, cyber-attacks and other man-made disasters; equipment failure and our ability to carry out repairs in a cost-effective or timely manner; industry risk and competition; fluctuations in the value of foreign currencies; the need for additional financing; structural subordination of securities; counterparty credit risk; insurance coverage; our provision for income taxes; legal and contractual proceedings involving the Corporation; reliance on key personnel; the regulatory and political environments in the jurisdictions in which we operate; environmental requirements and changes in, or liabilities under, these requirements; and development projects and acquisitions. The foregoing risk factors, among others, are described in further detail in the Risk Factors section of our 2014 AIF for the year ended Dec. 31, 2013 and our 2013 Annual MD&A, both available on SEDAR at [www.sedar.com](http://www.sedar.com).

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

**TRANSALTA RENEWABLES INC.**  
**CONSOLIDATED STATEMENTS OF EARNINGS**

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

Unaudited	3 months ended Dec. 31		Year ended Dec. 31	
	2013	2012	2013	2012
Revenues	56,180	59,140	200,822	189,504
Government incentives	6,472	6,794	22,019	23,369
Lease revenue	7,297	1,410	22,500	6,944
<b>Total revenue</b>	<b>69,949</b>	<b>67,344</b>	<b>245,341</b>	<b>219,817</b>
Royalties and other	3,855	3,461	13,709	13,114
<b>Gross margin</b>	<b>66,094</b>	<b>63,883</b>	<b>231,632</b>	<b>206,703</b>
Operations, maintenance, and administration	11,637	10,927	40,963	40,828
Depreciation and amortization	20,759	18,474	76,589	74,057
Asset impairment charges	-	-	3,663	13,000
Taxes, other than income taxes	1,032	1,211	6,575	6,492
<b>Operating income</b>	<b>32,666</b>	<b>33,271</b>	<b>103,842</b>	<b>72,326</b>
Foreign exchange gain (loss)	(44)	(371)	(935)	190
Net interest expense	(8,375)	(7,235)	(30,419)	(27,829)
Other income	-	3	222	655
Gain on sale of assets	-	(13)	-	2,987
<b>Earnings before income taxes</b>	<b>24,247</b>	<b>25,655</b>	<b>72,710</b>	<b>48,329</b>
Income tax expense	7,907	6,242	19,835	13,585
<b>Net earnings</b>	<b>16,340</b>	<b>19,413</b>	<b>52,875</b>	<b>34,744</b>
<b>Net earnings attributable to:</b>				
Common shareholders	15,535	18,522	50,258	32,091
Non-controlling interest	805	891	2,617	2,653
	<b>16,340</b>	<b>19,413</b>	<b>52,875</b>	<b>34,744</b>
<b>Weighted average number of common shares</b>				
<b>outstanding in the period (millions)</b>	<b>114.7</b>	<b>114.7</b>	<b>114.7</b>	<b>114.7</b>
<b>Net earnings per share attributable to common shareholders, basic and diluted</b>	<b>0.13</b>	<b>0.16</b>	<b>0.44</b>	<b>0.28</b>

**TRANSALTA RENEWABLES INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands of Canadian dollars)

Unaudited	3 months ended Dec. 31		Year ended Dec. 31	
	2013	2012	2013	2012
<b>Net earnings</b>	<b>16,340</b>	19,413	<b>52,875</b>	34,744
Gains (losses) on derivatives designated as cash flow hedges, net of tax <sup>(1)</sup>	87	816	161	(2,267)
Reclassification of losses on derivatives designated as cash flow hedges to non-financial assets, net of tax <sup>(2)</sup>	-	2,286	1,265	5,326
<b>Total items that will not be reclassified subsequently to net earnings</b>	<b>87</b>	3,102	<b>1,426</b>	3,059
Gains (losses) on derivatives designated as cash flow hedges, net of tax <sup>(3)</sup>	400	(119)	434	515
Reclassification of (gains) losses on derivatives designated as cash flow hedges to net earnings, net of tax <sup>(4)</sup>	(453)	126	(703)	(1,041)
<b>Total items that will be reclassified subsequently to net earnings</b>	<b>(53)</b>	7	<b>(269)</b>	(526)
<b>Other comprehensive income</b>	<b>34</b>	3,109	<b>1,157</b>	2,533
<b>Total comprehensive income</b>	<b>16,374</b>	22,522	<b>54,032</b>	37,277
<b>Total comprehensive income attributable to:</b>				
Common shareholders	15,569	21,631	51,415	34,624
Non-controlling interest	805	891	2,617	2,653
	<b>16,374</b>	22,522	<b>54,032</b>	37,277

(1) Net of income tax expense of 28 and 53 for the three months and year ended Dec. 31, 2013 (2012 - 270 expense and 756 recovery), respectively.

(2) Net of income tax recovery of nil and 422 for the three months and year ended Dec. 31, 2013 (2012 - 762 and 1,775 recovery), respectively.

(3) Net of income tax expense of 134 and 145 for the three months and year ended Dec. 31, 2013 (2012 - 46 recovery and 238 expense), respectively.

(4) Net of income tax expense of 187 and 324 for the three months and year ended Dec. 31, 2013 (2012 - 43 recovery and 354 expense), respectively.

**TRANSALTA RENEWABLES INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
*(in thousands of Canadian dollars)*

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

**TRANSALTA RENEWABLES INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
*(in thousands of Canadian dollars)*

Unaudited	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	(682,231)	-	(154,877)	-	(837,108)	-	(837,108)
Completion of share offering to Parent	(1,013,422)	1,013,422	-	-	-	-	-
Completion of public share offering	-	210,423	-	-	210,423	-	210,423
Common share dividends	-	-	(56,157)	-	(56,157)	-	(56,157)
Distributions to non-controlling interest	-	-	-	-	-	(3,743)	(3,743)
<b>Balance, Dec. 31, 2013</b>	<b>-</b>	<b>1,223,845</b>	<b>(196,263)</b>	<b>187</b>	<b>1,027,769</b>	<b>39,290</b>	<b>1,067,059</b>

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

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

**TRANSALTA RENEWABLES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(in thousands of Canadian dollars)*

Unaudited	3 months ended Dec. 31		Year ended Dec. 31	
	2013	2012	2013	2012
<b>Operating activities</b>				
Net earnings	16,340	19,413	52,875	34,744
Depreciation and amortization	20,759	18,447	76,589	74,030
Gain on sale of assets	-	13	-	(2,987)
Accretion of provisions	208	183	848	730
Decommissioning and restoration costs settled	-	-	-	(115)
Deferred income tax expense	7,327	6,192	17,994	12,813
Unrealized foreign exchange (gain) loss	96	1,376	785	(568)
Unrealized (gain) loss from risk management activities	56	(962)	(49)	(1,054)
Provisions	-	-	-	(100)
Asset impairment charges	-	-	3,663	13,000
Deferred credits	-	(52)	-	(283)
Other non-cash items	281	(249)	1,252	919
Cash flow from operations before changes in working capital	45,067	44,361	153,957	131,129
Change in non-cash operating working capital balances	(7,369)	(7,790)	7,879	(14,215)
<b>Cash flow from operating activities</b>	<b>37,698</b>	<b>36,571</b>	<b>161,836</b>	<b>116,914</b>
<b>Investing activities</b>				
Additions to property, plant, and equipment	(11,786)	(65,463)	(46,798)	(165,377)
Additions to intangibles	-	-	-	(422)
Proceeds on sale of assets	-	23	-	287
Investment in preferred shares	(109,695)	-	(109,695)	-
Change in other assets	-	(620)	-	210
Realized risk management gain (loss)	763	3,151	3,180	(2,185)
Change in non-cash investing working capital balances	8,362	20,267	(13,893)	10,933
Other	-	-	162	-
<b>Cash flow used in investing activities</b>	<b>(112,356)</b>	<b>(42,642)</b>	<b>(167,044)</b>	<b>(156,554)</b>
<b>Financing activities</b>				
Increase in (repayment of) net parental investment and related party advances	-	8,441	(56,762)	43,512
Issuance of long-term debt	108,895	-	108,895	-
Long-term debt repayments	-	(93)	-	(526)
Net proceeds on issuance of common shares	-	-	206,898	-
Repayment of closing and acquisition notes to TransAlta	-	-	(208,000)	-
Dividends paid on common shares	(21,501)	-	(26,920)	-
Distributions to non-controlling interest	(971)	(1,401)	(3,743)	(4,131)
<b>Cash flow from financing activities</b>	<b>86,423</b>	<b>6,947</b>	<b>20,368</b>	<b>38,855</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>11,765</b>	<b>876</b>	<b>15,160</b>	<b>(785)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>6,600</b>	<b>2,329</b>	<b>3,205</b>	<b>3,990</b>
<b>Cash and cash equivalents, net of bank overdraft, end of period</b>	<b>18,365</b>	<b>3,205</b>	<b>18,365</b>	<b>3,205</b>
Cash income taxes paid	195	189	802	1,256
Cash interest paid	7,588	7,470	29,901	29,149



## GLOSSARY OF KEY TERMS

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

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

**Force Majeure** – Literally means “greater force”. A force majeure clause excuses a party from liability if an unforeseen event beyond the control of that party prevents it from performing its obligations under the contract.

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

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

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

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

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

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

**PPA** – A power purchase and sale agreement between a power generator and a third party acquirer of electricity

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

**Reserve Margin** – An indication of a market’s capacity to meet unusual demand or deal with unforeseen outages/shutdowns of generating capacity.

**TransAlta PPAs** – PPAs between TransAlta and the Corporation providing for the purchase by TransAlta, for a fixed price, all of the power produced by certain wind and hydro facilities. The price payable by TransAlta for output is \$30.00/MWh for wind facilities and \$45.00 per MWh for hydro facilities, which amounts are adjusted annually for changes in the Consumer Price Index.

**Unplanned Outage** - The shutdown of a generating unit due to an unanticipated breakdown.

**Working Capital Credit Facility** - A \$100 million unsecured working capital credit facility with TransAlta. The facility is available for general corporate purposes including financing ongoing working capital requirements.

**Wyoming Wind Acquisition Loan** – A U.S.\$102 million unsecured loan from TransAlta to fund the acquisition of the economic interest in the 144 MW wind farm in Wyoming.

**Wyoming Wind Preferred Shares** – A U.S.\$102.7 million investment in Class A Preferred Shares of a TransAlta subsidiary to acquire the economic interest in the 144 MW wind farm in Wyoming.

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**Ticker Symbols**

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