

TRANSALTA RENEWABLES INC.

AUDIT AND NOMINATING COMMITTEE CHARTER

A. ESTABLISHMENT OF COMMITTEE AND PROCEDURES

1. Composition of Committee

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

2. Appointment of Committee Members

Members of the Committee, who shall be chosen solely from the Board’s independent members, shall be appointed by the Board following each annual meeting of shareholders or from time to time as required, and shall hold office until the next annual meeting of shareholders, or until their successors are earlier appointed, or until they cease to be directors of the Company.

3. Vacancies

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

4. Committee Chair

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

5. Secretary of Committee

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

6. Meetings

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

7. Quorum

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

8. Notice of Meetings

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

9. Attendance at Meetings

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

10. Procedure, Records and Reporting

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

11. Review of Charter and Evaluation of Committee

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

12. Outside Experts and Advisors

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

B. DUTIES AND RESPONSIBILITIES OF THE CHAIR

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

The Chair is responsible for:

1. ensuring that the Committee is properly organized so that it functions effectively and meets its obligations and responsibilities;
2. establishing the frequency of Committee meetings, duly convening the same and confirming that a quorum is present when required;
3. working with management and the Manager on the development of agendas and related materials for the meetings;
4. ensuring the Committee has sufficient information to permit it to properly make decisions when decisions are required;
5. making suggestions and providing feedback to management and the Manager regarding information that is or should be provided to the Committee to permit it to properly make decisions when decisions are required;
6. communicating with the Manager regarding financial reporting issues, internal controls and accounting matters;
7. providing leadership to the Committee and assisting the Committee in reviewing and monitoring its responsibilities;
8. reporting to the Board on the recommendations and decisions of the Committee; and
9. acting as Chair at meetings of the Committee.

C. MANDATE OF THE COMMITTEE

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

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

The Committee is also responsible for the identification and recommendation of individuals to the Board for nomination as members of the Board and its committees.

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

D. DUTIES AND RESPONSIBILITIES OF THE COMMITTEE

1. Audit and Financial Matters

A) Duties and Responsibilities Related to the External Auditors Qualifications

- (a) The Committee shall have direct responsibility for the compensation and oversight of the external auditors including nominating the external auditors to the Board for appointment by the shareholders at the Company's annual meeting. In performing its function, the Committee shall:
 - (i) review annually the experience and qualifications of the external auditors' senior personnel who are providing audit services to the Company and the quality control procedures of the external auditors, including obtaining confirmation that the external auditors are in compliance with required regulatory requirements;

- (ii) review and approve annually the external auditors audit plan;
- (iii) review and approve annually the basis and amount of the external auditors' fees and confirm with the Company's Chief Financial Officer that appropriate funding for payment of compensation to the external auditors has been provided for;
- (iv) review and discuss annually with the external auditors all relationships that the external auditors and their affiliates have with the Company and its affiliates in order to determine the external auditors' independence, including, without limitation, (A) requesting, receiving and reviewing, at least annually, a formal written statement from the external auditors delineating all relationships that may reasonably be thought to bear on the independence of the external auditors with respect to the Company, (B) discussing with the external auditors any relationships or services that the external auditors believe may affect their objectivity and professional skepticism; (C) evaluating the communication and interaction with the external auditor including quality of service consideration; and (D) recommending that the Board take appropriate action in response to the external auditors' report to satisfy itself of the external auditors' independence;
- (v) in the year preceding the change of the lead (or coordinating) audit partner (having primary responsibility for the audit), and in any event not less than every five years, perform a comprehensive review of the external auditor which takes into consideration (A) the impact of the tenure of the audit firm on audit quality, trends in the audit firm's performance and expertise in the industry, incidences of independence threats and the effectiveness of safeguards to mitigate those threats, (B) the responsiveness of the audit firm to changes in the entity's business and suggestions for improvement from regulators, the audit committee and/or management, (C) the consistency and rigor of the professional skepticism applied by the external auditor, and the quality of the engagement team and its communications, review of the Canadian Public Accountability Board inspection findings since the previous comprehensive review and how the audit firm responded to these findings, and following this comprehensive review, determine whether the audit firm should be nominated to the Board as the external auditor for appointment by the shareholders at the Company's next general annual meeting;
- (vi) provide the external auditors with direct access to the Committee at all times, and upon a change to the external audit firm or a change of the lead (or coordinating) audit partner (having primary responsibility for the audit): (A) inform the external auditors and the Manager that

the external auditors shall have direct access to the Committee at all times, and (B) instruct the external auditors that they are ultimately accountable to the Committee; and

- (vii) at least annually, obtain and review the external auditors' report with respect to the auditing firm's internal quality-control procedures, any material issues raised by the most recent internal quality- control review or peer review of the auditing firm, any inquiry or investigation by governmental or professional authorities within the preceding five years undertaken respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with any such issues.

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

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

- (iv) discuss with management, the Manager and the external auditors all significant transactions which are not a regular part of the Company's business;
 - (v) review the processes in the formulating of sensitive accounting estimates and the reasonableness of the estimates;
 - (vi) review with management, the Manager and the external auditors any changes in accounting principles, practices or policies considering their applicability to the business and financial impact;
 - (vii) review with management, the Manager and the external auditors alternative treatments of financial information within generally accepted accounting principles, the use of such alternative treatments and that preferred by the external auditors; and
 - (viii) satisfy itself that there are no unresolved issues between management, the Manager and the external auditors that could reasonably be expected to materially affect the financial statements.
- (d) Review with management, the Manager and the external auditors the Company's interim financial statements, including the notes thereto, the related "Management's Discussion and Analysis", the related earnings release, and approve their release to the public as required;
 - (e) Review quarterly with management, the Manager, and as necessary, outside legal advisors and the Company's external auditors, the effectiveness of the Company's internal controls to confirm that the Company is in compliance with its policies and legal and regulatory requirements;
 - (f) Discuss with management, the Manager and the external auditors any correspondence from or with regulators or governmental agencies, any employee complaints or any published reports that raise material issues regarding the Company's financial statements or accounting policies; and
 - (g) Review with the CEO and Chief Financial Officer (the "**CFO**") the processes undertaken by them and the Manager, to satisfy the requirements for certification relating to the Company's periodic and annual reports to be filed with securities regulators, to confirm that the information required to be disclosed is recorded, processed, summarized and reported within the time periods specified for the reporting period. Obtain assurances from the CEO and CFO as to the adequacy and effectiveness of the Company's disclosure controls and procedures and systems of internal control over financial reporting and that any fraud involving any employees of the Manager or the officers of the Company is reported to the Committee.

C) *Duties and Responsibilities Related to Financial Planning*

- (a) Review and recommend to the Board for approval the Company's issuance and redemption of all securities, bonds and other financial instruments (including the review of all public filings to effect any of the issuances or redemptions), financial commitments and limits, and any material changes underlying any of these commitments;
- (b) Review annually the Company's annual tax and monitor its approach to tax strategy, including tax reserves and potential reassessments and audits; and
- (c) Receive quarterly updates with respect to the Company's financial obligations, loans, credit facilities, credit position and financial liquidity.

2. Governance

- (a) On behalf of the Committee, the Chair shall review all public disclosure of material financial information extracted or derived from the Company's financial statements prior to dissemination to the public.
- (b) Review with management and the Manager at least annually the approach and nature of financial information and earnings guidance to be disclosed to analysts and, if applicable, rating agencies.
- (c) Review quarterly with management and the Manager, and, if necessary, outside legal advisors, significant legal, compliance or regulatory matters that may have a material effect on the Company's financial statements.
- (d) Annually discuss with the external or internal auditors their perception of the Company's financial and accounting personnel, any recommendations which the external or internal auditors may have, including those contained in the management letter, with respect to improving internal financial controls, choice of accounting principles or management reporting systems, and review all management letters from the external auditors together with written responses thereto.
- (e) To the extent not reviewed by the full Board, review with management and the Manager, the external auditors and, as necessary, external legal counsel, any litigation, claim or contingency, including tax assessments, that could have a material effect upon the financial position of the Company, and the manner in which these may be or have been disclosed in the financial statements.

- (f) Receive annually an IT update from the Manager, focused on IT systems which support the business including cyber security programs in place to address potential cyber threats.
- (g) Review annually the fees of the Manager to confirm compliance with the Management and Operational Services Agreement.
- (h) Review annually the Manager's processes relating to the assessment of potential fraud, programs and controls to mitigate the risk of fraud and the processes put in place for monitoring the risks within targeted areas.
- (i) Require the Manager to maintain procedures for the receipt, retention and treatment of complaints relating to securities law, accounting, internal accounting controls, auditing or financial reporting matters, and potential ethical or legal violations.
- (j) Review all incidents, complaints or information reported through the Manager's Ethics Help Line addressed to the Committee or relating to potential or suspected material breaches of securities laws, accounting, internal accounting controls, auditing or financial reporting matters and any material ethical or legal violation and follow-up with the Manager to confirm that the matter is investigated as required.
- (k) Establish procedures for the investigation of complaints or allegations, and, in respect of potentially material complaints or allegations, report to the Board thereon and ensure that appropriate action is taken as necessary to address such matter.
- (l) As required, review any changes to the Manager's policy with respect to its hiring policies for employees or former employees of the external auditors.
- (m) Report annually to shareholders on the work of the Committee during the year.

3. Internal Audit

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

- (c) Recognize and advise management and/or the Manager that their internal auditors shall have unfettered access to the Committee, and shall meet in camera with such internal auditor.
- (d) Review, not less than annually, with management and the Manager the adequacy of the systems of internal control and procedures.

4. Board Composition and Nomination

The Manager and the Company entered into the Governance and Cooperation Agreement (the "Governance Agreement") that provides, among other things, that the Manager shall be entitled to nominate a majority of the directors for so long as it holds greater than 35% of the issued and outstanding common shares in the capital of the Company. The nominees of the Manager to the Board may be directors, officers or employees of the Manager or its affiliates, or other persons, at the Manager's discretion. Subject to the rights of the Manager pursuant to the Governance Agreement, the Committee shall:

- (a) Review, from time to time, the size, composition and profile of the Board, taking into account succession planning, geographical representation, disciplines, professional experience, strategy and direction of the Company and other matters it considers appropriate and which may affect the dynamics of the boardroom, and recommend to the Board any changes to the size, composition or profile of the Board as determined appropriate by the Committee.
- (b) Review and propose to the Board for approval, criteria for selecting new directors, after considering the competencies and skills the Board possesses, as a whole, the competencies and skills of each director, and the needs of the Company going forward, including its strategic direction, and determine from this review the competencies and skills that each new nominee should bring to the Board.
- (c) In selecting candidates for the Board, the Committee shall consider individuals from diverse backgrounds, having regard to gender, ethnicity, age, business experience, professional expertise, personal skills, stakeholder perspectives and geographic background. These factors will be considered based on the direction of the Company and with the goal of creating a diverse board that together can provide insight, oversight and foresight to benefit the Company.
- (d) Annually prepare and circulate a questionnaire which identifies the skills, education and experience of each current director and those factors needed to promote diversity and to lead the strategic direction of the Company, and present such results to the Board.

- (e) Review annually the qualifications of person(s) proposed for election to the Board.

E. COMPLIANCE AND POWERS OF THE COMMITTEE

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