TransAlta Renewables Inc.

Management's Discussion and Analysis

December 31, 2014

Management's Discussion and Analysis

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This Management's Discussion and Analysis ("MD&A") should be read in conjunction with our 2014 audited consolidated financial statements and our 2015 Annual Information Form ("AIF") for the year ended Dec. 31, 2014. Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for Canadian publicly accountable enterprises. Certain financial measures included in this MD&A do not have a standardized meaning as prescribed by IFRS. These measures may not be comparable to similar measures presented by other issuers and should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. See the Non-IFRS Measures section of this MD&A for additional information. All dollar amounts in the tables are in thousands of Canadian dollars, unless otherwise noted. In this MD&A, unless the context otherwise requires, 'we', 'our', 'us', 'TransAlta Renewables', and the 'Corporation' refer to TransAlta Renewables Inc. and 'TransAlta' and the 'Parent' refer to TransAlta Corporation and its subsidiaries. Capitalized terms not otherwise defined herein have their respective meanings set forth in the Glossary of Key Terms. This MD&A is dated Feb. 12, 2015. Additional information respecting TransAlta Renewables, including our 2015 AIF, is available on SEDAR at ***www.sedar.com*** *and on our website at* ***www.transaltarenewables.com****.*

Operations of the Corporation

On Aug. 9, 2013, we indirectly acquired 28 wind and hydroelectric ("hydro") generating assets (the "Acquired Assets") from TransAlta (the "Acquisition") and completed an initial public offering ("IPO") of 22.1 million common shares for gross proceeds of $221.0 million. Prior to that, we had no active operations. Net proceeds were used to repay indebtedness outstanding from the Acquisition.

Our results of operations are presented on a consolidated basis. The results of operations for the period prior to the Acquisition on Aug. 9, 2013 and included in the comparative results for the year ended Dec. 31, 2013 have been prepared in accordance with IFRS using consistent accounting policies as those outlined in Note 2 of our audited consolidated financial statements. Historically, financial statements had not been prepared for the Acquired Assets as they had not been operated as a separate business by TransAlta. Accordingly, the results of operations for periods prior to the Acquisition reflect the results of operations for the Acquired Assets in a manner consistent with how TransAlta managed the Acquired Assets and as though the Acquired Assets had been a separate company. All material assets and liabilities specifically identified to the Acquired Assets and all material revenues and expenses specifically attributable to the Acquired Assets and allocations of overhead expenses have been included in the results of operations. These may not necessarily reflect the financial position, results of operations, or cash flows that the Acquired Assets might have had in the past had they existed as a separate business during the period prior to the Acquisition. Similarly, non-IFRS measures for that same period also do not purport to reflect what these might have been had the Acquired Assets existed as a separate business. For purposes of presenting comparative amounts per share, the Corporation's common shares issued under its IPO and those issued to TransAlta on the Acquisition have been assumed to be outstanding as of the beginning of the comparative period presented. We have no dilutive or potentially dilutive instruments.

On Dec. 20, 2013, we completed the acquisition of an economic interest in a wind farm in Wyoming ("Wyoming Wind Farm") by purchasing Class A Preferred Shares of a subsidiary of TransAlta, which itself indirectly acquired the wind farm from a third party at that date. The preferred shares are entitled to receive monthly cumulative cash dividends that are based on, and track to, the pre-tax earnings and distributions of Wyoming Wind LLC. As we have an economic interest, and not direct ownership, the operational results of the Wyoming Wind Farm are not consolidated into our results, and we account for the investment at cost. We recognize dividend income from the investment when it is declared.

Highlights

Consolidated Highlights

Year ended Dec. 31	2014	2013
Production *(GWh)*[1]	**3,351**	2,909
Revenues	**233,444**	245,341
Operating income[2]	**93,018**	103,842
Comparable operating income[3]	**102,349**	107,505
Net earnings attributable to common shareholders	**48,658**	50,258
Comparable net earnings attributable to common shareholders	**48,910**	54,599
Comparable EBITDA[3]	**176,300**	184,094
Funds from operations[3]	**141,180**	153,957
Cash flow from operating activities	**143,383**	161,836
Cash available for distribution[3]	**89,734**	142,495
Net earnings per share attributable to common shareholders, basic and diluted[4]	**0.42**	0.44
Comparable net earnings per share[3,4]	**0.43**	0.48
Funds from operations per share[3,4]	**1.23**	1.34
Cash available for distribution per share[3,4]	**0.78**	1.24
Dividends paid per common share[4]	**0.77**	0.23

As at Dec. 31	2014	2013
Total assets	**1,964,157**	2,013,638
Total long-term liabilities	**682,005**	846,724

Financial Highlights

- Comparable Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA") and Funds from Operations ("FFO") decreased in 2014 compared to 2013, primarily due to a $21.2 million impact of lower prices under the TransAlta PPAs compared to previous merchant prices in Western Canada and the incremental cost of the G&A Reimbursement Fee, in line with the terms of the contracts established as part of the IPO in August 2013. Excluding the effects of the contracts established under the IPO, comparable EBITDA and FFO increased $13.4 million and $8.4 million, respectively. The increases are primarily due to dividend income from our investment in the Wyoming Wind Preferred Shares, a full year of production at New Richmond which commenced operations in March 2013, and higher wind volumes and contract price escalation at Eastern Canada facilities, partially offset by lower wind volumes, lower water resource, and higher outages at hydro facilities, all in Western Canada. The increase in FFO has also been partially offset by higher interest, primarily due to higher average debt levels following the 2013 acquisitions.
- Production increased 442 gigawatt hours ("GWh") to 3,351 GWh compared to 2013, primarily due to our economic interest in the Wyoming Wind Farm, a full year of production at New Richmond, and higher wind volumes at other Eastern Canada facilities, partially offset by lower wind volumes, lower water resource, and higher outages at hydro facilities, all in Western Canada.
- Reported net earnings attributable to common shareholders was $48.7 million ($0.42 per share) down from $50.3 million ($0.44 per share) in 2013, primarily due to the decrease in comparable EBITDA and an increase in net interest expense, partially offset by asset impairment charges in the prior year and lower tax expense.
- Comparable net earnings attributable to common shareholders was $48.9 million ($0.43 per share) down from $54.6 million ($0.48 per share) in 2013, primarily due to the decrease in comparable EBITDA and an increase in net interest expense, partially offset by lower tax expense.

1 *Includes production from our economic interest in the Wyoming Wind Farm.*
2 *This item is an additional IFRS measure. Refer to the Additional IFRS Measures section of this MD&A for further discussion of this item.*
3 *These items are not defined under IFRS. Presenting these items from period to period provides management and investors with the ability to evaluate earnings and cash flow trends more readily in comparison with prior periods' results. Refer to the Non-IFRS Measures section of this MD&A for further discussion of these items, including, where applicable, reconciliations to measures calculated in accordance with IFRS.*
4 *Amounts in this and other tables are presented in whole dollars to the nearest two decimals.*

Business Environment

Overview of Our Business

TransAlta Renewables owns and operates 12 hydro facilities and 16 wind farms in Western and Eastern Canada and holds an economic interest in the Wyoming Wind Farm. At Dec. 31, 2014, our generating assets had 1,283 megawatts ("MW") of gross generating capacity[1] in operation (1,255 MW net interest[1]). The full capacity of the facilities in which we have an interest is 1,376 MW.[1] TransAlta manages and operates these facilities on our behalf under the terms of a Management, Administrative and Operational Services Agreement ("Management Agreement"). The facilities are situated on land leased from third parties under long-term leases. Our Canadian facilities are located in five provinces within Canada: British Columbia, Alberta, Ontario, Québec, and New Brunswick. Our 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. All of our generation output is sold under long-term Power Purchase Agreements ("PPAs") with TransAlta ("TransAlta PPAs") or PPAs with other investment grade counterparties.

Our business is cyclical due to the nature of electricity, which is generally consumed as it is generated; and the nature of wind and run-of-river hydro resources, which fluctuate based on both seasonal patterns and naturally occurring weather variation. Typically, run-of-river hydro facilities generate most of their electricity and revenues during the spring and summer months when melting snow starts feeding watersheds and rivers. Inversely, wind speeds are historically greater during the cold winter months and lower in the warm summer months.

Demand and Supply

Economic growth is the main driver of longer-term changes in the demand for electricity. Historically, demand for electricity in both Western and Eastern Canada has grown at an average rate of one to three per cent per year. In recent years, demand growth has been weaker in Eastern Canada due to economic conditions, while Western Canada has shown steady growth, primarily influenced by growth in Alberta from oil and gas investment. This dynamic is expected to reverse in 2015, as low oil and gas prices are expected to slow economic growth in the West, while the East is expected to benefit from lower energy costs and currency depreciation.

The economic environment in Eastern Canada showed moderate growth in 2014, which accelerated through the year with the increase led by the export sector. In Western Canada, growth was strong, but slowed in the latter half as oil prices declined.

Reserve margins measure available capacity in a market over and above the capacity needed to meet normal peak demand levels. Falling reserve margins indicate that generation capacity is becoming relatively scarce and results in increased power prices. During 2014 reserve margins increased in both Eastern and Western Canada.

Generally, market demand and supply conditions and changes in such conditions do not have a significant impact on our operations due to our highly contracted position.

Transmission

Transmission refers to the bulk delivery system of power and energy between generating units and wholesale and/or retail customers. Power lines serve as the physical path, transporting electricity from generating units to customers. Transmission capacity refers to the ability of the transmission line, or lines, to safely and reliably transport electricity in an amount that balances the dispatched generating supply with demand, and allows for contingency situations on the system. Transmission constraints are physical limitations to power flow that can occur on a transmission system. Constraints may impact our operations by forcing production curtailments at impacted sites.

1 *We measure capacity as Net Maximum Capacity (see Glossary of Key Terms for definition of this and other key terms), which is consistent with industry standards. Capacity figures represent capacity owned and in operation unless otherwise stated. Gross capacity reflects the basis of consolidation of underlying assets owned, plus those in which we hold an economic interest. Net capacity deducts capacity attributable to non-controlling interest in these assets.*

Environmental Legislation

Generation of electricity from wind and hydro sources results in low environmental impacts when compared to other fuel types. Wind power facilities do not produce any emissions. They can be erected with minimal disturbance to the environment and utilize a known, predictable, and recurring resource. Run-of-river hydro generation produces virtually no emissions and returns the original fuel source, water, into the river. Run-of-river facilities provide a smaller hydro generation option with a smaller footprint than traditional reservoir technology and operate with the seasonality of water flow within a given area. Run-of-river facilities also have a minimal impact on surrounding vegetation, fish, bird, and wildlife habitats.

Although our operations generally have low environmental impacts, our activities are subject to stringent environmental laws and regulations promulgated and administered by federal, provincial, and municipal governments where we operate. These laws and regulations generally concern use of water, wildlife protection, wetlands preservation, remediation of contamination, waste disposal requirements, preservation of archaeological artifacts, endangered species preservation, and noise limitations, among others. Our operations must be in compliance with the applicable environmental laws and regulations and we must also obtain or comply with any necessary environmental permits pursuant to such laws and regulations.

Contracted Cash Flows

All of our wind and hydro facilities have contracts in place for the sale of electricity they produce. Nine wind and four hydro facilities are contracted under long-term PPAs with TransAlta. The remaining wind and hydro facilities are contracted with government-owned corporations and large utility customers. The earliest contract expiry date is 2015 for our 10 MW Akolkolex hydro facility, while the remaining PPAs and other long-term contracts generally expire between 2023 and 2035. We are currently reviewing re-contracting strategies for Akolkolex.

In addition to contracting for power, long-term and short-term contracts have been entered into to sell the environmental attributes from our wind and hydro facilities. For 2014, approximately 91 per cent and 98 per cent of the environmental attributes from our wind and hydro facilities, respectively, were sold.

Strategy and Capability to Deliver Results

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

Financial Strategy

Our financial strategy is to maintain a strong financial position to provide a solid foundation for our core business and growth. A strong financial position improves our ability to create stable, consistent returns. At present, we primarily rely on TransAlta for financing and liquidity support.

Contracting Strategy

Through the use of PPAs, including the TransAlta PPAs, all of our capacity is currently contracted. Substantially all of the capacity is contracted over the next nine to 21 years.

Operational Strategy

Our wind and hydro facilities have an established operating history and performance. Except for the New Richmond wind facility, which commenced operations in March 2013, the assets have been in operation from approximately four to 24 years.

We have long-term service agreements in place for many of our wind facilities, which allow us to stabilize costs.

TransAlta provides management, administrative, and operational services to the Corporation. The members of TransAlta's management team who are responsible for managing our operations have extensive experience in the power generation business, including managing the facilities prior to us acquiring them. The employees of TransAlta providing operational services at our facilities are the same individuals who perform such services for TransAlta.

Growth Strategy

Our growth strategy is to acquire high-quality contracted renewable and natural gas power generation facilities and other infrastructure assets that generate stable cash flows, with the objective of achieving returns on invested capital. The successful execution of the growth strategy requires careful timing and business judgment, as well as the resources to complete the due diligence and evaluation of such assets.

TransAlta has stated intentions of raising financing by selling certain contracted assets to us. Assets that are being considered for acquisition by us include TransAlta's Alberta hydro facilities, Australian assets, certain Canadian gas-fired facilities in Alberta and Ontario, and other renewable facilities. Acquisitions from TransAlta will be subject to independent assessments.

Other longer-term growth opportunities may also be sought, primarily through acquisitions, industry consolidation, and other growth opportunities in new markets, other technologies or investment classes.

Results of Operations

Year ended Dec. 31	2014	2013
Revenues	**186,865**	200,822
Government incentives	**21,134**	22,019
Lease revenue[1]	**25,445**	22,500
Total revenue	**233,444**	245,341
Royalties and other costs	**12,951**	13,709
Comparable gross margin[2]	**220,493**	231,632
Operations, maintenance, and administration	**46,605**	40,963
Taxes, other than income taxes	**6,919**	6,575
Dividend income from investment in preferred shares	**(9,331)**	–
Comparable EBITDA[2]	**176,300**	184,094
Depreciation and amortization	**73,951**	76,589
Comparable operating income[2]	**102,349**	107,505
Production *(GWh)*	**3,351**	2,909
Gross installed capacity *(MW)*[3]	**1,283**	1,283
Net installed capacity *(MW)*[3]	**1,255**	1,255

Comparable gross margin for the year ended Dec. 31, 2014 decreased by $11.1 million compared to 2013, primarily due to an $18.3 million impact of lower prices under the TransAlta PPAs compared to previous merchant prices in Western Canada, in line with the terms of the contracts established as part of the IPO in August 2013. Excluding the effects of contracts established under the IPO, comparable gross margin increased $7.2 million. This increase is primarily due to a full year of production at New Richmond, which commenced operations in March 2013, and higher wind volumes and contract price escalation at other Eastern Canada facilities, partially offset by lower wind volumes, lower water resource, and higher outages at hydro facilities, all in Western Canada.

Operations, maintenance, and administration ("OM&A") expense for the year ended Dec. 31, 2014 increased by $5.6 million compared to 2013, primarily due to a net increase in corporate costs under the G&A Reimbursement Fee that came into effect upon formation of the Corporation in August 2013 and a full year of operations at New Richmond.

Depreciation and amortization expense for the year ended Dec. 31, 2014 decreased $2.6 million compared to 2013, primarily due to the lower cost base associated with the revaluation of some assets made upon the Acquisition.

Dividend income from the investment in preferred shares associated with the Wyoming Wind Farm, acquired in December 2013, for the year ended Dec. 31, 2014, is $9.3 million.

1 *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 the sale of electrical energy produced by these facilities are reported as lease revenue.*

2 *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.*

3 *We measure capacity as Net Maximum Capacity, which is consistent with industry standards. Capacity figures represent capacity owned and in operation unless otherwise stated. Gross capacity reflects the basis of consolidation of underlying assets owned, plus those in which we hold an economic interest. Net capacity deducts capacity attributable to non-controlling interest in these assets.*

Production and Gross Margins

Year ended Dec. 31, 2014	**Gross installed capacity *(MW)***	**Production *(GWh)***	**Revenues**	**Royalties and other costs**	**Gross margin**	**Revenues per produced MWh**[1]	**Royalties and other costs per produced MWh**[1]	**Gross margin per produced MWh**[1]
Western Canada wind	**418**	**1,024**	**48,806**	**2,838**	**45,968**	**47.66**	**2.77**	**44.89**
Eastern Canada wind	**616**	**1,580**	**162,907**	**8,303**	**154,604**	**103.11**	**5.26**	**97.85**
Hydro	**105**	**340**	**21,731**	**1,810**	**19,921**	**63.91**	**5.32**	**58.59**
Total – owned facilities	**1,139**	**2,944**	**233,444**	**12,951**	**220,493**	**79.29**	**4.40**	**74.89**
Wyoming Wind Farm	**144**	**407**	**18,894**	**581**	**18,313**	**46.42**	**1.43**	**44.99**
Total	**1,283**	**3,351**						

Year ended Dec. 31, 2013	Gross installed capacity *(MW)*	Production *(GWh)*	Revenues	Royalties and other costs	Gross margin	Revenues per produced MWh[1]	Royalties and other costs per produced MWh[1]	Gross margin per produced MWh[1]
Western Canada wind	418	1,090	72,635	5,447	67,188	66.64	5.00	61.64
Eastern Canada wind	616	1,428	145,613	6,431	139,182	101.97	4.50	97.47
Hydro	105	367	27,093	1,831	25,262	73.82	4.99	68.83
Total – owned facilities	1,139	2,885	245,341	13,709	231,632	85.04	4.75	80.29
Wyoming Wind Farm	144	24	1,066	–	1,066	44.42	–	44.42
Total	1,283	2,909						

Western Canada Wind

Production for the year ended Dec. 31, 2014 decreased 66 GWh compared to 2013, primarily due to lower wind volumes.

For the year ended Dec. 31, 2014, gross margin decreased $21.2 million compared to 2013, primarily due to lower prices under the TransAlta PPAs compared to the previous merchant prices, lower revenue and government incentives in relation to reduced production, and lower emission reduction credit sales.

Eastern Canada Wind

Production for the year ended Dec. 31, 2014 increased 152 GWh compared to 2013, primarily due to higher wind volumes and a full year of production at New Richmond.

For the year ended Dec. 31, 2014, gross margin increased $15.4 million compared to 2013, primarily due to higher production, higher government incentives in relation to increased production, and contract price escalations, partially offset by higher royalties.

Hydro

Production for the year ended Dec. 31, 2014 decreased 27 GWh compared to 2013, primarily due to lower water resource and higher outages in Western Canada.

Gross margin for the year ended Dec. 31, 2014 decreased $5.3 million compared to 2013, primarily due to lower production and higher outages at our higher priced facilities in Western Canada, and lower prices under the TransAlta PPAs compared to previous merchant prices.

Economic Interest in Wyoming Wind Farm

For the year ended Dec. 31, 2014, production from the Wyoming Wind Farm was 407 GWh (2013 – 24 GWh). The increase is due to a full year of production following the acquisition of the economic interest on Dec. 20, 2013.

Dividend income from the preferred shares associated with the Wyoming Wind Farm was $9.3 million for the year ended Dec. 31, 2014 (2013 – nil). Of this amount, $8.2 million is based on pre-tax earnings and $1.1 million is based on cash distributions of Wyoming Wind LLC in excess of pre-tax earnings. Dividend income can differ from earnings and distributions of Wyoming Wind LLC due to, amongst other factors, changes in the short- and long-term capitalization of Wyoming Wind LLC, recognition of non-cash expenses, and the effects of timing of earnings, distributions, and dividend declarations.

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

Other Consolidated Results

Net Interest Expense

The components of net interest expense are shown below:

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

For the year ended Dec. 31, 2014, net interest expense increased compared to 2013, primarily due to higher average debt levels associated with the 2013 acquisitions, offset by lower interest costs related to the letters of credit and guarantees pledged by TransAlta and lower capitalized interest following commissioning of the New Richmond wind farm.

Income Taxes

Our income tax rates and tax expense are based on the earnings generated in each jurisdiction in which we operate and any permanent differences between how pre-tax income is calculated for accounting and tax purposes. If there is a timing difference between when an expense or revenue item is recognized for accounting and tax purposes, these differences result in deferred income tax assets or liabilities and are measured using the income tax rate expected to be in effect when these temporary differences reverse. The impact of any changes in future income tax rates on deferred income tax assets or liabilities is recognized in earnings in the period the new rates are enacted.

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

Year ended Dec. 31	2014	2013
Earnings before income taxes	65,592	72,710
Income attributable to non-controlling interest	(3,355)	(2,617)
Asset impairment charges	-	3,663
Earnings attributable to common shareholders excluding non-comparable items subject to tax	**62,237**	73,756
Income tax expense	13,579	19,835
Income tax recovery related to asset impairment charges	-	916
Income tax expense related to writedown of deferred income tax assets	(252)	-
Income tax expense related to changes in corporate income tax rates[1]	-	(1,594)
Income tax expense excluding non-comparable items	**13,327**	19,157
Effective tax rate on earnings attributable to common shareholders excluding non-comparable items (%)	**21**	26

For the year ended Dec. 31, 2014, income tax expense excluding non-comparable items decreased compared to 2013, primarily due to lower comparable earnings and the effect of dividend income not subject to tax.

For the year ended Dec. 31, 2014, the effective tax rate on earnings attributable to common shareholders excluding non-comparable items decreased compared to 2013 due to dividend income not subject to tax.

1 *Impact of rate changes on deferred income taxes.*

Non-Controlling Interest

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

Since we have a controlling interest in Kent Hills, 100 per cent of the earnings, assets, and liabilities are consolidated into our financial statements. Non-controlling interest on the Consolidated Statements of Earnings and Consolidated Statements of Financial Position relate to the earnings and net assets attributable to the portion of Kent Hills that we do not own. On the Consolidated Statements of Cash Flows, cash paid to the minority owners of Kent Hills is shown in the financing activities section as distributions to non-controlling interest.

Net earnings attributable to the non-controlling interest for the year ended Dec. 31, 2014 increased by $0.7 million to $3.4 million compared to 2013, primarily due to higher wind volumes.

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, capital markets, and funding from TransAlta. Our primary uses of funds are operational expenses, capital expenditures, distributions to the non-controlling interest, interest and principal payments on debt, and dividends.

Financial Position

The following chart highlights significant changes in the Consolidated Statements of Financial Position from Dec. 31, 2013 to Dec. 31, 2014:

	Increase/ (decrease)	Primary factors explaining change
Cash and cash equivalents	**4,470**	Timing of receipts and payments
Accounts receivable	**(1,746)**	Timing of revenue and customer receipts
Property, plant, and equipment, net	**(56,719)**	Depreciation, partially offset by additions
Intangible assets	**(6,624)**	Amortization
Investment in preferred shares	**9,854**	Increase due to changes in foreign exchange rates
Deferred income tax assets	**2,498**	Increase in income tax loss carryforwards
Dividends payable	**(14,525)**	Timing of dividend declarations
Long-term debt (including current portion)	**(25,760)**	Principal repayments on the amortizing term loan and Wyoming Wind Acquisition Loan, partially offset by changes in foreign exchange rates
Decommissioning and other provisions	**3,877**	Accretion and changes in discount rate
Deferred income tax liabilities	**14,883**	Decrease in income tax loss carryforwards and increase in taxable temporary differences
Equity attributable to shareholders	**(24,861)**	Net earnings for the period, offset by dividends declared

Cash Flows

The following chart highlights significant changes in the Consolidated Statements of Cash Flows for the years ended Dec. 31, 2014 and 2013:

Year ended Dec. 31	2014	2013	Primary factors explaining change
Cash and cash equivalents, beginning of year	**18,365**	3,205	
Provided by (used in):			
Operating activities	**143,383**	161,836	Lower cash earnings of $12.8 million and unfavourable changes in working capital of $5.7 million
Investing activities	**(7,044)**	(167,044)	Decrease in investment in preferred shares of $109.7 million, decrease in additions to property, plant, and equipment of $38.6 million, and a favourable change in non-cash investing working capital of $14.4 million, partially offset by a decrease in realized risk management gains of $3.0 million
Financing activities	**(131,124)**	20,368	Decrease in net proceeds on issuance of common shares of $206.9 million, decrease in the issuance of long-term debt of $108.9 million, increase in dividends paid on common shares of $61.2 million, increase in repayment of long-term debt of $38.2 million, and an increase in distributions to non-controlling interest of $1.1 million, partially offset by a decrease in repayment of closing and acquisition notes of $208.0 million and a decrease in repayment of net parental investment and related party advances of $56.8 million
Translation of foreign currency cash	**146**	–	
Cash and cash equivalents, net of bank overdraft, end of year	**23,726**	18,365	

Debt

Long-term debt, including amounts owing to TransAlta, totalled $658.5 million as at Dec. 31, 2014 compared to $684.2 million as at Dec. 31, 2013. Long-term debt decreased from Dec. 31, 2013, primarily due to principal repayments on the Amortizing Term Loan and Wyoming Wind Acquisition Loan, partially offset by unfavourable changes in foreign exchange rates. Refer to Note 16 of our 2014 audited consolidated financial statements.

At Dec. 31, 2014, $279.3 million of our long-term debt was due to TransAlta (2013 – $308.5 million).

Share Capital

On Dec. 31, 2014 and Feb. 12, 2015, we had 114.7 million common shares issued and outstanding.

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

On April 29, 2014, TransAlta completed a secondary public offering of 11,950,000 common shares of the Corporation at a price of $11.40 per common share. As a result of the offering, TransAlta's ownership interest has been reduced from approximately 80.7 per cent to approximately 70.3 per cent. We did not receive any of the proceeds from the sale of common shares, as these shares were owned and held by 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. As at Dec. 31, 2014, the expected borrowing rate is approximately 3.30% 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, 2014 and 2013, no amounts are outstanding under the facility.

Capital Structure

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

As at Dec. 31	2014		2013	
	Amount	**%**	Amount	%
Debt, net of available cash and cash equivalents[1]	**634,729**	**38**	665,850	38
Non-controlling interest	**37,847**	**2**	39,290	2
Equity attributable to shareholders	**1,002,908**	**60**	1,027,769	60
Total capital	**1,675,484**	**100**	1,732,909	100

Commitments

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

	Long-term service agreements	General administrative services	Water rentals and equipment leases	Long-term debt	Interest on long-term debt	Total
2015	16,794	10,684	423	194,974	29,444	**252,319**
2016	14,182	10,899	428	67,866	22,272	**115,647**
2017	10,660	11,117	432	24,413	19,905	**66,527**
2018	12,186	11,350	294	291,211	12,089	**327,130**
2019	12,429	11,577	301	26,422	2,630	**53,359**
2020 and thereafter	58,726	188,634	4,006	56,088	1,966	**309,420**
Total	**124,977**	**244,261**	**5,884**	**660,974**	**88,306**	**1,124,402**

Subsequent Event

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

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

Forward-Looking Statements

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

In particular, this MD&A contains forward-looking statements pertaining to our business and anticipated financial performance including, but not limited to, for example: spend on growth and sustaining capital and productivity projects; expectations in terms of the cost of operations, capital spend, and maintenance, including maintenance performed by third parties, and including the variability of those costs; expectations related to future earnings and cash flow from operating and contracting activities; incentive levels from government assistance; the anticipated impact of our 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 such as Alberta's greenhouse gas program 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; 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, cyberattacks and other man-made disasters; equipment failure and our ability to carry out repairs in a cost-effective or timely manner; industry risk and competition; fluctuations in the value of foreign currencies; the need for additional financing; 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 Management section of this MD&A and in our 2015 AIF for the year ended Dec. 31, 2014 available on SEDAR at www.sedar.com.

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

2015 Outlook

Business Environment

Economic Environment

We expect low growth in Western Canada in 2015. The slowdown in the oil and gas sector is expected to cut economic growth as a result of investment slowdown and lower consumer spending. Growth in Eastern Canada is expected to improve to moderate rates in 2015, driven largely by exports supported by the U.S. recovery and the strengthening U.S. dollar.

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

Environmental Legislation

Alberta's current greenhouse gas program is set to be revised in mid-2015. The value realized from our environmental attributes generated in the province may be impacted by the program's terms. Revenue from environmental attributes generated in Alberta amounted to $7.5 million in 2014 and $10.2 million in 2013.

Operations

Production

Including production from the Wyoming Wind Farm, we expect production in 2015 to be in the range of 3,250 to 3,550 GWh.

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 nine to 21 years. In addition, for 2015, approximately 75 per cent and 96 per cent of the environmental attributes from our wind and hydro facilities, respectively, have been sold.

Government Incentives

Certain of our wind and hydro facilities are eligible to receive incentives under the Wind Power Production Incentive or the ecoENERGY for Renewable Power incentive programs sponsored by the Canadian federal government to encourage the development of clean power generation projects in Canada. Qualifying facilities receive specified incentive payments for every kilowatt hour of energy production for a period of up to ten years from commissioning. We are expecting a reduction in revenues in 2015 associated with the expiry of the Summerview 1 incentives in September 2014. Incentives earned at Summerview 1 amounted to $1.0 million in 2014.

Operations, Maintenance, and Administration Costs

We expect OM&A costs for 2015 to remain consistent with 2014. 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 expected to increase due to inflation.

Economic Interest in Wyoming Wind

We expect consistent dividends from our investment in the Wyoming Wind Preferred Shares in 2015 compared to 2014.

Exposure to Fluctuations in Foreign Currencies

In 2015, 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, our U.S.$20.0 million debenture, and the related payment of U.S.-denominated interest, thereon. Any changes in foreign investments or foreign-denominated debt may change our exposure.

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 or unplanned maintenance 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, to the extent that foreign-denominated expenses and revenues do not offset.

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 2015 is expected to be lower than 2014, primarily due to the lower carrying value and principal repayments on the Amortizing Term Loan and Wyoming Wind Acquisition Loan. However, changes in the value of the Canadian dollar relative to the U.S. dollar can affect the amount of interest expense incurred.

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

The Corporation manages liquidity risk associated with debentures due in 2015 and beyond by preparing and revising long-term external financing plans reflecting business plans and market availability of capital. The Corporation anticipates refinancing its maturing debt based on reasonable commercial terms.

Income Taxes
The effective tax rate on earnings excluding non-comparable items for 2015 is expected to be approximately 20 to 25 per cent, which is lower than the statutory tax rate of 25 per cent, primarily due to certain earnings that are not subject to tax.

Capital Expenditures
Sustaining Capital
Our sustaining capital is comprised of the ongoing capital costs associated with maintaining the existing generating capacity of our facilities.

For 2015, our estimate for total sustaining capital, net of any contributions received, is allocated among the following:

Category	Description	Spend in 2014[1]	Expected spend in 2015[1]
Routine capital	Expenditures to maintain our existing generating capacity	4	1-2
Planned maintenance	Regularly scheduled maintenance	5	6-7
Total sustaining expenditures		**9**	**7-9**

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

1 Amounts reported in millions of dollars.

Risk Management

Our business activities expose us to a variety of risks including, but not limited to, increased regulatory changes, rapidly changing market dynamics, and volatility in commodity markets. Our goal is to manage these risks so that we are reasonably protected from an unacceptable level of earnings, cash available for distribution, or financial exposure while still enabling business development. We use a multilevel risk management oversight structure to manage the risks arising from our business activities, the markets in which we operate, and the political environments and structures with which we interface.

The responsibilities of various stakeholders of our risk management oversight structure are described below:

The Board of Directors (the "Board") is responsible for the stewardship of the Corporation. The Board has absolute and exclusive power, control, and authority over the property and affairs of the Corporation. Subject to the provisions of the *Canada Business Corporations Act*, the Board may delegate certain of those powers and authority that the Board, or independent members of the Board, as applicable, deem necessary or desirable to effect the actual administration of the duties of the Board. Pursuant to the Management Agreement, the Board has delegated broad discretion to administer and manage the business and affairs of the Corporation to TransAlta. Nonetheless, the Board retains certain responsibilities that are described in the Board of Directors' Charter.

The Audit Committee's (the "Committee") primary role is to assist the Board in fulfilling its oversight responsibilities regarding our internal controls, financial reporting, and risk management processes.

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

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

Risk Controls

Our risk controls have several key components:

Enterprise Tone

We strive to foster beliefs and actions that are true to, and respectful of, our many stakeholders. We do this by investing in communities where we live and work, operating and growing sustainably, putting safety first, and being responsible to the many groups and individuals with whom we work.

Policies

Under the Management Agreement, TransAlta provides all the general administrative and operational services as may be required or advisable for the management of the affairs of the Corporation and operation and maintenance of our wind and hydro facilities. TransAlta maintains a comprehensive set of enterprise-wide policies. These policies establish delegated authorities and limits for business transactions, as well as allow for an exception approval process. Periodic reviews and audits are performed to ensure TransAlta's compliance with these policies. All TransAlta employees are required to sign a corporate code of conduct on an annual basis. Our Directors and Officers are also required to sign a similar corporate code of conduct on an annual basis.

Risk Factors

Risk is an inherent factor of doing business. The following section addresses some, but not all, risk factors that could affect our future results and our activities in mitigating those risks. These risks do not occur in isolation, but must be considered in conjunction with each other.

Risks Relating to Our Business, Industry, and Operating Environment

Our facilities may experience equipment failure.

The Corporation's power generation facilities may not continue to perform as they have in the past due to a number of factors, including equipment failure due to wear and tear, latent defect, design error, operator error, and early obsolescence. These factors, among others, could adversely affect the amount of power produced, and thus the revenues and cash available for distribution. Unplanned outages or prolonged downtime for maintenance and repair typically increase operation and maintenance expenses and reduce revenues. To the extent that a facility's equipment requires longer than forecasted downtimes for maintenance and repair, or suffers disruptions of power generation for other reasons, our business, operating results, financial condition, or prospects could be adversely affected.

There can be no assurance that our maintenance program will be able to detect potential failures in our facilities prior to occurrence or eliminate all adverse consequences in the event of failure. While we may maintain an inventory of, or otherwise make arrangements to obtain, spare parts to replace critical equipment to protect against certain operating risks, this may not be adequate to cover lost revenues or increased expenses and penalties that could result if we are unable to operate our generation facilities at a level necessary to comply with sales contracts.

We are party to significant third-party contracts and the failure of such third parties to fulfill their contractual obligations could have a material adverse effect.

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

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

We could suffer lost revenues or increased expenses and penalties if we are unable to operate our generation facilities at a level necessary to comply with our PPAs.

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

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

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

Our inability to predict, influence, or respond appropriately to changes in law or regulatory frameworks, including any inability to obtain expected or contracted increases in electricity tariff rates or tariff adjustments for increased expenses, could adversely impact our results of operations. Furthermore, changes in laws or regulations, or changes in the application or interpretation of regulatory provisions in jurisdictions where we operate (particularly where long-term tariffs or PPAs are subject to regulatory review or approval), could adversely affect our business.

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

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

Our business is subject to stringent environmental laws and regulations.

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

Unexpected changes in the cost of maintenance or in the cost and durability of components for our facilities may adversely affect results of operations.

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

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

The ownership and operation of renewable power generation assets carries an inherent risk of liability related to worker health and safety and the environment, including the risk of government-imposed orders to remedy unsafe conditions and/or to remediate or otherwise address environmental contamination; potential penalties for contravention of health, safety, and environmental laws; licenses, permits, and other approvals; and potential civil liability. Compliance with health, safety, and environmental laws (and any future changes) and the requirements of licenses, permits, and other approvals are expected to remain material to our business. The occurrence of any of these events or any changes, additions to, or more rigorous enforcement of, health, safety, and environmental laws, licenses, permits, or other approvals could have a significant impact on operations and/or result in additional material expenditures.

Our facilities and operations are exposed to effects of natural disasters and other natural or man-made catastrophic events outside of our control and such events could result in a material adverse effect.

Our facilities and operations are exposed to potential interruption and damage or partial or full loss, resulting from environmental disasters (e.g. floods, high winds, fires, ice storms, and earthquakes), equipment failures, and the like. In the event of an environmental disaster, terrorist attack, act of war, or other natural, man-made, or technical catastrophe, all or some parts of our generation facilities and infrastructure systems may be disrupted. The occurrence of a significant event that disrupts the ability of our renewable power generation assets to produce or sell power for an extended period, including events that preclude existing customers under PPAs from purchasing electricity, could have a material negative impact on our business. The occurrence of such an event may not release us from performing our obligations pursuant to PPAs or other agreements with third parties. In addition, many of our generation facilities are located in remote areas that make access for repair of damage difficult.

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

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

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

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

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

We are required to make rental payments for water rights. Significant increases in water rental costs in the future or changes in the way that governmental authorities in the jurisdictions in which our hydro assets are located regulate water supply could have a material adverse effect on our business, operating results, financial condition, or prospects.

We may be adversely affected if the supply of water is materially reduced.

Hydro power generation facilities require continuous water flow for their operation. Shifts in weather or climate patterns, seasonal precipitation, the timing and rate of melting, runoff, and other factors beyond our control may reduce the water flow to our facilities. Any material reduction in the water flow to the facilities would limit our ability to produce and sell electricity from these facilities and could have a material adverse effect on us. In addition, there is an increasing level of regulation respecting the use, treatment, and discharge of water, and respecting the licensing of water rights in jurisdictions where we operate. Any such change in regulations could have a material adverse effect on us.

Variation in wind levels may negatively impact the amount of electricity generated at our wind facilities.

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

Risks Relating to Our Relationship with TransAlta

TransAlta can exercise substantial influence over us and we are highly dependent on TransAlta as manager. TransAlta is not necessarily required to act in the best interest of the Corporation or its shareholders, and the liability of TransAlta is limited in certain respects.

TransAlta is the majority shareholder of the Corporation and is also responsible for the management and operation of the Corporation. In addition, TransAlta is able to nominate directors to the Board and we rely on TransAlta exclusively to identify acquisition and growth opportunities. As a result, TransAlta is able to exercise substantial influence over our operations, administration, and growth. We depend on the management and administration services provided by or under the direction of TransAlta under the Management Agreement. TransAlta personnel and support staff that provide services to us are not required to have as their primary responsibility our management and administration or to act exclusively for us. Even if we are not satisfied with the manner in which TransAlta performs its services under the Management Agreement, we are not entitled to replace TransAlta as manager prior to the expiry of the initial 20-year term, unless certain events occur. Under the terms of the Governance and Cooperation Agreement, TransAlta is not required to allocate any minimum level of dedicated resources for the pursuit of renewable power generation opportunities for us, nor is TransAlta required to offer any specific opportunities to us. Any failure to effectively manage our operations or to implement our growth strategy could have a material adverse effect on our business, financial condition, and results of operations.

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

Under the Management Agreement, the liability of TransAlta is limited to the fullest extent permitted by law to conduct involving bad faith, fraud, or wilful misconduct or, in the case of a criminal matter, actions that were known to have been unlawful, except that TransAlta is liable for liabilities arising from gross negligence. In addition, we have agreed to indemnify TransAlta to the fullest extent permitted by law from and against any claims, liabilities, losses, damages, costs, or expenses incurred by an indemnified person or threatened in connection with our operations, investments, and activities or in respect of or arising from the Management Agreement or the services provided by TransAlta.

Risks Relating to Accounting and Financing Activities

We may be unable to refinance existing indebtedness on terms comparable to existing terms, if at all.

We will be required to refinance certain indebtedness as it becomes due from time to time, including indebtedness under debentures issued by our wholly owned subsidiary Canadian Hydro Developers, Inc. that begin maturing in 2015. There is no guarantee that we will be able to obtain financing to repay the principal amount of such indebtedness and, if we do, that such financing will be available on terms comparable to existing terms or that are acceptable to us. If we do obtain new indebtedness at materially higher interest rates or on more punitive principal repayment terms than the terms of the existing debt, it is likely to have a negative effect on our financial results and cash available for distribution.

We may be unable to finance our business or the growth of our business.

Recovery of the capital investment in renewable power projects generally occurs over a long period of time. As a result, we must obtain funds from equity or debt financings, including tax equity transactions, or from government grants, to help finance the acquisition of projects and to help pay the general and administrative costs of operating our business. Our ability to arrange financing, either at the corporate level or at the subsidiary level (including non-recourse project debt), and the costs of such capital are dependent on numerous factors, including: (i) general economic and capital market conditions; (ii) credit availability from TransAlta, banks and other financial institutions; (iii) investor confidence in us and the markets in which we conduct operations; (iv) our financial performance and the financial performance of our subsidiaries; (v) our level of indebtedness and compliance with covenants in our debt agreements; and (vi) our cash flow.

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

Risks Relating to the Growth of Our Business

We may face significant competition for the acquisition of high-quality renewable power projects and may not successfully complete and integrate acquisitions.

Our business plan includes growth through identifying suitable acquisition opportunities, pursuing such opportunities, consummating acquisitions, and effectively integrating acquisitions with our existing business. There can be no assurance that we will be able to identify attractive acquisition candidates in the future (whether through our relationship with TransAlta or otherwise), that we will be able to make acquisitions that increase the amount of cash available for distribution, or that acquisitions will be successfully integrated into our existing operations. It is likely we will face significant competition for acquisition opportunities from other renewable power companies as well as traditional energy companies and, to the extent that any opportunities are identified, we may be unable to effect acquisitions due to a lack of necessary capital resources.

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

Our growth strategy is focused on the acquisition of high-quality contracted renewable and natural gas power projects and other infrastructure assets, and there is no certainty we will be successful in pursuing this strategy.

Our growth strategy is to acquire stable cash flows associated with high-quality contracted renewable and natural gas power generation facilities and other infrastructure assets, with the objective of achieving returns on invested capital. However, there is no certainty that we will be able to acquire these types of assets at attractive prices to supplement our growth. The successful execution of the growth strategy requires careful timing and business judgment, as well as the resources to complete the due diligence and evaluation of such assets. We may underestimate the financial performance of any acquisition or may be unable to quickly and efficiently integrate new acquisitions into our existing operations.

Financial Instruments

Financial instruments can be used to manage exposure to interest rates, commodity prices, and currency fluctuations, as well as other market risks. TransAlta enters into derivative contracts with external counterparties on our behalf. Derivative financial instruments are accounted for using the fair value method of accounting. The initial recognition of fair value and subsequent changes in fair value can affect reported earnings in the period the change occurs if hedge accounting is not elected. Otherwise, these changes in fair value will generally not affect earnings until the financial instrument is settled.

The two types of financial instruments that we primarily use are: (1) those that are used in relation to energy trading activities, commodity hedging activities, and other contracting activities; and (2) those used in the hedging of foreign-denominated debt, projects, and expenditures.

We may enter into commodity transactions for which market observable data is not available. These are defined under IFRS as Level III financial instruments. Level III financial instruments are not traded in an active market and fair value is, therefore, developed using valuation models based upon internally developed assumptions or inputs. Our Level III fair values may be determined using data such as transmission congestion, demand profiles for individual and non-standard deals and structured products, and/or volatilities and correlations between products derived from historical prices, depending on the nature of the underlying instrument.

We may also have derivative contracts with terms that extend beyond five years. As forward market prices are not available for the full period of these contracts, the value of these contracts must be derived by reference to a forecast that is based on a combination of external and internal fundamental modelling, including discounting. As a result, these contracts are classified in Level III.

At Dec. 31, 2014, total Level III financial instruments had a net carrying value of $0.1 million net liability (2013 – $0.1 million net liability).

Critical Accounting Policies and Estimates

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

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

Revaluation of PP&E and Intangible Assets

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

Impairment of PP&E

Impairment exists when the carrying amount of an asset exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. An assessment is made at each reporting date as to whether there is any indication that an impairment loss may exist or that a previously recognized impairment loss may no longer exist or may have decreased. In determining fair value less costs of disposal, information about third-party transactions for similar assets is used and if none is available, other valuation techniques, such as discounted cash flows, are used. Value in use is computed using the present value of management's best estimates of future cash flows based on the current use and present condition of the asset. In estimating either fair value less costs of disposal or value in use using discounted cash flow methods, estimates and assumptions must be made about sales prices, production, asset retirement costs, and other related cash inflows and outflows over the life of the facilities, which can range from 25 to 50 years.

In developing these assumptions, management uses estimates of contracted prices, anticipated production levels, planned and unplanned outages, changes to regulations, and transmission capacity or constraints for the remaining life of the facilities. Appropriate discount rates reflecting the risks specific to the asset under review are used in the assessments. These estimates and assumptions are susceptible to change from period to period and actual results can, and often do, differ from the estimates, and can have either a positive or negative impact on the estimate of the impairment charge, and may be material. All of the Corporation's generating assets are contracted under the TransAlta PPAs or other PPAs with various third parties.

Income Taxes

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

Provisions for Decommissioning and Restoration Activities

We recognize decommissioning and restoration provisions for PP&E in the period in which they are incurred if there is a legal or constructive obligation to reclaim the plant and/or site. The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation. Expected values are probability weighted to deal with the risks and uncertainties inherent in the timing and amount of settlement of many decommissioning and restoration provisions. Expected values are discounted at the risk-free interest rate adjusted to reflect the market's evaluation of our credit standing.

At Dec. 31, 2014, the total provision recognized for decommissioning and restoration activities was $16.3 million (2013 – $12.4 million). We estimate the undiscounted amount of cash flow required to settle these provisions is approximately $133 million (2013 – $133 million), which will be incurred between 2029 and 2060. The majority of the costs will be incurred between 2030 and 2050.

Factor	Increase	Approximate net earnings decrease
Discount rate	1%	123
Undiscounted cash flows	10%	78

Useful Life of PP&E

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

Acquisition of Generating Assets

The Acquisition was accounted for as a business combination under common control, as TransAlta controlled the Acquired Assets both prior to and after the acquisition date. The pooling of interests, or book value, method of accounting was used by TransAlta Renewables to account for the Acquired Assets in the 2013 comparative period. The financial statements of the Acquired Assets and the Corporation were combined together at book values, as if the Acquired Assets had always been owned by TransAlta Renewables, with the exception of the recognition of a reduction in the carrying amount of certain hydro and wind generating facilities resulting from a revaluation based on the terms of the TransAlta PPAs, as discussed in this section of the MD&A under Revaluation of PP&E and Intangible Assets.

Related Party Transactions and Balances

Post-Acquisition Relationship with TransAlta

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

Related Party Transactions

Amounts recognized from transactions with TransAlta or subsidiaries of TransAlta are as follows:

Year ended Dec. 31	2014	2013
Revenue from TransAlta PPAs *(I)*	**31,376**	13,930
Royalties and other revenue-based costs adjustments *(II)*	**1,523**	–
Dividend income from Wyoming Wind Preferred Shares	**9,331**	–
G&A Reimbursement Fee *(III)*	**10,380**	3,951
Interest expense on amortizing term loan	**7,448**	3,178
Interest expense on Wyoming Wind Acquisition Loan	**4,021**	123
Interest expense on letters of credit and guarantees	**40**	2,297

I. TransAlta PPAs

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

II. Royalties and Other Costs Adjustment

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

III. Management Agreement

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

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

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

IV. 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.

Related Party Balances

Related party balances include the following:

As at Dec. 31	2014	2013
Investment in preferred shares	**119,179**	109,325
Trade accounts receivable	**7,136**	10,232
Trade accounts payable	**3,142**	5,048
Dividends payable	**10,345**	23,600
Interest payable	**2,795**	3,311
Net risk management liabilities	**117**	104
Amortizing term loan *(I)*	**178,364**	200,000
Wyoming Wind Acquisition Loan *(II)*	**100,912**	108,528
Letters of credit issued by TransAlta on behalf of the Corporation *(III)*	**4,503**	4,503
Guarantees provided by TransAlta on behalf of the Corporation *(IV)*	**226,500**	226,500

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

I. Amortizing Term Loan

We issued an unsecured loan in favour of TransAlta as partial consideration for the 2013 acquisition of wind and hydro generating assets from TransAlta. The loan has a term of seven years and bears interest at 4.0 per cent, with principal and interest payments of $14.7 million due semi-annually.

II. Wyoming Wind Acquisition Loan

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

III. Letters of Credit

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

IV. Guarantees

TransAlta has entered into several guarantee agreements totalling $226.5 million on behalf of the Corporation. Two guarantees totalling $206.0 million relate to the New Richmond wind facility. If the Corporation does not perform under the related agreements, the counterparty may present claim for payment from TransAlta. The Corporation pays the associated interest and fees on these guarantees.

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 the Corporation historically operated as a separate entity. In addition, the expenses reflected in the pre-Acquisition period financial statements may not be indicative of expenses that will be incurred in the future by the Corporation. Transactions between TransAlta and the Acquired Assets prior to the Acquisition have been identified as related party transactions in the pre-Acquisition period financial statements. It is possible that the terms of the transactions with TransAlta and its affiliates are not the same as those that would result from transactions among unrelated parties. In the opinion of TransAlta's management, all adjustments have been reflected that are necessary for a fair presentation of the pre-Acquisition period financial statements. Additional information related to the preparation of the pre-Acquisition period financial statements is as follows:

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 related party loans. Cash retained by TransAlta on behalf of the Acquired Assets was not kept in specific separate accounts and was instead comingled with cash from other TransAlta entities.

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

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 year ended Dec. 31, 2013, these pre-tax costs were $3.5 million.

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

Income Taxes

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

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

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

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

Current Accounting Changes

On Jan. 1, 2014, we adopted the following amendments that were previously issued by the International Accounting Standard Board ("IASB"):

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

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

Future Accounting Changes

New or amended applicable accounting standards that have been previously issued by the IASB but are not yet effective, and have not been applied by us, are as follows:

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

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

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

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

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

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

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

Additional IFRS Measures

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

Typically, for comparability purposes, we exclude the impact of asset impairment charges and other adjustments to earnings, such as gains on sales of assets, as management believes these transactions are not representative of our business operations. We also exclude the income tax expense related to changes in corporate income tax rates and writedowns of deferred income tax assets as these amounts do not relate to tax impacts on current earnings.

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

Comparable operating income and EBITDA also include the dividend income from the preferred share investment in the Wyoming Wind Farm. The dividend income is used as a proxy for the EBITDA of Wyoming Wind.

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.

Earnings on a Comparable Basis

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

Year ended Dec. 31	2014			2013		
	Reported	**Comparable adjustments**	**Comparable total**	Reported	Comparable adjustments	Comparable total
Revenues	**233,444**	**–**	**233,444**	245,341	–	245,341
Royalties and other costs	**12,951**	**–**	**12,951**	13,709	–	13,709
Gross margin	**220,493**	**–**	**220,493**	231,632	–	231,632
Operations, maintenance, and administration	**46,605**	**–**	**46,605**	40,963	–	40,963
Asset impairment charges	**–**	**–**	**–**	3,663	(3,663)[3]	–
Taxes, other than income taxes	**6,919**	**–**	**6,919**	6,575	–	6,575
Dividend income from investment in preferred shares	**–**	**(9,331)**[1]	**(9,331)**	–	–	–
Earnings before interest, taxes, depreciation, and amortization	**166,969**	**9,331**	**176,300**	180,431	3,663	184,094
Depreciation and amortization	**73,951**	**–**	**73,951**	76,589	–	76,589
Operating income	**93,018**	**9,331**	**102,349**	103,842	3,663	107,505
Dividend income from investment in preferred shares	**9,331**	**(9,331)**[1]	**–**	–	–	–
Foreign exchange loss	**(217)**	**–**	**(217)**	(935)	–	(935)
Other income	**–**	**–**	**–**	222	–	222
Earnings before interest and taxes	**102,132**	**–**	**102,132**	103,129	3,663	106,792
Net interest expense	**36,540**	**–**	**36,540**	30,419	–	30,419
Income tax expense	**13,579**	**(252)**[2]	**13,327**	19,835	(678)[4]	19,157
Net earnings	**52,013**	**252**	**52,265**	52,875	4,341	57,216
Non-controlling interest	**3,355**	**–**	**3,355**	2,617	–	2,617
Net earnings attributable to common shareholders	**48,658**	**252**	**48,910**	50,258	4,341	54,599
Weighted average number of common shares outstanding in the year *(millions)*	**114.7**	**–**	**114.7**	114.7	–	114.7
Net earnings per share attributable to common shareholders	**0.42**	**0.01**	**0.43**	0.44	0.04	0.48

1 The dividend income is used as a proxy for operating income and EBITDA of the Wyoming Wind Farm.
2 Income tax expense related to writedown of deferred income tax assets.
3 Non-comparable item.
4 Income tax expense related to changes in corporate tax rates, net of tax effect of other non-comparable item.

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.

Year ended Dec. 31	2014	2013
Cash flow from operating activities	**143,383**	161,836
Change in non-cash operating working capital balances	**(2,203)**	(7,879)
Funds from operations	**141,180**	153,957
Weighted average number of common shares outstanding in the year *(millions)*	**114.7**	114.7
Funds from operations per share	**1.23**	1.34

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 additional non-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 for the year ended Dec. 31, 2014 and 2013 represent total additions to PP&E and intangibles per the Consolidated Statements of Cash Flows less what we have invested in growth projects. For the year ended Dec. 31, 2014 we invested nil (2013 – $39.1 million) in growth projects.

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

Year ended Dec. 31	2014	2013
Cash flow from operating activities	**143,383**	161,836
Add (deduct):		
Changes in non-cash operating working capital	**(2,203)**	(7,879)
Sustaining capital expenditures	**(8,416)**	(7,719)
Distributions paid to subsidiaries' non-controlling interest	**(4,798)**	(3,743)
Scheduled principal repayments of debt	**(38,232)**	–
Cash available for distribution	**89,734**	142,495
Weighted average number of common shares outstanding in the year *(millions)*	**114.7**	114.7
Cash available for distribution per share	**0.78**	1.24

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

Fourth Quarter Results

Consolidated Highlights

Three months ended Dec. 31	2014	2013
Production *(GWh)*[1]	1,015	866
Revenues	72,870	69,949
Operating income[2]	35,533	32,666
Comparable operating income[3]	38,425	32,666
Net earnings attributable to common shareholders	21,665	15,535
Comparable net earnings attributable to common shareholders[3]	21,917	17,129
Comparable EBITDA[3]	57,200	53,425
Funds from operations[3]	48,320	45,067
Cash flow from operating activities	45,073	37,698
Cash available for distribution[3]	43,832	40,979
Net earnings per share attributable to common shareholders, basic and diluted	0.19	0.13
Comparable net earnings per share[3]	0.19	0.15
Funds from operations per share[3]	0.42	0.39
Cash available for distribution per share[3]	0.38	0.36
Dividends paid per common share	0.19	0.18

Financial Highlights

- Comparable EBITDA and FFO increased $3.8 million and $3.3 million, respectively, in the quarter, primarily due to dividend income from our investment in the Wyoming Wind Preferred Shares, higher wind volumes and contract price escalation at Eastern Canada facilities, and higher hydro volumes, partially offset by lower emission reduction credit sales in Western Canada.
- Reported net earnings attributable to common shareholders was $21.7 million ($0.19 per share) up from $15.5 million ($0.13 per share) in 2013, primarily due to the increase in comparable EBITDA and lower tax expense.
- Comparable net earnings attributable to common shareholders was $21.9 million ($0.19 per share) up from $17.1 million ($0.15 per share) in 2013, primarily due to the increase in comparable EBITDA.
- Production increased 149 GWh to 1,015 GWh compared to 2013, primarily due to a full period of production for Wyoming Wind, higher hydro volumes, and better wind volumes in Eastern Canada.

1 Includes production from our economic interest in the Wyoming Wind Farm.

2 This item is an additional IFRS measure. Refer to the Additional IFRS Measures section of this MD&A for further discussion of this item.

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

Operational Results

The results of operations are as follows:

Three months ended Dec. 31	2014	2013
Revenues	**58,727**	56,180
Government incentives	**6,084**	6,472
Lease revenue[1]	**8,059**	7,297
Total revenue	**72,870**	69,949
Royalties and other costs	**4,125**	3,855
Comparable gross margin[2]	**68,745**	66,094
Operations, maintenance, and administration	**12,919**	11,637
Taxes, other than income taxes	**1,518**	1,032
Dividend income from investment in preferred shares	**(2,892)**	–
Comparable EBITDA[2]	**57,200**	53,425
Depreciation and amortization	**18,775**	20,759
Comparable operating income[2]	**38,425**	32,666
Production *(GWh)*	**1,015**	866
Gross installed capacity *(MW)*[3]	**1,283**	1,283
Net installed capacity *(MW)*[3]	**1,255**	1,255

Comparable gross margin for the three months ended Dec. 31, 2014 increased by $2.7 million compared to the same period in 2013, primarily due to higher wind volumes and contract price escalation at Eastern Canada facilities and higher hydro volumes, partially offset by lower emission reduction credit sales in Western Canada.

There was no dividend income in the comparative period, due to the one-month lag in dividend declarations.

1 *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 the sale of electrical energy produced by these facilities are reported as lease revenue.*

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

3 *We measure capacity as Net Maximum Capacity, which is consistent with industry standards. Capacity figures represent capacity in operation unless otherwise stated. Gross capacity reflects the basis of consolidation of underlying assets owned, plus those in which we hold an economic interest. Net capacity deducts capacity attributable to non-controlling interest in these assets.*

Production and Gross Margins

Three months ended Dec. 31, 2014	Gross installed capacity (MW)	Production (GWh)	Revenues	Royalties and other costs	Gross margin	Revenues per produced MWh[1]	Royalties and other costs per produced MWh[1]	Gross margin per produced MWh[1]
Western Canada wind	418	356	19,267	1,416	17,851	54.12	3.98	50.14
Eastern Canada wind	616	459	47,525	2,326	45,199	103.54	5.07	98.47
Hydro	105	89	6,078	383	5,695	68.29	4.30	63.99
Total – owned facilities	**1,139**	**904**	**72,870**	**4,125**	**68,745**	**80.61**	**4.56**	**76.05**
Wyoming Wind Farm	144	111	5,313	155	5,158	47.86	1.40	46.46
Total	**1,283**	**1,015**						

Three months ended Dec. 31, 2013	Gross installed capacity (MW)	Production (GWh)	Revenues	Royalties and other costs	Gross margin	Revenues per produced MWh[1]	Royalties and other costs per produced MWh[1]	Gross margin per produced MWh[1]
Western Canada wind	418	351	21,028	1,477	19,551	59.91	4.21	55.70
Eastern Canada wind	616	441	45,325	2,009	43,316	102.78	4.56	98.22
Hydro	105	50	3,596	369	3,227	71.92	7.38	64.54
Total – owned facilities	1,139	842	69,949	3,855	66,094	83.07	4.58	78.49
Wyoming Wind Farm	144	24	1,066	–	1,066	44.42	–	44.42
Total	1,283	866						

Western Canada Wind

Production for the three months ended Dec. 31, 2014 increased 5 GWh compared to the same period in 2013 due to lower operational curtailments offsetting lower wind volumes.

Gross margin for the three months ended Dec. 31, 2014 decreased $1.7 million compared to the same period in 2013, primarily due to lower emission reduction credit sales and lower government incentives following the expiration of the Summerview 1 incentives in September.

Eastern Canada Wind

Production for the three months ended Dec. 31, 2014 increased 18 GWh compared to the same period in 2013, primarily due to higher wind volumes.

Gross margin for the three months ended Dec. 31, 2014 increased $1.9 million compared to the same period in 2013, primarily due to higher production and contract price escalation.

Hydro

Production for the three months ended Dec. 31, 2014 increased 39 GWh compared to the same period in 2013, primarily due to higher water resource.

Gross margin for the three months ended Dec. 31, 2014 increased $2.5 million compared to the same period in 2013, primarily due to higher production.

Economic Interest in Wyoming Wind Farm

Production and gross margin for the three months ended Dec. 31, 2014 increased 87 GWh and $4.1 million, respectively, compared to the same period in 2013, primarily due to a full period of production following the acquisition of the economic interest on Dec. 20, 2013.

For the three months ended Dec. 31, 2014, dividends of $2.9 million were recognized as income during the period. After considering the Wyoming Wind Acquisition Loan interest expense of $1.0 million, the incremental effect on earnings for the period is an increase of $1.9 million.

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

Earnings on a Comparable Basis

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

Three months ended Dec. 31	2014			2013		
	Reported	Comparable adjustments	Comparable total	Reported	Comparable adjustments	Comparable total
Revenues	72,870	–	72,870	69,949	–	69,949
Royalties and other costs	4,125	–	4,125	3,855	–	3,855
Gross margin	68,745	–	68,745	66,094	–	66,094
Operations, maintenance, and administration	12,919	–	12,919	11,637	–	11,637
Taxes, other than income taxes	1,518	–	1,518	1,032	–	1,032
Dividend income from investment in preferred shares	–	(2,892)[1]	(2,892)	–	–	–
Earnings before interest, taxes, depreciation, and amortization	54,308	2,892	57,200	53,425	–	53,425
Depreciation and amortization	18,775	–	18,775	20,759	–	20,759
Operating income	35,533	2,892	38,425	32,666	–	32,666
Dividend income from investment in preferred shares	2,892	(2,892)[1]	–	–	–	–
Foreign exchange gain (loss)	6	–	6	(44)	–	(44)
Earnings before interest and taxes	38,431	–	38,431	32,622	–	32,622
Net interest expense	9,157	–	9,157	8,375	–	8,375
Income tax expense	6,662	(252)[2]	6,410	7,907	(1,594)[3]	6,313
Net earnings	22,612	252	22,864	16,340	1,594	17,934
Non-controlling interest	947	–	947	805	–	805
Net earnings attributable to common shareholders	21,665	252	21,917	15,535	1,594	17,129
Weighted average number of common shares outstanding in the period *(millions)*	114.7	–	114.7	114.7	–	114.7
Net earnings per share attributable to common shareholders	0.19	–	0.19	0.13	0.02	0.15

Funds from Operations

Three months ended Dec. 31	2014	2013
Cash flow from operating activities	45,073	37,698
Change in non-cash operating working capital balances	3,247	7,369
Funds from operations	48,320	45,067
Weighted average number of common shares outstanding in the period *(millions)*	114.7	114.7
Funds from operations per share	0.42	0.39

Cash Available for Distribution

Three months ended Dec. 31	2014	2013
Cash flow from operating activities	45,073	37,698
Add (deduct):		
Changes in non-cash operating working capital	3,247	7,369
Sustaining capital expenditures	(3,402)	(3,117)
Distributions paid to subsidiaries' non-controlling interest	(1,086)	(971)
Cash available for distribution	43,832	40,979
Weighted average number of common shares outstanding in the period *(millions)*	114.7	114.7
Cash available for distribution per share	0.38	0.36

1 *The dividend income is used as a proxy for operating income and EBITDA of the Wyoming Wind Farm.*
2 *Income tax expense related to writeoff of deferred income tax assets.*
3 *Income tax expense related to changes in corporate tax rates.*

Selected Quarterly Information

	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Revenue	**67,965**	**50,013**	**42,956**	**72,870**
Net earnings attributable to common shareholders	**21,134**	**5,890**	**(31)**	**21,665**
Net earnings per share attributable to common shareholders, basic and diluted	**0.18**	**0.05**	**-**	**0.19**
Comparable earnings per share	**0.18**	**0.05**	**-**	**0.19**

	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

Our business results fluctuate with seasonal variations, with the first and fourth quarters seeing largest wind volumes and the second and third recording higher hydro volumes. As wind forms a larger part of our portfolio, higher revenues and earnings are expected in the first and fourth quarters. The first three quarters of 2013 benefited from the higher merchant prices in Western Canada than the lower prices under the TransAlta PPAs established in August 2013 as part of the IPO, with Q2 2013 being the first quarter with a full period of operations at New Richmond wind facility. In December 2013 we also acquired an economic interest in the 144 MW Wyoming Wind Farm through the purchase of preferred shares and started receiving dividends from it in Q1 2014.

Controls and Procedures

Management has evaluated, with the participation of our designated Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports is accumulated and communicated to management, including our designated Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating and implementing possible controls and procedures.

There has been no change in the internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on the foregoing evaluation, our designated Chief Executive Officer and Chief Financial Officer have concluded that, as of Dec. 31, 2014, the end of the period covered by this report, our disclosure controls and procedures were effective at a reasonable assurance level.

Glossary of Key Terms

Amortizing Term Loan
An unsecured, Amortizing Term Loan from TransAlta, with an initial amount in 2013 of $200 million.

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

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, of all of the power produced by certain wind and hydro facilities. The initial price payable in 2013 by TransAlta for output is $30.00 per MWh for wind facilities and $45.00 per MWh for hydro facilities, which amounts are adjusted annually for changes in the Consumer Price Index.

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
An unsecured loan from TransAlta to fund the acquisition of the economic interest in the 144 MW wind farm in Wyoming with an initial amount in 2013 of U.S. $102 million.

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.