



TRANSEASTERN POWER TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL CONDITION AS AT MARCH 31, 2014

The following Management's Discussion and Analysis ("MD&A") is dated as of May 30, 2014 and should be read in conjunction with Transeastern Power Trust's ("Transeastern" or the "Trust") unaudited consolidated interim statement of financial position and related notes as at March 31, 2014 and the audited consolidated financial statement as at February 4, 2014. This MD&A is intended to assist readers of the unaudited consolidated interim statement of financial position in understanding the business and the financial condition of the Trust. Reference should also be made to the Trust's filings with Canadian securities regulatory authorities, which are available at www.sedar.com. This MD&A is the responsibility of management. The Board of Directors of Transeastern Power Administrator Inc. (the "Administrator") carries out its responsibility for the review and disclosure both directly and through its audit committee. All amounts are in Canadian dollars, unless otherwise noted.

The unaudited consolidated interim statement of financial position to which this MD&A relates has been prepared in accordance with IAS 34, Interim Financial Reporting.

FORWARD LOOKING INFORMATION

This MD&A contains forward-looking information that involves risk and uncertainties. All statements, other than statements of historical facts, which address Transeastern's expectations, should be considered forward-looking statements. Such statements are based on management's exercise of business judgment as well as assumptions made by and information currently available to management. When used in this document, the words "may", "will", "anticipate", "believe", "estimate", "expect", "intend" and words of similar import, are intended to identify any forward-looking statements. You should not place undue reliance on these forward-looking statements. These statements reflect management's current view of future events and are subject to certain risks and uncertainties as contained herein and in the Trust's other filings with Canadian securities regulatory authorities. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, the Trust's actual results could differ materially from those anticipated in these forward-looking statements. Management undertakes no obligation to reflect events or circumstances after the date hereof, or to reflect the occurrence of any unanticipated events. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will materialize. The forward-looking statements made in this MD&A describe our expectations as at May 30, 2014.

TRUST OVERVIEW

Transeastern Power Trust (“Transeastern” or the “Trust”) is an unincorporated open-ended limited purpose trust established under the laws of the Province of Ontario on February 3, 2014 pursuant to a declaration of trust, later replaced by the Trust Indenture. The Trust has been established for a term ending 21 years after the date of death of the last surviving issue of Her Majesty, Queen Elizabeth II, alive on February 3, 2014.

On February 3, 2014, the settlor of the Trust settled upon a trustee \$10 to be held in trust by the trustee pursuant to the declaration of trust. On February 4, 2014, a Trust Indenture between Equity Financial Trust Company (the “Trustee”) and the Administrator, a corporation incorporated on October 22, 2013 pursuant to *Business Corporations Act* (Ontario) (“OBICA”) replaced the declaration of trust and the Trustee agreed to act as trustee on behalf of, and to hold legal title and use and administer the Trust. Upon the settlement of the Trust, the Trustee issued an initial unit to the Administrator, for a sum of \$5. The Trust has no prior history of operations or earnings and there was no other Trust activity through to March 31, 2014.

Pursuant to an assignment and assumption agreement dated February 3, 2014, the Trust acquired for nominal consideration one common share representing 100% of the common share capital of Transeastern Power Holdings Inc., which owns directly and indirectly all of the issued and outstanding shares of Transeastern Power Coöperatief U.A. (“Netherlands Parent”), which owns all of the issued and outstanding shares of Transeastern Power B.V. (“Netherlands Holdco”). Netherlands Parent and Netherlands Holdco formed and jointly own 100% of four Romanian companies (the “Romanian Acquisitioncos”) for the purpose of acquiring four hydroelectric projects through the arm’s length acquisition of a 100% ownership interest in three separate Romanian companies and certain hydroelectric assets of a fourth Romanian company (the “Acquisitions”) upon completion of an initial public offering by the Trust. Other than the four agreements with respect to the proposed Acquisitions, Transeastern Power Holdings Inc. and its direct and indirect wholly-owned subsidiaries’ assets are nominal. The Trust has been established to provide investors with a distribution-producing investment through the ownership of the projects. The projects are independent Romanian hydroelectric power producers that generate and sell or expect to generate and sell electricity to licensed electricity buyers in Romania. As noted below under “Recent Developments”, the Trust completed three of the Acquisitions on the closing of its initial public offering.

Pursuant to the Administrative Services Agreement dated February 4, 2014, as amended, the Trustee of the Trust has delegated most of its powers and duties relating to the operations and governance of the Trust to the Administrator. All of the shares of the Administrator are owned by Transeastern Management Inc. (the “Administrator Shareholder”), a corporation incorporated on November 8, 2013 pursuant to the OBICA. All of the shares of the Administrator Shareholder are owned by Mr. J. Colter Eadie, the Chief Executive Officer and Mr. Ravi Sood, the Chairman of the Administrator. Under a Voting Agreement, the Administrator Shareholder is required to vote the shares of the

Administrator, including for the election of Administrator Directors, as directed by the Trustee, as agent for the Unitholders, in accordance with an Ordinary Resolution of the Unitholders.

The Trust intends to qualify as a “mutual fund trust” and not be a “SIFT trust” (each as defined in the Tax Act) in accordance with the restrictions set forth in the Trust Indenture. The Administrator will be responsible for monitoring the Trust’s investments and holdings of property to ensure the Trust is not at any time a “SIFT trust” and does not hold any “non-portfolio property”.

All subsidiaries of the Trust will be directly or indirectly wholly-owned by the Trust.

Recent Developments

On May 29, 2014 the Trust closed its initial public offering (the “**Offering**”) of 11,045,800 units of the Trust (the “**Units**”) at a price of \$1.00 per Unit along with \$11,763,000 aggregate principal amount of 7.5% convertible unsecured subordinate debentures (the “**Debentures**”) for aggregate gross proceeds of \$22,808,800. The Units and Debentures were offered pursuant to a prospectus dated March 31, 2014 filed with the securities regulatory authorities in each of the provinces of Canada, except Québec.

The majority of the proceeds of the Offering were used to purchase three hydroelectric power projects located in Romania, namely the Rott, Zagra and Suha projects (collectively, the “**Projects**”). The three Projects are comprised of 11 run-of-river hydroelectric power plants with total capacity of over 5.1 MW. Each of the Projects is an independent Romanian hydroelectric power producer that generates and sells, or expects to generate and sell, electricity to licensed electricity buyers in Romania.

SELECTED QUARTERLY INFORMATION

Summarized selected consolidated financial information with respect to the Trust as at March 31, 2014 and February 4, 2014 is as follows:

	<u>March 31, 2014</u>	<u>February 4, 2014</u>
<u>ASSETS</u>		
Cash	<u>15</u>	<u>15</u>
Total Assets	\$ <u>15</u>	\$ <u>15</u>
<u>EQUITY</u>		
Trust capital (note 1)	<u>15</u>	<u>15</u>
Total Liabilities and Equity	\$ <u>15</u>	\$ <u>15</u>

LIQUIDITY

Total assets at March 31, 2014 were \$15 consisting of only cash, compared to \$15 of total assets at February 4, 2014.

OFF-BALANCE SHEET ARRANGEMENTS

The Trust had no off-balance sheet arrangements as at March 31, 2014.

CRITICAL ACCOUNTING POLICIES

The unaudited consolidated interim statement of financial position to which this MD&A relates has been prepared in accordance with International Financial Reporting Standards ("IFRS"). The critical accounting policies followed by the Trust are as follows:

a) **Functional and Presentation Currency**

The functional and presentation currency of the Trust is Canadian dollars. Unless otherwise noted, all currency references are to Canadian dollars.

b) **Trust units**

An unlimited number of the units ("Units") may be issued pursuant to the Trust Indenture. Each Unit represents an equal, undivided beneficial interest in the Trust and all Units rank equally and rateably with all of the other Units without discrimination, preference or priority. Each Unit entitles the holder to one vote at all meetings of Unitholders. Unitholders are entitled to receive non-cumulative distributions from the Trust if, as and when, declared by the Trustee. Units are redeemable on demand by the holders thereof, and may be purchased for cancellation by the Trust through offers made to, and accepted by, such holders. Under IAS 32, Financial Instruments - Presentation ("IAS 32"), puttable instruments, such as the Trust units, represent financial liabilities. However, if certain criteria are met the puttable instruments may be presented as equity. The Trust units meet the criteria under IAS 32 to be presented as equity.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Transeastern's financial instruments consist of only cash. As of March 31, 2014, the Trust has not entered into any derivative contracts.

OUTLOOK

Following the closing of the Offering and the completion of the Acquisitions, the Trust's indirect wholly-owned subsidiaries own and operate the three projects. As part of the acquisition of the Zagra and Suha Projects, the seller, Romenergo SA, agreed to a floor bidding price of €44 per green certificate ("GC") for the first 75,000 GCs and €43.5 per MWh for the first 32,210 MWh of power from all three of the Projects acquired by the Trust (the "Power and GC Purchase Arrangement"). Based on the anticipated electricity output volumes and GC entitlements of the three Projects, management expects this minimum bidding price arrangement to last for the first 12-18 months of the Trust's operations, giving stability to its income flow for this period.

The gross margins from the three Projects forecast for the foreseeable future are expected to exceed their projected selling, general and administrative expenses and to generate pre-tax profits.¹

Management expects to source funding required for additional acquisitions and development related to its business from operating cash-flows, commercial lenders, and through the issuance of debt and unit securities in Canadian capital markets.

In 2014, the Trust is expected to receive interest payments and principal repayments from Netherlands Holdco under an intercompany note (the "Netherlands Holdco Note"). Netherlands Holdco will, in turn, be entitled to receive interest payments and demand principal repayments on intercompany debt advanced to the Romanian Acquisitioncos. Management expects such payments to be sufficient to allow Netherlands Holdco to satisfy its payment obligations under the Netherlands Holdco Note. The Romanian Acquisitioncos will make the payments of interest and repayments of principal using cash-flow generated by the Projects. In 2014, it is anticipated that 100% of distributions received by Unitholders will be classified as return of capital.

In 2015 and potentially thereafter, the Romanian Acquisitioncos expect to pay a dividend to Netherlands Holdco and Netherlands Parent based on the income earned in the previous year, in order to permit Netherlands Holdco and Netherlands Parent to make dividend payments to the Trust's Canadian subsidiaries which in turn are expected to pay dividends to the Trust. In 2015 and subsequent years, management anticipates an increasing component of any distributions to be classified as a dividend.

The Trust intends to make quarterly distributions of a portion of its available cash to Unitholders, and management intends to use the remainder of available cash to fund growth through additional acquisitions and capital expenditures.

¹ Forecast power production is based on Transeastern's independent due diligence and technical assessment of the plants and corresponding river flow data (hydrology). The forecast power price and GC price are based on the Power and GC Purchase Arrangement.