TransAlta Renewables Inc.
First Quarter Report for 2017

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") contains forward-looking statements. These statements are based on certain estimates and assumptions and involve risks and uncertainties. Actual results may differ materially. See the Forward-Looking Statements section of this MD&A for additional information.

This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements of TransAlta Renewables Inc. as at and for the three months ended March 31, 2017 and 2016 and should also be read in conjunction with the annual audited consolidated financial statements and MD&A contained within our Annual Report for the year ended Dec. 31, 2016. In this MD&A, unless the context otherwise requires, 'we', 'our', 'us', 'TransAlta Renewables', and the 'Corporation' refer to TransAlta Renewables Inc. and its subsidiaries and 'TransAlta' refers to TransAlta Corporation and its subsidiaries. Capitalized terms not otherwise defined herein have their respective meanings set forth in the Glossary of Key Terms. All dollar amounts in the tables presented in this MD&A are in millions of Canadian dollars except per share amounts which are presented in whole dollars to the nearest two decimals, unless otherwise noted. The condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standard ("IFRS") International Accounting Standards ("IAS") 34 *Interim Financial Reporting*. This MD&A is dated May 3, 2017. Additional information respecting the Corporation, including its Annual Information Form, is available on SEDAR at www.sedar.com and on our website at www.transaltarenewables.com. Information on or connected to our website is not incorporated by reference herein.

Operations of the Corporation

As at March 31, 2017, TransAlta Renewables owned and operated 13 hydro facilities, 17 wind farms, and held economic interests in TransAlta's Wyoming Wind farm ("Wyoming Wind Farm") and in TransAlta's 425 MW Australian gas-fired generation assets, 150 MW South Hedland facility currently under construction, and the 270 kilometre gas pipeline (the "Australian Assets").

In total, we own, directly or through economic interests, an aggregate of 2,319 MW of gross generating Capacity[(1)] in operation. TransAlta manages and operates these facilities on our behalf under the terms of a Management, Administrative and Operational Services Agreement.

We have an economic interest, and not direct ownership, of the Wyoming Wind Farm and the Australian Assets. The operational results of these assets are not consolidated into our reported results; however, the finance income we receive on the underlying investments is included in our consolidated net earnings.

Non-IFRS Measures

We evaluate our performance using a variety of measures. Certain of the measures discussed 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 measures as determined in accordance with IFRS, when assessing our financial performance or liquidity. 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. During the second quarter of 2016, we adjusted the way certain of these measures are calculated. Comparative comparable measures have been restated accordingly.

The Corporation's key non-IFRS measures are Comparable Earnings before Interest, Taxes, Depreciation, and Amortization ("Comparable EBITDA"), Adjusted Funds from Operations ("AFFO") and Cash Available for Distribution ("CAFD"). Comparable EBITDA is comprised of our reported EBITDA adjusted to include Comparable EBITDA of the facilities in which we hold an economic interest, which is their reported EBITDA adjusted for: 1) finance lease income and the change in the finance lease

(1) We measure Capacity as Net Maximum Capacity which is consistent with industry standards. Capacity figures represent Capacity owned and in operation unless otherwise stated. The 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.

receivable amount; and 2) contractually fixed management costs. Reported EBITDA and Comparable EBITDA are presented to provide 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 the impacts of timing on the finance income from subsidiaries of TransAlta in which we have an economic interest. We present Comparable EBITDA along with operational information of the assets in which we own an economic interest so that readers can better understand and evaluate the drivers of those assets in which we have the economic interest. Since the economic interests are designed to provide the Corporation with returns as if we owned the assets themselves, presenting the operational information and Comparable EBITDA provides a more complete picture for readers to understand the underlying nature of the investments and the resultant cash flows that would otherwise only be presented as finance income from the investments. AFFO is calculated as the cash flow from operating activities before changes in working capital, less sustaining capital expenditures, distributions paid to subsidiaries' non-controlling interest and finance income, plus AFFO of the assets owned through economic interests, which is calculated as Comparable EBITDA from the economic interests less the change in long-term receivable, sustaining capital expenditures, and current income tax expense. AFFO provides users with a proxy for the amount from operating activities and investments in subsidiaries of TransAlta in which we have an economic interest. CAFD is calculated as AFFO less scheduled principal repayments of amortizing debt. CAFD can be used as a proxy for the cash that will be available to common shareholders of the Corporation. One of the primary objectives of the Corporation is to provide reliable and stable cash flows, and presenting AFFO and CAFD assists readers in assessing our cash flows in comparison to prior periods.

See the Reconciliation of Non-IFRS Measures section of this MD&A for additional information.

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 Condensed Consolidated Statements of Earnings. Presenting these line items provides management and investors with a measure of ongoing operating performance that is readily comparable from period to period.

Forward-Looking Statements

This MD&A 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 assumptions were 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: spending on growth and sustaining capital and productivity projects, including sustaining capital expenditures of subsidiaries of TransAlta in which we have an economic interest; our 2017 outlook, including Comparable EBITDA, AFFO, CAFD; renewable energy production from our wind and hydro assets in 2017; our practice of purchasing gas coincident with production; our foreign exchange risk strategy; expectations regarding net interest and volume of debt; ability to maintain adequate availability; expectations regarding refinancing through project level debt; our expectation of raising between $335 million and $485 million in project level financing over the next fifteen months and the use of proceeds thereof; statutory blended tax rate and cash tax horizon; expectations in terms of the cost of operations, capital spending, and maintenance, including maintenance performed by third parties, and including the variability of those costs; the payment of future dividends; expectations in respect of generation availability, Capacity, and production; the timing and completion and commissioning of projects under development, including the South Hedland facility and the costs thereof and the funding of such costs; the expected conversion rates of the Class B shares into common shares; expected governmental regulatory regimes, legislation and programs, including the Alberta Climate Leadership Plan and procurement process for renewable generation in Alberta and the Ontario greenhouse gas cap-and-trade program, and their expected impact on us, as well as the cost of complying with resulting regulations and laws; the value of offsets generated by our wind facilities; expectations regarding the implementation of new IFRS standards; expectations regarding seasonality of wind of hydro production; expectations for the ability to access capital markets on reasonable terms; the section titled "2017 Outlook", the estimated or potential impact of changes in interest rates and expense and changes in the value of the Canadian dollar relative to the US dollar and the Australian dollar; the monitoring of our exposure to liquidity risk; expectations regarding entering into additional financial instruments; and expectations regarding borrowing rates and our credit practices.

Factors that may adversely impact our forward-looking statements include, but are not limited to, risks relating to: changes in general economic conditions, including interest rates; operational risks involving our facilities, including Unplanned Outages at such facilities; risks pertaining to the timing and cost of the construction and commissioning of the South Hedland facility; disruptions in the transmission and distribution of electricity; the effects of weather; disruptions in the source of water, wind, or gas 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 and the ability to access financing at a reasonable cost; 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; increasingly stringent environmental requirements and changes in, or liabilities under, these requirements; and development projects and acquisitions. The foregoing risk factors, among others, are described in further detail in the Risk Factors section of our Annual Information Form and our annual MD&A for the year ended Dec. 31, 2016. All documents are 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.

Highlights

Consolidated Financial Highlights

3 months ended March 31	2017	2016
Renewable energy production (GWh)[1]	1,010	1,081
Revenues	129	68
Net earnings (loss) attributable to common shareholders	27	(36)
Reported EBITDA	84	(2)
Comparable EBITDA[2]	111	114
Adjusted funds from operations[2]	83	82
Cash flow from operating activities	100	81
Cash available for distribution[2]	83	82
Net earnings (loss) per share attributable to common shareholders, basic and diluted	0.12	(0.16)
Adjusted funds from operations per share[2]	0.37	0.37
Cash available for distribution per share[2]	0.37	0.37
Dividends declared per common share	0.22	0.22
Dividends paid per common share	0.22	0.22

As at	March 31, 2017	Dec. 31, 2016
Gas installed capacity (MW)[3]	931	931
Renewables installed capacity (MW)	1,388	1,388
Total assets	3,915	3,841
Long-term debt	757	757
Total long-term liabilities	1,248	1,237

During the quarter, we maintained our stable financial condition through our portfolio of highly contracted assets. Comparable EBITDA was consistent with the last year's comparative quarter, given the continued solid performance of our portfolio.

Our AFFO and CAFD were in line with 2016.

Reported net earnings attributable to common shareholders increased primarily as a result of higher foreign exchange gains mainly due to the strengthening of the Australian dollar and a lower fair value change on the Class B shares liability.

Significant Events

South Hedland Facility

The construction and commissioning of our South Hedland facility continues to progress. At the end of the first quarter in 2017, construction work was largely complete and the project team is now focusing on commissioning activities. The combined-cycle gas turbines achieved first fire in the fourth quarter of 2016 and commissioning activities continue on these units. We expect to invest $210 million to $230 million to complete construction of the South Hedland facility and we continue to expect the project to be fully commissioned by mid-2017.

(1) Includes production from the Wyoming Wind Farm and excludes Canadian and Australian gas-fired generation. Production is not a key revenue driver for gas-fired facilities as most of their revenues are Capacity based.
(2) Refer to the Non-IFRS Measures section of this MD&A for further discussion of these items.
(3) Includes Australian and Canadian gas-fired generation.

Reconciliation of Non-IFRS Measures

Presenting AFFO provides users with a proxy for the amount of cash generated from operating activities of our business and from investments in subsidiaries of TransAlta in which we have an economic interest, before changes in working capital. CAFD provides users with a proxy for the cash that will be available to common shareholders of the Corporation. One of the primary objectives of the Corporation is to provide reliable and stable cash flows, and presenting AFFO and CAFD assists readers in assessing our cash flows in comparison to prior periods. See the Non-IFRS Measures section of this MD&A for additional information. During 2016, we revised the way in which we present AFFO arising from the facilities in which we hold economic interests. The comparative period has been restated the reflect this revised presentation format. AFFO per share and CAFD per share are calculated using the weighted average number of common shares outstanding during the period.

The table below reconciles our cash flow from operating activities to our AFFO and CAFD:

	3 months ended March 31	
	2017	2016
Cash flow from operating activities	100	81
Change in non-cash operating working capital balances	(13)	4
Cash flow from operations before changes in working capital	87	85
Adjustments:		
Sustaining capital expenditures	(5)	(1)
Distributions paid to subsidiaries' non-controlling interest	(1)	(2)
Finance Income	(23)	(46)
AFFO - economic interests[1]	25	46
AFFO	83	82
Deduct:		
Principal repayments of amortizing debt	-	-
CAFD	83	82
Weighted average number of common shares outstanding in the period (millions)	224	221
AFFO per share	0.37	0.37
CAFD per share	0.37	0.37

Presenting Comparable EBITDA 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 the impacts of timing on the finance income from subsidiaries of TransAlta in which we have an economic interest. We present Comparable EBITDA along with operational information of the assets in which we own an economic interest so that readers can better understand and evaluate the drivers of those assets in which we have the economic interest. See the Non-IFRS Measures section of this MD&A for additional information.

(1) Refer to the Reconciliation of the Comparable EBITDA of the facilities in which we hold an economic interest to the reported finance income table in this MD&A.

The tables below reconcile our reported EBITDA to Comparable EBITDA:

3 months ended March 31, 2017	Reported	Adjustments	Economic interests	Comparable total
Revenues[1]	129	-	47	176
Royalties and other costs of sales	32	-	3	35
Gross margin	97	-	44	141
Operations, maintenance, and administration[2]	21	-	7	28
Taxes, other than income taxes	2	-	-	2
Finance income related to subsidiaries of TransAlta	(23)	23	-	-
Change in fair value of Class B shares	44	(44)	-	-
Foreign exchange gain	(31)	31	-	-
Earnings before interest, taxes, depreciation, and amortization	84	(10)	37	111

3 months ended March 31, 2016	Reported	Adjustments	Economic interests[3]	Comparable total
Revenues[1]	68	-	102	170
Royalties and other costs of sales	3		26	29
Gross margin	65	-	76	141
Operations, maintenance, and administration[2]	13	-	12	25
Taxes, other than income taxes	2	-	-	2
Finance income related to subsidiaries of TransAlta	(46)	46	-	-
Change in fair value of Class B shares	64	(64)	-	-
Foreign exchange loss	34	(34)	-	-
Earnings before interest, taxes, depreciation, and amortization	(2)	52	64	114

The table below reconciles the Comparable EBITDA of the facilities in which we hold an economic interest to the reported finance income:

3 months ended March 31	2017			2016					
	U.S. Wind	Australian Gas	Total	Canadian Wind	Canadian Hydro	U.S. Wind	Canadian Gas	Australian Gas	Total
Comparable EBITDA	6	31	37	4	-	6	22	32	64
Sustaining capital	-	(1)	(1)	-	-	(1)	(2)	(1)	(4)
Change in long term receivable	-	(9)	(9)	-	-	-	-	(9)	(9)
Current income tax expense	-	-	-	-	-	-	(3)	-	(3)
Unrealized risk management gain	-	-	-	-	-	-	(1)	-	(1)
Currency adjustment	-	(2)	(2)	-	-	-	-	(1)	(1)
AFFO	6	19	25	4	-	5	16	21	46
Effects of changes in working capital and other timing on finance income	(2)	-	(2)	(1)	-	(2)	-	3	-
Finance income	4	19	23	3	-	3	16	24	46

(1) Amounts related to economic interests include finance lease income adjusted for changes in finance lease receivable amount.
(2) Amounts related to economic interests include the effect of contractually fixed management costs.
(3) Includes results for the Canadian Assets, which were acquired on Nov. 30, 2016.

The table below reconciles Comparable EBITDA to AFFO for owned assets and economic interests:

	2017			2016		
3 months ended March 31	Owned Assets	Economic Interests	Total	Owned Assets	Economic Interests	Total
Comparable EBITDA	74	37	111	50	64	114
Interest expense	(12)	-	(12)	(12)	-	(12)
Change in long term receivable	-	(9)	(9)	-	(9)	(9)
Sustaining capital expenditures	(5)	(1)	(6)	(1)	(4)	(5)
Current income tax expense	(2)	-	(2)	-	(3)	(3)
Distributions paid to subsidiaries' non-controlling interest	(1)	-	(1)	(2)	-	(2)
Unrealized risk management (gain) loss	1	-	1	-	(1)	(1)
Currency adjustment	-	(2)	(2)	-	(1)	(1)
Other	3	-	3	1	-	1
AFFO	58	25	83	36	46	82

Discussion of Comparable EBITDA

The amounts provided for in this section include operational metrics and financial information related to our fuel types which include investments in the economic interests of TransAlta subsidiaries. Since the investments in these economic interests provide us with returns as if we owned the assets, presenting the operational information provides users with more information to be able to assess the performance of the assets that generate the finance income related to the economic interests. All the assets in the U.S. Wind and Australian Gas discussions are owned through an investment in an economic interest. The Canadian Wind comparative period includes the results of the Le Nordais facility, the Canadian Hydro comparative period includes the results of the Ragged Chute facility, and the Canadian Gas comparative period includes the results of the Sarnia gas plant for Jan. 6 through March 31, 2016. We own these assets in 2017, but for the comparative period, we held our interest in such assets as an investment in an economic interest. The Comparable EBITDA of the assets in which we have an economic interest is reconciled to the finance income recognized in our interim condensed consolidated financial statements in the Reconciliation of Non-IFRS Measures section of this MD&A. The following table summarizes operational data and Comparable EBITDA by fuel type:

3 months ended March 31	Long-term average renewable energy production (GWh)[1]	Production (GWh) 2017	Production (GWh) 2016	Comparable EBITDA 2017	Comparable EBITDA 2016
Canadian Wind	848	844	903	59	56
Canadian Hydro	44	44	58	1	2
US Wind	109	122	120	6	6
Total - Renewable energy	1,001	1,010	1,081	66	64
Canadian Gas		326	275	19	22
Australian Gas		398	372	31	32
Corporate		-	-	(5)	(4)
Total		1,734	1,728	111	114

Renewable energy production for the three months ended March 31, 2017, is in line with the long-term average renewable energy production but lower than last year. Comparable EBITDA remained consistent with 2016, as higher generation for wind assets in Eastern Canada with higher PPA prices offset the shortfall in our Canadian Gas portfolio.

(1) Long-term average is calculated on an annualized basis from the average annual energy yield predicted from our simulation model based on historical resource data performed over a period of typically 15 years for wind and 30 years for hydro.

Canadian Wind

	3 months ended March 31	
	2017	2016
Production *(GWh)*	844	903
Gross installed capacity *(MW)*	1,132	1,132
Revenues	71	69
Royalties and other costs of sales	3	3
Comparable gross margin	68	66
Operations, maintenance, and administration	8	8
Taxes, other than income taxes	1	2
Comparable EBITDA	59	56

Production for the three months ended March 31, 2017 decreased 59 GWh compared to 2016, due to higher outages and lower wind resource, but is in line with the long-term average. Comparable EBITDA for the three months ended March 31, 2017 increased $3 million compared to 2016, primarily as a result of increased green attribute revenue and higher generation from our facilities in Eastern Canada with higher PPA prices.

Canadian Hydro

	3 months ended March 31	
	2017	2016
Production *(GWh)*	44	58
Gross installed capacity *(MW)*	112	112
Revenues	3	4
Royalties and other costs of sales	-	1
Comparable gross margin	3	3
Operations, maintenance, and administration	1	1
Taxes, other than income taxes	1	-
Comparable EBITDA	1	2

Production for the three months ended March 31, 2017 decreased 14 GWh compared to 2016, due to lower water resource. Generation was in line with the long-term average. Comparable EBITDA for the three months ended March 31, 2017 was lower than 2016, primarily due to lower production.

U.S. Wind

	3 months ended March 31	
	2017	2016
Production *(GWh)*	122	120
Gross installed capacity *(MW)*	144	144
Revenues	7	7
Comparable gross margin	7	7
Operations, maintenance, and administration	1	1
Comparable EBITDA	6	6

Production at the Wyoming Wind Farm for the three months ended March 31, 2017 was consistent with 2016 and remained higher than the long-term average due to continued strong wind resource.

Canadian Gas

	3 months ended March 31	
	2017	2016[1]
Production *(GWh)*	326	275
Gross installed capacity *(MW)*	506	506
Revenues	55	47
Fuel and purchased power	29	19
Comparable gross margin	26	28
Operations, maintenance, and administration	7	6
Comparable EBITDA	19	22

Increased market demand resulted in higher revenues of $8 million, which was more than offset by higher fuel and purchased power costs. Fuel and purchased power also include the non-cash impact of unrealized mark-to-market losses. As a result, Comparable EBITDA decreased $3 million compared to 2016.

Australian Gas

	3 months ended March 31	
	2017	2016
Production *(GWh)*	398	372
Gross installed capacity *(MW)*	425	425
Revenues	26	30
Finance lease income[2]	14	13
Fuel and purchased power	(3)	(6)
Comparable gross margin	37	37
Operations, maintenance, and administration[3]	6	5
Comparable EBITDA	31	32

Comparable EBITDA remained consistent with 2016 and is in line with expectations. Due to the nature of our contracts, the change in customer load does not have a significant financial impact as all facilities are fully contracted and revenues are generally derived from capacity payments.

Regulatory and Environmental Legislation

Refer to the Regulatory and Environmental Legislation section of our 2016 Annual MD&A for further details that supplement the recent developments discussed below.

Alberta

In March 2016, Alberta began development of its renewable energy procurement process design for the Alberta Electric System Operator ("AESO") to procure a first block of renewable generation projects to be in-service by mid-2019. On Sept. 14, 2016, Alberta re-confirmed its commitment to achieve 30 per cent renewables in Alberta's electricity energy mix by 2030. On March 31, 2017, the AESO launched its procurement process which requested expressions of interest from qualified bidders. The successful bidders will be announced in December 2017.

(1) Period from Jan. 6 to March 31, 2016 for the comparable period.
(2) Finance lease income adjusted for change in finance lease receivable.
(3) Includes the effect of contractually fixed management costs.

Ontario
In 2016, Ontario put regulations into effect to implement a Greenhouse Gas cap-and-trade program effective Jan. 1, 2017. Gas-fired electricity generation will be regulated at the gas distribution level. Our gas-fired generation facility in Ontario will not be significantly impacted by virtue of change-in-law provisions within existing contracts.

Liquidity and Capital Resources

Liquidity risk arises from our ability to meet general funding needs, engage in 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 Condensed Consolidated Statements of Financial Position from Dec. 31, 2016 to March 31, 2017:

	Increase/ (decrease)	Primary factors explaining change
Cash and cash equivalents	36	Timing of receipts and payments
Property, plant, and equipment, net	(18)	Increase in amortization due to the acquisition of the Canadian Assets on Nov. 30, 2016, partially offset by additions
Investments in subsidiaries of TransAlta	55	Additional investments in Australian Assets and strengthening of the Australian dollar
Risk management assets (current and long-term)	10	Increase in value of the hedge on contribution commitment
Deferred income tax assets	(5)	Decrease due to deductible temporary differences
Accounts payable and accrued liabilities	14	Timing of payments and accruals
Long-term debt (including current portion)	12	Increase in the amount drawn on the Credit Facility, partially offset by a repayment made on the Canadian Assets working capital loan
Class B shares liability (including current portion)	44	Change in value of the Class B shares related to the increased value of the underlying common shares
Deferred income tax liabilities	8	Decrease in tax loss carryforwards
Equity attributable to shareholders	(8)	Dividends declared for the period, partially offset by net earnings

Cash Flows

The following chart highlights significant changes in the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2017 compared to the same period in 2016:

3 months ended March 31	2017	2016	Change	Primary factors explaining change
Cash and cash equivalents, beginning of period	15	2	13	
Provided by (used in):				
Operating activities	100	81	19	Favourable changes in working capital of $17 million and higher cash earnings of $2 million
Investing activities	(26)	(174)	148	Decrease in investment in subsidiaries of TransAlta of $151 million, partially offset by an increase in additions to property, plant, and equipment of $4 million
Financing activities	(38)	91	(129)	Lower net proceeds on issuance of common shares of $162 million, partially offset by an increase in borrowings under the credit facility of $35 million
Cash and cash equivalents, end of period	51	-	51	

Debt

Debt, including amounts owing to TransAlta, totalled $1,054 million as at March 31, 2017, compared to $1,042 million as at Dec. 31, 2016. Debt increased from Dec. 31, 2016, primarily due to the increase in the amount drawn on the credit facility, net of the repayment of $13 million made on the Canadian Assets working capital loan.

We have a $350 million unsecured Credit Facility with TransAlta available to us for general corporate purposes, including financing ongoing working capital requirements, construction capital requirements, growth opportunities, and for repayment of outstanding borrowings. As at March 31, 2017, $40 million was drawn and outstanding on the Credit Facility (Dec. 31, 2016 – $15 million).

At March 31, 2017, including our Credit Facility, the convertible debenture, and the Canadian Assets working capital loan, $261 million of our debt was due to TransAlta (Dec. 31, 2016 - $249 million).

Our unsecured debentures include restrictive covenants requiring the cash proceeds received from the sale of certain assets to be reinvested into similar renewable assets or in the repayment of the non-recourse debentures.

The Melancthon-Wolfe Wind, Pingston, and New Richmond bonds are subject to customary financing conditions and covenants that may restrict the Corporation's ability to access funds generated by the facilities' operations. Upon meeting certain distribution tests, typically performed once per quarter, the funds are able to be distributed by the subsidiary entities to their respective parent entity. These restrictions include the ability to meet a debt service coverage ratio prior to distribution, which was not met by New Richmond Wind L.P. in the first quarter, mainly due to annualization of its results for purposes of the calculation. The funds in these entities will remain there until the next debt service coverage ratio can be calculated in the second quarter of 2017. As at March 31, 2017, $33 million of cash was subject to these financial restrictions.

Additionally, the Melancthon-Wolfe Wind and New Richmond bonds require that certain reserve accounts are established and funded through cash held on deposit and/or by providing letters of credit. As part of our cost reduction initiatives, we have elected to utilize cash that would otherwise been held in a revenue reserve account to meet the requirements of the debt reserve account. This results in reduced fees associated with letters of credit. As at March 31, 2017, $15 million of cash within Melancthon-Wolfe Wind L.P. was on deposit for certain reserves and was not available for general use.

The Corporation is subject to customary positive and negative covenants related to our debt. We are not in violation of any of these covenants.

Share Capital

On March 31, 2017 and May 3, 2017, we had 224 million common shares and 26 million Class B shares issued and outstanding. At Dec. 31, 2016, we had 224 million common shares and 26 million Class B shares issued and outstanding.

The convertible debenture will mature on Dec. 31, 2020. On the maturity date, TransAlta will have the right, at its sole option, to convert the outstanding principal amount of the convertible debenture, in whole or in part, into common shares of the Corporation at a conversion price of $13.16 per common share. If on the maturity date TransAlta exercises its conversion option in full, we will issue 16.3 million common shares. If TransAlta does not exercise its conversion option, we may satisfy the principal obligation through the issuance of common shares with a unit value corresponding to 95 per cent of the then-current common share value or repay the debenture with cash.

Other Consolidated Results

Net Interest Expense

The components of net interest expense are shown below:

	3 months ended March 31	
	2017	2016
Interest on debt	**10**	10
Interest on convertible debenture	**2**	2
Accretion of provisions	**1**	-
Net interest expense	**13**	12

Class B Shares Liability

As at March 31, 2017, 26 million Class B shares were outstanding (Dec. 31, 2016 – 26 million). As the Class B shares are convertible into common shares at a variable rate depending on final construction costs of the South Hedland facility, they are classified as liabilities and their change in value is recognized in net earnings. The increase in value of the Class B shares of $44 million is unrealized and relates to the change in value of the underlying common shares during the period (net of the effect of estimated foregone dividends, as discounted using a risk-free rate for the period to conversion). Additional information on Class B shares is presented in Note 11 of our interim condensed consolidated financial statements.

The South Hedland facility is currently expected to be fully commissioned by mid-2017. Once converted into common shares, the Class B Shares will be included in equity and will no longer create the changes in fair value as required by the current accounting treatment.

Income Taxes

The Corporation's statutory blended tax rate is 26 per cent. The effective income tax rate can change depending on the mix of earnings from various countries and certain deductions that do not fluctuate with earnings.

Other Comprehensive Income ("OCI")

During the three months ended March 31, 2017, we recognized a $14 million increase in fair value in OCI (March 31, 2016 - $2 million decrease). The changes in the fair value of available-for-sale instruments during the periods are primarily attributable to the Australian Tracking Preferred Shares. See Note 4 of our interim condensed consolidated financial statements for additional information.

Sustaining Capital Expenditures

Sustaining capital expenditures for assets we directly own, as well as for the facilities in which we own economic interests, are noted below for the three months ended March 31, 2017 and 2016:

3 months ended March 31	Canadian Wind	Canadian Hydro	U.S Wind	Canadian Gas	Australian Gas	Total
2017 Total sustaining expenditures	**2**	**1**	**-**	**2**	**1**	**6**
2016 Total sustaining expenditures	1	-	1	2	1	5

Sustaining capital spending for the three months ended March 31, 2017 increased $1 million due to increased spending in Canadian Wind and Hydro compared to 2016. The majority of sustaining capital spent in Canadian Wind related to Wolfe Island, while turbine repairs at Bone Creek resulted in the increase in Canadian Hydro for the quarter.

2017 Outlook

The following table outlines our expectations on key financial targets for 2017:

Measure	Target
Comparable EBITDA	$425 million to $450 million
Adjusted funds from operations	$320 million to $350 million
Comparable cash available for distribution	$235 million to $260 million

Operations

Production

We expect renewable energy production from our wind and hydro assets in 2017 to be in the range of 3,400 to 3,900 GWh. Contracts for gas-fired generation primarily provide compensation for capacity, and accordingly, production is not a significant performance indicator of those businesses.

Contracted Cash Flows

Through the use of PPAs, including the TransAlta PPAs, our facilities and those in which we have an economic interest have a weighted average contractual life remaining of approximately 13 years.

Operating Costs

We have established long-term service agreements with suppliers to stabilize operations, maintenance and administration costs. Most of our generation from gas is sold under contracts with pass-through provisions for fuel. For gas generation with no pass-through provision, we purchase natural gas coincident with production, thereby minimizing our exposure to changes in price.

Exposure to Fluctuations in Foreign Currencies

We are exposed to fluctuations in the exchange rate between the Canadian and the Australian and US dollars as a result of our economic interest in the Wyoming Wind Farm and the Australian Assets (including the remaining construction costs for the South Hedland facility). The securities acquired from TransAlta and the related dividends received are denominated in Canadian, Australian and US dollars. TransAlta has agreed to provide us with protection against fluctuations in the exchange rates on the first five years of cash flows from the Australian Assets and for the cost of constructing the South Hedland facility, which is expected to be completed mid-2017. Any changes in foreign investments or foreign-denominated debt may change our exposure. All our other assets are located in Canada. We may acquire equipment from foreign suppliers in various foreign currencies for future capital projects, which could create exposure to fluctuations in the value of the Canadian dollar relative to these currencies.

Our strategy is to mitigate foreign exchange risk on foreign denominated cash flows to ensure our ability to meet dividend requirements. Cash flows relating to the Australian Assets are predominantly hedged under agreements with TransAlta. In addition, we entered into foreign exchange forwards to hedge US dollar cash flows primarily related to the Wyoming Wind Farm.

Net Interest Expense

Exposure to interest rate risk is not significant as interest rates on long-term debt are largely fixed. Net interest for 2017 is expected to be higher than 2016, due to a higher volume of debt.

Net Debt, Liquidity and Capital Resources

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

The Corporation manages liquidity risk associated with debentures due in 2018 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, primarily through project-level debt.

Over the next 15 months we expect to raise between $335 million and $485 million in project level financing against a number of fully contracted assets. These financings will have debt maturities aligned with the contracted cash flows of the underlying assets. Proceeds from these financings will be used to fund the remaining commitments at South Hedland, and to repay $193 million of debt that is maturing in 2018.

Income Taxes

The Corporation's statutory blended tax rate is expected to remain at 26 per cent. The effective income tax rate can change depending on the mix of earnings from various countries and certain deductions that do not fluctuate with earnings.

The Corporation's anticipated cash tax horizon is subject to risks, uncertainties, and other factors that could cause the cash tax horizon to occur sooner than our current projection of approximately four years. In particular, our anticipated cash tax horizon is subject to risk pertaining to a change in our operations, asset base, corporate structure, or changes to tax legislation, regulations, or interpretations. In the event we become cash taxable sooner than projected, our cash available for distribution and our dividend could decrease.

Capital Expenditures

Sustaining Capital

Our sustaining capital is comprised of the ongoing capital costs associated with maintaining the existing generating Capacity of our facilities. The facilities of TransAlta in which we own economic interests also incur sustaining capital expenditures. While we are not required to fund these expenditures, they reduce the finance income from these investments.

For 2017, our estimate for total sustaining capital expenditures for owned assets and those in which we own an economic interest, ranges from $40 million to $45 million.

Construction of South Hedland

The construction and commissioning of our South Hedland facility continues to progress. At the end of the first quarter in 2017, construction work was largely complete and the project team is now focusing on commissioning activities. The combined-cycle gas turbines achieved first fire in the fourth quarter and commissioning activities continue on these units. We expect to invest $210 million to $230 million to complete construction of the South Hedland facility, including payments of approximately $155 million in project expenditures which relate to infrastructure acquisition and network, water and gas access deposits and prepayments, most of which is to be paid on commissioning.

Financing

Financing for these capital expenditures is expected to be provided by cash flow from operating activities, capital markets transactions and by drawing on the Credit Facility provided by TransAlta.

Financial Instruments

Refer to Note 12 of our most recent annual consolidated financial statements and Note 7 of our interim condensed consolidated financial statements for the three months ended March 31, 2017 for details on Financial Instruments. Also, refer to the Financial Instruments section of our most recent annual MD&A for additional details. Our risk management profile and practices have not changed materially since Dec. 31, 2016, however we discontinued hedge accounting for a cash flow hedge on our US$20 million debt.

At March 31, 2017, Level III financial instruments were comprised of financial assets with a carrying value of $853 million (Dec. 31, 2016 - $841 million) and financial liabilities with a carrying value of $428 million (Dec. 31, 2016 - $384 million). The decrease in the net asset position is attributable to the Australian Tracking Preferred Shares and the Class B shares liability. Refer to Notes 4, 7, and 11 in our interim condensed consolidated financial statements for the three months ended March 31, 2017 for additional information on these measurements.

Related-Party Transactions and Balances

Related-Party Transactions

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

	3 months ended March 31	
	2017	2016
Revenue from TransAlta PPAs	**10**	12
Finance income related to subsidiaries of TransAlta	**23**	46
G&A Reimbursement Fee	**4**	4
Interest expense	**2**	3
Asset optimization fee	**1**	-
Realized foreign exchange gain on hedge contribution commitment	**1**	-

Certain subsidiaries of TransAlta provide asset management and optimization services and procure gas for the Corporation's Sarnia facility. Sarnia is charged a fixed fee of approximately $0.125 million per quarter, plus a variable fee of 1.6 per cent of its gross margin.

Related-Party Balances

Related-party balances include the following:

As at	March 31, 2017	Dec. 31, 2016
Trade and other receivables	**25**	36
Accounts payable and accrued liabililities (including interest payable)	**9**	11
Dividends payable	**29**	29
Investments in subsidiaries of TransAlta	**1,700**	1,645
Net risk management assets	**9**	-
Convertible debenture	**215**	215
Class B shares liability	**428**	384
Credit Facility	**40**	15
Canadian Assets working capital loan	**6**	19
Letters of credit issued by TransAlta on behalf of the Corporation	**46**	60
Guarantees provided by TransAlta on behalf of the Corporation	**58**	58
Indemnification guarantee provided by the Corporation to TransAlta	**959**	925

All these balances are with TransAlta or subsidiaries of TransAlta.

Accounting Changes

Critical Accounting Estimates

The critical accounting estimates were made consistent with our most recent annual MD&A for Dec. 31, 2016.

Current Accounting Changes

During the first quarter of 2017, we identified a misstatement in the disclosure of cash interest paid for the three months ended March 31, 2016, which was previously stated as $10 million. As a result, we restated its March 31, 2016, cash interest paid to nil. The restatement does not have an impact on net earnings, earnings per share, or cash flow from operating activities for the three months ended March 31, 2016.

Future Accounting Changes

Accounting standards that have been previously issued by the International Accounting Standards Board ("IASB") but are not yet effective, and have not been applied by the Corporation, include IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers,* and IFRS 16 *Leases*. Refer to *Note 3* of the Corporation's most recent annual consolidated financial statements for information regarding the requirements of IFRS 9, IFRS 15, and IFRS 16.

We have made progress on the implementation plan for IFRS 9 during 2016 and the first quarter of 2017; however, it is not yet possible to make a reliable estimate of the impact of IFRS 9 on our financial statements and disclosures. Our current estimate of the time and effort necessary to complete the implementation plan for IFRS 9 extends into mid to late 2017.

We have created an implementation plan with respect to IFRS 15 and are currently in the process of reviewing our various revenue streams and underlying contracts with customers to determine the impact that the adoption of IFRS 15 will have on our financial statements. Our current estimate of the time and effort necessary to complete our implementation plan for IFRS 15 extends into mid to late 2017. We anticipate finalizing a decision with respect to the transition method by mid-2017.

We are in the process of completing the initial scoping assessment with respect to IFRS 16 and expect to have an implementation plan in place by mid-2017. We anticipate that most the effort under the implementation plan will occur in late

2017 through mid-2018. It is not yet possible to make reliable estimates of the potential impact of IFRS 16 on our financial statements and disclosures.

Selected Quarterly Information

	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Revenue	52	45	94	129
Net earnings (loss) attributable to common shareholders	(15)	23	26	27
Cash flow from operating activities	70	62	69	100
AFFO	55	55	91	83
CAFD	38	55	69	83
Net earnings (loss) per share attributable to common shareholders, basic and diluted	(0.07)	0.10	0.12	0.12
CAFD per share	0.17	0.25	0.31	0.37

	Q2 2015	Q3 2015	Q4 2015	Q1 2016
Revenue	51	42	75	68
Net earnings (loss) attributable to common shareholders	7	61	107	(36)
Cash flow from operating activities	49	40	59	81
AFFO	39	40	78	82
CAFD	39	28	78	82
Net earnings (loss) per share attributable to common shareholders, basic and diluted	0.04	0.32	0.56	(0.16)
CAFD per share	0.24	0.15	0.41	0.37

Our business results fluctuate with seasonal variations, with the first and fourth quarters seeing the largest wind volumes and the second and third quarters recording higher hydro volumes. As wind forms a larger part of our renewable fleet, higher revenues and earnings are expected in the first and fourth quarters. On Jan. 6, 2016, we acquired an economic interest in the Canadian Assets, adding 611 MW to our existing Capacity, and subsequently, on Nov. 30, 2016, we acquired ownership of the Canadian Assets. In May 2015, we acquired an economic interest in the Australian Assets, and approximately doubled our capitalization. The earnings after this investment include various effects arising from financial instruments:

- Unfavourable changes in the fair value of the Class B shares in the second, third and fourth quarters of 2016, and in the first quarter of 2017.
- Foreign exchange gains on Australian-dollar-denominated instruments in the first quarter of 2017 and third quarter of 2016 with losses in the second and fourth quarters of 2016.

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 report 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 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 March 31, 2017, the end of the period covered by this report, our disclosure controls and procedures and our internal controls over financial reporting were effective.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Earnings (Loss)
(in millions of Canadian dollars, except as otherwise noted)

	3 months ended March 31	
Unaudited	2017	2016
Revenues	116	54
Government incentives	5	7
Lease revenue	8	7
Total revenue	129	68
Royalties and other costs of sales	32	3
Gross margin	97	65
Operations, maintenance, and administration	21	13
Depreciation and amortization	28	18
Taxes, other than income taxes	2	2
Operating income	46	32
Finance income related to subsidiaries of TransAlta *(Note 4)*	23	46
Net interest expense *(Note 5)*	(13)	(12)
Change in fair value of Class B shares *(Note 11)*	(44)	(64)
Foreign exchange gain (loss)	31	(34)
Earnings (loss) before income taxes	43	(32)
Income tax expense *(Note 6)*	15	3
Net earnings (loss)	28	(35)
Net earnings (loss) attributable to:		
Common shareholders	27	(36)
Non-controlling interest	1	1
	28	(35)
Weighted average number of common shares outstanding in the period *(millions) (Note 12)*	224	221
Net earnings (loss) per share attributable to common shareholders, basic and diluted *(Note 12)*	0.12	(0.16)

See accompanying notes.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)
(in millions of Canadian dollars)

	3 months ended March 31	
Unaudited	2017	2016
Net earnings (loss)	28	(35)
Losses on derivatives designated as cash flow hedges, net of tax	(1)	(2)
Reclassification of losses on derivatives designated as cash flow hedges to net earnings, net of tax	1	2
Available-for-sale financial assets - net change in fair value *(Note 4)*	14	(2)
Total items that will be reclassified subsequently to net earnings	14	(2)
Other comprehensive income (loss)	14	(2)
Total comprehensive income (loss)	42	(37)
Total comprehensive income (loss) attributable to:		
Common shareholders	41	(38)
Non-controlling interest	1	1
	42	(37)

See accompanying notes.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Financial Position

(in millions of Canadian dollars)

Unaudited	March 31, 2017	Dec. 31, 2016
Cash and cash equivalents	51	15
Trade and other receivables	83	87
Prepaid expenses	4	2
Risk management assets *(Note 7)*	10	-
Income taxes receivable	1	1
Inventory	4	4
	153	109
Property, plant, and equipment *(Note 8)*		
Cost	2,779	2,772
Accumulated depreciation	(867)	(842)
	1,912	1,930
Intangible assets	111	113
Other assets	3	3
Investments in subsidiaries of TransAlta *(Note 4)*	1,700	1,645
Deferred income tax assets	36	41
Total assets	3,915	3,841
Accounts payable and accrued liabilities	45	31
Current portion of decommissioning and other provisions	3	3
Risk management liabilities *(Note 7)*	1	-
Dividends payable *(Note 12)*	49	49
Current portion of Class B shares liability *(Note 11)*	428	384
Current portion of long-term debt *(Note 9)*	82	70
	608	537
Long-term debt *(Note 9)*	757	757
Convertible debenture *(Note 10)*	215	215
Decommissioning provisions	29	26
Deferred revenues	7	7
Deferred income tax liabilities	240	232
Total liabilities	1,856	1,774
Equity		
Common shares *(Note 12)*	2,469	2,469
Deficit	(504)	(482)
Accumulated other comprehensive income	59	45
Equity attributable to shareholders	2,024	2,032
Non-controlling interest	35	35
Total equity	2,059	2,067
Total liabilities and equity	3,915	3,841

Commitments and contingencies (Note 13).

See accompanying notes.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Changes in Equity

(in millions of Canadian dollars)

Unaudited	Common shares	Deficit	Accumulated other comprehensive income	Equity attributable to shareholders	Non-controlling interest	Total
Balance, Dec. 31, 2016	2,469	(482)	45	2,032	35	2,067
Net earnings	-	27	-	27	1	**28**
Other comprehensive income:						
Net change in fair value of available-for-sale financial assets *(Note 4)*	-	-	14	14	-	**14**
Total comprehensive income	-	27	14	41	1	**42**
Common share dividends	-	(49)	-	(49)	-	**(49)**
Distributions to non-controlling interest	-	-	-	-	(1)	**(1)**
Balance, March 31, 2017	**2,469**	**(504)**	**59**	**2,024**	**35**	**2,059**

Unaudited	Common Shares	Deficit	Accumulated other comprehensive income	Equity attributable to shareholders	Non-controlling interest	Total
Balance, Dec. 31, 2015	2,152	(169)	6	1,989	37	2,026
Net earnings (loss)	-	(36)	-	(36)	1	(35)
Other comprehensive loss:						
Net change in fair value available-for-sale financial assets	-	-	(2)	(2)	-	(2)
Total comprehensive income (loss)	-	(36)	(2)	(38)	1	(37)
Common shares issued to TransAlta (Note 3)	152	-	-	152	-	152
Public offering	165	-	-	165	-	165
Common share dividends	-	(52)	-	(52)	-	(52)
Distributions to non-controlling interest	-	-	-	-	(2)	(2)
Balance, March. 31, 2016	2,469	(257)	4	2,216	36	2,252

See accompanying notes.

TransAlta Renewables Inc.
Condensed Consolidated Statements of Cash Flows
(in millions of Canadian dollars)

	3 months ended March 31	
Unaudited	2017	2016
Operating activities		
Net earnings (loss)	28	(35)
Depreciation and amortization	28	18
Accretion of provisions *(Note 5)*	1	-
Deferred income tax expense *(Note 6)*	13	3
Change in fair value of Class B shares *(Note 11)*	44	64
Unrealized foreign exchange (gain) loss	(29)	35
Unrealized loss from risk management activities	1	-
Other non-cash items	1	-
Cash flow from operations before changes in working capital	87	85
Change in non-cash operating working capital balances	13	(4)
Cash flow from operating activities	100	81
Investing activities		
Additions to property, plant, and equipment *(Note 8)*	(5)	(1)
Investment in subsidiaries of TransAlta *(Note 4)*	(22)	(173)
Change in non-cash investing working capital balances	1	-
Cash flow used in investing activities	(26)	(174)
Financing activities		
Net increase (decrease) in borrowings under credit facility *(Note 9)*	25	(23)
Repayments of Canadian Assets working capital loan	(13)	-
Net proceeds on issuance of common shares	-	162
Dividends paid on common shares *(Note 12)*	(49)	(46)
Distributions to non-controlling interest	(1)	(2)
Cash flow from (used in) financing activities	(38)	91
Cash flow from (used in) operating, investing, and financing activities	36	(2)
Increase (decrease) in cash and cash equivalents	36	(2)
Cash and cash equivalents, beginning of period	15	2
Cash and cash equivalents, end of period	51	-
Cash interest paid*	-	-

See accompanying notes.

**See Note 2(A) for prior period restatement.*

Notes to Condensed Consolidated Financial Statements
(Unaudited)
(Tabular amounts in millions of Canadian dollars, except as otherwise noted)

1. Background and Accounting Policies

A. The Corporation
TransAlta Renewables Inc. ("TransAlta Renewables" or the "Corporation"), a subsidiary of TransAlta Corporation ("TransAlta"), owns and operates 13 hydro facilities, 17 wind farms, and one gas plant, with a total installed capacity of 1,750 megawatts ("MW") and holds economic interests in TransAlta's 144 MW Wyoming wind farm and 425 MW Australian gas-fired generation assets, including the 150 MW South Hedland facility that is currently under construction, as well as a 270 kilometre gas pipeline. These assets are substantially all contracted. The Corporation's head office is located in Calgary, Alberta.

B. Basis of Preparation
These unaudited interim condensed consolidated financial statements have been prepared by management in compliance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* using the same accounting policies as those used in the Corporation's most recent annual consolidated financial statements. These unaudited interim condensed consolidated financial statements do not include all of the disclosures included in the Corporation's annual consolidated financial statements. Accordingly, these condensed consolidated financial statements should be read in conjunction with the Corporation's most recent annual consolidated financial statements which are available on SEDAR at www.sedar.com.

The unaudited interim condensed consolidated financial statements include the accounts of the Corporation and the subsidiaries that it controls.

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

The condensed consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional and presentation currency.

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

These unaudited interim condensed consolidated financial statements were authorized for issue by the Audit Committee on behalf of the Board of Directors on May 3, 2017.

C. Use of Estimates and Significant Judgments

The preparation of these unaudited interim condensed consolidated financial statements in accordance with IAS 34 requires management to use judgment and make estimates and assumptions that could affect the reported amounts of assets, liabilities, revenues, and expenses, and disclosures of contingent assets and liabilities. These estimates are subject to uncertainty. Actual results could differ from these 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. Refer to Note 2(Q) of the Corporation's most recent annual consolidated financial statements for a more detailed discussion of the significant accounting judgments and key sources of estimation uncertainty.

Judgment was applied in the first quarter of 2017 in relation to the assessment of dividends as income or return of capital, as follows:

The Corporation receives dividends from its investment in the preferred shares tracking adjusted TransAlta Energy (Australia) Pty Ltd ("TEA") amounts. Determining whether a dividend represents in substance a return of capital requires significant judgment. The Corporation determines the amount of dividends that represent a return of capital based on the lower of: i) the difference, if positive, between the cost base of the shares and their fair value, at the end of the reporting period; and ii) the actual dividend declared on the shares during the reporting period. When it is determined that a dividend represents a return of capital, the carrying amount of the related investment is reduced. No return of capital arose in the first quarter of 2017.

2. Accounting Changes

A. Current Accounting Changes

During the first quarter of 2017, the Corporation identified a misstatement in the disclosure of cash interest paid for the three months ended March 31, 2016, which was previously stated as $10 million. As a result, the Corporation restated its March 31, 2016, cash interest paid to nil. The restatement does not have an impact on net earnings, earnings per share, or cash flow from operating activities for the three months ended March 31, 2016.

B. Future Accounting Changes

Accounting standards that have been previously issued by the International Accounting Standards Board ("IASB") but are not yet effective, and have not been applied by the Corporation, include International Financial Reporting Standards ("IFRS") 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers,* and IFRS 16 *Leases*. Refer to Note 3 of the Corporation's most recent annual consolidated financial statements for information regarding the requirements of IFRS 9, IFRS 15, and IFRS 16.

The Corporation has made progress on the implementation plan for IFRS 9 during 2016 and the first quarter of 2017; however, it is not yet possible to make a reliable estimate of the impact of IFRS 9 on its financial statements and disclosures. The Corporation's current estimate of the time and effort necessary to complete the implementation plan for IFRS 9 extends into mid-to late 2017.

The Corporation has created an implementation plan with respect to IFRS 15 and is currently in the process of reviewing its various revenue streams and underlying contracts with customers to determine the impact that the adoption of IFRS 15 will have on its financial statements. The Corporation's current estimate of the time and effort necessary to complete its implementation plan for IFRS 15 extends into mid to late 2017. The Corporation anticipates finalizing a decision with respect to the transition method by mid-2017.

The Corporation is in the process of completing its initial scoping assessment with respect to IFRS 16 and expects to have an implementation plan in place by mid-2017. The Corporation anticipates most of the effort under the implementation plan will occur in late 2017 through mid-2018. It is not yet possible to make reliable estimates of the potential impact of IFRS 16 on the Corporation's financial statements and disclosures.

3. Significant Events

2017

South Hedland Facility

The construction and commissioning of the South Hedland facility continues to progress. At the end of 2016, construction work was largely complete and the project team is now focusing on commissioning activities. The combined-cycle gas turbines achieved first fire in the fourth quarter of 2016 and commissioning activities continue on these units. The Corporation expects to invest $210 million to $230 million to complete construction of the South Hedland facility and continue to expect the project to be fully commissioned by mid-2017.

2016

Investment in TransAlta's Sarnia Cogeneration Plant, Le Nordais Wind Farm, and Ragged Chute Hydro Facility

On Jan. 6, 2016, the Corporation invested in an economic interest based on the cash flows of TransAlta's Sarnia cogeneration plant, Le Nordais wind farm, and Ragged Chute hydro facility (the "Canadian Assets") for a combined value of approximately $540 million. The Corporation's investment consisted of the acquisition of tracking preferred shares of a subsidiary of TransAlta that provided the Corporation with an economic interest based on cash flows broadly equal to the underlying net distributable profits of the entities that own the Canadian Assets. As consideration, the Corporation provided to TransAlta, $173 million in cash, issued 15,640,583 common shares with a value of $152 million, and issued a $215 million convertible unsecured subordinated debenture. The Corporation funded the cash consideration of the purchase price primarily through the issuance of 17,692,750 common shares by way of public offering at a price of $9.75 per share.

On Nov. 30, 2016, the preferred shares tracking adjusted Canadian Assets amounts were redeemed by the issuing subsidiary of TransAlta at their fair value of $520 million. Also on Nov. 30, 2016, the Corporation acquired direct ownership of the Canadian Assets from a subsidiary of TransAlta for a purchase price of $520 million. The redemption of the preferred shares and the acquisition of the direct ownership in the Canadian Assets were subject to a set-off arrangement and resulted in no cash payments being made. The Corporation also acquired working capital and certain capital spares totalling $19 million, through the issuance of a non-interest bearing loan (see Note 9).

4. Finance Income Related to Subsidiaries of TransAlta

Finance income related to subsidiaries of TransAlta is comprised of income from various interests that in aggregate and over time indirectly provide the Corporation with cash flows based on the cash flows of TEA and TransAlta Wyoming Wind LLC, and in 2016, the Canadian Assets.

	3 months ended March 31	
	2017	2016
Interest income from investment in mandatory redeemable preferred shares of TEA ("MRPS")	11	10
Dividend income from investment in preferred shares	1	-
Fee income from indirect guarantee of TEA obligations	5	6
Dividend income from investment in preferred shares tracking adjusted TEA amounts	2	8
Total finance income related to TEA	19	24
Dividend income from investment in preferred shares tracking adjusted Canadian Assets amounts	-	19
Dividend income from investment in preferred shares tracking earnings and distributions of TransAlta Wyoming Wind LLC	4	3
Total	23	46

A summary of investments in subsidiaries of TransAlta is as follows:

As at	March 31, 2017	Dec. 31, 2016
Investment in MRPS	**648**	613
Investment in preferred shares tracking adjusted TEA amounts	**853**	841
Investment in preferred shares of TEA	**63**	52
Total investments in subsidiaries related to TEA	**1,564**	1,506
Investment in preferred shares tracking earnings and distributions of TransAlta Wyoming Wind LLC	**136**	139
Total investment in subsidiaries of TransAlta	**1,700**	1,645

Investment in Subsidiaries of TransAlta Related to TEA:

Changes in the investments in subsidiaries of TransAlta that relate to TEA are detailed as follows:

	MRPS(1)	Preferred shares tracking adjusted TEA amounts	Preferred shares of TEA(2)	Total
Investment balance at Dec. 31, 2016	613	841	52	1,506
Additional investment	13	-	9	22
Unrealized foreign exchange gains recognized in earnings	22	-	-	22
Net change in fair value recognized in OCI	-	12	2	14
Investment balance at March 31, 2017	**648**	**853**	**63**	**1,564**

(1) Principal amount as at March 31, 2017, and Dec. 31, 2016 was AUD$654 million and AUD$641 million, respectively.

(2) Principal amount as at March 31, 2017 and Dec. 31, 2016 was AUD$63 million and AUD$54 million, respectively.

During the first quarter the preferred shares tracking adjusted TEA amounts increased by $12 million. The change in fair value in the quarter is the result of foreign exchange gains.

	MRPS(1)	Preferred shares tracking adjusted TEA amounts	Preferred shares of TEA(2)	Total
Investment balance at Dec. 31, 2015	589	804	29	1,422
Unrealized foreign exchange losses recognized in earnings	(19)	-	-	(19)
Net change in fair value recognized in OCI	-	(3)	-	(3)
Investment balance at March 31, 2016	570	801	29	1,400

(1) Principal amount as at March 31, 2016, and Dec. 31, 2015 was AUD$592 million.

(2) Principal amount as at March 31, 2016 and Dec. 31, 2015 was AUD$32 million.

The Corporation estimated the fair value of the preferred shares tracking adjusted TEA amounts utilizing significant unobservable inputs such as TEA's long-range forecast as part of a discounted cash flow model, as outlined in Note 7(B)(I)(c).

Key assumptions in respect of significant unobservable inputs used in the fair value measurement include the discount rate and the quarterly cash flows from the instrument and guarantee fees. The forecast extends over 31 years. The table below summarizes quantitative data regarding these unobservable inputs:

Unobservable input	March 31, 2017	Dec. 31, 2016
Discount rate	**7.2 per cent**	7.2 per cent
Quarterly cash flows	**Average of $15.7**	Average of $15.6

The following table summarizes the impact on the fair value measurement of a change in the above unobservable inputs to reflect reasonably possible alternative assumptions:

Unobservable input	Alternative assumption	Change in fair value as at March 31, 2017	Change in fair value as at Dec. 31, 2016
Basis point change in discount rates	-10 basis points decrease	7.2	7.3
	+10 basis points increase	(7.1)	(7.1)
Quarterly cash flows	+1% increase	8.5	8.4
	- 1% decrease	(8.5)	(8.4)

5. Net Interest Expense

The components of net interest expense are as follows:

	3 months ended March 31	
	2017	2016
Interest on long-term debt	10	10
Interest on convertible debenture	2	2
Accretion of provisions	1	-
Net interest expense	13	12

6. Income Taxes

The components of income tax expense are as follows:

	3 months ended March 31	
	2017	2016
Current income tax expense	2	-
Deferred income tax expense related to the origination and reversal of temporary differences	13	2
Deferred income tax expense resulting from changes in tax rates	-	1
Income tax expense	15	3

Presented in the Condensed Consolidated Statements of Earnings (Loss) as follows:

	3 months ended March 31	
	2017	2016
Current income tax expense	2	-
Deferred income tax expense	13	3
Income tax expense	15	3

7. Financial Instruments and Risk Management

A. Financial Assets and Liabilities – Measurement

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost.

B. Fair Value of Financial Instruments

The Corporation's financial instruments measured at fair value are as follows:

As at	March 31, 2017		Dec. 31, 2016	
	Fair value Level II	Fair value Level III	Fair value Level II	Fair value Level III
Preferred shares tracking adjusted TEA amounts(1)	-	853	-	841
Preferred shares of TEA	63	-	52	-
Net risk management assets	9	-	-	-
Class B shares liability	-	(428)	-	(384)

(1) Excludes TransAlta Wyoming Wind LLC as the investment in preferred shares is measured at cost.

I. Level I, II, and III Fair Value Measurements

The Level I, II, and III classifications in the fair value hierarchy utilized by the Corporation are defined below. The fair value measurement of a financial instrument is included in only one of the three levels, the determination of which is based on the lowest level input that is significant to the derivation of the fair value.

a. Level I

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

b. Level II

Fair values are determined, directly or indirectly, using inputs that are observable for the asset or liability, either directly or indirectly.

Fair values within the Level II category are determined through the use of quoted prices in active markets, which in some cases are adjusted for factors specific to the asset or liability, such as basis, credit valuation, and location differentials.

The Corporation's commodity risk management Level II financial instruments include over-the-counter derivatives with values based on observable commodity futures curves and derivatives with inputs validated by broker quotes or other publicly available market data providers. Level II fair values are also determined using valuation techniques, such as option pricing models and regression or extrapolation formulas, where the inputs are readily observable, including commodity prices for similar assets or liabilities in active markets, and implied volatilities for options.

In determining Level II fair values of other risk management assets and liabilities and the preferred shares of TEA measured and carried at fair value, the Corporation uses observable inputs other than unadjusted quoted prices that are observable for the asset or liability, such as interest rate yield curves and currency rates. For certain financial instruments where insufficient trading volume or lack of recent trades exists, the Corporation relies on similar interest or currency rate inputs and other third-party information such as credit spreads. The fair value of the preferred shares of TEA is determined by calculating an implied price based on a current assessment of the yield to maturity.

c. Level III

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

In estimating the fair value of the preferred shares tracking adjusted TEA amounts, the Corporation uses a discounted cash flow method, and makes estimates and assumptions about sales prices, production, capital expenditures, asset retirement costs, and other related cash inflows and outflows over the life of the facilities, as well as the remaining life of the facilities. In developing these assumptions, management uses estimates of contracted and merchant prices, anticipated production levels, planned and unplanned outages, changes to regulations, and transmission capacity or constraints for the estimated remaining life of the facilities. Appropriate discount rates reflecting the risks specific to TEA are used in the valuations. Management also develops assumptions in respect of ongoing financing and tax positions of TEA. 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 fair value of the instrument, and such differences may be material. Additional disclosures on these measurements are presented in Note 4.

Estimates of the fair value of the Class B shares liability can vary based on the estimated cost of constructing and commissioning the South Hedland facility by TEA, which could vary based on emergent or unforeseen capital needs of the project, or release of uncommitted planned contingency funds. Additional disclosures on this measurement are presented in Note 11.

II. Commodity and Other Risk Management Assets and Liabilities

The Corporation's commodity-based risk management assets and liabilities relate to trading activities and certain contracting activities. Other risk management assets and liabilities include risk management assets and liabilities that are used in hedging foreign currency exposures, including those related to the Contribution Agreement described in Note 13.

The following table summarizes the net risk management assets as at March 31, 2017 and Dec. 31, 2016:

	Cash flow hedges	Non-hedges	
	Level II	Level II	Total
Net risk management assets at March 31, 2017	-	9	9
Net risk management assets at Dec. 31, 2016	-	-	-

The change in non-hedge assets is primarily attributable to the hedge on contribution commitments, and is reflected in foreign exchange gains.

During the first quarter of 2017, the Corporation discontinued hedge accounting for its cash flow hedge of its US$ 20 million debt. The cumulative gain on the cash flow hedge will continue to be deferred in AOCI and will be reclassified to net earnings as the forecasted transactions occur.

III. Financial Instruments – Not Measured at Fair Value

The fair value of financial instruments not measured at fair value is as follows:

As at	March 31, 2017		Dec . 31, 2016	
	Fair value Level II	Carrying value	Fair value Level II	Carrying value
MRPS	637	648	613	613
Convertible debenture	216	215	216	215
Long-term debt[1]	846	839	831	827

(1) Includes current portion.

The fair value of the Corporation's unsecured debentures is determined using prices observed in secondary markets. The fair value of the MRPS, the liability component of the convertible debenture, and other long-term debt is determined by calculating an implied price based on a current assessment of the yield to maturity.

The book value of other short-term financial assets and liabilities (cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities, and dividends payable) approximates fair value due to the liquid nature of the asset or liability.

The Corporation's investment in the preferred shares tracking earnings and distributions of TransAlta Wyoming Wind LLC continues to be measured at cost under similar conditions as described in Note 12(B)(IV) of the Corporation's most recent annual consolidated financial statements.

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

The following discussion is limited to specific risk measures, which are more fully discussed in Note 12(C) of the Corporation's most recent annual consolidated financial statements.

I. Credit Risk

The Corporation's maximum exposure to credit risk at March 31, 2017, without taking into account collateral held or right of set-off, and including indirect exposures arising from the Corporation's investment in preferred shares tracking adjusted TEA amounts is detailed as follows:

Component	Amount	Key risk assessment factors
Direct exposure		
Trade accounts receivable	80	Approximately 66 per cent of the Corporation's unrelated receivables are due from investment-grade counterparties. As at March 31, 2017, TransAlta maintains investment grade ratings from three credit rating agencies. At March 31, 2017, the Corporation had two unrelated customers whose outstanding balances each accounted for greater than 10 per cent of the total third-party trade accounts receivable outstanding. The Corporation has evaluated the risk of default related to these customers to be minimal.
Distributions receivable from subsidiaries of TransAlta	3	As the distribution declarations were made by paying entities and having regard to the sufficiency of funds available, the risk of default has been assessed as minimal.
MRPS	648	The MRPS form TEA's least subordinate significant form of long-term financing, which benefits from TEA's contract and counterparty profile.
Total - Direct exposure	731	
Indirect exposure		
Accounts receivable and finance lease receivable of TEA	489	TEA had one unrelated below investment grade customer whose outstanding balances accounted for 93 per cent of total trade accounts receivable and finance lease receivable outstanding. Risk of significant loss arising from this counterparty has been assessed as low in the near term, but could increase to moderate in an environment of sustained low commodity prices over the mid- to long-term. Our assessment takes into consideration the counterparty's financial position, external rating assessments, and how TEA provides its services in an area of the counterparty's lower-cost operations, and TransAlta's other credit risk management practices.
Total	1,220	

The Corporation uses external credit ratings, as well as internal ratings in circumstances where external ratings are not available, to establish credit limits for counterparties. In certain cases, the Corporation will require security instruments such as parental guarantees, letters of credit, cash collateral or third party credit insurance to reduce overall credit risk. As at March 31, 2017, no significant component of the amounts forming part of the Corporation's exposure to credit risk was either past due or impaired.

II. Other Market Risks

The Corporation is exposed to market risks based on changes in the fair value of the Class B shares, the preferred shares of TEA, and the preferred shares tracking adjusted TEA amounts. A one per cent increase (decrease) in the value of these securities would result in a $4 million decrease (increase) in net income, and a $9 million increase (decrease) in OCI.

III. Liquidity Risk

The following table presents the contractual maturities of the Corporation's financial liabilities as at March 31, 2017, including committed contributions under the terms of the Contribution Agreement:

	2017	2018	2019	2020	2021	2022 and thereafter	Total
Accounts payable and accrued liabilities	45	-	-	-	-	-	**45**
Long-term debt	42	282	40	40	40	403	**847**
Convertible debenture(1)	-	-	-	215	-	-	**215**
Net risk management assets	(9)	-	-	-	-	-	**(9)**
Interest on long-term debt(2)	33	27	19	18	16	65	**178**
Interest on convertible debenture(2)	7	10	10	9	-	-	**36**
Dividends payable	49	-	-	-	-	-	**49**
South Hedland contribution commitment(2)	210	-	-	-	-	-	**210**
Total	**377**	**319**	**69**	**282**	**56**	**468**	**1,571**

(1) The Corporation may settle the obligation in common shares if the holder's conversion option is not exercised.

(2) Not recognized as a financial liability on the Condensed Consolidated Statements of Financial Position. See Note 13(D).

The Corporation manages liquidity risk associated with its long-term debt and committed contributions through preparing and revising long-term external financing plans reflecting business plans and market availability of capital.

The Class B shares liability is expected to be settled by the issuance of common shares, and accordingly, does not give rise to liquidity risk.

IV. Foreign Currency Rate Risk

The foreign currency risk sensitivities outlined below are limited to the risks that arise on financial instruments denominated in currencies other than the functional currency.

The possible effect on net earnings and OCI, due to changes in foreign exchange rates associated with financial instruments denominated in currencies other than the Corporation's functional currency, is outlined below. The sensitivity analysis has been prepared using management's assessment that an average four cents (2016 – four cent) increase or decrease in these currencies relative to the Canadian dollar is a reasonable potential change over the next quarter.

3 months ended March 31, 2017	**2017**		2016	
Currency	**Net earnings increase(1)**	**OCI gain(1)**	Net earnings increase(1)	OCI gain(1)
USD	**5**	**18**	3	16
AUD	**22**	**32**	24	34
Total	**27**	**50**	27	50

(1) These calculations assume an increase in the value of this currency relative to the Canadian dollar. A decrease would have the opposite effect.

8. Property, Plant, and Equipment

A reconciliation of the changes in the carrying amount of property, plant & equipment ("PP&E") is as follows:

	Hydro generation	Wind generation	Gas generation	Capital spares and other	Total
As at Dec. 31, 2016	193	1,384	329	24	1,930
Additions	1	3	1	-	5
Depreciation	(2)	(16)	(7)	-	(25)
Revisions and additions to decommissioning costs	1	-	1	-	2
As at March. 31, 2017	**193**	**1,371**	**324**	**24**	**1,912**

9. Long-Term Debt

A. Amounts Outstanding

As at	March 31, 2017			Dec. 31, 2016		
	Carrying value	Face value	Interest(1)	Carrying value	Face value	Interest(1)
Credit facility(2)	40	40	2.91%	15	15	2.88%
Unsecured debentures(3)	193	193	6.31%	193	193	6.31%
Pingston bond	45	45	2.95%	45	45	2.95%
Melancthon-Wolfe Wind bond	402	407	3.83%	402	407	3.83%
New Richmond bond	153	155	3.96%	153	155	3.96%
Canadian Assets working capital loan	6	6	-	19	19	-
	839	846		827	834	
Less: current portion	(82)	(82)		(70)	(70)	
Total long-term debt	757	764		757	764	

(1) Interest rate reflects the stipulated rate or the average rate weighted by principal amounts outstanding.

(2) The Corporation has a $350 million credit facility with TransAlta (Dec. 31, 2016 - $350 million) which is available for general corporate purposes, including financing ongoing working capital requirements.

(3) Includes US$20.0 million (2016 - US$20.0 million).

B. Restrictions

Unsecured debentures include restrictive covenants requiring the cash proceeds received from the sale of certain assets to be reinvested into similar renewable assets or in the repayment of the non-recourse debentures.

The Melancthon-Wolfe Wind, Pingston, and New Richmond bonds are subject to customary financing conditions and covenants that may restrict the Corporation's ability to access funds generated by the facilities' operations. Upon meeting certain distribution tests, typically performed once per quarter, the funds are able to be distributed by the subsidiary entities to their respective parent entity. These restrictions include the ability to meet a debt service coverage ratio prior to distribution, which was not met by New Richmond Wind L.P. in the first quarter, mainly due to annualization of its results for purposes of the calculation. The funds in these entities will remain there until the next debt service coverage ratio can be calculated in the second quarter of 2017. As at March 31, 2017, $33 million of cash was subject to these financial restrictions.

Additionally, the Melancthon-Wolfe Wind and New Richmond bonds require that certain reserve accounts be established and funded through cash held on deposit and/or by providing letters of credit. The Corporation has elected to utilize cash that would otherwise been held in a revenue reserve account to meet the requirements of the debt reserve account. This results in reduced fees associated with letters of credit. As at March 31, 2017, $15 million of cash within Melancthon-Wolfe Wind L.P. was on deposit for certain reserves and was not available for general use.

C. Security

The Melancthon-Wolfe Wind, Pingston, and New Richmond bonds are secured by a first ranking charge over all of the respective assets, including PP&E with a total carrying amount of $862 million (Dec. 31, 2016 - $870 million), of the Corporation's subsidiaries that issued the bonds, being Melancthon-Wolfe Wind L.P., Pingston Power Inc., and New Richmond Wind L.P., respectively.

10. Convertible Debenture

As part of the Canadian Assets investment on Jan. 6, 2016, the Corporation issued a $215 million convertible unsecured subordinated debenture to TransAlta. The debenture is on an interest-only basis at a coupon rate of 4.5 per cent per annum, payable semi-annually in arrears on June 30 and Dec. 31, and will mature on Dec. 31, 2020.

See Note 18 of the Corporation's most recent annual consolidated financial statements for more information about the convertible debentures.

11. Class B Shares Liability

As at March 31, 2017, there were 26 million Class B shares outstanding (Dec. 31, 2016 – 26 million). The Class B shares provide voting rights equivalent to the common shares, are non-dividend paying, and will convert to common shares when the South Hedland facility is fully commissioned. The number of common shares that TransAlta will receive on the conversion of the Class B shares will be adjusted based on the actual amount that the Corporation funds for the construction and commissioning of the South Hedland facility relative to the budgeted costs. In the event that the construction amount funded by the Corporation exceeds the budgeted costs, TransAlta will receive fewer common shares upon conversion and, comparably, TransAlta will receive more common shares in the event that the Corporation funds less than the budgeted costs.

As the Class B shares are convertible into common shares at a variable rate, they are classified as liabilities and their change in value is recognized in net earnings. Changes in the value of the Class B shares are unrealized and relate to the change in value of underlying common shares during the period, net of the effect of estimated foregone dividends, as discounted using a risk-free rate for the period to conversion.

The estimated commissioning date and total costs for the construction of the South Hedland facility are based on significant assumptions relating to unobservable inputs, any one of which may materially affect the estimates. As at March 31, 2017, commissioning is anticipated to occur as scheduled and costs are estimated to be on target. A one per cent increase or decrease in costs would result in a $6 million corresponding decrease or increase in fair value, respectively. A one-month delay or acceleration in achieving commissioning would result in a corresponding $2 million decrease or increase in fair value, respectively.

12. Common Shares

A. Authorized and Outstanding

The Corporation is authorized to issue an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares. The common shares entitle the holders thereof to one vote per share at meetings of shareholders. The preferred shares are issuable in series and have such rights, restrictions, conditions, and limitations as the Board of Directors (the "Board") may from time to time determine. No preferred shares have been issued.

The change in issued and outstanding common shares during the three months ended March 31, 2017 and 2016 are as follows:

	3 months ended March 31			
	2017		2016	
	Common shares	Amount	Common shares	Amount
Issued and outstanding, beginning of period	224	2,469	191	2,152
Issued to TransAlta	-	-	15	152
Public offering[1]	-	-	18	165
Issued and outstanding, end of period	**224**	**2,469**	224	2,469

(1) 2016 is net of issuance costs of $8 million ($10 million issuance costs, less tax effects of $2 million).

B. Dividends

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

The following table summarizes the common share dividends declared within the three months ended March 31, 2017 and 2016, excluding dividend equivalent payments.

Dividends declared	Total dividends per share	Total dividends	TransAlta	Other shareholders
3 months ended March 31, 2017	**0.21999**	**49**	**29**	**20**
3 months ended March 31, 2016	0.22332	52	31	21

C. Diluted Earnings per Share

The Corporation's potentially dilutive instruments include the 26 million Class B shares, which are convertible into common shares as outlined in Note 11, and the $215 million debenture, which is convertible at TransAlta's option into 16 million common shares on the maturity date. As at March 31, 2017, and 2016, the conditions related to the potential conversion of Class B shares into the Corporation's common shares have not been met. For the first quarter of 2017 and 2016, there is no dilutive effect on earnings per share from the convertible debenture.

13. Commitments and Contingencies

A. Litigation

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

B. Guarantees

As part of the economic investment in the Australian Assets, the Corporation entered into a Guarantee and Indemnification Agreement in favour of TransAlta related to certain guarantees TransAlta has provided to third parties in respect of certain obligations of TEA (the "TEA Guarantees"). The Corporation has agreed to indemnify TransAlta from and against all claims, actions, proceedings, liabilities, losses, costs, expenses, or damages against or incurred by TransAlta arising out of or in connection with the TEA Guarantees and to reimburse TransAlta in full for the amount of any payment made by TransAlta under and in accordance with the TEA Guarantees, relating to actions, omissions, events, and circumstances that occur. As at March 31, 2017, the total amounts guaranteed by the Corporation were $959 million (Dec. 31, 2016 - $925 million).

C. Line Loss Rule Proceeding

TransAlta is participating in a line loss rule proceeding ("LLRP") that is currently before the Alberta Utilities Commission ("AUC"). The AUC has determined that it has the ability to retroactively adjust line loss rates going back to 2006 and directed the Alberta Electric System Operator (the "AESO") to, among other things, perform such retroactive calculations. The various decisions by the AUC are, however, subject to appeal and challenge. The Corporation may incur additional transmission charges as a result of the LLRP from 2013 onward. The outcome of the LLRP, however, currently remains uncertain and the total potential exposure faced by TransAlta and the Corporation, if any, cannot be calculated with certainty until retroactive calculations using a Commission-approved methodology are made available, and until the Commission determines what methodology will be used for retroactive calculations. The AESO expects retroactive calculations for each year using a Commission-approved methodology to begin to be available in the second quarter of 2017, at the earliest.

As a result of the above, no provision has been recorded at this time.

D. Commitments

As at March 31, 2017, the remaining costs under the South Hedland contribution agreement are estimated to be approximately $210 million (AUD$217 million). Refer to Note 4 of the Corporation's most recent annual consolidated financial statements for additional information on the contribution agreement.

14. Related Party Transactions and Balances

The Corporation has entered into certain agreements and transactions with TransAlta which are discussed in more detail in Note 25 of the Corporation's most recent annual consolidated financial statements.

A. Related Party Transactions

Related party transactions include the finance income related to subsidiaries of TransAlta (Note 4). Also, all financial instruments and derivatives that relate to the Corporation are entered into on behalf of the Corporation by a subsidiary of TransAlta.

Certain subsidiaries of TransAlta provide asset management and optimization services and procure gas for the Corporation's Sarnia facility. Sarnia is charged a fixed fee of approximately $0.125 million per quarter, plus a variable fee of 1.6 per cent of its gross margin.

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

	3 months ended March 31	
	2017	2016
Revenue from TransAlta PPAs	10	12
G&A Reimbursement Fee[(1)]	4	4
Interest expense	2	3
Asset optimization fee	1	-
Realized foreign exchange gain on hedge contribution commitment	1	-

(1) Includes portion charged directly to the Wyoming wind farm.

All these transactions are with TransAlta or subsidiaries of TransAlta.

B. Related Party Balances

Related party balances include the investments in subsidiaries of TransAlta disclosed in Note 4, the risk management assets and liabilities disclosed in Note 7, the credit facility and Canadian Asset working capital loan disclosed in Note 9, the convertible debenture disclosed in Note 10, the Class B shares liability disclosed in Note 11, and the guarantees provided by the Corporation on behalf of TransAlta and TEA disclosed in Note 13.

Related party balances that are not otherwise presented elsewhere consist of the following:

As at	March 31, 2017	Dec. 31, 2016
Trade and other receivables	25	36
Accounts payable and accrued liabililities (including interest payable)	9	11
Dividends payable	29	29
Letters of credit issued by TransAlta on behalf of the Corporation	46	60
Guarantees provided by TransAlta on behalf of the Corporation	58	58

All these balances are with TransAlta or subsidiaries of TransAlta.

15. Segment Disclosures

3 months ended March 31, 2017	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	Total
Revenues	59	2	55	-	116
Government Incentives	5	-	-	-	5
Lease revenue	7	1	-	-	8
Total revenue	71	3	55	-	129
Royalties and other costs	3	-	29	-	32
Gross margin	68	3	26	-	97
Operations, maintenance, and administration	8	1	7	5	21
Depreciation and amortization	18	2	8	-	28
Taxes, other than income taxes	1	1	-	-	2
Operating income (loss)	41	(1)	11	(5)	46
Finance income related to subsidiaries of TransAlta					23
Net interest expense					(13)
Change in fair value of Class B shares					(44)
Foreign exchange gain					31
Earnings before income taxes					43

3 months ended March 31, 2016	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	Total
Revenues	51	3	-	-	54
Government Incentives	7	-	-	-	7
Lease revenue	7	-	-	-	7
Total revenue	65	3	-	-	68
Royalties and other costs	3	-	-	-	3
Gross margin	62	3	-	-	65
Operations, maintenance, and administration	8	1	-	4	13
Depreciation and amortization	16	2	-	-	18
Taxes, other than income taxes	2	-	-	-	2
Operating income (loss)	36	-	-	(4)	32
Finance income related to subsidiaries of TransAlta					46
Net interest expense					(12)
Change in fair value of Class B shares					(64)
Foreign exchange loss					(34)
Earnings (loss) before income taxes					(32)

Glossary of Key Terms

Australian Assets - TransAlta's 425 MW Australian gas-fired generation assets that are fully operational and contracted under long-term contracts, the 150 MW South Hedland facility, currently under construction, as well as the 270-kilometre Fortescue River Gas pipeline.

Australian Tracking Preferred Shares - Preferred shares of a TransAlta subsidiary, which provide cumulative variable dividends broadly equal to the underlying net distributable profits of TEA.

Canadian Assets - 506 MW Sarnia cogeneration plant, 98 MW Le Nordais wind farm, and 7 MW Ragged Chute hydro facility that are fully operational and contracted under long-term contracts. The assets are located in Ontario and Quebec.

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

Credit Facility - A $350 million unsecured credit facility with TransAlta. The facility is available for general corporate purposes, including financing ongoing working capital requirements.

G&A Reimbursement Fee - The fee payable to TransAlta under the Management, Administrative and Operational Services Agreement to compensate TransAlta for the provision of all the general administrative services as may be required or advisable for the management of the affairs of the Corporation.

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

GWh - means Gigawatt hour which is a measure of electricity consumption equivalent to the use of 1,000 Megawatts of power over a period of one hour.

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

Green Attributes – Renewable Energy Certificates and Carbon Offsets, or other tradable or saleable instruments that represent the property rights to the environmental, social, and other non-power qualities of renewable electricity generation that can be sold separately from the underlying physical electricity.

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

MWh - means Megawatt hour which is a measure of electricity consumption equivalent to the use of 1,000,000 watts of power over a period of one hour.

MRPS - Australian Mandatory Redeemable Preferred Shares are non-voting and rank subordinate to all present and future secured and unsecured indebtedness, but are senior to all other classes of issued and outstanding shares in the capital of the Australian subsidiary. The MRPS have a stated dividend rate of 7.4 per cent.

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.

TEA - TransAlta Energy (Australia) Pty Ltd, an Australian subsidiary of TransAlta.

TransAlta PPAs - PPAs between TransAlta and the Corporation providing for the purchase by TransAlta, for a fixed price, of all the power produced by certain wind and hydro facilities. The initial price payable in 2013 by TransAlta for output was $30.00/MWh for wind facilities and $45.00/MWh for hydro facilities, and these amounts are adjusted annually for changes in the Consumer Price Index.

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

Wyoming Wind Farm - TransAlta's 144 MW wind farm in Wyoming.

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