

CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statements of Earnings

(in millions of Canadian dollars except where noted)

Unaudited	3 months ended March 31	
	2023	2022
Revenues (Note 3)	1,089	735
Fuel and purchased power (Note 4)	325	238
Carbon compliance	32	19
Gross margin	732	478
Operations, maintenance and administration (Note 4)	124	112
Depreciation and amortization	176	117
Asset impairment reversals (Note 5)	(3)	(42)
Taxes, other than income taxes	9	8
Net other operating income	(13)	(17)
Operating income	439	300
Equity income	2	2
Finance lease income	4	5
Net interest expense (Note 6)	(59)	(67)
Foreign exchange gain (loss)	(3)	2
Earnings before income taxes	383	242
Income tax expense (Note 7)	49	36
Net earnings	334	206
Net earnings attributable to:		
TransAlta shareholders	294	186
Non-controlling interests (Note 8)	40	20
	334	206
Weighted average number of common shares outstanding in the period (millions)	268	271
Net earnings per share attributable to common shareholders, basic and diluted (Note 15)	1.10	0.69

See accompanying notes.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statements of Comprehensive Income

(in millions of Canadian dollars)

Unaudited	3 months ended March 31	
	2023	2022
Net earnings	334	206
Other comprehensive gain (loss)		
Net actuarial gains on defined benefit plans, net of tax ⁽¹⁾	—	18
Losses on derivatives designated as cash flow hedges, net of tax	—	(1)
Total items that will not be reclassified subsequently to net earnings	—	17
Losses on translating net assets of foreign operations, net of tax	—	(14)
Gains on financial instruments designated as hedges of foreign operations, net of tax	1	10
Gains (losses) on derivatives designated as cash flow hedges, net of tax ⁽²⁾	29	(82)
Reclassification of losses (gains) on derivatives designated as cash flow hedges to net earnings (loss), net of tax ⁽³⁾	40	(15)
Total items that will be reclassified subsequently to net earnings (loss)	70	(101)
Other comprehensive gain (loss)	70	(84)
Total comprehensive gain	404	122
Total comprehensive income attributable to:		
TransAlta shareholders	360	146
Non-controlling interests (Note 8)	44	(24)
	404	122

(1) Net of income tax expense of nil for the three months ended March 31, 2023 (March 31, 2022 – \$5 million expense).

(2) Net of income tax expense of \$8 million for the three months ended March 31, 2023 (March 31, 2022 – \$23 million recovery).

(3) Net of reclassification of income tax expense of \$11 million for the three months ended March 31, 2023 (March 31, 2022 – \$4 million recovery).

See accompanying notes.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statements of Financial Position

(in millions of Canadian dollars)

Unaudited	March 31, 2023	Dec. 31, 2022
Current assets		
Cash and cash equivalents	1,247	1,134
Restricted cash (Note 14)	47	70
Trade and other receivables (Note 9)	928	1,589
Prepaid expenses	56	33
Risk management assets (Note 10 and 11)	342	709
Inventory	144	157
Assets held for sale	—	22
	2,764	3,714
Non-current assets		
Investments	130	129
Long-term portion of finance lease receivables	125	129
Risk management assets (Note 10 and 11)	122	161
Property, plant and equipment (Note 12)		
Cost	14,304	14,012
Accumulated depreciation	(8,618)	(8,456)
	5,686	5,556
Right-of-use assets	126	126
Intangible assets	244	252
Goodwill	464	464
Deferred income tax assets (Note 7)	36	50
Other assets	160	160
Total assets	9,857	10,741
Current liabilities		
Bank overdraft	2	16
Accounts payable and accrued liabilities (Note 9)	840	1,346
Current portion of decommissioning and other provisions (Note 13)	72	70
Risk management liabilities (Note 10 and 11)	634	1,129
Current portion of contract liabilities	6	8
Income taxes payable	60	73
Dividends payable (Note 15 and 16)	40	68
Current portion of long-term debt and lease liabilities (Note 14)	177	178
	1,831	2,888
Non-current liabilities		
Credit facilities, long-term debt and lease liabilities (Note 14)	3,453	3,475
Exchangeable securities	741	739
Decommissioning and other provisions (Note 13)	682	659
Deferred income tax liabilities	346	352
Risk management liabilities (Note 10 and 11)	272	333
Contract liabilities	12	12
Defined benefit obligation and other long-term liabilities	287	294
Equity		
Common shares (Note 15)	2,799	2,863
Preferred shares (Note 16)	942	942
Contributed surplus	23	41
Deficit	(2,222)	(2,514)
Accumulated other comprehensive (loss)	(156)	(222)
Equity attributable to shareholders	1,386	1,110
Non-controlling interests (Note 8)	847	879
Total equity	2,233	1,989
Total liabilities and equity	9,857	10,741

Commitments and contingencies (Note 17)
See accompanying notes.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statements of Changes in Equity

(in millions of Canadian dollars)

Unaudited								
3 months ended March 31, 2023	Common shares	Preferred shares	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Attributable to shareholders	Attributable to non-controlling interests	Total
Balance, Dec. 31, 2022	2,863	942	41	(2,514)	(222)	1,110	879	1,989
Net earnings	—	—	—	294	—	294	40	334
Other comprehensive income (loss):								
Net gains on translating net assets of foreign operations, net of hedges and tax	—	—	—	—	1	1	—	1
Net gains on derivatives designated as cash flow hedges, net of tax	—	—	—	—	69	69	—	69
Intercompany and third-party FVTOCI investments	—	—	—	—	(4)	(4)	4	—
Total comprehensive income	—	—	—	294	66	360	44	404
Shares purchased under normal course issuer bid ("NCIB") (Note 15)	(34)	—	—	(2)	—	(36)	—	(36)
Provision for repurchase of shares under the automatic share purchase plan (Note 15)	(37)	—	—	—	—	(37)	—	(37)
Effect of share-based payment plans	7	—	(18)	—	—	(11)	—	(11)
Distributions paid and payable, to non-controlling interests (Note 8)	—	—	—	—	—	—	(76)	(76)
Balance, March 31, 2023	2,799	942	23	(2,222)	(156)	1,386	847	2,233

3 months ended March 31, 2022	Common shares	Preferred shares	Contributed surplus	Deficit	Accumulated other comprehensive income	Attributable to shareholders	Attributable to non-controlling interests	Total
Balance, Dec. 31, 2021	2,901	942	46	(2,453)	146	1,582	1,011	2,593
Net earnings	—	—	—	186	—	186	20	206
Other comprehensive income (loss):								
Net losses on translating net assets of foreign operations, net of hedges and of tax	—	—	—	—	(4)	(4)	—	(4)
Net losses on derivatives designated as cash flow hedges, net of tax	—	—	—	—	(98)	(98)	—	(98)
Net actuarial gains on defined benefits plans, net of tax	—	—	—	—	18	18	—	18
Intercompany FVTOCI investments	—	—	—	—	44	44	(44)	—
Total comprehensive income (loss)	—	—	—	186	(40)	146	(24)	122
Shares purchased under NCIB program (Note 15)	(15)	—	—	(3)	—	(18)	—	(18)
Effect of share-based payment plans	6	—	(21)	—	—	(15)	—	(15)
Distributions paid, and payable, to non-controlling interests (Note 8)	—	—	—	—	—	—	(42)	(42)
Balance, March 31, 2022	2,892	942	25	(2,270)	106	1,695	945	2,640

See accompanying notes.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statements of Cash Flows

(in millions of Canadian dollars)

Unaudited	3 months ended March 31	
	2023	2022
Operating activities		
Net earnings	334	206
Depreciation and amortization (Note 18)	176	117
Accretion of provisions (Note 6 and 13)	14	9
Decommissioning and restoration costs settled (Note 13)	(7)	(7)
Deferred income tax expense (recovery) (Note 7)	(11)	24
Unrealized gain from risk management activities	(64)	(129)
Unrealized foreign exchange (gain) loss	2	(2)
Provisions and contract liabilities	—	5
Asset impairment reversals (Note 5)	(3)	(42)
Equity income, net of distributions from investments	(1)	(1)
Other non-cash items	(20)	(13)
Cash flow from operations before changes in working capital	420	167
Change in non-cash operating working capital balances	42	284
Cash flow from operating activities	462	451
Investing activities		
Additions to property, plant and equipment (Note 12 and 18)	(284)	(72)
Additions to intangible assets	(3)	(21)
Restricted cash (Note 14)	23	22
Repayment from loan receivable	4	—
Proceeds on sale of property, plant and equipment	23	—
Realized gain (loss) on financial instruments	6	(1)
Decrease in finance lease receivable	13	11
Other	(5)	11
Change in non-cash investing working capital balances	41	(22)
Cash flow used in investing activities	(182)	(72)
Financing activities		
Repayment of long-term debt	(29)	(25)
Dividends paid on common shares (Note 15)	(15)	(14)
Dividends paid on preferred shares (Note 16)	(13)	(10)
Repurchase of common shares under NCIB (Note 15)	(34)	(15)
Proceeds on issuance of common shares	2	1
Distributions paid to subsidiaries' non-controlling interests (Note 8)	(76)	(42)
Decrease in lease liabilities	(2)	(1)
Financing fees and other	2	—
Cash flow used in financing activities	(165)	(106)
Cash flow from operating, investing and financing activities	115	273
Effect of translation on foreign currency cash	(2)	1
Increase in cash and cash equivalents	113	274
Cash and cash equivalents, beginning of period	1,134	947
Cash and cash equivalents, end of period	1,247	1,221
Cash taxes paid	37	18
Cash interest paid	62	47

See accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

(Tabular amounts in millions of Canadian dollars, except as otherwise noted)

1. Corporate Information

A. Description of the Business

TransAlta Corporation ("TransAlta" or the "Company") was incorporated under the Canada Business Corporations Act in March 1985. The Company became a public company in December 1992. The Company's head office is located in Calgary, Alberta.

B. Basis of Preparation

These unaudited interim condensed consolidated financial statements have been prepared in compliance with International Accounting Standard ("IAS") 34 Interim Financial Reporting using the same accounting policies as those used in the Company's most recent audited annual consolidated financial statements, except as outlined in Note 2. These unaudited interim condensed consolidated financial statements do not include all of the disclosures included in the Company's audited annual consolidated financial statements. Accordingly, they should be read in conjunction with the Company's most recent audited annual consolidated financial statements which are available on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

The unaudited interim condensed consolidated financial statements include the accounts of the Company 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.

These unaudited interim condensed consolidated financial statements reflect all adjustments which consist of normal recurring adjustments and accruals that are, in the opinion of management, necessary for a fair presentation of results. Interim results will fluctuate due to plant maintenance schedules, the seasonal demands for electricity and changes in energy prices. Consequently, interim condensed results are not necessarily indicative of annual results. TransAlta's results are partly seasonal due to the nature of the electricity market and related fuel costs.

These unaudited interim condensed consolidated financial statements were authorized for issue by the Audit, Finance and Risk Committee on behalf of TransAlta's Board of Directors (the "Board") on May 4, 2023.

C. Significant Accounting Judgements and Key Sources of Estimation Uncertainty

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 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.

During the three months ended March 31, 2023, estimates continue to be subject to uncertainty to the extent the geopolitical events may, directly or indirectly, impact the Company's operations, financial results and conditions in future periods. Uncertainty related to geopolitical events and Consumer Price Index inflation have been considered in the Company's estimates.

During the three months ended March 31, 2023, there were changes in estimates relating to decommissioning and other provisions (Note 13) and asset impairment reversals (Note 5).

Refer to Note 2(P) of the Company's 2022 audited annual consolidated financial statements for further details on the significant accounting judgments and key sources of estimation uncertainty.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Material Accounting Policies

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended Dec. 31, 2022, except for the adoption of new standards effective as of Jan. 1, 2023 and interpretations or amendments that have been issued but are not yet effective.

A. Current Accounting Changes

Amendments to IAS 12 Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

On May 7, 2021, the International Accounting Standards Board ("IASB") issued amendments to IAS 12 Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction. The amendments clarify that the initial recognition exemption under IAS 12 does not apply to transactions such as leases and decommissioning obligations. These transactions give rise to equal and offsetting temporary differences in which deferred tax should be recognized.

The amendments are effective for annual periods beginning on or after Jan. 1, 2023, and were adopted by the Company on that date. The Company's accounting aligns with the amendment and no financial impact arose upon adoption.

B. Future Accounting Changes

Please refer to Note 3 of the audited annual consolidated financial statements for the future accounting policies impacting the Company. For the three months ended, March 31, 2023, no additional future accounting policy changes impacting the Company were identified.

3. Revenue

A. Disaggregation of Revenue

The majority of the Company's revenues are derived from the sale of power, capacity and environmental attributes, leasing of power facilities and from asset optimization activities, which the Company disaggregates into the following groups for the purpose of determining how economic factors affect the recognition of revenue.

3 months ended March 31, 2023	Hydro	Wind and Solar	Gas	Energy Transition	Energy Marketing	Corporate	Total
Revenues from contracts with customers							
Power and other	4	59	99	3	—	—	165
Environmental attributes ⁽¹⁾	8	13	—	—	—	—	21
Revenue from contracts with customers	12	72	99	3	—	—	186
Revenue from leases ⁽²⁾	—	—	8	—	—	—	8
Revenue from derivatives and other trading activities ⁽³⁾	25	(1)	29	78	92	—	223
Revenue from merchant sales	86	34	357	186	—	—	663
Other ⁽⁴⁾	2	5	2	—	—	—	9
Total revenue	125	110	495	267	92	—	1,089
Revenues from contracts with customers							
Timing of revenue recognition							
At a point in time	8	13	—	3	—	—	24
Over time	4	59	99	—	—	—	162
Total revenue from contracts with customers	12	72	99	3	—	—	186

(1) The environmental attributes represent environmental attribute sales not bundled with power and other sales.

(2) Total lease income from long-term contracts that meet the criteria of operating leases.

(3) Represents realized and unrealized gains or losses from hedging and derivative positions.

(4) Other revenue includes production tax credits related to US wind facilities and other miscellaneous.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 months ended March 31, 2022	Hydro	Wind and Solar	Gas	Energy Transition	Energy Marketing	Corporate	Total
Revenues from contracts with customers							
Power and other	5	63	104	4	—	—	176
Environmental attributes ⁽¹⁾	1	7	—	—	—	—	8
Revenue from contracts with customers	6	70	104	4	—	—	184
Revenue from leases ⁽²⁾	—	—	4	—	—	—	4
Revenue from derivatives and other trading activities ⁽³⁾	—	(13)	150	48	26	1	212
Revenue from merchant sales	70	28	175	54	—	—	327
Other ⁽⁴⁾	1	6	1	—	—	—	8
Total revenue	77	91	434	106	26	1	735
Revenues from contracts with customers							
Timing of revenue recognition							
At a point in time	1	7	—	4	—	—	12
Over time	5	63	104	—	—	—	172
Total revenue from contracts with customers	6	70	104	4	—	—	184

(1) The environmental attributes represent environmental attribute sales not bundled with power and other sales.

(2) Total lease income from long-term contracts that meet the criteria of operating leases.

(3) Represents realized and unrealized gains or losses from hedging and derivative positions. The Wind and Solar segment has been revised to present revenue classifications consistent with the current period.

(4) Other revenue includes production tax credits related to the US wind facilities, government incentives, and other miscellaneous.

4. Expenses by Nature

Fuel, Purchased Power and Operations, Maintenance and Administration ("OM&A")

Fuel and purchased power and OM&A expenses classified by nature are as follows:

	3 months ended March 31			
	2023		2022	
	Fuel and purchased power	OM&A	Fuel and purchased power	OM&A
Gas fuel costs	110	—	122	—
Coal fuel costs	54	—	39	—
Royalty, land lease, other direct costs	8	—	7	—
Purchased power	152	—	69	—
Salaries and benefits	1	64	1	58
Other operating expenses	—	60	—	54
Total	325	124	238	112

Carbon Compliance

As at March 31, 2023, the Company holds 607,243 emission credits in inventory purchased externally with a recorded book value of \$21 million (Dec. 31, 2022 – 963,068 emission credits with a recorded book value of \$27 million). The Company also has approximately 1,739,437 (Dec. 31, 2022 – 1,869,450) of internally generated eligible emission credits from the Company's Wind and Solar and Hydro segments with no recorded book value. As at March 31, 2023, the Company holds approximately 1,750,000 eligible emission performance credits ("EPCs") with no recorded book value generated from assets formerly subject to the Hydro Power Purchase Arrangement ("Hydro PPA") with the Balancing Pool. These EPCs were subject to a dispute which subsequent to the period end has been resolved in principle. Refer to Note 17 for details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The emission credits can be sold externally or can be used to offset future emission obligations from our gas facilities located in Canada, where the compliance price of carbon is expected to increase, resulting in a reduced cash cost for carbon compliance. The compliance price of carbon for the 2022 obligation to be settled during the current year was \$50 per tonne and has increased to \$65 per tonne in the current year.

5. Asset Impairment Reversals

The Company recognized the following asset impairment reversals:

	3 months ended March 31	
	2023	2022
Segments:		
Wind and Solar	(10)	—
Changes in decommissioning and restoration provisions on retired assets ⁽¹⁾	7	(42)
Asset impairment reversals	(3)	(42)

(1) Changes relate to revisions in discount rates and cash flow revisions on retired assets during March 31, 2023 and revisions in discount rates on retired assets during March 31, 2022. Refer to Note 13 for further details.

Wind and Solar

During the first quarter of 2023, internal valuations indicated the fair value less costs of disposal of the assets exceeded the carrying value due to changes in Ontario power price assumptions, favourably impacting estimated future cash flows and resulting in a full recoverability test. As a result of the recoverability test an impairment reversal of \$10 million was recognized. The recoverable amounts of \$253 million in total were estimated based on fair value less costs of disposal utilizing a discounted cash flow approach and are categorized as a level III fair value measurements. The discount rate used in the fair value measurements was 6.94 per cent.

6. Net Interest Expense

The components of net interest expense are as follows:

	3 months ended March 31	
	2023	2022
Interest on debt	50	41
Interest on exchangeable debentures	7	7
Interest on exchangeable preferred shares	7	7
Interest income	(15)	(3)
Capitalized interest (Note 12)	(13)	(1)
Interest on lease liabilities	2	1
Credit facility fees, bank charges and other interest	8	6
Tax shield on tax equity financing	(1)	—
Accretion of provisions (Note 13)	14	9
Net interest expense	59	67

On April 27, 2023, the Company declared a dividend of \$7 million in aggregate for Exchangeable Preferred Shares ("Series I Preferred Shares") at the fixed rate of 1.726 per cent, per share, payable on May 31, 2023. The Exchangeable Preferred Shares are considered debt for accounting purposes, and as such, dividends are reported as interest expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Income Taxes

The components of income tax expense are as follows:

	3 months ended March 31	
	2023	2022
Current income tax expense	60	12
Deferred income tax expense related to the origination and reversal of temporary differences	49	158
Deferred income tax recovery related to temporary difference on investment in subsidiary	(1)	(3)
Deferred income tax recovery arising from unrecognized deferred income tax assets ⁽¹⁾	(59)	(131)
Income tax expense	49	36
Current income tax expense	60	12
Deferred income tax expense (recovery)	(11)	24
Income tax expense	49	36

(1) During the three months ended March 31, 2023, the Company recognized deferred tax assets of \$59 million (March 31, 2022 – \$131 million recognition). The deferred income tax assets mainly relate to the tax benefits of losses associated with the Company's directly owned Canadian and US operations and other deductible differences. The Company undertakes an analysis of the recoverability of its tax assets on an annual basis.

8. Non-Controlling Interests

The Company's subsidiaries with significant non-controlling interests are TransAlta Renewables Inc. ("TransAlta Renewables") and TransAlta Cogeneration L.P. The net earnings, distributions, and equity attributable to TransAlta Renewables' non-controlling interests include the 17 per cent non-controlling interest in Kent Hills Wind LP, which owns the 167 MW Kent Hills wind farm located in New Brunswick.

	3 months ended March 31	
	2023	2022
Net earnings		
TransAlta Cogeneration L.P.	23	7
TransAlta Renewables	17	13
	40	20
Total comprehensive income (loss)		
TransAlta Cogeneration L.P.	23	7
TransAlta Renewables	21	(31)
	44	(24)
Distributions paid to non-controlling interests		
TransAlta Cogeneration L.P.	51	17
TransAlta Renewables	25	25
	76	42

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at	March 31, 2023	Dec. 31, 2022
Equity attributable to non-controlling interests		
TransAlta Cogeneration L.P.	118	147
TransAlta Renewables	729	732
	847	879
Non-controlling interests (per cent)		
TransAlta Cogeneration L.P.	50.0	50.0
TransAlta Renewables	39.9	39.9

9. Trade and Other Receivables and Accounts Payable

As at	March 31, 2023	Dec. 31, 2022
Trade accounts receivable	739	1,165
Collateral provided (Note 11)	118	304
Current portion of finance lease receivables	43	52
Loan receivable	—	4
Income taxes receivable	28	64
Trade and other receivables	928	1,589

As at	March 31, 2023	Dec. 31, 2022
Accounts payable and accrued liabilities	777	1,069
Interest payable	21	17
Collateral held (Note 11)	42	260
Accounts payable and accrued liabilities	840	1,346

10. Financial Instruments

A. Financial Assets and Liabilities – Classification and Measurement

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

B. Fair Value of Financial Instruments

I. Level I, II and III Fair Value Measurements

The Level I, II and III classifications in the fair value hierarchy utilized by the Company 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. The Level III classification is the lowest level classification in the fair value hierarchy.

a. Level I

Fair values are determined using inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company 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.

Fair values falling 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Company'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 interpolation formulas, where the inputs are readily observable.

In determining Level II fair values of other risk management assets and liabilities, the Company 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 Company relies on similar interest or currency rate inputs and other third-party information such as credit spreads.

c. Level III

Fair values are determined using inputs for the assets or liabilities that are not readily observable.

For assets and liabilities that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There were no changes in the Company's valuation processes, valuation techniques, and types of inputs used in the fair value measurements during the period. For additional information, please refer to Note 14 of the 2022 audited annual consolidated financial statements.

II. Commodity Risk Management Assets and Liabilities

Commodity risk management assets and liabilities include risk management assets and liabilities that are used in the energy marketing and generation segments in relation to trading activities and certain contracting activities. To the extent applicable, changes in net risk management assets and liabilities for non-hedge positions are reflected within earnings of these businesses.

Commodity risk management assets and liabilities classified by fair value levels as at March 31, 2023, are as follows: Level I – \$6 million net asset (Dec. 31, 2022 – \$23 million net asset), Level II – \$4 million net asset (Dec. 31, 2022 – \$173 million net asset) and Level III – \$441 million net liability (Dec. 31, 2022 – \$782 million net liability).

Significant changes in commodity net risk management assets (liabilities) during the three months ended March 31, 2023, are primarily attributable to contract settlements and volatility in market prices across multiple markets on both existing contracts and new contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the key factors impacting the fair value of the Level III commodity risk management assets and liabilities by classification during the three months ended March 31, 2023 and 2022, respectively:

	3 months ended March 31, 2023			3 months ended March 31, 2022		
	Hedge	Non-hedge	Total	Hedge	Non-hedge	Total
Opening balance	(347)	(435)	(782)	285	(126)	159
Changes attributable to:						
Market price changes on existing contracts	(26)	106	80	(132)	(205)	(337)
Market price changes on new contracts	—	(4)	(4)	—	(37)	(37)
Contracts settled	118	135	253	(14)	29	15
Change in foreign exchange rates	1	—	1	(7)	4	(3)
Transfers out of Level III	—	11	11	—	—	—
Net risk management assets (liabilities) at end of period	(254)	(187)	(441)	132	(335)	(203)
Additional Level III information:						
Losses recognized in other comprehensive loss	(25)	—	(25)	(139)	—	(139)
Total gains (losses) included in earnings (loss) before income taxes	(118)	102	(16)	14	(238)	(224)
Unrealized gains (losses) included in earnings (loss) before income taxes relating to net assets held at period end	—	237	237	—	(209)	(209)

As at March 31, 2023, the total Level III risk management asset balance was \$52 million (Dec. 31, 2022 – \$31 million) and Level III risk management liability balance was \$494 million (Dec. 31, 2022 – \$813 million). The fair value of the level III long-term power sale - US contract has decreased mainly due to contract settlements and the fair value of the full requirements - eastern US contracts has decreased due to contract settlements and lower power prices.

The information on risk management contracts or groups of risk management contracts that are included in Level III measurements and the related unobservable inputs and sensitivities are outlined in the following table. These include the effects on fair value of discounting, liquidity and credit value adjustments; however, the potential offsetting effects of Level II positions are not considered. Sensitivity ranges for the base fair values are determined using reasonably possible alternative assumptions for the key unobservable inputs, which may include forward commodity prices, volatility in commodity prices and correlations, delivery volumes, escalation rates and cost of supply.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at		March 31, 2023		
Description	Sensitivity	Valuation technique	Unobservable input	Reasonably possible change
Long-term power sale – US	+11 -124	Long-term price forecast	Illiquid future power prices (per MWh)	Price decrease of US\$5 or price increase of US\$55
Coal transportation – US	+10 -13	Numerical derivative valuation	Illiquid future power prices (per MWh) Volatility Rail rate escalation	Price decrease of US\$5 or price increase of US\$55 80% to 120% zero to 10%
Full requirements – Eastern US	+5 -9	Scenario analysis	Volume Cost of supply	96% to 104% Decrease of \$1.20 per MWh or increase of \$2.20 per MWh
Long-term wind energy sale – Eastern US	+23 -23	Long-term price forecast	Illiquid future power prices (per MWh) Illiquid future REC prices (per unit) Wind discounts	Price decrease or increase of US\$6 Price decrease of US\$2 or increase of US\$4 0% decrease or 5% increase
Long-term wind energy sale – Canada	+44 -23	Long-term price forecast	Illiquid future power prices (per MWh) Wind discounts	Price decrease of C\$82 or increase of C\$5 29% decrease or 5% increase
Long-term wind energy sale – Central US	+101 -33	Long-term price forecast	Illiquid future power prices (per MWh) Wind discounts	Price decrease or increase of US\$2 3% decrease or 2% increase
Others	+13 -14			

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at		Dec. 31, 2022		
Description	Sensitivity	Valuation technique	Unobservable input	Reasonably possible change
Long-term power sale – US	+15 -163	Long-term price forecast	Illiquid future power prices (per MWh)	Price decrease of US\$5 or a price increase of US\$55
Coal transportation – US	+14 -13	Numerical derivative valuation	Illiquid future power prices (per MWh) Volatility Rail rate escalation	Price decrease of US\$5 or a price increase of US\$55 80% to 120% zero to 10%
Full requirements – Eastern US	+3 -21	Scenario analysis ⁽¹⁾	Volume Cost of supply	96% to 104% Decrease of US\$0.5 per MWh or increase of US\$3.30 per MWh
Long-term wind energy sale – Eastern US	+22 -18	Long-term price forecast	Illiquid future power prices (per MWh) Illiquid future REC prices (per unit) Wind discounts	Price increase or decrease of US\$6 Price decrease or increase of US\$2 0% decrease or 5% increase
Long-term wind energy sale – Canada	+47 -25	Long-term price forecast	Illiquid future power prices (per MWh) Wind discounts	Price decrease of C\$85 or increase of C\$5 28% decrease or 5% increase
Long-term wind energy sale – Central US	+74 -28	Long-term price forecast	Illiquid future power prices (per MWh) Wind discounts	Price decrease or increase of US\$2 2% decrease or 5% increase
Others	+18 -19			

(1) The valuation technique for Full requirements - Eastern US was updated to scenario analysis to provide a more representative description and did not result in changes to the value.

i. Long-Term Power Sale – US

The Company has a long-term fixed price power sale contract in the US for delivery of power at the following capacity levels: 380 MW through Dec. 31, 2024, and 300 MW through Dec. 31, 2025. The contract is designated as an all-in-one cash flow hedge.

The contract is denominated in US dollars. The US dollar relative to the Canadian dollar did not change significantly from Dec. 31, 2022 to March 31, 2023 and did not have an impact on the base fair value or sensitivity values.

ii. Coal Transportation – US

The Company has a coal rail transport agreement that includes an upside sharing mechanism until Dec. 31, 2025. Option pricing techniques have been utilized to value the obligation associated with this component of the agreement.

iii. Full Requirements – Eastern US

The Company has a portfolio of full requirement service contracts, whereby the Company agrees to supply specific utility customer needs for a range of products that may include electrical energy, capacity, transmission, ancillary services, renewable energy credits ("RECs") and independent system operator costs.

iv. Long-Term Wind Energy Sale – Eastern US

The Company entered into a long-term contract for differences ("CFD") for the offtake of 100 per cent of the generation from its 90 MW Big Level wind facility. The CFD, together with the sale of electricity generated into the PJM Interconnection at the prevailing real-time energy market price, achieve the fixed contract price per MWh on proxy generation. Under the CFD, if the market price is lower than the fixed contract price the customer pays the company the difference and if the market price is higher than the fixed contract price the Company refunds the difference to the customer. The customer is also entitled to the physical delivery of environmental attributes. The contract matures in December 2034. The contract is accounted for as a derivative. Changes in fair value are presented in revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

v. Long-Term Wind Energy Sale – Canada

The Company entered into two Virtual Power Purchase Agreements ("VPPAs") for the offtake of 100 per cent of the generation from its 130 MW Garden Plain wind project. The VPPAs, together with the sale of electricity generated into the Alberta power market at the pool price, achieve the fixed contract prices per MWh. Under the VPPAs, if the pool price is lower than the fixed contract price the customer pays the Company the difference and if the pool price is higher than the fixed contract price the Company refunds the difference to the customer. The customer is also entitled to the physical delivery of environmental attributes. Both VPPAs commence on commercial operation of the facility and extend for a weighted average of approximately 17 years. The commercial operation date is expected to be in the second quarter of 2023.

In addition to the VPPAs, the Company has entered into a bridge contract that initially was for 16 months from Sept. 1, 2021, through Dec. 31, 2022, and will remain in effect at one of the VPPAs price until the commercial operation date is achieved. The customer is also entitled to the physical delivery of environmental attributes.

The energy component of these contracts is accounted for as derivatives. Changes in fair value are presented in revenue.

Under a separate agreement, Pembina Pipeline Corporation ("Pembina") had the option to purchase a 37.7 per cent equity interest in the project. In the first quarter of 2023, this option was waived and the option agreement was terminated.

vi. Long-Term Wind Energy Sale – Central US

The Company entered into two long-term VPPAs for the offtake of 100 per cent of the generation from its 300 MW White Rock East and White Rock West wind power projects. The VPPAs, together with the sale of electricity generated into the US Southwest Power Pool ("SPP") market at the relevant price nodes, achieve the fixed contract prices per MWh. Under the VPPAs, if the SPP pricing is lower than the fixed contract price the customer pays the Company the difference and if the SPP pricing is higher than the fixed contract price the Company refunds the difference to the customer. The customer is also entitled to the physical delivery of environmental attributes. The VPPAs commence on commercial operation of the facilities, which is expected within the second half of 2023.

The Company entered into a long-term VPPA for the offtake of 100 per cent of the generation from its 200 MW Horizon Hill wind project. The VPPA, together with the sale of electricity generated into the US SPP market at the relevant price node, achieve the fixed contract price per MWh. Under the VPPA, if the SPP pricing is lower than the fixed contract price the customer pays the Company the difference and if the SPP pricing is higher than the fixed contract price the Company refunds the difference to the customer. The customer is also entitled to the physical delivery of environmental attributes. The VPPA commences on commercial operation of the facility, which is expected within the second half of 2023.

The energy component of these contracts is accounted for as derivatives. Changes in fair value are presented in revenue.

III. Other Risk Management Assets and Liabilities

Other risk management assets and liabilities primarily include risk management assets and liabilities that are used in managing exposures on non-energy marketing transactions such as interest rates, the net investment in foreign operations and other foreign currency risks. Hedge accounting is not always applied.

Other risk management assets and liabilities with a total net liability fair value of \$11 million as at March 31, 2023 (Dec. 31, 2022 – \$6 million net liability) are classified as Level II fair value measurements. The changes in other net risk management assets and liabilities during the three months ended March 31, 2023, are primarily attributable to settlement of contracts in a gain position at December 31, 2022, partially offset by favourable market price changes on existing contracts and favourable foreign exchange rates on new contracts entered into during 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

IV. Other Financial Assets and Liabilities

The fair value of financial assets and liabilities measured at other than fair value is as follows:

	Fair value ⁽¹⁾			Total	Total carrying value ⁽¹⁾
	Level I	Level II	Level III		
Exchangeable securities — March 31, 2023	—	697	—	697	741
Long-term debt — March 31, 2023	—	3,275	—	3,275	3,494
Loan receivable — March 31, 2023	—	32	—	32	32
Exchangeable securities — Dec. 31, 2022	—	685	—	685	739
Long-term debt — Dec. 31, 2022	—	3,200	—	3,200	3,518
Loan receivable — Dec. 31, 2022	—	37	—	37	37

(1) Includes current portion.

The fair values of the Company's debentures, senior notes and exchangeable securities are determined using prices observed in secondary markets. Non-recourse and other long-term debt fair values are determined by calculating an implied price based on a current assessment of the yield to maturity.

The carrying amount of other short-term financial assets and liabilities (cash and cash equivalents, restricted cash, trade accounts receivable, collateral provided, bank overdraft, accounts payable and accrued liabilities, collateral held and dividends payable) approximates fair value due to the liquid nature of the asset or liability. The fair values of the finance lease receivables approximate the carrying amounts as the amounts receivable represent cash flows from repayments of principal and interest.

C. Inception Gains and Losses

The majority of derivatives traded by the Company are based on adjusted quoted prices on an active exchange or extend beyond the time period for which exchange-based quotes are available. The fair values of these derivatives are determined using inputs that are not readily observable. Refer to section B of this Note 10 above for fair value Level III valuation techniques used. In some instances, a difference may arise between the fair value of a financial instrument at initial recognition (the "transaction price") and the amount calculated through a valuation model. This unrealized gain or loss at inception is recognized in net earnings (loss) only if the fair value of the instrument is evidenced by a quoted market price in an active market, observable current market transactions that are substantially the same, or a valuation technique that uses observable market inputs. Where these criteria are not met, the difference is deferred on the condensed consolidated statements of financial position in risk management assets or liabilities and is recognized in net earnings (loss) over the term of the related contract. The difference between the transaction price and the fair value determined using a valuation model, yet to be recognized in net earnings (loss) and a reconciliation of changes is as follows:

	3 months ended March 31	
	2023	2022
Unamortized net loss at beginning of period	(213)	(102)
New inception gains	2	9
Change in foreign exchange rates	—	3
Amortization recorded in net earnings during the period	(7)	(4)
Unamortized net loss at end of period	(218)	(94)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Risk Management Activities

The Company is exposed to market risk from changes in commodity prices, foreign exchange rates, interest rates, credit risk and liquidity risk. These risks affect the Company's earnings and the value of associated financial instruments that the Company holds. In certain cases, the Company seeks to minimize the effects of these risks by using derivatives to hedge its risk exposures. The Company's risk management strategy, policies and controls are designed to ensure that the risks it assumes comply with the Company's internal objectives and its risk tolerance. For additional information on the Company's Risk Management Activities please refer to Note 15 of the 2022 audited annual consolidated financial statements.

A. Net Risk Management Assets and Liabilities

Aggregate net risk management assets (liabilities) are as follows:

As at March 31, 2023			
	Cash flow hedges	Not designated as a hedge	Total
Commodity risk management			
Current	(182)	(99)	(281)
Long-term	(72)	(78)	(150)
Net commodity risk management liabilities	(254)	(177)	(431)
Other			
Current	—	(11)	(11)
Long-term	—	—	—
Net other risk management liabilities	—	(11)	(11)
Total net risk management liabilities	(254)	(188)	(442)
As at Dec. 31, 2022			
	Cash flow hedges	Not designated as a hedge	Total
Commodity risk management			
Current	(271)	(143)	(414)
Long-term	(76)	(96)	(172)
Net commodity risk management liabilities	(347)	(239)	(586)
Other			
Current	—	(6)	(6)
Long-term	—	—	—
Net other risk management liabilities	—	(6)	(6)
Total net risk management liabilities	(347)	(245)	(592)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

B. Nature and Extent of Risks Arising from Financial Instruments

I. Market Risk

i. Commodity Price Risk Management – Proprietary Trading

The Company's Energy Marketing segment conducts proprietary trading activities and uses a variety of instruments to manage risk, earn trading revenue and gain market information.

Value at Risk ("VaR") is used to determine the potential change in value of the Company's proprietary trading portfolio, over a three-day period within a 95 per cent confidence level, resulting from normal market fluctuations. Changes in market prices associated with proprietary trading activities affect net earnings in the period that the price changes occur. VaR at March 31, 2023, associated with the Company's proprietary trading activities was \$5 million (Dec. 31, 2022 – \$4 million).

ii. Commodity Price Risk – Generation

The generation segments utilize various commodity contracts to manage the commodity price risk associated with electricity generation, fuel purchases, emissions and byproducts, as considered appropriate. A Commodity Exposure Management Policy is prepared and approved annually, which outlines the intended hedging strategies associated with the Company's generation assets and related commodity price risks. Controls also include restrictions on authorized instruments, management reviews on individual portfolios and approval of asset transactions that could add potential volatility to the Company's reported net earnings.

VaR at March 31, 2023, associated with the Company's commodity derivative instruments used in generation hedging activities was \$42 million (Dec. 31, 2022 – \$97 million). For positions and economic hedges that do not meet hedge accounting requirements or for short-term optimization transactions such as buybacks entered into to offset existing hedge positions, these transactions are marked to the market value with changes in market prices associated with these transactions affecting net earnings in the period in which the price change occurs. VaR at March 31, 2023, associated with these transactions was \$31 million (Dec. 31, 2022 – \$54 million), of which \$21 million related to VPPAs (Dec. 31, 2022 – \$26 million).

II. Credit Risk

The Company uses external credit ratings, as well as internal ratings in circumstances where external ratings are not available, to establish credit limits for customers and counterparties. The following table outlines the Company's maximum exposure to credit risk without taking into account collateral held, including the distribution of credit ratings, as at March 31, 2023:

	Investment grade (Per cent)	Non-investment grade (Per cent)	Total (Per cent)	Total amount
Trade and other receivables ⁽¹⁾⁽²⁾	88	12	100	928
Long-term finance lease receivable	100	—	100	125
Risk management assets ⁽¹⁾	95	5	100	464
Loan receivable ⁽²⁾	—	100	100	32
Total				1,549

(1) Letters of credit and cash and cash equivalents are the primary types of collateral held as security related to these amounts.

(2) Includes \$32 million loan receivable included within other assets with a counterparty that has no external credit rating.

The Company did not have significant expected credit losses as at March 31, 2023.

The Company's maximum exposure to credit risk at March 31, 2023, without taking into account collateral held or right of set-off, is represented by the current carrying amounts of receivables and risk management assets as per the condensed consolidated statements of financial position. Letters of credit and cash are the primary types of collateral held as security related to these amounts. The maximum credit exposure to any one customer for commodity trading operations and hedging, including the fair value of open trading, net of any collateral held, at March 31, 2023, was \$39 million (Dec. 31, 2022 – \$64 million).

III. Liquidity Risk

The Company has sufficient existing liquidity available to meet its upcoming debt maturities. The next major debt repayment is scheduled for September 2024. Our highly diversified asset portfolio, by both fuel type and operating region, provide stability in our cash flows and highlight the strength of our long-term contracted asset base.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Liquidity risk relates to the Company's ability to access capital to be used for capital projects, debt refinancing, proprietary trading activities, commodity hedging and general corporate purposes. A maturity analysis of the Company's financial liabilities as well as financial assets that are expected to generate cash inflows to meet cash outflows on financial liabilities, is as follows:

	2023	2024	2025	2026	2027	2028 and thereafter	Total
Bank overdraft	2	—	—	—	—	—	2
Accounts payable and accrued liabilities	840	—	—	—	—	—	840
Long-term debt ⁽¹⁾	139	527	142	191	153	2,386	3,538
Exchangeable securities ⁽²⁾	—	—	750	—	—	—	750
Commodity risk management (assets) liabilities	209	173	(12)	12	9	40	431
Other risk management (assets) liabilities	12	(2)	1	1	—	(1)	11
Lease liabilities ⁽³⁾	(8)	4	4	4	4	128	136
Interest on long-term debt and lease liabilities ⁽⁴⁾	165	194	168	159	150	833	1,669
Interest on exchangeable securities ⁽²⁾⁽⁴⁾	40	60	—	—	—	—	100
Dividends payable	40	—	—	—	—	—	40
Total	1,439	956	1,053	367	316	3,386	7,517

(1) Excludes impact of hedge accounting and derivatives.

(2) The exchangeable securities can be exchanged, at the earliest, on Jan. 1, 2025.

(3) Lease liabilities include a lease incentive of \$12 million expected to be received in 2023.

(4) Not recognized as a financial liability on the condensed consolidated statements of financial position.

C. Collateral

I. Financial Assets Provided as Collateral

At March 31, 2023, the Company provided \$118 million (Dec. 31, 2022 — \$304 million) in cash and cash equivalents as collateral to regulated clearing agents and certain utility customers as security for commodity trading activities. These funds are held in segregated accounts by the clearing agents. The utility customers are obligated to pay interest on the outstanding balances. Collateral provided is included within trade and other receivables in the condensed consolidated statements of Financial Position.

II. Financial Assets Held as Collateral

At March 31, 2023, the Company held \$42 million (Dec. 31, 2022 – \$260 million) in cash collateral associated with counterparty obligations. Under the terms of the contracts, the Company may be obligated to pay interest on the outstanding balances and to return the principal when the counterparties have met their contractual obligations or when the amount of the obligation declines as a result of changes in market value. Interest payable to the counterparties on the collateral received is calculated in accordance with each contract. Collateral held is related to physical and financial derivative transactions in a net asset position and is included in accounts payable and accrued liabilities in the condensed consolidated statements of financial position.

III. Contingent Features in Derivative Instruments

Collateral is posted in the normal course of business based on the Company's senior unsecured credit rating as determined by certain major credit rating agencies. Certain of the Company's derivative instruments contain financial assurance provisions that require collateral to be posted only if a material adverse credit-related event occurs.

At March 31, 2023, the Company had posted collateral of \$423 million (Dec. 31, 2022 – \$820 million) in the form of letters of credit on physical and financial derivative transactions in a net liability position. Certain derivative agreements contain credit-risk-contingent features, which if triggered could result in the Company having to post an additional \$377 million (Dec. 31, 2022 – \$656 million) of collateral to its counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Property, Plant and Equipment

During the three months ended March 31, 2023, the Company had additions of \$263 million, mainly related to assets under construction for White Rock wind project, Horizon Hill wind project and other planned major maintenance. The Company also continued its rehabilitation plan for the Kent Hills wind facilities and capitalized additions of \$21 million in 2023.

There was an increase in the decommissioning provision resulting from a decrease in discount rates, largely driven by decreases in market benchmark rates. This resulted in an increase in the related assets included in property, plant and equipment by \$14 million (March 31, 2022 — \$56 million). Refer to Note 13 for further details.

During the three months ended March 31, 2023, the Company capitalized \$13 million (March 31, 2022 — \$1 million) of interest to property, plant and equipment ("PP&E") at a weighted average rate of 6.1 per cent (March 31, 2022 — 6.1 per cent).

13. Decommissioning and Other Provisions

The change in decommissioning and other provision balances is as follows:

	Decommissioning and restoration	Other provisions	Total
Balance, Dec. 31, 2022	688	41	729
Liabilities settled	(7)	(2)	(9)
Accretion (Note 6)	14	—	14
Revisions in discount rates	21	—	21
Change in foreign exchange rates	(1)	—	(1)
Balance, March 31, 2023	715	39	754

Included in the condensed consolidated statements of financial position as:		
As at	March 31, 2023	Dec. 31, 2022
Current portion	72	70
Non-current portion	682	659
Total Decommissioning and other provisions	754	729

A. Decommissioning and Restoration

During the first quarter of 2023, the decommissioning and restoration provision increased by \$21 million due to a decrease in discount rates, largely driven by decreases in market benchmark rates. On average, discount rates decreased with rates ranging from 6.7 to 9.5 per cent as at March 31, 2023 from 7.0 to 9.7 per cent as at Dec. 31, 2022. This has resulted in a corresponding increase in PP&E of \$14 million on operating assets and recognition of a \$7 million impairment charge in net earnings related to retired assets.

B. Other Provisions

Other provisions include provisions arising from ongoing business activities, amounts related to commercial disputes between the Company and customers or suppliers and onerous contract provisions. The onerous contract provisions occurred as a result of decisions to no longer operate on coal in Canada. Future royalty payments related to the extraction of coal at the Highvale mine will occur until the end of 2023 under the royalty contract. Payments related to coal contracts for Sheerness are required until 2025. At March 31, 2023, the remaining balance of the provision for the onerous royalty contract was \$7 million and the remaining balance of the onerous coal contract was \$9 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. Credit Facilities, Long-Term Debt and Lease Liabilities

A. Amounts Outstanding

The Company's credit facilities are summarized in the table below:

As at March 31, 2023	Utilized					
	Credit Facilities	Facility size	Outstanding letters of credit ⁽¹⁾	Cash drawings	Available capacity	Maturity date
Committed						
TransAlta Corporation syndicated credit facility	1,250	404	—	846	Q2 2026	
TransAlta Renewables syndicated credit facility	700	3	48	649	Q2 2026	
TransAlta Corporation bilateral credit facilities	240	162	—	78	Q2 2024	
TransAlta Corporation Term Facility	400	—	400	—	Q3 2024	
Total Committed	2,590	569	448	1,573		
Non-Committed						
TransAlta Corporation demand facilities	250	105	—	145	n/a	
TransAlta Renewables demand facility	150	98	—	52	n/a	
Total Non-Committed	400	203	—	197		

(1) TransAlta has obligations to issue letters of credit and cash collateral to secure potential liabilities to certain parties, including those related to potential environmental obligations, commodity risk management and hedging activities, pension plan obligations, construction projects and purchase obligations. Letters of credit drawn against the non-committed facilities reduce the available capacity under the committed syndicated credit facilities. At March 31, 2023, TransAlta provided cash collateral of \$119 million.

These facilities are the primary source for short-term liquidity after the cash flow generated from the Company's business.

The Company is in compliance with the terms of the credit facilities and all undrawn amounts are fully available. In addition to the \$1.4 billion of committed capacity available under the credit facilities, the Company also has \$1.2 billion of available cash and cash equivalents, net of bank overdraft. TransAlta's debt has terms and conditions, including financial covenants, that are considered normal and customary. As at March 31, 2023, the Company was in compliance with all debt covenants.

B. Restrictions Related to Non-Recourse Debt and Other Debt

The Melancthon Wolfe Wind LP, Pingston Power Inc., TAPC Holdings LP, New Richmond Wind LP, Kent Hills Wind LP, TEC Hedland Pty Ltd notes, Windrise Wind LP and TransAlta OCP LP non-recourse bonds are subject to customary financing conditions and covenants that may restrict the Company'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 conditions include meeting a debt service coverage ratio prior to distribution, which was met by these entities in the first quarter of 2023, with the exception of Kent Hills Wind LP and TAPC Holdings LP, which has been impacted by higher interest rates. The funds in these entities will remain there until the next debt service coverage ratio can be calculated in the second quarter of 2023. At March 31, 2023, \$67 million (Dec. 31, 2022 – \$50 million) of cash was subject to certain financial restrictions. In accordance with the supplemental indenture, Kent Hills Wind LP cannot make any distributions to its partners until the foundation replacement work has been completed. A foundation replacement reserve account was set up in accordance with the supplemental indenture, with funds in the account being used to pay foundation replacement costs. The account is funded quarterly with the last planned funding requirement received on March 31, 2023. The balance in the account is \$64 million as at March 31, 2023 (\$65 million – Dec 31, 2022).

During the first quarter of 2023, the Company had \$47 million of restricted cash related to the TEC Hedland Pty Ltd bond; reserves are required to be held under commercial arrangements and for debt service. Cash reserves may be replaced by letters of credit in the future.

Additionally, certain non-recourse bonds require that certain reserve accounts be established and funded through cash held on deposit and/or by providing letters of credit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Common Shares

A. Issued and Outstanding

TransAlta is authorized to issue an unlimited number of voting common shares without nominal or par value.

	3 months ended March 31			
	2023		2022	
	Common shares (millions)	Amount	Common shares (millions)	Amount
Issued and outstanding, beginning of period	268.1	2,863	271.0	2,901
Purchased and cancelled under the NCIB ⁽¹⁾	(3.2)	(34)	(1.4)	(15)
Effects of share-based payment plans	0.8	5	0.9	5
Stock options exercised	0.3	2	0.1	1
Shares outstanding, end of period	266.0	2,836	270.6	2,892
Provision for repurchase of common shares under ASPP	(3.0)	(37)	—	—
Issued and outstanding, net of provision, end of period	263.0	2,799	270.6	2,892

(1) Shares purchased by the Corporation under the NCIB are recognized as a reduction to share capital equal to the average carrying value of the common shares. Any difference between the aggregate purchase price and the average carrying value of the common shares is recorded in retained earnings deficit.

B. Normal Course Issuer Bid ("NCIB") Program

On March 27, 2023, the Company entered into an Automatic Share Purchase Plan ("ASPP") which permits an independent broker to repurchase shares under the NCIB during the blackout periods through to the end of the current program expiry on May 30. The Company has recognized a provision of \$37 million for the repurchase of common shares under the ASPP within accounts payables and accrued liabilities as at March 31, 2023, as an estimate of the maximum number of shares that could be repurchased during the blackout period.

During the three months ended March 31, 2023, the Company purchased and cancelled a total of 3,169,300 common shares at an average price of \$11.23 per common share, for a total cost of \$36 million.

The following are the effects of the Company's purchase and cancellation of the common shares during the period:

	March 31, 2023	Dec. 31, 2022
Total shares purchased ⁽¹⁾	3,169,300	4,342,300
Average purchase price per share	11.23	12.48
Total cost (millions)	36	54
Weighted average book value of shares cancelled	34	46
Amount recorded in deficit	(2)	(8)

(1) The three months ended March 31, 2023 include 312,400 shares (Dec. 31, 2022 - 164,300 shares) that were repurchased but were not cancelled due to timing differences between the transaction date and settlement date. The Company paid \$34 million in the period and the remaining amount was paid subsequent to the period end.

C. Dividends

On April 27, 2023, the Company declared a quarterly dividend of \$0.055 per common share, payable on July 1, 2023.

There have been no other transactions involving common shares between the reporting date and the date of completion of these condensed consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. Preferred Shares

A. Issued and Outstanding

All preferred shares issued and outstanding are non-voting cumulative redeemable fixed or floating rate first preferred shares.

Series ⁽¹⁾	March 31, 2023		Dec. 31, 2022	
	Number of shares (millions)	Amount	Number of shares (millions)	Amount
Series A	9.6	235	9.6	235
Series B	2.4	58	2.4	58
Series C	10.0	243	10.0	243
Series D	1.0	26	1.0	26
Series E	9.0	219	9.0	219
Series G	6.6	161	6.6	161
Issued and outstanding, end of period	38.6	942	38.6	942

(1) On Oct. 30, 2020, Brookfield invested \$400 million in exchange for redeemable, retractable first preferred shares (Series I). The Series I Preferred Shares are accounted for as long-term debt and the exchangeable preferred share dividends are reported as interest expense.

B. Dividends

On April 27, 2023, the Company declared a quarterly dividend of \$0.17981 per share on the Series A preferred shares, \$0.41100 per share on the Series B preferred shares, \$0.36588 per share on the Series C preferred shares, \$0.47769 per share on the Series D preferred shares, \$0.43088 per share on the Series E preferred shares and \$0.31175 per share on the Series G preferred shares, all payable on June 30, 2023.

17. Commitments and Contingencies

Commitments

In addition to the commitments disclosed elsewhere in the financial statements and those disclosed in note 37 of the 2022 annual audited financial statements, the Company has incurred the following additional contractual commitments in the first quarter of 2023, either directly or through its interests in joint operations.

Approximate future payments under these agreements are as follows:

	2024	2025	2026	2027	2028	2029 and thereafter	Total
Transmission	2	2	2	2	3	23	34
Total	2	2	2	2	3	23	34

Transmission

The Company has several agreements to purchase transmission network capacity in the Pacific Northwest. Provided certain conditions for delivering the service are met, the Company is committed to the transmission at the supplier's tariff rate whether it is awarded immediately or delivered in the future after additional facilities are constructed. The above table includes the incremental change in transmission agreements, as compared to the amounts disclosed in the 2022 annual audited consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Contingencies

TransAlta is occasionally named as a party in various claims and legal and regulatory proceedings that arise during the normal course of its business. TransAlta reviews each of these claims, including the nature of the claim, the amount in dispute or claimed and the availability of insurance coverage. There can be no assurance that any particular claim will be resolved in the Company's favour or that such claims may not have a material adverse effect on TransAlta. Inquiries from regulatory bodies may also arise in the normal course of business, to which the Company responds as required. For the current material outstanding contingencies, please refer to Note 37 of the 2022 audited annual consolidated financial statements. Material changes to the contingencies have been described below.

Hydro Power Purchase Arrangement ("Hydro PPA") Emissions Performance Credits

The Balancing Pool claimed entitlement to 1,750,000 emission performance credits earned by the Alberta Hydro facilities as a result of TransAlta opting those facilities into the Carbon Competitiveness Incentive Regulation and Technology Innovation and Emissions Reduction Regulation from 2018-2020 inclusive. The emission performance credits have no recorded book value as they were internally generated. The Balancing Pool claimed ownership of the EPCs because it believed the change-in-law provisions under the Hydro PPA required the EPCs to be passed through to the Balancing Pool. TransAlta disputed this claim. The parties have reached a confidential settlement in principle and this matter is now resolved.

Brazeau Facility - Well License Applications to Consider Hydraulic Fracturing Activities

The Alberta Energy Regulator ("AER") issued a subsurface order on May 27, 2019, which does not permit any hydraulic fracturing within three kilometers of the Brazeau Facility but permits hydraulic fracturing in all formations (except the Duvernay) within three-to-five kilometers of the Brazeau Facility. Subsequently, two oil and gas operators submitted applications to the AER for 10 well licenses (which include hydraulic fracturing activities) within three-to-five kilometers of the Brazeau Facility. The regulatory hearing to consider these applications - Proceeding 379 - was scheduled to be heard from Feb. 27 to March 10, 2023, but was adjourned to permit the O'Chiese First Nation to intervene and make submissions. While we do not have a new hearing date, we anticipate it will be heard in the second half of 2023.

The Company's position is that hydraulic fracturing activities within five kilometers of the Brazeau Facility pose an unacceptable risk and the applications should be denied.

Brazeau Facility - Claim against the Government of Alberta

On Sept. 9, 2022, the Company filed a Statement of Claim against the Alberta Government in the Alberta Court of King's Bench seeking a declaration that: (i) granting mineral leases within 5 km of the Brazeau Facility is a breach of the 1960 agreement between the Company and the Alberta Government; and (ii) the Alberta Government is required to indemnify the Company for any costs or damages that result from the risks of hydraulic fracturing near the Brazeau Facility. On Sept. 29, 2022, the Alberta Government filed its Statement of Defence, which asserts, among other things, that the Company: (i) is trying to usurp the jurisdiction of the Alberta Energy Regulator, and (ii) is out of time under the Limitations Act (Alberta). The trial has been scheduled for two weeks starting Feb. 26, 2024.

18. Segment Disclosures

A. Description of Reportable Segments

The following tables provides each segment's results in the format that the TransAlta's President and Chief Executive Officer (the chief operating decision maker) ("CODM"), review the Company's segments to make operating decisions and assess performance. The tables below show the reconciliation of the total segmented results and adjusted EBITDA to the statement of earnings (loss) reported under IFRS.

For internal reporting purpose, the earnings information from the Company's investment in Skookumchuck has been presented in the Wind and Solar segment on a proportionate basis. Information on a proportionate basis reflects the Company's share of Skookumchuck's statement of earnings on a line-by-line basis. Proportionate financial information is not and is not intended to be, presented in accordance with IFRS. Under IFRS, the investment in Skookumchuck has been accounted for as a joint venture using the equity method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

B. Reported Adjusted Segment Earnings and Segment Assets

I. Reconciliation of Adjusted EBITDA to Earnings before Income Tax

3 months ended March 31, 2023	Hydro	Wind & Solar ⁽¹⁾	Gas	Energy Transition	Energy Marketing	Corporate	Total	Equity accounted investments ⁽¹⁾	Reclass adjustments	IFRS financials
Revenues	125	115	495	267	92	—	1,094	(5)	—	1,089
Reclassifications and adjustments:										
Unrealized mark-to-market (gain) loss	(1)	—	(64)	(14)	16	—	(63)	—	63	—
Realized gain (loss) on closed exchange positions	—	—	(13)	—	(55)	—	(68)	—	68	—
Decrease in finance lease receivable	—	—	13	—	—	—	13	—	(13)	—
Finance lease income	—	—	4	—	—	—	4	—	(4)	—
Adjusted revenues	124	115	435	253	53	—	980	(5)	114	1,089
Fuel and purchased power	5	9	130	181	—	—	325	—	—	325
Reclassifications and adjustments:										
Australian interest income	—	—	(1)	—	—	—	(1)	—	1	—
Adjusted fuel and purchased power	5	9	129	181	—	—	324	—	1	325
Carbon compliance	—	—	32	—	—	—	32	—	—	32
Gross margin	119	106	274	72	53	—	624	(5)	113	732
OM&A	12	17	41	17	14	24	125	(1)	—	124
Taxes, other than income taxes	1	3	4	1	—	—	9	—	—	9
Net other operating income	—	(2)	(11)	—	—	—	(13)	—	—	(13)
Adjusted EBITDA ⁽²⁾	106	88	240	54	39	(24)	503			
Equity income										2
Finance lease income										4
Depreciation and amortization										(176)
Asset impairment reversals										3
Net interest expense										(59)
Foreign exchange loss										(3)
Earnings before income taxes										383

(1) The Skookumchuck wind facility has been included on a proportionate basis in the Wind and Solar segment.

(2) Adjusted EBITDA is not defined and has no standardized meaning under IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 months ended March 31, 2022	Hydro	Wind & Solar ⁽¹⁾	Gas	Energy Transition	Energy Marketing	Corporate	Total	Equity accounted investments ⁽¹⁾	Reclass adjustments	IFRS financials
Revenues	77	95	434	106	26	1	739	(4)	—	735
Reclassifications and adjustments:										
Unrealized mark-to-market (gain) loss	—	13	(162)	11	10	—	(128)	—	128	—
Realized gain (loss) on closed exchange positions ⁽²⁾	—	—	3	—	(10)	—	(7)	—	7	—
Decrease in finance lease receivable	—	—	11	—	—	—	11	—	(11)	—
Finance lease income	—	—	5	—	—	—	5	—	(5)	—
Unrealized foreign exchange gain on commodity	—	—	—	—	(2)	—	(2)	—	2	—
Adjusted revenues	77	108	291	117	24	1	618	(4)	121	735
Fuel and purchased power	4	8	131	94	—	1	238	—	—	238
Reclassifications and adjustments:										
Australian interest income	—	—	(1)	—	—	—	(1)	—	1	—
Adjusted fuel and purchased power	4	8	130	94	—	1	237	—	1	238
Carbon compliance	—	—	18	1	—	—	19	—	—	19
Gross margin	73	100	143	22	24	—	362	(4)	120	478
OM&A	11	16	44	16	7	18	112	—	—	112
Taxes, other than income taxes	1	2	4	1	—	—	8	—	—	8
Net other operating income	—	(7)	(10)	—	—	—	(17)	—	—	(17)
Adjusted EBITDA ⁽³⁾	61	89	105	5	17	(18)	259			
Equity income										2
Finance lease income										5
Depreciation and amortization										(117)
Asset impairment reversals										42
Net interest expense										(67)
Foreign exchange gain and other gains										2
Earnings before income taxes										242

(1) The Skookumchuck wind facility has been included on a proportionate basis in the Wind and Solar segment.

(2) In 2022, our adjusted EBITDA composition was adjusted to include the impact of closed positions that are effectively settled by offsetting positions with the same counterparty to reflect the performance of the assets and the Energy Marketing segment in the period in which the transactions occur.

(3) Adjusted EBITDA is not defined and has no standardized meaning under IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. Related-Party Transactions

Transactions with Associates

In connection with the exchangeable securities issued to Brookfield, the investment agreement entitles Brookfield to nominate two directors to the TransAlta Board. As such, they are considered associates of the Company.

The Company may, in the normal course of operations, enter into transactions on market terms with related parties that have been measured at exchange value and recognized in the consolidated financial statements, including power purchase and sale agreements, derivative contracts and asset management fees. Transactions and balances between the Company and associates do not eliminate. Refer to Note 26 and 36 of the 2022 audited annual consolidated financial statements.

Transactions with Brookfield include the following:

	3 months ended March 31	
	2023	2022
Power sales	42	20

20. Subsequent Events

On April 24, 2023, the Company formally executed the definitive agreements related to the Tent Mountain Renewable Energy Complex. The acquisition includes the land rights, fixed assets and intellectual property associated with the pumped hydro development project. The Project leverages Montem's existing assets at Tent Mountain, which include large legacy water reservoirs from past mining operations. The Company's initial payment of \$8 million and contingent payments of \$17 million will be treated as a joint venture investment.