TransAlta Renewables Inc.

Condensed Consolidated Statements of Earnings

(in millions of Canadian dollars, except per share amounts)

	Three months ended March 31,	
Unaudited	**2023**	**2022**
Revenues (Note 3)	**119**	143
Fuel, royalties and other costs (Note 4)	**27**	45
Gross margin	**92**	98
Operations, maintenance and administration (Note 4)	**27**	25
Depreciation and amortization	**34**	37
Asset impairment reversals (Note 8)	**(10)**	—
Taxes, other than income taxes	**3**	2
Net other operating income	**(3)**	(7)
Operating income	**41**	41
Finance income related to subsidiaries of TransAlta (Note 5)	**23**	19
Interest income	**1**	1
Interest expense	**(12)**	(13)
Foreign exchange gain	**—**	1
Earnings before income taxes	**53**	49
Income tax expense (Note 6)	**8**	8
Net earnings	**45**	41
Net earnings attributable to:		
Common shareholders	**45**	41
Weighted average number of common shares outstanding in the period (millions)	**267**	267
Net earnings per share attributable to common shareholders, basic and diluted	**0.17**	0.15

See accompanying notes.

TransAlta Renewables Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(in millions of Canadian dollars)

	Three months ended March 31,	
Unaudited	**2023**	**2022**
Net earnings	**45**	41
Other comprehensive income (loss)		
Net change in fair value of investments in subsidiaries of TransAlta (Note 5)	**10**	(111)
Total items that will not be reclassified subsequently to net earnings	**10**	(111)
Other comprehensive income (loss)	**10**	(111)
Total comprehensive income (loss)	**55**	(70)
Total comprehensive income (loss) attributable to:		
Common shareholders	**55**	(70)

See accompanying notes.

TransAlta Renewables Inc.

Condensed Consolidated Statements of Financial Position

(in millions of Canadian dollars)

Unaudited	March 31, 2023	Dec. 31, 2022
Current assets		
Cash and cash equivalents	**98**	89
Accounts receivable	**128**	135
Risk management assets	**1**	—
Inventory	**9**	9
Current portion of other assets	**7**	7
	243	240
Non-current assets		
Property, plant and equipment (Note 8)		
Cost	**3,274**	3,234
Accumulated depreciation	**(1,496)**	(1,468)
	1,778	1,766
Finance lease receivable	**7**	7
Right-of-use assets	**26**	26
Intangible assets	**78**	81
Other assets	**53**	53
Investments in subsidiaries of TransAlta (Note 5)	**1,032**	1,037
Deferred income tax assets	**18**	19
Total assets	**3,235**	3,229
Current liabilities		
Accounts payable and accrued liabilities	**115**	128
Income tax payable	**9**	1
Dividends payable (Note 11)	**63**	63
Current portion of contract liabilities	**1**	2
Other provisions	**3**	2
Risk management liabilities	**1**	1
Current portion of long-term debt and lease obligations (Notes 7 and 10)	**109**	109
	301	306
Non-current liabilities		
Long-term debt and lease obligations (Notes 7 and 10)	**691**	681
Decommissioning provisions (Note 9)	**127**	115
Contract liabilities	**6**	6
Risk management liabilities	**1**	1
Deferred income tax liabilities	**312**	315
Total liabilities	**1,438**	1,424
Equity		
Common shares (Note 11)	**3,059**	3,059
Deficit	**(1,102)**	(1,084)
Accumulated other comprehensive loss	**(209)**	(219)
Equity attributable to shareholders	**1,748**	1,756
Non-controlling interest	**49**	49
Total equity	**1,797**	1,805
Total liabilities and equity	**3,235**	3,229

Commitments and contingencies (Note 12)

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 loss	Attributable to shareholders	Attributable to non-controlling interest	Total
Balance, Dec. 31, 2022	3,059	(1,084)	(219)	1,756	49	1,805
Net earnings	**—**	**45**	**—**	**45**	**—**	**45**
Other comprehensive income:						
Net change in fair value of investments in subsidiaries of TransAlta (Note 5)	**—**	**—**	**10**	**10**	**—**	**10**
Total comprehensive income	**—**	**45**	**10**	**55**	**—**	**55**
Common share dividends (Note 11)	**—**	**(63)**	**—**	**(63)**	**—**	**(63)**
Balance, March 31, 2023	**3,059**	**(1,102)**	**(209)**	**1,748**	**49**	**1,797**

(in millions of Canadian dollars)

Unaudited	Common shares	Deficit	Accumulated other comprehensive loss	Attributable to shareholders	Attributable to non-controlling interest	Total
Balance, Dec. 31, 2021	3,059	(907)	(78)	2,074	49	2,123
Net earnings	—	41	—	41	—	41
Other comprehensive income (loss):						
Net change in fair value of investments in subsidiaries of TransAlta (Note 5)	—	—	(111)	(111)	—	(111)
Total comprehensive income (loss)	—	41	(111)	(70)	—	(70)
Common share dividends (Note 11)	—	(62)	—	(62)	—	(62)
Balance, March 31, 2022	3,059	(928)	(189)	1,942	49	1,991

See accompanying notes.

TransAlta Renewables Inc.

Condensed Consolidated Statements of Cash Flows

(in millions of Canadian dollars)

	Three months ended March 31,	
Unaudited	**2023**	**2022**
Operating activities		
Net earnings	**45**	41
Depreciation and amortization	**34**	37
Accretion of provisions	**3**	2
Deferred income tax expense (recovery) (Note 6)	**(2)**	8
Unrealized foreign exchange loss (gain)	**—**	(1)
Provisions and contract liabilities	**(1)**	—
Asset impairment reversals (Note 8)	**(10)**	—
Other non-cash items	**—**	(1)
Cash flow from operations before changes in working capital	**69**	86
Change in non-cash operating working capital balances	**(2)**	17
Cash flow from operating activities	**67**	103
Investing activities		
Additions to property, plant and equipment (Note 8)	**(24)**	(5)
Return of capital on investments in subsidiaries of TransAlta (Note 5)	**15**	18
Repayment received on loan receivable	**4**	—
Change in non-cash investing working capital balances	**1**	(10)
Cash flow from (used in) investing activities	**(4)**	3
Financing activities		
Net increase in borrowings under credit facility	**15**	—
Long-term debt repayments	**(6)**	(3)
Dividends paid on common shares	**(63)**	(63)
Repayments of TEA demand loan	**—**	(6)
Cash flow used in financing activities	**(54)**	(72)
Increase in cash and cash equivalents	**9**	34
Cash and cash equivalents, beginning of period	**89**	244
Cash and cash equivalents, end of period	**98**	278
Cash income taxes paid	**2**	—
Cash interest paid	**6**	7

See accompanying notes.

Notes to Condensed Consolidated Financial Statements

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

1. Corporate Information

A. Formation of the Corporation

TransAlta Renewables Inc. together with its subsidiaries (collectively “TransAlta Renewables” or the “Company”) owns and operates 11 hydro facilities, 22 wind facilities, a wind battery storage facility and one gas facility, with a total gross generating capacity of 1,995 megawatts ("MW") and holds economic interests in TransAlta Corporation's ("TransAlta") 140 MW Wyoming wind facility, 50 MW Lakeswind facility, 21 MW Mass Solar facility, 90 MW Big Level wind facility, 29 MW Antrim wind facility, 122 MW North Carolina Solar facility and a 49 percent economic interest in the 137 MW Skookumchuck wind facility (collectively "Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities"), 29 MW Ada cogeneration facility ("Preferred Shares Tracking Earnings and Distributions of US Gas") and 450 MW Australian gas-fired generation assets including a 270 kilometer gas pipeline ("Preferred Shares Tracking Australia Cash Flows"). The Company’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 Company's 2022 annual audited consolidated financial statements, except as disclosed in Note 2(A). These unaudited interim condensed consolidated financial statements do not include all of the disclosures included in the Company's 2022 annual audited consolidated financial statements. Accordingly, these condensed consolidated financial statements should be read in conjunction with the Company's 2022 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 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.

The unaudited interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company'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 Company'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 months and lower in the warm summer months.

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

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, revenue 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, discount rates, foreign exchange rates, inflation and commodity prices and changes in economic conditions, legislation and regulations.

Judgment - Dividends as Income or Return of Capital

During the three months ended March 31, 2023 and 2022, the Company determined that a portion of the dividends earned on the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities and the Preferred Shares Tracking Earnings and Distributions of US Gas constituted a return of capital. Refer to Note 5 for more details.

Changes in Estimates

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 ("CPI") inflation have been considered in the Company's estimates.

During the three months ended March 31, 2023, there were changes in decommissioning provisions (Note 9) and asset impairment reversals (Note 8).

Refer to Note 2(M) of the Company's 2022 annual audited consolidated financial statements for a more detailed discussion of the significant accounting judgments and key sources of estimation uncertainty.

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 audited consolidated financial statements for the year ended Dec. 31, 2022, except for the adoption of new standards effective as of Jan. 1, 2023 and the early adoption of standards, 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 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 2022 annual audited consolidated financial statements for 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, which the Company disaggregates into the following groupings for the purpose of determining how economic factors affect the recognition of revenue.

Three months ended March 31, 2023	Canadian Wind	Canadian Hydro	Canadian Gas	Total
Revenue from contracts with customers				
Power and other	**57**	**2**	**49**	**108**
Environmental attributes(1)	**5**	**1**	**—**	**6**
Revenue from contracts with customers	**62**	**3**	**49**	**114**
Merchant revenue and other	**1**	**—**	**4**	**5**
Revenues	**63**	**3**	**53**	**119**
Timing of revenue recognition:				
At a point in time	**5**	**1**	**—**	**6**
Over time	**57**	**2**	**49**	**108**
Revenue from contracts with customers	**62**	**3**	**49**	**114**

(1) The environmental attributes included in this line only represent environmental attribute sales not bundled with power and other sales.

Three months ended March 31, 2022	Canadian Wind	Canadian Hydro	Canadian Gas	Total
Revenue from contracts with customers				
Power and other	61	3	58	122
Environmental attributes[(1)]	9	1	—	10
Revenue from contracts with customers	70	4	58	132
Merchant revenue and other	—	—	11	11
Revenues	70	4	69	143
Timing of revenue recognition:				
At a point in time	9	1	—	10
Over time	61	3	58	122
Revenue from contracts with customers	70	4	58	132

(1) The environmental attributes included in this line only represent environmental attribute sales not bundled with power and other sales.

B. Environmental Credits

At March 31, 2023, the Company held 263,467 emissions credits (Dec. 31, 2022 — 218,450), which are expected to be serialized and monetized through sales to TransAlta or other third parties at market prices.

4. Expenses by Nature

Expenses classified by nature are as follows:

	Three months ended March 31,			
	2023		2022	
	Fuel, royalties and other costs	Operations, maintenance and administration	Fuel, royalties and other costs	Operations, maintenance and administration
Fuel	**20**	**—**	36	—
Royalties, land lease costs and other direct costs	**5**	**—**	5	—
Transmission tariffs and purchased power	**—**	**—**	1	—
Carbon compliance costs	**2**	**—**	3	—
Contracted operating expenses	**—**	**13**	—	11
Other operating expenses	**—**	**14**	—	14
Total	**27**	**27**	45	25

5. Finance Income Related to Subsidiaries of TransAlta

Finance income related to subsidiaries of TransAlta, also referred to as Economic Interest Investments, includes income from various interests that in aggregate and over time indirectly provide the Company with cash flows based on the cash flows of the subsidiaries.

	Three months ended March 31,	
	2023	2022
Fee income from indirect guarantee of TEA obligations	**3**	3
Dividend income from investment in preferred shares tracking Australia Cash Flows	**19**	15
Finance income related to TEA	**22**	18
Dividend income from investments in preferred shares tracking earnings and distributions of US Wind and Solar facilities	**1**	1
Total finance income	**23**	19

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

As at	March 31, 2023	Dec. 31, 2022
Investment in preferred shares tracking earnings and distributions of Big Level and Antrim	**142**	139
Investment in preferred shares tracking earnings and distributions of Mass Solar	**33**	35
Investment in preferred shares tracking earnings and distributions of Lakeswind	**12**	12
Investment in preferred shares tracking earnings and distributions of Wyoming	**89**	91
Investment in preferred shares tracking earnings and distributions of Skookumchuck	**77**	72
Investment in preferred shares tracking earnings and distributions of North Carolina	**110**	106
Total investments in preferred shares tracking earnings and distributions of US Wind and Solar facilities	**463**	455
Investment in preferred shares tracking earnings and distributions of Ada	**25**	26
Investment in preferred shares tracking Australia Cash Flows	**544**	556
Total investments in subsidiaries of TransAlta	**1,032**	1,037

Investment in Subsidiaries of TransAlta Related to TEA, US Wind and Solar and US Gas

Changes in the investments in subsidiaries of TransAlta are detailed as follows:

	Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities	Preferred Shares Tracking Earnings and Distributions of US Gas	Preferred Shares Tracking Australia Cash Flows	Total
Investment balance at Dec. 31, 2022	455	26	556	1,037
Return of capital	**(14)**	**(1)**	**—**	**(15)**
Net change in fair value and foreign exchange recognized in OCI	**22**	**—**	**(12)**	**10**
Investment balance at March 31, 2023	**463**	**25**	**544**	**1,032**

The $12 million decrease in fair value of the Preferred Shares Tracking Australia Cash Flow reflects a decrease due to the quarterly amortization of remaining cash flows and unfavourable foreign exchange impacts, partially offset by a decrease in the discount rate and changes to cash flow assumptions. The increase in fair value of $22 million related to the Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities was primarily due to a decrease in discount rates and favourable changes in cash flow assumptions. The investment balance decreased due to the $14 million return of capital.

	Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities	Preferred Shares Tracking Earnings and Distributions of US Gas	Preferred Shares Tracking Australia Cash Flows	Total
Investment balance at Dec. 31, 2021	539	34	697	1,270
Return of capital	(17)	(1)	—	(18)
Net change in fair value and foreign exchange recognized in OCI	(38)	(3)	(70)	(111)
Investment balance at March 31, 2022	484	30	627	1,141

The $111 million decrease in fair value as at March 31, 2022 relating to the Economic Interest Investments was primarily due to an increase in the discount rates and foreign exchange impacts.

The table below summarizes quantitative data regarding the unobservable inputs utilized in the discounted cash flow models as outlined in Note 9 of the 2022 annual audited consolidated financial statements:

Unobservable input	March 31, 2023	Dec. 31, 2022
Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities		
Discount rate (range)	**7.8 % - 10.4 %**	8.2 % - 10.7 %
Quarterly cash flows (range, in millions)	**Average of $0-$4**	Average of $0-$4
Foreign exchange rates	**1.3533**	1.3557
Preferred Shares Tracking Earnings and Distributions of US Gas		
Discount rate	**14.3 %**	14.7 %
Quarterly cash flows (millions)	**Average of $3**	Average of $3
Foreign exchange rates	**1.3533**	1.3557
Preferred Shares Tracking Australia Cash Flows		
Discount rate	**7.3 %**	7.8 %
Quarterly cash flows (millions)	**Average of $11**	Average of $11
Foreign exchange rates	**0.90495**	0.91523

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(1)	Alternative assumption	Change in fair value as at March 31, 2023	Change in fair value as at Dec. 31, 2022
Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities			
Basis point change in discount rates	-100 basis points decrease	**38**	36
	+100 basis points increase	**(33)**	(32)
Quarterly cash flows	+5% increase(2)	**23**	23
	- 5% decrease(2)	**(23)**	(23)
Preferred Shares Tracking Earnings and Distributions of US Gas(3)			
Basis point change in discount rates	-100 basis points decrease	**—**	—
	+100 basis points increase	**—**	—
Quarterly cash flows	+5% increase(2)	**1**	1
	- 5% decrease(2)	**(1)**	(1)
Preferred Shares Tracking Australia Cash Flows			
Basis point change in discount rates	-100 basis points decrease	**42**	40
	+100 basis points increase	**(36)**	(35)
Quarterly cash flows	+5% increase(2)	**27**	28
	- 5% decrease(2)	**(27)**	(28)

(1) Refer to note 7C IV for impacts from foreign exchange.
(2) Quarterly cash flows could vary by a higher rate than the assumed five per cent factor.
(3) The fair value changes from the assumed discount rate changes as at March 31, 2023, could vary, but by less than $1 million.

6. Income Taxes

The components of income tax expense are as follows:

	Three months ended March 31,	
	2023	2022
Current income tax expense	**10**	—
Deferred income tax expense (recovery) related to the origination and reversal of temporary differences	**(2)**	8
Income tax expense	**8**	8

7. Financial Instruments and Risk Management

A. Financial Assets and Liabilities – Classification and 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 Company's financial instruments measured at fair value are as follows:

As at	March 31, 2023		Dec. 31, 2022	
	Fair value Level II	Fair value Level III	Fair value Level II	Fair value Level III
Preferred shares tracking Australia Cash Flows	**—**	**544**	—	556
Preferred Shares Tracking Earnings and Distributions of US Wind and Solar Facilities	**—**	**463**	—	455
Preferred Shares Tracking Earnings and Distributions of US Gas	**—**	**25**	—	26
Net risk management liabilities	**(1)**	**—**	(2)	—

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.

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, either directly or indirectly.

c. Level III

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

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, refer to Note 13 of the 2022 annual audited consolidated financial statements.

II. Commodity and Other Risk Management Assets and Liabilities

The Company'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 managing foreign-denominated receipts and expenditures, capital project expenditures and debt. To the extent applicable, changes in net risk management assets and liabilities for non-hedge positions are reflected within net earnings.

III. Financial Instruments – Not Measured at Fair Value

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and dividends payable approximates their fair value at the period end date due to their short-term nature. The fair value of the finance lease receivable approximates the carrying amount as the amount receivable represents cash flows from repayments of principal and interest.

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

As at	March 31, 2023		Dec. 31, 2022	
	Fair value Level II	Carrying value	Fair value Level II	Carrying value
Loan receivable(1)	**32**	**32**	37	37
Long-term debt(2)	**708**	**776**	677	767

(1) Includes current portion and excludes interest income receivable.
(2) Includes current portion of long-term debt and excludes lease obligations.

The fair value of the long-term debt and the loan receivable is determined by calculating an implied price based on a current assessment of the yield to maturity (Note 10).

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

I. Credit Risk

The Company's maximum exposure to credit risk at March 31, 2023, without taking into account collateral held or right of set-off, and including indirect exposures arising from the Company's investments in subsidiaries of TransAlta discussed in Note 5, is detailed as follows:

Counterparty credit rating	Direct exposure Receivables(1)	Indirect exposure(2) Trade accounts receivable
Investment grade	**29**	**62**
Non-investment grade	**65**	**1**
TransAlta and subsidiaries of TransAlta	**42**	—
No external rating	**32**	**—**

(1) Includes trade accounts receivable, distributions receivable from subsidiaries of TransAlta, risk management assets and loans receivable.
(2) Includes accounts receivable and finance lease receivable of TEA. Receivables of US Wind and Solar and US Gas economic interest investments were approximately $15 million in total and are with investment grade and other high-quality counterparties.

II. Other Market Risks

The Company is exposed to market risks based on changes in the fair value of the Economic Interest Investments. A five per cent increase (decrease) in the value of these preferred shares would result in an $52 million increase (decrease) in OCI as at March 31, 2023.

III. Liquidity Risk

The following table presents the contractual maturities of the Company's financial liabilities:

	2023	2024	2025	2026	2027	2028 and thereafter	Total
Accounts payable and accrued liabilities	115	—	—	—	—	—	**115**
Long-term debt(1)	102	66	69	115	69	364	**785**
Lease obligations(1)	1	1	1	1	1	19	**24**
Net risk management liabilities	—	1	—	—	—	—	**1**
Interest on debt and lease obligations(2)	26	29	26	22	17	77	**197**
Dividends payable	63	—	—	—	—	—	**63**
Total	**307**	**97**	**96**	**138**	**87**	**460**	**1,185**

(1) Includes current portion.
(2) Not recognized as a financial liability on the Condensed Consolidated Statements of Financial Position.

IV. Foreign Currency Rate Risk

The possible effect on net earnings and OCI for the quarters ended March 31, 2023 and 2022 due to changes in foreign exchange rates associated with financial instruments denominated in currencies other than the Company's functional currency is outlined below. The sensitivity analysis has been prepared using management's assessment that an average three cent (March 31, 2022 – three cent) increase or decrease in these currencies relative to the Canadian dollar is a reasonable potential change over the next quarter.

	Three months ended March 31,			
	2023		2022	
Currency	Net earnings decrease(1)	OCI gain(1)	Net earnings decrease(1)	OCI gain(1)
USD	**(1)**	**10**	(1)	13
AUD	**(2)**	**14**	(2)	17
Total	**(3)**	**24**	(3)	30

(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

During the three months ended March 31, 2023, the Company capitalized additions of $24 million to PP&E, including $21 million related to the Kent Hills rehabilitation.

During the three months ended March 31, 2023, the decommissioning provisions were updated to reflect a decrease in discount rates, resulting in an increase in the related assets in PP&E of $9 million. Refer to Note 9.

During the three months ended March 31, 2023, internal valuations indicated the fair value less costs of disposal of assets within the Canadian Wind segment exceeded their 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.

9. Decommissioning Provisions

The change in the decommissioning and restoration provision balance is outlined below:

	Decommissioning and restoration provision
Balance, Dec. 31, 2022	**115**
Accretion	**3**
Revisions in discount rates	**9**
Balance, March 31, 2023	**127**

The decommissioning and restoration provision increased by $9 million due to a decrease in discount rates, largely driven by decreases in market benchmark rates in 2023. On average, discount rates ranged from 7.3 to 9.5 per cent as at March 31, 2023 (Dec. 31, 2022 — 7.6 to 9.7 per cent).

10. Debt and Lease Obligations

Amounts Outstanding

As at	March 31, 2023			Dec. 31, 2022		
	Carrying value	Face value	Interest(1)	Carrying value	Face value	Interest(1)
Long-term debt:						
Credit facility(2)	**47**	**48**	**6.15 %**	32	33	5.91 %
Pingston bond	**45**	**45**	**2.95 %**	45	45	2.95 %
Melancthon Wolfe Wind bond	**202**	**203**	**3.83 %**	202	203	3.83 %
New Richmond Wind bond	**112**	**113**	**3.96 %**	112	113	3.96 %
Kent Hills Wind bond	**203**	**206**	**4.45 %**	206	209	4.45 %
Windrise green bond	**167**	**170**	**3.41 %**	170	173	3.41 %
Total long-term debt	**776**	**785**		767	776	
Lease obligations	**24**			23		
	800			790		
Less: current portion of long-term debt	**(108)**			(108)		
Less: current portion of lease obligations	**(1)**			(1)		
Total long-term debt and lease obligations	**691**			681		

(1) Interest rate reflects the stipulated rate or the average rate weighted by principal amounts outstanding.
(2) Interest rates on the credit facility vary depending on the type of borrowing selected: Canadian prime, bankers' acceptances, secured overnight financing rate or US base rate in accordance with a pricing grid that is standard for such a facility.

Credit Facility: The Company has a $700 million committed syndicated credit facility, of which $551 million was available as at March 31, 2023 (Dec. 31, 2022 – $569 million). As at March 31, 2023, there were $101 million (Dec. 31, 2022 – $98 million) in letters of credit outstanding, with $98 million drawn against the Company's $150 million non-committed demand facility and $3 million drawn against the committed syndicated credit facility. As at March 31, 2023, $48 million (Dec. 31, 2022 – $33 million) of banker's acceptance were drawn against the committed syndicated credit facility. The Company is in compliance with the terms of the credit facility.

Restrictions: The Melancthon Wolfe Wind, Pingston, New Richmond Wind, Kent Hills Wind and Windrise green 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. Funds held in these entities will remain there until the next debt service coverage ratio can be calculated in the second quarter of 2023. As at March 31, 2023, $28 million of cash was subject to these financial restrictions (Dec. 31, 2022 – $24 million).

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.

Kent Hills Wind Bond: 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 (Dec. 31, 2022 – $65 million).

11. Common Shares

Dividends

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

The following table summarizes the common share dividends declared in 2023 and 2022:

Dividends declared	Total dividends per share	Total dividends	TransAlta	Other shareholders
Three months ended March 31, 2023	**0.23499**	**63**	**38**	**25**
Three months ended March 31, 2022	0.23499	62	38	24

On Feb. 16, 2023, the Company declared a monthly dividend of $0.07833 per common share payable on April 29, 2023, May 31, 2023, and June 30, 2023.

On May 3, 2023, the Company declared a monthly dividend of $0.07833 per common share payable on July 31, 2023, Aug. 31, 2023, and Sept. 29, 2023.

12. Commitments and Contingencies

For the significant commitments and contingencies outstanding, refer to Note 24 of the Company's annual audited consolidated financial statements for the year ended Dec. 31, 2022.

13. Related-Party Transactions and Balances

The Company has entered into certain agreements and transactions with TransAlta, which are discussed in Note 25 of the annual audited consolidated financial statements for the year ended Dec. 31, 2022.

A. Related-Party Transactions

Related-party transactions include the finance income related to subsidiaries of TransAlta (Note 5). Also, all derivatives of the Company are entered into on behalf of the Company by a subsidiary of TransAlta.

Significant related-party transactions that are not otherwise presented elsewhere consist of the following:

	Three months ended March 31,	
	2023	**2022**
Revenue from TransAlta PPAs	**12**	13
Revenue from environmental attributes[(1)]	**—**	5
G&A Reimbursement Fee	**5**	5
Natural gas purchases	**2**	8
Financial power swap sales – (gains)	**—**	(1)
Interest expense on TEA demand loan	**—**	2
Asset optimization fee[(2)]	**1**	1

(1) The value of the environmental attributes was determined by reference to market information for similar instruments, including historical transactions with third parties.
(2) A subsidiary of TransAlta provides asset management and optimization services for the Company's Sarnia cogeneration facility. The Sarnia cogeneration facility 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.

B. Related-Party Balances

Related-party balances include the investments in subsidiaries of TransAlta disclosed in Note 5, the risk management assets and liabilities disclosed in Note 7 and the finance lease receivable related to the WindCharger wind battery storage facility.

Significant related-party balances that are not otherwise presented elsewhere consist of the following:

As at	March 31, 2023	Dec. 31, 2022
Trade and other receivables	**34**	38
Accounts payable and accrued liabilities (including interest payable)	**20**	20
Dividends payable	**38**	38
TEA Guarantees[(1)]	**493**	497
Guarantees provided by TransAlta on behalf of the Company[(1)]	**416**	416

(1) Not recognized as a financial liability on the Condensed Consolidated Statements of Financial Position.

The TEA demand loan was repaid on Oct. 26, 2022 and the Company entered into an agreement requiring TEA to hold the funds in a segregated bank account to be used as directed by the Company for purposes of funding the Company’s required contributions for the Australian growth projects the Company has opted to participate in. During the three months ended March 31, 2023, the Company funded $32 million of growth expenditures. As at March 31, 2023, the balance available for future growth project funding is $115 million.

14. Segment Disclosures

A. Description of Reportable Segments

The following tables provides each segment's results in the format that the Chief Operating Decision Maker ("CODM") organizes its segments to make operating decisions and assess performance. The CODM assesses the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis represents earnings before income taxes, adjusted for the effects of: depreciation of PP&E and amortization of intangibles, depreciation of right-of-use assets, finance costs (income), unrealized mark-to-market gains and losses, changes in fair value of financial assets, insurance recovery, foreign exchange gains and losses and asset impairments and reversals, plus the adjusted EBITDA of the Economic Interest Investments, which is each facilities' reported earnings before income taxes adjusted for the previously stated items, finance lease income and the change in the finance lease receivable amount, contractually fixed management costs and interest earned on the prepayment of certain transmission costs. 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 purposes, the earnings information from the Company's Economic Interest Investments have been presented. Proportionate financial information is not, and is not intended to be, presented in accordance with IFRS. The tables below show the reconciliation of the total segmented results to the statement of earnings reported under IFRS.

B. Reported Segment Earnings (Loss) and Other Segment Information

I. Reconciliation of Adjusted EBITDA to Earnings before Income Tax

	Owned Assets				Economic Interests					
Three months ended March 31, 2023	Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	US Wind and Solar	US Gas	Australian Gas	Total	Investments in economic interests and adjustments	IFRS financials
Revenues[1]	63	3	53	—	33	6	44	202	(83)	119
Fuel, royalties and other costs[2]	3	1	23	—	1	4	1	33	(6)	**27**
Gross margin	**60**	**2**	**30**	**—**	**32**	**2**	**43**	**169**	**(77)**	**92**
Operations, maintenance and administration[3]	11	2	8	6	4	1	8	40	(13)	**27**
Taxes, other than income taxes	2	1	—	—	1	—	—	4	(1)	**3**
Net other operating income	(3)	—	—	—	—	—	—	(3)	—	**(3)**
Adjusted EBITDA[4]	**50**	**(1)**	**22**	**(6)**	**27**	**1**	**35**	**128**		
Depreciation and amortization										**(34)**
Asset impairment reversals										**10**
Finance income related to subsidiaries of TransAlta										**23**
Interest income										**1**
Interest expense										**(12)**
Earnings before income tax										**53**

(1) Adjusted EBITDA excludes the impact of unrealized mark-to-market gains or losses. Amounts related to economic interests include finance lease income adjusted for change in finance lease receivable.
(2) Amounts related to economic interests include interest earned on the prepayment of certain transmission costs.
(3) Amounts related to economic interests include the effect of contractually fixed management costs.
(4) Adjusted EBITDA is a non-IFRS measure and has no standardized meaning under IFRS.

Three months ended March 31, 2022	Owned Assets: Canadian Wind	Canadian Hydro	Canadian Gas	Corporate	Economic Interests: US Wind and Solar	US Gas	Australian Gas	Total	Investments in economic interests and adjustments	IFRS financials
Revenues[1]	70	4	69	—	31	6	43	223	(80)	143
Fuel, royalties and other costs[2]	4	1	40	—	1	3	2	51	(6)	45
Gross margin	66	3	29	—	30	3	41	172	(74)	98
Operations, maintenance and administration[3]	9	2	8	6	4	1	7	37	(12)	25
Taxes, other than income taxes	1	—	1	—	1	—	—	3	(1)	2
Net other operating income	(7)	—	—	—	—	—	—	(7)	—	(7)
Adjusted EBITDA[4]	63	1	20	(6)	25	2	34	139		
Depreciation and amortization										(37)
Finance income related to subsidiaries of TransAlta										19
Interest income										1
Interest expense										(13)
Foreign exchange gain										1
Earnings before income tax										49

(1) Adjusted EBITDA excludes the impact of unrealized mark-to-market gains or losses. Amounts related to economic interests include finance lease income adjusted for change in finance lease receivable.
(2) Amounts related to economic interests include interest earned on the prepayment of certain transmission costs.
(3) Amounts related to economic interests include the effect of contractually fixed management costs.
(4) Adjusted EBITDA is a non-IFRS measure and has no standardized meaning under IFRS.