Condensed Interim Financial Statements and Review

Balancing Pool

For the three months ended March 31, 2016

NOTICE OF NO AUDITOR'S REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements of the Balancing Pool have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

Calgary, Alberta
May 19, 2016

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") for the Balancing Pool is dated May 19, 2016 and should be read in conjunction with the Balancing Pool's condensed interim financial statements for the three months ended March 31, 2016 and 2015 and the annual financial statements for the years ended December 31, 2015 and 2014.

The condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") except for the valuation adjustments for the Hydro PPA and Small Power Producer contracts, which are recorded on an annual basis.

Results at a Glance

Three months ended March 31	2016	2015
Volume – gigawatt hours ("GWh")		
Genesee Power Purchase Arrangement ("PPA")	1,676	1,650
Battle River 5 PPA	371	-
Sheerness PPA *	201	-
Sundance A PPA *	205	-
Sundance B PPA *	103	-
Sundance C PPA *	80	-
Hydro PPA electricity	366	361
Hydro PPA ancillary service	328	324
Small Power Producer	43	44
Price – per megawatt hour ("MWh")		
Average Pool price	$18.12	$29.03
Other		
Consumer Allocation per MWh	$3.25	$5.50
Financial Results ***(in thousands of dollars)***		
Total revenues	56,057	107,354
Total expenses	108,667	85,294
Income from operating activities	(52,610)	22,060
Change in net assets attributable to the Balancing Pool deferral account	(52,811)	21,760
For the period ended (in thousands of dollars)	March 31, 2016	December 31, 2015
Cash, cash equivalents and investments	598,444	709,792
Total assets	1,177,325	1,299,463
Total liabilities	504,550	524,948
Net assets attributable to the Balancing Pool deferral account	672,775	774,515
Consumer allocation	48,929	324,113

* The meter volumes reflected above are effective as of the date the Balancing Pool received the PPA notices of termination. Please see the following page for effective dates.

Significant Events

In Q1 2016, the Balancing Pool received formal notice from the Buyers of the Sheerness, Sundance A, Sundance B and Sundance C PPA, of their intention to terminate their respective PPAs.

On May 5, 2016, the Balancing Pool received formal notice from ENMAX PPA Management of its intention to terminate the Keephills PPA. The table below summarizes the various terminated PPAs.

Date of Termination Notice	Power Purchase Arrangement	PPA Buyer
December 11, 2015	Battle River 5	ENMAX PPA Management
March 7, 2016	Sheerness	TransCanada Energy Ltd.
March 7, 2016	Sundance A	TransCanada Energy Ltd.
March 7, 2016	Sundance B	ASTC Power Partnership
March 24, 2016	Sundance C	Capital Power PPA Management Inc.
May 5, 2016	Keephills	ENMAX Energy Corporation

According to the *Balancing Pool Regulation*, the Balancing Pool assumes responsibility for capacity and energy payments for the terminated PPAs immediately following receipt of the notice of termination. Revenues from the terminated PPAs are recorded in Sale of Electricity and the PPA capacity and energy payments and other associated costs are recorded in Cost of Sales. Upon conclusion of the investigation, should the terminations prove to be illegitimate or the effective date of the terminations be revised, the Balancing Pool may recover the previously paid PPA costs from the PPA Buyers.

At March 31, 2016, the Balancing Pool had not completed the investigation of the terminated PPAs listed above.

A provision for an onerous contact will be required for the terminated PPAs according to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* A provision may be recognized for an onerous contract when the unavoidable cost of meeting the obligations under the contract exceed the economic benefits expected to be derived from the contract to the extent any loss cannot be recovered from electricity consumers. The provision is measured at the lower of the expected costs of terminating the contract and the expected net costs of continuing with the contract. Please note that this quarterly report does not reflect a provision for Sheerness, Sundance A, Sundance B and/or Sundance C as the Balancing Pool is currently estimating the financial impact of any potential termination.

Legislated Duties and Strategic Objectives

The Balancing Pool's legislated duties and strategic objectives include the following:

- Act as a risk backstop in relation to extraordinary events, including force majeure for Power Purchase Arrangements ("PPAs") that were sold to the third party buyers;
- Participate in regulatory and dispute resolution processes to protect the value of the Balancing Pool's assets when required on behalf of Alberta electricity consumers;
- Hold the Hydro Power Purchase Arrangement ("Hydro PPA") and manage the associated stream of receipts or payments;

- Act as a buyer for the PPAs that were not sold in the public auction held by the Government of Alberta in 2000 or that have subsequently been terminated by third party buyers and manage the resulting electricity portfolio in a commercial manner;

- Transfer offer control to market participants by selling PPAs held by the Balancing Pool in whole or through PPA derivative contracts when market conditions will allow the Balancing Pool to receive fair market value;

- Manage the investment accounts prudently; and

- Allocate any forecasted cash surplus (or deficit) to electricity consumers in Alberta in annual amounts. This Consumer Allocation is managed so that there is no profit or loss over the life of the Balancing Pool.

Force Majeure

Events of force majeure are extraordinary events beyond the reasonable control of the affected PPA counterparty. Related to its risk backstop responsibilities, the Balancing Pool has a statutory obligation to pay certain costs during events of force majeure as set out in the terms of the PPAs.

Financial Assets under Investment

Financial investments held by the Balancing Pool are available to mitigate existing or future Balancing Pool liabilities.

Prior to April 1, 2016, the Balancing Pool's Board had approved a long-term investment policy for managing the financial assets. The investment policy was based on investment standards that have been deemed prudent by the Board of Directors and generally focused on achievement of a fair return on investments through a diversified investment portfolio to reduce risk. Professional money management firms manage the investment portfolio. The major sources of our investment income include interest, dividends and gains or losses on the sale of investments.

The ranges for asset allocation within the investment portfolio were as follows:

Fixed Income	40 – 60%
Canadian Equities	15 – 35%*
Global Equities	15 – 35%*

* Total equity exposure was capped at 60%.

In light of the PPA terminations and the potential cash requirements, on April 1, 2016 the Balancing Pool's Board of Directors approved a revision to the asset allocation strategy for the financial assets under investment intended to de-risk the portfolio and increase liquidity.

Genesee Power Purchase Arrangement and Related Finance Lease Obligation

The Genesee power purchase arrangement ("Genesee PPA") transfers substantially all of the benefits and some of the risks of ownership to the Balancing Pool. The asset is accounted for as a finance lease as required by IAS 17 *Leases* and is included in PP&E as required by IAS 16 *Property, Plant and Equipment.* The Genesee PPA is recorded at an amount not exceeding the estimated net future cash flows arising from operations over the remaining life of the PPA. The Balancing Pool is not responsible for the daily operation of the Genesee power plant, however the Balancing Pool does retain offer control.

As counterparty to the Genesee PPA, the Balancing Pool is required to make monthly payments to the owner of the generating unit intended to cover fixed and variable costs. The capital component of the monthly capacity payment is shown as a finance lease obligation.

Hydro Power Purchase Arrangement

The Hydro power purchase arrangement ("Hydro PPA") is recorded as an asset at the net present value of the estimated net cash receipts over the remaining term of the contract, which expires on December 31, 2020. Future revenues are estimated based on the notional energy and reserve (ancillary services) volumes set out in the Hydro PPA and management's best estimate of future energy and reserve prices. Corresponding expenses reflect the obligations for the remaining term of the contract as set out in the Hydro PPA.

The Hydro PPA is recorded as a financial asset since TransAlta Corporation ("TransAlta"), the owner of the hydro plants, retains offer control of the hydro assets under the terms of this PPA.

Payments in Lieu of Tax

Payments in Lieu of Tax ("PILOT") receipts are based on the taxable income of a municipal entity as defined in Section 147 of the *Electric Utilities Act* and the *Payment in Lieu of Tax Regulation of the Act.* In general, the PILOT amounts are equal to the amount the municipal entity would be required to pay as tax that year pursuant to the *Income Tax Act of Canada* and the *Alberta Corporate Tax Act*. PILOT payments remitted by the municipal entity are subject to audit by Alberta Tax and Revenue Administration. The Balancing Pool has no control over the PILOT amounts remitted by the municipal entities or the assessments issued by Alberta Tax and Revenue Administration.

Small Power Producer Contracts

The Small Power Research and Development Act required TransAlta Corporation to act as counterparty to the Small Power Producer ("SPP") contracts and to compensate the Small Power Producer for energy delivered under the contract at a specified price.

Under the *Independent Power and Small Power Regulation*, the Balancing Pool is required to make payments to TransAlta Corporation to compensate the company for any revenue shortfall experienced during periods when the Pool price falls below the SPP contracted price. Conversely, the Balancing Pool is entitled to receive payments from TransAlta Corporation during high price periods when there is a revenue surplus relative to the contract price.

The SPP contracts are recorded as a liability calculated as the net present value of the future payments or receipts from SPP related power sales considering any differences between the annual prices set out in the SPP contracts and management's best estimate of the Pool price forecast over the remaining term of the contracts.

The SPP contracts are recorded as a financial instrument analogous to a fixed for floating swap arrangement.

Reclamation and Abandonment

The reclamation and abandonment provision represents a fixed amount that has been committed for the decommissioning of H.R. Milner generating station, estimated reclamation and abandonment costs associated with the Isolated Generation sites and estimated decommissioning costs of eligible PPA-related facilities.

Under the Negotiated Settlement Agreement for the H.R. Milner generating station in 2001, the Balancing Pool assumed liability for the costs of decommissioning the station at the end of the contract period. When the asset was sold in 2004, the Balancing Pool retained the liability for decommissioning the generating station. A bilateral agreement was reached in 2011 with Milner Power Limited Partnership where the Balancing Pool's exposure to decommissioning costs are capped at $15 million in nominal dollars.

Under *the Isolated Generating Units and Customer Choice Regulations of the Act*, the Balancing Pool is liable for certain amounts relating to the reclamation and abandonment costs associated with Isolated Generation sites.

Pursuant to Section 7 of the *Power Purchase Arrangements Regulation of the Act*, the owner of a PPA-related generating unit who applies to the Alberta Utilities Commission ("AUC") to decommission a unit within one year of the termination of the PPA may be entitled to receive compensation from the Balancing Pool. The compensation is to be calculated as the amount by which the decommissioning costs exceed the amount the owner collected from consumers before January 1, 2001 and subsequently through a PPA. The unit must have ceased generating electricity and payment is subject to AUC approval. This provision does not apply to PPA-related generating units where the termination date occurs after December 31, 2018.

Consumer Allocation

The Consumer Allocation is reviewed and approved annually by the Board of the Balancing Pool and may be revised at any time during the year at the Board's discretion.

Operations

Revenues

Details of Revenues *(in thousands of dollars)*	Three months ended March 31		
	2016	2015	Variance
Sale of electricity	39,941	34,530	5,411
Sale of generating capacity	26,030	17,828	8,202
Change in fair value of Hydro power purchase arrangement	(6,266)	(548)	(5,718)
Change in fair value of investments	(6,320)	48,562	(54,882)
Investment income – interest and dividends	2,895	4,564	(1,669)
Payments in lieu of taxes	(223)	2,418	(2,641)
Total revenues	56,057	107,354	(51,297)

Sale of Electricity

Revenue from the sale of electricity increased in Q1 2016 relative to Q1 2015 due to the inclusion of Battle River 5 PPA revenues. The Balancing Pool did not hold Battle River 5 in Q1 2015.

Sale of Generating Capacity

The two 100-MW strip contracts for generating capacity derived from the Genesee PPA resulted in revenues of $26.0 million for the first quarter of 2016. The increase in revenues for Q1 2016 relative to Q1 2015 was the result of a onetime payment received through a negotiated settlement reached with one of the strip buyers to facilitate the termination of the strip contract.

Change in Fair Value of Hydro Power Purchase Arrangement

Revenue from the Hydro PPA decreased in Q1 2016 relative to Q1 2015 due to lower actual current cash receipts than those forecast in the 2015 year-end valuation. Actual cash receipts decreased as a result of the lower than expected Pool prices for Q1 2016.

Changes in Fair Value of Investments

Details of Changes in Fair Value of Investments *(in thousands of dollars)*	Three months ended March 31		
	2016	2015	Variance
Unrealized mark-to-market (loss) gain	(116,682)	23,262	(139,944)
Realized capital gains	110,362	25,300	85,062
Total Changes in Fair Value of Investments	(6,320)	48,562	(54,882)

Total changes in fair value of investments declined for Q1 2016 relative to Q1 2015 due to the accelerated sale of investments.

Investment Returns & Benchmark *(%)*	Three months ended March 31		
	2016	2015	Variance
Investment returns	(0.33)	5.40	(5.73)
Benchmark	(0.39)	5.26	(5.65)
Variance	0.06	0.14	(0.08)

Investment Income – Interest and Dividends

Investment income for Q1 2016 decreased relative to Q1 2015 due to the drawdown of the Investment portfolio.

Payments In Lieu of Tax

Total PILOT revenues in Q1 2016 decreased relative to Q1 2015 as a result of litigation and audit costs exceeding installment remittances received by the Balancing Pool.

The Balancing Pool has no control over the timing and amount of PILOT instalments remitted by the municipalities or adjustments and / or refunds in relation to reassessments of prior years. PILOT instalments are calculated by the electricity companies and are subject to audit by Alberta Tax and Revenue Administration. The Balancing Pool is responsible for paying the PILOT audit and litigation costs incurred by Alberta Tax and Revenue Administration.

Expenses

Details of Expense *(in thousands of dollars)*	Three months ended March 31		
	2016	2015	Variance
Cost of sales	104,879	78,670	26,209
Force majeure costs	492	2,852	(2,360)
Mandated costs	1,829	1,937	(108)
General and administrative	640	628	12
Investment management costs	352	624	(272)
Changes in fair value of Small Power Producer contracts	475	583	(108)
Total expenses	108,667	85,294	23,373

Cost of Sales

Total cost of sales increased in Q1 2016 relative to Q1 2015 primarily due to the inclusion of PPA costs associated with the terminated PPAs, which include Battle River 5, Sheerness, Sundance A, Sundance B and Sundance C. The Balancing Pool is responsible for remitting the PPA costs to the plant Owners of the generating units during the termination evaluation phase. Should the PPA terminations prove invalid the Balancing Pool may be able to recover the PPA costs remitted to the plant Owners.

PPA costs include plant capacity payments, variable operating costs including incentive payments, transmission charges and change in law costs. Capacity payments comprise more than 83% of total costs of sales and these payments vary year-over-year as a result of changes in cost base, cost indices, interest rates and pass-through charges. Changes to the Pool price have a minimal impact on the PPA capacity payments.

Force Majeure Costs

Force majeure costs for Q1 2016 decreased by $2.4 million relative to the same period in 2015 as there have been no claims submitted during Q1 2016.

Investment Management Costs

Investment management costs for Q1 2016 decreased relative to Q1 2015 due the drawdown of the investment portfolio as management fees are generally calculated as a percentage of the portfolio value.

Assets

Details of Assets *(in thousands of dollars)*	Three months ended March 31,2016	Year ended December 31, 2015	Variance
Cash and cash equivalents	162	5,073	(4,911)
Trade and other receivables	20,754	16,093	4,661
Investments	598,282	704,719	(106,437)
Property, plant and equipment	314,393	330,945	(16,552)
Hydro power purchase arrangement	243,734	242,633	1,101
Total assets	1,177,325	1,299,463	(122,138)

Investments

Investment Balance Portfolio	*(in thousands of dollars)*
Opening Investment Balance, December 31, 2015	704,719
Realized capital gains, interest and dividends on investments	113,245
Unrealized capital losses	(116,682)
Withdrawal from Investment portfolio	(103,000)
Closing Investment Balance, March 31, 2016	598,282

The investment portfolio has declined by $106.4 million from December 31, 2015 to finance operating losses and the consumer allocation.

Property, Plant and Equipment

As required by IAS 16 *Property, Plant and Equipment*, the Genesee PPA is recorded under Property, Plant and Equipment. The decrease in the net book value from year-end 2015 reflects the current quarter's amortization of the Genesee PPA and other capital assets.

As a result of the decline in the forward market price, an impairment loss of $222.0 million was recorded on the Genesee PPA lease at December 31, 2015.

Hydro Power Purchase Arrangement

The net present value of the Hydro PPA at March 31, 2016 increased by $1.1 million from December 31, 2015. Typically, the Hydro PPA will decline in value if revenues exceed the costs under the contact. In the current circumstances, with the low market prices, the costs of the PPA exceed revenues, which increase the residual value of the Hydro PPA due to the mechanics of financial instrument accounting used for this asset.

Liabilities

Details of Liabilities *(in thousands of dollars)*	Three months ended March 31,2016	Year ended December 31, 2015	Variance
Trade and other payables	89,615	74,580	15,035
Genesee power purchase arrangement lease obligation	297,130	312,511	(15,381)
Small power producer contracts	9,865	11,368	(1,503)
Reclamation, abandonment provision and other long-term obligations	107,940	126,489	(18,549)
Total liabilities	504,550	524,948	(20,398)

Trade and Other Payables

Trade and other payables increased in Q1 2016 relative to year-end 2015 due to the inclusion of PPA costs associated with the terminated PPAs (Battle River 5, Sheerness, Sundance A, Sundance B and Sundance C).

Genesee Power Purchase Arrangement Lease Obligation

The balance of the liability related to the Genesee PPA at March 31, 2016 represents the sum of the capital component of the total payments required over the remaining term of the Genesee PPA. The decrease in the first quarter of 2016 from December 31, 2015 reflects the straight-line amortization of the lease obligation.

Small Power Producer Contracts

The net present value of the SPP contract liability at March 31, 2016 decreased by $1.5 million from year-end 2015. The decrease in fair value is attributed to amortization of the SPP value as determined in the 2015 year-end valuation process.

Reclamation, Abandonment Provision and Other Long-Term Obligations

The decrease in the reclamation, abandonment provision and other long-term obligations from December 31, 2015 primarily reflects amortization of the Battle River 5 PPA provision.

Balancing Pool Deferral Account

Balancing Pool Deferral Account, Beginning of Year *(in thousands of dollars)*	Three months ended March 31,2016	Year ended December 31, 2015
Deferral account, beginning of year	774,515	1,562,737
Change in net assets attributable to the Balancing Pool deferral account	(52,811)	(464,109)
Consumer Allocation	(48,929)	(324,113)
Deferral account, end of year	672,775	774,515

The Balancing Pool deferral account decreased from December 31, 2015 as a result of operating losses for the first quarter and the consumer allocation distribution.

Liquidity and Cash Flow

To manage liquidity risk, the Balancing Pool forecasts cash flows for a period of 12 months and beyond to the end of 2020. Historically the Balancing Pool has had the flexibility to adjust the Consumer Allocation and / or liquidate investments as required to meet cash flow requirements.

Due to the recent notices of PPA terminations, the Balancing Pool's Board of Directors approved a liquidation strategy of the investment portfolio. If upheld, the Balancing Pool anticipates the termination of the PPAs will have a material effect and will likely result in a Consumer Charge in the future.

The Balancing Pool also has access to a credit facility of $90.0 million to meet short-term liquidity needs. At December 31, 2015 the Balancing Pool had $2.0 million of unsecured Letters of Credit issued with Natural Gas Exchange.

The Balancing Pool's primary uses of funds are for payment of operating expenses, payment of the obligations associated with the Genesee PPA, Battle River 5 PPA, Sundance A PPA, Sundance B PPA and Sundance C PPAs and payment of the Consumer Allocation.

Outlook

In November 2015, the Balancing Pool established the annual allocation of its financial surplus to electricity consumers in Alberta at $3.25 per MWh of consumption, effective January 1, 2016 (2015 – $5.50 per MWh). This forecast was based upon cash flows and the expected financial position for 2016, prior to receipt of the notices of the PPA terminations.

Risks and Risk Management

The Balancing Pool is exposed to a variety of risks while executing its mandate. Most of the risks are unique to the organization given its role and responsibilities in the Alberta Electric Industry. At the time that the Alberta electricity sector was restructured, the Balancing Pool was created to underwrite various risks associated with the PPAs. The risks the Balancing Pool is exposed to in executing its mandate include the following;

- **Force majeure risk**

  Events of force majeure are extraordinary events beyond the reasonable control of the affected PPA counterparty. These events include:
    - Extraordinary situations typically covered in force majeure clauses such as natural disasters, war, explosions, sabotage, etc.;
    - A major failure of some or all of the components of the plant which results in the plant being forced to operate at a lower level for a period in excess of 42 days; and
    - Transmission constraints that limit or prevent the delivery of electricity to the grid.

  Under the provisions of the PPAs, when a claim of force majeure is made, PPA Buyers are relieved of their obligations to make fixed capacity payments to the PPA Owner and instead the Balancing Pool is required to pay the PPA Owner the capacity payments normally paid by the Buyer. In addition, during events of force majeure availability incentive payment obligations between the Buyer and Owner are suspended.

- **Power market price volatility risk**

  As counterparty to the Genesee PPA, Battle River 5 PPA, Hydro PPA and SPP contracts, the Balancing Pool is exposed to power market price volatility risk.

  The Alberta market prices for electricity are settled at spot market prices and are dependent on many factors including but not limited to the supply and demand of electricity, generating and input costs, natural gas prices and weather conditions. Exposure to power price volatility may be partially managed through the execution of the Balancing Pool's hedging strategy.

  The Balancing Pool may have the ability to further reduce its exposure to market prices by selling blocks of the Genesee PPA capacity over long terms.

- **Marketable securities investment returns**

  Historically, the value of these investments was exposed to changes in capital markets and, as such, faced the risks related to equity market performance, interest rates, foreign exchange rates, and other financial risks. In addition, the liquidity risk of the portfolio was managed to ensure sufficient funds were available on relatively short notice in response to potential claims, etc.

The Balancing Pool's investment portfolio is managed by independent investment managers guided by pre-set asset allocations as specified in the Balancing Pool's Statement of Investment Policy.

Effective April 1, 2016, the Balancing Pool's Board of Directors approved a revision to the asset allocation strategy for the financial assets under investment intended to de-risk the portfolio and increase liquidity. The funds will be held in short-term deposits and / or money market securities.

- **PPA termination and / or unit destruction risk**

The PPAs contain a termination provision that makes accommodations for the PPA to be terminated to the extent a change in law could render continued performance of the arrangement unprofitable or more unprofitable to the PPA Buyer.

The Balancing Pool is responsible for conducting an investigation and must assess and verify the termination event and determine any need for a payment to be made by or to a party under the provisions of the arrangement.

If the termination notice under the change in law provision is determined to be valid, the Balancing Pool would be required to act as default Buyer, thereby assuming responsibility for paying the ongoing capacity and energy payments associated with a terminated PPA.

- **Unit destruction**

In the event that a unit is destroyed and cannot be repaired by the Owner, the Balancing Pool could be required to pay the Residual Balancing Pool Amount to the PPA Buyer and the Net Book Value less any Insurance Proceeds to the Owner of the unit.

- **Change in law risk**

Changes in law, including regulatory, environmental and electricity market design changes, can have a material effect on the values of the PPAs. Costs (and benefits) associated with a change in law are passed from plant Owners to the PPA Buyer. As the default Buyer of the various PPAs, the Balancing Pool must assume and be responsible for change in law costs affecting the generating units.

The Balancing Pool is subject to risk associated with changing Federal and Provincial laws, regulations, and any Balancing Pool specific mandate changes.

- **PPA decommissioning risk**

If a PPA Owner elects to decommission its facility, the Balancing Pool may be required to recompense the Owner for some of its decommissioning costs. The Balancing Pool would be financially liable for decommissioning costs exceeding the amounts the Owner has collected prior to deregulation and subsequently through the PPA payments. Regulation requires such claims to be initiated within one year of the termination of the PPA and before the end of 2018.

- **PPA Buyer default risk**

The PPA regulation contains provisions where, in the event of a Buyer default, the Balancing Pool would assume the role of Buyer and would either hold the PPA or auction the capacity back to the market.

- **Alberta Climate Leadership Plan**

  In November 2015, the Government of Alberta announced the Climate Leadership Plan ("CLP"). The CLP establishes a framework for the retirement of coal-fired generation by 2030, compliance requirements for coal emissions and renewable generation procurement to replace coal-fired generation. The CLP has not been enacted into law and the specifics of the policy have not been finalized. The final plan could have a material effect on the value of the PPAs.

- **Liquidity**

  To meet short-term liquidity needs, the Balancing Pool has access to a $90.0-million credit facility. Should the estimated liabilities exceed investment funds that may be available, the Balancing Pool has the ability to implement a Consumer Charge.

Accounting Policy Changes

There were no significant changes to accounting standards that impacted the Balancing Pool in Q1 2016. The Balancing Pool prepares its quarterly financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") except for quarterly valuation adjustments to the Hydro PPA and SPP contracts.

Critical Accounting Estimates

Since a determination of certain assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions which have been made using careful judgment. Actual results will differ from these estimates.

In particular, there were significant accounting estimates made in relation to the following items:

Reclamation and Abandonment Provision
External engineering estimates are used to calculate the anticipated future costs of reclamation and abandonment. The current and long-term portions of the provision are based upon management's best estimate of the timing of the costs.

Onerous Contract Provision
The provision for the Battle River 5 PPA is estimated using estimated future electricity prices, escalated costs as per the contract terms and future cash outflows discounted to the net present value at 2.7%.

Hydro Power Purchase Arrangement Valuation, Small Power Producer Contracts Valuation and Genesee Power Purchase Arrangement Impairment Assessment
The net present value of future cash flows is estimated using:

- estimated future electricity prices;
- escalated costs as per contract term; and
- future cash flows discounted to net present value at 10.1% (2014 – 10.1%).

In the opinion of management, these financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies.

Forward-Looking Information

Certain information in this MD&A is forward-looking information and relates to, among other things, anticipated financial market performance, future power prices and strategies. Forward-looking information typically contains statements with words such as “anticipate,” “believe,” “expect,” “target” or similar words suggesting future outcomes.

By their nature, such statements are subject to various risks and uncertainties that could cause the Balancing Pool’s actual results and experience to differ materially from the anticipated results. Such risks and uncertainties include, but are not limited to, the availability of generating assets and the price of energy commodities; regulatory decisions; extraordinary events related to the various PPAs; the ability of the Balancing Pool to successfully implement the initiatives referred to in this MD&A and other electricity market factors.

Statement of Financial Position

(in thousands of Canadian dollars)	**March 31, 2016**	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	162	5,073
Trade and other receivables	20,754	16,093
Current portion of Hydro power purchase arrangement (Note 2 a)	30,400	26,147
	51,316	47,313
Investments (Note 3)	598,282	704,719
Property, plant and equipment (Note 4 a)	314,393	330,945
Hydro power purchase arrangement (Note 2 a)	213,334	216,486
Total Assets	1,177,325	1,299,463
Liabilities		
Current liabilities		
Trade and other payables	89,615	74,580
Current portion of power purchase arrangement lease obligation	61,480	61,524
Current portion of Small Power Producer contracts (Note 2 b)	5,440	5,834
Current portion of reclamation and abandonment provision (Note 5)	47,270	47,125
	203,805	189,063
Genesee power purchase arrangement lease obligation	235,650	250,987
Small Power Producer contracts (Note 2 b)	4,425	5,534
Reclamation and abandonment provision & other long-term obligations (Note 5)	60,670	79,364
Total Liabilities	504,550	524,948
Net assets attributable to the Balancing Pool deferral account (Note 6)	672,775	774,515

Contingencies and commitments (Note 7)

Subsequent Events (Note 8)

Statements of Income (loss) and Comprehensive Income (loss)

((in thousands of Canadian dollars)	Three months ended March 31 2016	2015
Revenues		
Sale of electricity	39,941	34,530
Sale of generating capacity	26,030	17,828
Changes in fair value of Hydro power purchase arrangement (Note 2 a)	(6,266)	(548)
Changes in fair value of investments (Note 3)	(6,320)	48,562
Investment income – interest and dividends	2,895	4,564
Payments in lieu of tax	(223)	2,418
	56,057	107,354
Expenses		
Cost of sales	104,879	78,670
Force majeure costs	492	2,852
Mandated costs	1,829	1,937
General and administrative	640	628
Investment management costs	352	624
Changes in fair value of Small Power Producer contracts (Note 2 c)	475	583
	108,667	85,294
Income from operating activities	(52,610)	22,060
Other income (expense)		
Finance expense	(201)	(300)
	(201)	(300)
Change in net assets attributable to the Balancing Pool deferral account	(52,811)	21,760

Statements of Cash Flows

(in thousands of Canadian dollars)	Three months ended March 31 2016	2015
Cash flow provided by (used in)		
Operating activities		
Change in net assets attributable to the Balancing Pool deferral account	(52,811)	21,760
Items not affecting cash		
Amortization and depreciation (Note 4)	16,552	27,647
Reclamation, abandonment and other long-term obligations	(18,675)	-
Fair value changes on Small Power Producer contracts (Note 2 b)	475	583
Fair value changes on Hydro power purchase arrangement (Note 2 a)	6,266	548
Fair value changes on financial investments (Note 3)	116,682	(23,262)
Finance expense	201	300
Reclamation and abandonment expenditures (Note 5)	(75)	(175)
Net change in non-cash working capital	10,374	(2,794)
Net cash provided by (used in) operating activities	78,989	24,607
Investing activities		
Interest, dividends and other gains	(113,245)	(29,836)
Sale of investments	103,000	70,000
Net cash (used in) provided by investing activities	(10,245)	40,164
Financing activities		
Hydro power purchase arrangement net cash receipts (payments) (Note 2 a)	(7,367)	925
Payment of power purchase arrangement lease obligation	(15,381)	(15,286)
Small Power Producer contracts net receipts (payments) (Note 2 b)	(1,978)	(1,775)
Payment of the Consumer Allocation (Note 6)	(48,929)	(83,624)
Net cash used in financing activities	(73,655)	(99,760)
Change in cash and cash equivalents	(4,911)	(34,989)
Cash and cash equivalents, beginning of period	5,073	36,641
Cash and cash equivalents, end of period	162	1,652

Condensed Interim Notes to Financial Statements

1. Basis of Presentation

These interim financial statements for the three months ended March 31, 2016 are unaudited and have been prepared by management in accordance with IAS 34 'Interim Financial Reporting' ("IAS 34") as issued by the International Accounting Standards Board ("IASB") except for the financial instrument valuation adjustments for the Hydro PPA and SPP contracts.

The disclosures provided below are incremental to those included with the annual financial statements. These interim condensed financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2015.

These financial statements were authorized and approved for issue by the Board of the Balancing Pool on May 19, 2016.

2. Accounting for Financial Instruments

a) Hydro Power Purchase Arrangement

The remaining term of the Hydro PPA is five years through to December 31, 2020. At March 31, 2016 the value of the Hydro PPA was $243.7 million (Dec. 31, 2015 - $242.6 million). The Hydro PPA is revalued at each year end. The estimated value of this asset will vary significantly depending on the assumptions used and there is a high degree of measurement uncertainty associated with these assumptions.

Hydro Power Purchase Arrangement *(in thousands of dollars)*	Three months ended March 31, 2016	Year ended December 31, 2015
Hydro power purchase arrangement, opening balance	242,633	357,785
Accretion and current year change	(6,266)	19,126
Net cash payments (receipts)	7,367	(33,866)
Revaluation of hydro power purchase arrangement asset	-	(100,412)
Hydro power purchase arrangement, closing balance	243,734	242,633
Less: Current portion	(30,400)	(26,147)
	213,334	216,486

b) Small Power Producer Contracts

At March 31, 2016 the value of the SPP contracts was $9.9 million liability (Dec. 31, 2015 - $11.4 million liability). The SPP contracts are revalued at each year end.

Small Power Producer Contracts *(in thousands of dollars)*	Three months ended March 31, 2016	Year ended December 31, 2015
Small Power Producer contracts, opening balance	(11,368)	(12,987)
Accretion and current year change	(475)	(1,301)
Net cash payments	1,978	5,960
Revaluation of Small Power Producer contracts	-	(3,040)
Small Power Producer contracts, closing balance	(9,865)	(11,368)
Less: Current portion	5,440	5,834
	(4,425)	(5,534)

3. Investments

(in thousands of dollars)	Three months ended March 31, 2016 Market Value	Cost	Year ended December 31, 2015 Market Value	Cost
Fixed income securities	413,856	413,330	353,295	350,950
Canadian equities	173,537	172,772	135,209	108,540
Global equities	10,889	7,156	216,215	123,523
Total investments	598,282	593,258	704,719	583,013

The following table provides disclosure on the movements in the fair value of the investments:

Unrealized Market Gain (Loss) *(in thousands of dollars)*	Fixed Income Securities	Canadian Equities	Global Equities	Totals
Unrealized market gain, December 31, 2014	5,152	59,776	110,865	175,793
Changes in value attributable to:				
Change during the period	5,633	(15,531)	45,433	35,535
Realized (gain) loss on sales of investments	(8,440)	(17,576)	(63,606)	(89,622)
Net change during the period	(2,807)	(33,107)	(18,173)	(54,087)
Unrealized market gain, December 31, 2015	2,345	26,669	92,692	121,706
Changes in value attributable to:				
Change during the period	(794)	8,472	(13,999)	(6,321)
Realized (gain) loss on sales of investments	(1,025)	(34,376)	(74,960)	(110,361)
Net change during the period	(1,819)	(25,904)	(88,959)	(116,682)
Unrealized market gain, March 31, 2016	526	765	3,733	5,024

4. Property, Plant and Equipment and Related Lease Obligation

a) Property, Plant and Equipment

(in thousands of dollars)	Genesee PPA	Office Equipment	Total
Cost			
Balance as at December 31, 2014	1,505,670	519	1,506,189
Additions	-	56	56
Balance as at December 31, 2015	1,505,670	575	1,506,245
Additions	-	-	-
Balance as at March 31, 2016	1,505,670	575	1,506,245
Accumulated Depreciation			
Balance as at December 31, 2014	842,301	444	842,745
Amortization and Depreciation	110,561	34	110,595
Impairment loss	221,960	-	221,960
Balance as at December 31, 2015	1,174,822	478	1,175,300
Amortization and Depreciation	16,542	10	16,552
Balance as at March 31, 2016	1,191,364	488	1,191,852
Net Book Value			
As at December 31, 2015	330,848	97	330,945
As at March 31, 2016	314,306	87	314,393

During 2015, an impairment loss was recorded with respect to the Genesee PPA.

b) Genesee Power Purchase arrangement Lease Obligation

There have been no changes to the estimated future annual lease payments from those presented in the 2015 audited annual financial statements.

5. Reclamation and Abandonment Provision and Other Long-Term Obligation

	Other Long-Term Obligation		Reclamation and Abandonment Provision		
(in thousands of dollars)	Battle River 5 PPA	H.R. Milner Generating Station	Isolated Generation Sites	Costs of PPAs	Total
At January 1, 2015	-	11,854	6,518	11,505	29,877
Net increase in provision	96,700	800	2,731	(767)	99,464
Liabilities paid in period	-	-	(4,047)	-	(4,047)
Accretion expense	-	474	261	460	1,195
At December 31, 2015	96,700	13,128	5,463	11,198	126,489
Less: Current portion	(44,200)	-	(2,925)	-	(47,125)
At December 31, 2015	52,500	13,128	2,538	11,198	79,364
At January 1, 2016	96,700	13,128	5,463	11,198	126,489
Amortization	(18,675)	-	-	-	(18,675)
Liabilities paid in period	-	-	(75)	-	(75)
Accretion expense	-	89	37	75	201
At March 31, 2016	78,025	13,217	5,425	11,273	107,940
Less: Current portion	(44,420)	-	(2,850)	-	(47,270)
At March 31, 2016	33,605	13,217	2,575	11,273	60,670

6. Capital Management

The Balancing Pool's objective when managing capital is to operate as per the requirements of the *Electric Utilities Act (2003)* which requires the Balancing Pool to operate with no profit or loss and no share capital and forecast its revenues, expenses, and cash flows. Any excess or shortfall of funds in the accounts is to be allocated to, or provided by, electricity consumers.

A reconciliation of the opening and closing Balancing Pool deferral account is provided below:

Balancing Pool Deferral Account *(in thousands of dollars)*	Three months ended March 31, 2016	Year ended December 31, 2015
Deferral account, beginning balance	774,515	1,562,737
Change in net assets attributable to the Balancing Pool deferral account	(52,811)	(464,109)
Payment of Consumer Allocation	(48,929)	(324,113)
Deferral account, ending balance	672,775	774,515

7. Contingencies and Commitments

Termination of Power Purchase Arrangements

Pursuant to Section 96 of the EUA, where a PPA is terminated except for an Owner's termination for destruction, the PPA will be deemed to have been sold to the Balancing Pool. Buyer-initiated termination could be triggered by a change in law, which renders the PPA uneconomic or more uneconomic for the buyer, an event of force majeure lasting greater than six months or Owner default in performing its obligations. Termination under these provisions would result in the transfer of the PPA to the Balancing Pool. The Balancing Pool would then assume responsibility for ongoing capacity payments and other PPA-related costs and would be responsible for selling the output into the wholesale power market.

The Balancing Pool has the option to resell the PPAs or terminate the PPAs by paying the Owner a termination payment equal to the net book value.

Genesee PPA Energy Strip Contracts

In the last quarter of 2014, the Balancing Pool sold two 100-MW strip contracts for generating capacity from the Genesee PPA (representing 26% of the total Genesee PPA capacity). The two contracts commenced on November 1, 2014 and were contracted to expire on October 31, 2017. Terms of the contracts require the purchaser to pay a fixed monthly fee established by a competitive bid process and amounts intended to cover certain PPA costs payable by the Balancing Pool.

Revenue from the sale of the energy strip contracts has been recorded in sale of generating capacity on the Statement of Income.

Payments In Lieu of Tax

Alberta Tax and Revenue Administration has issued notices of re-assessment for several tax years (dating back to 2001) to a municipal entity that has been subject to PILOT. The municipal entity has disagreed with many aspects of the notices of re-assessment and has filed notices of objection for those tax years. The municipal entity has proceeded with litigation to resolve the various tax matters. The total PILOT revenues under dispute with the municipal entity are $305.1 million for the tax years of 2001 through to 2015. Due to the uncertainty of the outcome of the litigation, these financial statements do not reflect any contingent asset or liability in relation to these ongoing disputes.

Disputed Amounts

Disputed amounts for commercial matters are expensed as incurred and recognized on recovery.

Credit Facility

At December 31, 2015, the Balancing Pool had $2.0 million of unsecured Letters of Credit issued and an uncommitted credit facility available to issue Letters of Credit up to a maximum of $90.0 million.

8. Subsequent Event

On May 5, 2016, the Balancing Pool received formal notice from ENMAX PPA Management of its intention to terminate the Keephills PPA.

ENMAX's decision was triggered by the increased costs that will be imposed on Keephills under the changes to the *Specified Gas Emitters Regulation* and related Climate Change Emissions Management Fund that became effective January 1, 2016. These changes served to increase the costs of carbon and would thereby increase compliance costs for Keephills.

According to Section 1(d)(ii) of the *Balancing Pool Regulation*, an "extraordinary event" is an event that results in the termination of an arrangement in accordance with its terms and conditions and that the Balancing Pool is required to become party to the arrangement. Under Section 2(1)(g) of the regulation, on receipt of notice in respect of an extraordinary event, the Balancing Pool must conduct any investigation it determines appropriate in accordance with the EUA, the regulations and any arrangement. According to Section 2(1)(h) when clause (g) applies, the Balancing Pool must agree with the parties to the arrangement that the extraordinary event has occurred and that there is a need for a payment to be made to or by the Balancing Pool, or assess and verify the occurrence of the extraordinary event and the need for any payment to be made by or to a party under the provisions of the arrangement, and participate in any dispute resolution proceedings under an arrangement.

The Balancing Pool is reviewing the notices to terminate. Under Section 2(1)(g) and (h) of the *Balancing Pool Regulation*, the Balancing Pool will conduct an investigation to assess and verify the legitimacy of the terminations.

If the legitimacy of the terminations is verified, then:

- Pursuant to Section 2(1)(i) of the *Balancing Pool Regulation*, the Balancing Pool will be responsible for making Capacity and Energy Payments to the Owners of the generating stations.

- The Balancing Pool will have the option of either continuing to hold, sell or terminate the PPAs by paying the Owner a Termination Payment equal to the Net Book Value. A decision of whether to hold, sell or terminate the PPAs will be made pending further consultation with the Alberta Department of Energy, consumer groups and the conclusion of the Balancing Pool's investigation of the Sheerness, Sundance A, Sundance B and Sundance C PPA terminations.

- There is a high degree of uncertainty regarding to the financial impact of the potential terminations of the PPAs as it will depend upon future market prices, the specific details of the carbon tax contemplated under the Climate Change Leadership Plan and the decision to terminate, sell or hold the PPAs. The Balancing Pool believes that the impact of the termination of the PPAs in future periods could be material.

- The Balancing Pool anticipates the termination of the PPAs will impose significant financial obligations on the Balancing Pool that will deplete the existing investment portfolio overtime and may result in future charges to electricity consumers. The amount and commencement of a consumer charge will be determined at the conclusion of the Balancing Pool's investigation of the terminated PPAs and will depend heavily on future market prices and the nature and magnitude of the carbon levies that are contemplated under the Climate Change Leadership Plan.