



Condensed Interim Financial Statements and Review

Balancing Pool

For the three and nine months ended September 30, 2020
(Unaudited)

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.

Calgary, Alberta
December 2, 2020

Management's Discussion and Analysis

The condensed unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") except for the valuation adjustments for the Hydro power purchase arrangement ("Hydro PPA"), which is recorded on an annual basis.

Results at a Glance

<i>Nine months ended September 30</i>	2020	2019
Volume - gigawatt hour ("GWh")		
Genesee Power Purchase Arrangement ("PPA")	4,306	4,537
Sheerness PPA	2,134	3,705
Keephills PPA	3,164	3,376
PPA ancillary services	474	275
Hydro PPA electricity	1,260	1,247
Hydro PPA ancillary services	938	936
Small Power Producer Contracts	-	9
Total electricity and ancillary service volumes	12,276	14,085
Price – per megawatt hour ("MWh")		
Average electricity market price	\$46.91	\$58.02
Consumer Collection		
Consumer collection per MWh	\$2.50	\$2.90
Consumer collection (<i>in thousands of dollars</i>)	\$107,569	\$128,424
Financial Results (<i>in thousands of dollars</i>)		
Statement of Income and Comprehensive Income		
Revenue from contracts with customers	580,228	825,687
Other income	156	7,737
Expenses	541,221	686,181
Income from operating activities	39,164	147,242
Other income (expense)	(17,677)	(26,881)
Change to the Balancing Pool deferral account	21,487	120,361
<i>For the period ended</i>	September 30, 2020	December 31, 2019
Statement of Financial Position (<i>in thousands of dollars</i>)		
Total assets	383,251	586,858
Total liabilities	1,136,389	1,361,483
Net liabilities attributable to the Balancing Pool deferral account	(753,138)	(774,625)

Legislated Duties

The Balancing Pool's legislated duties include the following:

- Act as a risk backstop for the PPAs in relation to extraordinary events, such as force majeure;
- 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 were subsequently terminated by third party Buyers;
- Manage the PPAs held by the Balancing Pool in a commercial manner, and/or terminate them with the Owners if appropriate;
- Allocate (or collect) any forecasted cash surplus (or deficit) to (from) electricity consumers in Alberta in annual amounts;
- Manage the financial accounts arising from the transition to a competitive generation market on behalf of consumers;
- Fund the decommissioning and reclamation costs associated with certain generation facilities in Alberta;
- Hold the Hydro PPA and manage the associated stream of receipts or payments;
- Participate in regulatory and dispute resolution processes;
- Fund initiatives in the electricity industry at the direction of the Minister of Energy;
- Administer funding for the Utility Payment Deferral Program that was implemented during the COVID-19 pandemic; and,
- Act as the default market participant and provide settlement functions in relation to certain projects developed under the *Small Scale Generation Regulation*.

Novel Coronavirus ("COVID-19")

With the outbreak of COVID-19, the Balancing Pool has deployed its Business Continuity Plan in order to protect the health and safety of Balancing Pool personnel and to ensure the Balancing Pool continues to execute its mandate. All Balancing Pool personnel have been working remotely since March 16, 2020 and will continue to do so for an indefinite period of time. The Balancing Pool does not anticipate a significant impact to daily operations as a result of COVID-19.

The spread of COVID-19 in Alberta and the restrictions imposed by various levels of government has impacted the demand for electricity, which has resulted in lower future Alberta power prices. Lower power prices reduce Sale of Electricity revenue from the thermal PPAs and the Hydro PPA. Reduced revenues may result in the Balancing Pool drawing on funds available through the Provincial government loan to satisfy its obligations.

The Government of Alberta initiated a program that became effective May 12, 2020 that permitted residential, farm, and small commercial businesses to defer the payment of utility bills for 90 days. The Balancing Pool received a Ministerial Order from the Minister of Energy on April 22, 2020 directing the Balancing Pool to reserve \$119.0 million for the 90-day utility payment deferral program to assist retailers with funding. At September 30, 2020 the Balancing Pool has issued \$36.1 million in funding to the retailers and received repayments of \$17.3 million from retailers.

MSA Settlement

The Alberta Utilities Commission ("AUC") approved a settlement agreement on January 14, 2020 between the MSA and the Balancing Pool. Under the terms of the agreement, the Balancing Pool agreed to report publicly in its quarterly and annual reports on the activities undertaken to operate the PPA units in a commercial manner.

The Balancing Pool has considered and pursued various strategies to manage the PPAs that it holds in a commercial manner.

The Sundance B and C PPAs were terminated effective April 1, 2018 and the Battle River 5 PPA was terminated effective October 1, 2018. The Balancing Pool has continued to evaluate the economics of the remaining PPAs (Genesee, Sheerness and Keephills) to determine if any of these PPAs are potential candidates for termination. The Balancing Pool has not terminated any of the remaining PPAs due to the high termination payments required under section 97 of the *Electric Utilities Act* ("EUA"). Furthermore, the remaining time in the PPA terms is now under the six month termination notice period required under Section 97. As such, the Balancing Pool cannot terminate any PPA without breaching the notice requirements of s.97 of the EUA.

The Balancing Pool has examined the option of selling PPA capacity. A third-party expert assessed market conditions in 2017 and 2018 and concluded there would be insufficient interest in a PPA capacity sale to generate the competitive tension necessary for the Balancing Pool to receive fair market value for the capacity sold. The Balancing Pool continued to assess the prospect of selling PPA capacity into 2019, but concluded that the market condition issues had not improved. In any event, the short time remaining before the PPAs expire in 2020 means that a sale process cannot be completed even if such a process could be justified. As such, the Balancing Pool is of the opinion it would not receive fair market value if it were to attempt to sell PPA capacity.

The Balancing Pool has the option to employ its historical offer strategy or to consider alternative offer strategies, as it deems appropriate, so long as it continues to fulfil its mandate to manage generation assets in a commercial manner. Following a rigorous strategic review process, the Balancing Pool elected to augment its internal operational capabilities and began employing alternative offer strategies in the second quarter 2019. The Balancing Pool continues to monitor the results from its alternative offer strategies and makes adjustments to these strategies where appropriate.

During the months of April, May, June, and July, the Balancing Pool and its advisors expended a great deal of time and effort considering the possible costs and benefits of a PPA unit shutdown strategy during extended periods of very low prices. Ultimately the Balancing Pool, exercising reasonable commercial judgment, determined that the benefits of unit shutdowns, if they materialize at all, are low and are greatly outweighed by the costs, practicalities of implementation, and regulatory and legal risks of the strategy. The Balancing Pool's conclusions are consistent with its obligations under the Electric Utilities Act to act responsibly, to manage risks prudently, and to manage generation assets in a commercial manner.

The Balancing Pool continues to undertake other commercial activities. During first nine months of 2020, the Balancing Pool sold 474 gigawatt hours ("GWh") in ancillary services for total revenue of \$7.4 million. During that same period, the Balancing Pool purchased 0.5 million tonnes of emission credits and retired 0.6 million tonnes of emission credits to satisfy environmental compliance charges, resulting in a \$2.3 million gain. The gain on emission credits is a result of procuring emission credits at a price lower than the Climate Change Emission Management Fund rate of \$30 per tonne.

Assets

Details of Assets (in thousands of dollars)	September 30, 2020	December 31, 2019
Cash and cash equivalents	179,719	96,037
Trade and other receivables	57,622	87,630
Receivables from retailers	18,790	-
Right-of-use assets	72,378	290,010
Hydro power purchase arrangement	54,725	110,667
Property, plant and equipment	17	14
Intangible assets	-	2,500
Total assets	383,251	586,858

Trade and Other Receivables

Trade and other receivables balance at September 30, 2020 include the consumer collection, Hydro PPA revenues and sale of electricity revenues receivable for the PPAs (Sheerness, Keephills and Genesee) for September 2020. Trade and other receivables at September 30, 2020 have declined from December 31, 2019 due to the lower realized pool price for September 2020 relative to December 2019. Also included in trade and other receivables is \$2.0 million in receivables related to the negotiated settlement reached on the termination of certain PPAs in 2016.

Receivables from Retailers

Receivables from retailers include amounts paid to retailers related to the 90-day utility payment deferral program. At September 30, 2020 the Balancing Pool had issued \$36.1 million in funding and received \$17.3 million in re-payment leaving a balance of \$18.8 million due from retailers. Retailer funding amounts are approved by the Alberta Utilities Commission.

Right-of-use Assets

Right-of-use assets decreased by \$217.6 million from December 31, 2019 due to depreciation of the asset value in accordance with IFRS 16 *Leases*. The right-of-use assets are depreciated on a straight-line basis over the remaining term of the PPAs (3 months remaining) and office lease (9 months remaining).

Hydro Power Purchase Arrangement

The 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 instrument (asset) since TransAlta Corporation ("TransAlta"), the owner of the hydro plants, retains offer control of the hydro assets under the terms of this PPA.

At September 30, 2020, the fair value of the Hydro PPA decreased by \$55.5 million from December 31, 2019. The decrease in fair value reflects amortization of the Hydro PPA value.

Liabilities

Details of Liabilities (in thousands of dollars)	September 30, 2020	December 31, 2019
Trade and other payables	299,130	212,524
Related party loan	703,108	705,984
Reclamation and abandonment provision	31,630	32,859
Lease Liability	102,521	410,116
Total liabilities	1,136,389	1,361,483

Trade Payables and Other Accrued Liabilities

Trade and other payables increased at September 30, 2020 relative to year-end 2019 primarily due to accrued liabilities recorded in the first nine months of 2020 for PPA environment compliance charges. PPA environment compliance charges will be settled in June 2021.

Related Party Loan

At September 30, 2020, the Balancing Pool had outstanding discount notes issued to the Government of Alberta for \$703.1 million including accrued interest.

Reclamation and Abandonment Provision

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

The terms of the 2001 Asset Sale Agreement for the H.R. Milner generating station between the Balancing Pool and ATCO Power Ltd ("ATCO") enabled ATCO to assume the ongoing operation of the facility on behalf of the Balancing Pool. The Balancing Pool assumed liability for the costs of decommissioning the station at the end of operations. When the asset was subsequently sold by the Balancing Pool to Milner Power Limited Partnership 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 was capped at \$15.0 million in nominal dollars.

Under *the Isolated Generating Units and Customer Choice Regulations of the Act*, the Balancing Pool is also 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 or expiration of the PPA is entitled to receive from the Balancing Pool the amount by which the decommissioning costs exceed the amount the Owner collected from consumers before January 1, 2001 and subsequently through the PPA term. Decommissioning cost recovery by the Owner is subject to review and approval by the AUC. This provision does not apply to generating units associated with PPAs that expire or terminate after December 31, 2018.

In December 2018, TransAlta submitted an application to the AUC to decommission the units associated with the Sundance A PPA. The provision for Sundance A is based upon management's best estimate of decommissioning costs. The AUC will determine the amount owed to TransAlta.

The decrease in the reclamation and abandonment provision from December 31, 2019 primarily reflects payments of \$1.6 million for the Isolated Generation project and decommissioning activities at the H.R. Milner generating station offset by accretion expense.

Lease Liability

The lease liability decreased by \$307.6 million from December 31, 2019. Lease payments of \$312.5 million issued to the plant owners of the PPAs and the landlord of the office space were recorded against the lease liability drawing down the liability. The lease liability includes interest expense of \$5.6 million for the first nine months of 2020 and a decrease to the lease liability of \$0.6 million due to a change in capacity payments for the PPAs for 2020.

Balancing Pool Deferral Account

Balancing Pool Deferral Account (in thousands of dollars)	September 30, 2020	December 31, 2019
Deferral account, beginning of year	(774,625)	(946,456)
Change to the Balancing Pool deferral account	21,487	171,831
Deferral account, end of period	(753,138)	(774,625)

The Balancing Pool deferral account decreased from December 31, 2019 primarily due to higher revenue from the sale of electricity for the thermal PPAs and receipts from the Hydro PPA recorded in the month of January 2020.

Operations

Revenue from Contracts with Customers

Revenue from Contract with Customers (in thousands of dollars)	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Sale of electricity & ancillary service	144,930	192,926	472,660	697,263
Consumer collection	35,251	42,310	107,569	128,424
Total revenue from contracts with customers	180,181	235,236	580,229	825,687

Sale of electricity and ancillary service revenue decreased in the first nine months of 2020 relative to the same period in 2019 due to a lower realized electricity market price in 2020 relative to 2019. Included in sale of electricity are ancillary service revenues of \$2.1 million for the three month ended September 30 and \$7.4 million in the first nine months (2019 - \$0.8 million, \$5.0 million).

Consumer Collection

The consumer collection for 2020 was set at a rate of \$2.50 per MWh (2019 - \$2.90 per MWh) of electricity consumed by electricity customers in the province of Alberta. In the first nine months of 2020 the Balancing Pool collected \$107.6 million (2019 - \$128.4 million) from electricity consumers.

Other Income (expense) from Operating Activities

Other income (expense) from operating activities (in thousands of dollars)	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Change in fair value of Hydro PPA	(14,841)	(12,908)	(13,805)	6,987
Interest Income	189	631	1,011	2,083
Payments in lieu of tax	3,118	(4,924)	12,950	(1,334)
Total other income (expense) from operating activities	(11,534)	(17,201)	156	7,736

Change in Fair Value of Hydro Power Purchase Arrangement

Revenue from the Hydro PPA decreased in the first nine months of 2020 relative to the same period in 2019 due to a lower realized electricity market price in 2020 relative to the same period in 2019.

Payments In Lieu of Tax

Payments (refunds) in Lieu of Tax ("PILOT") receipts (payments) 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 of corporate income tax the municipal entity would be required to pay in a given year pursuant to the Income Tax Act of Canada and the Alberta Corporate Tax Act if it were subject to income tax. 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 re-assessments issued by Alberta Tax and Revenue Administration.

Total PILOT revenues of \$12.9 million in the first nine months of 2020 reflect PILOT installments received by the various municipal entities offset by audit costs.

Expenses

Expense (in thousands of dollars)	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Cost of sales	186,215	207,865	533,124	679,214
Mandated costs	1,186	1,296	3,559	3,888
General and administrative	1,237	1,225	3,442	3,986
Force majeure, other PPA and PPA provision expense	355	319	1,096	(514)
Change in fair value of SPP	-	-	-	(393)
Total expenses	188,993	210,705	541,221	686,181

Cost of Sales

Cost of Sales (in thousands of dollars)	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Cost of power purchase arrangements and power marketing	218,108	242,423	630,825	792,060
Fixed PPA lease payments (applied to Lease Liability)	(104,282)	(109,473)	(312,516)	(328,418)
Gain on the retirement of emission credits	-	-	(2,283)	(9,172)
Amortization and depreciation on assets	72,291	74,915	217,000	224,744
Small scale generation	98	-	98	-
Total cost of sales	186,215	207,865	533,124	679,214

The PPA costs include capacity payments, variable fuel and operating costs, incentive payments and transmission charges. Capacity payments costs vary year-over-year as a result of changes in capital cost base, inflation indices, interest rates and pass-through charges. Changes to the Pool price have a minimal impact on the PPA capacity payments.

On adoption of IFRS 16, the portion of the capacity payment that is based upon indices and rates (capital recovery charge, indexed fuel charge and indexed operational & maintenance charge) has been classified as the fixed lease payment. The fixed lease payment portion of the total capacity payment is used to estimate the lease liability. As the capacity payments are invoiced by the plant owner, the fixed

lease payment portion of the total capacity payment is recorded against the lease liability. The balance of the capacity payment is expensed through the income statement.

The decrease in PPA costs for the first nine months of 2020 relative to the same period in 2019 is due to the termination of the Sundance B and C PPAs in 2019 as well as a reduction in change in law expense for the Sheerness PPA.

Amortization and depreciation decreased in the first nine months of 2020 relative to the same period of 2019 as a result of a decrease to the lease liability for the PPAs for 2020.

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 2030.

In December 2016, the Government of Alberta enacted changes to the *Electric Utilities Act* that allow Alberta Treasury Board and Finance to loan funds to the Balancing Pool at the recommendation of the Minister of Energy.

The Balancing Pool's primary uses of funds were for payment of the obligations associated with the PPAs and operating expenses.

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 electricity industry. At the time the Alberta electricity sector was restructured back in 1999, 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.

Power market price volatility risk

As counterparty to the thermal PPAs and Hydro PPA, 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.

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 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 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.

Technology Innovation and Emissions Reduction Regulation

The Technology Innovation and Emissions Reduction Regulation ("TIER") impose an output-based benchmark on all generation facilities in the electricity industry. The net emissions for a facility may not exceed the output-based allocation applicable to that facility. Under circumstances where the actual emissions intensity exceeds the benchmark, the facility will have to bring its net emissions down by applying emission performance credits, emission offsets or fund credits.

The Balancing Pool is subject to risk associated with material changes to TIER that impact the value of the PPAs.

PPA decommissioning risk

If a PPA Owner elects to decommission its facility, the Balancing Pool may be required to recompense the Owner for a portion 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. In December 2018, TransAlta submitted an application to the AUC to decommission the Sundance A unit. The Balancing Pool disputes several aspects of TransAlta's decommissioning plan.

Liquidity

To meet short-term liquidity needs, the Balancing Pool has a loan agreement in place with Alberta Treasury Board and Finance.

COVID-19

With the outbreak of COVID-19, the Balancing Pool has deployed its Business Continuity Plan in order to protect the health and safety of Balancing Pool personnel and to ensure the Balancing Pool continues to execute its mandate. The Balancing Pool does not anticipate a significant impact to daily operations as a result of COVID-19.

The spread of COVID-19 in Alberta and the restrictions imposed by various levels of government may impact the demand for electricity, which may result in lower future Alberta power prices. Lower power prices will reduce Sale of Electricity revenue from the thermal PPAs and the Hydro PPA. Reduced revenues may result in the Balancing Pool drawing on funds available through the Provincial government loan to satisfy its obligations.

Statement of Financial Position

(in thousands of Canadian dollars)

<i>(Unaudited)</i>	September 30, 2020	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	179,719	96,037
Trade and other receivables	57,622	87,630
Receivables from retailers (Note 2)	18,790	-
Current portion of hydro power purchase arrangement (Note 5)	54,725	110,667
Current portion of right of use assets (Note 3)	72,378	289,921
Intangible assets	-	2,500
	383,234	586,755
Right of use assets	-	89
Property, plant and equipment	17	14
Total Assets	383,251	586,858
Liabilities		
Current liabilities		
Trade payables and other accrued liabilities	299,130	212,524
Current portion of related party loan (Note 5)	202,956	202,765
Current portion of reclamation and abandonment provision (Note 6)	250	676
Current portion of lease liability (Note 7)	102,521	410,025
	604,857	825,990
Reclamation and abandonment provision (Note 6 and 9)	31,380	32,183
Related party loan (Note 5)	500,152	503,219
Lease liability (Note 7)	-	91
Total Liabilities	1,136,389	1,361,483
Net liabilities attributable to the Balancing Pool deferral account (Note 8)	(753,138)	(774,625)
Contingencies and commitments (Note 9)		
Subsequent events (Note 10)		

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

(in thousands of Canadian dollars)

<i>(Unaudited)</i>	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Revenue from contracts with customers				
Sale of electricity & ancillary services	144,930	192,926	472,660	697,263
Consumer collection	35,251	42,310	107,569	128,424
	180,181	235,236	580,229	825,687
Other income (expense) from operating activities				
Changes in fair value of Hydro PPA (Note 4)	(14,841)	(12,908)	(13,805)	6,987
Interest income	189	631	1,011	2,083
Payments in lieu of tax	3,118	(4,924)	12,950	(1,334)
	(11,534)	(17,201)	156	7,736
Expenses				
Cost of sales	186,215	207,865	533,124	679,214
Mandated costs	1,186	1,296	3,559	3,888
General and administrative	1,237	1,225	3,442	3,986
Force majeure, Other PPA and PPA provision (recovery)	355	319	1,096	(514)
Changes in fair value of SPP contracts	-	-	-	(393)
	188,993	210,705	541,221	686,181
Income from operating activities	(20,346)	7,330	39,164	147,242
Other income (expense)				
Other income	155	-	155	4
Finance expense	(5,542)	(8,599)	(17,832)	(26,885)
	(5,387)	(8,599)	(17,677)	(26,881)
Change to the Balancing Pool deferral account	(25,733)	(1,269)	21,487	120,361

Statements of Cash Flows

(in thousands of Canadian dollars)

(Unaudited)	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Cash flow provided by (used in)				
Operating activities				
Change to the Balancing Pool deferral account	(25,733)	(1,269)	21,487	120,361
Items not affecting cash				
Amortization, depreciation and impairment (Note 3)	72,291	74,915	217,000	224,744
Power purchase arrangement provision	-	-	-	(2,132)
Fair value changes on SPP contracts	-	-	-	(393)
Fair value changes on Hydro PPA (Note 4)	14,841	12,908	13,805	(6,987)
Finance expense	5,542	8,599	17,832	26,885
Emission credits retired	-	-	14,446	59,296
Reclamation and abandonment expenditures (Note 6)	(48)	(242)	(1,658)	(1,361)
Net change in other assets:				
Long-term receivable	(5)	(10)	(15)	(30)
Net change in non-cash working capital	64,133	(46,218)	97,841	31,295
Net cash provided by operating activities	131,021	48,683	380,738	451,678
Investing activities				
Additions to property, plant and equipment	-	(15)	(9)	(15)
Purchase of intangible assets	-	(22,500)	(11,947)	(55,148)
Net cash used in investing activities	-	(22,515)	(11,956)	(55,163)
Financing activities				
Hydro PPA net cash receipts (Note 4)	12,747	16,156	42,137	65,181
SPP contracts net payments	-	-	-	(51)
Lease repayments (Note 7)	(104,282)	(109,473)	(312,516)	(328,418)
Proceeds from issue of related party loans (Note 5)	127,946	74,641	532,529	627,472
Repayment of related party loans (Note 5)	(134,625)	(106,625)	(547,250)	(854,750)
Net cash used in financing activities	(98,214)	(125,301)	(285,100)	(490,566)
Change in cash and cash equivalents	32,807	(99,133)	83,682	(94,051)
Cash and cash equivalents, beginning of period	146,912	180,933	96,037	175,851
Cash and cash equivalents, end of period	179,719	81,800	179,719	81,800

Condensed Interim Notes to Financial Statements *(Unaudited)*

Activities of the Balancing Pool

The initial allocation of assets and liabilities to the Balancing Pool was charged to a deferral account. Differences between annual revenues and expenditures are also charged or credited to the Balancing Pool deferral account.

The EUA requires that the Balancing Pool forecast its revenues and expenses. Any excess or shortfall of funds in the accounts is to be allocated to, or provided by, electricity consumers over time.

In late 2016, following the PPA terminations, the Government of Alberta enacted changes to the EUA that allow the Treasury Board to make loans to the Balancing Pool at the recommendation of the Minister of Energy and to guarantee the Balancing Pool's obligations. Any cash shortfall that the consumer collection is unable to satisfy will be financed by funds obtained through the loan agreement with the Government of Alberta and subsequently recovered from electricity consumers over the period of January 1, 2017 to December 31, 2030.

The thermal PPAs and Hydro PPA expire on December 31, 2020. The Balancing Pool's business activities after December 31, 2020 will include the collection of funds from electricity consumers, the repayment of the outstanding loan with the Provincial government, resolving outstanding commercial and regulatory disputes related to the PPAs, resolving other legal matters, and settlement of certain financial accounts.

Novel Coronavirus ("COVID-19")

With the outbreak of COVID-19, the Balancing Pool has deployed its Business Continuity Plan in order to protect the health and safety of Balancing Pool personnel and to ensure the Balancing Pool continues to execute its mandate. All Balancing Pool personnel have been working remotely since March 16, 2020 and will continue to do so for an indefinite period of time. The Balancing Pool does not anticipate a significant impact to daily operations as a result of COVID-19.

The spread of COVID-19 in Alberta and the restrictions imposed by various levels of government may impact the demand for electricity, which may result in lower future Alberta power prices. Lower power prices will reduce Sale of Electricity revenue from the thermal PPAs and the Hydro PPA. Reduced revenues may result in the Balancing Pool drawing on funds available through the Provincial government loan to satisfy its obligations.

The Provincial government has announced that residential, farm, and small commercial businesses can defer payment of utility bills for 90 days. The Balancing Pool received a Ministerial Order from the Minister of Energy on April 22, 2020 directing the Balancing Pool to reserve \$119.0 million for the 90-day utility payment deferral program. At September 30, 2020 the Balancing Pool has issued \$36.1 million in funding to retailers and received \$17.3 million in repayments back from retailers.

1. Basis of Presentation

These interim financial statements for the three and nine months ended September 30, 2020 are unaudited and have been prepared by management in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB") except for the valuation adjustment for the Hydro PPA.

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, 2019.

2. Receivable from Retailers

<i>(in thousands of dollars)</i>	September 30, 2020	December 31, 2019
Receivable from retailers, opening balance	-	-
Funds remitted to retailers	36,094	-
Funds collected from retailers	(17,304)	-
Receivable from retailers, closing balance	18,790	-

3. Right-of-Use Assets

<i>(in thousands of dollars)</i>	Genesee PPA	Keephills PPA	Sheerness PPA	Office Lease	Total
Balance as at January 1, 2019	271,217	152,942	174,846	393	599,398
Amortization and depreciation	(135,608)	(76,471)	(87,423)	(152)	(299,654)
Reassessment of lease liability	(6,506)	(1,471)	(1,757)	-	(9,734)
Balance at December 31, 2019	129,103	75,000	85,666	241	290,010
Balance as at January 1, 2020	129,103	75,000	85,666	241	290,010
Amortization and depreciation	(96,922)	(56,250)	(63,709)	(114)	(216,995)
Reassessment of lease liability	136	-	(773)	-	(637)
Balance as at September 30, 2020	32,317	18,750	21,184	127	72,378

Right-of-use assets are amortized on a straight line basis over the remaining term of each arrangement. The PPAs will be fully amortized on December 31, 2020 on expiration of the PPAs. Over the first nine months of 2020, \$217.0 million in amortization and depreciation was recorded. Changes to the 2020 lease payments for the Genesee and Sheerness PPAs resulted in a net reduction to the lease liability and right-of-use assets of \$0.6 million.

4. Financial Instruments

Hydro Power Purchase Arrangement

The term of the Hydro PPA ends December 31, 2020. At September 30, 2020, the value of the Hydro PPA was \$54.7 million (December 31, 2019 - \$110.7 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. The Hydro PPA expires on December 31, 2020.

<i>(in thousands of dollars)</i>	September 30, 2020	December 31, 2019
Hydro power purchase arrangement, opening balance	110,667	135,340
Accretion and current year change	(13,805)	(28,995)
Line loss credit	-	32,191
Net cash receipts	(42,137)	(77,016)
Revaluation of hydro power purchase arrangement	-	49,147
Hydro power purchase arrangement, closing balance	54,725	110,667

5. Related Party Loan

Government-Related Entity

The Balancing Pool considers itself to be a government-related entity as defined by IAS 24 – Related Party Disclosures and applies the exemption from the disclosure requirements of Paragraph 18 of IAS 24 – Related Party Disclosures. The members of the Board are appointed by the Minister of Energy of the Government of Alberta. Effective January 1, 2017, the financial information of the Balancing Pool has been consolidated into the Ministry of Energy's financial reporting.

In January 2017, the Balancing Pool signed a loan agreement with the Government of Alberta. The loan agreement was put in place through Alberta Treasury Board and Finance to fund operating losses of the Balancing Pool, including obligations associated with the terminated PPAs.

<i>(in thousands of dollars)</i>	Interest Rate	September 30, 2020
Long-term note due on Sep. 13, 2023	2.65%	500,152
Short-term discount note due on October 21, 2020	0.23%	74,990
Short-term discount note due on November 26, 2020	0.17%	127,966
		703,108
Less: Current portion		(202,956)
		500,152

At September 30, 2020, the Balancing Pool had \$703.1 million (December 31, 2019 - \$706.0 million) in related party loans, consisting of short-term discount notes issued to the Government of Alberta and a long-term note, including accrued interest of \$1.9 million.

6. Reclamation and Abandonment Provision

<i>(in thousands of dollars)</i>	H.R. Milner Generating Station	Isolated Generation Sites	Cost to Decommission PPA Facilities	Total
At January 1, 2020	8,908	1,978	21,973	32,859
Liabilities paid in period	(203)	(1,455)	-	(1,658)
Accretion expense	116	26	287	429
At September 30, 2020	8,821	549	22,260	31,630
Less: Current portion	-	(250)	-	(250)
	8,821	299	22,260	31,380

During the first nine months of 2020 the Balancing Pool paid \$1.7 million in decommissioning expenditures related to H.R. Milner generating station and the Isolated Generation project. See also Note 9.

7. Lease Liabilities

<i>(in thousands of dollars)</i>	Genesee PPA	Keephills PPA	Sheerness PPA	Office Lease	Total
At January 1, 2020	165,651	112,096	132,125	244	410,116
Interest expense	2,250	1,522	1,783	3	5,558
Lease payments	(126,578)	(85,594)	(100,227)	(117)	(312,516)
Revise lease payments	135	-	(772)	-	(637)
At September 30, 2020	41,458	28,024	32,909	130	102,521

The Balancing Pool has recognized lease liabilities in relation to the Genesee, Keephills and Sheerness PPAs and the office lease. Lease payments of \$312.5 million were issued over the first nine months of 2020. The Genesee and Sheerness lease payments for 2020 were revised resulting in a net reduction of \$0.6 million to the lease liability. The lease liabilities have been discounted using the Balancing Pool's borrowing rate of 1.8%.

8. Capital Management

The Balancing Pool's objective when managing capital is to operate in accordance with 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 to 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 through to December 31, 2030.

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

<i>(in thousands of dollars)</i>	September 30, 2020	December 31, 2019
Deferral account, beginning balance	(774,625)	(946,456)
Change to the Balancing Pool deferral account	21,487	171,831
Deferral account, ending balance	(753,138)	(774,625)

9. Contingencies and Commitments

Reclamation and Abandonment

TransAlta has submitted an application to the AUC to decommission Sundance A and is seeking \$41.4 million in funding from the Balancing Pool. The Balancing Pool disagrees with several aspects of the application. The Balancing Pool has a provision of \$22.0 million to decommission Sundance A. The final amount due will be determined by the AUC.

Retroactive Line Loss Adjustment (AUC Proceeding 790)

Line loss factors form part of transmission charges that are paid by generators in Alberta. The Balancing Pool is exposed to retroactive line loss adjustments for certain PPAs.

In January 2015, the AUC determined that it has the jurisdiction and authority to retroactively adjust the line loss factors and the associated methodology dating back to 2006. On December 19, 2018, the Court of Appeal upheld the AUC's determination. In December 2017, the AUC ruled on the methodology to be used to calculate retroactive line loss adjustments. The AUC also ruled that the original system transmission service contract holders will be responsible for the retroactive line loss adjustments. The Balancing Pool and the AESO will net settle line loss amounts associated with the PPA units that were under system transmission service contracts held by the Balancing Pool during the relevant time period. The Balancing Pool will also net settle line loss amounts with certain PPA counterparties that held system transmission service contracts for certain PPA units during the relevant time period.

The various matters approved by the AUC regarding the retroactive line loss adjustments were the subject of permission to appeal applications filed with the Alberta Court of Appeal, including the retroactive nature of the adjustments and prospective line loss factors used to calculate the adjustment.

In rulings dated April 8, 2019 and June 3, 2019, the Alberta Court of Appeal denied all applications for permission to appeal in regards to these matters.

The Balancing Pool will incur additional charges as a result of the retroactive adjustments to line loss factors in relation to the various PPAs. An estimated provision in the amount of \$68.4 million has been recorded in trade payable and other accrued liabilities for the retroactive line loss adjustment. The estimate has been prepared using the methodology approved by the AUC. The final calculations have not been published and therefore the Balancing Pool's estimates are subject to measurement uncertainty in these financial statements.

Legal Claim

On June 12, 2019, the Balancing Pool received a statement of claim from a power producer seeking \$17.5 million in damages from the Balancing Pool. The Balancing Pool has filed a statement of defense and will vigorously defend its position. The Balancing Pool is of the opinion the statement of claim is without merit. Furthermore, Section 92 of the *Electric Utilities Act* provides the Balancing Pool with strong liability protection for such claims. As at September 30, 2020, no contingent liability has been recorded, as the Balancing Pool does not expect a material outflow.

MSA Investigation

On August 5, 2020 the Balancing Pool received Notice of Investigation from the Market Surveillance Administrator ("MSA"). The MSA is investigating to assure itself that the Balancing Pool is complying with all of its obligations and ensuring the Balancing Pool acted within the limits of the PPA framework and in accordance with the laws that govern Alberta. There has been no finding of fault and the Balancing Pool is confident that there will not be one.

10. Subsequent Events

Related Party Transactions

On October 21, 2020 the maturing related party short-term note was re-financed with the terms noted below.

<i>(in thousands of dollars)</i>	Interest Rate	Amount re-financed
Short-term discount note due on February 18, 2021	0.14%	75,000