



balancingpool

Condensed Interim Financial Statements (unaudited)

Balancing Pool

For the three and six months ended June 30, 2017

NOTICE OF NO AUDITOR'S REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed 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

July 18, 2017

Financial Review

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 PPA, Small Power Producer contracts, intangible assets and other long-term obligations, which are recorded on an annual basis.

During the latter part of 2015 and first quarter of 2016, the Balancing Pool received notices of termination for six power purchase arrangements. The Balancing Pool immediately assumed responsibility for all financial obligations associated with the terminated PPAs.

Results at a Glance

	<i>Three months ended June 30</i>		<i>Six months ended June 30</i>	
	2017	2016	2017	2016
Volume – gigawatt hours (“GWh”)				
Genesee Power Purchase Arrangement (“PPA”)	1,401	1,352	3,058	3,028
Battle River 5 PPA	361	332	754	703
Sheerness PPA	1,297	1,073	2,778	1,273
Sundance A PPA	808	715	1,700	920
Sundance B PPA	862	683	1,894	786
Sundance C PPA	1,100	1,139	2,072	1,219
Keephills PPA	1,085	825	2,501	825
Hydro PPA electricity	408	408	771	774
Hydro PPA ancillary service	309	309	633	638
Small Power Producer	18	35	39	78
Total electricity and ancillary service volumes	7,649	6,871	16,200	10,244
Price – per megawatt hour (“MWh”)				
Average Pool price	\$19.26	\$15.00	\$20.82	\$16.55
Other				
Consumer collection (allocation) per MWh	\$1.10	\$(3.25)	\$1.10	\$(3.25)
Financial Results (in thousands of dollars)				
Total revenues	138,491	(143)	316,181	55,912
Total expenses	138,095	318,688	317,707	1,203,705
Income (loss) from operating activities	396	(318,831)	(1,526)	(1,147,793)
Change in net liabilities attributable to the Balancing Pool deferral account	(264)	(319,032)	(2,364)	(1,148,195)
For the period ended (in thousands of dollars)			June 30, 2017	December 31, 2016
Cash, cash equivalents and investments			25,198	31,762
Total assets			287,198	314,573
Total liabilities			2,223,859	2,281,361
Net (liabilities) assets attributable to the Balancing Pool deferral account			(1,936,661)	(1,966,788)
Consumer collection (allocation)			32,491	(190,167)

Assets

Trade and other receivables

Trade and other receivables balance at June 30, 2017 includes June 2017 sale of electricity revenues receivable for Battle River 5, Sundance A, Sundance B, Sundance C, Sheerness, Keephills and Genesee PPAs.

Long-Term Receivable

The long-term receivable of \$7.9 million, which comprises cash and emission credits receivable, is related to the negotiated settlements reached in 2016 on the termination of certain PPAs.

Investments

Over 2016, the investment portfolio was substantially liquidated and drawn down by \$689.0 million relative to year-end 2015. The investment funds were used to meet the PPA obligations of the Balancing Pool. Over Q2 2017, the investment portfolio was drawn down by \$3.4 million relative to 2016 year-end. The funds were used to meet PPA obligations.

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.

At June 30, 2017, the net present value of the Hydro PPA decreased by \$3.6 million from December 31, 2016. The decrease in fair value reflects amortization of the Hydro PPA value as determined in the 2016 year-end valuation process.

Intangible Assets

Intangible assets include emission credits held for compliance purposes. At June 30, 2017, the Balancing Pool held 7.5 million tonnes of emission credits. Approximately 7.0 million tonnes of the emission credits held were received as part of the negotiated settlements on certain terminated PPAs.

Liabilities

Trade and Other Payables

Trade and other payables decreased in Q2 2017 relative to year-end 2016 due to the Consumer Allocation switching from a liability (distribution to electricity consumers in 2016) to a receivable (collection from electricity consumers in 2017).

Related Party Loans

At June 30, 2017, the Balancing Pool has issued short-term discount notes to the Government of Alberta for \$329.8 million. This includes interest accrued to June 30, 2017 at interest rates that range from 0.7% to 1.0%.

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.

The net present value of the SPP contract liability at June 30, 2017 decreased by \$3.0 million from year-end 2016. The decrease in fair value is attributed to amortization of the SPP value as determined in the 2016 year-end valuation process.

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 of 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 the ongoing operation of the facility by ATCO 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 is capped at \$15.0 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 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 and is conditional on the unit ceasing operations within 1 year of PPA termination. This provision does not apply to PPA-related generating unit's termination dates that occur after December 31, 2018.

The decrease in the reclamation and abandonment provision from December 31, 2016 primarily reflects payments of \$0.3 million for the Isolated Generation project.

Other long-term obligations

As counterparty to the PPAs, the Balancing Pool is required to make monthly payments to the owner of the generating units to cover fixed and variable costs. The Balancing Pool is not responsible for the daily operation of the power plants, however the Balancing Pool does retain offer control.

An onerous contract provision is required when the unavoidable cost of meeting the obligations under the PPA exceed the economic benefits expected to be derived from the PPA. The provision is measured at the lower of the expected cost of terminating the arrangement and the expected cost of continuing performance under the arrangement. The Balancing Pool has recognized onerous contract provisions for the following PPA's: Battle River 5, Sheerness, Sundance A, Sundance B, Sundance C, Keephills and Genesee.

The onerous contract provision at June 30, 2017 was \$1,516.9 million reflecting a reduction of \$340.9 million relative to December 31, 2016. The reduction of the provision represents the actual cash losses incurred of the PPAs for the first six months of 2017. The onerous contract provision is re-valued on an annual basis.

Balancing Pool Deferral Account

The Balancing Pool deferral account decreased from December 31, 2016 primarily due to \$32.5 million collected from electricity consumers.

Revenues

Sale of Electricity

Details of Sale of Electricity <i>(in thousands of dollars)</i>	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Battle River 5	7,214	5,000	16,394	12,153
Sundance A	16,279	11,441	36,729	14,288
Sundance B	18,016	10,609	42,115	11,989
Sundance C	21,793	17,417	43,427	18,770
Sheerness	25,538	16,869	58,357	19,840
Keephills	21,222	13,080	52,651	13,080
Genesee	26,692	17,384	62,702	41,621
Total Sale of Electricity	136,754	91,800	312,375	131,741

Revenue from the sale of electricity is comprised of revenues from the various PPAs as detailed on the table above. Sale of electricity increased in Q2 2017 relative to Q2 2016 due to the irregular timing of notice of terminations received from the various PPA Buyers over Q1 and Q2 2016.

Change in Fair Value of Hydro Power Purchase Arrangement

Revenue from the Hydro PPA increased in Q2 2017 relative to Q2 2016 due to higher actual cash receipts received in 2017 than those forecast in the 2016 year-end valuation. Cash receipts were higher in 2017 because of the higher actual realized electricity market price.

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 they 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 in Q2 2017 were negative due to audit and litigation costs exceeding modest installment remittances received during Q2 2017.

Expenses

Cost of Sales

Details of Cost of Sales <i>(in thousands of dollars)</i>	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Power Purchase Arrangement costs	322,676	250,573	653,278	357,639
Amortization and depreciation on assets and power marketing costs	100	18,560	69	36,048
Cash losses recorded against other long-term obligations	(187,313)	(31,486)	(340,904)	(40,929)
Total Cost of Sales	135,463	237,647	312,443	352,758

The PPA costs include plant capacity payments, variable operating costs including incentive payments, and transmission charges. Capacity payments comprise more than 90% of the PPA costs and these payments vary year-over-year as a result of changes in capital cost base, cost indices, interest rates and pass-through charges. Changes to the Pool price have a minimal impact on the PPA capacity payments

Total PPA costs of \$322.7 million in Q2 2017 include the costs associated with Battle River 5, Sundance A, Sundance B, Sundance C, Sheerness, Keephills and Genesee PPAs. The increase in PPA costs for Q2 2017 relative to Q2 2016 is due to the irregular timing of notice of terminations received from the various PPA Buyers over Q1 and Q2 2016.

Over Q2 2017, losses from the PPAs of \$187.3 million were recorded against the onerous contract provisions established for the terminated PPAs and the Genesee PPA.

Mandated Costs

Mandated costs of \$1.8 million represent expenditures for the Utilities Consumer Advocate, Transmission Facilities Costs Monitoring Committee and the Retail Market Review Committee.

Balancing Pool Statement of Financial Position (unaudited)

<i>(in thousands of Canadian dollars)</i>	June 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	12,914	16,078
Trade and other receivables	52,030	77,157
	64,944	93,235
Long-term receivable	7,853	7,824
Investments (Note 3)	12,284	15,684
Property, plant and equipment	42	57
Hydro power purchase arrangement (Note 4a)	50,955	48,484
Intangible assets (Note 2)	151,120	149,289
Total Assets	287,198	314,573
Liabilities		
Current liabilities		
Trade and other payables	335,016	372,123
Related party loans (Note 5)	329,752	-
Current portion of Hydro power purchase arrangement (Note 4a)	4,000	10,053
Current portion of Small Power Producer contracts (Note 4b)	5,600	5,902
Current portion of reclamation and abandonment provision (Note 6)	3,400	3,671
Current portion of other long-term obligations (Note 7)	1,146,090	1,446,361
	1,823,858	1,838,110
Small Power Producer contracts (Note 4b)	2,756	5,437
Reclamation and abandonment provision (Note 6)	26,425	26,361
Other long-term obligations (Note 7)	370,820	411,453
Total Liabilities	2,223,859	2,281,361
Net liabilities attributable to the Balancing Pool deferral account (Note 8)	(1,936,661)	(1,966,788)
Contingencies and commitments (Note 9)		

Balancing Pool
Statements of Income (loss) and Comprehensive Income (loss)
(unaudited)

<i>(in thousands of Canadian dollars)</i>	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Revenues				
Sale of electricity	136,754	91,800	312,375	131,741
Sale of generating capacity	-	8,068	716	34,098
Changes in fair value of Hydro power purchase arrangement (Note 4a)	1,694	(4,511)	2,882	(10,777)
Changes in fair value of investments (Note 3)	33	(175)	36	(6,496)
Investment income – interest and dividends	52	1,053	134	3,948
Payments in lieu of tax	(42)	(96,378)	38	(96,602)
	138,491	(143)	316,181	55,912
Expenses				
Cost of sales	135,463	237,647	312,443	352,758
Mandated costs	1,828	1,829	3,720	3,657
General and administrative	1,102	932	2,045	1,572
Force majeure costs	86	1,259	175	1,751
Investment management costs	6	117	11	469
PPA provision expense	(15)	76,382	(29)	842,502
Changes in fair value of Small Power Producer contracts (Note 4b)	(375)	522	(658)	996
	138,095	318,688	317,707	1,203,705
Income (loss) from operating activities	396	(318,831)	(1,526)	(1,147,793)
Other income (expense)				
Other income	(1)	-	13	-
Finance expense	(659)	(201)	(851)	(402)
	(660)	(201)	(838)	(402)
Change in net liabilities attributable to the Balancing Pool deferral account	(264)	(319,032)	(2,364)	(1,148,195)

Balancing Pool

Statements of Cash Flows (unaudited)

<i>(in thousands of Canadian dollars)</i>	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Cash flow provided by (used in)				
Operating activities				
Change in net assets attributable to the Balancing Pool deferral account	(264)	(319,032)	(2,364)	(1,148,195)
Items not affecting cash :				
Amortization and depreciation	7	16,552	15	33,105
Power purchase arrangement provision (Note 7)	-	76,383	-	842,503
Fair value changes on Small Power Producer contracts (Note 4b)	(375)	522	(658)	996
Fair value changes on Hydro power purchase arrangement (Note 4a)	(1,694)	4,511	(2,882)	10,777
Fair value changes on financial investments	(1)	5,143	(1)	121,825
Finance expense	659	201	851	402
Reclamation and abandonment expenditures (Note 6)	(41)	(240)	(304)	(315)
Power purchase arrangements losses (Note 7)	(187,313)	(51,723)	(340,904)	(66,225)
Net change in other assets:				
Long-term receivable	(15)	-	(29)	-
Net change in non-cash working capital	63,443	132,377	(11,981)	148,811
Net cash used in operating activities	(125,594)	(135,306)	(358,257)	(56,316)
Investing activities				
Interest, dividends and other gains	(56)	(6,020)	(100)	(119,266)
Sale of investments	3,501	207,000	3,501	310,000
Purchase of intangible assets	(1,831)	-	(1,831)	-
Net cash provided by investing activities	1,614	200,980	1,570	190,734
Financing activities				
Hydro power purchase arrangement net cash receipts (payments) (Note 4 a)	(2,589)	(4,313)	(5,642)	(11,680)
Payment of power purchase arrangement lease obligation	-	(15,381)	-	(30,762)
Small Power Producer contracts net receipts (payments) (Note 4b)	(1,110)	(1,835)	(2,325)	(3,813)
Proceeds from issue of Loans (Note 5)	97,289	-	328,999	-
Receipt (payment) of the Consumer Allocation (Note 8)	15,605	(44,307)	32,491	(93,236)
Net cash (used in) provided by financing activities	109,195	(65,836)	353,523	(139,491)
Change in cash and cash equivalents	(14,785)	(162)	(3,164)	(5,073)
Cash and cash equivalents, beginning of period	27,699	162	16,078	5,073
Cash and cash equivalents, end of period	12,914	-	12,914	-

Condensed Interim Notes to Financial Statements (unaudited)

1. Basis of Presentation

These condensed interim financial statements for the six months ended June 30, 2017 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") with some exceptions. Financial instrument valuation adjustments for the Hydro PPA and the SPP contracts are processed on an annual basis as is the valuation adjustments for intangible assets and other long-term obligations.

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, 2016.

2. Intangible Assets

At June 30, 2017, the Balancing Pool held 7.5 million tonnes of emission offset credits valued at \$151.1 million (Dec. 31, 2016 - \$149.3 million). No impairments of emission credits were recognized during the quarter ended June 30, 2017.

3. Investments

	Three months ended June 30, 2017		Year ended December 31, 2016	
	Market Value	Cost	Market Value	Cost
<i>(in thousands of dollars)</i>				
Fixed income securities	12,268	12,268	15,670	15,670
Global equities	16	17	14	15
Total investments	12,284	12,285	15,684	15,685

At June 30, 2017, the Balancing Pool had \$12.3 million in liquid short-term investments.

4. Accounting for Financial Instruments

a) Hydro Power Purchase Arrangement

The remaining term of the Hydro PPA is four years through to December 31, 2020. At June 30, 2017 the value of the Hydro PPA was \$46.9 million (Dec. 31, 2016 - \$38.4 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.

	Six months ended June 30, 2017	Year ended December 31, 2016
<i>(in thousands of dollars)</i>		
Hydro power purchase arrangement, opening balance	38,431	242,633
Accretion and current year change	2,882	(20,109)
Net cash payments (receipts)	5,642	18,468
Revaluation of hydro power purchase arrangement asset	-	(202,561)
Hydro power purchase arrangement, closing balance	46,955	38,431
Less: Current portion	4,000	10,053

b) Small Power Producer Contracts

At June 30, 2017 the value of the SPP contracts was a \$8.4 million liability (Dec. 31, 2016 - \$11.3 million). The SPP contracts are revalued at each year end.

Small Power Producer Contracts <i>(in thousands of dollars)</i>	Six months ended June 30, 2017	Year ended December 31, 2016
Small Power Producer contracts, opening balance	(11,339)	(11,368)
Accretion and current year change	658	(1,391)
Net cash payments	2,325	6,077
Revaluation of Small Power Producer contracts	-	(4,657)
Small Power Producer contracts, closing balance	(8,356)	(11,339)
Less: Current portion	5,600	5,902
	(2,756)	(5,437)

5. Related Party Loans

In January 2017, the Balancing Pool signed a loan agreement with the Government of Alberta (“GOA”). The loan agreement was established through Alberta Treasury Board and Finance to fund operating losses of the Balancing Pool. At June 30, 2017 the Balancing Pool has issued discount notes in the amount of \$329.8 million to the GOA. The short-term discount notes issued to the GOA have maturity dates ranging from 31 to 90 days and corresponding annual interest charges that range from 0.7% to 1.0%.

6. Reclamation and Abandonment Provision

<i>(in thousands of dollars)</i>	H.R. Milner Generating Station	Isolated Generation Sites	Cost to Decommission PPAs	Total
At January 1, 2016	13,128	5,463	11,198	29,789
Net increase in liability	1,133	1,832	(3,040)	(75)
Liabilities paid in period	-	(486)	-	(486)
Accretion expense	355	147	302	804
At December 31, 2016	14,616	6,956	8,460	30,032
Less: Current portion	-	(3,671)	-	(3,671)
	14,616	3,285	8,460	26,361
At January 1, 2017	14,616	6,956	8,460	30,032
Liabilities paid in period	-	(304)	-	(304)
Accretion expense	47	22	28	97
At June 30, 2017	14,663	6,674	8,488	29,825
Less: Current portion	-	(3,400)	-	(3,400)
	14,663	3,274	8,488	26,425

7. Other Long-Term Obligations

<i>(in thousands of dollars)</i>	Genesee	Battle River 5	Sundance A	Sundance B	Sundance C	Keephills	Sheerness	Total
At January 1, 2016	-	96,700	-	-	-	-	-	96,700
Net increase in liability	626,650	136,348	144,579	277,444	218,661	298,970	497,432	2,200,084
Losses	-	(81,491)	(53,687)	(77,669)	(68,492)	(42,443)	(115,188)	(438,970)
At December 31, 2016	626,650	151,557	90,892	199,775	150,169	256,527	382,244	1,857,814
Less: Current portion	(215,197)	(151,557)	(90,892)	(199,775)	(150,169)	(256,527)	(382,244)	(1,446,361)
	411,453	-	-	-	-	-	-	411,453
At January 1, 2017	626,650	151,557	90,892	199,775	150,169	256,527	382,244	1,857,814
Losses	(68,775)	(32,518)	(40,376)	(49,588)	(45,819)	(37,644)	(66,184)	(340,904)
At June 30, 2017	557,875	119,039	50,516	150,187	104,350	218,883	316,060	1,516,910
Less: Current portion	(187,055)	(119,039)	(50,516)	(150,187)	(104,350)	(218,883)	(316,060)	(1,146,090)
	370,820	-	-	-	-	-	-	370,820

During the first six months of 2017, \$340.9 million in losses related to the PPAs was recorded against other long-term obligations. Other long-term obligations are re-valued at each year-end.

8. Capital Management

As per the requirements of the *Electric Utilities Act (2003)*, the Balancing Pool's objective when managing capital is to operate with no profit or loss and no share capital and to forecast its revenues, expenses, and cash flows.

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

<i>(in thousands of dollars)</i>	Six months ended June 30, 2017	Year ended December 31, 2016
Balancing Pool Deferral Account		
Deferral account, beginning balance	(1,966,788)	774,515
Change in net assets attributable to the Balancing Pool deferral account	(2,364)	(2,551,136)
Receipt (payment) of Consumer Allocation	32,491	(190,167)
Deferral account, ending balance	(1,936,661)	(1,966,788)

9. Contingencies and Commitments

Terminated Power Purchase Arrangements

Pursuant to Section 96 of the EUA, when a PPA is terminated by a Buyer, the PPA is deemed to have been sold to the Balancing Pool. Buyer-initiated termination could be triggered by a change in law, which renders the PPA unprofitable or more unprofitable 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.

During the latter part of 2015 and first quarter of 2016, the Balancing Pool received notices of termination for six power purchase arrangements. The Balancing Pool immediately assumed responsibility for all financial obligations associated with the terminated PPAs.

On July 25, 2016, the Attorney General of Alberta filed an application with the Alberta Court of Queen's Bench seeking declarations relating to the validity of certain provisions of the Battle River 5 PPA, Sundance A PPA, Sundance B PPA, Sundance C PPA, Sheerness PPA and Keephills PPA. The Attorney General also sought judicial review of the Balancing Pool's decision to accept termination by ENMAX PPA Management Inc. of the Battle River 5 PPA. The Balancing Pool, the Alberta Utilities Commission, ENMAX PPA Management Inc. and other parties with interests in PPAs were named as respondents.

On November 24, 2016, the Government of Alberta reached settlement agreements with the Buyers of the Sundance A PPA, Sundance B PPA, Sundance C PPA, and Sheerness PPA. As a result of these settlement agreements, as at December 31, 2016 the Balancing Pool received reimbursement of \$39 million in cash and has recognized intangible assets (emission credits) of \$139.8 million and long-term receivables (cash receivable and emission credits receivable) of \$7.8 million in relation to reimbursements relating to the onerous contract provisions. The reimbursements have been recorded as an offset against the expenses related to the provision for other long-term obligations in the Statements of Loss and Comprehensive Loss.

In addition, the Balancing Pool has agreed to assume all obligations, including past obligations, as the Buyer under the Sundance A PPA, Sundance B PPA and Sheerness PPA. The Balancing Pool has recorded a provision in other long-term obligations for the line loss rule proceedings for Sundance A, Sundance B, Sheerness and Genesee PPAs. The Balancing Pool is currently not aware of any other proceedings or liabilities outstanding.

For those PPAs which have been or which may ultimately be returned to the Balancing Pool, the Balancing Pool has the option to hold the PPAs, resell the PPAs or to terminate the PPAs by paying the Owner a termination payment equal to the net book value of the unit(s) underlying the PPA. Should the Balancing Pool not terminate the PPAs in 2017 the financial obligations of the Balancing Pool as it relates to the PPAs will be higher.

These financial statements do not reflect the potential outcome of ongoing settlement negotiations between the Government of Alberta and the other PPA Buyers, except for measurement considerations with the termination option under the other long-term obligation provision.

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. A number of these matters were resolved through negotiations and the courts in 2016, which has resulted in the pending refund of \$96.0 million to the municipal entity, which has been reflected as a refund of revenue by the Balancing Pool. This refund has been accrued in trade and other payables. Approximately \$61.7 million remains under dispute with the municipal entity for the tax years of 2001 through to 2015. A provision of \$30.3 million has been recorded in relation to the disputed matters and reflected as a refund of PILOT revenue. This provision has been accrued in trade and other payable.

Line Loss Rule Proceeding

The Line Loss Rule ("LLR") proceeding, currently underway before the AUC is intended to address complaints regarding the *ISO Transmission Loss Factor Rule and Loss Factor Methodology*. Line loss factors form part of transmission charges that are paid by generators in Alberta. The Balancing Pool is exposed to retroactive line loss adjustment for certain PPAs.

In January 2015, the Alberta Utilities Commission (“AUC”) determined that it has the jurisdiction and authority to retroactively adjust the line loss factors and the methodology dating back to 2006.

The Balancing Pool will incur additional charges as a result of the retroactive adjustments to line loss factors. An estimated provision in the amount of \$114.0 million has been recorded in other long-term obligations for the LLR proceeding. The estimate has been prepared using the AESO’s Incremental Loss Factor method with load scaling as data was available to calculate an estimate.

Various matters before the AUC regarding the LLR proceeding are under review and appeal including the retroactive and prospective line loss factors and the AUC’s decision regarding its authority and jurisdiction. The actual line loss retroactive adjustment will be dependent upon the loss factors and methodology approved by the AUC which the Balancing Pool estimates may be higher or lower by 10% than the current estimate reflected in these financial statements.