Condensed Interim Financial Statements and Review

Balancing Pool

For the three months ended March 31, 2015

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 22, 2015

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") for the Balancing Pool is dated May 22, 2015 and should be read in conjunction with the Balancing Pool's condensed interim financial statements for the three months ended March 31, 2015 and 2014 and the annual financial statements for the years ended December 31, 2014 and 2013.

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	2015	2014
Volume – gigawatt hours ("GWh")		
Genesee Power Purchase Arrangement	1,650	1,510
Hydro Power Purchase Arrangement electricity	361	361
Hydro Power Purchase Arrangement ancillary service	324	325
Small Power Producer	44	84
Hedged volume	-	1,607
Price – per megawatt hour ("MWh")		
Average Pool price	$29.03	$60.59
Average hedge price	-	$60.11
Other		
Consumer Allocation per MWh	$5.50	$5.50
Financial Results ***(in thousands of dollars)***		
Total revenues	107,355	149,409
Total expenses	85,294	87,943
Income from operating activities	22,060	61,467
Change in net assets attributable to the Balancing Pool deferral account	21,760	54,417
For the period ended (in thousands of dollars)	March 31, 2015	December 31, 2014
Cash, cash equivalents and investments	959,432	1,011,323
Total assets	1,966,515	2,051,611
Total liabilities	465,642	488,874
Net assets attributable to the Balancing Pool deferral account	1,500,873	1,562,737
Consumer allocation	83,624	84,192

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 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 to be 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 at March 31, 2015 exceeded $950.0 million (December 31, 2014 - $974.7 billion). These financial assets are available to mitigate existing or future Balancing Pool liabilities and will otherwise be available for future distribution to Alberta electricity consumers through the Consumer Allocation.

The Balancing Pool's Board has approved a long-term investment policy for managing the financial assets. The investment policy is based on investment standards that have been deemed prudent by the Board of Directors and generally focuses 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 are as follows:

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

* Total equity exposure is capped at 60%.

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. Only the capital component of the monthly 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		
	2015	2014	Variance
Sale of electricity	34,530	89,331	(54,801)
Sale of generating capacity	17,828	-	17,828
Change in fair value of Hydro power purchase arrangement	(548)	11,781	(12,329)
Change in fair value of investments	48,562	40,412	8,150
Investment income – interest and dividends	4,564	5,484	(920)
Payments in lieu of taxes	2,418	2,402	16
Total revenues	107,354	149,410	(42,056)

Sale of Electricity

Revenue from the sale of electricity derived from the Genesee PPA decreased in Q1 2015 primarily due to lower average Pool prices during the quarter relative to Q1 2014. The average Pool price of $29.03/MWh for Q1 2015 was 52% lower relative to Q1 2014.

Sale of Generating Capacity

The two 100-MW strip contracts of generating capacity from the Genesee PPA resulted in revenues of $17.8 million for the first quarter of 2015. There were no strip contracts in place for Q1 2014.

Change in Fair Value of Hydro Power Purchase Arrangement

Revenue from the Hydro PPA decreased in Q1 2015 relative to Q1 2014 due to lower actual current cash receipts than those forecast in the 2014 year-end valuation. Actual cash receipts decreased as a result of the lower than expected Pool prices for Q1 2015.

Changes in Fair Value of Investments

Details of Changes in Fair Value of Investments *(in thousands of dollars)*	Three months ended March 31		
	2015	2014	Variance
Unrealized mark-to-market gains	23,262	23,360	(98)
Realized capital gains	25,300	17,052	8,248
Total Changes in Fair Value of Investments	48,562	40,412	8,150

Global economic conditions in Q1 2015 improved relative to Q1 2014 resulting in gains of $48.6 million for the first quarter of 2015.

Investment Returns & Benchmark *(%)*	Three months ended March 31		
	2015	2014	Variance
Investment returns	5.40	4.10	1.30
Benchmark	5.26	3.84	1.42
Variance	0.14	0.26	(0.12)

Payments In Lieu of Tax

Total PILOT revenues in Q1 2015 increased compared to Q1 2014 as a result of marginally higher PILOT instalments received from electricity companies controlled by municipalities.

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		
	2015	2014	Variance
Cost of sales	78,670	77,340	1,330
Force majeure costs	2,852	7,354	(4,502)
Mandated costs	1,937	1,673	264
General and administrative	628	800	(172)
Investment management costs	624	599	25
Changes in fair value of Small Power Producer contracts	583	177	406
Total expenses	85,294	87,943	(2,649)

Cost of Sales

Total cost of sales increased by 2% in Q1 2015 mainly due to slightly higher Genesee PPA costs. Genesee PPA costs include plant capacity payments, variable operating costs including incentive payments, transmission charges and change in law costs. Capacity payments comprise more than 85% 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.

Genesee PPA costs increased primarily due to an increase in availability incentive payments (“AIP”). During Q1 2015, the Genesee units produced higher generation volumes compared to Q1 2014 thereby increasing AIP costs for Q1 2015.

Force Majeure Costs

Force majeure costs for Q1 2015 decreased by 61.2% compared to the same period in 2014. The results for Q1 2015 reflect a force majeure claim for Keephills 1, which was initiated by TransAlta in late Q1 2015. TransAlta estimates the unit will return to service by mid-May 2015. The estimated cost of the force majeure is approximately $13 million. No provision has been made in these financial statements as the capacity payments will be expensed as they occur. The claim is currently under investigation.

Mandated Costs

Mandated costs for Q1 2015 increased relative to Q1 2014 to reflect adjustments to the cost estimates accrued for the Utilities Consumer Advocate, Transmission Facilities Cost Monitoring Committee and Retail Market Review Committee.

Change in Fair Value of Small Power Producer Contracts

SPP expenses have increased in Q1 2015 relative to Q1 2014 mainly due to higher actual current cash payments than those forecast in the 2014 year end valuation. Actual cash payments increased as a result of the SPP contract price exceeding the Pool price for the quarter resulting in a higher net payment from the Balancing pool to the SPP owners.

Assets

Details of Assets *(in thousands of dollars)*	Three months ended March 31,2015	Year ended December 31, 2014	Variance
Cash and cash equivalents	1,652	36,641	(34,989)
Trade and other receivables	14,974	19,059	(4,085)
Investments	957,780	974,682	(16,902)
Property, plant and equipment	635,797	663,444	(27,647)
Hydro power purchase arrangement	356,312	357,785	(1,473)
Total assets	1,966,515	2,051,611	(85,096)

Investments

Investment Balance Portfolio	*(in thousands of dollars)*
Opening Investment Balance, December 31, 2014	974,682
Realized capital gains, interest and dividends	29,836
Unrealized capital gains	23,262
Withdrawal from Investment portfolio	(70,000)
Closing Investment Balance, March 31, 2015	957,780

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 2014 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 $43.1 million was recorded on the Genesee PPA lease at December 31, 2014.

Hydro Power Purchase Arrangement

The net present value of the Hydro PPA at March 31, 2015 decreased by $1.5 million from December 31, 2014. The decrease in fair value reflects amortization of the Hydro PPA value as determined in the 2014 year-end valuation process.

Liabilities

Details of Liabilities *(in thousands of dollars)*	Three months ended March 31,2015	Year ended December 31, 2014	Variance
Trade and other payables	65,475	72,354	(6,879)
Genesee power purchase arrangement lease obligation	358,370	373,656	(15,286)
Small power producer contracts	11,795	12,987	(1,192)
Reclamation and abandonment provision and other long-term obligation	30,002	29,877	125
Total liabilities	465,642	488,874	(23,232)

Genesee Power Purchase Arrangement Lease Obligation

The balance of the liability related to the Genesee PPA at March 31, 2015 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 2015 from December 31, 2014 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, 2015 decreased by $1.2 million from year-end 2014. The decrease in fair value can be attributed to amortization of the SPP value as determined in the 2014 year-end valuation process.

Reclamation and Abandonment Provision and Other Long-Term Obligations

The increase in the Reclamation and abandonment provision and other long-term obligations from December 31, 2014 reflects finance expense (accretion) of $0.3 million, offset by cash payments for the Isolated Generation sites of $0.2 million.

Balancing Pool Deferral Account

Balancing Pool Deferral Account, Beginning of Year *(in thousands of dollars)*	Three months ended March 31,2015	Year ended December 31, 2014
Deferral account, beginning of year	1,562,736	1,937,208
Change in net assets attributable to the Balancing Pool deferral account	21,762	(49,805)
Consumer Allocation	(83,624)	(324,668)
Deferral account, end of year	1,500,873	1,562,736

The Balancing Pool deferral account decreased from December 31, 2014 as a result of the consumer allocation distribution exceeding income from operating activities in the first quarter of 2015.

The consumer allocation distribution for Q1 2015 has been maintained at a rate of $5.50/MWh (2014 - $5.50/MWh).

Liquidity and Cash Flow

To manage liquidity risk, the Balancing Pool holds short-term cash deposits. In addition, management forecasts cash flows for a period of 12 months and beyond and has the ability to adjust the Consumer Allocation and/or liquidate investments as required.

The Balancing Pool also has access to a credit facility of $90 million to meet short-term liquidity needs. At March 31, 2015 the Balancing Pool had $1.0 million of unsecured Letters of Credit issued.

The Balancing Pool's primary uses of funds are for payment of operating expenses, payment of the Genesee PPA lease obligation and payment of the Consumer Allocation.

Outlook

Based on forecasted cash flow and the expected financial position for 2015, the Balancing Pool estimated the annual allocation of its financial surplus to electricity consumers in Alberta at $5.50 per MWh of consumption, effective January 1, 2015 (2014 - $5.50 per MWh).

The total allocation is estimated to be approximately $324.0 million during 2015, provided there are no changes or adjustments to the megawatt allocation. Future Consumer Allocations will continue to be funded through a combination of operating income and sale of investments, as required.

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 PPA Buyer. In addition, during events of force majeure availability incentive payment obligations between the PPA Buyer and PPA Owner are suspended.

- **Power market price volatility risk**

  As counterparty to the Genesee 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, and weather conditions. Exposure to power price volatility is 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**

  The value of these investments is exposed to changes in capital markets and, as such, faces the risks related to equity market performance, interest rates, foreign exchange rates, and other financial risks. In addition, the liquidity risk of the portfolio must be managed to ensure sufficient funds are 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.

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

  The PPAs contains termination provisions that make accommodations for the PPA to be terminated. Under certain scenarios, the Balancing Pool could be required to pay the PPA Owner the net book value or the Residual Balancing Pool Amount to the PPA Buyer.

- **Change in law risk**

  Changes in law, including regulatory 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 onto the PPA Buyer. As the Buyer of the Genesee PPA, the Balancing Pool must assume and be responsible for change in law costs affecting the Genesee 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 may 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 year 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.

- **Liquidity**

  The Balancing Pool maintains adequate liquidity in the investment portfolio to be responsive to potential claims arising from risks faced by the Balancing Pool.

Accounting Policy Changes

There were no significant changes to accounting standards that impacted the Balancing Pool in Q1 2015. The Balancing Pool prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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.

Hydro Power Purchase Arrangement and Small Power Producer Contracts – 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 10.6% (2014 – 10.6%).

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, 2015**	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	1,652	36,641
Trade and other receivables	14,974	19,059
Current portion of Hydro power purchase arrangement (Note 2 a)	50,000	52,665
	66,626	108,365
Investments (Note 3)	957,780	974,682
Property, plant and equipment (Note 4 a)	635,797	663,444
Hydro power purchase arrangement (Note 2 a)	306,312	305,120
Total Assets	1,966,515	2,051,611
Liabilities		
Current liabilities		
Trade and other payables	65,475	72,354
Current portion of power purchase arrangement lease obligation	61,100	61,145
Current portion of Small Power Producer contracts (Note 2 b)	5,600	6,036
Current portion of reclamation and abandonment provision (Note 5)	5,000	6,518
	137,175	146,053
Genesee power purchase arrangement lease obligation	297,270	312,511
Small Power Producer contracts (Note 2 b)	6,195	6,951
Reclamation and abandonment provision & other long-term obligation (Note 5)	25,002	23,359
Total Liabilities	465,642	488,874
Net assets attributable to the Balancing Pool deferral account (Note 6)	1,500,873	1,562,737

Statements of Income and Comprehensive Income

((in thousands of Canadian dollars)	Three months ended March 31 2015	2014
Revenues		
Sale of electricity	34,530	89,331
Sale of generating capacity	17,828	-
Changes in fair value of Hydro power purchase arrangement (Note 2 a)	(548)	11,781
Changes in fair value of investments (Note 3)	48,562	40,412
Investment income – interest and dividends	4,564	5,484
Payments in lieu of tax	2,418	2,402
	107,354	149,410
Expenses		
Cost of sales	78,670	77,340
Force majeure costs	2,852	7,354
Mandated costs	1,937	1,673
General and administrative	628	800
Investment management costs	624	599
Changes in fair value of Small Power Producer contracts (Note 2 c)	583	177
	85,294	87,943
Income from operating activities	22,060	61,467
Other income (expense)		
Net (loss)gain on financial derivatives (Note 2 c)	-	(6,772)
Finance expense	(300)	(278)
	(300)	(7,050)
Change in net assets attributable to the Balancing Pool deferral account	21,760	54,417

Statements of Cash Flows

(in thousands of Canadian dollars)	Three months ended March 31 2015	2014
Cash flow provided by (used in)		
Operating activities		
Change in net assets attributable to the Balancing Pool deferral account	21,760	54,417
Items not affecting cash		
Amortization and depreciation (Note 4)	27,647	29,443
Fair value changes on Small Power Producer contracts (Note 2 b)	583	177
Fair value changes on Hydro power purchase arrangement (Note 2 a)	548	(11,781)
Fair value changes on financial derivative instruments (Note 2 c)	-	151
Fair value changes on financial investments (Note 3)	(23,262)	(23,360)
Finance expense	300	278
Reclamation and abandonment expenditures (Note 5)	(175)	(792)
Net change in non-cash working capital	(2,794)	14,117
Net cash provided by (used in) operating activities	24,607	62,650
Investing activities		
Sale of investments	40,164	27,508
Net cash provided by investing activities	40,164	27,508
Financing activities		
Hydro power purchase arrangement net cash receipts (Note 2 a)	925	18,141
Payment of power purchase arrangement lease obligation	(15,286)	(14,811)
Small Power Producer contracts net receipts (payments) (Note 2 b)	(1,775)	(1,040)
Payment of the Consumer Allocation (Note 6)	(83,624)	(84,192)
Net cash used in financing activities	(99,760)	(81,902)
Change in cash and cash equivalents	(34,989)	8,256
Cash and cash equivalents, beginning of period	36,641	16,404
Cash and cash equivalents, end of period	1,652	24,660

Condensed Interim Notes to Financial Statements

1. Basis of Presentation

These interim financial statements for the three months ended March 31, 2015 are unaudited and have been prepared in accordance with IAS 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC"), 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, 2014.

These financial statements were authorized and approved for issue by the Board of the Balancing Pool on May 22, 2015.

2. Accounting for Financial Instruments

a) Hydro Power Purchase Arrangement

The remaining term of the Hydro PPA is six years through to December 31, 2020. At March 31, 2015 the value of the Hydro PPA was $356.3 million (Dec. 31, 2014 - $357.8 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, 2015	Year ended December 31, 2014
Hydro power purchase arrangement, opening balance	357,785	480,739
Accretion and current year change	(548)	32,270
Net cash receipts	(925)	(68,408)
Revaluation of hydro power purchase arrangement asset	-	(86,816)
Hydro power purchase arrangement, closing balance	356,312	357,785
Less: Current portion	(50,000)	(52,665)
	306,312	305,120

b) Small Power Producer Contracts

At March 31, 2015 the value of the SPP contracts was $11.8 million liability (Dec. 31, 2014 - $13.0 million liability). The SPP contracts are revalued at each year end.

Small Power Producer Contracts *(in thousands of dollars)*	Three months ended March 31, 2015	Year ended December 31, 2014
Small Power Producer contracts, opening balance	(12,987)	(16,647)
Accretion and current year change	(583)	(806)
Net cash payments	1,775	6,708
Revaluation of Small Power Producer contracts	-	(2,242)
Small Power Producer contracts, closing balance	(11,795)	(12,987)
Less: Current portion	5,600	6,036
	(6,195)	(6,951)

3. Investments

(in thousands of dollars)	Three months ended March 31, 2015 Market Value	Cost	Year ended December 31, 2014 Market Value	Cost
Fixed income securities	456,058	445,028	456,074	450,922
Canadian equities	205,091	146,477	215,840	156,064
Global equities	296,631	167,220	302,768	191,903
Total investments	957,780	758,726	974,682	798,889

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, 2013	(130)	63,321	121,665	184,856
Changes in value attributable to:				
Change during the period	6,592	26,798	35,389	68,779
Realized (gain) loss on sales of investments	(1,310)	(30,343)	(46,189)	(77,842)
Net change during the period	5,282	(3,545)	(10,800)	(9,063)
Unrealized market gain, December 31, 2014	5,152	59,776	110,865	175,793
Changes in value attributable to:				
Change during the period	6,864	4,980	36,718	48,562
Realized (gain) loss on sales of investments	(986)	(6,142)	(18,172)	(25,300)
Net change during the period	5,878	(1,162)	18,546	23,262
Unrealized market gain, March 31, 2015	11,030	58,614	129,411	199,055

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, 2013	1,505,670	519	1,506,189
Additions	-	-	-
Balance as at December 31, 2014	1,505,670	519	1,506,189
Additions	-	-	-
Balance as at March 31, 2015	1,505,670	519	1,506,189
Accumulated Depreciation			
Balance as at December 31, 2013	681,462	415	681,877
Amortization and Depreciation	117,744	29	117,773
Impairment loss	43,095	-	43,095
Balance as at December 31, 2014	842,301	444	842,745
Amortization and Depreciation	27,641	6	27,647
Balance as at March 31, 2015	869,942	450	870,392
Net Book Value			
As at December 31, 2014	663,369	75	663,444
As at March 31, 2015	635,728	69	635,797

During 2014, 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 2014 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)	H.R. Milner Generating Station	Isolated Generation Sites	Costs of PPAs	Total
At January 1, 2014	11,398	7,051	9,358	27,807
Net increase in provision	-	1,502	1,773	3,275
Liabilities paid in period	-	(2,317)	-	(2,317)
Accretion expense	456	282	374	1,112
At December 31, 2014	11,854	6,518	11,505	29,877
Less: Current portion	-	(6,518)	-	(6,518)
At December 31, 2014	11,854	-	11,505	23,359
At January 1, 2014	11,854	6,518	11,505	29,877
Liabilities paid in period	-	(175)	-	(175)
Accretion expense	119	66	115	300
At March 31, 2014	11,973	6,409	11,620	30,002
Less: Current portion	-	(5,000)		(5,000)
At March 31, 2014	11,973	1,409	11,620	25,002

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. During 2009, the Alberta Government enacted amendments to the *Electric Utilities Act (2003)* that have removed the requirement for the winding-up of the Balancing Pool by June 30, 2021.

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, 2014	Year ended December 31, 2014
Deferral account, beginning balance	1,562,737	1,937,209
Change in net assets attributable to the Balancing Pool deferral account	21,760	(49,805)
Payment of Consumer Allocation	(83,624)	(324,667)
Deferral account, ending balance	1,500,873	1,562,737

7. Contingencies

Alberta Tax and Revenue Administration have issued notices of re-assessment for a municipal entity that is subject to PILOT for several tax years (dating back to 2001). The municipal entity has disagreed with many aspects of these the notices of re-assessments and have 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 approximately $293.4 million from 2001 to 2014. Due to the uncertainty of the outcome of the litigation procedures, these financial statements do not reflect any contingent asset or liability in relation to these ongoing disputes.

balancingpool

Condensed Interim Financial Statements and Review

Balancing Pool

For the three and six months ended June 30, 2015

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
September 11, 2015

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") for the Balancing Pool is dated September 11, 2015 and should be read in conjunction with the Balancing Pool's condensed interim financial statements for the three and six months ended June 30, 2015 and 2014 and the consolidated annual financial statements for the years ended December 31, 2014 and 2013.

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 June 30		Six months ended June 30	
	2015	2014	2015	2014
Volume				
Genesee Power Purchase Arrangement [gigawatt hours ("GWh")]	1,447	1,318	3,097	2,828
Hydro Power Purchase Arrangement electricity GWh	409	408	770	769
Hydro Power Purchase Arrangement ancillary Service GWh	309	310	633	634
Small Power Producer GWh	39	91	82	175
Hedged volume GWh	-	1,632	-	3,239
Price				
Average Pool Price per megawatt Hour ("MWh")	$57.22	$42.43	$43.20	$51.46
Weighted average hedge price per MWh	-	$52.48	-	$56.30
Other				
Consumer Allocation per MWh	$5.50	$5.50	$5.50	$5.50
***Financial Results** (in thousands of dollars)*				
Total revenues	103,369	73,816	210,140	223,047
Total expenses	92,833	76,403	177,543	164,168
Income from operating activities	10,536	(2,587)	32,597	58,879
Change in net assets attributable to the Balancing Pool deferral account	10,259	5,138	32,022	59,555
Consumer Allocation	77,426	76,066	161,050	160,258

For the period ended (in thousands of dollars)	June 30, 2015	December 31, 2014
Cash, cash equivalents and investments	847,064	1,011,323
Total assets	1,890,377	2,051,611
Total liabilities	456,668	488,874
Net assets attributable to the Balancing Pool deferral account	1,433,709	1,562,737

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 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 to be 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 at June 30, 2015 exceeded $843.1 million (December 31, 2014 - $974.7 million). These financial assets are available to mitigate existing or future Balancing Pool liabilities and will otherwise be available for future distribution to Alberta electricity consumers through the Consumer Allocation.

The Balancing Pool’s Board has approved a long-term investment policy for managing the financial assets. The investment policy is based on investment standards that have been deemed prudent by the Board of Directors and generally focuses 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 are as follows:

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

* Total equity exposure is capped at 60%.

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. Only the capital component of the monthly 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 June 30			Six months ended June 30		
	2015	2014	Variance	2015	2014	Variance
Sale of electricity	58,427	50,497	7,930	92,957	139,828	(46,871)
Sale of generating capacity	16,774	-	16,774	34,603	-	34,603
Change in fair value of Hydro power purchase arrangement	30,438	2,602	27,836	29,890	14,383	15,507
Changes in fair value of Small Power Producer contracts	555	(386)	941	(29)	(563)	534
Change in fair value of investments	(8,870)	12,985	(21,855)	39,692	53,398	(13,706)
Investment income – interest and dividends	4,230	5,345	(1,115)	8,794	10,829	(2,035)
Payments in lieu of taxes (PILOT)	1,815	2,773	(958)	4,233	5,172	(939)
Total revenues	103,369	73,816	29,553	210,140	223,047	(12,907)

Sale of Electricity

Revenue from the sale of electricity and ancillary services derived from the Genesee PPA increased for Q2 2015 primarily because of higher average Pool prices during the quarter relative to Q2 2014. The average Pool price of $57.22/MWh for Q2 2015 was 33% higher relative to the same period in 2014. However, year-to-date revenues have decreased for the first six months of 2015 relative to the same period in 2014 as the average Pool price of $43.20/MWh for the first six months of 2015 was 16% lower relative to the same period in 2014.

Sale of Generating Capacity

The sale of two 100-MW strip contracts for generating capacity from the Genesee PPA resulted in revenues of $16.8 million for Q2 of 2015 and $34.6 million YTD. There were no strip contract sales in place for the first six months of 2014.

Change in Fair Value of Hydro Power Purchase Arrangement

Accretion and current year change increased in Q2 and YTD 2015 relative to the same periods in 2014 because actual current cash receipts were higher than those forecast in the 2014 year-end valuation. Actual cash receipts increased in part as a result of the higher than expected Pool prices for Q2 as well as a lower capacity payment in the first six of 2015 relative to the same period in 2014.

Change in Fair Value of Small Power Producer Contracts

Accretion and current year change increased in Q2 and YTD 2015 mainly due to lower actual current cash payments than those forecast in the 2014 year-end valuation. Actual cash payments decreased as a result of the higher than expected Pool price for Q2 as well as a reduction in the number of Small Power Producer units.

Changes in Fair Value of Investments

Details of Changes in Fair Value of Investments *(in thousands of dollars)*	Three months ended June 30			Six months ended June 30		
	2015	2014	Variance	2015	2014	Variance
Unrealized mark-to-market gains (losses)	(39,368)	3,248	(42,616)	(16,107)	26,608	(42,715)
Realized capital gains	30,498	9,737	20,761	55,799	26,790	29,009
Total Changes in Fair Value of Investments	(8,870)	12,985	(21,855)	39,692	53,398	(13,706)

The investment portfolio continued to outperform benchmark returns during Q2 and YTD 2015.

Investment Returns & Benchmark (*Percent, %*)	Three months ended June 30			Six months ended June 30		
	2015	2014	Variance	2015	2014	Variance
Investment returns	(0.54)	1.67	(2.21)	4.83	5.84	(1.01)
Benchmark	(0.80)	2.55	(3.35)	4.42	6.48	(2.06)
Variance	0.26	(0.88)	1.14	0.41	(0.64)	1.05

Payment In Lieu of Tax

Total PILOT revenues in Q2 and YTD 2015 decreased compared to the same periods in 2014 as a result of lower PILOT instalments received from electricity companies controlled by municipalities and higher costs associated with administering the PILOT regulation.

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 as well as related litigation costs incurred by Alberta Tax and Revenue Administration.

Expenses

Details of Expense *(in thousands of dollars)*	Three months ended June 30			Six months ended June 30		
	2015	2014	Variance	2015	2014	Variance
Cost of sales	80,570	72,169	8,401	159,240	149,509	9,731
Force majeure costs	9,009	1,025	7,984	11,861	8,378	3,483
Mandated costs	1,957	1,645	312	3,893	3,317	576
General and administrative	668	932	(264)	1,296	1,733	(437)
Investment management costs	629	632	(3)	1,253	1,231	22
Total expenses	92,833	76,403	16,430	177,543	164,168	13,375

Cost of Sales

Total cost of sales increased by 12% and 7% in Q2 and YTD 2015 respectively primarily due to higher Genesee PPA costs. Genesee PPA costs include plant capacity payments, variable operating costs including incentive payments, transmission charges and change in law costs. Capacity payments comprise more than 85% 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.

Genesee PPA costs for Q2 2015 and YTD 2015 increased relative to the same periods in 2014 primarily due higher capacity payments and availability incentive payments. Capacity payments increased due to the settlement of a dispute related to the capacity payment calculation. During the first six months of 2015, the Genesee units produced higher generation volumes relative to the first six months of 2014 resulting in an increase in availability incentive payments over the period.

Force Majeure Costs

Force majeure costs for Q2 and YTD 2015 increased relative to the same periods in 2014. The results for 2015 primarily reflect the Keephills 1 force majeure claim, which was initiated by TransAlta in March of 2015.

Mandated Costs

Mandated costs for Q2 and YTD 2015 increased relative to the same periods in 2014 to reflect adjustments to the cost estimates accrued for the Utilities Consumer Advocate, Transmission Facilities Cost Monitoring Committee and Retail Market Review Committee.

Assets

Details of Assets *(in thousands of dollars)*	Six months ended June 30, 2015	Year ended December 31, 2014	Variance
Cash and cash equivalents	3,928	36,641	(32,713)
Trade and other receivables	82,179	19,059	63,120
Risk management assets	30	-	30
Investments	843,136	974,682	(131,546)
Property, plant and equipment	608,156	663,444	(55,288)
Hydro power purchase arrangement	352,948	357,785	(4,837)
Total assets	1,890,377	2,051,611	(161,234)

Trade and Other Receivables

Trade and other receivables at June 30, 2015 increased relative to December 31, 2014 as a result of the increase to the average Pool price received for June 2015's Sale of Electricity relative to the average Pool price for December 2014.

Investments

Investment Balance Portfolio	*(in thousands of dollars)*
Opening Investment Balance, December 31, 2014	974,682
Realized capital gains, interest and dividends	64,561
Unrealized capital losses	(16,107)
Withdrawal from investment portfolio	(180,000)
Closing Investment Balance, June 30, 2015	843,136

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 2014 reflects the first six months of amortization of the Genesee PPA and other capital assets.

The Balancing Pool assumed the role of PPA buyer for the unsold Genesee PPA in 2001. At that time, the Genesee PPA's obligations exceeded the fair value of the asset, which resulted in the PPA being recorded as a capital lease under previous Canadian GAAP ("Generally Accepted Accounting Principles"). On transition to IFRS on January 1, 2010, the Genesee PPA was accounted for as a finance lease. The cost of the Genesee PPA at January 1, 2010 was determined in accordance with the deemed cost exemption permitted by IFRS 1 which allows for valuation at estimated market value. The estimated market value as at January 1, 2010 was increased by $1,079 million compared to the previous Canadian GAAP net book value. The asset is depreciated over the term of the Genesee PPA.

Hydro Power Purchase Arrangement

The net present value of the Hydro PPA at June 30, 2015 decreased by $4.8 million from December 31, 2014. The decrease in fair value reflects amortization of the Hydro PPA value as determined in the 2014 year-end valuation process.

Liabilities

Details of Liabilities *(in thousands of dollars)*	Six months ended June 30,2015	Year ended December 31, 2014	Variance
Trade and other payables	74,289	72,354	1,935
Genesee power purchase arrangement lease obligation	343,083	373,656	(30,573)
Small power producer contracts	10,614	12,987	(2,373)
Reclamation and abandonment provision and other long-term obligation	28,682	29,877	(1,195)
Total liabilities	456,668	488,874	(32,206)

Genesee Power Purchase Arrangement Lease Obligation

The balance of the liability related to the Genesee PPA at June 30, 2015 represents the sum of only the capital component of the total payments required over the remaining term of the Genesee PPA. The decrease in the first six months of 2015 from December 31, 2014 reflects the straight-line amortization of the lease obligation.

Small Power Producer Contracts

The net present value of the SPP contract liability at June 30, 2015 decreased by $2.4 million from year-end 2014. The decrease in fair value reflects the amortization of the SPP value as determined in the 2014 year-end valuation process.

Reclamation and Abandonment Provision and Other Long-Term Obligations

The reduction in the Reclamation and Abandonment provision and other long-term obligations from December 31, 2014 primarily reflects cash payments of $1.8 million for the Isolated Generation remediation project, offset by accretion expense of $0.6 million.

Balancing Pool Deferral Account

Balancing Pool Deferral Account, Beginning of Year *(in thousands of dollars)*	Six months ended June 30,2015	Year ended December 31, 2014
Deferral account, beginning of year	1,562,737	1,937,209
Change in net assets attributable to the Balancing Pool deferral account	32,022	(49,805)
Consumer Allocation	(161,050)	(324,667)
Deferral account, end of period	1,433,709	1,562,737

The Balancing Pool deferral account decreased from December 31, 2014 as a result of the consumer allocation distribution exceeding income from operating activities YTD 2015.

The consumer allocation distribution YTD 2015 has been maintained at a rate of $5.50/MWh (2014 - $5.50/MWh).

Liquidity and Cash Flow

To manage liquidity risk, the Balancing Pool holds short-term cash deposits. In addition, management forecasts cash flows for a period of 12 months and beyond and has the ability to adjust the Consumer Allocation and/or liquidate investments as required.

The Balancing Pool also has access to a credit facility of $90 million to meet short-term liquidity needs. At June 30, 2015 the Balancing Pool had $2.0 million of unsecured Letters of Credit issued.

The Balancing Pool's primary uses of funds are for payment of operating expenses, the Genesee PPA lease obligation and the Consumer Allocation.

Outlook

Based on forecasted cash flow and the expected financial position for 2015, the Balancing Pool estimated the annual allocation of its financial surplus to electricity consumers in Alberta at $5.50 per MWh of consumption, effective January 1, 2015 (2014 - $5.50 per MWh).

The total allocation is estimated to be approximately $324.0 million during 2015, provided there are no changes or adjustments to the megawatt allocation. Future Consumer Allocations will continue to be funded through a combination of operating income and sale of investments, as required.

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 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 PPA Buyer. In addition, during events of force majeure availability incentive payment obligations between the PPA Buyer and PPA Owner are suspended.

- **Power market price volatility risk**

As counterparty to the Genesee 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, 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**

The value of these investments is exposed to changes in capital markets and, as such, the Balancing Pool faces the risks related to equity market performance, interest rates, foreign exchange rates, and other financial risks. In addition, the liquidity risk of the portfolio must be managed to ensure sufficient funds are available on relatively short notice in response to potential claims or other cash flow requirements.

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.

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

The PPAs contains termination provisions that make accommodations for the PPA to be terminated. Under certain scenarios, the Balancing Pool could be required to pay the net book value to the PPA Owner and/or the Residual Balancing Pool Amount to the PPA Buyer.

- **Change in law risk**

Changes in law, including regulatory 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 onto the PPA Buyer. As the Buyer of the Genesee PPA, the Balancing Pool must assume and be responsible for change in law costs affecting the Genesee 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 prior to the end of 2018, the Balancing Pool may be required to recompense the Owner for some of its decommissioning costs. The Balancing Pool may 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 year-end 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.

- **Liquidity**

  The Balancing Pool maintains adequate liquidity in the investment portfolio to be responsive to potential claims arising from risks faced by the Balancing Pool.

Accounting Policy Changes

There were no significant changes to accounting standards that impacted the Balancing Pool in 2015. The Balancing Pool prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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.

Hydro Power Purchase Arrangement and Small Power Producer Contracts – 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 10.6% (2014 – 10.6%).

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.

Balancing Pool
Statement of Financial Position

(in thousands of Canadian dollars)	**June 30, 2015**	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	3,928	36,641
Trade and other receivables	82,179	19,059
Current portion of Hydro power purchase arrangement (Note 2 a)	53,000	52,665
Risk management assets	30	-
	139,137	108,365
Investments (Note 3)	843,136	974,682
Property, plant and equipment (Note 4 a)	608,156	663,444
Hydro power purchase arrangement (Note 2 a)	299,948	305,120
Total Assets	1,890,377	2,051,611
Liabilities		
Current liabilities		
Trade and other payables	74,289	72,354
Current portion of power purchase arrangement lease obligation	61,000	61,145
Current portion of Small Power Producer contracts (Note 2 b)	5,200	6,036
Current portion of reclamation and abandonment provision (Note 5)	3,500	6,518
	143,989	146,053
Genesee power purchase arrangement lease obligation (Note 4 b)	282,083	312,511
Small Power Producer contracts (Note 2 b)	5,414	6,951
Reclamation and abandonment provision & other long-term obligation (Note 5)	25,182	23,359
Total Liabilities	456,668	488,874
Net assets attributable to the Balancing Pool deferral account (Note 6)	1,433,709	1,562,737

Contingencies (Note 7)

Balancing Pool
Statements of Income and Comprehensive Income

((in thousands of Canadian dollars)	Three months ended June 30 2015	Three months ended June 30 2014	Six months ended June 30 2015	Six months ended June 30 2014
Revenues				
Sale of electricity	58,427	50,497	92,957	139,828
Sale of generating capacity	16,774	-	34,603	-
Changes in fair value of Hydro power purchase arrangement (Note 2 a)	30,438	2,602	29,890	14,383
Changes in fair value of Small Power Producer contracts (Note 2 b)	555	(386)	(29)	(563)
Changes in fair value of investments (Note 3)	(8,870)	12,985	39,692	53,398
Investment income – interest and dividends	4,230	5,345	8,794	10,829
Payments in lieu of tax	1,815	2,773	4,233	5,172
	103,369	73,816	210,140	223,047
Expenses				
Cost of sales	80,570	72,169	159,240	149,509
Force majeure costs	9,009	1,025	11,861	8,378
Mandated costs	1,957	1,645	3,893	3,317
General and administrative	668	932	1,296	1,733
Investment management costs	629	632	1,253	1,231
	92,833	76,403	177,543	164,168
Income from operating activities	10,536	(2,587)	32,597	58,879
Other income (expense)				
Net gain (loss) on financial derivatives	22	8,003	22	1,232
Finance expense	(299)	(278)	(597)	(556)
	(277)	7,725	(575)	676
Change in net assets attributable to the Balancing Pool deferral account	10,259	5,138	32,022	59,555

Balancing Pool
Statements of Cash Flows

(in thousands of Canadian dollars)	Three months ended June 30 2015	Three months ended June 30 2014	Six months ended June 30 2015	Six months ended June 30 2014
Cash flow provided by (used in)				
Operating activities				
Change in net assets attributable to the Balancing Pool deferral account	10,259	5,138	32,022	59,555
Items not affecting cash				
Amortization and depreciation	27,647	29,443	55,294	58,886
Fair value changes on Small Power Producer contracts (Note 2 b)	(555)	386	29	563
Fair value changes on Hydro power purchase arrangement (Note 2 a)	(30,438)	(2,602)	(29,890)	(14,383)
Fair value changes on financial derivative instruments	(30)	4,738	(30)	4,889
Fair value changes on financial investments (Note 3)	39,368	(3,248)	16,107	(26,608)
Finance expense	299	278	597	556
Reclamation and abandonment expenditures (Note 5)	(1,617)	(443)	(1,792)	(1,235)
Net change in non-cash working capital	(58,390)	(2,724)	(61,186)	11,391
Net cash provided by (used in) operating activities	(13,457)	30,966	11,151	93,614
Investing activities				
Sale of investments	75,276	34,973	115,440	62,481
Purchase of property, plant and equipment (Note 4 a)	(6)	-	(6)	-
Net cash provided by investing activities	75,270	34,973	115,434	62,481
Financing activities				
Hydro power purchase arrangement net cash receipts (Note 2 a)	33,802	10,801	34,727	28,943
Payment of power purchase arrangement lease obligation	(15,286)	(14,811)	(30,573)	(29,622)
Small Power Producer contract payments (Note 2 b)	(627)	(2,348)	(2,402)	(3,387)
Payment of the Consumer Allocation (Note 6)	(77,426)	(76,066)	(161,050)	(160,258)
Net cash used in financing activities	(59,537)	(82,424)	(159,298)	(164,324)
Change in cash and cash equivalents	2,276	(16,485)	(32,713)	(8,229)
Cash and cash equivalents, beginning of period	1,652	24,660	36,641	16,404
Cash and cash equivalents, end of period	3,928	8,175	3,928	8,175

Condensed Interim Notes to Financial Statements

1. Basis of Presentation

These interim financial statements for the three and six months ended June 30, 2015 are unaudited and have been prepared in accordance with IAS 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC"), 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, 2014.

These financial statements were authorized and approved for issue by the Board of the Balancing Pool on September 11, 2015.

2. Accounting for Financial Instruments

a) Hydro Power Purchase Arrangement

The remaining term of the Hydro PPA is five years and six months through to December 31, 2020. At June 30, 2015 the value of the Hydro PPA was $352.9 million (Dec. 31, 2014 - $357.8 million). The Hydro PPA is revalued at each year-end. The estimated value of this asset varies significantly based on the assumptions used and there is a high degree of measurement uncertainty.

Hydro Power Purchase Arrangement *(in thousands of dollars)*	Six months ended June 30, 2015	Year ended December 31, 2014
Hydro power purchase arrangement, opening balance	357,785	480,739
Accretion and current year change	29,890	32,270
Net cash receipts	(34,727)	(68,408)
Revaluation of hydro power purchase arrangement asset	-	(86,816)
Hydro power purchase arrangement, closing balance	352,948	357,785
Less: Current portion	(53,000)	(52,665)
	299,948	305,120

b) Small Power Producer Contracts

At June 30, 2015 the value of the SPP contracts was $10.6 million liability (Dec. 31, 2014 - $13.0 million liability). The SPP contracts are revalued at each year-end.

Small Power Producer Contracts *(in thousands of dollars)*	Six months ended June 30, 2015	Year ended December 31, 2014
Small Power Producer contracts, opening balance	(12,987)	(16,647)
Accretion and current year change	(29)	(806)
Net cash (receipts) payments	2,402	6,708
Revaluation of Small Power Producer contracts	-	(2,242)
Small Power Producer contracts, closing balance	(10,614)	(12,987)
Less: Current portion	5,200	6,036
	(5,414)	(6,951)

3. Investments

(in thousands of dollars)	Six months ended June 30, 2015 Market Value	Cost	Year ended December 31, 2014 Market Value	Cost
Fixed income securities	421,081	415,030	456,074	450,922
Canadian equities	169,900	124,922	215,840	156,064
Global equities	252,155	143,498	302,768	191,903
Total investments	843,136	683,450	974,682	798,889

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 (loss), December 31, 2013	(130)	63,321	121,665	184,856
Changes in value attributable to:				
Change during the period	6,592	26,798	35,389	68,779
Realized (gain) loss on sales of investments	(1,310)	(30,343)	(46,189)	(77,842)
Net change during the period	5,282	(3,545)	(10,800)	(9,063)
Unrealized market gain, December 31, 2014	5,152	59,776	110,865	175,793
Changes in value attributable to:				
Change during the period	9,074	(4,373)	34,991	39,692
Realized (gain) loss on sales of investments	(8,175)	(10,425)	(37,199)	(55,799)
Net change during the period	899	(14,798)	(2,208)	(16,107)
Unrealized market gain, June 30, 2015	6,051	44,978	108,657	159,686

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, 2013	1,505,670	519	1,506,189
Additions	-	-	-
Balance as at December 31, 2014	1,505,670	519	1,506,189
Additions	-	6	6
Balance as at June 30, 2015	1,505,670	525	1,506,195
Accumulated Depreciation			
Balance as at December 31, 2013	681,462	415	681,877
Amortization and Depreciation	117,744	29	117,773
Impairment loss	43,095	-	43,095
Balance as at December 31, 2014	842,301	444	842,745
Amortization and Depreciation	55,281	13	55,294
Balance as at June 30, 2015	897,582	457	898,039
Net Book Value			
As at December 31, 2014	663,369	75	663,444
As at June 30, 2015	608,088	68	608,156

b) Genesee Power Purchase Arrangement Lease Obligation

There have been no changes to the estimated future annual lease payments from those presented in the 2014 audited annual financial statements.

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

(in thousands of dollars)	Other Long-Term Obligation H.R. Milner Generating Station	Reclamation and Abandonment Provision Isolated Generation Sites	Reclamation and Abandonment Provision Costs of PPAs	Total
At January 1, 2014	11,398	7,051	9,358	27,807
Net increase in provision	-	1,502	1,773	3,275
Liabilities paid in period	-	(2,317)	-	(2,317)
Accretion expense	456	282	374	1,112
At December 31, 2014	11,854	6,518	11,505	29,877
Less: Current portion	-	(6,518)	-	(6,518)
At December 31, 2014	11,854	-	11,505	23,359
At December 31, 2014	11,854	6,518	11,505	29,877
Liabilities paid in period	-	(1,792)	-	(1,792)
Accretion expense	237	130	230	597
At June 30, 2015	12,091	4,856	11,735	28,682
Less: Current portion	-	(3,500)	-	(3,500)
At June 30, 2015	12,091	1,356	11,735	25,182

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 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.

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

Balancing Pool Deferral Account *(in thousands of dollars)*	Six months ended June 30, 2015	Year ended December 31, 2014
Deferral account, beginning of year	1,562,737	1,937,209
Change in net assets attributable to the Balancing Pool deferral account	32,022	(49,805)
Payment of Consumer Allocation	(161,050)	(324,667)
Deferral account, end of period	1,433,709	1,562,737

7. Contingencies

Alberta Tax and Revenue Administration has issued notices of re-assessment to a municipal entity that is subject to PILOT for several tax years (dating back to 2001). The municipal entity has disagreed with many aspects of these notices of re-assessments 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 including potential future claims with the municipal entity are approximately $365.0 million from 2001 to 2020. Due to the uncertainty of the outcome of the litigation procedures, these financial statements do not reflect any contingent asset or liability in relation to these ongoing disputes.

Condensed Interim Financial Statements and Review

Balancing Pool

For the three and nine months ended September 30, 2015

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
November 13, 2015

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") for the Balancing Pool is dated November 13, 2015 and should be read in conjunction with the Balancing Pool's condensed interim financial statements for the three and nine months ended September 30, 2015 and 2014 and the consolidated annual financial statements for the years ended December 31, 2014 and 2013.

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 September 30		Nine months ended September 30	
For the period ended (in thousands of dollars)	2015	2014	2015	2014
Volume				
Genesee Power Purchase Arrangement [gigawatt hours ("GWh")]	1,708	1,695	4,805	4,523
Hydro Power Purchase Arrangement electricity GWh	479	479	1,249	1,248
Hydro Power Purchase Arrangement ancillary Service GWh	302	302	935	935
Small Power Producer GWh	38	86	121	262
Price				
Average Pool Price per megawatt Hour ("MWh")	$26.09	$64.34	$37.44	$55.80
Other				
Consumer Allocation per MWh	$5.50	$5.50	$5.50	$5.50
Financial Results (in thousands of dollars)				
Total revenues	35,610	145,216	245,752	368,264
Total expenses	85,705	92,067	263,249	256,236
Income (loss) from operating activities	(50,095)	53,149	(17,497)	112,028
Change in net assets attributable to the Balancing Pool deferral account	(50,146)	37,400	(18,123)	96,954
Consumer Allocation	79,536	79,735	240,586	239,993
			September 30, 2015	December 31, 2014
Cash, cash equivalents and investments			794,473	1,011,323
Total assets			1,736,293	2,051,611
Total liabilities			432,267	488,874
Net assets attributable to the Balancing Pool deferral account			1,304,026	1,562,737

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 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 to be 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 at September 30, 2015 was $791.1 million (December 31, 2014 - $974.7 million). These financial assets are available to mitigate existing or future Balancing Pool liabilities and will otherwise be available for future distribution to Alberta electricity consumers through the Consumer Allocation.

The Balancing Pool's Board has approved a long-term investment policy for managing the financial assets. The investment policy is based on investment standards that have been deemed prudent by the Board of Directors and generally focuses 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 are as follows:

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

* Total equity exposure is capped at 60%.

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. Only the capital component of the monthly 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 September 30			Nine months ended September 30		
	2015	2014	Variance	2015	2014	Variance
Sale of electricity	31,984	107,769	(75,785)	124,942	247,597	(122,655)
Sale of generating capacity	18,691	-	18,691	53,294	-	53,294
Change in fair value of Hydro power purchase arrangement	(4,273)	27,171	(31,444)	25,617	41,554	(15,937)
Changes in fair value of Small Power Producer contracts	(786)	813	(1,599)	(815)	250	(1,065)
Change in fair value of investments	(15,004)	1,820	(16,824)	24,688	55,217	(30,529)
Investment income – interest and dividends	3,957	5,169	(1,212)	12,751	15,998	(3,247)
Payments in lieu of taxes (PILOT)	1,041	2,474	(1,433)	5,274	7,648	(2,374)
Total revenues	35,610	145,216	(109,606)	245,751	368,264	(122,513)

Sale of Electricity

Revenue from the sale of electricity and ancillary services derived from the Genesee PPA decreased by 70% and 50% for Q3 2015 and YTD 2015 respectively relative to the same periods in 2014 primarily due to lower average Pool prices for the quarter and YTD 2015. The balance of the variance is due to the reduced volume related to the sale of two 100-MW strip contracts, as the contracts were not in place for the first nine months of 2014.

Sale of Generating Capacity

The sale of two 100-MW strip contracts for generating capacity from the Genesee PPA resulted in revenues of $18.7 million for Q3 of 2015 and $53.3 million YTD. There were no strip contract sales in place for the first nine months of 2014.

Change in Fair Value of Hydro Power Purchase Arrangement

Accretion and current year change decreased in Q3 and YTD 2015 relative to the same periods in 2014 because actual current cash receipts were lower than those forecast in the 2014 year-end valuation. Actual cash receipts decreased as a result of the lower than expected Pool prices for Q3 and YTD 2015 relative to the same period in 2014.

Change in Fair Value of Small Power Producer Contracts

Accretion and current year change decreased in Q3 and YTD 2015 due to higher actual current cash payments than those forecast in the 2014 year-end valuation. Actual cash payments increased as a result of the lower than expected Pool price for Q3 and YTD 2015 relative to the same period in 2014.

Changes in Fair Value of Investments

Details of Changes in Fair Value of Investments *(in thousands of dollars)*	Three months ended September 30			Nine months ended September 30		
	2015	2014	Variance	2015	2014	Variance
Unrealized mark-to-market gain (loss)	(23,207)	(21,001)	(2,206)	(39,313)	5,607	(44,920)
Realized capital gains	8,203	22,821	(14,618)	64,001	49,610	14,391
Total Changes in Fair Value of Investments	(15,004)	1,820	(16,824)	24,688	55,217	(30,529)

The investment portfolio continued to outperform benchmark returns during Q3 and YTD 2015.

Investment Returns & Benchmark (*Percent, %)*	Three months ended September 30			Nine months ended September 30		
	2015	2014	Variance	2015	2014	Variance
Investment returns	(1.34)	0.67	(2.01)	3.42	6.54	(3.12)
Benchmark	(2.17)	0.76	(2.93)	2.15	7.29	(5.14)
Variance	0.83	(0.09)	0.92	1.27	(0.75)	2.02

Payment In Lieu of Tax

Total PILOT revenues in Q3 and YTD 2015 decreased relative to the same periods in 2014 as a result of lower PILOT instalments received from electricity companies controlled by municipalities and higher costs associated with administering the PILOT regulation.

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 as well as related litigation costs incurred by Alberta Tax and Revenue Administration.

Expenses

Details of Expense *(in thousands of dollars)*	Three months ended September 30			Nine months ended September 30		
	2015	2014	Variance	2015	2014	Variance
Cost of sales	82,188	88,958	(6,770)	241,428	238,467	2,961
Force majeure costs	259	130	129	12,121	8,508	3,613
Mandated costs	1,991	1,645	346	5,885	4,962	923
General and administrative	653	702	(49)	1,950	2,435	(485)
Investment management costs	613	632	(19)	1,866	1,864	2
Total expenses	85,704	92,067	(6,363)	263,249	256,236	7,014

Cost of Sales

Cost of sales primarily reflects Genesee PPA costs, which include plant capacity payments, variable operating costs including incentive payments, transmission charges and change in law costs. Genesee PPA capacity payments comprise more than 85% 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.

Cost of sales decreased by 8% in Q3 2015 relative to Q3 2014 primarily due to lower availability incentive payments and system transmission charges related to the Genesee PPA. Availability incentive payments decreased in Q3 2015 as a result of the decrease in the rolling average Pool price for the quarter relative to Q3 2014. System transmission charges decreased for Q3 2015 due to the reduction in average Pool prices for Q3 2015 relative to Q3 2014.

YTD 2015 cost of sales has increased relative to YTD 2014 due to a combination of higher capacity payments, availability incentive payments and energy payments. Capacity payments increased due to the settlement of a dispute related to components of the capacity payment. During the first nine months of 2015, the Genesee units produced higher generation volumes relative to the first nine months of 2014 resulting in an increase in availability incentive payments over the period.

Force Majeure Costs

Force majeure costs for Q3 and YTD 2015 increased relative to the same periods in 2014. The results for YTD 2015 primarily reflect the Keephills 1 force majeure claim, which was initiated by TransAlta in March of 2015.

Mandated Costs

Mandated costs for Q3 and YTD 2015 increased relative to the same periods in 2014 to reflect adjustments to the cost estimates accrued for the Utilities Consumer Advocate, Transmission Facilities Cost Monitoring Committee and Retail Market Review Committee.

Assets

Details of Assets *(in thousands of dollars)*	Nine months ended September 30, 2015	Year ended December 31, 2014	Variance
Cash and cash equivalents	3,402	36,641	(33,239)
Trade and other receivables	15,127	19,059	(3,932)
Investments	791,070	974,682	(183,612)
Property, plant and equipment	580,597	663,444	(82,847)
Hydro power purchase arrangement	346,097	357,785	(11,688)
Total assets	1,736,293	2,051,611	(315,318)

Trade and Other Receivables

Trade and other receivables at September 30, 2015 decreased relative to December 31, 2014 as a result of the decrease to the average Pool price received for September 2015's Sale of Electricity relative to the average Pool price for December 2014.

Investments

Investment Portfolio Balance	*(in thousands of dollars)*
Opening Investment Balance, December 31, 2014	974,682
Realized capital gains, interest and dividends	76,701
Unrealized capital loss	(39,313)
Withdrawal from investment portfolio	(221,000)
Closing Investment Balance, September 30, 2015	791,070

The investment account reflects a balance of $791.1 million at September 30, 2015, a decrease of $183.6 million relative to December 31, 2014. In the first nine months of 2015, withdrawals totaling $221.0 million were required to fund the Consumer Allocation. The withdrawals have increased due to a decline in revenues from the Sale of Electricity and Hydro PPA given the low Pool price realized during the first nine months of 2015.

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 2014 reflects the first nine months of amortization of the Genesee PPA and other capital assets.

The Balancing Pool assumed the role of PPA buyer for the unsold Genesee PPA in 2001. At that time, the Genesee PPA's obligations exceeded the fair value of the asset. As a result, the PPA was accounted for as a capital lease under previous Canadian GAAP ("Generally Accepted Accounting Principles"). On transition to IFRS on January 1, 2010, the Genesee PPA was recorded as a finance lease. The cost of the Genesee PPA at January 1, 2010 was determined in accordance with the deemed cost exemption permitted by IFRS 1 which allows for valuation at estimated market value. The estimated market value at January 1, 2010 increased by $1,079 million relative to the previous Canadian GAAP net book value. The capital lease is depreciated over the term of the Genesee PPA.

During 2014, an impairment loss was recorded with respect to the Genesee PPA due to the decline in forward market electricity prices.

Hydro Power Purchase Arrangement

The net present value of the Hydro PPA at September 30, 2015 decreased by $11.7 million from December 31, 2014. The decrease in fair value reflects amortization of the Hydro PPA value as determined in the 2014 year-end valuation process.

Liabilities

Details of Liabilities *(in thousands of dollars)*	Nine months ended September 30,2015	Year ended December 31, 2014	Variance
Trade and other payables	67,476	72,354	(4,878)
Genesee power purchase arrangement lease obligation	327,797	373,656	(45,859)
Small power producer contracts	9,643	12,987	(3,344)
Reclamation and abandonment provision and other long-term obligation	27,351	29,877	(2,526)
Total liabilities	432,267	488,874	(56,607)

Genesee Power Purchase Arrangement Lease Obligation

The balance of the liability related to the Genesee PPA at September 30, 2015 represents the sum of the capital component required over the remaining term of the Genesee PPA. The decrease in the first nine months of 2015 from December 31, 2014 reflects the straight-line amortization of the lease obligation.

Small Power Producer Contracts

The net present value of the SPP contract liability at September 30, 2015 decreased by 3.3 million from year-end 2014. The decrease in fair value reflects the amortization of the SPP contact value as determined in the 2014 year-end valuation process.

Reclamation and Abandonment Provision and Other Long-Term Obligations

The reduction in the Reclamation and Abandonment provision and other long-term obligations relative to December 31, 2014 primarily reflects cash payments of $3.4 million for the Isolated Generation remediation project, offset by accretion expense of $0.9 million.

Balancing Pool Deferral Account

Balancing Pool Deferral Account, Beginning of Year *(in thousands of dollars)*	Nine months ended September 30,2015	Year ended December 31, 2014
Deferral account, beginning of year	1,562,737	1,937,209
Change in net assets attributable to the Balancing Pool deferral account	(18,124)	(49,805)
Consumer Allocation	(240,587)	(324,667)
Deferral account, end of period	1,304,026	1,562,737

The Balancing Pool deferral account decreased by $258.7 million from December 31, 2014 as a result of the consumer allocation distribution of $240.6 million and a loss of $18.1 million from operating activities YTD 2015.

The consumer allocation distribution for YTD 2015 has been maintained at a rate of $5.50/MWh (2014 - $5.50/MWh).

Liquidity and Cash Flow

To manage liquidity risk, the Balancing Pool holds short-term cash deposits. In addition, management forecasts cash flows for a period of 12 months and beyond and has the ability to adjust the Consumer Allocation and/or liquidate investments as required.

The Balancing Pool also has access to a credit facility of $90 million to meet short-term liquidity needs. At September 30, 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, the Genesee PPA lease obligation and the Consumer Allocation.

Outlook

Based on forecasted cash flow and the expected financial position for 2015, the Balancing Pool estimated the annual allocation of its financial surplus to electricity consumers in Alberta at $5.50 per MWh of consumption, effective January 1, 2015 (2014 - $5.50 per MWh).

The total allocation is estimated to be approximately $324.0 million during 2015, provided there are no changes or adjustments to the megawatt allocation. Future Consumer Allocations will continue to be funded through a combination of operating income and sale of investments, as required.

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 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 PPA Buyer. In addition, during events of force majeure availability incentive payment obligations between the PPA Buyer and PPA Owner are suspended.

- **Power market price volatility risk**

  As counterparty to the Genesee 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 prices in Alberta's hourly wholesale electricity market and are dependent on many factors including but not limited to the supply and demand of electricity, generating and input costs, 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 has 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**

  The value of these investments is exposed to changes in capital markets and, as such, the Balancing Pool faces the risks related to equity market performance, interest rates, foreign exchange rates, and other financial risks. In addition, the liquidity risk of the portfolio must be managed to ensure sufficient funds are available on relatively short notice in response to potential claims or other cash flow requirements.

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

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

  The PPAs contains termination provisions that make accommodations for the PPA to be terminated. Under certain scenarios, the Balancing Pool could be required to pay the net book value to the PPA Owner and/or the Residual Balancing Pool Amount to the PPA Buyer.

- **Change in law risk**

  Changes in law, including regulatory 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 onto the PPA Buyer. As the Buyer of the Genesee PPA, the Balancing Pool must assume and be responsible for change in law costs affecting the Genesee 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 prior to the end of 2018, the Balancing Pool may be required to recompense the Owner for some of its decommissioning costs. The Balancing Pool may 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 year-end 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.

- **Liquidity**

  The Balancing Pool maintains adequate liquidity in the investment portfolio to be responsive to potential claims arising from risks faced by the Balancing Pool.

Accounting Policy Changes

There were no significant changes to accounting standards that impacted the Balancing Pool in 2015. The Balancing Pool prepares its annual financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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 of various remote generation sites. The current and long-term portions of the provision are based upon management's best estimate of the timing of the costs.

Hydro Power Purchase Arrangement and Small Power Producer Contracts – 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 – 10.6%).

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 implement the initiatives referred to in this MD&A and other electricity market factors.

Condensed Interim Financial Statements of

Balancing Pool

(Unaudited, in thousands of Canadian dollars)
Nine months ended September 30, 2015 and 2014

Balancing Pool
Statement of Financial Position

(in thousands of Canadian dollars)	**September 30, 2015**	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	3,402	36,641
Trade and other receivables	15,127	19,059
Current portion of Hydro power purchase arrangement (Note 2a)	43,000	52,665
	61,529	108,365
Investments (Note 3)	791,070	974,682
Property, plant and equipment (Note 4a)	580,597	663,444
Hydro power purchase arrangement (Note 2a)	303,097	305,120
Total Assets	1,736,293	2,051,611
Liabilities		
Current liabilities		
Trade and other payables	67,476	72,354
Current portion of power purchase arrangement lease obligation (Note 4b)	61,000	61,145
Current portion of Small Power Producer contracts (Note 2b)	5,500	6,036
Current portion of reclamation and abandonment provision (Note 5)	3,000	6,518
	136,976	146,053
Genesee power purchase arrangement lease obligation (Note 4b)	266,797	312,511
Small Power Producer contracts (Note 2b)	4,143	6,951
Reclamation and abandonment provision & other long-term obligation (Note 5)	24,351	23,359
Total Liabilities	432,267	488,874
Net assets attributable to the Balancing Pool deferral account (Note 6)	1,304,026	1,562,737

Contingencies (Note 7)

Balancing Pool
Statements of Income and Comprehensive Income

((in thousands of Canadian dollars)	Three months ended September 30 2015	2014	Nine months ended September 30 2015	2014
Revenues				
Sale of electricity	31,984	107,769	124,942	247,597
Sale of generating capacity	18,691	-	53,294	-
Changes in fair value of Hydro power purchase arrangement (Note a)	(4,273)	27,171	25,617	41,554
Changes in fair value of Small Power Producer contracts (Note 2b)	(786)	813	(815)	250
Changes in fair value of investments (Note 3)	(15,004)	1,820	24,688	55,217
Investment income – interest and dividends	3,957	5,169	12,751	15,998
Payments in lieu of tax (Note 7)	1,041	2,474	5,274	7,648
	35,610	145,216	245,751	368,264
Expenses				
Cost of sales	82,188	88,958	241,428	238,467
Force majeure costs	259	130	12,121	8,508
Mandated costs	1,991	1,645	5,885	4,962
General and administrative	653	702	1,950	2,435
Investment management costs	613	632	1,866	1,864
	85,704	92,067	263,250	256,236
Income from operating activities	(50,094)	53,149	(17,499)	112,028
Other income (expense)				
Net gain (loss) on financial derivatives	249	(15,470)	271	(14,238)
Finance expense	(299)	(278)	(896)	(835)
Other expense	-	(1)	-	(1)
	(50)	(15,749)	(625)	(15,074)
Change in net assets attributable to the Balancing Pool deferral account	(50,144)	37,400	(18,124)	96,954

Balancing Pool
Statements of Cash Flows

(in thousands of Canadian dollars)	Three months ended September 30 2015	2014	Nine months ended September 30 2015	2014
Cash flow provided by (used in)				
Operating activities				
Change in net assets attributable to the Balancing Pool deferral account	(50,144)	37,400	(18,124)	96,954
Items not affecting cash				
Amortization and depreciation (Note 4)	27,650	29,443	82,944	88,330
Fair value changes on Small Power Producer contracts (Note 2b)	786	(813)	815	(250)
Fair value changes on Hydro power purchase arrangement (Note 2a)	4,273	(27,171)	(25,617)	(41,554)
Fair value changes on financial derivative instruments	30	(2,764)	-	2,125
Fair value changes on financial investments (Note 3)	23,207	21,001	39,313	(5,607)
Finance expense	299	278	896	835
Reclamation and abandonment expenditures (Note 5)	(1,630)	(729)	(3,422)	(1,965)
Net change in non-cash working capital	60,239	13,722	(945)	25,114
Net cash provided by operating activities	64,710	70,367	75,860	163,982
Investing activities				
Sale of investments	28,858	22,087	144,298	84,568
Purchase of property, plant and equipment (Note 4a)	(92)	-	(97)	-
Net cash provided by investing activities	28,766	22,087	144,201	84,568
Financing activities				
Hydro power purchase arrangement net cash receipts (Note a)	2,578	40,463	37,305	69,406
Payment of power purchase arrangement lease obligation	(15,286)	(14,811)	(45,859)	(44,433)
Small Power Producer contract payments (Note 2b)	(1,758)	(385)	(4,159)	(3,773)
Payment of the Consumer Allocation (Note 6)	(79,536)	(79,735)	(240,587)	(239,993)
Net cash used in financing activities	(94,002)	(54,468)	(253,300)	(218,793)
Change in cash and cash equivalents	(526)	37,986	(33,239)	29,757
Cash and cash equivalents, beginning of period	3,928	8,175	36,641	16,404
Cash and cash equivalents, end of period	3,402	46,161	3,402	46,161

Condensed Interim Notes to Financial Statements

1. Basis of Presentation

These interim financial statements for the three and nine months ended September 30, 2015 are unaudited and have been prepared in accordance with IAS 34 'Interim Financial Reporting' ("lAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC"), 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, 2014.

These financial statements were authorized and approved for issue by the Board of the Balancing Pool on November 13, 2015.

2. Accounting for Financial Instruments

a) Hydro Power Purchase Arrangement

The remaining term of the Hydro PPA is five years and three months through to December 31, 2020. At September 30, 2015 the value of the Hydro PPA was $346.1 million (Dec. 31, 2014 - $357.8 million). The Hydro PPA is revalued at each year-end. The estimated value of this asset varies significantly based on the assumptions used and there is a high degree of measurement uncertainty.

Hydro Power Purchase Arrangement *(in thousands of dollars)*	Nine months ended September 30, 2015	Year ended December 31, 2014
Hydro power purchase arrangement, opening balance	357,785	480,739
Accretion and current year change	25,617	32,270
Net cash receipts	(37,305)	(68,408)
Revaluation of hydro power purchase arrangement asset	-	(86,816)
Hydro power purchase arrangement, closing balance	346,097	357,785
Less: Current portion	(43,000)	(52,665)
	303,097	305,120

b) Small Power Producer Contracts

At September 30, 2015 the value of the SPP contracts represented a $9.6 million liability (Dec. 31, 2014 - $13.0 million liability). The SPP contracts are revalued at each year-end.

Small Power Producer Contracts *(in thousands of dollars)*	Nine months ended September 30, 2015	Year ended December 31, 2014
Small Power Producer contracts, opening balance	(12,987)	(16,647)
Accretion and current year change	(815)	(806)
Net cash (receipts) payments	4,159	6,708
Revaluation of Small Power Producer contracts	-	(2,242)
Small Power Producer contracts, closing balance	(9,643)	(12,987)
Less: Current portion	5,500	6,036
	(4,143)	(6,951)

3. Investments

(in thousands of dollars)	September 30, 2015 Market Value	September 30, 2015 Cost	December 31, 2014 Market Value	December 31, 2014 Cost
Fixed income securities	395,492	391,983	456,074	450,922
Canadian equities	154,540	122,546	215,840	156,064
Global equities	241,038	140,061	302,768	191,903
Total investments	791,070	654,590	974,682	798,889

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 (loss), December 31, 2013	(130)	63,321	121,665	184,856
Changes in value attributable to:				
Change during the period	6,592	26,798	35,389	68,779
Realized (gain) loss on sales of investments	(1,310)	(30,343)	(46,189)	(77,842)
Net change during the period	5,282	(3,545)	(10,800)	(9,063)
Unrealized market gain, December 31, 2014	5,152	59,776	110,865	175,793
Changes in value attributable to:				
Change during the period	6,701	(14,575)	32,562	24,688
Realized (gain) loss on sales of investments	(8,344)	(13,207)	(42,450)	(64,001)
Net change during the period	(1,643)	(27,782)	(9,888)	(39,313)
Unrealized market gain, September 30, 2015	3,509	31,994	100,977	136,480

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, 2013	1,505,670	519	1,506,189
Additions	-	-	-
Balance as at December 31, 2014	1,505,670	519	1,506,189
Additions	-	97	97
Balance as at September 30, 2015	1,505,670	616	1,506,286
Accumulated Depreciation			
Balance as at December 31, 2013	681,462	415	681,877
Amortization and Depreciation	117,744	29	117,773
Impairment loss	43,095	-	43,095
Balance as at December 31, 2014	842,301	444	842,745
Amortization and Depreciation	82,921	23	82,944
Balance as at September 30, 2015	925,222	467	925,689
Net Book Value			
As at December 31, 2014	663,369	75	663,444
As at September 30, 2015	580,448	149	580,597

b) Genesee Power Purchase Arrangement Lease Obligation

Under the terms of the Act, the Balancing Pool assumed the role of the counterparty to the Genesee PPA, which has been accounted for as a finance lease. The estimated future annual lease payments (capital component of the Genesee PPA payments) are as follows:

(in thousands of dollars)

2015	15,286
2016	61,524
2017	61,361
2018	62,385
2019	63,456
2020	63,785
	327,797
Less: Current portion	(61,000)
	266,797

There have been no changes to the estimated future annual lease payments from those presented in the 2014 audited annual financial statements.

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

(in thousands of dollars)	Other Long-Term Obligation H.R. Milner Generating Station	Reclamation and Abandonment Provision Isolated Generation Sites	Reclamation and Abandonment Provision Costs of PPAs	Total
At January 1, 2014	11,398	7,051	9,358	27,807
Net increase in provision	-	1,502	1,773	3,275
Liabilities paid in period	-	(2,317)	-	(2,317)
Accretion expense	456	282	374	1,112
At December 31, 2014	11,854	6,518	11,505	29,877
Less: Current portion	-	(6,518)	-	(6,518)
At December 31, 2014	11,854	-	11,505	23,359
At December 31, 2014	11,854	6,518	11,505	29,877
Liabilities paid in period	-	(3,422)	-	(3,422)
Accretion expense	356	195	345	896
At September 30, 2015	12,210	3,291	11,850	27,351
Less: Current portion	-	(3,000)	-	(3,000)
At September 30, 2015	12,210	291	11,850	24,351

6. Capital Management

The Balancing Pool's objective when managing capital is to operate in a manner that is consistent 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.

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

Balancing Pool Deferral Account *(in thousands of dollars)*	Nine months ended September 30, 2015	Year ended December 31, 2014
Deferral account, beginning of year	1,562,737	1,937,209
Change in net assets attributable to the Balancing Pool deferral account	(18,124)	(49,805)
Payment of Consumer Allocation	(240,587)	(324,667)
Deferral account, end of period	1,304,026	1,562,737

7. Contingencies

Alberta Tax and Revenue Administration have issued notices of re-assessment to a municipal entity that is subject to PILOT for several tax years (dating back to 2001). The municipal entity has disagreed with many aspects of these notices of re-assessments 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 including potential future claims with the municipal entity are approximately $365.0 million from 2001 to 2020. Due to the uncertainty of the outcome of the litigation procedures, these financial statements do not reflect any contingent asset or liability in relation to these ongoing disputes.