



**balancing**pool

Condensed Interim Financial Statements and Review

**Balancing Pool**

For the three and six months ended June 30, 2016

**NOTICE OF NO AUDITOR'S REVIEW OF INTERIM FINANCIAL STATEMENTS**

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

Calgary, Alberta  
September 28, 2016

## Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") for the Balancing Pool is dated September 28, 2016 and should be read in conjunction with the Balancing Pool's condensed interim financial statements for the three and six months ended June 30, 2016 and 2015 and the annual financial statements for the years ended December 31, 2015 and 2014.

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

### Results at a Glance

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
<i>Three months ended March 31</i>				
<b>Volume – gigawatt hours ("GWh")</b>				
Genesee Power Purchase Arrangement ("PPA")	1,352	1,447	3,028	3,097
Battle River 5 PPA	332	-	703	-
Sheerness PPA *	1,073	-	1,273	-
Sundance A PPA *	715	-	920	-
Sundance B PPA *	683	-	786	-
Sundance C PPA *	1,139	-	1,219	-
Keephills PPA *	825	-	825	-
Hydro PPA electricity	408	409	774	770
Hydro PPA ancillary service	309	309	638	633
Small Power Producer	35	39	78	81
<b>Price – per megawatt hour ("MWh")</b>				
Average Pool price	\$15.00	\$57.22	\$16.55	\$51.46
<b>Other</b>				
Consumer Allocation per MWh	\$3.25	\$5.50	\$3.25	\$5.50
<b>Financial Results (in thousands of dollars)</b>				
Total revenues	(143)	102,814	55,912	210,169
Total expenses	318,688	92,278	1,203,705	177,572
Income (loss) from operating activities	(318,831)	10,536	(1,147,793)	32,597
Change in net assets attributable to the Balancing Pool deferral account	(319,032)	10,259	(1,148,195)	32,022
<i>For the period ended (in thousands of dollars)</i>			June 30, 2016	December 31, 2015
Cash, cash equivalents and investments			388,710	709,792
Total assets			979,982	1,299,463
Total liabilities			1,446,898	524,948
Net liabilities attributable to the Balancing Pool deferral account			(466,916)	774,515
Consumer allocation			93,236	324,113

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

## Significant Events

### Going Concern

These condensed interim financial statements have been prepared assuming the Balancing Pool will continue as a going concern, which contemplates the recognition of assets and the satisfaction of liabilities in the normal course of business.

The termination of the PPAs and the low price environment has constrained the Balancing Pool's ability to discharge its financial obligations. The Government of Alberta has advised it will be proposing legislation, which will allow the Government of Alberta to loan funds to the Balancing Pool in order to meet the company's financial obligations.

### PPA Terminations

During the first six months of 2016, the Balancing Pool received formal notice from the Buyers of the Sheerness, Sundance A, Sundance B and Sundance C and Keephills PPA, of their intention to terminate their respective PPAs.

The table below summarizes the various terminated PPAs and their respective termination dates.

Effective Date of Termination	Power Purchase Arrangement	PPA Buyer
January 1, 2016	Battle River 5	ENMAX PPA Management ("ENMAX")
March 8, 2016	Sheerness	TransCanada Energy Ltd. ("TCE")
March 8, 2016	Sundance A	TransCanada Energy Ltd.
March 8, 2016	Sundance B	ASTC Power Partnership ("ASTC")
March 24, 2016	Sundance C	Capital Power PPA Management Inc. ("CP")
May 5, 2016	Keephills	ENMAX Energy Corporations

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

At June 30, 2016, the Balancing Pool had not completed the investigation of Sheerness, Sundance A, Sundance B, Sundance C and Keephills PPA terminations.

On July 25, 2016, the Attorney General of Alberta filed an application with the Alberta Court of Queen's Bench seeking declarations relating to the validity of certain provisions of the Battle River 5 PPA, and other PPAs, and seeking judicial review of the Balancing Pool's decision to accept termination by ENMAX PPA Management Inc. of the Battle River 5 PPA. The Balancing Pool, the Alberta Utilities Commission, ENMAX PPA Management Inc. and other parties with interests in PPAs were named as respondents. The Balancing Pool will be providing its responses for consideration by the Court.

Provisions for onerous contracts have been recorded for the terminated PPAs according to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. A provision may be recognized for an onerous contract when the unavoidable cost of meeting the obligations under the contract exceed the economic benefits expected to be derived from the contract. The provision is measured at the lower of the expected costs of terminating the contract and the expected net costs of continuing with the contract.

## Legislated Duties and Strategic Objectives

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

- Act as a risk backstop in relation to extraordinary events, including force majeure for Power Purchase Arrangements ("PPAs") that were sold to the third party buyers;
- Participate in regulatory and dispute resolution processes to protect the value of the Balancing Pool's assets when required on behalf of Alberta electricity consumers;
- Hold the Hydro Power Purchase Arrangement ("Hydro PPA") and manage the associated stream of receipts or payments;
- Act as a buyer for the PPAs that were not sold in the public auction held by the Government of Alberta in 2000 or that have subsequently been terminated by third party buyers and manage the resulting electricity portfolio in a commercial manner;
- Transfer offer control to market participants by selling PPAs held by the Balancing Pool in whole or through PPA derivative contracts when market conditions will allow the Balancing Pool to receive fair market value;
- Manage the investment accounts prudently; and
- Manage the Balancing Pool accounts so that there is no profit or loss over the life of the Balancing Pool.

## Force Majeure

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

## Financial Assets under Investment

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

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

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

### **Genesee Power Purchase Arrangement and Related Finance Lease Obligation**

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

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

### **Hydro Power Purchase Arrangement**

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

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

### **Payments in Lieu of Tax**

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

### **Small Power Producer Contracts**

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

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

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

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

### **Reclamation and Abandonment**

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

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

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

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

### **Consumer Allocation**

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

## Operations

### Revenues

Details of Revenues <i>(in thousands of dollars)</i>	Three months ended June 30			Six months ended June 30		
	2016	2015	Variance	2016	2015	Variance
Sale of electricity	91,800	58,427	33,373	131,741	92,957	38,784
Sale of generating capacity	8,068	16,774	(8,706)	34,098	34,603	(505)
Change in fair value of Hydro power purchase arrangement	(4,511)	30,438	(34,949)	(10,777)	29,890	(40,667)
Change in fair value of investments	(175)	(8,870)	8,695	(6,496)	39,692	(46,188)
Investment income – interest and dividends	1,053	4,230	(3,177)	3,948	8,794	(4,846)
Payments in lieu of taxes	(96,378)	1,815	(98,193)	(96,602)	4,233	(100,835)
Total revenues	(143)	102,814	(102,957)	55,912	210,169	(154,257)

#### Sale of Electricity

Revenue from the sale of electricity increased in Q2 2016 relative to Q2 2015 due to the inclusion of revenues from Battle River, Sundance A, Sundance B, Sundance C, Sheerness and Keephills PPAs. The Balancing Pool did not hold any of the above-mentioned PPAs in Q2 2015.

#### Sale of Generating Capacity

The remaining 100-MW strip contract for generating capacity derived from the Genesee PPA resulted in revenues of \$8.1 million for the second quarter of 2016. The decrease in revenues for Q2 2016 relative to Q2 2015 was the result of the termination of one of the strip contracts in Q1 2016.

#### Change in Fair Value of Hydro Power Purchase Arrangement

Revenue from the Hydro PPA decreased in Q2 2016 relative to Q2 2015 due to lower realized cash receipts than those forecast in the 2015 year-end valuation. Actual cash receipts decreased as a result of the lower than expected Pool prices for Q2 2016.

#### Changes in Fair Value of Investments

Details of Changes in Fair Value of Investments <i>(in thousands of dollars)</i>	Three months ended June 30			Six months ended June 30		
	2016	2015	Variance	2016	2015	Variance
Unrealized mark-to-market (loss) gain	(5,143)	(39,368)	34,225	(121,825)	(16,107)	(105,718)
Realized capital gains	4,968	30,498	(25,530)	115,329	55,799	59,530
Total Changes in Fair Value of Investments	(175)	(8,870)	8,695	(6,496)	39,692	(46,188)

Total changes in fair value of investments declined for Q2 2016 relative to Q2 2015 due to the accelerated sale of investments.

Investment Returns & Benchmark (%)	Three months ended June 30			Six months ended June 30		
	2016	2015	Variance	2016	2015	Variance
Investment returns	0.17	(0.54)	0.71	(0.17)	4.83	(5.00)
Benchmark	2.20	(0.80)	3.00	1.80	4.42	(2.62)
Variance	(2.03)	0.26	(2.29)	(1.97)	0.41	(2.38)

### Investment Income – Interest and Dividends

Investment income for Q2 2016 decreased relative to Q2 2015 due to the drawdown of the investment portfolio.

### Payments In Lieu of Tax

Total PILOT revenues in Q2 2016 decreased relative to Q2 2015 as a result of significant refunds, litigation and audit costs exceeding installment remittances received by the Balancing Pool.

A municipal entity subject to PILOT has disagreed with numerous tax assessments issued by Alberta Tax and Revenue Administration (2001 – present) and has filed notices of objection for those tax years. Many of those matters have been adjudicated by the Alberta courts. The court ruling has resulted in a preliminary PILOT refund of \$96 million due to the municipal entity. The proposed refund of \$96 million has been accrued in trade and other payables in Q2 2016.

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 <i>(in thousands of dollars)</i>	Three months ended June 30			Six months ended June 30		
	2016	2015	Variance	2016	2015	Variance
Cost of sales	237,647	80,570	157,077	352,758	159,240	193,518
Provision for other long-term obligations	76,382	-	76,382	842,502	-	842,502
Force majeure costs	1,259	9,009	(7,750)	1,751	11,861	(10,110)
Mandated costs	1,829	1,957	(128)	3,657	3,893	(236)
General and administrative	932	668	264	1,572	1,296	276
Investment management costs	117	629	(512)	469	1,253	(784)
Changes in fair value of Small Power Producer contracts	522	(555)	1,077	996	29	967
Total expenses	318,688	92,278	226,410	1,203,705	177,572	1,026,133

## Cost of Sales

Total cost of sales increased in Q2 2016 relative to Q2 2015 primarily due to the inclusion of PPA costs associated with the terminated PPAs, which include Battle River 5, Sheerness, Sundance A, Sundance B and Sundance C and Keephills. The Balancing Pool is responsible for remitting the PPA costs to the plant Owners of the generating units during the termination evaluation phase. Should the PPA terminations be determined to be invalid the Balancing Pool may be able to recover the PPA costs remitted to the plant Owners.

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

## Provision for Other Long-Term Obligations

Other long-term obligations reflect the onerous contract provisions established for the terminated PPAs over the first six months of 2016. There were no terminated PPAs during the first six months of 2015.

## Force Majeure Costs

Force majeure costs for Q2 2016 decreased by \$7.8 million relative to the same period in 2015 as there have been no claims submitted during Q2 2016.

## Assets

Details of Assets <i>(in thousands of dollars)</i>	Six months ended June 30,2016	Year ended December 31, 2015	Variance
Cash and cash equivalents	(3,450)	5,073	(8,523)
Trade and other receivables	46,446	16,093	30,353
Investments	392,160	704,719	(312,559)
Property, plant and equipment	297,840	330,945	(33,105)
Hydro power purchase arrangement	243,536	242,633	903
Total assets	976,532	1,299,463	(322,931)

## Trade and Other Receivables

Trade and other receivables have increased for Q2 2016 relative to Q2 2015 as a result of revenues accrued for the terminated PPAs.

## Investments

Investment Balance Portfolio	(in thousands of dollars)
Opening Investment Balance, December 31, 2015	704,719
Realized capital gains, interest and dividends on investments	119,266
Unrealized capital losses	(121,825)
Withdrawal from Investment portfolio	(310,000)
Closing Investment Balance, June 30, 2016	392,160

The investment portfolio has declined by \$312.6 million from December 31, 2015 given the necessity to liquidate financial assets in order to finance operating losses and the consumer allocation.

## Property, Plant and Equipment

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

As a result of the decline in the forward market price, an impairment loss of \$222.0 million was recorded on the Genesee PPA lease at December 31, 2015. The Genesee PPA is tested for impairment at each year-end.

## Hydro Power Purchase Arrangement

The net present value of the Hydro PPA at June 30, 2016 increased by \$0.9 million from December 31, 2015. Typically, the Hydro PPA will decline in value if revenues exceed the costs under the contract. In the current circumstances, with the low market prices, the costs of the PPA exceed revenues, which increase the residual value of the Hydro PPA due to the mechanics of financial instrument accounting.

## Liabilities

Details of Liabilities (in thousands of dollars)	Six months ended June 30, 2016	Year ended December 31, 2015	Variance
Trade and other payables	250,294	74,580	175,714
Genesee power purchase arrangement lease obligation	281,749	312,511	(30,762)
Small power producer contracts	8,551	11,368	(2,817)
Reclamation, abandonment provision	29,876	29,789	87
Other long-term obligations	872,978	96,700	776,278
Total liabilities	1,443,448	524,948	918,500

## Trade and Other Payables

Trade and other payables increased in Q2 2016 relative to year-end 2015 due to the inclusion of PPA costs associated with the terminated PPAs (Battle River 5, Sheerness, Keephills, Sundance A, Sundance B and Sundance C). In addition, trade and other payables reflect a pending refund of \$96 million due to a municipal entity subject to the PILOT regulation.

## Genesee Power Purchase Arrangement Lease Obligation

The balance of the liability related to the Genesee PPA at June 30, 2016 represents the sum of the capital component of the total payments required over the remaining term of the Genesee PPA. The decrease in the first six of 2016 from December 31, 2015 reflects the straight-line amortization of the lease obligation.

## Small Power Producer Contracts

The net present value of the SPP contract liability at June 30, 2016 decreased by \$2.8 million from year-end 2015. The decrease in fair value is attributed to amortization of the SPP value as determined in the 2015 year-end valuation process.

## Reclamation and Abandonment Provision

Details of Reclamation and Abandonment (in thousands of dollars)	Six months ended June 30,2016	Year ended December 31, 2015	Variance
H.R. Milner generating stations	13,305	13,128	177
Isolated generation sites	5,222	5,463	(241)
Decommissioning Costs of PPAs	11,349	11,198	151
Total Reclamation and Abandonment	29,876	29,789	87

Reclamation and abandonment provision at June 30, 2016 increased relative to December 31, 2015 primarily due to accretion expense recorded on the provisions.

## Provision for Other Long-Term Obligations

Details of Provision for Other Long-Term Obligations (in thousands of dollars)	Six months ended June 30,2016	Year ended December 31, 2015	Variance
Battle River 5 Power purchase arrangement ("PPA")	87,030	96,700	(9,670)
Sheerness PPA	364,251	-	364,251
Sundance A PPA	44,431	-	44,431
Sundance B PPA	146,070	-	146,070
Sundance C PPA	157,211	-	157,211
Keephills PPA	73,985	-	73,985
Total Other Long-Term Obligations	872,978	96,700	776,278

Other long-term obligations represent onerous contract provisions recorded for the terminated PPAs. The balance at June 30, 2016 increased relative to December 31, 2015 due to the termination of Sheerness, Sundance A, Sundance B, Sundance C and Keephills PPAs over the first six months of 2016. Onerous contract provisions are re-valued at each year-end.

## Balancing Pool Deferral Account

Balancing Pool Deferral Account, Beginning of Year <i>(in thousands of dollars)</i>	Six months ended June 30, 2016	Year ended December 31, 2015
Deferral account, beginning of year	774,515	1,562,737
Change in net assets attributable to the Balancing Pool deferral account	(1,148,195)	(464,109)
Consumer Allocation	(93,236)	(324,113)
Deferral account, end of period	(466,916)	774,515

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

## Liquidity and Cash Flow

To manage liquidity risk, the Balancing Pool forecasts cash flows for a period of 12 months and beyond to the end of 2020.

Due to the recent notices of PPA terminations, the Balancing Pool's Board of Directors approved the liquidation of the investment portfolio. If upheld, the Balancing Pool anticipates the termination of the PPAs will have a material effect on cash flow and liquidity.

The Balancing Pool has access to a credit facility of \$4 million. At June 30, 2016, the Balancing Pool had \$2.0 million of unsecured Letters of Credit issued with Natural Gas Exchange.

These condensed interim financial statements have been prepared assuming the Balancing Pool will continue as a going concern. Refer to Note 1a) Going concern.

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

The Government of Alberta has advised it will be proposing legislation, which will allow the Government of Alberta to loan funds to the Balancing Pool in order to meet the company's financial obligations.

## Outlook

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

## Risks and Risk Management

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

- **Force majeure risk**

Events of force majeure are extraordinary events beyond the reasonable control of the affected PPA counterparty. These events include:

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

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

- **Power market price volatility risk**

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

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

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**

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

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

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

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

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

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

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

- **Unit destruction**

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

- **Change in law risk**

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

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

- **PPA decommissioning risk**

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

- **PPA Buyer default risk**

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

- **Alberta Climate Leadership Plan**

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

- **Liquidity**

The termination of the PPAs and the low price environment has constrained the Balancing Pool's ability to discharge its financial obligations. The Government of Alberta has advised it will be proposing legislation, which will allow the Government of Alberta to loan funds to the Balancing Pool in order to meet the company's financial obligations.

## Accounting Policy Changes

There were no significant changes to accounting standards that impacted the Balancing Pool in Q2 2016. The Balancing Pool prepares its quarterly financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") except for quarterly valuation adjustments to the Hydro PPA and SPP contracts and provisions for other long-term obligations.

## Critical Accounting Estimates

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

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

### Reclamation and Abandonment Provision

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

### Onerous Contract Provision

The provisions for the terminated PPAs are determined using estimated future electricity prices, escalated costs as per the contract terms and future cash outflows discounted to the net present value at 2.7%.

### Hydro Power Purchase Arrangement Valuation, Small Power Producer Contracts Valuation and Genesee Power Purchase Arrangement Impairment Assessment

The net present value of future cash flows is estimated using:

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

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

## Forward-Looking Information

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

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

## Balancing Pool

### Statement of Financial Position

<i>(in thousands of Canadian dollars)</i>	June 30, 2016	December 31, 2015
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	-	5,073
Trade and other receivables	46,446	16,093
Current portion of Hydro power purchase arrangement (Note 2 a)	34,679	26,147
	81,125	47,313
<b>Investments (Note 3)</b>	392,160	704,719
<b>Property, plant and equipment (Note 4 a)</b>	297,840	330,945
<b>Hydro power purchase arrangement (Note 2 a)</b>	208,857	216,486
<b>Total Assets</b>	979,982	1,299,463
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	253,744	74,580
Current portion of power purchase arrangement lease obligation	61,442	61,524
Current portion of Small Power Producer contracts (Note 2 b)	5,055	5,834
Current portion of reclamation and abandonment provision (Note 5)	2,609	2,925
Current portion of other long-term obligations (Note 6)	213,742	44,200
	536,592	189,063
<b>Genesee power purchase arrangement lease obligation</b>	220,307	250,987
<b>Small Power Producer contracts (Note 2 b)</b>	3,496	5,534
<b>Reclamation and abandonment provision (Note 5)</b>	27,267	26,864
<b>Other long-term obligations (Note 6)</b>	659,236	52,500
<b>Total Liabilities</b>	1,446,898	524,948
<b>Net (liabilities)assets attributable to the Balancing Pool deferral account (Note 7)</b>	(466,916)	774,515

Basis of Presentation – Going Concern (Note 1a) and Contingencies and Commitments (Note 8)

## Balancing Pool

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

<i>(in thousands of Canadian dollars)</i>	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
<b>Revenues</b>				
Sale of electricity	91,800	58,427	131,741	92,957
Sale of generating capacity	8,068	16,774	34,098	34,603
Changes in fair value of Hydro power purchase arrangement (Note 2 a)	(4,511)	30,438	(10,777)	29,890
Changes in fair value of investments (Note 3)	(175)	(8,870)	(6,496)	39,692
Investment income – interest and dividends	1,053	4,230	3,948	8,794
Payments in lieu of tax	(96,378)	1,815	(96,602)	4,233
	(143)	102,814	55,912	210,169
<b>Expenses</b>				
Cost of sales	237,647	80,570	352,758	159,240
Provision for other long-term obligations	76,382	-	842,502	-
Force majeure costs	1,259	9,009	1,751	11,861
Mandated costs	1,829	1,957	3,657	3,893
General and administrative	932	668	1,572	1,296
Investment management costs	117	629	469	1,253
Changes in fair value of Small Power Producer contracts (Note 2 c)	522	(555)	996	29
	318,688	92,278	1,203,705	177,572
<b>Income(loss) from operating activities</b>	(318,831)	10,536	(1,147,793)	32,597
<b>Other income (expense)</b>				
Net gain on financial derivatives	-	22	-	22
Finance expense	(201)	(299)	(402)	(597)
	(201)	(277)	(402)	(575)
<b>Change in net assets attributable to the Balancing Pool deferral account</b>	(319,032)	10,259	(1,148,195)	32,022

## Balancing Pool

### Statements of Cash Flows

<i>(in thousands of Canadian dollars)</i>	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
<b>Cash flow provided by (used in)</b>				
<b>Operating activities</b>				
Change in net assets attributable to the Balancing Pool deferral account	(319,032)	10,259	(1,148,195)	32,022
Items not affecting cash				
Amortization and depreciation (Note 4)	16,552	27,647	33,105	55,294
Other long-term obligations (Note 6)	24,660	-	776,278	-
Fair value changes on Small Power Producer contracts (Note 2 b)	522	(555)	996	29
Fair value changes on Hydro power purchase arrangement (Note 2 a)	4,511	(30,438)	10,777	(29,890)
Fair value changes on financial derivative instruments	-	(30)	-	(30)
Fair value changes on financial investments (Note 3)	5,143	39,368	121,825	16,107
Finance expense	201	299	402	597
Reclamation and abandonment expenditures (Note 5)	(240)	(1,617)	(315)	(1,792)
Net change in non-cash working capital	132,377	(58,390)	148,811	(61,186)
Net cash provided by (used in) operating activities	(135,306)	(13,457)	(56,316)	11,151
<b>Investing activities</b>				
Interest, dividends and other gains	(6,020)	(34,724)	(119,266)	(64,560)
Sale of investments	207,000	110,000	310,000	180,000
Purchase of property, plant and equipment	-	(6)	-	(6)
Net cash provided by (used in) investing activities	200,980	75,270	190,734	115,434
<b>Financing activities</b>				
Hydro power purchase arrangement net cash receipts (payments) (Note 2 a)	(4,313)	33,802	(11,680)	34,727
Payment of power purchase arrangement lease obligation	(15,381)	(15,286)	(30,762)	(30,573)
Small Power Producer contracts net receipts (payments) (Note 2 b)	(1,835)	(627)	(3,813)	(2,402)
Payment of the Consumer Allocation (Note 7)	(44,307)	(77,426)	(93,236)	(161,050)
Net cash used in financing activities	(65,836)	(59,537)	(139,491)	(159,298)
<b>Change in cash and cash equivalents</b>	(162)	2,276	(5,073)	(32,713)
<b>Cash and cash equivalents, beginning of period</b>	162	1,652	5,073	36,641
<b>Cash and cash equivalents, end of period</b>	-	3,928	-	3,928

## Condensed Interim Notes to Financial Statements

### 1. Basis of Presentation

#### a) Going Concern

These condensed interim financial statements have been prepared assuming the Balancing Pool will continue as a going concern, which contemplates the recognition of assets and the satisfaction of liabilities in the normal course of business. For the six months ended June 30, 2016, the Balancing Pool incurred a net loss of \$1.1 billion and a net reduction in cash and cash equivalents of \$321.1 million. As at June 30, 2016, the Balancing Pool has net liabilities of \$1.4 billion and has approximately \$213.7 million of obligations related to power purchase contracts due in the next twelve months. The net liability position is a result of the PPA terminations discussed in note 6 and the current Alberta power forward price curves, which suggest low Alberta power prices in the near term.

Currently, based on its planned expenditures and expected cash flows, the Balancing Pool will need to secure new sources of working capital to continue operations beyond December. The Government of Alberta has advised it will be proposing legislation, which will allow the Government of Alberta to loan funds to the Balancing Pool in order to meet the company's financial obligations.

The Balancing Pool believes there is a reasonable expectation that it will be successful in obtaining the necessary funding to address its working capital needs and therefore the going concern assumption is appropriate for these condensed interim financial statements. However, there can be no assurance that the steps being taken will be successful and as a result there is a material uncertainty that may cast significant doubt upon the Balancing Pool's ability to continue as a going concern and the Balancing Pool may therefore be unable to realise its assets and settle its liabilities in the normal course of business. These condensed interim financial statements do not include any adjustments to the recoverability and classification of recorded assets, liabilities, revenues and expenses that might be necessary should the Balancing Pool be unable to continue as a going concern.

#### b) Statement of Compliance

These interim financial statements for the three and six months ended June 30, 2016 are unaudited and have been prepared by management in accordance with IAS 34 'Interim Financial Reporting' ("IAS 34") as issued by the International Accounting Standards Board ("IASB") except for the financial instrument valuation adjustments for the Hydro PPA and SPP contracts. The disclosures provided below are incremental to those included with the annual financial statements.

These interim condensed financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2015.

These financial statements were authorized and approved for issue by the Board of the Balancing Pool on September 28, 2016.

## 2. Accounting for Financial Instruments

### a) Hydro Power Purchase Arrangement

At June 30, 2016 the value of the Hydro PPA was \$243.5 million (Dec. 31, 2015 - \$242.6 million). The Hydro PPA is revalued at each year-end. The estimated value of this asset will vary significantly depending on the assumptions used and there is a high degree of measurement uncertainty associated with these assumptions.

Hydro Power Purchase Arrangement <i>(in thousands of dollars)</i>	Six months ended June 30, 2016	Year ended December 31, 2015
Hydro power purchase arrangement, opening balance	242,633	357,785
Accretion and current year change	(10,777)	19,126
Net cash payments (receipts)	11,680	(33,866)
Revaluation of hydro power purchase arrangement asset	-	(100,412)
Hydro power purchase arrangement, closing balance	243,536	242,633
Less: Current portion	(34,679)	(26,147)
	208,857	216,486

### b) Small Power Producer Contracts

At June 30, 2016 the value of the SPP contracts was \$8.6 million liability (Dec. 31, 2015 - \$11.4 million liability). The SPP contracts are revalued at each year end.

Small Power Producer Contracts <i>(in thousands of dollars)</i>	Six months ended June 30, 2016	Year ended December 31, 2015
Small Power Producer contracts, opening balance	(11,368)	(12,987)
Accretion and current year change	(996)	(1,301)
Net cash payments	3,813	5,960
Revaluation of Small Power Producer contracts	-	(3,040)
Small Power Producer contracts, closing balance	(8,551)	(11,368)
Less: Current portion	5,055	5,834
	(3,496)	(5,534)

## 3. Investments

<i>(in thousands of dollars)</i>	Six months ended June 30, 2016		Year ended December 31, 2015	
	Market Value	Cost	Market Value	Cost
Fixed income securities	392,145	392,263	353,295	350,950
Canadian equities	-	-	135,209	108,540
Global equities	15	16	216,215	123,523
Total investments	392,160	392,279	704,719	583,013

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

Unrealized Market Gain (Loss) <i>(in thousands of dollars)</i>	Fixed Income Securities	Canadian Equities	Global Equities	Totals
Unrealized market gain, December 31, 2014	5,152	59,776	110,865	175,793
Changes in value attributable to:				
Change during the period	5,633	(15,531)	45,433	35,535
Realized (gain) loss on sales of investments	(8,440)	(17,576)	(63,606)	(89,622)
Net change during the period	(2,807)	(33,107)	(18,173)	(54,087)
Unrealized market gain, December 31, 2015	2,345	26,669	92,692	121,706
Changes in value attributable to:				
Change during the period	(906)	12,143	(17,733)	(6,496)
Realized (gain) loss on sales of investments	(1,557)	(38,812)	(74,960)	(115,329)
Net change during the period	(2,463)	(26,669)	(92,693)	(121,825)
Unrealized market gain, June 30, 2016	(118)	-	(1)	(119)

#### 4. Property, Plant and Equipment and Related Lease Obligation

##### a) Property, Plant and Equipment

<i>(in thousands of dollars)</i>	Genesee PPA	Office Equipment	Total
<b>Cost</b>			
Balance as at December 31, 2014	1,505,670	519	1,506,189
Additions	-	56	56
Balance as at December 31, 2015	1,505,670	575	1,506,245
Additions	-	-	-
Balance as at June 30, 2016	1,505,670	575	1,506,245
<b>Accumulated Depreciation</b>			
Balance as at December 31, 2014	842,301	444	842,745
Amortization and Depreciation	110,561	34	110,595
Impairment loss	221,960	-	221,960
Balance as at December 31, 2015	1,174,822	478	1,175,300
Amortization and Depreciation	33,085	20	33,105
Balance as at June 30, 2016	1,207,907	498	1,208,405
<b>Net Book Value</b>			
As at December 31, 2015	330,848	97	330,945
As at June 30, 2016	297,763	77	297,840

During 2015, an impairment loss was recorded with respect to the Genesee PPA. The Genesee PPA will be re-valued and tested for impairment at year-end. It is highly likely the Genesee PPA will be reclassified at year-end as an onerous contract and the net liability for the Genesee PPA will be recorded under Other long-term obligations.

**b) Genesee Power Purchase Arrangement Lease Obligation**

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

**5. Reclamation and Abandonment Provision**

Reclamation and Abandonment Provision				
	H.R. Milner Generating Station	Isolated Generation Sites	Decommissioning Costs of PPAs	Total
<i>(in thousands of dollars)</i>				
At January 1, 2015	11,854	6,518	11,505	29,877
Net increase in provision	800	2,731	(767)	2,764
Liabilities paid in period	-	(4,047)	-	(4,047)
Accretion expense	474	261	460	1,195
At December 31, 2015	13,128	5,463	11,198	29,789
Less: Current portion	-	(2,925)	-	(2,925)
At December 31, 2015	13,128	2,538	11,198	26,864
At January 1, 2016	13,128	5,463	11,198	29,789
Net increase in provision	-	-	-	-
Liabilities paid in period	-	(315)	-	(315)
Accretion expense	177	74	151	402
At June 30, 2016	13,305	5,222	11,349	29,876
Less: Current portion	-	(2,609)	-	(2,609)
At June 30, 2016	13,305	2,613	11,349	27,267

**6. Other Long-terms Obligations**

	Battle River 5 PPA	Sundance A	Sundance B	Sundance C	Sheerness	Keephills	Total
<i>(in thousands of dollars)</i>							
At January 1, 2015	-	-	-	-	-	-	-
Net increase in provision	96,700	-	-	-	-	-	96,700
Amortization	-	-	-	-	-	-	-
At December 31, 2015	96,700	-	-	-	-	-	96,700
Less: Current portion	(44,200)	-	-	-	-	-	(44,200)
At December 31, 2015	52,500	-	-	-	-	-	52,500
At January 1, 2016	96,700	-	-	-	-	-	96,700
Net increase in provision	-	53,687	156,214	166,673	389,546	76,382	842,502
Amortization	(9,670)	(9,256)	(10,144)	(9,462)	(25,295)	(2,397)	(66,224)
At June 30, 2016	87,030	44,431	146,070	157,211	364,251	73,985	872,978
Less: Current portion	(19,340)	(29,620)	(32,460)	(34,936)	(80,945)	(16,441)	(213,742)
At June 30, 2016	67,690	14,811	113,610	122,275	283,306	57,544	659,236

Pursuant to Section 96 of the EUA, as a result of Buyer-initiated terminations triggered by a change in law, which rendered the PPAs uneconomic or more uneconomic for the Buyer, the Battle River PPA, Sundance A, Sundance B, Sundance C, Sheerness and Keephills PPAs were transferred to the Balancing Pool over Q1 and Q2 2016. While the Balancing Pool continues to hold the PPAs, it will assume responsibility for ongoing capacity payments and other PPA-related costs and is responsible for selling the output into the wholesale power market.

We refer to Note 8, Contingencies and Commitments, for additional information with respect to the termination of power purchase arrangements.

Based on forward market electricity prices published by the Natural Gas Exchange as of the effective date noted in the table above for each respective PPA, the unavoidable costs of meeting the obligations under the PPAs exceed the economic benefits expected to be derived from them. As a result, onerous contract provisions have been recognized and measured at the lower of the present value of continuing the PPAs and the expected costs of terminating them, which include the estimated net costs of continuing them for the minimum six-month notice period required for such termination. The estimated costs for the PPA provisions were discounted at 2.7%.

Effective Date of Termination	Power Purchase Arrangement	PPA Buyer
January 1, 2016	Battle River 5	ENMAX PPA Management ("ENMAX")
March 8, 2016	Sheerness	TransCanada Energy Ltd. ("TCE")
March 8, 2016	Sundance A	TransCanada Energy Ltd.
March 8, 2016	Sundance B	ASTC Power Partnership ("ASTC")
March 24, 2016	Sundance C	Capital Power PPA Management Inc. ("CP")
May 5, 2016	Keephills	ENMAX Energy Corporations

## 7. 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.

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

Balancing Pool Deferral Account <i>(in thousands of dollars)</i>	Six months ended June 30, 2016	Year ended December 31, 2015
Deferral account, beginning balance	774,515	1,562,737
Change in net assets attributable to the Balancing Pool deferral account	(1,148,195)	(464,109)
Payment of Consumer Allocation	(93,236)	(324,113)
Deferral account, ending balance	(466,916)	774,515

## 8. Contingencies and Commitments

### Termination of Power Purchase Arrangements

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

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

In the event the PPA terminations are legitimate and the PPAs are returned to the Balancing Pool, the Balancing Pool has the option to then resell the PPAs or terminate the PPAs by paying the Owner a termination payment equal to the net book value.

### Genesee PPA Energy Strip Contracts

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

A negotiated settlement was reached in March 2016 with one of the strip buyers resulting in the termination of the strip contract.

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

### Payments In Lieu of Tax

Alberta Tax and Revenue Administration has issued notices of re-assessment for several tax years (dating back to 2001) to a municipal entity that has been subject to PILOT. The municipal entity has disagreed with many aspects of the notices of re-assessment and has filed notices of objection for those tax years. The municipal entity has proceeded with litigation to resolve the various tax matters. The total remaining PILOT revenues under dispute with the municipal entity are \$77.0 million for the tax years of 2001 through to 2016. Due to the uncertainty of the outcome of the litigation, these financial statements do not reflect any contingent asset or liability in relation to these ongoing disputes.

A number of these matters have been resolved through the courts, which has resulted in the pending refund of \$96 million to the municipal entity accrued in trade and other payables.

**Disputed Amounts**

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

**Credit Facility**

At June 30, 2016, the Balancing Pool had \$2.0 million of unsecured Letters of Credit issued and an uncommitted credit facility available to issue Letters of Credit up to a maximum of \$4.0 million.