Condensed Interim Financial Statements and Review

Balancing Pool

For the three months ended March 31, 2017

NOTICE OF NO AUDITOR'S REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements of the Balancing Pool have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements.

Calgary, Alberta
June 27, 2017

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") for the Balancing Pool is dated June 27, 2017 and should be read in conjunction with the Balancing Pool's condensed interim financial statements for the three months ended March 31, 2017 and 2016 and the annual financial statements for the years ended December 31, 2016 and 2015.

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

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

Results at a Glance

Three months ended March 31	2017	2016
Volume – gigawatt hours ("GWh")		
Genesee Power Purchase Arrangement ("PPA")	1,657	1,676
Battle River 5 PPA	393	371
Sheerness PPA	1,481	201
Keephills PPA	1,416	-
Sundance A PPA	892	205
Sundance B PPA	1,032	103
Sundance C PPA	972	80
Hydro PPA electricity	364	366
Hydro PPA ancillary service	324	328
Small Power Producer	21	43
Total electricity and ancillary service volumes	8,552	3,373
Price – per megawatt hour ("MWh")		
Average Pool price	$22.39	$18.12
Other		
Consumer allocation (collection) per MWh	$(1.10)	$3.25
Financial Results ***(in thousands of dollars)***		
Total revenues	177,689	56,057
Total expenses	179,611	885,019
Loss from operating activities	(1,922)	(828,962)
Change in net liabilities attributable to the Balancing Pool deferral account	(2,100)	(829,163)
For the period ended (in thousands of dollars)	March 31, 2017	December 31, 2016
Cash, cash equivalents and investments	43,427	31,762
Total assets	320,221	314,573
Total liabilities	2,272,224	2,281,361
Net assets (liabilities) attributable to the Balancing Pool deferral account	(1,952,003)	(1,966,788)
Consumer (allocation) collection	16,885	(190,167)

Legislated Duties

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

- Act as a risk backstop in relation to extraordinary events such as force majeure;
- Act as a buyer for the PPAs that were not sold in the public auction held by the Government of Alberta in 2000 or that have subsequently been terminated by third party buyers and manage the resulting electricity portfolio and/or where feasible terminate the PPAs with the Owners;
- Allocate (or collect) any forecasted cash surplus (or deficit) to (from) electricity consumers in Alberta in annual amounts over the life of the Balancing Pool;
- Hold the Hydro Power Purchase Arrangement ("Hydro PPA") and manage the associated stream of receipts or payments;
- Participate in regulatory and dispute resolution processes.

Assets

Details of Assets *(in thousands of dollars)*	As at March 31, 2017	As at December 31, 2016
Cash and cash equivalents	27,699	16,078
Trade and other receivables	72,940	77,157
Long-term receivable	7,838	7,824
Investments	15,728	15,684
Property, plant and equipment	49	57
Hydro power purchase arrangement	46,678	48,484
Intangible assets	149,289	149,289
Total assets	320,221	314,573

Trade and other receivables

Trade and other receivables balance at March 31, 2017 includes March 2017 sale of electricity revenues receivable for Battle River 5, Sundance A, Sundance B, Sundance C, Sheerness, Keephills and Genesee PPAs.

Long-Term Receivable

The long-term receivable of $7.8 million, which comprises cash and emission credits receivable, is related to the negotiated settlements reached in 2016 on the termination of certain PPAs.

Investments

Over 2016, the investment portfolio was substantially liquidated and drawn down by $689.0 million relative to year-end 2015. The investment funds were used to meet the PPA obligations of the Balancing Pool. Over Q1 2017, the investment portfolio grew modestly as a result of interest and capital gains received.

Hydro Power Purchase Arrangement

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

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

At March 31, 2017, the net present value of the Hydro PPA decreased by $1.8 million from December 31, 2016. The decrease in fair value reflects amortization of the Hydro PPA value as determined in the 2016 year-end valuation process.

Intangible Assets

Intangible assets include emission credits held for compliance purposes. At March 31, 2017, the Balancing Pool held 7.4 million tonnes of emission credits. Approximately 7.0 million tonnes of the emission credits held were received as part of the negotiated settlements on certain terminated PPAs.

Liabilities

Details of Liabilities *(in thousands of dollars)*	As at March 31, 2017	As at December 31, 2016
Trade and other payables	292,483	372,123
Loans and borrowing	231,853	-
Current portion of Hydro PPA	4,006	10,053
Small power producer contracts	9,841	11,339
Reclamation and abandonment provision	29,817	30,032
Other long-term obligations	1,704,224	1,857,814
Total liabilities	2,272,224	2,281,361

Trade and Other Payables

Trade and other payables decreased in Q1 2017 relative to year-end 2016 due to the Consumer Allocation switching from a liability (distribution to electricity consumers in 2016) to a receivable (collection from electricity consumers in Q1 2017).

Loans and Borrowing

At March 31, 2017, the Balancing Pool has issued short-term discount notes to the Government of Alberta for $231.9 million. This includes interest accrued to March 31, 2017 at an approximate interest rate of 1% per annum.

Small Power Producer Contracts

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

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

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

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

The net present value of the SPP contract liability at March 31, 2017 decreased by $1.5 million from year-end 2016. The decrease in fair value is attributed to amortization of the SPP value as determined in the 2016 year-end valuation process.

Reclamation and Abandonment Provision

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

The terms of the 2001 Asset Sale Agreement for the H.R. Milner generating station between the Balancing Pool and ATCO Power Ltd ("ATCO") enabled the ongoing operation of the facility by ATCO on behalf of the Balancing Pool. The Balancing Pool assumed liability for the costs of decommissioning the station at the end of operations. When the asset was subsequently sold by the Balancing Pool to Milner Power Limited Partnership in 2004, the Balancing Pool retained the liability for decommissioning the generating station. A bilateral agreement was reached in 2011 with Milner Power Limited Partnership where the Balancing Pool's exposure to decommissioning costs is capped at $15.0 million in nominal dollars.

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

Pursuant to Section 7 of the *Power Purchase Arrangements Regulation of the Act*, the Owner of a PPA-related generating unit who applies to the Alberta Utilities Commission ("AUC") to decommission a unit within one year of the termination of the PPA is entitled to receive from the Balancing Pool the amount by which the decommissioning costs exceed the amount the Owner collected from consumers before January 1, 2001 and subsequently through the PPA term. Decommissioning cost recovery by the Owner is subject to review and approval by the AUC and is conditional on the unit ceasing operations within 1 year of PPA termination. This provision does not apply to PPA-related generating unit's termination dates that occur after December 31, 2018.

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

Other long-term obligations

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

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

Details of Other Long-Term Obligations *(in thousands of dollars)*	As at March 31, 2017	As at December 31, 2016
Battle River 5 PPA	139,060	151,557
Sundance A PPA	72,667	90,892
Sundance B PPA	177,583	199,775
Sundance C PPA	130,286	150,169
Sheerness PPA	350,611	382,244
Keephills PPA	240,096	256,527
Genesee PPA	593,921	626,650
Total Other Long-Term Obligations	1,704,224	1,857,814

The onerous contract provision at March 31, 2017 of $1,704.0 million reflected a reduction of $153.6 million relative to December 31, 2016. The reduction of the provision represents the actual cash losses of the PPAs for Q1 2017. The onerous contract provision is re-valued on an annual basis.

Balancing Pool Deferral Account

Balancing Pool Deferral Account, Beginning of Year *(in thousands of dollars)*	Three months ended March 31,2017	Year ended December 31, 2016
Deferral account, beginning of year	(1,966,788)	774,515
Change in net assets attributable to the Balancing Pool deferral account	(2,100)	(2,551,136)
Consumer Allocation collection	16,885	(190,167)
Deferral account, end of year	(1,952,003)	(1,966,788)

The Balancing Pool deferral account decreased from December 31, 2016 primarily due to $16.9 million collected form electricity consumers.

Operations

Revenues

Details of Revenues *(in thousands of dollars)*	Three months ended March 31	
	2017	2016
Sale of electricity	175,620	39,941
Sale of generating capacity	716	26,030
Change in fair value of Hydro power purchase arrangement	1,188	(6,266)
Change in fair value of investments	3	(6,320)
Investment income – interest and dividends	82	2,895
Payments in lieu of taxes	80	(223)
Total revenues	177,689	56,057

Sale of Electricity

Sale of Electricity *(in thousands of dollars)*	2017	2016
Battle River 5 PPA	9,180	7,153
Sundance A PPA	20,450	2,847
Sundance B PPA	24,099	1,380
Sundance C PPA	21,634	1,352
Sheerness PPA	32,819	2,972
Keephills PPA	31,428	-
Genesee PPA	36,010	24,237
Total Sale of Electricity	175,620	39,941

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

Change in Fair Value of Hydro Power Purchase Arrangement

Revenue from the Hydro PPA increased in Q1 2017 relative to Q1 2016 due to lower actual cash receipts received in Q1 2016 than those forecast in the 2015 year-end valuation. Cash receipts were lower in Q1 2016 because of the lower actual realized electricity market price.

Payments In Lieu of Tax

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

Total PILOT revenues in Q1 2017 reflect modest installment remittances received by the various municipal entities of $0.1 million offset by audit costs.

Expenses

Details of Expense *(in thousands of dollars)*	Three months ended March 31	
	2017	2016
Cost of sales	176,980	115,111
Mandated costs	1,892	1,829
General and administrative	943	640
Force majeure costs	89	492
Investment management costs	5	352
PPA provision expense	(15)	766,120
Changes in fair value of Small Power Producer contracts	(283)	475
Total expenses	179,611	885,019

Cost of Sales

Details of Cost of Sales *(in thousands of dollars)*	**2017**	2016
Power Purchase Arrangement costs	329,211	107,066
Amortization and depreciation on assets	7	16,552
Power marketing costs	1,352	935
Cash Losses recorded against other long-term obligations	(153,590)	(9,442)
Total cost of sales	176,980	115,111

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

PPA costs of $329.2 million in Q1 2017 include the costs associated with Battle River 5, Sundance A, Sundance B, Sundance C, Sheerness, Keephills and Genesee PPAs. The increase in PPA costs for Q1 2017 relative to Q1 2016 is due to the irregular timing of notice of terminations received from the various PPA Buyers over Q1 2016.

Amortization and depreciation costs declined in Q1 2017 relative to Q1 2016 as a result of the $222.0 million impairment loss recorded against the Genesee PPA at December 31, 2016.

During Q1 2017 losses from the PPAs of $153.6 million were recorded against the onerous contract provisions established for the terminated PPAs and the Genesee PPA.

Mandated Costs

Mandated costs of $1.9 million represent expenditures for the Utilities Consumer Advocate, Transmission Facilities Costs Monitoring Committee and the Retail Market Review Committee.

Liquidity and Cash Flow

To manage liquidity risk, the Balancing Pool forecasts cash flows for a period of 12 months and beyond to the end of 2030. During 2016 the investment portfolio was substantially liquidated to meet cash flow requirements.

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

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

Outlook

As per changes to the Balancing Pool regulation enacted in December 2016, effective January 1, 2017, the annual consumer collection from electricity consumers in Alberta was set at an estimated annual collection of $65 million (2016 - $190.0 million Consumer Allocation).

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.

- Power market price volatility risk

  As counterparty to the PPAs, 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.

- 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.

- 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. While, these anticipated impacts have been reflected in the valuations, the CLP has not been enacted into law and some specifics of the policy have not been finalized. The final plan could have an impact on the value of the PPAs.

- Liquidity

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

Accounting Policy Changes

There were no significant changes to accounting standards that impacted the Balancing Pool in Q1 2017. 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 Hydro PPA, Small Power Producer contracts, intangible assets and other long-term obligations, which are recorded on an annual basis..

Critical Accounting Estimates

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

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

Reclamation and Abandonment Provision

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

Onerous Contract Provision

The provision for the PPAs (Genesee, Battle River 5, Sundance A, Sundance B, Sundance C, Sheerness and Keephills) have been estimated using estimated future electricity prices, anticipated impacts of pending environmental legislation, escalated costs as per the contract terms and future cash outflows discounted to the net present value at a range of 0.6% to 1.0% (2016 – 0.6% to 1.0%).

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 with a range of 0.6% to 10.2% (2016 – 0.6% to 10.2%).

In the opinion of management, the Corporation's audited 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: availability of generating asset and 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, 2017**	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	27,699	16,078
Trade and other receivables	72,940	77,157
	100,639	93,235
Long-term receivable	7,838	7,824
Investments (Note 3)	15,728	15,684
Property, plant and equipment	49	57
Hydro power purchase arrangement (Note 4a)	46,678	48,484
Intangible assets (Note 2)	149,289	149,289
Total Assets	320,221	314,573
Liabilities		
Current liabilities		
Trade and other payables	292,483	372,123
Loans and borrowing (Note 5)	231,853	-
Current portion of Hydro power purchase arrangement (Note 4a)	4,006	10,053
Current portion of Small Power Producer contracts (Note 4b)	5,649	5,902
Current portion of reclamation and abandonment provision (Note 6)	3,435	3,671
Current portion of other long-term obligations (Note 7)	1,282,609	1,446,361
	1,820,035	1,838,110
Small Power Producer contracts (Note 4b)	4,192	5,437
Reclamation and abandonment provision (Note 6)	26,382	26,361
Other long-term obligations (Note 7)	421,615	411,453
Total Liabilities	2,272,224	2,281,361
Net liabilities attributable to the Balancing Pool deferral account (Note 8)	(1,952,003)	(1,966,788)

Contingencies and commitments (Note 9)

Statements of loss and Comprehensive loss

((in thousands of Canadian dollars)	Three months ended March 31 2017	2016
Revenues		
Sale of electricity	175,620	39,941
Sale of generating capacity	716	26,030
Changes in fair value of Hydro power purchase arrangement (Note 4a)	1,188	(6,266)
Changes in fair value of investments	3	(6,320)
Investment income – interest and dividends	82	2,895
Payments in lieu of tax	80	(223)
	177,689	56,057
Expenses		
Cost of sales	176,980	115,111
Mandated costs	1,892	1,829
General and administrative	943	640
Force majeure costs	89	492
Investment management costs	5	352
PPA provision expense	(15)	766,120
Changes in fair value of Small Power Producer contracts (Note 4b)	(283)	475
	179,611	885,019
Loss from operating activities	(1,922)	(828,962)
Other income (expense)		
Other income	14	-
Finance expense	(192)	(201)
	(178)	(201)
Change in net liabilities attributable to the Balancing Pool deferral account	(2,100)	(829,163)

Statements of Cash Flows

(in thousands of Canadian dollars)	Three months ended March 31 2017	2016
Cash flow provided by (used in)		
Operating activities		
Change in net assets attributable to the Balancing Pool deferral account	(2,100)	(829,163)
Items not affecting cash		
Amortization and depreciation	7	16,552
Power purchase arrangement provision (Note 7)	(15)	766,120
Fair value changes on Small Power Producer contracts (Note 4b)	(283)	475
Fair value changes on Hydro power purchase arrangement (Note 4a)	(1,188)	6,266
Fair value changes on financial investments	-	116,682
Finance expense	192	201
Reclamation and abandonment expenditures (Note 6)	(263)	(75)
Power purchase arrangement losses (Note 7)	(153,590)	(14,502)
Net change in non-cash working capital	(75,422)	16,433
Net cash (used in) provided by operating activities	(232,662)	78,989
Investing activities		
Interest, dividends and other gains	(44)	(113,245)
Sale of investments	-	103,000
Net cash used in investing activities	(44)	(10,245)
Financing activities		
Proceeds from issue of Loans (Note 5)	231,710	-
Hydro power purchase arrangement net cash receipts (payments) (Note 4a)	(3,053)	(7,367)
Payment of power purchase arrangement lease obligation	-	(15,381)
Small Power Producer contracts net receipts (payments) (Note 4b)	(1,215)	(1,978)
Receipt (payment) of the Consumer Allocation (Note 8)	16,885	(48,929)
Net cash provided by (used in) financing activities	244,327	(73,655)
Change in cash and cash equivalents	11,621	(4,911)
Cash and cash equivalents, beginning of period	16,078	5,073
Cash and cash equivalents, end of period	27,699	162

Condensed Interim Notes to Financial Statements

1. Basis of Presentation

These interim financial statements for the three months ended March 31, 2017 are unaudited and have been prepared by management in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB") except for the valuation adjustments for the Hydro PPA, Small Power Producer contracts, intangible assets and other long-term obligations, which are recorded on an annual basis.

The disclosures provided below are incremental to those included with the annual financial statements. These interim condensed financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2016.

These financial statements were authorized and approved for issue by the Board of the Balancing Pool on June 27, 2017.

2. Intangible Assets

At March 31, 2017, the Balancing Pool had $149.3 million (Dec. 31, 2016 - $149.3 million) in emission credits. No impairments of emission credits were recognized during the quarter ended March 31, 2017.

3. Investments

	Three months ended March 31, 2017		Year ended December 31, 2016	
(in thousands of dollars)	Market Value	Cost	Market Value	Cost
Fixed income securities	15,712	15,712	15,670	15,670
Global equities	16	17	14	15
Total investments	15,728	15,729	15,684	15,685

At March 31, 2017, the Balancing Pool had $15.7 million in liquid short-term investments.

4. Financial Instruments

a) Hydro Power Purchase Arrangement

The remaining term of the Hydro PPA is four years through to December 31, 2020. At March 31, 2017, the value of the Hydro PPA was $42.7 million (Dec. 31, 2016 - $38.4 million). The Hydro PPA is revalued at each year end. The estimated value of this asset will vary significantly depending on the assumptions used and there is a high degree of measurement uncertainty associated with these assumptions.

Hydro Power Purchase Arrangement *(in thousands of dollars)*	Three months ended March 31, 2017	Year ended December 31, 2016
Hydro power purchase arrangement, opening balance	38,431	242,633
Accretion and current year change	1,188	(20,109)
Net cash payments (receipts)	3,053	18,468
Revaluation of hydro power purchase arrangement asset	-	(202,561)
Hydro power purchase arrangement, closing balance	42,672	38,431
Less: Current portion payable (receivable)	4,006	10,053
	46,678	48,484

b) Small Power Producer Contracts

At March 31, 2017, the value of the SPP contracts was $9.8 million liability (Dec. 31, 2016 - $11.3 million liability). The SPP contracts are revalued at each year end.

Small Power Producer Contracts *(in thousands of dollars)*	Three months ended March 31, 2017	Year ended December 31, 2016
Small Power Producer contracts, opening balance	(11,339)	(11,368)
Accretion and current year change	283	(1,391)
Net cash payments	1,215	6,077
Revaluation of Small Power Producer contracts	-	(4,657)
Small Power Producer contracts, closing balance	(9,841)	(11,339)
Less: Current portion	5,649	5,902
	(4,192)	(5,437)

5. Loans

In January 2017, the Balancing Pool signed a loan agreement with the Government of Alberta. The loan agreement was established through Alberta Treasury Board and Finance to fund operating losses of the Balancing Pool. At March 31, 2017, the Balancing Pool has issued discount notes in the amount of $231.9 million to the Government of Alberta. The short-term discount notes issued to the Government of Alberta have maturity dates ranging from 31 to 90 days and corresponding annual interest charges that range from 0.9% to 1.0%.

6. Reclamation and Abandonment Provision

(in thousands of dollars)	H.R. Milner Generating Station	Isolated Generation Sites	Cost to Decommission PPAs	Total
At January 1, 2016	13,128	5,463	11,198	29,789
Net increase in liability	1,133	1,832	(3,040)	(75)
Liabilities paid in period	-	(486)	-	(486)
Accretion expense	355	147	302	804
At December 31, 2016	14,616	6,956	8,460	30,032
Less: Current portion	-	(3,671)	-	(3,671)
	14,616	3,285	8,460	26,361
At January 1, 2017	14,616	6,956	8,460	30,032
Liabilities paid in period	-	(263)	-	(263)
Accretion expense	24	11	13	48
At March 31, 2017	14,640	6,704	8,473	29,817
Less: Current portion	-	(3,435)	-	(3,435)
	14,640	3,269	8,473	26,382

During Q1 2017 the Balancing Pool paid $0.3 million in expenditures related to the Isolated Generation project.

7. Other long-term Obligations Provision

(in thousands of dollars)	Genesee	Battle River 5	Sundance A	Sundance B	Sundance C	Keephills	Sheerness	Total
At January 1, 2016	-	96,700	-	-	-	-	-	96,700
Net increase in liability	626,650	136,348	144,579	277,444	218,661	298,970	497,432	2,200,084
Losses	-	(81,491)	(53,687)	(77,669)	(68,492)	(42,443)	(115,188)	(438,970)
At December 31, 2016	626,650	151,557	90,892	199,775	150,169	256,527	382,244	1,857,814
Less: Current portion	(215,197)	(151,557)	(90,892)	(199,775)	(150,169)	(256,527)	(382,244)	(1,446,361)
	411,453	-	-	-	-	-	-	411,453
At January 1, 2017	626,650	151,557	90,892	199,775	150,169	256,527	382,244	1,857,814
Losses	(32,729)	(12,497)	(18,225)	(22,192)	(19,883)	(16,431)	(31,633)	(153,590)
At March 31, 2017	593,921	139,060	72,667	177,583	130,286	240,096	350,611	1,704,224
Less: Current portion	(172,306)	(139,060)	(72,667)	(177,583)	(130,286)	(240,096)	(350,611)	(1,282,609)
	421,615	-	-	-	-	-	-	421,615

During Q1 2017, $153.6 million in losses related to the PPAs was recorded against other long-term obligations. Other long-term obligations are re-valued at each year-end.

8. Capital Management

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

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

Balancing Pool Deferral Account *(in thousands of dollars)*	Three months ended March 31, 2017	Year ended December 31, 2016
Deferral account, beginning balance	(1,966,788)	774,515
Change in net assets attributable to the Balancing Pool deferral account	(2,100)	(2,551,136)
Receipt (payment) of Consumer Allocation	16,885	(190,167)
Deferral account, ending balance	(1,952,003)	(1,966,788)

9. Contingencies and Commitments

Terminated Power Purchase Arrangements

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

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

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

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

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

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

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

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 required 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. A negotiated settlement was also reached in December 2016 with the other strip buyer resulting in the termination of the other strip contract as part of the PPA settlements discussed above.

Revenue from the sale of the energy strip contracts, including termination revenue of $14.3 million has been recorded in sale of generating capacity and termination revenue on the Statements of Loss and Comprehensive Loss.

Payments In Lieu of Tax

Alberta Tax and Revenue Administration has issued notices of re-assessment for several tax years (dating back to 2001) to a municipal entity that has been subject to PILOT. The municipal entity has disagreed with many aspects of the notices of re-assessment and has filed notices of objection for those tax years. The municipal entity has proceeded with litigation to resolve the various tax matters. A number of these matters were resolved through negotiations and the courts in 2016, which has resulted in the pending refund of $96.0 million to the municipal entity, which has been reflected as a refund of revenue by the Balancing Pool. This refund has been accrued in trade and other payables. Approximately $61.7 million remains under dispute with the municipal entity for the tax years of 2001 through to 2015. A provision of $30.3 million has been recorded in relation to the disputed matters and reflected as a refund of PILOT revenue. This provision has been accrued in trade and other payable.

Line Loss Rule Proceeding

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

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

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

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