



balancingpool

Condensed Interim Financial Statements and Review

Balancing Pool

For the three months ended March 31, 2018
(Unaudited)

NOTICE OF NO AUDITOR'S REVIEW OF INTERIM FINANCIAL STATEMENTS

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

Calgary, Alberta

June 14, 2018

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") for the Balancing Pool is dated June 14, 2018 and should be read in conjunction with the Balancing Pool's unaudited condensed interim financial statements for the three months ended March 31, 2018 and 2017 and the audited annual financial statements for the years ended December 31, 2017 and 2016.

The unaudited 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 and other long-term obligations, which are recorded on an annual basis.

Results at a Glance

<i>Three months ended March 31</i>	2018	2017
Volume – gigawatt hours ("GWh")		
Genesee Power Purchase Arrangement ("PPA")	1,494	1,657
Battle River 5 PPA	364	393
Sheerness PPA	1,273	1,481
Keephills PPA	1,228	1,416
Sundance A PPA	-	892
Sundance B PPA	786	1,032
Sundance C PPA	892	972
Hydro PPA electricity	365	364
Hydro PPA ancillary service	323	324
Small Power Producer	18	21
Total electricity and ancillary service volumes	6,743	8,552
Price – per megawatt hour ("MWh")		
Average electricity market price	\$34.92	\$22.39
Other		
Consumer collection per MWh	\$3.10	\$1.10
Financial Results (in thousands of dollars)		
Total revenue from contracts with customers	252,117	193,221
Other income (expense) from operating activities	62,564	1,353
Total expenses	220,736	179,611
Income (loss) from operating activities	93,945	14,963
Change in net liabilities attributable to the Balancing Pool deferral account	91,536	14,785
	March 31,	December 31,
<i>For the period ended (in thousands of dollars)</i>	2018	2017
Cash, cash equivalents and investments	24,681	63,142
Total assets	330,733	530,111
Total liabilities	1,520,195	1,811,109
Net liabilities attributable to the Balancing Pool deferral account	(1,189,462)	(1,280,998)
Consumer collection	49,098	66,003

Legislated Duties

The Balancing Pool's legislated duties 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; and
- Participate in regulatory and dispute resolution processes.

Assets

Details of Assets <i>(in thousands of dollars)</i>	March 31, 2018	December 31, 2017
Cash and cash equivalents	12,258	50,772
Trade and other receivables	92,447	130,124
Long-term receivable	5,897	5,882
Investments	12,423	12,370
Property, plant and equipment	20	27
Hydro power purchase arrangement	174,913	177,816
Intangible assets	32,775	153,120
Total assets	330,733	530,111

Trade and other receivables

Trade and other receivables balance at March 31, 2018 include the consumer collection and sale of electricity revenues receivable for the PPAs (Battle River 5, Sundance B, Sundance C, Sheerness, Keephills and Genesee PPAs) for March 2018.

Long-Term Receivable

The long-term receivable of \$5.9 million includes cash receivable related to the negotiated settlements reached in 2016 on the termination of certain PPAs.

Investments

Over 2016, the investment portfolio was substantially liquidated. The investment funds were used to meet the PPA obligations of the Balancing Pool. Over Q1 2018, the investment portfolio grew modestly as a result of interest 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, 2018, the net present value of the Hydro PPA decreased by \$2.9 million from December 31, 2017. The decrease in fair value reflects amortization of the Hydro PPA value as determined in the 2017 year-end valuation process.

Intangible Assets

Intangible assets include emission credits held for compliance purposes. At March 31, 2018, the Balancing Pool held 1.5 million tonnes of emission credits. In March 2018, the Balancing Pool retired 6.2 million tonnes of emission credits to satisfy environmental compliance charges for 2017. In addition, the Balancing Pool received 0.2 million in emission credits in March 2018 related to the negotiated settlement reached with the former buyer of the Keephills PPA.

Liabilities

Details of Liabilities <i>(in thousands of dollars)</i>	March 31, 2018	December 31, 2017
Trade payables and other accrued liabilities	375,432	561,713
Related party loan	802,703	566,315
Small power producer contracts	2,776	3,722
Reclamation and abandonment provision	15,696	21,638
Other long-term obligations	323,588	657,721
Total liabilities	1,189,462	1,811,109

Trade Payables and Other Accrued Liabilities

Trade payable and other accrued liabilities decreased in Q1 2018 relative to year-end 2017 due to payments issued for previously accrued liabilities.

Related Party Loan

At March 31, 2018, the Balancing Pool has issued short-term discount notes to the Government of Alberta for \$802.7 million.

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 market electricity 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, 2018 decreased by \$1.0 million from year-end 2017. The decrease in fair value is attributed to amortization of the SPP value as determined in the 2017 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 ATCO to assume the ongoing operation of the facility on behalf of the Balancing Pool. The Balancing Pool assumed liability for the costs of decommissioning the station at the end of operations. When the asset was subsequently sold by the Balancing Pool to Milner Power Limited Partnership in 2004, the Balancing Pool retained the liability for decommissioning the generating station. A bilateral agreement was reached in 2011 with Milner Power Limited Partnership where the Balancing Pool's exposure to decommissioning costs 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 also liable for certain amounts relating to the reclamation and abandonment costs associated with Isolated Generation sites.

Pursuant to Section 7 of the *Power Purchase Arrangements Regulation of the Act*, the Owner of a PPA-related generating unit who applies to the Alberta Utilities Commission ("AUC") to decommission a unit within one year of the termination 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, 2017 reflects payments of \$6.0 million for the Isolated Generation project and decommissioning activities at the H.R. Milner generating station.

Other long-term obligations

As counterparty to the PPAs, the Balancing Pool is required to make monthly payments to the owners 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.

Details of Other Long-Term Obligations <i>(in thousands of dollars)</i>	March 31, 2018	December 31, 2017
Battle River 5 PPA	91,464	113,999
Sundance B PPA	-	95,961
Sundance C PPA	-	108,658
Sheerness PPA	93,063	121,573
Keephills PPA	28,000	69,584
Genesee PPA	111,061	147,946
Total Other Long-Term Obligations	323,588	657,721

The onerous contract provision at March 31, 2018 of \$323.6 million reflected a reduction of \$334.1 million relative to December 31, 2017. The reduction of the provision reflects the actual cash losses of the PPAs incurred over Q1 2018 and the termination payments issued for the Sundance B and C PPAs. The Sundance B and C PPAs were terminated effective March 31, 2018. The onerous contract provision is re-valued on an annual basis.

Balancing Pool Deferral Account

Balancing Pool Deferral Account, Beginning of Year <i>(in thousands of dollars)</i>	March 31, 2018	December 31, 2017
Deferral account, beginning of year	(1,280,998)	(1,966,788)
Change in net liabilities attributable to the Balancing Pool deferral account	91,536	685,790
Deferral account, end of year	(1,189,462)	(1,280,998)

The Balancing Pool deferral account decreased from December 31, 2017 primarily due to the consumer collection of \$49.1 million and the gain on retirement of the emission credits of \$61.2 million.

Operations

Revenue from Contracts with Customers

Details of Revenue from Contract with Customers <i>(in thousands of dollars)</i>	Three months ended March 31	
	2018	2017
Sale of electricity	203,019	175,620
Consumer collection	49,098	16,885
Sale of generating capacity	-	716
Total revenue from contracts with customers	252,117	193,221

Sale of Electricity

Sale of Electricity <i>(in thousands of dollars)</i>	Three months ended March 31	
	2018	2017
Battle River 5 PPA	9,209	9,180
Sundance A PPA	-	20,450
Sundance B PPA	26,350	24,099
Sundance C PPA	24,760	21,634
Sheerness PPA	44,898	32,819
Keephills PPA	46,793	31,428
Genesee PPA	51,009	36,010
Total Sale of Electricity	203,019	175,620

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 2018 relative to Q1 2017 due to a higher realized electricity market price in Q1 2018 relative to Q1 2017.

Consumer Collection

The consumer collection for 2018 was set at a rate of \$3.10/MWh (2017 - \$1.10/MWh) of electricity consumed by electricity customers in the province of Alberta.

Other Income (expense) from operating activities

Details of Other income(expense) from operating activities (in thousands of dollars)	Three months ended March 31	
	2018	2017
Other gain on retirement of emission credits	61,188	-
Change in fair value of Hydro power purchase arrangement	745	1,188
Change in fair value of investments	5	3
Investment income – interest	105	82
Payments in lieu of tax	521	80
Total Other income(expense) from operating activities	62,564	1,353

Other gain on retirement of Emission Credits

The Balancing Pool is subject to the *Specified Gas Emitters Regulation* (“SGER”) via the coal PPAs. The Balancing Pool may provide emission credits or remit cash in order to satisfy the environment compliance costs associated with SGER. In Q1 2018 the Balancing Pool remitted emission credits to satisfy the 2017 obligation associated with SGER which resulted in a gain on retirement of emission credits of \$61.2 million. The gain was recorded as the cost or value of the emission credits retired was lower than the environmental compliance costs for 2017. The majority of the emission credits retired were received from the negotiated settlements with the former PPA buyers.

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 2018 reflect installment remittances received by the various municipal entities offset by audit costs.

Expenses

Details of Expense <i>(in thousands of dollars)</i>	Three months ended March 31	
	2018	2017
Cost of sales	202,501	176,980
Mandated costs	1,438	1,892
General and administrative	1,112	943
Force majeure costs	11	89
Investment management costs	5	5
PPA provision expense	15,741	(15)
Changes in fair value of Small Power Producer contracts	(72)	(283)
Total expenses	220,736	179,611

Cost of Sales

Details of Cost of Sales <i>(in thousands of dollars)</i>	Three months ended March 31	
	2018	2017
Power Purchase Arrangement costs	400,389	329,211
Amortization and depreciation on assets	7	7
Power marketing costs	40	1,352
PPA losses recorded against other long-term obligations	(197,935)	(153,590)
Total cost of sales	202,501	176,980

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 \$400.4 million in Q1 2018 include the costs associated with Battle River 5, Sundance B, Sundance C, Sheerness, Keephills and Genesee PPAs. The increase in PPA costs for Q1 2018 relative to Q1 2017 is due an increase of environmental compliance costs effective January 1, 2018.

During Q1 2018 losses from the PPAs of \$197.9 million were recorded against the onerous contract provisions established for the terminated PPAs and the Genesee PPA.

Mandated Costs

Mandated costs of \$1.4 million represent expenditures for the Utilities Consumer Advocate, Transmission Facilities Costs Monitoring Committee and the Retail Market Review Committee. The reduction in mandated costs in Q1 2018 relative to Q1 2017 is due to a change in estimation.

PPA provision expense

PPA provision expense of \$15.7 million primarily reflects the true-up of actual costs associated with the termination of the Sundance B and C PPAs. The true-up was a result of actual PPA losses for Sundance B and C over Q1 2018 exceeding the estimated losses for the quarter.

Liquidity and Cash Flow

To manage liquidity risk, the Balancing Pool forecasts cash flows for a period of 12 months and beyond to the end of 2030.

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

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

Outlook

As per changes to the *Balancing Pool Regulation* enacted in December 2017, effective January 1, 2018, the annual consumer collection from electricity consumers in Alberta was set at \$3.10 / MWh, for an estimated annual amount of \$190.0 million (2017 – \$1.10 / MWh, \$66.0 million consumer collection).

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 electricity market prices are settled at spot market prices and are dependent on many factors including but not limited to the supply and demand of electricity, generating and input costs, natural gas prices and weather conditions.

- Unit destruction

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

- Change in law risk

Changes in law, including regulatory, environmental and electricity market design changes, can have a material effect on the values of the PPAs. Costs (and benefits) associated with a change in law are passed from plant Owners to the PPA Buyer. As the default Buyer of 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.

- *Carbon Competiveness Incentive Regulation*

The *Carbon Competiveness Incentive Regulation* (“CCIR”) replaced the *Specified Gas Emitters Regulation* effective January 1, 2018. CCIR was enacted on June 17, 2017 as part of the *Climate Change and Emissions Management Act*. CCIR will impose an output-based benchmark on all plant facilities in the electricity industry. The net emissions for a facility may not exceed the output-based allocation applicable to that facility. Under circumstances where the actual emissions intensity exceeds the benchmark, the facility will have to bring its net emissions down by applying emission performance credits, emission offsets or fund credits on an annual basis.

The Balancing Pool is subject to risk associated with material changes to the CCIR which will impact the value of the PPAs.

- PPA decommissioning risk

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

- 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

The Balancing Pool prepares its financial statements in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”).

On January 1, 2017, the Balancing Pool adopted IFRS 15, *Revenue from contracts with customers*. As a result of adopting IFRS 15, the consumer collection (allocation) is recorded in Revenue from contracts with customers. Historically the consumer collection (allocation) was recorded as a reduction to the Balancing Pool’s deferral account.

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 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 1.53% to 1.73% (2017 – 1.53% to 1.73%).

Hydro Power Purchase Arrangement Valuation and Small Power Producer Contracts Valuation

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 1.53% to 11.1% (2017 – 1.53% to 11.1%)

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.

Balancing Pool

Statement of Financial Position

(in thousands of Canadian dollars)

<i>(Unaudited)</i>	March 31, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	12,258	50,772
Trade and other receivables	92,447	130,124
Current portion of long-term receivables	1,980	1,980
Current portion of hydro power purchase arrangement (Note 3)	63,943	57,566
Current portion of intangible assets (Note 2)	32,775	153,120
	203,403	393,562
Long-term receivable	3,917	3,902
Investments	12,423	12,370
Property, plant and equipment	20	27
Hydro power purchase arrangement (Note 3)	110,970	120,250
Intangible assets (Note 2)	-	-
Total Assets	330,733	530,111
Liabilities		
Current liabilities		
Trade payables and other accrued liabilities	375,432	561,713
Related party loan (Note 4)	802,703	566,315
Current portion of Small Power Producer contracts	2,660	3,424
Current portion of reclamation and abandonment provision (Note 5)	1,742	7,767
Current portion of other long-term obligations (Note 6)	254,925	529,073
	1,437,462	1,668,292
Small Power Producer contracts	116	298
Reclamation and abandonment provision (Note 5)	13,954	13,871
Other long-term obligations (Note 6)	68,663	128,648
Total Liabilities	1,520,195	1,811,109
Net liabilities attributable to the Balancing Pool deferral account (Note 7)	(1,189,462)	(1,280,998)
Contingencies and commitments (Note 8)		

Balancing Pool

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

(in thousands of Canadian dollars)

(Unaudited)	Three months ended March 31	
	2018	2017
Revenue from contracts with customers		
Sale of electricity	203,019	175,620
Consumer collection	49,098	16,885
Sale of generating capacity	-	716
	252,117	193,221
Other income(expense) from operating activities		
Other gain on retirement of emission credits	61,188	-
Changes in fair value of hydro power purchase arrangement (Note 3)	745	1,188
Changes in fair value of investments	5	3
Investment income – interest	105	82
Payments in lieu of tax	521	80
	62,564	1,353
Expenses		
Cost of sales	202,501	176,980
Mandated costs	1,438	1,892
General and administrative	1,112	943
Force majeure costs	11	89
Investment management costs	5	5
PPA provision expense	15,741	(15)
Changes in fair value of Small Power Producer contracts	(72)	(283)
	220,736	179,611
Income (loss) from operating activities	93,945	14,963
Other income (expense)		
Other income	-	14
Finance expense	(2,409)	(192)
	(2,409)	(178)
Change in net liabilities attributable to the Balancing Pool deferral account	91,536	14,785

Balancing Pool

Statements of Cash Flows

(in thousands of Canadian dollars)

(Unaudited)	Three months ended March 31	
	2018	2017
Cash flow provided by (used in)		
Operating activities		
Change in net assets attributable to the Balancing Pool deferral account	91,536	14,785
Items not affecting cash		
Amortization and depreciation	7	7
Other long-term obligation provision (Note 6)	(334,133)	(153,591)
Fair value changes on Small Power Producer contracts	(72)	(283)
Fair value changes on Hydro power purchase arrangement (Note 3)	(745)	(1,188)
Finance expense	2,409	49
Reclamation and abandonment expenditures (Note 5)	(6,025)	(263)
Net change in other assets:		
Intangible assets (Note 2)	120,858	-
Long-term receivable	(15)	(15)
Net change in non-cash working capital	(148,604)	(75,421)
Net cash used in by operating activities	(274,784)	(215,920)
Investing activities		
Interest, dividends and other gains	(53)	(44)
Purchase of intangible assets (Note 2)	(513)	-
Net cash used in investing activities	(566)	(44)
Financing activities		
Proceeds from issue of related party loan (Note 4)	234,062	231,853
Hydro power purchase arrangement net cash receipts (payments) (Note 3)	3,648	(3,053)
Small Power Producer contracts net payments	(874)	(1,215)
Net cash provided by financing activities	236,836	227,585
Change in cash and cash equivalents	(38,514)	11,621
Cash and cash equivalents, beginning of period	50,772	16,078
Cash and cash equivalents, end of period	12,258	27,699

Condensed Interim Notes to Financial Statements (Unaudited)

1. Basis of Presentation

These interim financial statements for the three months ended March 31, 2018 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 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, 2017.

2. Intangible Assets

<i>(in thousands of dollars)</i>	March 31, 2018	December 31, 2017
Opening balance, emission credits	153,120	149,289
Additions from purchases	513	1,831
Additions from PPA settlements received (Note 8)	5,000	2,000
Retired emission credits	(125,858)	-
Closing balance, emission credits	32,775	153,120
Less: Current portion	(32,775)	(153,120)
	-	-

At March 31, 2018, the Balancing Pool had \$32.8 million (Dec. 31, 2017 - \$153.1 million) in emission credits, which can be used to offset compliance obligations associated with the PPAs. In March 2018 \$125.9 million in emission credits were retired and used for 2017 compliance obligation related to the PPAs. A gain of \$61.2 million was also recorded in other income (expense) from operating activities as a result of retiring the emission credits.

No impairments of emission credits were recognized during the quarter ended March 31, 2018.

3. Financial Instruments

Hydro Power Purchase Arrangement

The remaining term of the Hydro PPA is through to December 31, 2020. At March 31, 2018, the value of the Hydro PPA was \$174.9 million (Dec. 31, 2017 - \$177.8 million). The Hydro PPA is revalued at each year end. The estimated value of this asset will vary significantly depending on the assumptions used and there is a high degree of measurement uncertainty associated with these assumptions.

<i>(in thousands of dollars)</i>	March 31, 2018	December 31, 2017
Hydro power purchase arrangement, opening balance	177,816	38,431
Accretion and current year change	745	34,306
Net cash receipts	(3,648)	(20,333)
Revaluation of hydro power purchase arrangement asset	-	125,412
Hydro power purchase arrangement, closing balance	174,913	177,816
Less: Current portion	(63,943)	(57,566)
	110,970	120,250

4. Related Party Loan

Government-Related Entity

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

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

<i>(in thousands of dollars)</i>	Interest Rate	March 31, 2018
Short-term discount note due on April 16, 2018	1.64%	384,722
Short-term discount note due on April 27, 2018	1.61%	99,881
Short-term discount note due on May 25, 2018	1.66%	194,513
Short-term discount note due on June 11, 2018	1.69%	123,587
		802,703

At March 31, 2018, the Balancing Pool had \$802.7 million (Dec. 31, 2017 - \$566.3 million) in short-term discount notes issued to the Government of Alberta, including accrued interest of \$1.6 million.

5. Reclamation and Abandonment Provision

<i>(in thousands of dollars)</i>	H.R. Milner Generating Station	Isolated Generation Sites	Cost to Decommission PPAs	Total
At January 1, 2017	14,616	6,956	8,460	30,032
Net increase (decrease) in liability	(443)	154	(6,820)	(7,109)
Liabilities paid in period	(1,053)	(427)	-	(1,480)
Accretion expense	95	45	55	195
At December 31, 2017	13,215	6,728	1,695	21,638
Less: Current portion	(2,050)	(5,717)	-	(7,767)
	11,165	1,011	1,695	13,871
At January 1, 2018	13,215	6,728	1,695	21,638
Liabilities paid in period	(1,718)	(4,307)	-	(6,025)
Accretion expense	51	26	6	83
At March 31, 2018	11,548	2,447	1,701	15,696
Less: Current portion	(332)	(1,410)	-	(1,742)
	11,216	1,037	1,701	13,954

During Q1 2018 the Balancing Pool paid \$6.0 million in decommissioning expenditures related to H.R. Milner generating station and the Isolated Generation project.

6. Other long-term Obligations Provision

<i>(in thousands of dollars)</i>	Genesee	Battle River 5	Sundance A	Sundance B	Sundance C	Keephills	Sheerness	Total
At January 1, 2017	542,453	151,921	46,815	134,250	148,612	256,005	463,717	1,743,773
Net increase (decrease) in liability	(265,424)	32,024	33,208	61,388	46,144	(114,800)	(217,027)	(424,487)
PPA Losses	(129,082)	(69,947)	(80,023)	(99,677)	(86,098)	(71,621)	(125,117)	(661,565)
At December 31, 2017	147,947	113,998	-	95,961	108,658	69,584	121,573	657,721
Less: Current portion	(83,050)	(113,998)	-	(95,961)	(108,658)	(50,473)	(76,933)	(529,073)
	64,897	-	-	-	-	19,111	44,640	128,648
At January 1, 2018	147,947	113,998	-	95,961	108,658	69,584	121,573	657,721
Net increase (decrease) in liability	-	-	-	6,809	13,946	-	-	20,755
Termination payment	-	-	-	(71,604)	(85,349)	-	-	(156,953)
PPA Losses	(36,886)	(22,534)	-	(31,166)	(37,255)	(28,510)	(41,584)	(197,935)
At March 31, 2018	111,061	91,464	-	-	-	41,074	79,989	323,588
Less: Current portion	(70,614)	(91,464)	-	-	-	(28,000)	(64,847)	(254,925)
	40,447	-	-	-	-	13,074	15,142	68,663

During Q1 2018, \$197.9 million in losses related to the PPAs was recorded against other long-term obligations. Other long-term obligations are re-valued at each year-end. Termination payments of \$156.9 million were issued for the termination of the Sundance B and C PPAs.

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. Any excess or shortfall of funds in the accounts is to be allocated to, or provided by electricity consumers over the remaining period of the Balancing Pool to December 31, 2030.

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

<i>(in thousands of dollars)</i>	March 31, 2018	December 31, 2017
Deferral account, beginning balance	(1,280,998)	(1,966,788)
Change in net liabilities attributable to the Balancing Pool deferral account	91,536	685,790
Deferral account, ending balance	(1,189,462)	(1,280,998)

8. Contingencies and Commitments

Terminated Power Purchase Arrangements

Pursuant to Section 96 of the EUA, except for an Owner's termination for destruction, where a PPA is terminated 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 PPAs. 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. ("ENMAX") of the Battle River 5 PPA. The Balancing Pool, the AUC, ENMAX, 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 the Balancing Pool had received \$39.0 million in cash and had 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 provision. The reimbursements have been recorded as an offset against the expenses related to the provision for other long-term obligations in the Statements of Income (Loss) and Comprehensive Income (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 also recorded a provision in accrued liabilities in relation to the retroactive line loss adjustment. The Balancing Pool is currently not aware of any other liabilities outstanding in relation to the various PPAs.

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.

On February 24, 2017, ENMAX filed a legal proceeding against the Balancing Pool with respect to the disputed effective date of the Battle River 5 PPA termination. On November 16, 2017 the Court of Queen's Bench released its decision that the effective date of the Battle River 5 PPA termination is January 1, 2016 as argued by ENMAX. There is no further financial impact to the Balancing Pool as a result of this ruling by the Court of Queen's Bench as the Balancing Pool has been responsible for the Battle River 5 PPA costs as of January 1, 2016.

On July 14, 2017, ENMAX filed and served a Statement of Claim, asking the Court for injunctive relief requiring the Balancing Pool to make a decision respecting the termination of the Keephills PPA and to assume offer and dispatch control with respect to the Keephills PPA. On November 22, 2017 the Court of Queen's Bench rendered its decision and granted ENMAX one of two injunctions. The Court of Queen's Bench adjudicated that the Balancing Pool must complete its assessment and verification of the Keephills PPA termination event. The Court of Queen's Bench dismissed the application by ENMAX for an interim injunction compelling the Balancing Pool to assume offer and dispatch control of the Keephills PPA.

On December 6, 2017 the Balancing Pool completed the assessment and verification of the Keephills PPA termination and accepted the termination.

On March 8, 2018, the Government of Alberta reached a settlement agreement with the Buyer of the Battle River 5 PPA and Keephills PPA bringing a conclusion to the Attorney General of Alberta's application with the Alberta Court of Queen's Bench. As a result of the settlement agreement, the Balancing Pool received a reimbursement of \$5.0 million recognized as intangible assets (emission credits) and remitted \$5.0 million to the Buyer of Battle River 5 and Keephills PPAs with respect to dispatch services provided by the former Buyer.

On March 21, 2018, the Balancing Pool provided notice to Alberta Power (2000) Ltd. (ATCO) that the Battle River 5 PPA will be terminated. The termination of the PPA will be effective no later than September 30, 2018, though ATCO and the Balancing Pool may agree to a shorter notice period.

Payments (Refunds) 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 proceeded with litigation to resolve the various tax matters. A number of these matters were resolved in 2016 through negotiated settlement and through the courts, resulting in a refund of \$96.0 million to the municipal entity. The refund of \$96.0 million was reflected as Other income (expense) from operating activities in 2016. This refund was accrued in trade payable and other accrued liabilities.

In 2017, the Balancing Pool issued PILOT refunds of \$50.1 million to the municipal entity which was accrued in 2016.

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 Other income (expense) from operating activities in 2016. This provision has been accrued in trade payables and other accrued liabilities.

Retroactive Line Loss Adjustment (AUC Proceeding 790)

The retroactive line loss adjustment referred to as the AUC Proceeding 790, 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 a retroactive line loss adjustment for certain PPAs.

In January 2015, the AUC determined that it has the jurisdiction and authority to retroactively adjust the line loss factors and the methodology dating back to 2006.

The AUC has been presented with three different methodologies for calculating retroactive line loss adjustments, the first being the AESO methodology based on Incremental Loss Factor with load scaling. The second is the AUC methodology ("Module B") based on Incremental Loss Factor with generation scaling. The third method is a methodology developed by Maxim Power Corporation. A description of the various methodologies can be found in the AESO's exhibits presented in 790-140.3 of the AUC Proceeding 790.

In December 2017, the AUC reached its decision, whereby the AUC ruled that the Module B methodology will be used to calculate retroactive line loss adjustments. The AUC also ruled that the original system transmission service contract holder will be responsible for the retroactive line loss adjustments.

The Balancing Pool will incur additional charges as a result of the retroactive adjustments to line loss factors in relation to the various PPAs. An estimated provision in the amount of \$42.5 million (2016 – \$114.0 million) has been recorded in trade payable and other accrued liabilities for the retroactive line loss adjustment as a result of the AUC's December 2017 decision. The estimate has been prepared using the Module B method based on Incremental Loss Factors with generation scaling.

Various matters before the AUC regarding the retroactive line loss adjustments are under review and appeal including the retroactive nature of the adjustments and prospective line loss factors used to calculate the adjustment. The AUC's decision regarding its authority and jurisdiction has also been challenged. The quantum of any retroactive adjustment will be dependent upon the methodology finally adopted and approved by the AUC. Given the uncertainty of the final methodology, the Balancing Pool estimates may be higher or lower than the current estimate reflected in these financial statements.

Market Surveillance Administrator Investigation

On April 13, 2017, the Balancing Pool received a notice of investigation and request for information from the Market Surveillance Administrator ("MSA"). The Balancing Pool has provided the MSA with the requested information and the investigation is currently on-going.