



Condensed Interim Financial Statements and Review

## **Balancing Pool**

For the three and nine months ended September 30, 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  
November 28, 2018

## Management's Discussion and Analysis

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

### Results at a Glance

<i>Nine months ended September 30</i>	2018	2017
<b>Volume – gigawatt hours ("GWh")</b>		
Genesee Power Purchase Arrangement ("PPA")	4,520	4,712
Battle River 5 PPA	1,146	1,160
Sheerness PPA	3,499	4,188
Keephills PPA	3,674	3,751
Sundance A PPA	-	2,421
Sundance B PPA	786	2,816
Sundance C PPA	892	3,127
Thermal PPA ancillary service	149	207
Hydro PPA electricity	1,250	1,248
Hydro PPA ancillary service	934	935
Small Power Producer	58	53
Total electricity and ancillary service volumes	16,908	24,618
<b>Price – per megawatt hour ("MWh")</b>		
Average electricity market price	\$48.39	\$22.09
<b>Other</b>		
Annual Consumer collection per MWh	\$3.10	\$1.10
<b>Financial Results (in thousands of dollars)</b>		
Total revenue from contracts with customers	862,659	544,215
Other income (expense) from operating activities	117,651	7,843
Total expenses	707,976	502,521
Income from operating activities	272,334	49,537
Change in net liabilities attributable to the Balancing Pool deferral account	261,458	47,838
<b>For the period ended (in thousands of dollars)</b>	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Cash, cash equivalents and investments	73,522	63,142
Total assets	471,979	530,111
Total liabilities	1,491,519	1,811,109
Net liabilities attributable to the Balancing Pool deferral account	(1,019,540)	(1,280,998)

## Legislated Duties

The Balancing Pool's legislated duties include the following:

- Act as a risk backstop for the PPAs 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.
- Manage the PPAs held by the Balancing Pool in a commercial manner and/or terminate them with the Owners if appropriate;
- Allocate (or collect) any forecasted cash surplus (or deficit) to (from) electricity consumers in Alberta in annual amounts through to 2030;
- 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 (in thousands of dollars)	September 30, 2018	December 31, 2017
Cash and cash equivalents	73,522	50,772
Trade and other receivables	223,417	130,124
Long-term receivable	5,926	5,882
Investments	-	12,370
Property, plant and equipment	7	27
Hydro power purchase arrangement	149,929	177,816
Intangible assets	19,178	153,120
Total assets	471,979	530,111

### Cash and Cash Equivalents

The cash and cash equivalents balance at September 30, 2018 of \$73.5 million reflects an increase of \$22.8 million from the cash position on December 31, 2017 due to increased revenues for sale of electricity as a result of higher than anticipated electricity market prices received over the third quarter.

### Trade and Other Receivables

Trade and other receivables balance at September 30, 2018 include the consumer collection, sale of electricity revenues and ancillary service revenues receivable for the PPAs (Battle River 5, Sheerness, Keephills and Genesee PPAs) for August and September 2018.

## Long-Term Receivable

The long-term receivable of \$5.9 million is associated with the 2016 negotiated settlement reached between the Government of Alberta and the former Buyer related to the PPA terminations.

## 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 control of the hydro assets under the terms of this PPA.

At September 30, 2018, the fair value of the Hydro PPA decreased by \$27.9 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 September 30, 2018, the Balancing Pool held 0.8 million tonnes of emission credits. During the first nine months of 2018, the Balancing Pool retired 7.6 million tonnes of emission credits to satisfy environmental compliance charges for 2017 and the first six months of 2018. In addition, the Balancing Pool received 0.2 million in emission credits in March 2018 related to the negotiated settlement reached between the former buyer of the Keephills PPA and the Government of Alberta.

## Liabilities

Details of Liabilities (in thousands of dollars)	September 30, 2018	December 31, 2017
Trade payables and other accrued liabilities	402,327	561,713
Related party loan	911,954	566,315
Small power producer contracts	1,266	3,722
Reclamation and abandonment provision	13,651	21,638
Other long-term obligations	162,321	657,721
Total liabilities	1,491,519	1,811,109

### Trade Payables and Other Accrued Liabilities

Trade payable and other accrued liabilities decreased at September 30, 2018 relative to year-end 2017 due to payments issued for previously accrued liabilities.

## Related Party Loan

At September 30, 2018, the Balancing Pool has issued discount notes to the Government of Alberta for \$912.0 million. Over Q3 2018 the Balancing Pool did not borrow funds from the Government of Alberta.

## 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. This provision does not apply to generating units associated with PPA's that expire or terminate after December 31, 2018.

The decrease in the reclamation and abandonment provision from December 31, 2017 reflects payments of \$8.2 million for the Isolated Generation project and decommissioning activities at the H.R. Milner generating station offset by accretion expense.

## 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 (in thousands of dollars)	September 30, 2018	December 31, 2017
Battle River 5 PPA	4,738	113,999
Sundance B PPA	-	95,961
Sundance C PPA	-	108,658
Sheerness PPA	51,383	121,573
Keephills PPA	23,081	69,584
Genesee PPA	83,119	147,946
Total other long-term obligations	162,321	657,721

The onerous contract provision at September 30, 2018 of \$162.3 million reflected a reduction of \$495.4 million relative to December 31, 2017. The reduction of the provision reflects the actual cash losses of the PPAs incurred over the first nine months of 2018 and the termination payments issued for the Sundance B, C and Battle River 5 PPAs. The Sundance B and C PPAs were terminated effective April 1, 2018. The Battle River 5 PPA was terminated effective October 1, 2018. A termination payment of \$61.7 million was issued to ATCO for Battle River 5 on September 30, 2018. The onerous contract provision is re-valued on an annual basis.

### Balancing Pool Deferral Account

Balancing Pool Deferral Account (in thousands of dollars)	September 30, 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	261,458	685,790
Deferral account, end of period	(1,019,540)	(1,280,998)

The Balancing Pool deferral account decreased from December 31, 2017 primarily due to the consumer collection of \$140.8 million and the gain on retirement of the emission credits of \$78.8 million.

## Operations

### Revenue from Contracts with Customers

Details of Revenue from Contract with Customers (in thousands of dollars)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Sale of electricity & ancillary service	264,555	182,290	721,827	494,665
Consumer collection	46,655	16,344	140,832	48,834
Sale of generating capacity	-	-	-	716
Total revenue from contracts with customers	311,210	198,634	862,659	544,215

Revenue from the sale of electricity and ancillary service is comprised of revenues from the various PPAs. Sale of electricity and ancillary service revenue increased in the first nine months of 2018 relative

to the same period in 2017 due to a higher realized electricity market price in 2018 relative to 2017. Included in sale of electricity are ancillary service revenues of \$2.6 million (2017 - \$1.2 million) for the first nine months of 2018.

## Consumer Collection

The consumer collection for 2018 was set at a rate of \$3.10/MWh (2017 - \$1.10/MW) of electricity consumed by electricity customers in the province of Alberta. In the first nine months of 2018 the Balancing Pool collected \$140.8 million (2017 - \$48.8 million) from electricity consumers.

## Other Income (expense) from Operating Activities

Details of Other income(expense) from operating activities (in thousands of dollars)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Other gain on retirement of emission credits	8,090	-	78,847	-
Change in fair value of Hydro power purchase arrangement	9,422	4,639	33,771	7,521
Change in fair value of investments	-	(3)	4	33
Investment income – interest	508	73	737	206
Payments in lieu of tax	2,502	44	4,292	83
Total other income(expense) from operating activities	20,522	4,753	117,651	7,843

## Other Gain on Retirement of Emission Credits

The Balancing Pool is subject to carbon levy charges on the coal fired PPAs. The Balancing Pool may provide emission credits or remit cash in order to satisfy the carbon levy charges. In Q3 2018 the Balancing Pool remitted emission credits to satisfy the Q2 2018 obligation associated with the *Carbon Competitiveness Incentive Regulation* which resulted in a gain on retirement of emission credits of \$8.0 million for Q3 2018 and \$78.8 million year-to-date. The gain was recorded as a result of the retired emission credit value being lower than the environmental cash compliance cost for 2017 and the first six months of 2018. The majority of the emission credits retired was received from the negotiated settlements between the Government of Alberta and the former PPA buyers.

## Change in Fair Value of Hydro Power Purchase Arrangement

Revenue from the Hydro PPA increased in Q3 2018 and year-to-date 2018 relative to the same periods in 2017 due to higher actual cash receipts in 2018 compared to those forecast in the 2017 year-end valuation. Cash receipts were higher in 2018 because of the higher actual 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 it 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 Q3 2018 reflect installment remittances received by the various municipal entities offset by audit costs.

## Expenses

Details of Expense (in thousands of dollars)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Cost of sales	242,978	182,392	685,521	494,835
Mandated costs	1,439	1,827	4,039	5,547
General and administrative	757	1,051	3,113	3,096
Force majeure and decommissioning costs	148	52	217	227
Investment management costs	2	10	13	21
PPA provision expense	(15)	(15)	15,711	(44)
Changes in fair value of Small Power Producer contracts	(221)	(503)	(638)	(1,161)
Total expenses	245,088	184,814	707,976	502,521

## Cost of Sales

Details of Cost of Sales (in thousands of dollars)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Power Purchase Arrangement costs	303,436	332,241	982,678	985,519
Amortization and depreciation on assets	5	7	20	22
Power marketing costs	185	94	345	148
PPA losses recorded against other long-term obligations	(60,648)	(149,950)	(297,522)	(490,854)
Total cost of sales	242,978	182,392	685,521	494,835

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

PPA costs of \$303.4 million in Q3 2018 primarily include the costs associated with the Battle River 5, Sheerness, Keephills and Genesee PPAs. The decrease in PPA costs for Q3 2018 relative to Q2 2017 is due to the expiration of the Sundance A PPA at December 31, 2017 and the termination of the Sundance B & C PPAs effective April 1, 2018.

PPA costs of \$982.7 million for the first nine months of 2018 decrease relative to the same period in 2017 primarily due to the expiration of the Sundance A PPA at December 31, 2017 and the termination of the Sundance B & C PPAs effective April 1, 2018.

During the first nine months of 2018 losses from the PPAs of \$297.5 million were recorded against the onerous contract provisions established for the PPAs.

## Mandated Costs

Mandated costs represent expenditures for the Utilities Consumer Advocate and the Transmission Facilities Costs Monitoring Committee. The reduction in mandated costs in the first nine months of 2018 relative to the same period in 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 Sundance B and C PPAs following their termination. 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.

## MSA Settlement

On April 13, 2017, the Balancing Pool received a notice of investigation and request for information from the Market Surveillance Administrator ("MSA"). On August 15, 2018, the Balancing Pool signed an agreement with the MSA ("Settlement") to complete the investigation into the termination and management of certain PPAs. The MSA submitted an application seeking approval of the Settlement to the Alberta Utilities Commission ("AUC") August 16, 2018. The AUC proceeding to review the Settlement is underway.

In accordance with the terms of the proposed settlement, the Balancing Pool has agreed to report publicly in its quarterly and annual reports on the activities undertaken to operate the PPA units in a commercial manner:

a) Forward Sale of Electricity (RRO auction, exchange or bilateral agreement)

The Balancing Pool has not sold any power on a forward basis in 2018. In order to commence forward sales the Balancing Pool requires a credit facility. The Balancing Pool's financial institution will not provide a credit facility to the Balancing Pool without a guarantee provided by the Government of Alberta. The corporation is reviewing its options in relation to alternative arrangements.

b) Sale of operating reserves or other ancillary services

From January to September 2018, the Balancing Pool sold approximately 149 GWh in ancillary services for total revenue of \$2.6 million.

c) Sale of PPA strip contracts

The Balancing Pool's last market assessment was conducted in the fall of 2017 by a third-party expert. The assessment concluded there would be insufficient interest in a PPA strip contract sale to generate the competitive tension necessary for the Balancing Pool to receive fair market value for the capacity sold. Discussions with the same third-party in summer and fall of 2018 identified that market conditions have not materially changed and may have worsened due to current market and environmental policy uncertainty. As such, the Balancing Pool is of the opinion it would not receive fair market value if it were to sell PPA strip contracts.

d) Termination of remaining PPAs by the Balancing Pool with the plant owners

The Balancing Pool terminated the Sundance B and C PPAs effective April 1, 2018 and the Battle River 5 PPA effective October 1, 2018. The Balancing Pool will continue to evaluate the economics of the remaining PPAs (Genesee, Sheerness and Keephills) to determine if any of these PPAs are potential candidates for termination. The Balancing Pool does not anticipate further PPA terminations will be commercially justifiable.

e) Procurement and retirement of greenhouse gas offsets and credits

The Balancing Pool is subject to carbon levy charges associated with the coal-fired PPAs. The Balancing Pool may provide emission credits or remit cash in order to satisfy the carbon levy charges.

During the first nine months of 2018, the Balancing Pool retired 7.6 million emission credits to satisfy environmental compliance charges for 2017 and the first six months of 2018, resulting in a \$78.8 million gain. The Balancing Pool received 0.2 million in emission credits in March 2018 related to the negotiated settlement reached between the former buyer of the Keephills PPA and the Government of Alberta. The Balancing Pool also procured an additional 1.9 million tonnes worth of emission credits through open market transactions.

f) Offer Strategy

The Balancing Pool has the option to consider alternative offer strategies or to maintain its existing offer strategy, as it deems appropriate, as long as it continues to fulfil its mandate to

manage generation assets in a commercial manner. The Settlement does not include any contravention in relation to the Balancing Pool's offer strategy.

The Balancing Pool is exploring options that might provide it with more flexibility to potentially alter its offer strategy in the future. The Balancing Pool has retained an external consultant to assess whether it would be permissible and commercially feasible for the Balancing Pool to subcontract daily offer control to an independent third party.

## 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 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 Competitiveness Incentive Regulation*

The *Carbon Competitiveness 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 imposes 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 would 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.

**Balancing Pool**  
**Statement of Financial Position**  
*(in thousands of Canadian dollars)*

<i>(Unaudited)</i>	<b>September 30, 2018</b>	<b>December 31, 2017</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	73,522	50,772
Trade and other receivables	223,417	130,124
Current portion of long-term receivables	2,024	1,980
Current portion of hydro power purchase arrangement (Note 3)	76,695	57,566
Intangible assets (Note 2)	19,178	153,120
	394,836	393,562
<b>Long-term receivable</b>	3,902	3,902
<b>Investments</b>	-	12,370
<b>Property, plant and equipment</b>	7	27
<b>Hydro power purchase arrangement (Note 3)</b>	73,234	120,250
<b>Total Assets</b>	<b>471,979</b>	<b>530,111</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade payables and other accrued liabilities	402,327	561,713
Current portion of related party loan (Note 4)	412,456	566,315
Current portion of small power producer contracts	1,266	3,424
Current portion of reclamation and abandonment provision (Note 5)	1,000	7,767
Current portion of other long-term obligations (Note 6)	102,695	529,073
	919,744	1,668,292
<b>Small power producer contracts</b>	-	298
<b>Reclamation and abandonment provision (Note 5)</b>	12,651	13,871
<b>Related party loan (Note 4)</b>	499,498	-
<b>Other long-term obligations (Note 6)</b>	59,626	128,648
<b>Total Liabilities</b>	<b>1,491,519</b>	<b>1,811,109</b>
<b>Net liabilities attributable to the Balancing Pool deferral account (Note 7)</b>	<b>(1,019,540)</b>	<b>(1,280,998)</b>
<b>Contingencies and commitments (Note 8)</b>		

## Balancing Pool

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

(in thousands of Canadian dollars)

(Unaudited)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
<b>Revenue from contracts with customers</b>				
Sale of electricity & ancillary services	264,555	182,290	721,827	494,665
Consumer collection	46,655	16,344	140,832	48,834
Sale of generating capacity	-	-	-	716
	311,210	198,634	862,659	544,215
<b>Other income (expense) from operating activities</b>				
Gain on retirement of emission credits	8,090	-	78,847	-
Changes in fair value of Hydro power purchase arrangement (Note 3)	9,422	4,639	33,771	7,521
Changes in fair value of investments	-	(3)	4	33
Investment income – interest	508	73	737	206
Payments in lieu of tax	2,502	44	4,292	83
	20,522	4,753	117,651	7,843
<b>Expenses</b>				
Cost of sales	242,978	182,392	685,521	494,835
Mandated costs	1,439	1,827	4,039	5,547
General and administrative	757	1,051	3,113	3,096
Force majeure and decommissioning costs	148	52	217	227
Investment management costs	2	10	13	21
PPA provision expense	(15)	(15)	15,711	(44)
Changes in fair value of Small Power Producer contracts	(221)	(503)	(638)	(1,161)
	245,088	184,814	707,976	502,521
<b>Income from operating activities</b>	86,644	18,573	272,334	49,537
<b>Other income (expense)</b>				
Other income	-	-	-	13
Finance expense	(4,705)	(861)	(10,876)	(1,712)
	(4,705)	(861)	(10,876)	(1,699)
<b>Change in net liabilities attributable to the Balancing Pool deferral account</b>	81,939	17,712	261,458	47,838

## Balancing Pool

### Statements of Cash Flows

(in thousands of Canadian dollars)

(Unaudited)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
<b>Cash flow provided by (used in)</b>				
<b>Operating activities</b>				
Change in net assets attributable to the Balancing Pool deferral account	81,939	17,712	261,458	47,838
Items not affecting cash				
Amortization and depreciation	5	7	20	22
Other long-term obligation provision (Note 6)	(122,328)	(149,950)	(495,400)	(490,854)
Fair value changes on Small Power Producer contracts	(221)	(503)	(638)	(1,161)
Fair value changes on Hydro power purchase arrangement (Note 3)	(9,422)	(4,639)	(33,771)	(7,521)
Fair value changes on financial investments	-	2	1	1
Finance expense	4,705	861	10,876	1,712
Reclamation and abandonment expenditures (Note 5)	(294)	(99)	(8,235)	(403)
Net change in other assets:				
Intangible assets (Note 2)	6,998	-	150,989	-
Long-term receivable	(15)	(15)	(44)	(44)
Net change in non-cash working capital	705	2,244	(252,679)	(9,737)
Net cash used in operating activities	(37,928)	(134,380)	(367,423)	(460,147)
<b>Investing activities</b>				
Interest, dividends and other gains	-	(35)	(89)	(134)
Sale of investments	-	-	12,458	3,501
Purchase of intangible assets (Note 2)	(16,534)	-	(17,047)	(1,831)
Net cash provided by investing activities	(16,534)	(35)	(4,678)	1,536
<b>Financing activities</b>				
Hydro power purchase arrangement net cash receipts (Note 3)	26,229	2,579	61,658	(3,063)
Small Power Producer contracts net payments	(480)	(796)	(1,818)	(3,121)
(Payment) proceeds from issue of related party loan (Note 4)	(2,451)	137,116	335,011	466,115
Net cash provided by financing activities	23,298	138,899	394,851	459,931
<b>Change in cash and cash equivalents</b>	(31,164)	4,484	22,750	1,320
<b>Cash and cash equivalents, beginning of period</b>	104,686	12,914	50,772	16,078
<b>Cash and cash equivalents, end of period</b>	73,522	17,398	73,522	17,398



## Condensed Interim Notes to Financial Statements (Unaudited)

### 1. Basis of Presentation

These interim financial statements for the nine months ended September 30, 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>	September 30, 2018	December 31, 2017
Opening balance, emission credits	153,120	149,289
Additions from purchases	17,047	1,831
Additions from PPA settlements received (Note 8)	5,000	2,000
Retired emission credits	(155,989)	-
Closing balance, emission credits	19,178	153,120

At September 30, 2018, the Balancing Pool had \$19.2 million (December 31, 2017 - \$153.1 million) in emission credits, which can be used to offset emission compliance obligations associated with the PPAs. During the first nine month of 2018, \$156.0 million in emission credits were retired and used for 2017 and the first half of 2018's compliance obligations related to the PPAs. A gain of \$8.0 million and \$78.8 million was recorded for the three and nine months ended September 30, 2018 in other income (expense) from operating activities upon retiring the emission credits.

No impairments of emission credits were recognized during the nine months ended September 30, 2018.

### 3. Financial Instruments

#### Hydro Power Purchase Arrangement

The remaining term of the Hydro PPA is through to December 31, 2020. At September 30, 2018, the value of the Hydro PPA was \$149.9 million (December 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>	September 30, 2018	December 31, 2017
Hydro power purchase arrangement, opening balance	177,816	38,431
Accretion and current year change	33,771	34,306
Net cash receipts	(61,658)	(20,333)
Revaluation of hydro power purchase arrangement asset	-	125,412
Hydro power purchase arrangement, closing balance	149,929	177,816
Less: Current portion	(76,695)	(57,566)
	73,324	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 has been consolidated into the Ministry of Energy’s financial reporting.

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	September 30, 2018
Short-term discount note due on October 2, 2018	1.74%	195,981
Short-term discount note due on October 2, 2018	1.74%	1,000
Short-term discount note due on October 9, 2018	1.80%	124,945
Short-term discount note due on January 4, 2019	1.96%	90,530
Province of Alberta bond due on September 1, 2023	2.65%	499,498
		911,954
Less: Current portion		(412,456)
		499,498

At September 30, 2018, the Balancing Pool had \$912.0 million (December 31, 2017 - \$566.3 million) in related party loans, consisting of short-term discount notes issued to the Government of Alberta and a long-term provincial bond, including accrued interest of \$3.1 million.

## 5. Reclamation and Abandonment Provision

<i>(in thousands of dollars)</i>	H.R. Milner Generating Station	Isolated Generation Sites	Cost to Decommission PPA Facilities	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	(2,818)	(5,417)	-	(8,235)
Accretion expense	152	77	19	248
At September 30, 2018	10,549	1,388	1,714	13,651
Less: Current portion	(500)	(500)	-	(1,000)
	10,049	888	1,714	12,651

During the first nine months of 2018 the Balancing Pool paid \$8.2 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	-	(61,680)	-	(71,604)	(85,349)	-	-	(218,633)
PPA Losses	(64,828)	(47,580)	-	(31,166)	(37,255)	(46,503)	(70,190)	(297,522)
At September 30, 2018	83,119	4,738	-	-	-	23,081	51,383	162,321
Less: Current portion	(45,741)	(4,738)	-	-	-	(11,540)	(40,676)	(102,695)
	37,378	-	-	-	-	11,541	10,707	59,626

During the first nine months of 2018, \$297.5 million in losses related to the PPAs were recorded against other long-term obligations. Other long-term obligations related to the PPAs are re-valued at each year-end. Termination payments of \$218.6 million were issued for the termination of the Sundance B and C PPAs in March 2018 and Battle River 5 in September 2018.

## 7. Capital Management

The Balancing Pool's objective when managing capital is to operate in accordance with the requirements of the Electric Utilities Act (2003) which requires the Balancing Pool to operate with no profit or loss and no share capital and to forecast its revenues, expenses, and cash flows. Any excess or shortfall of funds in the accounts is to be allocated to or provided by electricity consumers through to December 31, 2030.

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

<i>(in thousands of dollars)</i>	September 30, 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	261,458	685,790
Deferral account, ending balance	(1,019,540)	(1,280,998)

## 8. Contingencies and Commitments

### Terminated 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 is deemed to have been sold to the Balancing Pool. The PPA Buyer may terminate the PPA if a change in law renders the PPA unprofitable or more unprofitable, if an event of force majeure under the PPA lasts more than six months or if the Owner defaults in performing its obligations. Termination under these provisions results in the transfer of the PPA to the Balancing Pool. The Balancing Pool must then assume responsibility for ongoing capacity payments and other PPA-related costs and would be responsible for selling the output of the underlying PPA units 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, Sundance B, Sundance C, and Sheerness PPAs. As a result of these settlement agreements, the Balancing Pool received \$39.0 million in cash, recognized intangible assets (emission credits) of \$139.8 million and recoded long-term receivables (cash 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 a retroactive line loss adjustment referred to as the AUC Proceeding 790.

For those PPAs which have been or which may ultimately be returned to the Balancing Pool, the Balancing Pool has the option to hold the PPAs, resell the PPAs or to terminate the PPAs by paying the Owner a termination payment equal to the net book value of the PPA units.

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.

The Balancing Pool terminated the Battle River 5 PPA effective October 1, 2018. A termination payment of \$61.7 million was issued to ATCO on September 30, 2018.

## **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 and accrued in trade payable and other accrued liabilities.

In 2017, the Balancing Pool issued a PILOT refund 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.

In April 2018, the court of Appeal of Alberta overturned a previous court ruling that was in favour of the municipal entity disputing several notices of re-assessment. The municipal entity has appealed the matter to the Supreme Court of Canada. The financial impact to the Balancing Pool is uncertain at this time.

## **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's final liability may be higher or lower than the current estimate reflected in these financial statements.

### **MSA Settlement**

On April 13, 2017, the Balancing Pool received a notice of investigation and request for information from the Market Surveillance Administrator ("MSA").

On August 15, 2018, the Balancing Pool signed an agreement with the MSA to settle the investigation into the termination and management of certain PPAs. An application seeking approval of the settlement was submitted on August 16, 2018 to the Alberta Utilities Commission by the MSA.