Condensed Interim Financial Statements and Review

Balancing Pool

For the three months ended March 31, 2019
(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 6, 2019

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 power purchase arrangement ("Hydro PPA"), which is recorded on an annual basis.

Results at a Glance

Three months ended March 31	2019	2018
Volume - gigawatt hour ("GWh")		
Genesee Power Purchase Arrangement ("PPA")	1,685	1,484
Sheerness PPA	1,307	1,273
Keephills PPA	1,407	1,228
Sundance B PPA (1)	-	786
Sundance C PPA (1)	-	892
Battle River 5 PPA (1)	-	364
PPA ancillary services	47	58
Hydro PPA electricity	361	365
Hydro PPA ancillary services	324	323
Small Power Producer Contracts	9	18
Total electricity and ancillary service volumes	5,140	6,791
Price – per megawatt hour ("MWh")		
Average electricity market price	$70.74	$34.92
Consumer Collection		
Consumer collection per MWh	$2.90	$3.10
Consumer collection	$43,540	$49,098
Financial Results *(in thousands of dollars)*		
Statement of Income and Comprehensive Income		
Revenue from contracts with customers	337,760	252,117
Other income	14,664	1,371
Expenses	225,329	159,125
Income from operating activities	127,095	94,363
Other income (expense)	(9,224)	(2,409)
Change to the Balancing Pool deferral account	117,874	91,954
For the period ended	March 31, 2019	December 31, 2018
Statement of Financial Position		
Total assets	988,415	543,285
Total liabilities	1,816,997	1,489,741
Net liabilities attributable to the Balancing Pool deferral account	(828,581)	(946,456)

(1) The Sundance B and C PPAs were terminated effective April 1, 2018 and Battle River 5 PPA was terminated effective October 1, 2018.

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 PPA and manage the associated stream of receipts or payments; and
- Participate in regulatory and dispute resolution processes.

MSA Settlement

On August 15, 2018, the Balancing Pool signed a settlement agreement ("Settlement") with the Market Surveillance Administrator ("MSA") in relation to 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 complete and the parties await the AUC's decision. 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.

The Balancing Pool examined the option to terminate uneconomical PPAs. The Sundance B & C PPAs were terminated effective April 1, 2018 and the Battle River 5 PPA was terminated 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 but, due to the high termination payments associated with the remaining PPAs, the Balancing Pool does not anticipate further terminations will be commercially justifiable.

The Balancing Pool also examined the option of selling PPA capacity. A third party expert assessed market conditions in late 2017 and 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. Follow-up discussions with the same third-party expert in summer and fall of 2018 identified that market conditions had not materially changed and may have worsened due to 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 capacity.

Because the Balancing Pool does not anticipate terminating any further PPAs and is of the opinion it would not receive fair market value if it were to sell PPA capacity, the Balancing Pool has pursued various strategies to manage the PPAs it continues to hold in a commercial manner.

The Balancing Pool has the option to consider alternative offer strategies or to maintain its existing offer strategy, as it deems appropriate, so long as it continues to fulfil its mandate to manage generation assets in a commercial manner. The Settlement with the MSA does not include any finding of contravention in relation to the Balancing Pool's offer strategy. In late 2018 and early 2019, the Balancing Pool undertook to expand its operational flexibility such that it could employ a greater range of offer strategies in the future by pursuing two options: (1) subcontracting offer control to a third party and (2) enhancing internal operational capabilities. These options were developed and considered in parallel. With respect to the first option, the Balancing Pool conducted a Request for Information ("RFI") and a Request for Proposals ("RFP") process through early 2019 to evaluate the potential pool of applicants that may have the capability and expertise to manage offer control on the Balancing Pool's behalf. With respect to the second option, the Balancing Pool expanded its own operational capabilities. After evaluating the risks and commercial benefits associated with each option, the Balancing Pool concluded that relying on its internal operational capabilities was the commercially preferable option. Accordingly, the Balancing Pool began employing alternative offer strategies, as commercially reasonable, during Q2 using its enhanced internal operational capabilities.

The Balancing Pool has continued to undertake other commercial activities. During the first quarter of 2019, the Balancing Pool sold approximately 47 gigawatt hours ("GWh") in ancillary services for total revenue of $1.1 million. During that same period, the Balancing Pool retired 1.6 million tonnes of emission credits to satisfy environmental compliance charges for Q4 2018, resulting in a $6.7 million gain. The gain on emission credits is a result of procuring emission credits at a price lower than the Climate Change Emission Management Fund rate of $30 per tonne.

Assets

Details of Assets *(in thousands of dollars)*	March 31, 2019	December 31, 2018
Cash and cash equivalents	224,230	175,851
Trade and other receivables	109,822	201,250
Long-term receivable	3,951	3,941
Property, plant and equipment	525,900	4
Hydro power purchase arrangement	122,703	135,340
Intangible assets	1,810	26,899
Total assets	988,416	543,285

Cash and Cash Equivalents

The cash and cash equivalents balance at March 31, 2019 of $224.2 million reflects an increase of $48.4 million from the cash position on December 31, 2018 due to increased revenues for sale of electricity as a result of higher than anticipated electricity market prices received over the first quarter.

Trade and Other Receivables

Trade and other receivables balance at March 31, 2019 include the consumer collection, Hydro PPA revenues and sale of electricity revenues receivable for the PPAs (Sheerness, Keephills and Genesee) for March 2019.

Long-Term Receivable

The long-term receivable of $4.0 million is associated with the 2016 negotiated settlement reached between the Government of Alberta and a former Buyer related to a PPA termination.

Property, Plant and Equipment

Property, plant and equipment increased by $525.9 million from December 31, 2018 due to the adoption of IFRS 16 *Leases*. The Balancing Pool recognized right-of-use assets of $601.0 million for the Genesee, Keephills and Sheerness PPAs and the office lease. Included as a reduction to property, plant and equipment is amortization of $75.1 million related to the depreciation of the right-of-use assets. The right-of-use assets are depreciated on a straight-line basis over the remaining term of the PPAs (1.75 years) and office lease (2 years).

Hydro Power Purchase Arrangement

The 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 instrument (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, 2019, the fair value of the Hydro PPA decreased by $12.6 million from December 31, 2018. The decrease in fair value reflects amortization of the Hydro PPA value.

Intangible Assets

Intangible assets include emission credits held for compliance purposes. At March 31, 2019, the Balancing Pool held 70 thousand tonnes of emission credits with a value of $1.8 million. During the first quarter of 2019, the Balancing Pool purchased 0.7 million tonnes of emission credits and retired 1.6 million tonnes of emission credits to satisfy environmental compliance charges for Q4 2018.

Liabilities

Details of Liabilities *(in thousands of dollars)*	March 31, 2019	December 31, 2018
Trade payables and other accrued liabilities	229,692	305,357
Related party loan	826,937	915,295
Small power producer contracts	-	444
Reclamation and abandonment provision	23,428	24,162
Other long-term obligations	-	244,483
Lease Liability	736,940	-
Total liabilities	1,816,997	1,489,741

Trade Payables and Other Accrued Liabilities

Trade payable and other accrued liabilities decreased at March 31, 2019 relative to year-end 2018 due to payments issued for previously accrued liabilities.

Related Party Loan

At March 31, 2019, the Balancing Pool had outstanding discount notes issued to the Government of Alberta for $826.9 million including accrued interest. Over Q1 2019 the Balancing Pool repaid $93.5 million of outstanding discount notes and bond coupon payments to 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 associated with 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 was 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 or expiration 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 PPAs that expire or terminate after December 31, 2018.

In December 2018, TransAlta submitted an application to the AUC to decommission the units associated with the Sundance A PPA. The provision for Sundance A is based upon management's best estimate of decommissioning costs. The AUC will determine the amount owed to TransAlta.

The decrease in the reclamation and abandonment provision from December 31, 2018 reflects payments of $0.8 million for the Isolated Generation project and decommissioning activities at the H.R. Milner generating station offset by accretion expense.

Other Long-term Obligations

The Balancing Pool adopted IFRS 16 *Leases*, effective January 1, 2019. On adoption of IFRS 16, the provision for the PPAs was drawn down to nil and transitioned to right-of-use assets and lease liabilities for the Genesee, Keephills and Sheerness PPAs. The right-of-use assets less the lease liability represent the onerous contract value.

Lease Liability

On adoption of IFRS 16, the Balancing Pool recognized lease liabilities of $842.6 million for the Genesee, Keephills and Sheerness PPAs and the office lease. Lease payments of $109.7 million issued to the plant owners of the PPAs and the landlord of the office space were recorded against the lease liability drawing down the liability. The lease liability includes interest expense of $4.0 million for Q1 2019. Interest expense on the lease liability is the Balancing Pool borrowing rate of 1.9 percent.

Balancing Pool Deferral Account

Balancing Pool Deferral Account *(in thousands of dollars)*	March 31, 2019	December 31, 2018
Deferral account, beginning of year	(946,456)	(1,280,998)
Change to the Balancing Pool deferral account	117,875	334,542
Deferral account, end of period	(828,581)	(946,456)

The Balancing Pool deferral account decreased from December 31, 2018 primarily due to higher revenues from the sale of electricity for the thermal PPAs and receipts from the Hydro PPA.

Operations

Revenue from Contracts with Customers

Details of Revenue from Contract with Customers *(in thousands of dollars)*	Three months ended March 31	
	2019	2018
Sale of electricity & ancillary service	294,220	203,019
Consumer collection	43,540	49,098
Total revenue from contracts with customers	337,760	252,117

Sale of electricity and ancillary service revenue increased in the first quarter of 2019 relative to the same period in 2018 due to a higher realized electricity market price in Q1 2019 relative to Q1 2018. Included in sale of electricity are ancillary service revenues of $1.1 million (2018 - $0.3 million) for the first quarter of 2019.

Consumer Collection

The consumer collection for 2019 was set at a rate of $2.90 per MWh (2018 - $3.10 per MWh) of electricity consumed by electricity customers in the province of Alberta. In the first quarter of 2019 the Balancing Pool collected $43.5 million (2018 - $49.1 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 March 31	
	2019	2018
Change in fair value of Hydro PPA	12,520	745
Interest Income	624	105
Payments in lieu of tax	1,520	521
Total other income (expense) from operating activities	14,664	1,371

Change in Fair Value of Hydro Power Purchase Arrangement

Revenue from the Hydro PPA increased in Q1 2019 relative to the same period in 2018 due to higher actual cash receipts in 2019 compared to those received in the 2018. Cash receipts were higher in 2019 because of the higher realized electricity market price.

Payments In Lieu of Tax

Payments (refunds) in Lieu of Tax ("PILOT") receipts (payments) are based on the taxable income of a municipal entity as defined in Section 147 of the Electric Utilities Act and the Payment in Lieu of Tax Regulation of the Act. In general, the PILOT amounts are equal to the amount of corporate income tax the municipal entity would be required to pay in a given year pursuant to the Income Tax Act of Canada and the Alberta Corporate Tax Act if 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 Q1 2019 reflect PILOT installments received by the various municipal entities offset by audit costs.

Expenses

Details of Expense *(in thousands of dollars)*	Three months ended March 31	
	2019	2018
Cost of sales	225,803	140,894
Mandated costs	1,296	1,439
General and administrative	1,103	1,112
Force majeure and decommissioning costs	403	11
PPA provision expense	(2,883)	15,741
Changes in fair value of Small Power Producer contracts	(393)	(72)
Total expenses	225,329	159,125

Cost of Sales

Details of Cost of Sales *(in thousands of dollars)*	Three months ended March 31	
	2019	2018
Cost of power purchase arrangement and power marketing	157,390	407,561
Losses on PPAs recorded against other long-term obligations	-	(205,245)
Gain on the retirement of emission credits	(6,703)	(61,429)
Amortization and depreciation on assets	75,116	7
Total cost of sales	225,803	140,894

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.

On adoption of IFRS 16, the portion of the capacity payment that is based upon indices and rates (capital recovery charge, indexed fuel charge and indexed operational & maintenance charge) has been classified as the fixed lease payment. The fixed lease payment portion of the total capacity payment is used to estimate the lease liability. As the capacity payments are invoiced by the plant owner, the fixed lease payment portion of the total capacity payment is recorded against the lease lability. The balance of the capacity payment is expensed through the income statement. Over the first quarter, the total capacity payments invoiced for the three PPAs was $114.7 million. The fixed lease payment portion of $109.7 million was applied to the lease liability and the balance of the capacity payment invoiced of $5.0 million was expensed through the income statement.

On adoption of IFRS 16, the PPA losses are no longer reclassified and applied to the PPA provision as the provision has been drawn down to nil.

The decrease in PPA costs for Q1 2019 relative to Q1 2018 is primarily due to the termination of Sundance B & C and Battle River PPAs and to a lesser extent the adoption of IFRS 16.

Amortization and depreciation increased in Q1 2019 relative to Q1 2018 as a result of the adoption of IFRS 16. In accordance with IFRS 16, the right-of-use assets established for the PPAs are depreciated over the reaming term of the PPAs and included in cost of sales.

PPA Provision Expense

PPA provision expense of negative $2.9 million primarily reflects a reduction to the onerous contract provision to adjust the 2019 estimated capacity payments to actual capacity payments immediately prior to the adoption of IFRS 16.

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.

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 electricity 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 thermal PPAs, hydro PPA and SPP contracts, the Balancing Pool is exposed to power market price volatility risk.

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

Unit destruction

In the event that a unit is destroyed and cannot be repaired by the Owner, the Balancing Pool could be required to pay the 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") was enacted on June 17, 2017 as part of the *Climate Change and Emissions Management Act*. CCIR imposes an output-based benchmark on all generation 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.

The Balancing Pool is subject to risk associated with material changes to the CCIR that 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. In December 2018, TransAlta submitted an application to the AUC to decommission the Sundance A unit.

Liquidity

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

Statement of Financial Position
(in thousands of Canadian dollars)

(Unaudited)	**March 31, 2019**	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	224,230	175,851
Trade and other receivables	109,822	201,250
Current portion of long-term receivables	1,980	1,980
Current portion of hydro power purchase arrangement (Note 5)	84,150	89,343
Intangible assets (Note 3)	1,810	26,899
	421,992	495,323
Long-term receivable	1,971	1,961
Property, plant and equipment (Note 4)	525,900	4
Hydro power purchase arrangement (Note 5)	38,553	45,997
Total Assets	988,416	543,285
Liabilities		
Current liabilities		
Trade payables and other accrued liabilities	229,692	305,357
Small power producer contracts	-	444
Current portion of related party loan (Note 6)	327,276	412,402
Current portion of reclamation and abandonment provision (Note 7)	832	1,680
Current portion of other long-term obligations	-	79,723
Current portion of lease liability (Note 8)	438,729	-
	996,529	799,606
Reclamation and abandonment provision (Note 7 and 10)	22,596	22,482
Related party loan (Note 6)	499,661	502,893
Other long-term obligations	-	164,760
Lease liability (Note 8)	298,211	-
Total Liabilities	1,816,997	1,489,741
Net liabilities attributable to the Balancing Pool deferral account (Note 9)	(828,581)	(946,456)

Contingencies and commitments (Note 10)

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

(in thousands of Canadian dollars)

(Unaudited)	Three months ended March 31 2019	2018
Revenue from contracts with customers		
Sale of electricity & ancillary services	294,220	203,019
Consumer collection	43,540	49,098
	337,760	252,117
Other income (expense) from operating activities		
Changes in fair value of Hydro power purchase arrangement (Note 5)	12,520	745
Interest income	624	105
Payments in lieu of tax (Note 10)	1,520	521
Change in fair value of investments	-	5
	14,664	1,376
Expenses		
Cost of sales	225,803	140,894
Mandated costs	1,296	1,439
General and administrative	1,103	1,112
Force majeure and decommissioning dispute costs	403	11
Investment management costs	-	5
PPA provision expense	(2,883)	15,741
Changes in fair value of Small Power Producer contracts	(393)	(72)
	225,329	159,130
Income from operating activities	127,095	94,363
Other income (expense)		
Other income	4	-
Finance expense	(9,224)	(2,409)
	(9,220)	(2,409)
Change to the Balancing Pool deferral account	117,875	91,954

Statements of Cash Flows
(in thousands of Canadian dollars)

(Unaudited)	Three months ended March 31 2019	2018
Cash flow provided by (used in)		
Operating activities		
Change to the Balancing Pool deferral account	117,875	91,954
Items not affecting cash		
Amortization, depreciation and impairment (Note 4)	75,116	7
Power purchase arrangement provision	(2,874)	(341,442)
Fair value changes on Small Power Producer contracts	(393)	(72)
Fair value changes on Hydro power purchase arrangement (Note 5)	(12,520)	(745)
Finance expense	9,224	2,409
Emission credits retired (Note 3)	41,022	120,858
Reclamation and abandonment expenditures (Note 7)	(848)	(6,025)
Net change in other assets:		
Long-term receivable	(10)	(15)
Net change in non-cash working capital	15,763	(141,741)
Net cash provided by (used in) operating activities	242,355	(247,785)
Investing activities		
Interest, dividends and other gains	-	(53)
Purchase of intangible assets (Note 3)	(15,933)	(513)
Net cash used in investing activities	(15,933)	(566)
Financing activities		
Hydro power purchase arrangement net cash receipts (Note 5)	25,157	3,648
Small Power Producer contracts net payments	(51)	(874)
Lease repayments (Note 8)	(109,682)	-
Proceeds from issue of related party loans (Note 6)	326,158	234,062
Repayment of related party loans (Note 6)	(419,625)	-
Net cash provided by (used in) financing activities	(178,043)	236,837
Change in cash and cash equivalents	48,379	(38,514)
Cash and cash equivalents, beginning of period	175,851	50,772
Cash and cash equivalents, end of period	224,230	12,258

1. Basis of Presentation

These interim financial statements for the three months ended March 31, 2019 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 and Small Power Producer contracts.

The disclosures provided below are incremental to those included with the annual financial statements. These interim condensed financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2018.

2. Change in Accounting Policy

The Balancing Pool adopted IFRS 16, Leases on January 1, 2019. IFRS 16 provides a single lessee accounting model, requiring lessees to recognize right-of-use assets and lease liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The approach to lessor accounting will remain unchanged from its predecessor, IAS 17.

Management reviewed all contracts and existing lease arrangements and determined the impact of adopting IFRS 16. Management has determined that the Genesee, Keephills and Sheerness PPAs contain lease arrangements. The PPAs have transitioned to IFRS 16 effective January 1, 2019 from their previous accounting treatment as onerous contracts. The office lease has also transitioned to IFRS 16.

Management has elected the following practical expedients allowable under IFRS 16:

1. Not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease.
2. To use the modified retrospective transition method where the prior period is not restated.
3. To adjust the right-of-use asset for previously recognized onerous lease provisions, instead of performing an impairment review. The right-of-use asset shall be reduced by the amount of the provision for onerous leases recognized in the statement of financial position immediately before the date of transition.

A right-of-use asset of $600.6 million has been recognized for the PPAs on adoption of IFRS 16. The right-of-use asset will be amortized on a straight line basis over the remaining life of the PPAs.

Lease liabilities are measured at the present value of the remaining lease payments for the PPAs and the office lease. The lease liabilities have been discounted at the Balancing Pool’s borrowing rate of 1.9% at January 1, 2019. A lease liability of $842.2 million has been recognized for the PPAs.

The difference between the right-of-use asset and the lease liability for the PPAs of $241.6 million represents the net present value of the anticipated losses of the PPAs for 2019 and 2020.

3. Intangible Assets

(in thousands of dollars)	March 31, 2019	December 31, 2018
Opening balance, emission credits	26,899	153,120
Additions from purchases	15,933	33,533
Additions from PPA settlement (Note 10)	-	5,000
Retired of emission credits	(41,022)	(164,754)
Closing balance, emission credits	1,810	26,899

At March 31, 2019, the Balancing Pool held $1.8 million (December 31, 2018 - $26.9 million) in emission credits, which can be used to offset emission compliance obligations associated with the PPAs. During the first three month of 2019, $41.0 million in emission credits were retired and used for Q4 2018's compliance obligations related to the PPAs. A gain of $6.7 million was recorded on the retirement of the emission credits for the first quarter of 2019 and included as a reduction to cost of sales on the income statement.

No impairments of emission credits were recognized during the three months ended March 31, 2019.

4. Property, Plant and Equipment

(in thousands of dollars)	Genesee PPA	Keephills PPA	Sheerness PPA	Office Lease	Office Equipment	Total
Costs						
Balance as at December 31, 2018	-	-	-	-	574	574
Additions on adoption of IFRS 16	271,217	153,191	176,211	393	-	601,012
Balance as at March 31, 2019	271,217	153,191	176,211	393	574	601,586
Accumulated Amortization, Depreciation and Impairment						
Balance as at December 31, 2018	-	-	-	-	570	570
Amortization and depreciation	33,902	19,149	22,026	38	1	75,116
Balance as at March 31, 2019	33,902	19,149	22,026	38	571	75,686
Net Book Value						
As at December 31, 2018	-	-	-	-	4	4
As at March 31, 2019	237,315	134,042	154,185	355	3	525,900

5. Financial Instruments

Hydro Power Purchase Arrangement

The term of the Hydro PPA ends December 31, 2020. At March 31, 2019, the value of the Hydro PPA was $122.7 million (December 31, 2018 - $135.3 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.

(in thousands of dollars)	March 31, 2019	December 31, 2018
Hydro power purchase arrangement, opening balance	135,340	177,816
Accretion and current year change	12,520	48,959
Net cash receipts	(25,157)	(86,734)
Revaluation of hydro power purchase arrangement	-	(4,701)
Hydro power purchase arrangement, closing balance	122,703	135,340
Less: Current portion	(84,150)	(89,343)
	38,553	45,997

Small Power Producer Contracts

The last small power producer contract has expired on February 15, 2019. The small power producer liability has been drawn down to nil on expiry of the last contract.

6. 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.

(in thousands of dollars)	Interest Rate	March 31, 2019
Long-term note due on Sep. 13, 2023	2.65%	499,661
Short-term discount note due on May 30, 2019	2.17%	199,783
Short-term discount note due on June 6, 2019	2.16%	127,493
		826,937
Less: Current portion		(327,276)
		499,661

At March 31, 2019, the Balancing Pool had $826.9 million (December 31, 2018 - $915.3 million) in related party loans, consisting of short-term discount notes issued to the Government of Alberta and a long-term note, including accrued interest of $2.9 million.

In January 2019, the Balancing Pool repaid $93.5 million of outstanding discount notes and bond coupon payments to the Government of Alberta.

7. Reclamation and Abandonment Provision

(in thousands of dollars)	H.R. Milner Generating Station	Isolated Generation Sites	Cost to Decommission PPA Facilities	Total
At January 1, 2019	10,469	1,756	11,937	24,162
Liabilities paid in period	(191)	(657)	-	(848)
Accretion expense	49	9	56	114
At March 31, 2019	10,327	1,108	11,993	23,428
Less: Current portion	-	(832)	-	(832)
	10,327	276	11,993	22,596

During the first three months of 2019 the Balancing Pool paid $0.8 million in decommissioning expenditures related to H.R. Milner generating station and the Isolated Generation project.

8. Lease Liabilities

(in thousands of dollars)	Genesee PPA	Keephills PPA	Sheerness PPA	Office Lease	Total
At January 1, 2019, on adoption of IFRS 16	340,830	225,640	275,757	393	842,620
Interest expense	1,619	1,072	1,310	1	4,002
Lease payments	(43,788)	(29,090)	(36,766)	(38)	(109,682)
At March 31, 2019	298,661	197,622	240,301	356	736,940
Less: Current portion	(175,150)	(116,360)	(147,065)	(154)	(438,729)
	123,511	81,262	93,236	202	298,211

The Balancing Pool has recognized lease liabilities in relation to the Genesee, Keephills and Sheerness PPAs and the office lease. The lease liabilities have been discounted using the Balancing Pool's borrowing rate of 1.9%.

9. 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:

(in thousands of dollars)	March 31, 2019	December 31, 2018
Deferral account, beginning balance	(946,456)	(1,280,998)
Change to the Balancing Pool deferral account	117,875	334,542
Deferral account, ending balance	(828,581)	(946,456)

10. Contingencies and Commitments

Terminated Power Purchase Arrangements

On March 8, 2018, the Government of Alberta reached a settlement agreement with the former 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 worth of emission credits, recognized as intangible assets, and remitted $5.0 million to the former Buyer of the Battle River 5 and Keephills PPAs for historical dispatch services rendered.

The Balancing Pool terminated the Sundance B and C PPAs effective April 1, 2018. A termination payment of $71.6 million and $85.3 million, respectively, was issued to TransAlta. The termination payment issued to TransAlta represents the remaining closing net book value of the generating units. TransAlta has disputed the termination payment. The additional amount under dispute is $56.2 million. This disputed is in arbitration with TransAlta.

The Battle River 5 PPA was terminated effective October 1, 2018. A termination payment of $61.7 million was issued to ATCO. ATCO intends to dispute the payment. The additional amount under dispute is $7.4 million.

Reclamation and Abandonment

TransAlta has submitted an application to the AUC to decommission Sundance A and is seeking $41.4 million in funding from the Balancing Pool. The Balancing Pool disagrees with several aspects of the application. The Balancing Pool has a provision of $11.9 million to decommission Sundance A. The AUC will determine the amount due to TransAlta.

Payments In Lieu of Tax

Alberta Tax and Revenue Administration had 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 had disagreed with many aspects of the notices of re-assessment and 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 Court of Queen's

Bench, 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. Alberta Tax and Revenue Administration appealed the Court of Queen's Bench decision.

In 2017, the Balancing Pool issued PILOT refunds of $43.5 million to the municipal entity in relation to the accrued refund of $96.0 million, leaving a balance payable of $52.5 million.

A provision of $30.3 million was also recorded in relation to other disputed matters that were not advanced to the courts by the municipal entity. The provision was reflected as Other income (expense) from operating activities in 2016 and accrued in trade payable and other accrued liabilities.

The total amount accrued for all disputed matters related to the municipal entity at December 31, 2017 was $82.8 million.

In April 2018, the Court of Appeal of Alberta overturned the Court of Queen's Bench decision. The municipal entity appealed the decision to the Supreme Court of Canada. In February 2019, the Supreme Court of Canada dismissed the appeal.

During 2018, the municipal entity also negotiated a settlement with Alberta Tax and Revenue Administration in relation to the other disputed matters that were not advanced to the courts by the municipal entity.

As a result of the Supreme Court of Canada dismissing the appeal and the negotiated settlement reached on the remaining matters, $54.8 million was reversed from the previously accrued refund leaving a balance payable of $28.0 million to the municipal entity at December 31, 2018.

In addition, the municipal entity remitted $70.8 million to the Balancing Pool for outstanding amounts assessed by the Alberta Tax and Revenue Administration in relation to the disputed amounts as a result of the dismissal by the Supreme Court of Canada.

Retroactive Line Loss Adjustment (AUC Proceeding 790)

Line loss factors form part of transmission charges that are paid by generators in Alberta. The Balancing Pool is exposed to retroactive line loss adjustments 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**.** On December 19, 2018 the Court of Appeal ruled that the AUC does indeed have the jurisdiction and authority to retroactively adjust the line loss factors and the methodology.

The AUC was presented with three different methodologies for calculating retroactive line loss adjustments. The first was the AESO methodology based on Incremental Loss Factor with load scaling; the second was the AUC methodology ("Module B") based on Incremental Loss Factor with generation scaling, the third method was 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 was 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 $45.5 million (2017 – $42.5 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.

The various matters approved by the AUC regarding the retroactive line loss adjustments are under appeal with the Court of Appeal, including the retroactive nature of the adjustments and prospective line loss factors used to calculate the adjustment. The quantum of any retroactive adjustment will be dependent upon the methodology finally adopted and approved. 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.