



Condensed Interim Financial Statements and Review

Balancing Pool

For the three and nine months ended September 30, 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
December 3, 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

<i>Nine months ended September 30</i>	2019	2018
Volume - gigawatt hour ("GWh")		
Genesee Power Purchase Arrangement ("PPA")	4,537	4,520
Sheerness PPA	3,705	3,499
Keephills PPA	3,376	3,674
Sundance B PPA ⁽¹⁾	-	786
Sundance C PPA ⁽¹⁾	-	892
Battle River 5 PPA ⁽¹⁾	-	1,146
PPA ancillary services	275	149
Hydro PPA electricity	1,247	1,250
Hydro PPA ancillary services	936	934
Small Power Producer Contracts ⁽²⁾	9	58
Total electricity and ancillary service volumes	14,085	16,908
Price – per megawatt hour ("MWh")		
Average electricity market price	\$58.02	\$48.39
Consumer Collection		
Consumer collection per MWh	\$2.90	\$3.10
Consumer collection <i>(in thousands of dollars)</i>	\$128,424	\$140,832
Financial Results <i>(in thousands of dollars)</i>		
Statement of Income and Comprehensive Income		
Revenue from contracts with customers	825,687	862,659
Other income	7,736	38,791
Expenses	685,416	623,991
Income from operating activities	148,007	277,460
Other income (expense)	(26,893)	(10,876)
Change to the Balancing Pool deferral account	121,114	266,584
<i>As at</i>	September 30, 2019	December 31, 2018
Statement of Financial Position		
Total assets	660,928	543,285
Total liabilities	1,486,270	1,489,741
Net liabilities attributable to the Balancing Pool deferral account	(825,342)	(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.

⁽²⁾ The last Small Power Producer contract expired on February 15, 2019.

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;
- Manage the financial accounts arising from the transition to a competitive generation market on behalf of consumers;
- Fund the decommissioning and reclamation costs associated with certain generation facilities in Alberta;
- Hold the Hydro PPA and manage the associated stream of receipts or payments; and
- Participate in regulatory and dispute resolution processes.

Market Surveillance Administrator ("MSA") Settlement

The Balancing Pool entered into a settlement agreement with the MSA in August, 2018. That agreement was superseded by a subsequent agreement reached between the Balancing Pool and the MSA in October, 2019. The 2019 agreement is presently before the Alberta Utilities Commission for approval. In accordance with the terms of both settlement agreements, 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 has pursued various strategies to manage the PPAs that it holds in a commercial manner.

The Sundance B and 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. Due to the high termination payments associated with the remaining PPAs, the Balancing Pool currently does not anticipate further terminations will be commercially justifiable.

The Balancing Pool 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 capacity 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 mid- and late-2018 identified that market conditions had not materially changed and may have worsened due to market and environmental policy uncertainty. The Balancing Pool continued to assess the prospect of selling PPA capacity into 2019, but was unable to conclude that these issues had been resolved. Furthermore, the short time remaining before the PPAs expire in 2020 has become insufficient to complete a sales process, rendering a capacity sale impractical. As such, the Balancing Pool is of the opinion it would not receive fair market value if it were to sell PPA capacity.

The Balancing Pool has the option to employ its historical offer strategy or to consider alternative offer strategies, as it deems appropriate, so long as it continues to fulfil its mandate to manage generation assets in a commercial manner. Following a rigorous strategic review process, the Balancing Pool

elected to augment its internal operational capabilities and began employing alternative offer strategies in Q2 2019. The Balancing Pool continues to monitor the results from its alternative offer strategies and will make adjustments to these strategies if it deems doing so appropriate.

The Balancing Pool has also continued to undertake other commercial activities. During the first nine months of 2019, the Balancing Pool sold 275 gigawatt hours ("GWh") in ancillary services for total revenue of \$5.2 million. During that same period, the Balancing Pool retired 2.3 million tonnes of emission credits to satisfy environmental compliance charges, resulting in a \$9.2 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 <i>(in thousands of dollars)</i>	September 30, 2019	December 31, 2018
Cash and cash equivalents	81,800	175,851
Trade and other receivables	99,580	201,250
Long-term receivable	3,970	3,941
Property, plant and equipment (net of accumulated amortization)	375,682	4
Hydro power purchase arrangement	77,146	135,340
Intangible assets	22,750	26,899
Total assets	660,928	543,285

Trade and Other Receivables

Trade and other receivables balance at September 30, 2019 include the consumer collection, Hydro PPA revenues and sale of electricity revenues receivable for the PPAs (Sheerness, Keephills and Genesee) for September 2019.

Long-Term Receivable

The long-term receivable of \$3.9 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 \$375.7 million from December 31, 2018 due to the adoption of IFRS 16 *Leases*. Effective January 1, 2019, the Balancing Pool recognized right-of-use assets of \$601.0 million for the Genesee, Keephills and Sheerness PPAs and the office lease. As at September 30, 2019 there is a reduction to property, plant and equipment of \$225.3 million related to the depreciation and amortization 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 and office lease.

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 September 30, 2019, the fair value of the Hydro PPA decreased by \$58.2 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 September 30, 2019, the Balancing Pool held 0.9 million tonnes of emission credits. During the first nine months of 2019, the Balancing Pool retired 2.3 million tonnes of emission credits to satisfy environmental compliance charges for 2019. The Balancing Pool purchased 2.2 million in emission credits in the first nine months of 2019.

Liabilities

Details of Liabilities <i>(in thousands of dollars)</i>	September 30, 2019	December 31, 2018
Trade payables and other accrued liabilities	234,981	305,357
Related party loan	702,569	915,295
Small power producer contracts	-	444
Reclamation and abandonment provision	23,140	24,162
Other long-term obligations	-	244,483
Lease Liability	525,580	-
Total liabilities	1,486,270	1,489,741

Trade Payables and Other Accrued Liabilities

Trade payable and other accrued liabilities decreased at September 30, 2019 relative to year-end 2018 due to payments issued for previously accrued liabilities.

Related Party Loan

At September 30, 2019, the Balancing Pool had outstanding discount notes issued to the Government of Alberta for \$702.6 million including accrued interest. Over the first nine months of 2019 the Balancing Pool repaid \$227.3 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*, 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*, 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 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 AUC process is expected to take up to a year or longer.

The decrease in the reclamation and abandonment provision from December 31, 2018 primarily reflects payments of \$1.4 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 \$329.0 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 \$12.0 million for the first nine months of 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 <i>(in thousands of dollars)</i>	September 30, 2019	December 31, 2018
Deferral account, beginning of year	(946,456)	(1,280,998)
Change to the Balancing Pool deferral account	121,114	334,542
Deferral account, end of period	(825,342)	(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, receipts from the Hydro PPA and the consumer collection.

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	
	2019	2018	2019	2018
Sale of electricity and ancillary service	192,925	264,555	697,263	721,827
Consumer collection	42,310	46,655	128,424	140,832
Total revenue from contracts with customers	235,235	311,210	825,687	862,659

Sale of electricity and ancillary service revenue decreased in the first nine months of 2019 relative to the same period in 2018 primarily due to the decrease in the number of PPAs held by the Balancing Pool in 2018. Sale of electricity revenues for the first nine months of 2018 included Sundance B, C and Battle River 5 PPAs. Those three PPAs were terminated in late 2018 and therefore are not included in 2019. Included in sale of electricity are ancillary service revenues of \$5.2 million (2018 - \$2.6 million) for the first nine months 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 nine months of 2019 the Balancing Pool collected \$128.4 million (2018 - \$140.8 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	
	2019	2018	2019	2018
Change in fair value of Hydro PPA	(12,908)	9,422	6,987	33,771
Interest Income	631	506	2,083	724
Payments in lieu of tax revenue (refunds)	(4,924)	2,502	(1,334)	4,292
Change in fair value of investments	-	-	-	4
Total other income (expense) from operating activities	(17,201)	12,430	7,736	38,791

Change in Fair Value of Hydro Power Purchase Arrangement

Revenue from the Hydro PPA decreased in the first nine months of 2019 relative to the same period in 2018 due to lower accretion revenue in 2019. Accretion revenue was lower in 2019 as a result of the lower value of the Hydro PPA at the beginning of 2019 relative to the beginning of 2018.

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.

In September 2019, the Balancing Pool issued a refund of \$34.7 million to a municipal entity subject to PILOT. The refund is related to a dispute between the municipal entity and Alberta Tax and Revenue Administration. See note 10 for additional information regarding the settlement of this dispute.

A portion of the refund was applied to a previous accrual of \$28.0 million, leaving a balance of \$6.7 million that has been recorded to PILOT revenue (refunds) in Q3 2019.

Offsetting the refund of \$6.7 million are installments received for the current year.

Expenses

Details of Expense (in thousands of dollars)	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Cost of sales	207,857	232,989	679,191	601,548
Mandated costs	1,296	1,439	3,888	4,039
General and administrative	1,225	757	3,986	3,113
Force majeure and decommissioning dispute costs	329	148	1,647	217
PPA provision expense (recovery)	(10)	(15)	(2,903)	15,711
Changes in fair value of SPP contracts	-	(221)	(393)	(638)
Total expenses	210,697	235,098	685,416	623,991

Cost of Sales

Details of Cost of Sales (in thousands of dollars)	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Cost of power purchase arrangements and power marketing	132,740	295,496	463,014	978,365
Losses on PPAs recorded against other long-term obligations	-	(60,648)	-	(303,976)
Gain on the retirement of emission credits	-	(1,864)	(9,173)	(72,861)
Amortization and depreciation on assets	75,117	5	225,350	20
Total cost of sales	207,857	232,989	679,191	601,548

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 and 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 liability. The balance of the capacity payment is expensed through the income statement. Over the first nine months of 2019, the total capacity payments invoiced for the three PPAs was \$344.0 million. The fixed lease payment portion of \$328.9 million was applied to the lease liability and the balance of the capacity payment invoiced of \$15.1 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 the first nine months of 2019 relative to the first nine months of 2018 is primarily due to the termination of Sundance B and C and Battle River PPAs and, to a lesser extent, the adoption of IFRS 16.

A payment was issued to TransAlta on August 29, 2019 in the amount of \$57.2 million upon conclusion of the Sundance B and C termination dispute.

Amortization and depreciation increased in the first nine months 2019 relative to the same period in 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 remaining 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 units.

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>	September 30, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	81,800	175,851
Trade and other receivables	99,580	201,250
Current portion of long-term receivables	1,980	1,980
Current portion of hydro power purchase arrangement (Note 5)	73,768	89,343
Intangible assets (Note 3)	22,750	26,899
	279,878	495,323
Long-term receivable	1,990	1,961
Property, plant and equipment (Note 4)	375,682	4
Hydro power purchase arrangement (Note 5)	3,378	45,997
Total Assets	660,928	543,285
Liabilities		
Current liabilities		
Trade payables and other accrued liabilities	234,981	305,357
Small power producer contracts	-	444
Current portion of related party loan (Note 6)	202,744	412,402
Current portion of reclamation and abandonment provision (Note 7)	1,214	1,680
Current portion of other long-term obligations	-	79,723
Current portion of lease liability (Note 8)	420,524	-
	859,463	799,606
Reclamation and abandonment provision (Note 7 and 10)	21,926	22,482
Related party loan (Note 6)	499,825	502,893
Other long-term obligations	-	164,760
Lease liability (Note 8)	105,056	-
Total Liabilities	1,486,270	1,489,741
Net liabilities attributable to the Balancing Pool deferral account (Note 9)	(825,342)	(946,456)
Contingencies and commitments (Note 10)		
Subsequent event (Note 11)		

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	
	2019	2018	2019	2018
Revenue from contracts with customers				
Sale of electricity & ancillary services	192,925	264,555	697,263	721,827
Consumer collection	42,310	46,655	128,424	140,832
	235,235	311,210	825,687	862,659
Other income (expense) from operating activities				
Changes in fair value of Hydro PPA (Note 5)	(12,908)	9,422	6,987	33,771
Interest income	631	506	2,083	724
Payments in lieu of tax (Note 10)	(4,924)	2,502	(1,334)	4,292
Change in fair value of investments	-	-	-	4
	(17,201)	12,430	7,736	38,791
Expenses				
Cost of sales	207,857	232,989	679,191	601,548
Mandated costs	1,296	1,439	3,888	4,039
General and administrative	1,225	757	3,986	3,113
Force majeure and decommissioning dispute costs	329	148	1,647	217
PPA provision expense	(10)	(15)	(2,903)	15,711
Changes in fair value of SPP contracts	-	(221)	(393)	(638)
	210,697	235,098	685,416	623,991
Income from operating activities	7,337	88,543	148,007	277,460
Other income (expense)				
Other income	-	-	4	-
Finance expense	(8,603)	(4,705)	(26,897)	(10,876)
	(8,603)	(4,705)	(26,893)	(10,876)
Change to the Balancing Pool deferral account	(1,266)	83,838	121,114	266,584

Balancing Pool
Statements of Cash Flows
(in thousands of Canadian dollars)

<i>(Unaudited)</i>	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Cash flow provided by (used in)				
Operating activities				
Change to the Balancing Pool deferral account	(1,266)	83,838	121,114	266,584
Items not affecting cash				
Amortization, depreciation and impairment (Note 4)	75,117	5	225,350	20
Power purchase arrangement provision	-	(122,328)	(2,874)	(501,853)
Fair value changes on SPP contracts	-	(221)	(393)	(638)
Fair value changes on Hydro PPA (Note 5)	12,908	(9,422)	(6,987)	(33,771)
Fair value changes on financial investments	-	-	-	1
Finance expense	8,603	4,705	26,897	10,876
Emission credits retired (Note 3)	-	6,998	59,296	150,989
Reclamation and abandonment expenditures (Note 7)	(242)	(294)	(1,361)	(8,235)
Net change in other assets:				
Long-term receivable	(10)	(15)	(30)	(44)
Net change in non-cash working capital	(46,218)	(1,193)	31,293	(251,353)
Net cash provided by (used in) operating activities	48,892	(37,927)	452,305	(367,424)
Investing activities				
Interest, dividends and other gains	-	-	-	(89)
Sale of investments	-	-	-	12,458
Additions to property, plant and equipment (Note 4)	(15)	-	(15)	-
Purchase of intangible assets (Note 3)	(22,500)	(16,534)	(55,147)	(17,047)
Net cash used in investing activities	(22,515)	(16,534)	(55,162)	(4,678)
Financing activities				
Hydro PPA net cash receipts (Note 5)	16,156	26,229	65,181	61,658
SPP contracts net payments	-	(480)	(51)	(1,818)
Lease repayments (Note 8)	(109,682)	-	(329,046)	-
Proceeds from issue of related party loans (Note 6)	74,641	1,478,181	627,472	3,224,644
Repayment of related party loans (Note 6)	(106,625)	(1,480,633)	(854,750)	(2,889,632)
Net cash provided by (used in) financing activities	(125,510)	23,297	(491,194)	394,852
Change in cash and cash equivalents	(99,133)	(31,164)	(94,051)	22,750
Cash and cash equivalents, beginning of period	180,933	104,686	175,851	50,772
Cash and cash equivalents, end of period	81,800	73,522	81,800	73,522

Condensed Interim Notes to Financial Statements (Unaudited)

1. Basis of Presentation

These interim financial statements for the three and nine months ended September 30, 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.

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

<i>(in thousands of dollars)</i>	September 30, 2019	December 31, 2018
Opening balance, emission credits	26,899	153,120
Additions from purchases	55,147	33,533
Additions from PPA settlement (Note 10)	-	5,000
Retired emission credits	(59,296)	(164,754)
Closing balance, emission credits	22,750	26,899

At September 30, 2019, the Balancing Pool held \$22.8 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 nine month of 2019, \$59.3 million in emission credits were retired and used for Q4 2018 and Q1 2019's compliance obligations related to the PPAs. A gain of \$9.2 million was recorded on the retirement of the emission credits for the first nine months of 2019 and included as a reduction to cost of sales on the income statement.

No impairments of emission credits were recognized during the nine months ended September 30, 2019.

4. Property, Plant and Equipment

<i>(in thousands of dollars)</i>	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
Additions	-	-	-	-	15	15
Balance as at September 30, 2019	271,217	153,191	176,211	393	590	601,602
Accumulated Amortization, Depreciation and Impairment						
Balance as at December 31, 2018	-	-	-	-	570	570
Amortization and depreciation	101,706	57,447	66,079	114	4	225,350
Balance as at September 30, 2019	101,706	57,447	66,079	114	574	225,920
Net Book Value						
As at December 31, 2018	-	-	-	-	4	4
As at September 30, 2019	169,511	95,744	110,132	279	16	375,682

5. Financial Instruments

Hydro Power Purchase Arrangement

The term of the Hydro PPA ends December 31, 2020. At September 30, 2019, the value of the Hydro PPA was \$77.1 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.

<i>(in thousands of dollars)</i>	September 30, 2019	December 31, 2018
Hydro power purchase arrangement, opening balance	135,340	177,816
Accretion and current year change	6,987	48,959
Net cash receipts	(65,181)	(86,734)
Revaluation of Hydro power purchase arrangement	-	(4,701)
Hydro power purchase arrangement, closing balance	77,146	135,340
Less: Current portion	(73,768)	(89,343)
	3,378	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.

<i>(in thousands of dollars)</i>	Interest Rate	December 31, 2018
Long-term note due on Sep. 13, 2023	2.65%	502,893
Short-term discount note due on Jan. 04, 2019	1.96%	90,980
Short-term discount note due on Jan. 30, 2019	1.96%	196,682
Short-term discount note due on Feb. 06, 2019	1.43%	124,740
		915,295
Less: Current portion		(412,402)
		502,893

<i>(in thousands of dollars)</i>	Interest Rate	September 30, 2019
Long-term note due on Sep. 13, 2023	2.65%	499,825
Short-term discount note due on November 26, 2019	1.94%	74,772
Short-term discount note due on October 04, 2019	1.98%	127,972
		702,569
Less: Current portion		(202,744)
		499,825

At September 30, 2019, the Balancing Pool had \$703.6 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 \$4.4 million.

In the first nine months of 2019, the Balancing Pool re-paid \$227.3 million of outstanding discount notes and bond coupon payments to the Government of Alberta.

At September 30, 2019, the Balancing Pool has recorded \$14.6 million (December 31, 2018 - \$16.1 million) in finance expense related to the loan agreement with the Government of Alberta.

7. 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, 2019	10,469	1,756	11,937	24,162
Liabilities paid in period	(298)	(1,063)	-	(1,361)
Accretion expense	147	25	167	339
At September 30, 2019	10,318	718	12,104	23,140
Less: Current portion	(500)	(714)	-	(1,214)
	9,818	4	12,104	21,926

During the first nine months of 2019 the Balancing Pool paid \$1.4 million in decommissioning expenditures related to H.R. Milner generating station and the Isolated Generation project.

8. Lease Liabilities

<i>(in thousands of dollars)</i>	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
Finance expense	4,857	3,215	3,930	4	12,006
Lease payments	(131,362)	(87,270)	(110,298)	(116)	(329,046)
At September 30, 2019	214,325	141,585	169,389	281	525,580
Less: Current portion	(171,285)	(113,194)	(135,906)	(139)	(420,524)
	43,040	28,391	33,483	142	105,056

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 a 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:

<i>(in thousands of dollars)</i>	September 30, 2019	December 31, 2018
Deferral account, beginning balance	(946,456)	(1,280,998)
Change to the Balancing Pool deferral account	121,114	334,542
Deferral account, ending balance	(825,342)	(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.

TransAlta disputed the amount of the termination payment with respect to the Sundance B and C PPAs and on August 23, 2019 an arbitration panel issued its decision regarding termination payment dispute with TransAlta. The arbitration panel awarded TransAlta an additional termination payment of \$57.2 million, including interest. The payment was issued to TransAlta on August 29, 2019.

The Battle River 5 PPA was terminated effective October 1, 2018. A termination payment of \$61.7 million was issued to Alberta Power. Alberta Power has advised it intends to dispute the payment. The additional amount under dispute is \$7.4 million. No provision has been recorded.

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 \$12.1 million to decommission Sundance A. The

AUC will determine the amount due to TransAlta. The AUC proceeding is expected to take a year or longer to complete.

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.

On September 30, 2019 Alberta Tax and Revenue Administration reached a settlement with the municipal entity on all remaining disputed matters. The Balancing Pool issued a refund of \$34.7 million to the municipal entity. The Balancing Pool had previously accrued \$28.0 million related to the remaining matters disputed, leaving a balance of \$6.7 million that has been recorded on the Statement of Income (loss).

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 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 \$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 were the subject of permission to appeal applications filed with the Court of Appeal, including the retroactive nature of the adjustments and prospective line loss factors used to calculate the adjustment. On April 8, 2019 and June 3, 2019 the Court of Appeal denied all applications for permission to appeal in regards to various matters of the retroactive line loss adjustment. The Balancing Pool is currently assessing the impact of the Court of Appeal's decision. The Balancing Pool estimates may be higher or lower than the current estimate reflected in these financial statements.

Legal Claim

On June 12, 2019, the Balancing Pool received a statement of claim from a power producer seeking \$17.5 million in damages from the Balancing Pool. The Balancing Pool's legal counsel is currently assessing this statement of claim; therefore no provision has been recorded.

11. Subsequent Event

On December 3, 2019, the Balancing Pool reached a settlement with Alberta Power in regards to the disputed termination payment issued for the Battle River 5 PPA in the amount of \$5.5 million.