balancingpool

2014 Annual Report

The Balancing Pool

Generating value for Alberta's consumers

The Balancing Pool was established in 1999 by the Government of Alberta to help manage the transition to competition in Alberta's electric industry. Our current obligations and responsibilities are governed by the *Electric Utilities Act* (effective June 1, 2003) and the *Balancing Pool Regulation*.

Our legislated duties and strategic objectives include the following:

- Act as a backstop for Power Purchase Arrangements (PPAs) related to extraordinary events, including force majeure;
- Participate in regulatory and dispute resolution processes to protect the value of the Balancing Pool's assets, when required on behalf of Alberta electricity consumers;
- Hold the Hydro PPA and manage the associated stream of receipts or payments;
- Act as a buyer for the PPAs that were not sold in the public auction held by the Government of Alberta in 2000 and manage the resulting electricity portfolio in a commercial manner;
- Transfer offer control to market participants by selling PPAs held by the Balancing Pool in whole or through PPA derivative contracts when market conditions will allow the Balancing Pool to receive fair market value;
- Manage the investment accounts prudently; and
- In accordance with the Balancing Pool's mandate, allocate any forecasted cash surplus (or deficit) to electricity consumers in Alberta in annual amounts. This Consumer Allocation is to be managed so that there is no profit or loss over the life of the Balancing Pool with the net economic benefit of the Balancing Pool over its life distributed to Alberta electricity consumers.

PPAs are one of the mechanisms used by the Government of Alberta to introduce competition into the supply of thermal electric power from regulated generating units. The PPAs were auctioned in 2000 and provide buyers with the rights to formerly regulated generating capacity.

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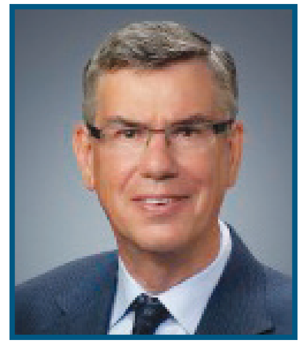
Message to Stakeholders from the Board Chair

In 2014, the Balancing Pool sold two 100-megawatt (MW) energy contracts derived from our 762-MW Genesee Power Purchase Arrangement (PPA) which we hold on behalf of consumers. The transaction was part of our Market Achievement Plan (MAP IV) and we are satisfied that a competitive sale occurred and resulted in the Balancing Pool receiving fair market value.



William Stedman

Through a Consumer Allocation of $5.50 per megawatt hour (MWh), Alberta's electricity consumers received an economic benefit of approximately $325 million in 2014. We intend to hold the allocation at the $5.50-level in 2015 with a view to the wind-up of our operations by 2020. Since 2006, the total Consumer Allocation from the Balancing Pool to Alberta electricity consumers has exceeded $2.0 billion.

The Minister of Energy, the Hon. Frank Oberle has re-appointed three of our Board members in light of the completion of their three-year terms in March 2015. Judith Athaide and Doug Topping will continue to provide the Balancing Pool their industry and management expertise. I have also accepted a second term, and will continue as Chair of the Board.

We continue to execute our strategic plan, which we put in place in 2013. Our CEO's message outlines the priorities for the coming year.

On behalf of our Board Members, we look forward to continuing to meet the Balancing Pool's obligations and to generate value for Alberta's electricity consumers.

William R. Stedman
Chair

March 31, 2015

Governance of the Balancing Pool

Adhering to the *Electric Utilities Act (2003)*, the Minister of Energy appoints members of the Balancing Pool on the basis of their cumulative expertise in order to enhance the performance of the Balancing Pool in exercising its powers and carrying out its duties, responsibilities and functions. The term of office of a member is three years; a member is eligible to be appointed for a maximum of three terms of office.

Judith Athaide is the President and CEO of The Cogent Group Inc., an independent energy advisory firm. Her 25 years in industry have spanned the value chain from wells to wall socket. She has advised on matters of strategy, asset development, acquisition and divestment, regulatory policy and risk management. Judith serves on the Boards of New Brunswick Power and PHX Technology Services where she chairs the Compensation Committee. She also serves on the Boards of non-profit organizations including the Calgary Petroleum Club, the Business Advisory Council of the Alberta School of Business and the Calgary Chapter Executive of the ICD. Previously she served on the Boards of Fortis Alberta, Cimarron Engineering and Cognera Corporation. Judith has earned a Bachelor of Commerce (Honours) degrees, a MBA and a Bachelor of Science in Mechanical Engineering. In 2006 she earned the ICD.D designation.

Greg Pollard is the Chief Financial Officer of Connacher Oil and Gas Limited, a focused *in situ* oil sands developer, producer and marketer of bitumen in Alberta. Greg has more than 30 years of experience in the energy field. He led Ernst & Young LLP's Transaction Advisory Services practice in Calgary from 2008 to 2012 following his return from Ernst & Young's Houston, Texas office where he served as Gulf Coast Transaction Advisory Services practice and market leader, as well as oil and gas industry sector leader in the Americas. He is a Chartered Accountant (1979), a Chartered Insolvency Practitioner (1992) CIRP (ret.), and a graduate of the Kellogg School of Management Executive Program (2007). In 2012 he received his ICD.D from the Institute of Corporate Directors.

Monica Sloan is the Managing Director of JKS Holdings Ltd., a private investment capital and operating holding company. She has a background as both a senior executive and management consultant specializing in technology, IT and business strategy within the energy sector. She was Managing Director and CEO of Intervera Data Solutions, President of TSE-listed Kelman Technologies and founding President of Telus Advanced Communications. Monica is a member of a number of public and not-for-profit boards including Aecon Group and Methanex Corporation where she is Chair of the Corporate Governance Committee. Previously she was on the boards of Industrial Alliance Pacific Insurance and Financial Services, the Alberta Electric System Operator and the Calgary Arts Development Authority, and Chair of Biovantage Inc. She was Vice Chair of Opera.ca and past Chair of the Calgary Opera Association serving on the board since 1999. Monica has a BSc in Applied Earth Sciences, a BA in Economics and an MSc Engineering, all from Stanford University and an MBA from Harvard. In 2005 she received her ICD.D from the Institute of Corporate Directors.

William R. Stedman, Chair, was until 2013, the Chairman and Chief Executive Officer of ENTx Capital Corporation, a private holding company. He has held this position since the inception of ENTx in 2001. From 1997 to 2000, he was President and Chief Executive Officer of Pembina Pipeline Corporation, the operating company of Pembina Pipeline Income Fund. Bill was also President and Chief Executive Officer of Pembina Corporation, a privately held oil, gas and pipeline company, from 1993 to 1997. He received a Bachelor of Science from Dalhousie University, a Bachelor of Civil Engineering (with Distinction) from McGill University and a Master of Business Administration from Harvard Business School. He is a director of OMERS Energy Inc., Tundra Energy Marketing Inc., Keyera Corporation and Ewing Morris Investment Partners.

Doug Topping is a retired professional electrical engineer registered in Alberta and Ontario and a certified director with the Institute of Corporate Directors. Doug has 45 years of experience in power generating station planning, design, construction, commissioning, operation, maintenance and retirement, primarily in Alberta, Ontario and British Columbia, but also the United States. His engineering experience includes coal-fired, simple cycle and combined cycle natural gas, hydro, wind and biomass. In addition to the Balancing Pool, Doug's board experience includes directorships with the Canadian Electricity Association, Alberta Chamber of Resources, EPCOR Power LP, Alberta Motor Association and Capital Region Housing Corporation.

Remuneration of Board Members

A summary of remuneration Members are eligible to receive as at December 31, 2014, is as follows:

- Chair – retainer $85,000/year
- Member – retainer $27,500/year
- Committee Chair – retainer $5,000/year
- Board / Committee meetings - $1,100/meeting
- Benefits – Members are eligible to receive certain benefits.

The Chair of the Balancing Pool does not receive meeting fees for Board or Committee meetings or additional Balancing Pool business.

Meeting Attendance and Remuneration

	Meeting Attendance			
Balancing Pool Board Member	**Board**	**Audit & Finance**	**Governance & Human Resource**	**2014 Remuneration ($)[1]**
Judith Athaide	6 of 6	4 of 4	-	39,271
Greg Pollard	6 of 6	4 of 4	-	41,621
Monica Sloan	6 of 6	-	4 of 4	39,804
William Stedman	6 of 6	4 of 4	4 of 4	78,213
Doug Topping	6 of 6	-	4 of 4	44,388
Attendance	30 of 30	12 of 12	12 of 12	

[1] 2014 Remuneration includes base retainer, Committee Chair retainer, Member meeting fees, and benefits.

The Balancing Pool's Audit and Finance Committee is chaired by Greg Pollard, and the Governance and Human Resources Committee is chaired by Doug Topping.

Report from the President and CEO

Bruce Roberts

HIGHLIGHTS OF 2014

The Balancing Pool completed the most recent phase of our Market Achievement Plan (MAP) IV auction in late 2014, selling about a quarter of our energy capacity from the 762-MW Genesee PPA. The Balancing Pool received strong interest and bids for these energy contracts from the marketplace.

Sale of Electricity Contracts to Marketplace

In 2014 after approval of our application from the Alberta Utilities Commission (AUC), we proceeded with the auction of two, three-year term 100-MW strip contracts related to our Genesee PPA.

ANC Power Inc. and TransCanada Energy Ltd. were the successful buyers of these energy contracts which commenced on November 1, 2014 and expire on October 31, 2017.

Aside from the Hydro PPA, the only remaining PPA the Balancing Pool manages on behalf of consumers is the Genesee PPA. Strip contracts for this PPA sold through our previous MAP processes expired at the end of 2006. Prior to the 2014 energy contracts, we sold electricity and ancillary services related to this PPA through the spot and forward electricity markets.

Since the Balancing Pool's inception in 1999, a priority has been the transfer of control of electricity capacity and ancillary services associated with PPA generation assets to market participants when market conditions allow the Balancing Pool to receive fair market value.

Given the soft market conditions that are expected to prevail over 2015 and 2016, we will suspend any subsequent sales of remaining Genesee PPA capacity for the foreseeable future.

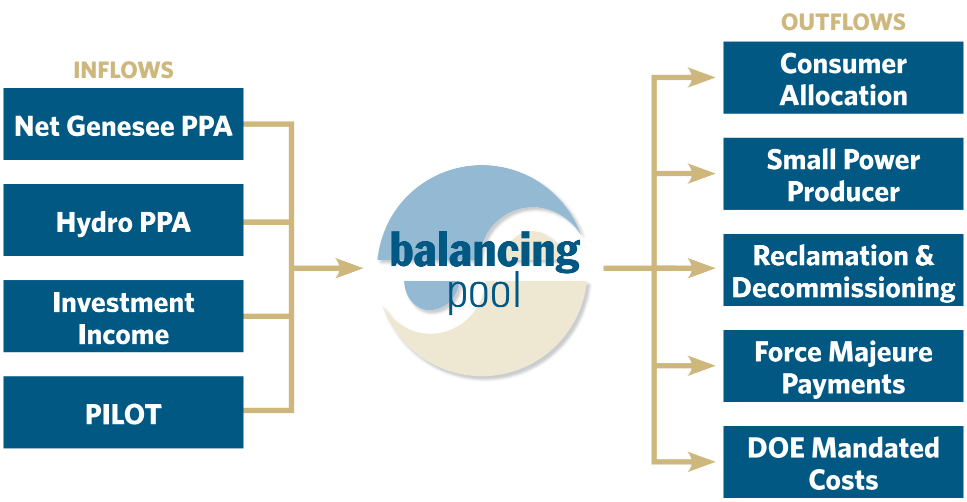
Lower Price Environment Affects Cash Flows

During 2014, the Balancing Pool had annual revenues of approximately $349.0 million and managed over $2.0 billion in assets on behalf of Alberta's electricity consumers.

The largest source of cash inflow for the Balancing Pool is derived from the sale of electricity and ancillary services from the Genesee and Hydro PPAs we hold. Electricity prices in 2014 started out strong, but by year-end prices had softened with an average for the year of about $49 per MWh as compared to an average of $80 per MWh in 2013. For 2014 this resulted in net cash flows from the PPAs of $101.0 million, as compared to $317.0 million in 2013.

While the Balancing Pool has realized good performance on our investment portfolio over the past few years, investment returns in 2014 were impacted by significantly lower oil prices in the last quarter. In 2014, the Balancing Pool had a $96.0 million return on our investment account—an average return of 9.1% after fees. We had a balance of $975.0 million in our portfolio, as of December 31, 2014.

The accompanying chart shows the Balancing Pool's primary sources of revenue or cash inflows as well as major expenses or cash outflows.



Consumer Allocations Maintained at Increased Level

The Balancing Pool continues to return a significant amount of investment and electricity sales income to Alberta electricity consumers via the Consumer Allocation. In 2012 we substantially increased our Consumer Allocation to $5.50 per MWh of consumption—a level which we have maintained through 2013, 2014 and into 2015.

In 2014 the Consumer Allocation amounted to approximately $325.0 million. Approximately 80% of the annual allocation goes to commercial and industrial electricity consumers, with the remainder to the residential and farm sectors.

Combined with the $2.0 billion in electricity rebates paid out to electricity consumers from proceeds of the initial PPA auction and the subsequent MAP I sales process in 2001, the Balancing has to date returned more than $4.0 billion to electricity consumers.

Summary of Consumer Allocations 2006 – 2014

	$/MWh	**Total** *(millions of dollars)*
2006	1.00	54
2007	3.00	162
2008	5.00	271
2009	6.50	344
2010	3.00	161
2011	2.00	110
2012	5.50	307
2013	5.50	314
2014	5.50	325
Total		2,048

Commercial Issues

Under the terms of the PPAs, the Balancing Pool is exposed to longer term business risks including those related to changes in law, force majeure and PPA termination.

The Balancing Pool is awaiting pending arbitration on the Keephills 1 Generating Station force majeure application that was made in early 2014. A hearing is expected in early 2016.

We continue to monitor evolving provincial environmental policy, which has the potential to trigger early retirement of the Sundance A facility thereby exposing the Balancing Pool to decommissioning costs. The PPA term and the Balancing Pool's obligations for this unit will end in 2017. Also, if this coal-fired unit is retired in close proximity to that date, we could potentially incur reclamation costs.

Looking Ahead

As part of our five-year strategic plan adopted in 2013, we initiated a holistic review of our risk management policy and procedures in 2014. In 2015, we will be developing an enterprise-wide risk and investment strategy that incorporates both our financial and power generation assets. The strategy will outline how we intend to continue to extract value from these assets while prudently managing the associated risks on behalf of Alberta's electricity consumers.

Together with our Board members, we continue to work with government officials, agencies and stakeholders on behalf of Alberta's electricity consumers.

Bruce Roberts

Bruce Roberts
President and Chief Executive Officer

March 31, 2015

Management's Discussion and Analysis

Year ended December 31, 2014

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A"), dated March 31, 2015, should be read in conjunction with the audited financial statements of the Balancing Pool for the years ended December 31, 2014 and 2013.

These financial statements for the year ended December 31, 2014 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars.

The Balancing Pool was established in 1999 by the Government of Alberta to help manage the transition to competition in Alberta's electricity industry. Our obligations and responsibilities are governed by the *Electric Utilities Act* (2003) and the *Balancing Pool Regulation*.

Results at a Glance

Years ended December 31	2014	2013	2012
Volume — gigawatt hours ("GWh")			
Genesee power purchase arrangement	6,235	6,084	6,180
Hydro power purchase arrangement electricity	1,621	1,650	1,654
Hydro power purchase arrangement ancillary services	1,265	1,265	1,269
Small Power Producer	348	467	461
Hedged volume	4,178	3,850	2,767
Price — per megawatt Hour ("MWh")			
Average Pool price	$49.42	$80.19	$64.32
Average hedge price	$55.63	$66.50	$81.07
Other			
Consumer Allocation per MWh	$5.50	$5.50	$5.50
Financial Results *(in thousands of dollars)*			
Revenues	349,227	810,918	450,523
Expenses	388,073	306,561	401,093
Income from operating activities	(38,846)	504,357	49,430
Change in net assets attributable to the Balancing Pool deferral account	(49,805)	457,741	75,455
Cash, cash equivalents and investments	1,011,323	1,135,211	1,050,429
Total assets	2,051,611	2,492,195	2,577,232
Total liabilities	488,874	554,986	784,067
Net assets attributable to the Balancing Pool deferral account	1,562,737	1,937,209	1,793,165
Net change in cash, cash equivalents and investments	(123,888)	84,782	34,098
Consumer Allocation	324,667	313,697	307,009

Legislated Duties and Strategic Objectives

Our legislated duties and strategic objectives include the following:

- Act as a risk backstop in relation to extraordinary events, including force majeure for Power Purchase Arrangements ("PPAs") that were sold to the third party buyers;
- Participate in regulatory and dispute resolution processes to protect the value of the Balancing Pool's assets, when required on behalf of Alberta electricity consumers;
- Hold the Hydro Power Purchase Arrangement ("Hydro PPA") and manage the associated stream of receipts or payments;
- Act as a buyer for the PPAs that were not sold in the public auction held by the Government of Alberta in 2000 and manage the resulting electricity portfolio in a commercial manner;
- Transfer offer control to market participants by selling PPAs held by the Balancing Pool in whole or through PPA derivative contracts when market conditions will allow the Balancing Pool to receive fair market value;
- Manage the investment accounts prudently; and
- Allocate any forecasted cash surplus (or deficit) to electricity consumers in Alberta in annual amounts. This Consumer Allocation is to be managed so that there is no profit or loss over the life of the Balancing Pool.

Force Majeure

Events of force majeure are extraordinary events beyond the reasonable control of the affected PPA counterparty. Related to its risk backstop responsibilities, the Balancing Pool has a statutory obligation to pay certain costs during events of force majeure as set out in the terms of the PPAs.

Financial Assets under Investment

Financial investments held by the Balancing Pool at December 31, 2014 exceeded $974.0 million (December 31, 2013 - $1.1 billion). These financial assets are available to mitigate existing or future Balancing Pool liabilities and will otherwise be available for future distribution to Alberta electricity consumers through the Consumer Allocation.

The Balancing Pool's Board has approved a long-term investment policy for managing the financial assets. The investment policy is based on investment standards that have been deemed prudent by the Board of Directors and generally focuses on achievement of a fair return on investments through a diversified investment portfolio to reduce risk. Professional money management firms manage the investment portfolio. The major sources of the Balancing Pool's investment income include interest, dividends and gains or losses on the sale of investments.

The ranges for asset allocation within the investment portfolio are as follows:

Fixed Income	40 – 60%
Canadian Equities	15 – 35%*
Global Equities	15 – 35%*

* Total equity exposure is capped at 60%.

Genesee Power Purchase Arrangement and Related Finance Lease Obligation

The Genesee power purchase arrangement ("Genesee PPA") transfers substantially all of the benefits and some of the risks of ownership to the Balancing Pool. The asset is accounted for as a finance lease as required by IAS 17 *Leases* and is included in PP&E as required by IAS 16 *Property, Plant and Equipment*. The Genesee PPA is recorded at an amount not exceeding the estimated net future cash flows arising from operations over the remaining life of the PPA. The Balancing Pool is not responsible for the daily operation of the Genesee power plant, however the Balancing Pool does retain offer control.

As counterparty to the Genesee PPA, the Balancing Pool is required to make monthly payments to the owner of the generating unit intended to cover fixed and variable costs. Only the capital component of the monthly payment is shown as a finance lease obligation.

Hydro Power Purchase Arrangement

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

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

Payments in Lieu of Tax

Payments in Lieu of Tax ("PILOT") receipts 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 the municipal entity would be required to pay as tax that year pursuant to the *Income Tax Act of Canada* and the *Alberta Corporate Tax Act*. 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. PILOT funds received by the Balancing Pool are recorded as revenue upon receipt.

Small Power Producer Contracts

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

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

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

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

Reclamation and Abandonment

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

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

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

Pursuant to Section 7 of the *Power Purchase Arrangements Regulation of the Act*, the owner of a PPA-related generating unit who applies to the Alberta Utilities Commission ("AUC") to decommission a unit within one year of the termination of the PPA is entitled to receive from the Balancing Pool the amount by which the decommissioning costs exceed the amount the owner collected from consumers before January 1, 2001 and subsequently through a PPA, provided that the unit has ceased generating electricity and subject to AUC approval. This provision does not apply to PPA-related generating units termination dates that occur after December 31, 2018.

Consumer Allocation

The Consumer Allocation is reviewed and approved annually by the Board of the Balancing Pool and may be revised at any time during the year at the Board's discretion.

Operations

Revenues

Details of Revenues *(in thousands of dollars)*	**2014**	**2013**	**Variance**
Sale of electricity	289,347	419,243	(129,896)
Sale of generating capacity	12,283	–	12,283
Change in fair value of Hydro power purchase arrangement	(54,546)	192,303	(246,849)
Changes in fair value of Small Power Producer contracts	(3,048)	7,398	(10,446)
Change in fair value of investments	68,779	148,823	(80,044)
Investment income – interest and dividends	27,353	29,587	(2,234)
Payments in lieu of taxes (PILOT)	9,059	13,564	(4,505)
Total revenues	349,227	810,918	(461,691)

Overall revenues declined in 2014 relative to 2013 primarily as a result of the decrease in average Pool prices year-over-year.

Sale of Electricity and Generating Capacity

Revenue from the sale of electricity derived from the Genesee PPA decreased in 2014 relative to 2013 primarily as a result of lower average Pool prices that were experienced over 2014. Average Pool prices declined by 38% in 2014 relative to 2013 mainly due to increased supply of generation in the market throughout most of the year. The effect of lower prices was partially offset by higher generating volumes experienced during 2014 relative to 2013.

The Balancing Pool sold two 100-MW strip contracts for generating capacity from the Genesee PPA in the last quarter of 2014 resulting in revenues of $12.3 million for 2014. The 200 MW in strip contracts represent 26% of the Genesee PPA generating capacity. The contracts commenced on November 1, 2014 and will expire on October 31, 2017. There were no generating capacity sales in 2013.

Change in Fair Value of Hydro Power Purchase Arrangement

Details of Changes in Fair Value of Hydro Power Purchase Arrangement *(in thousands of dollars)*	**2014**	**2013**	**Variance**
Accretion and current year change	32,270	149,854	(117,584)
Re-valuation of Hydro power purchase arrangement gain (loss)	(86,816)	42,449	(129,265)
Total change in fair value of Hydro power purchase arrangement	(54,546)	192,303	(246,849)

Accretion and current year change decreased for 2014 relative to 2013 because actual current year cash receipts were lower than those forecast in the prior year's valuation. Actual cash receipts decreased because of the lower than expected Pool prices for the year. The value of the Hydro PPA at December 31, 2014 decreased relative to 2013 as a result of a decrease in the expected future cash flows for electricity and ancillary services from the expected future cash flows in the prior year's valuation calculation.

Change in Fair Value of Small Power Producer Contracts

Details of Changes in Fair Value of Small Power Producer Contracts *(in thousands of dollars)*	**2014**	**2013**	**Variance**
Accretion and current year change	(806)	7,654	(8,460)
Revaluation of Small Power Producer contracts	(2,242)	(256)	(1,986)
Total change in fair value of Small Power Producer contracts	(3,048)	7,398	(10,446)

Accretion and current year changes decreased due to lower actual current year cash receipts than those forecast in the prior year's valuation. Actual cash receipts decreased as a result of the lower than expected Pool price for the year. The value of the liability related to the SPP contracts at December 31, 2014 increased relative to 2013 as a result of an increase in the expected net payments relative to the prior year's valuation calculation. Net payments are expected to increase going forward as a result of the decline of the forward market price relative to the fixed SPP contract price.

Changes in Fair Value of Investments

Details of Changes in Fair Value of Investments *(in thousands of dollars)*	**2014**	**2013**	**Variance**
Unrealized mark-to-market gains (losses)	(9,063)	119,645	(128,708)
Realized capital gains	77,842	29,178	48,664
Total change in fair value of investments	68,779	148,823	(80,044)

The value of investments decreased in 2014 as a result of lower growth in the international and Canadian equity markets in comparison to 2013. Realized capital gains increased due to an increase in the sale of investments over the course of 2014 compared to the sale of investments in 2013.

Investment Income – Interest and Dividends

Details of Investment Income *(in thousands of dollars)*	**2014**	**2013**	**Variance**
Interest income	15,613	16,257	(644)
Dividend income	11,740	13,330	(1,590)
Total investment income – interest and dividends	27,353	29,587	(2,234)

Investment income decreased primarily due to a lower investment balance through 2014 relative to 2013.

Payments In Lieu of Tax

Details of PILOT *(in thousands of dollars)*	**2014**	**2013**	**Variance**
PILOT instalments received for current tax year	20,965	27,431	(6,466)
PILOT instalment re-allocations and refunds for prior tax years	(10,786)	(13,731)	2,945
PILOT audit and litigation costs	(1,120)	(136)	(984)
Total PILOT revenues	9,059	13,564	(4,505)

Total PILOT revenues decreased compared to 2013 as a result of lower PILOT instalments received from electricity companies controlled by municipalities. The Balancing Pool has no control over the timing and amount of PILOT instalments remitted by the municipalities or adjustments and / or refunds in relation to reassessments of prior years. PILOT instalments are calculated by the electric companies and are subject to audit by Alberta Tax and Revenue Administration.

The Balancing Pool is also responsible to pay the PILOT audit and litigation costs incurred by Alberta Tax and Revenue Administration.

One municipal entity has disagreed with many aspects of the re-assessments issued by Alberta Tax and Revenue Administration and therefore has filed notices of objection for all tax years dating back to 2001. The municipal entity has proceeded with litigation to resolve the various tax matters. The total PILOT revenues under dispute with the municipal entity are approximately $293.4 million for the period from 2001 to 2014. Due to the uncertainty of the outcome of the litigation procedures, these financial statements do not reflect any contingent asset or liability in relation to these ongoing disputes.

Expenses

Details of Expenses *(in thousands of dollars)*	**2014**	**2013**	**Variance**
Cost of sales	364,125	307,852	56,273
Force majeure costs	8,629	30,347	(21,718)
Mandated costs	6,460	2,776	3,684
General and administrative	3,086	3,864	(778)
Investment management costs	2,498	2,477	21
Reclamation and abandonment	3,275	(40,755)	44,030
Total expenses	388,073	306,561	81,512

Overall, total expenses for 2014 increased from the prior year primarily due to an increase in cost of sales, mandated costs and a recovery for reclamation and abandonment expenses processed in 2013. These higher expenses were partially offset by lower force majeure and general and administrative costs.

Cost of Sales

Details of Cost of Sales *(in thousands of dollars)*	**2014**	**2013**	**Variance**
Genesee power purchase arrangement costs	199,599	186,445	13,154
Amortization and depreciation	160,868	117,762	43,106
Power marketing costs	3,658	3,645	13
Total cost of sales	364,125	307,852	56,273

Total cost of sales increased by 18.3% in 2014 primarily due to higher amortization and depreciation, and Genesee PPA costs. Genesee PPA costs include plant capacity payments, variable operating costs including incentive payments, and transmission charges. Capacity payments comprise more than 85% of total costs of sales and these payments vary year-over-year as a result of changes in cost base, cost indices, interest rates and pass-through charges. Changes to the Pool price have a minimal impact on the PPA capacity payments.

Capacity payments made in 2014 were $3.2 million higher than those made in 2013. The remainder of the Genesee PPA cost increase is primarily attributed to an increase in availability incentive payments ("AIP").

Under the terms of the PPA, the Balancing Pool is compensated via AIP based upon the rolling average Pool price during planned and unplanned outages up to the unit's target availability, except during events of force majeure. AIP received by the Balancing Pool during planned and unplanned outages are offset against AIP paid to the plant owner when the units are exceeding target availability. During 2014, the Genesee units experienced a decrease in the number and duration of outages in comparison to 2013, resulting in an increase in generation production in 2014 over 2013. The increase in generation resulted in an increase to AIP payments made to the PPA Owner. Lower transmission and change in law costs in 2014 provided a partial offset to the increased Genesee PPA costs.

Amortization and depreciation costs increased in 2014 relative to 2013 due to an impairment loss of $43.1 million recorded in relation to the Genesee PPA. The impairment loss was recognized as a result of a decline in the forward market price.

Force Majeure Costs

Force majeure costs were 71.6% lower in 2014 than in 2013. The Balancing Pool received notice of a force majeure for Keephills 2 for $7.3 million in early 2014. The balance of force majeure costs in 2014 are comprised of various small claims.

Mandated Costs

Details of Mandated Costs *(in thousands of dollars)*	**2014**	**2013**	**Variance**
Utilities Consumer Advocate ("UCA")	5,861	1,934	3,927
Transmission facilities cost monitoring committee ("TFCMC")	(413)	250	(663)
Retail market review committee ("RMRC")	1,012	592	420
Total mandated costs	6,460	2,776	3,684

Mandated costs for 2014 increased relative to 2013 to reflect adjustments to the cost estimates previously accrued for the UCA, TFCMC and RMRC.

Reclamation and Abandonment Expense

Details of Reclamation and Abandonment Expense *(in thousands of dollars)*	**2014**	**2013**	**Variance**
H.R. Milner generating station	–	(2,470)	2,470
Isolated Generation sites	1,502	(5,646)	7,148
Decommissioning costs of power purchase arrangements	1,773	(32,639)	34,412
Total reclamation and abandonment expense	3,275	(40,755)	44,030

The reclamation and abandonment provision and other long-term obligations (H.R. Milner Generating Station) increased at December 31, 2014 to reflect updated assumptions related to the discharge of these obligations. 2013 includes recoveries of reclamation and abandonment expenses previously recognized.

Net Realized Gains (Losses) on Financial Derivatives

Details of Net Realized Gains (Losses) on Financial Derivatives *(in thousands of dollars)*	**2014**	**2013**	**Variance**
Realized gains (losses) on financial derivatives	(9,394)	(44,290)	34,896
Unrealized gains (losses) on financial derivatives	(576)	218	(794)
Net realized gains (losses) on financial derivatives	(9,970)	(44,072)	34,102

From time to time, the Balancing Pool enters into electricity forward sales transactions to reduce the volatility of cash flows from electricity sales. At December 31, 2014, no electricity volumes had been sold at fixed prices through forward sales transactions (2013 – 50% of total volume).

Realized losses on financial derivatives recognized in net income in 2014 were a result of higher than expected Pool prices in the first half of the year emanating from unanticipated power plant outages in the market. The losses on financial derivatives have been offset by energy revenue from the sale of electricity. There are no financial derivatives in place at December 31, 2014.

During the year, the Risk Management policy was suspended and is currently under review.

Assets

Details of Assets *(in thousands of dollars)*	2014	2013	Variance
Cash and cash equivalents	36,641	16,404	20,237
Trade and other receivables	19,059	51,122	(32,063)
Risk management assets	–	811	(811)
Investments	974,682	1,118,807	(144,125)
Property, plant and equipment	663,444	824,312	(160,868)
Hydro power purchase arrangement	357,785	480,739	(122,954)
Total assets	2,051,611	2,492,195	(440,584)

Trade and Other Receivables

Trade and other receivable balances at December 31, 2014 were lower than 2013 due to the decline in the average Pool price in December 2014 compared to the same period in 2013.

Investments

Investment Returns & Benchmark (Percent, %)	2014	2013
Investment returns	9.14	18.44
Benchmark	8.97	11.95
Variance	0.17	6.49

Funds under investment decreased by $144.1 million at December 31, 2014 when compared to year-end 2013, primarily due to cash requirements to fund the Consumer Allocation distribution. Overall investment returns exceeded the investment benchmark by 0.17%.

Property, Plant and Equipment

As required by IAS 16 *Property, Plant and Equipment*, the Genesee PPA is recorded under Property, Plant and Equipment. The decrease in the net book value from 2013 reflects an impairment loss of $43.1 million on the Genesee PPA as a result in the decline of the forward market price. The balance reflects current year amortization of the Genesee PPA and other capital assets.

The Balancing Pool assumed the PPA buyer role for the Genesee PPA in 2001. At that time, the Genesee PPA's obligations exceeded the fair value of the asset, which resulted in the PPA being recorded as a Capital Asset under previous Canadian GAAP ("Generally Accepted Accounting Principles"). On transition to IFRS on January 1, 2010, the Genesee PPA was accounted for as a finance lease. The cost of the Genesee PPA at January 1, 2010, was determined in accordance with the deemed cost exemption permitted by IFRS 1 which allows for valuation at estimated market value. The estimated market value as at January 1, 2010 was increased by $1,079.0 million compared to the previous Canadian GAAP net book value. The asset is depreciated over the term of the Genesee PPA.

Non-GAAP (Generally Accepted Accounting Principles) Financial Measures – Genesee PPA Fair Value

Management has fair valued the Genesee PPA by calculating the present value of the estimated future net receipts. This is a market-based valuation and is calculated on a consistent basis as the Hydro PPA. This represents a non-GAAP measure. Management has disclosed the fair value of the Genesee PPA to facilitate comparison with the Hydro PPA.

The table below reconciles the net book value reported on the financial statements to the estimated fair value of the Genesee PPA.

Genesee Power Purchase Arrangement *(in thousands of dollars)*	**2014**	**2013**
Costs	1,505,670	1,505,670
Impairment loss	(43,095)	–
Accumulated amortization and depreciation	(799,206)	(681,462)
Net book value	663,369	824,208
Genesee PPA lease obligation	(373,656)	(432,900)
Genesee PPA net book value, less lease obligation	289,713	391,308
Revaluation of Genesee PPA – market based	–	60,050
Genesee PPA fair value – non GAAP measure	289,713	451,358

The remaining term of the Genesee PPA is six years to December 31, 2020. There are two key assumptions that affect this Non-GAAP market-based valuation. A discount rate of 10.6% (2013 – 10%) has been used to present value the annual cash flows, and an average market electricity price of $45.25/MWh has been used for the period of 2015 to 2016 and an average market electricity price of $65.00/MWh has been used for the period 2018 to 2020. The estimated value is sensitive to the assumptions used and there is a high degree of measurement uncertainty given the inherent uncertainty of the future electricity prices.

Hydro Power Purchase Arrangement

The net present value of the Hydro PPA at December 31, 2014 decreased by $122.9 million from the same period in 2013. The decrease in fair value is the result of lower energy and ancillary service revenues forecasted for the balance of the term as compared to the 2013 year-end valuation calculation. Forecasted energy and ancillary service revenues declined due to the decrease in forward prices.

Liabilities

Details of Liabilities *(in thousands of dollars)*	2014	2013	Variance
Trade and other payables	72,354	77,397	(5,043)
Risk management liabilities	–	235	(235)
Genesee power purchase arrangement lease obligation	373,656	432,900	(59,244)
Small Power Producer contracts	12,987	16,647	(3,660)
Reclamation and abandonment provision and other long-term obligation	29,877	27,807	2,070
Total liabilities	488,874	554,986	(66,112)

Trade and Other Payables

Trade and other payables balances at December 31, 2014 were lower than 2013 primarily due to lower force majeure accruals in December 2014.

Genesee Power Purchase Arrangement Lease Obligation

The year-end balance represents the sum of the capital component of the total payments required over the remaining term of the Genesee PPA. The decrease in 2014 over 2013 reflects the straight-line amortization of the lease obligation.

Small Power Producer Contracts

The net present value of the Small Power Producer contract liability at December 31, 2014 decreased by $3.7 million from the same period in 2013. The decrease in fair value can be primarily attributed to the reduction in the remaining term of existing contracts and the expiration of contracts that reached maturity during 2014.

Reclamation and Abandonment Provision and Other Long-Term Obligation

Reclamation and Abandonment Provision and Other Long-Term Obligation *(in thousands of dollars)*	**2014**	**2013**	**Variance**
H.R Milner	11,854	11,398	456
Isolated Generation	6,518	7,051	(533)
Decommissioning of power purchase arrangements	11,505	9,358	2,147
Total reclamation and abandonment provision and other long-term obligation	29,877	27,807	2,070

The increase to the H.R Milner provision reflects annual accretion expense of the obligation.

For Isolated Generation sites, we have revised our estimate of the decommissioning costs, the number of Isolated Generation sites requiring reclamation and the timing of such reclamation activities. This resulted in a $1.5 million increase in the liability provision from the prior year. Annual accretion expense also increased the provision by $0.3 million. These increases to the provision were offset by liabilities paid during 2014 of $2.3 million.

Similarly, the assumptions underlying the provision for the decommissioning of the PPAs have also changed based on updated estimates of future net decommissioning costs and management's assessment of the probability that an owner of a generating unit will apply to the AUC to decommission the unit within one year of the termination of the PPA. This resulted in a $1.7 million increase to the provision. The balance of the variance is the annual accretion expense of $0.4 million.

Balancing Pool Deferral Account

Balancing Pool Deferral Account, Beginning of Year *(in thousands of dollars)*	**2014**	**2013**	**Variance**
Deferral account, beginning of year	1,937,209	1,793,165	144,044
Change in net assets attributable to the Balancing Pool deferral account	(49,805)	457,741	(507,546)
Consumer Allocation	(324,667)	(313,697)	(10,970)
Deferral account, end of year	1,562,737	1,937,209	(374,472)

The Balancing Pool deferral account decreased by $374.5 million relative to the prior year. The decrease is the result of reduced income from operating activities in the last half of 2014, decreases in the fair value of the Hydro PPA and an impairment loss on the Genesee PPA all due to the decline in Pool price and the payment of the Consumer Allocation.

The fair value of the Hydro PPA and the impairment loss on the Genesee PPA reflect lower expectations of future Pool prices than those used in the prior year. Changes in the fair value of investments were also lower reflecting a weakened investment climate. In order to maintain the distribution of $5.50/MWh (2013 – $5.50/MWh) to consumers over the 2014 calendar year, the Balancing Pool liquidated $135.0 million of investments.

Liquidity and Cash Flow

To manage liquidity risk the Balancing Pool holds short-term cash deposits. In addition, management forecasts cash flows for a period of 12 months and beyond and has the flexibility to adjust the Consumer Allocation and / or liquidate investments as required.

The Balancing Pool also has access to a credit facility of $90.0 million to meet short-term liquidity needs. At December 31, 2014 the Balancing Pool had $2.0 million of unsecured Letters of Credit issued.

Our primary uses of funds are for payment of operating expenses, payment of the Genesee PPA lease obligations and payment of the Consumer Allocation.

Cash and Cash Equivalents, Beginning of Year *(in thousands of dollars)*	**2014**	**2013**	**Variance**
Cash and cash equivalents, beginning of year	16,404	39,226	(22,822)
Net cash provided by operating activities	207,385	147,285	60,100
Net cash provided by investing activities	135,063	11,998	123,065
Net cash used in financing activities	(322,211)	(182,105)	(140,106)
Cash and cash equivalents, end of year	36,641	16,404	20,237

For the year ended December 31, 2014 the Balancing Pool received $135.1 million from the sale of investments net of re-invested interest, dividends and capital gains (losses) (2013 – $12.0 million sale of investments net of re-invested interest, dividends and capital gains (losses)), resulting in an increase of $123.1 million of net cash provided by investment activities when compared to 2013.

Net cash used in financing activities for the year ending December 31, 2014 increased by $140.1 million, primarily as a result of lower year-over-year net cash receipts from the Hydro PPA.

Outlook

Based on forecasted cash flow and the expected financial position for 2015, the Balancing Pool established the annual allocation of its financial surplus to electricity consumers in Alberta at $5.50 per MWh of consumption, effective January 1, 2015 (2014 – $5.50 per MWh).

The total allocation is estimated to be approximately $324.0 million during 2015, provided there are no mid-year changes or adjustments to the megawatt allocation. Future Consumer Allocations will continue to be funded through a combination of operating income and sale of investments, as required.

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.

  Under the provisions of the PPAs, when a claim of force majeure is made, PPA Buyers are relieved of their obligations to make fixed capacity payments to the PPA Owner and instead the Balancing Pool is required to pay the PPA Owner the capacity payments normally paid by the Buyer. In addition, during events of force majeure availability incentive payment obligations between the Buyer and Owner are suspended.

- Power market price volatility risk

  As counterparty to the Genesee PPA, 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, and weather conditions. Exposure to power price volatility may be partially managed through the execution of the Balancing Pool's hedging strategy.

  The Balancing Pool may have the ability to further reduce its exposure to market prices by selling blocks of the Genesee PPA capacity over long terms.

- Marketable securities investment returns

  The value of these investments is exposed to changes in capital markets and, as such, faces the risks related to equity market performance, interest rates, foreign exchange rates, and other financial risks. In addition, the liquidity risk of the portfolio must be managed to ensure sufficient funds are available on relatively short notice in response to potential claims, etc.

  The Balancing Pool's investment portfolio is managed by independent investment managers guided by pre-set asset allocations as specified in the Balancing Pool's Statement of Investment Policy.

- PPA termination and / or unit destruction risk

  The PPAs contain termination provisions that make accommodations for the PPA to be terminated. Under certain scenarios, the Balancing Pool could be required to pay the PPA Owner the net book value or the Residual Balancing Pool Amount to the PPA Buyer.

- **Change in law risk**

  Changes in law, including regulatory 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 onto the PPA Buyer. As the Buyer of the Genesee PPA, the Balancing Pool must assume and be responsible for change in law costs affecting the Genesee units.

  The Balancing Pool is subject to risk associated with changing Federal and Provincial laws, regulations, and any Balancing Pool specific mandate changes.

- **PPA decommissioning risk**

  If a PPA Owner elects to decommission its facility, the Balancing Pool may be required to recompense the Owner for some of its decommission 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.

- **PPA Buyer default risk**

  The PPA regulation contains provisions where, in the event of a Buyer default, the Balancing Pool would assume the role of Buyer and would either hold the PPA or auction the capacity back to the market.

- **Liquidity**

  The Balancing Pool maintains adequate liquidity in the investment portfolio to be responsive to potential claims arising from risks faced by the Balancing Pool.

Internal Controls

The Chief Executive Officer ("CEO") and Controller of the Balancing Pool have established and maintained internal controls over financial reporting ("ICFR") in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with Generally Accepted Accounting Principles.

The CEO and Controller have evaluated the design and operating effectiveness of the Balancing Pool's ICFR as of December 31, 2014 and, based on the evaluation, have concluded that the controls are effective in providing such reasonable assurance. There are no changes to the internal controls that have materially affected the company's ICFR during 2014.

Accounting Policy Changes

There were no significant changes to accounting standards that impacted the Balancing Pool in 2014. The Balancing Pool prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Critical Accounting Estimates

Since a determination of certain assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions, which have been made using careful judgment. Actual results will differ from these estimates. In particular, there were significant accounting estimates made in relation to the following items:

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

Hydro Power Purchase Arrangement and Small Power Producer Contracts – The net present value of future cash flows is estimated using:

- estimated future electricity prices;
- escalated costs as per contract term; and
- future cash flows discounted to net present value at 10.6% (2013 – 10%).

In the opinion of management, these financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies.

Forward-Looking Information

Certain information in this MD&A is forward-looking information and relates to, among other things, anticipated financial market performance, future power prices and strategies. Forward-looking information typically contains statements with words such as "anticipate," "believe," "expect," "target" or similar words suggesting future outcomes. By their nature, such statements are subject to various risks and uncertainties that could cause the Balancing Pool's actual results and experience to differ materially from the anticipated results. Such risks and uncertainties include, but are not limited to: availability of generating asset and price of energy commodities; regulatory decisions; extraordinary events related to the various PPAs; the ability of the Balancing Pool to successfully implement the initiatives referred to in this MD&A; and other electricity market factors.

Financial Statements

Years Ended December 31, 2014 and 2013

March 31, 2015

Independent Auditor's Report

To the members of the Board of
Balancing Pool

We have audited the accompanying financial statements of Balancing Pool, which comprise the statements of financial position as at December 31, 2014 and December 31, 2013 and the statements of income and comprehensive income and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Balancing Pool as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

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Statements of Financial Position

(in thousands of Canadian dollars)	**2014**	**2013**
Assets		
Current assets		
Cash and cash equivalents	36,641	16,404
Trade and other receivables (Note 5)	19,059	51,122
Current portion of Hydro power purchase arrangement (Note 6 b i)	52,665	84,212
Risk management assets (Note 6 b iii)	-	811
	108,365	152,549
Investments (Note 7)	974,682	1,118,807
Property, plant and equipment (Note 8 a)	663,444	824,312
Hydro power purchase arrangement (Note 6 b i)	305,120	396,527
Total Assets	2,051,611	2,492,195
Liabilities		
Current liabilities		
Trade and other payables (Note 9)	72,354	77,397
Current portion of power purchase arrangement lease obligation (Note 8 b)	61,145	59,244
Current portion of Small Power Producer contracts (Note 6 b ii)	6,036	7,567
Current portion of reclamation and abandonment provision (Note 10)	6,518	6,862
Risk management liabilities (Note 6 b iii)	-	235
	146,053	151,305
Genesee power purchase arrangement lease obligation (Note 8 b)	312,511	373,656
Small Power Producer contracts (Note 6 b ii)	6,951	9,080
Reclamation and abandonment provision and other long-term obligation (Note 10)	23,359	20,945
Total Liabilities	488,874	554,986
Net assets attributable to the Balancing Pool deferral account (Note 1, 11)	1,562,737	1,937,209
Contingencies and commitments (Note 12)		
Subsequent event (Note 15)		

On behalf of the Balancing Pool:

William Stedman
Chair

Greg Pollard
Audit and Finance Committee Chair

The accompanying notes are an integral part of these financial statements.

Statements of Income and Comprehensive Income

(in thousands of Canadian dollars)	2014	2013
Revenues		
Sale of electricity	289,347	419,243
Sale of generating capacity (Note 12)	12,283	-
Changes in fair value of Hydro power purchase arrangement (Note 6 b i)	(54,546)	192,303
Changes in fair value of Small Power Producer contracts (Note 6 b ii)	(3,048)	7,398
Changes in fair value of investments (Note 7)	68,779	148,823
Investment income – interest and dividends	27,353	29,587
Payments in lieu of tax (Note 12)	9,059	13,564
	349,227	810,918
Expenses		
Cost of sales (Note 8 a, 13)	364,125	307,852
Force majeure costs	8,629	30,347
Mandated costs (Note 14)	6,460	2,776
General and administrative	3,086	3,864
Investment management costs	2,498	2,477
Reclamation and abandonment (Note 10)	3,275	(40,755)
	388,073	306,561
Income from operating activities	(38,846)	504,357
Other income (expense)		
Net (losses) gains on financial derivatives (Note 6 b iii)	(9,970)	(44,072)
Finance expense (Note 10)	(1,112)	(2,706)
Other income	123	162
	(10,959)	(46,616)
Change in net assets attributable to the Balancing Pool deferral account (Note 11)	(49,805)	457,741

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

(in thousands of Canadian dollars)	2014	2013
Cash flow provided by (used in)		
Operating activities		
Change in net assets attributable to the Balancing Pool deferral account	(49,805)	457,741
Items not affecting cash		
Amortization and depreciation (Note 8 a)	160,868	117,762
Force majeure provision	-	23,256
Reclamation and abandonment provision (Note 10)	3,275	(40,755)
Fair value changes on Small Power Producer contracts (Note 6 b ii)	3,048	(7,398)
Fair value changes on Hydro power purchase arrangement (Note 6 b i)	54,546	(192,303)
Fair value changes on financial derivative instruments (Note 6 b iii)	576	(218)
Fair value changes on financial investments (Note 7)	9,063	(119,645)
Finance expense (Note 10)	1,112	2,706
Force majeure expenditures	-	(87,260)
Reclamation and abandonment expenditures (Note 10)	(2,317)	(1,793)
Net change in non-cash working capital:		
Trade receivables	32,166	55,873
Other receivables	(103)	(201)
Trade payables	(3,221)	(62,440)
Other payables	(1,823)	1,960
Net cash provided by operating activities	207,385	147,285
Investing activities		
Sale of investments	135,063	12,041
Purchase of property, plant and equipment (Note 8 a)	-	(43)
Net cash provided by investing activities	135,063	11,998
Financing activities		
Hydro power purchase arrangement net cash receipts (Note 6 b i)	68,408	188,248
Payment of power purchase arrangement lease obligation (Note 8 b)	(59,244)	(60,081)
Small Power Producer contracts net (payments) receipts (Note 6 b ii)	(6,708)	3,425
Payment of the Consumer Allocation (Note 11)	(324,667)	(313,697)
Net cash used in financing activities	(322,211)	(182,105)
Change in cash and cash equivalents	20,237	(22,822)
Cash and cash equivalents, beginning of year	16,404	39,226
Cash and cash equivalents, end of year	36,641	16,404

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

1. Reporting Entity and Nature of Operations

Formation and Duties of the Balancing Pool

The Balancing Pool was created by the Government of Alberta to help manage certain assets, liabilities, revenues and expenses arising from the transition to competition in Alberta's electric industry. The Balancing Pool was originally established in 1998 as a separate financial account of the Power Pool Council (the "Council") and commenced operations in 1999. The Council was a statutory corporation established under the *Electric Utilities Act of Alberta* (1995). The requirement to establish the Balancing Pool was set out in the *Balancing Pool Regulation*.

With the proclamation of the *Electric Utilities Act* (2003) (the "Act") on June 1, 2003 the Balancing Pool was established as a separate statutory corporation (the "Corporation"). The assets and liabilities of the Council that related to the duties, responsibilities and powers of the Balancing Pool were transferred to the Balancing Pool.

Under the Act the Corporation is required to operate with no profit or loss (Note 11) and no share capital for the Corporation has been issued. The Balancing Pool Board consists of individual members who are independent of persons having a material interest in the Alberta electric industry. The members of the Board are appointed by the Minister of Energy of the Government of Alberta.

The Balancing Pool is required to respond to certain extraordinary events during the operating period of all of the Power Purchase Arrangements ("PPAs") such as force majeure, unit destruction, buyer or owner default or termination of a PPA. In situations resulting in termination of a PPA by a Buyer, the Balancing Pool will assume all remaining rights and obligations pursuant to the PPA assuming the PPA continues. The Balancing Pool acted as buyer of the PPAs that were not sold at the public auction held by the Government of Alberta in August 2000, assuming all rights and obligations of a buyer of these PPAs. Under the Act the Balancing Pool is required to manage generation assets in a commercial manner.

The head office and records of the Balancing Pool are located at suite 2350 330 5th Avenue S.W., Calgary, Alberta, Canada.

Activities of the Balancing Pool

The initial allocation of assets and liabilities to the Balancing Pool was charged to a deferral account. Differences between annual revenues and expenditures are also charged or credited to the Balancing Pool deferral account.

The Act requires that the Balancing Pool forecast its revenues and expenses. Any excess or shortfall of funds in the accounts is to be allocated to, or provided by, electricity consumers over time.

Revenues

The Balancing Pool has five primary sources of revenue:

i) Sale of electricity and generating capacity

The Balancing Pool earns revenue from the sale of electricity and generating capacity from the Genesee Power Purchase Arrangement ("Genesee PPA"). The Balancing Pool sold two 100- megawatt ("MW") strip contracts for the associated offer rights and energy output of the Genesee PPA. The contracts commenced on November 1, 2014 and will expire on October 31, 2017.

Electricity that is not otherwise contracted is sold into the spot market. Ancillary services from the Genesee PPA are sold to the Alberta Electric System Operator ("AESO") through a competitive exchange.

ii) Hydro Power Purchase Arrangement ("Hydro PPA")

Under the terms of government legislation, the Balancing Pool has obtained the right to a stream of payments from the owner of certain hydro plants in the province of Alberta. These payments are calculated based on the Power Pool ("Pool") price multiplied by a notional amount of production as outlined in the PPA less PPA obligations. The net present value of these estimated payments is recorded as an asset and any revaluation adjustment is included in net results of income.

iii) Small Power Producer ("SPP") contracts

Under the *Independent Power and Small Power Regulation*, any surplus or deficit from contracts that a utility company entered into with Small Power Producers pursuant to the *Small Power Research and Development Act* will be paid to or received from the Balancing Pool. The net present value of these estimated payments is recorded as a liability and any revaluation adjustment included in net results of income.

iv) Investment income and changes in fair value of investments

Cash, cash equivalents and investments held by the Balancing Pool generate investment income consisting of interest, dividends and realized and unrealized capital gains and losses.

v) Payments in lieu of tax ("PILOT")

Pursuant to Section 147 of the Act, the Balancing Pool collects from electricity companies controlled by municipalities a notional amount of tax that would otherwise be payable if these entities were subject to tax. The Balancing Pool does not calculate instalment payments and it does not audit PILOT filings. PILOT instalments are calculated by the payer and PILOT filings are subject to audit by Alberta Tax and Revenue Administration.

Expenses

The Balancing Pool has expenditures, which include:

i) Cost of sales

The Balancing Pool is obligated to pay certain fixed and variable costs to the owner of the generation asset that is operated under the terms of the Genesee PPA. Transmission costs are included in cost of sales.

ii) Other costs

Under the terms of government legislation, the Balancing Pool is obligated to make payments to certain entities for such matters as reclamation and abandonment and force majeure. The Minister of Energy may direct the Balancing Pool to fund specific payments under Section 148 of the Act, which are included in mandated costs.

2. Basis of Presentation

These financial statements for the year ended December 31, 2014 have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and include as comparative information the year ended December 31, 2013.

These financial statements were authorized and approved for issue by the Board of the Balancing Pool on March 31, 2015.

3. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these financial statements are as follows:

Basis of Measurement

These financial statements have been prepared on a historical cost convention, except for the revaluation of certain financial instruments, which are measured at fair value.

Revenue Recognition

(a) Sale of electricity and generating capacity

Revenues from the sale of electricity, generating capacity and ancillary services are recognized on an accrual basis in the period in which generation occurred. The accounting treatment for gains and losses settled under financial derivative contracts is described in the Risk Management Assets and Liabilities section of this note. Sale of electricity and generating capacity is measured at the fair value of the consideration received or receivable.

(b) Hydro Power Purchase Arrangement

The Hydro PPA is recorded at the present value of the estimated future net receipts under this PPA. The increase in value of this asset with the passage of time (accretion) is recognized on an accrual basis. Any change in valuation as a result of changes in underlying assumptions is recognized in income from operating activities.

(c) Small Power Producer contracts

Small Power Producer contracts are recorded at the present value of the estimated future net payments to be received (or paid) under these contracts. The change in value of this liability with the passage of time (accretion) is recognized on an accrual basis. Any change in valuation as a result of changes in underlying assumptions is recognized in income from operating activities.

(d) Investment income and changes in fair value of investments

Investment income from interest and dividends is recorded on an accrual basis when there is reasonable assurance as to its measurement and collectability. Investment income also includes realized and unrealized gains and losses on investments sold and realized foreign currency exchange rate gains and losses on sale of foreign investments excluding fund management fees.

(e) Payments in lieu of tax

PILOT funds are accrued based on the payers' instalments for a particular tax year. PILOT payments are calculated by payers and are subject to assessment and audit by Alberta Tax and Revenue Administration. Adjustments, if any, arising from audits will be recorded in the current year.

Income Taxes

No provision has been made for current or future income tax as the Balancing Pool is exempt from Federal and Provincial tax.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash on deposit at the bank and on hand.

Trade and Other Receivables and Prepaid Expenses

Trade and other receivables are classified as loans and receivables and are measured at amortized cost. At each period end date, the Balancing Pool assesses whether receivables are impaired and any impairment is recognized.

Hydro Power Purchase Arrangement and Small Power Producer Contracts

The Hydro PPA and Small Power Producer contracts are derivative financial instruments classified as held for trading. They are recorded as of the period end date at their fair value, which is measured as the present value of the estimated future net payments to be received (or paid) under the contracts and reflect management's best estimates based on generally accepted valuation techniques and supported by observable market prices and rates when available. Given the long-term nature of these contracts, observable market prices are not available beyond the next few years. Methodologies have been developed to determine the fair value for these contracts based on extrapolation of observable future prices and rates.

Electricity Price Risk Management and Financial Instruments Risk Management Assets and Liabilities

The Balancing Pool may utilize swap contracts to manage its exposure to electricity price fluctuations which require payments to (or receipts from) counterparties based on the differential between fixed and floating prices for electricity and other contractual arrangements. The estimated fair value of all derivative instruments is based on reported values in the electricity forward market.

Derivative financial instruments are classified as held for trading and are recorded at fair value. All changes in fair value are included in results of income.

Investments

The Corporation has designated its fixed income and equity securities upon initial recognition at fair value through profit and loss in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. They are recorded at estimated fair value, as of the period end date, measured based on the bid price in active markets. Unrealized gains or losses resulting from changes in fair value are recorded in income.

Property, Plant and Equipment ("PP&E")

PP&E are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure directly attributable to the acquisition of the asset. When parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Gains and losses on disposal of an item of property, plant, and equipment are determined by comparing the proceeds from disposal with the carrying amount of PP&E, and are recognized within other income in profit and loss. The major categories of PP&E are depreciated on a straight-line basis and include:

Genesee PPA	10 years (As at December 31, 2010 on transition to IFRS)
Office Equipment	3 – 5 years

Genesee Power Purchase Arrangement and Related Finance Lease Obligation

The Genesee PPA transfers to the Balancing Pool substantially all the benefits and some of the risks of ownership and therefore the arrangement is classified as a finance lease, with the Company as the lessee. A lease is a finance lease when the terms of the lease transfer substantially all of the risks and rewards incidental to ownership of the leased assets to the lessee. Finance leases are capitalized at the lease's commencement at the fair value of the leased property.

Each lease payment is allocated between the liability and expenses. The corresponding rental obligations are included in accounts payable.

The capitalized asset is included in PP&E at an amount not exceeding the estimated net future cash flows arising from operations over the remaining life of the PPA. The Genesee PPA is stated at cost, less accumulated depreciation and amortization. The cost of the Genesee PPA at January 1, 2010, the date of transition to IFRS, was determined in accordance with the deemed cost exemption permitted by IFRS 1 which allows for valuation at estimated market value at that time. The asset is depreciated over the remaining term of the Genesee PPA at January 1, 2010. The capital element of the leasing commitment is shown as a Genesee PPA lease obligation.

Impairment – Property, Plant and Equipment

For the purpose of impairment testing, PP&E is grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets – cash generating unit ("CGU").

The carrying amounts of PP&E are reviewed at each reporting date to determine whether there is any indication of impairment, such as decreased forward electricity prices. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount is the greater of the value in use or fair value less costs to dispose.

Value in use is based on the estimated future cash flows discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The recoverable amount is generally computed by reference to the present value of the future cash flows. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the Statement of Income and Comprehensive Income.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been permitted to be recognized.

Reclamation and Abandonment Obligations

Reclamation and abandonment obligations include legal obligations to retire tangible long lived assets such as generation and production facilities. A provision is made for the estimated cost of site restoration.

Reclamation and abandonment obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the period end date. Subsequent to the initial measurement, the obligations are adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as a finance expense and increases / decreases due to changes in the estimated future cash flows are expensed. Actual costs incurred upon settlement of the reclamation and abandonment obligations are charged against the provision to the extent the provision was established.

The Balancing Pool's estimates of reclamation and abandonment obligations are based on reclamation standards that meet current regulatory requirements. The estimate of the total liability of future site restoration costs may be subject to change based on amendments to laws and regulations. Accordingly, the amount of the liability will be subject to re-measurement at each period end date.

The Balancing Pool has recorded an estimate of the cost to remediate certain Isolated Generating Unit sites in Alberta. Actual costs incurred to remediate these sites will reduce this liability and any increase in this liability will be charged to expense when estimated costs are known to exceed the remaining liability balance.

An amount has also been provided for the decommissioning of the H.R. Milner generating station which is being accreted annually; revisions to this estimate will be charged or credited to net results of income.

Pursuant to Section 7 of the *Power Purchase Arrangements Regulation of the Act*, the owner of a 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 a PPA, provided that the unit has ceased generating electricity and subject to AUC approval. This provision does not apply after December 31, 2018.

The reclamation and abandonment provision includes an obligation representing future costs associated with PPA decommissioning costs in which the Balancing Pool estimates PPA owners will elect to discontinue operations and decommission the respective plants immediately following the PPA contract end dates and thereby pass any underfunded decommissioning liabilities to the Balancing Pool as per their contractual rights.

The discount rate used to value these liabilities is based upon the risk free rate and adjusted for other risks associated with these liabilities.

Accounting Standards Issued But Not Yet Adopted

The IASB issued the following standards, which are relevant but have not yet been adopted by the Balancing Pool. The Balancing Pool is in the process of assessing the impact that the new and amended standards will have on its financial statements.

IFRS 9 – *Financial Instruments* – is the first standard issued as part of a wider project to replace IAS 39 – *Financial Instruments – Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the nature of the entity's business and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets continues to apply. IFRS 9 is effective for annual periods beginning on or after January 1, 2015 with early adoption permitted.

IFRS 15 – *Revenue from Contracts with Customers* – was issued in May 2014 and replaces the previous revenue recognition standard with a single and comprehensive framework for revenue recognition. IFRS 15 is effective for annual periods beginning on or after January 1, 2017 with early adoption permitted.

4. Significant Accounting Judgments, Estimates and Assumptions

The timely preparation of the financial statements requires that management make estimates and assumptions and uses judgment regarding the reported value of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses reported for the year. Such estimates reflect management's best estimate of future events as of the date of the financial statements. These financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies summarized below. Accordingly, actual results will differ from estimated amounts as future confirming events occur.

Critical Judgments in Applying Accounting Policies

Management has made critical judgments in applying accounting policies, including when forecasting future power prices and when estimating the probability that specific PPA owners will elect to decommission the PPA-related generating units within one year of termination of the PPA. These critical judgments have been made in the process of applying accounting policies and have a significant effect on the amounts recognized in the financial statements.

Key Sources of Estimation Uncertainty

Since the determination of certain assets, liabilities, revenues and expenses are dependent upon and determined by future events, the preparation of these financial statements requires the use of estimates and assumptions. These estimates and assumptions have been made using careful judgment. Actual results are likely to differ from the results derived using these estimates. The following are items that have been derived using key assumptions concerning future outcomes and subject to several other key sources of estimation uncertainty. As a consequence, there is a significant risk of a material adjustment to the carrying amount of assets and liabilities within the next financial year:

i) Property, plant and equipment (Note 8 a)

ii) Hydro power purchase arrangement (Note 6 b i)

iii) Reclamation and abandonment provision and other long-term obligation (Note 10)

iv) Small Power Producer contracts (Note 6 b ii)

v) Risk management assets and liabilities (Note 6 b iii)

In the opinion of management, these financial statements have been properly prepared in accordance with IFRS, within reasonable limits of materiality and the framework of the significant accounting policies summarized in Note 3 to the financial statements.

5. Trade and Other Receivables

(in thousands of dollars)	**December 31, 2014**	**December 31, 2013**
Trade receivables	18,622	50,789
Other receivables	437	333
	19,059	51,122

6. Accounting for Financial Instruments

6. a) Risk Management Overview

The Balancing Pool's activities expose the company to a variety of financial risks: market risk (including PPA risk, fluctuating market prices, plant availability and currency and interest rate risk), credit risk and liquidity risk. The Balancing Pool has developed Risk Management and Credit Policies that define the organization's tolerance for risk and set out procedures for quantifying and monitoring exposures. Exposures and compliance with the policies are regularly monitored by management, the Audit and Finance Committee and the Board.

Market Risk – Power

i) **Fluctuating Market Prices:** Changes in the market price for electricity and ancillary services affect the amount of income that the Balancing Pool receives from the Genesee and Hydro PPAs. Changes in the market price for electricity also affect the amounts paid or received by the Balancing Pool under the Small Power Producer contracts. Electricity prices are highly volatile, and are affected by supply and demand, which in turn are influenced by fuel costs (e.g. natural gas prices), weather patterns, plant availability and power imports or exports. Market price risk may be managed through the use of financial forward sale contracts for electricity.

ii) **Plant Availability:** Changes in plant availability can impact the expected generation volumes and associated revenues and expenses of the Balancing Pool. According to the terms of the PPA, the Balancing Pool is entitled to availability incentive payments when the plant generates at levels below target availability. If the plant generates above the target availability, the Balancing Pool is required to make payments to the owner of the plant. The Balancing Pool is not entitled to availability incentive payments during an event of force majeure.

Market Risk – Investments

i) **Currency and Interest Rate Risk:** The Balancing Pool is exposed to currency risk and interest rate risk. There is the possibility that the value of investments will change due to fluctuations in foreign currency exchange rates and market interest rates.

- A $0.01 change in the Canadian Dollar exchange rate versus the United States Dollar would have an estimated $1.5 million impact on investment valuations.
- A $0.01 change in the Canadian Dollar exchange rate versus the Euro would have an estimated $0.7 million impact on investment valuations.
- A 1% change in the floating interest rate on investments would have an estimated $0.4 million impact on cash and cash equivalents.
- A 1% change on the long-term government bond rate would have an estimated $8.6 million impact on Genesee PPA annual capacity payments.

ii) **Price Risk:** The investment portfolio is exposed to equity securities price risk. This arises from investments held in the investment portfolio for which prices in the future are uncertain. Where non-monetary financial instruments – for example, equity securities – are denominated in currencies other than the Canadian dollar, the price initially expressed in foreign currency and then converted into Canadian dollars will also fluctuate because of changes in foreign exchange rates. Item (i) "Currency and Interest Rate Risk" above sets out how this component of price risk is measured.

Under the Balancing Pool's investment policy, price risk is managed through diversification and selection of securities and other financial instruments within specified limits set by the Board. Between 15% and 35% of the net assets attributable to the investment portfolio are expected to be invested in Canadian equity securities and between 15% and 35% in Global equities, subject to a 60% cap on total equity. Between 40% and 60% of the net assets attributable to the investment portfolio are expected to be invested in fixed income securities. The investment policy requires that the overall market position be monitored on a daily basis by the investment manager and is reviewed on an annual basis by the Board. Compliance with the investment policy is reported to the Board on a quarterly basis.

The table below is a summary of the significant sector concentrations within the investment portfolio at December 31, 2014 and 2013.

	% of Total Fund Value					
	2014			2013		
Sector	Fixed Income Portfolio %	Canadian Equity Portfolio %	Global Equity Portfolio %	Fixed Income Portfolio %	Canadian Equity Portfolio %	Global Equity Portfolio %
Information technology	0.1	5.8	11.3	0.0	5.5	10.9
Financials	25.5	37.5	17.3	29.2	36.3	18.5
Energy	4.6	19.2	5.5	4.7	19.0	5.6
Health care	0.0	0.8	13.4	0.0	1.1	12.7
Consumer staples	0.1	6.1	10.4	0.1	6.3	9.0
Industrials	0.0	13.8	14.2	0.9	12.8	16.4
Consumer discretionary	0.5	5.9	12.4	0.7	7.4	11.4
Utilities	2.5	1.3	0.0	1.8	0.9	0.0
Infrastructure	5.7	0.0	0.0	4.5	0.0	0.0
Materials	0.0	6.5	6.8	0.0	6.2	7.6
Telecommunication services	2.2	2.8	3.8	3.1	3.9	3.4
Federal	17.3	0.0	0.0	14.3	0.0	0.0
Provincial / municipal	29.5	0.0	0.0	29.8	0.0	0.0
Cash & cash equivalents	12.0	0.3	4.9	10.9	0.6	4.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Based on the carrying amount of these assets, a 10% increase or decrease in market prices would result in estimated gains or losses of $45.6 million for the Fixed Income Portfolio, $21.6 million for the Canadian Equity Portfolio and $30.2 million for the Global Equity Portfolio (December 31, 2013 – $49.4 million, $25.3 million and $37.2 million respectively).

iii) **Counterparty Credit Risk:** The Balancing Pool is exposed to counterparty credit risk. In the event of a default on payments from counterparties to the Hydro PPA, Small Power Producer contracts, forward sale contracts or mark-to-market on forward sale contracts, a financial loss may be experienced by the Balancing Pool. Credit risk is managed in accordance with the Credit Policy which requires that all counterparties be investment-grade level and is regularly monitored by management and the Audit and Finance Committee. The Balancing Pool does not consider any of the trade accounts receivables to be impaired or past due.

iv) **Liquidity Risk:** Liquidity risk is the risk that the Balancing Pool will not be able to meet its financial obligations as they fall due. To manage this risk, management forecasts cash flows for a period of 12 months and beyond and has the ability to adjust the Consumer Allocation and / or liquidate investments as required. The Balancing Pool also has access to a $90.0 million credit facility to meet short-term liquidity needs. The credit facility has no restrictive covenants and the interest rate is based on the prime rate (currently 3%).

The table below analyzes the Balancing Pool's non-derivative and net-settled financial liabilities into relevant maturity groupings based on the remaining period from the period end date to the contract maturity date.

	Less than 3 months	3 months to 1 year	2 – 5 years	Over 5 years	Total
	December 31, 2014				
Trade payables	54,726	-	-	-	54,726
Other payables	398	9,432	7,798	-	17,628
Genesee power purchase arrangement lease obligation	15,286	45,859	248,726	63,785	373,656
Small Power Producer contracts	1,509	4,527	6,951	-	12,987
Reclamation and abandonment provision and other long-term obligation	1,631	4,887	23,359	-	29,877
Total	73,550	64,705	286,834	63,785	488,874
	December 31, 2013				
Trade payables	57,947	-	-	-	57,947
Other payables	-	19,000	450	-	19,450
Risk management liabilities	-	235	-	-	235
Genesee power purchase arrangement lease obligation	14,811	44,433	246,416	127,240	432,900
Small Power Producer contracts	1,892	5,675	7,547	1,533	16,647
Reclamation and abandonment provision and other long-term obligation	1,715	5,147	9,547	11,398	27,807
Total	76,365	74,490	263,960	140,171	554,986

6 b) Analysis of Financial Instruments

i) Hydro Power Purchase Arrangement

The Balancing Pool is the counterparty to the Hydro PPA, a financial arrangement recorded as an asset at the present value of estimated amounts to be received, net of Hydro PPA obligations, over the remaining term of the Hydro PPA.

The notional production of electricity under the Hydro PPA is 1,620 gigawatt hours ("GWh") per annum from 2014 to 2020. Hydro PPA receipts or payments are settled on a monthly basis.

The remaining term of the Hydro PPA is six years to December 31, 2020. At December 31, 2014, the net present value of the Hydro PPA was estimated at $357.8 million (2013 – $480.7 million). Key assumptions in this valuation are a discount rate of 10.6% (2013 – 10%) and an average market electricity price of $45.25/megawatt hour ("MWh") for the period between 2015 to 2017 and an average market electricity price of $65.00/MWh for the period 2018 to 2020 (2013 – $59.83/MWh for 2014 to 2020).

Hydro Power Purchase Arrangement *(in thousands of dollars)*	**2014**	**2013**
Hydro power purchase arrangement, opening balance	480,739	476,684
Accretion and current year change	32,270	149,854
Net cash receipts	(68,408)	(188,248)
Revaluation of hydro power purchase arrangement asset	(86,816)	42,449
Hydro power purchase arrangement, closing balance	357,785	480,739
Less: Current portion	(52,665)	(84,212)
	305,120	396,527

The estimated value of this asset varies based on the assumptions used and there is a high degree of measurement uncertainty. The following table summarizes the impact on the Hydro PPA value when the average market price is increased or decreased by 10% and the discount rate is increased or decreased by 1%, all other inputs being constant.

	Impact of change to price volatility		**Impact of change to discount rate**	
(in thousands of dollars)	**Increase price by 10%**	**Decrease price by 10%**	**Increase discount rate by 1%**	**Decrease discount rate by 1%**
Increase (decrease) in fair value as at December 31, 2014	68,119	(67,119)	(11,793)	12,389

ii) Small Power Producer Contracts

There are two Small Power Producer contracts remaining (2013 – 6), with total allocated capacity of 20.5 (2013 – 69) MW at December 31, 2014. Contract prices range from $70.90/MWh to $79.70/MWh. Contract completion dates range between 2015 and 2019. Under these contracts, the price that the Small Power Producer receives from the counterparty utility company is either fixed or fixed plus an escalation factor. If the market price is below the contract price, the Balancing Pool must pay the difference to the utility company. If the market price exceeds the contract price, the utility company must pay the difference to the Balancing Pool.

At December 31, 2014, the net present value of cash flows to or from the Balancing Pool for these contracts was estimated to be $12.9 million liability (2013 – $16.6 million liability). The estimated value of this liability varies significantly based on the assumptions used and there is a high degree of measurement uncertainty. Key assumptions in this valuation are a discount rate of 10.6% (2013 – 10%) and an average market electricity price of $45.25/MWh for 2015 to 2016 and an average market electricity price of $65.00/MWh for 2018 to 2019 (2013 - $58.47/MWh for 2014 to 2019).

Small Power Producer Contracts *(in thousands of dollars)*	**2014**	**2013**
Small Power Producer contracts, opening balance	(16,647)	(20,620)
Accretion and current year change	(806)	7,654
Net cash payments (receipts)	6,708	(3,425)
Revaluation of Small Power Producer contracts	(2,242)	(256)
Small Power Producer contracts, closing balance	(12,987)	(16,647)
Less: Current portion	6,036	7,567
	(6,951)	(9,080)

The valuation of these contracts varies depending on the assumptions used. The following table summarizes the impact on the Small Power Producer Contract value when the market price is increased or decreased by 10% and the discount rate is increased or decreased by 1%, all other inputs being constant.

	Impact of change to price volatility		**Impact of change to discount rate**	
(in thousands of dollars)	**Increase price by 10%**	**Decrease price by 10%**	**Increase discount rate by 1%**	**Decrease discount rate by 1%**
Increase (decrease) in fair value as at December 31, 2014	(2,081)	2,081	(229)	237

iii) Financial Derivatives – Electricity Price Risk Management Activities

The Balancing Pool may enter into derivative swap contracts to manage its exposure to changes in electricity prices. At December 31, 2014, the Balancing Pool had no derivative swap contracts outstanding (2013 – $0.6 million gain). These swap contracts require payments to (or receipts from) counterparties based on the differential between the fixed contract price and variable Pool prices as published by the Alberta Electric System Operator. The swap contracts typically require the Balancing Pool to pay a variable price and the counterparty to pay a fixed price.

The following table provides disclosure on the movements in the fair value of the Balancing Pool's net risk management current assets and current liabilities:

Risk Management Assets and Liabilities *(in thousands of dollars)*	**Assets**	**Liabilities**	**Net**
Outstanding at January 1, 2013	1,294	936	358
Changes in value attributable to:			
Market changes	(57,055)	(100,987)	43,932
New contracts entered during the year	811	235	576
New contracts entered during the year (cash settled)	507	(115)	622
Net realized gains (losses) on contracts settled during the year (a)	55,254	100,166	(44,912)
Net changes in value during 2013	(483)	(701)	218
Outstanding at December 31, 2013	811	235	576
Market changes	(35,493)	(44,311)	8,818
Net realized gains (losses) on contracts settled during the year (a)	34,682	44,076	(9,394)
Net changes in value during 2014	(811)	(235)	(576)
Outstanding at December 31, 2014	-	-	-

(a) Amounts settled under financial derivative contracts are recorded on an accrual basis in revenue against the applicable exposure. During 2014, the Balancing Pool realized $9.4 million in financial derivative losses (2013 – $44.3 million in financial derivatives losses). There are no financial derivatives in place at December 31, 2014.

6 c) Fair Value Hierarchy

Financial Instruments carried at fair value are categorized as follows:

(in thousands of dollars)	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	Total
Assets				
Cash and cash equivalents	36,641	-	-	36,641
Investments – fixed income securities	-	456,074	-	456,074
Investments – equity securities	-	518,608	-	518,608
Hydro power purchase arrangement	-	-	357,785	357,785
	36,641	974,682	357,785	1,369,108
Liabilities				
Small Power Producer contracts	-	-	12,987	12,987
	-	-	12,987	12,987
	36,641	974,682	344,798	1,356,121

i) Level 1

Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities.

ii) Level 2

Assets and liabilities in Level 2 include valuations using inputs other than Level 1 quoted prices for which all significant inputs are observable, either directly or indirectly. Fair values for equity and fixed income investments are determined using quoted market prices in active markets. Risk Management Assets and Liabilities include derivatives with values based upon observable future market price curves published by Natural Gas exchange.

iii) Level 3

Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Changes in valuation methods may result in transfers into or out of an assigned level. There were no transfers between Level 3 and Level 2. The Hydro PPA and Small Power Producer contract values are determined using discounted cash flow forecast methods and supported by observable market prices when available. Given the long-term nature of these contracts, observable market prices are not available beyond the first few years. Methodologies have been developed to determine the fair value for these contracts based on extrapolation of observable future prices and rates. Management reviews the discounted cash flow forecasts on an annual basis. The changes in value, key assumptions and sensitivities in Level 3 instruments for the years ended December 31, 2014 and 2013 are disclosed in note 6 b i) and in note 6 b ii).

7. Investments

	December 31, 2014		December 31, 2013	
(in thousands of dollars)	Market Value	Cost	Market Value	Cost
Fixed income securities	456,074	450,922	493,585	493,715
Canadian equities	215,840	156,064	253,053	189,732
Global equities	302,768	191,903	372,169	250,504
Total investments	974,682	798,889	1,118,807	933,951

The following table provides disclosure on the movements in the fair value of the investments.

Unrealized Market Gain (Loss) *(in thousands of dollars)*	Fixed Income Securities	Canadian Equities	Global Equities	Totals
Unrealized market gain (loss), January 1, 2013	9,644	23,848	31,719	65,211
Changes in value attributable to:				
Change during the year	4,848	40,075	103,900	148,823
Realized (gain) loss on sales of investments	(14,622)	(602)	(13,954)	(29,178)
Net change during the year	(9,774)	39,473	89,946	119,645
Unrealized market gain (loss), December 31, 2013	(130)	63,321	121,665	184,856
Changes in value attributable to:				
Change during the year	6,592	26,798	35,389	68,779
Realized (gain) loss on sales of investments	(1,310)	(30,343)	(46,189)	(77,842)
Net change during the year	5,282	(3,545)	(10,800)	(9,063)
Unrealized market gain (loss), December 31, 2014	5,152	59,776	110,865	175,793

8. Property, Plant and Equipment and Related Lease Obligation

8 a) Property, Plant and Equipment

(in thousands of dollars)	Genesee PPA	Office Equipment	Total
Costs			
Balance as at December 31, 2012	1,505,670	476	1,506,146
Additions	-	43	43
Balance as at December 31, 2013	1,505,670	519	1,506,189
Additions	-	-	-
Balance as at December 31, 2014	1,505,670	519	1,506,189
Accumulated Amortization and Depreciation			
Balance as at December 31, 2012	563,718	397	564,115
Amortization and Depreciation	117,744	18	117,762
Balance as at December 31, 2013	681,462	415	681,877
Amortization and Depreciation	117,744	29	117,773
Impairment loss	43,095	-	43,095
Balance as at December 31, 2014	842,301	444	842,745
Net Book Value			
As at December 31, 2013	824,208	104	824,312
As at December 31, 2014	663,369	75	663,444

During 2014, an impairment loss has been recorded with respect to the Genesee PPA as a result of the decline in forward market electricity prices. The key assumptions used to determine the value in use are a discount rate of 10.6%, an average electricity market price of $45.25/MWh for the periods 2015 to 2017 and an average market electricity price of $65.00/MWh for the period 2018 to 2020.

8 b) Genesee Power Purchase Arrangement Lease Obligation

Under the terms of the Act, the Balancing Pool assumed the role of the counterparty to the Genesee PPA, which has been accounted for as a finance lease. The estimated future annual lease payments (capital component of the Genesee PPA payments) are as follows:

(in thousands of dollars)	
2015	61,145
2016	61,524
2017	61,361
2018	62,385
2019	63,456
2020	63,785
	373,656
Less: Current portion	(61,145)
	312,511

9. Trade and Other Payables

(in thousands of dollars)	**December 31, 2014**	**December 31, 2013**
Trade payables	54,726	57,947
Accrued liabilities	17,628	19,450
	72,354	77,397

10. Reclamation and Abandonment Provision and Other Long-Term Obligation

	Other Long-Term Obligation	Reclamation and Abandonment Provision		
(in thousands of dollars)	H.R. Milner Generating Station	Isolated Generation Sites	Costs of PPAs	Total
At January 1, 2013	13,335	13,932	40,382	67,649
Net decrease in liability provision	(2,470)	(5,646)	(32,639)	(40,755)
Liabilities paid in period	-	(1,793)	-	(1,793)
Accretion expense	533	558	1,615	2,706
At December 31, 2013	11,398	7,051	9,358	27,807
Less: Current portion	-	(6,862)	-	(6,862)
	11,398	189	9,358	20,945
At January 1, 2014	11,398	7,051	9,358	27,807
Net increase in liability provision	-	1,502	1,773	3,275
Liabilities paid in period	-	(2,317)	-	(2,317)
Accretion expense	456	282	374	1,112
At December 31, 2014	11,854	6,518	11,505	29,877
Less: Current portion	-	(6,518)	-	(6,518)
	11,854	-	11,505	23,359

10 a) Decommissioning Costs of H.R. Milner Generating Station

Under the Asset Sale Agreement for the H.R. Milner generating station between the Balancing Pool and ATCO Power Ltd, which was executed in 2001, the Balancing Pool assumed liability for the costs of decommissioning the station at the end of operations. When the asset was subsequently re-sold to Milner Power Limited Partnership in 2004, the Balancing Pool retained the liability for decommissioning the generating station. In 2011 a bilateral agreement was reached with Milner Power Limited Partnership wherein the Balancing Pool's exposure to future decommissioning costs was capped at $15.0 million. It is estimated that these costs will be incurred in 2020. These costs have been discounted at 4% (2013 – 4%) yielding the present value of the related liability.

10 b) Isolated Generation Sites

Under the *Isolated Generating Units and Customer Choice Regulations of the Act*, the Balancing Pool is liable for amounts relating to the reclamation and abandonment costs associated with Isolated Generation sites. In 2014 $2.3 million (2013 – $1.8 million) expenditures were incurred. Pursuant to the Negotiated Settlement Agreements approved by the AUC, the ultimate payment of these costs must be reviewed and approved by the Remediation Review Committee. The Remediation Review Committee was established to monitor and approve all costs associated with Isolated Generation. Estimated reclamation and abandonment costs were discounted at 4% (2013 – 4%). The provision is based upon management's best estimate and the timing of the costs. Management anticipates the Isolated Generation project will conclude at the end of 2015. At December 31, 2014, an increase of $1.5 million (2013 - $5.6 million reduction) was recorded to reflect a change in estimation.

10 c) Decommissioning Costs of PPAs

Pursuant to Section 7 of the *Power Purchase Arrangements Regulation*, the owner of a generating unit who applies to the AUC to decommission a unit within one year of the termination of the PPA is entitled to receive funding from the Balancing Pool. The amount of funding provided by the Balancing Pool is the amount by which the decommissioning costs exceed the amount the owner collected from consumers before January 1, 2001 and subsequently through a PPA, provided that the unit has ceased generating electricity and subject to AUC approval. This provision does not apply after December 31, 2018.

At December 31, 2014, the Balancing Pool recorded a $1.8 million increase (2013 - $32.6 million reduction) to the provision for decommissioning the PPAs. The provision is based upon management's best estimate of decommissioning costs, assessment of provincial and federal environmental legislation and the probability an owner of a generating unit will apply to the AUC to decommission the unit within one year of the termination of the PPA. Estimated decommissioning costs were discounted at 4% (2013 – 4%). The estimate of the decommissioning costs before discounting and probability weighting is $28.0 million.

11. Capital Management

The Balancing Pool's objective when managing capital is to operate as per the requirements of the *Electric Utilities Act (2003)* which requires the Balancing Pool to operate with no profit or loss and no share capital and 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 over time. During 2009, the Alberta Government enacted amendments to the *Electric Utilities Act (2003)* that have removed the requirement for the winding-up of the Balancing Pool by June 30, 2021.

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

Balancing Pool Deferral Account *(in thousands of dollars)*	**2014**	**2013**
Deferral account, beginning of year	1,937,209	1,793,165
Change in net assets attributable to the Balancing Pool deferral account	(49,805)	457,741
Payment of Consumer Allocation	(324,667)	(313,697)
Deferral account, end of year	1,562,737	1,937,209

The Balancing Pool has approved the allocation to Alberta's electricity consumers at $5.50 per MWh of consumption for 2015, which will result in an estimated payment of $330.0 million (2014 – $5.50 per MWh, $324.7 million) over the year. The Consumer Allocation is reviewed and approved by the Board of the Balancing Pool and may be revised at any time during the year at the Board's discretion.

12. Contingencies and Commitments

Genesee PPA Energy Strip Contracts

In the last quarter of 2014, the Balancing Pool sold two 100-MW strip contracts for generating capacity from the Genesee PPA (representing 26% of the total Genesee PPA capacity). The two contracts commenced on November 1, 2014 and will expire on October 31, 2017. Terms of the contracts require the purchaser to pay a fixed monthly fee established by a competitive bid process and amounts intended to cover certain PPA costs payable by the Balancing Pool.

Revenue from the sale of the energy strip contracts has been recorded in sale of generating capacity on the Statement of Income.

Other Power Purchase Arrangements

Pursuant to Section 96 of the Act, where a PPA is terminated except under Section 15.2 of the PPA, the PPA will be deemed to have been sold to the Balancing Pool. Buyer-initiated termination could be triggered by a change in law, which renders the PPA uneconomic for the buyer, an event of force majeure lasting greater than six months or owner default in performing its obligations. Termination under these provisions would result in the immediate transfer of the PPA to the Balancing Pool. The Balancing Pool would then assume responsibility for ongoing capacity payments and other PPA-related costs and would be responsible for selling the output into the wholesale power market.

Payments In Lieu of Tax

Alberta Tax and Revenue Administration has issued notices of re-assessment for several tax years (dating back to 2001) to a municipal entity that has been subject to PILOT. The municipal entity has disagreed with many aspects of the notices of re-assessment and has filed notices of objection for those tax years. The municipal entity has proceeded with litigation to resolve the various tax matters. The total PILOT revenues under dispute with the municipal entity are approximately $293.4 million from 2001 to 2014. Due to the uncertainty of the outcome of the litigation, these financial statements do not reflect any contingent asset or liability in relation to these ongoing disputes.

Disputed Amounts

Disputed amounts for commercial matters are expensed as incurred and reversed on recovery.

Credit Facility

At December 31, 2014, the Balancing Pool had $2.0 million of unsecured Letters of Credit issued and an uncommitted credit facility available to issue Letters of Credit up to a maximum of $90.0 million.

13. Cost of Sales

(in thousands of dollars)	December 31, 2014	December 31, 2013
Cost of power purchase arrangements	203,257	190,090
Amortization and depreciation	117,773	117,762
Impairment loss (Note 8 a)	43,095	-
	364,125	307,852

14. Related Party Transactions

Key Management Compensation

Key management includes members of the Board of the Balancing Pool and the Chief Executive Officer. The compensation paid or payable to key management for services is shown below.

Key Management Compensation *(in thousands of dollars)*	2014	2013
Salaries and other short-term employee benefits	632	991
Post-employment benefits	-	-
Termination benefits	-	-
Total	632	991

Government-Related Entity

The Balancing Pool considers itself to be a government-related entity as defined by IAS 24 – Related Party Disclosure – and applies the exemption from the disclosure requirements of Paragraph 18 of IAS 24 – Related Party Disclosure. The members of the Board are appointed by the Minister of Energy of the Government of Alberta. The Balancing Pool had no significant transactions with the Government of Alberta during 2014 and 2013.

As directed by the Minister of Energy the Balancing Pool is mandated to make payments to the Office of the Utilities Consumer Advocate ("UCA") to cover 80% of their annual operating costs and 100% of the annual costs for the Transmission Facilities Cost Monitoring Committee ("TFCMC") and the Retail Market Review Committee ("RMRC").

In 2014, the Balancing Pool expensed $5.9 million (2013 – $1.9 million) for the UCA and $0.4 million (2013 - $0.8 million) for the TFCMC and RMRC.

15. Subsequent Event

The Balancing Pool received notice of a potential force majeure from the plant owner of the Keephills 1 unit on March 20, 2015. The potential force majeure event commenced on March 17, 2015. The anticipated return-to-service date is June 30, 2015. The Balancing Pool estimates a potential capacity payment of approximately $20.0 million.

Corporate Information

Balancing Pool Contacts

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