balancingpool

2015 Annual Report

The Balancing Pool

Generating value for Alberta's consumers

The Balancing Pool was established in 1998 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*.

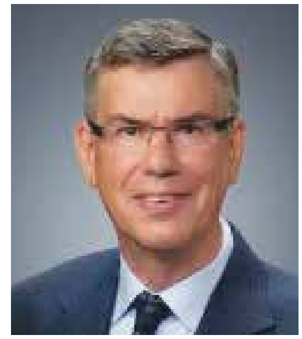
Our legislated duties and strategic objectives include the following:

- Act as a backstop for Power Purchase Arrangements (PPAs) related to extraordinary events, including force majeure;
- Participate in regulatory and dispute resolution processes when requried to protect the value of the Balancing Pool's assets, 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 or that have subsequently been terminated by third party buyers 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.

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 the output from formerly regulated generating capacity.

Contents

Message to Stakeholders from the Board Chair



William Stedman

In keeping with our mandate, each year the Balancing Pool determines a Consumer Allocation based on our forecasted cash surplus (or deficit). From 2012 to 2015, this allocation has been $5.50 per megawatt hour (MWh). When the 2006 – 2015 Consumer Allocations are combined with all other rebates paid by the Balancing Pool, by the end of 2015 Alberta's electricity consumers have received an economic benefit exceeding $4.4 billion.

In 2015, in light of continuing soft electricity prices which impact the Balancing Pool's cash inflows and being aware of our potential future obligations (please see our CEO's message for details), we set the 2016 Consumer Allocation at $3.25 per MWh, or approximately $190 million in total. Recent notices of termination from the Power Purchase Arrangement (PPA) Buyers at Sundance A, B and C, Sheerness and Battle River 5 could result in changes to the Consumer Allocation during the remainder of 2016.

There have been two changes to the Balancing Pool Board.

With great sadness, I am very sorry to note that Doug Topping passed away on March 10, 2016. Doug had a remarkable ability to understand difficult issues and to work with his colleagues to achieve consensus. We will miss his advice.

Judith Athaide left the Board in 2015. We appreciate the extensive industry and management experience she brought to the Balancing Pool since her appointment in 2011.

In 2015, we welcomed the new Minister of Energy, the Hon. Margaret McCuaig-Boyd. We are looking forward to an ongoing constructive working relationship with Government officials and other stakeholders in the electricity industry particularly as we address new legislation such as that related to the Alberta Government's Climate Change Leadership Plan.

At the time of this writing, the Balancing Pool is in the midst of considerable change and uncertainty in the Alberta electricity industry. We will work with stakeholders to fulfill our responsibilities during these turbulent times.

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

William R. Stedman
Chair

April 20, 2016

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.

Greg Pollard was 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 and Restructuring Professional (CAIRP - 1992) (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. Previously she was on the boards of Methanex Corporation, 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 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 Ltd., Keyera Corporation and Ewing Morris Investment Partners.

Remuneration of Board Members

A summary of remuneration Members are eligible to receive as at December 31, 2015, 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**	**2015 Remuneration ($)[1]**
Judith Athaide	6 of 6	3 of 3	-	$33,962[2]
Greg Pollard	7 of 7	4 of 4	-	$47,308
Monica Sloan	6 of 7	-	4 of 4	$40,791
William Stedman	7 of 7	4 of 4	4 of 4	$96,583[3]
Doug Topping	7 of 7	-	4 of 4	$48,408
Attendance	33 of 34	11 of 11	12 of 12	

[1] *2015 Remuneration includes base retainer, Committee Chair retainer, Member meeting fees, and benefits.*
[2] *Judith Athaide resigned from the Balancing Pool Board in November 2015.*
[3] *2015 Remuneration includes one month carryover from 2014.*

The Balancing Pool's Audit and Finance Committee is chaired by Greg Pollard, and the Governance and Human Resources Committee was chaired by Doug Topping during 2015.

Report from the President and CEO

Bruce Roberts

HIGHLIGHTS OF 2015

Continued Soft Market Conditions Affect Cash Flows

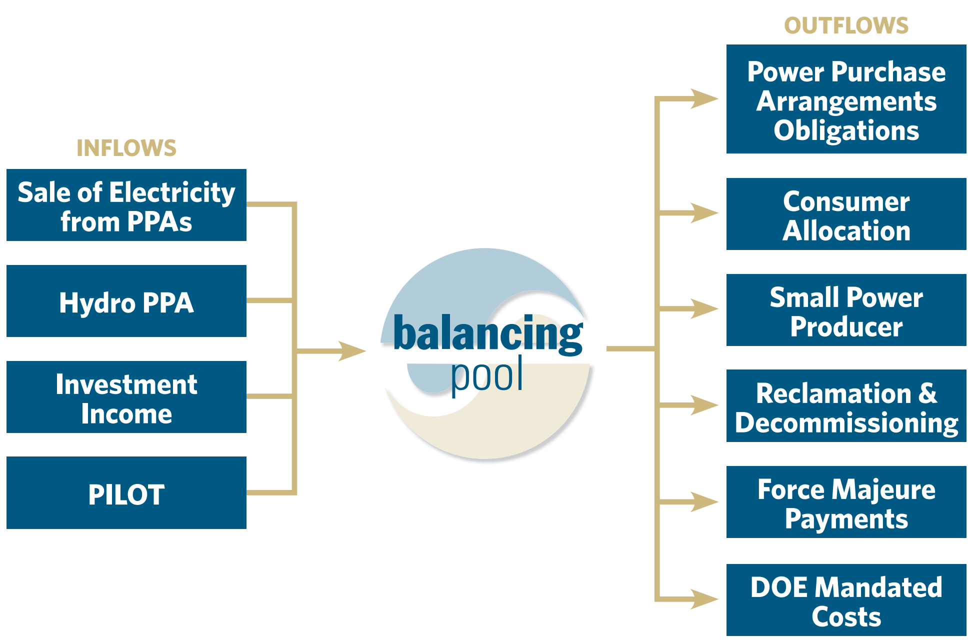
During 2015, the Balancing Pool had annual revenues of $207.3 million and managed over $2.0 billion in assets on behalf of Alberta's electricity consumers.

Electricity prices began to soften in late 2014 affecting our cash flows. We anticipated in our 2015 and 2016 forecasts that soft market conditions for the sale of electricity would continue into the foreseeable future.

Historically, the largest source of cash inflows for the Balancing Pool has been derived from the sale of electricity and ancillary services from the Genesee and Hydro Power Purchase Arrangements (PPAs) we hold and our investment income. Electricity prices in 2015 averaged approximately $33 per megawatt hour (MWh), relative to an average of approximately $49 per MWh in 2014 and approximately $80 per MWh in 2013. For 2015, this resulted in a net cash outflow from the PPAs of $12.0 million, as compared to a net cash inflow of $101.0 million in 2014.

While the Balancing Pool has realized good performance on our investment portfolio over the past few years, investment returns also began to be impacted in late 2014 by significantly lower commodity prices. In 2015, with falling investment markets, the Balancing Pool had a $62 million return on our investment account—an average return of 6.74% after fees. As of December 31, 2015, our investment portfolio balance was $705 million.

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



PPA Terminations

The Balancing Pool has received formal notice from a number of PPA Buyers of their intention to terminate their respective PPAs.

Except for the Battle River PPA, the Balancing Pool has not yet completed its review of these notices. If they are accepted, the Balancing Pool will become the default Buyer of the terminated PPAs and will be responsible for making Capacity and Energy Payments to the plant Owners of the terminated PPAs.

If the terminations are accepted, the Balancing Pool will have the option to either hold, sell or terminate the PPAs by paying the Owner a Termination Payment equal to the Net Book Value. A decision on whether to hold, sell or terminate the PPAs will be made pending further analysis and consultation with the Alberta Department of Energy and with consumers.

Consumer Allocation Set Lower for 2016

In 2015, the Consumer Allocation of $5.50 per MWh amounted to approximately $324 million. Approximately 80% of the annual allocation goes to commercial and industrial electricity consumers, with the remainder to the residential and farm sectors.

Summary of Consumer Allocations 2006 – 2015

	$/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	324
2015	5.50	324
Total		2,372

As noted in our Chair's message, the Balancing Pool has returned more than $4.4 billion to Alberta electricity consumers to the end of 2015. In addition to the $2.4 million in Consumer Allocations since 2006, we also paid out $2.0 billion in electricity rebates from the initial auction of PPAs as well as proceeds from Market Achievement Plan sales in 2001.

Our allocation for 2016 has been set at $3.25 per MWh of consumption or a total of approximately $190 million. The Consumer Allocation was reduced for 2016 relative to 2015 in response to reduced cash flows emanating from lower market prices for our PPA electricity and ancillary service sales.

Commercial Issues and Potential Obligations

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.

In 2016, a major focus will be related to managing the notice of terminations of the PPA contracts related to Battle River 5, Sheerness, Sundance A, Sundance B and Sundance C generating stations. Should the terminations be accepted, the Balancing Pool may hold, sell or terminate the PPAs.

The Balancing Pool is awaiting arbitration on the Keephills 1 Generating Station force majeure application that was made in early 2013. A hearing is expected in early 2016. Two additional force majeure applications were made in 2015; the outcome of these applications is not expected for several years.

The Balancing Pool has some exposure to decommissioning costs associated with any PPA related units that retire and decommission prior to the end of 2018. In particular there is potential for the Sundance A facility to retire within that period.

On behalf of the staff of the Balancing Pool, we appreciate the ongoing direction and support of our Board and the Ministry of Energy as we continue to fulfill the Balancing Pool's mandate.

Bruce Roberts

Bruce Roberts
President and Chief Executive Officer

April 20, 2016

Management's Discussion and Analysis

Year ended December 31, 2015

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A"), dated April 20, 2016, should be read in conjunction with the audited financial statements of the Balancing Pool for the years ended December 31, 2015 and 2014.

These financial statements for the year ended December 31, 2015 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars.

The Balancing Pool was established in 1998 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	2015	2014	2013
Volume — gigawatt hours ("GWh")			
Genesee power purchase arrangement	6,509	6,235	6,084
Hydro power purchase arrangement electricity	1,622	1,621	1,650
Hydro power purchase arrangement ancillary services	1,264	1,265	1,265
Small Power Producer	162	348	467
Price — per megawatt Hour ("MWh")			
Average Pool price	$33.34	$49.42	$80.19
Other			
Consumer Allocation per MWh	$5.50	$5.50	$5.50
Financial Results *(in thousands of dollars)*			
Revenues	207,301	352,275	810,918
Expenses	670,602	391,121	306,561
Income from operating activities	(463,301)	(38,846)	504,357
Change in net assets attributable to the Balancing Pool deferral account	(464,109)	(49,805)	457,741
Cash, cash equivalents and investments	709,792	1,011,323	1,135,211
Total assets	1,299,463	2,051,611	2,492,195
Total liabilities	524,948	488,874	554,986
Net assets attributable to the Balancing Pool deferral account	774,515	1,562,737	1,937,209
Net change in cash, cash equivalents and investments	(301,531)	(123,888)	84,782
Consumer Allocation	324,113	324,667	313,697

The 10-year historical average Power Pool ("Pool") price prior to the fourth quarter (Q4) 2014 was approximately $65/MWh. Over Q4 2014, the Pool price averaged $30.55/MWh primarily due to oversupply of generating capacity and declining natural gas prices. The low market prices experienced over Q4 2014 persisted throughout 2015 resulting in an average Pool price of $33.34/MWh. Over Q1 2016, the market prices continued to decline resulting in an average Pool price of $18.10/MWh for the quarter. This low price environment has affected the profitability of the various Power Purchase Arrangements ("PPAs").

Significant Events

Power Purchase Arrangement Terminations

The Balancing Pool received formal notice from a number of PPA Buyers of their intention to terminate their respective PPAs. The table below summarizes the PPA terminations received to April 20, 2016.

Date of Termination Notice	Power Purchase Arrangement	PPA Buyer
December 11, 2015	Battle River 5	ENMAX PPA Management ("ENMAX")
March 7, 2016	Sheerness	TransCanada Energy Ltd. ("TCE")
March 7, 2016	Sundance A	TransCanada Energy Ltd.
March 7, 2016	Sundance B	ASTC Power Partnership ("ASTC")
March 24, 2016	Sundance C	Capital Power PPA Management Inc. ("CP")

In June 2015, the Government of Alberta announced changes to the *Specified Gas Emitters Regulation* ("SGER") which governs carbon emissions. The required reduction in emissions intensity increased from 12% to 15% effective January 1, 2016 and 20% effective January 1, 2017. The cost of contributions to the Climate Change and Emission Management Fund also increased from $15 per tonne of greenhouse gases to $20 per tonne effective January 1, 2016 and $30 effective January 1, 2017.

The PPA terminations were triggered by the increased costs under the changes related to SGER and the Climate Change Emissions Management Fund that will be imposed on the PPA Buyers thereby allowing the Buyers to terminate the PPAs under the Change in Law provision contained in the PPAs.

According to the *Balancing Pool Regulation*, the Balancing Pool is required to conduct an investigation to assess and verify the legitimacy of the terminations. The Balancing Pool assumes the responsibility for making Capacity and Energy Payments to the Owners of the generating stations of the terminated PPAs.

On January 27, 2016 the Balancing Pool verified the Battle River 5 termination and confirmed with ENMAX its right to terminate the Battle River 5 PPA pursuant to Article 4.3(j) thereof. At December 31, 2015 an onerous contract provision was recognized for the Battle River 5 termination. The Balancing Pool is currently reviewing TCE's, ASTC's and CP's respective terminations.

Should the PPA terminations be accepted, the Balancing Pool will have the option of holding the PPAs, selling the PPAs or terminating the PPAs by paying the plant Owner a Termination Payment equal to the Net Book Value. The decision whether to hold the PPAs or terminate the PPAs will be made pending further consultation with the Alberta Department of Energy and consumer groups.

There is a high degree of uncertainty in regards to the financial impact anticipated by the Balancing Pool and the impact will depend heavily upon future market prices, the specific details of the carbon levies contemplated under the Climate Change Leadership Plan and the decision to terminate, sell or hold the PPAs.

In the event the PPA Buyers noted above are successful in terminating their respective PPAs, the Balancing Pool anticipates the financial impact will deplete the existing investment portfolio and will result in future charges to electricity consumers.

Genesee Strip Contract Terminations

On December 31, 2015, the Balancing Pool received formal notice from ANC Power Inc. ("ANC") of its intention to terminate its 100-MW strip contract effective January 1, 2016. The Balancing Pool issued notice to ANC disputing the termination. On March 17, 2016 the Balancing Pool reached a settlement with ANC in relation to the terminated strip contract.

On January 8, 2016 the Balancing Pool received formal notice from TCE of its intention to terminate its 100-MW strip contract effective January 9, 2016. The Balancing Pool is disputing TCE's right to terminate the strip contract. Due to the uncertain outcome, the financial impact to the Balancing Pool cannot be determined at this time.

Investment Portfolio Liquidation Strategy

On April 1, 2016, the Balancing Pool's Board of Directors approved a liquidation strategy of the investment portfolio in anticipation of the cash requirements associated with the PPA terminations.

Legislated Duties and Strategic Objectives

The Balancing Pool's legislated duties and strategic objectives include the following:

- Act as a risk backstop in relation to extraordinary events, including force majeure and terminations for 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 or that have subsequently been terminated by third party buyers 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 that are determined to be 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 are available to mitigate existing or future Balancing Pool liabilities.

Prior to April 1, 2016, the Balancing Pool's Board approved a long-term investment policy for managing the financial assets. The investment policy was based on investment standards that were deemed prudent by the Board of Directors and generally focused on achievement of a fair return on investments through a diversified investment portfolio to reduce risk. Professional money management firms managed the investment portfolio. The major sources of the Balancing Pool's investment income included interest, dividends and gains or losses on the sale of investments.

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

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

* Total equity exposure is capped at 60%.

In light of the PPA terminations and the potential cash requirements, on April 1, 2016 the Balancing Pool's Board of Directors approved a liquidation strategy of the financial assets under investment.

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 corporate income tax in a given 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.

Small Power Producer Contracts

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

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

The SPP contracts are recorded as a liability calculated as the net present value of the future payments or receipts from SPP-related power sales considering any differences between the annual prices set out in the SPP contracts and management's best estimate of the 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 unit's 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)*	**2015**	**2014**	**Variance**
Sale of electricity	151,083	289,347	(138,264)
Sale of generating capacity	71,510	12,283	59,227
Change in fair value of Hydro power purchase arrangement	(81,286)	(54,546)	(26,740)
Change in fair value of investments	35,535	68,779	(33,244)
Investment income – interest and dividends	26,555	27,353	(798)
Payments in lieu of taxes (PILOT)	3,904	9,059	(5,155)
Total revenues	207,301	352,275	(144,974)

Overall revenues declined in 2015 relative to 2014 primarily as a result of the decrease in average Pool prices year-over-year, 2015 - $33.34/MWh (2014 - $49.42/MWh).

Sale of Electricity and Generating Capacity

Revenue from the sale of electricity derived from the Genesee PPA decreased in 2015 relative to 2014 primarily as a result of lower average Pool prices that were experienced over 2015. Average Pool prices declined by 32.5% in 2015 relative to 2014 mainly due to increased supply of generation in the market throughout most of the year and the decline in the price of natural gas over the period. The effect of lower prices was partially offset by higher generating volumes experienced during 2015 relative to 2014.

The Balancing Pool sold two 100-MW strip contracts for generating capacity from the Genesee PPA in the last quarter of 2014. The strip contracts generated $71.5 million in revenues for 2015. The increase in revenue for 2015 relative to 2014 was due to the strip contract term in effect for the full 12 months of 2015 opposed to two months for 2014. The 200 MW in strip contracts represent 26% of the Genesee PPA generating capacity. The contracts commenced on November 1, 2014 and were contracted to expire on October 31, 2017.

See Genesee Strip Contract Terminations above for subsequent events related to the strip contract terminations.

Change in Fair Value of Hydro Power Purchase Arrangement

Details of Changes in Fair Value of Hydro Power Purchase Arrangement *(in thousands of dollars)*	**2015**	**2014**	**Variance**
Accretion and current year change	19,126	32,270	(13,144)
Re-valuation of Hydro power purchase arrangement loss	(100,412)	(86,816)	(13,596)
Total change in fair value of Hydro power purchase arrangement	(81,286)	(54,546)	(26,740)

Accretion and current year change decreased for 2015 relative to 2014 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, 2015 decreased relative to 2014 as a result of a decrease in the expected future cash flows for electricity and ancillary services relative to those used in the prior year's valuation calculation.

Changes in Fair Value of Investments

Details of Changes in Fair Value of Investments *(in thousands of dollars)*	**2015**	**2014**	**Variance**
Unrealized mark-to-market gains (losses)	(54,087)	(9,063)	(45,024)
Realized capital gains	89,622	77,842	11,780
Total change in fair value of investments	35,535	68,779	(33,244)

In comparison to 2014, the value of investments decreased in 2015 as a result of lower growth in the international and Canadian equity markets and the decline in the amount of funds under investment. Realized capital gains increased due to an increase in the sale of investments over the course of 2015 relative to 2014.

Investment Income – Interest and Dividends

Details of Investment Income *(in thousands of dollars)*	**2015**	**2014**	**Variance**
Interest income	12,070	15,613	(3,543)
Dividend income	14,485	11,740	2,745
Total investment income – interest and dividends	26,555	27,353	(798)

Investment income decreased primarily due to a lower investment balance through 2015 relative to 2014.

Payments In Lieu of Tax

Details of PILOT *(in thousands of dollars)*	**2015**	**2014**	**Variance**
PILOT instalments received for current tax year	7,179	20,965	(13,786)
PILOT instalment re-allocations and refunds for prior tax years	(284)	(10,786)	10,502
PILOT audit and litigation costs	(2,991)	(1,120)	(1,871)
Total PILOT revenues	3,904	9,059	(5,155)

Total PILOT revenues for 2015 decreased relative to 2014 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 for paying 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 $305.1 million for the period from 2001 to 2015. 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)*	**2015**	**2014**	**Variance**
Cost of sales	321,166	321,030	136
Impairment loss	221,960	43,095	178,865
Reclamation and abandonment and other long-term obligations	99,464	3,275	96,189
Force majeure costs	12,793	8,629	4,164
Mandated costs	5,958	6,460	(502)
Changes in fair value of Small Power Producer contracts	4,341	3,048	1,293
General and administrative	2,568	3,086	(518)
Investment management fees	2,352	2,498	(146)
Total expenses	670,602	391,121	279,481

Overall, total expenses for 2015 increased from the prior year primarily due to the impairment loss recorded on the Genesee PPA and the onerous contract provision recognized for the Battle River 5 PPA recorded under Reclamation and Abandonment and Other Long-Term Obligations. These higher expenses were partially offset by lower mandated costs, general and administrative costs, investment management fees and reclamation and abandonment expenditures.

Cost of Sales

Details of Cost of Sales *(in thousands of dollars)*	**2015**	**2014**	**Variance**
Genesee power purchase arrangement costs	207,752	199,599	8,153
Amortization and depreciation	110,595	117,773	(7,178)
Power marketing costs	2,819	3,658	(839)
Total cost of sales	321,166	321,030	136

Cost of sales increased marginally in 2015 primarily due to higher Genesee PPA costs which were offset by lower amortization and depreciation costs.

Genesee PPA costs in 2015 were $8.2 million higher relative to 2014 primarily due to an increase in variable operating costs and change in law expenses. These higher expenses were offset by lower system transmission charges due to the decline in the Pool price.

Genesee PPA costs include plant capacity payments, variable operating costs including incentive payments, and transmission charges. Capacity payments comprise more than 90% of Genesee PPA costs 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.

Amortization and depreciation costs declined in 2015 relative to 2014 as a result of the $43.1 million impairment loss recorded against the Genesee PPA at December 31, 2014.

Impairment Loss

The impairment loss of $221.9 million recorded in relation to the Genesee PPA increased in 2015 relative to 2014 as a result of the decline in the forward market price and to a lesser extent increased environmental compliance costs.

Reclamation and Abandonment and Other Long-Term Obligations Expense

Details of Reclamation and Abandonment and Other Long-Term Obligations Expense *(in thousands of dollars)*	**2015**	**2014**	**Variance**
Battle River 5 provision	96,700	–	96,700
H.R. Milner generating station	800	–	800
Isolated Generation sites	2,731	1,502	1,229
Decommissioning costs of power purchase arrangements	(767)	1,773	(2,540)
Total reclamation and abandonment expense	99,464	3,275	96,189

The reclamation and abandonment provision and other long-term obligations increased overall at December 31, 2015 relative to 2014 to reflect an onerous contract provision for the Battle River 5 PPA.

Force Majeure Costs

Force majeure costs increased by $4.2 million in 2015 relative to 2014. The Balancing Pool received notice of a force majeure for Keephills 1 for $11.3 million in March 2015. The balance of force majeure costs in 2015 is comprised of various small force majeure claims and legal costs associated with disputed force majeure claims.

Mandated Costs

Details of Mandated Costs *(in thousands of dollars)*	**2015**	**2014**	**Variance**
Utilities consumer advocate ("UCA")	4,795	5,861	(1,066)
Transmission facilities cost monitoring committee ("TFCMC")	226	(413)	639
Retail market review committee ("RMRC")	763	1,012	(249)
Consulting	174	–	174
Total mandated costs	5,958	6,460	(502)

Mandated costs for 2015 decreased relative to 2014 to reflect changes in estimated costs previously accrued for the UCA and RMRC.

Change in Fair Value of Small Power Producer Contracts

Details of Changes in Fair Value of Small Power Producer Contracts *(in thousands of dollars)*	**2015**	**2014**	**Variance**
Accretion and current year change	1,301	806	495
Revaluation of Small Power Producer contracts	3,040	2,242	798
Total change in fair value of Small Power Producer contracts	4,341	3,048	1,293

Accretion and current year change amounts increased slightly year-over-year due to higher actual current year cash payments than those forecast in the prior year's valuation. Actual cash payments increased 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, 2015 increased relative to 2014 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.

Assets

Details of Assets *(in thousands of dollars)*	**2015**	**2014**	**Variance**
Cash and cash equivalents	5,073	36,641	(31,568)
Trade and other receivables	16,093	19,059	(2,966)
Investments	704,719	974,682	(269,963)
Property, plant and equipment	330,945	663,444	(332,499)
Hydro power purchase arrangement	242,633	357,785	(115,152)
Total assets	1,299,463	2,051,611	(752,148)

Trade and Other Receivables

Trade and other receivable balances at December 31, 2015 were lower than 2014 due to the decline in the average Pool price in December 2015 compared to the same period in 2014.

Investments

Investment Returns & Benchmark (Percent, %)	**2015**	**2014**
Investment returns	6.74	9.14
Benchmark	4.57	8.97
Variance	2.17	0.17

Funds under investment decreased by $270.0 million at December 31, 2015 when compared to year-end 2014, primarily due to sale of investments to fund the Consumer Allocation distribution and operating losses. Overall investment returns exceeded the investment benchmark by 2.17% over 2015.

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 December 31, 2014 reflects amortization and depreciation of $110.5 million and an impairment loss of $222.0 million on the Genesee PPA resulting from the decline in the forward market prices. The balance reflects current year amortization of the Genesee PPA and other capital assets.

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

Management has 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)*	**2015**	**2014**
Costs	1,505,670	1,505,670
Impairment loss	(221,960)	(43,095)
Accumulated amortization and depreciation	(952,862)	(799,206)
Net book value	330,848	663,369
Genesee PPA lease obligation	(312,511)	(373,656)
Genesee PPA net book value, less lease obligation	18,337	289,713
Revaluation of Genesee PPA – market-based	–	–
Genesee PPA fair value – non-GAAP measure	18,337	289,713

The remaining term of the Genesee PPA is five years to December 31, 2020. There are two key assumptions that affect this non-GAAP market-based valuation. A discount rate of 10.1% (2014 – 10.6%) has been used to present value the annual cash flows, and an average market electricity price of $48.95/MWh has been used for the period 2016 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 future electricity prices.

Hydro Power Purchase Arrangement

The net present value of the Hydro PPA at December 31, 2015 decreased by $115.2 million from the same period in 2014. The decrease in fair value is the result of the reduction in the estimated energy and ancillary service revenues forecasted for the balance of the term relative to the 2014 year-end valuation calculation. Forecasted energy and ancillary service revenues declined due to the decrease in prevailing market prices.

Liabilities

Details of Liabilities (in thousands of dollars)	2015	2014	Variance
Trade and other payables	74,580	72,354	2,226
Genesee power purchase arrangement lease obligation	312,511	373,656	(61,145)
Small Power Producer contracts	11,368	12,987	(1,619)
Reclamation and abandonment provision and other long-term obligations	126,489	29,877	96,612
Total liabilities	524,948	488,874	36,074

Trade and Other Payables

Trade and other payables balances at December 31, 2015 were higher than 2014 primarily due to higher costs accrued for environmental compliance related to the Genesee PPA and higher costs associated with administering the PILOT program.

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 2015 over 2014 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, 2015 decreased by $1.6 million from the same period in 2014. The decrease in fair value can be primarily attributed to the reduction in the remaining term of existing contracts.

Reclamation and Abandonment Provision and Other Long-Term Obligations

Details of Reclamation and Abandonment Provision and Other Long-Term Obligations (in thousands of dollars)	2015	2014	Variance
Battle River 5	96,700	–	96,700
H.R Milner	13,128	11,854	1,274
Isolated Generation sites	5,463	6,518	(1,055)
Decommissioning of power purchase arrangements	11,198	11,505	(307)
Total reclamation and abandonment provision and other long-term obligations	126,489	29,877	96,612

An onerous contract provision of $96.7 million was recognized at December 31, 2015 for the Battle River 5 PPA as the unavoidable costs of meeting the obligations under the PPA exceed the economic benefits expected from the PPA.

The increase in the H.R Milner provision reflects a change in 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 $2.7 million increase in the liability provision from the prior year. Annual accretion expense increased the provision as well by $0.2 million. These increases to the provision were offset by liabilities paid during 2015 of $4.0 million resulting in an overall decrease to the provision of $1.1 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 $0.8 million decrease to the provision, offset by annual accretion expense of $0.5 million.

Balancing Pool Deferral Account

Balancing Pool Deferral Account, Beginning of Year *(in thousands of dollars)*	**2015**	**2014**	**Variance**
Deferral account, beginning of year	1,562,737	1,937,209	(374,472)
Change in net assets attributable to the Balancing Pool deferral account	(367,409)	(49,805)	(317,604)
Consumer allocation	(324,113)	(324,667)	554
Deferral account, end of year	871,215	1,562,737	(691,522)

The Balancing Pool deferral account decreased by $691.5 million relative to the prior year. The decrease is a result of a decline in the fair value of the Hydro PPA, the drawdown of the investment portfolio, an impairment loss on the Genesee PPA and the distribution of the Consumer Allocation of $5.50/MWh (2014 - $5.50/MWh).

Liquidity and Cash Flow

To manage liquidity risk the Balancing Pool forecasts cash flows for a period of 12 months and beyond to the end of 2020. Historically the Balancing Pool had the flexibility to adjust the Consumer Allocation and / or liquidate investments as required to meet cash flow requirements.

Due to the recent notices of PPA terminations, the Balancing Pool's Board of Directors approved a liquidation strategy of the investment portfolio. If upheld, the Balancing Pool anticipates the termination of the PPAs could have a material effect and may result in a Consumer Charge in the future.

The Balancing Pool also has access to a credit facility of $90.0 million to meet short-term liquidity needs. At December 31, 2015 the Balancing Pool had $2.0 million of unsecured Letters of Credit issued with Natural Gas Exchange.

The Balancing Pool's primary uses of funds were for payment of operating expenses, payment of the Genesee PPA lease obligations and payment of the Consumer Allocation.

Cash and Cash Equivalents *(in thousands of dollars)*	**2015**	**2014**	**Variance**
Cash and cash equivalents, beginning of year	36,641	16,404	20,237
Net cash provided by operating activities	109,964	207,385	(97,421)
Net cash provided by investing activities	215,820	135,063	80,757
Net cash used in financing activities	(357,352)	(322,211)	(35,141)
Cash and cash equivalents, end of year	5,073	36,641	(31,568)

For the year ended December 31, 2015 the Balancing Pool received $215.8 million from the sale of investments net of re-invested interest, dividends and capital gains (2014 – $135.1 million sale of investments net of re-invested interest, dividends and capital gains), resulting in an increase of $80.8 million of net cash provided by investment activities when compared to 2014.

Outlook

In November 2015, the Balancing Pool established the annual allocation of its financial surplus to electricity consumers in Alberta at $3.25 per MWh of consumption, effective January 1, 2016 (2015 – $5.50 per MWh). This forecast was based upon cash flows and the expected financial position for 2016 prior to receipt of the notices of the PPA terminations.

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, natural gas prices and weather conditions. Exposure to power price volatility may be partially managed through the execution of the Balancing Pool's hedging strategy.

- **Investment returns**

  Historically, the value of these investments were exposed to changes in capital markets and, as such, faced the risks related to equity market performance, interest rates, foreign exchange rates, and other financial risks. In addition, the liquidity risk of the portfolio was managed to ensure sufficient funds were 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.

  Effective April 1, 2016, the Balancing Pool has instructed the investment managers to liquidate the investment portfolio. The funds will be held in short-term deposits and / or money market securities. See Note 15 in the audited Financial Statements for subsequent events related to the liquidation of the investment portfolio.

- **PPA termination under change in law**

  The PPAs contain a termination provision that makes accommodations for the PPA to be terminated to the extent a change in law could render continued performance of the arrangement unprofitable or more unprofitable to the PPA Buyer.

  The Balancing Pool is responsible for conducting an investigation and must assess and verify the termination event and determine any need for a payment to be made by or to a party under the provisions of the arrangement.

  If the termination notice under the change in law provision is determined to be valid, the Balancing Pool would be required to act as default Buyer, thereby assuming responsibility for paying the ongoing capacity and energy payments associated with a terminated PPA.

- **Unit destruction**

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

- **Change in law risk**

  Changes in law, including regulatory, environmental and electricity market design changes, can have a material effect on the values of the PPAs. Costs (and benefits) associated with a change in law are passed from plant Owners to the PPA Buyer. As the default Buyer of the various PPAs, the Balancing Pool must assume and be responsible for change in law costs affecting the generating units.

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

- **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 decommissioning costs. The Balancing Pool would be financially liable for decommissioning costs exceeding the amounts the Owner has collected prior to deregulation and subsequently through the PPA payments. Regulation requires such claims to be initiated within one year of the termination of the PPA and before the end of 2018.

- **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.

- **Alberta Climate Leadership Plan**

  In November 2015, the Government of Alberta announced the Climate Leadership Plan ("CLP"). The CLP establishes a framework for the retirement of coal-fired generation by 2030, compliance requirements for coal emissions and renewable generation procurement to replace coal-fired generation. The CLP has not been enacted into law and the specifics of the policy have not been finalized. The final plan could have a material effect on the value of the PPAs.

- **Liquidity**

  To meet short-term liquidity needs, the Balancing Pool has access to a $90.0-million credit facility. Should the estimated liabilities exceed investment funds that may be available, the Balancing Pool has the ability to implement a Consumer Charge.

Internal Controls

The Chief Executive Officer ("CEO") and the 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 ("GAAP").

The CEO and the Controller have evaluated the design and operating effectiveness of the Balancing Pool's ICFR as of December 31, 2015 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 Balancing Pool's ICFR during 2015.

Accounting Policy Changes

There were no significant changes to accounting standards that impacted the Balancing Pool in 2015. 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.

Onerous Contract Provision – The provision for the Battle River 5 PPA is estimated using estimated future electricity prices, escalated costs as per the contract terms and future cash outflows discounted to the net present value at 2.7%.

Hydro Power Purchase Arrangement Valuation, Small Power Producer Contracts Valuation and Genesee Power Purchase Arrangement Impairment Assessment – 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 10.1% (2014 – 10.6%).

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

Forward-Looking Information

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

Financial Statements

Years Ended December 31, 2015 and 2014

April 20, 2016

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, 2015 and December 31, 2014 and the statements of income (loss) and comprehensive income (loss) 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, 2015 and December 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

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Statements of Financial Position

(in thousands of Canadian dollars)	2015	2014
Assets		
Current assets		
Cash and cash equivalents	5,073	36,641
Trade and other receivables (Note 5)	16,093	19,059
Current portion of Hydro power purchase arrangement (Note 6 b i)	26,147	52,665
	47,313	108,365
Investments (Note 7)	704,719	974,682
Property, plant and equipment (Note 8 a)	330,945	663,444
Hydro power purchase arrangement (Note 6 b i)	216,486	305,120
Total Assets	1,299,463	2,051,611
Liabilities		
Current liabilities		
Trade and other payables (Note 9)	74,580	72,354
Current portion of power purchase arrangement lease obligation (Note 8 b)	61,524	61,145
Current portion of Small Power Producer contracts (Note 6 b ii)	5,834	6,036
Current portion of reclamation and abandonment and other long-term obligations (Note 10)	47,125	6,518
	189,063	146,053
Genesee power purchase arrangement lease obligation (Note 8 b)	250,987	312,511
Small Power Producer contracts (Note 6 b ii)	5,534	6,951
Reclamation and abandonment provision and other long-term obligations (Note 10)	79,364	23,359
Total Liabilities	524,948	488,874
Net assets attributable to the Balancing Pool deferral account (Note 1, 11)	774,515	1,562,737
Contingencies and commitments (Note 12)		
Subsequent events (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 (Loss) and Comprehensive Income (Loss)

(in thousands of Canadian dollars)	2015	2014
Revenues		
Sale of electricity	151,083	289,347
Sale of generating capacity (Note 12)	71,510	12,283
Changes in fair value of Hydro power purchase arrangement (Note 6 b i)	(81,286)	(54,546)
Changes in fair value of investments (Note 7)	35,535	68,779
Investment income – interest and dividends	26,555	27,353
Payments in lieu of tax (Note 12)	3,904	9,059
	207,301	352,275
Expenses		
Cost of sales (Note 8 a, 13)	321,166	321,030
Impairment loss (Note 8 a)	221,960	43,095
Reclamation, abandonment and other long-term obligations (Note 10)	99,464	3,275
Force majeure costs	12,793	8,629
Mandated costs (Note 14)	5,958	6,460
Changes in fair value of Small Power Producer contracts (Note 6 b ii)	4,341	3,048
General and administrative	2,568	3,086
Investment management costs	2,352	2,498
	670,602	391,121
Income from operating activities	(463,301)	(38,846)
Other income (expense)		
Net (losses) gains on financial derivatives (Note 6 b iii)	271	(9,970)
Finance expense (Note 10)	(1,195)	(1,112)
Other income	116	123
	(808)	(10,959)
Change in net assets attributable to the Balancing Pool deferral account (Note 11)	(464,109)	(49,805)

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

Statements of Cash Flows

(in thousands of Canadian dollars)	2015	2014
Cash flow provided by (used in)		
Operating activities		
Change in net assets attributable to the Balancing Pool deferral account	(464,109)	(49,805)
Items not affecting cash		
Amortization, depreciation and impairment (Note 8 a)	332,555	160,868
Reclamation, abandonment and other long-term obligations (Note 10)	99,464	3,275
Fair value changes on Small Power Producer contracts (Note 6 b ii)	4,341	3,048
Fair value changes on Hydro power purchase arrangement (Note 6 b i)	81,286	54,546
Fair value changes on financial derivative instruments (Note 6 b iii)	–	576
Fair value changes on financial investments (Note 7)	54,087	9,063
Finance expense (Note 10)	1,195	1,112
Reclamation and abandonment expenditures (Note 10)	(4,047)	(2,317)
Net change in non-cash working capital:		
Trade and other receivables	2,965	32,063
Trade and other payables	2,227	(5,044)
Net cash provided by operating activities	109,964	207,385
Investing activities		
Interest, dividends and other gains	(116,124)	(104,937)
Sale of investments (Note 7)	332,000	240,000
Purchase of property, plant and equipment (Note 8 a)	(56)	–
Net cash provided by investing activities	215,820	135,063
Financing activities		
Hydro power purchase arrangement net cash receipts (Note 6 b i)	33,866	68,408
Payment of power purchase arrangement lease obligation (Note 8 b)	(61,145)	(59,244)
Small Power Producer contracts net (payments) receipts (Note 6 b ii)	(5,960)	(6,708)
Payment of the Consumer Allocation (Note 11)	(324,113)	(324,667)
Net cash used in financing activities	(357,352)	(322,211)
Change in cash and cash equivalents	(31,568)	20,237
Cash and cash equivalents, beginning of year	36,641	16,404
Cash and cash equivalents, end of year	5,073	36,641

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 "EUA") 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 EUA 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 EUA 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 EUA 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.

Notices of Power Purchase Arrangement and Strip Contract Terminations

In the fourth quarter (Q4) 2015 and Q1 2016 the Balancing Pool received notices of termination from the PPA Buyers of their intention to terminate the Battle River 5 PPA, Sheerness PPA, Sundance A PPA, Sundance B PPA, Sundance C PPA and the two 100-megawatt ("MW") strip contracts associated with the Genesee PPA. Refer to the following note disclosures regarding these termination events: Note 10. Reclamation and Abandonment Provision and Other Long-Term Obligations, Note 12. Contingencies and Commitments and Note 15. Subsequent Events.

Revenues

The Balancing Pool has four 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-MW strip contracts for the associated offer rights and energy output of the Genesee PPA. The contracts commenced on November 1, 2014 and were contracted to expire on October 31, 2017.

See Note 15 for subsequent events related to the strip contract terminations.

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 holds 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 income (loss).

iii) 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 capital gains and losses.

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

Pursuant to Section 147 of the EUA, 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.

ii) 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 income (loss).

iii) 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 EUA, which are included in mandated costs.

2. Basis of Presentation

These financial statements for the year ended December 31, 2015 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, 2014.

These financial statements were authorized and approved for issue by the Board of the Balancing Pool on April 20, 2016.

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 and investments, 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 (loss).

(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 (loss).

(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 lease 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 income (loss).

Impairment losses recognized in prior years are reassessed 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 and decommission 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 expenditures 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 EUA*, 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.

Provisions for Onerous Contracts

A provision for an onerous contract is recognized when the unavoidable cost of meeting the obligations under the contract exceed the economic benefits expected to be derived from the contract. The provision is measured at the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. The Balancing Pool has recognized an onerous contract provision for the Battle River 5 PPA (Note 10).

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 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, 2018 with early adoption permitted.

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. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

IFRS 16 – *Leases* – In January 2016, the IASB issued IFRS 16 *Leases*, which replaces the current IFRS guidance on leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The approach to lessor accounting will remain unchanged from its predecessor, IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 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 use 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 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;
- estimating the probability that specific PPA Owners will elect to decommission the PPA-related generating units within one year of termination of the PPA; and
- assessing the impact of subsequent events related to the termination of certain PPAs (Note 15) and related commitments (Note 12) and provisions (Note 10) arising therefrom.

These critical judgements 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 obligations (Note 10)

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

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, 2015	December 31, 2014
Trade receivables	16,004	18,622
Other receivables	89	437
	16,093	19,059

6. Accounting for Financial Instruments

6. a) Risk Management Overview

The Balancing Pool's activities expose the Corporation 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 revenues 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 level of generation output 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.

iii) Capacity Payment: The Balancing is exposed to interest rate risk in relation to the annual capacity payments. A 1% change on the long-term government bond rate would have an estimated $8.4 million impact on Genesee PPA annual capacity payments.

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 $1.0 million impact on investment valuations
- A $0.01 change in the Canadian Dollar exchange rate versus the Euro would have an estimated $0.5 million impact on investment valuations
- A 1% change in the floating interest rate on investments would have an estimated $0.05 million impact on cash and cash equivalents

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. For the year ended December 31, 2015, between 15% and 35% of the net assets attributable to the investment portfolio were 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 were 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, 2015 and 2014.

	% of Total Fund Value					
	2015			2014		
Sector	Fixed Income Portfolio %	Canadian Equity Portfolio %	Global Equity Portfolio %	Fixed Income Portfolio %	Canadian Equity Portfolio %	Global Equity Portfolio %
Information technology	0.1	5.6	11.7	0.1	5.8	11.3
Financials	22.4	38.9	18.7	25.5	37.5	17.3
Energy	4.7	15.1	5.0	4.6	19.2	5.5
Health care	0.0	0.0	13.8	0.0	0.8	13.4
Consumer staples	0.1	7.3	12.0	0.1	6.1	10.4
Industrials	0.2	13.5	12.8	0.0	13.8	14.2
Consumer discretionary	0.1	8.0	12.2	0.5	5.9	12.4
Utilities	2.2	2.1	0.2	2.5	1.3	0.0
Infrastructure	7.4	0.0	0.0	5.7	0.0	0.0
Materials	0.4	6.0	6.3	0.0	6.5	6.8
Telecommunication services	2.3	3.3	3.9	2.2	2.8	3.8
Federal	14.9	0.0	0.0	17.3	0.0	0.0
Provincial / municipal	26.5	0.0	0.0	29.5	0.0	0.0
Cash & cash equivalents	18.7	0.2	3.4	12.0	0.3	4.9
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 $35.3 million for the Fixed Income Portfolio, $13.5 million for the Canadian Equity Portfolio and $21.6 million for the Global Equity Portfolio (December 31, 2014 – $45.6 million, $21.6 million and $30.2 million respectively).

In light of the PPA termination notices received in Q4 2015 and Q1 2016, on April 1, 2016 the Balancing Pool's Board of Directors approved a liquidation plan for the investment portfolio. See Note 15 for subsequent events related to the liquidation of the investment portfolio.

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 implement a Consumer Charge and 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 of 2.7% at December 31, 2015.

See Note 15 for subsequent events related to the liquidation of investments.

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, 2015				
Trade payables	53,570	-	-	-	53,570
Other payables	5,690	8,744	6,576	-	21,010
Genesee power purchase arrangement lease obligation	15,381	46,143	250,987	-	312,511
Small Power Producer contracts	817	4,085	6,466	-	11,368
Reclamation and abandonment provision and other long-term obligations	7,887	39,238	79,364	-	126,489
Total	83,345	98,210	343,393	-	524,948
	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 obligations	1,631	4,887	23,359	-	29,877
Total	73,550	64,705	286,834	63,785	488,874

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 2015 to 2020. Hydro PPA receipts or payments are settled on a monthly basis.

The remaining term of the Hydro PPA is five years to December 31, 2020. At December 31, 2015, the net present value of the Hydro PPA was estimated at $242.6 million (2014 – $357.8 million). Key assumptions in this valuation are a discount rate of 10.1% (2014 – 10.6%) and an average market electricity price of $48.95/ megawatt hour ("MWh") for the period between 2016 through to 2020 (2014 – $55.13/MWh for 2015 to 2020).

Hydro Power Purchase Arrangement *(in thousands of dollars)*	**2015**	**2014**
Hydro power purchase arrangement, opening balance	357,785	480,739
Accretion and current year change	19,126	32,270
Net cash receipts	(33,866)	(68,408)
Revaluation of hydro power purchase arrangement asset	(100,412)	(86,816)
Hydro power purchase arrangement, closing balance	242,633	357,785
Less: Current portion	(26,147)	(52,665)
	216,486	305,120

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, 2015	52,375	(52,375)	(7,394)	7,730

ii) Small Power Producer Contracts

There are two (2014 – two) Small Power Producer contracts with total allocated capacity of 20.5 MW (2014 – 20.5 MW) at December 31, 2015 that remain active. Contract prices range from $70.90/MWh to $79.70/MWh. Contract completion dates range between 2016 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, 2015, the net present value of cash flows from the Balancing Pool for these contracts was estimated to be $11.4 million liability (2014 – $12.9 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 10.1% (2014 – 10.6%) and an average market electricity price of $46.19/MWh for 2016 through to 2019 (2014 - $53.15/MWh for 2015 to 2019).

Small Power Producer Contracts *(in thousands of dollars)*	**2015**	**2014**
Small Power Producer contracts, opening balance	(12,987)	(16,647)
Accretion and current year change	(1,301)	(806)
Net cash payments (receipts)	5,960	6,708
Revaluation of Small Power Producer contracts	(3,040)	(2,242)
Small Power Producer contracts, closing balance	(11,368)	(12,987)
Less: Current portion	5,834	6,036
	(5,534)	(6,951)

The value of these contracts varies depending on the assumptions used in the valuation. The following table summarizes the impact on the Small Power Producer contract 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, 2015	(1,234)	1,234	(181)	186

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, 2015, the Balancing Pool had no derivative swap contracts outstanding (2014 – no derivative swap contracts outstanding). 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.

Amounts settled under financial derivative contracts are recorded on an accrual basis in revenue against the applicable exposure. During 2015, the Balancing Pool realized $0.3 million in financial derivative gains (2014 – $9.9 million in financial derivatives losses).

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	5,073	-	-	5,073
Investments – fixed income securities	-	353,295	-	353,295
Investments – equity securities	135,209	216,215	-	351,424
Hydro power purchase arrangement	-	-	242,633	242,633
	140,282	569,510	242,633	952,425
Liabilities				
Small Power Producer contracts	-	-	11,368	11,368
	-	-	11,368	11,368
	140,282	569,510	231,265	941,057

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. Fair values for equity investments are determined using quoted market prices in active markets.

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 pooled equity and fixed income investments are determined using quoted market prices in active markets supplied by the fund manager, which represent the underlying net assets at fair value, determined using bid prices. 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, 2015 and 2014 are disclosed in note 6 b i) and in note 6 b ii).

7. Investments

	December 31, 2015		December 31, 2014	
(in thousands of dollars)	Market Value	Cost	Market Value	Cost
Fixed income securities	353,295	350,950	456,074	450,922
Canadian equities	135,209	108,540	215,840	156,064
Global equities	216,215	123,523	302,768	191,903
Total investments	704,719	583,013	974,682	798,889

(in thousands of dollars)	December 31, 2015	December 31, 2014
Investments, beginning of year	974,682	1,118,807
Interest and dividends	26,502	27,095
Realized capital gains	89,622	77,842
Sale of investments	(332,000)	(240,000)
	(215,876)	(135,063)
Unrealized loss	(54,087)	(9,062)
Investments, end of year	704,719	974,682

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 gain (loss), January 1, 2014	(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 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 gain, December 31, 2014	5,152	59,776	110,865	175,793
Changes in value attributable to:				
Change during the year	5,633	(15,531)	45,433	35,535
Realized gain on sales of investments	(8,440)	(17,576)	(63,606)	(89,622)
Net change during the year	(2,807)	(33,107)	(18,173)	(54,087)
Unrealized gain, December 31, 2015	2,345	26,669	92,692	121,706

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, 2013	1,505,670	519	1,506,189
Additions	-	-	-
Balance as at December 31, 2014	1,505,670	519	1,506,189
Additions	-	56	56
Balance as at December 31, 2015	1,505,670	575	1,506,245
Accumulated Amortization, Depreciation and Impairment			
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
Amortization and Depreciation	110,561	34	110,595
Impairment loss	221,960	-	221,960
Balance as at December 31, 2015	1,174,822	478	1,175,300
Net Book Value			
As at December 31, 2014	663,369	75	663,444
As at December 31, 2015	330,848	97	330,945

During 2015, an impairment loss has been recorded with respect to the Genesee PPA as a result of the decline in forward market electricity prices and increased environmental compliance costs. The key assumptions used to determine the recoverable amount are a discount rate of 10.1% and an average electricity market price of $48.95/MWh for the periods 2016 to 2020.

8 b) Genesee Power Purchase Arrangement Lease Obligation

Under the terms of the EUA, 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)	
2016	61,524
2017	61,361
2018	62,385
2019	63,456
2020	63,785
	312,511
Less: Current portion	(61,524)
	250,987

9. Trade and Other Payables

(in thousands of dollars)	December 31, 2015	December 31, 2014
Trade payables	53,570	54,726
Accrued liabilities	21,010	17,628
	74,580	72,354

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

	Other Long-Term Obligations		Reclamation and Abandonment Provision		
(in thousands of dollars)	Battle River 5 PPA	H.R. Milner Generating Station	Isolated Generation Sites	Decommissioning Costs of PPAs	Total
At January 1, 2014	-	11,398	7,051	9,358	27,807
Net increase in liability	-	-	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
At January 1, 2015	-	11,854	6,518	11,505	29,877
Net increase in liability	96,700	800	2,731	(767)	99,464
Liabilities paid in period	-	-	(4,047)	-	(4,047)
Accretion expense	-	474	261	460	1,195
At December 31, 2015	96,700	13,128	5,463	11,198	126,489
Less: Current portion	(44,200)	-	(2,925)	-	(47,125)
	52,500	13,128	2,538	11,198	79,364

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 2.7% (2014 – 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 EUA*, the Balancing Pool is liable for amounts relating to the reclamation and abandonment costs associated with Isolated Generation sites. In 2015, $4.0 million (2014 – $2.3 million) in 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 2.7% (2014 – 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 2017. At December 31, 2015, an increase of $2.7 million (2014 - $1.5 million reduction) was recorded to reflect a change in estimation to complete the project.

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, 2015, the Balancing Pool recorded a $0.8 million decrease (2014 - $1.8 million increase) 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 2.7% (2014 – 4%). The estimate of the decommissioning costs before discounting and probability weighting is $12.5 million.

10 d) Battle River PPA

Pursuant to Section 96 of the EUA, as a result of a Buyer-initiated termination triggered by a change in law, which rendered the PPA uneconomic or more uneconomic for the Buyer, the Battle River PPA was transferred to the Balancing Pool effective January 1, 2016 (see Note 15). While the Balancing Pool continues to hold the PPA, it will assume responsibility for ongoing capacity payments and other PPA-related costs and is responsible for selling the output into the wholesale power market. The Balancing Pool also has the option to resell the PPA or terminate the PPA by paying the Owner a Termination Payment equal to the net book value. The Balancing Pool has not yet made a decision on these alternatives.

Based on forward market electricity prices as at December 31, 2015, the unavoidable costs of meeting the obligations under the PPA exceed the economic benefits expected to be derived from it and, as a result, an onerous contract provision has been recognized and measured at the lower of the present value of continuing the PPA and the expected costs of terminating it, which include the estimated net costs of continuing it for the minimum six-month notice period required for such termination. The estimated costs for the Battle River 5 PPA provision were discounted at 2.7%.

11. Capital Management

The Balancing Pool's objective when managing capital is to operate as per the requirements of the EUA 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 EUA 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)*	**2015**	**2014**
Deferral account, beginning of year	1,562,737	1,937,209
Change in net assets attributable to the Balancing Pool deferral account	(464,109)	(49,805)
Payment of Consumer Allocation	(324,113)	(324,667)
Deferral account, end of year	774,515	1,562,737

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

Termination of Power Purchase Arrangements

Pursuant to Section 96 of the EUA, where a PPA is terminated except for an Owner's termination for destruction, the PPA 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 or more 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 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. See Note 15 for subsequent events related to such terminations.

The Balancing Pool has the option to resell the PPAs or terminate the PPAs by paying the Owner a termination payment equal to the net book value.

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 were contracted to expire on 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.

See Note 15 for subsequent events related to the strip contract terminations.

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 $305.1 million for the tax years of 2001 through to 2015. 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 recognized on recovery.

Credit Facility

At December 31, 2015, 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, 2015	December 31, 2014
Cost of power purchase arrangements	210,571	203,257
Amortization and depreciation	110,595	117,773
	321,166	321,030

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)*	**2015**	**2014**
Salaries, other short-term employee benefits	639	632
Post-employment benefits	-	-
Termination benefits	-	-
Total	639	632

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 2015 and 2014.

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 its 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 2015, the Balancing Pool expensed $4.8 million (2014 – $5.9 million) for the UCA and $1.0 million (2014 - $0.4 million) for the TFCMC and RMRC. The Balancing Pool received a revised estimate from the Alberta Government for the 2014 calendar year for UCA and TFCMC costs. The UCA and TFCMC estimated costs were reduced by $1.2 million for 2014, which was treated prospectively and recorded in 2014.

The Balancing Pool also considers the Alberta Electric System Operator ("AESO") a government-related entity. The EUA requires the Balancing Pool to forecast its revenues and expenses with any excess or shortfall of funds in the accounts to be allocated to, or provided by, electricity consumers over time. Pursuant to the EUA, the AESO facilitates the collection or distribution of any excess or shortfall through an annualized amount included in the AESO's transmission tariff. In 2015, the Balancing Pool distributed $324.1 million to electricity consumers through the AESO's transmission tariff (2014 – $324.7 million distributed).

15. Subsequent Events

PPA Terminations

On December 11, 2015 the Balancing Pool received formal notice from ENMAX PPA Management Inc. ("ENMAX") of its intention to terminate the Battle River 5 PPA effective January 1, 2016.

See Note 10 for a provision established for the Battle River 5 PPA.

ENMAX's decision was triggered by the increased costs that will be imposed on Battle River 5 under the changes to the *Specified Gas Emitters Regulation* and related Climate Change Emissions Management Fund that became effective January 1, 2016. These changes served to increase the costs of carbon and would thereby increase compliance costs for Battle River 5.

According to Section 1(d)(ii) of the *Balancing Pool Regulation*, an "extraordinary event" is an event that results in the termination of an arrangement in accordance with its terms and conditions and that the Balancing Pool is required to become party to the arrangement. Under Section 2(1)(g) of the regulation, on receipt of notice in respect of an extraordinary event, the Balancing Pool must conduct any investigation it determines appropriate in accordance with the EUA, the regulations and any arrangement. According to Section 2(1)(h) when clause (g) applies, the Balancing Pool must agree with the parties to the arrangement that the extraordinary event has occurred and that there is a need for a payment to be made to or by the Balancing Pool, or assess and verify the occurrence of the extraordinary event and the need for any payment to be made by or to a party under the provisions of the arrangement, and participate in any dispute resolution proceedings under an arrangement.

On January 27, 2016 the Balancing Pool verified the occurrence of an extraordinary event in relation to the Battle River 5 termination and confirmed with ENMAX its right to terminate the Battle River 5 PPA pursuant to Article 4.3(j) thereof.

On March 7, 2016 the Balancing Pool received formal notice from TransCanada Energy Ltd. ("TCE") of its intention to terminate the Sheerness PPA and Sundance A PPA effective March 8, 2016. On the same date the Balancing Pool also received formal notice from ASTC Power Partnership ("ASTC") of its plans to terminate the Sundance B PPA effective March 8, 2016.

On March 24, 2016 the Balancing Pool also received formal notice from Capital Power PPA Management Inc. ("CP") of its intention to terminate the Sundance C PPA effective March 24, 2016.

The Balancing Pool is reviewing TCE's, ASTC's and CP's respective notices to terminate. Under Section 2(1)(g) and (h) of the *Balancing Pool Regulation*, the Balancing Pool will conduct an investigation to assess and verify the legitimacy of the terminations.

If the legitimacy of the terminations is verified, then:

- Pursuant to Section 2(1)(i) of the *Balancing Pool Regulation*, the Balancing Pool will be responsible for making Capacity and Energy Payments to the Owners of the generating stations.
- The Balancing Pool will have the option of either continuing to hold, sell or terminate the PPAs by paying the Owner a Termination Payment equal to the Net Book Value. A decision of whether to hold, sell or terminate the PPAs will be made pending further consultation with the Alberta Department of Energy, consumer groups and the conclusion of the Balancing Pool's investigation of the Sheerness, Sundance A, Sundance B and Sundance C PPA terminations.

- There is a high degree of uncertainty in regards to the financial impact of the potential terminations of the PPAs as it will depend upon future market prices, the specific details of the carbon tax contemplated under the Climate Change Leadership Plan and the decision to terminate, sell or hold the PPAs. As a result, an estimate of the financial impact to the Balancing Pool cannot be determined at this time. The Balancing Pool believes that the impact of the termination of the PPAs in future periods could be material.
- The Balancing Pool anticipates the termination of the PPAs will deplete the existing investment portfolio and will result in future charges to electricity consumers. The amount and commencement of a consumer charge will be determined at the conclusion of the Balancing Pool's investigation of the terminated PPAs and will depend heavily on future market prices and the nature and magnitude of the carbon levies that are contemplated under the Climate Change Leadership Plan.

Genesee Strip Contract Terminations

The Balancing Pool sold two 100-MW strip contracts for the associated offer rights and energy output of the Genesee PPA in late 2014. The strip contracts commenced on November 1, 2014 and were contracted to expire on October 31, 2017.

On December 31, 2015 the Balancing Pool received formal notice from ANC Power Inc. ("ANC") of its intention to terminate its 100-MW strip contract effective January 1, 2016. The Balancing Pool issued notice to ANC disputing the termination. On March 17, 2016 the Balancing Pool reached a settlement with ANC in relation to the terminated strip contract.

On January 8, 2016 the Balancing Pool received formal notice from TCE of its intention to terminate its 100-MW strip contract effective January 9, 2016. The Balancing Pool is disputing TCE's right to terminate the strip contract. Due to the uncertain outcome, the financial impact to the Balancing Pool cannot be determined at this time.

Investment Portfolio Liquidation Strategy

On April 1, 2016, the Balancing Pool's Board of Directors approved a liquidation strategy of the investment portfolio in anticipation of the cash requirements associated with the PPA terminations.

Corporate Information

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