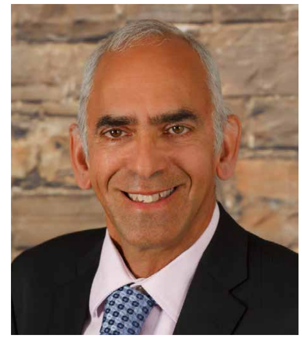
balancingpool

2018 Annual Report

Contents

Message to Stakeholders from the Board Chair

Significant events in 2018 influenced Alberta's electricity market and the evolution of the Balancing Pool. Through this transitionary time, we have continued to manage many challenges and to explore new opportunities as they arise.

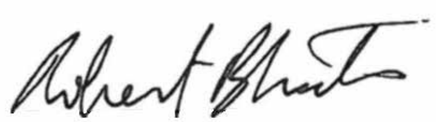


Robert Bhatia

In 2018, the Balancing Pool's efforts were focused on the Power Purchase Arrangements ("PPAs"). We terminated the Sundance and Battle River PPAs with their underlying plant owners. We reached a negotiated settlement agreement with the Market Surveillance Administrator ("MSA"), thereby completing its investigation into matters associated with the PPAs. We also initiated a process to potentially expand the operational flexibility we have in managing our remaining PPAs.

The next few years will no doubt be challenging and exciting for Alberta's electricity sector. Our Board of Directors has taken on the task of overseeing the Balancing Pool during these eventful times, and I thank our members for their service and commitment. I am very pleased to welcome our new President and CEO, Benjamin Chappell. Mr. Chappell assumed the leadership role in June 2018, capping ten years in various roles with the Balancing Pool. Finally, I want to acknowledge our small but dedicated team of employees who have risen to the challenges these times present.

The Board and staff are also grateful for the constructive relationship we share with our many stakeholders. These relationships are invaluable as the Balancing Pool manages its existing and emerging roles in Alberta's evolving electricity market.



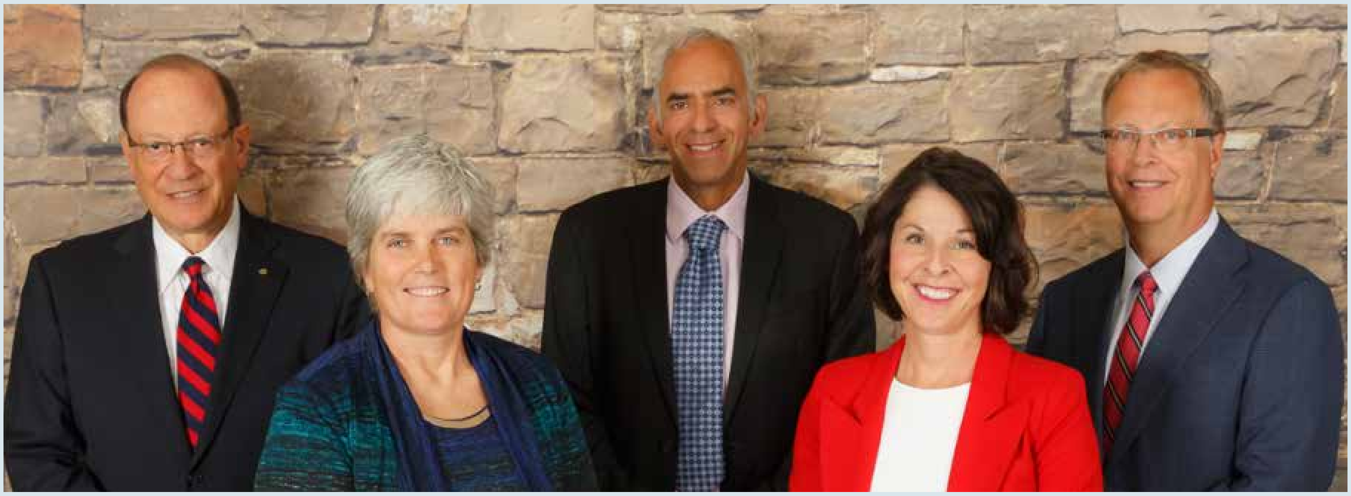
Robert Bhatia
Chair

April 12, 2019

Governance of the Balancing Pool

Adhering to the *Electric Utilities Act (2003)*, the Minister of Energy appoints members of the Balancing Pool's board of directors 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 Balancing Pool's Current Board



Left to Right: Adam Hedayat, Sandra Scott, Robert Bhatia, Michelle Plouffe, and Greg Pollard

Robert Bhatia, Chair, served 10 years as a Deputy Minister with the Province of Alberta responsible for four major portfolios: Finance, Revenue, Seniors and Government Services. He is an experienced senior executive with more than 30 years of management and leadership experience. He has had significant responsibility for execution of multiple major corporate and financing transactions including the creation of TELUS and divestiture of an interest in Syncrude. Robert has a Bachelor's degree in Economics from the University of Alberta and a Master's degree in Economics from Queen's University. He holds the Institute of Corporate Directors ICD.D certification and has been an examiner for the Institute. He also serves on the boards of Credit Union Central of Alberta and the Local Authorities Pension Plan Corporation, and on the General Insurance Council.

Adam Hedayat is a business executive with extensive expertise and leadership roles in the Canadian and international energy sectors. For over 40 years, Adam contributed to the growth of several leading energy organizations such as SaskPower Commercial, TransAlta Corporation of Canada, and Morrison Knudsen of the USA (currently known as the Washington Group). Adam served as Chairman of the Board of Directors of Guyana Power & Light (GPL) since its inception in October 1999 to April 2003. GPL is a fully integrated utility serving the country of Guyana in South America with 1,100 employees. He also served as Chairman and CEO of Northstone Power Corp. Northstone is an independent power producer (IPP) in the deregulated Alberta electricity market. Previously, he served as Chairman of the Board of Drayton Valley Power, a TSE publicly traded income fund in Canada with four electricity-generating plants. Adam is a 1975 graduate in Electrical Engineering from the University of Calgary. He is a member of the Associations of Professional Engineers in the Provinces of Alberta and Saskatchewan. In 2006, he received his ICD.D designation from the Institute of Corporate Directors.

Michelle Plouffe has over 20 years of legal experience and has worked in private practice and in the utilities, health and post-secondary sectors. She obtained her Bachelor of Arts degree (with distinction) (1992) and her Law degree (1995) from the University of Alberta. After being admitted to the Alberta Bar in 1996, Michelle began practicing at Bishop & McKenzie then later moved to Brownlee LLP in 1998. She later became legal counsel with EPCOR Utilities Inc. where she practiced in various areas of law. She moved to Alberta Health Services in 2007 and in 2008 became their Associate General Counsel, Litigation, Employment and Regulatory. Michelle joined MacEwan University in 2012 as the Vice President, General Counsel and Compliance Officer. Michelle has been a Board Member for the Association of Corporate Counsel, Alberta Chapter, and is currently the Chair of the Hospital Privileges Appeal Board. She has been a volunteer member of the Law Society Audit Committee and is currently a volunteer member of the Conduct Committee.

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.

Sandra Scott is a business executive and management consultant who has worked in the energy and information technology sectors for 30 years. Until 2016, she was the Executive Vice-President of Alberta Technology Innovates Futures (AITF). Prior to AITF, Sandra was the Senior Vice President and CIO at the Alberta Electric System Operator (AESO). She was the Calgary Managing Partner for AGTI Consulting, a firm providing business and IT consulting services across Western Canada. As Vice President at QC Data Ltd., she held responsibility for Operations management across a wide variety of international business units providing innovative information management and business solutions to the Energy and Utility Sectors. She has actively participated on a number of Industry Associations including President of the Canadian Well Logging Society and President of the Calgary Chapter of the Computer Information Processing Society. Sandra has served on the boards of the Motive Action Training Foundation and the Southern Alberta Women's Hockey Association. She holds a Bachelor of Science degree with a major in Geology from the University of Calgary.

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

Remuneration of Board Members

A summary of remuneration Members are eligible to receive as at December 31, 2018, 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

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

2018 Meeting Attendance and Remuneration

	Meeting Attendance				
Balancing Pool Board Member	Board	Audit & Finance	Governance & Human Resource	Other Meetings	2018 Remuneration ($)[1]
Robert Bhatia	15 of 15	4 of 4	4 of 4	3 of 3	85,000
Adam Hedayat	15 of 15	4 of 4	4 of 4	3 of 3	57,200
Michelle Plouffe	13 of 15	-	4 of 4	3 of 3	55,600
Greg Pollard	15 of 15	4 of 4	4 of 4	3 of 3	62,200
Sandra Scott	15 of 15	4 of 4	4 of 4	3 of 3	107,100[2]
Attendance	73 of 75	16 of 16	20 of 20	15 of 15	

[1] *2018 Remuneration includes base retainer, Committee Chair retainer and Member meeting fees.*

[2] *2018 Remuneration reflects compensation of $57,200 received for Board and Committee meetings and $49,900 received as Chair of Transition Committee in relation to the departure of the former President and Chief Executive Officer.*

Report from the President and CEO

This is my first letter to stakeholders since being named Acting President and CEO in June 2018 and being appointed permanently to the role in February 2019. The past year was an important one for the Balancing Pool as Alberta's electricity industry and our role in it continued to evolve.

Benjamin Chappell

Our top priority last year was to resolve the outstanding issues that arose when the PPAs were returned to the Balancing Pool in 2016. To that end, we terminated the most uneconomical PPAs which, together with improved market fundamentals, resulted in stronger Balancing Pool financial performance in 2018. In addition to this positive financial effect, the PPA terminations reduced our control of installed capacity in the market to 14 percent from a high of 29 percent.

Further advancing the resolution of these outstanding issues, we negotiated a settlement agreement with the MSA that addressed its investigation into the PPA terminations. This settlement agreement protects ratepayers and provides increased clarity and transparency to the market. The MSA has applied to the Alberta Utilities Commission to approve the settlement agreement and we await the decision.

Alberta's electricity consumers are directly benefiting from our improved financial results via the Consumer Allocation. In November, we announced we would reduce the Consumer Allocation charge from $3.10 per megawatt hour (MWh) of consumption in 2018 to $2.90 per MWh in 2019. In aggregate, the Balancing Pool has remitted over $2.3 billion to electricity consumers since the Consumer Allocation began in 2006.

The Balancing Pool believes strongly in the fair, efficient, and openly competitive electricity market in Alberta and we are committed to continue to manage the remaining PPAs in a commercial manner. As with any commercial entity, our strategies must be regularly evaluated in response to changing market conditions and we must maintain the operational flexibility to adapt quickly and efficiently. To that end, we have retained an independent advisor to oversee a process to identify potential third-parties with the capability and expertise to execute a greater range of market strategies should we, at our sole discretion, choose to pursue them. We continue to work with our advisor and potential third-parties in that process.

I am excited about the future. Our role in the sector continues to evolve and we will do our part to support Alberta's transitioning electricity market before and after the PPAs expire in 2020. I am grateful for the support of both the Board of Directors and our strong team of dedicated and highly talented employees. Together, we are continuing to fulfill our duties to our industry and to all Albertans. The challenges have been great but our significant achievements in 2018 are very satisfying and put us on a firm footing for the future.

Benjamin Chappell
President and Chief Executive Officer

April 12, 2019

Management's Discussion and Analysis

Year Ended December 31, 2018

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") dated April 12, 2019, should be read in conjunction with the audited financial statements of the Balancing Pool for the years ended December 31, 2018 and 2017.

The financial statements for the year ended December 31, 2018 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. The Balancing Pool's obligations and responsibilities are governed by the *Electric Utilities Act (2003)* ("EUA") and its supporting regulations.

Results at a Glance

Years ended December 31	2018	2017
Volume — gigawatt hours ("GWh")		
Genesee power purchase arrangement ("PPA")	6,247	6,435
Battle River 5 PPA[1]	1,158	1,563
Sundance A PPA	-	3,230
Sundance B PPA[1]	786	3,748
Sundance C PPA[1]	892	4,151
Sheerness PPA	4,932	5,432
Keephills PPA	5,096	5,106
PPA ancillary services	221	149
Hydro power purchase arrangement electricity	1,624	1,621
Hydro power purchase arrangement ancillary services	1,264	1,265
Small power producer	78	72
Total electricity and ancillary service volume	22,298	32,772
Price — per megawatt hour ("MWh")		
Average electricity market price	$50.35	$22.19
Consumer Collection		
Consumer collection per MWh	$3.10	$1.10
Consumer collection	189,259	66,003
Financial Results *(in thousands of dollars)*		
Statement of Income and Comprehensive Income		
Revenue from contracts with customers	1,158,855	728,305
Other income	177,415	166,536
Expenses	985,419	205,621
Income from operating activities	350,851	689,220
Other income (expense)	(16,309)	(3,430)
Change to the Balancing Pool deferral account	334,542	685,790
Statement of Financial Position		
Total assets	543,285	530,111
Total liabilities	1,489,741	1,811,109
Net liabilities attributable to the Balancing Pool deferral account	(946,456)	(1,280,998)

[1] *The Sundance B and C PPAs were terminated effective April 1, 2018 and the Battle River 5 PPA was terminated effective October 1, 2018.*

Legislated Duties

The Balancing Pool's legislated duties include the following:

- Act as a risk backstop for the PPAs in relation to extraordinary events such as force majeure;
- Act as a Buyer for the PPAs that were not sold in the public auction held by the Government of Alberta in 2000 or that have subsequently been terminated by third party Buyers.
- Manage the PPAs held by the Balancing Pool in a commercial manner and/or terminate them with the Owners if appropriate;
- Allocate (or collect) any forecasted cash surplus (or deficit) to (from) electricity consumers in Alberta in annual amounts through to 2030;
- Hold the hydro Power Purchase Arrangement ("hydro PPA") and manage the associated stream of receipts or payments; and
- Participate in regulatory and dispute resolution processes.

MSA Settlement

On August 15, 2018, the Balancing Pool signed a settlement agreement ("Settlement") with the Market Surveillance Administrator ("MSA") in relation to the termination and management of certain PPAs. The MSA submitted an application seeking approval of the Settlement to the Alberta Utilities Commission ("AUC") August 16, 2018. The AUC proceeding to review the Settlement is complete and the parties await the AUC's decision.

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

Forward sale of electricity (Regulated Rate Option ["RRO"] auction, exchange or bilateral agreement)

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

Sale of PPA strip contracts

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

Termination of remaining PPAs by the Balancing Pool with the plant Owners

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

Procurement and retirement of greenhouse gas offsets and credits

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

During 2018, the Balancing Pool retired 8.0 million emission credits to satisfy environmental compliance charges for 2017 and the first nine months of 2018, resulting in a $74.6 million gain. The Balancing Pool received 0.2 million in emission credits in March 2018 related to the negotiated settlement reached between the former Buyer of the Keephills PPA and the Government of Alberta. The Balancing Pool also procured an additional 1.3 million tonnes worth of emission credits through open market transactions.

Sale of ancillary services

During 2018, the Balancing Pool sold approximately 221 GWh in ancillary services for total revenue of $4.4 million.

Offer strategy

The Balancing Pool has the option to consider alternative offer strategies or to maintain its existing offer strategy, as it deems appropriate, as long as it continues to fulfill its mandate to manage generation assets in a commercial manner. The Settlement with the MSA does not include any finding of contravention in relation to the Balancing Pool's offer strategy.

The Balancing Pool has been exploring options that might provide it with more flexibility to potentially alter its offer strategy in the future. To that end, the Balancing Pool has retained an external consultant to assess whether it would be commercially feasible for the Balancing Pool to subcontract offer control to an independent third party and/or to expand its internal operational capabilities.

In January 2019, the Balancing Pool released a Request for Information ("RFI") seeking to establish a pool of qualified independent third parties that have the capability and expertise to implement a range of offer strategies, should the Balancing Pool choose to pursue such strategies. The third party would be responsible for offer tactics and execution within the broad strategic parameters determined by the Balancing Pool. The RFI responses were received on February 15, 2019. The Balancing Pool issued a subsequent Request for Proposals ("RFP") in April 2019.

In conjunction with the RFI/RFP process, the Balancing Pool is expanding its internal operational capabilities, which will enable the organization to implement different offer strategies while the RFI/RFP process continues or should the RFI/RFP process be unsuccessful.

Assets

Details of Assets *(in thousands of dollars)*	**2018**	**2017**
Cash and cash equivalents	175,851	50,772
Trade and other receivables	201,250	130,124
Long-term receivable	3,941	5,882
Investments	-	12,370
Property, plant and equipment	4	27
Hydro power purchase arrangement	135,340	177,816
Intangible assets	26,899	153,120
Total assets	543,285	530,111

Trade and Other Receivables

Trade and other receivables balance at December 31, 2018 primarily includes sale of electricity, ancillary service revenues, and the consumer collection receivable for November and December 2018. The trade and other receivables balance at December 31, 2018 is higher relative to the December 31, 2017 balance due to the higher realized electricity market price received for November and December 2018 relative to November and December 2017. The consumer collection for November and December 2018 is also higher relative to the same period in 2017.

Long-Term Receivable

The long-term receivable of $3.9 million includes cash receivable related to the negotiated settlement reached on the termination of certain PPAs in 2016. A cash payment of $2.0 million was received in December 2018.

Hydro Power Purchase Arrangement

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

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

The net present value of the hydro PPA at December 31, 2018 decreased by $42.5 million relative to the same period in 2017 as a result of a decrease in the estimated energy revenues forecast for the balance of the term relative to the 2017 year-end calculation. Energy revenues decreased due to a decrease in the estimated wholesale electricity market price.

Intangible Assets

Intangible assets include emission credits held for compliance purposes. At December 31, 2018 the Balancing Pool held 1.0 million tonnes of emission credits. Over the course of the 2018 year, the Balancing Pool retired 8.0 tonnes worth of emission credits to satisfy carbon levy charges associated with the PPAs.

The retirement of the emission credits resulted in a $74.6 million reduction to the Balancing Pool's carbon levy charges associated with the PPAs. This reduction was achieved due to the procurement of emission credits at a lower cost than the *Climate Change and Emissions Management* fund rate of $30 per tonne of carbon dioxide equivalent (CO^2e) and emission credits received from negotiated settlements related to the terminated PPAs.

Liabilities

Details of Liabilities *(in thousands of dollars)*	**2018**	**2017**
Trade and other payables	305,357	561,713
Related party loan	915,295	566,315
Small power producer contracts	444	3,722
Reclamation and abandonment provision	24,162	21,638
Other long-term obligations	244,483	657,721
Total liabilities	1,489,741	1,811,109

Trade and Other Payables

Trade and other payables at December 31, 2018 primarily include PPA obligations due to plant Owners for November and December 2018 as well as accrued liabilities for the AUC Proceeding 790 (retroactive line loss adjustment), amounts owing for the fourth quarter 2018 carbon levy on the PPAs and refunds due to municipal entities subject to the Payments in Lieu of Tax ("PILOT") regulation.

Related Party Loan

In January 2017, the Balancing Pool signed a loan agreement with the Government of Alberta. The loan arrangement was put in place to temporarily fund obligations associated with the terminated PPAs. During 2018, the Balancing Pool borrowed an additional $349.0 million. At December 31, 2018 the Balancing Pool had $915.3 million in short-term and long-term notes issued to the Government of Alberta. In January 2019, the Balancing Pool paid $91.0 million of the outstanding notes. The remaining outstanding notes were re-financed.

Small Power Producer Contracts

The *Small Power Research and Development Act* required TransAlta to act as counterparty to the Small Power Producer ("SPP") contracts and to compensate the small power producers 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 to compensate the company for any revenue shortfall experienced during periods when the electricity market price falls below the SPP contracted price. Conversely, the Balancing Pool is entitled to receive payments from TransAlta 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 electricity market 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. The net present value of the SPP contracts at December 31, 2018 decreased $3.3 million relative to the same period in 2017 due to the reduction in the remaining term of the contracts, which expired on February 15, 2019.

Reclamation and Abandonment Provision

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

The terms of the 2001 Asset Sale Agreement for the H.R. Milner generating station between the Balancing Pool and ATCO Power Ltd ("ATCO") enabled 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 AUC to decommission a unit within one year of the termination of the PPA is entitled to receive from the Balancing Pool the amount by which the decommissioning costs exceed the amount the Owner collected from consumers before January 1, 2001 and subsequently through the PPA term. Decommissioning cost recovery by the Owner is subject to review and approval by the AUC and is conditional on the unit ceasing operations within one year of PPA termination. This provision does not apply to PPA-related generating units' termination dates that occur after December 31, 2018. In December 2018, TransAlta submitted a decommissioning application to the AUC for Sundance A in accordance with the *Power Purchase Arrangements Regulation of the Act*.

Details of Reclamation and Abandonment Provision *(in thousands of dollars)*	**2018**	**2017**
H.R Milner	10,469	13,215
Isolated Generation sites	1,756	6,728
Sundance A decommissioning	11,937	1,695
Total reclamation and abandonment provision	24,162	21,638

The decrease in the H.R Milner provision primarily reflects liabilities paid during 2018 of $2.9 million. The decrease was partially offset accretion of the provision of $0.2 million.

The provision for the Isolated Generation sites decreased primarily due to liabilities paid during 2018 of $5.5 million. The decrease was partially offset by an increase to the provision of $0.4 million due to a change in estimated costs.

The assumptions underlying the provision for the decommissioning of the PPAs have changed based on TransAlta's submission to the AUC to decommission the Sundance A unit. The change in assumptions resulted in a $10.2 million increase to the provision.

Other Long-Term Obligations (Power Purchase Arrangements)

As counterparty to the PPAs, the Balancing Pool is required to make monthly payments to the Owner of the generating units intended to cover fixed and variable costs. The Balancing Pool is not responsible for the daily operation of the power plants, however the Balancing Pool does retain offer control.

An onerous contract provision is required when the unavoidable cost of meeting the obligations under the PPA exceeds the economic benefits expected to be derived from the PPA. The provision is measured at the lower of the expected cost of terminating the arrangement and the expected cost of continuing performance under the arrangement. The Balancing Pool has recognized onerous contract provisions for the PPAs reflected in the table below.

Details of Other Long-Term Obligations *(in thousands of dollars)*	**2018**	**2017**
Battle River 5 PPA	-	113,998
Sundance B PPA	-	95,961
Sundance C PPA	-	108,658
Sheerness PPA	99,392	121,573
Keephills PPA	72,944	69,584
Genesee PPA	72,147	147,947
Total other long-term obligations	244,483	657,721

An onerous contract provision of $244.5 million was recognized at December 31, 2018 for the PPAs. The reduction to the onerous contract provision from December 31, 2017 is primarily due to the termination of Battle River 5, Sundance B and Sundance C PPAs and the reduction in the remaining term of the PPAs.

Balancing Pool Deferral Account

Balancing Pool Deferral Account *(in thousands of dollars)*	**2018**	**2017**
Deferral account, beginning of year	(1,280,998)	(1,966,788)
Change to the Balancing Pool deferral account	334,542	685,790
Deferral account, end of year	(946,456)	(1,280,998)

The Balancing Pool's deferral account liability decreased by $334.5 million at 2018 year-end relative to the prior year. The decrease in the deferral account liability is primarily the result of increased revenue from the sale of electricity, consumer collection, hydro PPA and PILOT.

Sale of electricity and hydro PPA revenue increased due to a higher realized electricity market price for 2018 relative to 2017. Consumer collection revenue increased for 2018 relative to 2017 as the collection rate from consumers was increased from $1.10 per MWh of demand in 2017 to $3.10 per MWh of demand in 2018. PILOT income increased due to a municipal entity subject to PILOT settling several disputed matters with Alberta Tax and Revenue Administration.

Operations

Revenue from Contracts with Customers

Details of Revenue from Contracts with Customers *(in thousands of dollars)*	**2018**	**2017**
Sale of electricity and ancillary service revenue	969,596	661,586
Sale of generating capacity and termination revenue	-	716
Consumer collection	189,259	66,003
Total revenue from contracts with customers	1,158,855	728,305

Sale of Electricity and Ancillary Service Revenue

Sale of electricity and ancillary service revenue in 2018 is comprised of revenues from the PPAs the Balancing Pool held during 2018. Revenues from sale of electricity for 2018 increased relative to 2017 due to the higher realized electricity market price in 2018 relative to 2017.

During 2018, the Balancing Pool sold approximately 221 GWh in ancillary services for a total revenue of $4.4 million.

Consumer Collection

The consumer collection is reviewed and approved annually by the Board of the Balancing Pool in accordance with the *Balancing Pool Regulation*. For 2018, the Balancing Pool Board of Directors approved a consumer collection of \$3.10/MWh of demand resulting in an annual amount of \$189.3 million collected from electricity consumers. The consumer collection for 2018 was determined in accordance with the revised *Balancing Pool Regulation* which stipulates the consumer collection is determined by calculating the annual collection amount over the remaining life of the Balancing Pool to 2030.

Consumer collection revenue increased for 2018 relative to 2017 as the collection rate from consumers was increased from \$1.10 per MWh of demand in 2017 to \$3.10 per MWh of demand in 2018. In late 2018, the Board of Directors approved a consumer collection of \$2.90 per MWh of demand in 2019.

Other Income

Details of Other Income *(in thousands of dollars)*	**2018**	**2017**
Change in fair value of hydro power purchase arrangement	44,258	159,718
Payments in lieu of tax (PILOT)	130,784	3,069
Investment income – interest	1,362	313
Change in fair value of small power producer contracts	1,007	3,404
Change in fair value of investments	4	32
Total other income	177,415	166,536

Other income increased in 2018 relative to 2017 primarily due to higher PILOT receipts in 2018.

Change in Fair Value of Hydro Power Purchase Arrangement

Details of Changes in Fair Value of Hydro PPA *(in thousands of dollars)*	**2018**	**2017**
Accretion and current year change	48,959	34,306
Re-valuation of hydro PPA	(4,701)	125,412
Total change in fair value of hydro PPA	44,258	159,718

Accretion and current year change increased for 2018 relative to 2017 as a result of higher cash receipts received in 2018 than forecast in the prior year's valuation. Realized cash receipts increased as a result of the higher than expected electricity market price for 2018. The value of the Hydro PPA at December 31, 2018 decreased relative to 2017 as a result of a decrease in the expected future cash flows for electricity and ancillary services relative to those estimated in the prior year's valuation calculation.

Payments in Lieu of Tax

PILOT receipts (payments) are based on the taxable income of a municipal entity as defined in Section 147 of the *Electric Utilities Act* and the *Payment in Lieu of Tax Regulation of the Act*. In general, the PILOT amounts are equal to the amount of corporate income tax the municipal entity would be required to pay in a given year pursuant to the *Income Tax Act of Canada* and the *Alberta Corporate Tax Act* if they were subject to income tax. PILOT payments remitted by the municipal entity are subject to audit by Alberta Tax and Revenue Administration. The Balancing Pool has no control over the timing and amount of PILOT instalments remitted by the municipal entities or adjustments and/or refunds in relation to reassessments of prior years.

Details of PILOT *(in thousands of dollars)*	**2018**	**2017**
Instalments received for current tax year	5,353	3,295
Instalments received for prior tax years	83,480	39
Reversal of previously accrued PILOT refund	54,807	-
Instalment re-allocations and refunds for prior tax years	(12,637)	27
Audit and litigation costs	(219)	(292)
Total PILOT revenue	130,784	3,069

Total PILOT revenue for 2018 increased relative to 2017 due to higher PILOT instalments received for the current year and for prior tax years. The PILOT revenue received for prior tax years and the reversal of previously accrued refund were related to a municipal entity subject to PILOT that settled several disputed matters with Alberta Tax and Revenue Administration dating back to 2001. A liability of $28 million remains and the Balancing Pool anticipates the refund will be issued in 2019.

Expenses

Details of Expense *(in thousands of dollars)*	**2018**	**2017**
Cost of sales	843,212	621,571
Mandated costs	4,476	6,227
General and administrative	4,204	4,139
Force majeure costs	384	5,306
Investment management fees	13	31
Reclamation and abandonment provision	10,526	(7,109)
Power purchase arrangement provision	122,604	(424,544)
Total expenses	985,419	205,621

Overall, total expenses for 2018 increased from the prior year due to an increase to cost of sales, an increase to the estimate for reclamation and abandonment costs and an increase to the onerous contract provision established for the PPAs.

Cost of Sales

Details of Cost of Sales *(in thousands of dollars)*	**2018**	**2017**
PPA costs	1,239,638	1,282,623
Power marketing costs	429	483
Amortization and depreciation on assets	23	30
Gain on emission credit retirement	(74,610)	-
Losses recorded against other long-term obligations	(322,268)	(661,565)
Total cost of sales	843,212	621,571

The PPA costs include plant capacity payments, variable operating costs including incentive payments, transmission charges and change-in-law charges. Capacity payments comprise more than 45% of the PPA costs and these payments vary year-over-year as a result of changes in capital cost base, cost indices, interest rates and pass-through charges. Changes to the electricity market price have a minimal impact on the PPA capacity payments.

PPA costs of $1,240.1 million in 2018 decreased relative to 2017 primarily due to the termination of the Sundance B and C PPAs and the Battle River 5 PPA. The decrease in PPA costs due to the terminations was partially offset by higher PPA costs associated with the carbon levy.

In 2018, net losses from the PPAs of $322.3 million were recorded against the onerous contract provisions established for the PPAs. The net PPA losses for 2018 were lower relative to 2017 due to a higher realized electricity market price received in 2018 relative to the price received in 2017.

Mandated Costs

Details of Mandated Costs *(in thousands of dollars)*	**2018**	**2017**
Utilities consumer advocate ("UCA")	5,197	4,961
Transmission facilities cost monitoring committee ("TFCMC")	107	98
Retail market review committee ("RMRC")	(828)	1,168
Total mandated costs	4,476	6,227

Mandated costs in 2018 decreased relative to 2017 to reflect changes in estimated costs previously accrued for the RMRC. The decreased costs for the RMRC were partially offset by higher costs previously accrued for the UCA and TFCMC.

Force Majeure Costs

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.

Force majeure costs of $0.4 million for 2018 represent legal and consulting expenditures related to disputed force majeure claims from prior years. There were no new force majeure claims initiated in 2018.

Power Purchase Arrangement Provision

Power Purchase Arrangement Provision *(in thousands of dollars)*	**2018**	**2017**
PPA provision expense for onerous contracts	127,663	(424,486)
PPA provision recoveries related to negotiated settlements	(5,059)	(58)
Total power purchase arrangement provision	122,604	(424,544)

In 2018, the power purchase arrangement provision is comprised of the onerous contract provisions established for the PPAs (Sheerness, Keephills and Genesee). The Sundance A PPA expired on December 31, 2017 and is therefore no longer included in the onerous contract provision. Sundance B and C PPAs were terminated effective April 1, 2018 and the Battle River 5 PPA was terminated effective October 1, 2018 and are no longer included in the onerous contract provision. The PPA provision expense in 2018 increased relative to the provision expense recorded in 2017 as a result of a decrease to the forward electricity market price for 2020.

Included as an off-set to power purchase arrangement provision expense are the recoveries related to the negotiated settlements reached for certain PPAs.

Liquidity and Cash Flow

To manage liquidity risk, the Balancing Pool forecasts cash flows for a period of 12 months and beyond to the end of 2030.

In December 2016, the Government of Alberta enacted changes to the EUA that allow Alberta Treasury Board and Finance to lend funds to the Balancing Pool at the recommendation of the Minister of Energy.

The Balancing Pool's primary uses of funds were for payment of the obligations associated with the PPAs and operating expenses.

Cash and Cash Equivalents *(in thousands of dollars)*	**2018**	**2017**
Cash and cash equivalents, beginning of year	50,772	16,078
Net cash used in operating activities	(271,113)	(545,862)
Net cash (used in) provided by investing activities	(21,164)	1,484
Net cash provided by financing activities	417,356	579,072
Cash and cash equivalents, end of year	175,851	50,772

For the year ended December 31, 2018 the Balancing Pool received $332.9 million from the loan arrangement in place with Alberta Treasury Board and Finance (2017 – $563.0) and $86.7 million from the hydro PPA (2017 – $20.3 million).

Outlook

As per changes to the *Balancing Pool Regulation* enacted in December 2017, effective January 1, 2019, the annual consumer collection from electricity consumers in Alberta was set at $2.90 per MWh, for an estimated annual amount of $180.0 million (2018 – $3.10 per MWh, $189.3 million consumer collection).

Risks and Risk Management

The Balancing Pool is exposed to a variety of risks while executing its mandate. Most of the risks are unique to the organization given its role and responsibilities in the Alberta electricity industry. At the time that the Alberta electricity sector was restructured, the Balancing Pool was created to underwrite various risks associated with the PPAs. The risks the Balancing Pool is exposed to in executing its mandate include the following:

- **Force majeure risk**

  Events of force majeure are extraordinary events beyond the reasonable control of the affected PPA counterparty. These events include:

  - Extraordinary situations typically covered in force majeure clauses such as natural disasters, war, explosions, sabotage, etc.;
  - A major failure of some or all of the components of the plant which results in the plant being forced to operate at a lower level for a period in excess of 42 days; and
  - Transmission constraints that limit or prevent the delivery of electricity to the grid.

- **Power market price volatility risk**

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

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

- **Unit destruction**

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

- **Change in law risk**

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

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

- ***Carbon Competitiveness Incentive Regulation***

  The *Carbon Competitiveness Incentive Regulation* ("CCIR") was enacted on June 17, 2017 as part of the *Climate Change and Emissions Management Act*. CCIR imposes an output-based benchmark on all generation facilities in the electricity industry. The net emissions for a facility may not exceed the output-based allocation applicable to that facility. Under circumstances where the actual emissions intensity exceeds the benchmark, the facility will have to bring its net emissions down by applying emission performance credits, emission offsets or fund credits.

  The Balancing Pool is subject to risk associated with material changes to the CCIR that impact the value of the PPAs.

- **PPA decommissioning risk**

  If a PPA Owner elects to decommission its facility, the Balancing Pool may be required to recompense the Owner for a portion of its decommissioning costs. The Balancing Pool would be financially liable for decommissioning costs exceeding the amounts the Owner has collected prior to deregulation and subsequently through the PPA payments. Regulation requires such claims to be initiated within one year of the termination of the PPA and before the end of 2018. In December 2018, TransAlta submitted an application to the AUC to decommission the Sundance A unit.

- **Liquidity**

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

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 International Financial Reporting Standards ("IFRS").

The CEO and the Controller have evaluated the design and operating effectiveness of the Balancing Pool's ICFR as of December 31, 2018 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 2018.

Accounting Policy Changes

The Balancing Pool adopted IFRS 9, *Financial Instruments* on a modified retrospective basis on January 1, 2018, which had no material impact on the Balancing Pool.

The Balancing Pool will be adopting IFRS 16, *Leases* effective January 1, 2019.

The Balancing Pool prepares its financial statements in accordance with 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 PPAs (Genesee, Sheerness and Keephills) has been estimated using:

- estimated future electricity prices;
- anticipated impacts of pending environmental legislation;
- escalated costs as per the contract terms; and
- future cash outflows discounted to the net present value at a rate of 1.9% (2017 – 1.5% to 1.7%).

Hydro Power Purchase Arrangement Valuation – 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 with a rate of 11.5% (2017 – 11.1%).

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, 2018 and 2017

Independent auditor's report

To the Board of Directors of the Balancing Pool

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Balancing Pool as at December 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Balancing Pool's financial statements comprise:

- the statement of financial position as at December 31, 2018;
- the statement of income and comprehensive income for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence
We are independent of the Balancing Pool in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Balancing Pool's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Balancing Pool or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Balancing Pool's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Balancing Pool's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Balancing Pool's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Balancing Pool to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
April 12, 2019

Statements of Financial Position

(in thousands of Canadian dollars)	2018	2017
Assets		
Current assets		
Cash and cash equivalents	175,851	50,772
Trade and other receivables (Note 5)	201,250	130,124
Current portion of long-term receivables (Note 6)	1,980	1,980
Current portion of hydro power purchase arrangement (Note 8 b i)	89,343	57,566
Intangible assets (Note 7)	26,899	153,120
	495,323	393,562
Long-term receivables (Note 6)	1,961	3,902
Investments (Note 9)	-	12,370
Property, plant and equipment	4	27
Hydro power purchase arrangement (Note 8 b i)	45,997	120,250
Total Assets	543,285	530,111
Liabilities		
Current liabilities		
Trade payable and other accrued liabilities (Note 11)	305,357	561,713
Current portion of related party loan (Note 17)	412,402	566,315
Current portion of small power producer contracts (Note 8 b ii)	444	3,424
Current portion of reclamation and abandonment provision (Note 12)	1,680	7,767
Current portion of other long-term obligations (Note 13)	79,723	529,073
	799,606	1,668,292
Small power producer contracts (Note 8 b ii)	-	298
Reclamation and abandonment provision (Note 12)	22,482	13,871
Other long-term obligations (Note 13)	164,760	128,648
Related party loan (Note 17)	502,893	-
Total Liabilities	1,489,741	1,811,109
Net liabilities attributable to the Balancing Pool deferral account (Note 1, 14)	(946,456)	(1,280,998)
Contingencies and commitments (Note 15)		
Subsequent events (Note 18)		

On behalf of the Balancing Pool:

Robert Bhatia
Chair

Greg Pollard
Audit and Finance Committee Chair

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

Statements of Income and Comprehensive Income

(in thousands of Canadian dollars)	2018	2017
Revenue from contracts with customers		
Sale of electricity and ancillary service (Note 3)	969,596	661,586
Consumer collection (Note 3)	189,259	66,003
Sale of generating capacity and termination revenue (Note 3)	-	716
	1,158,855	728,305
Other income from operating activities		
Changes in fair value of hydro power purchase arrangement (Note 8 b i)	44,258	159,718
Payments in lieu of tax (Note 15)	130,784	3,069
Investment income – interest and dividends	1,362	313
Changes in fair value of small power producer contracts (Note 8 b ii)	1,007	3,404
Changes in fair value of investments	4	32
	177,415	166,536
Expenses		
Cost of sales (Note 16)	843,212	621,571
Mandated costs (Note 17)	4,476	6,227
General and administrative	4,204	4,139
Force majeure costs	384	5,306
Investment management costs	13	31
Reclamation and abandonment provision (Note 12)	10,526	(7,109)
Power purchase arrangement provision (Note 13)	122,604	(424,544)
	985,419	205,621
Income from operating activities	350,851	689,220
Other income (expense)		
Finance expense (Note 10)	(16,417)	(3,558)
Other income	108	128
	(16,309)	(3,430)
Change to the Balancing Pool deferral account (Note 14)	334,542	685,790

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

Statements of Cash Flows

(in thousands of Canadian dollars)	2018	2017
Cash flow provided by (used in)		
Operating activities		
Change to the Balancing Pool deferral account	334,542	685,790
Items not affecting cash		
Amortization, depreciation and impairment	23	30
Reclamation and abandonment provision (Note 12)	10,526	(7,109)
Power purchase arrangement provision (Note 13)	(413,238)	(1,086,052)
Line loss provision (Note 15)	(3,066)	(114,042)
Fair value changes on small power producer contracts (Note 8 b ii)	(1,007)	(3,404)
Fair value changes on hydro power purchase arrangement (Note 8 b i)	(44,258)	(159,718)
Fair value changes on investments	1	(1)
Finance expense (Note 10)	16,417	3,558
Emission credits retired (received) (Note 7)	159,754	(2,000)
Reclamation and abandonment expenditures (Note 12)	(8,333)	(1,480)
Net change in other assets:		
Long-term receivable (Note 6)	1,941	1,942
Net change in non-cash working capital:		
Trade and other receivables	(71,126)	(52,967)
Trade payable and other accrued liabilities	(253,289)	189,591
Net cash used in operating activities	(271,113)	(545,862)
Investing activities		
Interest, dividends and other gains	(89)	(186)
Sale of investments (Note 9)	12,458	3,501
Purchase of intangible assets (Note 7)	(33,533)	(1,831)
Net cash (used in) provided by investing activities	(21,164)	1,484
Financing activities		
Hydro power purchase arrangement net receipts (Note 8 b i)	86,734	20,333
Proceeds from issue of related party loan	332,893	562,952
Small power producer contracts net payments (Note 8 b ii)	(2,271)	(4,213)
Net cash provided by financing activities	417,356	579,072
Change in cash and cash equivalents	125,079	34,694
Cash and cash equivalents, beginning of year	50,772	16,078
Cash and cash equivalents, end of year	175,851	50,772

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 14) 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 ("Minister of Energy").

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.

In late 2016, following the PPA terminations, the Government of Alberta enacted changes to the EUA which allow the Treasury Board to make loans to the Balancing Pool at the recommendation of the Minister of Energy and to guarantee the Balancing Pool's obligations. Any cash shortfall that the consumer collection is unable to satisfy will be financed by funds obtained through the loan agreement with the Government of Alberta and subsequently recovered from electricity consumers over the period of January 1, 2017 to December 31, 2030 (Note 17).

Revenue from Contracts with Customers

i) Sale of electricity, ancillary service and generating capacity

The Balancing Pool earns or earned revenue from the sale of electricity and ancillary service sourced from the PPAs it holds or held, namely, Genesee, Battle River 5, Sheerness, Keephills, Sundance A, Sundance B and Sundance C.

The Balancing Pool has also earned revenue from the sale of generating capacity in the form of strip contracts which transfer the associated offer rights and energy output of the Genesee PPA to third party buyers.

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

ii) Consumer collection

Effective January 1, 2017, the Corporation adopted International Financial Reporting Standards ("IFRS") 15, *Revenue from contracts from customers*. Pursuant to Section 82 of the EUA, the Balancing Pool collects or allocates an annualized amount from customers. Consumer collection from the AESO is being accounted for as revenue of the Balancing Pool. The Balancing Pool has applied judgment in determining that the consumer collection collected via rate Rider F, as specified in the EUA, is analogous to a contract with a customer. The legislation contained in the EUA established the Balancing Pool's right to recover operating shortfalls from electricity customers via Rider F of the AESO tariff and can be interpreted as a contract with a customer.

Other Income

i) Hydro power purchase arrangement ("hydro PPA")

Pursuant to Section 85 of the EUA, the Balancing Pool holds the hydro PPA. As such, the Balancing Pool has retained the right to the market value of the associated electricity and is responsible for the PPA obligations from certain hydro plants in the province of Alberta. The cash flows associated with the hydro PPA are based on the electricity market price multiplied by a notional amount of production less PPA obligations as outlined in the PPA. The expected net present value of these estimated payments is recorded as an asset and any revaluation adjustment is included in net results of income (loss).

ii) 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.

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

Pursuant to Section 147 of the EUA, the Balancing Pool collects (refunds) a notional amount of tax from electricity companies controlled by municipal entities that are active in Alberta's competitive electricity market and are otherwise exempt from the payment of tax under the *Income Tax Act* or the *Alberta Corporate Tax Act*. The Balancing Pool does not calculate instalment payments or refunds 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

i) Cost of sales

Under the terms of the various PPAs, the Balancing Pool is obligated to pay certain fixed and variable costs to the Owners of the various generation assets.

ii) Small power producer ("SPP") contracts

Under the provisions of the *Small Power Research and Development Act*, public utilities were required to enter into production contracts with small power producers who own and operate eligible power production facilities.

Under the provisions of the *Independent Power and Small Power Regulation*, the Balancing Pool must pay to the public utility any deficit or receive any surplus realized by the public utility from the production contracts. The net present value of these estimated payments is recorded as a liability and any revaluation adjustment is included in net results of income.

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 amounts are included in mandated costs.

2. Basis of Presentation

These financial statements for the year ended December 31, 2018 have been prepared by management in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and include as comparative information the year ended December 31, 2017.

These financial statements were authorized and approved for issue by the Board of the Balancing Pool on April 12, 2019.

Certain comparative amounts have been reclassified to conform to the current presentation.

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 from Contracts with Customers

The Balancing Pool adopted IFRS 15, *Revenue from contracts with customers*, effective for its annual reporting period commencing January 1, 2017. No revenue contracts that required cumulative adjustments on transition were identified as at January 1, 2017.

(a) Sale of electricity, ancillary service and generating capacity

Revenues from the sale of electricity, ancillary services and generating capacity are recognized on an accrual basis in the period in which generation occurred, which is the point in time when control of the goods and services passes to the customer. Sale of electricity, generating capacity and ancillary services is measured at the fair value of the consideration received or receivable. The Corporation has elected to recognize revenue based on amounts invoiced.

The timing of revenue recognition does not result in any contract assets or liabilities and there are no unfulfilled performance obligations at any point in time. Furthermore, no significant judgments or estimates are required with respect to the recognition of revenue associated with the sale of electricity, generating capacity and ancillary services.

(b) Consumer collection (allocation)

Upon adoption of IFRS 15, consumer collection revenue is recognized in the statement of income and comprehensive income on an accrual basis in the period in which amounts are charged (refunded) to electricity customers based on an annualized tariff amount, which is the point in time when control of the goods and services passes to the customer. Consumer collection revenue is measured at the fair value of the consideration received or receivable. The Corporation has elected to recognize revenue based on amounts invoiced.

The timing of revenue recognition does not result in any contract assets or liabilities and there are no unfulfilled performance obligations at any point in time. The Balancing Pool has applied judgment in the application of its accounting policy that the consumer collection (allocation) represents a contract with a customer in the scope of IFRS 15 (see Note 1).

Other Income (Expense) Recognition

(a) 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) from operating activities.

(b) Small power producer contracts

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

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

Investment income resulting 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.

(d) Payments in lieu of tax

PILOT funds are accrued based on instalments received from or refunds paid to a municipal entity for a particular tax year. PILOT payments are calculated by the municipal entities and are subject to assessment and audit by Alberta Tax and Revenue Administration. Adjustments, if any, arising from audits, or other legal proceedings, are recorded in the current year, upon receipt.

Income Taxes

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

Cash and Cash Equivalents

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

Trade and Other Receivables and Prepaid Expenses

Trade and other receivables are classified and measured at amortized cost less any impairment.

Intangible Assets (Emission Credits)

Emission credits, which have been purchased or acquired through PPA negotiated settlements and held for compliance purposes, are recorded by the Balancing Pool as limited life intangible assets. Emission credits are limited to a life between six to eight years depending on the vintage. These assets are recognized initially at fair value based upon a market price. Purchased emissions credits are measured at cost on the purchase date. Emission credits held for compliance purposes are not amortized, but are expensed as the associated benefits are realized.

The emission credits are expected to be used to satisfy future environmental compliance obligations of the PPAs associated with the *Carbon Competitiveness Incentive Regulation*. Compliance obligations resulting from emissions are recognized as a provision and measured at the market value of allowances needed to settle the obligation.

Long-Term Receivables

Cash settlement amounts due from a former PPA counterparty are accounted as long-term receivables with fixed payments receivable on each of December 31, 2019 and 2020. These assets were recognized initially at fair value. After initial recognition they are measured at amortized cost using the effective interest method less any impairment losses. The effective interest method calculates the amortized cost of a financial asset and allocates the interest income over the term of the financial asset using the effective interest rate.

Hydro Power Purchase Arrangement and Small Power Producer Contracts

The hydro PPA and SPP contracts are derivative financial instruments classified as and measured at fair value through profit or loss. They are recorded as of the period end date at their fair value. Fair value is measured as the present value of the estimated future net payments to be received (or paid) under the contracts and reflects management's best estimate based on generally accepted valuation techniques and supported by observable market prices and rates when available. Fair value for these contracts is based on forecasting future prices using a merit order dispatch model.

Electricity Price Risk Management – Risk Management Asset 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 and measured at fair value through profit or loss 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 securities upon initial recognition at fair value through profit and loss in accordance with IFRS 9, *Financial Instruments*. 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. PP&E, which comprises office equipment, is depreciated on a straight-line basis over a three to five year useful life.

Impairment – Non-Financial Assets

For the purpose of impairment testing, non-financial assets are 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 – a cash generating unit ("CGU").

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

Impairment losses recognized in prior years are 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 depreciation and amortization, if no impairment loss had been permitted to be recognized.

Impairment – Financial Assets

The Corporation applies IFRS 9, simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade and other receivables. To measure the expected credit losses, trade receivables and other receivables have been grouped based on shared credit risk characteristics and the days past due.

Trade and other receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Corporation, and a failure to make contractual payments for a period of greater than 120 days past due.

No impairment provision has been recorded at December 31, 2018 related to trade and other receivables. The Corporation considers trade and other receivables to be low risk.

Reclamation and Abandonment Obligations

Reclamation and abandonment obligations include legal obligations requiring the Balancing Pool to fund the decommissioning of 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 as 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. 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 (loss).

Pursuant to Section 7 of the *Power Purchase Arrangements Regulation*, 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 to generation units that are decommissioned after December 31, 2018.

The reclamation and abandonment provision includes an estimate of the expected future costs associated with PPA decommissioning costs. Any underfunded decommissioning liabilities are passed to the Balancing Pool in circumstances where a plant Owner elects to discontinue operations and decommission the respective plant following a PPA termination or PPA expiry.

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 (Other Long-Term Obligations)

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 cost of continuing performance under the contract. The Balancing Pool has recognized onerous contract provisions for the following PPAs: Sheerness, Keephills and Genesee. The provisions for onerous contracts have been classified as part of other long-term obligations on the Statements of Financial Position.

The discount rate used to measure these liabilities is based upon the risk-free rate. Where the Balancing Pool expects some or all of the provision will be reimbursed by a third party, the expense relating to any provision is presented in the Statement of Income and Comprehensive Income net of the reimbursement. The expected reimbursement receivable is recognized as an asset if it is virtually certain that the reimbursement will be received and the amount receivable can be measured reliably.

Other Provisions (Trade Payables and Accrued Liabilities)

Provisions for obligations are recognized when the Balancing Pool has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a risk-free discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as finance expense.

Power Purchase Arrangement and Related Finance Lease Obligation

The PPAs transfer to the Balancing Pool substantially all the benefits and some of the risks of ownership and therefore the arrangements are classified as finance leases, with the Corporation as the lessee. A lease is considered to be 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.

The finance lease obligations for the PPAs are fully impaired and are now recognized and reported as part of other long-term obligations (provision for onerous contracts).

New standards adopted during the period

Financial Instruments

On adoption of IFRS 9, in accordance with its transitional provisions, the Balancing Pool has not restated prior periods but has classified the financial assets held at January 1, 2018, retrospectively based on the new classification requirements and the characteristics of each financial instrument at the transition date. Adoption of IFRS 9 did not result in statement of financial position reclassifications or any impact to earnings.

The Balancing Pool's financial assets and liabilities are classified and measured at amortized cost ("AC"), except for Investments, Hydro PPA, Small Power Producer contracts, which are measured at fair value through profit or loss ("FVTPL"). The financial instrument classifications according to International Accounting Standard ("IAS") 39 did not change on adoption of IFRS 9.

For financial assets, the adoption of IFRS 9 did not have a material impact on the Balancing Pool's accounting policies for financial assets or derivative financial instruments.

For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. Because the Balancing Pool has not elected the option of designating any financial liabilities at fair value through profit or loss and does not have embedded derivatives, the adoption of IFRS 9 did not impact the Balancing Pool's accounting policies for financial liabilities or derivative financial instruments.

The impairment requirements of IFRS 9 did not have any material impact on the Balancing Pool's financial statements.

Accounting Standards Issued But Not Yet Adopted

The IASB issued the following standard, which is issued but has not yet been adopted by the Balancing Pool.

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.

The Balancing Pool is currently evaluating the impact that the amended standard will have on its financial statements. The Balancing Pool will recognize right-of-use lease assets and related lease liabilities for the office lease and the PPAs.

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 careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies summarized below. Accordingly, actual results will differ from estimated amounts as future confirming events occur.

Critical Judgments in Applying Accounting Policies

Management has made critical judgments in applying accounting policies, including when:

- concluding that the consumer collection (allocation) is accounted for as revenue (refund of revenue) from a contract with a customer (Note 1, 14);
- forecasting future power prices and capacity factors; and
- estimating the amount of the liability related to AUC Proceeding 790 ("retroactive line loss adjustment") (Note 15).

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:

- Hydro power purchase arrangement (Note 8 b i)
- Intangible assets (Note 7)
- Reclamation and abandonment provision (Note 12)
- Other long-term obligations (Note 13)
- Accrued liabilities, Retroactive line loss adjustment (Note 15)

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, 2018	December 31, 2017
Trade receivables	198,634	125,366
Other receivables	2,616	4,758
	201,250	130,124

6. Long-term receivables

(in thousands of dollars)	December 31, 2018	December 31, 2017
Opening balance, long-term receivable	5,882	7,824
Accretion	59	58
Emission credits received from PPA settlement	-	(2,000)
Cash received from PPA settlement	(2,000)	-
Closing balance, long-term receivable	3,941	5,882
Less: Current portion	(1,980)	(1,980)
	1,961	3,902

The $2.0 million in cash was received from the PPA settlement in December 2018.

7. Intangible Assets

(in thousands of dollars)	December 31, 2018	December 31, 2017
Opening balance, emission credits	153,120	149,289
Additions from purchases	33,533	1,831
Additions from PPA settlement received	5,000	2,000
Retirement of emission credits	(164,754)	-
Closing balance, emission credits	26,899	153,120

At December 31, 2018, the Balancing Pool had $26.9 million (2017 – $153.1 million) in emission credits, which can be used to offset compliance obligations associated with the PPAs. In 2018, the Balancing Pool received $5.0 million (2017 – $2.0 million) in emissions credits as part of the negotiated settlements reached for certain terminated PPAs and purchased $33.5 million (2017 – $1.8 million) in emission credits.

No impairments of emission credits were recognized during the year ended December 31, 2018 (2017 – $nil).

8. Accounting for Financial Instruments

8. a) Risk Management Overview

The Balancing Pool's activities expose the Balancing Pool to a variety of financial risks: market risk (including fluctuating market prices, plant availability, risks associated with PPA payments and receipts 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 PPAs, including the hydro PPA. Electricity prices are 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. Economic activity is a key contributor to market price risk as it relates to the demand for electricity. 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 Pool is exposed to interest rate risk in relation to the annual capacity payments. A 1% increase to the long-term government bond rate would increase the annual capacity payments by an estimated $11.1 million for the PPAs. Likewise a 1% decrease to the long-term government bond rate would decrease the annual capacity payments by an estimated $11.2 million.

Market Risk

i) Interest Rate Risk: The Balancing Pool is exposed to interest rate risk on the related party loan. There is the possibility that the value of the related party loan will change due to fluctuations in market interest rates.

ii) Price Risk: The investment portfolio is exposed to fixed income securities price risk. This arises from investments held in the investment portfolio for which prices in the future are uncertain.

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, 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 maintain investment-grade status level. Status of counterparty credit is regularly monitored by management and the Audit and Finance Committee. The Balancing Pool has minimal credit risk related to its receivables and cash as they consist primarily of amounts owing from the AESO, a government-related entity and a credit-worthy financial institution, respectively. The Balancing Pool does not consider any of the trade or long-term accounts receivable 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 will adjust the consumer collection according to the *Balancing Pool Regulation* and borrow from the Government of Alberta. The changes to the EUA, enacted in December of 2016, provide the Balancing Pool with the capacity to borrow from the Government of Alberta (Note 17).

The following below analyzes the Balancing Pool's financial and other liabilities into relevant maturity groupings based on the remaining period from the period end date to the contract maturity date.

(in thousands of dollars)	1 year	2 – 5 years	Total
	December 31, 2018		
Trade payables	128,258	-	128,258
Other accrued liabilities	177,099	-	177,099
Small power producer contracts	444	-	444
Related party loan – principal	410,295	498,355	908,650
Related party loan – interest	2,107	4,538	6,645
Reclamation and abandonment	1,680	22,482	24,162
Other long-term obligations	79,723	164,760	244,483
Total	799,606	690,135	1,489,741
(in thousands of dollars)	December 31, 2017		
Trade payables	199,647	-	199,647
Other accrued liabilities	362,066	-	362,066
Small power producer contracts	3,424	298	3,722
Related party loan	566,315	-	566,315
Reclamation and abandonment	7,767	13,871	21,638
Other long-term obligations	529,073	128,648	657,721
Total	1,668,292	142,817	1,811,109

8. 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 for 2019 and 2020. Hydro PPA receipts are settled on a monthly basis.

The remaining term of the hydro PPA is two years to December 31, 2020. At December 31, 2018, the net present value of the hydro PPA was estimated at $135.3 million (2017 – $177.8 million). Key assumptions in this valuation are a discount rate of 11.5% (2017 – 11.1%) and an estimated forecast average market electricity price of $55.28/megawatt hour ("MWh") for 2019 and $49.19/MWh for 2020 (2017 – $51.95/MWh for 2018 to 2020).

Hydro Power Purchase Arrangement *(in thousands of dollars)*	**2018**	**2017**
Hydro power purchase arrangement, opening balance	177,816	38,431
Accretion and current year change	48,959	34,306
Net cash receipts	(86,734)	(20,333)
Revaluation of hydro power purchase arrangement asset	(4,701)	125,412
Hydro power purchase arrangement, closing balance	135,340	177,816
Less: Current portion receivable	(89,343)	(57,566)
	45,997	120,250

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 estimated forecast 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%**
Change in fair value as at December 31, 2018	25,685	(25,577)	(1,690)	1,729
Change in fair value as at December 31, 2017	34,663	(34,663)	(3,214)	3,312

ii) Small power producer contract

At December 31, 2018, one small power producer contract with a total allocated capacity of 10 megawatts ("MW") remains active (2017 – one contract with capacity of 10 MW). The contract price is $79.70/MWh and expired on February 15, 2019. Under this contract, the price that the small power producer receives from the counterparty utility company is fixed. 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, 2018, the net present value of cash flows from the Balancing Pool for this contract was estimated to be a $0.4 million liability (2017 – $3.7 million liability). The estimated value of this liability varies based on the assumptions used and there is a high degree of measurement uncertainty. The key assumption used in this valuation is an estimated forecast average electricity market price of $52.09/MWh for January to February 2019 (2017 – $50.58/MWh for 2018 to 2019).

Small Power Producer Contract *(in thousands of dollars)*	**2018**	**2017**
Small power producer contract, opening balance	(3,722)	(11,339)
Accretion and current year change	1,090	1,616
Net cash payments	2,271	4,213
Revaluation of small power producer contract	(83)	1,788
Small power producer contracts, closing balance	(444)	(3,722)
Less: Current portion	444	3,424
	-	(298)

A 10% change to the forecast electricity market price or discount rate does not have a material effect on the value of the small power producer contract.

8. c) Fair Value Hierarchy

Financial instruments carried at fair value are categorized as follows:

	Quoted prices in active markets for identical assets	**Significant other observable inputs**	**Significant unobservable inputs**	
	Level 1	**Level 2**	**Level 3**	**Total**
(in thousands of dollars)		**December 31, 2018**		
Assets				
Cash and cash equivalents	175,851	-	-	175,851
Hydro power purchase arrangement	-	-	135,340	135,340
	175,851	-	135,340	311,191
Liabilities				
Small power producer contracts	-	-	444	444
	-	-	444	444
	175,851	-	134,896	310,747
		December 31, 2017		
Assets				
Cash and cash equivalents	50,772	-	-	50,772
Investments	-	12,370	-	12,370
Hydro power purchase arrangement	-	-	177,816	177,816
	50,772	12,370	177,816	240,958
Liabilities				
Small power producer contracts	-	-	3,722	3,722
	-	-	3,722	3,722
	50,772	12,370	174,094	237,236

i) Level 1

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

ii) Level 2

Assets and liabilities in Level 2 include valuations using inputs other than Level 1 quoted prices for which all significant inputs are observable, either directly or indirectly. Fair values for fixed income investments are determined using quoted market prices in active markets.

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. Methodologies have been developed to determine the fair value for these contracts based on forecast of the hourly electricity market price in Alberta's hourly market using proprietary third-party merit order dispatch model. 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, 2018 and 2017 are disclosed in note 8 b i) and in note 8 b ii).

9. Investments

(in thousands of dollars)	**2018**	**2017**
Investments, beginning of year	12,370	15,684
Interest and dividends	83	155
Realized capital gains	5	31
Sale of investments	(12,458)	(3,501)
Unrealized capital gain (loss)	-	1
Investments, end of year	-	12,370

The Balancing Pool held $12.4 million in fixed income securities at December 31, 2017.

10. Finance Expense

(in thousands of dollars)	**2018**	**2017**
Interest expense	16,086	3,362
Accretion expense	331	195
	16,417	3,558

11. Trade Payable and Other Accrued Liabilities

(in thousands of dollars)	2018	2017
Trade payables	128,258	199,647
Accrued liabilities – Greenhouse gas obligation	82,046	215,124
Accrued liabilities – PILOT refunds (Note 15)	28,047	82,854
Accrued liabilities – Retroactive line loss adjustment	45,536	42,470
Accrued liabilities – Other	21,470	21,618
	305,357	561,713

The accrued liability for greenhouse gas obligations reported at December 31, 2018 has declined from the accrued liability reported at December 31, 2017 due to the termination of the Sundance B, C and Battle River 5 PPAs and the timing of when the obligation is settled. The amount reported for 2018 represents 2018's fourth quarter obligation, while the amount reported for 2017 represents the full year's obligation.

12. Reclamation and Abandonment Provision

(in thousands of dollars)	H.R. Milner Generating Station	Isolated Generation Sites	Sundance A Generating Station	Total
At January 1, 2017	14,616	6,956	8,460	30,032
Net increase (decrease) in liability	(443)	154	(6,820)	(7,109)
Liabilities paid in period	(1,053)	(427)	-	(1,480)
Accretion expense	95	45	55	195
At December 31, 2017	13,215	6,728	1,695	21,638
Less: Current portion	(2,050)	(5,717)	-	(7,767)
	11,165	1,011	1,695	13,871
At January 1, 2018	13,215	6,728	1,695	21,638
Net increase (decrease) in liability	(69)	379	10,216	10,526
Liabilities paid in period	(2,879)	(5,454)	-	(8,333)
Accretion expense	202	103	26	331
At December 31, 2018	10,469	1,756	11,937	24,162
Less: Current portion	-	(1,680)	-	(1,680)
	10,469	76	11,937	22,482

12. 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 ("ATCO"), 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 2021. These costs have been discounted at the risk-free rate of 1.9% (2017 – 1.5%). At December 31, 2018, the provision was decreased by $0.07 million (2017 – $0.4 million increase) to reflect a change in the discount rate. Expenditures of $2.9 million (2017 – $1.1 million) were incurred in 2018.

12. b) Isolated Generation Sites

Under the *Isolated Generating Units and Customer Choice Regulations of the EUA*, the Balancing Pool is liable for the reclamation and abandonment costs associated with various Isolated Generation sites. Expenditures of $5.5 million (2017 – $0.4 million) were incurred in 2018. 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, verify and approve all costs associated with the reclamation and abandonment of the Isolated Generation sites. Estimated reclamation and abandonment costs have been discounted at 1.9% (2017 – 1.5%). The provision is based upon management's best estimate and the timing of the costs. Management anticipates the Isolated Generation projects will conclude at the end of 2020. At December 31, 2018, an increase of $0.4 million (2017 – $0.2 million increase) was recorded to reflect a change in estimation to complete the project.

12. 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 or expiration 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 (net of salvage) exceed the decommissioning amounts the Owner collected from related consumers before January 1, 2001 and subsequently through the related PPA. Subject to AUC approval, Owners are eligible to collect this shortfall provided that the unit has ceased generating electricity. This provision does not apply to units that cease operations after December 31, 2018.

In December 31, 2018, the Balancing Pool recorded a $10.2 million increase (2017 – $6.8 million decrease) to the provision for decommissioning the PPAs. In December 2018, TransAlta Corporation ("TransAlta") submitted an application to the AUC to decommission Sundance unit A. The provision for Sundance A is based upon management's best estimate of decommissioning costs. Estimated decommissioning costs were discounted at 1.9% (2017 – 1.5%).

13. Other Long-Term Obligations

(in thousands of dollars)	Genesee	Battle River 5	Sundance A	Sundance B	Sundance C	Keephills	Sheerness	Total
At January 1, 2017	542,453	151,921	46,815	134,250	148,612	256,005	463,717	1,743,773
Net increase (decrease) in liability	(265,424)	32,024	33,208	61,388	46,144	(114,800)	(217,027)	(424,487)
Losses	(129,082)	(69,947)	(80,023)	(99,677)	(86,098)	(71,621)	(125,117)	(661,565)
At December 31, 2017	147,947	113,998	-	95,961	108,658	69,584	121,573	657,721
Less: Current portion	(83,050)	(113,998)	-	(95,961)	(108,658)	(50,473)	(76,933)	(529,073)
	64,897	-	-	-	-	19,111	44,640	128,648
At January 1, 2018	147,947	113,998	-	95,961	108,658	69,584	121,573	657,721
Net increase (decrease) in liability	(2,820)	1,296	-	6,809	13,946	53,055	55,377	127,663
Termination payment	-	(61,680)	-	(71,604)	(85,349)	-	-	(218,633)
Losses	(72,980)	(53,614)	-	(31,166)	(37,255)	(49,695)	(77,558)	(322,268)
At December 31, 2018	72,147	-	-	-	-	72,944	99,392	244,483
Less: Current portion	(15,453)	-	-	-	-	(25,104)	(39,166)	(79,723)
	56,694	-	-	-	-	47,840	60,226	164,760

Pursuant to Section 96 of the EUA, following Buyer-initiated terminations in 2016, the Battle River 5 PPA, Sundance A, Sundance B, Sundance C, Sheerness and Keephills PPAs were transferred to the Balancing Pool. While the Balancing Pool holds the PPAs, it assumes 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 terminated the Sundance B and C PPAs effective April 1, 2018 and the Battle River 5 PPA effective October 1, 2018. The Sundance A PPA expired on December 31, 2017.

Based on the estimated forecast average electricity market price of $55.28/MWh for 2019 and $49.19/MWh for 2020 (2017 – $46.22/MWh for 2018, $54.97/MWh for 2019 and $54.67/MWh for 2020), the unavoidable costs of meeting the obligations under the PPAs is expected to exceed the economic benefits derived from the PPAs. As a result, onerous contract provisions have been recognized and measured at the lower of the present value of continuing the PPAs and the expected costs of terminating them. Cost of termination includes the estimated net costs of holding the PPAs over the minimum six-month notice period preceding such termination plus a termination payment. For purposes of measuring the onerous contract provision under IFRS, the minimum six-month notice period is estimated to commence on January 1, 2019 for the Genesee, Keephills and Sheerness PPAs. The termination payment represents the net book value of the units which is estimated at $933.5 million for Genesee, Keephills and Sheerness (2017 – $1.3 billion for Genesee, Keephills, Sheerness, Sundance B, Sundance C and Battle River 5). The estimated future costs for the three PPAs were discounted at 1.9% (2017 – 1.7%).

Future cash flow requirements may include operating losses where the price in Alberta's hourly wholesale electricity market is less than the operating costs over the period of 2019 and 2020. It is expected operating costs would include amounts associated with the *Carbon Competitiveness Incentive Regulation* for all of the PPAs for the period of 2019 and 2020. Revenue is also dependant on generating capacity factors of the different PPAs, which can vary for each PPA.

See Note 15, Contingencies and Commitments, for additional information with respect to subsequent negotiation of settlement agreements related to the Attorney General of Alberta's lawsuit.

14. 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 2016, the Alberta Government enacted amendments to the *Balancing Pool Regulation* that defined the method by which the Balancing Pool would calculate the amounts to be allocated to, or provided by, electricity consumers through to 2030. In January 2017, the Balancing Pool signed a loan agreement with the Government of Alberta. The loan agreement was put in place through Alberta Treasury Board and Finance to fund operating losses of the Balancing Pool, including obligations associated with the terminated PPAs.

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

Balancing Pool Deferral Account *(in thousands of dollars)*	**2018**	**2017**
Deferral account, beginning of year	(1,280,998)	(1,966,788)
Change to the Balancing Pool deferral account	334,542	685,790
Deferral account, end of year	(946,456)	(1,280,998)

In December 2017, the Board of Directors approved a 2018 consumer collection of $3.10/MWh for a total collection from electricity consumers of $189.2 million in accordance with the *Balancing Pool Regulation*. In October 2018, the Board of Directors approved a 2019 consumer collection of $2.90/MWh for an estimated total collection from electricity consumers of $180.0 million in accordance with the *Balancing Pool Regulation*.

As a result of the Balancing Pool's adoption of IFRS 15, *Revenue from contracts with customers*, on January 1, 2017, the consumer collection is recorded in revenue.

15. Contingencies and Commitments

Terminated Power Purchase Arrangements

On March 8, 2018, the Government of Alberta reached a settlement agreement with the former Buyer of the Battle River 5 PPA and Keephills PPA bringing a conclusion to the Attorney General of Alberta's application with the Alberta Court of Queen's Bench. As a result of the settlement agreement, the Balancing Pool received a reimbursement of $5.0 million worth of emission credits, recognized as intangible assets, and remitted $5.0 million to the former Buyer of the Battle River 5 and Keephills PPAs for historical dispatch services rendered.

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

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

Reclamation and Abandonment

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

Payments In Lieu of Tax

Alberta Tax and Revenue Administration had issued notices of re-assessment for several tax years (dating back to 2001) to a municipal entity that has been subject to PILOT. The municipal entity had disagreed with many aspects of the notices of re-assessment and filed notices of objection for those tax years. The municipal entity proceeded with litigation to resolve the various tax matters. A number of these matters were resolved in 2016 through negotiated settlement and through the Court of Queen's Bench, resulting in a refund of $96.0 million to the municipal entity. The refund of $96.0 million was reflected as Other income (expense) from operating activities in 2016 and accrued in trade payable and other accrued liabilities. Alberta Tax and Revenue Administration appealed the Court of Queen's Bench decision.

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

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

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

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

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

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

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

Retroactive Line Loss Adjustment (AUC Proceeding 790)

Line loss factors form part of transmission charges that are paid by generators in Alberta. The Balancing Pool is exposed to retroactive line loss adjustments for certain PPAs.

In January 2015, the AUC determined that it has the jurisdiction and authority to retroactively adjust the line loss factors and the methodology dating back to 2006. On December 19, 2018 the Court of Appeal ruled that the AUC does indeed have the jurisdiction and authority to retroactively adjust the line loss factors and the methodology.

The AUC was presented with three different methodologies for calculating retroactive line loss adjustments. The first was the AESO methodology based on Incremental Loss Factor with load scaling; the second was the AUC methodology ("Module B") based on Incremental Loss Factor with generation scaling, the third method was a methodology developed by Maxim Power Corporation. A description of the various methodologies can be found in the AESO's exhibits presented in 790-140.3 of the AUC Proceeding 790.

In December 2017, the AUC reached its decision, whereby the AUC ruled that the Module B methodology will be used to calculate retroactive line loss adjustments. The AUC also ruled that the original system transmission service contract holder will be responsible for the retroactive line loss adjustments.

The Balancing Pool will incur additional charges as a result of the retroactive adjustments to line loss factors in relation to the various PPAs. An estimated provision in the amount of $45.5 million (2017 – $42.5 million) has been recorded in trade payable and other accrued liabilities for the retroactive line loss adjustment as a result of the AUC's December 2017 decision. The estimate has been prepared using the Module B method based on Incremental Loss Factors with generation scaling.

The various matters approved by the AUC regarding the retroactive line loss adjustments are under appeal with the Court of Appeal, including the retroactive nature of the adjustments and prospective line loss factors used to calculate the adjustment. The quantum of any retroactive adjustment will be dependent upon the methodology finally adopted and approved. Given the uncertainty of the final methodology, the Balancing Pool estimates may be higher or lower than the current estimate reflected in these financial statements.

16. Cost of Sales

(in thousands of dollars)	**2018**	**2017**
Cost of power purchase arrangements and power marketing	1,240,067	1,283,106
Losses on PPAs recorded against other long-term obligations	(322,268)	(661,565)
Gain on the retirement of emission credits	(74,610)	-
Amortization and depreciation on assets	23	30
	843,212	621,571

Included as a reduction to cost of sales is a gain on the retirement of emission credits in the amount of $74.6 million (2017 – nil). The gain on emission credits is a result of procuring emission credits at a price lower than the Climate Change Emission Management Fund rate of $30 per tonne.

17. 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)*	**2018**	**2017**
Salaries and other short-term employee benefits	627	643
Total	627	643

Government-Related Entity

The Balancing Pool considers itself to be a government-related entity as defined by IAS 24 – *Related Party Disclosures* and applies the exemption from the disclosure requirements of Paragraph 18 of IAS 24 – *Related Party Disclosures*. The members of the Board are appointed by the Minister of Energy of the Government of Alberta. Effective January 1, 2017, the financial information of the Balancing Pool is being consolidated by the Ministry of Energy.

In January 2017, the Balancing Pool signed a loan agreement with the Government of Alberta. The loan agreement was put in place through Alberta Treasury Board and Finance to fund operating losses of the Balancing Pool, including obligations associated with the terminated PPAs.

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

At December 31, 2018, the Balancing Pool had $915.3 million (2017 – $566.3 million) in short-term discount and long-term notes issued to the Government of Alberta, including accrued interest of $7.1 million (2017 – $0.4 million).

The discount note that matured on January 4, 2019 was paid. The discount notes that matured on January 31 and February 6, 2019 were re-financed.

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

In 2018, the Balancing Pool expensed $5.2 million (2017 – $5.0 million) for the UCA and $0.7 million recovery (2017 – $1.2 million expense) for the TFCMC and RMRC in aggregate.

The Balancing Pool also considers the 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 2018, the Balancing Pool collected $189.2 million (2017 – $66.0 million) from electricity consumers through the AESO's transmission tariff.

The AESO also operates the spot market in Alberta and remits payment for electricity sold in the spot market. In 2018 the Balancing Pool received $965.2 million related to the sale of electricity for the PPAs.

18. Subsequent Events

The Balancing Pool paid the short-term discount note that matured on January 4, 2019 in the amount of $91 million.

The last remaining small power producer contract expired on February 15, 2019.

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