balancingpool

2011 Annual Report

The Balancing Pool

Generating value for Alberta's consumers

The Balancing Pool was established in 1998 by the Government of Alberta to help manage the transition to competition in Alberta's electric industry. Our current obligations and responsibilities are governed by the *Electric Utilities Act* (effective June 1, 2003) and the *Balancing Pool Regulation*.

Our legislated duties include:

- To manage generation assets in a commercial manner, specifically any Power Purchase Arrangements (PPAs) held by the Balancing Pool that include the right to exchange electric energy and ancillary services, and any arrangements or agreements derived from these assets;
- To hold the Hydro PPA and manage associated payments;
- To forecast revenues and expenses (incorporating estimates of Pool price volatility and potential expenses related to risk backstop activities) and allocate the forecast surplus or deficiency as evenly as possible through a Consumer Allocation or charge;
- To participate in appropriate regulatory, dispute resolution and other proceedings and processes to protect the interests of the Balancing Pool and the value of its assets; and
- To manage risks prudently in all aspects of its operations.

PPAs are one of the mechanisms used by the Government of Alberta to introduce competition into the supply of thermal electric power from regulated generating units. The PPAs were auctioned in 2000 and provide buyers with the rights to formerly regulated generating capacity. The Balancing Pool assumed the unsold Sheerness, Genesee and Clover Bar PPAs. Through a number of contracts that covered periods to 2006, the Balancing Pool transferred electricity capacity and ancillary services associated with these generation assets into the hands of market participants.

The Balancing Pool may sell the Genesee PPA when market conditions are such that a competitive sale will result in the Balancing Pool receiving fair market value, or may terminate a PPA when it proves to be uneconomical. In 2005 the Balancing Pool sold the Sheerness PPA to TransCanada Energy Ltd. and terminated the uneconomical Clover Bar PPA.

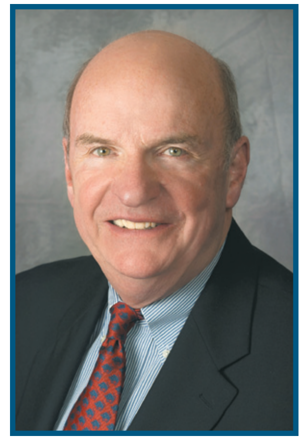
Contents

Stakeholder Reception

Thursday, April 26, 2012
4:00 p.m. to 7:00 p.m.

Centini Restaurant
160 – 8th Avenue S.E.
Calgary, Albert

Message to Stakeholders from the Board Chair



Thomas Cumming

2011 brought somewhat higher electricity market prices which when combined with steady investment performance allowed the Balancing Pool to maintain the Consumer Allocation, albeit at a reduced level from 2010. Total allocations paid out to Alberta retail and commercial consumers reached $110.4 million, bringing the aggregate payout since commencement of Consumer Allocation payments in 2006 to over $1.1 billion.

Summary of Consumer Allocations 2006-2011

Year	**$/MWh**	**Total** *(in thousands of dollars)*
2006	1.00	53,814
2007	3.00	161,704
2008	5.00	271,444
2009	6.50	343,729
2010	3.00	160,772
2011	2.00	110,440
Total		1,101,903

I am pleased that overall market and general operational performance during 2011 have enabled us to introduce a substantial increase in the allocation to $5.50 per megawatt hour (MWh) for 2012, as announced. This represents real value for Alberta consumers.

We remain strongly committed to carrying out our full mandate as per the *Electric Utilities Act*, and, as in the past, our focus remains closely on liability management particularly with regard to our ongoing PPA contractual obligations.

In governance terms we were very pleased to welcome three new members to our Board in December. Judith Athaide, William Stedman and Doug Topping bring to the Balancing Pool a broad array of experience and exposure in electricity markets in Alberta. Their appointments by the Minister of Energy, the Hon. Ted Morton, place the Balancing Pool in a strong position to meet and deal appropriately with the challenging issues ahead.

Message continued on next page

I wish to express my sincere thanks to the members of our Board and the Balancing Pool management for their strong commitment to seeing us successfully meet our aims and obligations.

We welcome the new Minister of Energy, and look forward to a continuation of our constructive working relationship with him, his office, and the many other Alberta government officials we have the pleasure to work with regularly.

Thomas Cumming
Chair

"In governance terms we were very pleased to welcome three new members to our Board in December. Judith Athaide, William Stedman and Doug Topping bring to the Balancing Pool a broad array of experience and exposure in electrical markets in Alberta."

Governance of the Balancing Pool

Adhering to the *Electric Utilities Act (2003)*, the Minister of Energy must appoint as members of the Balancing Pool not more than nine individuals who are independent of any person who has a material interest in the Alberta electric industry. Members are appointed by the Minister on the basis of their cumulative expertise in order to enhance the performance of the Balancing Pool in exercising its powers and carrying out its duties, responsibilities and functions. The term of office of a member is three years; a member is eligible to be appointed for a maximum of three terms of office.

Thomas Cumming, Chair, was previously a member of the Power Pool Council, and served as the Market Surveillance Administrator from 2000 to 2003. Tom is also a Director of Pengrowth Corporation. From 1988 to 2000, he was the President and CEO of the Alberta Stock Exchange. Prior to that, he spent 24 years with the Bank of Nova Scotia in Canada, Ireland and England. Tom has a Bachelor of Applied Science degree in Engineering and Business and has been designated a life member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta.

Judith Athaide is the President and CEO of The Cogent Group Inc., an independent consulting firm which assists organizations to transition to, and thrive within, competitive markets. Her almost 25 years of experience in the energy industry has spanned the value chain from wells to light switch. She has a Bachelor of Commerce degree (Honours), a Masters of Business Administration in Finance and a Bachelor of Science degree in Mechanical Engineering. More recently she has been awarded the designation of ICD.D by the Institute of Corporate Directors. Judith serves on the Board of Directors of Cimarron Engineering, Cognera Corporation, Fortis Alberta and Phoenix Technology Services. She is also involved in a number of non-profit organizations, including the Business Advisory Council of the University of Alberta's School of Business, as an Executive on the Calgary Chapter of the ICD and as a member of the Steering Committee of the Alberta Innovates—Technology Futures.

Biographies continued on pages 4 & 5

Mary Ritchie is President and Chief Executive Officer of Richford Holdings Ltd. an accounting and investment advisory services firm. She is a member of the Board of Directors and Audit Committees of Industrial Alliance Insurance and Financial Services Inc. and Alaris Royalty Corp. She is also a member of the Board of Governors and Chairman of the Audit Committees of RBC Funds Inc. and RBC Advisor Global Fund Inc., as well as a member of the Independent Oversight Committee for RBC Funds and Phillips Hager & North. Mary is a fellow of the Canadian Institute of Chartered Accountants (FCA) and recently completed two terms as a member of the Institute's Accounting Standards Oversight Council.

Bill Stedman is the Chairman and Chief Executive Officer of ENTx Capital Corporation, a private holding company. He has held this position since the inception of ENTx in 2001. From 1997 to 2000, he was President and Chief Executive Officer of Pembina Pipeline Corporation, the operating company of Pembina Pipeline Income Fund. Bill was also President and Chief Executive Officer of Pembina Corporation, a privately held oil, gas and pipeline company, from 1993 to 1997. He received a Bachelor of Science from Dalhousie University, a Bachelor of Civil Engineering (with Distinction) from McGill University and a Master of Business Administration from Harvard Business School. He is a Director of OMERS Energy Inc., Tundra Oil Marketing Inc., and Keyera Corporation and sits on the advisory board of Birch Hill Equity Inc.

Rafi G. Tahmazian has more than 20 years of experience in the energy sector and financial services industry. He is currently a Managing Director of Canoe Financial LP and holds positions as both director and advisory board member of several private resource entities and energy-specific investment funds. After positions with First Marathon Securities and LL&E Canada, Rafi was a partner from 1996 to 2008 at First Energy Capital Corp., where he also held the positions of Vice-Chairman and Managing Director. He has a Bachelor of Economics from the University of Calgary.

Stella Thompson a co-founder and principal of Governance West Inc. from 1996 to 2008, has wide-ranging board experience and currently serves on the Boards of Atomic Energy of Canada Ltd., Calgary Airport Authority, Genome Alberta, the Provincial Audit Committee and First Calgary Financial. She was involved in the deregulation of energy commodities from the early days as a Vice-President at Petro-Canada and has extensive experience in many aspects of the oil and gas and electricity industries. Stella previously served on the Board of ENMAX Corporation for five years. She has a Masters degree in Economics and has been awarded the designation of ICD.D by the Institute of Corporate Directors.

Doug Topping is a retired professional electrical engineer registered in Alberta and Ontario and a certified director with the Institute of Corporate Directors. Doug has 40 years of experience in thermal power generating station planning, design, construction, commissioning, operation, maintenance and retirement, primarily in Alberta. His engineering experience includes coal-fired, simple cycle and combined cycle natural gas, hydro, wind and biomass. In addition to the Balancing Pool, Doug's board experience includes directorships with the Alberta Chamber of Resources, EPCOR Power LP, Alberta Motor Association and Capital Region Housing Corporation. He is Senior Vice-Chair of the Alberta Motor Association and Chair of the Capital Region Housing Corporation.

The Balancing Pool's Audit and Finance Committee is chaired by Ms. Ritchie, and the Governance and Human Resources Committee is chaired by Ms. Thompson.

Corporate Information

Balancing Pool Contacts

Bruce Roberts
Acting President and Chief Executive Officer

COMMERCIAL TEAM
John Walker, Commercial Manager

ANALYTICAL TEAM
Greg Wagner, Asset and Liablities Manager
Ben Chappell, Senior Analyst
Jordan Persaud, Analyst
James Lerner, Analyst

FINANCIAL TEAM
Michelle Manuliak, Controller
Lauren Pollock, Financial Accountant

ADMINISTRATION
Marie Gallant, Executive Assistant

CORPORATE SECRETARY
James Pasieka

Auditors
PricewaterhouseCoopers LLP
Calgary, Alberta

Counsel
Heenan Blaikie LLP
Calgary, Alberta

Parlee Mclaws LLP
Calgary, Alberta

Financial/Banking
TD Bank
Calgary, Alberta

Management's Discussion and Analysis

Year ended December 31, 2011

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A"), dated March 29, 2012, should be read in conjunction with the audited financial statements of the Balancing Pool for the years ended December 31, 2011 and 2010.

Results at a Glance

Years ended December 31 *(in thousands of dollars)*	**2011**	2010
Revenues and funding	**969,507**	406,249
Income from operating activities	**459,859**	24,149
Change in net assets attributable to Balancing Pool deferral account	**468,789**	22,107
Consumer Allocation	**110,440**	160,772
Net change in cash, cash equivalents and investments	**245,544**	(57,523)
Cash, cash equivalents and investments	**1,016,331**	770,787
Net assets attributable to Balancing Pool deferral account	**2,024,719**	1,666,371
Total liabilities	**792,984**	793,696
Total assets	**2,817,703**	2,460,067
Other Information		
Total Volumes (gigawatt hours [GWh])	**8,000**	8,000
Average Pool price per megawatt hours (MWh)	**$76.21**	$50.89

Operations

Revenues and Funding

Details of Revenues and Funding *(in thousands of dollars)*	**2011**	2010
Sale of electricity – Genesee power purchase arrangement (PPA)	**478,023**	265,795
Changes in fair value of Hydro power purchase arrangement	**407,120**	48,864
Changes in fair value of Small Power Producer contracts	**34,505**	(7,665)
Changes in fair value of Investments	**(19,004)**	55,534
Investment income – Interest and dividends	**24,511**	26,180
Payments in lieu of taxes (PILOT)	**44,352**	17,541
Total revenues and funding	**969,507**	406,249

Sale of Electricity – Genesee Power Purchase Arrangement

Revenue from the sale of electricity derived from the Genesee Power Purchase Arrangement ("PPA") increased in 2011 versus 2010 by $ 212.2 million largely as a result of higher net realized Power Pool ("Pool") prices year-over-year. Annual average Pool prices increased year-over-year by approximately 49%. Net realized Pool prices include the effect of forward trades settled during the year.

Sale of electricity for 2011 included $8.9 million of net realized losses (2010 – $12.4 million net realized loss) on forward sales transactions; during 2011 approximately 28% (2010 – 30%) of total electricity volumes were sold at fixed prices through forward sale transactions. Also included in the Sale of Electricity are unrealized changes on financial derivatives; at the end of the year there was $0.6 million in unrealized losses related to forward swaps in place at December 31, 2011.

Change in Fair Value of Hydro Power Purchase Arrangement

Revenue from the Hydro PPA represents annual accretion of the value of the Hydro PPA asset, the difference between the actual cash receipts or payments and the estimated cash receipts or payments used in the valuation of the Hydro PPA asset at the beginning of the year. Hydro PPA revenues increased in 2011 versus 2010 by $95.2 million due to market price increases, as discussed above.

The Hydro PPA asset is recorded as a financial instrument calculated as the net present value of estimated net cash receipts. Revenues are based on notional energy and reserve (ancillary service) volumes using management's best estimate of Pool price forecast. Corresponding expenses reflect ongoing PPA obligations over the remaining term of the PPA to 2020. The value of the Hydro PPA is estimated annually. The year-end valuation of the Hydro PPA resulted in a $ 229.7 million (2010 – $ 33.3 million loss) revaluation gain. Estimated forward market prices used in the net present value model increased by approximately 23% from 2010 to 2011 and the discount rate of 10% (2010 – 10%) was used to discount the estimated future cash flows.

In 2011 the Balancing Pool received, net of PPA obligations, $189.3 million (2010 – $72.6 million). The Hydro PPA receipts are the amount by which notional energy and reserve (ancillary service) volumes priced at Pool prices exceed PPA obligations. In 2011 there was no hedging activity related to the Hydro PPA (2010 – $nil).

Change in Fair Value of Small Power Producer Contracts

Under the *Independent Power and Small Power Regulation*, the Balancing Pool is required to make monthly payments to TransAlta Utilities Corporation ("TransAlta"), the entity that administers the Small Power Producer contracts, for the amount by which the Pool price falls below the contracted price for Small Power Producers. If the Pool price is above the contracted price, TransAlta makes a payment to the Balancing Pool. In 2011, the Balancing Pool recorded net income of $9.9 million (2010 – $0.3 million net expense), which represents annual accretion of the value of the Small Power Producer contracts and the difference between the actual Pool price and the Pool price used to value the Small Power Producer contracts at the beginning of the year. Annual average Pool prices increased year-over-year by approximately 49% which had an impact on Small Power Producer contract results.

At December 31, 2011 there are 10 contracts subject to the *Independent Power and Small Power Regulation* (December 31, 2010 – 10).

The Small Power Producer contracts are recorded as a financial instrument calculated as the net present value of payments or receipts based on the difference between the Small Power Producers' contract price and management's best estimate of Pool price forecast. The value of the Small Power Producer contracts asset or liability is estimated annually. The year-end valuations for 2011 resulted in a net liability of $2.8 million relative to a net liability of $34.6 million for 2010, therefore the valuation adjustment during 2011 was recorded as a gain of $24.6 million. Estimated forward market Pool prices used in the net present value model increased by approximately 23% between 2010 to 2011 and the discount rate of 10% (2010 – 10%) was used to discount the estimated future cash flows.

Investment Income

a) Interest and Dividends

Details of Investment Income – Interest and Dividends *(in thousands of dollars)*	**2011**	2010
Interest income	**12,745**	17,086
Dividend income	**14,175**	11,492
Fund management fees	**(2,409)**	(2,398)
Total investment income	**24,511**	26,180

The year-over-year decrease in investment income of $1.7 million is as a result of a $4.4 million decrease in interest income due to lower coupon rates, offset by a $2.7 million increase in dividend income largely due to a shift in asset allocation.

b) Realized Gains (Losses) on Sale of Investments

During 2011, the Balancing Pool sold investments realizing a capital loss of $11.9 million (2010 – $4.1 million).

c) Unrealized Gains and Losses on Financial Investments

During 2011, there were net losses of $19.0 million (unrealized losses of $7.1 million and realized losses of $11.9 million). In 2010 there was a $55.5 million net gain (unrealized gains of $59.6 million net of realized losses of $4.1 million).

Payments In Lieu of Tax ("PILOT")

During 2011, the Balancing Pool received PILOT instalments from the ENMAX group of companies, City of Medicine Hat and the City of Lethbridge. Net funding from PILOT in 2011 was $44.3 million as PILOT instalment receipts of $51.2 million (2010 – $18.3 million) were offset by PILOT refunds and audit costs relating to prior tax years of $6.9 million (2010 – $0.8 million). PILOT are based on the taxable income of a municipal entity as defined in the *Payment in Lieu of Tax Regulation of the Act* and are subject to audit by Alberta Revenue. PILOT received in the current year are instalments of 2011 taxes net of adjustments for prior years.

Expenses

Details of Expenses *(in thousands of dollars)*	**2011**	2010
Cost of sales	**375,532**	338,122
Office of the Utilities Consumer Advocate	**7,871**	6,612
General and administrative	**3,750**	2,730
Reclamation and abandonment provision	**(1,459)**	16,700
Other power purchase arrangement expenses	**123,954**	17,936
Total expenses	**509,648**	382,100

Cost of Sales

Cost of sales includes capacity payments, variable operating costs, transmission charges and amortization and depreciation relating to the Genesee PPA. The increase in cost of sales for 2011 of $37.4 million is due to increased capacity payments, incentive payments and change in law expenses. PPA capacity payments which comprise more than 78% of costs of sales vary year-over-year as a result of changes in indices and pass-through charges. Changes to the Pool price have a minimal impact on the PPA capacity payments.

The Balancing Pool elected to use an International Financial Reporting Standards ("IFRS") 1 exemption whereby the fair value is used as deemed cost values at January 1, 2010. Under previous Canadian GAAP the net book value of the Genesee PPA was a liability of $453 million at December 31, 2009. The Balancing Pool has estimated future net cash flows associated with the Genesee PPA and calculated a net transition adjustment of $1,079 million increasing the fair value to $626 million at January 1, 2010. As at January 1, 2010 there were 11 years remaining in the Genesee PPA term and this difference is amortized on a straight-line basis over the remaining term.

Office of the Utilities Consumer Advocate ("UCA")

As directed by the Minister of Energy the Balancing Pool is obligated to make payments to the Office of the Utilities Consumer Advocate to cover 80% of their annual operating costs. In 2011, the Balancing Pool expensed $7.8 million (2010 – $6.6 million), as directed by the Minister of Energy.

Reclamation and Abandonment Provision

The reclamation and abandonment provision reflects a decrease of $1.5 million (2010 – $16.7 million increase) due to a reduction in the provision for decommissioning the H.R. Milner generating station. 2011 reclamation and abandonment expenditures were $8.7 million (2010 – $6.3 million).

Other Power Purchase Arrangement Expenses

Other power purchase arrangement expenses include payments to certain entities for force majeure claims and other PPA-related matters. In 2011, the Balancing Pool expensed $123.9 million (2010 – $17.9 million) for force majeure and other PPA-related matters.

On February 8, 2011 TransAlta Corporation (PPA Owner) issued notice of termination for destruction of the Sundance 1 and 2 units under the terms of the PPA. On February 18, 2011 TransCanada Corporation (PPA Buyer) disputed TransAlta's determination and the issue will be resolved via binding arbitration. In the event that the Sundance PPA is terminated, the Balancing Pool would be required to pay Termination Payments to TransAlta Corporation equal to the Net Book Values of the units and to the Residual Balancing Pool Amount to TransCanada Corporation, both as defined in the PPA. The possible loss to the Balancing Pool is in the range of $0 to $250 million. Included in other PPA expenses is a provision based upon a probability-weighted outcome, as required by *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*.

Other Income (Expense)

Details of Other Income (Expense) *(in thousands of dollars)*	**2011**	2010
Finance expense	**(1,987)**	(2,189)
Other income (expense)	**10,917**	147
Total other income (expense)	**8,930**	(2,042)

Other Income (Expense)

According to the *Common Facilities Cost Regulation*, the owner of a power plant must pay to the Balancing Pool a share of the cost of the common facilities when the owner builds a new generating unit at the plant. In 2011, the Balancing Pool received $10.9 million for the new unit constructed at Keephills generating station.

Change in Cash, Cash Equivalents and Investments

(in thousands of dollars)	**2011**	2010
Operations (excluding items listed below)	**350,477**	21,535
Investment income – Interest and dividends	**24,511**	26,180
Investment net gains (losses)	**(19,004)**	55,534
Consumer Allocation	**(110,440)**	(160,772)
Net change in cash, cash equivalents and investments	**245,544**	(57,523)

Assets

Cash and Cash Equivalents

Cash and cash equivalents increased by $99.9 million during the year, resulting in an ending balance of $114.1 million. The increase in cash was due to strong cash flows from the Genesee PPA and Hydro PPA.

Investments

In 2011 the Balancing Pool continued to invest in fixed-income securities as well as Canadian and global equities.

The Balancing Pool's Board has approved a long-term investment strategy to manage the investment funds. The investment strategy is based on prudent investment standards and generally focuses on achievement of a fair return on investments through a diversified investment portfolio to reduce risk. The major sources of our investment income include interest, dividend income and gains or losses on the sale of investments.

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

Fixed Income	40-60%
Canadian Equities	15-35%
Global Equities	15-35%

Property, Plant and Equipment

The Genesee PPA is accounted for as a finance lease. At December 31, 2001, the net book value of the Genesee PPA was written down to reflect prevailing future electricity market prices at that time. At January 1, 2010, the date of transition to IFRS, the cost of the Genesee PPA was determined in accordance with the deemed cost exemption permitted by IFRS 1 which allows for valuation at estimated fair market value. Under previous Canadian GAAP the net book value of the Genesee PAA was a liability of $453 million at December 31, 2009. The Balancing Pool estimated the future net cash flows associated with the Genesee PPA and calculated a net transition adjustment of $1,079 million thereby increasing the fair value of the Genesee PPA to $626 million at January 1, 2010.

At December 31, 2011, the net book value of property, plant and equipment was $1,059.7 million (2010 – $1,177.5 million). The decrease in the net book value from 2010 reflects current year amortization of the Genesee PPA and other assets.

Hydro Power Purchase Arrangement

The estimated value of the Hydro PPA asset at December 31, 2011 was $679.9 million (2010 – $ 462.1 million). The Hydro PPA is valued at the present value of estimated amounts to be received by the Balancing Pool, net of estimated PPA obligations, over the remaining term of the PPA to 2020. The Hydro PPA is recorded as a financial asset due to the fact that TransAlta, the owner of the hydro plants, retains operational control of the hydro assets under the terms of this PPA.

Liabilities

Power Purchase Arrangement Lease Obligation

As counterparty to the Genesee PPA, the Balancing Pool is required to make monthly payments to the owner of the generating unit intended to cover fixed and variable costs. The capital component of the monthly payment is accounted for as a finance lease. The year-end balance of $552.9 million (2010 – $611.8 million) represents the sum of the capital component of the payments required over the remaining term of the Genesee PPA.

Small Power Producer Contracts

The Balancing Pool's legislated obligation related to Small Power Producer contracts is recorded at the net present value of estimated amounts to be received or paid by the Balancing Pool over the remaining terms of the contracts. This is recorded as a financial instrument as the Balancing Pool does not have operational control of the contracts. The estimated value of the Small Power Producer contracts at December 31, 2011 was a net liability of $2.8 million (2010 – $ 34.6 million).

Reclamation and Abandonment Provision and Other Long-Term Obligation

The reclamation and abandonment liability at December 31, 2011 of $78.1 million (2010 – $86.2 million) represents estimated costs to decommission the H.R. Milner generating station, estimated reclamation costs associated with the Isolated Generation sites and estimated decommissioning costs of the PPAs.

In 2011 the Balancing Pool paid $8.7 million (2010 – $6.3 million) for reclamation costs of the Isolated Generation sites. At December 31, 2011, the reclamation of 100 of 103 Isolated Generation sites was complete, however, a few large sites still require reclamation. As per Energy Utilities Board (EUB) Decisions 2002-102 and 2003-036, costs for the Isolated Generation sites are approved by the Remediation Review Committee. The Balancing Pool is not a member of the Remediation Review Committee. The Remediation Review Committee is comprised of representatives of various consumer groups who were signatories to the Negotiated Settlement Agreement.

Balancing Pool Deferral Account

The deferral account liability at December 31, 2011 was $2,024.7 million (2010 – $1,666.4 million). The changes in the deferral account in the current year include a change in net assets attributable to the deferral account of $611.5 million of net income (2010 – $10.4 million of net loss) and Consumer Allocation payments of $110.4 million (2010 – $160.8 million).

Under the *Electric Utilities Act*, the Balancing Pool is mandated to allocate any forecasted cash surplus (or deficit) to electricity consumers in Alberta in annual amounts. In 2011 the Balancing Pool made allocations of its surplus to electricity consumers in Alberta of $2.00 per megawatt hour ("MWh") of consumption (2010 – $3.00). For the year ending December 31, 2011 the Consumer Allocation was $110.4 million (2010 – $160.8 million). For 2012, the Consumer Allocation was increased to $5.50 per MWh of consumption; this allocation will continue to be reviewed on an annual basis.

Accounting Policy Changes

On January 1, 2011 the Balancing Pool adopted International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and requires publicly accountable enterprises to apply IFRS for years beginning on or after January 1, 2011.

The most significant impact of the transition to IFRS to the financial statements was the election to use an IFRS 1 exemption whereby the fair value is used as the deemed cost value of the Genesee PPA at January 1, 2010. Under previous Canadian GAAP the net book value of the Genesee PAA was a liability of $453 million at December 31, 2009. The Balancing Pool has estimated future net cash flows associated with the Genesee PPA and calculated a net transition adjustment of $1,079 million increasing the fair value of the Genesee PPA to $626 million at January 1, 2010. There were also IFRS transition adjustments related to accounting of force majeure claims, disputed contractual payments made to the Plant Owners and future decommissioning costs of the PPAs.

Critical Accounting Estimates

Since a determination of some 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 – Engineering estimates are used to calculate the anticipated future costs of reclamation and abandonment.

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

- forward market electricity prices;
- escalated costs as per contract term; and
- future cash flows discounted to net present value at 10% (2010 – 10%).

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

Outlook

Based on forecasted cash flow and expected financial position for 2011, effective January 1, 2012, the Balancing Pool increased the allocation of its surplus to electricity consumers in Alberta to $5.50 per MWh of consumption, estimated at approximately $305 million during the year. The Consumer Allocation is reviewed on an annual basis.

Forward-Looking Information

Certain information in this MD&A is forward-looking information and relates to, among other things, anticipated financial performance, operational prospects 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; the ability of the Balancing Pool to successfully implement the initiatives referred to in this MD&A; and other electricity market factors.

Financial Statements

Year ended December 31, 2011

Management's Responsibility for The Financial Statements

The financial statements included in the Annual Report are the responsibility of management and have been approved by the Board members of the Balancing Pool. These financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and include the use of estimates and assumptions. Estimates and assumptions have been made using careful judgment and with all information available up to March 29, 2012. Financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

Management maintains a system of internal controls designed to provide reasonable assurance that the Balancing Pool's assets are safeguarded, that transactions are properly authorized and that financial information is relevant, accurate and available on a timely basis.

The Balancing Pool Board members have appointed an Audit and Finance Committee that reviews the financial statements with management and the external independent auditors before the financial statements are submitted to the Balancing Pool Board members for approval. The external auditors have full and open access to the Audit and Finance Committee without obtaining prior management approval. The Audit and Finance Committee reviews the financial statements, and recommends their approval to the Balancing Pool Board members.

The financial statements have been examined by PricewaterhouseCoopers LLP, the Balancing Pool's external independent auditors. The responsibility of these external auditors is to examine the financial statements in accordance with Canadian generally accepted auditing standards and to express an opinion on the fairness of the financial statements in accordance with IFRS. The independent auditor's report outlines the scope of their examination and states their opinion on the financial statements.

Bruce Roberts
Acting President and Chief Executive Officer

March 29, 2012

Independent Auditor's Report

To the members of the Board of the Balancing Pool

We have audited the accompanying financial statements of the Balancing Pool, which comprise the statement of financial position as at December 31, 2011 and December 31, 2010 and January 1, 2010 and the statements of income and comprehensive income, equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Balancing Pool as at December 31, 2011 and December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

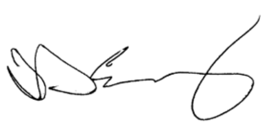
Calgary, Alberta
March 29, 2012

PricewaterhouseCoopers LLP, Chartered Accountants
111 5th Avenue SW, Suite 3100 Calgary, Alberta Canada T2P 5L3
T: 403 509 7500, F: 403 781 1825, www.pwc.com/ca

Statement of Financial Position

(in thousands of dollars)	**December 31, 2011**	December 31, 2010	January 1, 2010
Assets			
Current assets			
Cash and cash equivalents	**114,125**	14,194	27,386
Trade and other receivables (Note 5)	**58,970**	49,663	38,858
Current portion of Hydro power purchase arrangement (Note 6 b i)	**128,000**	58,158	48,975
Risk management asset (Note 6 b iii)	**2,762**	–	7,599
	303,857	122,015	122,818
Investments (Note 7)	**902,206**	756,593	800,924
Property, plant and equipment (Note 8)	**1,059,781**	1,177,536	1,295,290
Hydro power purchase arrangement (Note 6 b i)	**551,859**	403,923	445,855
Total Assets	**2,817,703**	2,460,067	2,664,887
Liabilities			
Current liabilities			
Trade and other payables (Note 9)	**46,310**	59,942	81,491
Risk management liabilities (Note 6 b iii)	**3,784**	1,100	–
Current portion of power purchase arrangement lease obligation (Note 8 b)	**59,948**	58,874	57,844
Current portion of Small Power Producer contracts (Note 6 b ii)	**1,100**	10,633	11,362
Current portion of reclamation and abandonment provision (Note 11)	**19,000**	10,000	7,000
Other current provision (Note 10)	**109,000**	–	–
	239,142	140,549	157,697
Genesee power purchase arrangement lease obligation (Note 8 b)	**492,981**	552,929	611,803
Small Power Producer contracts (Note 6 b ii)	**1,746**	23,977	23,706
Reclamation and abandonment provision and other long-term obligation (Note 11)	**59,115**	76,241	66,644
Total Liabilities	**792,984**	793,696	859,850
Net assets attributable to Balancing Pool deferral account (Note 1,12)	**2,024,719**	1,666,371	1,805,037
Contingencies and commitments (Note 13)			

On behalf of the Balancing Pool:



Thomas Cumming
Chair

Mary Ritchie
Audit and Finance Committee Chair

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

Statements of Income and Comprehensive Income

For the year ended December 31 (in thousands of dollars)	**December 31, 2011**	December 31, 2010
Revenues and funding		
Sale of electricity	**478,023**	265,795
Changes in fair value of Hydro power purchase arrangement (Note 6 b i)	**407,120**	48,864
Changes in fair value of Small Power Producer contracts (Note 6 b ii)	**34,505**	(7,665)
Changes in fair value of investments (Note 7)	**(19,004)**	55,534
Investment income – interest and dividends	**24,511**	26,180
Payments in lieu of tax	**44,352**	17,541
	969,507	406,249
Expenses		
Cost of sales (Note 14)	**375,532**	338,122
Office of the Utilities Consumer Advocate	**7,871**	6,612
General and administrative	**3,750**	2,730
Reclamation and abandonment provision (Note 11)	**(1,459)**	16,700
Other power purchase arrangement expenses	**123,954**	17,936
	509,648	382,100
Income from operating activities	**459,859**	24,149
Other income (expense)		
Finance expense (Note 11)	**(1,987)**	(2,189)
Other income	**10,917**	147
	8,930	(2,042)
Change in net assets attributable to Balancing Pool deferral account	**468,789**	22,107

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

Statements of Cash Flows

For the year ended December 31 (in thousands of dollars)	**December 31, 2011**	December 31, 2010
Cash flow provided by (used in)		
Income from operating activities		
Change in net assets attributable to the Balancing Pool deferral account	**468,789**	22,107
Items not affecting cash		
Amortization and depreciation (Note 8)	**117,755**	117,757
Reclamation and abandonment provision (Note 11)	**(1,459)**	16,700
Decrease in Small Power Producer contracts (Note 6 b ii)	**(34,505)**	7,665
(Increase) decrease in Hydro power purchase arrangement (Note 6 b i)	**(407,120)**	(39,855)
Unrealized gains (losses) on financial derivative instruments (Note 6 b iii)	**(78)**	8,699
Unrealized (gains) losses on financial investments (Note 7)	**7,091**	(59,626)
Finance expense (Note 11)	**1,987**	2,189
Reclamation and abandonment expenditures (Note 11)	**(8,654)**	(6,292)
Net change in non-cash working capital:		
Trade receivables	**2,223**	(8,797)
Other receivables	**(11,530)**	(2,009)
Trade payables	**(7,849)**	(12,596)
Other payables	**103,216**	(8,953)
Net cash generated from operating activities	**229,866**	36,989
Investing activities		
Proceeds on sales of investments	**(152,704)**	103,957
Purchase of property, plant and equipment	**–**	(3)
Net cash generated from investing activities	**(152,704)**	103,954
Financing activities		
Net Hydro power purchase arrangement receipts (Note 6 b i)	**189,342**	72,604
Payment on power purchase arrangement lease obligation	**(58,874)**	(57,844)
Net Small Power Producer contracts inflows (outflows) (Note 6 b ii)	**2,741**	(8,123)
Payment of the Consumer Allocation (Note 12)	**(110,440)**	(160,772)
Net cash generated from financing activities	**22,769**	(154,135)
Change in cash and cash equivalents	**99,931**	(13,192)
Cash and cash equivalents, beginning of year	**14,194**	27,386
Cash and cash equivalents, end of year	**114,125**	14,194

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

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

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

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

Activities of the Balancing Pool

The initial allocation of assets and liabilities to the Balancing Pool was charged to the deferral account. Differences between annual revenues and expenditures are also charged or credited to the Balancing Pool deferral account. The Act requires that the Balancing Pool forecast its revenues and expenses. Any excess or shortfall of funds in the accounts is to be allocated to, or provided by, electricity consumers in annualized amounts.

Revenue and Funding

The Balancing Pool has five primary sources of revenue and funding:

i) Sale of electricity

The Balancing Pool earns revenue from the sale of electricity.

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

ii) Hydro PPA

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

iii) Investment income

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

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

Pursuant to Section 147 of the Act, the Balancing Pool collects from electricity companies controlled by municipalities a notional amount of tax that would otherwise be payable if these entities were subject to tax. The Balancing Pool does not calculate instalment payments and it does not audit PILOT findings. PILOT instalments are calculated by the payor and are subject to audit by Alberta Revenue; adjustments, if any, arising from audits will be recorded in the current year.

v) Small Power Producer ("SPP") contracts

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

Expenses and Disbursements

The Balancing Pool has expenditures which include:

i) Cost of sales

The Balancing Pool is obligated to pay certain fixed and variable costs to the owner of the generation asset that is operated under the terms of the Genesee PPA. Transmission costs are included in cost of sales. Under the terms of government legislation, the Balancing Pool is obligated to make payments to certain entities for such matters as force majeure.

ii) Other costs

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

2. Basis of Presentation and Adoption of International Financial Reporting Standards ("IFRS")

These financial statements for the year ended December 31, 2011 have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles as defined in the Canadian Institute of Chartered Accountants Handbook ("CICA Handbook"). The CICA Handbook was revised in 2010 to incorporate IFRS as issued by the International Accounting Standards Board ("IASB") and require publicly accountable enterprises to apply IFRS for years beginning on or after January 1, 2011.

These financial statements have been prepared in compliance with IFRS. These are the Balancing Pool's first IFRS annual financial statements and IFRS 1 First Time Adoption of International Financial Reporting Standards have been applied.

These financial statements include as comparative information the period for the year ended December 31, 2010 which have been prepared in accordance with IFRS.

Previously, the Balancing Pool prepared and published its annual financial statements in accordance with Canadian Generally Accepted Accounting Principles ("previous Canadian GAAP"). Certain prior year figures have been reclassified to conform to the presentation adopted in the current year. These financial statements were authorized and approved for issue by the members of the Board of Directors of the Balancing Pool on March 29, 2012.

Note 16 discloses the impact of the transition to IFRS on the Balancing Pool's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Balancing Pool's financial statements for the year ended December 31, 2010 prepared under previous Canadian GAAP.

3. Summary of Significant Accounting Policies

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

Basis of Measurement

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

Revenue Recognition

(a) Sale of electricity

Revenues from the sale of electricity and ancillary services are recognized on an accrual basis in the period in which generation occurred. Amounts settled under financial derivative contracts are recorded in sale of electricity.

(b) Payments in lieu of tax

PILOT are accrued based on the payors' instalments for a particular tax year. PILOT payments are calculated by payors and are subject to assessment and audit by Alberta Revenue.

(c) Hydro power purchase arrangement

The Hydro PPA is recorded at the present value of the estimated future net payments to be received 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 net results of income.

(d) Investment income

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

(e) Small Power Producer contracts

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

Income Taxes

No provision has been made for income tax as under the Act the Balancing Pool is required to operate so that no profit or loss results.

Cash and Cash Equivalents

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

Trade and Other Receivables and Prepaid Expenses

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

Hydro Power Purchase Arrangement and Small Power Producer Contracts

The Hydro PPA and Small Power Producer contracts are recorded as of the period end date at the present value of the estimated future net payments to be received or paid under the contracts and reflect management's best estimates based on generally accepted valuation techniques or models and supported by observable market prices and rates when available. Given the long-term nature of these contracts, observable market prices are not available beyond the first few years. Methodologies have been developed to determine the fair value for these contracts based on extrapolation of observable future prices and rates. The changes in these level 3 financial instruments for the years ended December 31, 2011 and 2010 are presented in Note 6 b i and Note 6 b ii respectively.

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

The Balancing Pool utilizes 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 variable 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. Amounts settled under these contracts are recorded as sale of electricity.

Derivative financial instruments are classified as held at fair value through income or loss and are recorded on the Statement of Financial Position at fair value. All changes in fair value are included in net results of income on the Statement of Income and Comprehensive Income.

Investments

Fixed income and equity securities are classified as held at fair value through income and loss and recorded in the financial statements at estimated fair value, as of the period end date, measured based on the bid price in active markets, and unrealized gains or losses resulting from changes in fair value are recorded in net results of income.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The major categories of property, plant and equipment are depreciated on a straight-line basis and include:

Genesee Power Purchase Arrangement	10 years
Office Equipment	3 – 5 years

Genesee Power Purchase Arrangement ("Genesee PPA") and Related Finance Lease Obligation

The Genesee PPA transfers to the Balancing Pool substantially all the benefits and risks of ownership and is therefore treated as if the asset had been purchased outright. The asset is included in property, plant and equipment at an amount not exceeding the estimated net future cash flows arising from operations over the remaining life of the PPA. The Genesee PPA is stated at cost, less accumulated depreciation and amortization. The cost of the Genesee PPA at January 1, 2010, the date of transition to IFRS, was determined in accordance with the deemed cost exemption permitted by IFRS 1 which allows for valuation at estimated market value. The previous Canadian GAAP net book value was $1,079 million lower than estimated market value. The asset is depreciated over the term of the Genesee PPA. The capital element of the leasing commitment is shown as a Genesee PPA lease obligation.

Impairment – Property, Plant and Equipment

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

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

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

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

Reclamation and Abandonment Obligations

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

Reclamation and Abandonment obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the Period end date. Subsequent to the initial measurement, the obligations are adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as a finance expense as well as 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 and as new information concerning the Balancing Pool's operations becomes available. Accordingly, the amount of the liability will be subject to re-measurement at each period end date.

The Balancing Pool has recorded an estimate of the cost to remediate certain Isolated Generating Unit sites in Alberta. Actual costs incurred to remediate these sites will reduce this liability and any increase in this liability will be charged to expense when estimated costs are known to exceed the remaining liability balance. An amount has also been provided for the decommissioning of the H.R. Milner generating station which is being accreted annually; revisions to this estimate will be charged or credited to net results of income.

Pursuant to Section 7 of the *Power Purchase Arrangements Regulation of the Act*, the owner of a generating unit who applies to the Alberta Utilities Commission ("AUC") to decommission a unit within one year of the termination of the PPA is entitled to receive from the Balancing Pool the amount by which the decommissioning costs exceed the amount the owner collected from consumers before January 1, 2001 and subsequently through a PPA, provided that the unit has ceased generating electricity and subject to AUC approval.

The Reclamation and Abandonment provision includes a provision representing future costs associated with PPAs in which the Balancing Pool estimates PPA owners will elect not to own and decommission the respective plants beyond the PPA contract end dates and thereby pass any underfunded decommissioning liabilities to the Balancing Pool as per their contractual rights.

Accounting Standards Issued But Not Yet Adopted

The IASB issued the following standards which are relevant but have not yet been adopted by the Balancing Pool: IFRS 9, Financial Instruments, and IFRS 13, Fair Value Measurement. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Balancing Pool has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new standards:

IFRS 9, Financial Instruments, was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, Financial Instruments – Recognition and Measurement, for debt instruments with a new mixed measurement model with only two categories: amortized cost and fair value through income or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through income or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in income or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

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 amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Such estimates represent 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

There were no critical judgments, apart from those involving estimation, that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Key Sources of Estimation Uncertainty

Since a determination of some 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. The following are items that contain key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

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

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

iii) *Reclamation and abandonment provision and other long-term obligation (Note 11)*

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

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

In the opinion of management, these financial statements have been properly prepared within reasonable limits of materiality and within 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, 2011**	December 31, 2010	January 1, 2010
Trade receivables	**44,990**	47,213	38,424
Other receivables	**13,980**	2,450	434
	58,970	49,663	38,858

6. Accounting for Financial Instruments

6. a) Risk Management Overview

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

Market Risk – Power

i) PPA Risk: Under terms of the PPAs the Balancing Pool is exposed to longer term risks including change in law, force majeure and PPA termination risks. Risks under change in law could include new provincial and federal legislation relating to environmental emission standards, which if enacted, may result in the PPA becoming unprofitable to the buyer, in which case the PPA could then be terminated and consequently returned to the Balancing Pool. Pursuant to Section 96 of the *Electric Utilities Act (2003)* where a PPA is terminated by the plant owner ("Owner"), except for total destruction of a unit or plant, the PPA is deemed to have been sold to the Balancing Pool. Owner-initiated termination would generally be as a result of a default by the PPA Buyer in performing its obligations; in this instance, the Balancing Pool would be entitled to receive a termination payment from the Buyer equal to the amount of net profit the Buyer would have lost by continuing to hold the PPA until the end of the effective term. Buyer-initiated termination could be as a result of a change in law making the PPA uneconomic for the Buyer, an event of force majeure lasting greater than six months, Owner default in performing its obligations, or Buyer buyout of the PPA. Termination under these provisions would result in the immediate transfer of the PPA to the Balancing Pool. Identifying, quantifying and devising strategies for mitigating these risks are an ongoing responsibility of the Balancing Pool.

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

iii) Plant Availability: Changes in plant availability can impact the expected generation and associated revenues of the Balancing Pool. If the plant output managed by the Balancing Pool is sold forward and the plants are not available to supply delivery obligations, the Balancing Pool would be required to purchase energy at the prevailing market price to cover the shortfall in generation.

Market Risk – Investments

i) Currency and Interest Rate Risk: The Balancing Pool is exposed to currency risk and interest rate risk in that there is the possibility that investments will change in value due to fluctuations in foreign currency exchange rates and market interest rates. A $0.01 change in the Canadian Dollar exchange rate versus the United States Dollar would have an estimated $0.5 million impact on investment valuations and a $0.01 change in the Canadian Dollar exchange rate versus the Euro would have an estimated $0.2 million impact on investment valuations. Likewise a 1% change in floating rate interest investments would have an estimated $1.1 million impact on cash and cash equivalents and an estimated $8.9 million impact on Genesee PPA capacity payments.

ii) Price Risk: The Investment portfolio is exposed to equity securities price risk. This arises from investments held in the investment portfolio for which prices in the future are uncertain. Where non-monetary financial instruments – for example, equity securities – are denominated in currencies other than the Canadian dollar, the price initially expressed in foreign currency and then converted into Canadian dollars will also fluctuate because of changes in foreign exchange rates. Item (i) "Currency and Interest Rate Risk" above sets out how this component of price risk is managed and measured. The Balancing Pool's investment policy manages price risk through diversification and selection of securities and other financial instruments within specified limits set by the Board of Directors. Between 15% and 35% of the net assets attributable to the investment portfolio is expected to be invested in Canadian equity securities and between 15% and 35% in Global equities. Between 40% and 60% of this amount is expected to be invested in fixed income securities. The Investment Policy requires that the overall market position is monitored on a daily basis by the Investment Manager and is reviewed on an annual basis by the Board of Directors. Compliance with the investment policies are reported to the Board on a quarterly basis.

The table below is a summary of the significant sector concentrations within the investment portfolio.

	2011			2010		
Sector	Fixed Income Portfolio %	Canadian Equity Portfolio %	Global Equity Portfolio %	Fixed Income Portfolio %	Canadian Equity Portfolio %	Global Equity Portfolio %
Information technology	0.0	4.2	11.3	0.0	3.8	10.8
Financials	23.1	35.6	15.9	44.7	32.9	19.7
Energy	4.3	23.8	7.8	10.4	24.2	9.0
Health care	0.0	3.3	12.7	0.0	1.3	10.7
Consumer staples	0.0	5.1	8.9	0.0	5.4	9.4
Industrials	1.8	11.8	17.5	0.0	9.2	13.6
Consumer discretionary	0.1	6.1	9.0	0.0	8.6	9.2
Utilities	1.3	0.0	1.0	8.5	0.0	2.4
Infrastructure	5.8	0.0	0.0	0.0	0.0	0.0
Materials	0.0	4.5	9.1	0.0	5.8	9.0
Telecommunication services	3.6	5.6	2.8	16.2	5.9	4.6
Federal	24.6	0.0	0.0	0.0	0.0	0.0
Provincial/municipal	26.2	0.0	0.0	20.2	0.0	0.0
Cash & cash equivalents	9.2	0.0	4.0	0.0	2.9	1.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Based on the carrying amount of these assets, an increase or decrease in market prices by 10% would result in estimated gains or losses of $45.5 million for the Fixed Income Portfolio, $21.5 million for the Canadian Equity Portfolio and $23.2 million for the Global Equity Portfolio. (December 31, 2010 – $24.7 million, $26.6million and $24.3 million respectively).

Counterparty Credit Risk

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

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 could make adjustments to the Consumer Allocation and/or liquidate investments as required.

At the reporting date, the Balancing Pool held short-term deposits of $114.1 million (2010 – $14.1 million) that are expected to readily generate cash inflows for managing liquidity risk.

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

	Less than 3 months	3 months to 1 year	2 – 5 years	Over 5 years	Total
			December 31, 2011		
Trade payables	39,425	–	–	–	39,425
Other payables	–	6,885	–	–	6,885
Risk management liabilities	–	6,523	–	–	6,523
Current portion of power purchase arrangement lease obligation	–	59,948	–	–	59,948
Current portion of Small Power Producer contracts	–	1,100	–	–	1,100
Current portion of reclamation and abandonment provision	–	19,000	–	–	19,000
Genesee power purchase arrangement lease obligation	–	–	–	492,981	492,981
Small Power Producer contracts	–	–	–	1,746	1,746
Reclamation and abandonment provision and other long-term obligation	–	–	7,463	51,652	59,115
Other current provision	–	109,000	–	–	109,000
			December 31, 2010		
Trade payables	47,274	-	–	–	47,274
Other payables	–	12,668	–	–	12,668
Risk management liabilities	–	1,100	–	–	1,100
Current portion of power purchase arrangement lease obligation	–	58,874	–	–	58,874
Current portion of Small Power Producer contracts	–	10,633	–	–	10,633
Current portion of reclamation and abandonment provision	–	10,000	–	–	10,000
Genesee power purchase arrangement lease obligation	–	–	–	552,929	552,929
Small Power Producer contracts	–	–	–	23,977	23,977
Reclamation and abandonment provision and other long-term obligation	–	–	19,318	56,923	76,241

6 b) Analysis of Financial Instruments

i) Hydro Power Purchase Arrangement

The Balancing Pool is the counterparty to the Hydro PPA, a financial arrangement recorded as an asset at the present value of estimated amounts to be received, net of Hydro PPA obligations, over the remaining term of the Hydro PPA. The Balancing Pool has no responsibility for the operational control of the hydro generating units and receives from (or pays to) the owner of the hydro plants revenues based on Pool prices and notional energy and reserve (ancillary service) volumes defined in the Hydro PPA, less the Hydro PPA fixed and variable costs.

The notional production of electricity under the Hydro PPA is 1,650 gigawatt hours per annum until 2013 and 1,620 gigawatt hours per annum from 2014 to 2020. Hydro PPA receipts or payments are settled on a monthly basis.

The remaining term of the Hydro PPA is nine years to 2020. At December 31, 2011, the net present value of the Hydro PPA was estimated at $680 million (December 31, 2010 – $462 million). Key assumptions in this valuation are a discount rate of 10% (2010 – 10%) and an average market electricity price of $75/megawatt hour ("MWh") for 2012 and an average market electricity price of $71/MWh for 2013 to 2020.

Hydro Power Purchase Arrangement *(in thousands of dollars)*	**2011**	2010
Hydro power purchase arrangement, opening balance	**462,081**	494,830
Accretion and current year change	**177,392**	82,120
Net cash receipts	**(189,342)**	(72,604)
Revaluation of hydro power purchase arrangement asset	**229,728**	(33,256)
Revenues from hydro power purchase arrangement commercial matters	**–**	(9,009)
Hydro power purchase arrangement, closing balance	**679,859**	462,081
Less: Current portion	**(128,000)**	(58,158)
	551,859	403,923

The estimated value of this asset varies significantly based on the assumptions used and there is a high degree of measurement uncertainty. For example, if the forecasted market price of electricity is decreased by 10% the value is reduced to $ 568 million; if the discount rate is decreased to 6% the value is increased to $801 million.

ii) Small Power Producer Contracts

Under the *Independent Power and Small Power Regulation of the Act*, any surplus or deficit from contracts that a utility company entered into with Small Power Producers pursuant to the *Small Power Research and Development Act* will be paid to or received from the Balancing Pool.

There are 10 (2010 – 10) contracts with total allocated capacity of 82 (2010 – 82) megawatts ("MW"). Contract prices range from $61.90/MWh to $79.70/MWh. Contract completion dates range between 2012 and 2019. Under these contracts the price that the Small Power Producer receives from the utility company is either fixed or fixed plus an escalation factor. If the market price is below the contract price, the Balancing Pool must pay the difference to the utility company. If the market price exceeds the contract price, the utility company must pay the difference to the Balancing Pool.

At December 31, 2011, the net present value of cash flows to or from the Balancing Pool for these contracts was estimated to be $2.8 million liability (2010 – $34.6 million liability). The estimated value of this liability varies significantly based on the assumptions used and there is a high degree of measurement uncertainty. Key assumptions in this valuation are a discount rate of 10% (2010 – 10%) and an average market electricity price of $75/ MWh for 2012 and an average market electricity price of $71/MWh for 2013 to 2019.

Small Power Producer Contracts *(in thousands of dollars)*	**2011**	2010
Small power purchase contracts, opening balance	**(34,610)**	(35,068)
Accretion and current year change	**9,913**	(268)
(Revenues) expenses	**(2,741)**	8,123
Revaluation of Small Power Producer contracts	**24,592**	(7,397)
Small Power Producer contracts, closing balance	**(2,846)**	(34,610)
Less: Current portion	**1,100**	10,633
	(1,746)	(23,977)

The valuation of these contracts varies significantly depending on the assumptions used. For example, if the forecast market price of electricity is decreased by 10% the value is increased to a $12.9 million liability; if the discount rate is decreased to 6% the value change is not significant.

iii) Financial Derivatives – Electricity Price Risk Management Activities

At December 31, 2011, the Balancing Pool had derivative swap contracts outstanding to manage its exposure to changes in electricity prices with a net unrealized fair value loss of $0.6 million (2010 – $1.1 million loss). These swap contracts require payments to (or receipts from) counterparties based on the differential between the fixed contract price and variable Pool prices as published by the AESO. The swap contracts require the Balancing Pool to pay a variable price and the counterparty to pay a fixed price. The estimated volume in MWh and weighted average fixed and market price per MWh are provided below:

Effective Term	MWh	Weighted Average Fixed Price	Weighted Average Market Price
Q1, 2012	717,200	93.01	95.88
Q2, 2012	260,880	71.85	62.54
Q3, 2012	231,840	73.08	74.50
Q4, 2012	231,945	73.08	73.89

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

Risk Management Assets and Liabilities *(in thousands of dollars)*	Assets	Liabilities	Net
Outstanding at January 1, 2010	7,599	–	7,599
Changes in value attributable to:			
Market changes	(27,591)	(32,393)	4,802
New contracts entered during the year	–	1,100	(1,100)
Net realized gains/losses on contracts settled during the year (a)	19,992	32,393	(12,401)
Net changes in value during 2010	(7,599)	1,100	(8,699)
Outstanding at December 31, 2010	–	1,100	(1,100)
Changes in value attributable to:			
Market changes	(16,507)	(26,503)	9,996
New contracts entered during the year	2,762	3,784	(1,022)
New contracts entered during the year (cash settled)	7,698	7,234	464
Net realized gains/losses on contracts settled during the year (a)	16,507	25,403	(8,896)
Net changes in value during 2011	10,460	9,918	542
Outstanding at December 31, 2011	10,460	11,018	(558)

(a) Amounts settled under financial derivative contracts are recorded on an accrual basis in revenue against the applicable exposure. During 2011, the Balancing Pool realized $8.9 million in financial derivative losses (2010 – $12.4 million in financial derivative losses) which have been included in sale of electricity. Natural Gas Exchange ("NGX") financial derivatives are cash settled daily. At December 31, 2011 the Balancing Pool had a net gain of $0.46 million in cash deposits with NGX.

6 c) Fair Value Hierarchy

Financial Instruments carried at fair value are categorized as follows:

(in thousands of dollars)	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobserv-able inputs	Total
	Level 1	**Level 2**	**Level 3**	
Assets				
Cash and cash equivalents	114,125	–	–	114,125
Investments – fixed Income securities	–	454,609	–	454,609
Investments – equity securities	–	447,597	–	447,597
Risk management asset	–	10,460	–	10,460
Hydro power purchase arrangement	–	–	679,859	679,859
	114,125	912,666	679,859	1,706,650
Liabilities				
Small Power Producer contracts	–	–	2,846	2,846
Risk management liabilities	–	11,018	–	11,018
	–	11,018	2,846	13,864
	114,125	901,648	677,013	1,692,786

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. 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. 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.

7. Investments

(in thousands of dollars)	**December 31, 2011**		**December 31, 2010**		**January 1, 2010**	
	Market Value	**Cost**	**Market Value**	**Cost**	**Market Value**	**Cost**
Fixed income securities	**454,609**	**445,358**	247,441	240,034	360,900	345,687
Canadian equities	**215,457**	**213,690**	266,216	247,987	226,016	240,786
Global equities	**232,140**	**243,919**	242,936	262,243	229,221	262,256
Total investments	**902,206**	**902,967**	756,593	750,264	816,137	848,729

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

Unrealized Market Gain (Loss) *(in thousands of dollars)*	**Fixed Income Securities**	**Canadian Equities**	**Global Equities**	**Totals**
Unrealized market gain (loss), January 1, 2010	–	(14,770)	(33,035)	(47,805)
Change during the year	12,784	33,853	8,897	55,534
Realized (gains) losses on sales of investments	115	(854)	4,831	4,092
Net change during the year	12,899	32,999	13,728	59,626
Unrealized market gain (loss), December 31, 2010	12,899	18,229	(19,307)	11,821
Change during the year	2,481	(14,353)	(7,132)	(19,004)
Realized (gains) losses on sales of investments	(638)	(2,109)	14,660	11,913
Net change during the year	1,843	(16,462)	7,528	(7,091)
Unrealized market gain (loss), December 31, 2011	14,742	1,767	(11,779)	4,730

8. Property, Plant and Equipment and Related Lease Obligation

a) Property, Plant and Equipment

(in thousands of dollars)	Genesee PPA	Office Equipment	Total
At January 1, 2010			
Deemed cost	1,505,670	464	1,506,134
Accumulated amortization and depreciation	(210,486)	(358)	(210,844)
Net book value	1,295,184	106	1,295,290
Year ended December 31, 2010			
At January 1, 2010	1,295,184	106	1,295,290
Additions	–	3	3
Amortization and depreciation	(117,744)	(13)	(117,757)
At December 31, 2010	1,177,440	96	1,177,536
At December 31, 2010			
Cost	1,505,670	467	1,506,137
Accumulated amortization and depreciation	(328,230)	(371)	(328,601)
Net book value	1,177,440	96	1,177,536
Year ended December 31, 2011			
At January 1, 2011	1,177,440	96	1,177,536
Amortization and depreciation	(117,744)	(11)	(117,755)
At December 31, 2011	1,059,696	85	1,059,781
At December 31, 2011			
Cost	1,505,670	467	1,506,137
Accumulated amortization and depreciation	(445,974)	(382)	(446,356)
Net book value	1,059,696	85	1,059,781

As at each period end date, the Balancing Pool has determined that no impairment losses have occurred with respect to PP&E.

b) Genesee Power Purchase Arrangement Lease Obligation

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

(in thousands of dollars)	
2012	59,948
2013	60,081
2014	59,244
2015	61,145
2016	61,524
Thereafter	250,987
	552,929
Less: Current portion	(59,948)
	492,981

9. Trade and other payables

(in thousands of dollars)	December 31, 2011	December 31, 2010	January 1, 2010
Trade payables	**39,425**	47,274	59,869
Accrued liabilities	**6,885**	12,668	21,622
	46,310	59,942	81,491

10. Other Current Provision

On February 8, 2011 TransAlta Corporation (PPA Owner) issued notice of termination for destruction of the Sundance 1 and 2 units under the terms of the PPA. On February 18, 2011 TransCanada Corporation (PPA Buyer) disputed TransAlta's determination and the issue will be resolved via binding arbitration. In the event that the Sundance PPA is terminated the Balancing Pool would be responsible to pay Termination Payments to TransAlta Corporation equal to the Net Book Values of the units and to the Residual Balancing Pool Amount to TransCanada Corporation, both as defined in the PPA. The possible loss to the Balancing Pool has been determined to be in the range of $0 to $250 million. Management has recorded a provision in respect of this matter as required by *IAS 37 Provisions, Contingent Liabilities and Contingent Asset*. The final amount required to settle this matter will likely be different than the amount accrued.

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

	Other Long-Term Obligation	Reclamation and Abandonment Provision		
(in thousands of dollars)	**H.R. Milner Generating Station**	**Isolated Generation Sites**	**Costs of PPAs**	**Total**
At January 1, 2010	18,834	18,910	35,900	73,644
Net increase (decrease) in liability provision	–	16,700	–	16,700
Liabilities paid in period	–	(6,292)	–	(6,292)
Accretion expense	753	-	1,436	2,189
At December 31, 2010	19,587	29,318	37,336	86,241
Less: Current portion	–	(10,000)	–	(10,000)
	19,587	19,318	37,336	76,241
At January 1, 2011	19,587	29,318	37,336	86,241
Net increase (decrease) in liability provision	(7,259)	5,800	–	(1,459)
Liabilities paid in period	–	(8,654)	–	(8,654)
Accretion expense	494	-	1,493	1,987
At December 31, 2011	12,822	26,464	38,829	78,115
Less: Current portion	–	(19,000)	–	(19,000)
	12,822	7,464	38,829	59,115

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

Under the Negotiated Settlement Agreement for the H.R. Milner generating station in 2001, the Balancing Pool assumed liability for the costs of decommissioning the station at the end of the contract period. When the asset was sold in 2004, the Balancing Pool retained the liability for decommissioning the generating station. In 2011 an agreement was reached with H.R. Milner generating station where the Balancing Pool's decommissioning cost will be $15 million, estimated to be incurred in 2015, discounted at 4%.

b) Isolated Generation Sites

Under the *Isolated Generating Units and Customer Choice Regulations of the Act*, the Balancing Pool is liable for certain amounts relating to the reclamation costs associated with Isolated Generation units. In 2011 $8.7 million (2010 – $6.3 million) expenditures were incurred.

Pursuant to the Negotiated Settlement Agreements approved by the AUC, the ultimate payment of these costs must be reviewed and approved by the Remediation Review Committee.

c) Decommissioning Costs of PPAs

Pursuant to Section 7 of the *Power Purchase Arrangements Regulation of the Act*, the owner of a generating unit who applies to the AUC to decommission a unit within one year of the termination of the PPA is entitled to receive 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. Estimated decommissioning costs were discounted at 4%.

12. Capital Management

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

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

Balancing Pool Deferral Account *(in thousands of dollars)*	**2011**	2010
Deferral account, beginning of year	**1,666,371**	1,805,036
Change in net assets attributable to the Balancing Pool deferral account	**468,789**	22,107
Consumer Allocation	**(110,440)**	(160,772)
Deferral account, end of year	**2,024,719**	1,666,371

Effective for 2012, the Balancing Pool increased the allocation to Alberta's electricity consumers to $5.50 per MWh of consumption, an estimated $305 million per annum (2011 – $2.00 per MWh, $110 million per annum, 2010 – averaged $3.00 per MWh, $161 million per annum). The Consumer Allocation is reviewed and approved by the Board of Directors of the Balancing Pool on an annual basis.

13. Contingencies and Commitments

Other Power Purchase Arrangements

Pursuant to Section 96 of the Act, where a PPA is terminated except under Section 15.2 of the PPA, the PPA is deemed to have been sold to the Balancing Pool. Buyer-initiated termination could be as a result of a change in law making the PPA uneconomic for the Buyer, an event of force majeure lasting greater than six months, Owner default in performing its obligations, or Buyer buyout of the PPA. Termination under these provisions would result in the immediate transfer of the PPA to the Balancing Pool.

Payments In Lieu of Tax

In 2011, Alberta Finance, Tax and Revenue Administration issued Notice of Reassessments to ENMAX related to its 2004 and 2007 taxation years. The reassessments required a payment to the Balancing Pool of $33.2 million. The Balancing Pool has not received any amounts payable under these Notices of Reassessment and ENMAX has filed a Notice of Objection related to these taxation years. Due to the uncertainty of the outcome of the appeal process, no amount has been recorded in the financial statements in this regard.

Disputed Amounts

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

Credit Facility

At December 31, 2011, the Balancing Pool had $37 million of unsecured Letters of Credit issued and an uncommitted credit facility available to issue Letters of Credit up to a maximum of $90 million.

14. Cost of Sales

(in thousands of dollars)	**December 31, 2011**	December 31, 2010
Cost of power purchase arrangements	**257,777**	220,365
Amortization and depreciation	**117,755**	117,757
	375,532	338,122

15. Related Party Transactions

Key Management Compensation

Key management includes members of the Board of the Balancing Pool, the Chief Executive Officer, Interim Chief Executive Officer and the Vice President Commercial Management. The compensation paid or payable to key management for employee services is shown below:

Key Management Compensation *(in thousands of dollars)*	**2011**	2010
Salaries and other short-term employee benefits	**1, 176**	1,077
Post-employment benefits	**–**	–
Termination benefits	**680**	–
Share-based payment	**–**	–
Total	**1,856**	1,077

Government-Related Entity

The Balancing Pool considers itself to be a government-related entity as defined by IAS 24 Related Party Disclosure and applies the exemption from the disclosure requirements of Paragraph 18 of IAS 24. The members of the Board are appointed by the Minister of Energy of the Government of Alberta. The Balancing Pool had no significant transactions with the Government of Alberta during 2011 and 2010.

As directed by the Minister of Energy the Balancing Pool is obligated to make payments to the Office of the Utilities Consumer Advocate to cover 80% of their annual operating costs. In 2011, the Balancing Pool expensed $7.8 million (2010 – $6.6 million), as directed by the Minister of Energy.

16. Transition to IFRS

The effect of the Balancing Pool's transition to IFRS, described in note 2, is summarized in this note as follows:

i) Transition elections;
ii) Reconciliation of equity, income and comprehensive income as previously reported under Canadian GAAP to IFRS;
iii) Reconciliation of the Statement of Cash Flows

i) Transition elections

The Balancing Pool has applied the following transition exceptions and elections to full retrospective application of IFRS.

Deemed cost of property, plant and equipment — As described in Note 16 ii (a).

ii) Reconciliation of equity, income and comprehensive income as previously reported under Canadian GAAP to IFRS

Equity *(in thousands of dollars)*	**Note**	**December 31, 2010**	**January 1, 2010**
Equity as previously reported under Canadian GAAP		–	–
Hydro power purchase arrangement change in estimation		(166,015)	(198,705)
Small Power Producer contracts change in estimation		6,245	6,377
IFRS transition adjustments increase (decrease):			
Property, plant & equipment (Note 8)	(a)	1,078,850	1,078,850
Reclamation and abandonment provision (Note 11)	(c)	(35,900)	(37,934)
Deferred charges	(b)	(14,266)	(12,915)
Amortization of property, plant and equipment (Note 8)	(a)	(98,077)	–
Finance expense	(d)	(3,215)	–
Transfer to Balancing Pool deferral account (Note 12)	(f)	(767,622)	(835,673)
Equity as reported under IFRS		**–**	**–**

Net Income and Comprehensive Income *(in thousands of dollars)*		**Year ended December 31, 2010**
	Note	
As previously reported under Canadian GAAP		90,157
Increase (decrease) in net income for:		
Hydro power purchase arrangement change in estimation		32,690
Small Power Producer contracts change in estimation		(131)
Hydro power purchase arrangement (Note 6 b i)	(b)	9,009
Sale of electricity	(b)	(3,238)
Amortization and depreciation	(a)	(98,077)
Other power purchase arrangement expenses	(b)	(7,122)
		(66,869)
Increase (decrease) in other income (expense) for:		
Finance expense	(c)	(1,181)
As reported under IFRS		**22,107**

(iii) Reconciliation of the Statement of Cash Flows

(in thousands of dollars)		**Year ended December 31, 2010**
	Note	
Cash from operating activities as reported under previous Canadian GAAP		38,340
IFRS transition adjustments increasing (decreasing):		
Net income		(100,609)
Amortization and depreciation	(a)	98,077
Reclamation and abandonment provision	(c)	(1,008)
Finance expense	(c)	2,189
Cash from operating activates as reported under IFRS		**36,989**
Cash from investing activities as reported under previous Canadian GAAP		102,603
Deferred charges, net of recoveries	(b)	1,351
Cash from investing activities as reported under IFRS		**103,954**

Explanatory Notes

The following explanatory notes describe the adjustments and reclassification to the Statement of Financial Position and Statements of Income and Comprehensive Income arising from the adoption of IFRS.

(a) Property, Plant and Equipment

The Genesee PPA transfers to the Balancing Pool substantially all the benefits and risks of ownership and is therefore treated as if the asset had been purchased outright.

Under Canadian GAAP, the asset is included in property, plant and equipment at an amount not exceeding the estimated net future cash flows arising from operations over the remaining life of the PPA. At December 31, 2001 based upon estimated future electricity prices at the time, the net book value of the Genesee PPA was written down to a $1,003 million liability. The asset is depreciated over the term of the Genesee PPA. The capital element of the leasing commitment is shown as a Genesee PPA lease obligation.

On transition to IFRS, the Balancing Pool has elected to use an IFRS 1 exemption whereby the fair value is used as deemed cost values at January 1, 2010. Under previous Canadian GAAP the net book value of the Genesee PPA was a liability of $453 million at December 31, 2009. The Balancing Pool has estimated future net cash flows associated with the Genesee PPA and calculated a net transition adjustment of $1,079 million increase to its fair value of $626 million at January 1, 2010. The key assumptions used in the fair value calculation were a discount rate of 10% and a range of market electricity prices as at January 1, 2010 of $48/MWh to $68/MWh for the remaining term. As at January 1, 2010 there were 11 years remaining in the Genesee PPA term and this difference is amortized straight line over the remaining term.

Under IFRS, the Genesee PPA is accounted for as finance lease, similar to a capital lease under previous Canadian GAAP.

Fair value for other assets in the PP&E classification are estimated to be net book value on transition.

(b) Deferred Charges

Under Canadian GAAP, Deferred Charges included an estimate of the net recoverable disputed amount for commercial matters that were in the process of resolution and/or resolved ($12.9 Million – January 1, 2010 and $14.2 million – December 31, 2010).

Under IFRS these amounts are considered Contingent Assets and are accounted for as an expense or revenue and a reversal of the expense or revenue in the period of recovery if any. These adjustments include; a recovery of $9.0 million for Hydro PPA commercial matters, an expense of $3.2 million for a Genesee PPA commercial dispute and $7.1 million expense for force majeure disputed amounts.

(c) Reclamation and Abandonment Provisions

Pursuant to Section 7 of the *Power Purchase Arrangements Regulation of the Act*, the owner of a generating unit who applies to the AUC to decommission a unit within one year of the termination of the PPA is entitled to receive 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.

Under IFRS, the Reclamation and Abandonment provision is $35.9 million as at January 1, 2010 and $37.9 million as at December 31, 2010 representing $47 million in anticipated future costs associated with PPAs in which the Balancing Pool estimates PPA owners will elect not to own and decommission the respective plants beyond the PPA contract end dates and thereby pass the underfunded decommissioning liabilities to the Balancing Pool. Under Canadian GAAP, the Balancing Pool disclosed to readers these contingent liabilities and made no accrual.

Under IFRS, the Reclamation and Abandonment provision is calculated using a credit adjusted risk-free discount rate of 4% at January 1, 2010 and December 31, 2010 as compared to a credit adjusted risk-free rate of 6% under previous GAAP. This adjustment has resulted in a decrease to Finance Expense.

(d) Finance Expense

Under IFRS, finance expense includes accretion expense for reclamation and abandonment provisions and other finance expenses. Accretion expense was previously included in Reclamation and Abandonment expense. These items have been reclassified accordingly.

The reclassifications in (d) above occur within the Statements of Income and Comprehensive Income and the Statement of Cash Flows and do not impact net income.

(e) Expenses by Function

Under IFRS, the Balancing Pool must present expenses on the Statement of Income by either function or nature. The Balancing Pool has chosen to present expenses by function as described in the Statements of Income and Comprehensive Income, as this is determined to provide more reliable and relevant information.

(f) Impact on Equity and the Balancing Pool Deferral Account

IFRS transitional entries flow through Equity to the Balancing Pool deferral account.

balancingpool

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