balancingpool

2017 Annual Report

Contents

Message to Stakeholders from the Board Chair

Robert Bhatia

2017 was a year of transition for the Balancing Pool. Most significantly, the Balancing Pool has been engaged in managing the process around the termination and expiry of the Power Purchase Arrangements (the "PPAs") that apply to coal-fired generation units in Alberta.

As we reported last year, changes to the *Specified Gas Emitter Regulation* ("SGER") that came into force on January 1, 2016 increased costs to the PPA buyers and triggered the return of six PPAs to the Balancing Pool. While the Balancing Pool holds a PPA, it is responsible for ongoing capacity payments and other PPA-related costs and for selling the output of the underlying generation units into the wholesale power market.

On July 25, 2016, the Attorney General of Alberta filed an application with the Alberta Court of Queen's Bench seeking declarations relating to the validity of the return of the PPAs to the Balancing Pool. The Government of Alberta has since reached settlement agreements with all of the PPA Buyers of the subject PPAs and the Balancing Pool has accepted the PPA Buyers' claims with respect to those PPAs.

For the PPAs that have been returned to the Balancing Pool by the PPA Buyers, the Balancing Pool has the option to hold the PPAs, resell all or a portion of the PPAs, or to terminate the PPAs by paying the Owner of the underlying generation units a termination payment equal to the remaining net book value of those underlying units.

During 2017 and into 2018, the Balancing Pool's priority was to evaluate whether terminating some or all of the PPAs it held was economically justified and in alignment with the Balancing Pool's mandate to support a fair, efficient, and openly competitive market.

We have since evaluated all six of the PPAs returned to the Balancing Pool, along with the Genesee PPA already held by the Balancing Pool, to determine whether any or all of these PPAs should be terminated. In the course of these evaluations, we have consulted with representatives of electricity customers and the Minister of Energy about the reasonableness of any potential PPA terminations.

continued

Upon careful review of the feedback received, the Balancing Pool determined that terminating the Battle River 5, Sundance B and Sundance C PPAs was in alignment with our mandate of managing generation assets in a commercial manner and in supporting a fair, efficient, and openly competitive market. The Sundance A PPA expired on December 31, 2017.

The table below identifies the various PPAs, their respective Buyers and plant Owners, and the dates associated with the PPA terminations.

PPA	PPA Buyer	Plant Owner	Date of Notice by PPA Buyer	Date of Notice to Terminate with Plant Owner	Actual or Anticipated Date of PPA Termination
Battle River 5	ENMAX	ATCO	Dec. 2015	March 2018	Sept. 2018
Keephills	ENMAX	TransAlta	May 2016	-	-
Sundance A	TransCanada	TransAlta	March 2016	N/A[1]	N/A[1]
Sundance B	ASTC	TransAlta	March 2016	Sept. 2017	March 2018
Sundance C	Capital Power	TransAlta	March 2016	Sept. 2017	March 2018
Sheerness	TransCanada	ATCO/TransAlta	March 2016	-	-
Genesee	Balancing Pool	Capital Power	-	-	-

[1] *The Sundance A PPA expired on December 31, 2017.*

Following the termination of the Battle River 5 and Sundance B and C PPAs by the Balancing Pool with the plant Owners, the Balancing Pool will control a combined total energy capacity of 2,284 megawatts ("MW") or 14% of the installed capacity in the Alberta market, down from the 4,643 MW or 29% immediately following the return of all the PPAs to the Balancing Pool.

In late 2016, following the return of the PPAs to the Balancing Pool, the Government of Alberta enacted changes to the Electric Utilities Act ("EUA") which allow the Treasury Board to make loans to the Balancing Pool at the recommendation of the Minister of Energy and to guarantee the Balancing Pool's obligations. As at December 31, 2017, the Balancing Pool had borrowed $566.0 million from the Government of Alberta. These loans will ultimately be repaid by electricity consumers.

Under provisions of the EUA, each year the Balancing Pool is required to forecast its revenues and expenses and to determine whether any excess or shortfall of funds will be allocated to electricity consumers. Accordingly, the Balancing Pool announced in December 2017 that a consumer collection of $3.10/megawatthour ("MWh") on consumption will be collected from electricity consumers in 2018 for an estimated annualized amount of $190.0 million. Comparatively, the Balancing Pool collected $66.0 million ($1.10/MWh) from electricity consumers in 2017.

As of April 9, 2018, Bruce Roberts, formerly President and CEO, is no longer at the Balancing Pool. We have appreciated his leadership and contributions during his time with the organization. The Board of Directors and the Balancing Pool management team are continuing operations in the normal course.

I would like to recognize the ongoing efforts and focus of our staff in effectively dealing with the many complex issues that have arisen over the past year. I appreciate the direction and expertise of our Board as we move ahead on behalf of Alberta's electricity consumers.

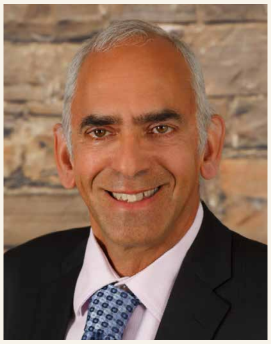
Robert Bhatia
Chair

April 10, 2018

Governance of the Balancing Pool

Adhering to the *Electric Utilities Act* (2003), the Minister of Energy appoints members of the Balancing Pool's board of directors on the basis of their cumulative expertise in order to enhance the performance of the Balancing Pool in exercising its powers and carrying out its duties, responsibilities and functions.

The Balancing Pool's Current Board



Robert Bhatia, Chair, served 10 years as a Deputy Minister with the Province of Alberta responsible for four major portfolios: Finance, Revenue, Seniors and Government Services. He is an experienced senior executive with more than 30 years of management and leadership experience. He has had significant responsibility for execution of multiple major corporate and financing transactions including the creation of TELUS and divestiture of an interest in Syncrude. Robert holds a Bachelor's degree in Economics from the University of Alberta and a Master's degree in Economics from Queen's University. He holds the Institute of Corporate Directors ICD.D certification and has been an examiner for the Institute. Until recently, he was a Public Member on the City of Edmonton's Audit Committee. He chairs the Alberta Insurance Council Audit Committee.

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

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

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

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

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

Remuneration of Board Members

A summary of remuneration Members are eligible to receive as at December 31, 2017, is as follows:

- Chair – retainer $85,000 / year
- Member – retainer $27,500 / year
- Committee Chair – retainer $5,000 / year
- Board / Committee meetings – $1,100 / meeting

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

2017 Meeting Attendance and Remuneration

	Meeting Attendance				
Board Member	Board	Audit & Finance	Governance & Human Resource	Other Meetings (special)	2017 Remuneration ($)[1]
Robert Bhatia	13 of 13	4 of 4	4 of 4	3 of 3	84,999.96
Adam Hedayat	12 of 12	4 of 4	4 of 4	3 of 3	45,718.78
Michelle Plouffe	12 of 12	-	4 of 4	3 of 3	46,168.79
Greg Pollard	13 of 13	4 of 4	-	3 of 3	50,285.45
Sandra Scott	12 of 12	4 of 4	4 of 4	3 of 3	45,718.78
Attendance	62 of 62	16 of 16	16 of 16	15 of 15	

[1] *2017 Remuneration includes base retainer, Committee Chair retainer and Member meeting fees.*

Management's Discussion and Analysis

Year Ended December 31, 2017

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A"), dated April 10, 2018, should be read in conjunction with the audited financial statements of the Balancing Pool for the years ended December 31, 2017 and 2016.

The financial statements for the year ended December 31, 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars.

The Balancing Pool was established in 1998 by the Government of Alberta to help manage the transition to competition in Alberta's electricity industry. The Balancing Pool's obligations and responsibilities are governed by the *Electric Utilities Act* (2003) ("EUA") and the *Balancing Pool Regulation*.

Results at a Glance

Years ended December 31	2017	2016	2015
Volume — gigawatt hours ("GWh")			
Genesee power purchase arrangement ("PPA")	6,435	6,469	6,509
Battle River 5 PPA	1,563	1,610	-
Sundance A PPA	3,230	2,611	-
Sundance B PPA	3,748	3,032	-
Sundance C PPA	4,151	3,904	-
Sheerness PPA	5,432	4,175	-
Keephills PPA	5,106	3,432	-
Hydro power purchase arrangement electricity	1,621	1,625	1,622
Hydro power purchase arrangement ancillary services	1,265	1,269	1,264
Small power producer	72	127	162
Total electricity and ancillary service volume	32,623	28,254	9,557
Price — per megawatt hour ("MWh")			
Average electricity market price	$22.19	$18.28	$33.34
Other			
Consumer collection (allocation) per MWh	$1.10	$(3.25)	$(5.50)
Financial Results *(in thousands of dollars)*			
Revenues	728,305	492,666	288,587
Other income	163,132	(357,755)	-
Expenses	202,217	2,685,364	751,888
Income (loss) from operating activities	689,220	(2,550,453)	(463,301)
Change in net liabilities attributable to the Balancing Pool deferral account	685,790	(2,551,136)	(464,109)
Cash, cash equivalents and investments	63,142	31,762	709,792
Total assets	530,111	314,573	1,299,463
Total liabilities	1,811,109	2,281,361	524,948
Net liabilities attributable to the Balancing Pool deferral account	(1,280,998)	(1,966,788)	774,515
Net change in cash, cash equivalents and investments	31,380	(678,030)	(301,531)
Consumer collection (allocation)	66,003	(190,167)	(324,113)

Significant Events

Power Purchase Arrangement Terminations

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

Date of Termination Notice	Power Purchase Arrangement	PPA Buyer
December 11, 2015	Battle River 5	ENMAX PPA Management ("ENMAX")
March 07, 2016	Sheerness	TransCanada Energy Ltd. ("TCE")
March 07, 2016	Sundance A	TransCanada Energy Ltd.
March 07, 2016	Sundance B	ASTC Power Partnership ("ASTC")
March 24, 2016	Sundance C	Capital Power PPA Management Inc. ("CP")
May 05, 2016	Keephills	ENMAX Energy Corporation ("ENMAX Corp")

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

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

On July 25, 2016, the Attorney General of Alberta filed an application with the Alberta Court of Queen's Bench seeking declarations relating to the validity of certain provisions of the Battle River 5 PPA, Sundance A PPA, Sundance B PPA, Sundance C PPA, Sheerness PPA and Keephills PPA. The Attorney General also sought judicial review of the Balancing Pool's decision to accept the termination by ENMAX PPA Management Inc. of the Battle River 5 PPA. The Balancing Pool, the Alberta Utilities Commission ("AUC"), ENMAX PPA Management Inc. and other parties with interests in PPAs were named as respondents.

On November 24, 2016 the Government of Alberta reached settlement agreements with the Buyers of the Sundance A, Sundance B, Sundance C, and Sheerness PPAs. As a result of these settlement agreements, the Balancing Pool in exchange for certain financial concessions received various reimbursements in relation to the settlements reached with the various PPA Buyers. The reimbursements have been recorded as an offset against the expenses related to the provision for other long-term obligations in the Statement of Loss and Comprehensive Loss. Please refer to Notes 13 and 15 of the financial statements.

On September 18, 2017, the Balancing Pool provided notice to TransAlta that the Sundance B and Sundance C PPAs would be terminated. The terminations of the PPAs were effective March 31, 2018.

On December 6, 2017 the Balancing Pool completed the assessment and verification of the Keephills PPA termination and accepted the termination.

On March 8, 2018, the Government of Alberta reached a settlement agreement with the Buyer of the Battle River 5 PPA and Keephills PPA bringing a conclusion to the Attorney General of Alberta's application with the Alberta Court of Queen's Bench.

On March 21, 2018, the Balancing Pool provided notice to Alberta Power (2000) Ltd. ("ATCO") that the Battle River 5 PPA will be terminated. The termination of the PPA will be effective no later than September 30, 2018, though ATCO and the Balancing Pool may agree to a shorter notice period.

Legislated Duties

The Balancing Pool's legislated duties include the following:

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

Assets

Details of Assets *(in thousands of dollars)*	**2017**	**2016**
Cash and cash equivalents	50,772	16,078
Trade and other receivables	130,124	77,157
Long-term receivable	5,882	7,824
Investments	12,370	15,684
Property, plant and equipment	27	57
Hydro power purchase arrangement	177,816	48,484
Intangible assets	153,120	149,289
Total assets	530,111	314,573

Trade and Other Receivables

Trade and other receivables balance at December 31, 2017 primarily includes sale of electricity revenues receivable for the PPAs and the consumer collection receivable for November and December 2017. The balance at year-end 2016 includes sale of electricity revenues for the PPAs for December 2016.

Long-Term Receivable

The long-term receivable of $5.9 million includes cash receivable related to the negotiated settlements reached on the termination of certain PPAs in 2016. The 2016 year-end balance included cash and emission credits receivable. The emission credits were received in December 2017.

Investments

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

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

Over 2016, the investment portfolio was liquidated and drawn down by $689.0 million relative to year-end 2015. An additional $3.3 million was withdrawn during 2017. The investment funds were used to meet the obligations of the Balancing Pool.

Hydro Power Purchase Arrangement

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

The hydro PPA is recorded as a financial asset since TransAlta Corporation ("TransAlta"), the Owner of the hydro plants, retains offer control of the hydro assets under the terms of this PPA. The net present value of the hydro PPA at December 31, 2017 increased by $139.4 million relative to the same period in 2016.

The increase in fair value is the result of an increase in the estimated energy and ancillary service revenues forecasted for the balance of the term relative to the 2016 year-end valuation calculation. Forecasted energy and ancillary service revenues increased due to the increase in the estimated wholesale electricity market prices.

Intangible Assets

Intangible assets include emission credits held for compliance purposes. At December 31, 2017 the Balancing Pool held 7.6 million tonnes of emission credits. Approximately 7.0 million tonnes of the emission credits held are related to the negotiated settlements on certain terminated PPAs.

Liabilities

Details of Liabilities *(in thousands of dollars)*	**2017**	**2016**
Trade and other payables	561,713	486,164
Related party loan	566,315	-
Hydro power purchase arrangement	-	10,053
Small power producer contracts	3,722	11,339
Reclamation and abandonment provision	21,638	30,032
Other long-term obligations	657,721	1,743,773
Total liabilities	1,811,109	2,281,361

Trade and Other Payables

Trade and other payables at December 31, 2017 primarily include PPA obligations due to plant Owners for November and December 2017 as well as accrued liabilities for the AUC Proceeding 790 (retroactive line loss adjustment) and amounts owed for 2017 environmental obligations imposed on the PPAs.

Related Party Loan

In January 2017 the Balancing Pool signed a loan agreement with the Government of Alberta. The loan arrangement was put in place to fund obligation associated with the terminated PPAs. At December 31, 2017 the Balancing Pool had $566.3 million in short-term discount notes issued to the Government of Alberta.

Small Power Producer Contracts

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

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

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

The SPP contracts are recorded as a financial instrument analogous to a fixed for floating swap arrangement. The net present value of the SPP contracts at December 31, 2017 decreased $7.6 million relative to the same period in 2016 as a result of the increase to the estimated future electricity market price.

Reclamation and Abandonment Provision

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

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

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

Pursuant to Section 7 of the *Power Purchase Arrangements Regulation of the Act*, the Owner of a PPA-related generating unit who applies to the AUC to decommission a unit within one year of the termination of the PPA is entitled to receive from the Balancing Pool the amount by which the decommissioning costs exceed the amount the Owner collected from consumers before January 1, 2001 and subsequently through the PPA term. Decommissioning cost recovery by the Owner is subject to review and approval by the AUC and is conditional on the unit ceasing operations within one year of PPA termination. This provision does not apply to PPA-related generating units' termination dates that occur after December 31, 2018.

Details of Reclamation and Abandonment Provision *(in thousands of dollars)*	**2017**	**2016**
H.R Milner	13,215	14,616
Isolated Generation sites	6,728	6,956
Decommissioning of power purchase arrangements	1,695	8,460
Total reclamation and abandonment provision	21,638	30,032

The decrease in the H.R Milner provision primarily reflects liabilities paid during 2017 of $1.1 million and a reduction to the provision of $0.4 million as a result of a change in the discount rate and estimated payment date of remaining reclamation activities.

The provision for the Isolated Generation sites decreased primarily due to liabilities paid during 2017 of $0.4 million. The decrease was partially offset by an increase to the provision of $0.2 million due to a change in estimated costs.

The assumptions underlying the provision for the decommissioning of the PPAs have changed based on updated estimates of future net decommissioning costs and management's assessment of the probability that an Owner of a generating unit will apply to the AUC to decommission the unit within one year of the termination of the PPA. The change in assumptions resulted in a $6.8 million decrease to the provision.

Other Long-Term Obligations (Power Purchase Arrangements)

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

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

Details of Other Long-Term Obligations *(in thousands of dollars)*	**2017**	**2016**
Battle River 5 PPA	113,999	151,557
Sundance A PPA	-	90,892
Sundance B PPA	95,961	199,775
Sundance C PPA	108,658	150,169
Sheerness PPA	121,573	382,244
Keephills PPA	69,584	256,527
Genesee PPA	147,946	626,650
Total other long-term obligations	657,721	1,857,814

An onerous contract provision of $657.7 million was recognized at December 31, 2017 for the PPAs. The reduction to the onerous contract provision from December 31, 2016 is primarily a result of an increase in the forecast electricity market prices, thereby reducing the estimated PPA losses. The termination of the Sundance B and C PPAs and the corresponding payout of the Net Book Value effective March 31, 2018 have also contributed to the reduction in the provision.

Balancing Pool Deferral Account

Balancing Pool Deferral Account *(in thousands of dollars)*	**2017**	**2016**
Deferral account, beginning of year	(1,966,788)	774,515
Change in net liabilities attributable to the Balancing Pool deferral account	685,790	(2,551,136)
Payment of consumer allocation	-	(190,167)
Deferral account, end of year	(1,280,998)	(1,966,788)

The Balancing Pool's deferral account increased by $685.8 million at 2017 year-end relative to the prior year. The increase in the deferral account is primarily the result of a reduction to the onerous contract provision for the PPAs, an increase to the hydro PPA value, reduction in the provision for reclamation and abandonment and the receipt of the consumer collection of $66.0 million over 2017 (2016 – $190.2 million distribution).

The Balancing Pool adopted IFRS 15, *Revenue from contracts with customers*, on January 1, 2017. The 2017 consumer collection of $66.0 million is recorded in revenue. The 2016 amount is recognized directly within the Balancing Pool's deferral account.

Operations

Revenue from Contracts with Customers

Details of Revenue from Contracts with Customers *(in thousands of dollars)*	**2017**	**2016**
Sale of electricity	661,586	463,923
Sale of generating capacity and termination revenue	716	28,743
Consumer collection	66,003	-
Total revenue from contracts with customers	728,305	492,666

Overall revenues increased in 2017 relative to 2016 primarily as a result of an increase in revenues for Sale of Electricity and the reclassification of the consumer collection as a revenue from contract with customers.

Sale of Electricity

Sale of Electricity *(in thousands of dollars)*	**2017**	**2016**
Battle River 5 PPA	38,041	32,572
Sundance A PPA	71,388	48,317
Sundance B PPA	88,988	59,472
Sundance C PPA	90,433	71,362
Sheerness PPA	121,358	78,665
Keephills PPA	111,801	63,179
Genesee PPA	139,577	110,356
Total sale of electricity	661,586	463,923

Sale of electricity in 2017 is comprised of revenues from the various PPAs as detailed on the table above. Revenues from sale of electricity for 2017 increased relative to 2016 primarily due to a higher realized electricity market price in 2017. In 2016, revenues recorded are for a partial year given the timing of the termination notices received over the first quarter of 2016.

Consumer Collection (Allocation)

In previous reporting periods, the consumer collection (allocation) was accounted for as a change in the Balancing Pool's deferral account, rather than revenue in the Balancing Pool's statement of income (loss). Upon adoption of IFRS 15 on January 1, 2017, the consumer collection is now recorded as revenue on the statement of income (loss).

The consumer collection is reviewed and approved annually by the Board of the Balancing Pool in accordance with the *Balancing Pool Regulation*. In late 2016, the Government of Alberta changed the *Balancing Pool Regulation* that set the consumer collection at $1.10/MWh for an estimated annual amount of $65.0 million for 2017. For 2018, the Balancing Pool Board of Directors approved a consumer collection of $3.10/MWh for an estimated annual amount of $190.0 million. The consumer collection for 2018 was determined in accordance with the revised *Balancing Pool Regulation* which stipulates the consumer collection is determined by calculating the annual collection amount over the remaining life of the Balancing Pool to 2030.

Other Income

Details of Revenue from Contracts with Customers *(in thousands of dollars)*	**2017**	**2016**
Change in fair value of hydro power purchase arrangement	159,718	(222,670)
Payments (refunds) in lieu of taxes ("PILOT")	3,069	(133,349)
Investment income – interest and dividends	313	4,836
Change in fair value of investments	32	(6,572)
Total revenues	825,434	134,911

Other income increased in 2017 relative to 2016 primarily due to higher Hydro PPA receipts and PILOT receipts in 2017.

Change in Fair Value of Hydro Power Purchase Arrangement

Details of Changes in Fair Value of Hydro Power Purchase Arrangement *(in thousands of dollars)*	**2017**	**2016**
Accretion and current year change	34,306	(20,109)
Re-valuation of hydro power purchase arrangement gain (loss)	125,412	(202,561)
Total change in fair value of hydro power purchase arrangement	159,718	(222,670)

Accretion and current year change increased for 2017 relative to 2016 as a result of 2017 realized cash receipts, and estimated future receipts were higher than those forecast in the prior year's valuation. Realized cash receipts increased because of the higher than expected realized electricity market price for the year. The value of the hydro PPA at December 31, 2017 increased relative to 2016 as a result of an increase in the expected future cash flows for electricity and ancillary services relative to those used in the prior year's valuation calculation.

Payments (Refunds) in Lieu of Tax

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

Details of PILOT *(in thousands of dollars)*	**2017**	**2016**
PILOT instalments received for current tax year	3,334	828
PILOT instalment re-allocations and refunds for prior tax years	27	(133,671)
PILOT audit and litigation costs	(292)	(506)
Total PILOT revenues (refunds)	3,069	(133,349)

Total PILOT revenues for 2017 increased relative to 2016 because of higher PILOT instalments received in the current year and refunds processed and accrued for prior tax years in 2016. PILOT instalments are calculated by the municipal entity and are subject to audit by Alberta Tax and Revenue Administration.

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

The total PILOT amounts that remain under dispute are approximately $61.7 million for the period from 2001 to 2015. A provision of $30.3 million has been recorded as a reduction in revenue in relation to the remaining disputed matters.

During 2017 a cash refund of $43.5 million was issued to the municipal entity disputing the re-assessments mentioned above. The refund was applied to the accrual of $96.0 million established in 2016.

Investment Income – Interest and Dividends

Details of Investment Income *(in thousands of dollars)*	**2017**	**2016**
Interest income	311	4,100
Dividend income	2	736
Total investment income – interest and dividends	313	4,836

Investment income decreased due to a lower investment balance through 2017 relative to 2016.

Expenses

Details of Expense *(in thousands of dollars)*	**2017**	**2016**
Cost of sales	621,571	753,705
Mandated costs	6,227	6,155
General and administrative	4,139	3,814
Force majeure costs	5,306	2,110
Investment management fees	31	534
Changes in fair value of small power producer contracts	(3,404)	6,048
Reclamation and abandonment provision	(7,109)	(75)
Power purchase arrangement provision	(424,544)	1,648,395
Impairment loss	-	264,678
Total expenses	202,217	2,685,364

Overall, total expenses for 2017 decreased from the prior year primarily due to a significant recovery recorded to the onerous contract provision established for the PPAs, a recovery for the reclamation and abandonment provision and a change in fair value for the small power producer contracts.

Cost of Sales

Details of Cost of Sales *(in thousands of dollars)*	**2017**	**2016**
PPA costs	1,283,106	1,126,465
Amortization and depreciation on assets	30	66,210
Losses recorded against other long-term obligations	(661,565)	(438,970)
Total cost of sales	621,571	753,705

The PPA costs include plant capacity payments, variable operating costs including incentive payments, and transmission charges. Capacity payments comprise more than 90% of the PPA costs and these payments vary year-over-year as a result of changes in capital cost base, cost indices, interest rates and pass-through charges. Changes to the electricity market price have a minimal impact on the PPA capacity payments.

PPA costs of $1,283.1 million in 2017 increased relative to 2016 primarily due to higher PPA costs associated with the Sheerness and Keephills PPAs. The Sheerness PPA costs increased in 2017 due to higher fuel, operation and maintenance costs, change in law costs and system transmission costs. The Keephills PPA costs increased in 2017 due to higher fuel, operation and maintenance costs and change in law costs.

In 2017 losses from the PPAs of $661.6 million were recorded against the onerous contract provisions established for the PPAs. PPA losses for 2017 were higher relative to 2016 due to higher PPA costs incurred in 2017.

Mandated Costs

Details of Mandated Costs *(in thousands of dollars)*	**2017**	**2016**
Utilities consumer advocate ("UCA")	4,961	5,427
Transmission facilities cost monitoring committee ("TFCMC")	98	208
Retail market review committee ("RMRC")	1,168	520
Total mandated costs	6,227	6,155

Mandated costs in 2017 increased marginally relative to 2016 to reflect changes in estimated costs previously accrued for the RMRC. The increased costs for the RMRC were partially offset by lower costs previously accrued for the UCA and TFCMC.

Force Majeure Costs

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

Force majeure costs of $5.3 million for 2017 represent legal and consulting expenditures related to disputed force majeure claims from prior years. There were no new force majeure claims initiated in 2017.

Change in Fair Value of Small Power Producer Contracts

Details of Changes in Fair Value of Small Power Producer Contracts *(in thousands of dollars)*	**2017**	**2016**
Accretion and current year change	(1,616)	1,391
Revaluation of small power producer contracts (gain) loss	(1,788)	4,657
Total change in fair value of small power producer contracts	(3,404)	6,048

Accretion and current year change decreased year-over-year due to lower actual current year cash payments than those forecast in the prior year's valuation. Actual cash payments decreased as a result of the higher than expected electricity market price for the year. The value of the liability related to the SPP contracts at December 31, 2017 decreased relative to 2016 as a result of a decrease in the expected net payments relative to the prior year's valuation calculation. Net payments are expected to decrease going forward as a result of an increase in the forward market electricity price relative to the fixed SPP contract price.

Power Purchase Arrangement Provision

Power Purchase Arrangement Provision *(in thousands of dollars)*	**2017**	**2016**
PPA provision for onerous contracts (recovery)	(424,486)	2,200,084
Re-class Genesee lease obligation to other long-term obligation	-	(250,987)
PPA provision recoveries related to negotiated settlements	(58)	(186,660)
Total power purchase arrangement provision	(424,544)	1,762,437

In 2017, the power purchase arrangement provision is comprised of the onerous contract provisions established for the PPAs (Battle River 5, Sundance B, Sundance C, Sheerness, Keephills and Genesee). The Sundance A PPA expired on December 31, 2017 and is therefore no longer included in the onerous contract provision. The PPA provision in 2017 declined relative to the provision established in 2016 as a result of an increase to the forward electricity market price.

Included as an off-set to power purchase arrangement provision expense are the recoveries related to the negotiated settlements reached in December 2016 for certain PPAs.

Liquidity and Cash Flow

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

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

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

Cash and Cash Equivalents *(in thousands of dollars)*	**2017**	**2016**
Cash and cash equivalents, beginning of year	16,078	5,073
Net cash used in operating activities	(545,862)	(270,635)
Net cash provided by investing activities	1,484	557,876
Net cash provided by (used in) financing activities	579,072	(276,236)
Cash and cash equivalents, end of year	50,772	16,078

For the year ended December 31, 2017 the Balancing Pool received $563.0 million from the loan arrangement in place with Alberta Treasury Board and Finance (2016 – $nil) and $20.3 million from the hydro PPA (2016 – $18.5 million cash outflow).

Outlook

As per changes to the *Balancing Pool Regulation* enacted in December 2017, effective January 1, 2018, the annual consumer collection from electricity consumers in Alberta was set at $3.10/MWh, for an estimated annual amount of $190.0 million (2016 – $1.10/MWh, $66.0 million consumer collection).

Risks and Risk Management

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

- Force majeure risk

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

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

- Power market price volatility risk

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

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

- Unit destruction

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

- Change in law risk

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

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

- *Carbon Competiveness Incentive Regulation*

  The *Carbon Competiveness Incentive Regulation* ("CCIR") replaced the Specified Gas Emitters Regulation effective January 1, 2018. CCIR was enacted on June 17, 2017 as part of the *Climate Change and Emissions Management Act*. CCIR will impose an output-based benchmark on all plant facilities in the electricity industry. The net emissions for a facility may not exceed the output-based allocation applicable to that facility. Under circumstances where the actual emissions intensity exceeds the benchmark, the facility will have to bring its net emissions down by applying emission performance credits, emission offsets or fund credits on an annual basis.

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

- PPA decommissioning risk

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

- Liquidity

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

Internal Controls

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

The CEO and the Controller have evaluated the design and operating effectiveness of the Balancing Pool's ICFR as of December 31, 2017 and, based on the evaluation, have concluded that the controls are effective in providing such reasonable assurance. There are no changes to the internal controls that have materially affected the Balancing Pool's ICFR during 2017.

Accounting Policy Changes

The Balancing Pool prepares its financial statements in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

On January 1, 2017, the Balancing Pool adopted IFRS 15, *Revenue from contracts with customers*. As a result of adopting IFRS 15, the consumer collection (allocation) is recorded in Revenue from contracts with customers. Historically the consumer collection (allocation) was recorded as a reduction to the Balancing Pool's deferral account.

Critical Accounting Estimates

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

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

Onerous Contract Provision – The provision for the PPAs (Genesee, Battle River 5, Sundance B, Sundance C, Sheerness and Keephills) have been estimated using estimated future electricity prices, anticipated impacts of pending environmental legislation, escalated costs as per the contract terms and future cash outflows discounted to the net present value at a range of 1.53% to 1.73% (2016 – 0.6% to 1.0%).

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

- estimated future electricity prices;
- escalated costs as per contract term; and
- future cash flows discounted to net present value with a range of 1.53% to 11.1% (2016 – 0.6% to 10.2%)

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

Forward-Looking Information

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

Financial Statements

Years Ended December 31, 2017 and 2016

April 10, 2018

Independent Auditor's Report

To the Directors of the Balancing Pool

We have audited the accompanying financial statements of the Balancing Pool, which comprise the statements of financial position as at December 31, 2017 and December 31, 2016 and the statements of income (loss) and comprehensive income (loss) and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Balancing Pool as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

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Statements of Financial Position

(in thousands of Canadian dollars)	2017	2016
Assets		
Current assets		
Cash and cash equivalents	50,772	16,078
Trade and other receivables (Note 5)	130,124	77,157
Current portion of long-term receivables (Note 6)	1,980	-
Current portion of hydro power purchase arrangement (Note 8 b i)	57,566	-
Current portion of intangible assets (Note 7)	153,120	-
	393,562	93,235
Long-term receivables (Note 6)	3,902	7,824
Investments (Note 9)	12,370	15,684
Property, plant and equipment (Note 10)	27	57
Hydro power purchase arrangement (Note 8 b i)	120,250	48,484
Intangible assets (Note 7)	-	149,289
Total Assets	530,111	314,573
Liabilities		
Current liabilities		
Trade payable and other accrued liabilities (Note 11)	561,713	486,164
Related party loan (Note 17)	566,315	-
Current portion of hydro power purchase arrangement (Note 8 b i)	-	10,053
Current portion of small power producer contracts (Note 8 b ii)	3,424	5,902
Current portion of reclamation and abandonment provision (Note 12)	7,767	3,671
Current portion of other long-term obligations (Note 13)	529,073	1,332,031
	1,668,292	1,837,821
Small power producer contracts (Note 8 b ii)	298	5,437
Reclamation and abandonment provision (Note 12)	13,871	26,361
Other long-term obligations (Note 13)	128,648	411,742
Total Liabilities	1,811,109	2,281,361
Net liabilities attributable to the Balancing Pool deferral account (Note 1, 14)	(1,280,998)	(1,966,788)
Contingencies and commitments (Note 15)		
Subsequent event (Note 18)		

On behalf of the Balancing Pool:

Robert Bhatia
Chair

Greg Pollard
Audit and Finance Committee Chair

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

Statements of Income (Loss) and Comprehensive Income (Loss)

(in thousands of Canadian dollars)	2017	2016
Revenue from contracts with customers		
Sale of electricity (Note 3)	661,586	463,923
Consumer Collection (Note 3, 14)	66,003	-
Sale of generating capacity and termination revenue (Note 3, 15)	716	28,743
	728,305	492,666
Other income (expense) from operating activities		
Changes in fair value of hydro power purchase arrangement (Note 8 b i)	159,718	(222,670)
Payments (refunds) in lieu of tax	3,069	(133,349)
Investment income – interest and dividends	313	4,836
Changes in fair value of investments (Note 9)	32	(6,572)
	163,132	(357,755)
Expenses		
Cost of sales (Note 16)	621,571	753,705
Mandated costs (Note 17)	6,227	6,155
General and administrative	4,139	3,814
Force majeure costs	5,306	2,110
Investment management costs	31	534
Changes in fair value of small power producer contracts (Note 8 b ii)	(3,404)	6,048
Reclamation and abandonment provision (Note 12)	(7,109)	(75)
Power purchase arrangement provision (Note 13)	(424,544)	1,648,395
Property, plant and equipment impairment loss (Note 10)	-	264,678
	202,217	2,685,364
Income (loss) from operating activities	689,220	(2,550,453)
Other income (expense)		
Finance expense (Note 12, 17)	(3,558)	(804)
Other income	128	121
	(3,430)	(683)
Change in net liabilities attributable to the Balancing Pool deferral account (Note 14)	685,790	(2,551,136)

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

Statements of Cash Flows

(in thousands of Canadian dollars)	**2017**	**2016**
Cash flow provided by (used in)		
Operating activities		
Change in net liabilities attributable to the Balancing Pool deferral account	685,790	(2,551,136)
Items not affecting cash		
Amortization, depreciation and impairment (Note 10)	30	330,888
Reclamation and abandonment provision (Note 12)	(7,109)	(75)
Power purchase arrangement provision (Note 13)	(1,086,052)	1,647,073
Line loss provision (reversal) (Note 13, 16)	(114,042)	-
Fair value changes on small power producer contracts (Note 8 b ii)	(3,404)	6,048
Fair value changes on hydro power purchase arrangement (Note 8 b i)	(159,718)	222,670
Fair value changes on financial investments (Note 9)	(1)	121,707
Finance expense (Note 12, 17)	3,558	804
Reclamation and abandonment expenditures (Note 12)	(1,480)	(486)
Net change in other assets:		
Intangible assets (Note 7)	(2,000)	(139,837)
Long-term receivable (Note 6)	1,942	(7,824)
Power purchase arrangement lease obligation	-	(250,987)
Net change in non-cash working capital:		
Trade and other receivables	(52,967)	(61,064)
Trade payable and other accrued liabilities	189,591	411,584
Net cash used in operating activities	(545,862)	(270,635)
Investing activities		
Interest, dividends and other gains	(186)	(119,884)
Sale of investments (Note 9)	3,501	687,212
Purchase of intangible assets (Note 7)	(1,831)	(9,452)
Net cash provided by investing activities	1,484	557,876
Financing activities		
Hydro power purchase arrangement net receipts (payments) (Note 8 b i)	20,333	(18,468)
Payment of power purchase arrangement lease obligation	-	(61,524)
Proceeds from issue of related party loan (Note 17)	562,952	-
Small power producer contracts net payments (Note 8 b ii)	(4,213)	(6,077)
Payment of the consumer allocation (Note 14)	-	(190,167)
Net cash (used in) provided by financing activities	579,072	(276,236)
Change in cash and cash equivalents	34,694	11,005
Cash and cash equivalents, beginning of year	16,078	5,073
Cash and cash equivalents, end of year	50,772	16,078

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

Notes to Financial Statements

1. Reporting Entity and Nature of Operations

Formation and Duties of the Balancing Pool

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

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

Under the EUA the Corporation is required to operate with no profit or loss (Note 14) and no share capital for the Corporation has been issued. The Balancing Pool Board consists of individual members who are independent of persons having a material interest in the Alberta electric industry. The members of the Board are appointed by the Minister of Energy of the Government of Alberta.

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

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

Activities of the Balancing Pool

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

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

In late 2016, following the PPA terminations, the Government of Alberta enacted changes to the EUA which allow the Treasury Board to make loans to the Balancing Pool at the recommendation of the Minister of Energy and to guarantee the Balancing Pool's obligations. The Government of Alberta also enacted changes in 2016 to the *Balancing Pool Regulation* which stipulated the consumer collection for 2017 be set at $65.0 million for the year, estimated at $1.10/megawatt hour ("MWh"). For 2018, the Board of Directors approved a consumer collection of $3.10/MWh estimated at an annual amount of $190.0 million. Any cash shortfall that the consumer collection is unable to satisfy will be financed by funds obtained through the loan agreement with the Government of Alberta and subsequently recovered from electricity consumers over the period of January 1, 2017 to December 31, 2030 (Note 17).

Revenue from Contracts with Customers

i) Sale of electricity and generating capacity

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

The Balancing Pool has also earned revenue from the sale of generating capacity in the form of strip contracts which transfer the associated offer rights and energy output of the Genesee PPA to third party buyers. The contracts commenced on November 1, 2014. See Note 15 for events related to the strip contract terminations in 2016.

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

ii) Consumer collection

Effective January 1, 2017, the Corporation early adopted IFRS 15, *Revenue from contracts from customers*, on a modified retrospective basis. Pursuant to Section 82 of the EUA, the Balancing Pool collects or allocates an annualized amount from customers. Consumer collection from the AESO is being accounted for as revenue of the Balancing Pool. In 2016, the payment of the consumer allocation was accounted for as a reduction to the Balancing Pool Deferral Account. The Balancing Pool has applied judgment in determining that the consumer collection collected via rate Rider F, as specified in the EUA, is analogous to a contract with a customer. The legislation contained in the EUA established the Balancing Pool's right to recover operating shortfalls from electricity customers via Rider F of the AESO tariff and can be interpreted as a contract with a customer.

Other Income

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

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

ii) Investment income and changes in fair value of investments

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

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

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

Expenses

i) Cost of sales

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

ii) Small power producer ("SPP") contracts

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

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

iii) Other costs

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

2. Basis of Presentation

These financial statements for the year ended December 31, 2017 have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and include as comparative information the year ended December 31, 2016.

These financial statements were authorized and approved for issue by the Board of the Balancing Pool on April 10, 2018.

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

3. Summary of Significant Accounting Policies

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

Basis of Measurement

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

Revenue from Contracts with Customers

The Balancing Pool adopted IFRS 15, *Revenue from contracts with customers*, effective for its annual reporting period commencing January 1, 2017. The Balancing Pool elected to apply the standard on a modified retrospective basis, which resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements explained below. In accordance with the transition provisions in IFRS 15, comparatives for the 2016 financial year have not been restated, and completed contracts prior to January 1, 2017, the date of adoption of IFRS 15, were not required to be reassessed. No revenue contracts that required cumulative adjustments on transition were identified as at January 1, 2017.

(a) Sale of electricity and generating capacity

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

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

(b) Consumer collection (allocation)

In previous reporting periods, receipts (or payments) with respect to the consumer allocation were accounted for as a change in the Balancing Pool's deferral account, rather than revenue in the Balancing Pool's statement of income (loss) and comprehensive income (loss). Upon adoption of IFRS 15, consumer collection revenue is recognized in the statement of income (loss) and comprehensive income (loss) on an accrual basis in the period in which amounts are charged (refunded) to electricity customers based on an annualized tariff amount, which is the point in time when control of the goods and services passes to the customer. Consumer collection revenue is measured at the fair value of the consideration received or receivable. The Corporation has elected to recognize revenue based on amounts invoiced.

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

Other Income (Expense) Recognition

(a) Hydro power purchase arrangement

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

(b) Small power producer contracts

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

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

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

(d) Payments (refunds) in lieu of tax

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

Income Taxes

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

Cash and Cash Equivalents

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

Trade and Other Receivables and Prepaid Expenses

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

Intangible Assets (Emission Credits)

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

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

Long-Term Receivables

Cash settlement amounts due from a former PPA counterparty are accounted as long-term receivables with fixed payments receivable on each of December 31, 2018, 2019 and 2020. These assets were recognized initially at fair value. After initial recognition they are measured at amortized cost using the effective interest method less any impairment losses. The effective interest method calculates the amortized cost of a financial asset and allocates the interest income over the term of the financial asset using the effective interest rate.

Hydro Power Purchase Arrangement and Small Power Producer Contracts

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

Electricity Price Risk Management and Financial Instruments – Risk Management Asset and Liabilities

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

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

Investments

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

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

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

Impairment – Non-Financial Assets

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

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

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

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

Impairment – Financial Assets

Financial assets have been assessed for indicators of impairment at the end of each reporting period. Receivables are carried at amortized cost. The amount of any impairment loss is recognized as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. Any impairment loss is recognized in the Statement of Income (Loss) and Comprehensive Income (Loss). Should the amount of the estimated impairment loss increase or decrease following a subsequent event, the previously recognized impairment loss is adjusted through the Statement of Income (Loss) and Comprehensive Income (Loss).

Reclamation and Abandonment Obligations

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

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

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

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

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

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

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

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

Provisions for Onerous Contracts (Other Long-Term Obligations)

A provision for an onerous contract is recognized when the unavoidable cost of meeting the obligations under the contract exceed the economic benefits expected to be derived from the contract. The provision is measured at the lower of the expected cost of terminating the contract and the expected cost of continuing performance under the contract. The Balancing Pool has recognized onerous contract provisions for the following PPAs: Battle River 5, Sheerness, Sundance A, Sundance B, Sundance C, Keephills and Genesee. The provisions for onerous contracts have been classified as part of other long-term obligations on the Statements of Financial Position.

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

Other Provisions (Trade Payables and Accrued Liabilities)

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

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

Genesee Power Purchase Arrangement and Related Finance Lease Obligation

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

Each lease payment is allocated between the liability and expenses.

The capitalized asset is included in PP&E at an amount not exceeding the estimated net future cash flows arising from operations over the remaining life of the PPA. The value of the Genesee PPA is stated at cost, less accumulated depreciation and amortization.

The Genesee finance lease obligation is now recognized and reported as part of other long-term obligations (provision for onerous contracts). See Notes 10 and 13 for events related to impairment and recognition of an onerous contract for the Genesee PPA.

Accounting Standards Issued But Not Yet Adopted

The IASB issued the following standards, which are issued but have not yet been adopted by the Balancing Pool.

IFRS 9 – *Financial instruments* – is the first standard issued as part of a wider project to replace IAS 39 – *Financial instruments – recognition and measurement*. IFRS 9 includes guidance on the classification and measurement of financial assets and financial liabilities, impairment of financial assets and a new hedge accounting model. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Balancing Pool has completed the assessment of the impact that the new standard will have on its financial statements and has not identified any significant changes other than additional disclosure.

IFRS 16 – *Leases* - In January 2016, the IASB issued IFRS 16 *Leases*, which replaces the current IFRS guidance on leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The approach to lessor accounting will remain unchanged from its predecessor, IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The Balancing Pool is currently evaluating the impact that the amended standard will have on its financial statements.

4. Significant Accounting Judgments, Estimates and Assumptions

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

Critical Judgments in Applying Accounting Policies

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

- concluding that the consumer collection (allocation) is accounted for as revenue (refund of revenue) from a contract with a customer (Note 1, 14);
- forecasting future power prices and capacity factors;
- estimating the probability that specific PPA Owners will elect to decommission the PPA-related generating units within one year of termination of the PPA;
- assessing the impact of events related to the termination of certain PPAs and the related commitments (Note 15) and provisions (Note 13) arising therefrom; and
- estimating the amount of the liability related to the AUC Proceeding 790 ("retroactive line loss adjustment") (Note 15).

These critical judgements have been made in the process of applying accounting policies and have a significant effect on the amounts recognized in the financial statements.

Key Sources of Estimation Uncertainty

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

- Hydro power purchase arrangement (Note 8 b i)
- Intangible assets (Note 7)
- Reclamation and abandonment provision (Note 12)
- Other long-term obligations (Note 13)
- Small power producer contracts (Note 8 b ii)
- Accrued Liabilities, retroactive line loss adjustment (Note 15)

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

5. Trade and Other Receivables

(in thousands of dollars)	December 31, 2017	December 31, 2016
Trade receivables	125,366	75,137
Other receivables	4,758	2,020
	130,124	77,157

6. Long-term receivables

(in thousands of dollars)	December 31, 2017	December 31, 2016
Opening balance, long-term receivable	7,824	-
Accretion	58	-
Cash settlement receivable from PPA settlements (Note 15)	-	5,824
Emission credits receivable from PPA settlements (Note 15)	-	2,000
Emission credits received from PPA settlements (Note 15)	(2,000)	-
Closing balance, long-term receivable	5,882	7,824
Less: Current portion	(1,980)	-
	3,902	7,824

The $2.0 million of emission credits receivable from PPA settlements were received in December 2017.

7. Intangible Assets

(in thousands of dollars)	December 31, 2017	December 31, 2016
Opening balance, emission credits	149,289	-
Additions from purchases	1,831	9,452
Additions from PPA settlements received (Note 15)	2,000	139,837
Closing balance, emission credits	153,120	149,289
Less: Current portion	(153,120)	-
	-	149,289

At December 31, 2017, the Balancing Pool had $153.1 million (2016 – $149.3 million) in emission credits, which can be used to offset compliance obligations associated with the PPAs. In 2017, the Balancing Pool received $2.0 million (2016 – $139.8 million) in emissions credits as part of the negotiated settlements reached for certain terminated PPAs and purchased $1.8 million (2016 – $9.5 million) in emission credits.

No impairments of emission credits were recognized during the year ended December 31, 2017 (2016 – $nil).

8. Accounting for Financial Instruments

8. a) Risk Management Overview

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

Market Risk – Power

i) Fluctuating Market Prices: Changes in the market price for electricity and ancillary services affect the amount of revenues that the Balancing Pool receives from the PPAs, including the hydro PPA. 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 volatile, and are affected by supply and demand, which in turn are influenced by fuel costs (e.g. natural gas prices), weather patterns, plant availability and power imports or exports. Economic activity is a key contributor to market price risk as it relates to the demand for electricity. Market price risk may be managed through the use of financial forward sale contracts for electricity.

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

iii) Capacity Payment: The Balancing Pool is exposed to interest rate risk in relation to the annual capacity payments. A 1% increase to the long-term government bond rate would increase the annual capacity payments by an estimated $12.8 million for the terminated PPAs. Likewise a 1% decrease to the long-term government bond rate would decrease the annual capacity payments by an estimated $12.8 million.

Market Risk

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

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

iii) Counterparty Credit Risk: The Balancing Pool is exposed to counterparty credit risk. In the event of a default on payments from counterparties to the hydro PPA, small power producer contracts, forward sale contracts or mark-to-market on forward sale contracts, a financial loss may be experienced by the Balancing Pool. Credit risk is managed in accordance with the Credit Policy which requires that all counterparties maintain investment-grade status level. Status of counterparty credit is regularly monitored by management and the Audit and Finance Committee. The Balancing Pool has minimal credit risk related to its receivables as they consist primarily of amounts owing from the AESO, a government-related entity. The Balancing Pool does not consider any of the trade or long-term accounts receivable to be impaired or past due.

iv) Liquidity Risk: Liquidity risk is the risk that the Balancing Pool will not be able to meet its financial obligations as they fall due. To manage this risk, management forecasts cash flows for a period of 12 months and beyond and will adjust the consumer collection according to the *Balancing Pool Regulation* and borrow from the Government of Alberta. The changes to the EUA, enacted in December of 2016, provide the Balancing Pool with the capacity to borrow from the Government of Alberta (Note 17).

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

(in thousands of dollars)	1 year	2 – 5 years	Total
	December 31, 2017		
Trade payables	199,647	-	199,647
Other accrued liabilities	362,066	-	362,066
Small power producer contracts	3,424	298	3,722
Related party loan	566,315	-	566,315
Reclamation and abandonment	7,767	13,871	21,638
Other long-term obligations	529,073	128,648	657,721
Total	1,668,292	142,817	1,811,109
(in thousands of dollars)	December 31, 2016		
Trade payables	120,918	-	120,918
Other accrued liabilities	214,880	150,366	365,246
Current portion of hydro PPA	10,053	-	10,053
Small power producer contracts	5,902	5,437	11,339
Reclamation and abandonment	3,671	26,361	30,032
Other long-term obligations	1,332,031	411,742	1,743,773
Total	1,687,455	593,906	2,281,361

8. b) Analysis of Financial Instruments

i) Hydro power purchase arrangement

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

The notional production of electricity under the hydro PPA is 1,620 gigawatt hours ("GWh") per annum from 2018 to 2020. Hydro PPA receipts are settled on a monthly basis.

The remaining term of the hydro PPA is three years to December 31, 2020. At December 31, 2017, the net present value of the hydro PPA was estimated at $177.8 million (2016 – $38.4 million). Key assumptions in this valuation are a discount rate of 11.1% (2016 – 10.2%) and an estimated forecast average electricity market price of $51.95/MWh for the period between 2018 through to 2020 (2016 – $32.35/MWh for 2017 to 2020).

Hydro Power Purchase Arrangement *(in thousands of dollars)*	2017	2016
Hydro power purchase arrangement, opening balance	38,431	242,633
Accretion and current year change	34,306	(20,109)
Net cash (receipts) payments	(20,333)	18,468
Revaluation of hydro power purchase arrangement asset	125,412	(202,561)
Hydro power purchase arrangement, closing balance	177,816	38,431
Less: Current portion (receivable) payable	(57,566)	10,053
	120,250	48,484

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

	Impact of change to price volatility		Impact of change to discount rate	
(in thousands of dollars)	**Increase price by 10%**	**Decrease price by 10%**	**Increase discount rate by 1%**	**Decrease discount rate by 1%**
Change in fair value as at December 31, 2017	34,663	(34,663)	(3,214)	3,312
Change in fair value as at December 31, 2016	9,219	(9,219)	(1,319)	1,376

ii) Small power producer contract

At December 31, 2017, one small power producer contract with a total allocated capacity of 10 MW remains active (2016 – one contract with capacity of 10 MW). The contract price is $79.70/MWh and the contract completion date is February 15, 2019. Under this contract, the price that the small power producer receives from the counterparty utility company is fixed. If the market price is below the contract price, the Balancing Pool must pay the difference to the utility company. If the market price exceeds the contract price, the utility company must pay the difference to the Balancing Pool.

At December 31, 2017, the net present value of cash flows from the Balancing Pool for this contract was estimated to be a $3.7 million liability (2016 – $11.3 million liability). The estimated value of this liability varies based on the assumptions used and there is a high degree of measurement uncertainty. The key assumption used in this valuation is an estimated forecast average electricity market price of $50.58/MWh for 2018 through to 2019 (2016 – $29.02 / MWh for 2017 to 2019).

Small Power Producer Contract *(in thousands of dollars)*	**2017**	**2016**
Small power producer contract, opening balance	(11,339)	(11,368)
Accretion and current year change	1,616	(1,391)
Net cash payments	4,213	6,077
Revaluation of small power producer contract	1,788	(4,657)
Small power producer contracts, closing balance	(3,722)	(11,339)
Less: Current portion	3,424	5,902
	(298)	(5,437)

The value of the contract varies depending on the assumptions used in the valuation. The following table summarizes the impact on the small power producer contract value when the estimated forecast average market price is increased or decreased by 10%, all other inputs being constant.

	Impact of change to price volatility	
(in thousands of dollars)	**Increase price by 10%**	**Decrease price by 10%**
Change in fair value as at December 31, 2017	537	(537)
Change in fair value as at December 31, 2016	601	(602)

8. c) Fair Value Hierarchy

Financial instruments carried at fair value are categorized as follows:

	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
	Level 1	**Level 2**	**Level 3**	**Total**
(in thousands of dollars)	**December 31, 2017**			
Assets				
Cash and cash equivalents	50,772	-	-	50,772
Investments – fixed income securities	-	12,370	-	12,370
Hydro power purchase arrangement	-	-	177,816	177,816
	50,772	12,370	177,816	240,958
Liabilities				
Small power producer contracts	-	-	3,722	3,722
	-	-	3,722	3,722
	50,772	12,370	174,094	237,236
	December 31, 2016			
Assets				
Cash and cash equivalents	16,078	-	-	16,078
Investments – fixed income securities	-	15,684	-	15,684
Hydro power purchase arrangement	-	-	48,484	48,484
	16,078	15,684	48,484	80,246
Liabilities				
Hydro power purchase arrangement	-	-	10,053	10,053
Small power producer contracts	-	-	11,339	11,339
	-	-	21,392	21,392
	16,078	15,684	27,092	58,854

i) Level 1

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

ii) Level 2

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

iii) Level 3

Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Changes in valuation methods may result in transfers into or out of an assigned level. There were no transfers between Level 3 and Level 2. The hydro PPA and small power producer contract values are determined using discounted cash flow forecast methods and supported by observable market prices when available. Methodologies have been developed to determine the fair value for these contracts based on forecast of the hourly electricity market price in Alberta's hourly market using proprietary third-party merit order dispatch model. Management reviews the discounted cash flow forecasts on an annual basis. The changes in value, key assumptions and sensitivities in Level 3 instruments for the years ended December 31, 2017 and 2016 are disclosed in note 8 b i) and in note 8 b ii).

9. Investments

	December 31, 2017		December 31, 2016	
(in thousands of dollars)	Market Value	Cost	Market Value	Cost
Fixed income securities	12,369	12,369	15,670	15,670
Global equities	1	1	14	15
Total investments	12,370	12,370	15,684	15,685

(in thousands of dollars)	2017	2016
Investments, beginning of year	15,684	704,719
Interest and dividends	155	4,749
Realized capital gains	31	115,135
Sale of investments	(3,501)	(687,212)
Unrealized capital gain (loss)	1	(121,707)
Investments, end of year	12,370	15,684

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, December 31, 2016	2,345	26,669	92,692	121,706
Changes in value attributable to:				
Change during the year	(987)	12,143	(17,728)	(6,572)
Realized gain on sales of investments	(1,358)	(38,812)	(74,965)	(115,135)
Net change during the year	(2,345)	(26,669)	(92,693)	(121,707)
Unrealized market gain (loss), December 31, 2017	-	-	(1)	(1)
Changes in value attributable to:				
Change during the year	10	-	22	32
Realized gain on sales of investments	(10)	-	(21)	(31)
Net change during the year	-	-	1	1
Unrealized market gain (loss), December 31, 2017	-	-	-	-

10. Property, Plant and Equipment

(in thousands of dollars)	**Genesee PPA**	**Office Equipment**	**Total**
Costs			
Balance as at December 31, 2015, 2016, 2017	1,505,670	575	1,506,245
Accumulated Amortization, Depreciation and Impairment			
Balance as at December 31, 2015	1,174,822	478	1,175,300
Amortization and depreciation	66,170	40	66,210
Impairment loss	264,678	-	264,678
Balance as at December 31, 2016	1,505,670	518	1,506,188
Amortization and depreciation	-	30	30
Balance as at December 31, 2017	1,505,670	548	1,506,218
Net Book Value			
As at December 31, 2016	-	57	57
As at December 31, 2017	-	27	27

During 2016, an impairment loss of $264.7 million had been recorded with respect to the Genesee PPA as a result of the decline in forward market electricity prices and increased environmental compliance costs. The key assumption used to determine the recoverable amount was the estimated forecast average electricity market price of $22.57/MWh for 2017, $32.43/MWh for 2018, $32.07/MWh for 2019 and $42.32/MWh for 2020.

During 2017, as a result of increases in the forward market electricity prices, the Balancing Pool assessed whether there were indications of impairment reversal. No reversal of impairment was recognized during the year ended December 31, 2017.

11. Trade Payable and Other Accrued Liabilities

(in thousands of dollars)	December 31, 2017	December 31, 2016
Trade payables	199,647	120,918
Accrued liabilities – Greenhouse gas obligation	215,124	99,629
Accrued liabilities – PILOT refunds	82,854	132,983
Accrued liabilities – Retroactive line loss adjustment	42,470	114,042
Accrued liabilities – Other	21,618	18,592
	561,713	486,164

12. Reclamation and Abandonment Provision

(in thousands of dollars)	H.R. Milner Generating Station	Isolated Generation Sites	Cost to Decommission PPAs	Total
At January 1, 2016	13,128	5,463	11,198	29,789
Net increase (decrease) in liability	1,133	1,832	(3,040)	(75)
Liabilities paid in period	-	(486)	-	(486)
Accretion expense	355	147	302	804
At December 31, 2016	14,616	6,956	8,460	30,032
Less: Current portion	-	(3,671)	-	(3,671)
	14,616	3,285	8,460	26,361
At January 1, 2017	14,616	6,956	8,460	30,032
Net increase (decrease) in liability	(443)	154	(6,820)	(7,109)
Liabilities paid in period	(1,053)	(427)	-	(1,480)
Accretion expense	95	45	55	195
At December 31, 2017	13,215	6,728	1,695	21,638
Less: Current portion	(2,050)	(5,717)	-	(7,767)
	11,165	1,011	1,695	13,871

12 a) Decommissioning Costs of H.R. Milner Generating Stationn

Under the Asset Sale Agreement for the H.R. Milner generating station between the Balancing Pool and ATCO Power Ltd, which was executed in 2001, the Balancing Pool assumed liability for the costs of decommissioning the station at the end of operations. When the asset was subsequently re-sold to Milner Power Limited Partnership in 2004, the Balancing Pool retained the liability for decommissioning the generating station. In 2011 a bilateral agreement was reached with Milner Power Limited Partnership wherein the Balancing Pool's exposure to future decommissioning costs was capped at $15.0 million. It is estimated that these costs will be incurred in 2020. These costs have been discounted at 1.5% (2016 – 0.6%) yielding the present value of the related liability. At December 31, 2017, the provision was decreased by $0.4 million (2016 – $1.1 million increase) to reflect a change in the discount rate and estimated payment date.

12 b) Isolated Generation Sites

Under the *Isolated Generating Units and Customer Choice Regulations of the EUA*, the Balancing Pool is liable for the reclamation and abandonment costs associated with various Isolated Generation sites. Expenditures of $1.1 million (2016 – $0.5 million) were incurred in 2017. Pursuant to the Negotiated Settlement Agreements approved by the AUC, the ultimate payment of these costs must be reviewed and approved by the Remediation Review Committee. The Remediation Review Committee was established to monitor, verify and approve all costs associated with the reclamation and abandonment of the Isolated Generation sites. Estimated reclamation and abandonment costs have been discounted at 1.5% (2016 – 0.6%). The provision is based upon management's best estimate and the timing of the costs. Management anticipates the Isolated Generation projects will conclude at the end of 2019. At December 31, 2017, an increase of $0.2 million (2016 – $1.8 million increase) was recorded to reflect a change in estimation to complete the project.

12 c) Decommissioning Costs of PPAs

Pursuant to Section 7 of the *Power Purchase Arrangements Regulation*, the Owner of a generating unit who applies to the AUC to decommission a unit within one year of the termination of the PPA is entitled to receive funding from the Balancing Pool. The amount of funding provided by the Balancing Pool is the amount by which the decommissioning costs (net of salvage) exceed the decommissioning amounts the Owner collected from related consumers before January 1, 2001 and subsequently through the related PPA. Subject to AUC approval, Owners are eligible to collect this shortfall provided that the unit has ceased generating electricity. This provision does not apply to units that cease operations after December 31, 2018.

In December 31, 2017, the Balancing Pool recorded a $6.8 million decrease (2016 – $3.0 million decrease) to the provision for decommissioning the PPAs. The provision is based upon management's best estimate of decommissioning costs, assessment of the impact of Provincial and Federal environmental legislation on the ongoing viability of the various units and the probability an Owner of a generating unit will elect to retire the unit within the timeframe and to then make an application to the AUC to proceed with decommissioning. Estimated decommissioning costs were discounted at 1.5% (2016 – 0.6%).

13. Other Long-Term Obligations

(in thousands of dollars)	Genesee	Battle River 5	Sundance A	Sundance B	Sundance C	Keephills	Sheerness	Total
At January 1, 2016	-	96,700	-	-	-	-	-	96,700
Net increase in liability	542,453	136,712	100,502	211,919	217,104	298,448	578,905	2,086,043
Losses	-	(81,491)	(53,687)	(77,669)	(68,492)	(42,443)	(115,188)	(438,970)
At December 31, 2016	542,453	151,921	46,815	134,250	148,612	256,005	463,717	1,743,773
Less: Current portion	(130,711)	(151,921)	(46,815)	(134,250)	(148,612)	(256,005)	(463,717)	(1,332,031)
	411,742	-	-	-	-	-	-	411,742
At January 1, 2017	542,453	151,921	46,815	134,250	148,612	256,005	463,717	1,743,773
Net increase (decrease) in liability	(265,424)	32,024	33,208	61,388	46,144	(114,800)	(217,027)	(424,487)
Losses	(129,082)	(69,947)	(80,023)	(99,677)	(86,098)	(71,621)	(125,117)	(661,565)
At December 31, 2017	147,947	113,998	-	95,961	108,658	69,584	121,573	657,721
Less: Current portion	(83,050)	(113,998)	-	(95,961)	(108,658)	(50,473)	(76,933)	(529,073)
	64,897	-	-	-	-	19,111	44,640	128,648

Pursuant to Section 96 of the EUA, following Buyer-initiated terminations in 2016, the Battle River 5 PPA, Sundance A, Sundance B, Sundance C, Sheerness and Keephills PPAs were transferred to the Balancing Pool. While the Balancing Pool holds the PPAs, it will assume responsibility for ongoing capacity payments and other PPA-related costs and is responsible for selling the output into the wholesale power market.

Based on the estimated forecast average electricity market price of $46.22/MWh for 2018, $54.97/MWh for 2019 and $54.67/MWh for 2020 (2016 – $22.57/MWh for 2017, $32.43/MWh for 2018, $32.07/MWh for 2019 and $42.32/MWh for 2020), the unavoidable costs of meeting the obligations under the PPAs are expected to exceed the economic benefits derived from the PPAs. As a result, onerous contract provisions have been recognized and measured at the lower of the present value of continuing the PPAs and the expected costs of terminating them. Cost of termination includes the estimated net costs of holding the PPAs over the minimum six-month notice period preceding such termination plus a termination payment. For purposes of measuring the onerous contract provision under IFRS, the minimum six-month notice period is estimated to commence on January 1, 2018 for the Genesee, Keephills and Sheerness PPAs. The Balancing Pool has issued PPA termination notices for Sundance B and C; the six-month notice period commenced on September 15, 2017. The Battle River 5 PPA minimum six-month notice period is estimated to commence on March 1, 2018. The termination payment represents the net book value of the units which is estimated at $1.3 billion (2016 – $1.4 billion). The estimated future costs for the PPAs were discounted at 1.5% (2016 – 0.6%), except for Genesee, Keephills and Sheerness's future costs which where discounted at 1.7% (2016 – 1.0%).

Future cash flow requirements may include operating losses where the price in Alberta's hourly wholesale electricity market is less than the operating costs over the period of 2017 through to 2020. It is expected operating costs would include amounts associated with the *Specified Gas Emitters Regulation* and the *Carbon Competitiveness Incentive Regulation* for all of the PPAs for the period of 2017 through to 2020. Revenue is also dependent on generating capacity factors of the different PPAs, which can vary for each PPA.

As disclosed in Note 10, the Genesee PPA finance lease asset was fully impaired as at December 31, 2016 due to the decline in forward market electricity prices and increased environmental compliance costs. Furthermore, in 2016 the existing Genesee PPA lease obligation was reclassified to other long-term obligations as an onerous contract and an additional onerous contract provision has been calculated by taking the unavoidable costs that will be incurred under the contract, excluding those that were previously included within the Genesee PPA Lease Obligation, less any estimated revenue.

See Note 15, Contingencies and Commitments, for additional information with respect to the termination of PPAs and subsequent negotiation of settlement agreements.

14. Capital Management

The Balancing Pool's objective when managing capital is to operate as per the requirements of the EUA which requires the Balancing Pool to operate with no profit or loss and no share capital and to forecast its revenues, expenses, and cash flows. Any excess or shortfall of funds in the accounts is to be allocated to, or provided by, electricity consumers over time. During 2016, the Alberta Government enacted amendments to the *Balancing Pool Regulation* that extends the life of the Balancing Pool to December 31, 2030.

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

Balancing Pool Deferral Account *(in thousands of dollars)*	**2017**	**2016**
Deferral account, beginning of year	(1,966,788)	774,515
Change in net liabilities attributable to the Balancing Pool deferral account	685,790	(2,551,136)
Payment of consumer allocation	-	(190,167)
Deferral account, end of year	(1,280,998)	(1,966,788)

In December 2016, the Board of Directors approved a 2017 consumer collection of $1.10/MWh for an estimated total collection from electricity consumers of $66.0 million in accordance with the *Balancing Pool Regulation*. In December 2017, the Board of Directors approved a 2018 consumer collection of $3.10/MWh for an estimated total collection from electricity consumers of $190.0 million in accordance with the *Balancing Pool Regulation*.

As a result of the Balancing Pool's adoption of IFRS 15, *Revenue from contracts with customers*, on January 1, 2017, the 2017 consumer collection of $66.0 million is recorded in revenue. The 2016 amount is recognized directly within the Balancing Pool's deferral account.

15. Contingencies and Commitments

Terminated Power Purchase Arrangements

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

During the latter part of 2015 and first quarter of 2016, the Balancing Pool received notices of termination for six PPAs. The Balancing Pool immediately assumed responsibility for all financial obligations associated with the terminated PPAs.

On July 25, 2016, the Attorney General of Alberta filed an application with the Alberta Court of Queen's Bench seeking declarations relating to the validity of certain provisions of the Battle River 5 PPA, Sundance A PPA, Sundance B PPA, Sundance C PPA, Sheerness PPA and Keephills PPA. The Attorney General also sought judicial review of the Balancing Pool's decision to accept termination by ENMAX PPA Management Inc. of the Battle River 5 PPA. The Balancing Pool, the AUC, ENMAX PPA Management Inc. ("ENMAX") and other parties with interests in PPAs were named as respondents.

On November 24, 2016, the Government of Alberta reached settlement agreements with the Buyers of the Sundance A PPA, Sundance B PPA, Sundance C PPA, and Sheerness PPA. As a result of these settlement agreements, as at December 31, 2016 the Balancing Pool had received reimbursement of $39.0 million in cash in relation to the onerous contract provisions disclosed in Note 13 and had recognized intangible assets (emission credits) of $139.8 million (Note 7) and long-term receivables (cash receivable and emission credits receivable) of $7.8 million (Note 6) in relation to reimbursements relating to the onerous contract provisions. The reimbursements have been recorded as an offset against the expenses related to the provision for other long-term obligations in the Statements of Income (Loss) and Comprehensive Income (Loss).

In addition, the Balancing Pool has agreed to assume all obligations, including past obligations, as the Buyer under the Sundance A PPA, Sundance B PPA and Sheerness PPA. The Balancing Pool has also recorded a provision in accrued liabilities in relation to the retroactive line loss adjustment. The Balancing Pool is currently not aware of any other liabilities outstanding in relation to the various PPAs.

For those PPAs which have been or which may ultimately be returned to the Balancing Pool, the Balancing Pool has the option to hold the PPAs, resell the PPAs or to terminate the PPAs by paying the Owner a termination payment equal to the net book value.

On February 24, 2017, ENMAX filed a legal proceeding against the Balancing Pool with respect to the disputed effective date of the Battle River 5 PPA termination. On November 16, 2017 the Court of Queen's Bench released its decision that the effective date of the Battle River 5 PPA termination is January 1, 2016 as argued by ENMAX. There is no further financial impact to the Balancing Pool as a result of this ruling by the Court of Queen's Bench as the Balancing Pool has been responsible for the Battle River 5 PPA costs as of January 1, 2016.

On July 14, 2017, ENMAX filed and served a Statement of Claim, asking the Court for injunctive relief requiring the Balancing Pool to make a decision respecting the termination of the Keephills PPA and to assume offer and dispatch control with respect to the Keephills PPA. On November 22, 2017 the Court of Queen's Bench rendered its decision and granted ENMAX one of two injunctions. The Court of Queen's Bench adjudicated that the Balancing Pool must complete its assessment and verification of the Keephills PPA termination event. The Court of Queen's Bench dismissed the application by ENMAX for an interim injunction compelling the Balancing Pool to assume offer and dispatch control of the Keephills PPA.

On December 6, 2017 the Balancing Pool completed the assessment and verification of the Keephills PPA termination and accepted the termination.

Genesee PPA Energy Strip Contracts

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

A negotiated settlement was reached in March 2016 with one of the strip buyers resulting in the termination of the strip contract. A negotiated settlement was also reached in December 2016 with the other strip buyer resulting in the termination of the other strip contract as part of the settlements of the disputed PPA terminations discussed above.

Revenue from the sale of the energy strip contracts, including termination revenue of $0.7 million (2016 – $14.3 million), has been recorded in sale of generating capacity and termination revenue on the Statements of Income (Loss) and Comprehensive Income (Loss).

Payments (Refunds) In Lieu of Tax

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

In 2017, the Balancing Pool issued PILOT refunds of $50.1 million to the municipal entity which were accrued in 2016.

Approximately $61.7 million remains under dispute with the municipal entity for the tax years of 2001 through to 2015. A provision of $30.3 million has been recorded in relation to the disputed matters and reflected as Other income (expense) from operating activities in 2016. This provision has been accrued in trade payables and other accrued liabilities.

Retroactive Line Loss Adjustment (AUC Proceeding 790)

The retroactive line loss adjustment referred to as the AUC Proceeding 790, currently underway before the AUC, is intended to address complaints regarding the *ISO Transmission Loss Factor Rule and Loss Factor Methodology*. Line loss factors form part of transmission charges that are paid by generators in Alberta. The Balancing Pool is exposed to a retroactive line loss adjustment for certain PPAs.

In January 2015, the AUC determined that it has the jurisdiction and authority to retroactively adjust the line loss factors and the methodology dating back to 2006.

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

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

The Balancing Pool will incur additional charges as a result of the retroactive adjustments to line loss factors in relation to the various PPAs. An estimated provision in the amount of $42.5 million (2016 – $114.0 million) has been recorded in trade payable and other accrued liabilities for the retroactive line loss adjustment as a result of the AUC's December 2017 decision. The estimate has been prepared using the Module B method based on Incremental Loss Factors with generation scaling.

Various matters before the AUC regarding the retroactive line loss adjustments are under review and appeal including the retroactive nature of the adjustments and prospective line loss factors used to calculate the adjustment. The AUC's decision regarding its authority and jurisdiction has also been challenged. The quantum of any retroactive adjustment will be dependent upon the methodology finally adopted and approved by the AUC. Given the uncertainty of the final methodology, the Balancing Pool estimates may be higher or lower than the current estimate reflected in these financial statements.

Market Surveillance Administrator Investigation

On April 13, 2017, the Balancing Pool received a notice of investigation and request for information from the Market Surveillance Administrator ("MSA"). The Balancing Pool has provided the MSA with the requested information and the investigation is currently on-going.

16. Cost of Sales

(in thousands of dollars)	December 31, 2017	December 31, 2016
Cost of power purchase arrangements and power marketing charges	1,283,106	1,126,465
Losses on PPAs recorded against other long-term obligations	(661,565)	(438,970)
Amortization and depreciation on assets	30	66,210
	621,571	753,705

17. Related Party Transactions

Key Management Compensation

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

Key Management Compensation *(in thousands of dollars)*	2017	2017
Salaries and other short-term employee benefits	643	561
Total	643	561

Government-Related Entity

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

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

(in thousands of dollars)	Interest Rate	December 31, 2017
Short-term discount note due on Jan. 15, 2018	1.32%	382,792
Short-term discount note due on Feb. 26, 2018	1.40%	35,422
Short-term discount note due on Feb. 26, 2018	1.44%	25,443
Short-term discount note due on Mar. 12, 2018	1.43%	122,658
		566,315

At December 31, 2017, the Balancing Pool had $566.3 million in short-term discount notes issued to the Government of Alberta, including accrued interest of $0.4 million.

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

In 2017, the Balancing Pool expensed $5.0 million (2016 – $5.4 million) for the UCA and $1.2 million (2016 - $0.7 million) for the TFCMC and RMRC in aggregate.

The Balancing Pool also considers the AESO a government-related entity. The EUA requires the Balancing Pool to forecast its revenues and expenses with any excess or shortfall of funds in the accounts to be allocated to, or provided by, electricity consumers over time. Pursuant to the EUA, the AESO facilitates the collection or distribution of any excess or shortfall through an annualized amount included in the AESO’s transmission tariff. In 2017, the Balancing Pool collected $66.0 million from electricity consumers through the AESO’s transmission tariff (2016 – $190.2 million distributed).

18. Subsequent Event

On March 8, 2018, the Government of Alberta reached a settlement agreement with the Buyer of the Battle River 5 PPA and Keephills PPA bringing a conclusion to the Attorney General of Alberta’s application with the Alberta Court of Queen’s Bench.

On March 21, 2018, the Balancing Pool provided notice to Alberta Power (2000) Ltd. (ATCO) that the Battle River 5 PPA will be terminated. The termination of the PPA will be effective no later than September 30, 2018, though ATCO and the Balancing Pool may agree to a shorter notice period.

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