balancingpool

2021 Annual Report

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Message to Stakeholders from the Board Chair

This year was a turning point for the Balancing Pool, with 2021 marking the first year of operations following the expiry of the 20-year Power Purchase Arrangements ("PPAs"). In response to our evolving role we have significantly scaled down the organization, reducing our staff count by more than half through the year.

On behalf of the Board of Directors I want to offer my sincere thanks to Balancing Pool staff past and present for their professionalism and diligence. Our organization, and the province we serve, is stronger for your work. You deserve our enduring gratitude.

Several of our obligations related to the PPAs remain ongoing through 2021 and beyond. Commercial and legal matters, with potentially significant consequences to consumers, were a top priority this year. The Balancing Pool's structure was designed specifically to manage these matters and we are pleased to report significant progress on several files.

As our responsibilities shifted we have been working closely with the Associate Minister of Natural Gas and Electricity on a plan to responsibly wind-down operations. This work will continue through 2022, and we anticipate the creation of a framework for the eventual dissolution of the Balancing Pool to be complete by year end. It is important to note that mandated responsibilities like the prudent management of ongoing legal matters will continue to completion.

This year we were pleased to welcome Sandra Scott as our new CEO. Sandra has deep experience in the electricity sector and brings focus and diligence to our wind down plans.

I would again like to thank the Board of Directors and Balancing Pool staff for their tireless efforts in a remarkable year. The results of these efforts have been nothing short of incredible, especially given the challenging environment in which we have been operating.

Finally, I would like to thank our stakeholders and partners in government, agencies, industry and ratepayers for the constructive relationships we have maintained and for their ongoing support and perspective as we continue to tackle the important work ahead of us.

Greg Clark
Chair

April 13, 2022

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

Greg Clark, Chair, is a community leader and entrepreneur. In 2006 he co-founded a technology consulting firm which led some of Calgary's largest content management and compliance implementations in the energy, oil and gas industry. The firm earned a distinction as one of Alberta's 50 fastest growing companies and was named one of Canada's top 250 information technology companies. He taught business management at the University of Calgary Faculty Of Continuing Education and has extensive experience in strategic management consulting focused on information technology and knowledge management. Greg served his community in the Legislative Assembly of Alberta as MLA for Calgary-Elbow from 2015 to 2019. He holds an MBA in Executive Management with specialization in Knowledge Management from Royal Roads University, a BA from the University of Victoria and his ICD.D designation from the Institute of Corporate Directors.

Michelle Plouffe has 25 years of legal and leadership experience. She obtained her Bachelor of Arts degree (with distinction) (1992) and her Law degree (1995) both from the University of Alberta. Ms. Plouffe has worked in private practice and in the utilities, health and post-secondary sectors and is currently the City Solicitor at the City of Edmonton. She is a seasoned Director with diverse senior level operational experience in complex organizations, providing extensive leadership, innovative solutions and value creation to all facets of operations. She is a trusted advisor who has proven expertise providing sound legal and strategic advice to boards and senior leadership. Michelle Plouffe is currently a member of the Balancing Pool Board of Directors, and a Director on the Kids Kottage Foundation Board. She is a member of the Law Society of Alberta Equity, Diversity and Inclusion Advisory Committee.

Greg Pollard has more than 40 years of experience in the energy sector in both Canada and internationally. 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.

Remuneration of Board Members

A summary of remuneration Members were eligible to receive in 2021, is as follows:

- Chair - retainer $85,000 / year
- Member - retainer $27,500 / year
- Board 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.

Effective January 1, 2021, consistent with the reduction in Board size, the Audit and Finance and Governance and Human Resources Committees were eliminated.

2021 Meeting Attendance and Remuneration

Balancing Pool Board Member	Meetings	2021 Remuneration ($) (2)
Greg Clark	14 of 14	85,000
Adam Hedayat (1)	NA	5,146
Michelle Plouffe	14 of 14	45,100
Greg Pollard	14 of 14	56,350 (3)
Attendance	42 of 42	

(1) Mr. Hedayat's appointment to the Board was rescinded by the Minister of Energy on February 8, 2021.

(2) 2021 remuneration includes base retainer and Member meeting fees.

(3) Includes remuneration for special committee Chair fees.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2021

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") dated April 13, 2022, should be read in conjunction with the audited financial statements of the Balancing Pool for the years ended December 31, 2021 and 2020. The financial statements for the year ended December 31, 2021 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars.

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

Expiry of the Power Purchase Arrangements

The thermal PPAs (Genesee, Keephills and Sheerness) and the Hydro PPA expired on December 31, 2020. Offer control of these PPAs reverted back to the PPA Owners effective January 1, 2021.

This has eliminated a number of Balancing Pool's legislated duties and related risks, however several of our obligations related to the PPAs remain ongoing through 2021 and beyond. Commercial and legal matters, with potentially significant consequences to consumers, were a top priority this year.

Results at a Glance

Consumer Collection	**2021**	**2020**
Consumer collection per MWh	$2.30	$2.50
Consumer collection *(in thousands of dollars)*	135,798	145,404
Financial Results *(in thousands of dollars)*		
Statement of Income and Comprehensive Income		
Revenue from contracts with customers	135,798	786,450
Other income (loss)	(16,327)	(2,502)
Expenses	8,388	797,867
Income (loss) from operating activities	111,084	(13,919)
Other income (expense)	(12,308)	(23,155)
Change to the Balancing Pool deferral account	98,776	(37,074)
Statement of Financial Position		
Total assets	51,553	333,033
Total liabilities	764,477	1,144,732
Net liabilities attributable to the Balancing Pool deferral account	(712,924)	(811,699)

Legislated Duties

The Balancing Pool's legislated duties effective January 1, 2021 include the following:

- Allocate (or collect) any forecasted cash surplus (or deficit) to (from) electricity consumers in Alberta in annual amounts;
- Fund the decommissioning and reclamation costs associated with certain generation facilities in Alberta;
- Participate in dispute resolution processes;
- Act as the default market participant and provide settlement functions in relation to certain projects developed under the *Small Scale Generation Regulation*;
- Administer and provide financing for certain aspects of the Utility Payment Deferral Program; and,
- Fund initiatives in the electricity industry at the direction of the Minister of Energy.

Assets

Details of Assets *(in thousands of dollars)*	**2021**	2020
Cash and cash equivalents	32,963	223,737
Trade and other receivables	18,556	109,192
Right of use assets	27	89
Property, plant and equipment	7	15
Total assets	51,553	333,033

Trade and Other Receivables

Trade and other receivables balance at December 31, 2021 primarily include amounts receivable for the consumer collection for December 2021 ($12.8 million) and receivables for the Utility Payment Deferral Program ($2.8 million). Amounts outstanding under the Utility Payment Deferral Program are collected through a rate rider approved by the AUC.

Liabilities

Details of Liabilities *(in thousands of dollars)*	**2021**	2020
Trade and other payables	11,468	399,712
Related party loan	710,825	706,478
Reclamation and abandonment provision	42,157	38,451
Lease liability	27	91
Total liabilities	764,477	1,144,732

Trade and Other Payables

Trade and other payables at December 31, 2021 primarily include operating expenses, obligations related to commercial matters and accruals for the Utility Consumer Advocate. The balance at December 31, 2021 declined relative to the prior year primarily as a result of settling the 2020 carbon levy for the Thermal PPAs and historical line loss adjustments.

Related Party Loan

At December 31, 2021 the Balancing Pool had $710.8 million in short-term and long-term notes issued to the Government of Alberta including accrued interest of $5.6 million on the long-term note.

Reclamation and Abandonment Provision

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

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

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

Pursuant to Section 5 of the *Power Purchase Arrangements Regulation*, 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.

In December 2018, TransAlta submitted a decommissioning application to the AUC for Sundance A in accordance with the *Power Purchase Arrangements Regulation.*

Details of Reclamation and Abandonment Provision *(in thousands of dollars)*	**2021**	2020
H.R. Milner	9,476	10,216
Isolated Generation sites	132	418
Sundance A decommissioning	32,549	27,817
Total reclamation and abandonment provision	42,157	38,451

The decrease in the H.R. Milner provision primarily reflects an increase to the discount rate ($0.5 million) and payment of liabilities in the current period ($0.2 million).

The provision for the Isolated Generation sites decreased due to payments issued over the course of 2021 of $0.4 million. It is anticipated that the isolated generation project will be coming to a conclusion in the next year or two.

The assumptions underlying the provision for the decommissioning of the Sundance A PPA have changed based on information submitted to the AUC. The change in assumptions resulted in a $4.3 million increase to the provision. The Balancing Pool disputes several aspects of TransAlta's decommissioning plan submitted to the AUC for Sundance A. It is expected that the decommissioning application will be considered by the AUC in 2022 with a possible decision released by Q2 2023.

Balancing Pool Deferral Account

Balancing Pool Deferral Account *(in thousands of dollars)*	**2021**	2020
Deferral account, beginning of year	(811,699)	(774,625)
Change to the Balancing Pool deferral account	98,776	(37,074)
Deferral account, end of year	(712,924)	(811,699)

The Balancing Pool's deferral account liability decreased by $98.8 million at 2021 year-end relative to the prior year. The decrease in the deferral account liability is primarily the result of the consumer collection and the expiry of the PPAs.

Operations

Revenue from Contracts with Customers

Details of Revenue from Contracts with Customers *(in thousands of dollars)*	**2021**	2020
Sale of electricity and ancillary service revenue	-	641,046
Consumer collection	135,798	145,404
Total revenue from contracts with customers	135,798	786,450

Sale of Electricity and Ancillary Service Revenue

The Balancing Pool will no longer receive revenues from the sale of electricity and ancillary services as the Thermal PPAs expired on December 31, 2020.

Consumer Collection

The consumer collection is reviewed and approved annually by the Board of Directors of the Balancing Pool in accordance with the *Balancing Pool Regulation*. For 2021, the Balancing Pool Board of Directors approved a consumer collection of $2.30 per MWh of demand, resulting in an annual amount of $135.8 million collected from electricity consumers. The consumer collection for 2021 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 next 9 years to December 31, 2030.

Consumer collection revenue decreased for 2021 relative to 2020 as the collection rate from consumers decreased from $2.50 per MWh of demand in 2020 down to $2.30 per MWh of demand in 2021. In late 2021, the Board of Directors approved a consumer collection of $2.20 per MWh in 2022.

Other Income (loss)

Details of Other Income (loss) *(in thousands of dollars)*	**2021**	2020
Change in fair value of Hydro Power Purchase Arrangement	-	(19,608)
Payments in lieu of tax (PILOT)	(16,901)	15,856
Interest income	575	1,250
Total other income (loss)	(16,326)	(2,502)

Payments in Lieu of Tax

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

Details of PILOT *(in thousands of dollars)*	**2021**	2020
Instalments received for current tax year	9,987	9,950
Instalments received for prior tax years	-	6,026
Instalment re-allocations and refunds for prior tax years	(26,768)	-
Audit costs	(120)	(120)
Total PILOT revenue (refunds)	(16,901)	15,856

Total PILOT revenue (refunds) for 2021 decreased relative to 2020 due to PILOT refunds issued for prior tax years.

Expenses

Details of Expense *(in thousands of dollars)*	**2021**	2020
Cost of sales	7,437	776,795
Mandated costs	3,827	5,069
General and administrative	3,095	6,690
Commercial dispute costs (recovery)	(10,236)	2,320
Reclamation and abandonment	4,265	6,993
Total expenses	8,388	797,867

Cost of Sales

Details of Cost of Sales *(in thousands of dollars)*	**2021**	2020
PPA final true-up costs	7,142	906,096
PPA lease payments (applied to lease liability)	-	(417,327)
Power marketing and other costs	136	187
Small scale generation costs	52	147
Amortization and depreciation	107	289,975
Gain on emission credit retirement	-	(2,283)
Total cost of sales	7,437	776,795

PPA costs include the final true-ups for the Thermal and Hydro PPA related to plant capacity payments, transmission charges and change-in-law charges.

PPA costs and amortization and depreciation decreased in 2021 relative to 2020 due to the expiry of the Thermal PPAs on December 31, 2020.

Mandated Costs

Details of Mandated Costs *(in thousands of dollars)*	**2021**	2020
Utilities consumer advocate ("UCA")	3,837	5,058
Transmission facilities cost monitoring committee ("TFCMC")	(10)	11
Total mandated costs	3,827	5,069

Mandated costs in 2021 decreased relative to 2020 primarily due to a revised estimate for the UCA and the elimination of the TFCMC.

Commercial dispute costs (recovery)

Commercial dispute costs and Force Majeure Recovery *(in thousands of dollars)*	**2021**	2020
Force majeure and commercial dispute (recovery)	(12,000)	-
Commercial dispute costs	1,764	2,320
Total commercial costs and Force Majeure recovery	(10,236)	2,320

The Balancing Pool reached a settlement with a counterparty and recovered $12 million in 2021 related to a force majeure event and other commercial matters.

Commercial dispute costs of $1.8 million for 2021 represent legal and consulting expenditures related to disputed force majeure claims from prior years as well as other PPA-related commercial disputes and the Sundance A decommissioning application before the AUC.

Liquidity and Cash Flow

To manage liquidity risk, the Balancing Pool forecasts cash flows for a period of 12 months and beyond to December 31, 2030.

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

Cash and Cash Equivalents *(in thousands of dollars)*	**2021**	2020
Cash and cash equivalents, beginning of year	223,737	96,037
Net cash (used in) provided by operating activities	(181,093)	480,911
Net cash used in investing activities	-	(11,956)
Net cash used in financing activities	(9,681)	(341,255)
Cash and cash equivalents, end of year	32,963	223,737

Outlook

As per changes to the *Balancing Pool Regulation* enacted in December 2017, effective January 1, 2021, the annual consumer collection from electricity consumers in Alberta was set at $2.30 per MWh, for an estimated annual consumer collection amount of $130.0 million (2020 – $2.50 per MWh, $145.4 million consumer collection).

Risks and Risk Management

The Balancing Pool is or was exposed to a variety of risks while executing its mandate. Most of the risks are unique to the organization given its role and responsibilities in the Alberta electricity industry. At the time 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:

PPA decommissioning risk

If a PPA Owner had elected to decommission its facility, the Balancing Pool may have been 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 had collected prior to deregulation and subsequently through the PPA payments.

In December 2018, TransAlta submitted an application to the AUC to decommission the Sundance A unit. The Balancing Pool disputes several aspects of TransAlta's decommissioning plan. The Balancing Pool faces no other risk in regards to PPA decommissioning other than the Sundance A unit.

Liquidity

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

Internal Controls

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

The CEO and the Controller have evaluated the design and operating effectiveness of the Balancing Pool's ICFR as of December 31, 2021 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 2021.

Commitments and Contingencies

Refer to Note 13 of the Balancing Pool's audited financial statements for the year ended December 31, 2021 for a description of commitments and contingencies.

Subsequent Events

Refer to Note 17 of the Balancing Pool's audited financial statements for the year ended December 31, 2021 for a description of subsequent events.

Related Party Transactions

Refer to Note 16 of the Balancing Pool's audited financial statements for the year ended December 31, 2021 for a description of subsequent events.

Accounting Policy Changes

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

Critical Accounting Estimates

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

Reclamation and Abandonment Provision

TransAlta's decommissioning plan submitted to the AUC for Sundance A has been used to estimate the costs of reclamation and abandonment for the Sundance A unit. The current and long-term portions of the provision are based upon management's best estimate of the timing of the costs.

Commitments and Contingencies

The Balancing Pool has been named in certain legal claims and arbitrations as part of the normal course of business. The corporation has evaluated each claim based on its merits. The final outcome of these legal matters are uncertain and may impact the Balancing Pool's financial results.

Forward-Looking Information

Certain information in this MD&A is forward-looking information. 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.

FINANCIAL STATEMENTS

Years Ended December 31, 2021 and 2020

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Independent auditor's report

To the Board of Directors of Balancing Pool

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Balancing Pool (the Corporation) as at December 31, 2021 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Corporation's financial statements comprise:

- the statement of financial position as at December 31, 2021;
- the statement of income (loss) and comprehensive income (loss) for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

Other information

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
April 13, 2022

Balancing Pool **Statements of Financial Position** (in thousands of Canadian dollars)	**2021**	2020
Assets		
Current assets		
Cash and cash equivalents	**32,963**	223,737
Trade and other receivables (Note 5)	**18,556**	109,192
Right-of-use assets (Note 7)	**25**	89
	51,544	333,018
Right-of-use assets (Note 7)	**2**	-
Property, plant and equipment	**7**	15
Total Assets	**51,553**	333,033
Liabilities		
Current liabilities		
Trade payables and other accrued liabilities (Note 9)	**11,468**	399,712
Current portion of related party loan (Note 16)	**206,952**	202,932
Current portion of reclamation and abandonment provision (Note 10)	**169**	263
Current portion of lease liability (Note 11)	**25**	91
	218,614	602,998
Reclamation and abandonment provision (Note 10, Note 13)	**41,988**	38,188
Lease liability (Note 11)	**2**	-
Related party loan (Note 16)	**503,873**	503,546
Total Liabilities	**764,477**	1,144,732
Net liabilities attributable to the Balancing Pool deferral account (Note 1, 12)	**(712,924)**	(811,699)
Contingencies and commitments (Note 13)		
Subsequent events (Note 17)		

On behalf of the Balancing Pool:

Greg Clark
Chair

Greg Pollard
Vice-Chair

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

Balancing Pool **Statements of Income (loss) and Comprehensive Income (loss)** (in thousands of Canadian dollars)	**2021**	2020
Revenue from contracts with customers		
Sale of electricity and ancillary service	**-**	641,046
Consumer collection (Note 4)	**135,798**	145,404
	135,798	786,450
Other income (loss) from operating activities		
Changes in fair value of Hydro Power Purchase Arrangement	**-**	(19,608)
Payments in lieu of tax	**(16,901)**	15,856
Interest income	**575**	1,250
	(16,326)	(2,502)
Expenses		
Cost of sales (Note 14)	**7,437**	776,795
Reclamation and abandonment provision (Note 10, Note 13)	**4,265**	6,993
Mandated costs (Note 16)	**3,827**	5,069
General and administrative	**3,095**	6,690
Commercial dispute costs (recovery) Note 15	**(10,236)**	2,320
	8,388	797,867
Income (loss) from operating activities	**111,084**	(13,919)
Other income (expense)		
Finance expense (Note 8)	**(13,983)**	(23,310)
Other income	**1,675**	155
	(12,308)	(23,155)
Change to the Balancing Pool deferral account (Note 12)	**98,776**	(37,074)

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

Balancing Pool **Statements of Cash Flows** (in thousands of Canadian dollars)	**2021**	2020
Cash flow provided by (used in)		
Operating activities		
Change to the Balancing Pool deferral account	**98,776**	(37,074)
Adjustments for		
Amortization and depreciation (Note 7)	**107**	289,975
Reclamation and abandonment provision (Note 10)	**4,265**	6,993
Fair value changes on Hydro Power Purchase Arrangement	**-**	19,608
Finance expense (Note 8)	**13,983**	23,310
Emission credits retired	**-**	14,446
Reclamation and abandonment expenditures (Note 10)	**(617)**	(1,973)
Net change in other assets:		
Long-term receivable	**-**	1,980
Net change in non-cash working capital:		
Trade and other receivables	**90,636**	(23,541)
Trade payable and other accrued liabilities	**(388,243)**	187,187
Net cash (used in) provided by operating activities	**(181,093)**	480,911
Investing activities		
Purchase of property, plant and equipment	**-**	(9)
Purchase of emission credits	**-**	(11,947)
Net cash used in investing activities	**-**	(11,956)
Financing activities		
Hydro Power Purchase Arrangement net receipts	**-**	91,059
Lease payments (Note 11)	**(102)**	(417,483)
Payments on related party loan (Note 16)	**(698,710)**	(734,548)
Proceeds from issue of related party loan (Note 16)	**702,671**	735,419
Finance expense on related party loan	**(13,540)**	(15,702)
Net cash used in financing activities	**(9,681)**	(341,255)
Change in cash and cash equivalents	**(190,774)**	127,700
Cash and cash equivalents, beginning of year	**223,737**	96,037
Cash and cash equivalents, end of year	**32,963**	223,737

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 formed to facilitate policy implementation and to support the functioning of the electricity industry for the benefit of Albertans. The *Electric Utilities Act (2003)* ("EUA") and certain regulations made under it established the mandate of the Balancing Pool, which was principally to manage certain assets, liabilities, revenues, and expenses associated with the ongoing evolution of 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)*. With the proclamation of 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 Corporation.

Under the EUA, the Corporation is required to operate without a profit or loss (Note 12). No share capital for the Corporation has been issued.

The Balancing Pool Board of Directors (the "Board") consists of individual members who are independent of persons having a material interest in the Alberta electric industry. The members of the Board are appointed by the Minister of Energy of the Government of Alberta ("Minister of Energy").

The Balancing Pool was required to respond to certain extraordinary events during the operating period of all of the Power Purchase Arrangements ("PPAs"), such as force majeure, PPA unit destruction, PPA Buyer or PPA Owner default, or the termination of a PPA. In the event of termination of a PPA by a PPA Buyer, the Balancing Pool assumed the rights and obligations of the PPA Buyer pursuant to that PPA at the time of termination (assuming the PPA continues). Under the EUA the Balancing Pool was required to manage generation assets in a commercial manner.

The head office and records of the Balancing Pool are located at Suite 520, 330 Fifth 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.

Expiry of the Power Purchase Arrangements

The thermal PPAs (Genesee, Keephills and Sheerness) and Hydro PPA expired on December 31, 2020. Offer control of these PPAs reverted back to the PPA Owners effective January 1, 2021.

In 2021, the Balancing Pool's business activities included the collection of funds from electricity consumers, payments (refund) in lieu of tax, repayment of the outstanding loan with the Provincial government, resolving outstanding commercial and legal disputes related to the PPAs, collection of funds related to the Utility Bill Deferral Program, acting as agent for Small Scale Generators and funding the Utility Consumer Advocate and funding certain decommissioning obligations.

Revenue from Contracts with Customers

i) Sale of electricity, ancillary service and generating capacity

Prior to December 31, 2020, the Balancing Pool earned revenue from the sale of electricity and ancillary service sourced from the PPAs it held, namely, Genesee, Sheerness and Keephills.

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

ii) Consumer collection

Pursuant to Section 82 of the EUA, the Balancing Pool collects or allocates an annualized amount from electricity customers. The consumer collection from the AESO is being accounted for as revenue of the Balancing Pool. The Balancing Pool has applied judgment in determining that the consumer collection collected via rate Rider F, as specified in the EUA, is analogous to a contract with a customer. The legislation contained in the EUA established the Balancing Pool's right to recover operating shortfalls from electricity customers via Rider F of the AESO tariff and can be interpreted as a contract with a customer.

Other Income

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

Pursuant to Section 85 of the EUA, the Balancing Pool held the Hydro PPA. As such, the Balancing Pool retained the right to the market value of the associated electricity and was responsible for the PPA obligations from certain hydro plants in the Province of Alberta. The cash flows associated with the Hydro PPA were 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 was recorded as an asset and any revaluation adjustment is included in net results of income (loss).

Under the change in law provisions of the Hydro PPA, the Balancing Pool is entitled to any benefit from emission performance credits. No amount has been recognized at this time.

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.

iii) Payments (refunds) in Lieu of Tax ("PILOT")

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

Expenses

i) Cost of sales

Under the terms of the various PPAs, the Balancing Pool was obligated to pay certain fixed and variable costs to the PPA Owners of the various generation assets. Included in Cost of Sales are costs associated with the administration of the Small Scale Generation Regulation.

ii) Other costs

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

2. Basis of Presentation

These financial statements for the year ended December 31, 2021 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, 2020.

These financial statements were authorized and approved for issue by the Board of the Balancing Pool on April 13, 2022.

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.

Revenue from Contracts with Customers

The Balancing Pool applies IFRS 15, *Revenue from contracts with customers*, for its revenue arrangements.

(a) Sale of electricity and ancillary services

Revenues from the sale of electricity 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 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 and ancillary services.

(b) Consumer collection (allocation)

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 was 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) was recognized on an accrual basis. Any change in valuation as a result of changes in underlying assumptions was recognized in income (loss) from operating activities.

(b) Investment income

Investment income resulting from interest is recorded on an accrual basis when there is reasonable assurance as to its measurement and collectability.

(c) 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, or other legal proceedings, are recorded in the current year, upon receipt.

Income Taxes

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

Cash and Cash Equivalents

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

Trade and Other Receivables

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

Hydro Power Purchase Arrangement

The Hydro PPA was a derivative financial instrument classified as and measured at fair value through profit or loss. The PPA was recorded as of the period end date at their fair value. Fair value was measured as the present value of the estimated future net payments to be received (or paid) under the arrangement 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 was based on forecasted future prices.

Leases

The PPAs transfer to the Balancing Pool substantially all the benefits and some of the risks of ownership and therefore the arrangements were classified as finance leases, with the Corporation as the lessee. A lease is considered to be a finance lease when the terms of the lease transfer substantially all of the risks and rewards incidental to ownership of the leased assets to the lessee. Finance leases are capitalized at the lease's commencement at the fair value of the leased property. The Corporation recognized lease liabilities and right-of-use assets for the PPAs on adoption of *IFRS 16, Leases*. The Corporation has also recognized a lease liability and right-of-use asset for the office lease.

Lease liabilities for the PPAs were measured at the present value of the remaining lease payments. Lease liability for the office lease is measured at the present value of the remaining lease payments. The lease liability for the office lease has been discounted at the Balancing Pool's eighteen month (office lease term) borrowing rate of 0.45% (2020 – 1.8%).

Right-of-use assets were recognized for the PPAs on adoption of *IFRS 16, Leases*. The assets were amortized on a straight-line basis over the remaining life of the PPAs and will be amortized on a straight-line basis over the remaining term of the office lease.

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

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

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

No impairment provision has been recorded at December 31, 2021 related to trade and other receivables. The Corporation considers trade and other receivables to be low risk.

Reclamation and Abandonment Obligations

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

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

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

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

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

Pursuant to Section 5 of the *Power Purchase Arrangements Regulation*, a PPA Owner may apply to the Alberta Utilities Commission ("AUC") to receive from the Balancing Pool the amount by which decommissioning costs related to a former PPA unit exceed the amount the PPA Owner collected from consumers before January 1, 2001 and subsequently through the PPA, provided that the unit has ceased generating electricity and the application is made within one year of the termination or expiration of the PPA. Section 5 of the *Power Purchase Arrangements Regulations* does not apply after December 31, 2018.

The reclamation and abandonment provision includes an estimate of the expected future costs associated with PPA decommissioning costs.

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

Other Provisions

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. The increase in the provision due to the passage of time is recognized as finance expense.

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, 12).

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 is 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:

- Reclamation and abandonment provision (Note 10)
- Contingent legal matters (Note 13)

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, 2021**	December 31, 2020
Trade receivables	15,558	98,069
Retailer receivables	1,911	9,123
Other receivables	1,087	2,000
	18,556	109,192

On May 12, 2020, the Government of Alberta initiated a program that permitted residential, farm, and small commercial businesses to defer the payment of utility bills for 90 days. The Minister of Energy issued a Ministerial Order on April 22, 2020 directing the Balancing Pool to reserve $119.0 million for the 90-day utility payment deferral program to assist retailers with funding. At December 31, 2021 the Balancing Pool had issued $36.1 million in funding to the retailers and received repayments of $34.2 million from retailers and through the Utility Payment Deferral Program rate rider. The Utility Payment Deferral Program rate rider will continue until June 18, 2022, at which time all retailer receivable amounts will be collected in full.

At December 31, 2021, no accounts receivable amounts are past due.

6. Accounting for Financial Instruments

6. a) Risk Management Overview

The Balancing Pool's activities expose or exposed the Corporation to a variety of financial risks: market risk (including fluctuating market prices, plant availability, PPA capacity payments and interest rates), 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 and Board of Directors. Effective December 31, 2020, on the expiry of the PPAs, the Balancing Pool is no longer exposed to market prices, plant availability and capacity payments.

Market Risk – Power

i) ***Fluctuating Market Prices:*** Changes in the market price for electricity and ancillary services affected the amount of revenues that the Balancing Pool received from the thermal and Hydro PPAs. 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.

ii) ***Plant Availability:*** Changes in plant availability impacted 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 generated at levels below target availability. If the plant generated above the target availability, the Balancing Pool was required to make payments to the PPA Owner of the plant. The Balancing Pool was not entitled to availability incentive payments during an event of force majeure.

iii) ***Capacity Payment:*** The Balancing Pool was exposed to interest rate risk in relation to the annual capacity payments.

Market Risk

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

ii) ***Counterparty Credit Risk:*** The Balancing Pool was exposed to counterparty credit risk. In the event of a default on payments from counterparties to the Hydro PPA, a financial loss may have been experienced by the Balancing Pool. Credit risk was managed in accordance with the Credit Policy which required that all counterparties maintain investment-grade status level. Status of counterparty credit was regularly monitored by management and the Audit and Finance Committee. The Balancing Pool had minimal credit risk related to its receivables and cash as they consisted 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. Amounts funded under the Utility Payment Deferral Program are collected from retailers for the period of June 19, 2020 to June 18, 2021 and through a rate rider approved by the AUC from the period of June 19, 2021 to June 18, 2022. All retailer amounts funded will be collected back in full by June 18, 2022.

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

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

December 31, 2021

(in thousands of dollars)	**1 year**	**2 - 5 years**	**Total**
Trade payables	658	-	658
Other accrued liabilities	4,018	6,792	10,810
Related party loan – principal	206,894	499,130	706,024
Related party loan – interest	58	4,743	4,801
Reclamation and abandonment	169	41,988	42,157
Lease liability	25	2	27
Total	211,822	552,655	764,477

December 31, 2020

(in thousands of dollars)	1 year	2 - 5 years	Total
Trade payables	81,284	-	81,284
Other accrued liabilities	318,428	-	318,428
Related party loan – principal	201,184	498,802	699,986
Related party loan – interest	1,748	4,744	6,492
Reclamation and abandonment	263	38,188	38,451
Lease liability	91	-	91
Total	602,998	541,734	1,144,732

6. b) Fair Value Hierarchy

Financial instruments carried at fair value are categorized as follows:

December 31, 2021

(in thousands of dollars)	**Quoted prices in active markets for identical assets**	**Significant other observable inputs**	**Significant unobservable inputs**	**Total**
Assets	Level 1	Level 2	Level 3	
Cash and cash equivalents	32,963	-	-	32,963
	32,963	-	-	32,963

December 31, 2020

(in thousands of dollars)	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	Total
Assets	Level 1	Level 2	Level 3	
Cash and cash equivalents	223,737	-	-	223,737
	223,737	-	-	223,737

i) Level 1

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

ii) Level 2

Assets and liabilities in Level 2 include valuations using inputs other than Level 1 quoted prices for which all significant inputs are observable, either directly or indirectly. Fair values for fixed income investments were 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 value was determined using discounted cash flow forecast methods and supported by observable market prices when available. Methodologies were developed to determine the fair value for the Hydro PPA contract based on forecast of the hourly electricity market price in Alberta's hourly market using proprietary third-party models. Management reviewed the discounted cash flow forecasts on an annual basis.

7. Right-of-Use Assets

(in thousands of dollars)	Genesee PPA	Keephills PPA	Sheerness PPA	Office Lease	Total
At January 1, 2020	129,103	75000	85,666	241	290,010
Amortization and depreciation	(129,238)	(75,684)	(84,893)	(152)	(289,967)
Reassessment of lease liability	135	684	(773)	-	46
At December 31, 2020	-	-	-	89	89
At January 1, 2021	-	-	-	89	89
Amortization and depreciation	-	-	-	(99)	(99)
Additions	-	-	-	37	37
At December 31, 2021	-	-	-	27	27
Less: current portion	-	-	-	(25)	(25)
	-	-	-	2	2

During 2021, $0.1 million (2020 - $290.0 million) in amortization and depreciation was recorded. In July 2021, the Balancing Pool signed an 18 month office lease resulting in an addition of $0.04 million. Effective December 31, 2020, the Genesee, Keephills and Sheerness PPAs expired.

8. Finance Expense

(in thousands of dollars)	2021	2020
Interest expense – related party loan	13,924	15,326
Interest expense – lease liability	1	7,412
Accretion expense – reclamation and abandonment	58	572
	13,983	23,310

9. Trade Payable and Other Accrued Liabilities

(in thousands of dollars)	2021	2020
Trade payables	658	81,284
Accrued liabilities – Greenhouse gas obligation	-	237,852
Accrued liabilities – Line loss provision	511	67,902
Accrued liabilities – Mandated costs	3,349	3,570
Accrued liabilities – Other	6,950	9,104
	11,468	399,712

10. Reclamation and Abandonment Provision

(in thousands of dollars)	H.R. Milner Generating Station	Isolated Generation Sites	Sundance A Generating Station	Total
At January 1, 2020	8,908	1,978	21,973	32,859
Net increase (decrease) in liability	1,552	(20)	5,461	6,993
Liabilities paid in year	(399)	(1,574)	-	(1,973)
Accretion expense	155	34	383	572
At December 31, 2020	10,216	418	27,817	38,451
Less: Current portion	(177)	(86)	-	(263)
	10,039	332	27,817	38,188
At January 1, 2021	10,216	418	27,817	38,451
Increase (decrease) in liability	(529)	104	4,690	4,265
Liabilities paid in year	(226)	(391)	-	(617)
Accretion expense	15	1	42	58
At December 31, 2021	9,476	132	32,549	42,157
Less: Current portion	(100)	(69)	-	(169)
	9,376	63	32,549	41,988

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

Under the Asset Sale Agreement for the H.R. Milner generating station between the Balancing Pool and ATCO Power Ltd ("ATCO"), which was executed in 2001, the Balancing Pool assumed the 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. As at December 31, 2021, a total of $4.9 million has been paid for decommissioning the Milner generating site, leaving a balance of $10.1 million remaining. These costs have been discounted at the risk-free rate of 0.76% (2020 – 0.15%). At December 31, 2021, the provision decreased by $0.5 million (2020 – $1.6 million increase) to reflect a change in the discount rate. Expenditures of $0.2 million were incurred in 2021 (2020 – $0.4 million).

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 $0.4 million (2020 – $1.6 million) were incurred in 2021. 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 0.76% (2020 – 0.15%). 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 2023.

c) Decommissioning Costs of PPA Units

Pursuant to Section 5 of the *Power Purchase Arrangements Regulation*, a PPA Owner may apply to the Alberta Utilities Commission ("AUC") to receive from the Balancing Pool the amount by which decommissioning costs related to a former PPA unit exceed the amount the PPA Owner collected from consumers before January 1, 2001 and subsequently through the PPA, provided that the unit has ceased generating electricity and the application is made within one year of the termination or expiration of the PPA. Section 5 of the *Power Purchase Arrangements Regulations* does not apply after December 31, 2018.

In December 2018, TransAlta submitted an application to the AUC as well as two amendments to decommission Sundance unit A. In December 31, 2021, the Balancing Pool recorded a $4.3 million increase (2020 – $5.5 million increase) to the provision for decommissioning the Sundance A unit. The provision for Sundance A is based upon management's best estimate of decommissioning costs. Estimated decommissioning costs were discounted at 0.76% (2020 – 0.15%). The AUC will determine the amount owed to TransAlta. See also Note 13.

11. Lease Liability

(in thousands of dollars)	Genesee PPA	Keephills PPA	Sheerness PPA	Office Lease	Total
At January 1, 2020	165,651	112,096	132,125	244	410,116
Finance expense	3,001	2,031	2,377	3	7,412
Lease payments	(168,786)	(114,811)	(133,730)	(156)	(417,483)
Reassessment of lease liability	134	684	(772)	-	46
At December 31, 2020	-	-	-	91	91
At January 1, 2021	-	-	-	91	91
Finance expense	-	-	-	1	1
Lease payments	-	-	-	(102)	(102)
Additions	-	-	-	37	37
At December 31, 2021	-	-	-	27	27
Less: current portion	-	-	-	(25)	(25)
	-	-	-	2	2

The Balancing Pool has recognized lease liabilities in relation to the office lease. The lease liabilities have been discounted using a rate of 0.45% (2020 – 1.8%).

12. Capital Management

The Balancing Pool's objective when managing capital is to operate as per the requirements of the EUA, which requires the Balancing Pool to operate with no profit or loss and no share capital and to forecast its revenues, expenses, and cash flows. Any excess or shortfall of funds in the accounts is to be allocated to, or provided by, electricity consumers over time. During 2016, the Alberta Government enacted amendments to the *Balancing Pool Regulation* that defined the method by which the Balancing Pool would calculate the amounts to be allocated to, or provided by, electricity consumers through to 2030. In January 2017, the Balancing Pool signed a loan agreement with the Government of Alberta. The loan agreement was put in place through Alberta Treasury Board and Finance to fund operating losses of the Balancing Pool, including obligations associated with the terminated PPAs.

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

Balancing Pool Deferral Account *(in thousands of dollars)*	**2021**	**2020**
Deferral account, beginning of year	(811,699)	(774,625)
Change to the Balancing Pool deferral account	98,776	(37,074)
Deferral account, end of year	(712,924)	(811,699)

In December 2020, the Board of Directors approved a 2021 consumer collection of $2.30/MWh for a total collection from electricity consumers of $135.8 million in accordance with the *Balancing Pool Regulation*. In October 2021, the Board of Directors approved a 2022 consumer collection of $2.20/MWh for an estimated total collection from electricity consumers of $132.0 million in accordance with the *Balancing Pool Regulation*.

13. Contingencies and Commitments

Reclamation and Abandonment

TransAlta has submitted an application as well as two amendments to the AUC to decommission Sundance A and is seeking $76.0 million (2020 - $46.0 million) in funding from the Balancing Pool. The Balancing Pool disagrees with several aspects of the application. The Balancing Pool has a provision of $32.5 million (2020 - $27.8 million) to decommission Sundance A. The final amount due will be determined by the AUC.

Legal Claim

On June 12, 2019, the Balancing Pool received a statement of claim from a power producer seeking $17.5 million in damages from the Balancing Pool. The Balancing Pool considers the claim to be without merit. Section 92 of the *Electric Utilities Act* provides the Balancing Pool with strong liability protection for such claims.

On August 6, 2021, the Court of Queen's Bench granted the Balancing Pool's application to strike the entire claim. The claimant appealed the ruling. On March 3, 2022, the Court of Queen's Bench dismissed the appeal and the claim was struck entirely. On April 1, 2022, the claimant filed and served a Notice of Appeal with the Alberta Court of Appeal.

As at December 31, 2021, no contingent liability has been recorded (2020 - $nil).

Legal Claim – Line Loss Proceeding

On January 27, 2021, the Balancing Pool received a statement of claim from a power producer related to the line loss rule proceeding and is seeking $53.2 million (2020 - $10.3 million) in damages from the Balancing Pool. The Balancing Pool has filed its statement of defense and considers the claim to be without merit.

At December 31, 2021, no contingent liability has been recorded (2020 - $nil).

Arbitration - Line Loss Proceeding

In April 2021, a power producer gave notice to the Balancing Pool of a formal arbitration proceeding in regards to the historical line loss proceeding. The power producer is seeking $56.6 million from the Balancing Pool for historical line loss amounts invoiced by the AESO to the power producer. The Balancing Pool considers the matter to be without merit.

At December 31, 2021, no contingent liability has been recorded.

MSA Investigation

On August 5, 2020, the Balancing Pool received a Notice of Investigation from the Market Surveillance Administrator ("MSA"). The MSA investigated to assure itself that the Balancing Pool was complying with all of its obligations and ensuring the Balancing Pool acted within the limits of the PPA framework and in accordance with the laws that govern Alberta. The MSA has discontinued the investigation as disclosed in their Q4 2021 quarterly report.

Other Legal Claims

The Balancing Pool is involved in other legal claims and legal proceedings arising in the ordinary course of business. Although the outcome of such matters cannot be predicted with certainty, the Corporation does not consider the Balancing Pool's exposure to litigation to be material to these financial statements. Accruals for litigation, claims and assessments are recognized if the Balancing Pool determines that the loss is probable and the amount can be reasonably estimated. The Balancing Pool believes it has made adequate provisions for such legal claims.

14. Cost of Sales

(in thousands of dollars)	**2021**	**2020**
Cost of Power Purchase Arrangements	7,278	488,956
Small scale generator costs	52	147
Gain on the retirement of emission credits	-	(2,283)
Amortization and depreciation on right-of-use assets	107	289,975
	7,437	776,795

In 2021, the Balancing Pool settled the final amounts for the thermal PPAs and Hydro PPA for capacity payment true-ups and historical line loss true-ups resulting in a net expense of $7.3 million.

15. Commercial Dispute costs (recovery)

(in thousands of dollars)	**2021**	**2020**
Force Majeure and commercial dispute (recovery)	(12,000)	-
Commercial dispute costs	1,764	2,320
	(10,236)	2,320

In 2021, the Balancing Pool reached a negotiated settlement with a counterparty and recovered $12 million related to a previous Force Majeure event and other disputed commercial matters.

16. 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)*	**2021**	**2020**
Salaries, other short-term employee benefits and severance	480	519
Total	480	519

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. 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. The loan agreement will remain until December 31, 2030 when all outstanding loan amounts are due to be paid back to the provincial government. As the Balancing Pool has short-term and long-term related party notes outstanding which mature prior to December 31, 2030, the Balancing Pool expects to repay maturing notes through its consumer collection (Note 12) or refinance maturing notes outstanding with the Government of Alberta (Note 17), subject to the terms of the loan agreement. Details of the Balancing Pool's related party loans outstanding are as follows:

(in thousands of dollars)	**Interest Rate**	**December 31, 2021**
Long-term note due on September 13, 2023	2.65%	503,873
Short-term discount note due on January 20, 2022	0.19%	54,967
Short-term discount note due on March 15, 2022	0.30%	151,985
		710,825
Less: Current portion		(206,952)
		503,873

(in thousands of dollars)	Interest Rate	December 31, 2020
Long-term note due on September 13, 2023	2.65%	503,546
Short-term discount note due on February 18, 2021	0.14%	74,986
Short-term discount note due on March 26, 2021	0.18%	127,946
		706,478
Less: Current portion		(202,932)
		503,546

At December 31, 2021, the Balancing Pool had $710.8 million (2020 – $706.5 million) in short-term discount and long-term notes issued to the Government of Alberta, including accrued interest of $5.6 million (2020 – $6.5 million). During 2021, payments of $9.6 million (2020 - $14.8 million payment) were remitted on the outstanding loan. Fair value of the loan is the same as the amortized cost of borrowing. During 2021, interest of $13.6 million was paid on the related party loan (2020 – $15.3 million).

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 to the Transmission Facilities Cost Monitoring Committee ("TFCMC") to cover 100% of their annual costs. In 2021, the Balancing Pool expensed $3.8 million (2020 – $5.0 million) for the UCA and a recovery of $0.01 million (2020 – $0.1 million) for the TFCMC. The Balancing Pool anticipates no further funding will be required for the TFCMC.

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 2021, the Balancing Pool collected $135.8 million (2020 – $145.4 million) from electricity consumers through the AESO's transmission tariff.

17. Subsequent Events

Related Party Transactions

On January 20, 2022 and March 15, 2022 the maturing related-party short-term notes were re-financed with the terms noted below.

(in thousands of dollars)	Interest Rate	Amount re-financed
Short-term discount note due on April 20, 2022	0.58%	137,000
Short-term discount note due on June 13, 2022	0.77%	40,000

CORPORATE INFORMATION

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