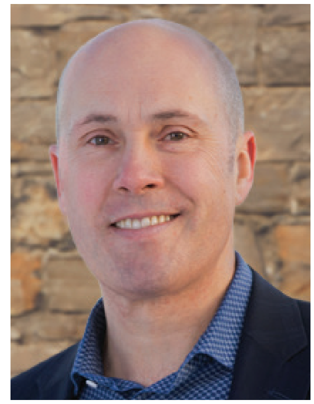
balancingpool

2019 Annual Report

MESSAGE TO STAKEHOLDERS FROM THE BOARD CHAIR



Greg Clark

This is my first message to stakeholders since being appointed to chair the Balancing Pool Board of Directors. I want to offer my sincere thanks to past Chair Robert Bhatia for his strong leadership during a very challenging time and for his help and guidance in the early days of my new role. I also want to thank my fellow Directors and the Balancing Pool's senior leadership for their stewardship of the organization, past and present. Their professionalism and diligence have put our organization in a solid position to execute our important mandate in the best interests of all Albertans.

The Balancing Pool has experienced strong financial results over the course of 2019. The portfolio of Power Purchase Arrangements ("PPAs") has performed well, primarily due to the successful termination of the most uneconomical PPAs, highly effective changes to the Balancing Pool's commercial strategies, and improving market conditions. I am particularly proud of the fact that these positive financial results have allowed the Balancing Pool to significantly reduce much of its outstanding debt.

In my time as Chair I have observed that both Management and the Board are highly effective, with a clear focus on executing the Balancing Pool's legislated mandate. The strong financial results delivered through difficult times are a testament to their capabilities.

The next few years will no doubt be a period of change for Alberta's electricity sector and the Balancing Pool, particularly in light of the COVID-19 situation. The PPAs will expire at the end of the year and control of the underlying PPA electrical generation units will shift to the owners of those units, potentially leading to significant change in the wholesale electricity's market structure. While the Balancing Pool will cease to have a position in the wholesale electricity market, we will continue to support Albertans during these unprecedented times.

Aside from the wind down of trading operations, many of our obligations related to the PPAs will remain ongoing for some time. Numerous commercial and legal matters, with potentially significant consequences to consumers, will be a top priority. The Balancing Pool's structure was designed specifically to manage these matters.

I would again like to thank the Board of Directors and the Balancing Pool staff for their tireless efforts over an exceptional 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 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 17, 2020

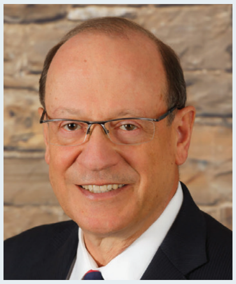
GOVERNANCE OF THE BALANCING POOL

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

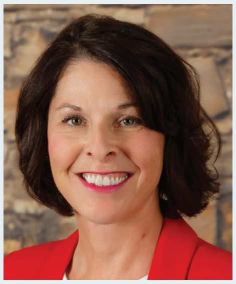
Greg Clark

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 and a BA from the University of Victoria.



Adam Hedayat

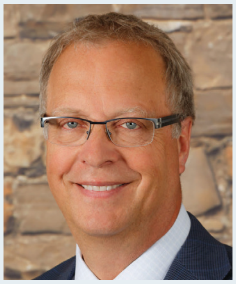
Adam Hedayat is a business executive with extensive expertise and leadership roles in the Canadian and international energy sectors. For over 40 years, Adam contributed to the growth of several leading energy organizations such as SaskPower Commercial, TransAlta Corporation of Canada, and Morrison Knudsen 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 life 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.



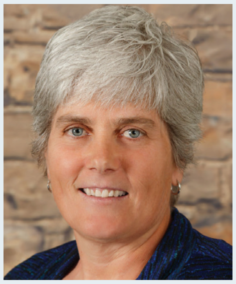
Michelle Plouffe

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. Michelle has worked in private practice and in the utilities, health and post-secondary sectors and is currently the Vice President and General Counsel at MacEwan University. Michelle 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 also is currently the Chair of the Hospital Privileges Appeal Board and a Director on the MacEwan Downtown Corporation. She is a former Board Member of the Association of Corporate Counsel Alberta Chapter Board. Michelle has been a volunteer member of the Law Society Finance and Audit Committee and the Conduct Committee, and has recently been appointed as a member of the Equity, Diversity and Inclusion Advisory Committee. Among the large volume of projects and initiatives that Michelle has developed and led at the University are the institutional safe disclosure program, sexual violence education and prevention program, diversity, equity and human rights program, and legislative compliance program. In 2017, Michelle was granted a Women in Law Leadership Award for demonstrated leadership in law and diversity initiatives. For her commitment and service to the community in preventing gender-based violence and discrimination, she was granted the Edmonton Daughter of the Year award in 2016 by Canadians for a Civil Society.

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.


Greg Pollard

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.


Sandra Scott

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, 2019, 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.

2019 Meeting Attendance and Remuneration

Balancing Pool Board Member	Board	Audit & Finance	Governance & Human Resource	2019 Remuneration ($)[1]
Greg Clark	2 of 2	1 of 1	1 of 1	12,516
Robert Bhatia	9 of 9	3 of 3	3 of 3	72,484
Adam Hedayat	11 of 11	4 of 4	4 of 4	48,400
Michelle Plouffe	11 of 11	4 of 4	4 of 4	53,400
Greg Pollard	10 of 11	4 of 4	4 of 4	52,300
Sandra Scott	11 of 11	4 of 4	4 of 4	48,400
Attendance	54 of 55	20 of 20	20 of 20	

[1] *2019 Remuneration includes base retainer, Committee Chair retainer and Member meeting fees.*

REPORT FROM THE PRESIDENT AND CEO

Benjamin Chappell

The past year was a pivotal one for the Balancing Pool and Alberta's electricity industry. Policymakers stepped away from the implementation of a capacity market and the Renewable Electricity Program, and instead recommitted to the energy-only market that has been in effect since the inception of deregulation.

The Balancing Pool believes strongly in the fair, efficient, and openly competitive electricity market in Alberta, and we are committed to managing the Power Purchase Arrangements ("PPAs") we hold in the market in a commercial manner. To that end, we continued to forge ahead with the strategic direction we charted for ourselves in 2018.

In 2019, our focus remained on the commercial management of the PPAs. We continued implementing and refining our strategies related to offering PPA capacity into the market, mitigating greenhouse gas expenses, and resolving commercial matters with PPA counterparties. In a large part thanks to these efforts, the performance from our portfolio of PPAs continued to improve significantly, which in turn allowed us to reduce the long-term debt of the Balancing Pool far ahead of schedule. In 2019 alone, we repaid 24 percent ($228 million) of the debt outstanding.

Alberta's electricity consumers have directly benefitted from our improved financial results through the Consumer Allocation. The Consumer Allocation went from a collection of $3.10 per megawatt hour ("MWh") of consumption in 2018, to $2.90 per MWh in 2019, and now to $2.50 per MWh in 2020. In aggregate, the Balancing Pool has remitted a net amount of over $4.2 billion to electricity consumers over the course of our mandate.

The upcoming years will mark a period of transition for the Balancing Pool. We will continue implementing our commercial strategies in the market until the PPAs expire at the end of 2020. Beyond 2020, the Balancing Pool will retain a number of legislated responsibilities and PPA-related obligations and risks that will continue to exist for several years to come. These responsibilities, obligations, and risks primarily relate to ongoing commercial and legal matters that are ultimately funded by consumers through the Consumer Allocation; the Balancing Pool will continue to vigorously protect consumers' interests as these matters are advanced and ultimately resolved.

The Balancing Pool has demonstrated strong results over the course of 2019, and I have been energized and motivated by the commitment of the people around me as we have all worked towards our common goals. I would like to express my gratitude to our highly engaged and effective Board of Directors and to our strong team of dedicated and talented employees. I would also like to recognize Greg Clark, our recently appointed Board Chair, for his support and leadership and thank our outgoing Chair, Robert Bhatia, for the leadership he provided while he was in the role.

With the emergence of the COVID-19 crisis, we all begin 2020 facing unprecedented challenges, but after a solid year in 2019, the Balancing Pool is well positioned to handle what lies ahead. We will continue to execute our mandate and do our part to support our industry and our province.

Benjamin Chappell
President and Chief Executive Officer

April 17, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") dated April 17, 2020, should be read in conjunction with the audited financial statements of the Balancing Pool for the years ended December 31, 2019 and 2018. The financial statements for the year ended December 31, 2019 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. Today, the Balancing Pool exists to facilitate policy implementation and to support the functioning of the electricity industry for the benefit of Albertans. The Balancing Pool's obligations and responsibilities are governed by the *Electric Utilities Act (2003)* ("EUA") and its supporting regulations.

Results at a Glance

Years ended December 31	2019	2018
Volume — gigawatt hours ("GWh")		
Genesee Power Purchase Arrangement ("PPA")	6,211	6,247
Battle River 5 PPA[1]	-	1,158
Sundance B PPA[1]	-	786
Sundance C PPA[1]	-	892
Sheerness PPA	4,689	4,932
Keephills PPA	4,643	5,096
PPA ancillary services	417	221
Hydro PPA electricity	1,621	1,624
Hydro PPA ancillary services	1,265	1,264
Small Power Producer	9	78
Total electricity and ancillary service volume	18,855	22,298
Price — per megawatt hour ("MWh")		
Average electricity market price	$54.88	$50.35
Consumer Collection		
Consumer collection per MWh	$2.90	$3.10
Consumer collection *(in thousands of dollars)*	172,985	189,259
Financial Results *(in thousands of dollars)*		
Statement of Income and Comprehensive Income		
Revenue from contracts with customers	1,055,569	1,158,855
Other income	44,035	177,415
Expenses	892,488	985,419
Income from operating activities	207,116	350,851
Other income (expense)	(35,285)	(16,309)
Change to the Balancing Pool deferral account	171,831	334,542
Statement of Financial Position		
Total assets	586,858	543,285
Total liabilities	1,361,483	1,489,741
Net liabilities attributable to the Balancing Pool deferral account	(774,625)	(946,456)

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

Legislated Duties

The Balancing Pool's legislated duties include the following:

- Act as a risk backstop for the PPAs in relation to extraordinary events such as force majeure;
- Act as a Buyer for the PPAs that were not sold in the public auction held by the Government of Alberta in 2000, or that were subsequently terminated by third party Buyers;
- Manage the PPAs held by the Balancing Pool in a commercial manner, and/or terminate them with the Owners if appropriate;
- Allocate (or collect) any forecasted cash surplus (or deficit) to (from) electricity consumers in Alberta in annual amounts;
- Manage the financial accounts arising from the transition to a competitive generation market on behalf of consumers;
- Fund the decommissioning and reclamation costs associated with certain generation facilities in Alberta;
- Hold the Hydro PPA and manage the associated stream of receipts or payments;
- Participate in regulatory and dispute resolution processes;
- Fund initiatives in the electricity industry at the direction of the Minister of Energy; and,
- Act as the default market participant and provide settlement functions in relation to certain projects developed under the *Small Scale Generation Regulation*.

Novel Coronavirus ("COVID-19")

With the outbreak of COVID-19, the Balancing Pool has deployed its Business Continuity Plan in order to protect the health and safety of Balancing Pool personnel and to ensure the Balancing Pool continues to execute its mandate. All Balancing Pool personnel have been working remotely since March 16, 2020 and will continue to do so for an indefinite period of time. The Balancing Pool does not anticipate a significant impact to daily operations as a result of COVID-19.

The spread of COVID-19 in Alberta and the restrictions imposed by various levels of government may impact the demand for electricity, which may result in lower future Alberta power prices. Lower power prices will reduce Sale of Electricity revenue from the thermal PPAs and the Hydro PPA. Reduced revenues may result in the Balancing Pool drawing on funds available through the Provincial government loan to satisfy its obligations.

The Provincial government has announced that residential, farm, and small commercial businesses can defer payment of utility bills for 90 days. The impact to the Balancing Pool is uncertain.

Market Surveillance Administrator ("MSA") Settlement

The Alberta Utilities Commission ("AUC") approved a settlement agreement on January 14, 2020 between the MSA and the Balancing Pool. Under the terms of the agreement, the Balancing Pool agreed to report publicly in its quarterly and annual reports on the activities undertaken to operate the PPA units in a commercial manner.

The Balancing Pool has pursued various strategies to manage the PPAs that it holds in a commercial manner.

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

The Balancing Pool examined the option of selling PPA capacity. A third-party expert assessed market conditions in 2017 and 2018 and concluded there would be insufficient interest in a PPA capacity sale to generate the competitive tension necessary for the Balancing Pool to receive fair market value for the capacity sold. The Balancing Pool continued to assess the prospect of selling PPA capacity into 2019, but concluded these issues had not been resolved. Furthermore, the short time remaining before the PPAs expire in 2020 has become insufficient to complete a sales process, rendering a capacity sale impractical. As such, the Balancing Pool is of the opinion it would not receive fair market value if it were to sell PPA capacity.

The Balancing Pool has the option to employ its historical offer strategy or to consider alternative offer strategies, as it deems appropriate, so long as it continues to fulfil its mandate to manage generation assets in a commercial manner. Following a rigorous strategic review process, the Balancing Pool elected to augment its internal operational capabilities and began employing alternative offer strategies in the second quarter 2019. The Balancing Pool continues to monitor the results from its alternative offer strategies and makes adjustments to these strategies if it deems doing so appropriate.

The Balancing Pool continues to undertake other commercial activities. During 2019, the Balancing Pool sold 417 gigawatt hours ("GWh") in ancillary services for total revenue of $7.4 million. During that same period, the Balancing Pool retired 3.6 million tonnes of emission credits to satisfy environmental compliance charges, resulting in a $17.8 million gain. The gain on emission credits is a result of procuring emission credits at a price lower than the Climate Change Emission Management Fund rate of $30 per tonne.

Assets

Details of Assets *(in thousands of dollars)*	2019	2018
Cash and cash equivalents	96,037	175,851
Trade and other receivables	85,650	201,250
Long-term receivable	1,980	3,941
Right-of-use assets	290,010	-
Property, plant and equipment	14	4
Hydro Power Purchase Arrangement	110,667	135,340
Intangible assets	2,500	26,899
Total assets	586,858	543,285

Trade and Other Receivables

Trade and other receivables balance at December 31, 2019 primarily includes amounts receivable or the accrued sale of electricity, ancillary service revenues, and the consumer collection receivable for December 2019. The trade and other receivables balance at December 31, 2019 is lower relative to the December 31, 2018 balance due to two months of receivables included in 2018 relative to one month in 2019.

Long-Term Receivable

The long-term receivable of $2.0 million includes a receivable related to the negotiated settlement reached on the termination of certain PPAs in 2016. A cash payment of $2.0 million was received in December 2019. The final $2.0 million cash payment is due in December 2020.

Right-of-Use Assets

The Balancing Pool adopted IFRS 16, *Leases* on January 1, 2019. The purpose of IFRS 16 is to provide a foundation for users of financial statements to evaluate the amount, timing and uncertainty of cash flows arising from leases. Management determined that the Genesee, Keephills and Sheerness PPAs contain lease arrangements, as well as the office lease. On transition to IFRS 16, right-of-use assets were established for the office lease and the three remaining PPAs (Genesee, Sheerness and Keephills). Right-of-use assets in the amount of $841.4 million were recognized for the three PPAs and $0.4 million for the office lease. The right-of-use assets established for the three PPAs were impaired on transition to IFRS 16 by $242.4 million leaving a balance of $599.0 million to be amortized on a straight line basis over the remaining two-year term. Over the course of the year, $299.7 million in amortization and depreciation was recorded. An adjustment related to the lease liability of the three PPAs was applied to the right-of-use assets, reducing the asset value by $9.7 million, leaving a balance of $290.0 million at December 31, 2019.

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 value of the Hydro PPA at December 31, 2019 decreased by $24.7 million relative to the same period in 2018 primarily due to amortization of the remaining value.

Intangible Assets

Intangible assets include emission credits held for compliance purposes. Over the course of the 2019 year, the Balancing Pool retired 3.6 million tonnes worth of emission credits to satisfy carbon levy charges associated with the PPAs. At December 31, 2019 the Balancing Pool held 100,000 tonnes of emission credits.

The retirement of the emission credits resulted in a $17.8 million reduction to the Balancing Pool's carbon levy charges associated with the PPAs. This reduction was achieved due to the procurement of emission credits at a lower cost than the Climate Change and Emissions Management Fund and the *Technology Innovation and Emissions Reduction Regulation* rate of $30 per tonne of carbon dioxide equivalent ("CO_2e").

Liabilities

Details of Liabilities *(in thousands of dollars)*	2019	2018
Trade and other payables	212,524	305,357
Related party loan	705,984	915,295
Small Power Producer Contracts	-	444
Lease liability	410,116	-
Reclamation and abandonment provision	32,859	24,162
Other long-term obligations	-	244,483
Total liabilities	1,361,483	1,489,741

Trade and Other Payables

Trade and other payables at December 31, 2019 primarily include PPA obligations due to plant Owners as well as accrued liabilities for the retroactive line loss adjustment, amounts owing for the fourth quarter 2019 carbon levy on the PPAs and miscellaneous liabilities. The balance at December 31, 2019 is lower than the prior year primarily as a result of one month of payables for December 31, 2019 relative to two months of payables for December 31, 2018.

Related Party Loan

During 2019, the Balancing Pool paid $228.3 million on the outstanding loan with the Provincial government. At December 31, 2019 the Balancing Pool had $706.0 million in short-term and long-term notes issued to the Government of Alberta including accrued interest of $3.0 million on the long-term note. No new borrowing occurred over the course of 2019.

Lease Liability

The Balancing Pool adopted IFRS 16, *Leases* on January 1, 2019. The purpose of IFRS 16 is to provide a foundation for users of financial statements to evaluate the amount, timing and uncertainty of cash flows arising from leases. Management determined that the Genesee, Keephills and Sheerness PPAs contain lease arrangements as well as the office lease. On transition to IFRS 16, a lease liability was established for the office lease and the three remaining PPAs (Genesee, Sheerness and Keephills). The lease liability is drawn down over time as the lease payments are issued on a monthly basis. Lease liabilities in the amount of $841.3 million were recognized for the three PPAs and $0.4 million for the office lease. Over the course of the year, $437.9 million in lease payments were remitted. Interest of $16.0 million was recorded over the course of the year. An adjustment related to the lease liability of the three PPAs was applied, thereby reducing the lease liability by $9.7 million, leaving a balance of $410.1 million at December 31, 2019. The adjustment to the lease liability was due to a change in the lease payments for the three PPAs.

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. Section 5 of the *Power Purchase Arrangements Regulations* does not apply after December 31, 2018.

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

Details of Reclamation and Abandonment Provision *(in thousands of dollars)*	**2019**	**2018**
H.R Milner	8,908	10,469
Isolated Generation sites	1,978	1,756
Sundance A decommissioning	21,973	11,937
Total reclamation and abandonment provision	32,859	24,162

The decrease in the H.R Milner provision primarily reflects a change in the estimated payment date from December 31, 2021 to December 31, 2030 ($1.5 million) and payment of liabilities in the current period ($0.3 million). The decrease was partially offset accretion on the provision of $0.2 million.

The provision for the Isolated Generation sites marginally increased due to a revised estimate in costs to complete the project of $2.2 million. The increase was mostly offset by liabilities of $2.0 million paid during 2019.

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 $9.8 million increase to the provision. The Balancing Pool disputes several aspects of TransAlta's decommissioning plan submitted to the AUC for Sundance A.

Other Long-Term Obligations (Power Purchase Arrangements)

The onerous contract provision was drawn down to nil on adoption of IFRS 16, *Leases*. Please refer to the lease liability and right-of-use asset sections.

Balancing Pool Deferral Account

Balancing Pool Deferral Account *(in thousands of dollars)*	**2019**	**2018**
Deferral account, beginning of year	(946,456)	(1,280,998)
Change to the Balancing Pool deferral account	171,831	334,542
Deferral account, end of year	(774,625)	(946,456)

The Balancing Pool's deferral account liability decreased by $171.8 million at 2019 year-end relative to the prior year. The decrease in the deferral account liability is primarily the result of strong revenues from the sale of electricity from the PPAs, the consumer collection and Payments in Lieu of Tax ("PILOT") receipts.

Operations

Revenue from Contracts with Customers

Details of Revenue from Contracts with Customers *(in thousands of dollars)*	2019	2018
Sale of electricity and ancillary service revenue	882,584	969,596
Consumer collection	172,985	189,259
Total revenue from contracts with customers	1,055,569	1,158,855

Sale of Electricity and Ancillary Service Revenue

Sale of electricity and ancillary service revenue in 2019 is comprised of revenues from the PPAs the Balancing Pool held during 2019. Revenues from sale of electricity for 2019 decreased relative to 2018 primarily due to the termination of the Sundance B, Sundance C and Battle River 5 PPAs.

During 2019, the Balancing Pool sold approximately 417 GWh in ancillary services for total revenue of $7.4 million.

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 2019, the Balancing Pool Board of Directors approved a consumer collection of $2.90 per MWh of demand resulting in an annual amount of $173.0 million collected from electricity consumers. The consumer collection for 2019 was determined in accordance with the revised *Balancing Pool Regulation* which stipulates the consumer collection is determined by calculating the annual collection amount over the remaining life of the Balancing Pool to 2030.

Consumer collection revenue decreased for 2019 relative to 2018 as the collection rate from consumers decreased from $3.10 per MWh of demand in 2018 down to $2.90 per MWh of demand in 2019. In late 2019, the Board of Directors approved a consumer collection of $2.50 per MWh of demand in 2020.

Other Income

Details of Other Income *(in thousands of dollars)*	2019	2018
Change in fair value of Hydro Power Purchase Arrangement	20,152	44,258
Payments in Lieu of Tax (PILOT)	21,149	130,784
Interest income	2,341	1,362
Change in fair value of Small Power Producer Contracts	393	1,007
Change in fair value of investments	-	4
Total other income	44,035	177,415

Change in Fair Value of Hydro Power Purchase Arrangement

Details of Changes in Fair Value of Hydro PPA *(in thousands of dollars)*	**2019**	**2018**
Accretion and current year change	3,196	48,959
Historical line loss credit	(32,191)	-
Re-valuation of Hydro PPA	49,147	(4,701)
Total change in fair value of Hydro PPA	20,152	44,258

Accretion and current year change decreased for 2019 relative to 2018 as a result of lower realized cash receipts received in 2019 than forecast in the prior year's valuation. Realized cash receipts decreased as a result of higher capacity payment costs and reclassification of the historical line loss credit. The fair value of the Hydro PPA at December 31, 2019 increased relative to 2018 as a result of an increase in the expected future cash flows for electricity and ancillary services relative to those estimated in the prior year's valuation calculation. Included in the Hydro PPA value is an estimate of the line loss credit related to Proceeding 790 of which the Balancing Pool is entitled to under the terms of the Hydro PPA. The revised methodology will result in a credit for line loss charges previously paid by the Balancing Pool to TransAlta. Under the terms of the PPA, TransAlta will be required to pass the line loss credit onto the Balancing Pool.

Payments in Lieu of Tax

PILOT receipts (payments) are based on the taxable income of a municipal entity as defined in Section 147 of the *Electric Utilities Act* and the *Payment in Lieu of Tax Regulation of the Act*. In general, 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)*	**2019**	**2018**
Instalments received for current tax year	12,996	5,353
Instalments received for prior tax years	15,463	83,480
Reversal of previously accrued PILOT refund	-	54,807
Instalment re-allocations and refunds for prior tax years	(9,622)	(12,637)
Audit and litigation costs	2,312	(219)
Total PILOT revenue	21,149	130,784

Total PILOT revenue for 2019 decreased relative to 2018 due to higher PILOT instalments received in the prior year. The higher receipts in 2018 were related to the conclusion of a dispute between a PILOT participant and Alberta Tax and Revenue Administration. Audit and litigation costs include a recovery of $2.5 million related to the conclusion of the dispute mentioned above.

Expenses

Details of Expense *(in thousands of dollars)*	2019	2018
Cost of sales	871,966	843,212
Mandated costs	4,700	4,476
General and administrative	5,155	4,217
Force majeure, other PPA costs and PPA provision	123	122,988
Reclamation and abandonment provision	10,544	10,526
Total expenses	892,488	985,419

Cost of Sales

Details of Cost of Sales *(in thousands of dollars)*	2019	2018
PPA costs (including PPA lease payments)	1,026,445	1,239,638
PPA lease payments (applied to lease liability)	(437,736)	-
Power marketing costs	1,442	429
Amortization and depreciation	299,660	23
Gain on emission credit retirement	(17,845)	(74,610)
Losses recorded against other long-term obligations	-	(322,268)
Total cost of sales	871,966	843,212

PPA costs include plant capacity payments, variable operating costs including incentive payments, transmission charges and change-in-law charges. Capacity payments comprise more than 15% 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 $1,026.4 million in 2019 decreased relative to 2018 primarily due to the termination of the Sundance B and C PPAs and the Battle River 5 PPA.

On adoption of IFRS 16, the portion of the capacity payment that is based upon indices and rates (capital recovery charge, indexed fuel charge and indexed operational and maintenance charge) has been classified as the fixed lease payment. The fixed lease payment portion of the total capacity payment is used to estimate the lease liability. As the capacity payments are invoiced by the plant Owner, the fixed lease payment portion of the total capacity payment is recorded against the lease liability. The balance of the capacity payment is expensed through the income statement. Over the course of 2019, the total capacity payments invoiced for the three PPAs was $458.4 million. The fixed lease payment portion of $437.7 million was applied to the lease liability and the balance of the capacity payment invoiced of $20.7 million was expensed through the income statement.

Amortization and depreciation increased in 2019 relative to the same period in 2018 as a result of the adoption of IFRS 16. In accordance with IFRS 16, the right-of-use assets established for the PPAs are depreciated over the remaining term of the PPAs and included in cost of sales.

On adoption of IFRS 16, the PPA losses are no longer reclassified and applied to the PPA provision as the provision has been drawn down to nil.

A gain of $17.8 million was recorded on the retirement of emission credits. The gain on emission credits is a result of procuring emission credits at a price lower than the Climate Change Emission Management Fund rate of $30 per tonne.

Mandated Costs

Details of Mandated Costs *(in thousands of dollars)*	2019	2018
Utilities consumer advocate ("UCA")	4,593	5,197
Transmission facilities cost monitoring committee ("TFCMC")	107	107
Retail market review committee ("RMRC")	-	(828)
Total mandated costs	4,700	4,476

Mandated costs in 2019 increased relative to 2018 primarily due to a recovery recorded in the RMRC costs in 2018.

Force Majeure Costs, other PPA costs and PPA provision

Power purchase arrangement provision *(in thousands of dollars)*	2019	2018
PPA provision (recovery) expense for onerous contracts	(2,171)	122,604
Force majeure and other PPA costs	2,294	384
Total force majeure, other PPA and PPA provision	123	122,988

On January 1, 2019, the Balancing Pool adopted IFRS 16, *Leases* upon which the three remaining PPAs transition from an onerous contract to right-of-use asset and lease liability, which reflects the reduction of the PPA provision expense from 2018.

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 and other PPA costs of $2.3 million for 2019 represent legal and consulting expenditures related to disputed force majeure claims from prior years as well as other PPA-related commercial disputes. There were no new force majeure claims initiated in 2019.

Liquidity and Cash Flow

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

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

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

Cash and Cash Equivalents *(in thousands of dollars)*	2019	2018
Cash and cash equivalents, beginning of year	175,851	50,772
Net cash (used in) provided by operating activities	574,266	(271,113)
Net cash (used in) investing activities	(64,894)	(21,164)
Net cash (used in) provided by financing activities	(589,185)	417,356
Cash and cash equivalents, end of year	96,037	175,851

For the year ended December 31, 2019, the Balancing Pool had strong cash flow from operating activities. The strong cash flow allowed the Balancing Pool to repay $228.3 million to the Province on the outstanding loan arrangement in place with Alberta Treasury Board and Finance (2018 – $332.9 million borrowed).

Outlook

As per changes to the *Balancing Pool Regulation* enacted in December 2017, effective January 1, 2020, the annual consumer collection from electricity consumers in Alberta was set at $2.50 per MWh, for an estimated annual amount of $160.0 million (2019 – $2.90 per MWh, $173.0 million consumer collection).

The spread of COVID-19 in Alberta and the restrictions imposed by various levels of government may impact the demand for electricity, which may result in lower power prices. Lower power prices will reduce Sale of Electricity revenue from the thermal PPAs and the Hydro PPA. Reduced revenues may result in the Balancing Pool drawing on funds available through the Provincial government loan to satisfy its obligations.

Risks and Risk Management

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

Force majeure risk

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

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

Power market price volatility risk

As counterparty to the thermal PPAs, Hydro PPA and Small Power Producer Contracts, the Balancing Pool is exposed to power market price volatility risk.

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

Unit destruction

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

Change in law risk

Changes in law, including regulatory, environmental and electricity market design changes, can have a material effect on the values of the PPAs. Costs (and benefits) associated with a change in law are passed from plant Owners to the PPA Buyer. As the default Buyer of 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 and *Technology Innovation and Emissions Reduction Regulation*

The *Carbon Competiveness Incentive Regulation* ("CCIR") and *Technology Innovation and Emissions Reduction Regulation* ("TIER") impose an output-based benchmark on all generation facilities in the electricity industry. The net emissions for a facility may not exceed the output-based allocation applicable to that facility. Under circumstances where the actual emissions intensity exceeds the benchmark, the facility will have to bring its net emissions down by applying emission performance credits, emission offsets or fund credits.

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

PPA decommissioning risk

If a PPA Owner elects to decommission its facility, the Balancing Pool may be required to recompense the Owner for a portion of its decommissioning costs. The Balancing Pool would be financially liable for decommissioning costs exceeding the amounts the Owner has collected prior to deregulation and subsequently through the PPA payments. 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.

Liquidity

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

COVID-19

With the outbreak of COVID-19, the Balancing Pool has deployed its Business Continuity Plan in order to protect the health and safety of Balancing Pool personnel and to ensure the Balancing Pool continues to execute its mandate. The Balancing Pool does not anticipate a significant impact to daily operations as a result of COVID-19.

The spread of COVID-19 in Alberta and the restrictions imposed by various levels of government may impact the demand for electricity, which may result in lower future Alberta power prices. Lower power prices will reduce Sale of Electricity revenue from the thermal PPAs and the Hydro PPA. Reduced revenues may result in the Balancing Pool drawing on funds available through the Provincial government loan to satisfy its obligations.

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, 2019 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 2019.

Commitments and Contingencies

Refer to Note 16 of the Balancing Pool's audited financial statements for the year ended December 31, 2019 for a description of Commitments and Contingencies.

Subsequent Events

Refer to Note 19 of the Balancing Pool's audited financial statements for the year ended December 31, 2019 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").

The Balancing Pool adopted IFRS 16, *Leases* on January 1, 2019. Refer to Note 3 of the Balancing Pool's audited financial statements for the year ended December 31, 2019 for a description of this change in accounting policy.

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.

Onerous Contract Provision (for the comparative 2018 period) – The provision for the PPAs (Genesee, Sheerness and Keephills) has been estimated using:

- estimated future electricity prices;
- anticipated impacts of pending environmental legislation;
- escalated costs as per the contract terms; and
- future cash outflows discounted to the net present value at a rate of 1.9% for 2018.

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

- estimated future electricity prices;
- escalated costs as per contract term; and
- future cash flows discounted to net present value with an annual rate of 11.3% (2018 – 11.5%)

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, 2019 and 2018

pwc

Independent auditor's report

To the Board of Directors of the Balancing Pool

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Balancing Pool as at December 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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

- the statement of financial position as at December 31, 2019;
- the statement of income and comprehensive income for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

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

Other information

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

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

PricewaterhouseCoopers LLP
111-5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825

pwc

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

pwc

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

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
April 17, 2020

STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)	2019	2018
Assets		
Current assets		
Cash and cash equivalents	96,037	175,851
Trade and other receivables (Note 5)	85,650	201,250
Current portion of long-term receivables (Note 6)	1,980	1,980
Current portion of Hydro Power Purchase Arrangement (Note 8 b i)	110,667	89,343
Right-of-use assets (Note 9)	289,921	-
Intangible assets (Note 7)	2,500	26,899
	586,755	495,323
Long-term receivables (Note 6)	-	1,961
Right-of-use assets (Note 9)	89	-
Property, plant and equipment	14	4
Hydro Power Purchase Arrangement (Note 8 b i)	-	45,997
Total Assets	586,858	543,285
Liabilities		
Current liabilities		
Trade payables and other accrued liabilities (Note 11)	212,524	305,357
Current portion of related party loan (Note 18)	202,765	412,402
Current portion of Small Power Producer Contracts (Note 8 b ii)	-	444
Current portion of reclamation and abandonment provision (Note 12)	676	1,680
Current portion of lease liability (Note 13)	410,025	-
Current portion of other long-term obligations (Note 14)	-	79,723
	825,990	799,606
Reclamation and abandonment provision (Note 12, Note 16)	32,183	22,482
Other long-term obligations (Note 14)	-	164,760
Lease liability (Note 13)	91	-
Related party loan (Note 18)	503,219	502,893
Total Liabilities	1,361,483	1,489,741
Net liabilities attributable to the Balancing Pool deferral account (Note 1, 15)	(774,625)	(946,456)
Contingencies and commitments (Note 16)		
Subsequent events (Note 19)		

On behalf of the Balancing Pool:

Greg Clark, *Chair*

Greg Pollard, *Audit and Finance Committee Chair*

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

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(in thousands of Canadian dollars)	2019	2018
Revenue from contracts with customers		
Sale of electricity and ancillary service (Note 3, Note 18)	882,584	969,596
Consumer collection (Note 3)	172,985	189,259
	1,055,569	1,158,855
Other income from operating activities		
Changes in fair value of Hydro Power Purchase Arrangement (Note 8 b i)	20,152	44,258
Payments in Lieu of Tax (Note 16)	21,149	130,784
Interest income	2,341	1,362
Changes in fair value of Small Power Producer Contracts (Note 8 b ii)	393	1,007
Changes in fair value of investments	-	4
	44,035	177,415
Expenses		
Cost of sales (Note 17)	871,966	843,212
Reclamation and abandonment provision (Note 12, Note 16)	10,544	10,526
Mandated costs (Note 18)	4,700	4,476
General and administrative	5,155	4,217
Force majeure, other PPA costs and PPA provision	123	122,988
	892,488	985,419
Income from operating activities	207,116	350,851
Other income (expense)		
Finance expense (Note 10)	(35,391)	(16,417)
Other income	106	108
	(35,285)	(16,309)
Change to the Balancing Pool deferral account (Note 15)	171,831	334,542

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

STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)	2019	2018
Cash flow provided by (used in)		
Operating activities		
Change to the Balancing Pool deferral account	171,831	334,542
Adjustments for		
Amortization and depreciation (Note 9)	299,660	23
Reclamation and abandonment provision (Note 12)	10,544	10,526
Power Purchase Arrangement provision (Note 14)	(2,132)	(413,238)
Line loss provision (Note 11, 16)	(32,191)	(3,066)
Fair value changes on Small Power Producer Contracts (Note 8 b ii)	(393)	(1,007)
Fair value changes on Hydro Power Purchase Arrangement (Note 8 b i)	(20,152)	(44,258)
Fair value changes on investments	-	1
Finance expense (Note 10)	35,391	16,417
Emission credits retired (Note 7)	89,279	159,754
Reclamation and abandonment expenditures (Note 12)	(2,299)	(8,333)
Net change in other assets:		
Long-term receivable (Note 6)	1,961	1,941
Net change in non-cash working capital:		
Trade and other receivables	115,599	(71,126)
Trade payable and other accrued liabilities	(92,832)	(253,289)
Net cash provided by (used in) operating activities	574,266	(271,113)
Investing activities		
Interest and other gains	-	(89)
Sale of investments	-	12,458
Purchase of property, plant and equipment	(16)	-
Purchase of emission credits (Note 7)	(64,879)	(33,533)
Net cash used in investing activities	(64,895)	(21,164)
Financing activities		
Hydro Power Purchase Arrangement net receipts (Note 8 b i)	77,016	86,734
Lease payments (Note 13)	(437,891)	-
Payments on related party loan (Note 18)	(1,057,750)	(3,211,633)
Proceeds from issue of related party loan (Note 18)	829,491	3,544,526
Small Power Producer Contracts net payments (Note 8 b ii)	(51)	(2,271)
Net cash provided by (used in) financing activities	(589,185)	417,356
Change in cash and cash equivalents	(79,814)	125,079
Cash and cash equivalents, beginning of year	175,851	50,772
Cash and cash equivalents, end of year	96,037	175,851

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 exists 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 establish the mandate of the Balancing Pool, which is 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 with no profit or loss (Note 15) and 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 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 that 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 that allow the Treasury Board to make loans to the Balancing Pool at the recommendation of the Minister of Energy and to guarantee the Balancing Pool's obligations. Any cash shortfall that the consumer collection is unable to satisfy will be financed by funds obtained through the loan agreement with the Government of Alberta and subsequently recovered from electricity consumers over the period of January 1, 2017 to December 31, 2030 (Note 18).

The thermal PPAs and Hydro PPA expire on December 31, 2020. The Balancing Pool's business activities after December 31, 2020 will include the collection of funds from electricity consumers, the repayment of the outstanding loan with the Provincial government, resolving outstanding commercial and regulatory disputes related to the PPAs, resolving other legal matters, and settlement of certain financial accounts.

Revenue from Contracts with Customers

i) Sale of electricity, ancillary service and generating capacity

The Balancing Pool earns or earned revenue from the sale of electricity and ancillary service sourced from the PPAs it holds or held, namely, Genesee, Sheerness and Keephills (2018 – Genesee, Battle River 5, Sheerness, Keephills, Sundance B and Sundance C).

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

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

Other Income

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

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

ii) Investment income and changes in fair value of investments

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

iii) Payments (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 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 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, 2019 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, 2018.

These financial statements were authorized and approved for issue by the Board of the Balancing Pool on April 17, 2020.

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, which are measured at fair value.

Change in Accounting Policy

The Balancing Pool adopted IFRS 16, *Leases* on January 1, 2019. The purpose of IFRS 16 is to provide a foundation for users of financial statements to evaluate the amount, timing and uncertainty of cash flows arising from leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognize right-of-use assets and lease liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

Management has reviewed all contracts and existing lease arrangements and determined the impact of adopting IFRS 16. Management has determined that the Genesee, Keephills and Sheerness PPAs contain lease arrangements. The PPAs have transitioned to IFRS 16 effective January 1, 2019 from their previous accounting treatment as onerous contracts. The Balancing Pool has also accounted for its office lease under IFRS 16.

Management has elected the following practical expedients allowable under IFRS 16:

1. Not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease.
2. To use the modified retrospective transition method where the prior period is not restated.
3. To adjust the right-of-use asset for previously recognized onerous lease provisions, instead of performing an impairment review. The right-of-use asset shall be reduced by the amount of the provision for onerous leases recognized in the statement of financial position immediately before the date of transition.

Lease liabilities are measured at the present value of the remaining lease payments for the PPAs and the office lease. The lease liabilities have been discounted at the Balancing Pool's borrowing rate of 1.9% at January 1, 2019. A lease liability of $841.7 million has been recognized for the PPAs on adoption of IFRS 16.

Right-of-use assets of $599.4 million have been recognized for the PPAs on adoption of IFRS 16. The right-of-use assets will be amortized on a straight-line basis over the remaining life of the PPAs. The right-of-use assets have been impaired on transition to IFRS 16 to account for the onerous contract status of the PPAs. The difference between the right-of-use assets and the lease liability for the PPAs of $242.4 million represents the net present value of the anticipated losses of the PPAs for 2019 and 2020.

Revenue from Contracts with Customers

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

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

Other Income (Expense) Recognition

(a) Hydro Power Purchase Arrangement

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

(b) Small Power Producer Contracts

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

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

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

(d) Payments (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.

Intangible Assets (Emission Credits)

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

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

Long-Term Receivables

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

Hydro Power Purchase Arrangement and Small Power Producer Contracts

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

Electricity Price Risk Management – Risk Management Asset and Liabilities

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

Derivative financial instruments are classified and measured at fair value through profit or loss and are recorded at fair value. All changes in fair value are included in results of income.

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

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

Impairment – Non-Financial Assets

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

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

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

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

Impairment – Financial Assets

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

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

No impairment provision has been recorded at December 31, 2019 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*, 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. Section 5 of the *Power Purchase Arrangements Regulation* 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. 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 recognized onerous contract provisions in 2018 for the following PPAs: Sheerness, Keephills and Genesee. The provisions for onerous contracts have been classified as part of other long-term obligations on the Statements of Financial Position in the comparative period.

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

Other Provisions (Trade Payables and Accrued Liabilities)

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

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

On transition to IFRS 16 on January 1, 2019, the onerous contract provision was re-measured to reflect the actual PPA capacity payments for 2019 and the revised estimate for 2020 PPA capacity payments.

The monthly PPA losses will no longer be applied to the onerous contract provision as the provision has been reduced to zero and recorded as a right-of-use asset and a lease liability on adoption of IFRS 16.

Revenues and expense of the PPAs, except for the lease payments will be recorded on the statement of income (loss). The monthly lease payments of the PPA will be applied to the lease liability.

Power Purchase Arrangement and Related Finance Lease Liability

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

On adoption of IFRS 16, *Leases*, lease liabilities and right-of-use assets were established for the PPAs.

4. Significant Accounting Judgments, Estimates and Assumptions

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

Critical Judgments in Applying Accounting Policies

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

- concluding that the consumer collection (allocation) is accounted for as revenue (refund of revenue) from a contract with a customer (Note 1, 15);
- forecasting future power prices and capacity factors; and
- estimating the amount of the liability related to AUC Proceeding 790 ("retroactive line loss adjustment") (Note 16).

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:

- Hydro Power Purchase Arrangement (Note 8 b i)
- Intangible assets (Note 7)
- Reclamation and abandonment provision (Note 12)
- Other long-term obligations (Note 14)
- Accrued liabilities, Retroactive line loss adjustment (Note 11)

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, 2019	December 31, 2018
Trade receivables	76,950	198,634
Other receivables	8,700	2,616
	85,650	201,250

6. Long-term receivables

(in thousands of dollars)	December 31, 2019	December 31, 2018
Opening balance, long-term receivable	3,941	5,882
Accretion	39	59
Cash received from PPA settlement	(2,000)	(2,000)
Closing balance, long-term receivable	1,980	3,941
Less: Current portion	(1,980)	(1,980)
	-	1,961

$2.0 million in cash was received in December 2018 and December 2019 in relation to the PPA settlements reached in November 2016.

7. Intangible Assets

(in thousands of dollars)	December 31, 2019	December 31, 2018
Opening balance, emission credits	26,899	153,120
Additions from purchases	64,879	33,533
Additions from PPA settlement received	-	5,000
Retirement of emission credits	(89,278)	(164,754)
Closing balance, emission credits	2,500	26,899

At December 31, 2019, the Balancing Pool had $2.5 million (2018 – $26.9 million) in emission credits, which can be used to offset environmental compliance obligations associated with the PPAs. In 2019, the Balancing Pool purchased $64.9 million (2018 – $33.5 million) in emission credits. Over the course of 2019, $89.3 million (2018 – $164.8 million) in emission credits were retired to satisfy PPA environmental compliance obligations for the fourth quarter 2018 and the first three quarters of 2019.

No impairments of emission credits were recognized during the year ended December 31, 2019 (2018 – $nil).

8. Accounting for Financial Instruments

8. a) Risk Management Overview

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

Market Risk – Power

i) Fluctuating Market Prices: Changes in the market price for electricity and ancillary services affect the amount of revenues that the Balancing Pool receives from the 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. 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.

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

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 18).

The following table 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.

	1 year	2 – 5 years	Total
(in thousands of dollars)	December 31, 2019		
Trade payables	61,931	-	61,931
Other accrued liabilities	150,593	-	150,593
Related party loan – principal	197,393	498,476	695,869
Related party loan – interest	5,372	4,743	10,115
Reclamation and abandonment	676	32,183	32,859
Lease liability	410,025	91	410,116
Total	825,990	535,493	1,361,483
(in thousands of dollars)	December 31, 2018		
Trade payables	128,258	-	128,258
Other accrued liabilities	177,099	-	177,099
Small Power Producer Contracts	444	-	444
Related party loan – principal	410,295	498,355	908,650
Related party loan – interest	2,107	4,538	6,645
Reclamation and abandonment	1,680	22,482	24,162
Other long-term obligations	79,723	164,760	244,483
Total	799,606	690,135	1,489,741

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 1,626 gigawatt hours ("GWh") per annum for 2020. Hydro PPA receipts are settled on a monthly basis.

The remaining term of the Hydro PPA is one year to December 31, 2020. At December 31, 2019, the net present value of the Hydro PPA was estimated at $110.7 million (2018 – $135.3 million). Key assumptions in this valuation are a monthly discount rate of 0.9% for an annual rate of 11.3% (2018 – annual rate of 11.5%) and an estimated forecast average market electricity price of $54.98/megawatt hour ("MWh") for 2020 (2018 – $55.28/MWh for 2019 and $49.19/MWh for 2020).

Under the terms of the Hydro PPA, the Balancing Pool has remitted to TransAlta Corporation ("TransAlta") charges related to line losses for the previous 19 years. The AUC, in its decision released on December 2017, ruled that the methodology for which line losses is calculated will be revised, dating back to 2006. The revised methodology will result in a credit for line loss charges previously paid by the Balancing Pool to TransAlta. Under the terms of the PPA, TransAlta will be required to pass the line loss credit onto the Balancing Pool. An estimate of $33.3 million has been included in the value of the Hydro PPA. The estimate is subject to measurement uncertainty.

Hydro Power Purchase Arrangement *(in thousands of dollars)*	2019	2018
Hydro Power Purchase Arrangement, opening balance	135,340	177,816
Accretion and current year change	(28,995)	48,959
Line loss credit	32,191	-
Net cash receipts	(77,016)	(86,734)
Revaluation of Hydro Power Purchase Arrangement asset	49,147	(4,701)
Hydro Power Purchase Arrangement, closing balance	110,667	135,340
Less: Current portion receivable	(110,667)	(89,343)
	-	45,997

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, 2019	14,767	(14,767)	(686)	697
Change in fair value as at December 31, 2018	25,685	(25,577)	(1,690)	1,729

ii) Small Power Producer Contract

On February 15, 2019, the last small power producer contract with a total allocated capacity of 10 MW (2018 – one contract with capacity of 10 MW) and a contract price of $79.70/MWh expired. Under this contract, the price that the small power producer received from the counterparty utility company was 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.

Small Power Producer Contract *(in thousands of dollars)*	2019	2018
Small power producer contract, opening balance	(444)	(3,722)
Accretion and current year change	393	1,090
Net cash payments	51	2,271
Revaluation of Small Power Producer Contract	-	(83)
Small Power Producer Contracts, closing balance	-	(444)
Less: Current portion	-	444
	-	-

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, 2019			
Assets				
Cash and cash equivalents	96,037	-	-	96,037
Hydro Power Purchase Arrangement	-	-	110,667	110,667
	96,037	-	110,667	206,704
Liabilities				
	-	-	-	-
	96,037	-	110,667	206,704
	December 31, 2018			
Assets				
Cash and cash equivalents	175,851	-	-	175,851
Hydro Power Purchase Arrangement	-	-	135,340	135,340
	175,851	-	135,340	311,191
Liabilities				
Small Power Producer Contracts	-	-	444	444
	-	-	444	444
	175,851	-	134,896	310,747

i) Level 1

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

ii) Level 2

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

iii) Level 3

Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Changes in valuation methods may result in transfers into or out of an assigned level. There were no transfers between Level 3 and Level 2. The Hydro PPA and Small Power Producer Contract values are determined using discounted cash flow forecast methods and supported by observable market prices when available. Methodologies have been developed to determine the fair value for these contracts based on forecast of the hourly electricity market price in Alberta's hourly market using proprietary third-party merit order dispatch model. Management reviews the discounted cash flow forecasts on an annual basis. The changes in value, key assumptions and sensitivities in Level 3 instruments for the years ended December 31, 2019 and 2018 are disclosed in Note 8 b i) and in Note 8 b ii).

9. Right-of-Use Assets

(in thousands of dollars)	Genesee PPA	Keephills PPA	Sheerness PPA	Office Lease	Total
At January 1, 2019	271,217	152,942	174,846	393	599,398
Amortization and depreciation	(135,608)	(76,471)	(87,423)	(152)	(299,654)
Reassessment of lease liability	(6,506)	(1,471)	(1,757)	-	(9,734)
At December 31, 2019	129,103	75,000	85,666	241	290,010
Less: Current portion	(129,103)	(75,000)	(85,666)	(152)	(289,921)
	-	-	-	89	89

On adoption of IFRS 16 effective January 1, 2019, right-of-use assets in the amount of $841.4 million were established for the three PPAs and $0.4 million for the office lease. Given the onerous contract status of the three PPAs, the right-of-use assets for the three PPAs were impaired on transition to IFRS 16 by $242.4 million, leaving a balance of $599.0 million to be amortized over the remaining two-year term. Over the course of the year, $299.7 million in amortization and depreciation was recorded. At December 31, 2019, a reassessment of the lease liability of $9.7 million was recorded due to a change in the monthly lease payments for the PPAs. This reduction to the liability has been applied to the right-of-use assets for the PPAs.

10. Finance Expense

(in thousands of dollars)	2019	2018
Interest expense – related party loan	18,948	16,086
Interest expense – lease liability	15,991	-
Accretion expense – reclamation and abandonment	452	331
	35,391	16,417

11. Trade Payable and Other Accrued Liabilities

(in thousands of dollars)	2019	2018
Trade payables	61,931	128,258
Accrued liabilities – Greenhouse gas obligation	66,891	82,046
Accrued liabilities – PILOT refunds	-	28,047
Accrued liabilities – Line loss provision (Note 16)	68,440	45,536
Accrued liabilities – Other	15,262	21,470
	212,524	305,357

On September 30, 2019 Alberta Tax and Revenue Administration reached a settlement with a municipal entity subject to PILOT on all remaining disputed matters. As a result of the settlement, the Balancing Pool refunded $22.2 million to the municipal entity. The Balancing Pool had previously accrued $28.0 million related to the remaining matters disputed, resulting in a recovery of $5.8 million.

12. Reclamation and Abandonment Provision

(in thousands of dollars)	H.R. Milner Generating Station	Isolated Generation Sites	Sundance A Generating Station	Total
At January 1, 2018	13,215	6,728	1,695	21,638
Net increase (decrease) in liability	(69)	379	10,216	10,526
Liabilities paid in year	(2,879)	(5,454)	-	(8,333)
Accretion expense	202	103	26	331
At December 31, 2018	10,469	1,756	11,937	24,162
Less: Current portion	-	(1,680)	-	(1,680)
	10,469	76	11,937	22,482
At January 1, 2019	10,469	1,756	11,937	24,162
Net increase (decrease) in liability	(1,459)	2,190	9,813	10,544
Liabilities paid in year	(298)	(2,001)	-	(2,299)
Accretion expense	196	33	223	452
At December 31, 2019	8,908	1,978	21,973	32,859
Less: Current portion	(279)	(397)	-	(676)
	8,629	1,581	21,973	32,183

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

Under the Asset Sale Agreement for the H.R. Milner generating station between the Balancing Pool and ATCO Power Ltd ("ATCO"), which was executed in 2001, the Balancing Pool assumed 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, 2019, a total of $4.2 million has been paid for decommissioning the Milner generating site, leaving a balance of $10.8 million remaining. A further $0.3 million is expected to be incurred in 2020. These costs have been discounted at the risk-free rate of 1.7% (2018 – 1.9%). At December 31, 2019, the provision was decreased by $1.5 million (2018 – $0.7 million decrease) to reflect a change in the estimated payment date of December 31, 2030. Expenditures of $0.3 million were incurred in 2019 (2018 – $2.9 million).

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 $2.0 million (2018 – $5.5 million) were incurred in 2019. 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 1.7% (2018 – 1.9%). 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 2021. At December 31, 2019, an increase of $2.2 million (2018 – $0.4 million increase) was recorded to reflect a change in estimation to complete the project.

12. c) Decommissioning Costs of PPAs

Pursuant to Section 5 of the *Power Purchase Arrangements Regulation*, the Owner of a generating unit who applies to the AUC to decommission a unit within one year of the termination or expiration of the PPA is entitled to receive funding from the Balancing Pool. The amount of funding provided by the Balancing Pool is the amount by which the decommissioning costs (net of salvage) exceed the decommissioning amounts the Owner collected from related consumers before January 1, 2001 and subsequently through the related PPA. Subject to AUC approval, Owners are eligible to collect this shortfall provided that the unit has ceased generating electricity. Section 5 of the *Power Purchase Arrangements Regulation* does not apply after December 31, 2018.

In December 31, 2019, the Balancing Pool recorded a $9.8 million increase (2018 – $10.2 million increase) to the provision for decommissioning the Sundance A unit. In December 2018, TransAlta submitted an application to the AUC to decommission Sundance A. The provision for Sundance A is based upon management's best estimate of decommissioning costs. Estimated decommissioning costs were discounted at 1.7% (2018 – 1.9%). The AUC will determine the amount owed to TransAlta. See also Note 16.

13. Lease Liability

(in thousands of dollars)	Genesee PPA	Keephills PPA	Sheerness PPA	Office Lease	Total
At January 1, 2019	340,830	225,640	274,886	393	841,749
Finance expense	6,476	4,287	5,222	6	15,991
Lease payments	(175,150)	(116,360)	(146,226)	(155)	(437,891)
Reassessment of lease liability	(6,505)	(1,471)	(1,757)	-	(9,733)
At December 31, 2019	165,651	112,096	132,125	244	410,116
Less: Current portion	(165,651)	(112,096)	(132,125)	(153)	(410,025)
	-	-	-	91	91

The Balancing Pool has recognized lease liabilities in relation to the Genesee, Keephills and Sheerness PPAs and the office lease. The lease liabilities have been discounted using a rate of 1.9% effective January 1, 2019.

At December 31, 2019, a reassessment of the lease liability of $9.7 million was recorded due to a change in the monthly lease payments for the PPAs. The lease payment change was a result of a change to indices with respect to labour and material costs.

The long-term portion of the lease liability represents the office lease which expires on June 30, 2021.

14. Other Long-Term Obligations

(in thousands of dollars)	Genesee	Battle River 5	Sundance B	Sundance C	Keephills	Sheerness	Total
At January 1, 2018	147,947	113,998	95,961	108,658	69,584	121,573	657,721
Net increase (decrease) in liability	(2,820)	1,296	6,809	13,946	53,055	55,377	127,663
Termination payment	-	(61,680)	(71,604)	(85,349)	-	-	(218,633)
Losses	(72,980)	(53,614)	(31,166)	(37,255)	(49,695)	(77,558)	(322,268)
At December 31, 2018	72,147	-	-	-	72,944	99,392	244,483
Less: Current portion	(15,453)	-	-	-	(25,104)	(39,166)	(79,723)
	56,694	-	-	-	47,840	60,226	164,760
At January 1, 2019	72,147	-	-	-	72,944	99,392	244,483
Adoption of IFRS 16, Leases	(72,147)	-	-	-	(72,944)	(99,392)	(244,483)
At December 31, 2019	-	-	-	-	-	-	-

On January 1, 2019 the Balancing Pool adopted IFRS 16, *Leases*. The onerous contract provision established for the PPAs transitioned to the new leasing standard. The provision was drawn down to zero and a lease liability and right-of-use assets were established for the three remaining PPAs. The onerous contract provision was re-measured to reflect actual 2019 capacity payments and revised 2020 capacity payments prior to transition resulting in a recovery of $2.1 million.

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

The Balancing Pool terminated the Sundance B and C PPAs effective April 1, 2018 and the Battle River 5 PPA effective October 1, 2018. The Sundance A PPA expired on December 31, 2017.

Based on the estimated forecast average electricity market price of $55.28/MWh for 2019 and $49.19/MWh for 2020 as at December 31, 2018, the unavoidable costs of meeting the obligations under the PPAs were expected to exceed the economic benefits derived from the PPAs. As a result, for the 2018 year ended, onerous contract provisions were recognized and measured at the lower of the present value of continuing the PPAs and the expected costs of terminating them. Cost of termination included 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 as at December 31, 2019, the minimum six-month notice period was estimated to commence on January 1, 2019 for the Genesee, Keephills and Sheerness PPAs. The termination payment represents the net book value of the units which is estimated at $933.5 million for Genesee, Keephills and Sheerness. The estimated future costs for the three PPAs were discounted at 1.9%.

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

15. 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)*	2019	2018
Deferral account, beginning of year	(946,456)	(1,280,998)
Change to the Balancing Pool deferral account	171,831	334,542
Deferral account, end of year	(774,625)	(946,456)

In December 2018, the Board of Directors approved a 2019 consumer collection of $2.90/MWh for a total collection from electricity consumers of $173.0 million in accordance with the *Balancing Pool Regulation*. In October 2019, the Board of Directors approved a 2020 consumer collection of $2.50/MWh for an estimated total collection from electricity consumers of $160.0 million in accordance with the *Balancing Pool Regulation*.

16. Contingencies and Commitments

Reclamation and Abandonment

TransAlta has submitted an application to the AUC to decommission Sundance A and is seeking $41.4 million in funding from the Balancing Pool. The Balancing Pool disagrees with several aspects of the application. The Balancing Pool has a provision of $22.0 million to decommission Sundance A. The final amount due will be determined by the AUC.

Retroactive Line Loss Adjustment (AUC Proceeding 790)

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

In January 2015, the AUC determined that it has the jurisdiction and authority to retroactively adjust the line loss factors and the associated methodology dating back to 2006. On December 19, 2018, the Court of Appeal upheld the AUC's determination. In December 2017, the AUC ruled on the methodology to be used to calculate retroactive line loss adjustments. The AUC also ruled that the original system transmission service contract holders will be responsible for the retroactive line loss adjustments. The Balancing Pool and the AESO will net settle line loss amounts associated with the PPA units that were under system transmission service contracts held by the Balancing Pool during the relevant time period. The Balancing Pool will also net settle line loss amounts with certain PPA counterparties that held system transmission service contracts for certain PPA units during the relevant time period.

The various matters approved by the AUC regarding the retroactive line loss adjustments were the subject of permission to appeal applications filed with the Alberta Court of Appeal, including the retroactive nature of the adjustments and prospective line loss factors used to calculate the adjustment. In rulings dated April 8, 2019 and June 3, 2019, the Alberta Court of Appeal denied all applications for permission to appeal in regards to these matters.

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 $68.4 million (2018 – $45.5 million) has been recorded in trade payable and other accrued liabilities for the retroactive line loss adjustment. The estimate has been prepared using the methodology approved by the AUC. The final calculations have not been published and therefore the Balancing Pool's estimates are subject to measurement uncertainty in these financial statements.

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 has filed a statement of defence and will vigorously defend its position. The Balancing Pool is of the opinion the statement of claim is without merit. Furthermore, Section 92 of the *Electric Utilities Act* provides the Balancing Pool with strong liability protection for such claims. As at December 31, 2019, no contingent liability has been recorded, as the Balancing Pool does not expect a material outflow.

17. Cost of Sales

(in thousands of dollars)	2019	2018
Cost of Power Purchase Arrangements and power marketing	590,151	1,240,067
Losses on PPAs recorded against other long-term obligations	-	(322,268)
Gain on the retirement of emission credits	(17,845)	(74,610)
Amortization and depreciation on right-of-use assets	299,660	23
	871,966	843,212

Included as a reduction to cost of sales is a gain on the retirement of emission credits in the amount of $17.8 million (2018 – $74.6 million). The gain on emission credits is a result of procuring emission credits at a price lower than the Climate Change Emission Management Fund rate of $30 per tonne.

On adoption of IFRS 16, the portion of the capacity payment that is based upon indices and rates (capital recovery charge, indexed fuel charge and indexed operational and maintenance charge) has been classified as the fixed lease payment. The fixed lease payment portion of the total capacity payment is used to establish the lease liability. As the capacity payments are invoiced by the plant owner, the fixed lease payment portion of the total capacity payment is recorded against the lease liability and not recorded through the income statement. The balance of the capacity payment is expensed through the income statement.

On adoption of IFRS 16, the PPA losses are no longer reclassified and applied to the PPA provision as the provision has been drawn down to nil.

The Balancing Pool terminated the Sundance B and C PPAs effective April 1, 2018. A termination payment of $71.6 million and $85.3 million, respectively, was issued to TransAlta. The termination payment issued to TransAlta represents the remaining closing net book value of the generating units. TransAlta disputed the amount of the termination payment with respect to the Sundance B and C PPAs and on August 23, 2019 an arbitration panel issued its decision regarding termination payment dispute with TransAlta. The arbitration panel awarded TransAlta an additional termination payment of $57.2 million, including interest. The payment was issued to TransAlta on August 29, 2019.

The Battle River 5 PPA was terminated effective October 1, 2018. A termination payment of $61.7 million was issued to Alberta Power (2000) Ltd. following which Alberta Power (2000) Ltd. advised it intended to dispute the Battle River 5 PPA termination payment. In November 2019, the Balancing Pool reached a negotiated settlement with Alberta Power (2000) Ltd. and issued an additional termination payment of $5.5 million.

18. 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)*	2019	2018
Salaries, other short-term employee benefits and severance	822	627
Total	822	627

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, 2019
Long-term note due on Sep. 13, 2023	2.65%	503,219
Short-term discount note due on Jan. 02, 2020	1.97%	127,986
Short-term discount note due on Feb. 24, 2020	1.97%	74,779
		705,984
Less: Current portion		(202,765)
		503,219

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

At December 31, 2019, the Balancing Pool had $706.0 million (2018 – $915.3 million) in short-term discount and long-term notes issued to the Government of Alberta, including accrued interest of $5.6 million (2018 – $7.1 million). Fair value of the loan is the same as the amortized cost of borrowing. During 2019, interest of $20.0 million was paid on the related party loan (2018 – $16.0 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 2019, the Balancing Pool expensed $4.6 million (2018 – $5.2 million) for the UCA and $0.1 million (2018 – $0.7 million recovery) 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 2019, the Balancing Pool collected $173.0 million (2018 – $189.2 million) from electricity consumers through the AESO's transmission tariff.

The AESO also operates the spot market in Alberta and remits payment for electricity sold in the spot market. In 2019 the Balancing Pool received $875.2 million (2018 – $965.2 million) related to the sale of electricity for the PPAs.

19. Subsequent Events

Related Party Transactions

On January 2, 2020 and February 24, 2020 the maturing related-party short-term notes were re-financed with the terms note below.

(in thousands of dollars)	Interest Rate	Amount re-financed
Short-term discount note due on May 1, 2020	1.81%	128,000
Short-term discount note due on June 23, 2020	1.69%	75,000

Emission Credits

On March 17, 2020, the Balancing Pool purchased 459,000 tonnes of emission credits for the amount of $11.9 million. The emission credits were retired to satisfy the fourth quarter 2019 *Carbon Competiveness Incentive Regulation* obligation of the PPAs.

Novel Coronavirus (“COVID-19”)

With the outbreak of COVID-19, the Balancing Pool has deployed its Business Continuity Plan in order to protect the health and safety of Balancing Pool personnel and to ensure the Balancing Pool continues to execute its mandate. All Balancing Pool personnel have been working remotely since March 16, 2020 and will continue to do so for an indefinite period of time. The Balancing Pool does not anticipate a significant impact to daily operations as a result of COVID-19.

The spread of COVID-19 in Alberta and the restrictions imposed by various levels of government may impact the demand for electricity, which may result in lower future Alberta power prices. Lower power prices will reduce Sale of Electricity revenue from the thermal PPAs and the Hydro PPA. Reduced revenues may result in the Balancing Pool drawing on funds available through the Provincial government loan to satisfy its obligations.

The Corporation has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended December 31, 2019, have not been adjusted to reflect their impact.

The Provincial government has announced that residential, farm, and small commercial businesses can defer payment of utility bills for 90 days. The impact to the Balancing Pool is uncertain.

CORPORATE INFORMATION

BALANCING POOL CONTACTS

PRESIDENT AND CEO
Benjamin Chappell

BUSINESS DEVELOPMENT AND COMMERCIAL TEAM
Eagle Kwok, Vice President, Commercial
MacKenzie Kehler, Director, Commercial and Environmental Compliance

CORPORATE
Sharleen Gatcha, Director, Operations
Mimi Ng, Manager, Special Projects

FINANCIAL TEAM
Michelle Manuliak, Controller
Lauren Pollock, Financial Accountant

ADMINSTRATION
Ivy Webb, Executive Assistant|Office Manager

GENERAL COUNSEL AND CORPORATE SECRETARY
Leigh Clarke

Auditors
PricewaterhouseCoopers LLP
Calgary, Alberta

Counsel
DLA Piper LLP
Calgary, Alberta

Financial/Banking
TD Bank
Calgary, Alberta

balancingpool

2350, 330 - 5 Avenue S.W. Calgary, Alberta T2P 0L4
Tel: 403-539-5350   Fax: 403-539-5366
www.balancingpool.ca