

2025 AESO ANNUAL REPORT



ALBERTA ELECTRIC SYSTEM OPERATOR



Reliable electricity underpins everything we do—from powering homes and businesses to enabling investment and economic growth. **It is a responsibility we at the AESO take seriously every day.**

MESSAGE FROM

The President and Chief Executive Officer

Alberta's electricity market and grid are strong, providing reliable energy to support the province's economic growth. In 2025, operational reliability remained robust as customers consumed more than 90 million megawatt-hours (MWh) of electricity, an increase of approximately 2 per cent over 2024. Growth was broad-based, driven by strong industrial demand and continued population growth in Alberta's major cities. Alberta internal load increased by 2.0 per cent in 2025, materially above the province's five-year annual average growth rate of 1.5 per cent.

Following a period of rapid additions to gas, wind and solar generation between 2021 and 2024, new capacity growth slowed markedly in 2025. The earlier surge in supply contributed to continued downward pressure on pool prices and reduced the immediate need for additional generation development.

But 2025 will be remembered for more than market statistics. It was a defining year of progress on key initiatives. One that set the foundation for how Alberta's electricity system will operate for decades to come.

RESTRUCTURED ENERGY MARKET

Principal among these initiatives was the completion of the final design of the Restructured Energy Market (REM). More than 25 years have passed since Alberta's last major market design, and evolving generation technologies, changing load patterns, and increasing system complexity made modernization essential.

The REM was developed over 18 months through extensive engagement with industry stakeholders. Perspectives differed and not all parties achieved every objective they pursued. This is inherent in a reform of this scale. Even so, the result is a modernized market framework that introduces market-based congestion management through locational marginal pricing (LMP), updated price formation and co-optimized ancillary services. While new to Alberta, LMP is widely used across North America and represents a proven approach to managing increasingly complex power systems. The rules that give effect to the REM were approved in early 2026 by the Government of Alberta (GoA).

Throughout 2025, the AESO advanced the development of the systems required to support REM implementation, including a Market Management System, an Energy Settlement System, enhancements to the Energy Management System and a day-ahead reliability reserves platform. This highly technical and unique work is being led by the AESO along with key vendors with deep experience in developing such platforms for North American system operators.

Equally important is the AESO's work now underway to ensure market readiness. Successful REM implementation will require deep collaboration between the AESO and market participants. With the market design now established, timely execution is critical to support investment decisions and maintain confidence in the market. The AESO is committed to supporting market participants through the transition.



“2025 will be remembered for more than market statistics. **It was a defining year of progress on key initiatives.** One that set the foundation for how Alberta’s electricity system will operate for decades to come.”

— Aaron Engen

TRANSMISSION PLANNING

In July 2025, the GoA directed the AESO to implement significant changes to the transmission planning framework, including a transition from the long-standing “zero-congestion” standard to an Optimal Transmission Planning (OTP) Framework and the introduction of a Transmission Reinforcement Payment for new generators connecting to the system.

These are foundational changes. Over the past year, the AESO engaged extensively with stakeholders, culminating in the release of the final OTP Framework earlier this year. OTP will support more efficient transmission investment and customer affordability and keep transmission development better aligned with the province’s needs.

In the 2025 AESO Long-Term Transmission Plan (LTP), the AESO identified where transmission investment would be required to mitigate congestion (LTP projects). While the planning framework transitions to OTP, the AESO will work to ensure that the transition does not negatively impact transmission development timelines for LTP projects that deliver clear economic benefits to the grid.

DATA CENTRES AND ALBERTA RELIABILITY STANDARDS

2025 also saw substantial momentum in data centre development in Alberta. By year-end, projects in the AESO’s connection process represented more than 20,000 MW of potential load, nearly double Alberta’s average demand of approximately 10,500 MW.

To support this growth, the AESO launched Phase I: Large Load Integration Program, including a 1,200 MW interim connection limit and a structured process to allocate capacity among the most advanced projects.

Work is now underway on Phase II, which will establish a durable, long-term framework for integrating large loads.

Also, in 2025 the AESO began the important work of aligning Alberta Reliability Standards with FERC-approved WECC and NERC standards. The AESO expects to file the updated standards with the Alberta Utilities Commission in 2026. This work is resource-intensive for all stakeholders but critical to maintaining and strengthening system reliability.

CONCLUSION


The work underway represents one of the most significant periods of transformation in Alberta’s electricity system. While the path forward is complex, it is also an opportunity to build a more efficient, reliable and investable market.

The AESO is positioned to deliver. The AESO’s highly trained, specialized and deeply experienced people are working to advance REM implementation, transmission planning reform, large load integration and market readiness while continuing to operate a reliable grid.


And the organization will be ready to drive and support the next wave of grid-impacting initiatives, including the possibility of nuclear and inertia developments.

I am confident that, together, government, market participants, regulators and the AESO team will successfully deliver on this transition and position Alberta for long-term success.

Sincerely,



Aaron Engen
President & Chief Executive Officer



The AESO ensures Alberta's electricity system remains **safe and reliable** while supporting economic growth and community well-being.

YEAR IN REVIEW

2025 Achievements and Highlights

Backed by our mandate and 2025 Strategic Plan, the AESO ensures the province has the energy infrastructure to meet our needs now and far into the future. This Annual Report highlights the AESO's key achievements in 2025 in maintaining system reliability and affordability while driving major changes to Alberta's electricity framework.

A RESTRUCTURED MARKET FOR ALBERTA

- The **Restructured Energy Market (REM) Final Design** represents a major milestone in Alberta's electricity sector and reflects deep collaboration with policymakers, market participants and stakeholders. Published in August 2025, the REM modernizes Alberta's energy-only market to enhance grid reliability, deliver affordability and attract investment in both new and existing technologies. REM includes better market integration of technology and innovation to support decarbonization and the 2050 net-zero goal.
- **REM ISO rules** were submitted to the Minister of Affordability and Utilities for approval in late 2025 after extensive engagement with market participants. Ministerial approval and publication of the Regulation were received in March 2026. The REM ISO rules will provide a stable framework for the AESO and industry to prepare for the market transition. Further engagement on the REM ISO rules will continue in coordination with market participant readiness activities.
- The **Optimal Transmission Planning Framework** reflects a shift from the congestion-free standard to the new Transmission Regulation requirements. This framework outlines how the AESO will plan and develop Alberta's electrical system to ensure it is efficient, reliable and cost-effective.

A STRONG GRID, TODAY AND TOMORROW

- The **Long-Term Transmission Plan (LTP)** presents a 20-year roadmap that outlines how to meet Alberta’s growing energy demands, support economic development, and ensure our grid operates safely, reliably and efficiently, while addressing the grid’s challenges.
- **Large load projects** such as data centres introduce complex technical and operational challenges, and those without generation significantly strain supply. As interest in connecting to the grid remains high, the AESO developed technical requirements for transmission connected data centres and other large loads. Phase 1: Large Load Integration was completed with 1,200 MW of the interim connection limit successfully allocated in July. Phase 2 pre-engagement has begun with the goal of developing a long-term framework.
- The **2025 Reliability Requirements Roadmap** reflects the challenges and proactive solutions required to support the evolving grid, impacted from changes in both supply and demand. This Roadmap ensures compliance with reliability standards and details plans to address three critical areas: system strength and stability, flexibility and balancing, and frequency response and stability.

BY THE NUMBERS

Powering the Alberta Market, Together



92

STAKEHOLDER SESSIONS HOSTED IN 2025



6,729

STAKEHOLDERS ENGAGED IN WRITTEN, VERBAL OR IN-PERSON SESSIONS



88%

SATISFACTION SCORE FOR SURVEYED PARTICIPANTS

TOTAL INSTALLED CAPACITY

23,242 MW

Thermal, Renewables and Co-Generation

SEASONAL PEAK DEMAND

12,785 MW

All-Time Record, Winter 2025

QUALIFIED GENERATING ASSETS

689

Includes 379 Participating Microgen Assets

PROVINCIAL ELECTRICITY DEMAND

90,371 GWh

▲ 1.74% Increase From 2024



Management's Discussion and Analysis

ALBERTA ELECTRIC SYSTEM OPERATOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2025

This management's discussion and analysis of financial condition and results of operations (MD&A) as of March 9, 2026, should be read in conjunction with the Alberta Electric System Operator's (AESO) audited financial statements for the years ended December 31, 2025, and 2024, and accompanying notes. This MD&A is intended to provide an understanding of the AESO's business, financial operations, expectations of the future, and management of risk. The MD&A and financial statements are reviewed and approved by the AESO Board. Amounts within are expressed in Canadian dollars.

The AESO is responsible for:

- The operation of Alberta's fair, efficient and openly competitive energy market for electricity.
- Determining the order of dispatch of electric energy and ancillary services.
- Providing system access service on the transmission system.
- Directing the safe, reliable and economic operation of the interconnected electric system.
- Planning the capability of the transmission system to meet future needs.
- Administering the Renewable Electricity Program (REP).
- Administering load settlement.

The AESO recovers its costs through four separate revenue sources by way of collections from: market participants, suppliers under the REP, and owners of electric distribution systems and wires service providers for load settlement. There is no government funding for the operations of the AESO; however, as circumstances arise, the AESO will apply to receive funds from government entities to subsidize capital projects and general and administrative expenses.

EXECUTIVE OVERVIEW

The AESO has begun a transformation journey aimed at enhancing Alberta's reliability, reforming the Electricity Framework and implementing new policies to achieve reliability, affordability, and decarbonization, while establishing a foundation that ensures investor confidence in Alberta's electricity market. In carrying out its mandate and advancing these critical initiatives, the AESO incurred total costs of \$2,680.0 million and invested \$62.8 million in intangible assets, property, plant and equipment. Of those costs, \$187.7 million related to sustaining its core operations.

(\$ Millions) Year ended December 31, 2025	<u>Expensed</u>	<u>Capitalized</u>	<u>Total</u>
Staff costs	109.7	6.7	116.4
Contract services and consultants	16.8	17.3	34.1
Administration	5.8	-	5.8
Facilities	4.6	-	4.6
Computer services and maintenance	15.0	-	15.0
Telecommunications	1.6	-	1.6
Borrowing costs	1.3	-	1.3
Hardware, software and equipment	-	8.9	8.9
Cost of sustaining operations	<u>154.8</u>	<u>32.9</u>	<u>187.7</u>
Transmission operating costs	2,463.0	-	2,463.0
Other industry costs	27.6	-	27.6
Unit commitment costs	2.0	-	2.0
Contract services and consultants	3.8	10.0	13.8
Hardware, software and equipment	2.0	19.9	21.9
Other costs	<u>2,498.4</u>	<u>29.9</u>	<u>2,528.3</u>
Total costs	<u>2,653.2</u>	<u>62.8</u>	<u>2,716.0</u>

Numbers may not add due to rounding

Cost Of Sustaining Operations includes general and administrative and borrowing costs incurred to operate the organization, as well as expenditures on intangible assets, property, plant and equipment to sustain those operations. Contract services and consultants and hardware, software and equipment within Other Costs consist of REM IT systems expenditures, which support the future energy market design and are therefore not classified as a Cost Of Sustaining Operations¹. Total Costs exclude amortization and depreciation included elsewhere.

Year-over-year results were primarily influenced by increased investment in intangible assets and general and administrative costs associated with the strategic initiatives being undertaken, followed by changes in transmission operating costs driven primarily by regulated transmission wires charges and operating reserve costs. Additional variance occurred in other ancillary services costs required to manage system conditions.

Overall, the AESO's results reflect operational and planning requirements of an evolving electricity system and market. Variances between collected revenues and actual costs were recorded in deferral accounts for future recovery or refund, and the AESO maintained appropriate governance oversight and operational controls throughout the year.

¹ Cost Of Sustaining Operations is not a measure recognized under IFRS and does not have a standardized meaning prescribed by IFRS. Accordingly, Cost Of Sustaining Operations may not be comparable to similar measures presented by other companies. Management believes that Cost Of Sustaining Operations provides useful information to Alberta electricity market stakeholders regarding the costs required to run the AESO. Cost Of Sustaining Operations should not be considered as an alternative to other measures of financial performance calculated in accordance with IFRS.

STRATEGIC INITIATIVES

These activities impact the resource requirements and costs necessary to address near-term reliability concerns and deliver a market structure that will support the needs of Albertans into the future. They are the key drivers related to increases in general and administrative costs and investments in intangible assets, property, plant and equipment.

Restructured Energy Market (REM)

The AESO advanced significant initiatives in support of the REM design and implementation. Activities included market design development, rule development, regulatory changes, stakeholder engagement, and ongoing development of information technology (IT) system changes.

Integration of Large Load Growth

Alberta is seeing increasing interest in large load connections, including electrification projects and data centres. Work is underway to create a long-term framework for all loads, including bring-your-own generation, connection and tariffs. The AESO advanced system impact assessments, transmission capability evaluations, and long-term planning analysis to assess load growth impacts. These activities affect transmission requirements, operational flexibility, and resource adequacy considerations.

Reliability Framework and Standards Modernization

The AESO advanced work towards aligning Alberta Reliability Standards (ARS) with the NERC (North American Electric Reliability Corporation) and WECC (Western Electricity Coordinating Council) reliability standards by fostering targeted industry engagement and collaboration. The scope included over 50 reliability standards and required analysis to identify complexity and risk to enable effective implementation.

Frequency Stability and Inertie Support

The AESO advanced procurement of Fast Frequency Response (FFR+) capability to support inertie transfer capability under changing system conditions. FFR+ developed following Transmission Regulation amendment, requiring the AESO to procure ancillary services sufficient to support import flows on the Alberta-British Columbia and Montana-Alberta interties. Activities included finalizing high-level product and procurement designs.

Congestion Management Approach

The AESO advanced key initiatives to align with government direction to develop a long-term congestion management approach. This includes optimal transmission planning (OTP) methodologies and framework to ensure Alberta's transmission system remains efficient, reliable and cost-effective, as well as a cost-causation framework for new transmission.

ISO Tariff Redesign

The AESO advanced work on the redesign of the ISO tariff, to align with changes to transmission and market policies. This redesign will provide clear and stable price signals, investor certainty and information needed for effective decision-making. The focus is on cost recovery for transmission and ancillary services, updated system access service processes, and clarified connection cost structure.

SUMMARY ANNUAL HIGHLIGHTS

The AESO, a not-for-profit statutory corporation, recovers its operating, right-of-use asset, intangible asset and property, plant and equipment (PP&E) costs through four separate revenue sources, each of which is designed to recover the costs directly related to the provision of a specific service, as well as a portion of the shared corporate services costs.

<i>(\$ Millions) Years ended December 31,</i>	2025	2024	Change	% Change
Collections	2,675.6	2,676.0	(0.5)	(0.0)
Deferred revenue	(7.0)	(57.8)	50.8	(87.9)
Other revenue	11.5	13.5	(2.0)	(14.8)
Total revenue	2,680.0	2,631.7	48.3	1.8
Transmission operating costs	2,463.0	2,449.3	13.7	0.6
Other industry costs	27.6	24.9	2.7	10.8
Unit commitment costs	2.0	0.1	1.9	1,900.0
General and administrative costs	159.3	131.8	27.5	20.9
Amortization and depreciation	26.8	25.0	1.8	7.2
Borrowing costs	1.3	0.6	0.7	116.7
Total costs	2,680.0	2,631.7	48.3	1.8

Numbers may not add due to rounding

The largest year-over-year variance was in general and administrative costs. The next most significant change was in transmission operating costs. These variances are explained below.

General and Administrative

General and administrative costs in 2025 are \$159.3 million, which is \$27.5 million or 20.9 per cent higher than the 2024 costs of \$131.8 million. This increase is primarily associated with an increase in staff costs, contract services and consultants costs, and computer services and maintenance costs.

<i>(\$ Millions) Years ended December 31,</i>	2025	2024	Change	% Change
Staff costs	109.7	97.7	12.0	12.3
Contract services and consultants	20.6	9.4	11.2	119.1
Facilities	5.8	5.5	0.3	5.5
Administration	4.6	5.1	(0.5)	(9.8)
Computer services and maintenance	17.0	12.6	4.4	34.9
Telecommunications	1.6	1.5	0.1	6.7
General and administrative costs	159.3	131.8	27.5	20.9

Numbers may not add due to rounding

In 2025, staff costs are \$12.0 million or 12.3 per cent higher than the 2024 costs, primarily due to an increased staff complement of approximately 8.0 per cent on average year over year and an increase in the employee retention program costs to support the REM activities. In addition, increases in salaries and benefits costs were driven by rising market rates.

In 2025, contract services and consultants costs are \$11.2 million or 119.1 per cent higher than the 2024 costs, primarily due to the timing of, and changes to, activities and initiatives requiring specialized external legal and consulting resources, particularly those related to the design and implementation of REM and transmission policy changes.

In 2025, computer services and maintenance are \$4.4 million or 34.9 per cent higher than the 2024 costs, primarily due to an increase in supplier costs.

Transmission Operating Costs

Transmission operating costs represent wires costs, operating reserves, transmission line losses and other ancillary services costs. Wires costs are regulated and not controllable by the AESO, operating reserves vary with pool price conditions, and other ancillary services reflect operational responses to system conditions.

In 2025, transmission operating costs are \$2,463.0 million, which is \$13.7 million or 0.6 per cent higher than the 2024 costs of \$2,449.3 million. This increase is associated with higher wires costs and other ancillary services costs, partially offset by lower operating reserves and transmission line losses costs.

<i>(\$ Millions) Years ended December 31,</i>	2025	2024	Change	% Change
Wires costs	2,027.9	1,975.3	52.6	2.7
Operating reserves	216.0	265.0	(49.0)	(18.5)
Transmission line losses	158.1	165.3	(7.2)	(4.4)
Other ancillary services costs	61.0	43.7	17.3	39.5
Transmission operating costs	2,463.0	2,449.3	13.7	0.6

Numbers may not add due to rounding

Operating Reserve Costs

Operating reserve costs totaled \$216.0 million in 2025 compared to \$265.0 million in 2024, a decrease of \$49.0 or 18.5 per cent. The decrease is primarily due to lower pool prices. The average hourly pool price was \$44 per megawatt hour (MWh) in 2025 compared to \$63 per MWh in 2024, representing a decrease of 30%.

Other Ancillary Services

In 2025, other ancillary services costs are \$61.0 million, which is \$17.3 million or 39.5 per cent higher than the 2024 costs of \$43.7 million. The increase is mainly attributable to transmission must-run (TMR) and transmission constraint rebalancing (TCR) costs.

(\$ Millions) Years ended December 31,	2025	2024	Change	% Change
Frequency services*	22.4	31.7	(9.3)	(29.4)
Transmission must-run				
- Contracted and Conscripted	21.3	5.3	16.0	301.9
Transmission constraint rebalancing	14.4	3.8	10.6	278.9
Reliability services	2.9	2.9	-	-
Total Other Ancillary Services	61.0	43.7	17.3	39.5

*Includes fast frequency response, blackstart and transferred frequency response. 2024 also included load shed service and voluntary load curtailment program, contracts which have since terminated.

Numbers may not add due to rounding

TMR is a component of other ancillary services costs and occurs when generation is required to mitigate the overloading of transmission lines associated with line outages, system conditions in real time or the loss of generation in an area. TMR costs totaled \$21.3 million in 2025 compared to \$5.3 million in 2024, an increase of \$16.0 million or 301.9 per cent. The increase reflects an increase in contracted TMR volume, increased events requiring TMR in the northwest area and higher emission costs associated with the conscription of TMR services.

TCR costs are a component of other ancillary services and are incurred when the transmission system is unable to deliver electricity from a generator to a given electricity-consuming area without contravening reliability requirements. TCR costs totaled \$14.4 million in 2025 compared to \$3.8 million in 2024, an increase of \$10.6 million or 278.9%. The increase reflects significantly higher renewable energy congestion (curtailment).

INVESTMENT IN INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT

Investments in intangible assets, property, plant and equipment totaled \$62.8 million in 2025 compared to \$46.8 million in 2024, an increase of \$16.0 million or 46.8%.

The increase is due to the IT systems development required to support the REM. Investment in these systems will continue until the REM is operational, with ongoing enhancements to follow. The increase is offset by deferred lifecycle projects in anticipation of new systems, as well as normal fluctuations in required capital investment for operational needs.

DEFERRAL ACCOUNTS

Because the AESO operates on a no-profit/no-loss basis, differences between revenues collected and actual costs incurred arise due to forecast assumptions, market conditions, and settlement timing. These differences are recorded in deferral accounts for future recovery from, or refund to, market participants.

Net Deferral Position

At December 31, 2025, the AESO recorded a net deferral payable position of \$24.7 million compared to \$28.5 million in 2024, a decrease of \$3.8 million or 13.3%. The change reflects normal timing differences between forecast collections and actual costs across the AESO's service areas.

<i>Deferral</i>	<i>2025 Payable</i>
<i>Transmission</i>	2.6
<i>Energy Market</i>	11.4
<i>REP</i>	8.3
<i>Load Settlement</i>	0.4
<i>MSA</i>	2.0
Total	24.7

Market Surveillance Administrator (MSA) Deferral

A portion of the energy market trading charge collected by the AESO is remitted to the MSA for its revenue requirement in accordance with the Alberta Utilities Commission Act. The AESO facilitates the cash collection process for the funding of the MSA through a per-MWh addition to the AESO's energy market trading charge.

The AESO records the difference between the payments made to the MSA and the collection on behalf of the MSA in a separate deferral account.

FINANCIAL POSITION AND LIQUIDITY

The AESO's liquidity is primarily affected by timing differences between when costs are incurred and when they are collected through revenue. Variability in actual to forecasted costs requires debt financing when sufficient cash reserves are not available, but it does not affect the AESO's financial stability under the cost-recovery framework.

Cash and cash equivalents totaled \$180.1 million, decreasing by \$53.0 million from the prior year primarily due to investments in capital that will be recovered over the useful life of the underlying assets. The significant increase in capital costs is primarily related to the supporting IT systems for REM. The AESO actively forecasts its cash requirements and maintains sufficient financial flexibility and credit capacity.

Throughout 2025 and 2024, the AESO's credit rating has been AA-/Stable from Standard and Poor's (S&P) Ratings Services. S&P is a leading global provider of independent credit risk research and benchmarks.

SERVICE AREA COST DETAIL

Allocation of Costs for Revenue Requirements

The majority of the AESO's revenues recover transmission operating costs (wires, ancillary services and transmission line losses). Remaining costs (unit commitment, general and administrative, other industry, amortization and depreciation, and borrowing costs) are allocated to the services they support – transmission, energy market, REP, or load settlement.

Costs are assigned based on their relationship to a service:

- **Direct costs** are fully allocated to the associated service (e.g., transmission consulting costs recovered through the transmission tariff).
- **Indirect costs** (typically corporate functions) are allocated proportionally based on each service's share of directly assigned costs, reflecting relative demand for support services.

Allocation Exceptions

Certain costs follow specific allocation approaches:

- **Information technology:** activity-based allocation
- **Office operating and right-of-use lease costs:** staff levels and space usage
- **Borrowing costs:** service benefiting from the financing
- **Other industry costs:** nature of the specific cost
- **Intangible assets and PP&E:** allocated to the benefiting service(s) based on management assessment of operational use.

RISK MANAGEMENT

The AESO is exposed to risks in the normal course of business, many of which are similar to those faced by independent electric system and wholesale market operators.

The Board oversees the AESO's principal risks, while management is responsible for day-to-day operations and for integrating risk management into organizational processes. The AESO's risk management framework proactively identifies risks, assesses their likelihood and impact, and implements mitigation strategies to maintain acceptable residual risk.

Risk management is a core component of governance and is supported by the following elements:

- **Governance and legislative framework:** The AESO is established under the *Electric Utilities Act*. Members, appointed by the Government of Alberta and independent of market participants, function as the Board and act in the public interest. The AESO is also subject to the *Alberta Public Agencies Governance Act*.
- **Policies and ethics:** Policies approved by the Board or delegated to the President and CEO are communicated, regularly reviewed, and accessible to employees and contractors. The AESO maintains a Code of Conduct and Complaints Procedure applicable to Members, officers, employees, and contractors, with required acknowledgements and annual confirmations.

- **Internal controls and financial reporting:** Management maintains internal controls over financial reporting designed to provide reasonable assurance regarding the reliability of financial statements prepared in accordance with International Financial Reporting Standards.
- **Control effectiveness assessment:** The AESO annually evaluates internal controls using the COSO Internal Control – Integrated Framework (2013) and has concluded that internal controls over financial reporting are effective in all material respects as at December 31.
- **Oversight and assurance:**
 - The Audit Committee oversees internal controls, risk management processes, external audit, and regulatory compliance.
 - The Audit Services function provides independent assurance and reports directly to the Audit Committee.
- **Risk monitoring and reporting:** Management and the Board receive risk reports on a quarterly basis. The Risk Event Register is refreshed annually and updated as new risks emerge.

OUTLOOK

Over the next few years, the AESO will complete the most significant restructuring of the Alberta electricity market in its history and implement major changes to Alberta’s transmission policies.

The AESO is committed to providing a leadership role in enabling the transformation while maintaining system reliability, acting in the public’s interest, and providing guidance to policymakers and industry. It is clear the work ahead is critical and timing is crucial. As the pace of change continues to accelerate, the AESO must be adequately prepared with the required expertise and resources to effectively deliver on its priorities. The timely and effective implementation of new market systems rules, policies and tariffs is essential to a smooth transformation.

The AESO will continue with the IT system build, testing and market participant readiness activities associated with REM. Market participant readiness will support orderly transition to the new market structure.

Development of the long-term framework for large load growth will continue as well as refinement of system planning tools and connection assessment processes to manage increasing load. The AESO will continue to monitor reliability, transmission capability and resource adequacy impacts as load growth materializes.

The AESO will continue the phased alignment of ARS with NERC and WECC standards and support the industry transition.

Procurement processes for FFR+ will be executed and the new capability will be integrated into system operations. The AESO will monitor inertia performance and evolving system conditions to inform future ancillary service needs.

The AESO will operationalize the OTP framework through ISO rule and regulatory approval and advance development of transmission projects consistent with cost-causation principles. The AESO will continue engagement with government and stakeholders on long-term congestion management direction.

The tariff redesign will be advanced with stakeholder consultation.

The AESO will continue fulfilling its mandate for the operation, planning and administration of Alberta's electricity system while advancing these critical initiatives.

ADDITIONAL INFORMATION

Additional information relating to the AESO can be found on the corporate website at www.aeso.ca.



Financial Statements & Notes

ALBERTA ELECTRIC SYSTEM OPERATOR

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Alberta Electric System Operator (AESO) are the responsibility of management and have been approved by the AESO Board (Board). These financial statements have been prepared by management in accordance with International Financial Reporting Standards, appropriate in the circumstances, and include the use of estimates and assumptions that have been made using management's best judgment. Financial information contained in the management's discussion and analysis of financial condition and results of operations (MD&A) is consistent with that in the financial statements.

To discharge its responsibility for financial reporting, management maintains a system of internal controls designed to provide reasonable assurance that the AESO's assets are safeguarded, that transactions are properly authorized and that financial information is relevant, accurate and available on a timely basis. Internal controls are reinforced through the *AESO Code of Conduct*, which sets forth the AESO's commitment to conduct business with integrity and to comply with the law.

The Board, through the Audit Committee, is responsible for ensuring management fulfils its responsibility for financial reporting and internal controls. The Audit Committee meets regularly with management, internal auditors and external auditors to discuss any significant accounting, internal control and auditing matters to determine that management is carrying out its responsibilities and to review and recommend the approval of the financial statements by the Board.

The financial statements have been examined by Ernst & Young LLP, the external independent auditors engaged by the Board. The responsibility of this external auditor is to examine the financial statements and express its opinion on the fairness of the financial statements in accordance with International Financial Reporting Standards. The external auditor's report outlines the scope of its examination and states its opinion. Internal and external auditors have access to the Audit Committee, with and without the presence of management.



Aaron Engen
President and Chief Executive Officer



Nicole Hall, CPA, CA, CPA (WA, US)
Vice-President, Finance

Independent auditor's report

To the Members of the Board of the Independent System Operator, operating as
Alberta Electric System Operator

Opinion

We have audited the financial statements of the **Alberta Electric System Operator** ["AESO"], which comprise the statements of financial position as at December 31, 2025 and 2024, and the statements of income and comprehensive income and cash flows for the years then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the AESO as at December 31, 2025 and 2024, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRSs"].

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 are independent of the AESO in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis of Financial Condition and Results of Operations

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

In connection with our audit of the financial statements, our responsibility is to read the other information, 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.

We obtained Management's Discussion and Analysis of Financial Condition and Results of Operations prior to the date of this auditor's report. 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 IFRSs, 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 AESO'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 AESO or to cease operations, or has no realistic alternative but to do so.

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



Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the AESO'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 AESO'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 AESO 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.

Calgary, Canada
March 9, 2026

Ernst & Young LLP

Chartered Professional Accountants



STATEMENTS OF FINANCIAL POSITION

(in millions of Canadian dollars)

As at December 31	<u>2025</u>	<u>2024</u>
Assets		
Current assets		
Cash	\$ 180.1	\$ 233.1
Accounts receivable (note 3)	172.0	147.3
Prepays and deposits	<u>20.4</u>	<u>14.9</u>
	372.5	395.3
Non-current assets		
Long-term prepays (note 4)	14.1	14.4
Right-of-use assets, net (note 5)	14.8	15.6
Intangible assets, net (note 6)	80.1	55.6
Property, plant and equipment, net (note 7)	<u>77.8</u>	<u>65.5</u>
	\$ 559.3	\$ 546.4
Liabilities		
Current liabilities		
Accounts payable and other liabilities (notes 8, 12)	\$ 219.9	\$ 206.2
Other accounts payable (note 9)	16.4	21.2
Current portion of lease liabilities (note 10)	1.2	0.9
Current portion of post-employment benefit obligations (note 13)	<u>0.1</u>	<u>0.1</u>
	237.6	228.4
Non-current liabilities		
Long-term deferred revenue (note 12)	11.0	0.2
Long-term other accounts payable (note 9)	8.3	7.3
Long-term portion of lease liabilities (note 10)	23.0	13.1
Long-term portion of post-employment benefit obligations (note 13)	6.8	5.5
Generating unit owner's contribution (note 14)	272.0	291.4
Asset retirement obligation (note 15)	0.6	0.5
Equity (note 1)	<u>-</u>	<u>-</u>
	\$ 559.3	\$ 546.4

See accompanying notes to the financial statements.

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(in millions of Canadian dollars)

<i>For the year ended December 31</i>	<u>2025</u>	<u>2024</u>
Revenue		
Revenue from contracts with market participants		
Transmission tariff	\$ 2,596.4	\$ 2,560.3
Energy market charges	70.3	55.9
Renewable electricity program charges	0.9	1.0
Load settlement charges	0.9	1.0
	<u>2,668.5</u>	<u>2,618.2</u>
Interest and other	11.5	13.5
	<u>2,680.0</u>	<u>2,631.7</u>
 Operating costs and expenses		
Wires costs	2,027.9	1,975.3
Ancillary services costs	277.0	308.7
Transmission line losses	158.1	165.3
Unit commitment costs	2.0	0.1
General and administrative expenses (<i>notes 13, 19 and 23</i>)	159.3	131.8
Other industry costs	27.6	24.9
Amortization and depreciation (<i>notes 5, 6 and 7</i>)	26.8	25.0
Borrowing costs (<i>note 24</i>)	1.3	0.6
	<u>2,680.0</u>	<u>2,631.7</u>
 Net income and comprehensive income	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

(in millions of Canadian dollars)

For the year ended December 31

	<u>2025</u>	<u>2024</u>
Operating activities		
Net income	\$ -	\$ -
Items not affecting cash		
Amortization and depreciation	26.8	25.0
Accretion of asset retirement provision	0.1	0.1
Accretion of lease liabilities	0.8	0.2
Change in post-employment benefit obligations	1.3	1.9
Change in long-term prepaids	0.3	1.2
Change in long-term payables	(19.4)	51.6
Change in long-term deferred revenue	10.8	0.2
Change in long-term other accounts payable	1.0	1.0
Change in lease liability	11.1	-
Change in non-cash operating working capital balances		
Accounts receivable	(24.7)	119.9
Other accounts receivable	-	41.4
Prepaids and deposits	(5.5)	(2.6)
Accounts payable and other liabilities	14.2	(236.6)
Other accounts payable	(4.8)	8.7
Net cash provided by operating activities	<u>12.0</u>	<u>12.0</u>
Investing activities		
Additions to intangible assets	(41.7)	(18.3)
Additions to property, plant and equipment	(21.1)	(28.5)
Change in non-cash investing working capital balances		
Accounts payable and other liabilities	(0.5)	1.7
Net cash used in investing activities	<u>(63.3)</u>	<u>(45.1)</u>
Financing activities		
Payment of lease liabilities	(1.7)	(2.6)
Net cash used in financing activities	<u>(1.7)</u>	<u>(2.6)</u>
Decrease in cash position	(53.0)	(35.7)
Beginning of year	233.1	268.8
End of year	<u>\$ 180.1</u>	<u>\$ 233.1</u>
Cash interest paid	<u>\$ 0.1</u>	<u>\$ 0.1</u>

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts are in millions of Canadian dollars unless otherwise indicated)

1. Nature of Operations

The Independent System Operator (ISO), operating as the Alberta Electric System Operator (AESO), is a statutory corporation established on June 1, 2003, under the *Electric Utilities Act* (EUA) of the Province of Alberta.

The AESO is responsible for operating Alberta's fair, efficient and openly competitive energy market for electricity; determining the order of dispatch of electric energy and ancillary services; providing system access service on the transmission system; directing the safe, reliable and economic operation of the Alberta Interconnected Electric System (AIES); planning the capability of the transmission system to meet future needs; administering the Renewable Electricity Program (REP); and administering load settlement.

The AESO's business is governed by Members of the AESO (Members). Members are individuals who are independent from any person or entity having a material interest in the Alberta electricity industry and are appointed by the Alberta Minister of Affordability and Utilities. The Members function as a board of directors (Board) and act in the public interest. As at December 31, 2025, the Board has five committees: Audit Committee; Human Resources Committee; Governance and Nominations Committee; Power System Committee; and Transformation Oversight Committee.

The EUA requires that charges to industry, including the transmission tariff, energy market charge, REP charges and load settlement charge, be set to recover the costs required to operate the AESO, and that the AESO be operated so no profit or loss results on an annual basis from its operations. The AESO has no equity and accordingly these statements contain no Statement of Changes in Equity.

2. Accounting Policies

2.1 Basis of presentation and statement of compliance

These financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on the historical cost basis except for financial instruments that have been measured at fair value. The financial statements are presented in millions of Canadian dollars, which is the AESO's functional currency.

The AESO Board authorized these financial statements for issue on March 5, 2026.

2.2 Summary of accounting policies

a) Revenue recognition

The AESO's revenue is derived through four separate charges: the (i) transmission tariff; (ii) energy market charges; (iii) REP charges; and (iv) load settlement charge. Each of these charges is set to recover the costs directly attributable to a specific service as well as a portion of the shared corporate

services costs. Consistent with the requirements of the EUA, which requires the AESO to operate with no annual profit or loss, revenue is recognized equivalent to the aggregate of annual operating costs on a service area basis.

Transmission tariff revenue is recognized monthly consistent with the billing cycle in which the AESO invoices market participants for transmission system access services. Revenues are based on the metered demand and energy for system access service, as specified in the Alberta Utilities Commission-approved tariff rates.

When a market participant reduces or terminates contract capacity for system access service, a lump sum payment may be required in lieu of notice under the terms of the transmission tariff. A payment received by the AESO in advance of the effective date of a change to a system access service agreement is recognized as deferred revenue and subsequently recognized as transmission tariff revenue on the effective date of the change.

Energy market charge revenue is recognized monthly consistent with the billing cycle in which the AESO invoices market participants to recover the costs of operating the real-time energy market. Revenues are based on the per-megawatt-hour energy market charge and the volume of energy traded through the power pool.

The AESO's connection process requires generation and storage projects injecting 5 megawatts (MW) or more into the AIES to participate in a cluster assessment process whereby connection projects are batched and assessed together simultaneously. Connection study fees are charged based on the various stages of the cluster assessment process. Some of these fees are recognized as energy market charge revenue upon receipt, while others are recognized as deferred revenue and subsequently recognized as energy market charge revenue upon satisfaction of the respective performance obligations.

Also included in energy market charge revenue are unit commitment revenues, which are the direct offset of unit commitment costs, as these costs are fully recoverable from market participants in the same billing cycle as they are paid. The estimated revenues and costs, as well as the associated receivables and payables, are recognized as unit commitment directive events occur based on the best information available at the time and are trued up when settlement subsequently occurs.

REP revenue is recognized as the AESO invoices market participants in accordance with Renewable Electricity Support Agreements (RESAs). Revenues are based on the costs directly attributable to REP services.

Load settlement revenue is recognized as the AESO invoices load settlement agents. Revenues are based on the costs directly attributable to the load settlement services.

Payment of transmission tariff, energy market and REP revenue is generally due on the twentieth (20th) business day following the month in which the revenue is recognized. Amounts receivable represent the AESO's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Payment terms for all other revenue are typically within 30 days of receipt of an invoice.

The AESO utilizes deferral accounts to record the differences between revenues and costs, including remeasurement gains or losses on post-employment benefit obligations, with the amounts recognized as other accounts receivable or other accounts payable. On an individual basis for the transmission, energy market, REP and load settlement services, in circumstances where collections are greater

than costs, the surplus is recorded as a reduction in revenue, recognized as other accounts payable and subsequently refunded. In circumstances where collections are less than costs, the shortfall is recorded as revenue, recognized as other accounts receivable and subsequently collected. The refunds or collections are settled with market participants for the transmission, energy market, and REP services and with the owners of electric distribution systems and wires service providers for load settlement services.

Interest and other revenue represents revenue received from third parties and includes, but is not limited to, bank interest and interest on past due accounts; cancellation and performance forfeitures by market participants; government grants; sublease rent and services; and market participant fees. Interest and other revenue are recognized on the accrual basis as the revenue is earned.

As directed in the *Alberta Utilities Commission Act* (AUC Act), the AESO is required to provide funding for the Market Surveillance Administrator (MSA), a separate statutory corporation. The amounts paid by the AESO are recovered through the energy market charge as directed in the EUA. The energy market charges included in the AESO's statement of income and comprehensive income do not include amounts recovered related to the MSA's funding requirements and the AESO's costs do not include amounts related to the operations of the MSA.

Revenues are measured at the fair value of the consideration received or receivable.

b) Other accounts receivable/payable

As the EUA requires the AESO to be managed with no profit or loss on an annual basis from its operations, differences in revenues and costs are: recorded as adjustments to revenue; along with remeasurement gains or losses on post-employment benefit obligations; recognized as other accounts receivable or other accounts payable; and subsequently collected or refunded. The collection of deferral account shortfalls and payment of deferral account surpluses is embodied in the legislative rights granted in the EUA and *Renewable Electricity Act* (REA) to the Board or AUC. Settlement of the surplus or shortfall occurs through deferral account adjustment riders as part of the transmission tariff, deferral account applications submitted to the AUC, adjustments to the energy market trading charge, settlement with the Minister of Affordability and Utilities for the REP, or settlement with the owners of electric distribution systems and wires service providers conducting load settlement.

The AESO recognizes amounts as long-term other assets or other liabilities when the collection or refund is expected to occur beyond one year from the date of the Statement of Financial Position.

c) Offsetting financial instruments

Financial assets and financial liabilities are offset, and the net amount is reported in the Statement of Financial Position if there is a legally enforceable right to offset the recognized amounts, and if the AESO intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

d) Cash

Cash consists of cash at bank.

e) Intangible assets

Intangible assets are recorded at cost less accumulated amortization. Cost includes the purchase price, plus any additional costs directly attributable to the development of the asset and preparing the asset for its intended use. Such costs include staff, consulting resources and borrowing costs incurred during the development of qualifying assets.

Maintenance and repair costs which do not enhance or extend the useful life of the asset are expensed as incurred.

Costs related to cloud computing software are expensed as incurred.

Amortization is calculated on a straight-line basis over the estimated useful lives of the assets. No amortization is provided on intangible assets under development. The expected useful lives, amortization method and residual values of the assets are reviewed annually, with any changes accounted for on a prospective basis. Amortization periods for intangible assets are shown in the following table.

Computer software	5 years
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Intangible assets are retired when they are fully amortized and derecognized when no future benefits are expected to arise from their use.

f) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Cost includes the purchase price, plus any additional costs directly attributable to the construction of the asset and preparing the asset for its intended use. Such costs include materials, staff, consulting resources, borrowing costs incurred during construction for qualifying assets and asset retirement costs.

Maintenance and repair costs which do not enhance or extend the useful life of the asset are expensed as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. No depreciation is provided on assets under construction. The expected useful lives, depreciation method and residual values of the assets are reviewed annually, with any changes accounted for on a prospective basis. Depreciation periods for property, plant and equipment are shown in the following table.

System Coordination Centre & Operations Support Centre	20 years; or Over the land-lease term ending in 2060
Computer hardware	4 years
Backup Coordination Centre	Over the lease term ending in 2033
Leasehold improvements	Over the lease term ending in 2035
Furniture and office equipment	10 years

Property, plant and equipment are retired when they are fully depreciated and derecognized when no future benefits are expected to arise from their use.

g) Capitalized borrowing costs

Borrowing costs directly attributable to the development or construction of an asset over a period of substantial duration, typically in excess of 12 months, are added to the cost of the asset. Borrowing cost capitalization commences when expenditures and borrowing costs are incurred and ceases when the qualifying asset is substantially complete and ready for its intended use.

h) Impairment of right-of-use assets, intangible assets and property, plant and equipment

Impairment indicators for right-of-use assets, intangible assets with finite useful lives and property, plant and equipment are reviewed annually or whenever events or changes in circumstance may indicate possible impairment. Impairment is assessed at the cash-generating unit level to which the asset belongs. Impairment charges, when identified, are included in amortization and depreciation on the Statement of Income and Comprehensive Income. Under the legislative requirements associated with the AESO's financial operations, any asset impairment charges that might occur would be fully recoverable.

i) Government grants

As circumstances arise, the AESO will apply to receive funds from government entities (government grants) to subsidize capital projects and general and administrative expenses.

Government grants are recognized when the grant conditions are met and are measured at the amount received or receivable.

Government grants related to capital projects are recognized as deferred revenue and recorded in other income over the useful life of the assets.

Government grants related to general and administrative expenses are recorded in other revenue when the expense is incurred.

j) Asset retirement obligations

Decommissioning liabilities are legal and constructive obligations for decommissioning assets.

The fair value approximates the cost a third party would charge to perform the tasks necessary to retire the asset and is recognized at the present value of expected future cash flows.

Decommissioning liabilities are added to the carrying amount of the associated asset and depreciated over its estimated useful life. The corresponding liability is accreted over time through charges to earnings and is reduced by actual costs of decommissioning. Decommissioning liabilities may change as a result of a new decommissioning cost estimate or the timing of the obligation.

k) Provisions and contingencies

Provisions are recognized when a present obligation (legal or constructive) is a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. The amount recognized as a provision is the best estimate of the expenditure required to settle the obligation at the end of the reporting period.

If the effect is material, provisions are determined by discounting the expected future cash flows at a risk-adjusted, market-based discount rate. If discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Neither contingent liabilities nor assets are recognized in the financial statements. However, a contingent liability is disclosed, unless the possibility of an outflow of resources is remote. A contingent asset is only disclosed where an inflow of economic benefits is probable.

l) Employee benefits and post-employment benefits

A liability is recognized for a present legal or constructive obligation to pay an amount as a result of past service provided by employees. The liability can be estimated reliably, and recognizes the amount expected to be paid for short-term employee benefits such as the variable pay program; paid annual leave; paid sick leave; post-employment benefits; and termination benefits.

The AESO provides a registered defined contribution pension plan for its employees. The cost of pension benefits earned by employees is expensed as incurred.

The AESO offers additional post-employment healthcare benefits to qualifying retired employees and their dependents. The cost of providing benefits under this defined benefit plan is actuarially determined using the projected unit credit method, which considers various assumptions and inputs related to the plan. Under this method the defined benefit liability is the present value of projected defined benefits earned as of the date of the Statement of Financial Position. If experience differs from assumptions, remeasurements comprising of actuarial gains or losses are recorded as other accounts receivable or other accounts payable, as it is ultimately receivable from or refundable to market participants for the transmission, energy market, REP and load settlement services.

m) Leases

At contract inception the AESO assesses whether a contract is, or contains, a lease by determining whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

AESO as a lessee

The AESO applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The AESO recognizes right-of-use assets representing the right to use the underlying assets and lease liabilities to make lease payments.

i) Right-of-use assets

The AESO recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Office Space	10–40 years
Land	55 years

Right-of-use assets are subject to impairment.

ii) Lease liabilities

At the commencement date of the lease, the AESO recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the AESO and payments of penalties for terminating the lease, if the lease term reflects the AESO exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the AESO uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii) Short-term leases and leases of low-value assets

The AESO has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a term of less than 12 months and leases of low-value assets. Lease payments associated with these leases are recognized as expense on a straight-line basis over the lease term.

n) Long-term prepaids

The AESO recognizes advance cash payments associated with information technology licenses and ancillary services agreements with terms longer than one year from the Statement of Financial Position date as long-term assets.

o) Generating unit owner's contribution

A generating unit connected to the AIES is required to pay the AESO a generating unit owner's contribution which is refundable over a period of not more than 10 years, subject to satisfactory annual performance. The carrying amount of the contributions is measured as the amount required to settle the obligations at the end of the reporting period. The AESO recognizes refundable amounts as long-term liabilities when the refund term is longer than one year from the Statement of Financial Position date.

p) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15 *Revenue from Contracts with Customers*, all financial assets are initially measured at fair value and adjusted for transaction costs (where applicable). Financial assets are classified at initial recognition and subsequently measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss. The classification is determined by both the AESO's model for managing the financial asset and the contractual cash flow characteristics of the financial asset.

ii) Financial liabilities

All financial liabilities are recognized initially at fair value and adjusted for transaction costs (where applicable). Financial liabilities are classified at initial recognition and subsequently measured at amortized cost, except for financial liabilities which are measured at fair value through profit or loss.

q) Comprehensive income

As the AESO does not have any other comprehensive income, net income equals comprehensive income.

r) Comparative Figures

Certain comparative figures have been reclassified to conform to the current period's presentation.

2.3 Changes in accounting policies and disclosures

New and amended standards and interpretations

There are no new or amended IFRS or IFRS Interpretations Committee (IFRIC) interpretations that would be expected to have a material impact on the AESO.

2.4 Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the AESO's financial statements and could have an impact on the AESO are disclosed below. The AESO intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 18 – Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18, which replaces IAS 1. While a number of sections have been brought forward from IAS 1 with limited changes, IFRS 18 introduces new requirements for presentation within the Statement of Income and Comprehensive Income, including specified totals and subtotals. It also requires disclosure of management-defined performance measures and includes new requirements for aggregation and disaggregation of financial information based on the identified 'roles' of the primary financial statements and the notes.

Narrow scope amendments have been made to IAS 7 Statement of Cash Flows, and some requirements previously included within IAS 1 have been moved to IAS 8, which has been renamed IAS 8 Basis of Preparation of Financial Statements.

These new requirements are expected to impact all reporting entities. IFRS 18 and all consequential amendments are effective for reporting periods beginning on or after January 1, 2027, with earlier application permitted. Retrospective application is required. The AESO is assessing the impact of the amendments to its financial statements.

There are no other IFRS or IFRIC interpretations that are issued but not yet effective that would be expected to have an impact on the AESO.

3. Accounts Receivable

The transmission settlement receivables are subject to offsetting (*note 22*).

<i>As at December 31,</i>	2025	2024
Transmission settlement, net	160.6	140.1
Energy market settlement	8.8	5.5
Renewable Electricity Program	0.2	0.2
Trade	2.4	1.5
	172.0	147.3

4. Long-term Prepaids

<i>As at December 31,</i>	2025	2024
Licenses and maintenance	4.9	2.3
Prepaid reliability services agreement (<i>note 16</i>)	9.2	12.1
	14.1	14.4

5. Right-of-Use Assets

The right-of-use assets recognized and the movements during the year are as follows:

	<u>Office Space</u>	<u>Land</u>	<u>Total</u>
<i>As at January 1, 2024</i>	7.3	2.9	10.2
Depreciation expense	(2.4)	(0.1)	(2.5)
Addition	7.9	-	7.9
As at December 31, 2024	<u>12.8</u>	<u>2.8</u>	<u>15.6</u>
Depreciation expense	(0.7)	(0.1)	(0.8)
As at December 31, 2025	<u>12.1</u>	<u>2.7</u>	<u>14.8</u>

The AESO is a lessee under various lease contracts for office space with lease terms between 10 and 40 years. The AESO has a lease contract for land with a term of 55 years, commensurate with the expected life of the building owned by the AESO and located on the land.

In 2024, the AESO executed a Lease Amending Agreement to secure office space for a term of 10 years commencing on April 1, 2025. Due to the early occupancy of the leased space the addition was recorded in 2024.

6. Intangible Assets

	Computer Software	Intangible Assets Under Development	Total
Cost:			
January 1, 2024	73.0	15.4	88.4
Additions	13.9	4.4	18.3
Transfers	13.6	(13.6)	-
Retirements	(12.6)	-	(12.6)
December 31, 2024	87.9	6.2	94.1
Additions	7.7	34.0	41.7
Transfers	5.4	(5.4)	-
Retirements	(16.5)	-	(16.5)
December 31, 2025	84.5	34.8	119.3
Accumulated amortization:			
January 1, 2024	34.6	-	34.6
Amortization	16.4	-	16.4
Retirements	(12.5)	-	(12.5)
December 31, 2024	38.5	-	38.5
Amortization	17.2	-	17.2
Retirements	(16.5)	-	(16.5)
December 31, 2025	39.2	-	39.2
Net Book Value:			
<i>December 31, 2024</i>	49.4	6.2	55.6
December 31, 2025	45.3	34.8	80.1

Intangible assets under development relate to intangible assets associated with various computer software development projects that were not commissioned or operational by the end of the year.

For the year ended December 31, 2025, \$8.2 million of payroll costs associated with employees directly involved in preparing intangible assets for their intended use have been capitalized (2024 – \$7.3 million).

There was no addition of capitalized borrowing costs to intangible assets (2024 – nil).

7. Property, Plant and Equipment

Assets under construction relate to property, plant and equipment in development that were not commissioned or operational by the end of the year.

	System Coordination Facility	Computer Hardware	Backup Coordination Centre	Leasehold Improvements	Furniture and Office Equipment	Assets Under Construction	Total
Cost:							
January 1, 2024	44.8	18.3	2.0	1.5	4.4	2.4	73.4
Additions	0.2	5.0	-	16.7	3.9	2.7	28.5
Transfers	-	1.4	-	0.5	-	(1.9)	-
Retirements	-	(6.9)	-	(0.2)	(0.1)	-	(7.2)
December 31, 2024	45.0	17.8	2.0	18.5	8.2	3.2	94.7
Additions	0.9	2.6	-	8.1	1.3	8.2	21.1
Transfers	0.1	1.0	-	0.1	-	(1.2)	-
Retirements	(0.1)	(2.8)	-	(1.3)	(0.4)	-	(4.6)
December 31, 2025	45.9	18.6	2.0	25.4	9.1	10.2	111.2
Accumulated depreciation:							
January 1, 2024	16.2	9.8	1.0	1.4	2.0	-	30.4
Depreciation	0.9	4.3	0.1	0.2	0.5	-	6.0
Retirements	-	(6.9)	-	(0.2)	(0.1)	-	(7.2)
December 31, 2024	17.1	7.2	1.1	1.4	2.4	-	29.2
Depreciation	1.0	4.5	0.1	2.2	1.0	-	8.8
Retirements	(0.1)	(2.8)	-	(1.3)	(0.4)	-	(4.6)
December 31, 2025	18.0	8.9	1.2	2.3	3.0	-	33.4
Net Book Value:							
December 31, 2024	27.9	10.6	0.9	17.1	5.8	3.2	65.5
December 31, 2025	27.9	9.7	0.8	23.1	6.1	10.2	77.8

For the year ended December 31, 2025, \$0.6 million of payroll costs associated with employees directly involved in preparing property, plant and equipment for their intended use have been capitalized (2024 – \$0.7 million).

There was no addition of capitalized borrowing costs to property, plant and equipment (2024 – nil).

8. Accounts Payable and Other Liabilities

The transmission settlement payables are subject to offsetting (*note 22*).

<i>As at December 31,</i>	2025	2024
Transmission settlement, net	142.6	148.1
Energy market settlement	2.2	0.1
Trade payables	6.0	6.9
Generating unit owner's contribution (<i>note 14</i>)	42.4	10.7
Accrued liabilities	20.9	17.2
Deferred revenue (<i>note 12</i>)	2.4	3.2
GST payable	1.0	-
Security deposits (<i>note 18</i>)	2.4	20.0
	219.9	206.2

9. Other Accounts Payable

<i>As at December 31,</i>	2025	2024
Current		
Transmission payable	2.6	9.3
Energy market payable	11.4	10.6
Load settlement payable	0.4	0.3
MSA payable	2.0	1.0
	16.4	21.2
Non-current		
Long-term Renewable Electricity Program payable	8.3	7.3
	8.3	7.3

10. Lease Liabilities

The carrying amounts of lease liabilities and the movements during the period are as follows:

<i>As at January 1,</i>	2025	2024
Accretion of interest	14.0	8.5
Payments	0.8	0.2
Addition	(1.7)	(2.6)
	11.1	7.9
As at December 31,	24.2	14.0
Current	1.2	0.9
Non-current	23.0	13.1

The estimated future lease payments associated with these leases are as follows:

<i>As at December 31,</i>	2025
No later than 1 year	5.4
Later than 1 year and no later than 5 years	23.1
Later than 5 years	31.1
	59.6

Differences between the lease liability at December 31, 2025 and the estimated future lease payments are due to the inclusion of estimated operating costs and the discounting of future payments to net present value.

Differences between the year-end reported amounts of right-of-use assets and corresponding lease liabilities are due to prepayments recognized in the measurement of right-of-use-assets, which are not recognized as part of the lease liabilities, more than offset by a tenant improvement allowance, which is not recognized as part of the right-of-use assets.

Estimated future lease payments do not include the exercise of extension options included in the lease term.

The following are the amounts recognized in the Statement of Income and Comprehensive Income:

	2025	2024
Depreciation expense of right-of-use assets	0.8	2.5
Interest expense on lease liabilities (<i>note 24</i>)	0.8	0.2
Total amount recognized in net income	1.6	2.7

11. Credit Facility

In December 2025, the AESO amended its credit agreement to include a \$10.0 million (2024 – \$10.0 million) letter of credit, issued as security for operating reserve procurement. The maturity date of the credit agreement is December 2026.

The interest paid related to the credit facility during 2025 was \$0.1 million (2024 – \$0.1 million).

12. Deferred Revenue

Deferred revenue consists of government grants received for intangible assets under development and property, plant and equipment assets under construction; connection study fees received in advance of satisfaction of the respective performance obligations; and payments received in advance of effective dates related to changes to system access service agreements.

Where deferred revenue relates to government grants, there are no unfulfilled conditions or contingencies attached to these grants.

	<u>2025</u>	<u>2024</u>
<i>As at January 1,</i>	3.4	2.2
Received during the year	17.4	3.4
Amount recognized in Net Income	<u>(7.4)</u>	<u>(2.2)</u>
As at December 31,	<u>13.4</u>	<u>3.4</u>
Current (<i>note 8</i>)	2.4	3.2
Non-current	11.0	0.2

13. Pension and Post-employment Benefit Obligation

The AESO has a registered defined contribution pension plan for all employees, in addition to a supplemental retirement plan (SRP) for members whose benefits are limited by maximum pension rules under the Canadian Income Tax Act. The SRP plan is unfunded. The expense recognized is \$10.8 million in 2025 (2024 – \$9.5 million) for the pension plan and \$0.3 million (2024 – \$0.2 million) for the SRP plan.

The AESO also provides other post-employment benefits, comprising health care benefits for qualifying retired employees and eligible dependents under a defined benefit plan. This plan is unfunded.

The following tables summarize the net benefit expense recognized in the Statements of Income and Comprehensive Income and the post-employment benefit obligations in the Statements of Financial Position.

Net benefit expense:

	<u>2025</u>	<u>2024</u>
Current service cost	0.4	0.3
Interest cost	0.2	0.2
Past service cost	-	-
Net benefit expense	<u>0.6</u>	<u>0.5</u>

Changes in the present value of the post-employment benefit obligations:

	<u>2025</u>	<u>2024</u>
Post-employment benefit obligations		
Beginning of year	5.2	3.5
Current service cost	0.4	0.3
Interest cost	0.2	0.2
Actuarial losses	0.6	1.2
Past service cost	-	-
End of year	<u><u>6.4</u></u>	<u><u>5.2</u></u>

Post-employment benefit obligations related to the SRP plan total \$0.6 million in 2025 (2024 – \$0.5 million).

Remeasurement of post-employment benefit obligations

The remeasurement loss arising from changes in demographic assumptions during the year is \$0.6 million (2024 – \$1.2 million loss). The amount is recorded within other accounts receivable or other accounts payable and subsequently recovered from or refunded to market participants.

Actuarial assumptions

The significant actuarial assumptions used to measure the post-employment benefit obligations are as follows:

	<u>2025</u>	<u>2024</u>
Discount rate at Jan 1, 2025	4.60%	4.65%
Discount rate at December 31	4.75%	4.60%
Health care annual trend rate ⁽¹⁾	7.0%	7.0%
Dental care annual trend rate	4.0%	4.0%
Health care spending account annual increase rate	-	-
Percentage of retirees that opt in	80.0%	80.0%
Expected long term rate of return on assets during period	-	-
Average expected remaining service lifetime for retirees	22.98	23.39 years

(1) The AESO uses health care annual trend rates, which assumes 7.0 per cent rate per annum, reducing to 4.5 per cent by 2035, then reducing to 4.0 per cent by 2045.

Mortality rate assumptions are sourced from the 2014 Canadian Pensioner Mortality Table (CPM2014) Generational using Scale MI-17.

Sensitivities

The 2025 sensitivities of significant assumptions are as follows:

Assumption	Per cent Change	Post-employment benefit obligations		Service Cost	
		Increase in Assumption	Decrease in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate	1%	(0.6)	0.7	(0.1)	0.1
Trend rate	1%	1.3	(0.9)	0.2	(0.1)
Mortality rate	10%	-	-	-	-

The sensitivity analyses above are based on changing one assumption while holding all other assumptions constant. This is unlikely to occur as changes in some of the assumptions may be correlated and therefore, the sensitivity analyses may not be representative of an actual change in the defined benefit obligation.

Contributions

The expected contributions to the post-employment benefit obligation for 2026 are \$0.1 million (2025 – \$0.1 million).

14. Generating Unit Owner's Contribution

Under the terms of the transmission tariff, a market participant is required to pay a generating unit owner's contribution. The contribution amount is determined based on variable terms in accordance with the transmission tariff. A market participant is entitled to a refund of the generating unit owner's contribution in annual amounts during the refund period which is not more than 10 years. The eligibility for the annual refund amount is dependent on the generation facility meeting specified performance criteria.

In 2025, eligible market participants were able to submit a statutory declaration to cancel their project(s) and request a one-time refund of the generating unit owner's contribution. \$29.5 million was reclassified to current as a result of these project cancellations.

	Total
January 1, 2024	239.6
Contributions received	66.3
Contributions forfeited	(3.8)
Contributions reclassified to current (<i>note 8</i>)	(10.7)
December 31, 2024	291.4
Contributions received	24.0
Contributions forfeited	(1.0)
Contributions reclassified to current (<i>note 8</i>)	(42.4)
December 31, 2025	272.0

15. Asset Retirement Obligation

The land on which the AESO's System Coordination Centre (SCC) and Operations Support Centre (OSC) resides must be returned to its original state at the conclusion of the land lease in 2060 on request by the landlord, the Government of Alberta. The asset retirement obligation recognizes the approximate third-party costs for the decommissioning based on the timing of expected cash flows.

The AESO has estimated the net present value of the decommissioning liability related to dismantling the SCC and OSC and restoring the land based on an independent third-party valuation of estimated costs.

The present value of the decommissioning liability is \$0.6 million (2024 – \$0.5 million). The total undiscounted future liability is estimated to be \$6.1 million (2024 – \$5.1 million). The AESO has calculated the present value of the obligation using a discount rate of 6.75 per cent (2024 – 6.5 per cent) to reflect the market assessment of the time value of money and an inflation rate of 2.5 per cent (2024 – 2.0 per cent).

16. Commitments

- a) To fulfil the duties of the AESO in accordance with the EUA, the AESO manages the procurement of ancillary services through contracts with third-party suppliers. These ancillary services include operating reserves, reliability services, fast frequency response, load shed, system restoration and transmission must-run. The contracts are for future generation capacity and load reduction capabilities with expiry dates ranging from 2028 to 2030, in addition to short-term contracts for operating reserves. The amount to be paid under each contract is dependent on fixed and variable

terms. Variable terms include items such as commodity prices, dispatch volumes and frequency of events and are determined when the services are provided. The fixed payments associated with the service contracts are as follows:

<i>As at December 31,</i>	2025
No later than 1 year	5.3
Later than 1 year and no later than 5 years	11.5
Later than 5 years	-
	16.8

- b) In 2015, the AESO entered into a 15-year reliability services agreement with Powerex Corp. for the provision of certain emergency energy services from British Columbia, including grid restoration balancing support in the event of an Alberta blackout and emergency energy in the event of supply shortfall. The total cost of the agreement is \$42.9 million and was paid in equal amounts in the three-year period from 2015 to 2017. As the payments were made, they were recognized as long-term prepaids on the Statement of Financial Position and amortized on a straight-line basis over the 15-year term of the agreement.

	Total
January 1, 2024	15.0
Payment reclassified to current	(2.9)
December 31, 2024	12.1
Payment reclassified to current	(2.9)
December 31, 2025	9.2

- c) Under the direction of the EUA, the AESO established and executed an AUC-approved competitive procurement process for transmission infrastructure and in December 2014, selected the party to develop, design, build, finance, own, operate and maintain the Fort McMurray West 500 kV Transmission Project. In February 2017, the AUC granted the permit and license for this transmission project. In January 2018, the AUC approved the transmission facility owner's tariff rates, which are based on the monthly amounts in the project agreement between the AESO and the transmission facility owner.

The AESO is obligated to pay monthly amounts for the use of the transmission facilities over the operating period set out in the project agreement, which commenced on the energization date for the transmission facilities (March 2019) and continues until the expiry of the agreement in approximately 35 years from the energization date.

The monthly amounts are applicable for the entire term of the agreement, subject to allowable adjustments (e.g., inflation). The amounts payable will be confirmed in future periods by the occurrence or non-occurrence of certain events (e.g., a termination of the project agreement would affect monthly amounts). The AESO will recover the monthly amounts paid to the transmission facility owner through the ISO tariff in the same manner that AUC-approved amounts paid to other transmission facility owners are recovered.

<i>As at December 31,</i>	2025
No later than 1 year	107.8
Later than 1 year and no later than 5 years	431.4
Later than 5 years	2,532.9
	3,072.1

Pursuant to Section 37 of the *Electric Utilities Act*, each owner of an electric transmission facility must submit to the AUC for approval of a tariff setting out the rates to be paid by the AESO to the owner for the use of the owner's transmission facility. The AESO pays eight other transmission facility owners in the province for the use of their facilities in accordance with AUC approvals. Each transmission facility owner operates in an AUC-approved service area and typically applies to the AUC for approval of its costs one to three years in advance, in contrast to the forementioned long-term contractual agreement with the AESO. For these transmission facility owners, uncertainties relating to the AUC-approved amounts and timing of future cash flows limit the reliability of quantifying similar financial obligations.

- d) The REA requires that the AESO is a party to RESAs under the REP with selected counterparties.

The RESAs require the AESO to make variable payments or collections over a period of up to 20 years based on the difference between the counterparty-specific contract price and the hourly pool prices for the actual volumes of electricity delivered to the AIES. The REA stipulates that the funding or settlement for RESA financial obligations, excluding fees for the development, implementation and administration of the REP, is funded by or provided to the Minister of Affordability and Utilities.

17. Contingencies

In accordance with Section 5 of the *Small Scale Generation Regulation*, the AESO must compensate distribution owners for the purchase of meter costs related to certain community generating units. The AUC approves the compensation amounts and may state specific criteria which must be met prior to settlement of such costs. Where such criteria have been met, the AESO has recognized \$0.1 million (2024 – \$0.1 million) in accrued liabilities (*note 8*) for unsettled meter costs. As of December 31, 2025, there were nil additional liabilities (2024 – nil) for unsettled estimated meter costs for which the stated AUC criteria for compensation had not been met, therefore these contingent liabilities have not been recognized in the financial statements.

As a result of events that have occurred, the AESO may become party to a claim or legal action arising in the normal course of business. While the outcome of these matters is uncertain, the AESO does not currently believe that the outcome related to these matters or any amount that the AESO may be required to pay would have a materially adverse effect on the AESO as a whole.

18. Security Deposits

Security requirements for market participant financial obligations in excess of their unsecured credit limits are met with cash deposits and letters of credit. All market participants who have financial obligations to the AESO must adhere to the ISO Rules and transmission tariff terms and conditions regarding security requirements. Unsecured credit limits are granted by the AESO to organizations (or guarantors) with an acceptable credit rating from an AESO-recognized bond rating agency; to organizations that do not have a credit rating if they qualified for an AESO-determined proxy credit rating prior to March 31, 2023; and to organizations that have an exempt status as determined through government legislation or AUC rulings. The unsecured credit granted by the AESO to an organization is limited based on the AESO's assessment of the organization's creditworthiness.

19. Key Management Compensation

Key management personnel include members of executive management and the AESO Board, a total of 19 individuals (2024 – 18 individuals). The compensation paid or payable to key management for services is as follows:

<i>As at December 31,</i>	2025	2024
Salaries and other short-term employee benefits	4.5	4.3
Post-employment pension and benefits	0.4	0.4
Termination benefits	0.7	0.7
	5.6	5.4

20. Government-Related Entities

The members of the Board are appointed by the Minister of Affordability and Utilities of the Government of Alberta. Based on this relationship, the AESO's transactions and outstanding balances with the Government of Alberta and other entities in a similar related party relationship with the Government of Alberta are reported.

The AESO considers the following entities as government-related:

- **Balancing Pool:** established under the EUA to manage the transition to competition in Alberta's electric industry;
- **AUC:** established under the AUC Act to ensure that the delivery of Alberta's utility service takes place in a manner that is fair, responsible and in the public interest; and
- **MSA:** established under the AUC Act to monitor Alberta's electricity and retail natural gas markets to ensure that they operate in a fair, efficient and openly competitive manner.

Pursuant to the EUA, on an annual basis the Balancing Pool determines an annualized amount to pay distributions from its revenues to eligible consumers or collect shortfalls in its revenues from eligible consumers. The Government of Alberta guarantees the obligations of the Balancing Pool. Through the transmission tariff, the AESO facilitates the allocation of the annualized amount as directed in the EUA. In 2025, the annualized amount was a shortfall of \$81.4 million, of which \$7.7 million was payable as at

December 31, 2025 (2024 – \$78.9 million due, of which \$7.2 million was payable as at December 31). The shortfall was collected or receivable from eligible consumers and due to the Balancing Pool.

The Balancing Pool is a market participant; there was no related electricity sales in 2025 (2024 – nil).

As directed in the AUC Act, the AESO is required to pay an administration fee to the AUC. The amounts paid by the AESO are recovered through the transmission tariff and the energy market charge as directed in the EUA. In 2025, \$20.9 million was paid to the AUC (2024 – \$20.4 million).

As directed in the AUC Act, the AESO is required to provide funding for the MSA. The amounts paid by the AESO are recovered through the energy market charge as directed in the EUA. In 2025, \$6.5 million in payments were made to the MSA (2024 – \$6.2 million).

The AESO leases 12 acres of land in the Calgary area from the Minister of Housing, Infrastructure and Communities of the Government of Alberta. The land lease is for a 55-year term ending in 2060 which is comprised of an initial 20-year term that began in 2005 followed by several renewal options at the discretion of the AESO. In 2025, \$0.2 million of costs were incurred (2024 – \$0.1 million).

21. Financial Instruments

Financial Instrument	Classification	Measurement Basis	Associated Risks	Fair Value at December 31
Cash and cash equivalents	Financial assets at amortized cost	Initially at fair value, adjusted for transaction costs (where applicable) and subsequently at amortized cost	Liquidity risk	Carrying value approximates fair value due to short-term nature and variable interest rates
Accounts receivable Other accounts receivable	Financial assets at amortized cost	Initially at transaction price and subsequently at amortized cost	Credit risk	Carrying value approximates fair value due to short-term nature
Long-term receivables	Financial assets at amortized cost	Initially at transaction price and subsequently at amortized cost	Credit risk	Carrying value approximates fair value due to short-term nature
Accounts payable and accrued liabilities Other accounts payable Deferred revenue	Financial liability at amortized cost	Initially at fair value, adjusted for transaction costs (where applicable) and subsequently at amortized cost	Liquidity risk Market risk	Carrying value approximates fair value due to short-term nature
Security deposits	Financial liability at amortized cost	Initially at fair value, adjusted for transaction costs (where applicable) and subsequently at amortized cost	Liquidity risk	Carrying value approximates fair value due to short-term nature
Credit facility	Financial liability at amortized cost	Initially at fair value, adjusted for transaction costs (where applicable) and subsequently at amortized cost	Liquidity risk Market risk	Carrying value approximates fair value due to short-term nature and variable interest rates
Long-term payables Lease liabilities Post-employment benefit obligations	Financial liability at amortized cost	Initially at fair value, adjusted for transaction costs (where applicable) and subsequently at amortized cost	Liquidity risk Market risk	Carrying value approximates fair value due to the nature of the liability

Nature and Extent of Risks Arising from Financial Instruments

The AESO is exposed to the following types of risks in relation to its financial instruments:

a) Credit Risk

Credit risk is the risk that counterparties may default on their financial obligations to the AESO. Due to the EUA requirement that the AESO be operated with no profit or loss from its operations, credit risk is ultimately borne by market participants, though managed by the AESO.

Counterparties are granted certain levels of unsecured credit based on their long-term unsecured credit rating provided by a major reputable corporate rating service satisfactory to the AESO or, in the absence of the availability of such ratings, an AESO-determined proxy credit rating to those counterparties approved prior to March 31, 2023. Letters of credit, cash on deposit and legally enforceable right to set-off are used to mitigate risk where appropriate. As at December 31, 2025 and 2024, the amount of financial assets that were past due was not material and there were no material uncollectible receivable balances.

b) Market Risk

Market risk is the risk of a potential negative impact on the Statement of Financial Position and/or Statement of Income and Comprehensive Income resulting from adverse changes in the value of financial instruments as a result of changes in certain market variables. This includes interest rate price and foreign exchange risks.

Bank debt, when required, is comprised of short-term prime rate advances that bear interest at market rates. Accordingly, the exposure to interest rate price risk in relation to the bank debt at the Statement of Financial Position date would not be material. In addition, there was no bank debt as at December 31, 2025 and 2024.

The AESO conducts less than one per cent of its business in US dollars and accordingly is subject to currency risk associated with changes in foreign exchange rates in relation to payables. The AESO monitors its exposure to currency risk and reviews whether the use of derivative financial instruments is appropriate to manage potential fluctuations in foreign exchange rates. The AESO has not entered into any derivative instruments with respect to currency risk.

c) Liquidity Risk

Liquidity risk is the risk that the AESO will not be able to meet its obligations associated with financial liabilities. The AESO does not consider this to be a significant risk as the available credit facilities provide financial flexibility to allow the AESO to meet its obligations as they come due. The AESO does not consider there to be a present risk in relation to funds available to the AESO under the existing credit facility.

In managing capital, the AESO reviews its cash flows from operations, including the transmission tariff, energy market charge, REP charges and load settlement charge, to determine whether there are sufficient funds to cover its operating costs and pay for intangible asset and property, plant and equipment purchases. To the extent that the cash flows are not sufficient to cover these expenditures, the AESO utilizes debt financing.

Summarized Quantitative Data Associated with the Above Risks

a) Credit Risk

At December 31, 2025, the AESO's maximum exposure to receivable credit risk was \$172.0 million (December 31, 2024 – \$147.3 million), which is the aggregate of accounts receivable.

The AESO's receivables are due from counterparties that have provided security to the AESO or have been granted unsecured credit based on satisfactory credit ratings. As at December 31, 2025, the amount of financial assets that were past due was nil (December 31, 2024 – nil).

b) Market Risk

The AESO is exposed to currency risk of \$0.1 million (December 31, 2024 –\$0.1 million) of US dollar-denominated financial liabilities at December 31, 2025.

If the Canadian dollar decreases (increases) against the US dollar by five per cent prior to the payment by the AESO, operating costs would increase (decrease) by less than \$0.1 million (December 31, 2024 – less than \$0.1 million) and intangible asset costs would increase (decrease) by less than \$0.1 million (December 31, 2024 – nil).

c) Liquidity Risk

The AESO's bank debt and accounts payable and accrued liabilities generally have contractual maturities of six months or less. The estimated future undiscounted annual refund amounts associated with long-term payables are as follows:

<i>As at December 31,</i>	2025
2026	17.3
2027	22.7
2028	29.1
2029	36.8
2030	39.2
2031 and thereafter	126.9
	272.0

22. Offsetting Financial Assets and Liabilities

The following transmission settlement receivables and payables are subject to offsetting as presented in the Statements of Financial Position (*notes 3 and 8*).

<i>As at December 31,</i>	2025	2024
Transmission settlement receivables, gross	220.2	200.6
Transmission settlement, offsets	(59.6)	(60.5)
Transmission settlement receivables, net	160.6	140.1

<i>As at December 31,</i>	2025	2024
Transmission settlement payables, gross	202.2	208.6
Transmission settlement, offsets	(59.6)	(60.5)
Transmission settlement payables, net	142.6	148.1

-

23. General and Administrative Expenses

General and administrative expenses classified by nature are as follows:

<i>As at December 31,</i>	2025	2024
Salaries and benefits	109.7	97.7
Other	49.6	34.1
	159.3	131.8

24. Borrowing Costs

<i>As at December 31,</i>	2025	2024
Borrowing costs	0.1	0.1
Interest on lease liabilities (<i>note 10</i>)	0.8	0.2
Interest on defined benefit liabilities (<i>note 13</i>)	0.3	0.2
Accretion of asset retirement obligation (<i>note 15</i>)	0.1	0.1
	1.3	0.6



Corporate Governance

Corporate Governance

The Independent System Operator, established on June 1, 2003, under Alberta's *Electric Utilities Act* (EUA), is a statutory corporation operating under the business name of the Alberta Electric System Operator (AESO). Our mandate is derived from the EUA and related regulations. We are governed by the AESO Board (Board) which is comprised of Members appointed by the Alberta Government. Each appointed Member must be independent of any person having a material interest in the Alberta electric industry and enhance the AESO's performance in exercising its powers and carrying out its responsibilities.

The Board oversees AESO business and affairs in accordance with the EUA, AESO Bylaws, Board Charter and related governance documents. It collaborates with the AESO Executive on strategic planning, approving the [Strategic Plan](#), annual [Business Plan](#), budget, and corporate objectives and key results (OKRs). Additionally, the Board oversees risk management, executive succession planning and compensation and assesses the organization's performance on an annual basis. Independent third-party experts are engaged as needed to support these responsibilities.

The Board follows best-practice governance principles to act in the public interest of Albertans. Members demonstrate good faith sound judgment and integrity while avoiding conflicts of interest. AESO's governance framework promotes ethical behavior, accountability, and transparency. The [AESO Code of Conduct](#), which applies to all Members, employees, and agents, reinforces these values. Each year, the Board reviews complaints of alleged wrongdoing involving AESO, its employees, or its members.

The Alberta Public Agencies Governance Act formalizes the AESO's roles and relationship with the Government of Alberta. For more about the Board's key responsibilities, assessments, membership and governance practices, view [AESO Mandate and Roles](#).

Board Committees

The Board operates through standing committees, each guided by Board-approved Charters.

Committees	Oversight
Audit Committee (AC)	The AC provides consultation, advice and recommendations to the Board on financial reporting, budgeting, internal controls, external and internal audit processes, and monitors compliance with laws and regulations. It also oversees the information technology strategy, including cybersecurity.
Gov. & Nominations Committee (GNC)	The GNC provides consultation, advice and recommendations to the Board on governance and Member recruitment. It reviews, assesses and updates Board governance documents and processes, oversees Member orientation and education, conducts performance assessments for the Board, its Committees and Members, and monitors governance best practices and trends.
Human Resources Committee (HRC)	The HRC provides consultation, advice and recommendations to the Board on talent management, compensation and organizational culture. Its responsibilities include Executive compensation, officer appointments, succession planning, and people and culture strategy and programs.
Power System Committee (PSC)	The PSC provides consultation, advice and recommendations to the Board on market design, long-term transmission system planning, project delivery, system and market operations, AESO tariffs and AESO competitive procurement processes.
Transformation Oversight Committee (TOC)	The TOC provides oversight for the AESO's Restructured Energy Market (REM) and <i>Transmission Regulation</i> (T-Reg) implementation. It focuses on managing transformation program initiatives, including designing and implementing new systems, IT platforms, business processes and people capabilities to support the AESO's role in REM and T-Reg changes.

Executive Compensation at the AESO

Program Objectives

AESO is committed to attracting, engaging and retaining high-performing executives by aligning compensation with the achievement of strategic and operational objectives. Executive pay is structured to reinforce accountability and reward measurable contributions to organizational success, supporting a strong pay-for-performance culture. All compensation programs are designed in compliance with the Government of Alberta's Public Sector Body Compensation Order (PBCO), ensuring alignment with prescribed public sector parameters. To accomplish this, the executive compensation program is designed to:

- Motivate performance to meet our Strategic Plan, corporate OKRs, Business Plan and Budget, and risk profile
- Maintain a high-performance culture by rewarding strong results and adjusting variable compensation accordingly
- Promote responsible and transparent compensation practices
- Ensure compliance with applicable public agency compensation legislation
- Adapt to evolving market and compensation practices

Program Governance

The Human Resources Committee (HRC) oversees the executive compensation program by reviewing compensation objectives, policies and programs, and making relevant recommendations to the Board.

The Board and HRC, with input from AESO management and external consultants (Mercer), annually review executive compensation against industry trends, performance, internal benchmarks, compliance with legislation and market comparisons. Based on the review:

- The HRC recommends pay-for-performance adjustments for Board review and approval
- The Board Chair and HRC recommend the CEO's performance and pay for Board review and approval

Market Comparisons

The AESO's compensation structure:

- Target total cash positioning is reviewed annually using benchmarking reports prepared by Mercer, an independent compensation consultant. The analysis leverages AESO's established peer group to ensure alignment with market practices
- Excludes long-term incentives common in the industry's private sector

- Is informed by annual information, analysis and advice from independent external experts on market comparators and compensation trends

The peer group for benchmarking includes a balance of public and private sector organizations, with significant Alberta representation to reflect local pay practices and talent competition. The AESO operates within the Government of Alberta’s PBCO, which establishes a standardized framework for compensation across designated public sector organizations. This framework sets out parameters for salary ranges, performance-based pay and total compensation to ensure consistency, transparency and fiscal accountability. As a result, AESO’s compensation programs are designed to align with PBCO requirements.

Components of Total Compensation and Pay Mix

Executive compensation varies based on role, skills, contributions, tenure, experience, and other attraction and retention factors.

The AESO’s total rewards package for Executives includes:

- Base pay
- Variable pay (excluding the CEO)
- Flexible benefits program
- Defined contribution pension plan
- Supplementary retirement plan (SRP)

Component	Program Intent	Plan Fundamentals	Variability with Performance
Base Pay	Compensation for the execution of core duties	Annual budget based on market data	Fixed - Takes into consideration ability, performance, experience and market competitiveness.
Variable Pay	Compensation for successful corporate performance and individual achievements that are evaluated based on several factors (such as job competency and delivering key results).	Payouts are capped at 2x target, based upon eligible earnings	Target awards are a percentage of base pay, and corporate and individual components that are weighted at 70% and 30%, respectively
Long-Term Incentive Plan	n/a	n/a	n/a

Base Pay

Base pay for executives (excluding the CEO) is determined using comparative market data, individual performance, achievement of business objectives and demonstration of competencies.

Variable Pay

Variable pay is an annual lump-sum cash award for all employees below the CEO level, subject to the AESO Board's discretion. It is based on two components: corporate performance and individual performance through the achievement of specific annual corporate OKRs, individual OKRs and functional competencies, which are set through rigorous processes.

Corporate OKRs, aligned with the Strategic Plan, are approved by the Board annually and monitored throughout the year. Executives ensure balance of risk, opportunity, and single- and multi-year initiatives. Individual OKRs are set, measured and monitored for each Executive in alignment with the corporate OKRs. Functional competencies, including required skills and qualifications, are developed for each role and individual capabilities are assessed annually.

At year end, the CEO recommends corporate OKR achievement levels to the Board, which determines awards at its discretion. The CEO also recommends individual Executive OKR achievements to the HRC, and the Board approves all executive compensation. Corporate and individual components determine variable pay awards.

The CEO does not participate in the variable pay program.

Long-Term Incentive Plan

The AESO does not offer long-term incentive plans for employees or Executives, including the CEO.

Flexible Benefits

The flexible benefits program for all employees, including Executives, includes life insurance, dependent life insurance, accidental death and dismemberment, sick leave, short-term disability, group and individual long-term disability, critical illness, dental and health care benefits, a health spending account, and personal spending account for additional relevant expenses. Executives also receive a parking perquisite.

Retirement Plans

The AESO provides a defined contribution pension plan to all employees and a supplementary retirement plan (SRP) for senior management and Executives. Both plans are fully funded by the AESO.

- Employees below the senior management level receive 13 per cent of their base pay toward a defined contribution plan

- Senior management and executives receive 18 per cent of their base pay toward the defined contribution plan, up to the maximum of the Income Tax Act limit
- For those who exceed the Income Tax Act limit, the SRP ensures total contribution equals 18 per cent of their base pay

Executive Compensation Disclosure

The following table outlines total compensation for the year that ended on December 31, 2025, for the five highest-earning Executives.

Position	Name	Base Pay	Other Cash Benefits (1)	Other Non-Cash Benefits (2)	Total
President & CEO	Aaron Engen	545,050	6,000	112,292	663,343
Vice President, Grid Reliability	Robert Davidson	279,863	166,934	70,152	516,949
Vice President, Information Technology	William Baker	278,985	153,425	69,628	502,038
Vice President, Markets	Nicole LeBlanc	277,178	148,718	66,336	492,232
Vice President, Strategy & Chief Economist	Kevin Dawson	273,653	136,055	74,424	484,132

(1) Other cash benefits include variable pay, payments in lieu of vacation, vehicle allowances, parking allowances and other cash allowances.

(2) Other non-cash benefits include contributions to all benefits as applicable, including employer's share of all employee benefits and contributions or payments made on behalf of employees' pension, supplementary retirement plan, health care, parking and other taxable benefits.

The AESO recovers its costs, including AESO employee compensation, through revenue received from market participants. There is no government funding provided for AESO operations.

Executive Leadership Team and Board of Directors

Executive Leadership Team

Aaron Engen
President & CEO

William Baker
Vice President, Information Technology

Gillian Barnett
Vice President, Law and Customer Projects,
General Counsel and Corporate Secretary

Robert Davidson
Vice President, Grid Reliability

Kevin Dawson
Vice President, Strategy and Chief Economist

Nicole Hall
Vice President, Finance and Compliance

Nicole LeBlanc
Vice President, Markets

Leanne McLean
Vice President, People and Culture &
Communications

Board of Directors

Karl Johannson
Chair

Evan Bahry
Member of the Power System Committee and
Human Resources Committee

Stephen Clark
Chair of the Power System Committee,
member of the Governance and Nominations
Committee

Alex Federucci
Chair of the Transformation Oversight
Committee, member of the Audit Committee
and Human Resources Committee

Georgette Habib
Chair of the Governance and Nominations
Committee, member of the Power System
Committee and Transformation Oversight
Committee

Patricia Kaiser
Chair of the Human Resources Committee,
member of the Audit Committee

Ann-Marie Osinski
Chair of the Audit Committee, member of the
Governance and Nominations Committee