



## 2013 | Q3 INTERIM REPORT

ENMAX Corporation | Three & Nine Months Ending September 30, 2013

### HIGHLIGHTS

| (millions of dollars, unless otherwise noted)   | Three Months Ending |              | Nine Months Ending |              |
|---|---------------------|--------------|--------------------|--------------|
|   | September 30        | September 30 | September 30       | September 30 |
|   | 2013                | 2012         | 2013               | 2012         |
| Total revenues  | 790.0               | 797.2        | 2,479.6            | 2,290.7      |
| Operating margin <sup>(1)</sup>   | 136.3               | 138.7        | 419.7              | 481.7        |
| Adjusted earnings (includes discontinued operations) before interest, income tax, depreciation and amortization (EBITDA) <sup>(1)</sup> | 71.3                | 86.1         | 232.4              | 319.1        |
| Earnings before interest and income taxes (EBIT) <sup>(1)</sup>   | 30.1                | 41.8         | 101.8              | 186.7        |
| Net earnings before discontinued operations   | 20.7                | 42.8         | 84.0               | 154.0        |
| Net earnings  | 20.7                | 45.4         | 264.2              | 161.1        |
| Funds generated from operations <sup>(1)</sup>  | 89.6                | 95.2         | 214.5              | 286.3        |
| Total assets (as at end of period)  | 4,617.5             | 4,678.9      | 4,617.5            | 4,678.9      |
| Return on assets <sup>(2)</sup>   |                     |              | 11.8%              | 8.4%         |
| Return on equity <sup>(3)</sup>   |                     |              | 14.6%              | 10.1%        |
| Long-term debt to total capitalization ratio <sup>(4)</sup>   |                     |              | 38.1%              | 43.5%        |
| System average interruption duration index (SAIDI) <sup>(5)</sup>   |                     |              | 0.33               | 0.32         |
| System average interruption frequency index (SAIFI) <sup>(6)</sup>  |                     |              | 0.61               | 0.56         |
| Total recordable injury frequency (TRIF)  |                     |              | 1.01               | 0.57         |
| Electricity sold to customers (Gigawatts [GW])  | 5,078               | 5,365        | 15,505             | 15,879       |
| Energy delivered (GW)   | 2,337               | 2,381        | 7,006              | 6,993        |
| Customer satisfaction <sup>(7)</sup>  | 82%                 | 78%          | 82%                | 79%          |

(1) Non-GAAP financial measure. See discussion that follows in the Management's Discussion & Analysis (MD&A).

(2) Return on assets is equal to net earnings, including gain on sale, before after-tax interest charges for the last 12 month rolling period divided by average total assets (adjusted for capital assets under construction and current liabilities) for the last 12 month rolling period.

(3) Return on equity is equal to net earnings, including gain on sale, for the last 12 month rolling period divided by average shareholder's equity for the last 12 month-rolling period.

(4) Long-term debt to total capitalization is equal to total long-term debt, including current portions, divided by the sum of long-term debt and shareholder's equity.

(5) SAIDI equals the total duration of a sustained interruption per average customer during a predefined period of time. A sustained interruption is an interruption in duration greater than or equal to one minute.

(6) SAIFI equals how often the average customer experiences a sustained interruption over a predefined period of time. A sustained interruption is an interruption in duration greater than or equal to one minute.

(7) Monthly weighted average of customers rating their interaction with ENMAX Encompass "Very Satisfied" per the customer interaction survey process with Service Quality Management

## CAUTION TO READER

This document contains statements about future events and financial and operating results of ENMAX Corporation and its subsidiaries (ENMAX or the Corporation) that are forward looking. By their nature, forward-looking statements require the Corporation to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from financial and operating targets, expectations, estimates or intentions expressed in the forward-looking statements.

When used in this interim report, the words “may,” “would,” “could,” “will,” “intend,” “plan,” “anticipate,” “believe,” “seek,” “propose,” “estimate,” “expect” and similar expressions, as they relate to the Corporation or an affiliate of the Corporation, are intended to identify forward-looking statements. Such statements reflect the Corporation’s current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Corporation’s actual results, performance or achievements to vary from those described in this interim report. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this interim report. Intended, planned, anticipated, believed, estimated or expected and other forward-looking statements included in this interim report should not be unduly relied upon. These statements speak only as of the date of this interim report. The Corporation does not intend, and does not assume any obligation, to update these forward-looking statements except as required by law, and reserves the right to change, at any time at its sole discretion, the practice of updating annual targets and guidance. Targets for 2013 are described in the Management’s Discussion & Analysis (MD&A) Outlook section. This interim report should be read in conjunction with ENMAX’s 2012 Financial Report.

Factors that could cause actual results to differ materially include, but are not limited to:

- competitive factors and pricing pressures, including electricity supply and demand in the Alberta power market and fluctuations in the pricing of natural gas in the North American market;
- the availability of the Corporation’s generation assets to produce power;
- regulatory developments as they relate to transmission and distribution rate-making and the impact of deregulation in the industry;
- changes in environmental and other legislation;
- human resources, including possible labour disruptions;
- financing and debt requirements, including ability to carry out refinancing activities;
- tax matters, including acceleration or deferral of required cash payments, realization of timing differences and potential reassessments by tax authorities;
- litigation and legal matters;
- business continuity events (including man-made and natural threats);
- economic growth and fluctuations as they relate to the natural-resource-based Alberta economy;
- weather and climate;
- changes in customers’ wants and needs due to evolving technologies and a movement to more environmentally sensitive ways of living; and
- other risk factors discussed herein and listed from time to time in ENMAX’s reports and other public disclosure documents.

For further information on the Corporation’s risks, see the MD&A Risk Management and Uncertainties section included in ENMAX’s 2012 Financial Report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This MD&A, dated November 7, 2013, is a review of the results of operations of ENMAX Corporation and its subsidiaries (ENMAX or the Corporation) for the three and nine months ended September 30, 2013, compared with the same period in 2012, and of the Corporation's financial condition and future prospects. This discussion contains forward-looking information that is qualified by reference to and should be read in light of the caution to reader previously mentioned. This MD&A should be read in conjunction with ENMAX's 2012 Financial Report.

ENMAX's consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). The Corporation has chosen to defer the adoption of International Financial Reporting Standards (IFRS) as permitted by the Accounting Standards Board (the AcSB).

The Consolidated Financial Statements and MD&A were reviewed by ENMAX's Audit and Finance Committee and approved by ENMAX's Board of Directors (the Board). All amounts are in Canadian dollars unless otherwise specified.

The Corporation reports on certain non-GAAP financial measures such as operating margin and funds from operations that are used by management to evaluate performance of business units and segments. Because non-GAAP financial measures do not have a standardized meaning, the Corporation has defined and reconciled them with their nearest GAAP measure. For the reader's reference, the definition, calculation and reconciliation of consolidated non-GAAP financial measures are provided in the Non-GAAP Financial Measures section.

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## BUSINESS ENVIRONMENT

### Shepard Joint Venture

On December 5, 2012, ENMAX and Capital Power LP (CPLP) entered into a two-part purchase and sale arrangement for CPLP to purchase a 50 per cent ownership interest in ENMAX Energy's 800 MW Shepard Energy Centre (Shepard). Under the terms of the arrangement, on February 28, 2013, CPLP acquired a 25 per cent interest in the facility and the remaining 25 per cent interest was acquired on September 30, 2013. Through a 20-year Energy Services Agreement (ESA), ENMAX Energy will contract to purchase 300 MW of CPLP's Shepard output (50 per cent of 800 MW) for the first three years of the ESA term and 200 MW for the remaining 17 years of the ESA term. Both parties hold their ownership interests in an unincorporated joint venture with agreement to build, own and operate the facility under a Joint Venture Agreement (JVA). Under the JVA, ENMAX Energy will continue to provide construction management services to the parties, has been appointed as the operator for the provision of operating and maintenance services, and has been appointed as joint venture manager for the provision of accounting and settlement services. An affiliate of CPLP has been appointed as the real-time operator to dispatch each party's electricity entitlement under the Alberta Electric System Operator (AESO) rules. A management committee has been established to manage and govern the joint venture.

### ENMAX Envision Sale

On April 8, 2013, ENMAX entered into an agreement for the sale of a subsidiary, ENMAX Envision Inc. (Envision), for \$221.9 million net of adjustments. Envision is involved in high-speed data communications providing large bandwidth solutions to businesses. The sale transaction closed on April 30, 2013, and resulted in a gain of \$175.9 million.

### Keephills Outage

On March 5, 2013, the Keephills Unit 1 generator was removed from service by its operator, TransAlta Corporation (TransAlta). Keephills Unit 1 provides ENMAX with approximately 340MW of electricity through a Power Purchase Arrangement (PPA). On March 26, 2013, ENMAX received notice from TransAlta that it has made a claim of force majeure under the Keephills PPA. Under a force majeure, ENMAX is not compensated for the outage by the operator for the duration of the outage under the terms of the PPA. In addition, during a force majeure, ENMAX is relieved from paying certain capacity charges to the plant owner for the duration of the force majeure event. The Keephills Unit 1 generator returned to service on October 5, 2013. ENMAX and TransAlta are in the dispute resolution process in accordance with the terms of the PPA. For the three and nine months ended September 30, 2013, the Keephills outage impact was \$51.2 million and \$125.1 million, respectively. Resolution of this dispute is not expected to occur during 2013 and any recoveries pursuant to that dispute will be recognized when the dispute is resolved.

### Calgary Area Floods

In June 2013, southern Alberta experienced a significant flood. ENMAX, in coordination with the Calgary Emergency Management Agency and government agencies, disconnected and subsequently restored power to customers to ensure the safety of citizens and minimize the impact on citizens and damage to business property. For the three and nine months ended September 30, 2013, ENMAX's response to the flood resulted in operational costs of \$1.6 million and \$3.9 million respectively. Capitalized costs of \$1.4 million related to the flood all incurred in the three months ended September 30, 2013.

### Capitalization of Costs Methodology

Effective January 1, 2013, ENMAX Power implemented an Alberta Utilities Commission (AUC) approved change in the methodology for capitalizing costs. This change reduced the amount of OM&A that could be capitalized to projects, and therefore reduced amounts that could be recovered in future rates. Instead the ruling allows for this OM&A to be collected through current rates. The change increases transmission and distribution revenues and also increases OM&A expenses.

## OVERALL FINANCIAL PERFORMANCE

### SELECTED CONSOLIDATED FINANCIAL INFORMATION

| (millions of dollars, unless otherwise noted)  | Three Months Ending |         | Nine Months Ending |         |
|--|---------------------|---------|--------------------|---------|
|  | September 30        |         | September 30       |         |
|  | 2013                | 2012    | 2013               | 2012    |
| Total revenue                                  | 790.0               | 797.2   | 2,479.6            | 2,290.7 |
| Operating margin <sup>(1)</sup>                | 136.3               | 138.7   | 419.7              | 481.7   |
| EBIT <sup>(1)</sup>                            | 30.1                | 41.8    | 101.8              | 186.7   |
| EBITDA <sup>(1)</sup>                          | 71.3                | 82.3    | 226.2              | 308.4   |
| Net earnings from continuing operations        | 20.7                | 42.8    | 84.0               | 154.0   |
| Net earnings                                   | 20.7                | 45.4    | 264.2              | 161.1   |
| Funds generated from operations <sup>(1)</sup> | 89.6                | 95.2    | 214.5              | 286.3   |
| Cash provided by operating activities          | 175.8               | 182.4   | 154.5              | 461.5   |
| Total assets (as at end of period)             | 4,617.5             | 4,678.9 | 4,617.5            | 4,678.9 |
| Long-term debt                                 | 1,463.0             | 1,632.3 | 1,463.0            | 1,632.3 |

<sup>(1)</sup> Non-GAAP financial measure. See discussion that follows in Non-GAAP Financial Measures section.

ENMAX's consolidated net earnings for the three and nine months ended September 30, 2013, are \$20.7 million and \$264.2 million, respectively, compared with \$45.4 million and \$161.1 million, respectively, for the three and nine months ended September 30, 2012. The decrease in earnings for the three months ended September 30, 2013, is primarily due to the \$51.2 million impact of the outage of Unit 1 in the Keephills PPA. The unfavourable variance was offset partially by increases in normal electricity and transmission and distribution margins. For the nine months ended September 30, 2013, the increase in ENMAX consolidated earnings was driven primarily by the \$175.9 million gain on the sale of Envision, which was offset partially by the \$125.1 million impact of outage of Unit 1 in the Keephills PPA.

ENMAX's results of operations are not necessarily indicative of future performance due to fluctuating commodity prices, the performance and retirement of existing generation facilities, and the addition of new generation facilities. Further details on specific operations can be found in the Business Segment Results section.

### EBIT FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013, COMPARED WITH THE SAME PERIOD IN 2012

| (millions of dollars)                             | Three Months Ended | Nine Months Ended |
|---|--------------------|-------------------|
| EBIT for the period ended September 30, 2012      | 41.8               | 186.7             |
| Unusual items included in 2013 results:           |                    |                   |
| Outage at Keephills Unit 1                        | (51.2)             | (125.1)           |
| Flood response                                    | (1.6)              | (3.9)             |
| Capitalization of costs methodology               | (1.6)              | (2.2)             |
| Increased (decreased) margins attributable to:    |                    |                   |
| Electricity, excluding Keephills outage           | 40.1               | 42.4              |
| Natural gas                                       | 0.9                | 5.1               |
| Transmission and distribution                     | (4.9)              | (2.7)             |
| Contractual services and other                    | 9.5                | 8.7               |
| Decreased (increased) expenses:                   |                    |                   |
| Operations, maintenance and administration (OM&A) | (2.8)              | (12.5)            |
| Foreign exchange                                  | 0.6                | 8.0               |
| Amortization                                      | (0.7)              | (2.7)             |
| EBIT for the period ended September 30, 2013      | 30.1               | 101.8             |

### Unusual Items Included in 2013 Results

The Keephills outage is discussed in the Business Environment Section on page four of this report. For the three and nine months ended September 30, 2013, Keephills outage impact was \$51.2 million and \$125.1 million, respectively. ENMAX and TransAlta are in the dispute resolution process in accordance with the terms of the PPA. Resolution of this dispute is not expected to occur during 2013 and any recoveries pursuant to that dispute will be recognized at that time.

The Calgary-area flood is discussed in the Business Environment Section on page four of this report. For the three and nine months ended September 30, 2013, ENMAX's response to the flood resulted in operational costs of \$1.6 million and \$3.9 million, respectively. Capitalized costs related to the flood of \$1.4 million all incurred in the three months ended September 30, 2013.

The capitalization of costs methodology change is discussed in the Business Environment Section on page four of this report. For the three and nine months ended September 30, 2013, the impact to EBIT was a decrease of \$1.6 million and \$2.2 million, respectively.

In the following discussion the term "Normalized" refers to the removal of the above noted unusual items from comparative margin and expense discussions. Normalized measures are a non-GAAP financial measure.

### Normalized EBIT

Normalized electricity margins (electricity margins excluding the Keephills outage) for the three months ended September 30, 2013, increased \$40.1 million to \$117.8 million from \$77.7 million in the three months ended September 30, 2012. For the nine months ended September 30, 2013, normalized electricity margins increased \$42.4 million to \$334.4 million from \$292.0 million in the same period in 2012. The increased margin in the three month period ended September 30, 2013 was driven primarily by lower costs associated with plant outages, better realized prices on forward contracts and a favourable outcome with respect to calculations of green house gas (GHG) emissions for the compliance years 2009-2011, which will result in a partial recovery of payments related to 2009-2011 GHG compliance costs. These favourable items were partially offset by higher fuel costs associated with PPAs. The increased margins in the nine-month period ended September 30, 2013, were driven primarily by better realized prices on forward contracts, increased price and sales volumes on fixed price contracts, higher market prices, and partial recovery of the GHG 2009-2011 compliance costs. These favourable items were partially offset by higher fuel costs and plant outages associated with PPAs.

Natural gas margins for the three months ended September 30, 2013, increased \$0.9 million to \$1.0 million from \$0.1 million for the same period in the prior year. For the nine months ended September 30, 2013, natural gas margins increased \$5.1 million to \$15.1 million from \$10.0 million in the same period in 2012. This increase in the three-month period ended September 30, 2013, is due to higher volumes sold in the third quarter over the same period in the prior year. This increase in the nine-month period ended September 30, 2013, is primarily due to higher realized sales prices and higher volumes sold in the first and third quarters. This favourable impact was partially offset by the higher cost of natural gas supply.

For the three months ended September 30, 2013, normalized transmission and distribution margins (transmission and distribution margins excluding the capitalization of costs methodology change) decreased \$4.9 million to \$48.3 million from the \$53.2 million recorded in the same period in 2012. For the nine months ended September 30, 2013, normalized transmission and distribution margins decreased \$2.7 million to \$147.6 million from \$150.3 million in the same period in 2012. The decreased margin in the three- and nine-month period ended September 30, 2013, from the same period in the prior year is due primarily to a decrease in system access service revenues pending a rate decision from the AUC. This decision was received subsequent to the quarter and is discussed in the Outlook section of this MD&A. The decreased margin in the nine-month period ended September 30, 2013, was partially offset by lower system access service costs.

For the three months ended September 30, 2013, contractual services and other sources margin increased \$9.5 million to \$17.2 million from \$7.7 million recorded in the third quarter of 2012. The increase in margins is mainly due to recognition of cost recoveries associated with the Shepard joint venture and increased margins attributable to construction and design services when compared to the earlier period. For the nine months ended September 30, 2013, contractual services and other revenues increased \$8.7 million to \$38.1 million from \$29.4 million in the same period in 2012. The increase is mainly due to the recognition of cost recoveries associated with ENMAX's joint venture with Capital Power in the first and third quarter offset by a decrease in activity for underground residential and commercial development in the second quarter of 2013.

Normalized OM&A (OM&A excluding the flood costs and capitalization of costs methodology change) for the three months ended September 30, 2013, increased \$2.8 million to \$55.1 million from \$52.3 million in the third quarter of 2012. For the nine months ended September 30, 2013, normalized OM&A costs increased \$12.5 million to \$180.8 million from \$168.3 million in the same period in 2012. The increase in OM&A costs for the three months ended September 30, 2013, was driven primarily by an increase in staff costs related to the continued growth of the Calgary electricity infrastructure offset partially by a decrease in expenses related to long-term service agreements (LTSAs) on assets and expenses related to advertising. The increase for the nine months ended September 30, 2013, was largely due to an increase in operating and maintenance costs related to Calgary Energy Centre's (CEC) successfully executed 45-day maintenance outage and an increase in staff costs.

For the three months ended September 30, 2013, a net foreign exchange loss of \$3.5 million was recognized as compared to a loss of \$4.1 million in the same period of 2012. For the nine months ended September 30, 2013, foreign exchange gains of \$3.0 million were experienced as compared to a loss of \$5.0 million in the same period in 2012. Foreign exchange gains or losses are primarily a result of the net realized and unrealized gains and losses on equipment purchase and service agreements denominated in foreign currencies and related hedges.

Amortization expense for the three months ended September 30, 2013, increased \$0.7 million to \$41.2 million from \$40.5 million for the same period in 2012. For the nine months ended September 30, 2013, amortization expense increased \$2.7 million to \$124.4 million from \$121.7 million in the same period in 2012. The increased charges were primarily the result of a net change in assets placed into service.

## **OTHER NET EARNINGS ITEMS**

For the three months ended September 30, 2013, interest expense increased \$2.0 million to \$13.0 million from \$11.0 million for the same period in 2012. The increase was due to a redemption premium of \$4.9 million incurred as a result of an early redemption of a debenture, partially offset by the increase in capitalization of interest related to capital projects. Interest expense decreased \$6.4 million to \$26.1 million from \$32.5 million for the nine months ended September 30, 2013, compared to the nine months ended September 30, 2012. The decrease was primarily due to an increase in the capitalization of interest related to capital projects partially offset by the redemption premium paid in the third quarter.

Current and future income tax costs for the three months ended September 30, 2013, increased \$8.4 million to a recovery of \$3.6 million from a recovery of \$12.0 million for the same period in 2012. The increase in tax cost reflects the impact of the 2012 comparative period benefitting from a change in tax legislation. For the nine months ended September 30, 2013, income tax expense decreased \$8.5 million to a recovery of \$8.3 million from an expense of \$0.2 million for the same period in 2012. The decrease of income tax was primarily due to lower income in taxable entities.

There were no earnings from discontinued operations for the three months ended September 30, 2013 (2012 - \$2.6 million). For the nine months ended September 30, 2013, earnings from discontinued operations decreased \$2.8 million to \$4.3 million from \$7.1 million in the same period in 2012. Earnings from discontinued operations relate to the ENMAX Envision sale discussed in the Business Environment section of this MD&A.

## OTHER COMPREHENSIVE INCOME

Other comprehensive income (OCI) illustrates the Corporation's earnings under the assumption of full income recognition of gains and losses on the market value of securities and derivatives otherwise treated as hedges of future period revenues and expenses. The Corporation uses derivatives to hedge its electricity, natural gas, interest rate and foreign exchange exposures. For the three and nine months ended September 30, 2013, OCI totalled gains of \$3.1 million and \$19.9 million, respectively, compared with gains of \$44.9 million and \$67.2 million, respectively, for the same periods in 2012. OCI in the first nine months of 2013 primarily reflects the favourable fair value changes in derivative electricity positions and settlement of electricity and gas positions.

## BUSINESS SEGMENT RESULTS

| EBIT                                  | Three Months Ended |      | Nine Months Ended |       |
|---------------------------------------|--------------------|------|-------------------|-------|
|                                       | September 30       |      | September 30      |       |
|                                       | 2013               | 2012 | 2013              | 2012  |
| (millions of dollars)                 |                    |      |                   |       |
| ENMAX Energy                          | 15.3               | 15.8 | 58.3              | 123.1 |
| ENMAX Power                           | 13.0               | 25.3 | 40.1              | 61.3  |
| Corporate & intersegment eliminations | 1.8                | 0.7  | 3.4               | 2.3   |
| EBIT                                  | 30.1               | 41.8 | 101.8             | 186.7 |

### ENMAX ENERGY

ENMAX Energy is an operating segment established to carry out all non-regulated energy supply and retail functions through various legal entities. ENMAX Energy provides electricity, natural gas and renewable energy products to residential, commercial and industrial customers in the Alberta deregulated electricity and gas marketplaces. In addition, it provides energy management, district heating and customer care.

ENMAX Energy supplies energy through ENMAX's own wind and gas-fuelled generation facilities and balances the Corporation's energy portfolio needs through management of PPAs at Battle River and Keephills, company-owned generation and the purchase and sale of electricity into and from the Alberta market. ENMAX Energy produces or has exclusive access to 2,067 MW of electricity generation to supply customer demand.

#### Business Update

As discussed in the Business Environment section of this MD&A, ENMAX Energy was impacted by the Shepard joint venture, ENMAX Envision sale and Keephills outage.

During the three and nine months ended September 30, 2013, \$96.8 million and \$245.4 million, respectively, has been invested in Calgary-area generation projects including ENMAX's proportionate interest in the Shepard facility. Construction continues on the Shepard facility with approximately 82 per cent of the overall project work complete and over 2.6 million hours of construction work invested as at September 30, 2013. With respect to project costs, approximately \$1,143.0 million of the \$1,365.0 million construction budget has been incurred.

## KEY BUSINESS DRIVERS

|   | Three Months Ended |       | Nine Months Ended |        |
|---|--------------------|-------|-------------------|--------|
|   | September 30       |       | September 30      |        |
|   | 2013               | 2012  | 2013              | 2012   |
| Market heat rate – flat average (Gigajoule/MW hours [GJ/MWh]) | 36.16              | 36.24 | 31.19             | 29.63  |
| Average wholesale market spark spread (\$/MWh) <sup>(1)</sup> | 65.35              | 61.13 | 67.26             | 43.40  |
| Average flat pool price (\$/MWh)                              | 83.92              | 78.44 | 90.47             | 59.45  |
| Average natural gas price (\$/GJ)                             | 2.32               | 2.16  | 2.90              | 2.01   |
| Generation volume (GW hours [GWh])                            | 3,889              | 3,279 | 9,118             | 9,446  |
| Electricity sold (GWh)  | 4,680              | 4,931 | 14,238            | 14,487 |
| Natural gas sold (terajoules [TJ])                            | 4,633              | 4,317 | 31,890            | 30,274 |
| Customer satisfaction <sup>(2)</sup>                          | 82%                | 78%   | 82%               | 79%    |

<sup>(1)</sup> Assuming an average combined cycle gas turbine heat rate of 8 GJ per MWh.

<sup>(2)</sup> Monthly weighted average of customers rating their interaction with ENMAX Encompass "Very Satisfied" per the customer interaction survey process with Service Quality Management.

ENMAX Energy sold, under contract, 4,680 GWh of electricity to customers in the three months ended September 30, 2013, compared with 4,931 GWh in the same period of 2012. For the nine months ended September 30, 2013, ENMAX Energy sold, under contract, 14,238 GWh of electricity to customers compared with 14,487 GWh in the same period of 2012. This slight decrease is due primarily to a decrease in commercial and industrial customer volumes offset by an expanding customer base in residential.

ENMAX Energy's natural gas customers purchased 4,633 TJ of natural gas in the three months ended September 30, 2013, compared with 4,317 TJ in the same period in 2012. For the nine months ended September 30, 2013, ENMAX Energy sold 31,890 TJ of natural gas to customers compared with 30,274 TJ in the same period of 2012. The increase in volume sold in the year is due primarily to volume growth from an increased customer base in the residential market.

## Financial Results

ENMAX Energy recorded EBIT of \$15.3 million and \$58.3 million for the three and nine months ended September 30, 2013, respectively, compared with \$15.8 million and \$123.1 million in the same periods in the prior year.

## EBIT FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013, COMPARED WITH THE SAME PERIODS IN 2012

| (millions of dollars)                          | Three Months Ended | Nine Months Ended |
|--|--------------------|-------------------|
| EBIT for the period ended September 30, 2012   | 15.8               | 123.1             |
| Unusual item included in 2013 results:         |                    |                   |
| Outage at Keephills Unit 1                     | (51.2)             | (125.1)           |
| Increased (decreased) margins attributable to: |                    |                   |
| Electricity, excluding Keephills outage        | 40.6               | 42.8              |
| Natural gas                                    | 1.0                | 5.6               |
| Contractual services and other                 | 5.9                | 9.5               |
| Decreased (increased) expenses:                |                    |                   |
| OM&A   | 2.9                | (4.6)             |
| Foreign exchange                               | 0.6                | 8.0               |
| Amortization                                   | (0.3)              | (1.0)             |
| EBIT for the period ended September 30, 2013   | 15.3               | 58.3              |

## Unusual Item Included in 2013 Results

The Keephills outage has resulted in an unfavourable impact. For the three and nine months ended September 30, 2013, Keephills outage impact was \$51.2 million and \$125.1 million, respectively.

## Normalized EBIT

Normalized electricity margins for the three months ended September 30, 2013, increased \$40.6 million to \$116.6 million compared with the \$76.0 million recorded in the same three months of 2012. Normalized electricity margins for the nine months ended September 30, 2013, increased \$42.8 million to \$330.7 million compared with the \$287.9 million recorded in the same period of 2012. The increased margin in the three month period ended September 30, 2013 was driven primarily by lower costs associated with plant outages, better realized prices on forward contracts and a favourable decision which will result in a partial recovery of payments related to compliance costs (GHG 2009-2011 compliance costs). These favourable items were partially offset by higher fuel costs associated with PPAs. The increased margins in the nine-month period ended September 30, 2013, were driven primarily by better realized prices on forward contracts, increased price and sales volumes on fixed price contracts, higher market prices, and partial recovery of GHG 2009-2011 compliance costs. These favourable items were partially offset by higher fuel costs and plant outages associated with PPAs.

Natural gas margins increased \$1.0 million to \$1.1 million for the three months ended September 30, 2013, compared with \$0.1 million for the same three-month period in the prior year. For the nine months ended September 30, 2013, natural gas margins increased \$5.6 million to \$15.6 million from \$10.0 million in the same nine-month period in 2012. This increase in the three-month period ended September 30, 2013, is due to higher volumes sold in the third quarter over the same period in the prior year. This increase in the nine-month period ended September 30, 2013, is primarily due to higher realized sales prices and higher volumes sold in the first quarter. This favourable impact was partially offset by the higher cost of natural gas supply.

Contractual services margin and other revenues increased \$5.9 million in the three months ended September 30, 2013, to \$8.6 million compared to \$2.7 million in the same period in 2012. Contractual services margin and other revenues increased \$9.5 million in the nine months ended September 30, 2013, to \$21.3 million compared to \$11.8 million in the nine months ended September 30, 2012. The increase in margins was mainly due to recognizing the recovery of costs related to Capital Power's February 28, 2013, and September 30, 2013, acquisition of ownership interest in Shepard.

OM&A expenses decreased \$2.9 million for the three months ended September 30, 2013, to \$29.8 million, compared with \$32.7 million in the same period in 2012. OM&A expenses for the nine months ended September 30, 2013, increased \$4.6 million to \$107.4 million compared with \$102.8 million in the same period in 2012. The decrease in OM&A costs for the three months ended September 30, 2013, were driven primarily by a decrease in expenses related to LTSAs on assets and expenses related to advertising. The increase in OM&A for the nine months ended September 30, 2013, was driven primarily by an increase in operating and maintenance costs related to CEC partially offset by a decrease in expenses related to LTSAs. In the first quarter of 2013, CEC began a planned 45-day outage to perform maintenance on the facility, which successfully concluded in May of 2013.

For the three months ended September 30, 2013, a net foreign exchange loss of \$3.5 million was recognized compared to a loss of \$4.1 million in the same period of 2012. For the nine months ended September 30, 2013, foreign exchange gains of \$3.0 million were experienced compared to a loss of \$5.0 million in the same period of 2012. Foreign exchange gains are primarily a result of the realized and unrealized gains on equipment purchase and service agreements denominated in foreign currencies and associated hedges.

Amortization expense for the three and nine months ended September 30, 2013, increased \$0.3 million and \$1.0 million, compared to the same periods in 2012. The increased charges were the result of an increase in assets placed into service during the year.

## ENMAX POWER

ENMAX Power owns, operates and maintains electricity transmission and distribution assets in the Calgary service area. Ensuring the reliability of the electrical system for Calgarians is a high priority for ENMAX Power. To ensure rapid recovery from infrequent outages, field crews are on call 24 hours a day. ENMAX Power's commitment to maintain and upgrade the electricity infrastructure in Calgary allows for consistent and reliable service to Calgarians. Statistics for frequency and duration of power service interruptions show that ENMAX Power is in the top quartile compared to other Canadian utility companies.

The development of a more efficient utility model is important to ENMAX Power. This includes managing the regulated business to deliver stable financial returns within the parameters and spirit of formula-based ratemaking (FBR). In addition, ENMAX Power remains focused on improved capital efficiency of the regulated business through progressive maintenance programs and timely expansion.

## Business Update

As discussed in the Business Environment section of this MD&A, ENMAX Power was impacted by the Calgary-area flood and the change in capitalization of costs methodology.

Transmission and distribution capital projects that either commenced or continued in 2013, resulted in \$31.2 million incurred for residential and non-residential development and \$16.9 million for system infrastructure in the nine months ended September 30, 2013. Capital work was also completed on asset replacement and modification projects, with \$20.4 million being incurred during the nine months ended September 30, 2013, to meet industry standards and safety codes and for automation of elements of the distribution network. Investments of \$56.9 million were made in AESO-required capital projects during the first three quarters of 2013. In addition, \$19.1 million was invested in other tools and equipment required for the business. These investments, reduced by \$16.6 million in contributions received from customers, resulted in a net investment by ENMAX Power of over \$127.9 million in the first nine months of 2013.

ENMAX Power's regulatory return is determined using a capital structure of 59 per cent debt to 41 per cent equity for the distribution business and 63 per cent debt to 37 per cent equity in the transmission business. Permitted return on equity (ROE) under the FBR framework is 8.75 per cent, and this level of return may either be exceeded or not met based on ENMAX Power's actual performance under FBR.

## KEY BUSINESS DRIVERS

|   | Three Months Ended<br>September 30 |       | Nine Months Ended<br>September 30 |       |
|---|------------------------------------|-------|-----------------------------------|-------|
|   | 2013                               | 2012  | 2013                              | 2012  |
| Electricity sold through the RRO (GWh)  | 397                                | 434   | 1,267                             | 1,392 |
| Distribution volumes (GWh)  | 2,337                              | 2,381 | 7,006                             | 6,993 |
| Local access fees collected on behalf of The City of Calgary (The City) (\$ millions) | 38.2                               | 36.0  | 97.7                              | 113.7 |
| SAIDI   |                                    |       | 0.33                              | 0.32  |
| SAIFI   |                                    |       | 0.61                              | 0.56  |

Regulated rate option (RRO) electricity volumes sold decreased to 397 GWh in the three months ended September 30, 2013, compared with 434 GWh in the same period in 2012. For the nine months ended September 30, 2013, RRO electricity volumes sold decreased 125 GWh to 1,267 GWh compared with 1,392 GWh in the same period in 2012. Lower demand was seen as a result of customers switching from the RRO option to competitive options.

Total electricity delivered in the Calgary service area for the third quarter of 2013 was consistent with prior periods. Electricity volumes of 2,337 GWh were delivered in three months ended September 30, 2013, compared to 2,381 GWh in the same period of 2012. For the nine months ended September 30, 2013, total electricity delivered in the Calgary service area increased from the same period in the prior year with electricity volumes delivered of 7,006 GWh compared with 6,993 GWh in the same period in 2012. This modest increase was primarily due to an increase in consumption.

## Financial Results

ENMAX Power's financial results are driven by tariffs approved by the AUC for the regulated transmission, distribution and RRO businesses and by earnings from its non-regulated power services business. The regulated segment accounted for 89 per cent of ENMAX Power's total revenue in the three and nine months ended September 30, 2013, compared with 87 and 85 per cent in the same periods of 2012.

ENMAX Power recorded EBIT of \$13.0 million and \$40.1 million for the three and nine months ended September 30, 2013, respectively, compared with \$25.3 million and \$61.3 million in the same periods in the prior year.

## EBIT FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013, COMPARED WITH THE SAME PERIODS IN 2012

| (millions of dollars)                          | Three Months<br>Ended | Nine Months<br>Ended |
|--|-----------------------|----------------------|
| EBIT for the period ended September 30, 2012   | 25.3                  | 61.3                 |
| Unusual item included in 2013 results:         |                       |                      |
| Flood response                                 | (1.6)                 | (3.9)                |
| Capitalization of costs methodology            | (1.6)                 | (2.2)                |
| Increased (decreased) margins attributable to: |                       |                      |
| Electricity                                    | (0.3)                 | (0.3)                |
| Transmission and distribution                  | (4.9)                 | (2.7)                |
| Contractual services and other                 | 0.6                   | (4.9)                |
| Decreased (increased) expenses:                |                       |                      |
| OM&A   | (4.1)                 | (4.9)                |
| Amortization                                   | (0.4)                 | (2.3)                |
| EBIT for the period ended September 30, 2013   | 13.0                  | 40.1                 |

### Unusual Items Included in 2013 Results

For the three and nine months ended September 30, 2013, ENMAX's response to the flood resulted in operational costs of \$1.6 million and \$3.9 million, respectively.

The change in capitalization of costs methodology resulted in a decrease to EBIT for the three and nine months ended September 30, 2013, of \$1.6 million and \$2.2 million, respectively.

### Normalized EBIT

Normalized transmission and distribution margins consist of amounts charged for wire services net of electrical grid charges and local access fees. Normalized transmission and distribution margins decreased \$4.9 million to \$48.3 million for the three months ended September 30, 2013, compared with \$53.2 million in the same period in 2012. Normalized transmission and distribution margins decreased \$2.7 million to \$147.2 million for the nine months ended September 30, 2013, compared with \$150.3 million for the nine months ended September 30, 2012. The decreased margin in the three- and nine-month periods ended September 30, 2013, from the same period in the prior year was due primarily to a decrease in system access service revenues pending a rate decision from the AUC. This decision was received subsequent to the quarter and is discussed in the Outlook section of this MD&A. The decreased margin in the nine-month period ended September 30, 2013 was partially offset by lower system access service costs.

For the third quarter ended September 30, 2013, margins for contractual services and other revenues increased \$0.6 million to \$6.9 million compared with \$6.3 million in the third quarter of last year. For the nine months ended September 30, 2013, margins for contractual services and other decreased \$4.9 million to \$15.8 million compared with \$20.7 million for the nine months ended September 30, 2012. The decrease in margins for the nine months ended September 30, 2013, was mainly due to a decrease in activity for underground residential and commercial development in the second quarter of 2013. The decrease in activity is attributed to fewer residential lots constructed and delays in projects due to weather in the second quarter.

Normalized OM&A expenses for the three and nine months ended September 30, 2013, totalled \$26.8 million and \$80.1 million, respectively, compared with \$22.7 million and \$75.2 million, respectively, in the same periods in 2012. The increase in OM&A costs for the three and nine months ended September 30, 2013, was driven primarily by higher staff costs related to the growth of the Calgary electricity infrastructure.

Amortization for the three and nine months ended September 30, 2013, totalled \$13.7 million and \$41.8 million, respectively, compared with \$13.3 million and \$39.5 million, respectively, in the same periods in 2012. The increase was the net result of amortization related to new assets put into service partially offset by a decrease in the asset base from older assets concluding their depreciable lives.

## CORPORATE & INTERSEGMENT ELIMINATIONS

ENMAX Corporate provides billing and customer care services, shared services and financing to ENMAX Power and ENMAX Energy. During the three and nine months ended September 30, 2013, EBIT for ENMAX Corporate was increased to \$1.8 million and \$3.4 million, respectively, as compared with \$0.7 million and \$2.3 million, respectively, in the same periods in the prior year. For this quarter, the subsidiary ENMAX Encompass Inc. (Encompass) was moved to be reported within corporate and intersegment eliminations segment. Encompass provides billing and customer care services to residential and small commercial customers and had previously been reported under ENMAX Energy. Prior figures have been restated.

### KEY BUSINESS DRIVERS

| As at and for the period ended September 30<br>(millions of dollars, unless otherwise noted) | 2013    | 2012    |
|--|---------|---------|
| Employees (number) <sup>(1)</sup>  | 1,854   | 1,835   |
| Long-term debt <sup>(2)</sup>  | 1,463.0 | 1,632.3 |

<sup>(1)</sup> Employee count is total employees.  
<sup>(2)</sup> Includes current and long-term portions.

Employee count has increased primarily due to growth in the ENMAX Power workforce to support increased construction work and overall growth to the electrical system ; growth in ENMAX Energy is due to an increasing sales force; growth in the operating infrastructure, engineering and commodity management groups for the developing generation business; and growth in corporate services to support both businesses. Long-term debt has decreased due primarily to the repayment of the Series 2 private debenture.

## SELECTED QUARTERLY FINANCIAL DATA

| (millions of dollars)                   | 2013  |        |       | 2012   |       |        | 2011  |        |
|---|-------|--------|-------|--------|-------|--------|-------|--------|
|   | Third | Second | First | Fourth | Third | Second | First | Fourth |
| Total revenue                           | 790.0 | 859.4  | 830.2 | 869.3  | 797.3 | 658.4  | 835.1 | 847.5  |
| Operating margin <sup>(1)</sup>         | 136.3 | 115.8  | 167.6 | 194.7  | 138.7 | 168.0  | 175.0 | 165.0  |
| EBIT <sup>(1)</sup>                     | 30.1  | 6.7    | 65.0  | 77.4   | 41.7  | 67.7   | 77.2  | 64.3   |
| Net earnings from continuing operations | 20.7  | 8.2    | 55.1  | 61.6   | 42.8  | 50.7   | 60.5  | 40.1   |
| Net earnings                            | 20.7  | 185.2  | 58.3  | 63.9   | 45.4  | 53.1   | 62.6  | 42.8   |

<sup>(1)</sup> Non-GAAP financial measure. See discussion that follows in the MD&A.

Many variables must be considered regarding the seasonality of revenues, operating margin, EBIT and net earnings. Overall, the bulk of the Corporation's business does not experience extreme cyclical activities that would allow identification of common variations quarter over quarter.

Electricity volumes sold and electricity volumes distributed to industrial and institutional customers are not normally seasonal in nature. Volumes are predominantly cyclical on a 24-hour period. Residential volumes sold and distributed peak in the winter, resulting in higher revenues during winter months. Volume requirements of commercial customers peak in the summer, with higher demand for air conditioning. This, however, is typically offset by a lower demand in the residential market during the summer. Over longer periods of time, volumes can fluctuate with general economic activity and population growth.

Natural gas volumes and prices are correlated with the time of year as a result of weather patterns. Natural gas consumption and prices increase with colder weather in the winter. As well, natural gas prices can rise in hot weather in the summer as peak electricity demand increases. Margin levels tend to decline in the fall and spring due to a lower overall need for heating and cooling.

## NON-GAAP FINANCIAL MEASURES

The Corporation provides non-GAAP financial measures in the MD&A. These measures do not have any standard meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. The purpose of these financial measures and their reconciliation to GAAP financial measures are shown below. These non-GAAP measures are consistent with the measures used in the previous year, with the exception of removal of the unusual items in the operating margin measure.

| (millions of dollars)   | Three Months Ended |       | Nine Months Ended |       |
|---|--------------------|-------|-------------------|-------|
|   | September 30       |       | September 30      |       |
|   | 2013               | 2012  | 2013              | 2012  |
| Electricity margins   | 117.8              | 77.7  | 334.4             | 292.0 |
| Natural gas margins   | 1.0                | 0.1   | 15.1              | 10.0  |
| Transmission and distribution margins                                   | 48.3               | 53.2  | 147.6             | 150.3 |
| Contractual services margins <sup>(1)</sup> and other revenue           | 17.2               | 7.7   | 38.1              | 29.4  |
| Operating margin (non-GAAP financial measure), excluding unusual items  | 184.3              | 138.7 | 535.2             | 481.7 |
| Deduct unusual item: Outage at Keephills Unit 1                         | 51.2               | -     | 125.1             | -     |
| Deduct unusual item: Flood response                                     | 1.6                | -     | 3.9               | -     |
| Deduct unusual item: Capitalization of Costs Methodology                | 1.6                | -     | 2.2               | -     |
| Deduct: OM&A, foreign exchange, amortization, interest and income taxes | 109.2              | 95.9  | 320.0             | 327.7 |
| Net earnings from continuing operations (GAAP financial measure)        | 20.7               | 42.8  | 84.0              | 154.0 |

<sup>(1)</sup> Contractual services margins include earnings from distributed generation; home services; meter reading and data management services for non-Calgary municipalities; water meter reading; pole and duct rentals; service locates; streetlight repairs; LRT monitoring; mapping record management; engineering, procurement, construction and maintenance services; utility trenching; construction and maintenance of LRT systems; self-retailing services; and billing services.

Operating margin is a useful measure of business performance, as changes in the market price of electricity and natural gas purchased for resale affect revenue and cost of sales equally.

| (millions of dollars)  | Three Months Ended |        | Nine Months Ended |        |
|--|--------------------|--------|-------------------|--------|
|  | September 30       |        | September 30      |        |
|  | 2013               | 2012   | 2013              | 2012   |
| Adjusted EBITDA (non-GAAP financial measure)                     | 71.3               | 86.1   | 232.4             | 319.1  |
| Deduct: EBITDA from discontinued operations                      | -                  | (3.8)  | (6.2)             | (10.7) |
| Standardized EBITDA (non-GAAP financial measure)                 | 71.3               | 82.3   | 226.2             | 308.4  |
| Deduct: Amortization   | 41.2               | 40.5   | 124.4             | 121.7  |
| Interest   | 13.0               | 11.0   | 26.1              | 32.5   |
| Income taxes   | (3.6)              | (12.0) | (8.3)             | 0.2    |
| Net earnings from continuing operations (GAAP financial measure) | 20.7               | 42.8   | 84.0              | 154.0  |

EBITDA is a useful measure of business performance, as management believes it provides an indication of the cash flow results generated by the Corporation's primary business activities without consideration as to how those activities are financed and amortized or how the results are taxed in various business jurisdictions. EBITDA is also used to evaluate certain debt coverage ratios.

## EBIT

| (millions of dollars)  | Three Months Ended |        | Nine Months Ended |       |
|--|--------------------|--------|-------------------|-------|
|  | September 30       |        | September 30      |       |
|  | 2013               | 2012   | 2013              | 2012  |
| EBIT (non-GAAP financial measure)                                | 30.1               | 41.8   | 101.8             | 186.7 |
| Deduct: Interest   | 13.0               | 11.0   | 26.1              | 32.5  |
| Income taxes   | (3.6)              | (12.0) | (8.3)             | 0.2   |
| Net earnings from continuing operations (GAAP financial measure) | 20.7               | 42.8   | 84.0              | 154.0 |

EBIT is a useful measure of business performance, as management believes it provides an indication of the operating results generated by the Corporation's primary business activities, including the costs of amortization. It does not consider how those activities are financed or how the results are taxed in various business jurisdictions.

## FUNDS GENERATED FROM OPERATIONS

| (millions of dollars)  | Three Months Ended |       | Nine Months Ended |       |
|--|--------------------|-------|-------------------|-------|
|  | September 30       |       | September 30      |       |
|  | 2013               | 2012  | 2013              | 2012  |
| Funds generated from operations (non-GAAP financial measure)   | 89.6               | 95.2  | 214.5             | 286.3 |
| Changes in non-cash working capital                            | 96.2               | 87.8  | (44.7)            | 158.0 |
| Employee future benefits                                       | (1.0)              | 1.4   | (2.3)             | 5.3   |
| Cash flow from continuing operations                           | 184.8              | 184.4 | 167.5             | 449.6 |
| Cash flow from assets held for sale                            | (9.0)              | (2.0) | (13.0)            | 11.9  |
| Cash provided by operating activities (GAAP financial measure) | 175.8              | 182.4 | 154.5             | 461.5 |

Funds generated from operations are used as an additional metric of cash flow without regard to changes in the Corporation's non-cash working capital.

## TOTAL INTEREST COST

| (millions of dollars)                            | Three Months Ended |        | Nine Months Ended |        |
|--|--------------------|--------|-------------------|--------|
|  | September 30       |        | September 30      |        |
|  | 2013               | 2012   | 2013              | 2012   |
| Total interest cost (non-GAAP financial measure) | 27.6               | 22.6   | 70.1              | 65.4   |
| Ineffective portion of interest rate swaps       | (0.4)              | (0.3)  | (1.5)             | (0.9)  |
| Capitalized interest                             | (15.3)             | (12.4) | (45.8)            | (34.7) |
| Other non-interest financing costs               | 1.1                | 1.1    | 3.3               | 2.7    |
| Interest expense (GAAP financial measure)        | 13.0               | 11.0   | 26.1              | 32.5   |

Total interest cost is used in determining the Corporation's interest coverage ratios.

## FINANCIAL CONDITION

### SIGNIFICANT CHANGES IN THE CORPORATION'S FINANCIAL CONDITION

| (millions of dollars, except % change)      | September 30,<br>2013                   | December 31,<br>2012 | \$ Change | % Change | Explanation for change  |
|---|---|----------------------|-----------|----------|---|
| <b>ASSETS</b>                               |   |                      |           |          |   |
| Cash and cash equivalents                   | 227.5                                   | 45.5                 | 182.0     | 400%     | Refer to Liquidity and Capital Resources section.   |
| Accounts receivable                         | 633.5                                   | 663.6                | (30.1)    | (5%)     | Lower due to timing of payments received offset by higher pool prices on sales.   |
| Assets held for sale <sup>(1)</sup>         | -                                       | 566.1                | (566.1)   | (100%)   | All assets held for sale were sold by September 30, 2013  |
| Property, plant and equipment               | 2,921.7                                 | 2,694.5              | 227.2     | 8%       | Capital expenditures, net of retirements, dispositions and amortization.  |
| <b>LIABILITIES AND SHAREHOLDER'S EQUITY</b> |   |                      |           |          |   |
| Short-term debt                             | 50.0                                    | 165.9                | (115.9)   | (70%)    | Refer to Liquidity and Capital Resources section.   |
| Accounts payable and accrued liabilities    | 484.3                                   | 612.6                | (128.3)   | (21%)    | Timing of the payment of power pool invoices and lower capital accruals   |
| Dividend payable                            | 16.9                                    | -                    | 16.9      | 100%     | Dividend declared in March to be paid in four payments over the course of the year.   |
| Other assets/liabilities <sup>(1)(2)</sup>  | (9.3)                                   | 37.0                 | (46.3)    | (125%)   | Change in fair value of hedging instruments.  |
| Long-term debt <sup>(2)</sup>               | 1,463.0                                 | 1,609.5              | (146.5)   | (9%)     | Repayment of \$250.0 million of private debentures, offset by acquisition of \$140.6 million of Alberta Capital Finance Debt (ACFA) debt. |
| <sup>(1)</sup>                              | Net asset and liability positions.      |                      |           |          |   |
| <sup>(2)</sup>                              | Includes current and long-term amounts. |                      |           |          |   |

## LIQUIDITY AND CAPITAL RESOURCES

### SHARE CAPITAL

| As at September 30, 2013, and December 31, 2012<br>(millions of dollars, except share amounts) | Number<br>of Shares | Amount       |
|--|---------------------|--------------|
| Authorized:  |                     |              |
| Unlimited number of common shares  |                     |              |
| Issued and outstanding:  |                     |              |
| Issued on incorporation (one dollar)   | 1                   | -            |
| Issued on transfer of net assets from Calgary Electric System (CES)                            | 1                   | 278.2        |
| Issued on transfer of billing and customer care assets from The City in 2001                   | 1                   | 1.9          |
|  | <b>3</b>            | <b>280.1</b> |

## CAPITALIZATION

| As at<br>(millions of dollars)                                  | September 30,<br>2013 | December 31,<br>2012 |
|---|-----------------------|----------------------|
| Long-term debt <sup>(1)</sup>                                   | 1,463.0               | 1,609.5              |
| Shareholder's equity  |                       |                      |
| Share capital   | 280.1                 | 280.1                |
| Retained earnings   | 2,098.1               | 1,901.4              |
| Accumulated other comprehensive loss                            | 0.3                   | (19.6)               |
| Total shareholder's equity                                      | 2,378.5               | 2,161.9              |
| Total capitalization (long-term debt plus shareholder's equity) | 3,841.5               | 3,771.4              |

(1) Includes the current portion of long-term debt of \$66.2 million (December 31, 2012- \$59.7 million). Maturity dates range from June 2014 to June 2038.

## TOTAL LIQUIDITY AND CAPITAL RESERVES

| As at<br>(millions of dollars)                 | September 30,<br>2013 | December 31,<br>2012 |
|--|-----------------------|----------------------|
| Committed and available bank credit facilities | 1,150.0               | 1,150.0              |
| Letters of credit issued:                      |                       |                      |
| Power pool purchases                           | 172.1                 | 130.1                |
| Energy trading                                 | 29.5                  | 45.0                 |
| Regulatory commitments                         | 109.6                 | 107.9                |
| Asset commitments                              | 3.7                   | 34.7                 |
| PPAs   | 75.3                  | 67.3                 |
|  | 390.2                 | 385.0                |
| Commercial paper and overdraft                 | 50.0                  | 165.9                |
| Remaining available bank facilities            | 709.8                 | 599.1                |
| Cash on hand                                   | 227.5                 | 45.5                 |
| Total liquidity and capital reserves           | 937.3                 | 644.6                |

The increase in total liquidity and capital reserves during the nine months ended September 30, 2013, is attributed primarily to a reduction in commercial paper and overdraft enabled by the receipt of proceeds from the sale of a 50 per cent interest in the Shepard facility and the sale of Envision.

## LONG-TERM DEBT

| As at<br>(millions of dollars)   | September 30,<br>2013 | December 31,<br>2012 |
|--|-----------------------|----------------------|
| Long-term debt <sup>(1)</sup> consisting of:   |                       |                      |
| ACFA debentures, with remaining terms of:  |                       |                      |
| Less than 5 years  | 43.8                  | 47.0                 |
| 5 - 10 years   | 123.2                 | 135.4                |
| 11 - 15 years  | 14.8                  | 7.9                  |
| 16 - 20 years  | 190.4                 | 138.3                |
| 21 - 25 years  | 565.3                 | 499.3                |
| Private debentures   |                       |                      |
| Series 1, remaining term of 5 years, bullet maturity on June 19, 2018                              | 298.0                 | 297.8                |
| Series 2, repaid during the quarter  | -                     | 249.5                |
| Non-recourse term financing (Kettles and CEC), remaining terms of 3.3 and 13.0 years, respectively | 222.7                 | 229.3                |
| Promissory note, remaining term of 13.3 years  | 4.8                   | 5.0                  |
|  | 1,463.0               | 1,609.5              |

(1) Includes current portion of long-term debt of \$66.2 million (December 31, 2012- \$59.7 million). Maturity dates range from June 2014 to June 2038.

## CONTRACTUAL OBLIGATIONS THAT MAY IMPACT THE CORPORATION'S FINANCIAL CONDITION

| As at September 30, 2013<br>(millions of dollars) | Total          | Less than 1 year | 1 – 3 years  | 4 – 5 years  | After 5 years  |
|---|----------------|------------------|--------------|--------------|----------------|
| Total debt <sup>(1)</sup>                         | 1,463.0        | 66.2             | 141.1        | 121.1        | 1,134.6        |
| Operating leases                                  | 27.0           | 1.7              | 2.6          | 1.8          | 20.9           |
| Purchase obligations <sup>(2)</sup>               | 153.6          | 85.2             | 27.8         | 13.1         | 27.5           |
| Asset retirement obligations                      | 15.2           | -                | -            | -            | 15.2           |
| Other long-term obligations <sup>(3)</sup>        | 49.9           | -                | 29.6         | 8.6          | 11.7           |
| <b>Total contractual obligations</b>              | <b>1,708.7</b> | <b>153.1</b>     | <b>201.1</b> | <b>144.6</b> | <b>1,209.9</b> |

(1) Total debt includes short-term debt and excludes interest payments.  
(2) Purchase obligations means an agreement to purchase goods or services that is enforceable and legally binding on ENMAX that specifies all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction.  
(3) Other long-term obligations means other long-term liabilities reflected on the Corporation's balance sheet.

## CAPITAL STRATEGY

### CREDIT METRICS

| As at   | September 30,<br>2013 | December 31,<br>2012 |
|---|-----------------------|----------------------|
| Long-term debt to total capitalization <sup>(1)</sup> | 38.1%                 | 42.7%                |
| Debt to EBITDA <sup>(2)</sup>                         | 2.7X                  | 3.8X                 |
| EBITDA to total interest <sup>(3)</sup>               | 5.7X                  | 4.9X                 |

(1) As at year end, long-term debt (including current portion) to total capitalization is equal to long-term debt divided by total long-term debt plus shareholder's equity. If cash were netted against the debt, the ratio as at September 30, 2013, would be 32.1% (December 31, 2012 - 41.5%).  
(2) Debt to EBITDA is equal to long-term debt (including current portion) divided by EBITDA for the last 12-month rolling period. If cash were netted against the debt, the ratio as at September 30, 2013, would be 3.6X (December 31, 2012 - 3.6X).  
(3) EBITDA to total interest is equal to EBITDA for the last 12-month rolling period divided by total interest cost (non-GAAP financial measures) calculated on a 12-month rolling basis.

The Corporation funds its business with a view to maintaining a conservative capital structure in line with its strategy of maintaining a stable, investment grade credit rating. The Corporation has set long-term target ratios for long-term debt to total capitalization at a maximum of 45 per cent, a debt to EBITDA ratio at a maximum of 3.5 times and an EBITDA to total interest coverage ratio at 5 times or better. Very low electricity prices, asset outages, high capital expenditures associated with significant construction projects or other factors could result in the Corporation not reaching its targets for short periods of time. Targets are managed using a long-term view and set at more conservative levels than actual debt covenants. Standard & Poor's has assigned ENMAX a BBB+ rating with a stable outlook. Dominion Bond Rating Services has assigned a credit rating of A (low). These ratings provide reasonable access to debt capital markets.

The principal financial covenant in ENMAX's credit facilities is debt to capitalization. As at September 30, 2013, the Corporation is in compliance with all of the financial maintenance covenants in its debt agreements.

### CASH PROVIDED BY OPERATING ACTIVITIES

Funds generated from operations for the three and nine months ended September 30, 2013, were \$89.6 million and \$214.5 million, respectively, compared with \$95.2 million and \$286.3 million, respectively, in the same periods in 2012. The decrease in funds generated was primarily due to lower cash generating earnings.

Cash provided by operating activities for the three months ended September 30, 2013, was lower than the same period in the prior year, at \$175.8 million compared to \$182.4 million. The decrease was driven by lower cash generating earnings. For the nine months ended September 30, 2013, cash provided by operations decreased to \$154.5 million from \$461.5 million in the same period in 2012. The decrease was driven by the reduction of accounts payables from December 31, 2012 (which was high due to timing of payments) and lower cash generating earnings in 2013.

## INVESTING ACTIVITIES

Capital spending was \$149.0 million and \$379.1 million, respectively, in the three and nine months ended September 30, 2013, compared to \$121.5 million and \$311.4 million from the same periods last year. Capital projects for the three and nine months ended September 30, 2013 included \$50.6 million and \$124.0 million, respectively, related to investment in the transmission and distribution network in Calgary and surrounding area; \$90.0 million and \$238.6 million in construction costs related to Calgary area generation projects, primarily Shepard joint venture contributions; and \$8.4 million and \$16.5 million related to other capital additions, including information technology development. Investment in the transmission and distribution network in Calgary allows ENMAX Power to continue to provide safe, reliable and cost-effective transmission and distribution services while meeting the challenges of a growing and expanding city. Investment in Calgary-area generation projects allows ENMAX Energy to serve the growing customer base with generation assets that emit fewer GHG emissions than coal assets. Investment in information technology will allow ENMAX to continue to comply with regulations and effectively operate the business, in line with the Corporation's strategy to maintain the reliability and cost effectiveness of its technology infrastructure while meeting the challenges of obsolescence and growth.

ENMAX realized \$586.1 million of proceeds from the disposal of 50 per cent of the Shepard project and \$221.9 million of proceeds on the sale of Envision.

## FINANCING ACTIVITIES

ENMAX repaid \$8.5 million and \$37.0 million, respectively, of long-term debt in regularly scheduled principal payments during the three and nine months ended September 30, 2013, compared with \$9.2 million and \$33.2 million in the same periods in 2012.

On March 8, 2013, the Corporation declared a dividend of \$67.5 million payable to The City in quarterly instalments throughout 2013. Three quarterly instalments of the dividend have been paid, and the remaining instalment will be paid during the balance of 2013.

On June 15, 2013, the Corporation obtained \$140.6 million of debt from The City through arrangements with the Alberta Capital Finance Authority to fund ongoing investment relating to the regulated transmission and distribution network in Calgary and the surrounding area.

On September 30, 2013, ENMAX repaid a \$250.0 million private debenture, maturing on April 8, 2014, with cash and available credit facilities. ENMAX incurred a redemption premium of \$4.9 million as a result of the early redemption of the Series 2 private debenture.

At September 30, 2013, cash and cash equivalents amounted to \$227.5 million compared with \$45.5 million at December 31, 2012. ENMAX had \$50.0 million in commercial paper, compared with \$149.9 million at December 31, 2012, and no overdraft on bank accounts compared with \$16.0 million at December 31, 2012.

## FUTURE ACCOUNTING CHANGES

On February 13, 2008, the AcSB confirmed the changeover from GAAP to IFRS, as issued by the International Accounting Standards Board (IASB), would be effective for fiscal years beginning on or after January 1, 2011. The AcSB has issued amendments to this directive that presently allows entities that have activities subject to rate regulation to delay adoption of IFRS until January 1, 2015. The Corporation is considering the option and monitoring the IASB's project on rate-regulated accounting. The Corporation maintains a state of IFRS readiness and will determine the best time for transition once the direction of the IASB interim guidance on rate-regulated accounting is better defined. While IFRS uses a conceptual framework similar to GAAP, there will be differences in accounting policies.

## CRITICAL ACCOUNTING ESTIMATES

Since a determination of the value of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of the Corporation's consolidated financial statements requires the use of estimates and assumptions. Accounting policies have been developed to ensure appropriate implementation and interpretation of accounting rules, and complex situations are addressed using careful judgment. Adjustments to previous estimates, which will impact net income and could be material, are recorded in the period they become known.

ENMAX's critical accounting estimates are related to revenue recognition, allowance for doubtful accounts, amortization expense, asset impairment, asset retirement obligations, provisions for income taxes, employee future benefits, financial instruments and interest during construction. The estimates and assumptions made in these areas can be highly uncertain at the time the estimate or assumption is made. Different or changing estimates and assumptions could potentially have a material impact on ENMAX's financial position or results of operations. These critical estimates are described in ENMAX's 2012 Financial Report in the Critical Accounting Estimates section of the MD&A and in Note 2 of the Consolidated Financial Statements.

## RISK MANAGEMENT AND UNCERTAINTIES

ENMAX's approach to risk management addresses risk exposures across all of the Corporation's business activities and risk types. ENMAX utilizes an Enterprise Risk Management (ERM) program to identify, analyze, evaluate, treat and communicate the Corporation's risk exposures in a manner consistent with ENMAX's business objectives and risk tolerance. This includes enterprise risk assessment processes to ensure the needs of the organization are considered and risk continues to be a key component of the decision-making process. For further information on risks, refer to the Risk Management and Uncertainties section of the MD&A contained in ENMAX's 2012 Financial Report.

## FINANCIAL INSTRUMENTS

In conducting its operations, the Corporation uses various instruments including forwards, futures, swaps and options to reduce its market risks.

### ENERGY TRADING DERIVATIVES

Energy trading derivatives are contracts-for-differences that are financial forwards and futures for electricity and gas positions. This does not include electricity and gas contracts that are not considered to be accounting derivatives (normal purchase and sale contracts). The fair value of ENMAX Energy's contracts-for-differences is determined by estimating the amounts that would have to be received or paid to counterparties to terminate the contracts at September 30, 2013, and December 31, 2012.

#### OUTSTANDING CONTRACTS-FOR-DIFFERENCES

| As at                      | September 30,<br>2013 | December 31,<br>2012 |
|----------------------------|-----------------------|----------------------|
| Notional quantities        |                       |                      |
| Electricity sales (GW)     | 2,834                 | 2,818                |
| Natural gas sales (TJ)     | 236                   | 319                  |
| Electricity purchases (GW) | 5,751                 | 4,556                |
| Natural gas purchases (TJ) | 14,369                | 14,585               |

At September 30, 2013, on the basis of electricity and natural gas prices at that date, the fair market value of these contracts amounted to an unrealized positive mark-to-market adjustment of \$7.1 million as compared to negative mark-to-market adjustment of \$0.2 million as at December 31, 2012. This amount does not reflect the fact that these contracts will settle at prices in effect in the future.

Refer to Note 3 in the Notes to the Consolidated Financial Statements for further information on financial instruments.

## ASSET RETIREMENT OBLIGATIONS

At September 30, 2013, the Corporation has asset retirement obligations relating to the following generating assets: McBride Lake, Taber, Kettles Hill, Crossfield and Calgary Energy Centre (CEC). The accretion expense on these assets is included in OM&A in the Consolidated Statements of Earnings and Comprehensive Income.

### EXPECTED REMEDIATION LIABILITY AND TIMING FOR EACH ASSET

| (millions of dollars) | Date           | Amount |
|-----------------------|----------------|--------|
| McBride Lake          | September 2057 | 47.8   |
| Taber                 | December 2057  | 32.4   |
| Kettles Hill          | May 2071       | 26.2   |
| Crossfield            | December 2048  | 10.4   |
| CEC                   | March 2043     | 29.6   |

## TRANSACTIONS WITH RELATED PARTIES

ENMAX's related-party transactions comprise both revenues from and expenditures to The City. The City is the sole shareholder of the Corporation. Total revenues received from The City for the three and nine months ended September 30, 2013, were \$19.1 million and \$81.6 million respectively (2012 - \$20.9 and \$69.9 million). The significant components include contract sales of electricity, construction of infrastructure, provision of non-regulated power distribution services and billing and customer care services relating to The City's utilities departments. ENMAX has committed to a water supply agreement with The City, to commence upon completion of Shepard, whereby The City will supply a specified amount of water annually to facilitate Shepard operations.

As at September 30, 2013, amounts owing to the Corporation from The City for services provided were \$26.3 million (December 31, 2012 - \$26.4 million).

Total expenditures for goods and services received from The City for the three and nine months ended September 30, 2013, were \$39.8 million and \$103.3 million, respectively (2012 - \$36.6 million and \$117.4 million). Most of these expenditures were for local access fees for use of The City's rights-of-way, the cost of which is passed through by ENMAX directly to transmission and distribution customers. The measurement basis used in determining the above values is the contract amount that is considered fair market value; that is, the measurement basis is the same as would be used for a third-party arm's-length transaction.

ENMAX borrows from The City through arrangements with the ACFA to fund ongoing investment relating to the regulated transmission and distribution network in Calgary and the surrounding area. The total amount of debt owed to The City was \$937.4 million at September 30, 2013 (December 31, 2012 - \$827.8 million). Interest paid on this debt for the three and nine months ended September 30, 2013, was \$2.6 million and \$20.4 million, respectively (2012 - \$2.9 million and \$19.5 million, respectively).

Transactions between the Corporation and The City have been recorded at the exchange amounts. Exchange amounts are the amounts outlined by the contracts in effect between the Corporation and The City.

Additional details on the Corporation's transactions with The City can be found in Note 14 in the Notes to the Consolidated Financial Statements.

## OUTLOOK

The discussion in this section is qualified by the caution to reader at the beginning of the report.

The financial results forecasted for 2013 are based on certain assumptions about factors that are outside of the control of the Corporation. Actual results that differ from these assumptions could have a significant impact on expected results. The key assumptions that could significantly impact forecast earnings are commodity prices, residential and small business volumes, unplanned outages at generating facilities, settlement of contingencies, regulatory changes and project execution on the Corporation's large capital projects.

The Corporation expects to see continued variability in electricity prices in 2013 with average expected prices being higher than those seen in 2012. The unplanned outage of the Keephills Unit 1 generator, which is part of the Keephills PPA in ENMAX's fleet of generation, continued to impact earnings negatively partially into the fourth quarter of 2013 although the unit returned to service on October 5, 2013. ENMAX and TransAlta are in the dispute resolution process in accordance with the terms of the PPA, although resolution is not expected in 2013. Additional unplanned outages at generating facilities could further impact electricity margins.

The Corporation expects natural gas prices to remain at relatively low levels. Market share in commercial and residential markets is expected to remain constant.

On October 15, 2013, ENMAX received a decision from the AUC as part of the AUC's Annual Transmission Access Charge (TAC) Deferral Account Reconciliation Application. The decision confirmed entitlement to revenue generated from volume variances through to the end of 2013 within the TAC deferral account. Up to October 15, 2013, this value is approximately \$14.8 million, which will be recorded as revenue in the fourth quarter.

ENMAX expects that net earnings from continuing operations for 2013 will be lower than net earnings recorded in 2012. As a result of the gain on sales, net earnings are expected to be higher in 2013 than 2012. Proceeds from the April 30, 2013, sale of its Envision subsidiary and from the disposition of 50 per cent of Shepard have enhanced and contributed to ENMAX's financial position in 2013.

## CONSOLIDATED BALANCE SHEETS

| AS AT<br>(millions of dollars)                              | September 30,<br>2013<br>(unaudited) | December 31,<br>2012 |
|---|--------------------------------------|----------------------|
| <b>ASSETS</b>   |                                      |                      |
| Cash and cash equivalents                                   | \$ 227.5                             | \$ 45.5              |
| Accounts receivable (Notes 3 and 4)                         | 633.5                                | 663.6                |
| Income taxes receivable                                     | 86.0                                 | 90.6                 |
| Future income tax asset                                     | 6.2                                  | 7.2                  |
| Other current assets (Notes 3 and 5)                        | 53.7                                 | 45.8                 |
| Assets held for sale (Note 6)                               | -                                    | 575.6                |
|   | <b>1,006.9</b>                       | <b>1,428.3</b>       |
| Property, plant and equipment (Note 7)                      | 2,921.7                              | 2,694.5              |
| Power purchase arrangements                                 | 382.7                                | 422.2                |
| Intangible assets   | 130.0                                | 116.3                |
| Goodwill  | 16.0                                 | 16.0                 |
| Employee future benefits (Note 8)                           | 20.6                                 | 18.5                 |
| Future income tax asset                                     | 71.4                                 | 61.0                 |
| Other long-term assets (Notes 3 and 5)                      | 68.2                                 | 63.1                 |
| <b>TOTAL ASSETS</b>   | <b>\$ 4,617.5</b>                    | <b>\$ 4,819.9</b>    |
| <b>LIABILITIES</b>  |                                      |                      |
| Short-term debt (Note 9)                                    | \$ 50.0                              | \$ 165.9             |
| Accounts payable and accrued liabilities (Notes 3 and 4)    | 484.3                                | 612.6                |
| Dividend payable  | 16.9                                 | -                    |
| Income taxes payable  | -                                    | 12.0                 |
| Future income tax liability                                 | 1.0                                  | 3.4                  |
| Current portion of long-term debt (Note 3)                  | 66.2                                 | 59.7                 |
| Other current liabilities (Notes 3 and 5)                   | 58.2                                 | 59.3                 |
| Liabilities held for sale (Note 6)                          | -                                    | 9.5                  |
|   | <b>676.6</b>                         | <b>922.4</b>         |
| Long-term debt (Note 3)                                     | 1,396.8                              | 1,549.8              |
| Future income tax liability                                 | 96.0                                 | 84.8                 |
| Other long-term liabilities (Notes 3 and 5)                 | 54.4                                 | 86.6                 |
| Asset retirement obligations                                | 15.2                                 | 14.4                 |
|   | <b>2,239.0</b>                       | <b>2,658.0</b>       |
| <b>SHAREHOLDER'S EQUITY</b>                                 |                                      |                      |
| Share capital   | 280.1                                | 280.1                |
| Retained earnings   | 2,098.1                              | 1,901.4              |
| Accumulated other comprehensive income (loss) (Note 10)     | 0.3                                  | (19.6)               |
|   | <b>2,378.5</b>                       | <b>2,161.9</b>       |
| <b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>           | <b>\$ 4,617.5</b>                    | <b>\$ 4,819.9</b>    |
| Commitments and contingencies (Note 11)                     |                                      |                      |
| See accompanying Notes to Consolidated Financial Statements |                                      |                      |

## CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

| (unaudited)<br>(millions of dollars)   | THREE MONTHS ENDED<br>SEPTEMBER 30, |                | NINE MONTHS ENDED<br>SEPTEMBER 30, |                 |
|--|-------------------------------------|----------------|------------------------------------|-----------------|
|  | 2013                                | 2012           | 2013                               | 2012            |
| <b>REVENUE (Note 2)</b>  |                                     |                |                                    |                 |
| Electricity  | \$ 591.9                            | \$ 620.0       | \$ 1,816.9                         | \$ 1,673.0      |
| Natural gas  | 52.5                                | 37.1           | 257.2                              | 185.1           |
| Transmission and distribution  | 77.0                                | 78.6           | 228.5                              | 225.6           |
| Local access fees  | 38.2                                | 36.0           | 97.7                               | 113.7           |
| Contractual services   | 23.0                                | 24.4           | 61.9                               | 86.6            |
| Other  | 7.4                                 | 1.1            | 17.4                               | 6.7             |
| <b>TOTAL REVENUE</b>   | <b>790.0</b>                        | <b>797.2</b>   | <b>2,479.6</b>                     | <b>2,290.7</b>  |
| <b>COST OF SERVICES PROVIDED (Note 2)</b>  |                                     |                |                                    |                 |
| Electricity  | 525.3                               | 542.3          | 1,607.6                            | 1,381.0         |
| Natural gas  | 51.5                                | 37.0           | 242.1                              | 175.1           |
| Transmission and distribution  | 25.5                                | 25.4           | 71.3                               | 75.3            |
| Local access fees  | 38.2                                | 36.0           | 97.7                               | 113.7           |
| Contractual services   | 13.2                                | 17.8           | 41.2                               | 63.9            |
| Operations, maintenance and administration   | 61.5                                | 52.3           | 196.5                              | 168.3           |
| Foreign exchange loss (gain)   | 3.5                                 | 4.1            | (3.0)                              | 5.0             |
| <b>TOTAL COST OF SERVICES PROVIDED</b>   | <b>718.7</b>                        | <b>714.9</b>   | <b>2,253.4</b>                     | <b>1,982.3</b>  |
| Amortization   | 71.3                                | 82.3           | 226.2                              | 308.4           |
| Interest   | 41.2                                | 40.5           | 124.4                              | 121.7           |
| Current income tax expense (recovery)  | 13.0                                | 11.0           | 26.1                               | 32.5            |
| Future income tax expense (recovery)   | (12.4)                              | (9.9)          | 0.2                                | (0.7)           |
|  | 8.8                                 | (2.1)          | (8.5)                              | 0.9             |
| <b>NET EARNINGS FROM CONTINUING OPERATIONS</b>   | <b>20.7</b>                         | <b>42.8</b>    | <b>84.0</b>                        | <b>154.0</b>    |
| Net earnings from discontinued operations, net of tax (Note 6)   | -                                   | 2.6            | 4.3                                | 7.1             |
| Gain on sale of subsidiary (Note 6)  | -                                   | -              | 175.9                              | -               |
| <b>NET EARNINGS</b>  | <b>20.7</b>                         | <b>45.4</b>    | <b>264.2</b>                       | <b>161.1</b>    |
| <b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>  |                                     |                |                                    |                 |
| Unrealized losses on available-for-sale financial assets arising during the period, includes future income tax of \$nil and \$nil for the three- and nine-month periods, respectively (2012-\$nil and \$nil)   | -                                   | -              | -                                  | (0.1)           |
| Realized losses on available-for-sale financial assets arising during the period, includes future income of \$nil and \$nil for the three- and nine-months, respectively (2012-\$nil and \$nil)  | -                                   | -              | -                                  | 0.1             |
| Unrealized gains on derivatives designated as cash flow hedges, includes future income tax expense of \$4.1 and \$14.0 for three- and nine-month periods, respectively (2012-\$10.9 and \$15.9 tax expense)  | 7.0                                 | 35.4           | 35.8                               | 42.2            |
| Realized losses (gains) on derivatives designated as cash flow hedges in prior periods transferred to net earnings in current period, includes future income tax expense of \$1.9 and \$7.2 for the three- and nine-month periods, respectively (2012-\$1.5 and \$2.2 benefit) | (3.9)                               | 9.5            | (15.9)                             | 25.0            |
| Other comprehensive income, net of tax   | 3.1                                 | 44.9           | 19.9                               | 67.2            |
| <b>COMPREHENSIVE INCOME</b>  | <b>\$ 23.8</b>                      | <b>\$ 90.3</b> | <b>\$ 284.1</b>                    | <b>\$ 228.3</b> |
| See accompanying Notes to Consolidated Financial Statements  |                                     |                |                                    |                 |

## CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

| (unaudited)<br>(millions of dollars)                              | Share<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total      |
|---|------------------|----------------------|---|------------|
| BALANCE, JANUARY 1, 2012  | \$ 280.1         | \$ 1,732.4           | \$ (68.8)                                       | \$ 1,943.7 |
| Net earnings  | -                | 62.6                 | -   | 62.6       |
| Dividends   | -                | (56.0)               | -   | (56.0)     |
| Other comprehensive income including future tax expense of \$5.5  | -                | -                    | 15.8  | 15.8       |
| BALANCE, MARCH 31, 2012   | 280.1            | 1,739.0              | (53.0)  | 1,966.1    |
| Net earnings  | -                | 53.1                 | -   | 53.1       |
| Other comprehensive income including future tax expense of \$0.1  | -                | -                    | 6.5   | 6.5        |
| BALANCE, JUNE 30, 2012  | 280.1            | 1,792.1              | (46.5)  | 2,025.7    |
| Net earnings  | -                | 45.4                 | -   | 45.4       |
| Other comprehensive income including future tax expense of \$12.4 | -                | -                    | 44.9  | 44.9       |
| BALANCE, SEPTEMBER 30, 2012                                       | 280.1            | 1,837.5              | (1.6)   | 2,116.0    |
| Net earnings  | -                | 63.9                 | -   | 63.9       |
| Other comprehensive income including future tax expense of \$0.7  | -                | -                    | (18.0)  | (18.0)     |
| BALANCE, DECEMBER 31, 2012  | 280.1            | 1,901.4              | (19.6)  | 2,161.9    |
| Net earnings  | -                | 58.3                 | -   | 58.3       |
| Dividends   | -                | (67.5)               | -   | (67.5)     |
| Other comprehensive income including future tax expense of \$0.7  | -                | -                    | 4.8   | 4.8        |
| BALANCE, MARCH 31, 2013   | 280.1            | 1,892.2              | (14.8)  | 2,157.5    |
| Net earnings  | -                | 185.2                | -   | 185.2      |
| Other comprehensive income including future tax expense of \$3.9  | -                | -                    | 12.0  | 12.0       |
| BALANCE, JUNE 30, 2013  | 280.1            | 2,077.4              | (2.8)   | 2,354.7    |
| Net earnings  | -                | 20.7                 | -   | 20.7       |
| Other comprehensive income including future tax expense of \$2.2  | -                | -                    | 3.1   | 3.1        |
| BALANCE, SEPTEMBER 30, 2013                                       | \$ 280.1         | \$ 2,098.1           | \$ 0.3  | \$ 2,378.5 |
| See accompanying Notes to Consolidated Financial Statements       |                  |                      |   |            |

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| (unaudited)<br>(millions of dollars)                        | THREE MONTHS ENDED<br>SEPTEMBER 30, |                | NINE MONTHS ENDED<br>SEPTEMBER 30, |                |
|---|-------------------------------------|----------------|------------------------------------|----------------|
|   | 2013                                | 2012           | 2013                               | 2012           |
| <b>CASH PROVIDED BY (USED IN):</b>                          |                                     |                |                                    |                |
| <b>OPERATING ACTIVITIES</b>                                 |                                     |                |                                    |                |
| Net earnings  | \$ 20.7                             | \$ 45.4        | \$ 264.2                           | \$ 161.1       |
| Net earnings from discontinued operations                   | -                                   | (2.6)          | (4.3)                              | (7.1)          |
| Gain on sale of subsidiary                                  | -                                   | -              | (175.9)                            | -              |
| Items not involving cash (Note 12)                          | 68.9                                | 52.4           | 130.5                              | 132.3          |
|   | 89.6                                | 95.2           | 214.5                              | 286.3          |
| Change in non-cash working capital (Note 13)                | 96.2                                | 87.8           | (44.7)                             | 158.0          |
| Employee future benefits                                    | (1.0)                               | 1.4            | (2.3)                              | 5.3            |
| Cash flow from continuing operating activities              | 184.8                               | 184.4          | 167.5                              | 449.6          |
| Cash flow from discontinued operations                      | (9.0)                               | (2.0)          | (13.0)                             | 11.9           |
|   | 175.8                               | 182.4          | 154.5                              | 461.5          |
| <b>INVESTING ACTIVITIES</b>                                 |                                     |                |                                    |                |
| Purchase of property, plant and equipment                   | (139.1)                             | (139.2)        | (402.9)                            | (274.5)        |
| Net proceeds from disposal of assets held for sale          | 324.8                               | -              | 801.9                              | -              |
| Additions to power purchase arrangements                    | -                                   | -              | -                                  | (1.4)          |
| Other assets  | (25.8)                              | 8.5            | (21.8)                             | 13.8           |
| Contributions in aid of construction                        | 4.7                                 | 6.3            | 12.2                               | 9.3            |
| Cash flow from continuing investing activities              | 164.6                               | (124.4)        | 389.4                              | (252.8)        |
| Cash flow from discontinued operations                      | (26.2)                              | (66.6)         | (47.3)                             | (164.9)        |
|   | 138.4                               | (191.0)        | 342.1                              | (417.7)        |
| <b>FINANCING ACTIVITIES</b>                                 |                                     |                |                                    |                |
| Repayment of short-term debt                                | (60.0)                              | (324.5)        | (1,463.5)                          | (1,814.3)      |
| Proceeds of short-term debt                                 | 110.0                               | 360.0          | 1,347.6                            | 1,708.0        |
| Proceeds of long-term debt (Note 14)                        | -                                   | -              | 140.6                              | 143.4          |
| Repayment of long-term debt                                 | (258.5)                             | (9.2)          | (287.0)                            | (33.2)         |
| Dividend paid   | (16.8)                              | (14.0)         | (50.6)                             | (42.0)         |
| Other long-term liabilities                                 | (0.2)                               | 0.3            | (1.7)                              | (2.3)          |
|   | (225.5)                             | 12.6           | (314.6)                            | (40.4)         |
| Increase in cash and cash equivalents                       | 88.7                                | 4.0            | 182.0                              | 3.4            |
| Cash and cash equivalents, beginning of period              | 138.8                               | 34.8           | 45.5                               | 35.4           |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>             | <b>\$ 227.5</b>                     | <b>\$ 38.8</b> | <b>\$ 227.5</b>                    | <b>\$ 38.8</b> |
| Supplementary information:                                  |                                     |                |                                    |                |
| Interest paid   | \$ 15.6                             | \$ 7.9         | \$ 58.3                            | \$ 50.3        |
| Income taxes paid   | 1.1                                 | 6.6            | 6.6                                | 30.5           |
| Cash and cash equivalents consist of:                       |                                     |                |                                    |                |
| Cash  | \$ 227.0                            | \$ 32.3        | \$ 227.0                           | \$ 32.3        |
| Short-term investments                                      | 0.5                                 | 6.5            | 0.5                                | 6.5            |
| See accompanying Notes to Consolidated Financial Statements |                                     |                |                                    |                |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 1. SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements of ENMAX Corporation and its subsidiaries (ENMAX or the Corporation) have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The accounting policies and presentation applied are consistent with those outlined in the Corporation's audited annual consolidated financial statements for the year ended December 31, 2012.

These interim consolidated financial statements do not include all disclosures required in the annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements included in ENMAX's 2012 Financial Report. Amounts are stated in millions of Canadian dollars, except as otherwise noted.

ENMAX accounts for its interest in the Shepard joint venture using the proportionate consolidation method. Under this method, the Corporation records its share of the joint venture's assets, liabilities, revenues and expenses line-by-line on its financial statements.

ENMAX is subject to fluctuations in the demand for and price of electricity and natural gas; therefore, interim results are not necessarily indicative of annual or future results.

## 2. SEGMENTED INFORMATION

ENMAX has restated the segmented information table to reflect the adjustment of reporting ENMAX Encompass Inc. (Encompass) within corporate and intersegment eliminations. Encompass provides billing and customer care services to residential and small commercial customers. Prior figures have been restated.

| THREE MONTHS ENDED SEPTEMBER 30<br>(millions of dollars) | ENMAX Energy |              | ENMAX Power  |              | Corporate & Intersegment Eliminations |                | Consolidated Totals |              |
|--|--------------|--------------|--------------|--------------|---------------------------------------|----------------|---------------------|--------------|
|  | 2013         | 2012         | 2013         | 2012         | 2013                                  | 2012           | 2013                | 2012         |
| <b>REVENUE</b>   |              |              |              |              |                                       |                |                     |              |
| Electricity  | 652.0        | 678.1        | 44.6         | 45.5         | (104.7)                               | (103.6)        | 591.9               | 620.0        |
| Natural gas  | 52.6         | 37.1         | -            | -            | (0.1)                                 | -              | 52.5                | 37.1         |
| Transmission and distribution                            | -            | -            | 77.0         | 78.6         | -                                     | -              | 77.0                | 78.6         |
| Local access fees  | -            | -            | 38.2         | 36.0         | -                                     | -              | 38.2                | 36.0         |
| Contractual services                                     | 0.8          | 1.7          | 19.1         | 22.5         | 3.1                                   | 0.2            | 23.0                | 24.4         |
| Other  | 8.2          | 2.2          | 0.6          | 0.7          | (1.4)                                 | (1.8)          | 7.4                 | 1.1          |
| <b>TOTAL REVENUE</b>                                     | <b>713.6</b> | <b>719.1</b> | <b>179.5</b> | <b>183.3</b> | <b>(103.1)</b>                        | <b>(105.2)</b> | <b>790.0</b>        | <b>797.2</b> |
| <b>COST OF SERVICES PROVIDED</b>                         |              |              |              |              |                                       |                |                     |              |
| Electricity  | 586.6        | 602.1        | 43.1         | 43.7         | (104.4)                               | (103.5)        | 525.3               | 542.3        |
| Natural gas  | 51.5         | 37.0         | -            | -            | -                                     | -              | 51.5                | 37.0         |
| Transmission and distribution                            | -            | -            | 25.5         | 25.4         | -                                     | -              | 25.5                | 25.4         |
| Local access fees  | -            | -            | 38.2         | 36.0         | -                                     | -              | 38.2                | 36.0         |
| Contractual services                                     | 0.4          | 1.2          | 12.8         | 16.9         | -                                     | (0.3)          | 13.2                | 17.8         |
| Operations, maintenance and administration               | 29.8         | 32.7         | 33.2         | 22.7         | (1.5)                                 | (3.1)          | 61.5                | 52.3         |
| Foreign exchange loss                                    | 3.5          | 4.1          | -            | -            | -                                     | -              | 3.5                 | 4.1          |
| <b>TOTAL COSTS OF SERVICES PROVIDED</b>                  | <b>671.8</b> | <b>677.1</b> | <b>152.8</b> | <b>144.7</b> | <b>(105.9)</b>                        | <b>(106.9)</b> | <b>718.7</b>        | <b>714.9</b> |
|  | 41.8         | 42.0         | 26.7         | 38.6         | 2.8                                   | 1.7            | 71.3                | 82.3         |
| Amortization   | 26.5         | 26.2         | 13.7         | 13.3         | 1.0                                   | 1.0            | 41.2                | 40.5         |
| <b>EARNINGS BEFORE INTEREST AND INCOME TAXES</b>         | <b>15.3</b>  | <b>15.8</b>  | <b>13.0</b>  | <b>25.3</b>  | <b>1.8</b>                            | <b>0.7</b>     | <b>30.1</b>         | <b>41.8</b>  |
| Interest   |              |              |              |              |                                       |                | 13.0                | 11.0         |
| Income tax recovery                                      |              |              |              |              |                                       |                | (3.6)               | (12.0)       |
| <b>NET EARNINGS FROM CONTINUING OPERATIONS</b>           |              |              |              |              |                                       |                | <b>20.7</b>         | <b>42.8</b>  |
| Net earnings from discontinued operations                |              |              |              |              |                                       |                | -                   | 2.6          |
| <b>NET EARNINGS</b>                                      |              |              |              |              |                                       |                | <b>20.7</b>         | <b>45.4</b>  |
| GOODWILL   | 16.0         | 16.0         | -            | -            | -                                     | -              | 16.0                | 16.0         |
| CAPITAL ADDITIONS  | 90.0         | 82.4         | 50.6         | 36.2         | 8.4                                   | 2.9            | 149.0               | 121.5        |

## 2. SEGMENTED INFORMATION (CONTINUED)

| NINE MONTHS ENDED SEPTEMBER 30<br>(millions of dollars) | ENMAX Energy   |                | ENMAX Power  |              | Corporate & Intersegment Eliminations |                | Consolidated Totals |                |
|---|----------------|----------------|--------------|--------------|---------------------------------------|----------------|---------------------|----------------|
|   | 2013           | 2012           | 2013         | 2012         | 2013                                  | 2012           | 2013                | 2012           |
| <b>REVENUE</b>  |                |                |              |              |                                       |                |                     |                |
| Electricity   | 1,985.4        | 1,848.9        | 114.3        | 143.5        | (282.8)                               | (319.4)        | 1,816.9             | 1,673.0        |
| Natural gas   | 257.7          | 185.1          | -            | -            | (0.5)                                 | -              | 257.2               | 185.1          |
| Transmission and distribution                           | -              | -              | 228.5        | 225.6        | -                                     | -              | 228.5               | 225.6          |
| Local access fees                                       | -              | -              | 97.7         | 113.7        | -                                     | -              | 97.7                | 113.7          |
| Contractual services                                    | 2.2            | 4.6            | 54.5         | 81.4         | 5.2                                   | 0.6            | 61.9                | 86.6           |
| Other   | 20.1           | 10.0           | 1.7          | 1.3          | (4.4)                                 | (4.6)          | 17.4                | 6.7            |
| <b>TOTAL REVENUE</b>                                    | <b>2,265.4</b> | <b>2,048.6</b> | <b>496.7</b> | <b>565.5</b> | <b>(282.5)</b>                        | <b>(323.4)</b> | <b>2,479.6</b>      | <b>2,290.7</b> |
| <b>COST OF SERVICES PROVIDED</b>                        |                |                |              |              |                                       |                |                     |                |
| Electricity   | 1,779.8        | 1,561.0        | 109.6        | 138.5        | (281.8)                               | (318.5)        | 1,607.6             | 1,381.0        |
| Natural gas   | 242.1          | 175.1          | -            | -            | -                                     | -              | 242.1               | 175.1          |
| Transmission and distribution                           | -              | -              | 71.3         | 75.3         | -                                     | -              | 71.3                | 75.3           |
| Local access fees                                       | -              | -              | 97.7         | 113.7        | -                                     | -              | 97.7                | 113.7          |
| Contractual services                                    | 1.0            | 2.8            | 40.4         | 62.0         | (0.2)                                 | (0.9)          | 41.2                | 63.9           |
| Operations, maintenance and administration              | 107.4          | 102.8          | 95.8         | 75.2         | (6.7)                                 | (9.7)          | 196.5               | 168.3          |
| Foreign exchange loss (gain)                            | (3.0)          | 5.0            | -            | -            | -                                     | -              | (3.0)               | 5.0            |
| <b>TOTAL COSTS OF SERVICES PROVIDED</b>                 | <b>2,127.3</b> | <b>1,846.7</b> | <b>414.8</b> | <b>464.7</b> | <b>(288.7)</b>                        | <b>(329.1)</b> | <b>2,253.4</b>      | <b>1,982.3</b> |
| Amortization  | 138.1          | 201.9          | 81.9         | 100.8        | 6.2                                   | 5.7            | 226.2               | 308.4          |
|   | 79.8           | 78.8           | 41.8         | 39.5         | 2.8                                   | 3.4            | 124.4               | 121.7          |
| <b>EARNINGS BEFORE INTEREST AND INCOME TAXES</b>        | <b>58.3</b>    | <b>123.1</b>   | <b>40.1</b>  | <b>61.3</b>  | <b>3.4</b>                            | <b>2.3</b>     | <b>101.8</b>        | <b>186.7</b>   |
| Interest  |                |                |              |              |                                       |                | 26.1                | 32.5           |
| Income tax expense (recovery)                           |                |                |              |              |                                       |                | (8.3)               | 0.2            |
| <b>NET EARNINGS FROM CONTINUING OPERATIONS</b>          |                |                |              |              |                                       |                | <b>84.0</b>         | <b>154.0</b>   |
| Net earnings from discontinued operations               |                |                |              |              |                                       |                | 4.3                 | 7.1            |
| Gain on sale of subsidiary (Note 6)                     |                |                |              |              |                                       |                | 175.9               | -              |
| <b>NET EARNINGS</b>                                     |                |                |              |              |                                       |                | <b>264.2</b>        | <b>161.1</b>   |
| GOODWILL  | 16.0           | 16.0           | -            | -            | -                                     | -              | 16.0                | 16.0           |
| CAPITAL ADDITIONS                                       | 238.6          | 201.6          | 124.0        | 103.7        | 16.5                                  | 6.1            | 379.1               | 311.4          |

### SEGMENTED TOTAL ASSETS

| As at<br>(millions of dollars) | September 30,<br>2013 | December 31,<br>2012 |
|--------------------------------|-----------------------|----------------------|
| ENMAX Energy                   | 2,863.9               | 3,366.3              |
| ENMAX Power                    | 1,481.8               | 1,375.8              |
| Corporate and eliminations     | 271.8                 | 77.8                 |
|                                | <b>4,617.5</b>        | <b>4,819.9</b>       |

## 3. FINANCIAL INSTRUMENTS, HEDGES AND RISK MANAGEMENT

### Risk analysis and control

ENMAX manages its exposure to market risk (interest rate risk, foreign currency exchange risk, commodity price risk and equity price risk) on a portfolio basis, which includes positions arising from its interests in generation facilities, liability positions arising from its commitments to its customers and transacting positions arising from its hedging activities.

### Sensitivity analysis on market risks

The analysis below represents the effect of market risks on the Corporation's results as those risks apply to derivative financial instruments. Non-derivative financial instruments are recorded at cost. The carrying amounts of non-derivative financial instruments are not affected by changes in market variables, whereas carrying amounts of derivative financial instruments are affected by market variables.

### 3. FINANCIAL INSTRUMENTS, HEDGES AND RISK MANAGEMENT (CONTINUED)

The following table reflects the sensitivity of the fair value of outstanding derivative instruments to reasonably possible changes in the markets of derivative financial instruments. Market interest rates impact interest rate swaps. Foreign currency exchange rates impact commodity derivatives and foreign currency hedge contracts. Forward prices of natural gas and electricity impact commodity derivatives. The market value of equity investments impacts those instruments carried at fair value.

Certain assumptions have been made in arriving at the sensitivity analysis. These assumptions are as follows:

- The same fair value methodologies have been used as were used to obtain actual fair values in the fair values section of this note.
- Changes in the fair value of derivative instruments that are effective cash flow hedges are recorded in other comprehensive income.
- Changes in the fair value of derivative instruments that are not designated as hedges, that are fair value hedges or that are ineffective cash flow hedges are recorded in earnings.
- Foreign currency balances, principal and notional amounts are based on amounts as at September 30, 2013, and September 30, 2012.
- Interest rate sensitivities are based on Canadian Dealer Offered Rate (CDOR).
- Sensitivities are exclusive of any potential income tax impacts.

#### SENSITIVITIES OF MARKET RISKS

| As at<br>(millions of dollars)                                   | September 30, 2013 |                                  | September 30, 2012 |                                  |
|--|--------------------|----------------------------------|--------------------|----------------------------------|
|  | Earnings           | Other<br>Comprehensive<br>Income | Earnings           | Other<br>Comprehensive<br>Income |
| Interest rates increase 100 basis points (1% pure rate change)   | + 0.7              | + 12.1                           | + 0.5              | + 14.2                           |
| Canadian dollar strengthens compared with the U.S. dollar by 10% | - 13.1             | + 0.7                            | - 8.6              | + 1.6                            |
| Forward price of natural gas increases by 10%                    | - 0.2              | + 5.9                            | - 0.1              | + 6.6                            |
| Forward price of electricity increases by 10%                    | -                  | + 20.3                           | + 3.6              | - 15.0                           |

These sensitivities are based on financial instruments carried at fair value, which include derivative contracts. The impact of a change in one factor may be compounded or offset by changes in other factors. This table does not consider the impact of any interrelationship among the factors. These sensitivities are not necessarily indicative of actual future results and should be used with caution.

#### Foreign exchange and interest rate risk

Foreign exchange and interest rate risks are created by fluctuations in the fair values or cash flows of financial instruments due to changes in foreign exchange rates and/or changes in the market interest rates.

ENMAX is not exposed to interest rate risk and volatility as a result of the issuance of fixed-rate long-term debt and the use of interest rate hedging instruments. The fair value of ENMAX's long-term debt and any associated interest rate hedging instruments change as interest rates change, assuming all other variables remain constant. For example, a 1 per cent increase (decrease) in interest rates as at September 30, 2013, would have an effect on fair value of fixed interest rate debt of \$95.0 million decrease (increase) (December 31, 2012 - \$99.1 million).

Changes in the value of the Canadian dollar relative to the U.S. dollar could impact the Canadian dollar cost of natural gas, which affects the input cost of the Corporation's natural-gas-fuelled generation capacity, as well as the cost to the Corporation of offering fixed price gas contracts to its customers. The foreign exchange impact on these gas purchases is offset, when possible, by foreign exchange contracts. Foreign exchange exposure resulting from procurement contracts has also been mitigated by foreign exchange contracts.

#### Credit risk

ENMAX is exposed to credit risk primarily through its wholesale and retail energy sales business. Credit risk is the loss that may result from counterparties' non-performance. ENMAX evaluates the credit risk of wholesale and retail competitive supply activities separately as discussed below.

### 3. FINANCIAL INSTRUMENTS, HEDGES AND RISK MANAGEMENT (CONTINUED)

The Corporation's maximum financial statement exposure to credit risk is the carrying value of the financial assets, as set out in the table below. This maximum exposure does not necessarily reflect losses expected by management nor does it necessarily reflect losses experienced in the past.

| FINANCIAL ASSETS               |                       |                      |
|--------------------------------|-----------------------|----------------------|
| As at<br>(millions of dollars) | September 30,<br>2013 | December 31,<br>2012 |
| Cash and cash equivalents (1)  | 227.5                 | 45.5                 |
| Accounts receivable (2)        | 633.5                 | 663.6                |
| Other current assets (3)       | 53.7                  | 45.8                 |
| Other long-term assets (3)     | 68.2                  | 63.1                 |

#### (1) Cash and Cash Equivalents

Credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are placed with governments, well-capitalized financial institutions and other credit worthy counterparties. Continuous reviews are performed to evaluate changes in the credit quality of counterparties.

#### (2) Accounts Receivable

The majority of the Corporation's accounts receivable are exposed to credit risk. Exposure to credit risk occurs through competitive electricity and natural gas supply activities which serve residential, commercial and industrial customers on the basis that those customers could default on their contractual obligations. The risk represents the loss that may be incurred due to the non-payment of a customer's accounts receivable balance, as well as the loss that may be incurred from the resale of energy previously allocated to serve the customer.

Charges to earnings as a result of credit losses for the Corporation during the three- and nine-month periods ended September 30, 2013 totalled \$1.0 million and \$5.2 million, respectively (September 30, 2012 - \$1.4 million and \$4.5 million respectively). Management monitors credit risk exposure and has implemented measures to protect against losses. In specific situations, this includes, but is not limited to, a reduction of credit limits, requests for additional collateral or restrictions on new transaction terms.

| AGING ANALYSIS OF TRADE RECEIVABLES PAST DUE BUT NOT IMPAIRED |                       |                      |
|---|-----------------------|----------------------|
| As at<br>(millions of dollars)                                | September 30,<br>2013 | December 31,<br>2012 |
| 1-30 days past due  | 11.7                  | 29.1                 |
| 31-60 days past due   | 3.5                   | 3.2                  |
| 61 days or more past due                                      | 9.2                   | 8.4                  |
| Total past due  | 24.4                  | 40.7                 |

| CHANGES IN THE ALLOWANCE FOR DOUBTFUL ACCOUNTS |                       |                      |
|--|-----------------------|----------------------|
| As at<br>(millions of dollars)                 | September 30,<br>2013 | December 31,<br>2012 |
| Provision at the beginning of the period       | 6.7                   | 8.7                  |
| Increase to allowance                          | 5.2                   | 6.3                  |
| Recoveries and write-offs                      | (4.2)                 | (8.3)                |
| Provision at end of the period                 | 7.7                   | 6.7                  |

### 3. FINANCIAL INSTRUMENTS, HEDGES AND RISK MANAGEMENT (CONTINUED)

The remainder of the accounts receivable balance outstanding at September 30, 2013, consists of unbilled revenue accruals. No provision has been recorded due to the minimal credit risk at the consolidated balance sheet date.

#### (3) Other Current and Long-Term Assets

ENMAX measures wholesale credit risk as the replacement cost for open energy commodity and derivative transactions (both mark-to-market and accrual) adjusted for amounts owed to or due from counterparties for settled transactions and all other amounts owing but not yet due. The replacement cost of open positions represents unrealized gains, net of any unrealized losses, where the Corporation has a legally enforceable right of offset and intends to settle on a net basis. ENMAX monitors and manages the credit risk of wholesale operations through credit policies and procedures that include an established credit approval process; daily monitoring of counterparty credit limits; and the use of credit mitigation measures such as margin, collateral, letters of credit and/or prepayment arrangements.

Due to the possibility of extreme volatility in the prices of energy commodities and derivatives, the market value of contractual positions with individual counterparties could exceed established credit limits or collateral provided by those counterparties. If such a counterparty were to fail to perform its obligations under its contract (for example, fail to provide adequate assurances or credit support), ENMAX could incur a loss that could have a material impact on its financial results.

Additionally, if a counterparty were to default and the Corporation were to liquidate all contracts with that entity, the credit loss would include the loss in value of mark-to-market contracts, the amount owed for settled transactions, and unbilled deliveries and additional payments, if any, that would have to be made to settle unrealized losses on accrual contracts.

The majority of counterparties enabled for wholesale transactions are rated investment grade (BBB- or higher) by recognized rating agencies.

#### Liquidity risk

Liquidity risk is the risk that ENMAX will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity risk is to ensure that it always has sufficient cash and credit facilities to meet its obligations when due.

The following table details the remaining contractual maturities for ENMAX's current and long-term non-derivative financial liabilities, including both the principal and interest cash flows:

| CONTRACTUAL MATURITIES OF NON-DERIVATIVE FINANCIAL LIABILITIES |                       |                      |
|--|-----------------------|----------------------|
| As at<br>(millions of dollars)                                 | September 30,<br>2013 | December 31,<br>2012 |
| 2013   | 620.5                 | 931.3                |
| 2014   | 126.0                 | 374.6                |
| 2015   | 123.7                 | 114.4                |
| 2016   | 136.8                 | 126.9                |
| 2017   | 115.2                 | 105.0                |
| Thereafter   | 1,507.1               | 1,339.0              |

### 3. FINANCIAL INSTRUMENTS, HEDGES AND RISK MANAGEMENT (CONTINUED)

The following table details the remaining contractual maturities for ENMAX's derivative financial liabilities:

| CONTRACTUAL MATURITIES OF DERIVATIVE FINANCIAL LIABILITIES |                       |                      |
|--|-----------------------|----------------------|
| As at<br>(millions of dollars)                             | September 30,<br>2013 | December 31,<br>2012 |
| 2013   | 14.9                  | 29.2                 |
| 2014   | 19.4                  | 23.3                 |
| 2015   | 18.8                  | 10.4                 |
| 2016   | 8.4                   | 9.5                  |
| 2017   | 6.1                   | 7.6                  |
| Thereafter   | 10.7                  | 21.9                 |

As at September 30, 2013, the Corporation is in compliance with all financial covenants.

#### Derivative assets and liabilities

Financial derivative instruments are recorded on the consolidated balance sheets at fair value. As at September 30, 2013, the mark-to-market adjustment based on the fair value of these hedge contracts resulted in unrealized gains or losses on derivative instruments, which are included in the consolidated balance sheets as per the table below:

| DERIVATIVE ASSETS AND LIABILITIES |                       |                          |                      |                          |
|-----------------------------------|-----------------------|--------------------------|----------------------|--------------------------|
| As at<br>(millions of dollars)    | September 30,<br>2013 |                          | December 31,<br>2012 |                          |
|                                   | Hedge<br>Instruments  | Non-Hedge<br>Derivatives | Hedge<br>Instruments | Non-Hedge<br>Derivatives |
| <b>Assets</b>                     |                       |                          |                      |                          |
| Current                           | 30.1                  | 11.8                     | 15.6                 | 11.9                     |
| Non-current                       | 18.1                  | 8.9                      | 23.5                 | 21.0                     |
| <b>Liabilities</b>                |                       |                          |                      |                          |
| Current                           | 27.5                  | 9.0                      | 19.8                 | 9.4                      |
| Non-current                       | 15.2                  | 26.6                     | 40.5                 | 32.2                     |

Cash flow hedges are used to manage the variability of cash flows resulting from the purchase and sale of electricity and natural gas, as well as foreign exchange exposure. For cash flow hedges, changes in the fair value of the effective portion of the hedging derivative are accumulated in other comprehensive income and recognized in net earnings during the periods when the variability in cash flows of the hedged item is realized. In the three and nine months ended September 30, 2013, there was no impact (2012 - \$nil) recognized in earnings as a reflection of the ineffectiveness of the relevant hedges. Gains and losses on cash flow hedges are reclassified immediately to net earnings when the hedged item is sold or terminated early, or when a hedged anticipated transaction is no longer likely to occur. During the three and nine months ended September 30, 2013, there was no impact to earnings (2012 - \$nil) related to hedges that no longer qualified for hedge accounting.

Foreign exchange exposures on the Corporation's futures margin trading account are managed through economic hedges. For these hedges, the change in the fair value of the hedging derivative and the hedged items are recognized directly in net earnings. During the three and nine months ended September 30, 2013, there was no impact (2012 - \$nil and \$0.1 million gain) recognized.

The Corporation estimates that, of the \$0.3 million of gains reported in accumulated other comprehensive income as at September 30, 2013, gains of \$2.6 million are expected to be realized within the next 12 months at market prices in effect at the time of settlement.

### 3. FINANCIAL INSTRUMENTS, HEDGES AND RISK MANAGEMENT (CONTINUED)

Non-hedge derivatives are classified as held for trading and recognized at fair market value with changes in fair market value being recorded through earnings. In the three and nine months ended September 30, 2013, there were losses of \$11.6 million and \$6.2 million, respectively (2012 - \$14.3 million loss and \$10.6 million loss, respectively) recorded in net earnings.

#### **Fair value**

#### **Level Determination and Classifications**

The Level I, II and III classifications in the fair value hierarchy used by the Corporation are defined as follows:

#### **Level I**

Fair values are determined using inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access. In determining Level I, the Corporation uses quoted prices for identically traded commodities obtained from active exchanges such as the New York Mercantile Exchange (NYMEX) and the Natural Gas Exchange (NGX).

#### **Level II**

Fair values are determined using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Fair values are determined using inputs including interest rate yield curves, forward market rates, quoted commodity prices or credit spreads that are readily observable and reliable or for which unobservable inputs are deemed to be insignificant to the fair values that are categorized as Level II.

Commodity contracts' fair values falling within the Level II category are determined through the use of quoted prices in active markets adjusted for factors specific to the asset or liability. Level II fair values include those determined using pricing applications for creating power curves where the inputs are readily observable, including commodity prices for similar assets or liabilities in active markets.

Interest rate swap contract fair values falling within the Level II fair values include those determined by using a benchmark index and applying that index to the notional debt outstanding.

### 3. FINANCIAL INSTRUMENTS, HEDGES AND RISK MANAGEMENT (CONTINUED)

#### Level III

The fair values are determined using significant unobservable data or inputs.

In rare circumstances, ENMAX enters into commodity transactions with non-standard features for which market-observable data are not available. In these cases, Level III fair values are determined using valuation techniques with inputs that are based on historical data.

#### FAIR VALUES OF THE CORPORATION'S FINANCIAL ASSETS AND LIABILITIES

| As at September 30, 2013<br>(millions of dollars)  | Quoted<br>Prices in<br>Active<br>Markets<br>(LEVEL I) | Significant<br>Other<br>Observable<br>Inputs <sup>(1)</sup><br>(LEVEL II) | Significant<br>Unobservable<br>Inputs <sup>(2)</sup><br>(LEVEL III) | TOTAL |
|--|---|---|---|-------|
| Financial assets measured at fair value:   |   |   |   |       |
| Energy trading forward contracts   | -   | 33.5  | 15.1  | 48.6  |
| Foreign currency forward contracts   | -   | 9.0   | -   | 9.0   |
| Interest rate swap   | -   | 11.3  | -   | 11.3  |
| Financial assets total   | -   | 53.8  | 15.1  | 68.9  |
| Financial liabilities measured at fair value:  |   |   |   |       |
| Energy trading forward contracts   | 1.2   | 30.3  | 9.9   | 41.4  |
| Foreign currency forward contracts   | -   | -   | -   | -     |
| Interest rate swap   | -   | 36.9  | -   | 36.9  |
| Financial liabilities total  | 1.2   | 67.2  | 9.9   | 78.3  |
| Net risk management assets (liabilities)   | (1.2)   | (13.4)  | 5.2   | (9.4) |
| (1) Excludes financial assets and liabilities where carrying value approximates fair value due to the liquid nature of the asset or liability (cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities). |   |   |   |       |
| (2) Market-observable data are not available. Fair values are determined using valuation techniques.   |   |   |   |       |

#### FAIR VALUES OF THE CORPORATION'S FINANCIAL ASSETS AND LIABILITIES

| As at December 31, 2012<br>(millions of dollars)   | Quoted<br>Prices in<br>Active<br>Markets<br>(LEVEL I) | Significant<br>Other<br>Observable<br>Inputs <sup>(1)</sup><br>(LEVEL II) | Significant<br>Unobservable<br>Inputs <sup>(2)</sup><br>(LEVEL III) | TOTAL  |
|--|---|---|---|--------|
| Financial assets measured at fair value:   |   |   |   |        |
| Energy trading forward contracts   | 0.1   | 24.5  | 15.5  | 40.1   |
| Foreign currency forward contracts   | -   | 9.9   | -   | 9.9    |
| Interest rate swap   | -   | 22.0  | -   | 22.0   |
| Financial assets total   | 0.1   | 56.4  | 15.5  | 72.0   |
| Financial liabilities measured at fair value:  |   |   |   |        |
| Energy trading forward contracts   | 3.7   | 30.6  | 6.0   | 40.3   |
| Foreign currency forward contracts   | -   | 1.9   | -   | 1.9    |
| Interest rate swap   | -   | 59.7  | -   | 59.7   |
| Financial liabilities total  | 3.7   | 92.2  | 6.0   | 101.9  |
| Net risk management assets (liabilities)   | (3.6)   | (35.8)  | 9.5   | (29.9) |
| (1) Excludes financial assets and liabilities where carrying value approximates fair value due to the liquid nature of the asset or liability (cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities). |   |   |   |        |
| (2) Market-observable data is not available. Fair values are determined using valuation techniques.  |   |   |   |        |

### 3. FINANCIAL INSTRUMENTS, HEDGES AND RISK MANAGEMENT (CONTINUED)

The following table summarizes the key factors impacting the change in the fair value of the Corporation's Level III net risk management assets and liabilities separately by source of valuation during the period ended September 30, 2013:

#### CHANGE IN FAIR VALUE OF LEVEL III RISK MANAGEMENT ASSETS AND LIABILITIES

| (millions of dollars)   | Hedges     |
|---|------------|
| Net risk management assets as at December 31, 2012                | 9.5        |
| Changes attributable to:  |            |
| Commodity price changes   | 4.1        |
| New contracts that entered  | (8.1)      |
| Contracts settled   | (0.3)      |
| Transfers in/out of Level III                                     | -          |
| <b>Net risk management assets at September 30, 2013</b>           | <b>5.2</b> |
| Total change in fair value included in other comprehensive income | (4.3)      |
| Total change in fair value included in pre-tax earnings           | -          |

#### Non-derivative financial assets and liabilities

Cash, cash equivalents and restricted cash are recorded at fair market value. Fair values for accounts receivable, short-term debt, accounts payable and accrued liabilities are not materially different from their carrying amounts due to their short-term nature.

The fair value of the Corporation's long-term debt was estimated based on quoted market prices for the same or similar debt instruments. When such information was not available, future payments of interest and principal were discounted at estimated interest rates that were made available to ENMAX for comparable credit-rated entities to the Corporation.

On September 30, 2013, the Series 2 private debenture was repaid, prior to maturity on April 2014, with cash consideration from the second and final part of the arrangement with Capital Power for the sale of a 50 per cent interest in Shepard. Refer to Note 6 for additional information. ENMAX incurred interest of \$7.0 million and a redemption premium penalty of \$4.9 million as a result of early redemption.

#### CARRYING AMOUNTS AND FAIR VALUES OF LONG-TERM DEBT

| As at<br>(millions of dollars)   | September 30,<br>2013 |                | December 31,<br>2012 |                |
|--|-----------------------|----------------|----------------------|----------------|
|  | Carrying<br>Amount    | Fair<br>Value  | Carrying<br>Amount   | Fair<br>Value  |
| Long-term debt <sup>(1)</sup> , consisting of:   |                       |                |                      |                |
| Debentures, with remaining terms of  |                       |                |                      |                |
| Less than 5 years  | 43.8                  | 46.0           | 47.0                 | 49.8           |
| 6 - 10 years   | 123.2                 | 132.9          | 135.4                | 150.4          |
| 11 - 15 years  | 14.8                  | 16.5           | 7.9                  | 9.4            |
| 16 - 20 years  | 190.4                 | 209.2          | 138.3                | 162.3          |
| 21 - 25 years  | 565.3                 | 580.4          | 499.3                | 565.1          |
| Private debentures   |                       |                |                      |                |
| Series 1 (6.15%)   | 298.0                 | 337.3          | 297.8                | 345.2          |
| Series 2 (5.85%)   | -                     | -              | 249.5                | 260.8          |
| Non-recourse term financing Kettles Hill Wind Farm (Kettles) and Calgary Energy Centre (CEC) | 222.7                 | 210.8          | 229.3                | 219.8          |
| Promissory note  | 4.8                   | 4.9            | 5.0                  | 5.3            |
|  | <b>1,463.0</b>        | <b>1,538.0</b> | <b>1,609.5</b>       | <b>1,768.1</b> |

(1) Includes current portion of \$66.2million (December 31, 2012 - \$59.7 million). Maturity dates range from June 2014 to June 2038.

## 4. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION

Under regulatory accounting, the timing of recognition of certain assets, liabilities, revenues and expenses may differ from what is otherwise expected under GAAP for non-regulated operations. ENMAX has recorded the following regulatory assets and liabilities:

| <b>REGULATORY ASSETS AND LIABILITIES</b>   |                       |                      |
|--|-----------------------|----------------------|
| As at<br>(millions of dollars)   | September 30,<br>2013 | December 31,<br>2012 |
| Regulatory assets  |                       |                      |
| Accounts receivable: purchased power variances (1)                                   | 60.3                  | 21.7                 |
| Distribution assets: inter-company profit on underground residential development (2) | 37.9                  | 39.5                 |
| Other regulatory assets (3)  | 23.8                  | 16.0                 |
| Total regulatory assets  | 122.0                 | 77.2                 |
| Regulatory liabilities   |                       |                      |
| Other regulatory liabilities (4)   | 19.1                  | 3.3                  |
| Total regulatory liabilities   | 19.1                  | 3.3                  |

The following describes each of the circumstances in which rate regulation affects the accounting for a transaction or event. Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be returned to customers as a result of the rate-setting process.

### (1) Purchased power variances

Purchased power costs are included in allowed rates on a forecast basis. For rate-setting purposes, differences between forecast and actual purchased power costs in the rate year are held until the following year. ENMAX Power recognizes purchased power cost variances as a regulatory asset or liability based on the expectation that amounts held from one year to the next for rate-setting purposes will be approved for collection from, or refund to, future customers. The regulatory asset represents the excess of actual over forecast purchased power costs. In the absence of rate regulation, GAAP would require that actual purchased power costs be recognized as an expense when incurred. In this case, operating results for the three and nine months ended September 30, 2013, would have been \$10.6 million lower (2012 - \$9.6 million higher) and \$38.6 million lower (2012 - \$48.5 million higher), respectively. The regulatory asset at September 30, 2013, is \$60.3 million (December 31 2012 - \$21.7 million) included in accounts receivable.

### (2) Inter-company profit on underground residential development

Distribution assets for the regulated operations of ENMAX Power include intercompany profit relating to construction work performed by an ENMAX subsidiary. Such profit is deemed for regulatory purposes to be realized to the extent that the transfer price is recognized for rate-making purposes by the regulator and included in the capital cost. In the absence of rate regulation, GAAP would require that intercompany profits be eliminated upon consolidation. The impact on current period earnings for the three and nine months ended September 30, 2013, would be an increase of \$2.5 million (2012 - \$1.4 million reduction) and an increase of \$1.6 million (2012 - \$1.1 million reduction) respectively, representing the profit on these services. The balances for property, plant and equipment (PPE) and retained earnings at September 30, 2013, would be further increased by \$37.9 million (December 31, 2012 - \$39.5 million).

### (3) Other regulatory assets

Other regulatory assets primarily relate to AUC flow-through items and other costs that will be collected from customers via future rates.

## 4. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION (CONTINUED)

### (4) Other regulatory liabilities

Other regulatory liabilities primarily relate to items that will be refunded to customers via future rates.

For certain regulatory items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the regulator in determining the item's treatment for rate-setting purposes. For example, ENMAX's treatment of purchased-power costs is dependent on the continued use of an automatic adjustment mechanism for regulatory purposes and would require reconsideration if the regulator decided to discontinue the use of this mechanism or to require ENMAX Power to absorb cost variances in a particular year. Similarly, there is a risk that the regulator may disallow a portion of certain costs incurred in the current period for recovery through future rates or disagree with the proposed recovery period.

### Other items affected by rate regulation

Current regulations exclude the Corporation's transmission, distribution and rate-regulated electricity sales earnings from corporate income taxes, although rate-regulated electricity sales are subject to payment in lieu of income tax. Accordingly, ENMAX Power has not recognized current or future corporate income taxes on tax exempt earnings. In the event regulations change, it would be expected that when these amounts became payable, they would be recovered through future rate revenues.

Gains and losses on the disposal and retirement of regulated depreciable assets are deferred and amortized over the estimated remaining service life of similar assets, through a charge to accumulated amortization equal to the net book value of the disposed or retired asset. In the absence of rate regulation, under GAAP the difference between the proceeds and net book value would be charged or credited to earnings in the period the asset is disposed of or retired. The amount deferred from current period earnings for the three and nine months ended September 30, 2013 was a \$1.0 million loss (2012 - \$0.6 million gain) and \$7.8 million loss (2012 - \$0.2 million loss), respectively, representing the gains and losses on disposals and retirements of regulated assets.

## 5. OTHER ASSETS AND LIABILITIES

| OTHER ASSETS AND LIABILITIES       |                       |                      |
|------------------------------------|-----------------------|----------------------|
| As at<br>(millions of dollars)     | September 30,<br>2013 | December 31,<br>2012 |
| <b>Other current assets</b>        |                       |                      |
| Hedge instruments                  | 30.1                  | 15.6                 |
| Non-hedge derivatives              | 11.8                  | 11.9                 |
| Restricted cash                    | 1.0                   | 3.6                  |
| Prepaid expenses                   | 10.1                  | 12.4                 |
| Inventory                          | 0.7                   | 2.3                  |
|                                    | <b>53.7</b>           | <b>45.8</b>          |
| <b>Other long-term assets</b>      |                       |                      |
| Hedge instruments                  | 18.1                  | 23.5                 |
| Non-hedge derivatives              | 8.9                   | 21.0                 |
| Restricted cash                    | 18.6                  | 8.9                  |
| Shares in other companies          | 0.2                   | 0.2                  |
| Prepaid expenses                   | 4.0                   | 4.3                  |
| Long-term accounts receivable      | 9.0                   | 0.3                  |
| Other                              | 9.4                   | 5.2                  |
|                                    | <b>68.2</b>           | <b>63.1</b>          |
| <b>Other current liabilities</b>   |                       |                      |
| Hedge instruments                  | 27.5                  | 19.8                 |
| Non-hedge derivative               | 9.0                   | 9.4                  |
| Deposits                           | 17.1                  | 18.3                 |
| Deferred revenue                   | 4.6                   | 11.8                 |
|                                    | <b>58.2</b>           | <b>59.3</b>          |
| <b>Other long-term liabilities</b> |                       |                      |
| Hedge instruments                  | 15.2                  | 40.5                 |
| Non-hedge derivative               | 26.6                  | 32.2                 |
| Long-term payables                 | 8.4                   | 9.6                  |
| Deferred revenue                   | 4.2                   | 4.3                  |
|                                    | <b>54.4</b>           | <b>86.6</b>          |

## 6. ASSETS HELD FOR SALE

On February 28, 2013 the Corporation sold a 25 per cent interest in Shepard to Capital Power. This was the first of a two-part purchase and sale arrangement entered into on December 5, 2012. On September 30, 2013, Capital Power completed the second and final part of the arrangement and purchased an additional 25 per cent interest in Shepard.

On April 8, 2013 ENMAX entered into an agreement to sell ENMAX Envision Inc. (Envision), its high-speed data communications subsidiary, which operates a fibre-optic network that provides large bandwidth solutions to Calgary businesses.

## 6. ASSETS HELD FOR SALE (CONTINUED)

On April 30, 2013 ENMAX sold Envision to Shaw Communications Inc. for net cash consideration of \$221.9 million. Transaction costs related to the sale totalled \$5.7 million. The net assets of Envision sold on April 30 consisted of cash of \$0.4 million, total assets other than cash of \$47.5 million, and total liabilities of \$7.6 million. From December 31, 2012 until April 30, 2013, the assets and liabilities of Envision were reclassified to assets and liabilities held for sale on the consolidated balance sheets, and its operating results are included in net earnings from discontinued operations on the consolidated statements of earnings and comprehensive income.

| ASSETS AND LIABILITIES HELD FOR SALE   |                       |                      |
|--|-----------------------|----------------------|
| As at<br>(millions of dollars)   | September 30,<br>2013 | December 31,<br>2012 |
| <b>ASSETS</b>  |                       |                      |
| Cash and cash equivalents  | -                     | -                    |
| Accounts receivable  | -                     | 3.2                  |
| Other current assets   | -                     | 0.3                  |
| Property, plant and equipment <sup>(1)</sup>   | -                     | 553.1                |
| Intangible assets  | -                     | 18.7                 |
| Other long-term assets   | -                     | 0.3                  |
| <b>TOTAL ASSETS</b>  | -                     | 575.6                |
| <b>LIABILITIES</b>   |                       |                      |
| Accounts payable and accrued liabilities   | -                     | 2.1                  |
| Other current liabilities  | -                     | 1.7                  |
| Other long-term liabilities  | -                     | 5.3                  |
| Asset retirement obligations   | -                     | 0.4                  |
| <b>TOTAL LIABILITIES</b>   | -                     | 9.5                  |
| <small>(1) Property, plant and equipment at December 31, 2012 included Shepard Energy Centre costs of - \$510.1 million. Intangible assets at December 31, 2012, include Shepard Energy Centre related costs of \$18.6 million. Remaining balance relates to Envision.</small> |                       |                      |

| NET EARNINGS FROM DISCONTINUED OPERATIONS   |                                     |      |                                    |      |
|---|-------------------------------------|------|------------------------------------|------|
| (millions of dollars)   | Three months ended<br>September 30, |      | Nine months ended<br>September 30, |      |
|   | 2013                                | 2012 | 2013                               | 2012 |
| <b>REVENUE</b>  |                                     |      |                                    |      |
| Contractual services  | -                                   | 7.2  | 10.6                               | 21.3 |
| Other   | -                                   | 0.1  | 0.2                                | 0.3  |
| <b>TOTAL REVENUE</b>  | -                                   | 7.3  | 10.8                               | 21.6 |
| <b>COST OF SERVICES PROVIDED</b>  |                                     |      |                                    |      |
| Contractual services  | -                                   | 1.0  | 1.5                                | 3.1  |
| OM&A  | -                                   | 2.5  | 3.1                                | 7.8  |
| <b>COST OF SERVICES PROVIDED</b>  | -                                   | 3.5  | 4.6                                | 10.9 |
| Amortization  | -                                   | 1.2  | 1.8                                | 3.5  |
| Interest  | -                                   | -    | 0.1                                | 0.1  |
| <b>NET EARNINGS FROM DISCONTINUED OPERATIONS <sup>(1)</sup></b>                   | -                                   | 2.6  | 4.3                                | 7.1  |
| <small>(1) Net earnings from discontinued operations relates to Envision.</small> |                                     |      |                                    |      |

## 7. PROPERTY, PLANT AND EQUIPMENT

| PROPERTY, PLANT AND EQUIPMENT                       |         |                             |                |
|---|---------|-----------------------------|----------------|
| As at September 30, 2013<br>(millions of dollars)   | Cost    | Accumulated<br>Amortization | Net Book Value |
| Transmission, distribution and substation equipment | 1,839.3 | (574.8)                     | 1,264.5        |
| Generation facilities and equipment                 | 1,032.8 | (209.4)                     | 823.4          |
| Construction in progress                            | 985.2   | -                           | 985.2          |
| Buildings and site development                      | 208.0   | (64.6)                      | 143.4          |
| Tools, systems and equipment                        | 89.2    | (59.8)                      | 29.4           |
| Land  | 34.5    | -                           | 34.5           |
| Capital spares and other                            | 34.2    | -                           | 34.2           |
| Vehicles  | 32.8    | (12.4)                      | 20.4           |
|   | 4,256.0 | (921.0)                     | 3,335.0        |
| Government grants                                   | (20.0)  | 2.2                         | (17.8)         |
| Contributions in aid of construction                | (491.3) | 95.8                        | (395.5)        |
|   | 3,744.7 | (823.0)                     | 2,921.7        |

| PROPERTY, PLANT AND EQUIPMENT                       |         |                             |                |
|---|---------|-----------------------------|----------------|
| As at December 31, 2012<br>(millions of dollars)    | Cost    | Accumulated<br>Amortization | Net Book Value |
| Transmission, distribution and substation equipment | 1,782.0 | (585.3)                     | 1,196.7        |
| Generation facilities and equipment                 | 1,002.6 | (182.6)                     | 820.0          |
| Construction in progress                            | 812.3   | -                           | 812.3          |
| Buildings and site development                      | 198.5   | (58.7)                      | 139.8          |
| Tools, systems and equipment                        | 91.8    | (58.6)                      | 33.2           |
| Land  | 32.7    | -                           | 32.7           |
| Capital spares and other                            | 32.7    | -                           | 32.7           |
| Vehicles  | 31.2    | (11.5)                      | 19.7           |
|   | 3,983.8 | (896.7)                     | 3,087.1        |
| Government grants                                   | (20.0)  | 1.7                         | (18.3)         |
| Contributions in aid of construction                | (463.7) | 89.4                        | (374.3)        |
|   | 3,500.1 | (805.6)                     | 2,694.5        |

## 8. EMPLOYEE FUTURE BENEFITS

The Corporation has a registered pension plan that substantially covers all employees and includes both defined benefit (DB) and defined contribution (DC) provisions. The DB provisions provide a pension based on years of service and highest average earnings over five consecutive years of employment. DB pension benefits under the registered plan will increase annually by 60 per cent of the consumer price index for Alberta. Under the DC provisions, employer contributions are based on the participating members' pensionable earnings and contribution levels.

The Corporation also sponsors a supplemental pension plan providing an additional DB pension based on years of service and highest average earnings (including incentive pay) to both DB and DC members whose benefits are limited by maximum pension rules under the Income Tax Act (Canada). The supplemental pension plan benefits do not automatically increase. In addition, the Corporation provides employees with post-retirement benefits other than pensions, including extended health and dental benefits beyond those provided by government-sponsored plans, life insurance and a lump-sum allowance payable at retirement, up to age 65.

The total employee benefit cost recorded in the consolidated financial statements of earnings and comprehensive income for the three and nine months ended September 30, 2013, is \$6.1 million (2012 - \$6.0 million) and \$18.0 million (2012 - 18.0 million), respectively.

## 9. SHORT-TERM DEBT

The Corporation has unsecured credit facilities amounting to \$1,150.0 million (December 31, 2012 - \$1,150.0 million) to fund general operating requirements and to provide liquidity support for commercial paper and commodity marketing programs. Combined, all of the facilities encompass \$900.0 million in bilateral credit facilities and \$250.0 million of syndicated credit facilities. As at September 30, 2013, \$360.2 million (December 31, 2012 - \$355.0 million) of operating facilities and \$30.0 million (December 31, 2012 - \$30.0 million) of syndicated facilities were used in support of outstanding letters of credit.

At September 30, 2013, the Corporation had \$50.0 million in commercial paper at a weighted average rate of 1.0 percent (December 31, 2012 - \$149.9 million in commercial paper and \$16.0 million in bank overdrafts at a weighted average rate of 1.13 per cent).

## 10. ACCUMULATED OTHER COMPREHENSIVE INCOME

| ACCUMULATED OTHER COMPREHENSIVE INCOME   |                       |                      |
|--|-----------------------|----------------------|
| As at<br>(millions of dollars)   | September 30,<br>2013 | December 31,<br>2012 |
| Unrealized losses on available-for-sale financial assets   | (0.1)                 | (0.1)                |
| Unrealized gains (losses) on derivatives designated as cash flow hedges  | 0.4                   | (19.5)               |
| Accumulated other comprehensive income (losses), including a future income tax expense of \$5.1 million (2012 - recovery of \$1.7 million) | 0.3                   | (19.6)               |

## 11. COMMITMENTS AND CONTINGENCIES

### Property, plant and equipment

As at September 30, 2013, the Corporation is committed to major capital expenditures over the next five years and thereafter, with minimum annual payments (including cancellation costs) totalling \$70.9 million.

### Obligations under other agreements

The Corporation rents premises, vehicles and equipment under multiple lease contracts with varying expiration dates.

The Corporation is obligated to make monthly payments in return for the output from PPAs and other tolling arrangements, based on normal operating conditions adjusted for inflation, other than in the event of a forced outage.

The Corporation commits to the purchase of renewable energy certificates and carbon offset credits. The Corporation commits to long-term service arrangements on certain generating assets.

The aggregated minimum payments under these arrangements total \$128.1 million.

### Environmental

Provincial regulations aimed at reducing the levels of GHG emissions took effect July 2007. Due to the change of law provisions in ENMAX Energy's PPAs and tolling agreements ENMAX Energy is exposed to the associated compliance costs.

For the three- and nine-month periods ended September 30, 2013, the consolidated financial statements include a charge to earnings in the amount of \$3.6 million (2012 - \$7.0 million) and \$12.0 million (2012 - \$17.8 million), respectively, included in costs of electricity services provided, relating to estimated compliance costs under the provincial GHG regulations for ENMAX Energy's interests in coal- and natural-gas-fuelled generation facilities through its PPAs and owned assets. Compliance payments are due to the Province of Alberta, directly or via plant owners, by June 30 of the year following the compliance year. ENMAX Energy has taken steps, including acquiring qualified offset credits from both its wind-generation assets and purchases on the wholesale market, to mitigate impacts of the GHG regulations.

## 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

### Letters of credit

In the normal course of operations, letters of credit are issued to facilitate the extension of sufficient credit for counterparties having credit exposure to the Corporation or its subsidiaries. As at September 30, 2013, the Corporation had issued letters of credit amounting to \$390.2 million (December 31, 2012 - \$385.0 million).

## 12. ITEMS NOT INVOLVING CASH

| ITEMS NOT INVOLVING CASH                                 |                                     |             |                                    |              |
|--|-------------------------------------|-------------|------------------------------------|--------------|
| (millions of dollars)                                    | Three months ended<br>September 30, |             | Nine months ended<br>September 30, |              |
|  | 2013                                | 2012        | 2013                               | 2012         |
| Amortization   | 41.2                                | 40.5        | 124.4                              | 121.7        |
| Future income taxes                                      | 8.8                                 | (2.1)       | (8.5)                              | 0.9          |
| Change in unrealized market value of financial contracts | 18.4                                | 14.4        | 12.9                               | 10.7         |
| Other  | 0.5                                 | (0.4)       | 1.7                                | (1.0)        |
|  | <b>68.9</b>                         | <b>52.4</b> | <b>130.5</b>                       | <b>132.3</b> |

## 13. CHANGE IN NON-CASH WORKING CAPITAL

| CHANGE IN NON-CASH WORKING CAPITAL       |                                     |             |                                    |              |
|--|-------------------------------------|-------------|------------------------------------|--------------|
| (millions of dollars)                    | Three months ended<br>September 30, |             | Nine months ended<br>September 30, |              |
|  | 2013                                | 2012        | 2013                               | 2012         |
| Accounts receivable                      | 71.0                                | (124.4)     | 34.9                               | 15.1         |
| Other current assets                     | 0.6                                 | (8.2)       | 3.4                                | 0.3          |
| Accounts payable and accrued liabilities | 23.8                                | 213.4       | (74.3)                             | 143.4        |
| Other current liabilities                | 0.8                                 | 7.0         | (8.7)                              | (0.8)        |
|  | <b>96.2</b>                         | <b>87.8</b> | <b>(44.7)</b>                      | <b>158.0</b> |

## 14. RELATED PARTY TRANSACTIONS

ENMAX's related-party transactions comprise both revenues from and expenditures to The City. The City is the sole shareholder of the Corporation. Total revenues received from The City for the three and nine months ended September 30, 2013, were \$19.1 million and \$81.6 million, respectively (2012 - \$20.9 million and \$69.9 million, respectively). The significant components include contract sales of electricity, construction of infrastructure, provision of non-regulated power distribution services and billing and customer care services relating to The City's utilities departments. ENMAX has committed to a water supply agreement with The City, to commence upon completion of Shepard, whereby The City will supply a specified amount of water annually to facilitate Shepard operations.

As at September 30, 2013, amounts owing to the Corporation from The City for services provided were \$26.3 million (December 31, 2012 - \$26.4 million).

Total expenditures for goods and services received from The City for the three and nine months ended September 30, 2013, were \$39.8 million and \$103.3 million, respectively (2012 - \$36.6 million and \$117.4 million, respectively). Most of these expenditures were for local access fees for use of The City's rights-of-way, the cost of which is passed through by ENMAX directly to transmission and distribution customers. The measurement basis used in determining the above values is the contract amount that is considered fair market value; that is, the measurement basis is the same as would be used for a third-party arm's-length transaction.

## 14. RELATED PARTY TRANSACTIONS (CONTINUED)

In 2009, the Corporation entered into a capital lease agreement with The City for the use of its land and building. As at September 30, 2013, the assets under the capital lease were \$4.3 million (December 31, 2012 - \$4.4 million), and the capital lease obligation was \$4.7 million (December 31, 2012 - \$4.7 million).

In addition, on June 15, 2013, the Corporation obtained \$140.6 million from The City through arrangements with the Alberta Capital Finance Authority (ACFA) to fund ongoing investment relating to the regulated transmission and distribution network in Calgary and the surrounding area. This brings the total amount of debt owed to The City to \$937.4 million at September 30, 2013 (December 31, 2012 - \$827.8 million). Interest paid on this debt for the three and nine months ended September 30, 2013, was \$2.6 million and \$20.4 million, respectively (2012 - \$2.9 million and \$19.5 million, respectively). Principal payments of \$31.0 million were made during the nine months ended September 30, 2013 (2012 - \$27.6 million).

Transactions between the Corporation and The City have been recorded at the exchange amounts. Exchange amounts are the amounts as outlined by the contracts in effect between the Corporation and The City.

## 15. COMPARATIVE FIGURES

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

During the third quarter, there was a reporting segment structure change. ENMAX Encompass Inc. (Encompass) was previously being reported as part of ENMAX Energy and is now included in ENMAX Corporate. Based on the nature of the services provided by Encompass, it was deemed to be consistent with services provided by ENMAX Corporation. The change in presentation impacts only segment note disclosure, not earnings.

## 16. SUBSEQUENT EVENTS

On October 15, 2013, ENMAX received a decision from the AUC as part of the AUC's Annual Transmission Access Charge (TAC) Deferral Account Reconciliation Application. The decision clarifies ENMAX's entitlement with respect to its Transmission Access Charges deferral account rider (TAC rider). The TAC rider is a mechanism that collects or refunds required amounts related to adjustments or true-ups to the system access service rates in ENMAX's distribution tariff as a result of changes to the Alberta Electric System Operator's rates. The decision confirmed ENMAX's recovery of true-ups related to 2011 and 2012 and entitlement to revenue generated from volume variances through to the end of 2013. In the fourth quarter, approximately \$14.8 million will be recognized in earnings related to prior quarters as a result of this decision.

## ADDITIONAL INFORMATION

ENMAX welcomes questions from stakeholders. Additional information relating to ENMAX can be found at [enmax.com](http://enmax.com).

Please direct financial inquiries to:

Gianna Manes  
President and Chief Executive Officer  
(403) 514-3000

David Halford, CA  
Executive Vice President, Finance & Planning, Chief Financial Officer and Chief Risk Officer  
(403) 514-3000

Please direct media inquiries to:

Doris Kaufmann Woodcock  
Senior Media Relations Advisor  
(403) 514-3414