

# Audited Consolidated Financial Statements

## ENMAX Corporation

December 31, 2005 and 2006

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# Auditors' Report

## To the Shareholder of ENMAX Corporation

We have audited the consolidated balance sheets of ENMAX Corporation as at December 31, 2006 and 2005 and the consolidated statements of earnings and retained earnings and cash flows for each of the years in the three-year period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

(signed)

ERNST AND YOUNG LLP  
Chartered Accountants  
Calgary, Canada

February 20, 2007

# Consolidated Balance Sheets

ENMAX Corporation

As at December 31	2006	2005
\$ millions		
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents [note 5]	55.1	27.1
Temporary investments, at lower of cost and market	–	174.8
Accounts receivable [notes 3, 15 and 18]	409.5	312.7
Inventories	21.6	13.0
Income taxes receivable [note 16]	40.6	16.9
Future income tax asset [note 14]	12.4	15.1
Other current assets	18.6	2.7
	557.8	562.3
Property, plant and equipment [notes 3, 6 and 9]	927.9	874.9
Power purchase arrangements [note 7]	469.5	149.8
Intangible assets [note 8]	21.1	22.6
Employee future benefits [notes 3 and 10]	6.8	5.1
Future income tax asset [note 14]	150.8	165.4
Other long-term assets [notes 5 and 15]	26.5	11.1
	2,160.4	1,791.2
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current liabilities</b>		
Short-term financing [note 9]	51.0	–
Accounts payable and accrued liabilities [notes 3, 15 and 18]	312.3	190.9
Income taxes payable	10.7	22.5
Customer guarantee deposits	14.5	13.7
Future income tax liability [note 14]	2.7	1.7
Current portion of long-term debt [note 9]	39.6	29.8
	430.8	258.6
Long-term debt [note 9]	320.7	204.5
Future income tax liability [note 14]	8.6	6.9
Other long-term liabilities [note 3 and 15]	14.6	15.1
Non-controlling interest [note 19]	0.2	0.7
<b>Shareholder's equity</b>		
Share capital [note 11]	280.1	280.1
Retained earnings	1,105.4	1,025.3
	1,385.5	1,305.4
Commitments and contingencies [notes 4, 15 and 16]		
	2,160.4	1,791.2

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(signed)

THOMPSON MACDONALD  
Chair, ENMAX Board of Directors

(signed)

CLIFF FRYERS, LLB  
Chair, Audit and Finance Committee

# Consolidated Statements of Earnings and Retained Earnings

ENMAX Corporation

Years ended December 31	2006	2005	2004
\$ millions			
<b>REVENUE [note 18]</b>			
Sales of electricity and natural gas	1,268.9	925.0	826.4
Transmission and distribution revenue	315.1	269.7	266.6
Contractual services and other	119.7	103.7	100.1
	<b>1,703.7</b>	<b>1,298.4</b>	<b>1,193.1</b>
<b>COST OF SERVICES PROVIDED [note 18]</b>			
Electricity and natural gas costs [note 15]	944.9	643.0	507.6
Local access fees and grid charges	255.5	214.7	195.1
Cost of providing contractual services	75.7	49.6	36.7
Operations, maintenance and administration [note 10]	172.3	167.2	171.6
	<b>1,448.4</b>	<b>1,074.5</b>	<b>911.0</b>
Earnings before amortization, interest and income taxes	255.3	223.9	282.1
Amortization of property, plant and equipment and power purchase agreements	85.2	68.7	63.3
Amortization of intangible assets	2.9	1.4	0.4
Interest [note 13]	17.6	14.1	14.0
Earnings before income taxes and non-controlling interest	149.6	139.7	204.4
Income taxes [note 14]	20.0	23.4	52.2
Non-controlling interest [note 19]	(0.5)	(0.4)	–
Net earnings	130.1	116.7	152.2
Retained earnings, beginning of year	1,025.3	958.6	856.8
Dividends	(50.0)	(50.0)	(50.4)
Retained earnings, end of year	<b>1,105.4</b>	<b>1,025.3</b>	<b>958.6</b>

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

ENMAX Corporation

Years ended December 31	2006	2005	2004
\$ millions			
<b>Cash provided by (used in)</b>			
<b>OPERATING ACTIVITIES</b>			
Net earnings	130.1	116.7	152.2
Amortization	88.1	70.1	63.7
Future income taxes [note 14]	18.6	(7.1)	13.9
Non-controlling interest	(0.5)	(0.4)	–
Change in unrealized market value of financial commodity contracts [note 15]	(22.5)	6.4	7.5
	213.8	185.7	237.3
Change in non-cash working capital items [note 17]	(24.0)	(105.9)	30.1
	189.8	79.8	267.4
<b>INVESTING ACTIVITIES</b>			
Proceeds of disposition (acquisition) of temporary investments	174.8	(174.8)	–
Purchase of power purchase arrangements	(345.5)	–	–
Purchase of property, plant and equipment	(124.1)	(139.8)	(113.0)
Purchase of intangible assets	–	(1.8)	(0.6)
Proceeds on disposal of property, plant and equipment	1.0	–	–
Contributions in aid of construction	10.7	11.0	12.2
2000 deficiency rider receivable collected	–	5.3	47.1
Acquisitions, net of cash acquired [note 19]	–	(13.4)	–
Increase in employee future benefits	(1.7)	–	–
Customer guarantee deposits	0.8	(1.6)	0.9
Decrease (increase) in other long-term assets	(5.3)	(1.0)	0.8
	(289.3)	(316.1)	(52.6)
<b>FINANCING ACTIVITIES</b>			
Dividends paid	(50.0)	(50.0)	(50.4)
Long-term debt issued [note 9]	160.6	–	119.5
Long-term debt repaid	(34.6)	(33.4)	(27.8)
Proceeds of short-term financing	51.0	–	–
Increase (decrease) in other long-term liabilities	0.5	(6.5)	(3.7)
	127.5	(89.9)	37.6
<b>Increase (decrease) in cash and cash equivalents</b>	<b>28.0</b>	<b>(326.2)</b>	<b>252.4</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>27.1</b>	<b>353.3</b>	<b>100.9</b>
<b>Cash and cash equivalents, end of year [note 5]</b>	<b>55.1</b>	<b>27.1</b>	<b>353.3</b>
Cash interest paid	21.8	16.4	16.3
Cash taxes paid	36.7	62.0	10.6

See accompanying notes to consolidated financial statements.

# Notes to the Consolidated Financial Statements

As at and for the years ending December 31

## 1 DESCRIPTION OF BUSINESS

ENMAX Corporation ("ENMAX" or the "Corporation"), a wholly owned subsidiary of The City of Calgary ("The City"), was incorporated under the Business Corporations Act (Alberta) in July 1997. The Corporation was formed to carry on the electric utility transmission and distribution operations previously carried on by the Calgary Electric System ("CES"), a former department of The City, in contemplation of the emerging deregulated electric industry in Alberta. As such, operations of the Corporation began on January 1, 1998 with the transfer of substantially all of the assets and liabilities of the CES by The City into the Corporation at net book value for consideration of one common share issued to The City.

The Corporation operates in two segments representing separately managed business units, each of which offers different products and services.

### ENMAX Energy

ENMAX Energy Corporation is a non-regulated, wholly owned subsidiary established to carry out all energy supply and retail functions in its own right and through ten subsidiaries and one affiliated company.

### ENMAX Power

ENMAX Power Corporation is a regulated, wholly owned subsidiary established to carry out all electricity distribution and transmission service functions in its own right and through two subsidiaries providing non-regulated power services.

Various components of the electric utility industry are regulated by the Alberta Energy and Utilities Board ("EUB"). Effective January 1, 1996, the provincial government passed into law the Electric Utilities Act ("EUA"). The Act provides for the sale of all power from generators for use in Alberta to the Power Pool of Alberta (Power Pool) for resale to distribution companies at a bid price that matches demand with supply. The EUA was amended in 1998 to provide for the introduction of retail competition into Alberta's electric industry, commencing in January 2001.

The Corporation operates in various service territories in Alberta and British Columbia. In certain areas, municipalities act as regulators to approve the Distribution Tariff ("DT") and the Regulated Rate Option ("RRO").

Transmission companies lease their transmission facilities to the Alberta Electric System Operator ("AESO"), which administers transmission services needed to serve customers throughout Alberta and charges a uniform tariff to all distribution companies. Prior to 2006, the tariff associated with ENMAX Power's transmission facilities was regulated by the Alberta Department of Energy ("DOE"). Effective January 1, 2006, this tariff is regulated by the EUB.

The EUA provides for the EUB's regulation of the Corporation's utility operation and requires the EUB to approve, among other things, customer rates and capital expenditures. The EUA also entitles the Corporation to recover all reasonable and prudent costs incurred in providing electricity service to its customers, including a just and reasonable return on its rate base. The rate base consists of the net assets required by the Corporation to provide service to customers.

The determination of the forecast return on rate base, together with the forecast of all reasonable and prudent costs, establishes the revenue requirement upon which the Corporation's customer rates are determined through a general rate hearing. Between general rate hearings, customer rates may be adjusted, on an interim basis, through an abbreviated rate change application. The forecast cost of capital reflected in customer rates for 2006 was 6.7% (2005 – 7.1%).

## 2 SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements include the accounts of the Corporation and its subsidiaries, as well as its proportionate share of the accounts of its joint venture.

The assets and liabilities, results of operations and cash flows of the subsidiaries are included in the consolidated financial statements of the Corporation. The non-controlling interest is presented net of income taxes in the consolidated statement of earnings.

All inter-company accounts and transactions have been eliminated, except as described in note 3.

# Notes to the Consolidated Financial Statements

As at and for the years ending December 31

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Measurement uncertainty

The preparation of the Corporation's financial statements, in accordance with generally accepted accounting principles, requires management to make estimates that affect the reported amounts of revenues, expenses, assets and liabilities as well as the disclosure of contingent assets and liabilities at the financial statement date.

On January 1, 2001, the Alberta retail electricity marketplace opened to retail competition. The various systems and procedures used by third parties to provide load and settlement data to retailers across the province have been challenged to completely and accurately capture all customer movement, load classification and consumption data. In addition, by regulation, wire service providers are not required to submit final load settlement data on customer electricity usage until eight months after the month in which such electricity was consumed. The data and associated processes and systems are used by the Corporation to estimate electricity revenues and costs, including unbilled consumption. The Corporation's estimation procedures will not necessarily detect errors in underlying data provided by industry participants including wire service providers and load settlement agents.

For determining potential asset impairments and certain disclosures, the Corporation is required to estimate the fair value of certain assets and obligations. Estimates of fair values are mainly based on discounted cash flow techniques employing estimated cash flows based on a number of assumptions and using an appropriate discount rate. Financial instruments that do not satisfy the conditions required for hedge accounting are recorded at fair value, which may, due to market illiquidity, require the use of estimated future prices.

The allowance for doubtful accounts reflects an estimate of the accounts receivable that are ultimately expected to be uncollectible. It is based on a number of factors including the aging of accounts receivable, historical write-offs within customer groups, assessments of the collectibility of amounts from individual customers and general economic conditions.

Amortization is an estimate to allocate the cost of an asset over its estimated useful life on a systematic and rational basis. Estimating the appropriate useful lives of assets requires significant judgment and is generally based on estimates of common life characteristics of common assets.

Measurement of the Corporation's asset retirement obligation requires the use of estimates with respect to the amount and timing of asset retirements, the extent of site remediation required and related future cash flows.

Income taxes and amounts in lieu of income taxes are determined based upon estimates of the Corporation's current income taxes and estimates of future taxes resulting from temporary tax differences. Future income tax assets are assessed to determine the likelihood that they will be recovered from future taxable income. To the extent that recovery is not considered more likely than not, a valuation allowance will be recorded and charged against income in the period that the allowance is created or revised.

Certain estimates are necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until finalization and adjustment pursuant to subsequent regulatory decisions, or other regulatory proceedings.

Adjustments to previous estimates, which will impact net income and could be material, are recorded in the period they become known.

### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks, and investments in money market instruments with maturities within three months from the date of acquisition.

### Temporary investments

Temporary investments included marketable securities (consisting primarily of bonds, stocks and short-term deposits) and are carried at the lower of cost and market value. At December 31, 2006, the fair market value was nil (2005 – \$179.0 million). The effective interest rate on temporary investments until the date of sale in 2006 was 4.8% (year ended December 31, 2005 – 3.8%).

### Inventories

Inventory of supplies and materials is valued at the lower of cost and net recoverable cost. Cost is determined using the weighted average cost method.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment

Property, plant and equipment are recorded at cost, which includes direct labour, material, equipment charges, overhead and allowance for funds used during construction ("AFUDC"). The AFUDC is charged and recovered at approved rates to customers over the service life of the assets, as described in note 3.

Amortization of property, plant and equipment is recorded on a straight-line basis over the estimated useful life of the asset class at the following rates:

Buildings and site development	2.13%	–	20.00%
Transmission, distribution and substation equipment	0.96%	–	14.37%
Generation equipment	3.33%	–	5.00%
Tools, systems and equipment	3.33%	–	33.33%
Vehicles	2.36%	–	13.71%

Construction in progress represents assets which are not available for use and therefore not subject to amortization.

Original costs of retired regulated depreciable assets are charged and the related net disposal proceeds are credited to accumulated amortization. As a result, all gains and losses on the disposal of regulated depreciable assets are deferred and amortized over the estimated remaining service life of the related assets, as described in note 3. Gains and losses on the disposal of non-regulated non-depreciable assets are recognized in the year of disposal.

### Intangible assets

Intangible assets are recorded at cost and amortization is recorded on a straight-line basis over the estimated useful lives of the assets at the following rates:

Customer lists and contracts	5.00%	–	10.90%
Land easements, rights and lease options	2.14%	–	4.01%
Renewable energy certificates and water licenses	0%		

Intangible assets with indeterminate lives include land easements, renewable energy certificates and water licenses, and are not subject to amortization. These assets are assessed annually for impairment, or more frequently if events or changes in circumstances indicate that the asset may be impaired.

### Asset impairment

Long-lived assets subject to amortization are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized if the carrying amount exceeds the recoverable value of an asset, determined as the sum of the undiscounted cash flows expected to result from the asset's use and eventual disposition. The loss, if any, is measured as the amount by which the carrying amount exceeds the fair value of the asset.

The fair values are estimated using accepted valuation methodologies such as discounted future net cash flows, earnings multiples or prices for similar assets, whichever is most appropriate under the circumstances.

### Asset retirement obligation

The Corporation recognizes its obligation to retire certain tangible long-lived assets, whereby the fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and then amortized over its estimated useful life. In subsequent periods, the asset retirement obligation is adjusted for the passage of time and any changes in the amount or timing of the underlying future cash flows are reflected through charges to earnings. A gain or loss may be incurred upon settlement of the liability.

# Notes to the Consolidated Financial Statements

As at and for the years ending December 31

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

At December 31, 2006, the Corporation's asset retirement obligations relate to costs associated with the removal and decommissioning of its fibre optic network and proportionate share of the joint venture's wind turbines. In addition, the Corporation has an obligation to decommission its electricity transmission and distribution assets in Alberta and the run-of-river hydroelectric generating station in British Columbia; however, the likely timing, method and cost of such future decommissioning activities is unknown and cannot be reasonably estimated. Accordingly, the Corporation is unable to estimate the fair value of this asset retirement obligation and has not recorded it in the consolidated financial statements. The obligation will be recorded when sufficient information is available to reasonably estimate the settlement date and the cost and method of settlement.

### Contributions in aid of construction

Under various statutory requirements and agreements with customers and developers, the Corporation receives contributions in aid of construction ("CIAC") in the form of cash contributions. Such contributions are deferred and amortized on the same basis as, and offset the amortization charge of, the assets to which they relate.

### Power Purchase Arrangements

The cost of the Power Purchase Arrangements ("PPAs") has been recorded on the consolidated balance sheets as a long-term asset. The cost is amortized on a straight line basis to electricity costs over the life of the arrangements.

### Revenue recognition

Revenues are recognized on an accrual basis as services are provided and include an estimate of fees for services provided but not yet billed. For construction projects, revenue is recognized on the percentage of completion basis.

### Income tax

The Corporation and its subsidiaries are municipally owned and are generally not subject to federal and provincial income taxes. Those subsidiaries that are outside the jurisdiction of the EUA regulations are taxable under the Income Tax Act (Canada). The Corporation records income tax expense based on an Alberta regulation to the EUA that requires municipally owned entities to make payments in lieu of income taxes ("PILOT") on certain portions of their operations. ENMAX uses the liability method of accounting for income taxes and amounts in lieu of income taxes.

Under this method, current income taxes are recognized for the estimated income taxes payable or recoverable for the current year. Future income tax assets and liabilities are recognized for the future tax consequences attributable to the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted rates of tax expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on future tax assets and liabilities is recognized in income in the period that includes the date of enactment or substantive enactment.

### Financial instruments

The fair values of cash and cash equivalents, accounts receivable, income taxes receivable, short-term financing, accounts payable and customer guarantee deposits approximate the carrying amounts of these instruments due to their short period to maturity (see notes 9 and 15).

### Hedging

In conducting its business, the Corporation uses various instruments, including forward contracts, swaps and options and contracts-for-differences to manage the risk and hedge the Corporation's exposure to fluctuations in electricity and natural gas prices. Under these instruments, the Corporation agrees to exchange the difference between the variable or indexed price and the fixed price on a notional quantity of the underlying commodity for a specified time frame.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments are tested for effectiveness when designated as a hedge and on an ongoing basis. Effectiveness is measured with reference to the risk management objective and strategy for the financial instrument. For instruments that qualify for hedge accounting, gains and losses are recognized in income in the same period and in the same financial statement category as the income or expense from the hedged position. Otherwise, the instruments are recognized on the balance sheet, in other long-term liabilities and measured at fair value, with changes in fair value recognized in income through a charge to earnings as cost of electricity or natural gas.

### Employee benefit plans

The Corporation sponsors pension plans that contain both defined benefit and defined contribution provisions. The cost of defined benefit pensions and other post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. Pension plan assets are measured at fair market value. For the purpose of calculating the expected return on plan assets for the net benefit cost, a market-related value is used. The market-related value of assets was calculated based on the average of the adjusted market value of assets for the current and three preceding years. The adjusted market values were determined from the preceding three year-end market values accumulated to the end of the fiscal year in question with net contributions less distributions and assumed investment return. Adjustments arising from plan amendments are amortized on a straight-line basis over the average remaining service lifetime of employees active at the date of amendment. The excess of the cumulative, unamortized net actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets at the beginning of the year is amortized over the average remaining service lifetime of the active employees.

## 3 RECENT ACCOUNTING PRONOUNCEMENTS

### Financial statement effects of rate regulation

In May 2005, the Canadian Institute of Chartered Accountants issued Accounting Guideline 19, Disclosures by Entities Subject to Rate Regulation (AcG-19). AcG-19 expands disclosure requirements relating to circumstances in which the accounting for transactions or events is affected by rate regulation. The guideline was effective for fiscal years ending on or after December 31, 2005.

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

### Regulatory assets and liabilities

Years ended December 31	2006	2005
\$ millions		
<b>Regulatory assets</b>		
Distribution assets – inter-company profit on underground residential development [note 6]	22.7	18.6
Accounts receivable – purchased power price variance	14.2	4.2
<b>Total regulatory assets</b>	<b>36.9</b>	<b>22.8</b>
<b>Regulatory liability</b>		
Other long-term liabilities – pension funding	2.2	–
<b>Total regulatory liability</b>	<b>2.2</b>	<b>–</b>

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.

# Notes to the Consolidated Financial Statements

As at and for the years ending December 31

## 3 RECENT ACCOUNTING PRONOUNCEMENTS (continued)

Distribution assets for the regulated operations of ENMAX include inter-company profit relating to construction work performed by an ENMAX subsidiary. Such profit is deemed 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, generally accepted accounting principles would require that inter-company profits be eliminated upon consolidation. The impact on current year earnings would be a reduction of \$4.1 million (2005 – \$4.3 million; 2004 – \$4.9 million), representing the profit on these services. The balances for property, plant and equipment and retained earnings at December 31, 2006 would further be reduced by \$22.7 million (2005 – \$18.6 million).

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, when their final disposition is decided. ENMAX 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, generally accepted accounting principles would require that actual purchased power costs be recognized as an expense when incurred. In this case, operating results for 2006 would have been \$4.1 million lower (2005 – \$4.2 million lower; 2004 – \$1.5 million higher). The regulatory asset is included in accounts receivable.

Pension costs are recorded using the accrual method as required by Canadian GAAP. The EUB approved a revenue requirement which allowed for the recovery of solvency payments on a cash basis over 10 years. As a result, ENMAX has recorded a regulatory liability in the amount of \$2.2 million (2005 – nil) to reflect this regulatory treatment. In the absence of rate regulation current year distribution and transmission revenues would have been \$2.2 million higher (2005 – nil). At December 31, 2006 other long-term liabilities would have been reduced and retained earnings would have been increased by \$2.2 million, respectively.

For certain of the 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 the Corporation 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 year for recovery through future rates, or disagree with the proposed recovery period.

### Other items affected by rate regulation

Current regulations exclude transmission, distribution and rate-regulated electricity sales earnings from income taxes. Regulations announced in 2006 will see rate-regulated electricity sales subject to PILOT effective January 1, 2007. Accordingly, ENMAX has not recognized current or future income taxes on these earnings. In the event regulations change, it would be expected that when these amounts became payable, they would be recovered through future rate revenues. In the absence of rate regulation, generally accepted accounting principles require the recognition of current and future income tax liabilities and future tax assets.

Gains and losses on the disposal and retirement of regulated depreciable assets are deferred and amortized over the estimated remaining service life of the related 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 generally accepted accounting principles, 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 regulator permits an allowance for funds used during construction (AFUDC), based on ENMAX's weighted-average cost of capital, to be included in the rate base. AFUDC is also included in the cost of property, plant and equipment for financial reporting purposes, and is depreciated over future periods as part of the total cost of the related asset, based on the expectation that depreciation expense, including the AFUDC component, will be approved for inclusion in future customer rates. Since AFUDC includes not only an interest component, but also a cost-of-equity component, it exceeds the amount allowed to be capitalized in similar circumstances in the absence of rate regulation. AFUDC and capitalized interest totaling \$4.2 million (2005 – \$2.3 million) were included in property, plant and equipment.

### 3 RECENT ACCOUNTING PRONOUNCEMENTS (continued)

#### Financial instruments, hedging and comprehensive income

In January 2005, the Canadian Institute of Chartered Accountants issued Handbook Section 1530, "Comprehensive Income", Section 3251, "Equity", Section 3855, "Financial Instruments – Recognition and Measurement" and Section 3865, "Hedges". Under the new standards, a new location for recognizing certain gains and losses – other comprehensive income – has been introduced, providing an ability for certain gains and losses arising from changes in the fair value of assets and liabilities to be temporarily recorded outside the income statement, but in a transparent manner; all financial instruments, including derivatives, are to be included on a company's balance sheet and measured in most cases at their fair values; and existing requirements for hedge accounts are expanded. The guidance will apply for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006.

Under this guidance, ENMAX in 2006 would have recorded liability in the amount of \$10.3 million, with a corresponding charge to other comprehensive income.

### 4 JOINT VENTURE INVESTMENT

In 2002, ENMAX entered into a joint venture agreement with Vision Quest Windelectric Inc. to build and operate 114 wind turbines in southern Alberta. The wind farm began generating electricity in 2003 and ENMAX has a 50% ownership interest. ENMAX has also agreed to purchase the output from the wind farm under a 20-year power purchase agreement.

As at December 31	2006	2005
\$ millions		
<b>Balance sheet</b>		
Accounts receivable	0.6	0.6
Other current assets	–	0.1
Property, plant and equipment	44.2	45.8
Future income taxes asset (liability)	0.1	(0.1)
Accounts payable	(0.1)	–
Other long-term liabilities	(0.4)	(0.3)
<b>Proportionate share in net assets of joint venture</b>	<b>44.4</b>	<b>46.1</b>

As at December 31	2006	2005	2004
\$ millions			
<b>Earnings</b>			
Revenue	7.2	7.5	6.9
Costs and expenses	(1.7)	(2.1)	(1.4)
Amortization	(1.7)	(1.7)	(1.7)
Income taxes recovery (expense)	0.2	0.2	(0.8)
<b>Proportionate share in net earnings of joint venture</b>	<b>4.0</b>	<b>3.9</b>	<b>3.0</b>

As at December 31	2006	2005	2004
\$ millions			
<b>Cash flows</b>			
Operating activities	5.6	4.7	5.1
Investing activities	–	–	(0.3)
Financing activities	0.1	–	0.3
<b>Proportionate share in the increase in cash and cash equivalents of joint venture</b>	<b>5.7</b>	<b>4.7</b>	<b>5.1</b>

# Notes to the Consolidated Financial Statements

As at and for the years ending December 31

## 5 CASH AND CASH EQUIVALENTS

As at December 31	2006	2005
\$ millions		
Cash on hand and balances with banks	55.1	3.3
Short-term investments	–	23.8
Cash and cash equivalents	55.1	27.1

Other long-term assets include restricted cash and cash equivalents of \$1.5 million (2005 – \$1.0 million), relating to a debt servicing obligation on the non-recourse financing (see note 9). Commencing October 2007, the balance will be reduced monthly at varying amounts until September 2015.

## 6 PROPERTY, PLANT AND EQUIPMENT

As at December 31	2006		
	Cost	Accumulated amortization	Net book value
\$ millions			
Transmission, distribution and substation equipment	1,094.7	(414.3)	680.4
Tools, systems and equipment	270.9	(133.8)	137.1
Construction in progress	111.7	–	111.7
Buildings and site development	107.1	(29.0)	78.1
Generation equipment	68.8	(7.2)	61.6
Land	17.5	–	17.5
Vehicles	17.0	(9.5)	7.5
	1,687.7	(593.8)	1,093.9
Contributions in aid of construction	(216.4)	50.4	(166.0)
	1,471.3	(543.4)	927.9

As at December 31	2005		
	Cost	Accumulated amortization	Net book value
\$ millions			
Transmission, distribution and substation equipment	1,058.1	(388.5)	669.6
Tools, systems and equipment	230.2	(115.1)	115.1
Buildings and site development	107.0	(22.4)	84.6
Construction in progress	72.4	–	72.4
Generation equipment	69.0	(4.9)	64.1
Land	17.7	–	17.7
Vehicles	16.7	(10.2)	6.5
	1,571.1	(541.1)	1,030.0
Contributions in aid of construction	(199.8)	44.7	(155.1)
	1,371.3	(496.4)	874.9

## 7 POWER PURCHASE ARRANGEMENTS

Under a power purchase arrangement which expires December, 2020, the Corporation owns the rights to the physical output to two electrical generating units which were acquired in 2000 for \$247.7 million. The Corporation is entitled to an estimated average 5.9 million megawatt hours (MWh) of electricity per year from 2005 through 2020. The megawatts available decrease yearly as the units age. In return for the output, the Corporation is obligated to make monthly fixed and variable payments.

In June 2006, the Corporation purchased a 55% interest in the Battle River PPA for \$345.5 million. The agreement also provides that the Corporation purchase the remaining 45%, in annual increments of 10-15% over the next 3 years for total consideration of \$222.0 million (see note 16).

As at December 31	2006		
	Cost	Accumulated amortization	Net book value
\$ millions			
Battle River	345.5	(15.8)	329.7
Keephills	247.7	(107.9)	139.8
	593.2	(123.7)	469.5

As at December 31	2005		
	Cost	Accumulated amortization	Net book value
\$ millions			
Keephills	247.7	(97.9)	149.8
	247.7	(97.9)	149.8

## 8 INTANGIBLE ASSETS

As at December 31	2006		
	Cost	Accumulated amortization	Net book value
\$ millions			
Customer lists and contracts	21.8	(6.3)	15.5
Land easements, rights and lease options	2.3	(0.2)	2.1
Renewable energy certificates and water licenses	3.5	–	3.5
	27.6	(6.5)	21.1

As at December 31	2005		
	Cost	Accumulated amortization	Net book value
\$ millions			
Customer lists and contracts	20.5	(3.5)	17.0
Land easements, rights and lease options	2.2	(0.1)	2.1
Renewable energy certificates and water licenses	3.5	–	3.5
	26.2	(3.6)	22.6

# Notes to the Consolidated Financial Statements

As at and for the years ending December 31

## 9 LONG-TERM DEBT

As at December 31	2006	2005	Weighted average interest rates
\$ millions			
Debentures, with remaining terms of:			
Less than 5 years	46.2	40.7	6.31%
5 – 10 years	103.4	121.4	5.87%
10 – 15 years	190.1	57.3	4.56%
Non-recourse term financing (Furry Creek)	14.3	14.9	7.48%
Promissory note	6.3	–	5.00%
	360.3	234.3	
Less: current portion	39.6	29.8	
	320.7	204.5	

### Debentures

Debentures were initially issued by The City on behalf of the CES pursuant to City bylaw authorizations prior to January 1, 1998. Pursuant to the Master Agreement between the Corporation and The City, the debentures were included in the assumed liabilities upon transfer of substantially all of the assets and liabilities of the CES from The City to the Corporation at January 1, 1998. In accordance with a debt management service level agreement between the Corporation and The City, The City shall continue to service the existing debentures through the disbursement of principal and interest payments. In 2006, the Corporation issued additional debentures totaling \$154.3 million (2005 – nil; 2004 – \$119.5 million). The Corporation is required to reimburse The City for all principal repayments and interest payments with respect to the debentures on the same day as The City disburses the payments to the debt holders. In addition, the Corporation is required to pay a loan guarantee and administration fee to The City of 0.25% on the average monthly outstanding debenture balance held by The City on behalf of the Corporation.

### Non-recourse financing

The non-recourse financing was assumed with the acquisition of Furry Creek Power Ltd. in the second quarter of 2005 and represents the Corporation's share, through its subsidiary ENMAX Green Power Inc., of loans for the construction of the 11 megawatt hydroelectric facility. Of the \$14.9 million originally assumed, the balance outstanding at December 31, 2006 is \$14.3 million, of which \$14.0 million (2005 – \$14.4 million) bears interest at a fixed rate of 7.3% and the remaining \$0.3 million (2005 – \$0.5 million) at a floating rate equal to the lender's prime interest rate plus a spread of 10.0%. Currently, ENMAX Green Power Inc. has provided a limited recourse guarantee to the extent of its interest in the shares of Furry Creek Power Ltd. The construction loan was converted to project debt in December 2006. Once post conversion land registrations are completed the limited recourse guarantee will be released and a charge against project assets, which have a carrying value of \$18.9 million, will remain as security.

### Promissory note

The promissory note was issued in the fourth quarter of 2006 and represents an amortizing loan from The Board of Trustees of Westwind School Division No. 74, acting as agent for the Wind Participation Consortium (WPC), which is comprised of three school divisions. The 20-year note, in the amount of \$6.3 million bears interest at a fixed rate of 5% and is repayable in monthly installments. The Corporation provided a fixed charge over two wind turbines located at Taber, Alberta, as security for the loan. Concurrent with execution of the loan, WPC executed a 20-year electricity services agreement with ENMAX Energy.

## 9 LONG-TERM DEBT (continued)

### Principal repayments

The required repayments of principal on the long-term debt at December 31, 2006 are as follows:

\$ millions	
2007	39.6
2008	32.4
2009	32.8
2010	30.9
2011	29.5
Thereafter	195.1

Short-term financing is comprised of commercial paper. At December 31, 2006, the Corporation had issued \$51.0 million (December 31, 2005 – nil) at average rates of 4.25%.

ENMAX has unsecured credit facilities amounting to \$550.0 million (2005 – \$350.0 million) to fund general operating requirements and to provide liquidity support for commercial paper and commodity marketing programs. During the year, the Corporation increased its operating facilities to \$400.0 million, from \$200.0 million, and maintained its syndicated credit facilities at \$150.0 million. As at December 31, 2006, \$293.0 million (2005 – \$124.5 million) of operating facilities and \$33.9 million (2005 – \$30.0 million) of syndicated facilities were used in support of outstanding letters of credit (see note 16).

In 2006, the Corporation also executed a 12-month \$150.0 million revolving bridge facility that will be used for lawful general corporate purposes, including financing capital expenditures. As at December 31, 2006, the facility was not utilized.

### Fair value

The estimated fair value of the Corporation's long-term debt as at December 31, 2006 is \$433.7 million (2005 – \$254.3 million). Calculation of the estimated fair value of the debt is based on current lending rates of the primary lender to The City, the Alberta Municipal Financing Corporation, for the debentures with comparable terms and maturities.

## 10 EMPLOYEE FUTURE BENEFITS

The Corporation has a registered pension plan that covers substantially 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% 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. 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.

ENMAX measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year. Actuarial valuations are conducted every three years. The most recent actuarial valuation was prepared as at December 31, 2004. As the DB plan has a solvency ratio of less than 85%, actuarial valuations would normally be required annually. During the year ended December 31, 2005, the Corporation applied for and received an exemption from Alberta Finance waiving this requirement. The next required valuation will be performed as of December 31, 2007.

# Notes to the Consolidated Financial Statements

As at and for the years ending December 31

## 10 EMPLOYEE FUTURE BENEFITS (continued)

Total cash payments for employee future benefits for 2006, consisting of cash contributed by ENMAX under the DB and DC provisions of the registered pension plan and cash payments directly to beneficiaries of the Corporation's unfunded other benefit plans, were \$15.8 million (2005 – \$16.3 million; 2004 – \$13.3 million).

For the year ended December 31, 2006, the total expense for the DC provisions of the plan is \$3.3 million (2005 – \$2.7 million; 2004 – \$2.6 million).

Information about the DB provisions of the plan, including the supplemental pension plan and the post-retirement non-pension benefit plan, is as follows:

Years ended December 31	2006		2005	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
\$ millions				
Change in benefit obligation				
Benefit obligation – beginning of year	147.4	5.5	122.8	4.6
Current service cost	5.3	0.5	3.5	0.3
Employee contributions	1.5	–	1.2	–
Benefits paid	(5.6)	(0.2)	(8.5)	(0.2)
Interest cost	7.8	0.3	7.3	0.3
Experience loss	12.1	1.1	21.1	0.5
Benefit obligation – end of year	168.5	7.2	147.4	5.5
Change in plan assets				
Plan assets at market-related value – beginning of year	102.6	–	90.4	–
Employer contributions	11.8	0.2	12.2	–
Employee contributions	1.5	–	1.2	–
Benefits paid	(5.6)	(0.2)	(7.6)	–
Return on plan assets	8.0	–	6.8	–
Experience gain/(loss)	6.1	–	(0.4)	–
Plan assets at market-related value – end of year	124.4	–	102.6	–
Deferred investment gain	15.2	–	11.0	–
Plan assets at fair value – end of year	139.6	–	113.6	–
Funded status – plan deficit	(28.9)	(7.2)	(33.8)	(5.5)
Unamortized transitional asset	(1.6)	(0.1)	(2.0)	(0.1)
Unamortized experience losses	42.2	2.4	45.1	1.4
Accrued benefit asset/(liability), net of valuation allowance of nil	11.7	(4.9)	9.3	(4.2)

Plan assets at December 31, 2006 consist of Canadian equity securities of 39% (2005 – 49%), foreign equity securities of 32% (2005 – 20%), long-term fixed income securities of 27% (2005 – 28%) and cash and short-term securities of 2% (2005 – 3%).

The significant weighted-average actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations and net benefit plan expense are as follows:

10 EMPLOYEE FUTURE BENEFITS (continued)

Years ended December 31	2006		2005		2004	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Percent						
Accrued benefit obligation at December 31:						
Discount Rate	5.00	5.00	5.00	5.00	6.00	6.00
Rate of compensation increase	3.60	3.60	3.60	3.60	3.60	3.60
Benefit cost for year ended December 31:						
Discount Rate	5.00	5.00	6.00	6.00	6.25	6.25
Expected long-term rate of return on plan assets	7.25	n/a	7.25	n/a	7.25	n/a
Rate of compensation increase	3.60	3.60	3.60	3.60	3.60	3.60

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2006 (2005 – 10%). The rate was assumed to decrease gradually to 5% in 2018 and to remain at that level thereafter. The per capita cost of covered dental benefits was assumed to increase by 4.5% per year.

The Corporation's net benefit cost is as follows:

Years ended December 31	2006		2005		2004	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
\$ millions						
Current service cost	5.3	0.5	3.5	0.3	3.4	0.3
Interest cost	7.8	0.3	7.3	0.3	7.0	0.3
Actual return on assets	(10.1)	–	(17.2)	–	(2.5)	–
Actuarial losses/(gains)	11.8	0.7	21.6	(0.7)	9.1	(0.2)
Difference between expected and actual return	2.1	–	10.4	–	(3.6)	–
Difference between recognized and actual actuarial losses (gains)	(7.2)	(0.6)	(18.9)	0.8	(7.1)	0.2
Amortization of net transitional asset	(0.4)	–	(0.4)	–	(0.4)	–
Net benefit plan expense	9.3	0.9	6.3	0.7	5.9	0.6

Assumed health care cost trend rates may have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in the assumed health care cost trend rate would have the following effect for 2006:

Effect of change in health care cost trend rate

	Other benefit plans	
	1% increase	1% decrease
\$ millions		
Increase (decrease) in service cost for year ended December 31	0.04	(0.03)
Increase (decrease) in interest cost for year ended December 31	0.02	(0.02)
Increase (decrease) in accrued benefit obligation at December 31	0.34	(0.33)

# Notes to the Consolidated Financial Statements

As at and for the years ending December 31

## 11 SHARE CAPITAL

	Number of Shares	Amount
\$ millions except share amounts		
Authorized:		
Unlimited number of common shares		
Issued and outstanding:		
Issued on incorporation (one dollar)	1	—
Issued on transfer of net assets from CES [note 1]	1	278.2
Issued on transfer of billing and customer care assets from The City in 2001	1	1.9
Outstanding at December 31, 2006 and 2005	3	280.1

## 12 SEGMENTED INFORMATION

Year ended December 31, 2006 [1]	ENMAX Energy	ENMAX Power	ENMAX Corporate and intersegment eliminations	Consolidated totals
\$ millions				
<b>Revenue</b>				
Sales of electricity and natural gas	1,247.6	225.4	(204.1)	1,268.9
Transmission and distribution revenue	—	315.1	—	315.1
Contractual services and other	12.7	132.7	(25.7)	119.7
	1,260.3	673.2	(229.8)	1,703.7
<b>Cost of services provided</b>				
Electricity and natural gas costs	747.6	197.3	—	944.9
Local access fees and grid charges	285.8	175.0	(205.3)	255.5
Cost of providing contractual services	—	76.1	(0.4)	75.7
Operations, maintenance and administration	70.9	126.4	(25.0)	172.3
	1,104.3	574.8	(230.7)	1,448.4
Amortization [2]	41.8	51.6	(5.3)	88.1
Non-controlling interest	(0.5)	—	—	(0.5)
Earnings before interest and income taxes	114.7	46.8	6.2	167.7
Interest				17.6
Earnings before income taxes				150.1
Capital additions [3]	386.7	80.7	2.2	469.6

[1] In 2006, ENMAX realigned its reportable segments to be consistent with changes in its internal management structure. In addition to moving reporting of Regulated Rate Option (RRO) and Envision business lines from ENMAX Energy to ENMAX Power, this realignment also transferred reporting of Corporate Development from ENMAX Corporate to ENMAX Energy. Comparative amounts have not been restated.

[2] Includes the amortization of amounts related to the PPAs, previously reported in electricity and natural gas costs, in the amount of \$25.7 million. Comparative amounts have been restated to conform to this presentation.

[3] Capital additions include power purchase arrangements, property, plant and equipment and intangible assets. Comparative amounts have been restated to conform to this presentation.

## 12 SEGMENTED INFORMATION (continued)

Years ended December 31 [1]	ENMAX Energy		ENMAX Power		ENMAX corporate and intersegment eliminations		Consolidated totals	
	2005	2004	2005	2004	2005	2004	2005	2004
[Restated – note 3]								
\$ millions								
Revenue								
Sales of electricity and natural gas	1,115.1	1,020.1	–	–	(190.1)	(193.7)	925.0	826.4
Transmission and distribution revenue	–	–	269.7	266.6	–	–	269.7	266.6
Contractual services and other	36.6	38.6	68.7	70.7	(1.6)	(9.2)	103.7	100.1
	1,151.7	1,058.7	338.4	337.3	(191.7)	(202.9)	1,298.4	1,193.1
Cost of services provided								
Electricity and natural gas costs	643.0	507.5	–	–	–	0.1	643.0	507.6
Local access fees and grid charges	277.0	266.7	129.3	124.1	(191.6)	(195.7)	214.7	195.1
Cost of providing contractual services	3.0	0.6	49.8	36.8	(3.2)	(0.7)	49.6	36.7
Operations, maintenance and administration	102.3	95.4	71.2	84.4	(6.3)	(8.2)	167.2	171.6
	1,025.3	870.2	250.3	245.3	(201.1)	(204.5)	1,074.5	911.0
Amortization [1]	31.8	27.0	41.3	39.0	(3.0)	(2.3)	70.1	63.7
Non-controlling interest	(0.4)		–		–	–	(0.4)	–
Earnings before interest and income taxes	95.0	161.5	46.8	53.0	12.4	3.9	154.2	218.4
Interest							14.1	14.0
Earnings before income taxes							140.1	204.4
Capital additions [2]	42.5	7.5	96.8	98.4	2.3	7.7	141.6	113.6

[1] Includes the amortization of amounts related to the PPAs, previously reported in electricity and natural gas costs, in the amount of \$10.2 million and \$9.6 million for the years ended December 31, 2005 and 2004, respectively. Comparative amounts have been restated to conform to this presentation.

[2] Capital additions include power purchase arrangements, property, plant and equipment and intangible assets. Comparative amounts have been restated to conform to this presentation.

## Total assets

As at December 31	2006	2005
\$ millions		
ENMAX Energy	1,157.9	839.6
ENMAX Power	902.8	708.9
Corporate and eliminations	99.7	242.7
	2,160.4	1,791.2

# Notes to the Consolidated Financial Statements

As at and for the years ending December 31

## 13 INTEREST

Interest expense is comprised of the following:

As at December 31	2006	2005	2004
\$ millions			
Interest on long-term debt	19.3	15.8	15.4
Short-term interest and other financing charges	2.5	0.6	0.9
Less: allowance for funds used during construction and capitalized interest	(4.2)	(2.3)	(2.3)
	17.6	14.1	14.0

## 14 INCOME TAXES

Provision for income taxes

As at December 31	2006	2005	2004
\$ millions			
Current	1.4	30.5	38.3
Future	18.6	(7.1)	13.9
	20.0	23.4	52.2

Reconciliation of income tax expense

As at December 31	2006	2005	2004
\$ millions			
Earnings before income taxes	149.6	139.7	204.4
Income not subject to taxes	(96.3)	(64.7)	(59.7)
	53.3	75.0	144.7
Federal and provincial tax rate	32.49%	33.62%	33.87%
Expected income tax expense	17.3	25.2	49.0
Non-deductible expenses	0.1	(0.3)	2.9
Large Corporations Tax	–	0.1	–
Adjustment to future tax asset for enacted changes in rates and other estimate revisions	21.0	(1.6)	0.4
Benefit of previously unrecognized loss carry forwards	(18.7)	–	–
Other	0.3	–	(0.1)
Actual income tax expense	20.0	23.4	52.2

14 INCOME TAXES

Future income tax asset

The tax effects of temporary differences that give rise to significant portions of the Corporation's future income tax asset and future income tax liability are presented below:

As at December 31	2006	2005
\$ millions		
<b>Future income tax asset:</b>		
Power purchase arrangements [1]	132.3	161.2
Cumulative eligible capital	12.2	14.6
Derivative financial instruments	–	4.7
Loss carry forwards	18.7	–
	163.2	180.5
Less current portion	12.4	15.1
	150.8	165.4
<b>Future income tax liability:</b>		
Property, plant and equipment – differences in net book value and undepreciated capital cost	1.7	4.0
Cumulative eligible capital	4.8	0.4
Derivative financial instruments	4.8	–
Other	–	4.2
	11.3	8.6
Less current portion	2.7	1.7
	8.6	6.9
<b>Net future income tax asset</b>	<b>151.9</b>	<b>171.9</b>

[1] Under the payments in lieu of tax regulation, certain assets of the Corporation were deemed to be disposed of and reacquired at fair market value for tax purposes on December 31, 2000. This resulted in tax values in excess of book value for these assets.

15 FINANCIAL INSTRUMENTS

Hedging activities

The Corporation is fully exposed to price fluctuations in the market in which its sales are made. To manage this exposure, the Corporation acquired energy PPAs for the output of coal-fired generating plants (see note 7).

To manage price, volume and PPA unit outage risks, the Corporation utilizes a number of approaches, including energy commodity price swaps and real-time import or export of electricity. The Corporation runs a 24-hour-a-day, seven-day-a-week trading operation to manage dispatch of the PPA plants and hourly trading activities to manage short-term volume fluctuations. The Corporation manages the counterparty credit risk associated with these hedging activities through the use of aggregate exposure limits and contract limits for each counterparty.

All hedges are documented at inception, including information such as the hedging relationship, the risk management objective and strategy, the method for assessing effectiveness and the method of accounting for the hedging relationship. Financial instruments that do not qualify for hedge accounting are recognized on the balance sheet and measured at fair value, with changes in fair value recognized currently in income. For the year ended December 31, 2006, the impact of financial instruments that do not qualify for hedge accounting is an increase to net earnings of \$17.3 million (2005 – charge of \$6.4 million; 2004 – charge of \$7.5 million), which is included in electricity and natural gas costs in the consolidated statement of earnings. The fair value of these financial instruments is included in the balance sheet as follows:

# Notes to the Consolidated Financial Statements

As at and for the years ending December 31

## 15 FINANCIAL INSTRUMENTS (continued)

As at December 31	2006	2005
\$ millions		
Accounts receivable	15.9	16.6
Other long-term assets	10.1	–
Accounts payable and accrued liabilities	10.2	22.3
Other long-term liabilities	3.5	4.5

### Fair value of off-balance sheet contracts-for-differences

Years ended at December 31	2006	2005
	Notional quantity	Notional quantity
Electricity sales	1.9 million MWh	3.3 million MWh
Natural gas sales	9.2 million Gj	0.2 million Gj
Electricity purchases	2.2 million MWh	0.6 million MWh
Natural gas purchases	26.3 million Gj	0.9 million Gj

The fair value of the Corporation's contract-for-differences is determined by estimating the amounts that would have to be received or paid to counterparties to terminate the contracts at December 31, 2006 and 2005.

Notional quantities are not recorded in the financial statements because these amounts are not exchanged by the Company and its counterparties and are not a measure of the Company's exposure. Notional amounts are used only as the basis for calculating payments for certain derivatives.

At December 31, 2006, on the basis of electricity and natural gas prices at that date, the estimated unrecorded fair value of these hedge contracts, net of the PPA sales, would be a negative mark-to-market adjustment amounting to \$24.3 million (2005 – \$49.6 million) which amount does not reflect the fact that these contracts will settle at prices in effect at the time of expiration.

## 16 COMMITMENTS AND CONTINGENCIES

### Property, plant and equipment

The Corporation is committed to major capital expenditures over the next five years, with minimum annual payments as follows:

\$ millions	
2007	129.8
2008	53.3
2009	47.9
2010	63.8
2011	–

### Obligations under leases, Power Purchase Arrangements and Tolling Agreements

The Corporation rents premises, vehicles and equipment under multiple lease contracts with varying expiration dates. In addition, in return for the output from PPAs, other power purchase and tolling agreements, the Corporation is obligated to make monthly payments based on normal operating conditions adjusted for inflation, other than in the event of a forced outage. The aggregate payments under these arrangements over the next five years are as follows:

16 COMMITMENTS AND CONTINGENCIES (continued)

\$ millions	
2007	383.0
2008	382.6
2009	406.3
2010	447.8
2011	467.4

#### Regulatory

The Corporation, along with other electrical distribution utilities in the province of Alberta, is subject to regulatory reviews and decisions. The impact of the reviews and decisions is reflected in the consolidated financial statements when the amount can be reasonably estimated.

On January 13, 2006, the Alberta Energy and Utilities Board (EUB) provided initial decisions regarding ENMAX Power's 2005 and 2006 Distribution Tariffs and ENMAX Energy's 2005 and 2006 Regulated Rate Option for electricity customers in Calgary.

The overall impact of these decisions is a charge to 2006 consolidated net earnings of \$10.6 million (2005 – \$5.0 million), reflected as a reduction in distribution revenue of \$11.8 million (2005 – \$5.7 million), an increase in sales of electricity of \$1.2 (2005 – \$0.1 million) and a reduction in amortization expense of nil (2005 – \$0.6 million).

#### Legal claims

In the normal course of business, the Corporation is named as a defendant in lawsuits related to various matters. The Corporation believes the outcome of these lawsuits will not have a material impact on the Corporation.

#### Income tax

Alberta Finance, Tax and Revenue Administration (Alberta Finance) is responsible for assessing the income tax returns filed under the regulations of the Electric Utilities Act (EUA) which became effective January 1, 2001.

In August 2004, Alberta Finance notified the Corporation that it was reviewing the value established for certain assets for purposes of this regulation. At January 1, 2001, the balance of the future income tax asset associated with the assets in question was \$195.0 million, based on an estimated fair market value of \$855.0 million.

In July and November 2006, ENMAX Energy Corporation ("EEC") received Notices of Reassessment from Alberta Finance relating to the 2002 and 2003 taxation years, in the amount of \$23.7 million, including \$5.0 million of interest, and \$58.0 million, including \$10.4 million of interest, respectively. These reassessments are in addition to the Notice of Reassessment received in June 2005 in respect of the 2001 taxation year, which amounted to \$16.9 million, including \$3.2 million of interest. The assessments relate primarily to the value of certain power purchase arrangement assets established for the purpose of the Payment in Lieu of Taxes Regulation and the allocation of costs and benefits of the energy supply portfolio between taxable and non-taxable operations for those years. EEC voluntarily remitted certain of these amounts to minimize interest and penalties until the issues are resolved, which are recorded as income taxes receivable as at December 31, 2006.

The Corporation does not agree with the assessments and has commenced the necessary steps to defend its position through the formal appeals process. ENMAX expects this process to be successful and will vigorously pursue all options available should the appeals process result in an unfavourable outcome. The amount of possible adjustment, which could have a material impact on net earnings, cannot be reasonably estimated at this time and no provision has been made in the consolidated financial statements for any additional income tax expense that may be payable relating to this assessment.

# Notes to the Consolidated Financial Statements

As at and for the years ending December 31

## 16 COMMITMENTS AND CONTINGENCIES (continued)

### Guarantees

#### 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 ENMAX or its subsidiaries. ENMAX has issued letters of credit amounting to \$326.9 million at December 31, 2006 (2005 – \$154.5 million).

#### DIRECTOR/OFFICER INDEMNIFICATIONS

Under its bylaws, the Corporation indemnifies individuals who have acted at the Corporation's request to be a director and/or officer of the Corporation and/or one or more of its direct and indirect subsidiaries, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered or incurred by the individuals as a result of their service. The claims covered by such indemnifications are subject to statutory or other legal restrictions and limitation periods. The nature of the indemnification agreements prevents the Corporation from making a reasonable estimate of the maximum potential amount it could be required to pay to beneficiaries of such indemnification agreements. The Corporation has purchased various insurance policies to reduce the risks associated with the indemnification.

#### OTHER INDEMNIFICATIONS

In the ordinary course of business, the Corporation and its subsidiaries enter into contracts which contain indemnification provisions, such as purchase and sale contracts, service agreements, intellectual property licensing agreements, purchases and sales of assets and equipment, joint venture agreements, operating agreements and leasing and land use arrangements. In such contracts, the Corporation may indemnify counterparties to the contracts if certain events occur, such as undisclosed liabilities, changes in financial condition and loss caused by the actions of third parties or as a result of litigation or other claims by third parties. These indemnification provisions will vary based upon the contract. In most cases, there are no pre-determined amounts or limits included in these indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount the Corporation could be required to pay cannot be estimated.

## 17 CHANGES IN NON-CASH WORKING CAPITAL ITEMS

Years ended at December 31	2006	2005	2004
\$ millions			
Accounts receivable	(97.5)	(69.6)	(45.2)
Inventories	(8.6)	0.3	(1.6)
Income taxes receivable	(23.7)	(16.9)	–
Other current assets	(15.9)	0.1	(0.1)
Accounts payable and accrued liabilities	133.5	(8.1)	49.0
Income taxes payable	(11.8)	(11.7)	28.0
Change in non-cash working capital	(24.0)	(105.9)	30.1

## 18 RELATED-PARTY TRANSACTIONS

Included in accounts receivable are amounts owing to the Corporation from The City as follows:

As at December 31	2006	2005
\$ millions		
Services provided	19.3	14.0
Total receivable from The City	19.3	14.0

Total revenues received from The City for the year ended December 31, 2006 were \$78.2 million (2005 – \$55.5 million; 2004 – \$67.5 million). Revenues include contract sales of electricity, provision of non-regulated power distribution services, and billing and customer care services relating to The City's utilities departments.

18 RELATED-PARTY TRANSACTIONS (continued)

Included in accounts payable are amounts owed to The City as follows:

As at December 31	2006	2005
\$ millions		
Goods and services received	0.3	–
Local access fees and equity funding rider	10.3	9.3
<b>Total payable to The City</b>	<b>10.6</b>	<b>9.3</b>

Total expenditures for goods and services received from The City for the year ended December 31, 2006 were \$97.4 million (2005 – \$84.4 million; 2004 – \$76.8 million). Expenditures include local access fees for the use of The City's rights-of-way.

Transactions between the Corporation and The City have been recorded at the exchange amounts.

19 ACQUISITIONS

In the first quarter of 2005, ENMAX purchased 100% of the outstanding shares of Valeo Power Corporation ("Valeo"), a privately held electricity retailer and services company. The primary assets of the company are commercial and institutional electricity contracts. The share purchase agreement included contingent consideration based on earnings levels achieved during 2005. Earnings for the year ended December 31, 2005 exceeded the targets outlined in the share purchase agreement and in January 2006, the remaining consideration was paid. The purchase price was finalized and the remaining consideration allocated to intangible assets relating to customer lists and contracts acquired in the transaction.

In the second quarter of 2005, the Corporation acquired 99% of Furry Creek Power Ltd. ("Furry Creek"), which owns an 11 megawatt run-of-river hydro-electric facility located north of Vancouver, in the province of British Columbia. In addition, ENMAX and Vancouver-based Eaton Power Corporation entered into a business venture to develop run-of-river hydro projects in British Columbia over the next five years. ENMAX invested \$2.0 million in exchange for a 65% interest in the newly formed company, Hydromax Energy Ltd. The company's assets include a series of run-of-river hydro projects in the early stages of development.

ENMAX accounted for these acquisitions using the purchase method and the results of operations have been included in the consolidated financial statements from the effective dates of the acquisitions. The allocation of the purchase prices was as follows:

**Net assets acquired:**

\$ millions	
Current assets	1.3
Property, plant and equipment	19.7
Intangible assets	20.0
Other long-term assets	0.3
Current liabilities	(4.7)
Long-term debt [note 9]	(15.4)
Future income tax liabilities	(6.7)
Non-controlling interest	(1.1)
<b>Total cash consideration, net of cash acquired of \$2.7</b>	<b>13.4</b>

20 COMPARATIVE FIGURES

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