

How do you connect
with customers and
deliver financial
success these days?

ENMAX 2005 ANNUAL REPORT

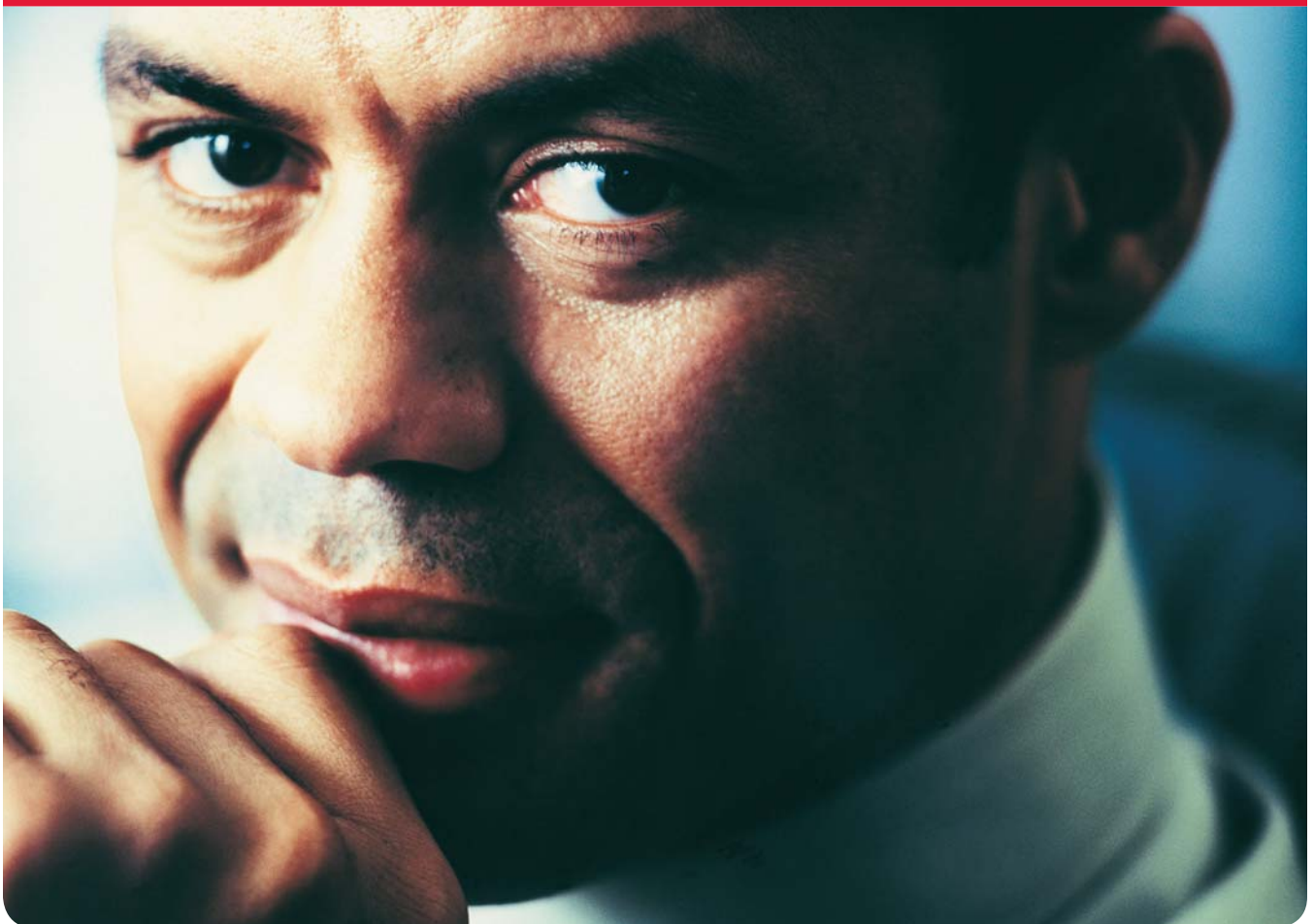


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CORPORATE PROFILE

ENMAX Corporation, wholly owned by The City of Calgary, provides electricity, natural gas, renewable energy and value-added services to about 457,000 residential, commercial and industrial customers in Alberta.

Total Number of Customers	457,000
Electric Sales to Customers	9.8 GWh
Natural Gas Sales to Customers	11.1 million GJ
Net Earnings for 2005	\$116.7 million
Total Assets	\$1,786.1 million

That's a good question and the answer is *easy*.



Gary Holden

*President and
Chief Executive Officer*

Gas and Electricity Made Easy For years, choosing an energy retailer in Alberta was hard work, particularly for residential customers. They had to wade through a great deal of complicated contract language required, ironically, to safeguard consumer rights. They also had to forecast future energy prices, make long-term commitments and expose themselves to potentially hefty financial penalties if they changed energy suppliers.

Who could blame the 90 per cent of Alberta customers who rejected energy contracts and remained on the provincial government's regulated rate option?

In 2005, ENMAX Energy committed to making energy purchasing easy for customers. And with the introduction

of EasyMax™ in October, ENMAX Energy changed the face of energy retailing in Alberta. As thousands of Albertans soon found out, choosing EasyMax really is easy, saves money and liberates them from long-term contracts with onerous penalties.

2005 FINANCIAL OVERVIEW

(millions of Canadian dollars)

	2005	2004	2003	2002	2001
Total revenue	1,298.4	1,193.1	1,226.2	1,150.4	1,440.3
Net earnings	116.7	152.2	173.0	166.6	249.6
Shareholder's equity	1,305.4	1,238.7	1,127.1	1,009.0	877.4
Return on equity (%)	10.1	12.5	15.8	17.6	36.9
Capital expenditures	130.6	101.4	173.7	159.9	111.3
Dividends paid	50.0	50.4	50.0	35.0	30.0

MESSAGE TO STAKEHOLDERS



ENMAX Chair of the Board of Directors Thompson MacDonald (left) and CEO Gary Holden (right)

ENMAX delivered strong financial results in 2005. The year's net earnings were \$116.7 million, as ENMAX once again surpassed its target. Our 2005 earnings were \$7.2 million higher than the prior year, excluding the one time adjustment recorded in 2004. ENMAX achieved these results despite the challenges of intense competition, particularly in the large commercial and industrial market where we faced the expiration of a significant number of three- and five-year contracts.

Revenues grew by approximately 8.8% in 2005 to \$1.3 billion, compared to \$1.2 billion in 2004. Shareholder's equity also grew in 2005, to \$1.3 billion from \$1.2 billion in 2004, an increase of approximately 5.4%. ENMAX has consistently delivered good returns since becoming a commercial entity in 1998.

Late in 2005 the landscape of the Alberta energy market changed with ENMAX's launch of EasyMax, which became an immediate and spectacular success. In the first three months of EasyMax sales, five times as many new customers signed up with ENMAX than at any comparable time since the beginning of deregulation in 2001.

We knew EasyMax would be successful because we began the process by asking Albertans what they wanted in an energy offer. They also told us what they didn't want, such as door-to-door sales. So, in 2005 ENMAX became the only retailer in Alberta to discontinue residential door-to-door sales. One of the most impressive statistics to emerge from the EasyMax initiative is that this large migration of customers came to ENMAX via our website and call centre. No salesperson ever visited a residential customer's home to sell EasyMax.

In July, ENMAX announced plans to expand our generation asset base with the decision to seek regulatory approval for the Taber wind power facility. The project will use advanced wind power turbine technology to produce 80 MW per year. Our customer for this wind-power-generated electricity is The City of Calgary. ENMAX has entered into a 20-year sales agreement with the City to take all of the power produced, which will help Calgary reach its goal of having 75% of the power requirements for its municipal operations provided by renewable energy. Our unique Greenmax program, the first green power marketing program in Canada, saw a 75% volume increase of wind-generated electricity sales to large commercial and industrial customers in 2005.

Matching power supply with customer needs is critically important to ENMAX. In order to keep pace with the anticipated demand growth, ENMAX will search for the most effective, low cost supply sources, and assess all options, including Power Purchase Arrangements (PPAs), purchasing existing generating facilities or building our own power plants.

ENMAX is the leading retail electricity marketer in Alberta, and we lead the way for customers who combine gas and electricity. As we continue to grow, we will offer more programs for all customers in every class of trade. We will continue to add residential and small business customers with our popular EasyMax offer. ENMAX is also poised to add to our industrial and commercial business, which was augmented by our acquisition in January of Valeo Power Corporation, a market leader in power sales to large customers in the oil and gas industry.

Our natural gas sales business experienced substantial growth in 2005, as we doubled our sales volume relative to 2004. EasyMax, which requires combining gas with electricity for customers to receive their annual \$100 savings, will add gas volume from the residential and small business market. Our large commercial and industrial marketing group will build on 2005 sales successes such as the gas supply deal we signed with the Edmonton School Board early in the summer.

In 2005, our 100-year-old business, ENMAX Power, continued its tradition of making electricity easy, safe and dependable. Reliability is a critical measure of how well an electrical utility provides uninterrupted power service, and ENMAX is an outstanding reliability performer when measured against our peers in the industry. The Canadian Electrical Association measures reliability in many ways. One indicator relates to the frequency of service interruptions, and another relates to the duration of interruptions. In 2005, ENMAX, which has outperformed the Canadian urban utility average every year since 1999, bettered its own 2004 results in both measures.

We maintained this high level of reliability in 2005 and spent \$100 million to expand and maintain the Calgary distribution network. Our investment in Calgary infrastructure has been growing for years to keep pace with the robust pace of business and residential property development in the city. Economic forecasters are predicting that this trend will continue for Calgary, and ENMAX will continue to invest significantly in the distribution network for the next several years.

Climbing a power pole in extreme weather conditions while handling high voltage equipment is a tough and demanding job, but ENMAX employees do it well, and just as importantly they do it safely. In 2005, our safety performance, especially the action we take to prevent injury, was strong enough to warrant a reduction in our Workers' Compensation Board premiums for the sixth year in a row.

Looking forward, ENMAX will continue to put the customer first with retail offers that will save money and make energy purchasing easy and convenient.

ENMAX customers will also benefit from our success in securing long-term, low-cost energy. An example of this strategy in action occurred over the last two weeks of December 2005, when thousands of customers signed up with EasyMax's one-year, fixed-rate electricity plan to capture significant savings over higher cost, regulated rate options.

Another area of strategic focus for ENMAX is the regulatory process. The Alberta Energy and Utilities Board approves the tariffs and rates under which ENMAX provides transmission, distribution and RRO services. We will continue to present high quality submissions to our regulator so consumer representatives and the EUB can deal with our applications in an efficient and timely manner. We will also continue to offer constructive ideas designed to further enhance the efficiency of the regulatory process and reduce costs for our customers.

The regulatory landscape in Alberta continues to change as electricity and natural gas restructuring progresses. ENMAX's strategic focus in this area is to proactively advance policy recommendations to government and regulatory bodies that support the further development of competitive energy markets, for the benefit of consumers. We strive to advance ideas that make the energy-buying process easier for customers to participate in and understand.

On behalf of the Board of Directors and management, we thank our shareholder, The City of Calgary, for supporting ENMAX as we strive to achieve our strategy and build a stronger relationship with our customers. We also thank ENMAX employees for their hard work and perseverance in 2005, and for their commitment to helping us achieve our goals and objectives in the future.

Gary Holden
President and Chief Executive Officer

Thompson MacDonald
Chair of the Board of Directors

ENMAX BUSINESS LINES

Transmission

ENMAX Power Corporation (ENMAX Power) owns, operates and maintains 69 kv and 138 kv transmission lines. This interconnected system transmits bulk electricity through 281 kilometres of transmission lines and 35 substations in and around Calgary. Transformers convert the transmission level to the lower distribution level voltages. These lower voltages are used to distribute power to local communities and businesses in and around the city.

Distribution

ENMAX Power links about 390,000 metered customer sites with about 6,882 kilometres of distribution lines that it owns, operates and maintains. The downtown Calgary network, with its innovative design, has attracted attention as a model of efficiency and reliability. The Corporation's service area covers 1,044 square kilometres.

Billing and Retail Services

ENMAX Power is responsible for metering, meter data management, customer enrolment services, load settlement and billing in Calgary. It also provides some or all of these services in Red Deer, Fort Macleod, Cardston and the Municipality of Crowsnest Pass. ENMAX Power provides retail customers with billing and customer care services through the Accenture Business Services for Utilities service contract.

Power Services

ENMAX Power Services:

- provides non-regulated engineering, procurement, construction and maintenance services;
- designs, constructs and maintains overhead and underground utility infrastructure; and
- installs and maintains outdoor lighting, street lighting and signal and communication systems for light rail transit systems.

Retail Products and Services

ENMAX Energy Corporation (ENMAX Energy) provides a variety of electricity, natural gas and renewable energy products as well as customer care and energy management services to residential, small to medium commercial and large commercial and industrial customers across Alberta. With the acquisition in January of Valeo Power Corporation, a market leader in power sales to large customers in the oil and gas industry, ENMAX Energy added sales and marketing strength to its large industrial and commercial business.

Generation

Under a Power Purchase Arrangement (PPA), ENMAX Energy owns the rights to the physical output from the Keephills coal-fired plant until the year 2020. The plant, which is owned and operated by a third-party generator, produces approximately 5.9 million megawatt hours of electricity per year.

As part of a joint venture, ENMAX Green Power Inc. owns 50% of the McBride Lake 75 MW wind farm.

From a total of 166 turbines, about 350,000 megawatt hours of emission-free electricity is produced per year, or enough to power the equivalent of about 34,000 homes. ENMAX is building a second facility in southern Alberta, which will be wholly owned and will increase potential production by another 80 MWh. ENMAX also owns 99% of the Furry Creek run-of-river hydro generation facility located near Squamish, British Columbia, and is the majority owner of Hydromax, a run-of-river hydro power generation development company headquartered in Vancouver, British Columbia.

Energy Portfolio

ENMAX Energy and ENMAX Energy Marketing Inc. (ENMAX Marketing) sell electricity and natural gas to customers, supplied by electricity produced under its Keephills Power Purchase Arrangement, the McBride Lake wind farm and by the purchase of electricity and natural gas in the competitive Alberta market. Electricity is bought and sold daily through the Alberta Electric System Operator and other contracts to match supply and demand. Natural gas is purchased daily under short- and long-term contracts to ensure natural gas is available to meet customer demand.

Fibre Optics

ENMAX Envision owns and operates more than 600 route-kilometres of fibre optic network in Calgary. The company provides high-speed data and Internet services to businesses in Calgary.

OPERATIONAL OVERVIEW

ENMAX Power

ENMAX Power continues to build on a 100-year reputation for delivering safe, reliable and cost-effective electricity to Calgarians and customers in surrounding areas. In 2005, the demands on ENMAX Power to keep pace with Calgary's growth resulted in the investment of \$103.1 million in ENMAX's electrical infrastructure. ENMAX Power delivered 8,294 GWh of electricity through its transmission and distribution system (system) in 2005 to about 390,000 metered customers. The system experienced a 3.1 per cent increase in demand in 2005 compared to 2004.

In 2005, system reliability continued its top quartile performance amongst urban utilities reporting statistics to the Canadian Electrical Association. ENMAX Power continues to pursue reliability improvement initiatives to ensure its top quartile performance will continue well into the future.

ENMAX Power successfully implemented the third phase of a five-year Distribution Automation (DA) project. DA involves the installation of automated switches at key feeders to enhance overall system performance. To date, the project has prevented power interruptions to 37,000 customers and reduced potential customer interruption minutes by 1.8 million. In 2005, the DA project resulted in reductions of 13 per cent in both SAIDI (the average time in hours that any customer on the electrical system can expect to be

without power in one year) and SAIFI (the average number of interruptions greater than 1 minute that any customer on the electrical system can expect to experience in one year).

ENMAX Power Services (EPS), a subsidiary of ENMAX Power, successfully grew three- and four-party, underground residential infrastructure projects in Okotoks, Airdrie, High River and other communities around Calgary. EPS also completed contract work on Suncor Energy's oil sands complex in Fort McMurray and Edmonton Transit's light rail transit system. EPS won contracts to build a number of large roadway lighting projects in Calgary. ENMAX Utility Services, a subsidiary company of EPS formed in 2005, was awarded contracts for construction of the Taber wind farm and for Alberta's Highway 2 roadway lighting subcontract south of Calgary.

Prior to 2004, ENMAX Power was regulated by The City of Calgary. Since 2004, it has been regulated by the Alberta Energy and Utilities Board (EUB). ENMAX Power is regulated under three different tariffs:

- Distribution Tariff (DT) – the costs associated with the network that distributes electricity to homes and businesses;
- Transmission Tariff (TT) – the costs associated with the system that transmits electricity from generation facilities; and

- Regulated Rate Tariff (RRT) – the costs of ENMAX’s obligation to procure energy for residential and small commercial consumers who have not chosen a competitive retailer.

On January 14, 2005, ENMAX Power filed two tariff applications with the EUB: a 2005-2006 Distribution Tariff Application and a 2005 Regulated Rate Tariff Application. The DT Application requested approval for total Distribution Tariff revenue for 2005 and 2006. The RRT Application requested approval for administrative costs for 2005. On January 13, 2006, the EUB issued decisions on both the DT and RRT applications.

ENMAX Energy

ENMAX Energy provides natural gas, electricity and associated services to residential and business customers across Alberta. In October 2005, ENMAX Energy introduced EasyMax, a groundbreaking new offer for residential and small commercial customers. In contrast to long-term, fixed-price contracts that had dominated energy marketing since the beginning of deregulation in 2000, EasyMax requires no long-term commitment and customers can change suppliers without penalty. In addition to these benefits, EasyMax customers save \$100 every year by combining electricity and natural gas services with ENMAX.

Energy market developments in recent years have resulted in intense competition in the large commercial and industrial customer market segment. Marketing strategies for larger customers include blending contract rates and extending contract terms to be more competitive, and adding valuable options like renewable energy and sponsorship programs.

A key to ENMAX Energy’s success is its demonstrated skill at matching energy supply to customer demand through a diverse portfolio of electricity and natural gas contracts and physical trading of energy in the Alberta and interconnected markets.

In 2005, ENMAX Envision expanded its market for high-speed data services in Calgary. ENMAX Envision revenue and customers grew in excess of 50 per cent during 2005. Key customer segments responsible for the strong growth were Alberta’s large enterprises as well as other telecommunications operators that sell Envision’s service under their own brand. In 2005, ENMAX Envision completed its work on the Alberta SuperNet project, which extended its fibre optic network into more than 100 Calgary schools in support of the Government of Alberta’s plan to enable the province-wide delivery of high-speed information and data services.

EXECUTIVE LEADERSHIP TEAM

The executive leadership team implements ENMAX's strategic plan and ensures effective management of the Corporation. This seasoned group of industry leaders brings diverse skills and experience to best serve the evolving needs of the Corporation.

Gary Holden

President and Chief Executive Officer

Mr. Holden became President and Chief Executive Officer (CEO) of ENMAX Corporation (ENMAX) and CEO of each of ENMAX's subsidiary corporations in May 2005. He is also a member of the ENMAX Board of Directors.

Prior to joining ENMAX, Mr. Holden held several key positions with other organizations. Most recently, Mr. Holden was President and Chief Operating Officer of AltaGas Income Trust. Prior to his role at AltaGas, he was Chairman and CEO of EnSource Energy Services. Mr. Holden started his career in Calgary, where he held a variety of positions with TransAlta Corporation. He was Executive Vice-President, Generation, and CEO of TransAlta New Zealand

Limited, where he was responsible for the Australia and New Zealand business activities for TransAlta.

In 1983, Mr. Holden received a Bachelor of Science in Mechanical Engineering from the University of Calgary, and in 1997 was selected as one of Canada's Top 40 under 40.

Allan Buchignani

Executive Vice-President, Utilities

Mr. Buchignani joined ENMAX in July 2001 and is responsible for the regulated transmission and distribution businesses, billing and retail services and power services. He worked at The City of Medicine Hat as Commissioner of Utilities Services from 1996 to 2001 and as Gas Utility General Manager from 1982 to 1996. Prior thereto, he held positions as President and General Manager of Peerless Supply Limited and as Regional Engineer for Inland Natural Gas Company.

Mr. Buchignani received a Bachelor of Science (with Honours) in Mechanical Engineering in 1971, from Washington State University, as well as completing numerous training seminars relating to oil and gas acquisition, performance, and management. He has been a professional engineer for more than 30 years.

Ken Willis

*Executive Vice-President,
Wholesale and Retail Energy*

Mr. Willis is responsible for electricity and natural gas trading, portfolio management, marketing and sales, and ENMAX Green Power. In addition, he manages ENMAX's investment in wind power, including one of Canada's largest wind farms in southern Alberta.

Prior thereto, Mr. Willis was Vice-President, Energy Portfolio of ENMAX Energy from 2002 to 2003 and Director of Energy Portfolio of ENMAX from 1999 to 2002. He held various positions at TransAlta Corporation from 1981 to 1999, including Manager, Wholesale Marketing from 1995 to 1999. He holds a Bachelor of Science (Electrical Engineering) from the University of Saskatchewan and a Masters of Business Administration (Finance) from the University of Calgary.

Kim Hubick

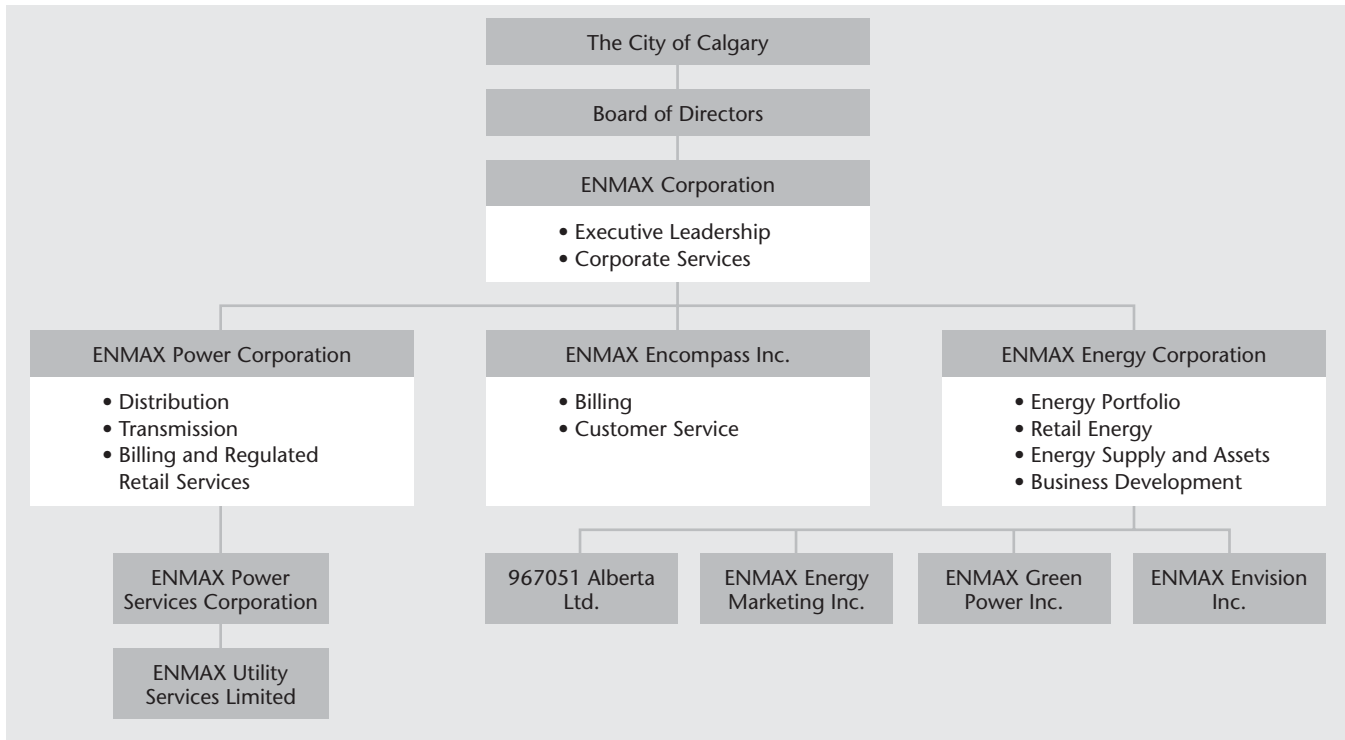
*Executive Vice-President,
Finance and Chief Financial Officer*

Mr. Hubick joined ENMAX in October 2005 and is responsible for all financial policy, planning and reporting as well as tax, supply chain management, treasury and risk management planning and implementation.

Prior to joining ENMAX, Mr. Hubick was the Vice President Controller at AltaGas Income Trust. He previously held vice-president or director roles at Central Alberta Midstream and Canadian Pacific Railway. Mr. Hubick has over 30 years' experience in the areas of finance, accounting, systems and business process improvement.

Mr. Hubick is a Chartered Accountant and holds a Bachelor of Commerce degree from the University of Calgary.

CORPORATE GOVERNANCE

**ENMAX Corporate Structure**

Corporate governance is a function undertaken by the Board of Directors. The Executive Leadership team is accountable for the day-to-day management of the company and its subsidiaries. ENMAX Green Power Inc. has an equity interest in the following affiliated companies: Valeo Power Corporation, Furry Creek Power Ltd., Hydromax Energy Ltd. and EnPower Green Energy Generation Inc. Each of these ENMAX Green Power Inc. subsidiaries has its own management level Board of Directors.

ENMAX's Board of Directors and management are committed to leadership in corporate governance. Our focus is on ethical business practices, leadership strength and continuous improvement. Although ENMAX is not a reporting issuer under guidelines established by the Canadian Securities Administrators (CSA), our goal is to meet or exceed each guideline set out by the CSA National Policy 58-201 Corporate Governance Guidelines.

Canadian Securities Administrators' National Policy 58-201 – Corporate Governance Guidelines

The Canadian Securities Administrators have published Corporate Governance Guidelines that formalize corporate best practices. These are set out below along with a notation as to ENMAX's conformity to them.

1. The Board should have a majority of independent directors (having no direct or indirect material relationship with the company that could reasonably interfere with the exercise of a member's independent judgment).

YES All directors are independent, except for R.A. Hawkesworth and F.G. Lowe, who are Aldermen for The City of Calgary, and G.R. Holden, who is President and Chief Executive Officer.

2. The Chair of the Board should be an independent director.

YES An independent director, Thompson MacDonald, serves as Chair of the Board.

3. The independent directors should hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance.

YES After each Board meeting, the Chair leads sessions attended solely by non-management directors. In addition, the Board of Directors holds quarterly outside director dinner meetings. Aldermen R.A. Hawkesworth and F.G. Lowe, although not independent, are non-management and do attend these sessions.

4. The Board should adopt a written mandate in which it explicitly acknowledges responsibility for the stewardship of the issuer, including responsibility for:

(a) satisfying itself as to the integrity of the chief executive officer and other executive officers and that these officers create a culture of integrity throughout the organization;

YES The Board of Directors' Terms of Reference requires that the Board ensure that the Corporation is operated at all times within applicable laws and regulations and to the highest ethical and moral standards. Ethics and integrity are conditions of employment at ENMAX. ENMAX has developed and implemented a set of Leadership Attributes that have been communicated to all employees and are the cornerstone for promotion and recognition. Equally important,

a strong culture guided by rules (core values) provides all employees a foundation for making decisions. All employees are required to take mandatory ethics training and the Corporate Governance Committee monitors the ethical health of the company by reviewing feedback received from an independent "Ethics Helpline".

(b) adopting a strategic planning process and approving, at least annually, a strategic plan which takes into account the opportunities and risks of the business;

YES The Board has adopted a strategic planning process that it engages in from beginning to end and that includes consideration of opportunities and risks. The Corporate Governance Committee oversees this process. The Board of Directors approves the strategic plan.

(c) identifying the principal risks of the issuer's business and ensuring the implementation of appropriate systems to manage those risks;

YES The principal risks faced by ENMAX are identified by management and then discussed with and monitored by the Board. Management regularly updates the Board about the corporate processes for managing risks related to commodity prices, energy trading and compliance with environment, health and safety, as well as Code of Conduct legislation and regulations.

(d) planning for succession, including appointing, training and monitoring senior management;

YES The Human Resources Committee oversees ENMAX's compensation program and practices, and the performance of senior management. The committee reviews succession planning and reports to the Board when appropriate.

(e) adopting a communication policy for the issuer;

YES ENMAX is committed to excellence and timeliness in its communications. The Board and management have put organizational structures in place to ensure effective internal and external communication. A formal Disclosure and Confidentiality Policy has been adopted. The Environment, Health and Safety and Public Affairs Committee oversees corporate communications. The Audit and Finance Committee and the Board review the release of all interim and annual financial results prior to public disclosure. Information is released through mailings, a news wire service and our company website, www.enmax.com.

(f) assuming responsibility for the integrity of the issuer's internal control and management information systems;

YES The Audit and Finance Committee oversees ENMAX's financial reporting processes, the systems for internal controls, the audit process and the management of risk. The Audit and Finance Committee meets independently of management with the internal auditor, who reports to the Committee, and ENMAX's external auditor, and then reports its findings to the Board.

(g) developing the issuer's approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the issuer;

YES ENMAX is solely owned by The City of Calgary and is not currently a reporting issuer. ENMAX has adopted the Governance Guidelines of National Policy 58-201, reflecting its commitment to high standards of corporate governance. The Corporate Governance Committee has committed to benchmarking its practices against the guidelines of National Policy 58-201.

(h) communicating the expectations and responsibilities of directors with respect to attendance at Board meetings.

YES The Terms of Reference for a director require that Board members prepare for, attend and participate in

all Board and applicable committee meetings, and spend the time needed to meet as often as necessary to properly discharge their obligations. The Corporate Governance Committee has adopted the practice of publishing the attendance of directors. Please refer to www.enmax.com for attendance records.

5. The Board should develop clear position descriptions for the Chair of the Board and the Chair of each Board committee. In addition, the Board should develop a clear position description for the CEO. The Board should also develop or approve the corporate goals and objectives that the CEO is responsible for meeting.

YES The Corporate Governance Committee has established clear sets of responsibilities for the Chair of the Board and the Chair of each Board committee. It has also defined limits to the responsibilities of the president and chief executive officer. The Board annually sets corporate goals and objectives with the CEO.

6. The Board should ensure that all new directors receive comprehensive orientation and should provide continuing education opportunities for all directors.

YES The Corporate Governance Committee ensures that all new directors receive a comprehensive orientation. The Committee also approves an annual education plan for the Board of Directors and the

committees of the Board. In addition, directors are encouraged to participate in external education.

7. The Board should adopt a written code of business conduct and ethics. The code should be applicable to directors, officers and employees of the issuer.

YES The Board of Directors has approved the ENMAX Principles of Business Ethics, which apply to all directors, officers and employees of the company.

8. The Board should be responsible for monitoring compliance with the code. Any waivers from the code that are granted should be granted by the board.

YES The Board of Directors monitors compliance with the ENMAX Principles of Business Ethics. No waivers from the code have been requested or granted.

9. The Board should appoint a nominating committee composed entirely of independent directors and this committee should have a written charter.

YES The Corporate Governance Committee, which has a written mandate and is composed entirely of independent voting directors, recommends to the Board candidates for nomination. Alderman F.G. Lowe supports the Corporate Governance Committee in an advisory capacity. The Board derives its strength from the background, diversity, qualities,

skills and experiences of its members. The Corporate Governance Committee maintains a skills matrix of directors' talents and Board requirements. Nominees to the Board are considered by the sole shareholder (The City of Calgary) and selected based on qualities such as integrity, business judgment, independence and business or professional expertise. The Mandate of the Corporate Governance Committee is available at www.enmax.com.

10. The Board should appoint a compensation committee composed entirely of independent directors that reviews and approves the corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining the CEO's compensation based on this evaluation. The Committee should have a written charter.

YES The Human Resources Committee is comprised entirely of independent directors. Annually, the Committee reviews and approves the goals and objectives relevant to the compensation of senior corporate officers, evaluates the CEO's performance in light of those goals and objectives, and determines the CEO's compensation based on this assessment. The mandate of the Human Resources Committee is available at www.enmax.com.

**BOARD AND
EXECUTIVE COMPENSATION**

For the year ended December 31, 2005, the following remuneration was paid to the ENMAX Board of Directors (excluding Aldermanic representatives) and the Chief Executive Officer, Chief Financial Officer and the next three most highly compensated executive officers of the Corporation at the end of 2005.

Board of Directors: \$ 592,000

Executive officers: \$ 1,827,000

BOARD OF DIRECTORS
H. Thompson MacDonald (2002)

Chair of the Board

Corporate Director

President, H. Thompson MacDonald

Strategic Communications

Consultants Ltd.

Theodore M. Allen (2003)

Corporate Director

Formerly Chairman and President,

Agricore United

Paul A. Dawson, F.C.A. (1997)

Chair, Audit and Finance Committee

Chartered Accountant

Formerly Chief Commissioner,

The City of Calgary

Clifford H. Fryers, LL.B. (2003)

Chair, Corporate Governance Committee

Currently Chairman and CEO,

White Iron Group of Companies

Formerly Chief of Staff to E. Preston

Manning, Member of Parliament,

Leader of Her Majesty's Official

Opposition in the House of

Commons

Prior to that, a Tax Partner at what is

now Fraser Milner Casgrain LLP.

Robert A. Hawkesworth, MA (1997)

Chair, Environment, Health and Safety

and Public Affairs Committee

Currently Alderman,

The City of Calgary

Formerly member of the Legislative

Assembly for Calgary Mountainview

Gary R. Holden (2005)

President and Chief Executive Officer,

ENMAX Corporation

Formerly President and Chief

Operating Officer,

AltaGas Income Trust

Donald L. Lenz (2005)

Chair, Pension Governance Committee

Managing Director of

Newport Partners Inc.

Formerly Vice President and

Director of RBC Securities Inc.

Francis Leong (2002)

Chair, Human Resources Committee

Currently Principal, Sungai River Inc.

Formerly City Treasurer,

The City of Calgary

F. Gordon Lowe (2004)

Currently Alderman,
The City of Calgary
Formerly Manager,
Calgary Air Traffic Control

Ian MacGregor (2003)

Currently Partner,
North West Capital Inc.
Chief Curator,
Canadian Museum of Making
Formerly President,
Menlo Park Capital Inc.

Margot M. Micallef, LL.B., Q.C. (2003)

Currently Managing Director of
Oliver Capital Partners, Counsel
to Gowling Lafleur Henderson LLP,
Adjunct Professor,
University of Alberta
Formerly Senior Vice-President,
Law, General Counsel and
Corporate Secretary,
Shaw Communications Inc.

More biographical information and the Terms of Reference for directors are available at www.enmax.com. The date appearing after the name of each director indicates the year in which the individual became a director. The term of office of each director will expire and be subject to reappointment at the next annual meeting of the shareholder.

Summary of Mandates and Activities of Board Committees

The Board delegates certain work to Board committees. This allows in-depth analysis of issues by the committees and more time for the full Board to discuss and debate items of business at a more strategic or policy level. Each committee annually evaluates its effectiveness in carrying out its mandate.

Audit and Finance**Committee Members:**

P.A. Dawson (*chair*); C.H. Fryers;
D.L. Lenz; F. Leong; I. MacGregor.

Corporate Governance Committee**Members:**

T.M. Allen; C.H. Fryers (*chair*);
F.G. Lowe (*advisory*); H.T. MacDonald;
M.M. Micallef.

Environment, Health and Safety and Public Affairs Committee**Members:**

T.M. Allen; R.A. Hawkesworth (*chair*);
H.T. MacDonald; M.M. Micallef.

Human Resources Committee**Members:**

T.M. Allen; P.A. Dawson;
F. Leong (*chair*); I. MacGregor.

Pension Governance Committee**Members:**

P.A. Dawson; D.L. Lenz (*chair*);
F. Leong.

REPORT OF MANAGEMENT

The consolidated financial statements and all the information in the 2005 annual report are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and management's best estimates and judgments. The financial and operating information presented in this annual report is consistent with the consolidated financial statements and accompanying notes.

Management has prepared the management's discussion and analysis (MD&A). The MD&A compares the Corporation's financial performance in 2005 to 2004 and should be read in conjunction with the consolidated financial statements and accompanying notes.

ENMAX Corporation has designed and maintains internal controls to safeguard assets and facilitate the preparation of reliable and relevant financial information on a timely basis.

The Board of Directors has appointed an Audit and Finance Committee, which consists primarily of independent directors of the Board, to ensure management fulfils its responsibilities for financial reporting.

The independent external auditors, Ernst & Young LLP, have been appointed by the shareholder to express an opinion on ENMAX's consolidated financial statements. The accompanying report of Ernst & Young LLP outlines the scope of their examination and their opinion on the consolidated financial statements.

Gary Holden
President and Chief Executive Officer

Kim Hubick
*Executive Vice-President, Finance
and Chief Financial Officer*

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) dated March 20, 2006 is a review of the results of operations and the liquidity and capital resources of ENMAX Corporation (ENMAX or the Corporation) for the year ended December 31, 2005 compared to 2004. It should be read in conjunction with the accompanying audited consolidated financial statements of the Corporation for the year ended December 31, 2005.

Certain information in this annual report and MD&A contains forward-looking statements. When used in this MD&A, 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. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such risks and uncertainties include, but are not limited to, competitive factors and pricing pressures, regulatory decisions and the impact of deregulation in the industry. 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 MD&A. 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 MD&A as intended, planned, anticipated, believed, estimated or expected, and such forward-looking statements included in this MD&A herein should not be unduly relied upon. These statements speak only as of the date of this MD&A. The Corporation does not intend, and does not assume any obligation, to update these forward-looking statements.

1. Overview of the Business and Strategy

ENMAX Corporation reviews its strategic plan annually to confirm the Corporation's direction and strategic objectives. The 2006 Plan was approved by the Board of Directors in October 2005 and endorsed by the shareholder, Calgary City Council, in November 2005.

With an overall strategic objective of producing a reliable earnings stream without large volatility, the 2006 strategic plan commits ENMAX to:

- Growing value through a relentless focus on customers and increasing market share in Alberta through world-class customer services, contracts and prices.
- Providing cost-effective supplies of energy for our customers.
- Expanding Calgary's distribution and transmission network and maintaining performance as one of the country's most reliable urban electrical systems.

Customer Focus

ENMAX's focus on listening to customers and commitment to providing the products and services they want resulted in the Corporation's October 2005 launch of EasyMax. This unique arrangement enables residential and small business customers, through combining their electricity and natural gas purchases from ENMAX, to pay no more than government regulated rates and receive annual savings of \$100 while retaining the freedom to change suppliers without penalty.

This emphasis on providing low cost, simple products is expected to result in further innovations in customer programs and services in the future.

Energy Supplies

Sufficient low cost energy supply will underpin ENMAX's ability to provide reliable, competitively priced electricity and natural gas to all its customers. Currently, ENMAX produces or has direct access to electricity generation to supply approximately 50 per cent of demand from its customers. ENMAX expects to actively pursue opportunities to acquire additional energy supply, including contractual supply arrangements, wind and hydro facility development and participation in construction of new thermal plants.

Calgary Assets

ENMAX expects to grow its transmission and distribution infrastructure as the City of Calgary expands. ENMAX expects to invest approximately \$100 million annually to facilitate this growth.

2. Selected Annual Information

Years ended December 31 (<i>millions of Canadian dollars</i>)	2005	2004 ⁽¹⁾	2003
Total revenue	1,298.4	1,138.1	1,226.2
Operating expenses	1,144.6	974.7	987.2
Earnings before interest and income taxes	153.8	163.4	239.0
Interest	14.1	14.0	12.9
Income tax	23.4	39.9	53.1
Non-controlling interest ⁽²⁾	(0.4)	–	–
Net earnings before adjustment ⁽³⁾	116.7	109.5	173.0
Adjustment relating to prior period	–	42.7	–
Net earnings	116.7	152.2	173.0
Total assets	1,786.1	1,730.4	1,443.3
Total long-term debt	234.3	252.3	160.6
Dividends paid	50.0	50.4	50.0

(1) Amounts have been restated for comparative purposes. See discussion that follows.

(2) Includes the interest of non-controlling shareholders in the net earnings of Furry Creek Power Ltd. and Hydromax Energy Ltd.

(3) Non-GAAP financial measure. See discussion that follows.

3. Consolidated Financial Review

Net earnings in 2005 were \$116.7 million compared to \$109.5 million, excluding the adjustment described below, in 2004. The increase in earnings was driven by customer growth, acquisitions, reduced commodity costs for the Power Purchase Arrangements (PPAs) and lower income tax charges. Partially offsetting these gains were increased expenses associated with a growing customer base and natural gas price movements. The 2004 adjustment referred to above, recorded in September 2004, was related to ENMAX's estimate of unbilled revenue. The adjustment increased 2004 net earnings by \$42.7 million. No similar adjustments were recorded in 2005.

Total revenue for 2005 increased 14 per cent to \$1,298.4 million compared to \$1,138.1 million in 2004, reflecting the growing customer base and increases in natural gas volumes sold.

Total operating expenses in 2005 were \$1,144.6 million, which compares to \$974.7 million in 2004, an increase of 17 per cent. The increase was due to higher volumes of electricity purchased, higher volumes and prices paid for natural gas to supply the growth in volumes sold, increased operations, maintenance and administration costs driven by growth in the business and higher amortization as a result of capital invested in the distribution system.

Income tax expense was \$28.8 million lower than 2004 due to higher interest deductions arising out of internal debt restructuring in ENMAX's taxable operations. Partially offsetting this effect was the impact of a provincial tax rate reduction in 2004, which decreased ENMAX's future income tax assets by \$5.6 million, resulting in a charge to net earnings in 2004 with no comparable charge recorded in 2005.

ENMAX expects net earnings for 2006 to improve from 2005 levels on the basis of higher expected prices for electricity and natural gas, the acquisition of lower cost electricity supply and continued growth in the distribution and transmission rate bases.

In 2005, ENMAX paid dividends of \$50.0 million to its shareholder, The City of Calgary, comparable to the \$50.4 million paid in 2004. Consistent with the shareholder-approved 2006 budget, ENMAX declared dividends of \$50.0 million to be paid in 2006.

ENMAX also paid The City of Calgary \$73.0 million in local access fees in 2005 compared to \$68.5 million in 2004. These fees are collected from Calgary customers and flow directly to The City of Calgary in lieu of property tax for the use of The City of Calgary's rights-of-way.

4. 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 Canadian generally accepted accounting principles (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.

Net earnings before adjustment (millions of Canadian dollars)	2005	2004
Non-GAAP financial measure	116.7	109.5
Adjustment relating to prior period:		
Unbilled revenue accrual	–	55.0
Income taxes thereon	–	(12.3)
Net earnings (GAAP financial measure)	116.7	152.2

5. Results of Operations by Segment

Years ended December 31 (millions of Canadian dollars)	2005	2004	2003
ENMAX Energy	10.6	103.6	100.5
ENMAX Power	27.3	37.8	69.6
Corporate & intersegment eliminations	78.8	10.8	2.9
Net earnings	116.7	152.2	173.0

ENMAX ENERGY

Financial Review

ENMAX Energy's 2005 net earnings of \$10.6 million are \$93.0 million lower than 2004, reflecting increased intercompany interest expense, as a result of an internal debt restructuring that occurred in December 2004, of \$46.0 million net of tax. In addition, net earnings for 2004 include an adjustment to estimated unbilled revenue that increased net earnings in 2004 by \$42.7 million after tax. Excluding these amounts, 2005 net earnings for ENMAX Energy decreased by \$4.3 million compared with 2004. This decrease is due to higher average wholesale electricity prices, as well as reduced low cost supply from ENMAX's Power Purchase Arrangement (PPA) contracts due to planned maintenance outages.

Total segment revenue of \$1.2 billion in 2005 increased \$93.0 million compared to 2004. Lower average contract electricity prices and reduced investment income in 2005 were offset by higher natural gas volumes and higher grid charges.

ENMAX Energy conducts modest amounts of energy trading to manage risks from market exposures and to generate incremental revenue through arbitrage opportunities. During 2005, energy trading revenue was \$16.8 million compared to \$20.3 million in 2004.

ENMAX Energy recorded \$105.6 million in revenue from providing natural gas supply to customers across Alberta in 2005. This revenue was up \$64.9 million from 2004 due to new customer contracts combined with increased gas prices in 2005.

Contractual services and other revenue was \$36.6 million in 2005 compared to \$38.6 million in 2004. The decrease in 2005 over 2004 was largely due to lower revenue from short-term investments as a result of the debt restructuring, which was partially offset by higher contractual services revenue.

Electricity and natural gas costs rose 19 per cent in 2005 compared to 2004. The primary drivers of the increase were higher natural gas sales volumes, higher electricity sales volumes and higher grid charges due to the higher electricity volumes sold.

Operations, maintenance and general and administrative expenses were \$105.3 million in 2005, up from \$96.0 million in 2004. The increase in 2005 is primarily due to increased advertising to grow ENMAX residential and small commercial retail business.

Billing and collection costs were \$42.1 million in 2005, compared to \$43.9 million in 2004. Lower billing costs in 2005 compared to 2004 resulted from contractual rate reductions and billing efficiencies by the third-party providers. These savings were partially offset by higher bad debt expense, arising from contract interpretation differences with a key commercial customer.

Amortization charges in this business segment increased in 2005 due to ENMAX Energy's investment in new capital assets, including financial and human resources systems upgrades.

Interest expense in 2005 for ENMAX Energy was \$61.7 million, a \$54.6 million increase over 2004. The increase was driven by a recapitalization of ENMAX's subsidiaries in December 2004, wherein ENMAX Corporation's equity in ENMAX Energy was substantially replaced with debt, resulting in increased interest expense. The recapitalization is expected to provide increased flexibility in the execution of ENMAX's future growth strategy. While the ENMAX Energy business bore the increased debt cost there is no impact, at the consolidated level, as the interest expense to ENMAX Energy is offset by interest income to the parent.

ENMAX Energy capital expenditures were \$51.7 million in 2005, compared to \$7.7 million in 2004. The majority of the capital spending in 2005 was for the purchase and construction of new assets, including the construction of a wind farm that will begin producing electricity in late 2006. In addition, ENMAX Energy invested \$12.8 million to expand its fibre optic infrastructure.

Operational Review

A. Energy Supply

ENMAX Energy manages the market risk of providing fixed-price energy to customers by carefully administering its energy supply portfolio. The portfolio is comprised of rights to electricity generation capability, through Power Purchase Arrangements (PPAs) and ownership of generation assets as well as purchases from the marketplace. In 2005, customers purchased 9,804 gigawatt hours (GWh) of electricity compared to 9,118 GWh in 2004. Similarly, load requirements peaked in 2005 at 1,586 MW compared to 1,565 MW in 2004.

Due to variations in customer electricity consumption profiles in each 24-hour period and availability of supply, ENMAX Energy may face periods when it has purchased (hedged) either too much or too little energy supply to meet customer demand. As well, energy prices fluctuate with electricity and natural gas commodity market conditions. A subsidiary, ENMAX Energy Marketing Inc. (Energy Marketing), manages volume and price risks stemming from the energy portfolio and retail sales. A term trading desk and a 24-hour real-time trading desk dispatch output from PPAs, conduct real-time imports and exports to the United States, and participate in Alberta's ancillary services market. Energy Marketing has National Energy Board permits to import/export electricity from/to the United States and Federal Energy Regulation Commission approval to trade electricity in the United States. In 2005, short-term supply exposures were managed with a combination of spot market transactions with the Power Pool of Alberta and import/export transactions with counterparties in the United States. Energy Marketing also participates in limited short-term trading activities in Alberta and the northwestern United States. Total trading revenues resulting from these activities constituted approximately one per cent of ENMAX's total revenue in 2005. All trading activities are governed by trading risk management policies and controls, as discussed on pages 27 to 28.

B. Retail Products and Services

As of December 2005, the number of customers served by ENMAX Energy totaled approximately 457,000, an increase of roughly 22,000 customers since the end of 2004. Of this total, approximately 373,000 residential and small commercial customers in Calgary, Red Deer, Lethbridge, Fort Macleod, Cardston and Crowsnest Pass receive a Regulated Rate Tariff electricity service. Furthermore, ENMAX provides customer service and billing for over 312,000 municipal utilities customer sites, most of which are served by ENMAX for their electricity products and services.

A significant portion of residential and small commercial customers chose to sign competitive contracts with ENMAX Energy in 2005. Offers included: fixed-price contracts for either a three- or five-year term; an innovative Price Protection Plan that included natural gas, electricity and a 10 per cent renewable energy component for residential customers; a one-year 100 per cent renewable energy supply for small business customers; and the introduction of EasyMax—which offered customers a simple way to purchase their gas and electricity together from ENMAX Energy. EasyMax customers save \$100 every year, they are not locked into a long-term contract and they continue to pay no more than the government regulated rates for gas and electricity. Additionally, customers can cancel at any time without penalty.

The retail business also offers five-year fixed-price electricity and natural gas contracts to small business customers, through the door-to-door channel.

A total of 1,370 medium and large commercial customers and industrial customers were served by ENMAX Energy at year-end 2005. Larger commercial and industrial customers can choose between the Default Retailer Rate, which is a flow-through of power pool prices for electricity, or an individual fixed-price contract. The majority of those customers having contracts with ENMAX Energy are committed for periods from six months to five years. The commercial and industrial market is currently the most competitive market in Alberta, with more than 20 licensed retailers seeking this business. ENMAX Energy offers competitive rates and a full suite of innovative energy products, including electricity, natural gas, renewable energy and energy management services, to this market to retain and expand sales success in this segment both in Calgary and throughout the province.

ENMAX Energy also provides energy supply to about 75,000 streetlights and other non-metered service sites.

With the launch of EasyMax, ENMAX Energy has experienced significant growth in sales volumes for both electricity and natural gas driven by the bundling aspect of the product. The Corporation expects this growth to continue throughout 2006 and forward as advertising and word of mouth expand awareness in the marketplace.

C. Fibre Optic

ENMAX Envision Inc. (Envision), a wholly owned subsidiary of ENMAX Energy Corporation, owns and operates more than 600 kilometres of fibre optic network in Calgary. The network provides high-speed data and Internet services to many businesses in Calgary through a three fibre optic ring configuration. In 2005, Envision invested \$12.8 million, enhancing its core service offerings and expanding its network by 57 per cent while maintaining a high level of customer service.

Outlook

In 2006, ENMAX Energy forecasts wholesale prices in Alberta's power pool to be in the \$46 – \$68 per MWh range, while natural gas prices are expected to be in the range of \$6 – \$9 per Gj.

A total of 1,480 MW of supply additions have been announced by the industry over the next five years. Alberta consumer demand growth is expected to be approximately 300 MW, or 2.5 per cent, for 2006, a trend forecast to continue over each of the next five years.

Competition to provide energy supply to customers is expected to intensify in 2006, resulting in increased price pressure in the commercial and industrial market segments. However, growth in the more competitive consumer market and gas market is expected. The business also plans to review opportunities to reduce its cost structure, enabling more competitive rates.

ENMAX Energy continues to seek opportunities to expand its retail business in scale and scope within Alberta, and looks to acquire or develop generation capability both in the province and in British Columbia.

ENMAX POWER

Financial Review

ENMAX Power's revenue and net earnings are largely determined through the regulated rate-making process. ENMAX Power is allowed to charge a tariff to earn an acceptable rate of return on the distribution and transmission assets employed and to recover all costs required to operate, maintain and administer those assets. The Transmission and Distribution Tariffs accounted for 79 per cent of ENMAX Power's revenue in 2005, with contractual services, such as underground residential distribution and signal and communication systems for light rail transit systems, accounting for the balance.

ENMAX Power's 2005 net earnings of \$27.3 million were 28 per cent lower than 2004 net earnings of \$37.8 million. The Energy and Utilities Board (EUB) decision on the 2005 Distribution Tariff (DT) drove \$6.7 million of this change.

Total segment revenue for 2005 was \$338.4 million compared to \$337.3 million in 2004. The main driver for the increase in 2005 compared to 2004 was a change in accounting policy where intercompany transactions on certain assets constructed are no longer eliminated upon consolidation. These increases were partially offset by the impact of the 2005 EUB decision.

In 2005, ENMAX Power paid \$56.4 million in grid charges — the regulated fees to move electricity from generation facilities to distribution systems — compared with \$55.6 million in 2004. The charges are based on electricity volumes moved, which were consistent between 2005 and 2004.

On behalf of The City of Calgary, ENMAX Power collected \$73.0 million in local access fees in 2005, seven per cent higher than the \$68.5 million collected in 2004. These fees are calculated based on a percentage of the DT plus an amount derived using the RRT energy charge and distributed volumes. ENMAX Power's 2005 operating and maintenance and administrative costs were \$121.0 million, consistent with 2004.

ENMAX Power was allowed by regulation at the time to charge a deficiency rider to recover a revenue shortfall incurred in 2000, totalling \$140.1 million, when the cost of electricity exceeded the regulated rate ENMAX was allowed to charge customers. The rider has been collected in annual amounts since 2002, with the remaining balance of \$5.3 million received in 2005.

During 2005, ENMAX Power's gross capital expenditures on projects totalled \$103.1 million, the majority of which related to the expansion of the transmission and distribution system to meet customer demand.

Operational Review

A. Wire Services

ENMAX Power constructs, maintains, owns and operates the distribution and transmission system in its franchise service area, which covers 1,044 square kilometres encompassing the City of Calgary, part of the Tsuu T'ina Nation and adjacent portions of the municipal districts of Foothills and Rockyview. In 2005, the EUB approved a service territory boundary change due to the City's annexation in the Municipal District of Foothills. This increase will be realized in 2006.

In 2005, ENMAX Power provided 8,294 GWh of electricity on its transmission and distribution system to about 390,000 metered customers of electricity retailers. This compares with 8,042 GWh in 2004. As a Wires Owner and Wires Service Provider, ENMAX Power invoices 33 retailers, including ENMAX Energy, for delivering electricity to their respective customers. These charges are recovered from customers through retailers' invoices.

ENMAX Power's transmission system comprises 281 kilometres of primarily 138-kilovolt power lines extending throughout Calgary. This transmission system delivers bulk power to ENMAX Power's distribution system through 35 substations. ENMAX Power's distribution system comprises 6,882 kilometres of circuit lines, 64,522 utility poles and 45,314 transformers. The distribution system includes the sixth largest downtown network system in North America, and is a model for reliability.

ENMAX Power is responsible for the metering, processing and provisioning of consumption information as well as settlement, enrolment and site administration. Other responsibilities include DT billing on a contractual basis and retailer management. In 2005, many of these functions were provided to the cities of Red Deer and Lethbridge, the towns of Cardston and Fort Macleod and the municipality of Crowsnest Pass. In addition, ENMAX Power provides meter reading services to The City of Calgary.

In 2005, ENMAX Power expanded its role in revenue cycle services to include managing the retail billing and customer care functions for ENMAX Energy, the City of Calgary and the Regulated Rate customers in Calgary, Lethbridge, Red Deer, Cardston, Fort Macleod and Crowsnest Pass.

Other than the City of Calgary, ENMAX Power's original five-year contracts to provide services to municipalities expired at the end of 2005. ENMAX Power has renewed these contracts for an additional five years with all of the above other than the City of Lethbridge.

In 2005, ENMAX Power invested substantial resources in the development of a new DT billing system to comply with the EUB's Tariff Billing Code. The new billing system's foundation is a Customer Care Solution from SAP—a world leader in information management software solutions—that is expected to be fully functional by the EUB's July 1, 2006 deadline.

In 2004, ENMAX Power began construction of a new substation in the Cougar Ridge/West Springs area in southwest Calgary. Based on forecasts provided by ENMAX, the Alberta Electric System Operator (AESO) determined the need for a new substation to keep up with the increasing demand for electricity due to growth in that area of the city. The substation will step down 138 kV transmission voltage to 25 kV to supply residential development in the area. ENMAX received the permit and licence to proceed with the building of the substation from the Alberta Energy and Utilities Board following a stakeholder and public involvement process in 2003. Construction was substantially complete in May 2005, with a total cost of \$5.1 million. The substation was energized in August.

During 2005, ENMAX Power successfully implemented the third phase of a five-year Distribution Automation (DA) project. DA involves the installation of automated switches on feeders, focusing on those with low performance first. To date, the project has prevented more than 37,000 customer interruptions, generating savings in excess of 1.8 million customer interruption minutes. In 2005, the DA project reduced SAIDI and SAIFI by 13.0 per cent. ENMAX has exceeded the Canadian Urban SAIDI and SAIFI averages for eight consecutive years.

B. Power Services

ENMAX Power Services is an unregulated business providing engineering, project management, procurement, construction and maintenance expertise to customers using electrical energy and related services. The expertise includes electronic communications, underground residential distribution, transformer rentals, outdoor lighting, street lighting, electrical distribution, electrical transmission, and traction power, signal and communication systems for light rail transit systems.

In 2005, underground residential distribution lot completions in Calgary totaled 7,100, a 15 per cent decline from 2004, the result of exceptionally wet weather in spring 2005, as well as construction resource shortages in the developer and housing industries throughout the year. Two multi-year major Light Rail Transit extension projects in Calgary were awarded to ENMAX Power Services in 2005.

C. Customer Service and Billing

In 2005, ENMAX and its Customer Care and Billing services provider Accenture Business Services for Utilities responded to 920,000 customer inquiries, processed status changes to 80,000 contracted customer sites and issued 6.1 million utility bills. Throughout 2005, ENMAX consistently met or exceeded the customer care and billing performance standards established by the Alberta Energy Utilities Board in its Service Quality and Reliability Performance plan.

Outlook

The amount of electricity distributed by ENMAX Power and the revenues generated in the Power Services business are closely linked to Calgary's economic engine. Forecasts from the Conference Board of Canada's Metropolitan Outlook and the City of Calgary's Economic Outlook suggest that the population of Calgary and surrounding communities will grow by approximately two per cent per year. ENMAX Power's delivered energy volumes are forecast to track this growth, increasing by two per cent in 2006.

6. Risk Management and Uncertainties

ENMAX takes an integrated approach to risk management across all ENMAX companies. The Risk Management Committee, consisting of ENMAX senior executives, oversees risk management and reports risk exposures to the Board of Directors.

Business risks that are considered to have the greatest potential impact on ENMAX are discussed in the commentary that follows.

Commodity Price and Energy Supply Risk

ENMAX Energy electricity supply is primarily secured through ENMAX rights to output of about 680 average megawatts (MW) from the Keephills generating plant until December 31, 2020, as well as about 25 average MW from its investment in a southern

Alberta wind farm through to 2023. This combination results in secured energy supply to partially meet projected sales volumes. Any mismatches between secured supply and demand will be purchased in the wholesale market or through individual contracts.

Electricity and natural gas prices in Alberta are volatile, exposing ENMAX Energy to potential gains and losses on open positions in natural gas and electricity. The amount of natural gas and electricity used by customers varies by the hour, typically because of weather or the time of day. While consumption of electricity varies continuously, fixed volumes of electricity supply are typically purchased ahead of time. The result is mismatches between the secured price and volume of supply available and customer demand at any given time. ENMAX Energy's portfolio management program manages these mismatches on a short- and long-term basis using a combination of physical and financial transactions described in more detail in the sections that follow.

ENMAX uses a standard risk and position management system to capture and value all of its gas and electricity exposures. The risk of these positions is measured with a Value at Risk methodology.

ENMAX Energy engages in limited short-term trading activities in Alberta and the northwestern United States to optimize supply positions. The magnitude and risk of these transactions are small compared to the supply portfolio and retail positions, and are carefully monitored and reported upon by a corporate risk oversight group on a daily basis.

ENMAX does not own any thermal electricity generation facilities, and is therefore not a large emitter of the greenhouse gases and pollutants that result when coal is burned to make electricity. The Corporation does, however, purchase electricity from such facilities, and should environmental laws change, could be liable for various costs associated with emissions or efforts to reduce emissions.

All energy portfolio activities are governed by a variety of risk policies, procedures and limits, including the energy risk management policy, trading risk standards and governing procedures, and detailed day-to-day operating procedures. Price risk is quantified using a variety of methods, including Value at Risk, scenario analysis and stress tests. Detailed reports on trading activity, risk exposure and positions are reviewed daily by the energy risk management group and responsible executives, and regularly by the Risk Management Committee. Reports are presented quarterly to the Board of Directors.

Expiry of Commercial Retail Contracts

ENMAX Energy's larger commercial customers are either on competitive contracts or a Default Retailer Rate. Many of these commercial customers signed fixed-price electricity contracts in the fall of 2000, for either three-year or five-year terms, as one of the outcomes of the Alberta government's move to deregulate the electricity production and sales industry. During 2004, the majority of the contracts signed early in deregulation were renegotiated by extending contract terms at a blended rate. By the end of 2005, a number of the higher priced expiring contracts were replaced with flex or index contracts, which reflected market rates. With increasing competitive pressure, ENMAX Energy will be required to respond to the market with aggressive prices. ENMAX Energy is focusing on marketing and sales efforts to retain and acquire customers at competitive rates.

Counterparty Credit Risk

ENMAX Energy works with a number of wholesale trading counterparties and end-use customers. On the wholesale side, exposures with trading counterparties are limited due to the relatively short-term nature of transactions with most trading counterparties. The one notable exception is a third-party generator with whom ENMAX has purchased an average of 680 MW of electricity supply until December 2020. While the exposure in securing new sources of supply at prevailing market prices is significant, ENMAX believes various political and regulatory mitigating factors help minimize ENMAX's exposure in the unlikely event of default by this third-party generator. The exposure for end-use customers is generally small due to the small size and short term of the positions.

Regulations Specific to ENMAX Corporation

ENMAX's market activities are governed both by general commercial regulations as well as additional regulations specific to the utility industry and its status as an affiliate retailer (affiliated with a regulated wire service provider). ENMAX Power is deemed a distribution Wires Owner and is fully regulated. ENMAX Energy is considered an affiliate and marketing efforts must follow a regulated Code of Conduct as well as general energy marketing regulations. ENMAX Energy is also subject to regulatory review of activities related to the provision of the Regulated Rate Option to ENMAX Power.

Regulatory Issues and Events

In 2001, the initial Alberta market design required incumbent utilities to offer a Regulated Rate Option (RRO) to provide a transitional rate for small customers who had limited competitive options. The rate was to be repealed by the end of 2005 as it was expected that the non-regulated retail market and default supply markets would have absorbed all customers by then.

In 2004, the Government of Alberta announced it would assess the regulated rate provisions for residential and small business customers and review the wholesale market structure.

In June 2005, after consultation with stakeholder groups, the government announced that an RRO for small customers would be extended until 2010. On December 20, 2005 this new RRO was proclaimed, coming into force on July 1, 2006.

Only a declining portion of the new RRO obligation may be secured at a fixed price by ENMAX. The remainder is pegged to the volatile month-ahead market. ENMAX is also exposed to customer erosion or uptake risks as load can abandon or return to this rate with few limitations. These changes will cause the RRO rate to assume significant volatility in the future and they may also encourage customers to switch to long-term non-regulated retailers offering fixed rates.

The Alberta Energy and Utilities Board (EUB or the regulator) regulates ENMAX distribution, transmission and regulated rate option businesses, and has provided for fixed Return on Equity (ROE) of 9.6% for five years to be adjusted annually only for changes in Government of Canada treasury bonds, and has regulated the deemed capital structure to be 39 per cent equity and 61 per cent debt. This significant degree of certainty is offset somewhat by the regulatory process, which may drive volatility in ENMAX earnings to the extent there are differences in interpretation regarding allowable costs and rate base investments the Corporation incurs to effectively run these businesses.

In 2005, ENMAX sought regulatory approval of its DT, RRT and TT tariffs from the EUB. On January 13, 2006, responses were received to the DT and the RRT applications, the impacts of which were discussed previously in this MD&A. Responses to the TT application are expected in mid-2006.

Wholesale Market Design

On November 29, 2005, the provincial government announced its intention to realign the regulatory environment with respect to four quasi-governmental implementing agencies. The impacted agencies include the Market Surveillance Administrator (MSA), the EUB, the Independent System Operator (ISO) and the Balancing Pool (BP). As of the date of this MD&A, this policy change is still in draft form and it is uncertain if the changes will cause the BP to delay an upcoming auction for access to electricity generation under Power Purchase Arrangements (PPAs) or have other effects on Alberta market operations.

The Alberta Department of Energy has also announced an initiative to bring significant changes into the wholesale market design. The wholesale market (bulk electricity from producers or importers) is being revised to include significant changes to market bidding behavior and withholding, targeting the reliability of supply of electricity in the province with limited price volatility.

Measures to test if generation additions are sufficient to provide reliable energy in the future are being developed for 2006. These metrics look forward at least two years to determine if enough new capacity is being built to satisfy predicted demand, including offsetting the impact of retirements. Certain 'long-term adequacy' actions can be triggered if these metrics exceed a threshold and could include the ISO providing incentives for, purchasing or operating new generation or imposing a capacity market. While the metrics are long-term in nature, if they trigger actions such as a Request For Proposal (RFP) for ISO-controlled capacity, ENMAX will see a profound change in the market dynamics and a shift in the value of its long-term assets. ENMAX is striving to protect the value of its generation and load assets in such an event.

The effect on ENMAX's profitability depends on the relationship between the Corporation's own supply and customer demand. As relatively low-cost internal supply is exhausted, ENMAX will need to acquire the balance in the open market, which may lead to earnings volatility. ENMAX is aggressively seeking additional generation and long-term supply contracts to mitigate this risk.

Internal Processes and Controls

ENMAX strives to continually improve how it tracks, manages and reports business data. In 2006, the focus areas will include retail and wholesale contracting, refinements to customer enrolment and billing processes, and implementation of a province-wide, bill-ready retail model. Improving and integrating processes, controls and data are undertaken to enhance decision-making effectiveness at ENMAX.

7. Financial Instruments

ENMAX manages the risk of fluctuating commodity prices through a combination of physical supply contracts, real-time import or export of electricity, and financial instruments including energy commodity price swaps, forward contracts and options. 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 and measured at fair value, with changes in fair value recognized currently in income.

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. Effectiveness is measured with reference to the risk management objective and strategy for the financial instrument. Hedge effectiveness is reassessed on a quarterly basis. For the year ended December 31, 2005, the impact of financial instruments that do not qualify for hedge accounting was a charge to net earnings of \$6.4 million, which is included in electric and natural gas costs on the consolidated statement of earnings.

At December 31, 2005, ENMAX had outstanding fixed-price electricity swap and other purchase contracts for 3.9 million MWh, relating primarily to 2006. In addition, on December 31, 2005, ENMAX had outstanding fixed-price natural gas swap contracts for 1.1 million gigajoules (Gj).

These contracts offset exposure to fixed-price electricity and natural gas sales contracts and future sales of electricity generation from the PPAs, which the Corporation has or will enter into for 2006 and beyond. ENMAX uses hedge accounting to record these transactions. At year-end 2005, 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 positive mark-to-market adjustment amounting to \$44.0 million. These contracts will settle at prices in effect at the time of expiration. For further information, see Net Earnings by Business Segment, ENMAX Energy, Operational Review, Energy Supply and Note 17 to the Consolidated Financial Statements.

8. Liquidity and Capital Resources

Capitalization

Years ended December 31 (millions of Canadian dollars)	2005	2004
Long-term debt ⁽¹⁾	234.3	252.3
Shareholder's equity:		
Share capital	280.1	280.1
Retained earnings	1,025.3	958.6
Total shareholder's equity	1,305.4	1,238.7
Total capitalization	1,539.7	1,491.0

(1) Includes current portion of \$29.8 million (2004 - \$32.8 million). Maturity dates range from August 2005 to June 2024.

Coverage ratios	2005	2004
Debt to total capitalization ⁽¹⁾	15.2%	16.9%
Net debt to total capitalization ⁽²⁾	2.4%	Nil
Interest coverage ratio ⁽³⁾	10.9X	15.6X

(1) Debt to total capitalization is equal to long-term debt divided by long-term debt plus shareholder's equity.

(2) Net debt to total capitalization reduces long-term debt by cash and cash equivalents and temporary investments for purposes of this calculation. Cash and cash equivalents and temporary investments amount to \$201.9 million and \$353.3 million at the years ended December 31, 2005 and December 31, 2004, respectively.

(3) Interest coverage on long-term debt is equal to earnings before interest and taxes divided by interest expense.

Cash Provided by Operating Activities

Cash provided by operating activities was \$79.8 million in 2005 compared to \$267.4 million in 2004. The decline is the result of lower earnings in 2005, paying refunds owed to customers as a result of the 2004 EUB decision for the Regulated Rate Tariff and Distribution Tariff decisions, payment of income tax balances and increased working capital resulting from the increased power prices at December 31, 2005. At December 31, 2005, ENMAX had \$201.9 million in cash and cash equivalents, including temporary investments of \$174.8 million, compared to \$353.3 million in 2004. Ongoing cash requirements will be provided by cash flow from operations, available lines of credit and a commercial paper program. ENMAX continues to generate adequate amounts of cash to meet short-term requirements.

Investing Activities

Capital spending was \$130.6 million in 2005 compared to \$101.4 million in 2004. In 2005, capital was expended on expansion of the distribution system in the amount of \$103.1 million, the purchase of 100 per cent of the outstanding shares of a privately held electricity retailer and services corporation and the acquisition of 99 per cent of the Furry Creek run-of-river 11 megawatt hydroelectric generation facility located north of Vancouver for \$13.3 million.

In the 2006 budget, ENMAX received approval to invest capital of approximately \$467.0 million to meet the ongoing requirements of the business as well as to obtain electricity generation capacity to meet the increased demand from EasyMax and other new customers. The Corporation has signed contracts totaling \$134.5 million to be used in the development of wind generation facilities in southern Alberta. Individual capital projects in excess of \$30.0 million require shareholder approval.

Financing Activities

During 2005, ENMAX invested \$174.8 million in corporate and government bonds to increase investment earnings on surplus funds available in 2005. The Corporation also reduced its syndicated credit facilities from \$350 million to \$150 million and increased its operating facilities to \$200 million, up from \$100 million, extending the terms to three years to take advantage of capital efficiencies and cost savings. At December 31, 2005, \$150.7 million of the credit facilities had been utilized in the form of letters of credit issued in the ordinary course of business. ENMAX did not draw on its commercial paper program, the main operating facility, in 2005.

During 2005, ENMAX repaid \$33.4 million of debt in regularly scheduled principal amounts and assumed an additional \$15.4 million in non-recourse long-term debt with the acquisition of Furry Creek Power Ltd. Dominion Bond Rating Service and Standard and Poor's both maintained their credit rating for ENMAX at A (stable outlook) and A- (stable outlook), respectively. These ratings provide ENMAX the ability to access capital at competitive interest rates.

9. Changes in Accounting Policy

Intercompany Profit Related to Rate-Regulated Operations

In 2005, following the change in regulating bodies from The City of Calgary to the EUB, an independent party, ENMAX changed its accounting for intercompany profit related to construction work performed by an ENMAX subsidiary for the regulated operations of ENMAX. This profit is now deemed to be realized to the extent that the transfer price is recognized for rate-making purposes by the regulator. The impact on property, plant and equipment and retained earnings at December 31, 2003 is an increase of \$10.1 million. The impact on net earnings in 2005 is an increase of \$4.3 million and an increase of \$4.9 million in 2004. Information provided for comparative periods has been adjusted to conform to this treatment.

10. 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 that have been made using careful judgment. ENMAX's critical accounting estimates continue to be unbilled revenue accruals, amortization expense and asset retirement obligations. For additional information, refer to Note 2 in the consolidated financial statements.

11. 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 is 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 generally accepted accounting principles for non-regulated operations. For further details on this guideline's impact to ENMAX, refer to Note 3 to the Consolidated Financial Statements.

Comprehensive Income

In January 2005, the Canadian Institute of Chartered Accountants issued Handbook Section 1530, "Comprehensive Income", Section 3251, "Equity", Section 3955, "Financial Instruments – Recognition and Measurement" and Section 3854, "Hedges". Under the new standards, a new location for recognizing certain gains and losses – other comprehensive income – has been introduced, extending existing requirements for hedge accounting providing that certain gains and losses arising from changes in the fair value of assets or liabilities be temporarily recorded outside the income statement, but in a transparent manner and instructing that financial instruments, including derivatives, are to be included on a Corporation's balance sheet and measured in most cases at their fair values. The guidance will apply for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption will be permitted only as of the beginning of a fiscal year. ENMAX is evaluating the impact of these recently issued standards on its consolidated financial statements for periods after 2005.

12. Transactions with Related Parties

ENMAX's related-party transactions comprise both revenues from and expenditures to The City of Calgary (See Note 20 to the Consolidated Financial Statements). In 2005, transactions with The City of Calgary accounted for \$55.5 million in revenue, compared to \$67.5 million in 2004. The significant components 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. In 2005, total expenditures for goods and services received from The City were \$84.4 million compared to \$76.8 million in 2004. Most of these expenditures were for local access fees for the use of The City's rights-of-way. Transactions with The City of Calgary are carried out at market rates.

13. Summary of Quarterly Results

In the fourth quarter of 2005, net earnings were \$28.5 million, compared to \$26.3 million in the fourth quarter of 2004. This increase in net earnings was largely due to higher pool prices for wholesale electricity and increased volumes of gas sales and was partially offset by the \$6.7 million impact of the EUB decisions relating to the 2005 Distribution Tariff and Regulated Rate Tariff.

Total revenues were \$405.8 million in the fourth quarter of 2005, compared to \$306.0 million in the same period of the prior year, reflecting the increase in natural gas sales volumes partially offset by lower retail electricity sales. Wholesale power pool prices were considerably higher in the fourth quarter of 2005, averaging \$117.00 per megawatt hour compared to \$55.00 per megawatt hour in 2004.

Selected Quarterly Consolidated Financial Data

<i>(millions of Canadian dollars)</i>	2005				2004			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Total revenue	405.8	309.8	289.2	293.6	306.0	257.6	276.2	298.3
Net earnings before adjustments ⁽¹⁾	28.5	31.0	25.7	31.5	26.3	21.5	29.3	32.4
Cash provided by (used in) operations	30.1	28.2	41.6	(20.1)	66.7	72.8	58.6	69.3

(1) Non-GAAP financial measure. See discussion item 4 in the MD&A.

14. Additional Information

Additional information relating to ENMAX can be found at www.enmax.com.

ENMAX
Corporation
Consolidated
Financial
Statements
2005

To the Shareholder of
ENMAX Corporation

We have audited the consolidated balance sheets of **ENMAX Corporation** as at December 31, 2005 and 2004 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, 2005. 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, 2005 and 2004 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2005 in accordance with Canadian generally accepted accounting principles.

Calgary, Canada
February 21, 2006

Ernst & Young LLP
Chartered Accountants

CONSOLIDATED BALANCE SHEETS

As at December 31	2005	2004
<i>(millions of Canadian dollars)</i>		<i>(restated – note 3)</i>
ASSETS		
Current assets		
Cash and cash equivalents <i>[note 6]</i>	27.1	353.3
Temporary investments, at lower of cost and market	174.8	–
Accounts receivable <i>[notes 3 and 20]</i>	329.6	226.5
Inventories	13.0	13.3
Current portion of 2000 deficiency rider receivable <i>[notes 3 and 7]</i>	–	5.3
Other current assets	2.7	1.5
	547.2	599.9
Property, plant and equipment <i>[note 8]</i>	874.9	784.9
Power purchase arrangements <i>[note 9]</i>	149.8	160.0
Intangible assets <i>[note 10]</i>	22.6	2.2
Future income tax asset <i>[note 16]</i>	180.5	173.6
Other long-term assets	11.1	9.8
	1,786.1	1,730.4
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities <i>[notes 3, 4 and 20]</i>	190.9	169.6
Income taxes payable	22.5	34.2
Customer guarantee deposits	13.7	15.3
Current portion of long-term debt <i>[note 11]</i>	29.8	32.8
	256.9	251.9
Long-term debt <i>[note 11]</i>	204.5	219.5
Future income tax liability <i>[note 16]</i>	8.6	2.1
Other long-term liabilities <i>[note 12]</i>	10.0	18.2
Non-controlling interest <i>[note 4]</i>	0.7	–
Shareholder's equity		
Share capital <i>[note 13]</i>	280.1	280.1
Retained earnings	1,025.3	958.6
	1,305.4	1,238.7
Commitments and contingencies <i>[notes 5, 17 and 18]</i>		
	1,786.1	1,730.4

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Thompson MacDonald
Chair, ENMAX Board of Directors

Paul Dawson, FCA
Chair, Audit and Finance Committee

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Years ended December 31	2005	2004	2003
<i>(millions of Canadian dollars)</i>			<i>(restated – note 3)</i>
REVENUE <i>[note 20]</i>			
Sales of electricity and natural gas	925.0	826.4	845.0
Transmission and distribution revenue	269.7	266.6	277.0
Contractual services and other	103.7	100.1	104.2
	1,298.4	1,193.1	1,226.2
COST OF SERVICES PROVIDED <i>[note 20]</i>			
Electricity and natural gas costs <i>[notes 9 and 17]</i>	653.2	517.2	487.5
Grid charges	141.7	126.6	138.6
Local access fees	73.0	68.5	68.2
Operations, maintenance and administration <i>[note 12]</i>	216.8	208.3	230.4
	1,084.7	920.6	924.7
Earnings before amortization, interest and income taxes	213.7	272.5	301.5
Amortization of property, plant and equipment	58.5	53.7	61.7
Amortization of intangible assets	1.4	0.4	0.8
Interest <i>[note 15]</i>	14.1	14.0	12.9
Earnings before income taxes and non-controlling interest	139.7	204.4	226.1
Income taxes <i>[note 16]</i>	23.4	52.2	53.1
Non-controlling interest	(0.4)	–	–
Net earnings	116.7	152.2	173.0
Retained earnings, beginning of year	958.6	856.8	733.8
Dividends	(50.0)	(50.4)	(50.0)
Retained earnings, end of year	1,025.3	958.6	856.8

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31	2005	2004	2003
<i>(millions of Canadian dollars)</i>			<i>(restated – note 3)</i>
Cash provided by (used in)			
OPERATING ACTIVITIES			
Net earnings	116.7	152.2	173.0
Amortization <i>[note 9]</i>	70.1	63.7	72.6
Future income taxes <i>[note 16]</i>	(7.1)	13.9	46.4
Non-controlling interest	(0.4)	–	–
Change in unrealized market value of financial commodity contracts <i>[note 17]</i>	(1.7)	7.5	–
	177.6	237.3	292.0
Change in non-cash working capital items <i>[note 19]</i>	(97.8)	30.1	2.3
	79.8	267.4	294.3
INVESTING ACTIVITIES			
Purchase of temporary investments	(174.8)	–	–
Purchase of property, plant and equipment	(139.8)	(113.0)	(183.5)
Purchase of intangible assets	(1.8)	(0.6)	–
Proceeds on disposal of property, plant and equipment	–	–	9.8
Contributions in aid of construction	11.0	12.2	9.8
2000 deficiency rider receivable collected	5.3	47.1	45.5
Acquisitions, net of cash acquired <i>[note 4]</i>	(13.4)	–	–
Customer guarantee deposits	(1.6)	0.9	0.5
Other long-term assets	(1.0)	0.8	(10.6)
	(316.1)	(52.6)	(128.5)
FINANCING ACTIVITIES			
Dividends paid	(50.0)	(50.4)	(50.0)
Long-term debt issued (repaid)	(33.4)	91.7	(23.2)
Other long-term liabilities	(6.5)	(3.7)	5.0
	(89.9)	37.6	(68.2)
Increase (decrease) in cash and cash equivalents	(326.2)	252.4	97.6
Cash and cash equivalents, beginning of year	353.3	100.9	3.3
Cash and cash equivalents, end of year <i>[note 6]</i>	27.1	353.3	100.9
Cash interest paid	16.1	15.4	14.6
Cash taxes paid (recovered)	62.0	10.6	(2.1)

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 an unregulated, wholly owned subsidiary established to carry out all energy supply and retail functions in its own right and through eight 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 unregulated 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 Tariff (“RRT”). Prior to 2003, Calgary City Council, as regulator of ENMAX Power, approved the DT and RRT for eligible customers within the City of Calgary. In 2003, the Electrical Utility Regulation Committee (“EURC”), established by Calgary City Council, was the regulator of ENMAX Power and as such, approved the RRT for eligible customers within the City of Calgary. An amendment to the EUA in June 2003 changed the regulatory jurisdiction of municipally owned utilities with affiliated retailers operating outside of the municipality’s service area from the municipality to the EUB effective January 1, 2004.

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. 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 an opportunity 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. In 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 2005 was 7.1% (2004 – 7.9%).

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 ventures.

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 intercompany accounts and transactions have been eliminated, except as described in note 3.

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 complex and 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 receivables, 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 likely, 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 that the Corporation operates in 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, will be 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 include 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, 2005, the fair market value was \$179.0 million (2004 – nil). The effective interest rate at December 31, 2005 on temporary investments was 3.8% (2004 – nil).

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.

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	2.65 % – 13.71 %

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	0 % – 10.90 %
Land easements, rights and lease options	0 % – 3.34 %

Intangible assets with indeterminate lives are assessed annually for impairment.

Asset impairment

Long-lived assets are tested for impairment at least annually or at such times when events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized if the carrying amount exceeds the fair 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.

On December 31, 2005, 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 to electricity costs over the life of the contracts based on future cash flow estimates at the time of acquisition.

Revenue recognition

Revenues are recognized on an accrual basis and include an estimate of services provided but not yet billed.

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 asset and 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, accounts payable and customer guarantee deposits approximate the carrying amounts of these instruments due to their short period to maturity.

Hedging

In conducting its business, the Corporation uses various instruments, including forward contracts, swaps and options, to manage the risk arising from fluctuations in commodity prices. The Corporation also uses financial contracts-for-differences (or fixed-for-floating swaps) to hedge the Corporation's exposure to fluctuations in electricity and natural gas prices. Under these instruments, the Corporation agrees to exchange with creditworthy or adequately secured counterparties, 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.

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.

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. 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**Restatement of prior periods relating to rate regulation**

Commencing in 2005, intercompany profits on asset construction work performed by an ENMAX subsidiary for the regulated operations of ENMAX are deemed to be realized to the extent that the transfer price is recognized for rate-making purposes by the regulator. Comparative periods have been restated to conform to this treatment. The impact on property, plant and equipment and retained earnings at December 31, 2003 is an increase of \$10.1 million. The impact on net earnings in 2005 is an increase of \$4.3 million (2004 – \$4.9 million; 2003 – \$4.9 million).

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 is 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

As at December 31	2005	2004
<i>(millions of Canadian dollars)</i>		
Regulatory assets		
Distribution assets – intercompany profit on underground residential development <i>[note 8]</i>	18.6	14.7
Accounts receivable – purchased power price variance	4.2	–
2000 deficiency rider receivable <i>[note 7]</i>	–	5.3
Total regulatory assets	22.8	20.0
Regulatory liability		
Accounts payable and accrued liabilities – purchased power price variance	–	1.5
Total regulatory liability	–	1.5

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 refunded to customers as a result of the rate-setting process.

Distribution assets for the regulated operations of ENMAX include intercompany 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 intercompany profits be eliminated upon consolidation. The impact on current year earnings would be a reduction of \$4.3 million (2004 – \$4.9 million; 2003 – \$4.9 million), representing the profit on these services. The balances for property, plant and equipment and retained earnings at December 31, 2005 would further be reduced by \$18.6 million (2004 – \$14.7 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 (2004 – liability) represents the excess of actual over forecast (2004 – forecast over actual) 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 2005 would have been \$4.2 million lower (2004 – \$1.5 million higher; 2003 – nil). The regulatory asset (2004 – liability) is included in accounts receivable (2004 – accounts payable).

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. 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 \$2.3 million (2004 – \$2.3 million) were included in property, plant and equipment.

Financial instruments 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. Earlier adoption will be permitted only as of the beginning of a fiscal year. The Corporation is evaluating the impact of these recently issued standards on its consolidated financial statements for periods after 2005.

4. ACQUISITIONS

In the first quarter of 2005, ENMAX purchased 100 per cent 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 industrial 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 relations and lists acquired in the transaction.

In the second quarter of 2005, the Corporation acquired 99 per cent of Furry Creek Power Ltd. ("Furry Creek"), which owns an 11 megawatt run-of-river hydro electric facility located north of Vancouver, 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 per cent 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 is as follows:

Net assets acquired

(millions of Canadian dollars)

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 <i>[note 11]</i>	(15.4)
Future income tax liabilities	(6.7)
Non-controlling interest	(1.1)
Total cash consideration, net of cash acquired of 2.7	13.4

5. 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.

Summarized Financial Information

As at December 31	2005	2004	
<i>(millions of Canadian dollars)</i>			
Balance sheet			
Accounts receivable	0.6	0.7	
Other current assets	0.1	0.1	
Property, plant and equipment	45.8	47.5	
Future income taxes	(0.1)	(1.1)	
Other long-term liabilities	(0.3)	(0.3)	
Proportionate share in net assets of joint venture	46.1	46.9	
<hr/>			
Years ended December 31	2005	2004	2003
<i>(millions of Canadian dollars)</i>			
Earnings			
Revenue	7.5	6.9	4.2
Costs and expenses	(2.1)	(1.4)	(0.9)
Amortization	(1.7)	(1.7)	(0.8)
Income taxes recovery (expense)	0.2	(0.8)	(0.3)
Proportionate share in net earnings of joint venture	3.9	3.0	2.2
<hr/>			
Years ended December 31	2005	2004	2003
<i>(millions of Canadian dollars)</i>			
Cash flows			
Operating activities	4.7	5.1	28.9
Investing activities	–	(0.3)	(43.3)
Financing activities	–	0.3	–
Proportionate share in the increase (decrease) in cash and cash equivalents of joint venture	4.7	5.1	(14.4)

6. CASH AND CASH EQUIVALENTS

As at December 31	2005	2004
<i>(millions of Canadian dollars)</i>		
Cash on hand and balances with banks	3.3	3.8
Short-term investments	23.8	349.5
Cash and cash equivalents	27.1	353.3

The effective interest rate at December 31, 2005 on short-term investments was 3.3% (2004 – 2.6%).

7. 2000 DEFICIENCY RIDER RECEIVABLE

The 2000 deficiency rider receivable represents revenue shortfalls in 2000 attributable to unexpectedly high energy costs. These costs were recovered, with associated interest, in 2002 through 2004 via a rider on the DT. Collections in 2005 amounted to \$5.3 million (2004 – \$47.1 million; 2003 – \$45.5 million). All amounts relating to the rider have now been fully recovered.

8. PROPERTY, PLANT AND EQUIPMENT

As at December 31	2005		
	Cost	Accumulated amortization	Net book value
<i>(millions of Canadian dollars)</i>			
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
As at December 31	2004		
	Cost	Accumulated amortization	Net book value
<i>(millions of Canadian dollars)</i>			
Transmission, distribution and substation equipment	983.3	(367.1)	616.2
Tools, systems and equipment	220.0	(95.2)	124.8
Buildings and site development	101.8	(19.6)	82.2
Construction in progress	41.9	–	41.9
Generation equipment	50.3	(2.5)	47.8
Land	16.7	–	16.7
Vehicles	15.8	(10.6)	5.2
	1,429.8	(495.0)	934.8
Contributions in aid of construction	(189.7)	39.8	(149.9)
	1,240.1	(455.2)	784.9

9. POWER PURCHASE ARRANGEMENTS

As part of the Government of Alberta auction of electrical generation PPAs, the Corporation purchased from a third-party generator the rights to the physical output from four units (contract expired January 1, 2004) for \$77.3 million and two units (contract expiring December 31, 2020) 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 (see Note 18).

Electricity costs include the following items related to the PPAs:

Years ended December 31	2005	2004	2003
<i>(millions of Canadian dollars)</i>			
Fixed and variable costs	191.7	189.4	283.1
Amortization of purchase price	10.2	9.6	10.1
	201.9	199.0	293.2

Scheduled PPA amortization charges are as follows:

	2006	2007	2008	2009	2010	Thereafter
<i>(millions of Canadian dollars)</i>						
	8.9	8.4	7.5	8.5	8.5	108.0

10. INTANGIBLE ASSETS

As at December 31	2005		
	Cost	Accumulated amortization	Net book value
<i>(millions of Canadian dollars)</i>			
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 licences	3.5	–	3.5
	26.2	(3.6)	22.6

As at December 31	2004		
	Cost	Accumulated amortization	Net book value
<i>(millions of Canadian dollars)</i>			
Customer lists and contracts	2.7	(2.1)	0.6
Land easements, rights and lease options	0.8	(0.1)	0.7
Renewable energy certificates and water licences	0.9	–	0.9
	4.4	(2.2)	2.2

11. LONG-TERM DEBT

As at December 31	2005	2004	Weighted average interest rates
<i>(millions of Canadian dollars)</i>			
Debentures, with remaining terms of:			
Less than 5 years	40.7	52.9	7.4%
5 – 10 years	121.4	76.3	6.0%
10 – 15 years	57.3	123.1	4.5%
Non-recourse term financing	14.9	–	7.6%
	234.3	252.3	6.0%
Less: current portion	29.8	32.8	
	204.5	219.5	

Debentures

The debentures were initially issued by The City on behalf of the CES pursuant to City by law 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. 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. In 2005, the Corporation issued no debentures (2004 – \$119.5 million; 2003 – nil).

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. \$14.4 million of the debt bears interest at a fixed rate of 7.3% and the remaining \$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 will be converted to project debt in 2006. Upon conversion, a charge against project assets, which have a carrying value of \$18.9 million, will be provided as security.

Principal repayments

The required repayments of principal on the long-term debt at December 31, 2005 are as follows:

(millions of Canadian dollars)

	2006	2007	2008	2009	2010	Thereafter
	29.8	29.9	22.3	22.1	19.6	110.6

ENMAX has unsecured credit facilities amounting to \$350.0 million to fund general operating requirements and to provide liquidity support for commercial paper and commodity marketing programs. At December 31, 2005 and 2004, no amounts were drawn on the credit facilities or issued under the commercial paper program, other than to support issued letters of credit (see Note 18).

Fair value

The estimated fair value of the Corporation's long-term debt as at December 31, 2005 is \$254.3 million (2004 – \$269.6 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.

12. EMPLOYEE FUTURE BENEFITS

The Corporation established a registered pension plan on January 1, 2001 to provide future pension benefits for its employees. Prior to 2001, employees of the Corporation participated under the provisions of the Local Authorities Pension Plan. The assets and liabilities attributable to these employees were transferred to the new plan effective January 1, 2001. The registered pension plan 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 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*. The supplemental pension plan benefits do not automatically increase. In addition, the Corporation provides employees with other 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.

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 per cent, 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.

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.

Total cash payments for employee future benefits for 2005, 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 \$16.3 million (2004 – \$13.3 million, 2003 – \$4.4 million).

For the year ended December 31, 2005, the total expense for the DC provisions of the plan is \$2.7 million (2004 – \$2.6 million; 2003 – \$2.9 million).

In 2003, the Corporation outsourced its billing and customer care function and about 320 ENMAX employees became employees of the service provider. The event resulted in the transfer to the service provider of pension assets and pension and other benefit liabilities relating to the affected employees. This event was considered a settlement and curtailment for 2003 accounting purposes.

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	2005		2004	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
<i>(millions of Canadian dollars)</i>				
Change in benefit obligation				
Benefit obligation – beginning of year	122.8	4.6	107.1	4.3
Current service cost	3.5	0.3	3.3	0.3
Employee contributions	1.2	–	1.2	–
Benefits paid	(8.5)	(0.2)	(4.7)	(0.2)
Interest cost	7.3	0.3	7.0	0.3
Actuarial loss/(gain)	21.1	0.5	8.9	(0.1)
Benefit obligation – end of year	147.4	5.5	122.8	4.6
Change in plan assets				
Plan assets at market-related value – beginning of year	90.4	–	81.0	–
Employer contributions	12.2	–	10.2	–
Employee contributions	1.2	–	1.2	–
Benefits paid	(7.6)	–	(4.3)	–
Return on plan assets	6.8	–	6.1	–
Experience loss	(0.4)	–	(3.8)	–
Plan assets at market-related value – end of year	102.6	–	90.4	–
Deferred investment gain	11.0	–	0.7	–
Plan assets at fair value – end of year	113.6	–	91.1	–
Funded status – plan deficit	(33.8)	(5.5)	(31.7)	(4.6)
Unamortized transitional asset	(2.0)	(0.1)	(2.4)	(0.1)
Unamortized experience losses	45.1	1.4	36.1	1.1
Accrued benefit asset/(liability), net of valuation allowance of nil	9.3	(4.2)	2.0	(3.6)

The accrued benefit balance is included in ENMAX's balance sheet in other long-term liabilities. Plan assets at December 31, 2005 consist of Canadian equity securities (49%), foreign equity securities (20%), long-term fixed income securities (28%) and cash and short-term securities (3%).

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

Years ended December 31	2005		2004		2003	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Accrued benefit obligation at December 31:						
Discount rate	5.00%	5.00%	6.00%	6.00%	6.25%	6.25%
Rate of compensation increase	3.60%	3.60%	3.60% ⁽¹⁾	3.60%	3.60% ⁽¹⁾	3.60%
Benefit cost for year ended December 31:						
Discount rate	6.00%	6.00%	6.25%	6.25%	6.25%	6.25%
Expected long-term rate of return on plan assets	7.25%	7.25%	7.25%	N/A	7.25%	N/A
Rate of compensation increase	3.60%	3.60%	3.60% ⁽¹⁾	3.60%	3.60% ⁽¹⁾	3.60%

(1) Plus age-related merit/promotion increases.

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2005 (2004 – 10%; 2003 – 9%). The rate was assumed to decrease gradually to 5% in 2014 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	2005		2004		2003	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
<i>(millions of Canadian dollars)</i>						
Current service cost	3.5	0.3	3.4	0.3	3.3	0.3
Interest cost	7.3	0.3	7.0	0.3	6.6	0.3
Actual return on assets	(17.2)	–	(2.5)	–	(6.0)	–
Actuarial losses/(gains)	21.6	(0.7)	9.1	(0.2)	5.3	1.4
Difference between expected and actual return	10.4	–	(3.6)	–	0.3	–
Difference between recognized and actual actuarial (losses)/gains	(18.9)	0.8	(7.1)	0.2	(3.7)	(1.3)
Settlement loss	–	–	–	–	1.5	0.1
Amortization of net transitional asset	(0.4)	–	(0.4)	–	(0.4)	–
Net benefit plan expense	6.3	0.7	5.9	0.6	6.9	0.8

In 2003, ENMAX implemented a cost restructuring to reduce about 200 employee positions, of which about half were unfilled or vacant. Severance and termination benefits recorded in 2003 for this cost restructuring amounted to \$1.9 million.

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 2005:

Effect of change in health care cost trend rate

<i>(millions of Canadian dollars)</i>	Other benefit plans	
	1% increase	1% decrease
Increase (decrease) in service cost for year ended December 31	0.02	(0.02)
Increase (decrease) in interest cost for year ended December 31	0.01	(0.01)
Increase (decrease) in accrued benefit obligation at December 31	0.18	(0.17)

13. SHARE CAPITAL

	Number of shares	Amount <i>(millions of Canadian dollars)</i>
Authorized:		
Unlimited number of common shares		
Issued and outstanding:		
Issued on incorporation (one dollar)	1	–
Issued on transfer of net assets from CES <i>[see Note 1]</i>	1	278.2
Issued on transfer of billing and customer care assets from The City in 2001	1	1.9
Outstanding at December 31, 2005 and 2004	3	280.1

14. SEGMENTED INFORMATION⁽¹⁾

	ENMAX Energy	ENMAX Power	ENMAX Corporate ⁽²⁾	Consolidated totals
Year ended December 31, 2005				
<i>(millions of Canadian dollars)</i>				
Revenue				
Sales of electricity and natural gas	1,115.1	–	(190.1)	925.0
Transmission and distribution revenue	–	269.7	–	269.7
Contractual services and other	36.6	68.7	(1.6)	103.7
Total revenue	1,151.7	338.4	(191.7)	1,298.4
Cost of services provided				
Electricity and natural gas costs ⁽³⁾	653.2	–	–	653.2
Grid charges	276.9	56.4	(191.6)	141.7
Local access fees	0.1	72.9	–	73.0
Operations, maintenance and administration	105.3	121.0	(9.5)	216.8
Total cost of services provided	1,035.5	250.3	(201.1)	1,084.7
Earnings before amortization, interest, income taxes and non-controlling interest				
	116.2	88.1	9.4	213.7
Amortization	21.6	41.3	(3.0)	59.9
Interest	61.7	19.5	(67.1)	14.1
Income taxes	22.7	–	0.7	23.4
Non-controlling interest	(0.4)	–	–	(0.4)
Net earnings	10.6	27.3	78.8	116.7
Capital additions	40.7	96.8	2.3	139.8

(1) In December 2004, ENMAX recapitalized its subsidiaries through a combination of intercompany loan arrangements and dividends. The recapitalization was undertaken to match the regulator approved capital structure in ENMAX Power and to make the ENMAX Energy capital structure more consistent with the fair market value of its assets. To reflect this new structure, ENMAX has revised its segmented reporting. Beginning with the first quarter of 2005, external and intercompany interest revenue and expenses incurred by ENMAX Corporation is reported as part of ENMAX Corporate. Previously, these amounts were included within the operating segment results. Comparative periods have been restated to reflect these changes.

(2) Includes ENMAX Corporate and intersegment eliminations. Intersegment transactions are recognized on the basis of prevailing market or regulated rates.

(3) Included in electricity costs is \$10.2 million pertaining to the amortization of PPAs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31 (Restated – note 3)	ENMAX Energy		ENMAX Power		ENMAX Corporate ⁽¹⁾		Consolidated totals	
	2004	2003	2004	2003	2004	2003	2004	2003
<i>(millions of Canadian dollars)</i>								
Revenue								
Sales of electricity and natural gas	1,020.1	1,052.2	–	–	(193.7)	(207.2)	826.4	845.0
Transmission and distribution revenue	–	–	266.6	277.0	–	–	266.6	277.0
Contractual services and other	38.6	35.6	70.7	80.0	(9.2)	(11.4)	100.1	104.2
Total revenue	1,058.7	1,087.8	337.3	357.0	(202.9)	(218.6)	1,193.1	1,226.2
Cost of services provided								
Electricity and natural gas costs ⁽²⁾	517.1	487.5	–	–	0.1	–	517.2	487.5
Grid charges	266.7	309.0	55.6	37.8	(195.7)	(208.2)	126.6	138.6
Local access fees	–	–	68.5	68.2	–	–	68.5	68.2
Operations, maintenance and administration	96.0	111.7	121.2	120.7	(8.9)	(2.0)	208.3	230.4
Total cost of services provided	879.8	908.2	245.3	226.7	(204.5)	(210.2)	920.6	924.7
Earnings before amortization, interest, income taxes and non-controlling interest								
	178.9	179.6	92.0	130.3	1.6	(8.4)	272.5	301.5
Amortization	17.4	23.5	39.0	43.2	(2.3)	(4.2)	54.1	62.5
Interest	7.1	3.7	15.2	17.5	(8.3)	(8.3)	14.0	12.9
Income taxes	50.8	51.9	–	–	1.4	1.2	52.2	53.1
Net earnings	103.6	100.5	37.8	69.6	10.8	2.9	152.2	173.0
Capital additions	6.9	52.8	98.4	91.9	7.7	38.8	113.0	183.5

(1) Includes ENMAX Corporate and intersegment eliminations. Intersegment transactions are recognized on the basis of prevailing market or regulated rates.

(2) Included in electricity costs is \$9.6 million (2003 – \$10.1 million) pertaining to the amortization of PPAs.

Total assets:

As at December 31	2005	2004
<i>(millions of Canadian dollars)</i>		
ENMAX Energy	839.6	698.3
ENMAX Power	708.9	659.1
Corporate and eliminations	237.6	373.0
	1,786.1	1,730.4

15. INTEREST

Interest expense is comprised of the following:

Years ended December 31	2005	2004	2003
<i>(millions of Canadian dollars)</i>			
Interest on long-term debt	15.8	15.4	13.6
Short-term interest and other financing charges	0.6	0.9	0.9
Less: allowance for funds used during construction	(2.3)	(2.3)	(1.6)
	14.1	14.0	12.9

16. INCOME TAXES

Provision for income taxes

Years ended December 31	2005	2004	2003
<i>(millions of Canadian dollars)</i>			
Current	30.5	38.3	6.7
Future	(7.1)	13.9	46.4
	23.4	52.2	53.1

Reconciliation of income tax expense

Years ended December 31	2005	2004	2003
<i>(millions of Canadian dollars)</i>			
Earnings before income taxes	139.7	204.4	226.1
Income not subject to taxes	(64.7)	(59.7)	(108.3)
	75.0	144.7	117.8
Federal and provincial tax rate	33.62%	33.87%	36.75%
Expected income tax expense	25.2	49.0	43.3
Non-deductible expenses	(0.3)	2.9	0.1
Large Corporations Tax	0.1	–	0.4
Adjustment to future tax asset for enacted changes in rates and other estimate revisions	(1.6)	0.4	9.2
Other	–	(0.1)	0.1
Actual income tax expense	23.4	52.2	53.1

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	2005	2004
<i>(millions of Canadian dollars)</i>		
Future income tax asset:		
Power purchase arrangements ⁽¹⁾	161.2	155.8
Cumulative eligible capital	14.6	15.2
Derivative financial instruments	4.7	2.6
	180.5	173.6
Future income tax liability:		
Property, plant and equipment – differences in net book value and undepreciated capital cost	4.0	2.1
Cumulative eligible capital	0.4	–
Other	4.2	–
	8.6	2.1
Net future income tax asset	171.9	171.5

(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.

17. 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 through the auction of PPAs for the output of coal-fired generating plants (see Note 9).

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, 2005, the impact of financial instruments that do not qualify for hedge accounting is a charge to net earnings of \$6.4 million (2004 – \$7.5 million; 2003 – nil), which is included in electricity and natural gas costs in the consolidated statement of earnings.

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

Years ended December 31	2005	2004
	Notional quantity	Notional quantity
Electricity sales	3.3 million MWh	1.6 million MWh
Natural gas sales	0.2 million Gj	7.6 million Gj
Electricity purchases	0.6 million MWh	3.3 million MWh
Natural gas purchases	0.9 million Gj	1.8 million Gj

The fair value of the Corporation'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 December 31, 2005 and 2004.

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.

18. COMMITMENTS AND CONTINGENCIES

Property, plant and equipment

At December 31, 2005, the Corporation's commitment to major capital projects is \$106.8 million (2004 – nil).

Power Purchase Arrangements and Agreements

In return for the output from PPAs and other power purchase agreements, the Corporation is obligated to make estimated average monthly payments based on normal operating conditions of \$19.8 million for 2006 (2005 – \$20.1 million), adjusted for inflation, other than in the event of a forced outage.

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 Tariff for electricity customers in Calgary.

The overall impact of these decisions is a charge to 2005 consolidated net earnings of \$5.0 million, reflected as a reduction in distribution revenue of \$5.7 million, an increase in sales of electricity of \$0.1 million and a reduction in amortization expense of \$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 payment in lieu of taxes (PILOT) regulation 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 of certain assets established for the purpose 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 June 2005, the Corporation received a notice of assessment from Alberta Finance in respect of the 2001 taxation year. The assessment amounts to \$16.9 million, including \$3.2 million of interest. The assessment relates primarily to the value of certain assets established for the purpose of the PILOT regulation and the allocation of costs and benefits of the energy supply portfolio between taxable and non-taxable operations.

The Corporation does not agree with the assessment and, on September 24, 2005, 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 unfavorable 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.

Guarantees**Letters of credit**

In the normal course of operations, letters of credit were 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 \$150.7 million at December 31, 2005.

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.

19. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

Years ended December 31	2005	2004	2003
<i>(millions of Canadian dollars)</i>			
Accounts receivable	(103.1)	(45.2)	(0.6)
Inventories	0.3	(1.6)	(1.9)
Other current assets	0.1	(0.1)	25.3
Accounts payable and accrued liabilities	16.6	49.0	(29.3)
Income taxes payable	(11.7)	28.0	8.8
Change in non-cash working capital	(97.8)	30.1	2.3

20. RELATED-PARTY TRANSACTIONS

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

As at December 31	2005	2004
<i>(millions of Canadian dollars)</i>		
Services provided	14.0	15.6
Total receivable from The City	14.0	15.6

Total revenues received from The City for the year ended December 31, 2005 were \$55.5 million (2004 – \$67.5 million; 2003 – \$74.6 million).

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

As at December 31	2005	2004
<i>(millions of Canadian dollars)</i>		
Goods and services received	–	0.6
Local access fees and equity funding rider	9.3	6.0
Total payable to The City	9.3	6.6

Total expenditures for goods and services received from The City for the year ended December 31, 2005 were \$84.4 million (2004 – \$76.8 million; 2003 – \$79.4 million).

Transactions between the Corporation and The City have been recorded at the exchange amounts, which approximate fair market value.

21. COMPARATIVE FIGURES

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

GLOSSARY

AESO means the Alberta Electric System Operator, the Independent System Operator in Alberta;

Balancing Pool means the organization that is, among other things, assigned responsibility for managing the generation assets that remained unsold after the Department of Energy's 2000 Power Purchase Arrangement (PPA) Auction;

Default Retailer Rate means the rate for supply of retail electricity to a customer who has not already selected a Retailer and who consumes more than 250,000 kWh per year of electricity;

Distribution Tariff or DT means a tariff for distribution services that provides for a recovery of costs and a return on capital employed by the owner of the distribution assets.

Before June 1, 2003, this tariff was called a Distribution Access Tariff or DAT;

DOE means the Alberta Department of Energy;

EUB means the Alberta Energy and Utilities Board established under the *Alberta Energy and Utilities Board Act*;

EURC means the Electrical Utility Regulation Committee, a committee created in 2002 through a bylaw of The City of Calgary to act as a regulator of ENMAX. On January 26, 2004, the City approved a subsequent bylaw that effectively disbanded the EURC;

Gj means gigajoule, a measure of natural gas volume/heat;

GWh means gigawatt hour, or 1,000,000 watt hours, a measure of electricity generation time;

KWh means kilowatt hours, a measure of electric energy (the consumption of one kilowatt over a period of one hour);

MW means megawatt (equivalent to 1,000 kilowatts);

MWh means megawatt hours (the consumption of one megawatt over a period of one hour);

Power Pool means the Power Pool of Alberta, the provincial power pool established for the dispatch and exchange (including financial settlement) of virtually all electricity transmitted through the Alberta provincial power grid. Under the *Electric Utilities Act* 2003, the functions of the Power Pool and the Transmission Administrator have been combined under the AESO;

PPA means a Power Purchase Arrangement, a long-term arrangement established by regulation for the right to the sale of electric energy produced by generating units in the province;

RRT means Regulated Rate Tariff, a rate intended to provide eligible customers an opportunity to purchase electricity at a regulated rate while they evaluate competitive offerings;

RRO means Regulated Rate Option, a transitional rate intended to provide customers consuming less than 250,000 kWh per year of electricity an opportunity to continue to purchase electricity at a regulated rate while they evaluate competitive offerings, a concept renamed as of June 1, 2003 as the RRT;

SAIDI means the average time in hours that any customer on the electrical system can expect to be without power in one year;

SAIFI means the average number of interruptions equal to or greater than one minute that any customer on the electrical system can expect to experience in one year;

Wires Owner means the owner of an electric distribution system, a concept eliminated as of June 1, 2003; and

Wires Service Provider means the entity, if any, appointed by a Wires Owner to operate the Wires Owner's electric distribution system.

PERFORMANCE HIGHLIGHTS

FINANCIAL PERFORMANCE HIGHLIGHTS

All data at December 31, or for the years then ended	2005	2004	2003	2002	2001	2000	1999	1998
<i>(millions of Canadian dollars unless otherwise stated)</i>								
Revenue	1,298.4	1,193.1	1,226.2	1,150.4	1,440.3	757.8	537.1	520.2
Net earnings	116.7	152.2	173.0	166.6	249.6	44.6	44.5	65.2
Capital expenses	130.6	101.4	173.7	159.9	111.3	394.3	57.8	31.8
Assets	1,786.1	1,730.4	1,443.3	1,363.4	1,390.1	1,129.9	540.0	545.0
Long-term debt	234.3	252.3	160.6	183.8	320.9	529.7	143.2	157.9
Shareholder equity	1,305.4	1,238.7	1,127.1	1,009.0	877.4	340.6	325.9	315.4
Return on equity (%)	10.1	12.5	15.8	17.6	36.9	13.4	13.9	22.0
Return on assets (%)	7.4	9.3	12.0	12.6	19.5	5.3	8.2	12.3
Debt to capital (%)	15.2	17.1	12.5	15.4	26.8	60.9	30.5	33.4
Local access fees	73.0	68.5	68.2	72.2	110.6	69.0	47.5	45.7
Dividends	50.0	50.4	50.0	35.0	30.0	29.9	34.0	28.0

SYSTEM PERFORMANCE HIGHLIGHTS

All data at December 31, or for the years then ended	2005	2004	2003	2002	2001	2000	1999	1998
Number of metered customers <i>(in and around Calgary)⁽¹⁾</i>	389,872	382,494	373,000	362,000	351,000	342,000	326,000	323,000
System peak demands <i>(megawatts, Calgary only)</i>	1,483	1,401	1,382	1,334	1,323	1,295	1,204	1,182
Energy delivered <i>(gigawatt hours)</i>	8,294	8,044	7,928	7,747	7,551	7,346	7,163	6,979
Number of retail customers <i>(throughout Alberta)</i>	457,000	435,000	422,000	421,000	411,000	342,000	326,000	323,000
Electricity sold to customers <i>(gigawatt hours)</i>	9,804	9,118	9,552	9,221	9,028	7,346	7,163	6,979
Peak load requirements <i>(megawatts)</i>	1,586	1,565	1,633	1,543	1,589	1,295	1,204	1,182
Number of employees	1,087	1,054	1,084	1,431	1,320	1,029	683	588
Transmission system statistics								
Overhead lines <i>(kilometres)</i>	266	264	263	262	262	262	262	262
Underground lines <i>(kilometres)</i>	15	16	16	16	16	16	16	16
Substations	35	34	34	33	33	32	32	32
Distribution systems statistics								
Overhead circuit lines <i>(kilometres)</i>	2,337	2,372	2,370	2,370	2,355	2,700	2,610	2,550
Underground circuit lines <i>(kilometres)</i>	4,546	4,352	4,185	4,040	3,850	4,030	3,900	3,720
Utility poles	64,500	65,000	64,780	64,700	64,080	64,425	64,000	63,100
Transformers	45,300	44,000	43,475	41,200	40,445	40,240	38,640	36,840

(1) Data from 2001 to 2004 includes number of metered sites, not number of customers, as one customer may have more than one metered site.

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We have a retail storefront in Red Deer located at:

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4808 Ross Street
Red Deer, Alberta T4N 1X5

Our Edmonton sales office is located at:

Suite 2750, Manulife Place
10180 - 101 Street
Edmonton, Alberta T5J 3S4

Shopping for retail energy offers?

The latest prices and packages are listed on our website at www.enmax.com or by calling toll free across Alberta at 310-2010.

All our Alberta customers are invited to call our toll-free number at 310-2010.

If you have financial-related questions about ENMAX, call Kim Hubick, C.A., Executive Vice-President, Finance and Chief Financial Officer at (403) 514-2780.

Media questions can be directed to (403) 689-6150.

Interested in employment at ENMAX? Visit our website at enmax.com.

For general information about ENMAX, visit enmax.com.

