

2011

Q2 interim report.

ENMAX Corporation
Three & six months ended June 30, 2011

HIGHLIGHTS

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
<i>(millions of Canadian dollars, unless otherwise noted)</i>				
Total revenues	647.3	587.4	1,462.9	1,196.2
Operating margin ⁽¹⁾	166.0	170.8	322.1	326.7
Earnings before interest and income taxes (EBIT) ⁽¹⁾	68.7	83.2	132.6	151.4
Net earnings	50.1	58.6	99.9	105.6
Return on equity ⁽²⁾			9.4%	10.9%
Return on assets ⁽³⁾			7.7%	8.6%
Total assets			4,007.6	3,808.1
Total shareholder's equity			1,886.2	1,764.3
Electricity sold (gigawatt hours (GWh))	5,149	4,732	10,624	9,548
Natural gas sold (terajoules (TJ))	7,574	6,827	26,456	19,797
Distribution volumes (GWh)	2,257	2,177	4,626	4,451

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

(2) Return on equity is equal to the rolling prior 12-month net earnings divided by average Shareholder's equity for the same 12-month period.

(3) Return on assets is equal to the rolling prior 12-month net earnings before after-tax interest charges divided by average total assets (adjusted for capital assets under construction and current liabilities) for the same 12-month period.

Summary financial information

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
<i>(millions of Canadian dollars, unless otherwise noted)</i>				
EBIT ⁽¹⁾	68.7	83.2	132.6	151.4
Net earnings before discontinued operations	50.6	59.4	96.5	106.9
Capital assets ⁽²⁾			3,130.9	2,858.7
Total debt ⁽³⁾			1,550.0	1,454.9
Total capitalization ⁽⁴⁾			3,436.2	3,219.2
Long-term debt to total capitalization ratio ⁽⁵⁾			45.1%	43.6%
Funds generated from operations ⁽¹⁾	98.5	105.9	203.4	189.8
Cash used by investing activities	102.9	93.0	198.7	230.2
Cash provided by financing activities	53.8	36.1	96.3	84.9

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

(2) Capital assets include property, plant and equipment (PPE), power purchase arrangements and intangible assets.

(3) Total debt includes short-term financing and long-term debt.

(4) Total capitalization is equal to total debt plus Shareholder's equity.

(5) Long-term debt to total capitalization is equal to total long-term debt divided by total capitalization.

Summary of key operating statistics

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Generation volume (GWh)	3,182	3,038	6,260	5,814
Market heat rate – flat average (GJ/MWh)	14.16	21.83	18.66	14.57
Average wholesale market spark spread (\$/MWh) ⁽¹⁾	\$22.68	\$51.04	\$38.69	\$27.12
Electricity sales volumes (GWh)	5,149	4,732	10,624	9,548
Average flat pool price (\$/MWh)	\$52.12	\$80.56	\$67.73	\$60.72

(1) Assuming an average CCGT heat rate of 8 GJ per MWh.

FORWARD-LOOKING INFORMATION

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

When used in this 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. 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. Intended, planned, anticipated, believed, estimated or expected and other 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 except as required by law, and reserves the right to change, at any time at its sole discretion, the practice of updating annual targets and guidance.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This MD&A, dated August 10, 2011, is a review of the results of operations of ENMAX for the three and six months ended June 30, 2011, compared with the same period in 2010, and of the Corporation's financial condition and future prospects. This MD&A should be read in conjunction with the three month interim financial statements and the MD&A included in ENMAX's 2010 Financial Report. This discussion contains forward-looking information that is qualified by reference to and should be read together with, the caution regarding forward-looking statements previously mentioned.

ENMAX's consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). The consolidated financial statements and MD&A were reviewed by ENMAX's Audit and Finance Committee and approved by the Board. All amounts are in Canadian dollars unless otherwise specified.

The Corporation reports on certain non-GAAP financial measures such as operating margin and funds from operations that are used by management to evaluate performance of business units and segments. Because non-GAAP financial measures do not have a standardized meaning, the Corporation has defined and reconciled them with their nearest GAAP measure. For the reader's reference, the definition, calculation and reconciliation of consolidated non-GAAP financial measures is provided in Section 4: Non-GAAP Financial Measures.

The Corporation has chosen to defer IFRS in accordance with the Accounting Standards Board (AcSB) amendment and will be reporting interim and annual consolidated financial statements in IFRS, including comparative periods, beginning January 1, 2012.

TABLE OF CONTENTS

Section	Contents	Page
1. Overall financial performance.	Discussion of consolidated results for the three and six months ended June 30, 2011.	6
2. Business segment results.	Discussion of the strategy, key performance indicators, results of operations and capital investments of the business segments.	9
3. Selected quarterly financial data.	Summary of selected financial information for the past eight quarters.	16
4. Non-GAAP financial measures.	Description, calculation and reconciliation of certain measures used by management.	17
5. Financial condition.	Discussion of significant changes in ENMAX's balance sheet between June 30, 2011, and December 31, 2010.	20
6. Liquidity and capital resources.	Discussion of cash flow, liquidity, credit facilities and other disclosures.	21
7. Future accounting changes.	Description of changes to accounting policies to be adopted in future periods.	26
8. Critical accounting estimates.	Description of accounting estimates that are critical to determining financial results.	26
9. Risk management and uncertainties.	Update on certain risks and uncertainties facing the Corporation and how these risks are managed.	27
10. Financial instruments.	Discussion of ENMAX's off balance sheet arrangements and monetary obligations under financial agreements.	27
11. Climate change and the environment.	Discussion of environmental matters relating to ENMAX's operations and asset base.	28
12. Transactions with related parties.	Description of transactions with The City of Calgary.	29
13. Outlook.	Discussion of expected results for 2011.	29
14. Additional information.	Contacts to obtain additional information regarding ENMAX.	30

1 OVERALL FINANCIAL PERFORMANCE

Selected Consolidated Financial Information

	Three Months Ended June 30		Six Months Ended June 30	
<i>(millions of dollars)</i>	2011	2010	2011	2010
Total revenue	647.3	587.4	1,462.9	1,196.2
Operating margin ⁽¹⁾	166.0	170.8	322.1	326.7
EBIT ⁽¹⁾	68.7	83.2	132.6	151.4
Net earnings from continuing operations	50.6	59.4	96.5	106.9
Net earnings	50.1	58.6	99.9	105.6
Total assets	4,007.6	3,808.1	4,007.6	3,808.1
Total long-term financial liabilities ⁽²⁾	1,576.2	1,481.8	1,576.2	1,481.8
Funds generated from operations ⁽¹⁾	98.5	105.9	203.4	189.8

(1) Non-GAAP financial measure. See discussion that follows in Section 4: Non-GAAP Financial Measures.

(2) Total long-term financial liabilities include all of the Corporation's long-term liabilities excluding future income taxes.

ENMAX's consolidated net earnings for the three months ended June 30, 2011, have decreased \$8.5 million to \$50.1 million compared with \$58.6 million for the three months ended June 30, 2010. For the six months ended June 30, 2011, net earnings have decreased \$5.7 million to \$99.9 million compared with \$105.6 million for the same period in 2010. This decrease was driven primarily by lower electricity margins and higher operations, maintenance and administration (OM&A) and amortization costs. These unfavourable variances were offset partially by higher natural gas margins and lower interest and tax costs.

ENMAX's results of operations are not necessarily indicative of future performance due to fluctuating commodity prices and the addition of new generation facilities. Further details on specific operations can be found in Section 2: Business Segment Results.

A reconciliation of earnings before interest and income taxes (EBIT) for the three and six months ended June 30, 2011, as compared with the same periods in 2010 is as follows:

<i>(millions of dollars)</i>	Three Months Ended	Six Months Ended
EBIT for the period ended June 30, 2010	83.2	151.4
Increased / (decreased) margins attributable to:		
Electricity	(6.1)	(13.2)
Natural gas	0.7	3.8
Transmission and distribution	0.4	0.9
Contractual services and other	0.2	3.9
Increased expenses:		
OM&A	(8.7)	(12.0)
Amortization	(1.0)	(2.2)
EBIT for the period ended June 30, 2011	68.7	132.6

Electricity margins for the three months ended June 30, 2011, decreased \$6.1 million to \$104.6 million from \$110.7 million in the three months ended June 30, 2010. For the six months ended June 30, 2011, electricity margins decreased \$13.2 million to \$195.9 million from \$209.1 million in the same period in 2010. The decrease in margins was driven primarily by forward contracts in both the retail and wholesale markets being realized at lower prices, lower settled pool price in the second quarter and increased PPA costs. In the second quarter of 2010, pool prices were exceptionally strong due to unscheduled outages at coal facilities which resulted in higher electricity margins. This year, while average pool prices are higher year-to-date than the prior year, the extreme spikes seen in the second quarter of 2010 did not recur. These factors have been partially offset by higher volumes due primarily to new customer sign-ups and strong electricity prices in the first quarter.

Natural gas margins increased \$0.7 million for the three months ended June 30, 2011, to \$3.5 million from \$2.8 million in the same period in 2010. For the six months ended June 30, 2011, natural gas margins increased \$3.8 million to \$7.6 million from \$3.8 million in the same period in 2010. Contributing to the higher year-to-date margins, sales volumes increased as a result of new site acquisitions across all lines of business in addition to higher volumes due to the cold weather in the first quarter. The impact of this volume increase was partially offset by lower market prices in the first quarter and excess volumes purchased under forward contracts being sold at lower market prices in the second quarter.

For the three months ended June 30, 2011, transmission and distribution margins increased \$0.4 million to \$45.6 million from the \$45.2 million of earnings recorded in the same period in 2010. For the six months ended June 30, 2011, transmission and distribution margins increased \$0.9 million to \$91.1 million from \$90.2 million in the same period in 2010. This increase was due primarily to revenues due to related rate increases and timing of system access fees. This was partially offset by the non-recurrence of the collection of a prior period rate adjustment in 2010.

For the three months ended June 30, 2011, margins from contractual services and other sources increased \$0.2 million to \$12.3 million from the \$12.1 million recorded in the same three months of 2010. For the six months ended June 30, 2011 contractual services and other margins increased \$3.9 million to \$27.5 million from \$23.6 million in the same period in 2010. The increase in margins in the first quarter was mainly due to unrealized foreign exchange gains on a purchase agreement denominated in U.S. dollars and higher activity levels in Calgary LRT projects and underground residential development.

OM&A costs for the three months ended June 30, 2011, increased \$8.7 million to \$55.9 million from \$47.2 million for the same quarter in 2010. For the six months ended June 30, 2011, OM&A costs increased \$12.0 million to \$107.5 million from \$95.5 million in the same period in 2010. The increase in OM&A was primarily due to severance amounts paid in the first quarter, general inflationary salary increases, increased pension costs and staffing increases for the operation and management of the developing generation business. These unfavourable variances have been partially offset by an increase in billing recoveries and the first quarter recovery of amounts related to previously allowed for bad debts.

Amortization expense for the three months ended June 30, 2011, increased \$1.0 million to \$41.4 million from \$40.4 million for the same period in 2010. For the six months ended June 30, 2011 amortization expense increased \$2.2 million to \$82.0 million from \$79.8 million in the same period in 2010. The increased charges were the result of an increase in the asset base of ENMAX Power's transmission and distribution system.

Other Net Earnings Items

For the three months ended June 30, 2011, interest expense decreased \$1.4 million to \$12.7 million from \$14.1 million for the same period in 2010. Interest expense decreased \$1.9 million to \$26.4 million from \$28.3 million for the six months ended June 30, 2011 compared to the six months ended June 30, 2010. The decrease was primarily due to an increase in the capitalization of interest related to capital projects. This decrease was partially offset by interest on new debt acquired during the past twelve months.

Income tax expense for the quarter ended June 30, 2011, decreased \$4.3 million to \$5.4 million from \$9.7 million in the same period in 2010. For the six months ended June 30, 2011, income tax expense decreased \$6.5 million to \$9.7 million from \$16.2 million for the same period in 2010. This decline was primarily due to lower income in taxable entities in addition to the reduction in the corporate tax rate for 2011.

Losses from discontinued operations for the three months ended June 30, 2011, decreased \$0.3 million to a loss of \$0.5 million from a \$0.8 million loss in the same three months of 2010. For the six months ended June 30, 2011, earnings from discontinued operations increased \$4.7 million to earnings of \$3.4 million from a \$1.3 million loss for the same period in 2010. The loss in the quarter represents additional closing costs incurred on the first quarter disposal of all of the British Columbia assets. Year-to-date earnings from discontinued operations include \$1.1 million of operating earnings and a \$2.3 million gain on disposal of the British Columbia assets.

Other Comprehensive Income

Other comprehensive income illustrates the Corporation's earnings under the assumption of full income recognition of gains and losses on securities and derivatives otherwise treated as hedges of future period revenues and expenses. The Corporation utilizes derivatives to hedge its electricity, natural gas, interest rates and foreign exchange exposures. For the three and six months ended June 30, 2011, other comprehensive income totalled losses of \$2.2 million and \$3.3 million, respectively, compared with losses of \$8.3 million and \$24.0 million, respectively, for the same periods in 2010. The losses in 2011 primarily reflect unfavourable fair value changes on electricity and interest rate swap positions from the conclusion of the previous year partially offset by favourable fair value changes on natural gas positions and favourable settled hedges on both electricity and natural gas.

2 BUSINESS SEGMENT RESULTS

The operating businesses of the Corporation are managed principally in two segments, ENMAX Energy and ENMAX Power. The results of those segments are discussed in the comments that follow.

EBIT

	Three Months Ended June 30		Six Months Ended June 30	
<i>(millions of dollars)</i>	2011	2010	2011	2010
ENMAX Energy	54.0	59.4	106.3	110.9
ENMAX Power	15.2	21.3	30.0	36.2
Corporate & intersegment eliminations	(0.5)	2.5	(3.7)	4.3
EBIT	68.7	83.2	132.6	151.4

ENMAX Energy

Business Update

ENMAX Energy combines fuel procurement, generation of electricity, the wholesale market trading and retail sales into an integrated model. This segment produces or has exclusive access to approximately 2,067 MW of electricity generation that is used to supply retail customer demand.

During the second quarter of 2011, ENMAX Energy issued full notice to proceed to its Engineering, Procurement and Construction (EPC) contractor to commence the construction of the Shepard facility. The EPC contract contains a large fixed price component and is denominated in Canadian dollars from full notice to proceed onwards which mitigates foreign exchange exposure. ENMAX holds builder's risk insurance and has taken necessary risk mitigation steps to minimize construction risks. The EPC contract as currently drafted can be terminated by ENMAX at any time with appropriate notice and payment of reasonable and direct costs of termination, including cancellation costs in subcontracts.

Key Performance Indicators

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Generation volume (GWh)	3,182	3,038	6,260	5,814
Market heat rate – flat average (GJ/MWh)	14.16	21.83	18.66	14.57
Average wholesale market spark spread (\$/MWh) ⁽¹⁾	\$22.68	\$51.04	\$38.69	\$27.12
Average selling prices (\$/MWh)	\$66.59	\$72.14	\$72.29	\$66.94
Electricity sold (GWh)	4,626	4,175	9,466	8,372
Natural gas sold (TJ)	7,574	6,827	26,456	19,797
Average flat pool price (\$/MWh)	\$52.12	\$80.56	\$67.73	\$60.72
Average natural gas price (\$/GJ)	\$3.68	\$3.69	\$3.63	\$4.20

(1) Assuming an average CCGT heat rate of 8 GJ per MWh.

Lower pool prices and relatively flat natural gas prices created lower heat rates and spark spreads in the second quarter of 2011 as compared to the prior year. This is a reverse of what was experienced in the first quarter, with the resulting higher year-to-date pool price and lower natural gas price more than offsetting the second quarter dip and resulting in an increase in market heat rate and spark spread year-to-date.

ENMAX Energy delivered, under contract, 4,626 GWh of electricity to customers in the three months ended June 30, 2011, compared with 4,175 GWh in the same period of 2010. For the six months ended June 30, 2011, ENMAX Energy delivered, under contract, 9,466 gigawatt hours (GWh) of electricity to customers compared with 8,372 GWh in the same period of 2010. The change in volume sold is due primarily to growth in the Industrial, Commercial and Institutional customer portfolios.

ENMAX Energy's natural gas customers purchased 7,574 TJ in the three months ended June 30, 2011, compared with 6,827 TJ in the same period in 2010. For the six months ended June 30, 2011, ENMAX Energy delivered 26,456 TJ of natural gas to customers compared with 19,797 TJ in the same period of 2010. The growth in volume sold is due primarily to due to an increase in customer base including the addition of a large institutional customer.

Financial Results

ENMAX Energy recorded EBIT of \$54.0 million and \$106.3 million for the three and six months ended June 30, 2011, respectively, compared with \$59.4 million and \$110.9 million, respectively, in the same periods in 2010. A reconciliation of EBIT for the periods ended June 30, 2011, as compared with the same periods in 2010 is as follows:

<i>(millions of dollars)</i>	Three Months Ended	Six Months Ended
EBIT for the period ended June 30, 2010	59.4	110.9
Increased / (decreased) margins attributable to:		
Electricity	(5.7)	(13.0)
Natural gas	0.7	3.8
Contractual services and other	2.8	10.6
(Increased) / decreased expenses:		
OM&A	(3.2)	(6.0)
Amortization	-	-
EBIT for the period ended June 30, 2011	54.0	106.3

Electricity margins for the three months ended June 30, 2011, decreased \$5.7 million to \$102.4 million compared with the \$108.1 million recorded in the same three months of 2010. Electricity margins from operations for the six months ended June 30, 2011, decreased \$13.0 million to \$190.4 million compared with the \$203.4 million recorded in the same period of 2010. The decrease in electricity margins was primarily due to forward contracts in both the retail and wholesale markets being realized at lower prices, lower settled pool price in the second quarter and increased PPA costs relating to both the Battle River and Keephills PPAs. These margin decreases were partially offset by higher volumes of electricity sold, primarily in the industrial, commercial and institutional segment.

Natural gas margins were \$3.5 million for the three months ended June 30, 2011, compared with \$2.8 million for the same period in the prior year. Natural gas margins were \$7.6 million for the six months ended June 30, 2011, compared with \$3.8 million for the first half of 2010. An increase in sales volumes as a result of customer growth across all lines of business in addition to higher volumes from existing customers contributed to the higher margins. This favourable volume increase has been offset partially by downward pressure on gas prices experienced in the first quarter and the turn back of excess volumes acquired under fixed price contracts at lower market prices.

Contractual services margin and other revenues increased \$2.8 million in the three months ended June 30, 2011, to \$15.6 million compared to \$12.8 million in the same period in 2010. Contractual services margin and other revenues increased \$10.6 million in the six months ended June 30, 2011, to \$37.6 million compared to \$27.0 million in the six months ended June 30, 2010. The increase was primarily due to first quarter realized and unrealized gains on a purchase agreement denominated in a foreign currency and growth in the Corporation's fibre optics division.

OM&A costs increased \$3.2 million in the three months ended June 30, 2011, to \$39.9 million compared to \$36.7 million in the same period in 2010. OM&A costs increased \$6.0 million in the six months ended June 30, 2011, to \$74.4 million compared to \$68.4 million in the six months ended June 30, 2010. The increase was primarily attributable to staffing increases for the operation and management of the developing generation business, severance amounts paid in the first quarter, general inflationary salary increases and increased pension costs. These cost increases were partially offset by a recovery of a previously allowed for bad debt and an increase in billing fee recoveries.

Amortization expense for the three and six months ended June 30, 2011, has remained static from the \$27.6 million and \$54.9, respectively, incurred for the same periods in 2010.

ENMAX Power

Business Update

ENMAX Power owns, operates and maintains transmission and distribution assets in the Calgary service area. As well, it has the responsibility to provide electricity for its customers who have elected to stay with the regulated rate option service (RRO). ENMAX Power also has some non-regulated businesses and provides engineering, procurement, construction and maintenance services in the electrical industry.

Distribution capital projects which either commenced or continued in the six months ended June 30, 2011, resulted in \$14.0 million being incurred for residential and non-residential development and \$3.3 million for system infrastructure. Capital work also was completed on asset replacement and modification projects with \$11.2 million being incurred during the six months ended June 30, 2011, to meet industry standards and safety codes and for distribution automation. Investments of \$5.7 million were made in Alberta Electric System Operator (AESO) required capital projects during the six month period ended June 30, 2011.

During the first half of 2011, ENMAX Power commenced and continued work on major transmission projects which will help meet load growth within Calgary, as well as to replace aging infrastructure. The projects include multiple cable replacement projects, the 69 kilovolt (kV) south conversion project, interconnections to new generating facilities, new substations as well as substation upgrades to handle the additional transmission requirements. Capital investment in these transmission projects in the six months ended June 30, 2011, totalled \$12.8 million.

ENMAX Power operates under an AUC capital structure of 59% debt to 41% equity for the distribution business and 63% debt to 37% equity in the transmission business.

Key Performance Indicators

Allowed ROE under the formula based ratemaking (FBR) framework is 9.0%. This key measure for the Corporation's regulated transmission and distribution businesses is only filed annually and as such is not tracked on a quarterly interim basis at a year-to-date level.

	Three Months Ended		Six Months Ended	
	2011	2010	2011	2010
Electricity sold through the Calgary service area RRO (GWh)	524	557	1,158	1,176
Distribution volumes (GWh)	2,257	2,177	4,626	4,451
Distribution system circuit lines (km)	7,658	7,550	7,658	7,550
Transmission system lines (km)	273	266	273	266

RRO electricity volumes sold decreased slightly to 524 GWh in the three months ended June 30, 2011, compared with 557 GWh in the same period in 2010. For the six months ended June 30, 2011, RRO electricity volumes sold decreased to 1,158 GWh compared with 1,176 GWh in the same period in 2010. The decline in volumes sold is primarily a result of customers switching from the RRO option to competitive options.

Total electricity delivered in the Calgary service area increased in the second quarter of 2011 from the same period in the prior year with electricity volumes delivered during the three months ended June 30, 2011, at 2,257 GWh compared with 2,177 GWh in the same period in 2010. For the six months ended June 30, 2011, total electricity delivered in the Calgary service area increased from the same period in the prior year with electricity volumes delivered of 4,626 GWh compared with 4,451 GWh in the same period in 2010. This increase was primarily due to growth within the Calgary service area as the number of serviced sites in Calgary continues to grow.

Financial Results

ENMAX Power's financial results are driven by tariffs approved by the AUC for regulated transmission, distribution and RRO businesses, as well as earnings from its non-regulated power services business. The regulated segment accounted for 87% and 89%, respectively, of ENMAX Power's total revenue in the three and six months ended June 30, 2011, compared with 90% and 91%, respectively, in the same periods in 2010.

ENMAX Power recorded EBIT of \$15.2 million and \$30.0 million for the three and six months ended June 30, 2011, respectively, compared with \$21.3 million and \$36.2 million, respectively, in the same periods in 2010. A reconciliation of EBIT for the periods ended June 30, 2011, as compared with the same periods in 2010 is as follows:

<i>(millions of dollars)</i>	Three Months Ended	Six Months Ended
EBIT for the period ended June 30, 2010	21.3	36.2
Increased / (decreased) margins attributable to:		
Electricity	(0.4)	(0.2)
Natural gas	-	-
Transmission and distribution	0.4	0.9
Contractual services and other	(0.5)	0.4
Increased expenses:		
OM&A	(4.6)	(5.4)
Amortization	(1.0)	(1.9)
EBIT for the period ended June 30, 2011	15.2	30.0

Electricity margins from RRO customers decreased \$0.4 million to \$2.4 million for the three months ended June 30, 2011, compared with \$2.8 million in the same period in 2010. For the six months ended June 30, 2011, electricity margins from RRO customers decreased \$0.2 million to \$5.8 million, compared with \$6.0 million for the six months ended June 30, 2010. This decreased margin was primarily the result of higher pool prices and lower volumes.

Transmission and distribution margins are comprised of amounts charged for wires services, net of electrical grid charges and local access fees. Transmission and distribution margins increased \$0.4 million to \$45.6 million for the three months ended June 30, 2011, compared with \$45.2 million in the same period in 2010. Transmission and distribution margins increased \$0.9 million to \$91.1 million for the six months ended June 30, 2011, compared with \$90.2 million for the six months ended June 30, 2010. This increase was due primarily to revenues due to related rate increases and timing of system access fees. This was partially offset by the non-recurrence of the collection of a prior period rate adjustment in the second quarter of 2010.

For the second quarter ended June 30, 2011, margins for contractual services and other decreased \$0.5 million to \$4.3 million compared with \$4.8 million in the second quarter last year. For the six months ended June 30, 2011, margins for contractual services and other increased \$0.4 million to \$7.9 million compared with \$7.5 million for the six months ended June 30, 2010. The decreased margins in the quarter were driven primarily by higher costs related to the LRT expansion and underground residential development. On the year-to-date basis, this was more than offset by increased activity on these projects.

OM&A expenses for the three and six months ended June 30, 2011 were \$23.8 million and \$48.7 million, respectively, compared with \$19.2 million and \$43.3 million, respectively, in the same period in 2010. The increase in OM&A was driven primarily by an increase in pension costs, general inflationary salary increases and severance amounts paid in the first quarter. These increases were offset partially by a reduction in RRO bad debt expenses and increased billing recoveries due to a regulatory decision.

Amortization for the three months ended June 30, 2011, totalled \$13.3 million, compared with \$12.3 million in the same period in 2010. For the six months ended June 30, 2011, amortization totalled \$26.1 million compared with \$24.2 million in the same period in 2010. The increased charges were the result of an increase of \$23.6 million in the asset base from the end of the previous year, reflecting capital maintenance replacement and expansion of the Calgary and area transmission and distribution system. The amortization related to those new assets put into service was mostly offset by older assets concluding their depreciable lives.

ENMAX Corporate (including intersegment eliminations)

Key Performance Indicators

<i>(As at and for the period ended June 30)</i>	Three Months Ended		Six Months Ended	
	2011	2010	2011	2010
OM&A per employee ⁽¹⁾	\$32,681	\$27,877	\$62,874	\$56,457
Employees ⁽¹⁾	1,710	1,690	1,710	1,690

Key performance indicators are at a consolidated level.

(1) Employee count is on the full-time equivalent basis.

OM&A per employee has increased from the prior year due primarily to an increase in per employee costs related to inflationary salary increases and pension costs, as well as one-time severance costs incurred in the first quarter. Consistent OM&A per employee ensures operational efficiency and helps to maintain EBITDA. This is in line with one of the Corporation's strategies of providing safe, reliable and cost-effective services to our customers.

Financial Results

ENMAX Corporate provides shared services and financing to ENMAX Power and ENMAX Energy. During the three and six months ended June 30, 2011, EBIT for ENMAX Corporate were in loss positions of \$0.5 million and \$3.7 million, respectively, as compared with gains of \$2.5 million and \$4.3 million, respectively, in the same periods in the prior year. The decrease in earnings was due to lower interest being charged to operating segments.

3 SELECTED QUARTERLY FINANCIAL DATA

	2011		2010				2009	
	Second	First	Fourth	Third	Second	First	Fourth	Third
<i>(millions of dollars, except operating statistics)</i>								
Total revenue	647.3	815.6	656.0	552.0	587.4	608.8	600.2	500.8
Operating margin ⁽¹⁾	166.0	156.1	167.5	150.1	170.8	155.9	156.7	129.0
EBIT ⁽¹⁾	68.7	63.9	59.6	50.6	83.2	68.2	55.9	53.8
Net earnings before discontinued operations	50.6	45.9	41.8	32.5	59.4	47.5	38.5	41.2
Net earnings	50.1	49.8	42.5	29.7	58.6	47.0	39.0	40.8
Funds generated from operations ⁽¹⁾	98.5	104.9	74.0	83.1	105.9	83.9	132.5	67.4
Cash used in investing activities	102.9	95.8	53.8	51.6	93.0	137.2	145.0	81.0
Cash provided by (used in) financing activities	53.8	42.5	(33.2)	(26.5)	36.1	48.8	(15.2)	(35.2)

(1) Non-GAAP financial measure. See discussion that follows in Section 4: Non-GAAP Financial Measures.

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

Natural gas volumes and prices are correlated with the time of year as a result of weather patterns. Natural gas consumption and prices will increase with extreme weather seen in the winter. As well, natural gas prices can rise in extreme hot weather in the summer as peak electricity demand results in increased gas-fired generation. Revenue levels tend to decline in the shoulder seasons due to these unfavourable trends in natural gas prices and volumes during that part of the calendar year. With the cool spring in 2011, volumes continued at higher levels into the shoulder season.

Many other variables must be considered regarding the seasonality of operating margin, EBITDA, net earnings and funds generated from operations. Overall, the bulk of the Corporation's business does not experience extreme cyclical activities to be able to identify common variations quarter over quarter.

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 GAAP and may not be comparable to similar measures presented by other companies. The purpose of these financial measures and their reconciliation to GAAP financial measures are shown below. These non-GAAP measures are consistent with the measures used in the previous year, with the exception of the addition of EBIT, which has been added to measure operating profits less the accounting-based cost of capital assets.

Operating margin

	Three Months Ended June 30		Six Months Ended June 30	
<i>(millions of dollars)</i>	2011	2010	2011	2010
Electricity margins	104.6	110.7	195.9	209.1
Natural gas margins	3.5	2.8	7.6	3.8
Transmission and distribution margins	45.6	45.2	91.1	90.2
Contractual services margins ⁽¹⁾ and other revenue	12.3	12.1	27.5	23.6
Operating margin (non-GAAP financial measure)	166.0	170.8	322.1	326.7
Deduct: OM&A, Amortization, Interest and Income taxes	115.4	111.4	225.6	219.8
Net earnings from continuing operations (GAAP financial measure)	50.6	59.4	96.5	106.9

(1) Contractual services margins includes earnings from Envision fibre optics, distributed generation, home services, meter reading and data management services for non-Calgary municipalities, water meter reading, pole and duct rentals, service locates, streetlight repairs, LRT monitoring, mapping record management, engineering, procurement, construction and maintenance services, utility trenching, construction and maintenance of LRT systems and billing services,

Operating margin is a useful measure of business performance, as changes in the market price of electricity and natural gas purchased for resale affect both revenue and costs of sales. Operating margin better reflects the profitability of the Corporation's business than revenue levels alone.

EBITDA

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Adjusted EBITDA (non-GAAP financial measure)	110.6	124.4	211.2	232.5
Deduct: EBITDA from discontinued operations	0.5	0.8	(3.4)	1.3
Standardized EBITDA	110.1	123.6	214.6	231.2
Deduct: Amortization	41.4	40.4	82.0	79.8
Interest	12.7	14.1	26.4	28.3
Income taxes	5.4	9.7	9.7	16.2
Net earnings from continuing operations (GAAP financial measure)	50.6	59.4	96.5	106.9

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

EBIT

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
EBIT (non-GAAP financial measure)	68.7	83.2	132.6	151.4
Deduct: Interest	12.7	14.1	26.4	28.3
Income taxes	5.4	9.7	9.7	16.2
Net earnings from continuing operations (GAAP financial measure)	50.6	59.4	96.5	106.9

EBIT is a useful measure of business performance as management believes it provides an indication of the operating results generated by the Corporation's primary business activities including the costs of amortization however without consideration as to how those activities are financed or how the results are taxed in various business jurisdictions.

Funds generated from operations

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Funds generated from operations (non-GAAP financial measure)	98.5	105.9	203.4	189.8
Changes in non-cash working capital	37.7	(55.3)	(63.3)	(70.0)
Employee future benefits	(2.4)	(1.0)	(3.6)	(2.7)
Cash provided by operating activities (GAAP financial measure)	133.8	49.6	136.5	117.1

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

Total interest cost

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Total interest cost (non-GAAP financial measure)	19.7	19.1	40.1	37.7
Ineffective portion of interest rate swaps	(0.1)	-	(0.5)	(0.2)
Capitalized interest	(8.2)	(6.2)	(14.5)	(11.1)
Other non-interest financing costs	1.3	1.2	1.3	1.9
Interest expense (GAAP financial measure)	12.7	14.1	26.4	28.3

Total interest cost is used to determine the Corporation's interest coverage ratios.

5 FINANCIAL CONDITION

Significant changes in the Corporation's financial condition are as follows:

<i>(millions of dollars, except % change)</i>	June 30, 2011	December 31, 2010	\$ Change	% Change	Explanation for change
ASSETS					
Cash and cash equivalents	99.9	65.8	34.1	52%	See Section 6: Liquidity and capital resources.
Income tax receivable/payable ⁽¹⁾	13.3	(0.9)	14.2	1578%	Lower taxable earnings have resulted in accrued tax recoveries.
Other current assets	77.6	103.2	(25.6)	(25%)	Change in the fair value of short-term derivatives and unrealized hedging assets
Property, plant and equipment	2,523.3	2,273.6	249.7	11%	Capital expenditures, net of amortization
Power purchase arrangements	500.0	517.0	(17.0)	(3%)	Amortization on Keephills and Battle River PPAs offset by capital expenditures related to mercury regulations on each facility
Other long-term assets	37.2	28.0	9.2	33%	Change in the fair value of long-term derivatives and unrealized hedging assets
LIABILITIES AND SHAREHOLDER'S EQUITY					
Accounts payable and accrued liabilities	286.9	327.7	(40.8)	(13%)	Decrease in construction related payables.
Dividend payable	27.8	-	27.8	100%	Dividend declared in March to be paid in four equal payments over the course of the year.
Long-term debt ⁽²⁾	1,550.0	1,427.7	122.3	9%	Proceeds of new ACFA financing, net of regularly scheduled payments made.
Other long-term liabilities	65.3	58.4	6.9	12%	Change in the fair value of long-term derivatives and unrealized hedging assets.
Asset retirement obligations	13.5	7.1	6.4	90%	Change of estimates used to determine obligations.

(1) Net of receivable and payable amounts.

(2) Includes current and long-term amounts.

6 LIQUIDITY AND CAPITAL RESOURCES

Capitalization

<i>(millions of dollars)</i>	June 30, 2011	December 31, 2010
Total debt ⁽¹⁾	1,550.0	1,427.7
Shareholder's equity		
Share capital	280.1	280.1
Retained earnings	1,647.7	1,603.4
Accumulated other comprehensive loss	(41.6)	(38.3)
Total shareholder's equity	1,886.2	1,845.2
Total capitalization (total debt plus shareholder's equity)	3,436.2	3,272.9

(1) Includes the current portion of long-term debt of \$52.6 million (December 31, 2010 - \$50.0 million). Maturity dates range from October 2011 to June 2036. Comparative period excludes debt on assets held for sale.

The details of share capital are as follows:

<i>As at June 30, 2011 and December 31, 2010 (millions of dollars, except share amounts)</i>	Number of Shares	Amount
Authorized:		
Unlimited number of common shares		
Issued and outstanding:		
Issued on incorporation (one dollar)	1	-
Issued on transfer of net assets from Calgary Electric System (CES)	1	278.2
Issued on transfer of billing and customer care assets from The City in 2001	1	1.9
	3	280.1

The details of total liquidity and capital reserves are as follows:

<i>(millions of dollars)</i>	June 30, 2011	December 31, 2010
Committed and available bank credit facilities	900.0	750.0
Letters of credit issued:		
Power pool purchases	93.3	88.1
Energy trading	27.0	50.0
Regulatory commitments	110.9	74.4
Asset commitments	4.9	5.6
Power purchase arrangements	66.1	65.8
	302.2	283.9
Remaining available bank facilities	597.8	466.1
Cash on hand	99.9	65.8
Total liquidity and capital reserves	697.7	531.9

The increase in total liquidity and capital reserves over the past six month period can be attributed to increases in the credit facilities partially offset by increased collateral requirements due to regulatory commitments.

The details of the long-term debt are as follows:

<i>As at (millions of dollars)</i>	June 30, 2011	December 31, 2010
Long-term debt, ⁽¹⁾ consisting of:		
ACFA debentures, with remaining terms of:		
Less than 5 years	60.8	69.1
5 – 10 years	154.1	48.8
11 – 15 years	-	106.9
16 – 20 years	61.1	38.8
21 – 25 years	481.5	368.0
Private debentures		
Series 1, remaining term of 7 years, bullet maturity on June 19, 2018	297.2	297.1
Series 2, remaining term of 3 years, bullet maturity on April 8, 2014	248.9	248.8
Non-recourse term financing (Kettles and Calgary Energy Centre (CEC)), remaining term of 6 and 16 years, respectively	241.0	244.7
Promissory note, remaining term of 16 years	5.4	5.5
	1,550.0	1,427.7

(1) Includes current portion of long-term debt of \$52.6 million (December 31, 2010 - \$50.0 million). Maturity dates range from October 2011 to June 2036. Comparative period excludes debt on assets held for sale.

The Corporation has the following contractual obligations which will impact the Corporation's financial condition in the future:

Payments Due by Period

Contractual Obligations <i>(millions of dollars)</i>	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long-term debt	1,550.0	52.6	346.4	72.5	1,078.5
Capital lease obligations	18.1	0.2	0.6	0.6	16.7
Operating leases	146.5	21.6	37.8	26.9	60.2
Purchase obligations ⁽¹⁾	2,365.4	339.0	664.3	529.2	832.9
Asset retirement obligations	13.5	-	-	-	13.5
Other long-term obligations ⁽²⁾	65.3		56.5	8.8	-
Total contractual obligations	4,158.8	413.4	1105.6	638.0	2,001.8

(1) Purchase obligation means an agreement to purchase goods or services that is enforceable and legally binding on ENMAX that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction.

(2) Other long-term obligations means other long-term liabilities reflected on the Corporation's balance sheet.

ENMAX pays The City of Calgary (The City) annual dividends equal to the minimum of 30% of the prior year's net earnings or \$30 million, plus any additional one-time special dividends declared. Dividends for a fiscal year are established in the first quarter of the same fiscal year. The payment and level of future dividends on the common shares will be impacted by such factors as financial performance and liquidity requirements.

Coverage ratios

	June 30, 2011	December 31, 2010
Long-term debt to total capitalization ⁽¹⁾	45.1%	43.6%
EBITDA to total interest ⁽²⁾	5.0X	5.3X
Total debt to total capitalization ⁽³⁾	45.1%	43.6%

(1) As at period end, long-term debt (including current portion) to total capitalization is equal to long-term debt divided by long-term debt plus Shareholder's equity. If cash was netted against the debt, the ratio as at June 30, 2011, would be 42.2% (December 31, 2010 – 41.6%).

(2) EBITDA to total interest is equal to standardized EBITDA divided by gross interest cost (non-GAAP financial measures) calculated on a twelve month rolling basis.

(3) If cash was netted against the debt, the ratio as at June 30, 2011, would be 42.2% (December 31, 2010 – 41.6%).

Capital strategy

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

The principal financial covenants in ENMAX's credit facilities and debentures are interest coverage and debt to capitalization. As at June 30, 2011, the Corporation is non-compliant with a financial covenant for Kettles Hill related to \$19.8 million of non-recourse financing classified as long-term debt on the balance sheet. The lender under this financing exercised its discretion under the Credit Agreement and determined that non-compliance with this covenant does not result in an event of default in this instance. The Corporation was in compliance with all of its other financial covenants as of June 30, 2011.

As at June 30, 2011, ENMAX classified \$nil of non-recourse financing as liabilities held for sale related to the British Columbia assets sold (December 31, 2010 - \$12.2 million).

Cash provided by operating activities

Funds generated from operations for the three and six months ended June 30, 2011, were \$98.5 million and \$203.4 million, respectively, compared with \$105.9 million and \$189.8 million, respectively, in the same periods in 2010. The decrease in funds generated for the second quarter was primarily due to lower operating earnings experienced. On a year-to-date basis, funds generated have increased even though operating earnings have declined due to offsets on the realization of financial contracts.

Cash provided by operating activities for the three and six months ended June 30, 2011, was \$133.8 million and \$136.5 million, respectively, compared with \$49.6 million and \$117.1 million, respectively, in the same periods last year. The increase in cash flow from operations in the second quarter was driven by a swing in working capital requirements from the first quarter. This was primarily due to a larger increase in accounts receivable in the first quarter due to higher commodity prices and volumes. This has stabilized during the second quarter but still remains above last year's levels. In addition, a decrease in accrued capital expenditures in accounts payable due to progress payments on construction projects was seen in 2011.

Investing activities

Capital spending was \$105.1 million and \$306.2 million, respectively, in the three and six months ended June 30, 2011, which represents a decrease of \$3.7 million and an increase of \$42.9 million, respectively, over the same periods last year. Capital projects for the three and six months ended June 30, 2011, included a \$28.9 million and \$52.0 million, respectively, investment in the transmission and distribution network in Calgary and surrounding area, \$75.1 million and \$243.0 million, respectively, in construction costs related to Calgary area generation projects, \$nil and \$9.3 million, respectively, on expenditures relating to environmental regulations on the PPA assets and \$0.7 million and \$1.5 million, respectively, in information technology expansion. The investment in the transmission and distribution network in Calgary allows ENMAX Power to meet one of the Corporation's core strategies of continuing to provide safe, reliable and cost-effective transmission and distribution services to the city of Calgary while meeting the challenges of a growing and expanding city. The investment in the Calgary area generation projects allows ENMAX Energy to move towards the Corporation's core strategy of serving its growing customer base with a generation portfolio that emits fewer greenhouse gases than in past and leading the development of a more efficient utility model. The investment in information technology will allow ENMAX to comply with regulations and effectively operate the business, in line with the Corporation's strategy to maintain the reliability and cost-effectiveness of the Corporation's technology infrastructure while meeting the challenges of obsolescence and growth.

During the three and six months ended June 30, 2011, the Corporation received \$nil and \$102.0 million of cash, respectively, net of cash disposed of, from the sale of the British Columbia assets. These funds were used to fund current capital spending activities.

Financing activities

ENMAX repaid \$13.2 million and \$23.6 million, respectively, of long-term debt in regularly scheduled principal payments during the three and six months ended June 30, 2011, compared with \$10.9 million and \$21.0 million, respectively, in the same periods in 2010. These repayments were sourced through operating activities. ENMAX also disposed of \$nil and \$11.6 million, respectively, of long-term debt during the three and six months ended June 30, 2011, as part of the sale of Furry Creek.

On March 9, 2011, the Corporation declared a dividend of \$55.6 million payable to The City. The first two quarterly instalments of the dividend have been paid and the remaining instalments will be paid during the balance of 2011.

On June 15, 2011, the Corporation obtained \$145.9 million of financing from The City through arrangements with the Alberta Capital Finance Authority to fund ongoing investment relating to the regulated transmission and distribution network in Calgary and the surrounding area.

Effective June 21, 2011 the Corporation entered into agreements with existing lenders to increase and extend the credit facilities from \$750.0 million to \$900.0 million and from July 20, 2013 to July 20, 2015.

At June 30, 2011, cash and cash equivalents amounted to \$99.9 million, compared with \$65.8 million at December 31, 2010.

7 FUTURE ACCOUNTING CHANGES

International Financial Reporting Standards (IFRS)

On February 13, 2008, the Accounting Standards Board of Canada (AcSB) confirmed the changeover from GAAP to International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), will be effective for fiscal years beginning on or after January 1, 2011. On September 30, 2010, the AcSB issued an amendment to this directive which allows entities that have activities subject to rate regulation to delay adoption of IFRS until January 1, 2012. The Corporation has chosen to take this option and will apply IFRS in reporting interim and annual consolidated financial statements, including comparative periods, beginning January 1, 2012. While IFRS uses a conceptual framework similar to GAAP, there will be differences in accounting policies.

An update of the Corporation's conversion plan to IFRS is as follows:

Area	Description of Project Change	Status and Significant Impacts
Changing Standards	<ul style="list-style-type: none">• New standards are expected to be issued in 2011.	<ul style="list-style-type: none">• New standards issued in the quarter include the amendments to Employee Benefits and Financial Statement Presentation as well as new standards on Fair Value Measurement, Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities. The Corporation expects to early adopt these new standards on transition to IFRS and impacts are being identified.

Information technology and data systems

Modifications have been implemented to extend the transition date from January 1, 2010 to January 1, 2011. Data conversion was completed in the second quarter.

8 CRITICAL ACCOUNTING ESTIMATES

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

ENMAX's critical accounting estimates are related to revenue recognition, allowance for doubtful accounts, amortization expense, asset impairment, asset retirement obligations, provisions for income taxes, employee future benefits and financial instruments. The estimates and assumptions made in these areas can be highly uncertain at the time the estimate or assumption is made. Different or changing estimates and assumptions could potentially have a material impact on ENMAX's financial position or results of operations. These critical estimates are described in ENMAX's 2010 Financial Report in Section 9 of the Management's Discussion and Analysis and in Note 2 in the Notes to Consolidated Financial Statements.

During the second quarter of 2011, the Corporation completed a reassessment of its asset retirement obligations. The Corporation's asset retirement obligations relate to costs associated with the removal and decommissioning of its fibre optic network, certain electricity generating assets and proportionate share of jointly owned assets. For each of the Corporation's obligations, the assumptions used in the calculations were reassessed which included the discount rate, time-frame, inflation rate and dollar amount of the future obligation. The new assumptions will be applied prospectively and resulted in a \$6.4 million increase in fixed assets, and asset retirement liability.

9 RISK MANAGEMENT AND UNCERTAINTIES

ENMAX's approach to risk management addresses risk exposures across all of the Corporation's business activities and risk types. After consultation with the Board, management developed and implemented an Enterprise Risk Management (ERM) program in 2008 to identify, analyze, evaluate, treat and communicate the Corporation's risk exposures in a manner consistent with ENMAX's business objectives and risk appetite. For further information on risks, refer to Section 10 of Management's Discussion and Analysis in ENMAX's 2010 Financial Report.

10 FINANCIAL INSTRUMENTS

Off-Balance Sheet Arrangements

The fair value of ENMAX Energy's contracts-for-differences is determined by estimating the amounts that would have to be received or paid to counterparties to terminate the contracts at June 30, 2011 and December 31, 2010. The following contracts-for-differences were outstanding at the end of the period:

As at	June 30, 2011	December 31, 2010
Notional Quantity of Off-Balance Sheet Arrangements		
Electricity sales	2,434 GW	2,153 GW
Natural gas sales	164 TJ	654 TJ
Electricity purchases	1,296 GW	1,707 GW
Natural gas purchases	9,485 TJ	10,981 TJ

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

At June 30, 2011, on the basis of electricity and natural gas prices at that date, the estimated cost of settling these economically hedged contracts at the balance sheet date, excluding PPA sales, would be a negative mark-to-market adjustment amounting to \$40.5 million (December 31, 2010 – negative adjustment of \$33.8 million). This amount does not reflect the fact that these contracts will settle at prices in effect at the time of expiration.

Refer to Note 5 in the Notes to the Consolidated Financial Statements for further information on financial instruments.

11 CLIMATE CHANGE AND THE ENVIRONMENT

Environmental Liabilities

The Corporation's environmental liabilities consist of greenhouse gas (GHG) liabilities. These obligations relate to electricity generated from both of the Corporation's PPAs and CEC. These items have been reflected as liabilities in the consolidated financial statements as at June 30, 2011. The Corporation will continue to abide by current and future environmental regulations.

There are currently no outstanding lawsuits against the Corporation for environmental matters. There are no other known environmental liabilities at this point in time or foreseen in the future.

Asset Retirement Obligations

At June 30, 2011, the Corporation has asset retirement obligations relating to the following project generating assets: McBride Lake, Taber, Crossfield, Kettles Hill and CEC. The Corporation also has an asset retirement obligation relating to the Envision business unit for its high-speed fibre-optic assets.

The expected remediation liability and timing for each asset is disclosed in the table below:

<i>(millions of dollars)</i>	Amount	Date
McBride Lake	47.8	September 2057
Taber	32.4	December 2057
Kettle Hills	26.2	May 2071
Crossfield	10.4	December 2048
CEC	29.6	March 2043
Envision	0.5	June 2021

Financial and Operational Effects of Environmental Protection Requirements

Starting January 1, 2011, the provincial Mercury Emissions from Coal-Fired Power Plants Regulation mandated that coal-fired power plants capture 70% of mercury being emitted into the atmosphere. Mercury abatement equipment was installed and tested in 2010 at the PPA plants and the majority of capital expenditures were incurred in 2010. Capital expenditures relating to this equipment in the three and six months ended was \$nil million and \$9.3 million, respectively. Further capital expenditures may be required in 2011 and there will be ongoing operating costs. The Corporation is in negotiations with the PPA facility owners as to the portion of the costs that are attributable to ENMAX.

12 TRANSACTIONS WITH RELATED PARTIES

ENMAX's related-party transactions comprise both revenues from and expenditures to The City. The City is the sole Shareholder of the Corporation. In the three and six months ended June 30, 2011, transactions with The City amounted to \$22.6 million and \$51.5 million in revenue, respectively, compared with \$23.2 million and \$48.0 million, respectively, in the same periods in 2010. 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 the three and six months ended June 30, 2011, total expenditures for goods and services received from The City were \$31.4 million and \$60.9 million, respectively, compared with \$24.3 million and \$50.7 million, respectively, in the same periods in 2010. Most of these expenditures were for local access fees for the use of The City's rights-of-way the cost of which is passed through by ENMAX directly to transmission and distribution customers. The measurement basis used in determining the above values is fair market value; that is, the measurement basis is the same as would be used for a third party arm's length transaction.

13 OUTLOOK

The discussion in this section is qualified by the caution regarding forward-looking statements at the beginning of the MD&A.

The financial results forecasted for 2011 are based on certain assumptions about factors that are outside of the control of the Corporation. Actual results that differ from these assumptions could have a significant impact on expected results. The key assumptions that could significantly impact forecast earnings are commodity prices, residential and small business volumes, unplanned outages at generating facilities, settlement of contingencies, regulatory changes and project execution on the Corporation's large capital projects.

The Corporation expects to see average electricity prices moderate further in the last half of 2011 as compared to the first six months of 2011, due to an increase in supply in the Alberta electricity market. The Corporation expects that natural gas prices will remain relatively stable.

The Corporation is spending significant effort in the management of its OM&A costs. While additional costs are expected to result from inflation increases on labour and salary costs and increased costs of the Corporation's defined benefit pension, the Corporation is actively taking steps to mitigation of these increases through productivity improvements and general cost reduction efforts.

As a result of the impacts from the above, ENMAX expects that net earnings for 2011 will be modestly lower than net earnings levels seen in 2010. This level of earnings and the related operating cash flow is expected to provide a considerable amount of the financing required for the Corporation's 2011 development plans.

14 ADDITIONAL INFORMATION

ENMAX welcomes questions from stakeholders. Additional information relating to ENMAX can be found at enmax.com.

Please direct financial inquiries to:

Charles Ruigrok
Interim President and Chief Executive Officer
(403) 514-3050

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

Please direct media inquiries to:

Ian Todd
Vice President, Government and Media Relations
(403) 514-2196

The latest prices and packages are listed on our website at enmax.com or by calling toll-free across Alberta at 310-2010. You can choose any retailer listed at www.ucahelps.gov.ab.ca or at 310-4822. Electricity delivery to your home or business is not affected by your choice of retailer.

Consolidated Balance Sheets

AS AT <i>(millions of dollars)</i>	June 30 2011 <i>(unaudited)</i>	December 31 2010
ASSETS		
Cash and cash equivalents	\$ 99.9	\$ 65.8
Accounts receivable (notes 5 and 12)	503.3	499.4
Income taxes receivable	28.8	34.7
Future income tax asset	13.9	7.1
Other current assets (notes 5 and 6)	77.6	103.2
Assets held for sale (note 7)	-	110.9
	<u>723.5</u>	<u>821.1</u>
Property, plant and equipment	2,523.3	2,273.6
Power purchase arrangements	500.0	517.0
Intangible assets	107.6	113.2
Goodwill	16.0	16.0
Employee future benefits (note 8)	20.9	22.8
Future income tax asset	79.1	91.2
Other long-term assets (notes 5 and 6)	37.2	28.0
TOTAL ASSETS	<u>\$ 4,007.6</u>	<u>\$ 3,882.9</u>
LIABILITIES		
Accounts payable and accrued liabilities (notes 5 and 12)	286.9	327.7
Dividend payable	27.8	-
Income taxes payable	15.5	35.6
Future income tax liability	0.2	8.8
Current portion of long-term debt (note 5)	52.6	50.0
Other current liabilities (notes 5 and 6)	80.5	77.6
Liabilities held for sale (note 7)	-	15.0
	<u>463.5</u>	<u>514.7</u>
Long-term debt (note 5)	1,497.4	1,377.7
Future income tax liability	81.7	79.8
Other long-term liabilities (notes 5 and 6)	65.3	58.4
Asset retirement obligations (notes 3 and 9)	13.5	7.1
	<u>2,121.4</u>	<u>2,037.7</u>
SHAREHOLDER'S EQUITY		
Share capital	280.1	280.1
Retained earnings	1,647.7	1,603.4
Accumulated other comprehensive loss (note 10)	(41.6)	(38.3)
	<u>1,886.2</u>	<u>1,845.2</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u>\$ 4,007.6</u>	<u>\$ 3,882.9</u>
Commitments and contingencies (note 11)		
<i>See accompanying notes to consolidated financial statements.</i>		

Consolidated Statements of Income and Comprehensive Income

(unaudited) (millions of dollars)	Three months ended		Six months ended	
	June 30		June 30	
	2011	2010	2011	2010
REVENUE (note 4)				
Electricity	\$ 453.7	\$ 419.5	\$ 995.6	\$ 794.6
Natural gas	58.1	59.4	195.9	180.7
Transmission and distribution	101.4	84.7	203.6	173.2
Contractual services	32.1	22.5	59.2	42.7
Other	2.0	1.3	8.6	5.0
TOTAL REVENUE	647.3	587.4	1,462.9	1,196.2
COST OF SERVICES PROVIDED (note 4)				
Electricity	349.1	308.8	799.7	585.5
Natural gas	54.6	56.6	188.3	176.9
Local access fees and grid charges	55.8	39.5	112.5	83.0
Contractual services	21.8	11.7	40.3	24.1
Operations, maintenance and administration	55.9	47.2	107.5	95.5
TOTAL COST OF SERVICES PROVIDED	537.2	463.8	1,248.3	965.0
	110.1	123.6	214.6	231.2
Amortization	41.4	40.4	82.0	79.8
Interest	12.7	14.1	26.4	28.3
Current income taxes	3.8	8.2	5.6	17.3
Future income taxes	1.6	1.5	4.1	(1.1)
NET EARNINGS FROM CONTINUING OPERATIONS	50.6	59.4	96.5	106.9
Net (loss) earnings from discontinued operations, net of tax (note 7)	(0.5)	(0.8)	3.4	(1.3)
NET EARNINGS	50.1	58.6	99.9	105.6
OTHER COMPREHENSIVE LOSS, NET OF TAX				
Unrealized losses on available for sale financial assets arising during the period, includes future income tax of \$nil and \$nil for the three and six month periods, respectively (2010 - \$0.1 expense and \$0.1 expense)	(0.8)	(0.9)	(1.5)	(0.8)
Realized losses on available for sale financial assets arising during the period, includes future income tax of \$nil and \$nil for the three and six month periods, respectively (2010 - \$nil and \$nil)	2.5	1.2	2.5	1.2
Unrealized gains (losses) on derivatives designated as cash flow hedges, includes future income tax benefit of \$1.9 and \$7.3 for the three and six month periods, respectively (2010 - \$9.3 benefit and \$6.4 benefit)	5.2	(23.3)	(11.4)	(48.2)
Realized (gains) losses on derivatives designated as cash flow hedges in prior periods transferred to net earnings in the current period, includes future income tax expense of \$0.6 and \$1.5 for the three and six month periods, respectively (2010 - \$2.2 expense and \$0.1 benefit)	(9.1)	14.7	7.1	23.8
Other comprehensive loss, net of tax	(2.2)	(8.3)	(3.3)	(24.0)
COMPREHENSIVE INCOME	\$ 47.9	\$ 50.3	\$ 96.6	\$ 81.6

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholder's Equity

<i>(unaudited)</i> <i>(millions of dollars)</i>	Share capital	Retained earnings	Accumulated other comprehensive loss	Total
BALANCE, JANUARY 1, 2010	\$ 280.1	\$ 1,487.4	\$ (23.0)	\$ 1,744.5
Net earnings	-	47.0	-	47.0
Dividends declared	-	(61.8)	-	(61.8)
Other comprehensive loss including future income tax expense of \$0.7	-	-	(15.7)	(15.7)
BALANCE, MARCH 31, 2010	280.1	1,472.6	(38.7)	1,714.0
Net earnings	-	58.6	-	58.6
Other comprehensive loss including future income tax expense of \$7.0	-	-	(8.3)	(8.3)
BALANCE, JUNE 30, 2010	280.1	1,531.2	(47.0)	1,764.3
Comprehensive income for the remainder of 2010	-	72.2	8.7	80.9
BALANCE, DECEMBER 31, 2010	280.1	1,603.4	(38.3)	1,845.2
Net earnings	-	49.8	-	49.8
Dividends declared	-	(55.6)	-	(55.6)
Other comprehensive loss including future tax benefit of \$4.5	-	-	(1.1)	(1.1)
BALANCE, MARCH 31, 2011	\$ 280.1	\$ 1,597.6	\$ (39.4)	\$ 1,838.3
Net earnings	-	50.1	-	50.1
Other comprehensive loss including future tax benefit of \$1.3	-	-	(2.2)	(2.2)
BALANCE, JUNE 30, 2011	\$ 280.1	\$ 1,647.7	\$ (41.6)	\$ 1,886.2

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

<i>(unaudited)</i> <i>(millions of dollars)</i>	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net earnings	\$ 50.1	\$ 58.6	\$ 99.9	\$ 105.6
Items not involving cash:				
Gain on disposal of assets held for sale	0.5	-	(2.6)	-
Amortization	41.4	40.4	82.0	79.8
Future income taxes	1.6	1.5	4.1	(1.1)
Change in unrealized market value of financial contracts (note 5)	5.6	1.3	6.1	(6.3)
Other	(0.7)	4.1	13.9	11.8
	<u>98.5</u>	<u>105.9</u>	<u>203.4</u>	<u>189.8</u>
Change in non-cash working capital	37.7	(55.3)	(63.3)	(70.0)
Employee future benefits	(2.4)	(1.0)	(3.6)	(2.7)
	<u>133.8</u>	<u>49.6</u>	<u>136.5</u>	<u>117.1</u>
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(105.1)	(111.5)	(296.9)	(199.3)
Net proceeds from disposal of assets held for sale	-	-	102.0	-
Proceeds from receipt of government grants	-	2.7	-	4.6
Additions to power purchase arrangements	-	-	(9.3)	(64.0)
Other long-term assets	(1.8)	4.6	(2.1)	7.6
Contributions in aid of construction	4.0	11.2	7.6	20.9
	<u>(102.9)</u>	<u>(93.0)</u>	<u>(198.7)</u>	<u>(230.2)</u>
FINANCING ACTIVITIES				
Repayment of short-term debt	(267.9)	(469.2)	(357.9)	(790.4)
Proceeds of short-term debt	205.0	377.5	359.5	772.2
Proceeds of long-term debt	145.9	156.0	145.9	156.0
Repayment of long-term debt	(13.2)	(10.9)	(23.6)	(21.0)
Dividend paid	(13.9)	(15.4)	(27.8)	(30.9)
Other long-term liabilities	(2.1)	(1.9)	0.2	(1.0)
	<u>53.8</u>	<u>36.1</u>	<u>96.3</u>	<u>84.9</u>
Increase (decrease) in cash and cash equivalents	84.7	(7.3)	34.1	(28.2)
Cash and cash equivalents, beginning of period	15.2	34.8	65.8	55.7
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 99.9</u>	<u>\$ 27.5</u>	<u>\$ 99.9</u>	<u>\$ 27.5</u>
Supplementary information:				
Interest paid	\$ 28.5	\$ 29.3	\$ 36.3	\$ 38.1
Income taxes paid	6.0	1.3	12.0	4.9
Cash and cash equivalents consist of:				
Cash	\$ 99.9	\$ 27.5	\$ 99.9	\$ 27.5
Short-term investments	-	-	-	-
	<u>\$ 99.9</u>	<u>\$ 27.5</u>	<u>\$ 99.9</u>	<u>\$ 27.5</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements (Unaudited)

1. Significant accounting policies

The interim consolidated financial statements of ENMAX Corporation and its subsidiaries (ENMAX or the Corporation) have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The accounting policies and presentation applied are consistent with those outlined in the Corporation's audited annual financial statements for the year ended December 31, 2010.

These interim consolidated financial statements do not include all disclosures required in the annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements included in ENMAX's 2010 Financial Report. Amounts are stated in millions of Canadian dollars, except as otherwise noted.

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

2. Future accounting changes

International financial reporting standards (IFRS)

On February 13, 2008, the Accounting Standards Board of Canada (AcSB) confirmed that the changeover from GAAP to IFRS, as issued by the International Accounting Standards Board (IASB), will be effective for fiscal years beginning on or after January 1, 2011. On September 30, 2010, the AcSB issued an amendment to this directive which allows entities that have activities subject to rate regulation an option to delay adoption of IFRS until January 1, 2012. The Corporation has chosen to take this option and will apply IFRS in reporting interim and annual consolidated financial statements, including comparative periods, beginning January 1, 2012. While IFRS uses a conceptual framework similar to GAAP, there will be differences in accounting policies. The Corporation continues to assess these differences.

3. Change in accounting estimate

Asset retirement obligation

During the second quarter of 2011, the Corporation completed a reassessment of its asset retirement obligations. The Corporation's asset retirement obligations relate to costs associated with the removal and decommissioning of its fibre optic network, certain electricity generating assets and proportionate share of jointly owned assets. For each of the Corporation's obligations, the assumptions used in the calculations were reassessed which included the time-frame, inflation rate and dollar amount of the future obligation. These changes in estimates will be applied prospectively and resulted in a \$6.4 million increase in fixed assets and asset retirement liability.

4. Segmented information

Three months ended June 30 - (millions of dollars)	ENMAX Energy		ENMAX Power		Corporate & Intersegment Eliminations		Consolidated Totals	
	2011	2010	2011	2010	2011	2010	2011	2010
REVENUE								
Electricity	500.2	452.3	45.5	36.0	(92.0)	(68.8)	453.7	419.5
Natural gas	58.1	59.4	-	-	-	-	58.1	59.4
Transmission and distribution	-	-	101.4	84.7	-	-	101.4	84.7
Contractual services	14.1	12.6	24.4	16.1	(6.4)	(6.2)	32.1	22.5
Other	3.1	1.2	0.3	0.3	(1.4)	(0.2)	2.0	1.3
TOTAL REVENUE	575.5	525.5	171.6	137.1	(99.8)	(75.2)	647.3	587.4
COST OF SERVICES PROVIDED								
Electricity	397.8	344.2	43.1	33.2	(91.8)	(68.6)	349.1	308.8
Natural gas	54.6	56.6	-	-	-	-	54.6	56.6
Local access fees and grid charges	-	-	55.8	39.5	-	-	55.8	39.5
Contractual services	1.6	1.0	20.4	11.6	(0.2)	(0.9)	21.8	11.7
Operations, maintenance and administration	39.9	36.7	23.8	19.2	(7.8)	(8.7)	55.9	47.2
TOTAL COST OF SERVICES PROVIDED	493.9	438.5	143.1	103.5	(99.8)	(78.2)	537.2	463.8
	81.6	87.0	28.5	33.6	-	3.0	110.1	123.6
Amortization	27.6	27.6	13.3	12.3	0.5	0.5	41.4	40.4
EARNINGS (LOSS) BEFORE INTEREST AND INCOME TAXES	54.0	59.4	15.2	21.3	(0.5)	2.5	68.7	83.2
Interest							12.7	14.1
Income taxes							5.4	9.7
NET EARNINGS FROM CONTINUING OPERATIONS							50.6	59.4
Net loss from discontinued operations							(0.5)	(0.8)
NET EARNINGS							50.1	58.6
GOODWILL	16.0	16.0	-	-	-	-	16.0	16.0
CAPITAL ADDITIONS	68.8	75.0	30.7	22.6	1.6	-	101.1	97.6

4. Segmented information (continued)

Six months ended June 30 - (millions of dollars)	ENMAX Energy		ENMAX Power		Corporate & Intersegment Eliminations		Consolidated Totals	
	2011	2010	2011	2010	2011	2010	2011	2010
REVENUE								
Electricity	1,086.1	861.0	97.5	75.5	(188.0)	(141.9)	995.6	794.6
Natural gas	195.9	180.7	-	-	-	-	195.9	180.7
Transmission and distribution	-	-	203.6	173.2	-	-	203.6	173.2
Contractual services	26.8	24.4	44.8	30.2	(12.4)	(11.9)	59.2	42.7
Other	13.6	4.9	1.1	0.4	(6.1)	(0.3)	8.6	5.0
TOTAL REVENUE	1,322.4	1,071.0	347.0	279.3	(206.5)	(154.1)	1,462.9	1,196.2
COST OF SERVICES PROVIDED								
Electricity	895.7	657.6	91.7	69.5	(187.7)	(141.6)	799.7	585.5
Natural gas	188.3	176.9	-	-	-	-	188.3	176.9
Local access fees and grid charges	-	-	112.5	83.0	-	-	112.5	83.0
Contractual services	2.8	2.3	38.0	23.1	(0.5)	(1.3)	40.3	24.1
Operations, maintenance and administration	74.4	68.4	48.7	43.3	(15.6)	(16.2)	107.5	95.5
TOTAL COST OF SERVICES PROVIDED	1,161.2	905.2	290.9	218.9	(203.8)	(159.1)	1,248.3	965.0
	161.2	165.8	56.1	60.4	(2.7)	5.0	214.6	231.2
Amortization	54.9	54.9	26.1	24.2	1.0	0.7	82.0	79.8
EARNINGS (LOSS) BEFORE INTEREST AND INCOME TAXES	106.3	110.9	30.0	36.2	(3.7)	4.3	132.6	151.4
Interest							26.4	28.3
Income taxes							9.7	16.2
NET EARNINGS FROM CONTINUING OPERATIONS							96.5	106.9
Net gain (loss) from discontinued operations							3.4	(1.3)
NET EARNINGS							99.9	105.6
GOODWILL	16.0	16.0	-	-	-	-	16.0	16.0
CAPITAL ADDITIONS	245.2	199.1	54.1	43.2	(0.7)	0.1	298.6	242.4

Segmented Total Assets

As at (millions of dollars)	June 30, 2011	December 31, 2010
ENMAX Energy	2,686.8	2,635.2
ENMAX Power	1,199.3	1,157.7
Corporate and eliminations	121.5	90.0
	4,007.6	3,882.9

5. Financial instruments, hedges and risk management

Risk analysis and control

ENMAX manages its exposure to energy risk on a portfolio basis, which includes asset positions arising from its interests in generation facilities, liability positions arising from its commitments to its customers and transacting positions arising from its hedging activities.

Sensitivity analysis on market risks

The analysis below represents the effect of market risks (interest rate risk, foreign currency exchange risk, commodity price risk and equity price risk) on the Corporation's results as those risks apply to derivative financial instruments. Non-derivative financial instruments are recorded at cost. The carrying amounts of non-derivative financial instruments are not affected by changes in market variables, whereas carrying amounts of derivative financial instruments are affected by market variables.

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

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

- The same fair value methodologies have been used as were used to obtain actual fair values in the fair values section of this note.
- Changes in the fair value of derivative instruments that are effective cash flow hedges are recorded in other comprehensive income.
- Foreign currency balances, principal and notional amounts are based on amounts as at June 30, 2011.
- Interest rate sensitivities are based on a combination of the Canadian Dealer Offered Rate (CDOR) and the London Interbank Offered Rate (LIBOR) with an assumption that LIBOR is equal to CDOR plus 0.001%.
- Sensitivities are exclusive of any potential income tax impacts.

5. Financial instruments, hedges and risk management (continued)

As at (millions of dollars)	June 30, 2011		June 30, 2010	
	Earnings	Other Comprehensive Income	Earnings	Other Comprehensive Income
Interest rates increased 100 basis points (1% pure rate change)	+ 0.5	+ 13.8	+ 0.6	+ 14.7
Canadian dollar strengthens compared with the U.S. dollar by 10%	- 11.7	+ 3.4	- 2.5	+ 9.2
Canadian dollar strengthens compared with the Japanese Yen by 10%	- 0.5	-	- 0.7	-
Forward price of natural gas increases by 10%	- 0.1	+ 7.7	- 0.1	+ 14.3
Forward price of electricity increases by 10%	+ 3.3	- 15.0	+ 1.6	- 9.0
Equity investment increased by 10%	-	-	-	-

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

Foreign exchange and interest rate risk

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

ENMAX is not exposed to interest rate risk and volatility as a result of the issuance of fixed rate long-term debt and the use of interest rate hedging instruments. However, the fair value of ENMAX's long-term debt and any associated interest rate hedging instruments change as interest rates change, assuming all other variables remain constant. For example, a 1% change in interest rates as at June 30, 2011, would have an effect on fair value of fixed interest rate debt of \$76.4 million (December 31, 2010 - \$82.6 million).

5. Financial instruments, hedges and risk management (continued)

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

Credit risk

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

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

As at (millions of dollars)	June 30, 2011	December 31, 2010
Cash and cash equivalents (1)	99.9	65.8
Accounts receivable (2)	503.3	499.4
Other current assets (3)	77.6	103.2
Other long-term assets (3)	37.2	28.0

(1) Cash and cash equivalents

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

(2) Accounts receivable

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

5. Financial instruments, hedges and risk management (continued)

Charges to income as a result of credit losses for the Corporation during the three and six month periods ended June 30, 2011, totalled \$2.2 and \$2.1 million, respectively (June 30, 2010 - \$0.1 and \$2.5 million, respectively).

The aging analysis of trade receivables which are past due but not impaired is as follows:

As at (millions of dollars)	June 30, 2011	December 31, 2010
1-30 days past due	17.7	13.0
31-60 days past due	5.1	3.4
61 days past due and over	10.6	13.3
Total past due	33.4	29.7

As at June 30, 2011, the allowance for doubtful accounts was \$6.0 million. The changes in the allowance were as follows:

(millions of dollars)	Six months ended June 30, 2011	Year ended December 31, 2010
Provision at the beginning of the period	9.5	11.4
Increase to allowance	2.1	8.4
Recoveries and write-offs	(5.6)	(10.3)
Provision at end of the period	6.0	9.5

The remainder of the accounts receivable balance outstanding at June 30, 2011, consists of unbilled revenue accruals; and as such, no provisions have been recorded due to the minimal credit risk as at the balance sheet date.

(3) Other current and long-term assets

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

5. Financial instruments, hedges and risk management (continued)

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

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

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

Liquidity risk

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

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

As at (<i>millions of dollars</i>)	June 30, 2011	December 31, 2010
2011	377.4	436.8
2012	120.9	120.6
2013	119.0	118.8
2014	359.3	359.3
2015	99.3	98.9
Thereafter	1,261.4	1,252.3

5. Financial instruments, hedges and risk management (continued)

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

As at (millions of dollars)	June 30, 2011	December 31, 2010
2011	62.4	67.6
2012	18.6	16.9
2013	9.2	5.8
2014	3.9	1.7
2015	4.4	0.8
Thereafter	2.6	-

In addition, guarantees are provided by the Corporation to third parties on behalf of certain consolidated subsidiaries for obligations under contracts that facilitate physical and financial transactions using various derivatives. The guarantees provided as at June 30, 2011, were for a maximum of \$595.3 million (December 31, 2010 - \$593.2 million). The fair value of the trading and hedging positions under contracts with a net liability at June 30, 2011, under the guarantees, was \$46.1 million (December 31, 2010 - \$68.5 million). The liabilities for these trading and hedging positions are included in the consolidated balance sheet under "Accounts payable and accrued liabilities" and "Other liabilities".

The Corporation has also provided guarantees on behalf of certain consolidated subsidiaries for obligations to perform and make payments under various other contracts. The amount guaranteed under these contracts at June 30, 2011, was a maximum of \$712.2 million (December 31, 2010 - \$708.7 million).

As at June 30, 2011, the Corporation is non-compliant with a financial covenant for Kettles Hill related to non-recourse financing classified as long-term debt on the balance sheet. The lender under this financing exercised its discretion under the Credit Agreement and determined that non-compliance with this covenant does not result in an event of default in this instance. The Corporation was in compliance with all of its other financial covenants as of June 30, 2011.

Non-derivative financial assets and liabilities

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

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

5. Financial instruments, hedges and risk management (continued)

The carrying amounts and fair values of the long-term debt are as follows:

As at <i>(millions of dollars)</i>	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt ⁽¹⁾ , consisting of:				
ACFA Debentures, with remaining terms of:				
Less than 5 years	60.8	66.3	69.1	75.1
6 – 10 years	154.1	165.3	48.8	59.0
11 – 15 years	-	-	106.9	115.3
16 – 20 years	61.1	65.1	38.8	35.6
21 – 25 years	481.5	518.7	368.0	403.1
Private debentures				
Series 1 (6.15%)	297.2	331.5	297.1	330.3
Series 2 (5.85%)	248.9	269.7	248.8	271.2
Non-recourse term financing (Kettles and CEC)	241.0	224.7	244.7	254.5
Promissory note	5.4	5.3	5.5	5.4
	1,550.0	1,646.6	1,427.7	1,549.5

⁽¹⁾ Includes current portion of \$52.6 million (December 31, 2010 – \$50.0 million). Maturity dates range from October 2011 to June 2036.

5. Financial instruments, hedges and risk management (continued)

Derivative assets and liabilities

Financial derivative instruments are recorded on the consolidated balance sheet at fair value. As at June 30, 2011, the mark-to-market adjustment based on the fair value of these hedge contracts resulted in unrealized gains or losses on derivative instruments which are included in the consolidated balance sheet as per the table below:

As at	June 30, 2011		December 31, 2010	
<i>(millions of dollars)</i>	Hedge Instruments	Non-Hedge Derivatives	Hedge Instruments	Non-Hedge Derivatives
Assets				
Current	10.0	28.0	16.4	45.6
Non-current	6.5	14.3	5.8	6.7
Liabilities				
Current	39.6	21.7	41.8	19.6
Non-current	24.1	15.7	17.1	14.2

Cash flow hedges are used to manage the variability of cash flows resulting from the purchase and sale of electricity and natural gas, fluctuations in interest rates as well as foreign exchange exposure. For cash flow hedges, which are described in greater detail in the market risk section above, changes in the fair value of the effective portion of the hedging derivative are accumulated in other comprehensive income and recognized in net earnings during the periods when the variability in cash flows of the hedged item is realized. In the second half of 2011, gains of \$1.7 million (June 30, 2010 - \$3.7 million loss) were recognized in income as a reflection of the ineffectiveness of the relevant hedges. Gains and losses on cash flow hedges are reclassified immediately to net earnings when the hedged item is sold or terminated early, or when a hedged anticipated transaction is no longer likely to occur. During the three and six months ended June 30, 2011, there was a loss of \$0.3 million and \$nil, respectively, recorded in net earnings (2010 - \$nil in both three and six month periods) related to hedges that no longer qualify for hedge accounting.

The Corporation estimates that of the \$41.6 million of losses reported in accumulated other comprehensive income as at June 30, 2011, \$29.6 million is expected to be realized within the next 12 months at market prices in effect at the time of settlement. These losses will offset the inherent gains in the underlying hedged exposures.

Foreign exchange exposures on the Corporation's futures margin trading account and certain foreign denominated purchase contracts are managed through economic hedges. For these hedges, the changes in the fair value of the hedge derivatives are recognized directly in earnings. During the three and six months ended June 30, 2011, a net gain of \$0.2 million (2010 - \$1.0 million gain) and \$0.8 million (2010 - \$0.8 million loss), respectively has been recognized.

5. Financial instruments, hedges and risk management (continued)

Non-hedged derivatives are classified as held for trading and recognized at fair market value with changes in fair market value being recorded through net earnings. In the three and six months ended June 30, 2011, gains of \$2.9 million (2010 - \$25.7 million gain) and \$21.9 million (2010 – \$30.3 million gain), respectively, were recorded in net earnings.

Fair value

As at June 30, 2011, the fair values of the Corporation's financial assets and liabilities measured at fair value are:

<i>(millions of dollars)</i>	Fair Value ⁽¹⁾			Total carrying value
	Level I	Level II	Level III	
Financial assets / (liabilities) measured at fair value:				
Energy trading forward contracts	(15.2)	(15.4)	(2.5)	(33.1)
Foreign currency forward contracts	-	14.0	-	14.0
Interest rate swap	-	(23.2)	-	(23.2)
Net risk management assets (liabilities)	(15.2)	(24.6)	(2.5)	(42.3)

⁽¹⁾ Excludes financial assets and liabilities where carrying value approximates fair value due to the liquid nature of the asset or liability (cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities).

As at December 31, 2010, the fair values of the Corporation's financial assets and liabilities measured at fair value are:

<i>(millions of dollars)</i>	Fair Value ⁽¹⁾			Total carrying value
	Level I	Level II	Level III	
Financial assets / (liabilities) measured at fair value				
Energy trading forward contracts	(27.6)	(7.1)	2.2	(32.5)
Foreign currency forward contracts	-	34.0	-	34.0
Interest rate swap	-	(19.7)	-	(19.7)
Net risk management assets (liabilities)	(27.6)	7.2	2.2	(18.2)

⁽¹⁾ Excludes financial assets and liabilities where carrying value approximates fair value due to the liquid nature of the asset or liability (cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities).

5. Financial instruments, hedges and risk management (continued)

The following table summarizes the key factors impacting the change in the fair value of the Corporation's Level III net risk management assets and liabilities separately by source of valuation.

(millions of dollars)

Net risk management assets as at December 31, 2010	2.2
Changes attributable to:	
Commodity price changes	(4.3)
New contracts entered	0.2
Transfers out of Level III	(0.6)
Net risk management liabilities at June 30, 2011	(2.5)
Total change in fair value included in Other Comprehensive Income	(4.7)
Total change in fair value included in pre-tax earnings	-

The assumptions around Level III have not changed since December 31, 2010.

6. Other assets and liabilities

<i>As at</i> <i>(millions of dollars)</i>	June 30, 2011	December 31, 2010
Other current assets		
Prepaid expenses	35.7	40.3
Hedge instruments	10.0	16.4
Non-hedge derivatives	28.0	45.6
Inventory	3.9	0.9
	77.6	103.2
Other long-term assets		
Hedge instruments	6.5	5.8
Non-hedge derivatives	14.3	6.7
Restricted cash	10.4	5.2
Shares in other companies	0.4	3.8
Deferred costs	4.2	3.8
Other	1.4	2.7
	37.2	28.0

6. Other assets and liabilities (continued)

Other current liabilities		
Hedge instruments	39.6	41.8
Non-hedge derivative	21.7	19.6
Deposits	13.9	13.2
Deferred revenue	5.3	3.0
	80.5	77.6
Other long-term liabilities		
Hedge instruments	24.1	17.1
Non-hedge derivative	15.7	14.2
Long-term payables	10.8	15.5
Deferred revenue	14.7	11.6
	65.3	58.4

7. Assets held for sale

The sale of the remaining British Columbia assets, which consisted of the Clowhom and Furry Creek hydro facilities, closed on February 8 and February 14, 2011, respectively. As such, the assets and liabilities of this disposal group have been removed from the consolidated balance sheet as at June 30, 2011. Operating results and the results of the sales transactions related to these assets and liabilities have been included in earnings (loss) from discontinued operations, net of tax on the consolidated statements of income and comprehensive income. The gain on sale from Clowhom was \$0.3 million and for Furry Creek was \$2.3 million for the six months ended June 30, 2011.

7. Assets held for sale (continued)

Net earnings (loss) from discontinued operations, net of tax is comprised of the following:

<i>(millions of dollars)</i>	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
REVENUE				
Electricity	-	2.0	0.3	2.9
Other revenue	-	-	1.6	-
TOTAL REVENUE	-	2.0	1.9	2.9
COST OF SERVICES PROVIDED				
Electricity	-	0.1	-	0.1
OM&A	-	1.9	1.0	2.9
COST OF SERVICES PROVIDED	-	2.0	1.0	3.0
Gain on sale	(0.5)	-	2.6	-
Amortization	-	0.1	-	0.1
Interest	-	0.4	0.1	1.0
Income taxes	-	0.3	-	0.1
NET (LOSS) EARNINGS FROM DISCONTINUED OPERATIONS	(0.5)	(0.8)	3.4	(1.3)

7. Assets held for sale (continued)

The assets and liabilities of the asset group held for sale is comprised of the following:

<i>(millions of dollars)</i>	June 30, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents	-	1.6
Accounts receivable	-	0.3
Property plant and equipment	-	107.2
Intangible assets	-	1.2
Other long-term assets	-	0.6
TOTAL ASSETS	-	110.9
LIABILITIES		
Accounts payable and accrued liabilities	-	0.1
Current portion of long-term debt	-	0.6
Long-term debt	-	11.6
Future income tax liability	-	1.1
Other long-term liabilities	-	1.6
TOTAL LIABILITIES	-	15.0

8. Employee future benefits

The Corporation established a registered pension plan on January 1, 2001, to provide future pension benefits for its employees. The registered pension plan covers substantially all employees and includes either defined benefit or defined contribution provisions. The defined benefit plan membership is restricted to employees covered by certain labour contracts. The Corporation also sponsors a supplemental pension plan providing an additional pension to members whose benefits are limited by maximum pension rules under the Income Tax Act. In addition, the Corporation provides employees with other post-retirement benefits including extended health and dental benefits beyond those provided by government sponsored plans, life insurance and a lump sum allowance payable at retirement.

The total employee benefit cost recorded in the consolidated financial statements of income and comprehensive income for the three and six months ended June 30, 2011, are \$4.9 million (2010 - \$3.3 million) and \$9.4 million (2010 - \$7.7 million), respectively.

9. Asset retirement obligation

The Corporation recognizes its obligation to retire certain tangible long-lived assets, whereby the fair value of 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 recognized as a change in the carrying amount of the liability for an asset retirement obligation, and the related asset retirement cost capitalized as part of the carrying amount of the related long-lived asset. A gain or loss may be incurred upon settlement of the liability.

At June 30, 2011, the Corporation has asset retirement obligations relating to the following project generating assets: McBride Lake, Taber, Crossfield, Kettles Hill and CEC. The Corporation also has an asset retirement obligation relating to the Envision business unit for its high-speed fibre-optic assets. The accretion expense on these assets is included in the amortization line item on the income statement. The change in the carrying amount of the asset retirement obligations is disclosed in the table below:

(millions of dollars)

Balance, December 31, 2010	7.1
Liabilities incurred in the current period	-
Accretion expense	0.4
Revisions in estimates	6.0
Balance, June 30, 2011	13.5

The expected remediation liability and timing for each asset is disclosed in the table below, based on a credit adjusted risk-free discount rate of 6.0% and a rate of inflation of 2.1%:

<i>(millions of dollars)</i>	Amount	Date
McBride Lake	47.8	September 2057
Taber	32.4	December 2057
Kettle Hills	26.2	May 2071
Crossfield	10.4	December 2048
CEC	29.6	March 2043
Envision	0.5	June 2021

The Corporation has an obligation to decommission its electricity transmission and distribution assets in Alberta. Due to the timing and cost of such future decommissioning activities being unknown, these costs are not reasonably estimated. Accordingly, the Corporation is unable to estimate the fair value of this asset retirement obligation and has not recorded this 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.

10. Accumulated other comprehensive income

As at (millions of dollars)	June 30, 2011	December 31, 2010
Unrealized losses on available-for-sale financial assets (net of tax)	(0.2)	(1.2)
Unrealized losses on derivatives designated as cash flow hedges (net of tax)	(41.4)	(37.1)
Accumulated other comprehensive losses, net of a future income tax benefit of \$5.8 million (December 31, 2010 - expense of \$0.3 million)	(41.6)	(38.3)

11. Commitments and contingencies

Property, plant and equipment

As at June 30, 2011, the Corporation and its subsidiaries have committed contracts for future major capital expenditures totalling \$121.7 million, including cancellation costs.

Obligations under other agreements

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

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

The Corporation commits to the purchase of renewable energy certificates and carbon offset credits. The Corporation is obligated to make payments in return for the certificates and credits subsequent to the delivery.

The Corporation commits to long-term service arrangements on certain generating facilities.

The aggregated payments for these obligations under other agreements total \$2,408.4 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 operating results or financial position of the Corporation.

11. Commitments and contingencies (continued)

Environmental

For the three and six month periods ended June 30, 2011, the consolidated financial statements include a charge to earnings in the amount of \$6.9 million (2010 - \$4.4 million) and \$14.4 million (2010 - \$11.3 million), respectively, included in costs of electricity services provided, relating to estimated compliance costs under the provincial greenhouse gas (GHG) regulations for ENMAX Energy's interests in coal and natural gas-fired generation facilities through its PPAs and owned assets. Compliance payments are due to the plant owners by June 30 of the year following the compliance.

ENMAX Energy has taken steps, including acquiring qualified offset credits from both its wind generation assets and purchases on the wholesale market, to mitigate impacts of the GHG regulations.

Letters of credit

In the normal course of operations, letters of credit are issued to facilitate the extension of sufficient credit for counterparties having credit exposure to the Corporation or its subsidiaries. The Corporation has issued letters of credit amounting to \$302.2 million at June 30, 2011 (December 31, 2010 – \$283.9 million).

12. Financial statement effects of rate regulation

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

As at (millions of dollars)	June 30, 2011	December 31, 2010
Regulatory assets		
Accounts receivable: purchased power variances (1)	52.1	36.0
Distribution assets: inter-company profit on underground residential development (2)	36.6	35.5
Other regulatory assets (3)	10.8	10.4
Total regulatory assets	99.5	81.9
Other regulatory liabilities (4)	1.3	1.9

12. Financial statement effects of rate regulation (continued)

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

(1) Purchased power variances

Purchased power costs are included in allowed rates on a forecast basis. For rate setting purposes, differences between forecast and actual purchased power costs in the rate year are held until the following year. ENMAX Power recognizes purchased power cost variances as a regulatory asset or liability, based on the expectation that amounts held from one year to the next for rate setting purposes will be approved for collection from, or refunded to, future customers. The regulatory asset represents the excess of actual over forecast purchased power costs. In the absence of rate regulation, GAAP would require that actual purchased power costs be recognized as an expense when incurred. In this case, operating results for the three and six months ended June 30, 2011, would have been \$14.0 million lower (2010 - \$2.2 million lower) and \$16.1 million lower (2010 - \$1.7 million higher), respectively. The regulatory asset at June 30, 2011, is \$52.1 million (December 31, 2010 - \$36.0 million) included in accounts receivable.

(2) Inter-company profit on underground residential development

Distribution assets for the regulated operations of ENMAX Power include intercompany profit relating to construction work performed by an ENMAX subsidiary. Such profit is deemed for regulatory purposes to be realized to the extent that the transfer price is recognized for rate-making purposes by the regulator and included in the capital cost. In the absence of rate regulation, GAAP would require that intercompany profits be eliminated upon consolidation. The impact on current period earnings for the three and six months ended June 30, 2011 would be a reduction of \$0.2 million (2010 - \$0.5 million) and a reduction of \$1.1 million (2010 - \$0.6 million), respectively, representing the profit on these services. The balances for PPE and retained earnings at June 30, 2011, would further be reduced by \$36.6 million (December 31, 2010 - \$35.5 million).

(3) Other regulatory assets

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

12. Financial statement effects of rate regulation (continued)

(4) Other regulatory liabilities

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

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 ENMAX Power to absorb cost variances in a particular year. Similarly, there is a risk that the regulator may disallow a portion of certain costs incurred in the current period for recovery through future rates or disagree with the proposed recovery period.

Other items affected by rate regulation

Gains and losses on the disposal and retirement of regulated depreciable assets are deferred and amortized over the estimated remaining service life of similar assets, through a charge to accumulated amortization equal to the net book value of the disposed or retired asset. In the absence of rate regulation, under GAAP, the difference between the proceeds and net book value would be charged or credited to earnings in the period the asset is disposed of or retired. The amount deferred from current period earnings for the three and six months ended June 30, 2011, was \$0.5 million (2010 – \$8.4 million) and \$7.2 million (2010 - \$11.6 million), respectively, representing the losses on disposals and retirements of regulated assets.