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2011 FINANCIAL REPORT

ENMAX

A COMMITMENT TO RESPONSIBLE FINANCIAL DISCLOSURE AND GOVERNANCE.

Contents

Caution to Reader:

This document contains statements about future events and financial and operating results of ENMAX Corporation (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 Financial Report, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect" and similar expressions, as they relate to the Corporation or an affiliate of the Corporation, are intended to identify forward-looking statements. Such statements reflect the Corporation's current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Corporation's actual results, performance or achievements to vary from those described in this Financial Report. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this Financial Report. Intended, planned, anticipated, believed, estimated or expected and other forward-looking statements included in this Financial Report herein should not be unduly relied upon. These statements speak only as of the date of this Financial Report. The Corporation does not intend, and does not assume any obligation, to update these forward-looking statements except as required by law, and reserves the right to change, at any time at its sole discretion, the practice of updating annual targets and guidance. Targets for 2012 are described in the Management's Discussion and Analysis (MD&A) Section 18: Outlook.

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

- competitive factors and pricing pressures, including electricity supply and demand in the Alberta power market and fluctuations in the pricing of natural gas in the North American market;
- the availability of our generation assets to produce power;
- 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 natural 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.

For further information, see the MD&A Section 10: Risk Management and Uncertainties.

ENMAX is committed to delivering powerful solutions for our customers and long-term value to our shareholder, The City of Calgary and all Calgarians. Among our many financial highlights in 2011, we continued to grow our customer base and sales volumes, invested over $500 million in Calgary-based capital projects and maintained stable dividend payments to our Shareholder.

CHIEF FINANCIAL OFFICER'S MESSAGE TO STAKEHOLDERS

David Halford,
Executive Vice President,
Finance and Chief
Financial Officer

It is satisfying to see how the continued commitment to our vision of vertical integration has allowed the ENMAX Corporation (ENMAX or the Corporation) to adapt to the challenges of an uncertain economy. The City of Calgary's (The City) continued belief in the Corporation's ability to deliver on its strategy and the benefits of consistent financial policies and governance has been rewarded by continued value creation.

Through 2011, ENMAX continued to deliver on its strategies to provide safe, reliable and cost-effective transmission and distribution services to the city of Calgary and grow the competitive business in Alberta within a framework of vertical-integration.

Financial performance highlights of 2011

Growth continued in 2011, with electricity volumes sold increasing more than 9% from 2010 levels. The cost to supply electricity to our customers was driven by higher purchased electricity prices, forward contracts being realized at lower prices, increased costs of power purchase arrangements and outages at some of our generating facilities. Therefore, operating margin did not see the benefit of the additional volumes and is down 1% from 2010. The impact to operating margins was not as high as expected and

while operating, maintenance and administration costs increased in 2011 as a result of costs associated with the maintenance of operating facilities, these costs were also managed to a level below our budgets. As a result, net earnings from continuing operations remained stable at $180 million, which outperformed expectations.

Given these stable results, ENMAX was able to provide over $400 million in funds generated by operations and invest over $500 million in capital projects, of which almost all has been invested in the Calgary service area. Our strong cash generating position also enabled us to make a voluntary contribution of more than $6.0 million in December 2011, to our defined benefit pension plans and pay cash dividends of over $55 million to The City.

ENMAX continues to maintain a strong financial position and a reasonably conservative balance sheet, with sustainable cash flows, moderate leverage and ample liquidity. Our record of prudent financial decisions is reflected in investment-grade credit ratings and stable outlooks from both of the credit rating agencies that follow us.

2012 and future opportunities

Growing on the momentum gained in 2011, the Corporation expects to continue to develop gas-based generation sources, execute on our vertical-integration strategy for the competitive business, strengthen our competitive market position and enhance customer service offerings all while maintaining one of the most reliable electrical systems in Canada. Expectations for moderate electricity prices, management of the construction of the Shepard Energy Centre and significant regulatory filings provide challenges for 2012.

ENMAX is on track to transition our consolidated financial statements from Canadian Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) in 2012. The impacts of this change have been included in the expected future results to the extent known. IFRS has the potential to result in differences in the timing of recognition of certain revenues and expenses that may correspond to significant variations in reported earnings with no underlying change in the fundamental operations of the business. This potential for variability in reported earnings is reflected in wider ranges of possible results for 2012. A comprehensive status report can be found on page 30 of the Management's Discussion and Analysis.

Commitment to financial disclosure

Even though ENMAX's shares are not publicly traded, we have long demonstrated our commitment to balanced corporate disclosure, having produced comprehensive annual reports every year since 1998, when the Corporation was created. For the last three years, ENMAX has been recognized in the Oilweek/ATB Financial Annual Report Competition for excellence in financial disclosure. This competition is considered Western Canada's leading energy-related annual report competition.

We thank you for your continued support and look forward to serving you in the coming year.

David Halford

Executive Vice President, Finance and Chief Financial Officer

March 8, 2012

Annual consolidated financial information

(millions of dollars, except where otherwise stated)	2011	2010	2009	2008	2007	2006	2005	2004
Total revenues	**3,109.1**	2,404.2	2,354.9	2,668.0	2,107.2	1,665.1	1,295.6	1,193.1
Operating margin [1]	**637.4**	644.3	682.6	576.8	461.3	397.9	430.5	480.8
Earnings before interest and income taxes [1]	**247.3**	261.6	324.4	250.0	199.7	167.7	154.2	218.4
Standardized earnings before interest, income tax, depreciation and amortization [1]	**414.2**	427.0	459.6	365.9	300.8	255.3	223.9	282.1
Net earnings before discontinued operations	**180.4**	181.2	206.6	181.9	141.4	129.4	116.4	152.2
Net earnings	**184.6**	177.8	205.9	181.1	141.8	130.1	116.7	152.2
Return on equity [2]	**9.7%**	9.9%	12.3%	11.9%	10.0%	9.7%	10.1%	12.5%
Return on assets [3]	**7.5%**	7.9%	9.1%	9.5%	9.3%	9.4%	8.9%	12.2%
Dividend payout	**55.6**	61.8	55.0	50.0	50.0	50.0	50.0	50.4
Capital assets [4]	**3,323.0**	2,903.8	2,687.9	2,466.4	1,602.1	1,418.5	1,047.3	947.1
Total assets	**4,327.8**	3,882.9	3,744.3	3,481.6	2,456.2	2,160.4	1,791.2	1,730.4
Long-term debt [5]	**1,522.2**	1,427.7	1,319.8	999.6	426.7	360.3	234.3	252.3
Total shareholder's equity	**1,943.7**	1,845.2	1,744.5	1,596.5	1,458.8	1,385.5	1,305.4	1,238.7
Total capitalization [6]	**3,465.9**	3,272.9	3,064.3	2,596.1	1,885.5	1,745.8	1,539.7	1,491.0
Long-term debt to total capitalization ratio [7]	**43.9%**	43.6%	43.1%	38.5%	22.6%	20.6%	15.2%	16.9%
Cash provided by operating activities	**227.1**	320.2	283.6	271.1	264.4	189.8	79.8	267.4
Cash used by investing activities	**458.1**	335.3	409.1	638.4	268.6	289.3	316.1	52.6
Cash provided by (used in) financing activities	**200.6**	25.2	145.9	350.2	1.5	127.5	(89.9)	37.6

(1) Non-GAAP financial measure. See discussion that follows in the Management's Discussion and Analysis.
(2) Return on equity is equal to net earnings divided by average shareholder's equity for the period.
(3) Return on assets is equal to net earnings before after-tax interest charges divided by average total assets (adjusted for capital assets under construction and current liabilities) for the period.
(4) Capital assets include property, plant and equipment, power purchase arrangements and intangible assets.
(5) Long-term debt includes current and long-term portions.
(6) Total capitalization is equal to long-term debt plus shareholder's equity.
(7) Long-term debt to total capitalization is equal to total long-term debt, including current portions, divided by total capitalization.

Annual operating statistics

	2011	2010	2009	2008	2007	2006	2005	2004
Number of metered ENMAX customers (in and around Calgary) [1]	**436,780**	430,464	423,956	420,325	412,000	403,000	389,872	382,494
Number of retail metered ENMAX customers served (throughout Alberta)	**761,000**	697,000	659,000	649,000	614,000	500,000	457,000	435,000
System peak demand (megawatts, Calgary only)	**1,571**	1,613	1,632	1,632	1,559	1,538	1,483	1,401
Peak load requirements (megawatts, throughout Alberta)	**3,148**	3,066	2,914	2,749	2,643	2,169	1,586	1,565
Energy delivered (gigawatt hours)	**9,318**	9,080	8,971	8,990	8,826	8,607	8,294	8,044
Electricity sold to customers (gigawatt hours)	**21,315**	19,467	18,542	17,783	15,958	12,652	9,804	9,118
Number of employees at year end	**1,729**	1,646	1,698	1,742	1,241	1,169	1,087	1,054
Transmission system statistics:								
Overhead lines (kilometres)	**273**	273	266	266	266	266	266	264
Underground lines (kilometres)	**15**	15	15	15	15	15	15	16
Substations	**37**	37	36	35	35	35	35	34
Distribution system statistics:								
Overhead circuit lines (kilometres)	**2,356**	2,386	2,387	2,352	2,368	2,353	2,337	2,372
Underground circuit lines (kilometres)	**5,359**	5,226	5,136	5,031	4,862	4,753	4,546	4,352
Utility poles	**64,592**	64,506	64,554	64,724	64,836	64,577	64,522	65,000
Transformers	**49,564**	48,718	48,321	47,778	47,092	46,214	45,314	44,000

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A), dated March 8, 2012, is a review of the results of operations of ENMAX Corporation (ENMAX or the Corporation) for the year ended December 31, 2011, compared with the same period in 2010, and of the Corporation's financial condition and future prospects. This discussion contains forward-looking information that is qualified by reference to and should be read together with, the caution to reader previously mentioned.

ENMAX's Consolidated Financial Statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). The Corporation will be reporting interim and annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), including comparative periods, beginning January 1, 2012.

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

The Corporation reports on certain non-GAAP financial measures such as operating margin and funds from operations that are used by management to evaluate performance of business units and segments. Because non-GAAP financial measures do not have a standardized meaning, the Corporation has defined and reconciled them with their nearest GAAP measure. For the reader's reference, the definition, calculation and reconciliation of consolidated non-GAAP financial measures is provided in Section 5: Non-GAAP Financial Measures.

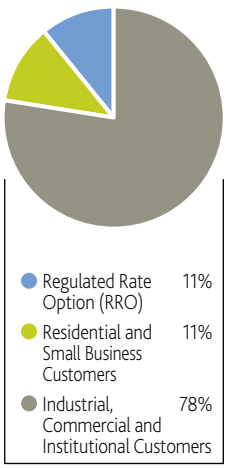
1. OVERVIEW OF THE BUSINESS ENVIRONMENT

Corporate Strategy

ENMAX, and its predecessors, have provided Albertans with electricity for over 100 years. ENMAX is a wholly-owned subsidiary of The City of Calgary (The City), headquartered in Calgary, Alberta, Canada. ENMAX strives to deliver shareholder value by providing customers with access to customer-centric, competitive energy solutions across the entire Province of Alberta and by optimizing the efficiency and reliability of Calgary's transmission and distribution networks. Its core operations include the competitive, de-regulated generation and sale of electricity across the province of Alberta through ENMAX Energy and the regulated transmission and distribution of electricity in and around the city through ENMAX Power. ENMAX's one clear purpose is to deliver long-term value to The City and all Calgarians.

ENMAX Energy's vertical-integration strategy – which includes generating and selling electricity – paired with a focus on building generation facilities closer to customers, has differentiated ENMAX from its peers and competitors. ENMAX measures its success in accomplishing its vision through achievement of the segmented strategies on the following pages.

RETAIL SALES PORTFOLIO
(% of total volume in Megawatt hours (MWh))

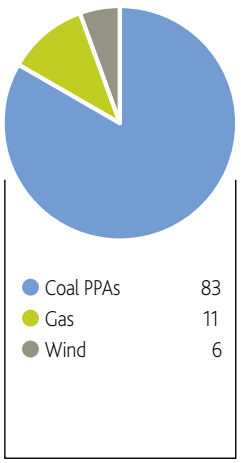


ENMAX Energy

ENMAX Energy is an operating segment established to carry out all non-regulated energy supply and retail functions through various legal entities and affiliated companies. ENMAX Energy provides electricity, natural gas and renewable energy products to residential, commercial and industrial customers in the Alberta deregulated electricity and gas marketplaces. In addition, it provides customer care, energy management and high-speed data and internet services. ENMAX Energy's core strategy is to grow its business across the entire Province of Alberta within a framework of vertical-integration with a focus on locating power generation facilities that utilize the best available technologies close to where electricity is required. ENMAX Energy's vertical-integration framework – consisting of generation, wholesale markets and fixed price retail sales – allows it to expand and operate its generation portfolio with reduced price

and earnings volatility. The generation arm of ENMAX Energy supplies energy through ENMAX's own wind and gas-fired generation facilities. The wholesale markets arm balances the Corporation's day-to-day energy portfolio needs through management of the wholesale power purchase arrangements (PPAs) at Battle River and Keephills, company-owned generation and through the purchase and sale of electricity and natural gas into and from the Alberta market. PPAs are defined rights and obligations of the plant owner and PPA Buyer pursuant to the Electric Utilities Act (EUA) as part of deregulation of the electricity generating market in Alberta. ENMAX Energy is a PPA Buyer. The PPAs convey to the Buyer the right to a level of electricity output and ancillary services from a generation facility.

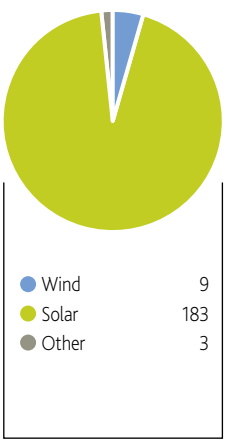
GENERATION PORTFOLIO
(% of total volume in MWh)



ENMAX Energy sees strong potential in the role natural gas will play in power generation and reducing the Greenhouse Gas (GHG) emissions from generating facilities in the coming years and is applying new approaches to producing energy by locating natural gas-fired power generation facilities close to where electricity is used. Key to this strategy is the development of the 800 megawatt (MW) Shepard Energy Centre (Shepard) and the 165 MW Bonnybrook Cogeneration Facility (Bonnybrook), both to be located within the Calgary city limits. Construction began on Shepard in 2011, after ENMAX awarded the contract to complete final design and construction of the facility to a joint venture between Kiewit Energy Canada Corp. and Black & Veatch Canada Company (KBV). ENMAX Energy and its contractors made good progress on field construction and below ground installations work in 2011. Above ground construction will commence in 2012 and the facility is expected to become operational in 2015. Shepard is pivotal to ENMAX's long-term plan to grow shareholder value. Shepard is expected to provide significant long-term benefits, both financially and from the numerous qualitative considerations that are important to The City and its citizens.

In 2011, the Corporation received section 95 approval to proceed with Bonnybrook from the Minister of Energy. In 2011, the Corporation also received Alberta Utilities Commission (AUC) approval subject to certain conditions that have since been fulfilled. In early 2012, the Corporation received the Alberta Environment & Water (AEW) approval of this project. Bonnybrook is being located in Calgary's southeast industrial zone, so that it can efficiently generate and sell electricity and thermal energy. As a cogeneration facility, Bonnybrook will both generate electricity and use waste heat in the processes of the area's businesses.

ALTERNATIVE ENERGY TECHNOLOGY
(number of units installed as at December 31, 2011)



ENMAX's Downtown District Energy Centre (DDEC), located in Calgary, began operations in 2010 by delivering thermal energy to the Calgary City Hall. DDEC's customer base grew in 2011 with the signing of a long-term agreement with Bow Valley College to heat their new campus expansion. This new campus will be the first building built in Calgary without a conventional boiler system, instead using hot water from DDEC for its heating requirements. ENMAX also welcomed a new customer with the Hillier Block Building, as this heritage building was retrofitted with piping and an energy transfer station to prepare it for district heating. ENMAX continues to build awareness and educate downtown owners and developers about the benefits of adopting district energy for their heating needs.

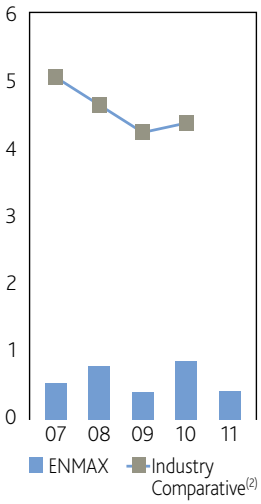
ENMAX Energy's Wholesale Energy group focuses on meeting customers' electricity needs using ENMAX Energy's fleet of generation, as well as wholesale market purchases and sales where necessary. ENMAX

Energy supplies its electricity demand needs through different sources including the Keephills and Battle River coal generation PPAs, natural gas-fired generation sources such as the Calgary Energy Centre (CEC) and Crossfield Energy Centre (Crossfield) and renewable energy sources derived primarily from the Corporation's wind assets at Taber Wind Farm (Taber), McBride Lake Wind Farm (McBride) and Kettles Hill Wind Farm (Kettles). The remaining power and gas required to meet ENMAX's consumer electricity and gas demand is acquired through the competitive wholesale power and gas markets. During times when ENMAX Energy has excess generation capacity, this excess is sold to the market.

ENMAX Energy also provides customers with creative and competitive alternative energy products and services. In 2011, the Generate Choice™ program was introduced. This program was developed for Albertans looking for a competitive solution for incorporating renewable energy into their homes. The Corporation also continues to inform and empower Albertans to explore competitive rate options through the EasyMax® offer and to help businesses manage their power needs by providing competitive and customized energy products.

ENMAX Energy sells electricity and natural gas to federal and provincial government facilities, jails, military bases and more than 800 health care facilities; in addition, electricity is sold to over 40 school districts across the province. Many commercial, industrial and institutional customers continue to select energy solutions from ENMAX Energy because of the stability and competitive pricing that ENMAX Energy offers. ENMAX Energy's flexible agreements, customized energy products and high-level of customer service also extend to small business customers.

SYSTEM AVERAGE INTERRUPTION DURATION INDEX *(SAIDI)*[1]



(1) Total customer interruption durations divided by the number of customers served

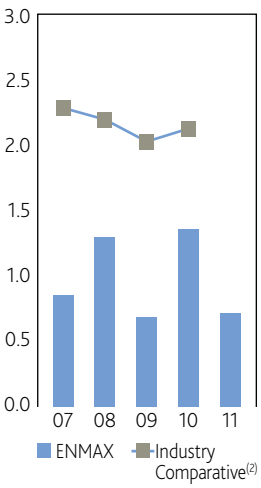
(2) Canadian Electrical Association survey data. (Not available for 2011)

ENMAX Power

ENMAX Power owns, operates and maintains electricity transmission and distribution assets in the city of Calgary service area. In addition, it has the legislated responsibility to provide electricity for customers who have elected to stay with the RRO. The RRO for Albertans is the electric energy pricing mechanism approved for electricity by the AUC and automatically provided to all eligible customers who have not entered into a contract with a competitive electricity retailer. The price under the RRO is based entirely on the expected market price of electricity as the RRO is supplied from the wholesale market. ENMAX Power also has some non-regulated businesses which provide engineering, procurement, construction and maintenance services.

ENMAX Power worked on a number of major projects in 2011 to meet the increasing need for electricity in Calgary while continuing to offer the same level of reliable service. In the downtown core, ENMAX Power completed work on the two-year Downtown Cable Replacement Project. This initiative required the replacement of four 30-year-old transmission cables to ensure consistent power supply for Calgary's Downtown core of corporate skyscrapers and Light Rail Transit (LRT) systems. Despite many challenges related to minimizing the project's impact on residents, commuters and businesses, in addition to the complexity of underground utility work, crews successfully replaced the 138 kilovolt (kV) underground transmission cables, safely, on-time and below budget.

SYSTEM AVERAGE INTERRUPTION FREQUENCY INDEX *(SAIFI)*[1]



(1) Total number of customer interruptions divided by the number of customers served

(2) Canadian Electrical Association survey data. (Not available for 2011)

ENMAX's biggest corporate priority is the safety of employees and customers.

In the southeast quadrant of Calgary, two new substations are being built to provide power to the city's fastest-growing population area. In north Calgary, ENMAX Power and the Alberta Electric System Operator (AESO) are planning the North Calgary Area Transmission Project, a large-scale development that will attend to the growing number of residences and businesses in the area by upgrading aging and adding new infrastructure.

For ENMAX Power, ensuring the reliability of the electrical system for Calgarians is a high priority. To ensure rapid recovery from infrequent outages, field crews are on-call 24 hours a day. Although weather conditions play a role in power service interruptions, ENMAX Power's commitment to consistently maintain and upgrade the electricity infrastructure in Calgary resulted in significantly lower frequency and duration of power service interruptions in 2011 compared to most other Canadian utilities.

Corporate Priorities

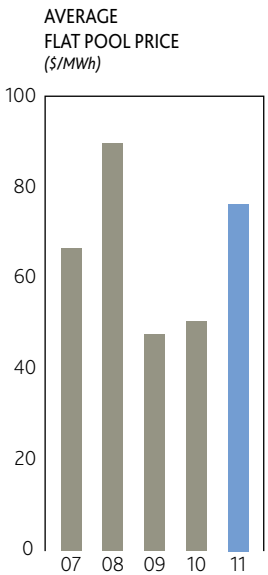
Management confirms or sets corporate initiatives each year to advance ENMAX's strategy. ENMAX's biggest corporate priority is the safety of employees and customers. In 2009, ENMAX launched a company-wide safety program called MissionZero, which envisioned 'an injury free ENMAX', in an effort to drive the continued improvement of our safety culture and management. In August 2011, ENMAX Power experienced a tragic electrical incident that claimed the life of Nathan Haase, an apprentice power lineman. Safety remains the company's most important corporate priority in 2012.

Progress on ENMAX's corporate strategies include providing safe, reliable and cost-effective transmission and distribution services to the city of Calgary and growing our competitive business in Alberta within a framework of vertical-integration for the competitive business while continuing to utilize natural gas and renewable energy sources. Tactics that support these corporate strategies include ensuring a positive corporate identity that is linked to our brand promise; maintaining a stable investment-grade credit rating; attracting, developing and retaining a highly skilled and engaged workforce supported by superior leadership and improving the reliability and cost effectiveness of the company's technology infrastructure while meeting the challenges of obsolescence and growth.

Market Dynamics

The competitive electricity market in Alberta is subject to a broad range of market dynamics that can impact ENMAX's business. These market dynamics include changing and evolving regulations, weather, fuel supply and prices, wholesale and retail commodity demand, transmission and distribution capacities, electricity prices, spark spreads and environmental awareness. In addition, the Corporation's construction of large-scale generation projects results in exposure to the availability of construction materials, labour and equipment.

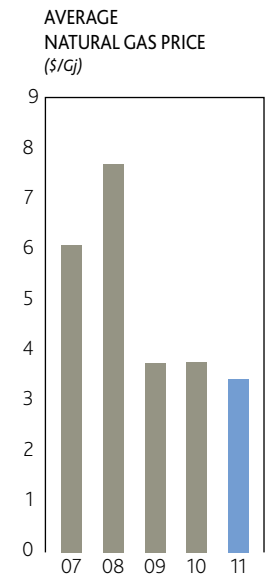
Most electricity volumes sold in Alberta and in Calgary relate to industrial, commercial, institutional and small business customers who have lower demand volatility throughout the year than residential customers. However, electricity demand does peak in the winter months as a result of shorter days and colder weather, and during the summer months as a result of increased demand from cooling systems. Residential electricity demand is cyclical within a 24-hour period with higher demand during the daytime hours, and demand peaks in the early evenings and early mornings. Any generating facility outages or other shortages in supply or transmission capacity occurring during these peak times can result in a supply shortfall and higher priced electricity.



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. Also, natural gas prices can rise in extreme hot weather in the summer as peak electricity demand results in increased gas-fired generation.

The market price of electricity is a significant factor in a number of areas of the business. Retail prices are set based on current spot prices, average monthly prices and future expected market prices. In 2011, the average flat pool price was $76.65 per MWh, an increase from the $50.77 per MWh average experienced in 2010. Market electricity prices are driven by demand, supply and input costs, in addition to, other business environment dynamics.

The Alberta electricity market price during peak demand periods is generally correlated to the price of natural gas; however, during times of supply disruption, prices can rise well above the marginal cost of production. These fluctuations in price signal a requirement for new investment in the marketplace and contribute to the return on existing facilities. Demand in the Alberta market is fundamentally driven by the underlying economic activity in the province. With strong growth in oil and gas-related industries, ENMAX anticipates robust demand growth to continue.



ENMAX Energy's electricity generating facilities' primary fuels include natural gas, coal and wind. The supply of wind is not subject to market factors, but is significantly influenced by weather patterns. The natural gas market has seen average prices decrease from $3.79 per gigajoule (GJ) in the twelve months ended December 31, 2010, to $3.44 per GJ the same period in 2011. ENMAX Energy has a comprehensive hedging program to manage the impact of natural gas prices on near-term operating costs. ENMAX Energy utilizes the retail sales market to provide stability in long-term electricity prices and reduce exposure to market volatility. The coal-fired plants, to which ENMAX Energy owns the right

The utility industry is impacted by advancing technologies and environmental regulations.

of physical output under PPAs, do not result in exposure to short-term market coal prices. Under the Keephills and Battle River PPAs, the fuel and input costs for electricity generated at coal-fired facilities are calculated via a pre-determined formula based on Statistics Canada Indices. These indices include, but are not limited to the cost of labour, cost of mining machinery and other mining related expenses.

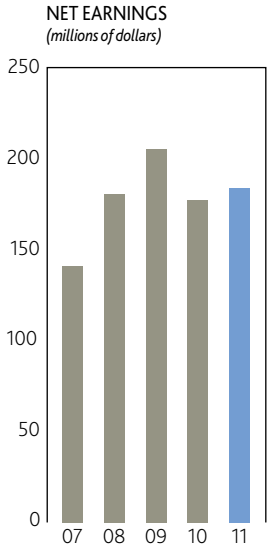
Plant heat rates are the measure of efficiency of each generating unit converting fuel into electricity at a generating facility. Market heat rates are a measure of power prices divided by natural gas prices. The spark spread is the theoretical gross margin of a gas-fired power plant from selling a unit of electricity, having bought the fuel required to produce this unit of electricity. All other costs must be covered from the spark spread. Therefore, spark spread could be considered a better method of articulating an asset's contribution to ENMAX Energy's profitability than heat rate.

Spark spreads may vary greatly between facilities due to their design and operating requirements. Assuming an average combined cycle gas turbine (CCGT) plant heat rate of 8 GJ per MWh, market spark spreads have increased from an average of $20.45 per MWh in 2010 to $49.13 per MWh in the same period in 2011 largely due to supply disruption and the impact on electricity prices.

The utility industry is impacted by advancing technologies and environmental regulations. Changing government legislation and public perception drive requirements to upgrade existing facilities and build new, more environmentally sensitive generation facilities. The federal government has indicated that it will pass regulation requiring all existing coal-fired generation to physically shut down by the end of the coal-fired unit's economic life (45 years) or the end of the associated PPA, whichever is longer; unless it can meet the GHG emissions standard of a natural gas combined-cycle generating unit. These emerging regulations will impact future decisions on new generation facilities in Alberta.

The competition for skilled labour, component parts and raw materials remains stretched for building major projects. This competition is more than a local phenomenon. The global demand for energy has increased construction of large-scale energy projects worldwide and competition for key equipment and has led to longer waits to obtain generation facility components. Most suppliers of key generating components reside outside of Canada, which results in additional foreign exchange risks and costs related to managing this foreign exchange exposure. This has an increasingly larger impact to ENMAX with the

continued development of the new Shepard and Bonnybrook facility projects. The Corporation has entered into fixed price contracts and has foreign exchange management programs in place to mitigate some of this exposure. The current regulatory process for obtaining approval to build generating facilities also requires developers to incur substantial engineering, legal and permitting costs before a project even embarks on the construction phase.



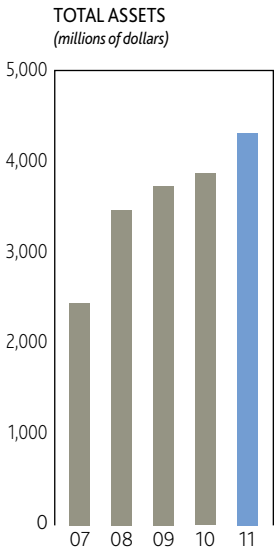
2. OVERALL FINANCIAL PERFORMANCE

SELECTED CONSOLIDATED FINANCIAL INFORMATION

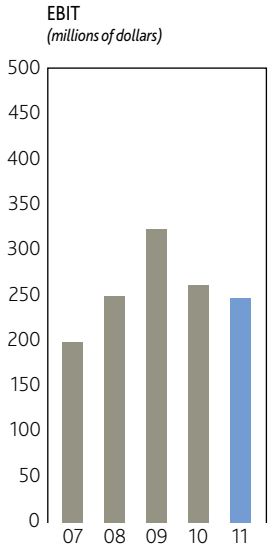
Year ended December 31 (millions of dollars)	2011	2010
Total revenue	**3,109.1**	2,404.2
Operating margin [1]	**637.4**	644.3
Earnings before interest and income taxes (EBIT) [1]	**247.3**	261.6
Standardized earnings before interest, income tax, depreciation and amortization (EBITDA) [1]	**414.2**	427.0
Net earnings from continuing operations	**180.4**	181.2
Net earnings	**184.6**	177.8
Total assets	**4,327.8**	3,882.9
Total long-term financial liabilities	**1,588.0**	1,443.2
Funds generated from operations [1]	**411.5**	346.9
Cash provided by operating activities	**227.1**	320.2

(1) Non-GAAP financial measure. See discussion that follows in Section 5: Non-GAAP Financial Measures.

ENMAX's consolidated net earnings for the year ended December 31, 2011, have increased $6.8 million to $184.6 million compared with $177.8 million for the year ended December 31, 2010. In early 2011, ENMAX finalized the sale of the British Columbia assets for a net gain of $3.4 million. ENMAX's consolidated net earnings from continuing operations decreased $0.8 million to $180.4 million compared with $181.2 million for the year ended December 31, 2010. These stable earnings included higher natural gas margins, transmission and distribution margins, contractual services and other margins; and lower interest and tax expenses. These favourable variances were offset by lower electricity margins, higher amortization and higher operations, maintenance and administration (OM&A) expenses. Details of these changes are discussed below.



ENMAX's results of operations are not necessarily indicative of future performance due to fluctuating commodity prices, the performance and retirement of existing generation facilities, and the addition of new generation facilities. Further details on specific operations can be found in Section 3: Business Segment Results.



A reconciliation of EBIT for the year ended December 31, 2011, as compared with 2010 is as follows:

(millions of dollars)	
EBIT for the period ended December 31, 2010	261.6
Increased / (decreased) margins attributable to:	
Electricity	(32.7)
Natural gas	8.3
Transmission and distribution	3.5
Contractual services and other	14.0
Increased expenses:	
OM&A	(5.9)
Amortization	(1.5)
EBIT for the period ended December 31, 2011	**247.3**

Electricity margins decreased $32.7 million to $375.7 million for the year ended December 31, 2011, from $408.4 million in the year ended December 31, 2010. While average pool prices are higher than the prior year, forward contracts in both the retail and wholesale markets were realized at lower prices than the preceding year resulting in lower margins. In addition, a higher cost of supply was experienced due to production shortfalls at coal facilities under PPAs. These margin decreases were partially offset by higher volumes of electricity sold, primarily in the industrial, commercial and institutional portfolios and favourable resolutions on PPA related disputes.

Natural gas margins increased $8.3 million to $14.1 million for the year ended December 31, 2011, from $5.8 million in 2010. This increase is a result of increased sales volumes resulting from new site acquisitions across all lines of business, lower purchasing costs and a favourable mark-to-market position on forward contracts at year end.

For the year ended December 31, 2011, transmission and distribution margins increased $3.5 million to $184.6 million from the $181.1 million of earnings recorded in the same period in 2010. This increase was due primarily to revenues related to rate increases and the timing of system access fees. This was partially offset by the non-recurrence of the collection of a prior period rate adjustment in 2010.

Year-over-year contractual services and other sources margin increased $14.0 million to $63.0 million from the $49.0 million recorded in 2010. The increase in margins was mainly due to unrealized foreign exchange gains on a purchase agreement denominated in U.S. dollars and higher activity levels in the advanced data communication division, LRT projects and underground residential development projects.

OM&A costs for the year ended December 31, 2011, increased $5.9 million to $223.2 million from $217.3 million for the same period in 2010. The increase in the year was primarily attributable to severance amounts paid in the first quarter, year over year salary increases, increased pension costs, an increase in advertising spending and higher maintenance costs due to higher utilization of the CEC natural gas-fired generating facility. These cost increases were partially offset during the year by an increase in billing fee recoveries, lower bad debt expense and the recovery of legal costs associated with PPA-related disputes.

While average pool prices are higher than the prior year, forward contracts in both the retail and wholesale markets were realized at lower prices than the preceding year resulting in lower margins.

Amortization expense for the year ended December 31, 2011, increased $1.5 million to $166.9 million from $165.4 million for the same period in 2010. The increased charges were the result of an increase in net capital additions during the year.

Other Net Earnings Items

For the year ended December 31, 2011, interest expense decreased $11.6 million to $50.4 million from $62.0 million for the same period in 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 for the transmission and distribution business.

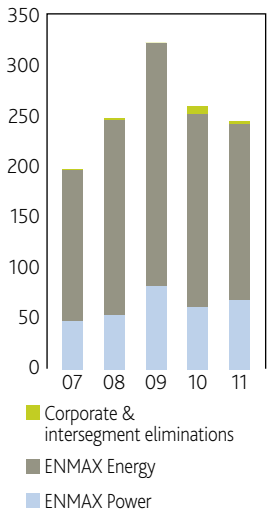
Income tax expense for the year ended December 31, 2011, decreased $1.9 million to $16.5 million from an expense of $18.4 million in the same period in 2010. This decline was primarily due to a reduction in the corporate tax rate for 2011.

Earnings from discontinued operations for the year ended December 31, 2011, increased $7.6 million to earnings of $4.2 million from a $3.4 million loss in the prior year. Year-to-date earnings from discontinued operations include a $3.4 million gain on disposal of the British Columbia assets.

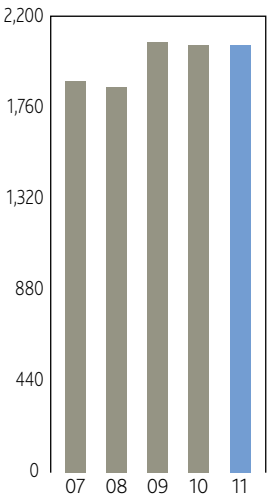
Other Comprehensive Income (OCI)

Other comprehensive income illustrates the Corporation's earnings under the assumption of full income recognition of gains and losses on the market value of securities and derivatives otherwise treated as hedges of future period revenues and expenses. The Corporation utilizes derivatives to hedge its electricity, natural gas, interest rate and foreign exchange exposures. For the year ended December 31, 2011, other comprehensive income totalled losses of $30.5 million compared with losses of $15.3 million for the same period in 2010. The losses in 2011 primarily reflect unfavourable fair value changes on electricity, natural gas and interest rate swap positions from the conclusion of the previous year. These losses are partially offset by a decrease in the volume of unfavourable natural gas hedged positions outstanding at the end of the year.

SEGMENTED EBIT
(millions of dollars)



TOTAL AVAILABLE GENERATION
(MW)



3. 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

Year ended December 31 (millions of dollars)	2011	2010
Corporate & intersegment eliminations	3.4	8.1
ENMAX Energy	174.3	191.2
ENMAX Power	69.6	62.3
EBIT	247.3	261.6

ENMAX Energy

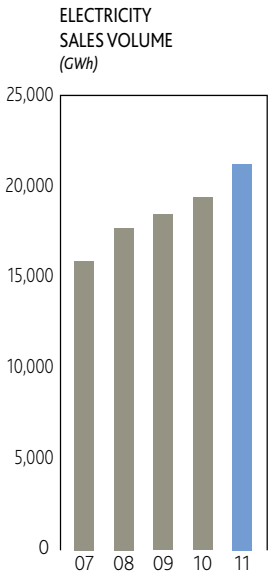
Strategy

ENMAX Energy is one of Alberta's leading competitive electricity retailers. In addition to electricity, ENMAX Energy provides natural gas, renewable energy and value-added services to residential, commercial and industrial customers throughout Alberta. ENMAX Energy is also involved with the generation of electricity in Alberta. ENMAX Energy controls its physical electricity supply through PPAs and through owned generation capacity. Natural gas is purchased on the wholesale market to meet the sales commitments made by retail marketing operations and for the operational requirements of its gas-fired generating facilities. Risk management processes and systems are in place to carefully monitor and manage price and commodity risks inherent in the business.

ENMAX Energy produces or has exclusive access to approximately 2,067 MW of electricity generation to supply customer demand. ENMAX Energy has acquired low-cost, reliable electricity from the Keephills and Battle River coal-fired facilities. This is complemented by 420 MW of natural gas-fired generation to meet demand through the natural gas-fired CEC and Crossfield assets. It is one of Alberta's largest investors in renewable energy with 50% ownership of McBride and 100% ownership of Taber and Kettles.

ENMAX Energy is committed to providing its customers with innovative product offerings and flexible solutions, and facilitating customers' education around reducing their energy consumption. ENMAX Energy offers products and services to meet residential consumers' need for flexibility in pricing options and contract terms while retaining the freedom to change suppliers without penalty. ENMAX Energy continuously monitors developments in emerging and proven technologies with a view to considering how these technologies can be used to deliver value-added products and services to its customers.

As a wholesale market participant, PPA buyer and competitive retailer, ENMAX Energy is subject to all of the rules and regulations of the competitive electricity market, including codes of conduct (which establish, among other things, limits on the sharing of information between the regulated and non-regulated business units within ENMAX). As with other market participants, ENMAX Energy's compliance with certain rules is subject to scrutiny by the Market Surveillance Administrator (MSA).

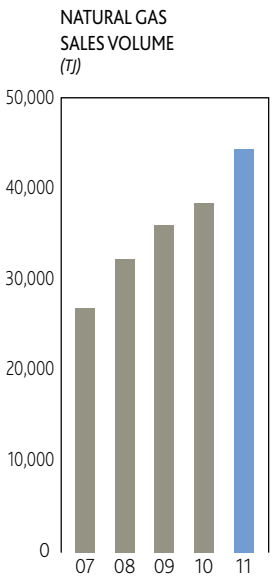


Key business drivers

	2011	2010
Generation volume (Gigawatt hours (GWh))	12,174	11,714
Market heat rate – flat average (GJ/MWh)	22.28	13.40
Average wholesale market spark spread ($/MWh) (1)	$ 49.13	$ 20.45
Average selling prices ($/MWh)	$ 78.52	$ 64.09
Average flat pool price ($/MWh)	$ 76.65	$ 50.77
Average natural gas price ($/GJ)	$ 3.44	$ 3.79
Electricity sold (GWh)	19,086	17,172
Natural gas sold (Terajoule (TJ))	44,518	38,549

(1) Assuming an average combined cycle gas turbine (CCGT) heat rate of 8 GJ per MWh.

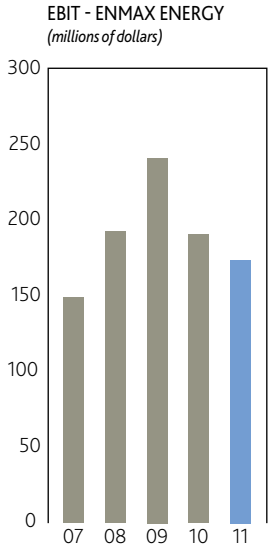
ENMAX Energy sold 21,315 GWh of electricity to customers in the year ended December 31, 2011, compared with 17,172 GWh in the same period of 2010. The change in volume sold is due primarily to growth in the industrial, commercial and institutional customer portfolios.



ENMAX Energy's natural gas customers purchased 44,518 TJ in the year ended December 31, 2011, compared to 38,549 TJ in the same period in 2010. The growth in volume for the year ended December 31, 2011, is the result of an increase in variable customer base, including the addition of a large institutional customer.

Financial results

ENMAX Energy recorded EBIT of $174.3 million for the year ended December 31, 2011, compared with $191.2 million in 2010.



A reconciliation of EBIT for the year ended December 31, 2011, as compared with 2010 is as follows:

(millions of dollars)	
EBIT for the year ended December 31, 2010	191.2
Increased / (decreased) margins attributable to:	
Electricity	(30.1)
Natural gas	8.3
Contractual services and other	9.8
Increased expenses:	
OM&A	(1.9)
Amortization	(3.0)
EBIT for the period ended December 31, 2011	**174.3**

Electricity margins for the year ended December 31, 2011, decreased $30.1 million to $366.2 million compared with the $396.3 million recorded in 2010. Though average pool prices are higher than the prior year, forward contracts in both the retail and wholesale markets were realized at lower prices than the preceding year. In addition, higher supply costs were experienced due to production shortfalls at coal facilities under PPA. These margin decreases were partially offset by higher volumes of electricity sold primarily in the industrial, commercial and institutional segment and favourable resolutions on PPA-related disputes.

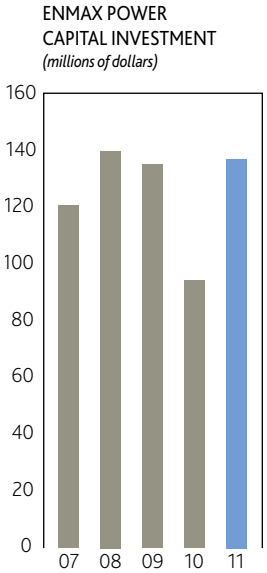
Natural gas margins increased $8.3 million to $14.1 million for the year ended December 31, 2011, compared with $5.8 million last year. This increase is a result of increased sales volumes resulting from new site acquisitions across all lines of business, lower purchasing costs and a favourable mark-to-market position on forward contracts at year-end.

Contractual services margin and other revenues increased $9.8 million to $66.3 million in the year ended December 31, 2011, from the $56.5 million recorded in 2010. The increase was primarily due to first quarter unrealized gains on a purchase agreement denominated in a foreign currency and growth in the Corporation's advanced data communication division.

OM&A costs increased $1.9 million in the year ended December 31, 2011, to $160.4 million compared to $158.5 million in the same period in 2010. The increase in the year was primarily attributable to severance amounts paid in the first quarter, year over year salary increases, increased pension costs, an increase in advertising spending and higher maintenance costs due to higher utilization of an ENMAX gas-fired generating facility. These cost increases were partially offset during the year by an increase in billing fee recoveries, lower bad debt expense and the recovery of legal costs associated with arbitrations and settlements.

Amortization expense increased $3.0 million in the year ended December 31, 2011, to $111.9 million compared to $108.9 million in the same period in 2010. The increased charges were the result of an increase in net capital additions during the year.

ENMAX Power



Strategy

ENMAX Power's objective is to maintain the high reliability of its transmission and distribution system while meeting the challenges of growing infrastructure as Calgary expands. Major capital projects will be undertaken over the next five years to accommodate this growth including expenditures to meet load growth and to provide new customers with access to the electrical distribution system within the city; and, major transmission projects required to reinforce the existing system and to replace aging infrastructure.

Distribution projects in 2011 included both residential and non-residential development and system infrastructure required to continue providing safe and reliable service to new and existing customers in an urban environment. Also included are asset replacements and modifications required to meet industry and safety standards and distribution automation projects.

Transmission projects were required to meet load growth within Calgary and the replacement of aging infrastructure. In 2011, Phase Two of the replacement of two 138 kV underground cables to downtown Calgary was completed. The AUC approved the facility application for two major substations in south Calgary. Applications were made to the AUC for approval of a multiphase project to upgrade several 69 kV transmission lines to 138 kV operation and the east Calgary transmission project which will facilitate the interconnection of Shepard.

On the non-regulated side of the business, the north-east and west Calgary LRT extensions, which include new and upgraded substations, are in the advanced stages of implementation.

As an owner of transmission and distribution assets, ENMAX Power is subject to regulation by the AUC. ENMAX Power works with the AUC and consumer representatives to identify and act on opportunities to enhance the efficiency of the Alberta regulatory process with a view to ensuring customers in Alberta receive the most cost effective service.

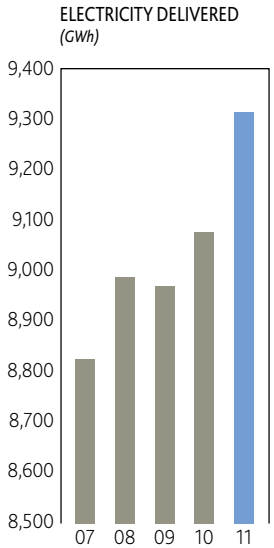
Key business drivers

(millions of dollars, unless otherwise stated)	2011	2010
Electricity sold through the RRO (GWh)	2,229	2,295
Distribution volumes (GWh)	9,318	9,080
Distribution capital structure (debt: equity)	59%:41%	59%:41%
Transmission capital structure (debt: equity)	63%:37%	63%:37%
Distribution average rate base	$ 739.0	$ 713.0
Transmission average rate base	$ 214.5	$ 157.8
Regulated Return on Equity (ROE) – Distribution	6.8%[1]	7.6%
Regulated ROE – Transmission	4.1%[1]	8.2%
Local access fees collected on behalf of The City	$ 126.1	$ 97.4

(1) These numbers are based on preliminary information. Regulatory true-ups and adjustments could be required in 2012 relating to 2011 delivery.

Regulated ROE for both distribution and transmission decreased in 2011 primarily due to higher pension costs and general inflationary salary increases, which were partially offset by continued cost

management. Increases in amortization charges due to a higher asset base also contributed to the lower ROE. In addition, ENMAX Power's rate base increased for both transmission and distribution due to capital additions during the year. Allowed ROE under the formula based ratemaking (FBR) framework is 8.75% (9.0% in 2010). Lower than expected load growth and higher rate base have resulted in actual ROE being lower than the level authorized by the AUC.



RRO electricity volumes sold decreased to 2,229 GWh in 2011 compared with 2,295 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 from the prior year. Electricity volumes delivered during the year ended December 31, 2011, were 9,318 GWh compared with 9,080 GWh 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.

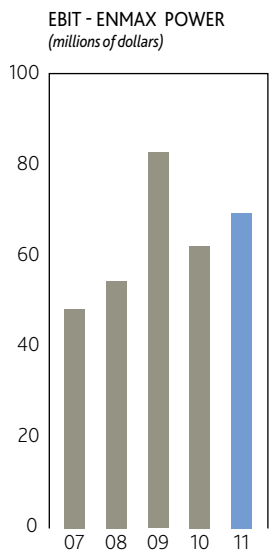
Financial results

ENMAX Power's financial results are driven by tariffs approved by the AUC for the regulated transmission, distribution and RRO businesses, in addition to earnings from its non-regulated power services business. The regulated division accounted for 87.2% of ENMAX Power's total revenue in the year ended December 31, 2011, compared with 90.0% in 2010.

ENMAX Power recorded EBIT of $69.6 million in the year ended December 31, 2011, compared with $62.3 million in 2010.

A reconciliation of EBIT for the year ended December 31, 2011, as compared with 2010 is as follows:

(millions of dollars)	
EBIT for the period ended December 31, 2010	62.3
Increased / (decreased) margins attributable to:	
Electricity	(2.7)
Transmission and distribution	3.5
Contractual services and other	6.1
Decreased expenses:	
OM&A	0.1
Amortization	0.3
EBIT for the period ended December 31, 2011	**69.6**

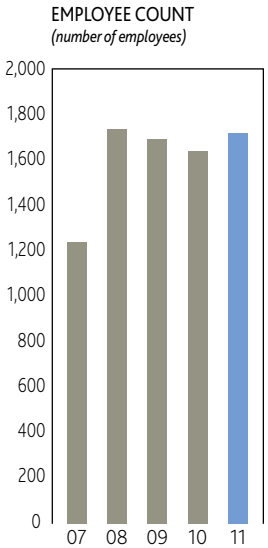


Electricity margins from RRO customers decreased $2.7 million to $9.8 million for the year ended December 31, 2011, compared with $12.5 million in 2010. This decrease was primarily the result of lower volumes driven by customers switching to competitive options and lower margins per GWh under the RRO.

Transmission and distribution margins consist of amounts charged for wires services, net of electrical grid charges and local access fees. Transmission and distribution margins increased $3.5 million to $184.6 million for the year ended December 31, 2011, compared with 2010. This increase was due primarily

to rate increases. 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 year ended December 31, 2011, margins for contractual services and other revenue increased $6.1 million to $24.8 million compared with $18.7 million last year. The increased margins were driven primarily by continued work related to the LRT expansion and underground residential development.



ENMAX Corporate (including intersegment eliminations)

ENMAX Corporate is the segment that provides shared services and financing to ENMAX Power and ENMAX Energy. During the year ended December 31, 2011, EBIT for ENMAX Corporate was $3.4 million compared with $8.1 million in 2010. The decrease in earnings reflects higher OM&A costs which have not been allocated to the other ENMAX segments.

Key business drivers

	2011	2010
OM&A per employee	$ 129,092	$ 131,965
Employees [1]	1,729	1,646

Key business drivers are at a consolidated level.
(1) Employee count is on the full-time equivalent basis.

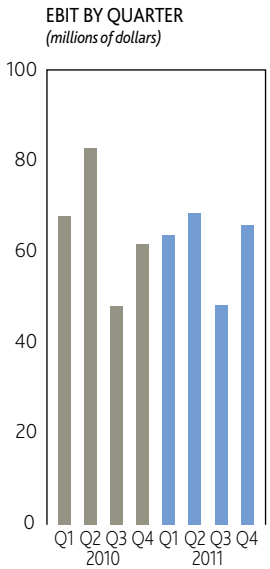
OM&A per employee has decreased slightly from the prior year primarily due to a reduction of non-salary related OM&A costs in the year. Consistent OM&A per employee ensures operational efficiency and helps to improve profitability. The increase in the number of employees was a result of growth in the energy sales sector and the developing distributed generation business, as well as increases in ENMAX Power as a result of new positions created to manage major capital projects.

4. SELECTED QUARTERLY FINANCIAL DATA

	2011				2010			
	Fourth	Third	Second	First	Fourth	Third	Second	First
(millions of dollars, except operating statistics)								
Total revenue	858.0	788.2	647.3	815.6	656.0	552.0	587.4	608.8
Operating margin [1]	170.9	144.4	166.0	156.1	167.5	150.1	170.8	155.9
EBIT [1]	66.2	48.5	68.7	63.9	62.0	48.2	83.2	68.2
Net earnings before discontinued operations	41.8	42.1	50.6	45.9	41.8	32.5	59.4	47.5
Net earnings	42.8	41.9	50.1	49.8	42.5	29.7	58.6	47.0
Funds generated from operations [1]	124.3	83.8	98.5	104.9	74.0	83.1	105.9	83.9
Cash used in investing activities	121.7	137.7	102.9	95.8	53.5	51.6	93.0	137.2
Cash provided by (used in) financing activities	65.5	40.4	52.2	42.5	(33.2)	(26.5)	36.1	48.8

(1) Non-GAAP financial measure. See discussion that follows in Section 5: Non-GAAP Financial Measures.

In the fourth quarter of 2011, net earnings remained consistent at $42.8 million compared with $42.5 million in the same three-month period in 2010.



In the fourth quarter, electricity margins were $96.1 million compared with $103.1 million in the same period in 2010. This decrease was due to higher average pool prices than the prior year resulting in forward contracts in both the retail and wholesale markets being realized at lower prices. In addition, higher cost of supply was experienced due to ENMAX volume shortages during peak demand hours.

For the three months ended December 31, 2011, natural gas margins increased $3.0 million to $6.2 million from $3.2 million in the comparable period in 2010. This increase was due to increased sales volumes as a result of new site acquisitions across all lines of business.

For the regulated business, transmission and distribution margins were down slightly at $46.7 million compared to $46.8 million in the three months ended December 31, 2010.

Contractual services margin and other revenue was $21.9 million in the fourth quarter of 2011 compared with $14.4 million in the fourth quarter of 2010. This increase was due primarily to higher activity levels in the advanced data communication division, LRT projects and underground residential development.

OM&A costs decreased $3.8 million to $60.2 million in the fourth quarter of 2011, compared with the costs of $64.0 million incurred in the fourth quarter of 2010. This decrease was primarily due to lower bad debts and the recovery of legal costs associated with arbitrations and settlements. This was partially offset by higher maintenance costs realized during the quarter due to higher utilization of ENMAX's gas-fired generating facility.

Amortization costs increased $3.0 million to $44.5 million in the three months ended December 31, 2011, compared with $41.5 million in the same period in 2010. The increased charges were the result of an increase in net capital additions during the year.

Interest costs amounted to $11.0 million in the fourth quarter of 2011 compared with $15.9 million in the same period in 2010. These interest costs reflect increased recoveries of interest during construction partially offset by an increase in interest expense due to new issuance of Alberta Capital Finance Authority (ACFA) debt in 2011.

For the three months ended December 31, 2011, income tax expenses increased to $13.4 million compared with $4.9 million in the same period in 2010. The increase was mainly attributable to adjustments made in the fourth quarter of 2011 to previously estimated tax provisions. The Corporation regularly reviews the potential for adverse outcomes in respect to tax matters, and believes it has made reasonable provisions. Tax provisions are adjusted, positively or negatively, for changes in estimates and assessments by tax authorities in the period in which they are more likely to have an impact on the financial results.

Earnings from discontinued operations, net of tax, amounted to $1.0 million in the fourth quarter of 2011, compared with earnings of $1.3 million in the same period in 2010. The fourth quarter earnings were related to an insurance settlement received related to a generator failure in 2010.

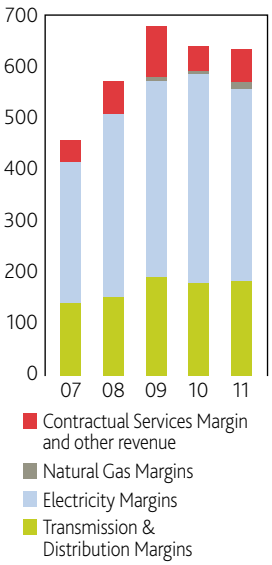
The Corporation invested $166.6 million in capital projects during the quarter including $10.4 million in transmission and $43.9 million in distribution projects, $89.3 million on new generation facilities, $0.1 million on environmental requirements for PPAs and $4.4 million on corporate information technology assets.

In the fourth quarter, the Corporation made $18.8 million of regularly scheduled repayments on its long-term debt. In addition, the final $13.9 million dividend instalment was paid to The City, which results in payment in full of the 2011 declared dividend of $55.6 million.

5. 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 EBIT, which has been added as a measure of operating profits less the accounting-based cost of capital assets.

OPERATING MARGIN MIX
(millions of dollars)



Operating margin

Year ended December 31, (millions of dollars)	2011	2010
Electricity margins	375.7	408.4
Natural gas margins	14.1	5.8
Transmission and distribution margins	184.6	181.1
Contractual services margins[1] and other revenue	63.0	49.0
Operating margin (non-GAAP financial measure)	637.4	644.3
Deduct: OM&A, amortization, interest and income taxes	457.0	463.1
Net earnings from continuing operations (GAAP financial measure)	180.4	181.2

(1) Contractual services margins include earnings from Envision's advanced data communication division, 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 revenue and costs of sales. Operating margin better reflects the profitability of the Corporation's business than revenue levels alone.

EBITDA

Year ended December 31, (millions of dollars)	2011	2010
Adjusted EBITDA (non-GAAP financial measure)	415.1	425.4
(Add) / Deduct: EBITDA from discontinued operations	0.9	(1.6)
Standardized EBITDA	414.2	427.0
Deduct: Amortization	166.9	165.4
Interest	50.4	62.0
Income taxes	16.5	18.4
Net earnings from continuing operations (GAAP financial measure)	180.4	181.2

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

EBIT

Year ended December 31, (millions of dollars)	2011	2010
EBIT (non-GAAP financial measure)	**247.3**	261.6
Deduct: Interest	**50.4**	62.0
Income taxes	**16.5**	18.4
Net earnings from continuing operations (GAAP financial measure)	**180.4**	181.2

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

Funds generated from operations

Year ended December 31, (millions of dollars)	2011	2010
Funds generated from operations (non-GAAP financial measure)	**411.5**	346.9
Changes in non-cash working capital	**(171.3)**	(14.2)
Employee future benefits	**(13.1)**	(12.5)
Cash provided by operating activities (GAAP financial measure)	**227.1**	320.2

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

Year ended December 31, (millions of dollars)	2011	2010
Total interest cost (non-GAAP financial measure)	**82.7**	79.3
Ineffective portion of interest rate swaps	**(0.4)**	(0.9)
Capitalized interest	**(36.0)**	(21.3)
Other non-interest financing costs	**4.1**	4.9
Interest expense (GAAP financial measure)	**50.4**	62.0

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

6. FINANCIAL CONDITION

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

(millions of dollars, except % change)	December 31, 2011	December 31, 2010	$ Change	% Change	Explanation for Change
ASSETS					
Cash and cash equivalents	**35.4**	65.8	(30.4)	(46%)	See Section 7: Liquidity and capital resources
Accounts receivable	**668.8**	499.4	169.4	34%	Higher due to impact of higher pool prices on sales
Income tax receivable/payable [1]	**45.7**	(0.9)	46.6	(5,178%)	Expected refunds from tax filings
Other current assets	**54.4**	103.2	(48.8)	(47%)	Change in the fair value of short-term derivatives and unrealized hedging assets
Property, plant and equipment	**2,742.4**	2,273.6	468.8	21%	Capital expenditures, net of amortization
Power purchase arrangements	**473.7**	517.0	(43.3)	(8%)	Amortization on Keephills and Battle River PPAs offset by capital expenditures related to mercury regulations at each facility
Intangible assets	**106.9**	113.2	(6.3)	(6%)	Expenditures, net of amortization
Other long-term assets	**63.5**	28.0	35.5	127%	Change in the fair value of long-term derivatives and increased restricted cash
LIABILITIES AND SHAREHOLDER'S EQUITY					
Short-term debt	**166.8**	-	166.8	100%	Due to timing of cash requirements. See Section 7: Liquidity and capital resources
Accounts payable and accrued liabilities	**384.5**	327.7	56.8	17%	Increase in construction related payables and higher pool prices on electricity purchases
Other current liabilities	**90.2**	77.6	12.6	16%	Increase in deposits and deferred revenue
Long-term debt [2]	**1,522.2**	1,427.7	94.5	7%	Proceeds of new ACFA financing, net of regularly scheduled payments made
Other long-term liabilities	**105.6**	58.4	47.2	81%	Change in the fair value of long-term derivatives and unrealized hedging assets
Asset retirement obligations	**13.9**	7.1	6.8	96%	Change of estimates used to determine obligations

(1) Net receivable and payable amounts.
(2) Includes current and long-term amounts.

7. LIQUIDITY AND CAPITAL RESOURCES

Capitalization

December 31, (millions of dollars)	2011	2010
Total debt [1]	**1,689.0**	1,427.7
Shareholder's equity		
Share capital	**280.1**	280.1
Retained earnings	**1,732.4**	1,603.4
Accumulated other comprehensive loss	**(68.8)**	(38.3)
Total shareholder's equity	**1,943.7**	1,845.2
Total capitalization (total debt plus shareholder's equity)	**3,632.7**	3,272.9

(1) Includes the current portion of long-term debt of $53.7 million (December 31, 2010 – $50.0 million) and short-term financing of $166.8 million (December 31, 2010 – $nil). Maturity dates range from August 2012 to June 2036. Comparative period excludes debt on assets held for sale.

The details of share capital are as follows:

As at December 31, 2011 and December 31, 2010 (millions of dollars, except share amounts)	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:

December 31, (millions of dollars)	2011	2010
Committed and available bank credit facilities	**900.0**	750.0
Letters of credit issued:		
Power pool purchases	**173.6**	88.1
Energy trading	**49.0**	50.0
Regulatory commitments	**80.6**	74.4
Asset commitments	**16.8**	5.6
PPAs	**67.3**	65.8
	387.3	283.9
Commercial paper and overdraft facilities	**166.8**	-
Remaining available bank facilities	**345.9**	466.1
Cash on hand	**35.4**	65.8
Total liquidity and capital reserves	**381.3**	531.9

The decrease in total liquidity and capital reserves at December 31, 2011, can be attributed to the increased collateral requirements primarily due to letters of credit issued for power pool purchases and short-term borrowings partially offset by a $150.0 million increase in available credit facilities. Power pool letters of credit represent the credit facilities required to be placed with the AESO on the Corporation's current power purchases. Higher fourth quarter commodity prices and volumes resulted in higher AESO purchases and thus required higher credit backstops for these purchases. The AESO purchases are in turn charged out to customers or used to settle forward contracts with collection of these amounts in the month following the payments made for the purchase of power supplied to customers.

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

As at December 31, (millions of dollars)	2011	2010
Long-term debt,[1] consisting of:		
ACFA debentures, with remaining terms of:		
Less than 5 years	**50.1**	69.1
5 – 10 years	**147.4**	48.8
11 – 15 years	**-**	106.9
16 – 20 years	**60.0**	38.8
21 – 25 years	**475.4**	368.0
Private debentures		
Series 1, remaining term of 7 years, bullet maturity on June 19, 2018	**297.4**	297.1
Series 2, remaining term of 2 years, bullet maturity on April 8, 2014	**249.2**	248.8
Non-recourse term financing (Kettles and CEC), remaining term of 6 and 16 years, respectively	**237.4**	244.7
Promissory note, remaining term of 16 years	**5.3**	5.5
	1,522.2	1,427.7

(1) Includes current portion of long-term debt of $53.7 million (December 31, 2010 – $50.0 million). Maturity dates range from August 2012 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 (millions of dollars)	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Total debt [1]	1,689.0	220.5	355.6	116.8	996.1
Operating leases	15.7	4.2	9.5	2.0	-
Purchase obligations [2]	244.9	115.3	78.4	15.5	35.7
Asset retirement obligations	13.9	-	-	-	13.9
Other long-term obligations [3]	105.6	-	73.2	15.0	17.4
Total contractual obligations	2,069.1	340.0	516.7	149.3	1,063.1

(1) Total debt excludes interest payments.

(2) 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.

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

ENMAX pays The City a minimum annual dividend equal to the larger of 30% of the prior year's net earnings or $30.0 million. 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 affected by such factors as financial performance and liquidity requirements.

Financial ratios

December 31,	2011	2010
Long-term debt to total capitalization (1)	**43.9%**	43.6%
EBITDA to total interest (2)	**5.0X**	5.4X
Total debt to total capitalization (3)	**46.5%**	43.6%

(1) As at period end, long-term debt (including current portion) to total capitalization is equal to long-term debt divided by total long-term debt plus shareholder's equity. If cash was netted against the debt, the ratio as at December 31, 2011, would be 40.9% (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 December 31, 2011, would be 45.5% (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 long-term debt to total capitalization at a maximum of 45% and EBITDA to total interest coverage ratios at five 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 are interest coverage and debt to capitalization. As at December 31, 2011, the Corporation is in compliance with these financial covenants.

As at December 31, 2011, ENMAX did not have any of its non-recourse financing classified as liabilities held for sale related to the British Columbia assets sold (December 31, 2010 – $12.2 million).

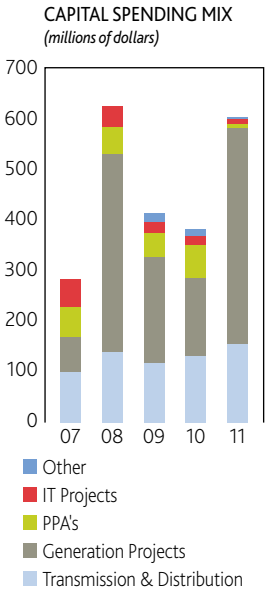
Cash provided by operating activities

Funds generated from operations for the year ended December 31, 2011, were $411.5 million, compared with $346.9 million in 2010. The increase in funds generated in the current year was primarily due to higher cash-based operating earnings and lower cash taxes paid.

Cash provided by operating activities for the year ended December 31, 2011, was $227.1 million compared with $320.2 million in 2010. The decrease in cash flow from operations in the year was driven by a significant swing in working capital requirements. This was primarily due to a larger increase in accounts receivable in the fourth quarter resulting from higher commodity prices and volumes. These higher revenues are collected in the month following the payments made for the purchase of power supplied to customers.

Investing Activities

Capital spending was $606.3 million for the year ended December 31, 2011, an increase of $222.5 million over last year. Capital projects for the year ended December 31, 2011, included a $156.3 million investment in the transmission and distribution network in Calgary and surrounding area, $427.8 million in construction costs related to Calgary area generation projects, $9.4 million of expenditures relating to environmental regulations on PPA assets and $9.0 million in information technology expansion not directly related to transmission, distribution or generation projects. 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 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 strategies of serving its growing customer base with generation assets that emit fewer GHG emissions than in the past and leading the development of a more efficient utility model. The investment in information technology will allow ENMAX to continue to comply with regulations and effectively operate the business, in line with the Corporation's strategy to maintain the reliability and cost effectiveness of the Corporation's technology infrastructure while meeting the challenges of obsolescence and growth.



During the year ended December 31, 2011, the Corporation received $102.0 million of cash, 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 $51.4 million of long-term debt in regularly scheduled principal payments during the year ended December 31, 2011, compared with $48.1 million in 2010. These repayments were sourced through operating activities. ENMAX also disposed of $12.2 million of long-term debt during the year ended December 31, 2011, as part of the sale of the British Columbia assets.

On March 9, 2011, the Corporation declared a dividend of $55.6 million payable to The City, its sole Shareholder. All quarterly instalments of the dividend were paid by the end of 2011. On March 8, 2012, the Corporation declared a dividend of $56.0 million payable to The City in four quarterly instalments in 2012.

During the year ended December 31, 2011, the Corporation obtained $145.9 million of financing from The City through arrangements with the ACFA to fund ongoing investment relating to the regulated transmission and distribution network in Calgary and the surrounding area.

Due to higher pool prices, the timing of payments to the pool and collection of the related revenue from customers, ENMAX had $165.0 million of outstanding Commercial Paper and $1.8 million of overdraft as at December 31, 2011. This amount was repaid shortly after year end.

At December 31, 2011, cash and cash equivalents amounted to $35.4 million compared with $65.8 million at December 31, 2010.

8. FUTURE ACCOUNTING CHANGES

IFRS

On January 1, 2012, ENMAX adopted IFRS as required by the Accounting Standards Board of Canada (Ac SB). The project consisted of four phases: diagnostic, research and evaluation, conversion and sustainment. Progress in the IFRS changeover plan is substantially complete. Ongoing work includes the following:

- Assessing the impact of recently issued IFRS standards on processes and systems;
- Enhancing internal IFRS training;
- Monitoring system solutions; and
- Working with users of our financial statements to explain the changes in our accounting policies and financial results arising from IFRS.

The Corporation's IFRS steering committee continues to monitor the progress of the transition to IFRS and will continue to meet regularly until the Corporation's first interim report under IFRS is completed.

Elections

A number of elections were available under *IFRS 1, First-Time Adoption of IFRS* that assists with the transition to IFRS. *IFRS 1* provides first-time adopters with a number of elections, exempting ENMAX from retrospectively adopting certain, provisions of IFRS. The Corporation has made use of the following elections:

- Business combinations that occurred prior to January 1, 2011, will continue to be measured and recorded at the GAAP amounts;
- A simplified approach for the measurement of the Corporation's decommissioning liabilities (asset retirement obligations) and decommissioning assets included in property, plant and equipment (PPE) as at the transition date;
- ENMAX will elect not to reassess historical leases already assessed under GAAP; and
- ENMAX will elect to deem its cost of rate-regulated assets under IFRS as its net book value of these assets under GAAP.

Significant Policy Choices

Financial Statement Item	GAAP Policy	IFRS Policy Option 1	IFRS Policy Option 2	ENMAX IFRS Policy Choice
CEC Valuation	Recognition of negative goodwill against the value of assets.	Fair value as deemed cost for CEC on transition.	Recognition of negative goodwill in retained earnings and impair CEC to market value on transition.	Policy Option 2. Result on transition is the same.
Employee Benefits (Pensions)	Deferral of remeasurements.	Utilize existing IFRS which allows for the corridor approach to remeasurements, which is similar to, but not the same as, GAAP.	Early adoption of new standard. This allows for fresh start accounting for historical remeasurements and future remeasurements to go through OCI.	Policy Option 2. This option is required for 2014 and future years. Allows for consistency in reporting for 2012 and future years.
Asset Retirement Obligations	Credit-adjusted risk-free rate used to discount the provision. Rates range from 5.36% – 8.77%	IFRS allows for the risk adjustment of discount rates and the use of risk-free cash flows.	IFRS allows for the risk adjustment of cash flows and the use of a risk-free discount rate.	Policy Option 2. Risk-free rate used and cash flows risk adjusted. Rate of 3.5% determined as the risk-free rate.
Battle River Amortization	Amortized on a straight-line basis over the term of the entire contract.	Amortized on a straight-line basis over the term of the entire contract.	Amortized based on capacity availability on each unit.	Policy Option 2. Considered to be a better matching of costs to revenue generation.

Transition adjustments

For each international standard, the Corporation determined the quantitative impacts to the financial statements, system requirements, accounting policy decisions and changes to internal controls and business policies. The adoption of IFRS does not impact the underlying performance of our operations.

The following tables present a preliminary reconciliation of the Corporation's January 1, 2011, opening Balance Sheet as previously reported, to the currently anticipated presentation under IFRS. This information is provided to allow users to obtain a better understanding of the changeover to IFRS and the resulting effects on our financial statements and other performance measures. However, readers are cautioned, that it may not be appropriate to use this information for any other purpose. Accounting policy and transition choices can continue to be made until December 31, 2012. Conditions may arise which could change these assumptions or expectations.

January 1, 2011 (millions of dollars)		Previously Reported GAAP	Measurement Adjustments	Reclassification Adjustments	IFRS
Assets					
Cash and cash equivalents		65.8	-	-	65.8
Accounts receivable	(f)	499.4	(46.4)	-	453.0
Income taxes receivable	(i)	34.7	(11.1)	-	23.6
Future income tax asset	(1)	7.1	-	(7.1)	-
Current financial assets	(m)(2)	-	(3.0)	62.0	59.0
Other current assets	(l)(2)	103.2	13.4	(62.0)	54.6
Assets held for sale	(a)(k)	110.9	4.1	-	115.0
		821.1	(43.0)	(7.1)	771.0
Property, plant and equipment	(a)(b)(c)(d)(g)(h)(k)(4)	2,273.6	(16.2)	239.1	2,496.5
Power purchase arrangements		517.0	-	-	517.0
Intangible assets		113.2	-	-	113.2
Goodwill		16.0	-	-	16.0
Employee future benefits	(e)	22.8	(22.8)	-	-
Future income tax asset	(g)(1)	91.2	12.5	7.1	110.8
Long-term financial assets	(l)(2)	-	(1.0)	15.0	14.0
Other long-term assets	(2)	28.0	-	(15.0)	13.0
Total Assets		3,882.9	(70.5)	239.1	4,051.5
Liabilities					
Accounts payable and accrued liabilities	(f)(l)	327.7	12.5	-	340.2
Income taxes payable		35.6	-	-	35.6
Future income tax liability	(1)	8.8	-	(8.8)	-
Current portion of long-term debt		50.0	-	-	50.0
Current financial liabilities	(3)	-	-	61.4	61.4
Other current liabilities	(3)	77.6	-	(61.4)	16.2
Liabilities held for sale	(a)(k)	15.0	4.9	-	19.9
		514.7	17.4	(8.8)	523.3
Long-term debt		1,377.7	-	-	1,377.7
Future income tax liability	(a)(b)(c)(h)(j)(k)(l)(n)(1)	79.8	7.5	8.8	96.1
Employee future benefits	(e)	-	41.4	-	41.4
Long-term financial liabilities	(n)(3)	-	-	31.3	31.3
Other long-term liabilities	(k)(3)(4)	65.5	12.0	207.8	285.3
Total Liabilities		2,037.7	78.3	239.1	2,355.1
Shareholder's Equity					
Share capital		280.1	-	-	280.1
Retained Earnings		1,603.4	(148.5)	-	1,454.9
Accumulated other comprehensive loss	(n)	(38.3)	(0.3)	-	(38.6)
Total Shareholder's Equity		1,845.2	(148.8)	-	1,696.4
Total Liabilities and Shareholder's Equity		3,882.9	(70.5)	239.1	4,051.5

Explanations of the preliminary measurement adjustments in the table above are as follows:

a. IAS 16 requires PPE to be componentized. Under this IFRS, the Corporation recognized six separate components related to a hydro generation project, classified as an asset held for sale. As a result of this componentization, the useful life of certain large components is longer under IFRS than under GAAP and resulted in an increase in net assets held for sale and retained earnings of $0.8 million as at January 1, 2011. The tax effect of this adjustment is $0.2 million with the net impact to retained earnings being an increase of $0.6 million.

b. In 2010, assets were capitalized in relation to a Project at CEC. This project involved replacing components of the heat recovery steam generator; however, the parts replaced were not derecognized under GAAP. The original cost of the components are not available and as such the cost of the replacement parts is used to estimate the cost of the parts being replaced. This results in a $4.6 million reduction in PPE as at January 1, 2011. The tax impact of this adjustment is $1.2 million resulting in a net decrease in retained earnings of $3.4 million.

c. IAS 16 specifically prohibits costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity from being capitalized even during a staged start-up. In relation to a wind farm project, the Corporation incurred and capitalized revenues and costs during a staged start-up. Therefore, the amounts capitalized have been adjusted to retained earnings upon IFRS transition. As a result, net PPE has increased $2.1 million, future income tax liabilities have increased $0.5 million and retained earnings have increased $1.6 million as at January 1, 2011.

d. Similar to the CEC adjustment in (b), Crossfield is also required to capitalize and amortize major overhauls. As a result, PPE has been decreased by $0.1 million for the difference in amortization rates for major overhauls under IFRS. The tax effect of this adjustment is negligible, which results in a net decrease of $0.1 million to retained earnings as at January 1, 2011.

e. The International Accounting Standards Board (IASB) has issued a new standard for employee future benefits. The Corporation intends to early adopt this standard. The transition provisions of this standard provide for the ability to start accounting under the new standard with a "clean slate" as it pertains to actuarial gains and losses. As at December 31, 2010, ENMAX had $64.2 million in unamortized actuarial losses which is adjusted to retained earnings.

f. Regulated accounts receivable of $46.4 million as at January 1, 2011, will be adjusted to retained earnings under IFRS. Included in the adjustment are regulatory amounts receivable under the Transmission Access Charge deferral and amounts receivable for rate adjustments related to prior years. Regulated accounts payable of $1.9 million as at January 1, 2011, will be adjusted to retained earnings under IFRS. As a result, retained earnings decreased $44.5 million as at January 1, 2011.

g. Battle River is currently amortized on a straight-line basis over the 14-year contract. IFRS allows for intangibles to be amortized in a manner that is different than the contract term. As such, Battle

River can be amortized based on the timing of future economic benefits. This adjustment results in a decrease to PPE of $50.2 million with an offset to retained earnings. The tax effect of this adjustment increases the future income tax assets by $12.5 million.

h. On the acquisition of CEC, ENMAX recorded a negative goodwill amount of $170.0 million. Negative goodwill normally represents a replacement value of assets that exceeds the fair value of those assets. Under IFRS this amount is not allowed to be carried in PPE so must be reversed to retained earnings. The adjustment of negative goodwill results in an impairment and brings the PPE value down to its value in use of the assets. The net impact on transition is a $32.3 million increase in PPE and opening retained earnings offset by an increase in the future income tax liability of $10.2 million.

i. IFRS allows for a probability-weighted approach to measuring uncertain tax position or reserves. This is different from the "expected outcome" approach under GAAP. The adjustment on transition is estimated to be an $11.1 million increase in tax liabilities resulting in a reduction of retained earnings.

j. Under IFRS, deferred tax assets and liabilities cannot be recorded if the associated asset or liability arises from goodwill, or on a transaction that is not a business combination or one that did not impact earnings or taxable profit. The second step purchase of Hydromax assets generated future tax liabilities but the transaction cannot be considered a business combination since control had already been acquired. The tax liability of $0.4 million that was created at that time must be written off and charged to retained earnings on transition to IFRS. This tax liability was related to water licenses acquired. The majority of these water licenses are still held by Hydromax and were not disposed of as part of the Clowhom sale.

k. Under IFRS, asset retirement obligations are included as part of IAS 37 and are referred to as decommissioning liabilities. The discount rate used for determining asset retirement obligations is the risk-free rate. This is different than the credit-risk adjusted rate used for GAAP. The result is a $16.7 million increase in liabilities, PPAs, and a $12.5 million increase in PPE and a $4.2 million decrease in retained earning.

l. The PPAs permit ENMAX to settle its GHG Liability with emissions offsets. IFRS provides more guidance with regards to the accounting for and timing of emission offsets. In the absence of guidance under GAAP, the offset is completed at year end. Under IFRS, the offset occurs when the liability is settled, which is in March of the following calendar year. The adjustment on transition is an increase to other current assets of $12.4 million and an increase in accounts payable of $14.4 million. In addition, a $0.6 million reduction of future income tax liability and retained earnings of $1.4 million is recognized on transition.

m. The Yen market adjustment is related to adjustment in the value of an embedded derivative.

n. Under GAAP, ENMAX is required to document its basis for concluding that a contract is for the receipt or delivery of a non-financial item in accordance with its expected purchase, sale or usage requirements. This condition does not exist under IFRS. As a result, on transition, ENMAX will be

required to reverse one of its contracts which is currently treated as mark-to-market through OCI. The contract is for the physical delivery of electricity to a retail customer and meets the requirements of "own use" under IFRS. The adjustment on transition is a decrease to long-term financial assets of $0.4 million. In addition, a $0.1 million decrease in future income tax liability and a $0.3 million decrease in accumulated other comprehensive loss is recognized on transition.

Explanations of the preliminary reclassification adjustments in the table above are as follows:

1. Reclassification adjustment (1) reclassifies the current portion of the future income tax asset (liability) from current to long-term in accordance with International Accounting Standards (IAS) 1.

2. Financial Assets are a minimum disclosure requirement under IAS 1. Accordingly, reclassification adjustment (2) reclassifies current and long-term financial assets that are currently included in other current and other long-term assets.

3. Financial liabilities are a minimum disclosure requirement under IAS 1. Accordingly, reclassification adjustment (3) reclassifies current and long-term financial liabilities that are currently included in other accounts.

4. IFRS requires that contributions from customers for capital assets be classified as a deferred revenue liability.

Significant ongoing impacts of IFRS are expected as follows:

Area	Income Statement Impact	Cash Flow Statement Impact	Other Differences
Employee Benefits (Pension)	Ongoing increase in earnings as experience gains and losses are reflected in other comprehensive income.	No impact on cash flow.	Additional disclosures are required.
Rate-regulated Assets and Liabilities	Ongoing earnings volatility possible with a mismatch of revenues and expenses that are subject to rate-regulation.	No impact on cash flow.	Segment disclosure will include a reconciliation to standards used in the industry and by management to report on rate regulated activities Financial Accounting Standards Board Accounting Standards Codification 980 of US GAAP).
PPE	Transition adjustments will change amortization charges into the future.	No impact on cash flow.	Additional disclosures are required.
Impairment	Discounted values may result in more impairments being recognized than under GAAP.	No impact on cash flow.	Additional disclosures are required. Tests for indicators of impairment will occur more frequently.

9. 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.

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

Revenue recognition

The majority of the Corporation's revenue is derived from the sale of electricity. The various systems and procedures used by third parties to provide load and settlement data to retailers across the province are required to completely and accurately capture all customer movement, load classification and consumption data. However, by regulation, wire service providers are not required to submit final load settlement data on customer electricity usage until four months after the month in which such electricity was consumed. There are a number of variables in the calculation of these estimates and the underlying energy settlement processes within the Alberta electric systems and the Corporation are complex. These estimates are necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until finalization and adjustment pursuant to subsequent regulatory decisions, or other regulatory proceedings. Estimates for unbilled consumption averaged $116.4 million (2010 – $104.8 million) at the end of each month and adjustments of estimated revenues to actual billings averaged $2.9 million (2010 – $2.0 million), representing an average of 2% and 3% of the estimates for 2011 and 2010, respectively. Reconciliation of settled volumes for 2011 will continue in 2012 based on the timing of receipt of settlement data. Therefore, amounts relating to 2011 represent only the first six months of the year. These estimates affect accrued electricity revenues and accrued electricity costs of ENMAX Energy.

Allowance for doubtful accounts

The allowance for doubtful accounts reflects an estimate of the accounts receivable that are ultimately expected to be uncollectible. It is based on a number of factors including the aging of accounts receivable, historical write offs within customer groups, assessments of the collectability of amounts from individual customers and general economic conditions. The Corporation's allowance account averaged $7.6 million (2010 – $11.7 million), and at each internal reporting period was within the range of $5.6 million – $11.3 million (2010 – $8.2 million – $14.5 million). The estimate of the allowance affects ENMAX Energy's and ENMAX Power's accounts receivable and OM&A.

Amortization expense

Amortization is an estimate to allocate the cost of an asset over its estimated useful life on a systematic and rational basis. Estimating the appropriate useful lives of assets requires significant judgment and is generally based on estimates of common life characteristics of common assets. The ranges of amortization assumptions used in measuring the Corporation's amortization expense is outlined in Note 2 in the Notes to the Consolidated Financial Statements.

Asset impairment

PPE makes up a significant portion of the Corporation's total assets. The majority of those assets are involved in the generation of electricity. The Corporation considers several factors which could indicate an impairment of its assets including significant underperforming operating results, significant changes in the use of the asset and significant negative economic trends. When an indication of impairment is identified, the Corporation estimates the fair value of certain assets. Estimates of fair values for these assets are based on undiscounted cash flow techniques which rely on a number of assumptions such as the amount of future cash flows that will be generated from the asset, expected future prices for inputs and outputs and expected usage of the asset. An impairment loss, if justified, would be recorded as the excess of the carrying amount of the asset over its fair value.

Asset retirement obligations

Measurement of the Corporation's asset retirement obligations involves the use of estimates with respect to the amount and timing of asset retirements, the extent of site remediation required, discount rates, inflation rates and related future cash flows. Each individual asset requires a separate analysis of these methodology inputs and thus, quantification of the range of assumptions used would not be meaningful on a cumulative basis.

Provision for income taxes

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

Employee future benefits

ENMAX has a defined benefit pension plan and post-retirement benefits that are provided to certain employees. The cost of these benefits recognized in the financial statements are subject to estimates around many factors including, but not limited to, assumptions of future return on plan assets, retirement age, mortality rates, discount rates, future health care costs, salary escalation rates and claims experiences. The significant actuarial assumptions used in measuring the Corporation's accrued benefit obligation and net benefit plan expense are outlined in Note 14 in the Notes to the Consolidated Financial Statements.

Financial instruments

The fair values of financial instruments are determined and classified into three categories, Level I, II and III. Level I financial instruments are based on quoted market prices and are therefore subject to little estimation and judgment. Level II financial instruments have fair values that are determined using inputs other than quoted market prices that are readily observable for the specific asset or liability. These fair values are subject to estimates around determining the observable source to be used and the use of similar inputs for instruments that are not regularly traded. Level III financial instruments have fair values that are determined using inputs that are not readily observable. These fair values are subject to estimates embedded in the valuation technique used.

Further discussion of the impact of estimates on the fair values of financial instruments can be found in Note 5 in the Notes to the Consolidated Financial Statements.

Interest during construction

Interest during construction is capitalized on a monthly basis on qualifying assets by applying a borrowing rate to the carrying amount of the asset. Qualifying assets are those assets that take a substantial period of time to complete (greater than or equal to six months, or that are less than six months but would incur significant borrowing).

Changes in critical estimates

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 were applied prospectively and resulted in a $6.0 million increase in fixed assets and asset retirement liability.

To ensure that the risk management processes at ENMAX continue to keep pace with the changing needs of the organization, ENMAX made some enhancements to its enterprise risk assessment process during 2011. These enhancements were designed to improve management's ability to identify and manage risk and to ensure that the consideration of risk continues to be a key component of the decision-making process.

10. 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. To ensure that the risk management processes at ENMAX continue to keep pace with the changing needs of the organization, ENMAX made some enhancements to its enterprise risk assessment process during 2011. These enhancements were designed to improve management's ability to identify and manage risk and to ensure that the consideration of risk continues to be a key component of the decision-making process.

ENMAX's risk exposures are managed within levels approved by the Board and senior management, implemented by management and monitored by personnel in the business units, the Risk Management department and related functional areas. At a management level, each accountability area is responsible for assessing its risk exposures and implementing risk treatment plans. ENMAX's Risk Management department coordinates an enterprise risk assessment process and provides risk reporting and related monitoring. Risk oversight is delivered through ENMAX's Risk Management Committee (RMC) and the ENMAX Board. The RMC consists of senior management team members. Together, the RMC and Board oversee the Corporation's risk exposures and risk management programs, including the ERM program.

The overall risk control environment of the Corporation includes:

- clearly articulated corporate values and ethical principles, which employees are required to review upon hiring;
- published enterprise-wide policies in key risk areas such as delegation of authority;
- documented commodity trading and position limits;
- an internal audit function to test compliance with internal controls and policies;
- regular reporting of risk exposures and mitigations, including insurance programs, to the RMC and Board;
- the use of industry-accepted tools and methodologies for tracking risk exposures; and

- A Safety and Ethics HelpLine for employees to anonymously report suspected illegal or unethical behaviour without fear of retaliation if the employee does not feel comfortable reporting this information directly to the Corporation.

These risk-management programs and governance structures are designed to manage and mitigate a number of risk factors affecting the Corporation and its business.

It is not possible to accurately quantify or assess the financial risk of many future events. As such, ENMAX uses financial impact bands in quantifying its risks. Below are the bands used in the risk process:

Indicative Term	Potential Financial Impact
Low impact	• 1 Yr Budget: < $5 million • 5 Yr Plan: < $25 million
Moderate impact	• 1 Yr Budget: $5-10 million • 5 Yr Plan: $25-50 million
High impact	• 1 Yr Budget: >$10 million • 5 Yr Plan: >$50 million

The following discussion does not consider the result of any interrelationship among the factors. These impacts are hypothetical and not necessarily indicative of actual future results and should be used with caution. All risks described below are residual risks, meaning they are the remaining risk exposures after mitigations have been applied.

Market Risk

ENMAX has inherent risk positions in electricity and natural gas commodities arising from owned and controlled supply assets and demand obligations. The Corporation also purchases and sells these commodities in wholesale markets to manage such positions. While ENMAX Energy's vertically-integrated business model is designed to achieve a balanced portfolio, in the near term, its electricity and natural gas positions may experience periodic imbalances and result in exposures to price volatility from spot or short-term contract markets. In the longer term, where the company has fewer fixed price retail contracts, there is exposure to market price risk.

ENMAX Energy utilizes numerous tools to forecast electricity consumption and generation, as well as, the pattern of consumption and generation between peak and off-peak hours (load-shape). However, it is not possible to hedge all positions every hour. As such, the Corporation is exposed to volume and load-shape risk. ENMAX Energy may purchase blocks of electricity in advance of consumption in order to minimize exposure to extreme price fluctuations between off-peak and peak hours. The Corporation actively manages assets to match generation to consumption volumes and has peaking facilities that allow quick reaction to unexpected supply and demand changes. To oversee these risks, ENMAX has implemented an energy risk management program based on leading industry practices to analyze, control and report on commodity price risk exposures. This program includes risk metrics and associated limits, such as open commodity positions and Value at Risk, approved by the Board and senior management. Stress testing is performed regularly to provide additional information on the potential impact of extreme events on ENMAX's energy portfolio. The energy risk management program is operated by a middle

ENMAX has implemented an energy risk management program based on leading industry practices to analyze, control and report on commodity price risk exposures.

office controls group which is independent of the front office trading floor and the back office accounting and settlement group. The Corporation could have earnings variability related to the sustainability and diversification of its portfolio. Furthermore, a valuation modeling error and overall commodity price levels could produce earnings variability. Earnings variability could also be seen as a result of residential, small business, industrial, commercial and institutional customer demand volatility reducing retail margins or as a decrease in renewal and acquisition rates.

ENMAX Energy uses derivative instruments, such as swaps and forwards, to manage the Corporation's exposure to commodity price risk. Financial gains and losses could be recognized as a result of volatility in the market values of these contracts. In the absence of actively quoted market prices and pricing information from external sources, the valuation of these derivative instruments may involve management's judgment or use of estimates. As a result, changes in the underlying assumptions or use of alternative valuation methods could affect the reported fair value of these contracts. The inability or failure to effectively hedge ENMAX's energy portfolio and prevent financial losses from derivative instruments could adversely affect the business, results of operations, financial condition or prospects of the Corporation. ENMAX's hedging strategies control and mitigate these commodity price risks. Occasionally, hedging is ineffective, as it is based upon predictions about future market conditions and may require a minimum level of market liquidity to actively manage positions.

ENMAX has foreign exchange rate exposures arising from certain procurement and energy commodity business activity. ENMAX hedges the majority of its foreign exchange risk exposures and as such exposures arise. However, such hedges may not be sufficient to cover foreign exchange exposure in the event of timing mismatches or extreme foreign exchange rate movements. The sensitivity around foreign exchange rate is discussed in Note 5 of the Notes to the Consolidated Financial Statements.

Changes in interest rates can impact borrowing costs and certain revenue streams in the Corporation's business activity. Substantially all of ENMAX's long-term debt is currently either fixed-rate amortizing debt, fixed-rate bullet debt or variable debt with linked interest rate swap hedges. This structure effectively mitigates exposure to interest rate fluctuations in the near term. Short-term debt is generally variable rate and long-term debt will need to be replaced at maturity leading to longer term exposure. The sensitivity around interest rates is discussed in Note 5 of the Notes to the Consolidated Financial Statements.

ENMAX owns, controls or operates a number of electricity generation, transmission and distribution facilities.

Changes in equity prices can impact the value of equity investments held by the Corporation to pursue its business objectives. ENMAX actively monitors and takes actions to mitigate the Corporation's exposure to equity price fluctuations. The sensitivity around equity prices is discussed in Note 5 of the Notes to the Consolidated Financial Statements.

Although ENMAX's vertical-integration business model and other risk management strategies mitigate these market risks, the Corporation experiences periodic imbalances and potentially volatile prices. In the one-year timeframe market risks are considered high.

For additional details on ENMAX's market risk exposures and sensitivities, refer to Note 5 in the Notes to the Consolidated Financial Statements.

Operational risk

ENMAX owns, controls or operates a number of electricity generation, transmission and distribution facilities. The operation of such facilities involves many risks, including public safety incidents; start-up risks; breakdown or failure of generation, transmission or distribution facilities or pipelines; use of new technology; dependence on a specific fuel source, including the transportation of fuel, impact of unusual or adverse weather conditions (including natural disasters); and performance below expected or contracted levels of output or efficiency. Renewable resource operating facilities are subject to weather driven risks such as wind availability. The Corporation is also subject to the risk of inadequate or failed internal processes, people and systems within the competitive and regulated businesses, shared services departments and certain outsource service organizations.

Breakdown or failure may prevent a facility from performing as expected under applicable agreements, which in certain situations, could result in termination of the agreements or incurring a liability for damages. Unanticipated transmission and distribution facility outages can cause interruptions in service. Unanticipated generation facility outages and de-rates can cause periodic imbalances in the Corporation's electricity and natural gas positions. Weather conditions can materially affect the level of demand for electricity and natural gas, the prices for these commodities and the generation of electricity at certain facilities. In addition, ENMAX's demand obligations may fluctuate based on commodity prices, season, day and time of use and specific customer requirements.

Certain critical areas within ENMAX have implemented security measures and emergency response plans. The Corporation continues to develop business continuity and disaster recovery plans, including a remote disaster recovery site.

Events that could result from physical or cyber war, terrorism, civil unrest or vandalism may cause damage to ENMAX and its assets and impact the Corporation's generation, transmission and distribution operations or administrative functions in unpredictable ways.

These operational risks may affect the Corporation's ability to execute its strategy in an effective and efficient manner, affect the quality of customer service and result in lost revenues and/or increased costs. These risks are actively managed using incentives, site planning, controls, safety, security and insurance programs in addition to a number of other measures. Certain critical areas within ENMAX have implemented security measures and emergency response plans. The Corporation has business continuity plans in place and continues to refine and improve these plans through regular operational testing and plan reviews. Included within the Corporation's recovery capability is a remote IT disaster recovery site. In addition, the Corporation has obtained property, business-interruption and other insurance coverage to mitigate some of these risk exposures, although such programs and measures may not prevent or cover the occurrence of any or all of these events and the adverse effects they may generate.

The Corporation's earnings could be affected by a regulated transmission blackout/brownout, a vehicle accident, failure of metering equipment or loss of communication services. Fuel supply shortages, failure of third-party services or infrastructure, human error, labour disruption, hazards to facilities and regulatory decisions could cause earnings variability. The Corporation is potentially exposed to earnings variability due to a catastrophic failure at a PPA plant (defined as a failure causing an outage of six months or longer) or variability due to the variation in annual incentive payments to PPA operators. A low impact in earnings variability could also be seen as a result of the non-performance of contracted physical electricity or natural gas by counterparties. Overall the operational risk facing the organization is classified as high in the one-year time horizon.

Environmental risk

The Corporation is subject to regulation by federal, provincial and local authorities with regard to air, land and water quality and other environmental matters. The generation, transmission and distribution of electricity results in and requires disposal of certain hazardous materials, which are subject to these laws and regulations. In addition to imposing continuing compliance obligations, these laws and regulations

The Corporation mitigates its exposure to environmental regulations by building and acquiring new, lower GHG emitting generation capacity; developing innovative alternative energy technologies; purchasing emission reductions offsets; investing in mercury emissions equipment in its supply from power purchase arrangements; and developing workplace conservation programs.

authorize the imposition of substantial penalties for non-compliance, including fines, injunctive relief and other sanctions. New environmental laws and regulations affecting ENMAX's operations may be adopted and new interpretations of existing laws and regulations could be adopted or become applicable to the Corporation or its facilities, which may substantially increase its environmental expenditures in the future. New facilities or modifications of existing facilities may require new environmental permits or amendments to existing permits. Delays in the environmental permitting process, denials of permit applications and conditions imposed in permits may materially affect the cost and timing of projects. Non-compliance with environmental laws and regulations or incurrence of new costs or liabilities could adversely affect the business, results of operations, financial condition or prospects of the Corporation. ENMAX has implemented various programs to manage the Corporation's environmental risk exposures, many of which focus on prevention of and preparedness for adverse events.

In 2007, the Government of Alberta passed the Climate Change and Emissions Management Act and Alberta's Specified Gas Emitters Regulation to address the regulation of GHG emissions from certain facilities located in the province. Effective July 1, 2007, facilities emitting more than 100,000 tonnes of GHG emissions per year are required to reduce their emissions intensity from an emissions intensity baseline. The companies responsible for these facilities have been given a number of options to allow them to comply with this requirement, including making operational improvements to the facilities, buying eligible offsets to apply against their emissions and contributing to a fund established for the purpose of investing in technology to reduce GHG emissions in the province. ENMAX has taken steps to substantially mitigate these impacts, including acquiring qualified offsets from its wind generation assets and purchases on the wholesale market. The Corporation continues to assess and monitor the implications of changes in legislation may have on its business.

Federal regulations aimed at reducing the level of GHG emissions are expected to come into force in the future. The current federal proposal would see all existing coal-fired generation physically shut down at the end of the coal-fired unit's economic life of 45 years or the end of an associated PPA, whichever is longer unless the unit achieves GHG emission levels commensurate with those of a natural gas combined cycle generation plant. As a result, the federal regulation will not result in ENMAX being exposed to compliance costs associated with its ownership of PPAs.

The Corporation mitigates its exposure to environmental regulations by building and acquiring new, lower GHG emitting generation capacity; developing innovative alternative energy technologies; purchasing emission reductions offsets; investing in mercury emissions equipment in its supply from PPAs; and developing workplace conservation programs. The Corporation is potentially exposed to earnings variability if it fails to comply with its environmental management system (EMS) in addition to: potential of spills, releases and fire from hazardous materials or as a result of GHG emissions policy changes.

Changes to environmental regulations are an ongoing risk, however in the one year time period environmental risk is considered low.

Regulatory risk

ENMAX operates in competitive and regulated sectors of the electricity and natural gas industries and is subject to regulation by federal, provincial and municipal governmental regulatory and market authorities. Oversight of industry regulations is provided by the Alberta Department of Energy, AUC, MSA, AESO, British Columbia Utilities Commission, National Energy Board, North American Electric Reliability Corporation, U.S. Federal Energy Regulatory Commission and other agencies.

Regulations and regulatory decisions affect the Corporation's regulated business in a number of areas, including allowed rates of return; industry and rate structure; development and operation of transmission and distribution facilities; acquisition, disposal, depreciation and amortization of facilities; and recovery of certain operating costs.

ENMAX's competitive and regulated businesses are subject to a number of specific regulations established to help ensure that Alberta's wholesale and retail electricity and natural gas markets operate in a fair, efficient and openly competitive manner. ENMAX Power is a transmission and distribution system owner, and an electrical utility, which is regulated by the AUC and is also subject to regulatory oversight for provision of the RRO. ENMAX Energy is an affiliated retailer of ENMAX Power and along with ENMAX Power, must comply with Affiliate Code of Conduct regulation, which preserves a level playing field for all retailers, as well as general energy marketing regulations.

ENMAX can neither predict the future municipal, provincial or federal governments, nor their policies that may impact the development of regulation over its business or the ultimate effect that any changes to the regulatory environment may have on its business. The regulatory process or specific decisions by a regulator may restrict ENMAX's ability to grow earnings, recover costs or achieve a targeted ROE in certain parts of its competitive and regulated businesses, or cause delays in or impact business planning and transactions and increase costs. Non-compliance with laws or regulations or changes to the regulatory environment could adversely impact the business, results of operations, financial condition or prospects of the Corporation.

Management has mitigated this [Human Resource] risk by implementing a number of programs to attract, develop and retain personnel, including recruiting, career development, recognition and competitive compensation and benefits programs.

ENMAX is an active participant in the various regulatory processes that influence the Corporation's business environment and operations. ENMAX actively monitors business activity that is subject to regulation and has implemented compliance programs to mitigate the Corporation's regulatory and political risk exposures. The Corporation is potentially exposed to financial impact as it relates to changes to existing, as well as, new or upcoming policies, protocols, standards, administrative orders or regulations that can have an impact on the Corporation's activities and operations. The Corporation is also potentially exposed to financial impact in regards to regulatory decisions and matters related to generation operations. Overall, exposure to regulatory risk is considered to be moderate in the one-year time frame.

Human resources risk

ENMAX is subject to workforce factors, including loss or retirement of key executives or other employees; availability of and ability to attract, develop and retain qualified personnel; collective bargaining agreements with union employees; and performance of key suppliers and service providers. A number of personnel with highly specialized knowledge, skills and experience are required to lead and operate competitive and regulated businesses and the Corporation's shared services departments. Failure to manage human resources risk could adversely affect the business, results of operations, financial condition or prospects of the Corporation. Management has mitigated this risk by implementing a number of programs to attract, develop and retain personnel, including recruiting, career development, recognition and competitive compensation and benefits programs.

ENMAX management believes it has a good relationship with the Corporation's unions; however, no assurance can be given that successful negotiations will be completed with collective bargaining units on mutually agreeable terms. Difficulties in negotiating these agreements or continuing these programs could lead to higher employee costs, a work stoppage or strike and attraction or retention rates below expectations. ENMAX has two collective bargaining agreements covering its workforce. One of these collective bargaining agreements is set to expire December 31, 2013, and one of these collective bargaining agreements was renewed in early 2012 and is now set to expire on December 31, 2014. Earnings variability could result from workforce attraction and retention issues, the aging workforce and changing values of employees. The Corporation also could be impacted by security breaches and property

theft at its facilities and workplaces. The Corporation has exposure in relation to a breakdown in labour relations with either of the two unions. Considering the mitigations and current conditions the human resources risk, in the one-year period, is considered to be low.

Technological risk

ENMAX utilizes complex technologies in all aspects of the business, from generation through to information technology. Improvements in current technologies and development of new technologies could render certain existing technologies obsolete. Alternative energy technologies such as fuel cells, micro-wind turbines, cogeneration and solar photovoltaic cells have become more accessible and cost competitive. As research and development continues on these alternative technologies, they become more economically viable energy sources. As well, newly constructed facilities are able to incorporate more efficient technologies. New laws and environmental regulations can require upgrades to current facilities' technologies. The Corporation's ability to interface with customers is managed through extensive billing and customer care information technology systems. New developments in information systems could render these billing and customer care systems obsolete. The Corporation actively monitors regulatory changes and the potential technological impacts of these changes. The Corporation is also investing in the development of advanced alternative technologies in generating and information systems. An information management failure, an overall operational system failure, failure of aging applications and infrastructure are all events that individually could result in earnings variability. As well, unauthorized access to confidential information and leakage of sensitive data could result in earnings variability. Finally, a loss of the data centre could result in earnings variability. Overall, the Corporation's technological risk, within the one-year time frame, is considered as low.

Liquidity risk

ENMAX may need to raise additional capital if sources of cash and cash flow from operations are insufficient to fund activities. Such additional capital may not be available when it is needed or on favourable terms for a number of reasons, including changes in market conditions or perceptions of the investment community. The Corporation may be required to post collateral to support certain contracts which were executed to hedge commodity positions. Downgrades to credit ratings by credit rating agencies could affect the Corporation's ability to access capital on favourable terms and within a desired time frame and could also increase the amount of collateral required to be provided to counterparties. ENMAX actively monitors its cash position and anticipated flows to achieve adequate funding levels. The Corporation communicates regularly with credit rating agencies and the investment community regarding its capital position.

ENMAX offers a defined benefit pension plan for qualifying employees. The Corporation's contributions to the pension plan are based on periodic actuarial valuations, the next of which will be required for December 31, 2012. For accounting purposes as at December 31, 2011, the pension plan had an estimated deficit of $57.7 million compared to $32.6 million at December 31, 2010. The actual amount of contributions required in the future will depend on future investment returns, changes in benefits and

The Corporation communicates regularly with credit rating agencies and the investment community regarding its capital position.

actuarial assumptions. Failure to effectively manage financial resources and related exposures could adversely affect the business, results of operations, financial condition or prospects of the Corporation. To manage this risk, ENMAX's pension fund engages expert pension managers and has investment policies and procedures in place to set out the investment framework of the funds, including permitted investments and various investment constraints. These policies and procedures are approved annually by the Human Resources Committee of the Board, which also actively monitors the performance of the pension plan.

The Corporation could be exposed to earnings variability if its credit rating were to be downgraded, covenants were breached on its recourse debt or insufficient liquidity was experienced. The Corporation is also potentially exposed to earnings variability as a result of negative pension asset performance. Liquidity risk is considered low in the one year period.

For additional details on ENMAX's liquidity risk exposures, refer to Note 5 in the Notes to the Consolidated Financial Statements. For additional details on ENMAX's pension plan, refer to Note 14 in the Notes to the Consolidated Financial Statements.

Credit risk

ENMAX enters into agreements and engages in transactions with a number of external parties, such as suppliers, service providers, retail customers and other counterparties. In such arrangements, exposure exists to counterparty credit risks and the risk that one or more counterparties may fail to fulfill their obligations, including paying for or delivery of commodities. These exposure risks are often exacerbated during periods of sustained low commodity prices and tighter credit markets, which are currently being experienced in North America.

ENMAX has implemented a credit risk-management program to mitigate its exposures to credit risk. While ENMAX seeks to manage credit risk exposure by considering creditworthiness before and after entering into such agreements, monitoring business activity against pre-defined credit limits and obtaining collateral when it is prudent to do so, the Corporation may not be able to identify and avoid all counterparties that are not creditworthy. Defaults by suppliers, service providers, retail customers

and other counterparties could adversely affect the business, results of operations, financial condition or prospects of the Corporation.

Management has improved its credit and collections activities to monitor credit risk exposures in light of recent market conditions and has implemented available measures to protect against any further losses. In specific situations, this includes, but is not limited to, a reduction of credit limits, requests for additional collateral, requirements for performance bonds on significant projects or restriction of new transaction terms.

The Corporation's results could be affected as a result of industrial, commercial or institutional customer default or as a result of default by residential, small commercial and wholesale customers. The Corporation considers credit risk to be low over the one-year term.

For additional details on ENMAX's credit risk exposures, refer to Note 5 in the Notes to the Consolidated Financial Statements.

Development risk

ENMAX's ability to successfully complete generation, transmission and distribution facilities currently under construction, those projects yet to begin construction or capital improvements to existing facilities in a timely manner and within established budgets, is contingent upon many variables and subject to a variety of risks, some of which are beyond the Corporation's control. Should any such risks come to bear, the Corporation could be subject to additional costs, delays to the in-service dates of these projects, termination payments under committed contracts and/or the write off of the investment in the project or improvement. In addition, while ENMAX Energy's vertically-integrated business model is designed to mitigate exposure to risks (as does its strategy to fix the development costs by contractually fixing the price with contractors), the Corporation may be required to purchase additional electricity or natural gas to fulfill demand obligations until these projects are completed.

The Corporation's ability to successfully identify, value, evaluate, complete and integrate new acquisition opportunities, organic growth opportunities and major capital projects is subject to risks, including increased competition for acquisition targets, capital and other resources resulting from consolidation of the industry and the performance of the Alberta economy. Such business development challenges could adversely affect the business, results of operations, financial condition or prospects of the Corporation.

ENMAX completes budgeting for capital programs and projects on an annual basis and funding for specific approved capital programs and projects on an ongoing basis. Business units perform risk assessments and develop risk treatment plans for major capital programs and projects. Project performance relative to expectations is regularly reported to senior management and the Board and any corrective measures are taken as required. Delays and overspending in the development of capital projects could affect the Corporation. Overall in the one year period, development risk is considered a low risk to the Corporation.

ENMAX reviews and actively monitors business activity that could be subject to public or private legal actions, including changes to certain legislation, contracts with outside parties and incidents or claims allegedly involving the Corporation and has implemented programs to mitigate the Corporation's legal risk exposures.

Legal risk

ENMAX is occasionally subject to costs and other effects of legal and administrative proceedings, settlements, investigations, claims and actions, in addition to, the effect of new or revised tax laws, rates or policies, accounting standards, securities laws and corporate governance requirements. Non-compliance with existing laws, resolution of legal actions and changes to the legal environment could adversely impact the business, results of operations, financial condition or prospects of the Corporation.

ENMAX reviews and actively monitors business activity that could be subject to public or private legal actions, including changes to certain legislation, contracts with outside parties and incidents or claims allegedly involving the Corporation and has implemented programs to mitigate the Corporation's legal risk exposures. The Corporation could experience earnings variability as it relates to potential employment rights violations which results in union, legal or regulatory action; an incident of material unauthorized communication; a breach of material contract or litigation brought against the Corporation; litigation brought against the Corporation for any alleged negligence, defamation, nuisance or other matters; or a material breach of legislation or rules. Legal risk is assessed as being low in the one-year time period.

Corporate structure risk

The Corporation conducts a significant amount of business through subsidiaries and joint ventures. The ability to meet and service debt obligations is dependent on the operational results of these investments and their ability to distribute funds to ENMAX. Any restrictions on the ability of these investments to distribute funds to ENMAX may affect ENMAX's ability to service the corporate debt. A change in the corporate structure of ENMAX has been assessed as a low risk in the one year period.

Reporting/disclosure risk

The application of critical accounting policies reflects complex judgments and estimates. These policies include industry-specific accounting applicable to regulated public utilities, accounting for pensions and derivative instruments. The adoption of new accounting standards or changes to current accounting policies or interpretations of such policies could adversely affect the business, results of operations, financial condition or prospects of the Corporation. ENMAX has implemented various programs to reinforce the Corporation's internal control over financial reporting, including periodic assessments of controls by internal and external auditors and review of certain disclosures by senior management and the Board. Transition to IFRS could also adversely affect the reported earnings of the business and impact the prospects of the Corporation. The Corporation is nearing completion of a comprehensive project to assess the impacts of IFRS transition and to ensure appropriate controls over financial reporting are maintained through the conversion period and beyond. The risk that errors in consolidated financial statements could cause a loss of credibility with creditors and increase risk of breach of covenants or a decrease in debt ratings is considered to be a low risk in the one year time frame.

Tax risk

Prior to January 1, 2001, the Corporation and some of its subsidiaries were not subject to federal or provincial income taxes based on an exemption for municipally-owned corporations in the Canadian Income Tax Act (ITA). The exemption generally requires corporations be wholly-owned by a municipality and substantially all income must be derived from sources within the geographic boundaries of the municipality. Entities that do not meet these requirements are subject to income tax.

The EUA precludes municipally-owned corporations competing in the electricity generation business from realizing a tax, subsidy or financing advantage as a result of their association with the municipality. Accordingly, ENMAX holds its generation assets in entities that do not qualify for the income tax exemptions noted above.

In 2001, the Government of Alberta introduced a payment in lieu of tax (PILOT) regulation in conjunction with the deregulation of the Alberta utilities industry. The purpose of this regulation was to level the playing field between municipally-owned tax-exempt entities and non-tax-exempt organizations participating in the competitive part of the electricity market, by requiring tax-exempt organizations to make a payment in lieu of taxes equal to what they would have had to pay if they were not tax-exempt. This regulation required municipally-owned retailers and municipally-owned PPA holders to remit PILOT payments to the Balancing Pool, based on the retail and commodity components of their electricity operations. PILOT regulations do not apply to those entities subject to tax under the ITA.

With the introduction of PILOT regulations in 2001, certain ENMAX entities experienced a change in tax status. This resulted in all PILOT-related assets (primarily the PPAs) of the Corporation being deemed to be disposed of and immediately reacquired at fair market value for tax purposes effective December 31, 2000. As a result, the Corporation's tax base of these assets exceeds their net book value resulting in a future income tax asset of $315.3 million being recorded in the Consolidated Financial Statements

ENMAX ENERGY's vertically integrated business model and strategic direction are predicated on certain assumptions, including the long-term viability of the competitive and regulated businesses, benefits associated with holding each of these businesses within the Corporation, evolution of technology used in the industry and attractiveness of growth opportunities.

with a corresponding increase in retained earnings. As at December 31, 2011, the future income tax asset remaining related to this balance is $91.5 million.

ENMAX Energy has received reassessments and communications from Alberta Finance in respect of the taxation years 2001 through 2007. ENMAX Energy does not agree with the reassessments and has commenced the necessary steps to defend its positions through the formal appeals and litigation process. However, ENMAX Energy voluntarily remitted certain amounts to minimize interest and penalties until the issues are resolved. These amounts are recorded as income taxes receivable as at December 31, 2011, and December 31, 2010. ENMAX Energy expects this process to be successful and will evaluate all options should the appeals and litigation process result in an unfavourable outcome.

The computation of the Corporation's provision for income taxes involves tax interpretations, regulations and legislation that are continually changing. The Corporation's tax filings are subject to audit by taxation authorities. The outcome of such audits may increase the tax liability of the Corporation. Any implementation of incremental taxes or changes to the current legislation could adversely affect the business, results of operations, financial condition or prospects of the Corporation. The Corporation could potentially have earnings variability in relation to its reassessments from Alberta Finance in regards to prior years' returns and other contingent tax liabilities. Considering the above, tax risk is considered to be a moderate risk to the Corporation in the one year timeframe.

Strategic risk

ENMAX Energy's vertically integrated business model and strategic direction are predicated on certain assumptions, including the long-term viability of the competitive and regulated businesses, benefits associated with holding each of these businesses within the Corporation, evolution of technology used in the industry and attractiveness of growth opportunities. While management believes these assumptions will remain valid in the future, significant changes to the overall business environment or other factors could cause ENMAX to re-evaluate the Corporation's business model or strategic direction.

The Corporation has several competitors that operate in the electricity and natural gas markets where ENMAX serves customers. Competitors vary in size from small companies to large corporations, some of which have significantly greater financial, marketing and procurement resources than ENMAX. ENMAX Energy must also compete with the RRO service provided by various parties throughout Alberta in order

to convince customers to select ENMAX Energy as their competitive retailer. Changes to the business environment and failure to attract and retain customers could adversely affect the business, results of operations, financial condition or prospects of the Corporation. The Corporation could potentially see earnings variability as it relates to constraints on its growth targets for market share. The Corporation could also see earnings variability related to divesting its holdings in joint ventures on unfavourable terms.

11. FINANCIAL INSTRUMENTS

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

Forwards

Forwards are contractual agreements to purchase or sell a specific commodity or financial instrument at a specified price and date in the future with another counterparty. ENMAX enters into forwards to mitigate the impact of volatility in commodity prices and foreign exchange rates. A risk associated with using forwards includes credit risk of the counterparty, as forwards are transacted with a specific counterparty as opposed to a broker/dealer or clearing exchange. This credit risk is managed in the same respect as trade accounts receivable would be as forwards counterparties would be assessed for credit-worthiness in the same process as energy customers. A second risk is that if the quantities and timing of the underlying commodity or cash flow are not identical to the contract entered into, the Corporation will have continued exposure to market risk. The risk is minimized by attempting to match the settlement terms on all forwards entered into. Amounts related to forwards will appear in the statement of income in electricity costs, natural gas costs and OM&A. The only significant assumptions required in determining fair value of the Corporation's forward contracts is for long-dated Alberta power purchases and sales, as they are not traded in an active market. Assumptions must be made based on the pricing of the furthest dated active market transactions occurring and the shape of the forward curve into the future in order to derive a fair value price for these long-dated contracts.

Futures

Futures are contractual agreements to purchase or sell a specific commodity or financial instrument at a specified price and date in the future with a brokerage or clearing exchange. ENMAX enters into financial futures contracts to mitigate the impact of volatility in commodity prices and foreign exchange rates. Credit risk of the counterparty in futures contracts is close to nil, as futures are transacted with a clearinghouse or clearing exchange that guarantees performance of the contract based on margin posted by other market participants. A second risk is that if the quantities and timing of the underlying commodity or cash flow are not identical to the contract entered into, the Corporation will have continued exposure to market risk. The risk is minimized by attempting to match the settlement terms on all financial futures entered into. Amounts related to futures will appear in the statement of income in electricity costs, natural gas costs and OM&A. Assumptions must be made based on the pricing of the furthest dated active market transactions occurring and the shape of the forward curve into the future in order to derive a fair value price for these long-dated contracts.

Swaps

The Corporation enters into swaps with counterparties to exchange streams of payments over time outlined by specified terms. ENMAX uses commodity, cross-currency and interest rate swaps to mitigate the impact of changes in commodity prices, foreign exchange rates and interest rates. A risk associated with using swaps includes credit risk of the counterparty, as they are transacted with a specific counterparty as opposed to a broker/dealer or clearing exchange. This credit risk is managed in the same manner as trade accounts receivable with counterparties assessed for credit-worthiness using the same process as energy customers. A second risk is that if the quantities and timing of the underlying commodity or cash flow are not identical to the contract entered into, the Corporation will have continued exposure to market risk. The risk is minimized by attempting to match the settlement terms on all swaps entered into. Amounts related to swaps will appear in the statement of income in electricity costs, natural gas costs, OM&A and interest. There are no significant assumptions required when determining the fair value of the Corporation's option contracts as they can be valued using active market rates.

Options

Options are contractual agreements with counterparties that give the purchaser the right, but not the obligation, to buy or sell a specific amount of commodity or financial instrument at a fixed price, either at a fixed date or at any time within a specified period. A risk of using options is that if the quantities and timing of the underlying commodity or cash flow are not identical to the contract entered into, there will be ineffectiveness and the Corporation will have continued exposure to market risk. Another risk of options is that the writer of an option has a fixed upside (option premium) on the transaction with a significant downside. The purchaser of an option has the additional risk that if the market is static, the option premium will be forfeited at the expiration date without any realized upside. These risks are minimized by attempting to match terms of options to offset existing positions which have market risk. Amounts related to options will appear in the statement of income in electricity costs, natural gas costs, OM&A and interest. There are no significant assumptions required when determining the fair value of the Corporation's option contracts as they can be valued using active market rates.

Energy trading derivatives

Energy trading derivatives are contracts-for-differences that are financial forwards and futures for electricity and gas positions. 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 December 31, 2011 and December 31, 2010. The following contracts-for-differences were outstanding at the end of the period:

As at December 31,	2011	2010
Notional Quantities		
Electricity sales (GW)	**3,650**	2,153
Natural gas sales (TJ)	**323**	654
Electricity purchases (GW)	**941**	1,707
Natural gas purchases (TJ)	**14,610**	10,981

At December 31, 2011, on the basis of electricity and natural gas prices at that date, the fair market value of these contracts, amounted to an unrealized negative mark-to-market adjustment of $57.4 million (December 31, 2010 – $33.8 million). This amount does not reflect the fact that these contracts will settle at prices in effect in the future.

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

12. CLIMATE CHANGE AND THE ENVIRONMENT

Environmental risks

Refer to Section 10: Risk Management and Uncertainties for discussion regarding the Corporation's environmental risks.

Trends and uncertainties

Environmental matters cause certain trends and uncertainties to exist. The items listed below can impact both the Corporation's operations and its financial performance and condition.

- Customers are becoming more attuned to the source of their energy. As a result, the need to offer energy from alternative production methods and renewable resources is increasing. Based on ENMAX's asset portfolio, the Corporation is positioned to be able to offer consumers choices and innovative technologies that will help increase revenues should this trend continue to develop. The Generate Choice™ program which was launched in late 2010 will provide customers the opportunity to generate their own solar and wind power.

- The Corporation will continue to be able to procure emissions credits and offsets based on its portfolio of generation assets, which may increase revenues if regulatory bodies place an increased value on lower emitting energy sources.

Environmental liabilities

The Corporation's environmental liabilities consist of 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 December 31, 2011. The Corporation will continue to actively monitor the EMS and will continue to abide with current and future environmental regulations.

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

Asset retirement obligations

At December 31, 2011, the Corporation has asset retirement obligations relating to the following generating assets: McBride, Taber, Crossfield, Kettles 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 in the statement of income.

The change in the carrying amount of the asset retirement obligations is disclosed in the table below:

(millions of dollars)	Amount	Date
McBride	$ 47.8	September 2057
Taber	32.4	December 2057
Kettles	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

During 2011, legislation regarding coal-fired plants was passed that aimed at reducing emissions. As a result, the Corporation was required to spend $9.3 million on mercury reduction equipment to ensure compliance with this legislation in 2011. Further expenditures are required to be spent in future years to comply with this legislation, and there is an expectation that ongoing operating costs will increase as a result of these compliance matters. The Corporation is in negotiations with the PPA facility owner as to the portion of the costs that are attributable to ENMAX.

13. 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 year ended December 31, 2011, transactions with The City amounted to $102.8 million in revenue, compared with $93.6 million in the same period 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 year ended December 31, 2011, total expenditures for goods and services received from The City were $133.6 million compared with $105.1 million in the same period 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 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.

In addition, on June 15, 2011, the Corporation obtained $145.9 million from The City through arrangements with the ACFA to fund ongoing investment relating to the regulated transmission and distribution network in Calgary and the surrounding area. This brings the total amount of debt owed to The City to $732.9 million at December 31, 2011 compared to $631.7 million at December 31, 2010. Interest paid on this debt for the year ended December 31, 2011, was $32.5 million compared to $28.9 million for December 31, 2010. The Corporation is required to pay an administration fee to The City of 0.25% of the average monthly outstanding City debenture balance. For the year ended December 31, 2010, the administration fee paid was $1.7 million (2010 —$1.5 million).

Additional details on the Corporation's transactions with The City can be found in Note 25 in the Notes to the Consolidated Financial Statements.

14. CONTROLS AND PROCEDURES

Management's responsibility for the financial reporting process that produces the financial statements is described in the Report of Management on page 60 of this report.

ENMAX has a Disclosure and Confidentiality policy which sets out policies and procedures related to the disclosure of financial information. The policy was approved by the Board and put into effect in August 2005.

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Corporation's disclosure controls and procedures as at the end of December 31, 2011. They have concluded that the Corporation's disclosure controls and procedures are effective.

Management is also responsible for the design of internal controls over financial reporting within the Corporation in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Management has focused its efforts on areas assessed to have higher risks including revenue accruals, end-user applications and information technology. Management has evaluated the design of the Corporation's internal controls and procedures over financial reporting in these areas as of the end of the period covered by the annual filings and believes the design to be effective to provide such reasonable assurance.

15. MATERIAL CONTRACTS

With the exception of contracts entered in the ordinary course of business, the Corporation has entered into the following material contracts during the year ended December 31, 2011:

- During the year, the Corporation closed the sale of its British Columbia assets to Veresen Inc. (formerly Fort Chicago Energy Partners LP) and Pristine Power Inc. (now wholly-owned by Veresen Inc.). The 2010 and 2011 sales of ENMAX Energy's British Columbia assets consisted of: a) its 99% interest in Furry Creek, which owned an 11 MW run-of-river hydro plant; b) Clowhom, which consisted of two 11 MW hydro plants; c) interests in other run-of-river hydro projects, including its 50% interest in Culliton Creek, a 15 MW project; and d) a 50% interest in two operating energy recovery generation units.
- In June 2011, the Corporation renewed and extended its syndicated and bi-lateral credit facilities to July 20, 2015. The amount of credit available to the Corporation through these facilities increased $150 million to $900 million.
- During 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. In addition, ENMAX has entered into an initial 20-year, long-term service agreement (LTSA) for the major components of the facility. The payments for the LTSA are denominated in both Canadian and US dollars.

16. INTERESTS OF EXPERTS

INDEPENDENT AUDITOR

The Corporation's Auditor is Deloitte & Touche LLP, Chartered Accountants, Suite 700, 850 – 2nd Street SW, Calgary, Alberta, T2P 0R8. Deloitte & Touche LLP is independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

ACTUARY

The Corporation utilizes external professional services in relation to its employee benefits from Towers Watson, Suite 1600, 111 – 5th Avenue SW, Calgary, Alberta, T2P 3Y6. Towers Watson is independent with respect to the Corporation as they have no equity interest in the Corporation and are compensated at a contracted fixed rate, regardless of the outcome of their reports.

17. LEGAL AND REGULATORY PROCEEDINGS

The Corporation is occasionally named as a party in various claims and legal proceedings which arise during the normal course of its business. The Corporation reviews each of these claims, including the nature of the claim and the amount in dispute. Although there is no assurance that each claim will be resolved in favour of the Corporation, the Corporation does not believe that the outcome of any claims or potential claims it is currently aware of will have a material adverse effect on the Corporation, after taking into account amounts previously reserved by the Corporation. For further information, refer to Note 21 in the Notes to the Consolidated Financial Statements.

18. OUTLOOK

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

The financial results forecasted for 2012 are based on certain assumptions about factors that are outside of the control of the Corporation. Actual results that differ from these assumptions could have a significant impact on expected results. The key assumptions that could significantly impact forecast earnings are commodity prices, residential and small business volumes, unplanned outages at generating facilities, settlement of contingencies, regulatory changes and project execution on the Corporation's large capital projects.

The Corporation expects to see continued variability in electricity prices in 2012 with average prices being lower than those seen in 2011. With a movement in forward contracts to higher priced levels, electricity margin is expected to improve. The Corporation expects that natural gas prices will strengthen slightly but remain at a relatively low level. Volumes are expected to continue to grow in both electricity and natural gas service lines.

Reported transmission and distribution margin is expected to experience variability in 2012 due to the impacts of IFRS and a change in the timing of the recognition of revenues and expenses. These reporting changes are not indicative of any change in the operations of the business.

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 mitigate these increases through productivity improvements and general cost reduction efforts. Reporting changes as a result of the conversion to IFRS are expected to impact reported OM&A. These changes are not reflective of any changes in the underlying operations.

As a result of the impacts from the above, ENMAX expects that net earnings for 2012 will be higher than the net earnings levels seen in 2011. 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 2012 development plans.

MANAGEMENT REPORT

The consolidated financial statements and all the information in the 2011 financial report are the responsibility of management. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and management's best estimates and judgments. The financial and operating information presented in this annual report is consistent with the Consolidated Financial Statements and accompanying notes.

Management has prepared the Management's Discussion and Analysis (MD&A). The MD&A compares ENMAX Corporation's (ENMAX or the Corporation) financial performance in 2011 to 2010 and should be read in conjunction with the consolidated financial statements and accompanying notes.

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

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

The independent external auditor, Deloitte & Touche LLP, has been appointed by the Shareholder to express an opinion on ENMAX's Consolidated Financial Statements. The accompanying report of Deloitte & Touche LLP outlines the scope of their examination and their opinion on the consolidated financial statements.

Charles Ruigrok

Interim President and Chief Executive Officer

David Halford, CA

Executive Vice President, Finance and Chief Financial Officer

March 8, 2012

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of ENMAX Corporation:

We have audited the accompanying Consolidated Financial Statements of ENMAX Corporation, which comprise the Consolidated Balance Sheets as at December 31, 2011 and December 31, 2010, and the Consolidated Statements of Income and Comprehensive Income, Consolidated Statements of Shareholder's equity, and Consolidated Statements of Cash Flows for the years then ended, and the Notes to the Consolidated Financial Statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with Canadian Generally Accepted Accounting Principles, and for such internal control as management determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian Generally Accepted Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements present fairly, in all material respects, the financial position of ENMAX Corporation as at December 31, 2011 and December 31, 2010, and its operations and its cash flows for the years then ended in accordance with Canadian Generally Accepted Accounting Principles.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants

March 8, 2012

Calgary, Alberta

consolidated balance sheets

As at December 31, (millions of dollars)	2011	2010
ASSETS		
Cash and cash equivalents	$ 35.4	$ 65.8
Accounts receivable (Notes 5 and 6)	668.8	499.4
Income taxes receivable	53.3	34.7
Future income tax asset (Note 7)	13.9	7.1
Other current assets (Notes 5 and 9)	54.4	103.2
Assets held for sale (Note 10)	-	110.9
	825.8	821.1
Property, plant and equipment (Note 11)	2,742.4	2,273.6
Power purchase arrangements (Note 12)	473.7	517.0
Intangible assets (Note 13)	106.9	113.2
Goodwill	16.0	16.0
Employee future benefits (Note 14)	25.1	22.8
Future income tax asset (Note 7)	74.4	91.2
Other long-term assets (Notes 5, 6, 8 and 9)	63.5	28.0
TOTAL ASSETS	$ 4,327.8	$ 3,882.9
LIABILITIES		
Short-term debt (Notes 5 and 15)	$ 166.8	$ -
Accounts payable and accrued liabilities (Notes 5)	384.5	327.7
Income taxes payable	7.6	35.6
Future income tax liability (Note 7)	1.4	8.8
Current portion of long-term debt (Notes 5 and 16)	53.7	50.0
Other current liabilities (Notes 5 and 8)	90.2	77.6
Liabilities held for sale (Note 10)	-	15.0
	704.2	514.7
Long-term debt (Notes 5 and 16)	1,468.5	1,377.7
Future income tax liability (Note 7)	91.9	79.8
Other long-term liabilities (Notes 5 and 8)	105.6	58.4
Asset retirement obligations (Note 17)	13.9	7.1
	2,384.1	2,037.7
SHAREHOLDER'S EQUITY		
Share capital (Note 18)	280.1	280.1
Retained earnings	1,732.4	1,603.4
Accumulated other comprehensive loss (Note 19)	(68.8)	(38.3)
	1,943.7	1,845.2
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 4,327.8	$ 3,882.9

Commitments and contingencies (Note 20)

See accompanying Notes to Consolidated Financial Statements.

consolidated statements of income and comprehensive income

Year ended December 31, (millions of dollars)	2011	2010
REVENUE (Note 4)		
Electricity	$ 2,195.0	$ 1,601.6
Natural gas	333.8	335.6
Transmission and distribution	427.4	360.8
Contractual services	136.7	96.4
Other	16.2	9.8
TOTAL REVENUE	3,109.1	2,404.2
COST OF SERVICES PROVIDED (Note 4)		
Electricity	1,819.3	1,193.2
Natural gas	319.7	329.8
Local access fees and grid charges	242.8	179.7
Contractual services	89.9	57.2
Operations, maintenance and administration	223.2	217.3
TOTAL COST OF SERVICES PROVIDED	2,694.9	1,977.2
	414.2	427.0
Amortization	166.9	165.4
Interest (Note 22)	50.4	62.0
Current income taxes (Note 7)	(8.9)	26.2
Future income taxes (Note 7)	25.4	(7.8)
NET EARNINGS FROM CONTINUING OPERATIONS	180.4	181.2
Net earnings (loss) from discontinued operations, net of tax (Note 10)	4.2	(3.4)
NET EARNINGS	184.6	177.8
OTHER COMPREHENSIVE LOSS, NET OF TAX		
Unrealized losses on available-for-sale financial assets arising during the year, includes future income tax of $nil (2010 – $0.1 benefit)	(1.5)	(0.6)
Realized losses on available-for-sale financial assets transferred to net earnings in the current year, includes future income tax of $nil (2010 – $0.2 benefit)	2.5	1.0
Unrealized losses on derivatives designated as cash flow hedges, includes future income tax benefit of $19.7 (2010 – $5.0 benefit)	(76.7)	(60.7)
Realized losses on derivatives designated as cash flow hedges in prior periods transferred to net earnings in current year, includes future income tax benefit of $7.2 (2010 – $1.9 expense)	45.2	45.0
Other comprehensive loss, net of tax	(30.5)	(15.3)
COMPREHENSIVE INCOME	$ 154.1	$ 162.5

See accompanying Notes to Consolidated Financial Statements.

consolidated statements of shareholder's equity

(millions of dollars)	Share Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
BALANCE, JANUARY 1, 2010	$ 280.1	$ 1,487.4	$ (23.0)	$ 1,744.5
Net earnings	-	177.8	-	177.8
Dividends	-	(61.8)	-	(61.8)
Other comprehensive loss including future income tax benefit of $6.8 (Note 19)	-	-	(15.3)	(15.3)
BALANCE, DECEMBER 31, 2010	280.1	1,603.4	(38.3)	1,845.2
Net earnings	-	184.6	-	184.6
Dividends	-	(55.6)	-	(55.6)
Other comprehensive loss including future income tax benefit of $12.5 (Note 19)	-	-	(30.5)	(30.5)
BALANCE, DECEMBER 31, 2011	$ 280.1	$ 1,732.4	$ (68.8)	$ 1,943.7

See accompanying Notes to Consolidated Financial Statements.

consolidated statements of cash flows

Year ended December 31, (millions of dollars)	2011	2010
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net earnings	$ 184.6	$ 177.8
Items not involving cash:		
Gain on disposal of assets held for sale	(3.4)	-
Amortization	166.9	165.4
Future income taxes (Note 7)	25.4	(7.8)
Change in unrealized market value of financial contracts (Note 5)	24.0	(2.5)
Other	14.0	14.0
	411.5	346.9
Change in non-cash working capital (Note 23)	(171.3)	(14.2)
Employee future benefits (Note 14)	(13.1)	(12.5)
	227.1	320.2
INVESTING ACTIVITIES		
Purchase of property, plant and equipment (Note 11)	(596.9)	(319.8)
Net proceeds from disposal of assets held for sale	102.0	-
Additions to power purchase arrangements (Note 12)	(9.4)	(64.0)
Other long-term assets	(10.3)	6.3
Contributions in aid of construction	56.5	37.5
Proceeds on disposition from Government Grants	-	4.7
	(458.1)	(335.3)
FINANCING ACTIVITIES		
Repayment of short-term debt	(542.9)	(790.4)
Proceeds of short-term debt	709.7	772.2
Proceeds of long-term debt (Note 16)	145.9	156.0
Repayment of long-term debt	(51.4)	(48.1)
Dividend paid	(55.6)	(61.8)
Other long-term liabilities	(5.1)	(2.7)
	200.6	25.2
Increase (decrease) in cash and cash equivalents	(30.4)	10.1
Cash and cash equivalents, beginning of period	65.8	55.7
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 35.4	$ 65.8
Supplementary information:		
Interest paid	$ 82.6	$ 80.4
Income taxes paid	44.2	24.6
Cash and cash equivalents consist of:		
Cash	$ 35.4	$ 65.8

See accompanying Notes to Consolidated Financial Statements.

notes to the consolidated financial statements

1. DESCRIPTION OF THE BUSINESS

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

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

ENMAX Energy

ENMAX Energy is an operating segment established to carry out all non-regulated energy supply and retail functions through various legal entities and affiliated companies.

ENMAX Power

ENMAX Power is primarily a regulated segment established to carry out electricity transmission and distribution service functions and the regulated-rate option retail function through various legal entities and affiliated companies. ENMAX Power also provides nonregulated engineering, procurement, construction and maintenance services.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles (GAAP). The Consolidated Financial Statements include the accounts of the Corporation and its subsidiaries, as well as, its proportionate share of the accounts of its joint ventures.

The assets and liabilities, results of operations and cash flows of the subsidiaries are included in the Consolidated Financial Statements of the Corporation.

All inter-company accounts and transactions have been eliminated, except as described in Note 6.

Measurement uncertainty

The preparation of the Corporation's Consolidated Financial Statements, in accordance with GAAP, requires management to make estimates that affect the reported amounts of revenues, expenses, assets and liabilities as well as the disclosure of contingent assets and liabilities at the financial statement date. On January 1, 2001, the Alberta retail electricity marketplace opened to retail competition. The various systems and procedures used by third parties to provide load and settlement data to retailers across the province are required to completely and accurately capture all customer movement, load classification and consumption data. However, by regulation, wire service providers are not required to submit final load settlement data on customer electricity usage until four months after the month in which such electricity was consumed. The data and associated processes and systems are

used by the Corporation to estimate electricity revenues and costs, including unbilled consumption. The Corporation's estimation procedures will not necessarily detect errors in underlying data provided by industry participants including wire service providers and load settlement agents. Any changes to electricity revenues and costs arising from these estimation processes will be accounted for as a change in estimate in the period they occur.

For determining potential impairment, the Corporation is required to estimate the fair values of certain assets. Estimates of fair values are based on undiscounted cash flow techniques which rely on a number of assumptions, such as the amount of future cash flows that will be generated from the asset, expected future prices for inputs and outputs and expected usage of the asset.

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

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

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

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

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

Certain financial instruments are recorded at fair value. These fair values can be subject to estimates of inputs other than quoted market prices, future prices, expected cash flows and discount rates.

ENMAX has a defined benefit pension plan and post-retirement benefits that are provided to certain employees. The cost of these benefits recognized in the Consolidated Financial Statements are subject to estimates around many factors including, but not limited to, assumptions of future return on plan assets, retirement age, mortality rates, discount rates, future health care costs, salary escalation rates and claims experiences.

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

Cash and cash equivalents

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

Inventory

Inventory is comprised of items held for sale and products held for lease. Inventory is valued at the lower of cost and net realizable value. Cost is determined using the weighted-average cost method for all types of inventory and the first-in-first out method is applied to products held for lease. Cost includes direct materials, and where applicable, direct labour costs and overhead charges incurred in bringing the inventories to their present location and condition. Net realizable value is determined as the expected selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Property, plant and equipment

Property, plant and equipment (PPE) are recorded at cost, which includes direct labour, material, equipment charges, directly attributable overhead and interest during construction (IDC). IDC is capitalized on a monthly basis on qualifying assets by applying a borrowing rate to the carrying amount of the asset. Qualifying assets are those assets that take a substantial period of time to complete (greater than or equal to six months) or of such substantial value that would incur significant borrowing costs over a shorter period of time.

The Corporation classifies all major future components of its electricity transmission and distribution system infrastructure as PPE. These items are not amortized until they are placed into service.

Amortization of PPE is recorded on a straight-line basis over the estimated useful life of the asset class at the following rates:

Transmission, distribution and substation equipment	0.00%	–	22.72%
Tools, systems and equipment	3.66%	–	25.00%
Buildings and site development	0.61%	–	5.35%
Generation facilities and equipment	2.00%	–	10.00%
Vehicles	2.36%	–	8.00%

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

Original costs of retired regulated depreciable assets are charged, and the related net disposal proceeds are credited to accumulated amortization in a manner consistent with regulatory accounting. As a result, all gains and losses on the disposal of regulated depreciable assets are deferred and amortized over the estimated remaining service life of the related assets, as described in Note 6. Gains and losses on the disposal of non-regulated, non-depreciable assets are recognized in the year of disposal.

Intangible assets

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

Customer lists and contracts	5.00%	-	10.00%
Computer systems	10.00%	-	25.00%
Land easements, rights and lease options	0.00%	-	75.00%

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

Asset impairment

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

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

Asset retirement obligation

The Corporation recognizes its obligation to retire certain tangible long-lived assets, whereby the fair value of 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.

Contributions in aid of construction

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

Government grants

Government grants are accounted for using the income approach. Under this method, amounts received have been deducted from the carrying amount of the related assets. Government grants are not recognized until there is reasonable assurance that the Corporation will comply with the conditions attached to them and that the grants will be received. Government grants have been received by the Corporation for the purchases of certain items of PPE.

Power purchase arrangements

The cost to acquire the power purchase arrangements (PPAs) has been recorded on the consolidated balance sheet as a long-term asset. The cost is amortized on a straight-line basis to amortization expense over the life of the arrangements.

Goodwill

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is annually assessed for impairment. Goodwill and all other assets and liabilities have been allocated to the Corporation's segments, referred to as reporting units. To assess impairment, the fair value of each reporting unit is determined and compared to the book value of the reporting unit. If the fair value of the reporting unit is less than the book value, then a second test is performed to determine the amount of the impairment.

The amount of the impairment is determined by deducting the fair value of the reporting unit's assets and liabilities from the fair value of the reporting unit to determine the implied fair value of goodwill and comparing that amount to the book value of the reporting unit's goodwill. Any excess of the book value of goodwill over the implied fair value of goodwill is the impairment amount.

Revenue recognition

Revenues are recognized on an accrual basis as services are provided and include an estimate of fees for services provided but not yet billed. For ENMAX Power's billable construction projects, revenue is recognized on the percentage of completion basis. All revenues are reviewed for collectability and only recognized when collection is reasonably assured.

Income tax

The Corporation and its subsidiaries are municipally owned and are generally not subject to federal and provincial income taxes. Those subsidiaries that do not meet the criteria for municipal exemption are taxable under the Canadian Income Tax Act (ITA). The Corporation also records income tax expense based on a regulation to the Alberta Electric Utilities Act that requires tax exempt, municipally-owned entities to make payment in lieu of tax (PILOT) on certain portions of their operations. These PILOT payments are made to the Balancing Pool of Alberta.

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

Financial instruments

The financial instruments of the Corporation include held-for-trading instruments, loans and receivables, available-for-sale instruments and other financial liabilities.

Cash and cash equivalents are classified as held-for-trading instruments and are recorded at fair value. Accounts receivable are classified as loans and receivables and are recorded initially at fair value and subsequently carried at amortized cost with interest and other income earned from these financial assets recorded in other revenue. Short-term debt, long-term debt, customer guarantee deposits, dividends payable and accounts payable and accrued liabilities are classified as other financial liabilities and are recorded initially at fair value and subsequently carried at amortized cost using the effective interest method. Investments in equity instruments are classified as available-for-sale instruments and are carried at fair value with changes to fair value recorded through other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market are measured at cost. Derivatives such as swaps, futures, options and forwards are classified as held-for-trading instruments and are recorded at their fair value with changes in fair value recorded through income. However, if these derivatives are designated as hedging items, they are accounted for as described in the Hedges section of this note.

Held-for-trading items are required to be classified as such due to their nature as a derivative or are items held for the purpose of selling or repurchasing in the near term. Available-for-sale items are non-derivative financial assets that do not fit into any of the other classes of financial assets.

The Corporation uses an allowance for doubtful accounts to reduce the carrying amount of accounts receivables that are impaired. This allowance is based on a number of factors including the aging of accounts receivable, historical write offs within customer groups, assessments of the collectibility of amounts from individual customers and general economic conditions. Write offs are determined using similar techniques and by reviewing significant amounts on a case-by-case basis.

Other financial assets are reviewed for impairment by comparing their carrying value to fair value. An impairment loss is recorded in earnings during the period in which the fair value falls below the carrying value and such decline is other than temporary.

The Corporation has a procurement contract denominated in Japanese Yen. As this foreign currency is not a common transaction currency of the Corporation, the Corporation's policy is to account for this embedded foreign currency derivative separately from the underlying host contract.

Transaction costs that are directly attributable to the issuance of financial liabilities are netted against the fair value initially recognized. These costs are subsequently expensed to earnings using the effective interest rate method.

Hedges

In conducting its business, the Corporation uses derivatives and other financial instruments, including forward contracts, swaps, options and contracts-for-differences, to manage its exposure to certain market risks. Certain derivatives are designated as hedging instruments for accounting purposes when meeting certain effectiveness and documentation requirements at inception of the hedging relationship and on an ongoing basis. Effectiveness is measured with reference to the risk management objective and strategy for the hedged item.

Cash flow hedges are used to manage the variability of cash flows resulting from the purchase and sale of electricity and natural gas and foreign exchange. For cash flow hedges, changes in the fair value of the effective portion of the hedging derivative are accumulated in other comprehensive income and recognized in net earnings during the periods when the cash flows of the hedged item is realized. 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 probable. Changes in fair value due to ineffectiveness of hedges and changes in fair value of non-hedge derivatives are recorded in earnings under cost of services provided. Changes in fair value of de-designated or discontinued hedges are recorded in earnings under cost of services provided from the date of de-designation or discontinuation. The unrealized changes in fair value recorded prior to de-designation or discontinuation are reclassified from accumulated other comprehensive income to earnings when the relating hedged item is recognized in earnings.

Foreign currency translation

The Corporation's Consolidated Financial Statements are presented in Canadian dollars, which is the functional currency of the Corporation and all of its subsidiaries.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at

year end exchange rates of monetary items and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges.

Foreign exchange gains are recorded in other income on the consolidated statements of income. Foreign exchange losses are presented on the consolidated statements of income within operations, maintenance and administration costs (OM&A).

Employee benefit plans

The Corporation sponsors pension plans that contain both defined benefit and defined contribution provisions. The cost of defined benefit pensions and other post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. Pension plan assets are measured at fair market value. For the purpose of calculating the expected return on plan assets for the net benefit cost, a market-related value is used.

The market-related value of assets is calculated based on the average of the adjusted market value of assets for the current and three preceding years. The adjusted market values are determined from the preceding three year-end market values accumulated to the end of the fiscal year in question using net contributions less distributions and assumed investment return. Adjustments arising from plan amendments are amortized on a straight-line basis over the average remaining service lifetime of employees active at the date of amendment. The excess of the cumulative, unamortized net actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets at the beginning of the year is amortized over the average remaining service lifetime of the active employees.

Emission credits and allowances

Effective July 1, 2007, the Climate Change and Emissions Management Amendment (CCEMA) Act was enacted into law in Alberta. The CCEMA Act establishes baseline emission intensity levels for each large generating facility, and emissions over this baseline are subject to a surcharge. Changes in law provisions in the Corporation's PPAs have the potential to expose the Corporation to significant portions of these compliance costs (Note 20).

Purchased emission allowances are recorded on the consolidated balance sheet, as part of intangible assets, at historical cost and are carried at the lower of weighted average cost and net realizable value. Allowances granted to the Corporation or internally generated from approved projects are accounted for as intangible assets.

The Corporation has recorded emissions liabilities on the consolidated balance sheet, as a component of accounts payable and accrued liabilities, using the best estimate of the amount required to settle the obligation in excess of government established emission intensity levels. To the extent compliance costs are charged to the Corporation under the change in law provisions of the Corporation's PPAs, these amounts are recognized as cost of electricity services provided in the period they are charged.

3. CHANGE IN ACCOUNTING ESTIMATES AND PRESENTATION

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 were applied prospectively and resulted in a $6.4 million increase in PPE, asset retirement liability and accretion expense.

4. SEGMENTED INFORMATION

	ENMAX Energy		ENMAX Power		Corporate & Intersegment Eliminations		Consolidated Totals	
Year ended December 31, (millions of dollars)	2011	2010	2011	2010	2011	2010	2011	2010
REVENUE								
Electricity	2,395.6	1,746.0	216.0	158.5	(416.6)	(302.9)	2,195.0	1,601.6
Natural gas	333.8	335.6	-	-	-	-	333.8	335.6
Transmission and distribution	-	-	427.4	360.8	-	-	427.4	360.8
Contractual services	54.0	50.6	106.5	70.3	(23.8)	(24.5)	136.7	96.4
Other	18.3	10.7	3.2	1.7	(5.3)	(2.6)	16.2	9.8
TOTAL REVENUE	2,801.7	2,142.9	753.1	591.3	(445.7)	(330.0)	3,109.1	2,404.2
COST OF SERVICES PROVIDED								
Electricity	2,029.4	1,349.7	206.2	146.0	(416.3)	(302.5)	1,819.3	1,193.2
Natural gas	319.7	329.8	-	-	-	-	319.7	329.8
Local access fees and grid charges	-	-	242.8	179.7	-	-	242.8	179.7
Contractual services	6.0	4.8	84.9	53.3	(1.0)	(0.9)	89.9	57.2
OM&A	160.4	158.5	97.3	97.4	(34.5)	(38.6)	223.2	217.3
TOTAL COSTS OF SERVICES PROVIDED	2,515.5	1,842.8	631.2	476.4	(451.8)	(342.0)	2,694.9	1,977.2
EARNINGS BEFORE AMORTIZATION, INTEREST AND INCOME TAXES	286.2	300.1	121.9	114.9	6.1	12.0	414.2	427.0
Amortization	111.9	108.9	52.3	52.6	2.7	3.9	166.9	165.4
EARNINGS BEFORE INTEREST AND INCOME TAXES	174.3	191.2	69.6	62.3	3.4	8.1	247.3	261.6
Interest							50.4	62.0
Income taxes							16.5	18.4
NET EARNINGS FROM CONTINUING OPERATIONS							180.4	181.2
Net earnings (loss) from discontinued operations							4.2	(3.4)
NET EARNINGS							184.6	177.8
GOODWILL	16.0	16.0					16.0	16.0
CAPITAL ADDITIONS	407.3	243.9	137.4	94.5	5.1	3.2	549.8	341.6

SEGMENTED TOTAL ASSETS

As at December 31, (millions of dollars)	2011	2010
ENMAX Energy	2,960.6	2,635.2
ENMAX Power	1,323.0	1,157.7
Corporate and eliminations	44.2	90.0
	4,327.8	3,882.9

5. FINANCIAL INSTRUMENTS, HEDGES AND RISK MANAGEMENT

Overview of risk management

ENMAX is exposed to market risk, credit risk and liquidity risk. The Corporation's strategy, policies and controls are designed to ensure that the risks it assumes comply with regulatory requirements, ENMAX's internal objectives and its risk tolerance. Risks are managed within limits approved by the Board and applied by senior management. The following table summarizes the risk associated with the Corporation's financial instruments and derivatives outstanding as at December 31, 2011 and 2010:

	Measured Initially at Fair Value and Subsequently at Cost or Amortized Cost			Initially and Subsequently Measured at Fair Value		
	Accounts Receivable	Accounts Payable	Short-term Debt and Long-term Debt	Cash and Cash Equivalents	Investments	Electricity and Natural Gas Derivatives
Market risk						
- Commodity prices						√
- Foreign exchange		√		√		√
- Interest rate			√			
- Equity price risk					√	
Credit risk	√			√	√	√
Liquidity risk		√	√			√

Market risk

ENMAX builds and acquires energy infrastructure assets and enters into energy supply contracts to meet its demand obligations, purchases and sells commodities in North American markets both for resale and to manage market risk associated with generation output, enters transactions denominated in foreign currencies (U.S. dollars and Japanese Yen) and borrows funds over short- and long-term time horizons. These activities expose ENMAX to market risk from changes in commodity prices, foreign exchange rates and interest rates, which affect the Corporation's earnings and the value of associated financial instruments it holds.

ENMAX uses various contractual agreements and financial instruments to manage its energy portfolio and market risk exposures including, but not limited to, the following:

- PPAs – The PPAs convey the right to the Buyer a level of capacity, electricity and ancillary services from a generating facility. ENMAX has entered into PPAs for electricity from the units at the Keephills and Battle River coal-fired generation facilities.
- Swaps – contractual agreements between two parties to exchange streams of payments over time according to specified terms. ENMAX enters into commodity, cross-currency and interest rate swaps to mitigate the impact of changes in commodity prices, foreign exchange rates and interest rates.
- Forwards and futures – contractual agreements to purchase or sell a specific commodity or financial instrument at a specified price and date in the future. ENMAX enters into forwards and futures to mitigate the impact of volatility in commodity prices and foreign exchange rates.
- Options – contractual agreements to convey the right, but not the obligation, for the purchaser to buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed date or at any time within a specified period. Occasionally, ENMAX enters into option agreements to mitigate the impact of changes in commodity prices, foreign exchange rates and interest rates.

Commodity price risk

ENMAX has inherent positions in electricity and natural gas commodities arising from its owned and controlled supply assets and its demand obligations. While ENMAX Energy's vertically-integrated business model is designed to achieve a balanced portfolio, its electricity and natural gas positions experience periodic imbalances resulting in exposures to price volatility from spot or short-term contract markets. The Corporation purchases and sells electricity and natural gas commodities in the wholesale market to mitigate the risk exposures arising from such positions.

While the Corporation does not engage in speculative financial instrument trading, it uses various hedging strategies executed within a controlled environment to mitigate these commodity price risks, including the use of derivatives instruments such as swaps and forwards. However, hedging does not guard against all risks and is not always effective as it is based upon predictions about future market conditions. ENMAX could recognize financial losses as a result of volatility in the market values of these contracts.

Risk analysis and control

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

Sensitivity analysis on market risks

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

The following table reflects the sensitivity of the fair value of outstanding derivative instruments to reasonably possible changes in the markets of derivative financial instruments. Market interest rates impact interest rate swaps. Foreign currency exchange rates

impact commodity derivatives and foreign currency hedge contracts. Forward prices of natural gas and electricity impact commodity derivatives. Market value of equity investments impacts those instruments carried at fair value.

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

- The same fair value methodologies have been used as were used to obtain actual fair values in the fair values section of this note.
- Changes in the fair value of derivative instruments that are effective cash flow hedges are recorded in other comprehensive income.
- Changes in the fair value of derivative instruments that are not designated as hedges, that are fair value hedges or that are ineffective cash flow hedges are recorded in earnings.
- Foreign currency balances, principal and notional amounts are based on amounts as at December 31, 2011, and 2010.
- 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.

As at December 31, (millions of dollars)	2011		2010	
	Earnings	Other Comprehensive Income	Earnings	Other Comprehensive Income
Interest rates increased 100 basis points (1% pure rate change)	+ 0.5	+ 14.9	+ 0.6	+ 14.1
Canadian dollar strengthens compared with the U.S. Dollar by 10%	- 5.2	+ 2.7	- 2.7	+ 5.5
Canadian dollar strengthens compared with the Japanese Yen by 10%	- 0.2	-	-	-
Forward price of natural gas increases by 10%	- 0.1	+ 6.9	- 0.3	+ 7.8
Forward price of electricity increases by 10%	+ 4.2	- 23.8	+ 3.0	- 7.7
Equity investment increased by 10%	-	-	-	+ 0.2

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 cash flow 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 December 31, 2011, would have an effect on fair value of fixed interest rate debt of $78.1 million (2010 – $82.6 million).

Changes in the value of the Canadian dollar relative to the U.S. dollar could impact the Canadian dollar cost of natural gas, which affects the input cost of the Corporation's natural gas-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 exposure resulting from procurement contracts has also been mitigated by foreign exchange contracts.

Credit risk

ENMAX is exposed to credit risk primarily through its wholesale and retail energy 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 necessarily reflect losses expected by management nor does it necessarily reflect losses experienced in the past.

As at December 31, (millions of dollars)	2011	2010
Cash and cash equivalents *(1)*	**35.4**	65.8
Accounts receivable *(2)*	**668.8**	499.4
Other current assets *(3)*	**54.4**	103.2
Other long-term assets *(3)*	**63.5**	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, 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 nonpayment of a customer's accounts receivable balance, as well as the loss that may be incurred from the resale of energy previously allocated to serve the customer.

Charges to income as a result of credit losses for the Corporation for 2011 totalled $7.8 million (2010 – $8.4 million). Management has increased its credit and collections activities to monitor credit risk exposures in light of recent market conditions and has implemented measures to protect against any further losses. In specific situations, this includes, but is not limited to, a reduction of credit limits, requests for additional collateral or restriction of new transaction terms.

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

As at December 31, (millions of dollars)	2011	2010
1 – 30 days past due	**15.3**	13.0
31 – 60 days past due	**3.7**	3.4
61 days past due and over	**10.2**	13.3
Total past due	**29.2**	29.7

As at December 31, 2011, the allowance for doubtful accounts was $8.8 million. The changes in the allowance were as follows:

As at December 31, (millions of dollars)	2011	2010
Provision at the beginning of the year	**9.5**	11.4
Increase to allowance	**7.8**	8.4
Recoveries and write offs	**(8.5)**	(10.3)
Provision at end of the year	**8.8**	9.5

The remainder of the accounts receivable balance outstanding at December 31, 2011, consists of unbilled revenue accruals, as such, no provisions have been recorded due to the minimal credit risk as at the consolidated balance sheet date.

(3) Other current and long-term assets

ENMAX measures wholesale credit risk as the replacement cost for open energy commodity and derivative transactions (both mark-to-market and accrual) adjusted for amounts owed to or due from counterparties for settled transactions and all other amounts owing but not yet due. The replacement cost of open positions represents unrealized gains, net of any unrealized losses, where the Corporation has a legally enforceable right of offset and intends to settle on a net basis. ENMAX monitors and manages the credit risk of wholesale operations through credit policies and procedures 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.

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 December 31, (millions of dollars)	2011	2010
2012	**127.3**	120.6
2013	**124.4**	118.8
2014	**364.4**	359.3
2015	**104.2**	98.9
2016	**117.2**	110.6
Thereafter	**1,291.7**	1,141.7

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

As at December 31, (millions of dollars)	2011	2010
2012	**85.3**	16.9
2013	**15.9**	5.8
2014	**7.7**	1.7
2015	**9.0**	0.8
2016	**6.0**	-
Thereafter	**17.4**	-

As at December 31, 2011, the Corporation is in compliance with its financial covenants related to debt classified as long-term debt on the consolidated balance sheet.

Management typically forecasts cash flows for a period of 12 months and beyond to identify financing requirements. These requirements are then addressed through a combination of committed credit facilities and access to capital markets, as discussed in Note 21 to these consolidated financial statements.

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.

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

As at December 31, (millions of dollars)	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt [1], consisting of:				
Debentures, with remaining terms of:				
Less than 5 years	50.1	54.7	69.1	75.1
6 – 10 years	147.4	164.5	48.8	59.0
11 – 15 years	-	-	106.9	115.3
16 – 20 years	60.0	67.9	38.8	35.6
21 – 25 years	475.4	550.2	368.0	403.1
Private debentures				
Series 1 (6.15%)	297.4	343.6	297.1	330.3
Series 2 (5.85%)	249.2	269.4	248.8	271.2
Non-recourse term financing Kettles Hill Wind Farm (Kettles) and Calgary Energy Centre (CEC)	237.4	222.3	244.7	254.5
Promissory note	5.3	5.3	5.5	5.4
	1,522.2	1,677.9	1,427.7	1,549.5

(1) Includes current portion of $53.7 million (December 31, 2010 – $50.0 million). Maturity dates range from August 2012 to June 2036.

Derivative assets and liabilities

Financial derivative instruments are recorded on the consolidated balance sheet at fair value. As at December 31, 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 December 31, (millions of dollars)	2011		2010	
	Hedge Instruments	Non-Hedge Derivatives	Hedge Instruments	Non-Hedge Derivatives
Assets				
Current	3.7	18.9	16.4	45.6
Non-current	8.1	24.2	5.8	6.7
Liabilities				
Current	42.3	16.8	41.8	19.6
Non-current	50.4	31.8	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, as well as, foreign exchange exposure. For cash flow hedges, changes in the fair value of the effective portion of the hedging derivative are accumulated in other comprehensive income and recognized in net earnings during the periods when the variability in cash flows of the hedged item is realized. In 2011, losses of $0.1 million (2010 – $3.4 million gain) 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 2011, there was a loss of $0.3 million recorded in net earnings related to hedges that no longer qualified for hedge accounting (2010 – $nil).

Foreign exchange exposures on the Corporation's futures margin trading account are managed through economic hedges. For these hedges, the change in the fair value of the hedging derivative and the hedged item are recognized directly in earnings. During 2011, there were losses of $0.1 million (2010 – $2.2 million loss) recognized.

The Corporation estimates that, of the $68.8 million of losses reported in accumulated other comprehensive income as at December 31, 2011, $38.6 million is expected to be realized within the next twelve months at market prices in effect at the time of settlement.

Non-hedge derivatives are classified as held for trading and recognized at fair market value with changes in fair market value being recorded through net earnings. During 2011, there were losses of $24.0 million (2010 – $0.6 million gains) recorded in net earnings.

Fair value

Fair value of financial instruments is determined by reference to quoted bid or asking price, as appropriate, in active markets at reporting dates. In the absence of an active market, the Corporation determines fair value by using valuation techniques that refer to observable market data or estimated market prices. Fair values determined using valuation models require the use of assumptions about the amount and timing of estimated future cash flows and discount rates. In making these assumptions, ENMAX gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I) and the lowest priority to unobservable inputs (Level III), as applicable.

1) Level determination and classifications

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

Level I

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

Level II

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

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

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

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

Level III

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

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

The fair value measurement of a financial instrument is included in only one of the three levels. Where a transaction involves two markets with two different fair value levels, the lower of the fair value level will be used for this transaction (Level I – highest and Level III – lowest).

As at December 31, 2011, the fair values of the Corporation's financial assets and liabilities measured at fair value are:

	Quoted Prices in Active Markets	Fair Value[1] Significant Other Observable Inputs	Significant Unobservable Inputs[2]	
	(LEVEL I)	(LEVEL II)	(LEVEL III)	TOTAL
As at December 31, (millions of dollars)	2011	2011	2011	2011
Financial assets measured at fair value:				
Energy trading forward contracts	0.4	12.4	4.0	16.8
Foreign currency forward contracts	-	15.1	-	15.1
Interest rate swap	-	23.0	-	23.0
Financial assets total	0.4	50.5	4.0	54.9
Financial liabilities measured at fair value:				
Energy trading forward contracts	17.5	46.6	14.1	78.2
Foreign currency forward contracts	-	-	-	-
Interest rate swap	-	63.1	-	63.1
Financial liabilities total	17.5	109.7	14.1	141.3
Net risk management liabilities	(17.1)	(59.2)	(10.1)	(86.4)

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

(2) Fair value factors.

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

	Quoted Prices in Active Markets	Fair Value[1] Significant Other Observable Inputs	Significant Unobservable Inputs[2]	
	(LEVEL I)	(LEVEL II)	(LEVEL III)	TOTAL
As at December 31, (millions of dollars)	2010	2010	2010	2010
Financial assets measured at fair value:				
Energy trading forward contracts	0.4	29.7	2.6	32.7
Foreign currency forward contracts	-	36.3	-	36.3
Interest rate swap	-	3.6	-	3.6
Financial assets total	0.4	69.6	2.6	72.6
Financial liabilities measured at fair value:				
Energy trading forward contracts	28.0	36.8	0.4	65.2
Foreign currency forward contracts	-	2.3	-	2.3
Interest rate swap	-	23.3	-	23.3
Financial liabilities total	28.0	62.4	0.4	90.8
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).

(2) Fair value factors.

The following table summarizes the key factors impacting the change in the fair value of the Corporation's Level III net risk management assets and liabilities separately by source of valuation during the year ended December 31, 2011:

(millions of dollars)	Hedges
Net risk management assets as at December 31, 2010	**2.2**
Changes attributable to:	
Commodity price changes	**(5.9)**
New contracts entered	**(5.4)**
Transfers in (out) of Level III	**(1.0)**
Net risk management liabilities at December 31, 2011	**(10.1)**
Total change in fair value included in Other Comprehensive Income	**(12.3)**
Total change in fair value included in pre-tax earnings	**-**

The assumptions around Level III have not changed during the year. Certain long-dated electricity contracts are now traded in an active market that previously were not.

6. 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 December 31, (millions of dollars)	2011	2010
Regulatory assets		
Accounts receivable: purchased power variances (1)	**69.9**	36.0
Distribution assets: inter-company profit on underground residential development (2)	**39.0**	35.5
Other regulatory assets (3)	**14.1**	10.4
Total regulatory assets	**123.0**	81.9
Regulatory liabilities		
Other regulatory liabilities (4)	**1.2**	1.9
Total regulatory liabilities	**1.2**	1.9

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

(1) Purchased power variances

Purchased power costs are included in allowed rates on a forecast basis. For rate-setting purposes, differences between forecast and actual purchased power costs in the rate year are held until the following year. ENMAX Power recognizes purchased power cost variances as a regulatory asset or liability, based on the expectation that amounts held from one year to the next for rate-setting purposes will be approved for collection from, or refund to, future customers. The regulatory asset represents the excess of actual over forecast purchased power costs. In the absence of rate regulation, GAAP would require that actual purchased power costs be recognized as an expense when incurred. In this case, operating results for 2011 would have been $33.9 million lower (2010 – $2.4 million lower). The regulatory asset is 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 2011 would be a reduction of $3.5 million (2010 – $2.2 million) representing the profit on these services. The balances for PPE and retained earnings at December 31, 2011, would further be reduced by $39.0 million (December 31, 2010 – $35.5 million).

(3) Other regulatory assets

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

(4) 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

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

Gains and losses on the disposal and retirement of regulated depreciable assets are deferred and amortized over the estimated remaining service life of similar assets, through a charge to accumulated amortization equal to the net book value of the disposed or retired asset. In the absence of rate regulation, under GAAP the difference between the proceeds and net book value would be charged or credited to earnings in the period the asset is disposed of or retired. The amount deferred from current period earnings for the year ended December 31, 2011, was a $9.6 million loss (2010 – $12.4 million loss) representing the gain and losses on disposals and retirements of regulated assets.

7. INCOME TAXES

Reconciliation of income tax expense

Year ended December 31, (millions of dollars)	2011	2010
Earnings before income taxes from continuing operations	196.9	199.6
Income not subject to taxes	(152.4)	(134.6)
	44.5	65.0
Federal and provincial tax rate	26.5%	28.0%
Expected income tax expense	11.8	18.2
Non-deductible expenses	4.0	0.7
Adjustment for future tax reversal and other estimate revisions	0.7	(0.5)
Income taxes on continuing operations	16.5	18.4

Future income tax asset

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

As at December 31, (millions of dollars)	2011	2010
Future income tax asset:		
PPAs [1]	33.8	48.5
PPE – differences in net book value and undepreciated capital cost	4.6	0.1
Cumulative eligible capital	6.8	7.4
Other	0.5	2.2
Loss carry-forwards	34.1	44.2
Unrealized derivative	2.2	(2.7)
Other comprehensive income	6.3	(1.4)
	88.3	98.3
Less current portion	(13.9)	(7.1)
	74.4	91.2
Future income tax liability:		
PPE – differences in net book value and undepreciated capital cost	(10.7)	94.5
Cumulative eligible capital	108.8	4.1
Loss carry-forwards	-	(10.1)
Other comprehensive income	(5.9)	(1.1)
Mark-to-market liability	-	2.0
Other	1.1	(0.8)
	93.3	88.6
Less current portion	(1.4)	(8.8)
	91.9	79.8
Net future income tax asset (liability)	(5.0)	9.7

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

As at December 31, 2011, the Corporation has loss carry-forwards that will be used to offset taxes in future years. These loss carry-forwards expire as follows:

(millions of dollars)	
2027	17.3
2028	18.9
2029	7.3
2030	6.9
2031	3.7
	54.1

8. OTHER ASSETS AND LIABILITIES

As at December 31, (millions of dollars)	2011	2010
Other current assets		
Prepaid expenses	12.6	11.8
Restricted Cash	17.8	28.5
Hedge instruments	3.7	16.4
Non-hedge derivatives	18.9	45.6
Inventory	1.4	0.9
	54.4	103.2
Other long-term assets		
Hedge instruments	8.1	5.8
Non-hedge derivatives	24.2	6.7
Restricted cash	14.1	5.2
Shares in other companies	0.4	3.8
Deferred costs	11.7	3.8
Other	5.0	2.7
	63.5	28.0
Other current liabilities		
Hedge instruments	42.3	41.8
Non-hedge derivative	16.8	19.6
Deposits	23.0	13.2
Deferred revenue	8.1	3.0
	90.2	77.6
Other long-term liabilities		
Hedge instruments	50.4	17.1
Non-hedge derivative	31.8	14.2
Long-term payables	13.8	15.5
Deferred revenue	9.6	11.6
	105.6	58.4

9. RESTRICTED CASH

Other current assets include restricted cash and cash equivalents of $17.8 million (2010 – $28.5 million) relating to margin posted with a financial institution. This margin is required as a result of the Corporation's commodity trading activity.

Other long-term assets include restricted cash and cash equivalents of $14.1 million (2010 – $5.2 million), relating to a debt servicing obligations on a non-recourse financing arrangements (Note 16).

10. ASSETS HELD FOR SALE

During 2011, ENMAX completed the sale transactions for certain of its British Columbia (BC) assets including the Clowhom and Furry Creek hydro facilities. As such, the assets and liabilities of the entire BC disposal group have been removed from the consolidated balance sheet as at the closing date. 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 $1.1 million and for Furry Creek was $2.3 million for the year ended December 31, 2011.

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

Year ended December 31, (millions of dollars)	2011	2010
REVENUE		
Electricity	0.3	7.2
Other	1.6	1.8
TOTAL REVENUE	1.9	9.0
COST OF SERVICES PROVIDED		
Electricity	-	0.3
OM&A	1.0	10.3
COST OF SERVICES PROVIDED	1.0	10.6
Gain on sale	3.4	-
Amortization	-	0.1
Interest	0.1	1.7
Income taxes	-	-
NET EARNINGS (LOSS) FROM DISCONTINUED OPERATIONS	4.2	(3.4)

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

As at December 31, (millions of dollars)	2011	2010
ASSETS		
Cash and cash equivalents	-	1.6
Accounts receivable	-	0.3
Property plant and equipment	-	107.2
Intangible assets	-	1.2
Future income tax asset	-	-
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

11. PROPERTY, PLANT AND EQUIPMENT

(millions of dollars)	Cost	Accumulated Amortization	Net Book Value
As at December 31, 2011			
Transmission, distribution and substation equipment	1,653.8	(542.2)	1,111.6
Generation facilities and equipment	1,000.8	(150.5)	850.3
Construction in progress	806.9	-	806.9
Buildings and site development	195.1	(53.0)	142.1
Tools, systems and equipment	158.4	(81.6)	76.8
Land	31.8	-	31.8
Capital spares and other	29.1	-	29.1
Vehicles	27.6	(19.1)	8.5
	3,903.5	(846.4)	3,057.1
Government grants	(20.5)	1.0	(19.5)
Contributions in aid of construction	(375.0)	79.8	(295.2)
	3,508.0	(765.6)	2,742.4
As at December 31, 2010			
Transmission, distribution and substation equipment	1,551.4	(514.1)	1,037.3
Generation facilities and equipment	1,026.3	(112.3)	914.0
Construction in progress	333.0	-	333.0
Buildings and site development	157.8	(46.7)	111.1
Tools, systems and equipment	146.1	(70.3)	75.8
Land	31.8	-	31.8
Capital spares and other	21.0	-	21.0
Vehicles	27.3	(18.3)	9.0
	3,294.7	(76 1.7)	2,533.0
Government grants	(20.0)	0.3	(19.7)
Contributions in aid of construction	(318.5)	78.8	(239.7)
	2,956.2	(682.6)	2,273.6

12. POWER PURCHASE ARRANGEMENTS

Under the Keephills PPA, which was acquired in 2000 and expires December 2020, the Corporation owns the rights to the physical output of two electrical generating units. Under the Battle River PPA, which was acquired in stages from 2006 – 2010, Battle River 3 and 4 expire in 2013 and Battle River 5 expires in 2020.

(millions of dollars)	Cost	Accumulated Amortization	Net Book Value
As at December 31, 2011			
Battle River	571.2	(194.8)	376.4
Keephills	256.0	(158.7)	97.3
	827.2	(353.5)	473.7
As at December 31, 2010			
Battle River	570.1	(152.9)	417.2
Keephills	247.7	(147.9)	99.8
	817.8	(300.8)	517.0

13. INTANGIBLE ASSETS

(millions of dollars)	Cost	Accumulated Amortization	Net Book Value
As at December 31, 2011			
Computer systems	249.7	(158.4)	91.3
Renewable energy certificates and water licenses	13.4	(4.8)	8.6
Customer lists and contracts	20.0	(13.6)	6.4
Land easements, rights and lease options	3.2	(2.6)	0.6
	286.3	(179.4)	106.9
As at December 31, 2010			
Computer systems	235.0	(141.2)	93.8
Renewable energy certificates and water licenses	13.4	(3.4)	10.0
Customer lists and contracts	20.0	(11.4)	8.6
Land easements, rights and lease options	3.2	(2.4)	0.8
	271.6	(158.4)	113.2

14. EMPLOYEE FUTURE BENEFITS

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

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

The Corporation measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year. Actuarial valuations are conducted every three years. The most recent actuarial valuation was prepared as at December 31, 2009.

Total cash payments for employee future benefits for 2011, consisting of cash contributed by the Corporation under the DB and DC provisions of the registered pension plan and cash payments directly to beneficiaries of the Corporation's unfunded other-benefit plans, were $20.6 million (2010 – $19.0 million).

For the year ended December 31, 2011, the total expense for the DC provisions of the plan is $7.7 million (2010 – $7.2 million).

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

Years ended December 31, (millions of dollars)	2011		2010	
	Pension Benefit Plan	Other Benefit Plan	Pension Benefit Plan	Other Benefit Plan
Change in benefit obligation:				
Benefit obligation, beginning of year	220.2	8.8	189.8	7.7
Current service cost	5.8	0.7	5.2	0.6
Employee contributions	2.7	-	2.4	-
Benefits paid	(12.4)	(0.4)	(9.3)	(0.5)
Interest cost	11.8	0.4	11.6	0.5
Non-investment expenses	(0.3)	-	(0.7)	-
Plan amendments	-	-	-	-
Experience gain	31.7	0.4	21.2	0.5
Acquisitions and divestitures	-	-	-	-
Benefit obligation, end of year	259.5	9.9	220.2	8.8
Change in plan assets:				
Plan assets at market-related value, beginning of year	182.8	-	173.8	-
Employer contributions	12.9	0.4	11.8	0.5
Employee contributions	2.7	-	2.4	-
Benefits paid	(12.4)	(0.4)	(9.3)	(0.5)
Non-investment expenses	(0.3)	-	(0.7)	-
Return on plan assets	13.1	-	12.2	-
Acquisitions and divestitures	-	-	0.2	-
Experience loss	(6.6)	-	(7.6)	-
Plan assets at market-related value, end of year	192.2	-	182.8	-
Deferred investment gain	9.6	-	4.8	-
Plan assets at fair value, end of year	201.8	-	187.6	-
Funded status – plan deficit	(57.7)	(9.9)	(32.6)	(8.8)
Unamortized past service cost	(0.1)	(0.7)	-	(0.8)
Unamortized experience losses	91.1	2.4	62.9	2.1
Accrued benefit asset (liability)	33.3	(8.2)	30.3	(7.5)

Plan assets at December 31, 2011, consist of Canadian equity securities of 30% (2010 – 33%), foreign equity securities of 29% (2010 – 29%), long-term fixed-income securities of 37% (2010 – 37%) and cash and short-term securities of 4% (2010 – 1%).

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

Year ended December 31,		2011		2010
%	Pension Benefit Plan	Other Benefit Plan	Pension Benefit Plan	Other Benefit Plan
Accrued benefit obligation:				
Discount rate	**4.25**	**4.00**	5.25	4.75
Rate of compensation increase	**3.50**	**3.50**	3.50	3.50
Health care cost trend rate for next year	**n/a**	**9.50**	n/a	10.00
Decreasing gradually to 5% in the year	**n/a**	**2021**	n/a	2021
Benefit cost:				
Discount rate	**5.25**	**4.75**	6.00	5.50
Expected long-term rate of return on plan assets	**7.00**	**n/a**	7.00	n/a
Rate of compensation increase	**3.50**	**3.50**	3.50	3.50
Health care cost trend rate for next year	**n/a**	**10.00**	n/a	10.00
Decreasing gradually to 5% in the year	**n/a**	**2021**	n/a	2021

The per capita cost of covered dental benefits was assumed to increase by 4.5% per year (2010 – 4.5%).

The Corporation's net benefit cost is as follows:

Year ended December 31, (millions of dollars)		2011		2010
	Pension Benefit Plan	Other Benefit Plan	Pension Benefit Plan	Other Benefit Plan
Current service costs	**5.8**	**0.7**	5.2	0.6
Interest cost	**11.8**	**0.4**	11.6	0.5
Plan amendments	**-**	**-**	-	-
Actual return on assets	**(6.6)**	**-**	(18.5)	-
Actuarial gains	**31.7**	**0.4**	21.2	0.5
Difference between expected and actual return	**(6.4)**	**-**	6.3	-
Difference between recognized and actual actuarial gains	**(26.3)**	**(0.3)**	(18.7)	(0.4)
Difference between amortization of past service costs and actual plan amendments for the year	**-**	**(0.1)**	-	(0.1)
Amortization of net transitional asset	**-**	**-**	(0.4)	-
Net benefit plan expense	**10.0**	**1.1**	6.7	1.1

Assumed health care cost trend rates may have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in the assumed health care cost trend rate would have the following effect for 2011:

(millions of dollars)	1% Increase	1% Decrease
Increase (decrease) in service cost for year ended December 31	-	-
Increase (decrease) in interest cost for year ended December 31	-	-
Increase (decrease) in accrued benefit obligation at December 31	0.2	(0.2)

15. SHORT-TERM DEBT

The Corporation has unsecured credit facilities amounting to $900.0 million (2010 – $750.0 million) to fund general operating requirements and to provide liquidity support for commercial paper and commodity marketing programs. Combined, all of the facilities encompass $650.0 million in operating facilities and $250.0 million of syndicated credit facilities. As at December 31, 2011, $355.5 million (2010 – $233.3 million) of operating facilities and $31.9 million (2010 – $50.6 million) of syndicated facilities were used in support of outstanding letters of credit (Note 20).

Short-term debt may be comprised of commercial paper, bank overdrafts and bankers' acceptances which are guaranteed by the Corporation's credit facilities. At December 31, 2011, the Corporation had $166.8 million in commercial paper and bank overdrafts at a weighted average rate of 1.11% (2010 – no outstanding short-term financing).

16. LONG-TERM DEBT

As at December 31, (millions of dollars)	2011	Weighted Average Interest Rates	2010	Weighted Average Interest Rates
City debentures [1], with remaining terms of:				
Less than 5 years	50.1	5.50%	69.1	5.53%
5 – 10 years	147.4	4.50%	48.8	4.46%
10 – 15 years	-	-	106.9	4.60%
15 – 20 years	60.0	4.37%	38.8	4.80%
20 – 25 years	475.4	4.58%	368.0	4.90%
Private debentures	546.6	6.01%	545.9	6.01%
Non-recourse financing	237.4	6.22%	244.7	6.37%
Promissory note	5.3	5.00%	5.5	5.00%
	1,522.2	-	1,427.7	-
Less: current portion	53.7	-	50.0	-
	1,468.5	-	1,377.7	-

(1) Unsecured debentures

City debentures

Debentures were initially issued by The City on behalf of the CES pursuant to City bylaw authorizations prior to January 1, 1998. Pursuant to the Master Agreement between the Corporation and The City, the debentures were included in the assumed liabilities upon transfer of substantially all of the assets and liabilities of the CES from The City to the Corporation at January 1, 1998. In accordance with a debt management service level agreement between the Corporation and The City. The City continues to administer the new and existing debentures on behalf of the Corporation.

On June 15, 2011, the Corporation obtained $145.8 million of 5, 10, 20 and 25-year debentures from The City through arrangements with the Alberta Capital Finance Authority (ACFA) (June 2010 – $156.0 million in 5, 10, 20 and 25-year debentures). Interest on the debentures is compounded semi-annually as follows: $0.1 million, which matures in June 2016, at 2.25%; $4.9 million, maturing in June 2021, at 3.14%; $23.0 million, maturing in June 2031, at 3.90%; and the remaining $117.8 million of the debt, which matures in June 2036, at 4.04%. The funds were used for capital expenditures in ENMAX Power.

The Corporation is required to reimburse The City for all principal repayments and interest payments with respect to the debentures on the same day as The City disburses the payments to the debt holders. In addition, the Corporation is required to pay a loan guarantee and administration fee to The City of 0.25% on the average monthly outstanding debenture balance held by The City on behalf of the Corporation.

Private debentures

No private debentures were issued in 2011 or 2010. The private debentures bear interest at rates of 5.85% – 6.15%, payable semi-annually. The debenture for $250.0 million matures on April 8, 2014, and the debenture for $300.0 million on June 19, 2018.

Non-recourse financing

As at December 31, (millions of dollars)	2011			2010		
	Principal Outstanding	Maturity Date	Average Interest Rate	Principal Outstanding	Maturity Date	Average Interest Rate
CEC	217.6	Sep. 2026	6.25%	224.9	Sep. 2026	6.42%
Kettles	19.8	Dec. 2016	5.86%	19.8	Dec. 2016	5.86%
	237.4		6.22%	244.7		6.37%
Less: current portion	8.2			7.3		
	229.2			237.4		

The non-recourse financing represents the Corporation's loans, through subsidiaries, for the Kettles and CEC projects. Of the $44.2 million originally assumed with the Kettles acquisition, the balance outstanding at December 31, 2011, was $19.8 million (2010 – $19.8 million), which bears interest at a fixed rate of 5.86%, payable monthly, maturing in December 2016. As at December 31, 2011, the Corporation is in compliance with its financial covenants related to debt classified as long-term debt on the consolidated balance sheet. Of the $240.3 million originally assumed with the CEC acquisition, the balance outstanding at December 31, 2011, was $217.6 million (2010 – $224.9 million), which was effectively fixed to an interest rate of 6.75% using an interest rate swap which was also acquired as part of the acquisition. The CEC debt is payable quarterly and matures in September 2026.

Promissory note

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

Principal repayments

The required repayments of principal on the long-term debt at December 31, 2011, are as follows:

(millions of dollars)	
2012	53.7
2013	53.2
2014	302.4
2015	51.2
2016	65.6
Thereafter	996.1

17. 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 December 31, 2011, the Corporation has asset retirement obligations relating to the following project generating assets: McBride Lake Wind Farm (McBride), Taber Wind Farm (Taber), Crossfield Energy Centre (Crossfield), Kettles 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 consolidated statement of income. The change in the carrying amount of the asset retirement obligations is disclosed in the table below:

(millions of dollars)	2011	2010
Balance, beginning of year	7.1	5.8
Liabilities incurred in the current period	-	-
Accretion expense	0.8	1.3
Revisions in estimates	6.0	-
Balance, end of year	13.9	7.1

The expected remediation liability and timing for each undiscounted 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%:

(millions of dollars)	Amount	Date
McBride	47.8	September 2057
Taber	32.4	December 2057
Kettles	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.

18. SHARE CAPITAL

(millions of dollars, except share amounts)	Number of Shares	Amount
Authorized:		
Unlimited number of common shares		
Issued and outstanding:		
Balance, December 31, 2010 and 2011:		
Issued on incorporation	1	-
Issued on transfer of net assets from CES (Note 1)	1	278.2
Issued on transfer of billing and customer care assets from The City in 2001	1	1.9
Balance, December 31, 2010 and 2011	3	280.1

19. ACCUMULATED OTHER COMPREHENSIVE INCOME

As at December 31, (millions of dollars)	2011	2010
Unrealized losses on available-for-sale financial assets	(0.2)	(1.2)
Unrealized losses on derivatives designated as cash flow hedges	(68.6)	(37.1)
Accumulated other comprehensive losses, including a future income tax recovery of $12.2 million (2010 – expense of $0.3 million)	(68.8)	(38.3)

20. COMMITMENTS AND CONTINGENCIES

Property, plant and equipment

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

(millions of dollars)	
2012	82.9
2013	15.2
2014	0.9
2015	1.1
2016	0.9
2016	0.9
Thereafter	23.0

Obligations under other agreements

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

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

The Corporation commits to the purchase of renewable energy certificates and carbon offset credits. The Corporation 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 aggregate payments under these arrangements over the next five years are as follows:

(millions of dollars)	
2012	36.6
2013	36.6
2014	35.2
2015	11.4
2016	4.1
Thereafter	13.2

Regulatory

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

Power purchase arrangements

The facilities covered under PPAs were subject to outages and operational issues during the year. The PPA owners and ENMAX often differ in opinion as to who should bear the costs arising from these events. Although there can be no assurance that these disputes will be resolved in the Corporation's favour, the Corporation does not believe that the outcome of these disputes will have a material adverse affect on the financial position of the Corporation.

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.

Income tax

Alberta Finance, Tax and Revenue Administration is responsible for assessing the income tax returns filed under the PILOT regulation of the EUA which became effective January 1, 2001.

The Corporation regularly reviews the potential for adverse outcomes in respect of tax matters and believes it has adequate provisions for these tax matters. Tax provisions are adjusted, positively or negatively, for changes in estimates and assessments by tax authorities in the period in which they are more likely than not to have an impact on the financial results.

Environmental

Provincial regulations aimed at reducing the levels of GHG emissions took effect July 2007. These changes in law due to the change of law provisions in ENMAX Energy's PPAs and Tolling Agreements expose ENMAX Energy to the associated compliance costs.

For the year ended December 31, 2011, the Consolidated Financial Statements include a charge to earnings in the amount of $28.8 million (2010 – $24.5 million), included in costs of electricity services provided, relating to estimated compliance costs under the provincial GHG regulations for ENMAX Energy's interests in coal and natural gas-fired generation facilities through its PPAs and owned assets. Compliance payments are due to the Province, directly or via 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. As at December 31, 2011, the Corporation had issued letters of credit amounting to $387.4 million (December 31, 2010 – $283.9 million).

Director/Officer indemnifications

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

Other indemnifications

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

21. CAPITAL MANAGEMENT

The Corporation's objectives when managing capital are: (i) to maintain a flexible capital structure which optimizes corporate liquidity as well as the cost of capital at acceptable risk; (ii) to manage capital in a manner which balances the interests of stakeholders; and (iii) to meet regulatory requirements for certain operations subject to rate regulation.

The Corporation's capital structure consists of net debt and shareholder's equity. Net debt is comprised of long-term debt, including current portions, less cash and cash equivalents. The capital structure is as follows:

As at December 31, (millions of dollars)	2011	2010
Long-term debt [1]	**1,522.2**	1,427.7
Less: cash and cash equivalents	**35.4**	65.8
Net debt	**1,486.8**	1,361.9
Shareholder's equity	**1,943.7**	1,845.2
Total capital	**3,430.5**	3,207.1

(1) Includes current portion of $53.7 million (2010 – $50.0 million). Maturity dates range from August 2012 to June 2036.

The Corporation manages its consolidated capital structure through prudent levels of borrowing, cash flow forecasting, working capital management and the risk characteristics for both its regulated and non-regulated operations. Certain components of ENMAX Power's operations are regulated by the AUC, which permits a return on a deemed capital structure. The Corporation manages ENMAX Power's capital structure such that it is consistent with the deemed capital structure in order to achieve the returns allowed by the regulator.

In addition, the Corporation monitors its capital using various ratios including (i) long-term debt to total capitalization and (ii) EBITDA to interest expense.

Debt to total capitalization is calculated as long-term debt, including the current portion of long-term debt, divided by total capital and is also a calculation used in certain of the Corporation's debt covenants.

The calculation of EBITDA is a measure whose nearest GAAP measure is net earnings with the reconciliation between the two measures set out in the following schedule:

As at December 31, (millions of dollars)	2011	2010
Adjusted EBITDA	**415.1**	425.4
Less: EBITDA from discontinued operations	**0.9**	(1.6)
Standardized EBITDA	**414.2**	427.0
Deduct: amortization	**166.9**	165.4
EBIT	**247.3**	261.6
Deduct: Interest	**50.4**	62.0
Deduct: Income taxes	**16.5**	18.4
Net earnings from continuing operations	**180.4**	181.2

The calculation obtained by using interest expense and standardized EBITDA from the above table is substantially the same as the interest coverage ratio covenant set out in the Corporation's credit facilities.

These capital management policies, which remain unchanged from prior periods, provide access to capital at a reasonable cost while maintaining investment grade credit ratings. DBRS and Standard & Poor's issued credit ratings for the Corporation at A (low) (stable trend) and BBB+ (stable), respectively.

As at December 31, 2011, the Corporation is in compliance with its financial covenants related to debt classified as long-term debt on the consolidated balance sheet.

22. INTEREST

Year ended December 31, (millions of dollars)	2011	2010
Interest on long-term debt	82.7	79.1
Short-term interest and other financing charges	3.7	4.2
Less: capitalized interest	(36.0)	(21.3)
	50.4	62.0

23. CHANGE IN NON-CASH WORKING CAPITAL

As at December 31, (millions of dollars)	2011	2010
Accounts receivable	(169.4)	(6.2)
Income taxes receivable	(18.6)	24.9
Other current assets	9.4	13.4
Accounts payable and accrued liabilities	20.4	(1.6)
Other current liabilities	14.9	(31.0)
Income taxes payable	(28.0)	(13.7)
	(171.3)	(14.2)

24. JOINT VENTURE INVESTMENTS

In 2002, the Corporation entered into a joint venture agreement (McBride) with Vision Quest Windelectric Inc., to build and operate 114 wind turbines in southern Alberta. The wind farm began generating electricity in 2003, and the Corporation has a 50% ownership interest. The Corporation has also agreed to purchase 100% of the output from the wind farm under a 20-year PPA.

In 2006, the Corporation entered into a joint venture agreement (EnPower) with Pristine Power Inc. to build waste heat recovery generation plants. Operations began in 2008 and the Corporation had a 50% ownership interest. In 2010, the Corporation sold EnPower to Fort Chicago Energy partners for a gain of $0.8 million.

In 2010, the Corporation entered into a joint venture agreement with SNC-Lavalin Constructors Inc. (SNC-Lavalin) to design and construct certain portions of the West LRT in Calgary. Construction began in 2010 and is expected to be completed by the end of 2012.

Summarized financial information of the Corporation's proportionate share of the joint ventures' assets, operations and cash flows are as follows:

As at and for the year ended December 31,			2011				2010
	SNC-Lavalin	McBride	Total	SNC-Lavalin	McBride	EnPower [1]	Total
(millions of dollars)							
Balance sheet							
Cash and cash equivalents	6.1	-	6.1	1.2	-	-	1.2
Accounts receivable	4.6	1.0	5.6	0.9	-	-	0.9
PPE	-	37.9	37.9	-	37.0	-	37.0
Accounts payable	(1.9)	(0.1)	(2.0)	(0.3)	-	-	(0.3)
Other current liabilities	(6.5)	-	(6.5)	(1.6)	-	-	(1.6)
Other long-term liabilities	-	(3.8)	(3.8)	-	(0.5)	-	(0.5)
Proportionate share in net assets of joint ventures	2.3	35.0	37.3	0.2	36.5	-	36.7
Income Statement							
Earnings							
Revenue	16.4	8.3	24.7	2.7	7.0	1.9	11.6
Costs and expenses	(14.3)	(3.1)	(17.4)	(2.4)	(2.1)	(0.7)	(5.2)
Amortization	-	(2.2)	(2.2)	(0.1)	(2.1)	-	(2.2)
Interest	-	(0.4)	(0.4)	-	-	(0.7)	(0.7)
Income taxes recovery (expenses)	-	-	-	-	-	(0.1)	(0.1)
Proportionate share in net earnings of joint venture	2.1	2.6	4.7	0.2	2.8	0.4	3.4
Cash flows							
Operating activities	6.1	2.9	9.0	1.3	5.6	0.7	7.6
Investing activities	-	-	-	(0.1)	-	15.2	15.1
Financing activities	-	(2.9)	(2.9)	-	(5.6)	(16.2)	(21.8)
Proportionate share in the increase in cash and cash equivalents of joint venture	6.1	-	6.1	1.2	-	(0.3)	0.9

(1) On December 1, 2010, the sales transaction of EnPower was completed.

25. RELATED PARTY TRANSACTIONS

ENMAX's related-party transactions comprise both revenues from and expenditures to The City. The City is the sole Shareholder of the Corporation. Total revenues received from The City for the year ended December 31, 2011, were $102.8 million (2010 – $93.6 million). 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.

Amounts owing to the Corporation from The City for services provided are as follows:

As at December 31, (millions of dollars)	2011	2010
Total receivable from The City	16.7	22.6

Total expenditures for goods and services received from The City for the year ended December 31, 2011, were $133.6 million (2010 – $105.1 million). Most of these expenditures were for local access fees for use of The City's right-of-ways, the cost of which is passed through by ENMAX directly to transmission and distribution customers. The measurement basis used in determining the above values is the contract amount which is considered fair market value; that is, the measurement basis is the same as would be used for a third-party arm's length transaction.

In addition, on June 15, 2011, the Corporation obtained $145.9 million from The City through arrangements with the ACFA to fund ongoing investment relating to the regulated transmission and distribution network in Calgary and the surrounding area. This brings the total amount of debt owed to The City to $732.9 million at December 31, 2011 ($631.7 million at December 31, 2010). Interest paid on this debt for the year ended December 31, 2011, was $32.5 million ($28.9 million for December 31, 2010). The Corporation is required to pay an administration fee to The City of 0.25% of the average monthly outstanding City debenture balance. For the year ended December 31, 2010, the administration fee paid was $1.7 million (2010 – $1.5 million).

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

As at December 31, (millions of dollars)	2011	2010
Goods and services received	0.3	0.2
Local access fees	13.4	8.3
Total payable to The City	13.7	8.5

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

26. GOVERNMENT GRANTS

On October 7, 2008, the Corporation and The City entered into an infrastructure funding agreement for the construction of the Downtown District Energy Centre (DDEC). Funding of $10.0 million was received by the Corporation from the Alberta Provincial Government and an additional $10.0 million from the Federal Government of Canada. The DDEC began operations in 2010, and the grants have been deducted from the carrying amount of the assets in PPE. The grants are being amortized over the life of the asset. For the year ended December 31, 2011, amortization of $0.7 million was recognized on the grants (2010 – $0.3 million).

The Corporation has established the Home Generation Solutions Project to install residential scale renewable systems utilizing photovoltaic or micro wind technology. The Corporation has entered into a contribution agreement with Climate Change and Emissions Management Corporation to aid with the costs related to this project. For the year ended December 31, 2011, $1.2 million of assistance has been recorded (2010 - $nil).

27. COMPARATIVE FIGURES

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

28. SUBSEQUENT EVENTS

On March 8, 2012, the Corporation declared a dividend of $56.0 million payable to The City in quarterly instalments in 2012.

GLOSSARY OF TERMS

ACFA	Alberta Capital Finance Authority
AcSB	Accounting Standards Board of Canada
AESO	Alberta Electric System Operator
AEW	Alberta Environment & Water
AUC	Alberta Utilities Commission
Board	ENMAX's Board of Directors
Bonnybrook	Bonnybrook Cogeneration Facility
CCEMA	Climate Change and Emissions Management Act
CCEMC	Climate Change and Emissions Management Corporation
CCGT	Combined-Cycle Gas Turbine
CDOR	Canadian Dealer Offered Rate
CEC	Calgary Energy Centre
CES	Calgary Electric System
CIAC	Contributions in Aid of Construction
The City	The City of Calgary
Crossfield	Crossfield Energy Centre
DB	Defined Benefit
DC	Defined Contribution
DDEC	Downtown District Energy Centre
EBIT	Earnings before interest and taxes
EBITDA	Standardized earnings before interest, income tax, depreciation and amortization
EMS	Environmental Management System
ENMAX	ENMAX Corporation and its subsidiaries
EPC	Engineering, Procurement and Construction
ERM	Enterprise Risk Management
EUA	Electric Utilities Act
FBR	Formula Based Ratemaking
GAAP	Canadian Generally Accepted Accounting Principles
GHG	Greenhouse Gas
GWh	Gigawatt Hours
GJ	Gigajoule
IASB	International Accounting Standards Board
IDC	Interest During Construction
IFRS	International Financial Reporting Standards
ITA	Income Tax Act (Canada)
KBV	Kiewit Energy Canada Corp. and Black & Veatch Canada Company
Kettles	Kettles Hill Wind Farm
kV	Kilovolt
LIBOR	London Interbank Offered Rate
LRT	Light Rail Transit
McBride	McBride Lake Windfarm
MD&A	Management's Discussion and Analysis
MSA	Market Surveillance Administrator
MW	Megawatt
MWh	Megawatt hour
NGX	Natural Gas Exchange
NYMEX	New York Mercantile Exchange
OCI	Other Comprehensive Income
OM&A	Operations, maintenance and administration
PILOT	Payment in Lieu of Tax
PPA	Power Purchase Arrangement
PPE	Property, Plant and Equipment
ROE	Return on Equity
RMC	Risk Management Committee
RRO	Regulated Rate Option
Shepard	Shepard Energy Centre
Taber	Taber Wind Farm
TJ	Terajoule
WPC	Wind Participation Consortium

ADDITIONAL INFORMATION

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

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You can choose any retailer listed at www.ucahelps.gov.ab.ca or at (403) 310-4822. Electricity delivery to your home or business is not affected by your choice of retailer.

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