ENMAX 2012 FINANCIAL REPORT

ENMAX we're on for you™

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 2013 are described in the Outlook Section of the Management's Discussion and Analysis (MD&A).

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; and
- other risk factors discussed herein and listed from time to time in ENMAX's and other public disclosure documents.

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

BECAUSE RESPONSIBLE FINANCIAL DISCLOSURE AND GOVERANCE MATTER

OVERVIEW OF SECTIONS

DELIVERING VALUE

In 2012, ENMAX produced strong financial performance that created value growth for our Shareholder, The City of Calgary. Our financial performance included the highest net earnings in the last ten years, driven by higher operating margins, primarily electricity margins. Our robust cash flow from operating activities allowed us to fund ongoing strategic and regulatory capital investment in addition to providing a $56 million dividend to our Shareholder.

ENMAX's improved financial performance is a testament to our team's ability to adapt to rapidly changing circumstances and shows the benefit of a diversification of assets across the electricity market value chain, from generation to wires to customer. We faced significant challenges over the year, delivered solid results and have positioned ourselves to address the market challenges facing the industry in the coming years.

Gianna Manes
President & CEO

DELIVERING FINANCIAL PERFORMANCE

ENMAX's long-term financial strategy of maintaining a strong financial position and an investment grade credit rating has provided a solid foundation to create value in our capital-intensive and commodity-sensitive business environment. In 2012, we had $225 million in net earnings due primarily to higher electricity and transmission and distribution margins and lower interest and tax costs.

Operating margins and adjusted EBITDA hit levels not seen since 2009 with EBIT growing in both the unregulated ENMAX Energy segment and the regulated ENMAX Power segment. The success of ENMAX relies on its financial strength to build value through market cycles. With a base of stable cash flows provided by the regulated transmission and distribution business and strong cash flows from the operations of the unregulated electricity business, ENMAX has been well-positioned to act on its strategic goal of building generation facilities to expand the business.

In 2013, we expect to see continued variability in electricity prices with average wholesale and realized prices being lower than those seen in 2012, resulting in lower forecasted electricity margins.

Of particular note for 2012 is the transaction with Capital Power for the joint ownership of the Shepard Energy Centre. By maintaining a 50 per cent ownership in this important investment for the province, we remain well positioned for strategic growth and securing future supply for our customers.

We hope that you find our financial review informative.

David Halford
Executive Vice-President, Finance and Planning, Chief Financial Officer and Chief Risk Officer

FINANCIAL HIGHLIGHTS

Year ended December 31 (millions of dollars, except return on equity, return on assets and operating statistics)	2012	2011	2010	2009	2008
Total revenues	3,160.1	3,080.1	2,404.2	2,354.9	2,668.0
Operating margin [1]	676.3	612.2	644.3	682.6	576.8
Earnings before interest and income taxes [1]	264.2	239.0	261.6	324.4	250.0
Adjusted earnings before interest, income tax, depreciation and amortization (EBITDA) [1]	443.0	414.2	423.6	458.9	364.9
Net earnings before discontinued operations	215.6	172.4	181.2	206.6	181.9
Net earnings	225.0	184.6	177.8	205.9	181.1
Return on equity [2]	10.5%	9.3%	9.9%	12.3%	11.9%
Return on assets [3]	8.7%	7.2%	7.9%	9.1%	9.5%
Dividend payout	56.0	55.6	61.8	55.0	50.0
Total assets	4,819.9	4,328.1	3,882.9	3,744.3	3,481.6
Long-term debt to total capitalization ratio[4]	42.7%	43.9%	43.6%	43.1%	38.5%
Cash provided by operating activities	558.2	227.1	320.2	283.6	271.1

(1) Non-GAAP financial measure. See discussion that follows in the MD&A.
(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) Long-term debt to total capitalization is equal to total long-term debt, including current portions, divided by total capitalization.

OPERATING HIGHLIGHTS

Year ended December 31	2012	2011	2010	2009	2008
Number of metered customers (in and around Calgary)	448,349	436,780	430,464	423,956	420,325
Number of retail metered customers locations (throughout Alberta)	836,000	761,000	697,000	659,000	649,000
Energy delivered (gigawatt hours (GW))	9,440	9,318	9,080	8,971	8,990
Electricity sold to customers GW	21,399	21,315	19,467	18,542	17,783
System average interruption duration index (SAIDI) [1]	0.39	0.36	0.49	0.33	0.40
System average interruption frequency index (SAIFI) [2]	0.66	0.66	0.91	0.62	0.85
Customer satisfaction [3]	79%	77%	63%	45%	49%
Total recordable injury frequency (TRIF)	0.43	2.85	1.47	2.76	3.48

(1) SAIDI equals the total duration of a sustained interruption per average customer during a predefined period of time. A sustained interruption is an interruption in duration greater than or equal to one minute.
(2) SAIFI equals how often the average customer experiences a sustained interruption over a predefined period of time. A sustained interruption is an interruption in duration greater than or equal to one minute.
(3) Monthly weighted average of customers rating their interaction with ENMAX Encompass "Very Satisfied" per the customer interaction survey process with Service Quality Management.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This MD&A, dated March 7, 2013, is a review of the results of operations of ENMAX Corporation (ENMAX or the Corporation) for the year ended December 31, 2012, compared with the same period in 2011, and of the Corporation's financial condition and future prospects. This discussion contains forward-looking information that is qualified by the caution to reader at the beginning of the 2012 Financial Report and should be read in light of that caution.

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

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

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

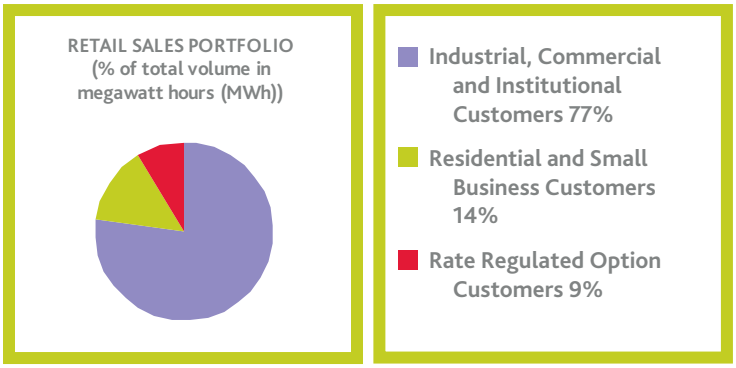
CONTENTS

BUSINESS ENVIRONMENT

OVERVIEW

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 province of Alberta and by optimizing the efficiency and reliability of Calgary's transmission and distribution networks. The Corporation's core operations include the competitive, deregulated generation and sale of electricity across Alberta through ENMAX Energy; and the regulated transmission and distribution of electricity in and around the city through ENMAX Power.

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



ENMAX Power owns, operates and maintains electricity transmission and distribution assets in the Calgary service area. In addition, it has the legislated responsibility to provide electricity for customers who have elected to stay with the rate regulated option (RRO). RRO is the electric energy pricing mechanism approved by the Alberta Utilities Commission (AUC); it is 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 non-regulated businesses that provide engineering, procurement, construction and maintenance services. ENMAX Power's objective is to maintain the high reliability of its transmission and distribution system while meeting Calgary's growing infrastructure needs.

MARKET DYNAMICS

The competitive electricity market in Alberta is subject to a broad range of market dynamics that can affect 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, ENMAX Energy's construction of large-scale generation projects results in exposure to the availability of construction materials, labour and equipment. In 2013, the Alberta economy is projected to lead the country in real GDP growth at approximately

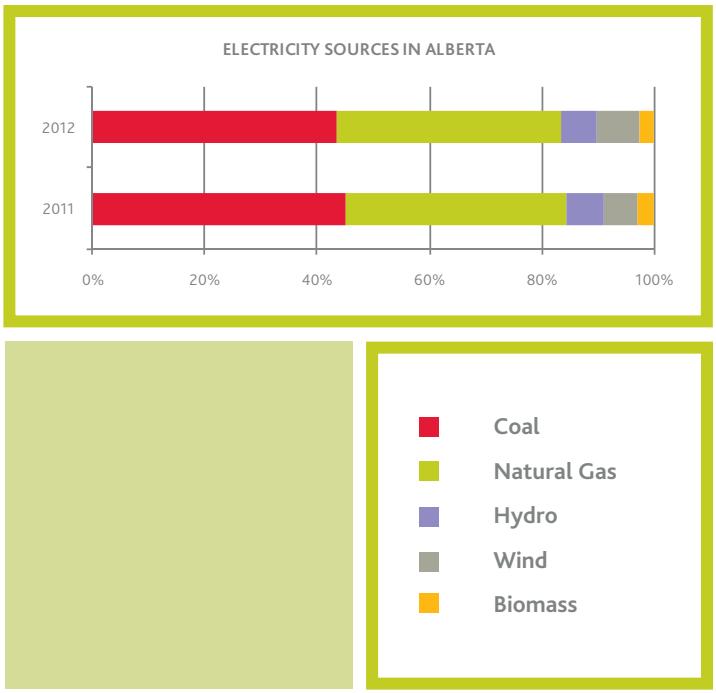
3.8 per cent (source: RBC Provincial Outlook December 2012). The Alberta economy is tightly tied to the oil and gas industry and has been affected by the challenges that industry faces to deliver rapidly expanding oil production to markets. These challenges may impact capital investment in the oil sands in 2013. Strong investment and continued growth in other sectors are expected to deliver impressive GDP growth in 2013, with consensus on estimates for growth at above 3 per cent. As investment in oil sands development accelerates in response to expected resolution of current oil delivery issues, 2014 is projected to be a stronger year than 2013 for GDP growth. Growth in the Alberta economy means growing demand for electricity in the province.

In Alberta and Calgary, most of the electricity volume is sold to industrial, commercial, institutional and small business customers, who have more stable demand volatility throughout the year than residential customers. Electricity demand peaks in the winter months when days are shorter and weather is colder, and during the summer months because of increased demand from cooling systems. Residential electricity demand has a 24-hour cycle with higher demand during the day; demand peaks in the early evening and early morning. 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 consumption and prices are also correlated with time of year and weather patterns. They increase with extreme cold or hot weather, as peak electricity demand results in increased gas-fuelled generation.

Natural gas storage levels in Alberta reached record highs in 2012 due to the very mild winter of 2011/2012. Storage levels near the end of 2012 and into 2013 fell significantly due to higher intra-provincial demand. Natural gas production drifted lower throughout 2012 as producers reduced natural gas drilling and shut in wells during this lower priced environment.

The mix of electricity sources in the Alberta market has remained relatively flat from 2011 to 2012. Reserve margins (excluding wind capacity), which measure available capacity in the electricity market above the capacity needed to meet normal peak demand levels, decreased marginally from 2011 to 2012, from 2,764 megawatts (MW) in 2011 to 2,708 MW in 2012. Wind capacity in Alberta increased 26 per cent with an additional 227 MW of wind being added to the system in 2012. The percentage of wind capacity in Alberta's total energy supply mix increased by 2 per cent to 8 per cent.



The utility industry is affected by advancing technologies and environmental regulations. Changing government legislation and public perception drive requirements to upgrade existing facilities and build new, more environmentally sustainable generation facilities. On September 5, 2012, the federal government confirmed changes to greenhouse gas (GHG) regulations effective July 1, 2015. For coal-fired facilities commissioned before 1975, useful life

ends 50 years after commissioning or December 31, 2019, whichever is earlier. Those commissioned after 1974 but before 1986 must retire at 50 years or December 31, 2029, whichever is earlier, and facilities commissioned on or after 1986 have a 50-year useful life.

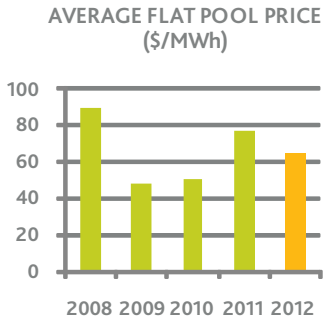
With coal-fired plants retiring, there will need to be more new supply, both to cover the energy that would have been supplied by the coal plants and to supply increasing Alberta demand. Natural-gas-fuelled plants are expected to fill the need, and there is an expectation that natural-gas-fuelled plants will become more dominant in the market.

A decision announced by an independent arbitration panel on July 23, 2012, affected the province's future electricity supply. This independent arbitration panel ruled that Sundance A Units 1 and 2 (coal-fired power generating facilities in Alberta) were to return to service. This ruling is expected to return 560 MW of capacity into the market in late 2013. This additional supply is expected to reduce electricity prices in the future.

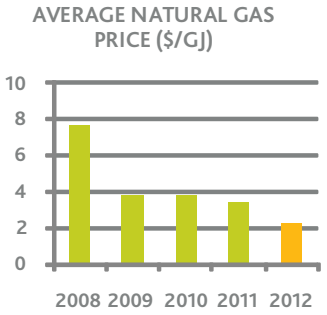
In the competitive Alberta market, changes to demand and supply factors have a direct impact on the market price of electricity, which is a significant factor in a number of areas of ENMAX's business. Retail prices are set based on current spot prices, average monthly prices and future expected market prices. In 2012, the average flat pool price was $63.84 per megawatt hour (MWh), a decrease from the $76.65 per MWh average in 2011. ENMAX Energy has a comprehensive hedging program to manage the impact of market prices. It utilizes the retail sales market to provide stability in long-term electricity prices and reduce exposure to market volatility.

The Alberta electricity market price during peak demand periods is generally correlated to the price of natural gas. During times of supply disruption, prices can rise well above the marginal cost of production. These fluctuations in prices underline the need for new investment in the electricity market and contribute to the earnings on existing facilities.

ENMAX Energy's electricity generating facilities' primary fuels include natural gas, coal and wind. The supply of wind is significantly influenced by weather patterns. The natural gas market saw average prices decrease from $3.44 per gigajoule (GJ) in the twelve months ended December 31, 2011, to $2.27 per GJ for the same period in 2012. The coal-fired plants, to which ENMAX Energy owns the right 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 using a pre-determined formula based on Statistics Canada indexes. These include, but are not limited to, the cost of labour, mining machinery and other mining-related expenses.



IN THE COMPETITIVE ALBERTA MARKET, CHANGES TO DEMAND AND SUPPLY FACTORS HAVE A DIRECT IMPACT ON THE MARKET PRICE OF ELECTRICITY.



For natural gas-fuelled facilities, the spark spread is defined as the difference between the market price of electricity and the marginal cost of production. Profits and all other costs are collected from the spark spread. Thus, "spark spread" has come into common usage to describe the relative gross margin available in given electricity markets. Based upon an 8 GJ per MWh heat rate combined cycle gas turbine, the average spark spread in Alberta has declined from $49 in 2011 to $46 in 2012.

The competition for skilled labour, component parts and raw materials for building major projects remains tight, and not just in Alberta. The global demand for energy has increased construction of large-scale energy projects worldwide. Competition for key equipment has led to wait times to obtain components for generation facilities. Most suppliers of key generating components are located outside of Canada, which results in additional foreign exchange risks and costs related to managing this foreign exchange exposure. This has a decreasing impact to ENMAX as the development of ENMAX Energy's new 800 MW Shepard Energy Centre (Shepard) draws nearer to completion. ENMAX has entered into fixed price contracts and has foreign exchange management programs in place to mitigate some of this exposure. Global demand also impacts ENMAX Power and its ability to design and build transmission and distribution infrastructure in Calgary to meet the city's growth needs.

Lead times for ENMAX Power's infrastructure projects are long, subject to extensive consultative processes with intervening and interested parties, and to regulatory requirements that can change frequently. On March 8, 2012, the Alberta Minister of Energy issued a mandate that the AUC freeze electricity rates pending a review of regulated electricity charges by an independent committee. Since that time, the AUC has continued to process applications but has not issued decisions that result in rate increases. ENMAX currently has nine rate applications outstanding that are awaiting decision. On January 30, 2013, the government announced its findings of the review and lifted the rate freeze (see further discussion in the Business Results section of the MD&A).

SHEPARD ENERGY CENTRE UPDATE

ENMAX is pleased with progress on the Shepard facility with approximately 56 per cent of the site construction completed at December 31, 2012. With respect to project costs, approximately 69 per cent of the $1,365 million construction budget has been incurred (purchased equipment to be installed). The project has surpassed 1.3 million hours and on-site safety performance is meeting ENMAX's expectations. Major milestones achieved in 2012 include receiving and erecting major equipment onto foundations and construction progress of on facility buildings prior to the onset of winter weather. The site's administration, steam turbine and water treatment buildings were erected, enclosed and heated. The project has moved beyond most of the risks related to sourcing component parts and raw materials, although significant labour is still required. Exposure to competition for skilled labour is ongoing. Management mitigates this risk with labour contracts.

MORE THAN 50% COMPLETE AT DECEMBER 31, 2012.

STRATEGY

ENMAX's purpose is to deliver long-term value to its Shareholder and all Calgarians. Management confirms and sets corporate initiatives each year to advance ENMAX's strategies.

ENMAX's number one corporate priority is the safety of employees, contractors and customers. In 2009, ENMAX introduced a company-wide safety vision called Mission Zero, which envisions "an injury-free ENMAX", and serves to drive the continued improvement in its safety culture and management. In 2012, ENMAX employees succeeded in exceeding safety performance targets with respect to injury frequency.

ENMAX's financial strategy is to maintain a strong financial position and an investment-grade credit rating to provide a solid foundation to create value in the Corporation's capital-intensive and commodity-sensitive business environment. This improves competitiveness by providing greater access to debt markets, managing the cost of borrowing and enabling the Corporation to contract with customers and suppliers on more favourable commercial terms. It also allows ENMAX to provide a stable dividend stream to its Shareholder, which supports The City's operating requirements.

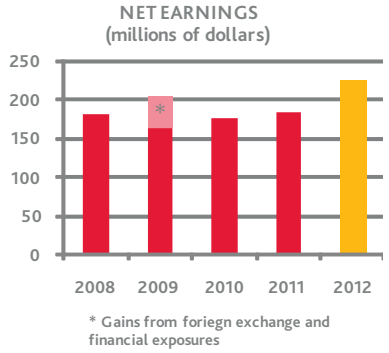
In ENMAX's regulated business, two core strategies are the continued provision of safe, reliable and cost-effective transmission and distribution services to the city of Calgary and leading the development of a more efficient and environmentally responsible utility model. This is discussed further in the Business Segment Section of the MD&A.

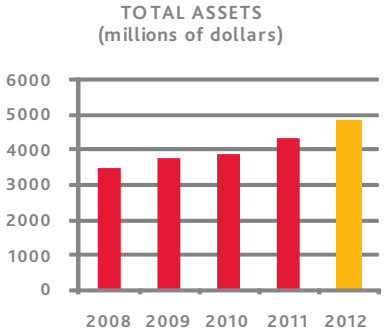
In ENMAX's unregulated business, the core strategy is to grow the competitive business in Alberta while improving the environmental footprint of the generation portfolio. This is discussed further in the Business Segment Section of the MD&A.

ENMAX's ability to attract, develop and retain a highly skilled and engaged workforce has resulted in a proven track record of operational and financial stability. ENMAX has achieved superior operations due to an experienced leadership team of senior business leaders, who bring a broad mix of skills to the Corporation. Another contributing factor to ENMAX's success is its knowledgeable and dedicated employees, who focus on the ongoing quality, capability and execution of core corporate processes and management systems.

An ongoing strategy at ENMAX is to improve the reliability and cost effectiveness of the Corporation's technology infrastructure while meeting the challenges of obsolescence and growth. The ability to employ reliable, cost-effective technology solutions to improve business performance ensures long-term stability and competitiveness.

OUR NUMBER ONE CORPORATE PRIORITY IS THE SAFETY OF EMPLOYEES, CONTRACTORS AND CUSTOMERS.





ENMAX's consolidated net earnings for the year ended December 31, 2012, have increased to $225.0 million compared with $184.6 million for the year ended December 31, 2011. This increase was driven primarily by higher operating margins and lower interest and tax costs. Favourable variances were offset partially by higher operations, maintenance and administration (OM&A), foreign exchange costs and amortization. ENMAX's consolidated net earnings from continuing operations increased $43.2 million to $215.6 million compared with $172.4 million for the year ended December 31, 2011. These higher earnings included higher electricity margins, transmission and distribution margins, contractual services, natural gas margins and other margins; and lower interest and tax expenses.

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

OVERALL FINANCIAL PERFORMANCE

CONSOLIDATED FINANCIAL INFORMATION

(millions of dollars)	2012	2011
Total revenue	3,160.1	3,080.1
Operating margin [1]	676.3	612.2
Earnings before interest and income taxes (EBIT) [1]	264.2	239.0
Standardized earnings before interest, income tax, depreciation and amortization (EBITDA) [1]	428.6	401.4
Net earnings from continuing operations	215.6	172.4
Net earnings	225.0	184.6
Total assets	4,819.9	4,328.1
Total long-term debt	1,609.5	1,522.2
Funds generated from operations [1]	396.4	406.5
Cash provided by operating activities	558.2	227.1

(1) Non-GAAP financial measure. See discussion that follows in the Non-GAAP Financial Measures section.

RECONCILIATION OF EBIT FOR THE YEAR ENDED DECEMBER 31, 2012, COMPARED WITH 2011

(millions of dollars)	
EBIT for the year ended December 31, 2011	239.0
Increased margins attributable to:	
Electricity	41.3
Natural gas	4.3
Transmission and distribution	14.3
Contractual services and other	4.2
Increased expenses:	
OM&A	(27.0)
Foreign exchange	(9.9)
Amortization	(2.0)
EBIT for the year ended December 31, 2012	**264.2**

Electricity margins for the year ended December 31, 2012, increased $41.3 million to $417.0 million from $375.7 million in the year ended December 31, 2011. The increased margins were driven primarily by higher realized retail sales prices, better realized prices on forward contracts, lower cost of natural gas used for the gas-fuelled generating assets and increased sales volumes. These favourable items were partially offset by the higher cost of electricity supply.

Natural gas margins increased $4.3 million to $18.4 million for the year ended December 31, 2012, from $14.1 million in 2011. This increase is due primarily to higher volumes sold and lower realized natural gas costs. This favourable impact is partially offset by lower realized sales price.

For the year ended December 31, 2012, transmission and distribution margins increased $14.3 million to $198.9 million over the $184.6 million of earnings recorded in the same period in 2011. These increases were due primarily to the impact of positive volume variances on the recovery of system access fees and the higher approved rates in both the transmission and distribution businesses.

Year-over-year contractual services and other sources margin increased $4.2 million to $42.0 million from $37.8 million recorded in 2011. The increase in year-to-date margins was mainly due to higher activity levels in underground residential development and commercial development.

OM&A costs for the year ended December 31, 2012, increased $27.0 million to $241.3 million from $214.3 million in 2011. The year-to-date increase in OM&A costs was driven primarily by an increase in variable staff compensation, increased staffing levels due to growth in the business, increased pension costs and higher operating and maintenance costs related to the gas-fuelled generating units. These unfavourable variances have been partially offset by an increase in overhead charges to capital and billable projects.

For the year ended December 31, 2012, a net foreign exchange loss of $6.4 million was experienced as compared to a gain of $3.5 million in the same period of 2011. Foreign exchange losses are primarily a result of the net realized and unrealized gains on equipment purchase agreements denominated in foreign currencies.

Amortization expense for the year ended December 31, 2012, increased $2.0 million to $164.4 million from $162.4 million for the same

period in 2011. The increased charges were primarily the result of an increase in asset base.

OTHER NET EARNINGS ITEMS

For the year ended December 31, 2012, interest expense decreased $9.9 million to $40.2 million from $50.1 million for the same period in 2011. The decrease was primarily due to an increase in the capitalization of interest related to capital projects. This was partially offset by interest incurred on new debt issued during the year. Income tax expense for the year ended December 31, 2012, decreased $8.1 million to $8.4 million from $16.5 million for the same period in 2011. The recovery of income tax was primarily due to changes in tax legislation and interpretations in combination with a reduction in the corporate tax rate offset partially by higher income in taxable entities.

Earnings from discontinued operations for the year ended December 31, 2012, decreased $2.8 million to $9.4 million from $12.2 million in the prior year. During the year ENMAX Energy began soliciting interest from potential purchasers for some of its non-core assets. These assets are being actively marketed and a sale is possible in 2013. As such, the assets and liabilities of this disposal group have been reclassified to assets and liabilities held for sale on the consolidated balance sheet. Operating results related to these assets and liabilities have been included in net earnings from discontinued operations on the consolidated statements of earnings and comprehensive income. Comparative periods for the ENMAX Energy segment have been restated to reflect discontinued operations. The 2011 discontinued operations include $4.2 million related to the disposal of many of the Corporation's British Columbia assets.

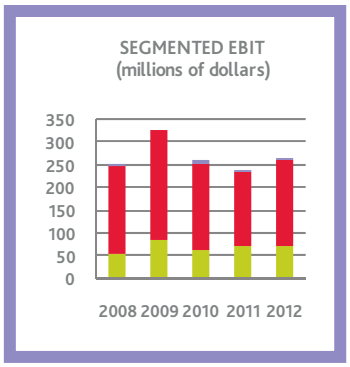
OTHER COMPREHENSIVE INCOME

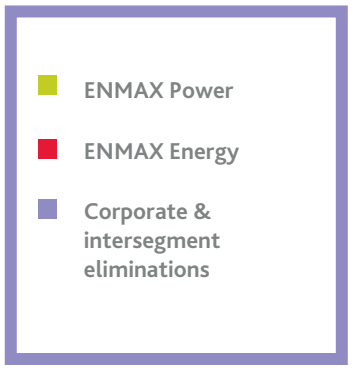
Other comprehensive income (OCI) illustrates the Corporation's earnings under the assumption of full income recognition of gains and losses on the market value of securities and derivatives otherwise treated as hedges of future period revenues and expenses. The Corporation utilizes derivatives to hedge its electricity, natural gas, interest rate and foreign exchange exposures. For the year ended December 31, 2012, OCI totalled gains of $49.2 million compared with losses of $30.5 million for the same period in 2011. OCI for the year ended December 31, 2012, primarily reflects the favourable fair value changes in derivative electricity positions from the conclusion of the previous year and settlement of electricity and gas positions. This was partially offset by unrealized losses on derivative gas positions during the year.

BUSINESS SEGMENT RESULTS

EBIT

(millions of dollars)	2012	2011
ENMAX Energy	186.1	166.0
ENMAX Power	73.7	69.6
Corporate & intersegment eliminations	4.4	3.4
EBIT	264.2	239.0





THE OPERATING BUSINESSES OF THE CORPORATION ARE MANAGED PRINCIPALLY IN TWO SEGMENTS; ENMAX ENERGY, WHICH IS ENGAGED IN THE COMPETITIVE ALBERTA MARKET, AND ENMAX POWER, WHO'S PRIMARY ACTIVITIES ARE REGULATED BY THE AUC.

ENMAX ENERGY

Strategy

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, district heating and high-speed data and Internet services. ENMAX Energy's core strategy is to grow its business across the entire province of Alberta with a focus on locating power generation facilities that utilize the best available technologies close to where electricity is required.

ENMAX Energy's 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. ENMAX Energy supplies energy through ENMAX's own wind and gas-fuelled generation facilities and balances the Corporation's energy portfolio needs through management of the wholesale PPAs at Battle River and Keephills, company-owned generation and the purchase and sale of electricity and natural gas into and from the Alberta market. This strategy allows ENMAX Energy to expand and operate its generation portfolio with reduced exposure to realized price and earnings volatility. ENMAX Energy provides customers with competitive energy products and services with a focus on longer term fixed or indexed contracts. This focus allows ENMAX Energy to link the cost of supply to longer term demand contracts, which results in relatively stable margins, even during times of volatile wholesale prices and revenue levels.

Business Update

ENMAX Energy sees strong potential in the role natural gas will play in power generation and reducing the GHG emissions from generating facilities in the coming years, and it has been applying new approaches to producing energy by locating natural-gas-fuelled power generation facilities close to where electricity is used. Key to this strategy is the development of Shepard and the 165 MW Bonnybrook Cogeneration Facility (Bonnybrook), both to be located within Calgary city limits.

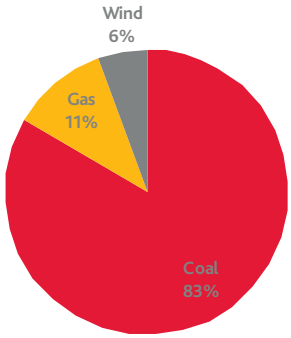
During the year ended December 31, 2012, $478.7 million (includes $215.6 million spent on assets held for sale) has been invested in Calgary-area generation projects including Shepard, Bonnybrook and ENMAX's Downtown District Energy Centre (DDEC). The Shepard facility has a construction budget of $1,365 million and is scheduled for commercial operation in the first quarter of 2015. Construction is on budget and on target for its scheduled completion. The 60-acre Shepard facility is located on the east side of Calgary in the Shepard Industrial Park. Construction on Shepard began in July of 2011, and over 1.3 million hours of construction work had been completed by the end of 2012.

In early 2012, ENMAX Energy received Alberta Environment & Water (AEW) approval of Bonnybrook, following the Section 95 approval from the Minister of Energy and approval from the AUC in 2011. Bonnybrook will be located in Calgary's southeast industrial zone. As a cogeneration facility, Bonnybrook will generate 165 MW of electricity as well as thermal energy which can be used by local businesses.

The DDEC, located in downtown Calgary, began operations in 2010 by delivering thermal energy to the Calgary Municipal Building. DDEC's customer base grew in 2012 with the addition of the Andrew Davison high-rise in downtown Calgary, complementing DDEC's 2011 customer additions: Bow Valley College's new campus expansion and the Hillier Block Building, a heritage building that was retrofitted with piping and an energy transfer station. ENMAX Energy also expanded its district energy business to Edmonton in 2012 with the addition of the Boyle housing complex. ENMAX Energy continues to build awareness and educate downtown owners and developers about the benefits of adopting district energy for their heating needs.

ENMAX Energy produces or has exclusive access to 2,067 MW of electricity generation to supply customer demand.

GENERATION SUPPLY VOLUMES
(% of total volume in MWh)



ENMAX ENERGY'S FLEET OF GENERATION

Facility	Ownership (%)	Capacity ownership interest (MW)	Fuel
Keephills PPA	100%	766 (1)	Coal
Battle River PPA	100%	663 (1)	Coal
Calgary Energy Centre (CEC)	100%	300	Gas
Crossfield Energy Centre (Crossfield)	100%	120	Gas
Taber Wind Farm (Taber)	100%	81	Wind
McBride Lake Wind Farm (McBride)	50%	75 (2)	Wind
Kettles Hill Wind Farm (Kettles)	100%	62	Wind
		2,067	

(1) Refers to facility PPA capacity.
(2) ENMAX has a 50% joint venture ownership interest in McBride and also obtains the other 50% output through a tolling agreement with the other joint venture partner.

The remaining power and all natural gas required to meet ENMAX Energy's consumer electricity and natural gas demand are acquired through the competitive wholesale power and natural gas markets. During times when ENMAX Energy has excess generation capacity, energy is sold to the market.

ENMAX Energy provides customers with creative and competitive alternative energy products and services. In 2012, the Generate Choice™ program, introduced in 2011, continued as an option to customers. This program was developed for Albertans looking for a competitive solution for incorporating renewable energy into their homes. The Corporation continues to inform and empower Albertans to explore competitive rate options through EasyMax® and to help businesses manage their power needs by providing competitive and customized energy products.

ENMAX Energy is the preferred electricity retailer for many industrial, commercial and institutional customers across Alberta. This includes federal and provincial government facilities, school districts, health care facilities, large industrial customers, and commercial enterprises across a variety of industries. Customers of all sizes continue to choose ENMAX

SHEPARD ENERGY CENTRE UPDATE

On December 5, 2012 ENMAX and Capital Power Corporation (Capital Power) entered into a two-part purchase and sale arrangement for Capital Power to purchase a 50 per cent ownership interest in Shepard. Under the terms of the agreement, Capital Power acquired a 25 per cent interest in the facility on February 28, 2013, and will acquire a further 25 per cent interest in the first quarter of 2014. Through a 20-year Energy Services Agreement (ESA), which is contingent on Capital Power completing the second purchase of 25 per cent in 2014, ENMAX Energy will purchase 300 MW of Shepard output for the first three years of the ESA term and 200 MW for the remaining 17 years of the ESA term.

Both parties will hold their ownership interests in an unincorporated joint venture to build, own, and operate the facility under a Joint Venture Agreement (JVA). Under the JVA, ENMAX Energy will continue to provide construction management services to the parties, and will be appointed as the operator for the provision of operating and maintenance services and as the joint venture manager for the provision of accounting and settlement services. Capital Power will be appointed as the real time operator to dispatch each party's electricity entitlement under the Alberta Electric System Operator (AESO) rules. A management committee appointed by the parties will manage and govern the joint venture.

Distinct from the JVA but as part of the overall transaction, ENMAX Energy will also purchase the short-term electricity from Capital Power at negotiated market prices. By holding a 50 per cent position in one of the largest investments in Alberta's electricity future, ENMAX will remain well positioned for strategic growth and secure a diversified portfolio of future supply for our customers. The facility 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.

ENMAX AND CAPITAL POWER ARE COLLABORATING ON THE 800 MW SHEPARD FACILITY.

KEY BUSINESS DRIVERS

	2012	2011
Market heat rate – flat average (GJ/MWh)	28.16	22.28
Average wholesale market spark spread ($/MWh) [1]	$45.71	$49.13
Average flat pool price ($/MWh)	$63.84	$76.65
Average natural gas price ($/GJ)	$2.27	$3.44
Generation volume (GWh)	12,164	12,174
Electricity sold (GWh)	19,509	19,086
Natural gas sold (terajoules (TJ))	49,536	44,518
Customer satisfaction [2]	79%	77%

(1) Assuming an average CCGT heat rate of 8 GJ per MWh.
(2) Monthly weighted average of customers rating their interaction with ENMAX Encompass "Very Satisfied" per the customer interaction survey process with SQM.

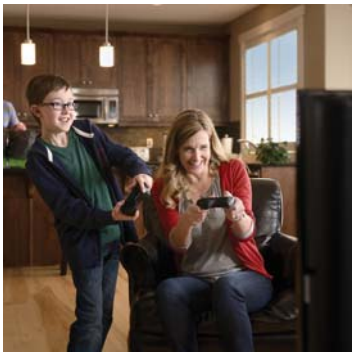
Energy for its high-touch, consultative service model and flexible, competitively priced energy products.

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. These 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).

ENMAX Energy sold, under contract, 19,509 GWh of electricity to customers in the year ended December 31, 2012, compared with 19,086 GWh in the same period of 2011. This slight increase is due primarily to an expanding customer base in the residential customer market offset partially by reduced sales volumes in the commercial and industrial customer market.

ENMAX Energy's natural gas customers purchased 49,536 TJ of natural gas in the year ended December 31, 2012, compared with 44,518 TJ in the same period in 2011. The increase in volume sold in the year is due primarily to the colder weather in the last quarter of 2012, which increased demand. This increase is supported by volume growth due to an increased customer base in the residential market.

CUSTOMER RELATIONSHIPS ARE AN IMPORTANT PART OF OUR STRATEGY.



RECONCILIATION OF EBIT FOR THE YEAR ENDED DECEMBER 31, 2012, COMPARED WITH 2011	
(millions of dollars)	
EBIT for the year ended December 31, 2011	166.0
Increased / (decreased) margins attributable to:	
Electricity	44.9
Natural gas	4.3
Contractual services and other	(3.3)
Increased expenses:	
OM&A	(14.3)
Foreign exchange	(9.9)
Amortization	(1.6)
EBIT for the year ended December 31, 2012	**186.1**

Financial Results

ENMAX Energy recorded EBIT of $186.1 million for the year ended December 31, 2012, compared with $166.0 million in the same period in 2011.

Electricity margins for the year ended December 31, 2012, increased $44.9 million to $411.1 million compared with the $366.2 million recorded in 2011. The increased margins were driven primarily by higher realized retail sales prices, better realized prices on forward contracts, lower cost of natural gas used for the gas-fuelled generating assets and increased sales volumes. These favourable items were partially offset by higher cost of electricity supply.

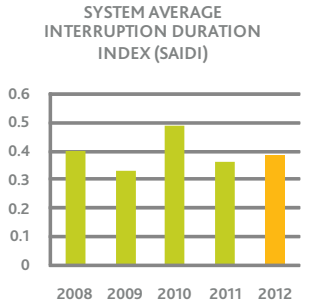
Natural gas margins increased $4.3 million to $18.4 million for the year ended December 31, 2012, compared with $14.1 million last year. This increase is due primarily to higher volumes sold and lower realized natural gas costs. This favourable impact is partially offset by lower realized sales price.

Contractual services margin and other revenues decreased $3.3 million in the year ended December 31, 2012, compared to the same period in 2011. The decrease in margins year-to-date was mainly due to decrease in allocation of costs to ENMAX Power as RRO customers decreased and switched to take advantage of competitive offers.

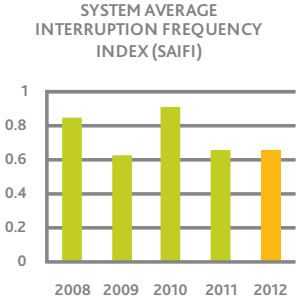
OM&A expenses for the year ended December 31, 2012, increased $14.3 million to $165.8 million compared with $151.5 million in the same period in 2011. This increase was primarily attributable to increased staffing costs related to growth in the business, variable staff compensation and higher operating and maintenance costs related to the gas-fuelled generating units.

For the year ended December 31, 2012, a net foreign exchange loss of $6.4 million was experienced compared to a gain of $3.5 million in the same period of 2011. Foreign exchange losses are primarily a result of the realized and unrealized gains on equipment purchase agreements denominated in foreign currencies and associated hedges.

Amortization expense for the year ended December 31, 2012, increased $1.6 million to $109.0 million compared to $107.4 million in 2011. The increased charges were the result of an increase in assets placed into service during the year.



ENSURING THE RELIABILITY OF THE ELECTRICAL SYSTEM IS A PRIORITY.



ENMAX POWER

Strategy

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

Another core strategy for ENMAX Power is leading the development of a more efficient and environmentally responsible utility model. Vital to this strategy is managing the regulated business to deliver stable financial returns within the parameters and spirit of formula based ratemaking (FBR). In addition ENMAX Power remains focused on improved capital efficiency of the regulated business through progressive maintenance programs and timely expansion.

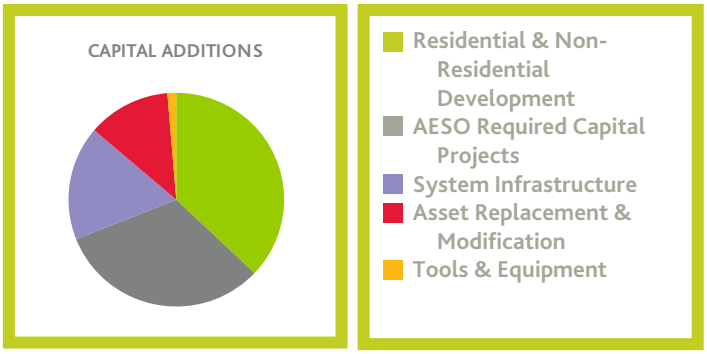
ENMAX Power expects continued expenditures on load growth associated with providing new customers with access to the electrical distribution system within the city of Calgary, major transmission projects required to reinforce the existing system and replacement of aging infrastructure. Distribution projects include 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. As well, asset replacements and modifications required to meet industry and safety standards and distribution automation projects are projected.

Business Update

ENMAX Power undertook a number of major projects in 2012 to meet the increasing need for electricity in Calgary while continuing to offer the same level of reliable service. Three major projects were initiated in 2012: Substation 54, Substation 65 and the East Calgary Transmission Project (ECTP). These substations will provide added reliability, capacity for load growth and a new supply of power to south Calgary. The ECTP will prepare the ENMAX Power and AltaLink, L.P. transmission systems to accommodate the output of Shepard and increase transmission reliability in east Calgary.

Transmission and distribution capital projects that either commenced or continued in 2012, resulted in $77.6 million incurred for residential and non-residential development and $36.0 million for system infrastructure. Capital work was also completed on asset replacement and modification projects with $26.2 million being incurred during 2012 to meet industry standards

and safety codes and for distribution automation. Investments of $67.1 million were made in AESO-required capital projects during 2012. In addition, $2.8 million was invested in other tools and equipment required for the business. These investments, net of $49 million in contributions received from customers result in an investment by ENMAX of over $150 million.



ENMAX Power completed, on budget and on schedule, three major Calgary Light Rail Transit (LRT) projects in 2012:

- a joint venture arrangement with SNC-Lavalin Group Inc. on the West LRT project, a $1.4 billion, 8.2 km extension of Calgary Transit's LRT system to the west end of Calgary;
- the 2.9 km Northeast LRT expansion from McKnight Westwinds to Martindale and Saddletowne; and
- a collaboration with Calgary Transit on modifications to systems to allow four-car trains to run in the future. This involved significant changes to the LRT infrastructure along the downtown 7th Avenue transit corridor.

In 2012, ENMAX Power's underground residential development group supported 6,071 single-detached housing starts in Calgary, the highest number since 2008.

On January 30, 2013, the Alberta government announced its response to the 41 recommendations contained in the Retail Market Review Committee (RMRC) Report. This committee was established to review the retail electricity market in Alberta. The committee, established on March 22, 2012, was given the broad mandate to review, within the context of the competitive retail electricity market in Alberta, the necessity and appropriate design of a default rate for eligible customers and the manner in which non-energy charges paid by customers are determined and approved. Previous to that, on March 8, 2012, the Alberta government requested the AUC maintain the then current electricity rates pending the Retail Market Review.

Of the 41 recommendations, the two that have been accepted by the government are to lift the rate freeze and amend the RRO procurement period from 45 to 120 days.

In addition, 33 recommendations, all of which are aimed at enhancing the competitive market, were accepted in principle by the government, subject to further consultation with industry and other stakeholders. ENMAX will continue to work with the Alberta government concerning the implementation of these recommendations.

ENSURING THE RELIABILITY OF THE ELECTRICAL SYSTEM FOR CALGARIANS IS A PRIORITY.

KEY BUSINESS DRIVERS

(millions of dollars, unless otherwise stated)	2012	2011
Electricity sold through the RRO (GWh)	1,890	2,229
Distribution volumes (GWh)	9,440	9,318
Distribution capital structure (debt: equity)	59%:41%	59%:41%
Transmission capital structure (debt: equity)	63%:37%	63%:37%
Distribution average rate base	788.6 (1)	750.1
Transmission average rate base	215.1 (1)	207.0
Regulated Return on Equity (ROE) – Distribution	10.5% (1)	6.7%
Regulated ROE – Transmission	(0.1%) (1)	4.1%
Local access fees collected on behalf of The City	148.3	126.1
SAIFI	0.66	0.66
SAIDI	0.39	0.36

(1) These numbers are based on preliminary information. Regulatory true-ups and adjustments could be required in 2013 relating to 2012 delivery

Regulated ROE for distribution increased in 2012, primarily due to higher system access service margins and a reduction in amortization and interest; this was slightly offset by higher labour costs. Regulated ROE for transmission decreased in 2012 primarily due to delay in G Factor (growth) revenue collection resulting in revenues out of step with the increase in costs. In addition, ENMAX Power's rate base increased for transmission and distribution due to capital additions during the year.

Allowed ROE under the FBR framework is 8.75 per cent. As the distribution business has experienced an ROE in excess of the allowed amount, it is required to share a portion of these earnings with customers. A provision has been accrued for this purpose. Unlike distribution, the transmission business has experienced consecutive low ROE levels. Under the terms of FBR, ENMAX Power has applied to the AUC for the ability to revisit the returns under the transmission rates. No provision for this possible recovery has been recognized in 2012.

Total electricity delivered in the Calgary service area increased slightly from the prior year. Electricity volumes delivered during the year ended December 31, 2012, were 9,440 GWh compared with 9,318 GWh in 2011. This modest increase was primarily due to an increase in the number of customers served and was partially offset by milder weather.

RRO electricity volumes sold decreased to 1,890 GWh in 2012 compared with 2,229 GWh in the same period in 2011. Lower demand was seen as a result of customers switching from the RRO option to competitive options, as well as milder weather reducing consumption.

ENMAX Power is required by the AUC to maintain a regulated capital structure of 59 per cent debt to 41 per cent equity for the distribution business and 63 per cent debt to 37 per cent equity in the transmission business.

RECONCILIATION OF EBIT FOR THE YEAR ENDED DECEMBER 31, 2012, COMPARED WITH 2011	
(millions of dollars)	
EBIT for the year ended December 31, 2011	69.6
Increased / (decreased) margins attributable to:	
Electricity	(2.9)
Transmission and distribution	14.3
Contractual services and other	6.4
Increased expenses:	
OM&A	(12.7)
Amortization	(1.0)
EBIT for the year ended December 31, 2012	**73.7**

Financial Results

ENMAX Power's financial results are driven by tariffs approved by the AUC for the regulated transmission, distribution and RRO businesses and by earnings from its non-regulated power services business. The regulated segment accounted for 84 per cent of ENMAX Power's total revenue in the year ended December 31, 2012, compared with 87 per cent in 2011.

ENMAX Power recorded EBIT of $73.7 million for the year ended December 31, 2012, compared with $69.6 million in the prior year.

Electricity margins from RRO customers decreased $2.9 million to $6.9 million for the year ended December 31, 2012, compared with $9.8 million in 2011. This decreased margin was primarily the result of higher electricity costs and a decrease in sales volumes as more customers took advantage of competitive offers.

Transmission and distribution margins consist of amounts charged for wire services net of electrical grid charges and local access fees. Transmission and distribution margins increased $14.3 million to $198.9 million for the year ended December 31, 2012, compared with $184.6 million in 2011. These increases were due primarily to the impact of positive volume variances on the recovery of system access fees and higher approved rates in both the transmission and distribution businesses related to AUC approved formula-based rate making. This has been partially offset by earning sharing in the current year, which was not experienced in the previous year.

For the year ended December 31, 2012, margins for contractual services and other revenues increased $6.4 million to $31.2 million compared with $24.8 million last year. The increase in margins was mainly due to higher activity levels in underground residential development and commercial development.

OM&A expenses for the year ended December 31, 2012, increased $12.7 million to $110.0 million compared with $97.3 million in the same period in 2011. This increase was driven primarily by increased staffing costs due to growth in the ENMAX Power workforce to support and plan for capital projects, safety initiatives, and overtime, and growth in ENMAX Power Services business related to the increased construction work.

Amortization for the year ended December 31, 2012, totalled $53.3 million, compared with $52.3 million in 2011. The increased charges were the result of an increase in the asset base from the end of the previous year, reflecting capital maintenance replacement and expansion of the Calgary and area transmission and distribution system. The amortization related to those new assets put into service was mostly offset by older assets concluding their depreciable lives.

CORPORATE & INTERSEGMENT ELIMINATIONS

KEY BUSINESS DRIVERS

(millions of dollars, unless otherwise noted)	2012	2011
Employees [1]	1,830	1,729
Long-term debt [2]	1,609.5	1,522.2
Customer satisfaction	79%	77%

(1) Employee count is total people employed as at December 31, 2012
(2) Includes current and long-term portions.

ENMAX Corporate provides shared services and financing to ENMAX Power and ENMAX Energy. During the year ended December 31, 2012, EBIT for ENMAX Corporate was $4.4 million compared with $3.4 million in the prior year. The fluctuation in earnings is primarily due to changes in financing costs being charged to operating segments.

Employee count has increased primarily due to growth in the ENMAX Power workforce to support and plan for the aging workforce in that group; an increasing sales force; growth in the generation infrastructure, engineering and commodity management groups for the developing generation business; growth in ENMAX Power business related to the increased construction work; and growth in corporate services to support the growing business. Long-term debt has increased due primarily to the issuance of debt for the regulated business in the second quarter, offset by regular repayments of debt.

SELECTED QUARTERLY FINANCIAL DATA

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

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

Natural gas volumes and prices are correlated with the time of year as a result of weather patterns. Natural gas consumption and prices will increase with extreme weather seen in the winter. As well, natural gas prices can rise in extreme hot weather in the summer as peak electricity demand results in increased gas-fuelled generation. Revenue levels tend to decline in the fall and spring due to these unfavourable trends in natural gas prices and volumes during those parts of the calendar year.

	2012				2011			
(millions of dollars)	Fourth	Third	Second	First	Fourth	Third	Second	First
Total revenue	869.3	797.3	658.4	835.1	847.5	782.7	641.0	809.6
Operating margin [1]	194.7	138.7	168.0	175.0	165.0	139.0	160.7	150.9
EBIT [1]	77.4	41.7	67.6	77.3	64.3	46.5	66.4	61.8
Net earnings before discontinued operations	61.6	42.8	50.7	60.5	40.1	40.1	48.6	43.6
Net earnings	63.9	45.4	53.1	62.6	42.8	41.9	50.1	49.8

(1) Non-GAAP financial measure. See discussion that follows the MD&A.

RECONCILIATION OF EBIT FOR THE THREE MONTHS ENDED DECEMBER 31, 2012, COMPARED WITH THE SAME PERIOD IN 2011

(millions of dollars)	
EBIT for the period ended December 31, 2011	64.3
Increased / (decreased) margins attributable to:	
Electricity	28.8
Natural gas	2.5
Transmission and distribution	1.9
Contractual services and other	(2.9)
Increased expenses:	
OM&A	(15.6)
Foreign exchange	(2.1)
Amortization	0.5
EBIT for the period ended December 31, 2012	**77.4**

In the fourth quarter of 2012, net earnings increased $21.1 to $63.9 million compared with $42.8 million in the same three-month period in 2011. EBIT increased $13.1 million from $64.3 million to $77.4 million.

In the fourth quarter of 2012, electricity margins were $125.0 million compared with $96.2 million in the same period in 2011. The increased margins were driven primarily by increased sales volumes, lower cost of electricity supply and better realized prices on forward contracts.

For the three months ended December 31, 2012, natural gas margins increased $2.5 million to $8.4 million from $5.9 million in the comparable period in 2011. This increase was due to increased sales volume and lower realized natural gas costs.

For the regulated business, transmission and distribution margins increased $1.9 million to $48.6 million compared to $46.7 million in the three months ended December 31, 2011. The increase was due to the impact of positive volume variances on the recovery of system access fees.

Contractual services margin and other revenue was $12.7 million in the fourth quarter of 2012 compared with $15.6 million in the fourth quarter

of 2011. This decrease was due primarily to a change in the recognition of emissions offset gains and higher costs related to LRT project completions.

OM&A costs increased $15.6 million to $73.0 million in the fourth quarter of 2012, compared with the costs of $57.4 million incurred in the fourth quarter of 2011. This increase was primarily due to variable staff compensation and costs related to increased head count and wages. This was partially offset by lower consulting costs realized during the quarter.

For the three months ended December 31, 2012, a net foreign exchange loss of $1.4 million was experienced as compared to a gain of $0.7 million in the same period of 2011. This was due primarily to losses on the foreign exchange positions related to the long-term service agreements.

Amortization costs decreased $0.5 million to $42.8 million in the three months ended December 31, 2012, compared with $43.3 million in the same period in 2011. The slight decrease was due to accelerated depreciation on property, plant, and equipment (PP&E), and intangible assets in the fourth quarter of 2011 offset by an increase in net capital additions during the year.

Interest costs amounted to $7.8 million in the fourth quarter of 2012 compared with $11.1 million in the same period in 2011. These interest costs reflect increased recoveries of interest during construction partially offset by an increase in interest expense due to issuance of Alberta Capital Finance Authority (ACFA) debt in 2012.

For the three months ended December 31, 2012, income tax expenses decreased to $8.2 million compared with $13.4 million in the same period in 2011. The decrease was mainly attributable to changes in provisions made in the fourth quarter of 2011. The Corporation regularly reviews the potential 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 $2.3 million in the fourth quarter of 2012, compared with earnings of $2.8 million in the same period in 2011. The fourth quarter earnings related to the net earnings attributed to ENMAX Energy's non-core assets held for sale.

The Corporation invested $170.9 million in capital projects during the quarter, including $10.1 million in transmission and $45.6 million in distribution projects, $108.6 million on new generation facilities and $6.6 million on corporate information technology assets.

In the fourth quarter, the Corporation made $22.9 million of regularly scheduled repayments on its long-term debt. In addition, the final $14.0 million dividend instalment was paid to The City, which results in payment in full of the 2012 declared dividend of $56.0 million.

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.

Operating margin is a useful measure of business performance, as changes in the market price of electricity and natural gas purchased for resale affect revenue and cost of sales equally. ENMAX Energy's strategy links the cost of supply to longer term demand contracts, which results in relatively stable margins even during times of volatile wholesale prices and revenue levels. Therefore, operating margin better reflects the profitability of the Corporation's business than revenue levels alone.

OPERATING MARGIN

Year ended December 31 (millions of dollars)	2012	2011
Electricity margins	417.0	375.7
Natural gas margins	18.4	14.1
Transmission and distribution margins	198.9	184.6
Contractual services margins [1] and other revenue	42.0	37.8
Operating margin (non-GAAP financial measure)	676.3	612.2
Deduct: OM&A, amortization, interest and income taxes	460.7	439.8
Net earnings from continuing operations (GAAP financial measure)	215.6	172.4

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

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

TOTAL INTEREST COST

Year ended December 31 (millions of dollars)	2012	2011
Total interest cost (non-GAAP financial measure)	86.0	82.4
Ineffective portion of interest rate swaps	(1.3)	(0.4)
Capitalized interest	(50.3)	(36.0)
Other non-interest financing costs	5.8	4.1
Interest expense (GAAP financial measure)	40.2	50.1

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.

EBITDA

Year ended December 31 (millions of dollars)	2012	2011
Adjusted EBITDA (non-GAAP financial measure)	443.0	414.2
Deduct: EBITDA from discontinued operations	14.4	12.8
Standardized EBITDA	428.6	401.4
Deduct: Amortization	164.4	162.4
Interest	40.2	50.1
Income taxes	8.4	16.5
Net earnings from continuing operations (GAAP financial measure)	215.6	172.4

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.

EBIT

Year ended December 31 (millions of dollars)	2012	2011
EBIT (non-GAAP financial measure)	264.2	239.0
Deduct: Interest	40.2	50.1
Income taxes	8.4	16.5
Net earnings from continuing operations (GAAP financial measure)	215.6	172.4

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.

FUNDS GENERATED FROM OPERATIONS

Year ended December 31 (millions of dollars)	2012	2011
Funds generated from operations (non-GAAP financial measure)	396.4	406.5
Changes in non-cash working capital	111.9	(206.6)
Employee future benefits	7.0	(13.1)
Cash flow from continuing operations	515.3	186.8
Cash flow from assets held for sale	42.9	40.3
Cash provided by operating activities (GAAP financial measure)	558.2	227.1

FINANCIAL CONDITION

SIGNIFICANT CHANGES IN THE CORPORATION'S FINANCIAL CONDITION

(millions of dollars, except % change)	December 31, 2012	December 31, 2011	$ Change	% Change	Explanation for change
ASSETS					
Income tax receivable [1]	78.6	45.7	32.9	72%	Changes in tax legislations paired with a reduction in corporate tax rates.
Assets held for sale [1]	566.1	357.6	208.5	58%	Increase in construction costs related to the 50% interest in Shepard subject to the Capital Power sale agreement.
Property, plant and equipment	2,694.5	2,381.5	313.0	13%	Capital expenditures, net of amortization.
Power purchase arrangements	422.2	473.7	(51.5)	(11%)	Amortization on Keephills and Battle River PPAs.
Intangible assets	116.3	106.7	9.6	9%	Expenditures, net of amortization.
LIABILITIES AND SHAREHOLDER'S EQUITY					
Accounts payable and accrued liabilities	612.6	382.6	230.0	60%	Timing of the payment of power pool invoices and higher capital accruals.
Future income tax liability [1] [2]	20.0	5.0	15.0	300%	Changes in current and prior year positions.
Other current liabilities [1]	13.5	35.1	(21.6)	(62%)	Decrease in fair value of hedging instruments.
Long-term debt [2]	1,609.5	1,522.2	87.3	6%	Receipt of $143.4 million in new ACFA financing during the year, offset by regular debt repayments.
Other long-term liabilities [1]	23.5	38.9	(15.4)	(40%)	Decrease in fair value of hedging instruments.

(1) Net asset and liability positions.
(2) Includes current and long-term amounts.

LIQUIDITY AND CAPITAL RESOURCES

DETAILS OF SHARE CAPITAL

As at December 31, 2012, and 2011 (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**

CAPITALIZATION

December 31 (millions of dollars)	**2012**	2011
Long-term debt [1]	**1,609.5**	1,522.2
Shareholder's equity		
Share capital	**280.1**	280.1
Retained earnings	**1,901.4**	1,732.4
Accumulated other comprehensive loss	**(19.6)**	(68.8)
Total shareholder's equity	**2,161.9**	1,943.7
Total capitalization (long-term debt plus shareholder's equity)	**3,771.4**	3,465.9

(1) Includes the current portion of long-term debt of $59.7 million (December 31, 2011 - $53.7 million). Maturity dates range from April 2014 to June 2037.

THE DETAILS OF TOTAL LIQUIDITY AND CAPITAL RESERVES ARE AS FOLLOWS:

December 31 (millions of dollars)	2012	2011
Committed and available bank credit facilities	1,150.0	900.0
Letters of credit issued:		
Power pool purchases	130.1	173.6
Energy trading	45.0	49.0
Regulatory commitments	107.9	80.6
Asset commitments	34.7	16.8
PPAs	67.3	67.3
	385.0	387.3
Commercial paper and overdraft	165.9	166.8
Remaining available bank facilities	599.1	345.9
Cash on hand	45.5	35.4
Total liquidity and capital reserves	644.6	381.3

The increase in total liquidity and capital reserves during the year ended December 31, 2012, can be attributed primarily to a $250.0 million increase in available bank credit facilities and lower collateral requirements due to a decrease in commodity prices. This reduced the level of letters of credit issued for power pool purchases and energy trading, which was partially offset by the increase in regulatory commitments.

THE DETAILS OF THE LONG-TERM DEBT ARE AS FOLLOWS:

December 31 (millions of dollars)	2012	2011
Long-term debt [1] consisting of:		
ACFA debentures, with remaining terms of:		
Less than 5 years	47.0	50.1
5 – 10 years	135.4	147.4
11 – 15 years	7.9	-
16 – 20 years	138.3	60.0
21 – 25 years	499.3	475.4
Private debentures		
Series 1, remaining term of 7 years, bullet maturity on June 19, 2018	297.8	297.4
Series 2, remaining term of 3 years, bullet maturity on April 8, 2014	249.5	249.2
Non-recourse term financing (Kettles and CEC), remaining terms of 6 and 16 years, respectively	229.3	237.4
Promissory note, remaining term of 16 years	5.0	5.3
	1,609.5	1,522.2

(1) Includes current portion of long-term debt of $59.7 million (December 31, 2011 - $53.7 million). Maturity dates range from April 2014 to June 2037.

PAYMENTS DUE BY PERIOD

CONTRACTUAL OBLIGATIONS WHICH MAY IMPACT THE CORPORATION'S FINANCIAL CONDITION

As at December 31, 2012 (millions of dollars)	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Total debt [1]	1,775.4	225.6	365.2	125.1	1,059.5
Operating leases	40.3	8.6	7.5	2.6	21.6
Purchase obligations [2]	200.4	104.2	51.8	12.7	31.7
Asset retirement obligations	14.4	-	-	-	14.4
Other long-term obligations [3]	82.3	-	35.8	18.5	28.0
Total contractual obligations	**2,112.8**	**338.4**	**460.3**	**158.9**	**1,155.2**

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

In 2014, ENMAX's Series 2 debentures come due. ENMAX expects to repay this debt as it comes due or refinance the debt if borrowing rates are favourable.

ENMAX has historically paid The City annual dividends of at least the higher of 30 per cent of the prior year's net earnings or $30 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.

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. The Corporation has set long-term target ratios for long-term debt to total capitalization at a maximum of 45 per cent, a Debt to EBITDA ratio at a maximum of 3.5 times and an EBITDA to total interest coverage 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 assigned a credit rating of A (low). 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, 2012, the Corporation is in compliance with these financial covenants.

FINANCIAL RATIOS

As at December 31	2012	2011
Long-term debt to total capitalization [1]	42.7%	43.9%
Debt to EBITDA [2]	3.8X	3.8X
EBITDA to total interest [3]	4.9X	4.9X

(1) As at year end, long-term debt (including current portion) to total capitalization is equal to long-term debt divided by total long-term debt plus shareholder's equity. If cash was netted against the debt, the ratio as at December 31, 2012, would be 41.5% (December 31, 2011 – 42.9%).
(2) Debt to EBITDA is equal to long-term debt (including current portion) divided by EBITDA for the last 12 month rolling period.
(3) EBITDA to total interest is equal to EBITDA for the last 12 month rolling period divided by gross interest cost (non-GAAP financial measures) calculated on a 12-month rolling basis.

CASH PROVIDED BY OPERATING ACTIVITIES

Funds generated from operations for the year ended December 31, 2012, were $396.4 million compared with $406.5 million in 2011. The decrease in funds generated was primarily due to lower cash generating earnings.

Cash provided by operating activities for the year ended December 31, 2012, was higher than the prior year at $558.2 million compared to $227.1 million in 2011. The increase was driven by the timing of payments to the power pool for electricity purchases, offset by lower cash generating earnings.

INVESTING ACTIVITIES

Capital spending was $647.2 million for the year ended December 31, 2012 (includes $215.6 million of spend in assets held for sale), an increase of $97.4 million over last year. Capital projects for the year ended December 31, 2012, included a $158.6 million investment in the transmission and distribution network in Calgary and surrounding area; $478.7 million in construction costs related to Calgary area generation projects (includes $215.6 million of spend in assets held for sale), primarily the Shepard Project; and $9.9 million related to other capital additions, including IT development. 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.

FINANCING ACTIVITIES

ENMAX repaid $56.1 million of long-term debt in regularly scheduled principal payments during the year ended December 31, 2012, compared with $51.4 million in 2011. These repayments were sourced through operating activities.

On March 8, 2012, the Corporation declared a dividend of $56.0 million payable to The City in quarterly instalments throughout 2012. All quarterly instalments of the dividend were paid by the end of 2012. On March 8, 2013, the Corporation declared a dividend of $67.5 million payable to The City in four quarterly instalments in 2013.

During the year ended December 31, 2012, the Corporation obtained $143.4 million of financing from The City through arrangements with the

IN 2012, $56.0 MILLION IN DIVIDENDS WERE PAID TO THE CITY. THE DIVIDEND IN 2013 WILL BE $67.5 MILLION.

ACFA to fund ongoing investment related to the regulated transmission and distribution network in Calgary and the surrounding area.

At December 31, 2012, cash and cash equivalents amounted to $45.5 million compared with $35.4 million at December 31, 2011. ENMAX had $149.9 million of outstanding commercial paper as at December 31, 2012, compared with $165.0 million at December 31, 2011 and an overdraft of $16.0 million on bank accounts compared with $1.8 million at December 31, 2011.

FUTURE ACCOUNTING CHANGES

On February 13, 2008, the AcSB confirmed the changeover from GAAP to IFRS, as issued by the International Accounting Standards Board (IASB), will be effective for fiscal years beginning on or after January 1, 2011. On September 30, 2010, the AcSB issued an amendment to this directive which allowed entities that have activities subject to rate regulation to delay adoption of IFRS until January 1, 2012. Future deferrals were issued in March 2012, September 2012 and February 2013, extending the existing deferral date to January 1, 2013, 2014 and 2015, respectively. The Corporation is considering these options and monitoring the IASB's project on rate-regulated accounting. The Corporation maintains a state of IFRS readiness and will determine the best time for transition once the direction of the IASB interim guidance on rate-regulated accounting is better defined. While IFRS uses a conceptual framework similar to GAAP, there will be differences in accounting policies. The Corporation is assessing the impact of the latest deferral and revising project plans to meet this new timeline.

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 capture, completely and accurately, all customer movement, load classification and consumption data. 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 $128.4 million (2011 – $116.4 million) at the end of each month and adjustments of estimated revenues to actual billings averaged $2.3 million (2011 – $2.9 million), representing an average of 2 per cent of the estimates for 2012 and 2011. Reconciliation of settled volumes for 2012 will continue in 2013 based on the timing of receipt of settlement data. Therefore, amounts relating to 2012 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 $7.3 million (2011 – $7.6 million), and at each internal reporting period was within the range of $6.1 million – $8.3 million (2011 – $5.6 million – $11.3 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 are outlined in Note 2 in the Notes to the Consolidated Financial Statements.

ASSET IMPAIRMENT

PP&E 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 13 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 or 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 4 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.

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. In 2011, ENMAX made some enhancements to its enterprise risk assessment processes to ensure that they continue to keep pace with the changing needs of the organization and improve management's ability to identify and manage risk, and 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 the following:

- clearly articulated corporate values, principles of business ethics, and a code of conduct, which employees are required to review annually;
- 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 his or her manager.

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 quantify or accurately 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:

The following discussion does not consider the result of any interrelationship among the factors.

INDICATIVE IMPACT	POTENTIAL FINANCIAL IMPACT
Low	• 1 Yr Budget: < $5 million • 5 Yr Plan: < $25 million
Moderate-Low	• 1 Yr Budget: $5-10 million • 5 Yr Plan: $25-50 million
Moderate-High	• 1 Yr Budget: $10-20 million • 5 Yr Plan: $50-100 million
High	• 1 Yr Budget: >$20 million • 5 Yr Plan: >$100 million

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's 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 Corporation has fewer fixed price retail contracts, there is exposure to market price risk.

ENMAX Energy uses 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). 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 factors. 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 office controls group that is independent of the front office trading floor and the back office accounting and settlement group. The Corporation could have earnings variability, which could likely have a low impact as it relates to the sustainability and diversification of its portfolio. Furthermore, a valuation modeling error could produce earnings variability, which could also likely have a low impact. Overall commodity price levels have a potential earnings variability, which could have a moderate financial impact. Earnings variability could also be seen as a result of retail residential and small business and industrial, commercial and institutional customer demand volatility reducing retail margins or 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 hedge ENMAX's energy portfolio effectively 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 manage positions actively.

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 as

such exposures arise. 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 4 of the Notes to the Consolidated Financial Statements.

Changes in interest rates can impact borrowing costs and certain revenue streams from 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 4 of the Notes to the Consolidated Financial Statements.

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 4 of the Notes to the Consolidated Financial Statements.

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

For additional details on ENMAX's market risk exposures and sensitivities, refer to Note 4 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. Natural resource operating facilities are subject to weather driven risks such as water and 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 of a facility may prevent the facility from performing as expected under applicable agreements which, in certain situations, could result in termination of the agreements or incur 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.

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 the 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 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 invoked 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 (Alberta) 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 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 credits from both its wind generation assets and purchases on the wholesale market. The Corporation continues to assess and monitor the implications these changes in legislation may have on its business.

The federal GHG regulations received Gazette II publication in September 2012. The regulations resulted in the extension of coal-fired unit life, from the government's previously proposed hard limit of 45 years, to up to 50 years depending on the unit's commissioning date. In addition to the GHG regulation, Environment Canada has proposed new limits on NOx and SOx emissions for existing coal-fired generation units that would require retrofitting of existing units. The costs associated with meeting these Base Level Industrial Emissions Requirements (BLIERs) have the potential to be passed through to ENMAX through the change in law provision contained in the PPA agreements. ENMAX is concerned that stringent BLIERs for existing coal-fired generation would lead to significant new and immediate capital and operating costs for many plants within Alberta's fleet of coal-fired generation that are otherwise destined to be retired in a few years. As a result, ENMAX has advocated that the combination of the federal GHG regulation and existing Alberta criteria air contaminant regulation will result in emissions reductions similar to BLIERs implemented under a reasonable time frame.

The Corporation mitigates its exposure to environmental regulations by building and acquiring new generation capacity that emits less GHG, developing progressive alternative energy technologies, purchasing emission reductions offsets, investing in environmentally improved technologies in its supply from power purchase arrangements, and developing workplace conservation programs. The Corporation is potentially exposed to moderate earnings variability if it fails to comply with its environmental management system (EMS). The Corporation is potentially exposed to further moderate volatility due to each of the following: potential of spills, releases and fire from hazardous materials, or as a result of GHG emissions policy changes.

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, 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, as well as an electrical utility regulated by the AUC and 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 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.

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 could 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 recruitment, career development, recognition and competitive compensation and benefits programs.

ENMAX management believes it has a good relationship with the Corporation's unions. There are risks that successful negotiations will not 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 or 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 or failure of aging applications and infrastructure are all events that individually could result in a low impact in earnings variability but combined could result in moderate earnings volatility. 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 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 that 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 completed for December 31, 2012. For accounting purposes as at December 31, 2012, the pension plan had an estimated deficit of $56.0 million ($57.7 million at December 31, 2011). The actual amount of contributions required in the future will depend on future investment returns, changes in benefits and actuarial assumptions. Failure to manage financial resources and related exposures effectively 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 Board's Human Resources Committee, 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.

For additional details on ENMAX's liquidity risk exposures, refer to Note 4 in the Notes to the Consolidated Financial Statements. For additional details on ENMAX's pension plan, refer to Note 13 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 taking delivery of commodities. These exposure risks are often exacerbated during periods of sustained low commodity prices and tighter credit markets,.

ENMAX has implemented a credit risk management program to mitigate its exposure 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 or 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 4 in the Notes to the Consolidated Financial Statements.

DEVELOPMENT RISK

ENMAX's ability to successfully complete the 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's business model is designed to mitigate exposure to risks (as is the 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 low.

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 related to potential employment rights violations resulting 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. Risk of change in the corporate structure of ENMAX has been assessed as low 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 controls 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 low 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 Electric Utilities Act (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 with a corresponding increase in retained earnings. As at December 31, 2012, 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 to the taxation years 2001 through 2008. 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. 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, 2012, and December 31, 2012. 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's 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 low earnings variability related to divesting its holdings in joint ventures on unfavourable terms.

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 brokerage or clearing exchange. This credit risk is managed in the same respect as trade accounts receivable would be, as forwards counterparties are 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 brokerage 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

OUTSTANDING CONTRACTS-FOR-DIFFERENCES

As at December 31,	2012	2011
Notional Quantities		
Electricity sales (GW)	2,818	3,650
Natural gas sales (TJ)	319	323
Electricity purchases (GW)	4,556	941
Natural gas purchases (TJ)	14,585	14,610

Energy trading derivatives are contracts-for-differences that are financial forwards and futures for electricity and gas positions. This does not include electricity and gas contracts that are not considered to be accounting derivatives (normal purchase and sale contracts). The fair value of ENMAX Energy's contracts-for-differences is determined by estimating the amounts that would have to be received or paid to counterparties to terminate the contracts at December 31, 2012, and December 31, 2011.

At December 31, 2012, 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 $0.2 million as compared to negative mark-to-market adjustment of $61.3 million as at December 31, 2011. This amount does not reflect the fact that these contracts will settle at prices in effect in the future.

Refer to Note 4 in the Notes to the Consolidated Financial Statements for further information on financial instruments.

CLIMATE CHANGE AND THE ENVIRONMENT

ENVIRONMENTAL RISKS

Refer to Risk Management and Uncertainties section 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 progressive technologies that will help increase revenues should this trend continue to develop. The Generate Choice™ program, which was launched in late 2010, provides 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 revenue 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, 2012. 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 foreseen in the future.

ASSET RETIREMENT OBLIGATIONS

At December 31, 2012, the Corporation has asset retirement obligations relating to the following generating assets: McBride Lake, Taber, Crossfield, Kettles Hill and CEC. The accretion expense on these assets is included in the OM&A line in the statement of income.

THE EXPECTED REMEDIATION LIABILITY AND TIMING FOR EACH ASSET IS DISCLOSED IN THE TABLE BELOW:

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

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.

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, 2012, transactions with The City amounted to $109.8 in revenue, compared with $102.8 million in the same period in 2011. 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 utility departments. In the year ended December 31, 2012, total expenditures for goods and services received from The City were $155.4 million compared with $133.6 million in 2011. Most of these expenditures were for local access fees for use of The City's rights-of-way, the cost of which is passed through by ENMAX directly to 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, 2012, the Corporation obtained $143.4 million of financing from The City through arrangements with the ACFA to fund ongoing investment in the regulated business. This brings the total debt owed to The City to $827.8 million at December 31, 2012 ($732.9 million at December 31, 2011). Interest paid on this debt for the year ended December 31, 2012, was $35.5 million (2011-$32.5 million). The Corporation is required to pay an administration fee to The City of 0.25 per cent of the average monthly outstanding City debenture balance. For the year ended December 31, 2012, the administration fee paid was $1.9 million (2011-$1.7 million).

Additional details on the Corporation's transactions with The City can be found in Note 24 in the Notes to the Consolidated Financial Statements.

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, 2012:

- In June 2012, the Corporation renewed and extended its syndicated and bi-lateral credit facilities to July 20, 2016. The amount of credit available to the Corporation through these facilities increased $250.0 million to $1,150.0 million.
- As discussed earlier, on December 5, 2012, the Corporation and Capital Power signed an agreement for Capital Power to purchase a 50 per cent interest in the 800MW natural-gas-fuelled Shepard Energy Centre, located on the eastern limits of the city of Calgary. The parties will build, own, and operate the Shepard Energy Centre under a joint venture agreement.

INTEREST OF EXPERTS

INDEPENDENT AUDITOR

The Corporation's Auditor is Deloitte LLP, Chartered Accountants, Suite 700, 850 – 2nd Street SW, Calgary, Alberta, T2P 0R8. Deloitte 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 it has no equity interest in the Corporation and is compensated at a contracted fixed rate, regardless of the outcome of its reports.

LEGAL AND REGULATORY PROCEDINGS

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 19 in the Notes to the Consolidated Financial Statements.

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 53 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, 2012. 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.

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

The Corporation expects to see continued variability in electricity prices in 2013 with average prices being lower than those seen in 2012. The Corporation expects that natural gas prices will remain at relatively low levels. The Corporation's view on 2013 electricity prices is the major contributor to forecasted lower electricity margins in 2013. Market share in commercial and residential markets are expected to remain constant. Unplanned outages at generating facilities can have a significant impact on electricity margins.

OM&A costs are expected to continue to see pressure as a result of growth in the business and inflationary increases on labour and salary costs. Efforts continue to mitigate these increases through productivity improvements and general cost control measures.

As a result of the impacts from the above, ENMAX expects that net earnings for 2013 will be lower than the net earnings seen in 2012. This level of earnings and the related operating cash flow are expected to provide a considerable amount of the financing required for the Corporation's 2013 development plans. In addition, the reimbursement of 25 per cent of the costs related to Shepard from Capital Power (25 per cent in 2013, and an option on an additional 25 per cent interest in 2014) will enhance and contribute to ENMAX's strong financial position and investment-grade credit rating.

Looking out beyond the current year, the re-commissioning of two Alberta coal units; the federal government's announcement of new GHG rules, which have extended the lives of coal plants up to 50 years without GHG reductions; and the continued decline in natural gas prices will put pressure on power prices, which could negatively impact 2014 to 2016 earnings. In addition to these market changes, the Corporation's regulated business is approaching a significant milestone with the completion of its seven-year FBR period at the end of 2013. Commensurate with a move by other Alberta distribution companies to performance-based ratemaking (PBR), ENMAX's electricity distribution business is expected to move to a PBR which is very similar, but not the same, as its FBR structure. The Corporation's electricity transmission business is expected to move back to a "cost of service" model in 2014. The rebasing of the Corporation's distribution business is expected to favourably influence the future profitability of this segment.

CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

MANAGEMENT REPORT

The consolidated financial statements and all the information in the 2012 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 consolidated financial statements and accompanying notes.

Management has prepared the management's discussion and analysis (MD&A). The MD&A compares the Corporation's financial performance in 2012 to 2011 and should be read in conjunction with the consolidated financial statements and accompanying notes.

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

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

The independent external auditors, Deloitte LLP, have been appointed by the Shareholder to express an opinion on ENMAX's consolidated financial statements. The accompanying report of Deloitte LLP outlines the scope of its examination and its opinion on the consolidated financial statements.

Gianna Manes
President and Chief Executive Officer

David Halford, CA
Executive Vice President, Finance and Planning, Chief Financial Officer and Chief Risk Officer

March 7, 2013

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, 2012 and December 31, 2011, and the consolidated statements of earnings and comprehensive income, shareholder's equity and 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 in our audits 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, 2012 and December 31, 2011, and its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte LLP

Chartered Accountants
March 7, 2013
Calgary, Alberta

CONSOLIDATED BALANCE SHEETS

As at December 31, (millions of dollars)	2012	2011
ASSETS		
Cash and cash equivalents	$ 45.5	$ 35.4
Accounts receivable (Notes 4 and 5)	663.6	665.9
Income taxes receivable	90.6	53.3
Future income tax asset (Note 6)	7.2	13.9
Other current assets (Notes 4, 7 and 8)	45.8	54.4
Assets held for sale (Note 9)	575.6	364.0
	1,428.3	1,186.9
Property, plant and equipment (Note 10)	2,694.5	2,381.5
Power purchase arrangements (Note 11)	422.2	473.7
Intangible assets (Note 12)	116.3	106.7
Goodwill	16.0	16.0
Employee future benefits (Note 13)	18.5	25.4
Future income tax asset (Note 6)	61.0	74.4
Other long-term assets (Notes 4, 5, 7 and 8)	63.1	63.5
TOTAL ASSETS	$ 4,819.9	$ 4,328.1
LIABILITIES		
Short-term debt (Notes 4 and 14)	$ 165.9	$ 166.8
Accounts payable and accrued liabilities (Notes 4 and 5)	612.6	382.6
Income taxes payable	12.0	7.6
Future income tax liability (Note 6)	3.4	1.4
Current portion of long-term debt (Notes 4 and 15)	59.7	53.7
Other current liabilities (Notes 4 and 7)	59.3	89.5
Liabilities held for sale (Note 9)	9.5	6.4
	922.4	708.0
Long-term debt (Notes 4 and 15)	1,549.8	1,468.5
Future income tax liability (Note 6)	84.8	91.9
Other long-term liabilities (Notes 4 and 7)	86.6	102.4
Asset retirement obligations (Note 16)	14.4	13.6
	2,658.0	2,384.4
SHAREHOLDER'S EQUITY		
Share capital (Note 17)	280.1	280.1
Retained earnings	1,901.4	1,732.4
Accumulated other comprehensive loss (Note 18)	(19.6)	(68.8)
	2,161.9	1,943.7
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 4,819.9	$ 4,328.1

Commitments and contingencies (Note 19)

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

Year Ended December 31, (millions of dollars)	2012	2011
REVENUE (Note 3)		
Electricity	$ 2,276.5	$ 2,195.0
Natural gas	300.1	333.8
Transmission and distribution	299.4	301.3
Local access fees	148.3	126.1
Contractual services	125.8	111.2
Other	10.0	12.7
TOTAL REVENUE	3,160.1	3,080.1
COST OF SERVICES PROVIDED (Note 3)		
Electricity	1,859.5	1,819.3
Natural gas	281.7	319.7
Transmission and distribution	100.5	116.7
Local access fees	148.3	126.1
Contractual services	93.8	86.1
Operations, maintenance and administration	241.3	214.3
Foreign exchange loss (gain)	6.4	(3.5)
TOTAL COST OF SERVICES PROVIDED	2,731.5	2,678.7
	428.6	401.4
Amortization	164.4	162.4
Interest (Note 21)	40.2	50.1
Current income taxes (Note 6)	5.1	(8.9)
Future income taxes (Note 6)	3.3	25.4
NET EARNINGS FROM CONTINUING OPERATIONS	215.6	172.4
Net earnings from discontinued operations, net of tax (Note 9)	9.4	12.2
NET EARNINGS	225.0	184.6
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX		
Unrealized losses on available-for-sale financial assets arising during the year, includes future income tax of $nil (2011-$nil).	-	(1.5)
Realized losses on available-for-sale financial assets transferred to net earnings in the current year, includes future income tax benefit of $nil (2011-$nil)	0.1	2.5
Unrealized gain (losses) on derivatives designated as cash flow hedges, includes future income tax expense of $9.3 (2011-$19.7 benefit)	22.2	(76.7)
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 $1.2 (2011-$7.2 benefit)	26.9	45.2
Other comprehensive income (loss), net of tax	49.2	(30.5)
COMPREHENSIVE INCOME	$ 274.2	$ 154.1

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, 2011	$ 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 18)	-	-	(30.5)	(30.5)
BALANCE, DECEMBER 31, 2011	$ 280.1	$ 1,732.4	$ (68.8)	$ 1,943.7
Net earnings	-	225.0		225.0
Dividends	-	(56.0)		(56.0)
Other comprehensive loss including future income tax expense of $10.5 (Note 18)	-	-	49.2	49.2
BALANCE, DECEMBER 31, 2012	**$ 280.1**	**$ 1,901.4**	**$ (19.6)**	**$ 2,161.9**

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31, (millions of dollars)	2012	2011
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net earnings	$ 225.0	$ 184.6
Items not involving cash (Note 28)	171.4	221.9
	396.4	406.5
Change in non-cash working capital (Note 22)	111.9	(206.6)
Employee future benefits (Note 13)	7.0	(13.1)
Cash flow from continuing operating activities	515.3	186.8
Cash flow from discontinued operations	42.9	40.3
	558.2	227.1
INVESTING ACTIVITIES		
Purchase of property, plant and equipment (Note 10)	(395.3)	(341.6)
Net proceeds from disposal of assets held for sale	-	102.0
Additions to power purchase arrangements (Note 11)	(1.4)	(9.4)
Other assets	26.3	(10.3)
Contributions in aid of construction	12.3	12.2
Cash flow from continuing investing activities	(358.1)	(247.1)
Cash flow from discontinued operations	(215.6)	(211.0)
	(573.7)	(458.1)
FINANCING ACTIVITIES		
Repayment of short-term debt	(2,784.6)	(542.9)
Proceeds of short-term debt	2,783.8	709.7
Proceeds of long-term debt (Note 15)	143.4	145.9
Repayment of long-term debt	(56.1)	(51.4)
Dividend paid	(56.0)	(55.6)
Other long-term liabilities	(4.9)	(5.1)
	25.6	200.6
Increase (decrease) in cash and cash equivalents	10.1	(30.4)
Cash and cash equivalents, beginning of year	35.4	65.8
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 45.5	$ 35.4
Supplementary information:		
Interest paid	$ 87.4	$ 82.6
Income taxes paid	36.9	44.2
Cash and cash equivalents consist of:		
Cash	$ 40.7	$ 29.4
Short-term investments	4.8	6.0

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 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 non-regulated 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 5.

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 capture, completely and accurately, all customer movement, load classification and consumption data. 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 recoverable values of certain assets. Estimates of recoverable 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 earnings 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

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

PPE AMORTIZATION RATES			
Transmission, distribution and substation equipment	0.00%	-	22.72%
Tools, systems and equipment	3.66%	-	25.00%
Buildings and site development	0.61%	-	4.60%
Generation facilities and equipment	2.00%	-	10.00%
Vehicles	2.36%	-	8.00%

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 are of such substantial value they 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.

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 5. 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:

INTANGIBLE AMORTIZATION 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; the related asset retirement cost is 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 recognized only 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 earnings. 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 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 items are 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 related 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 earnings. Foreign exchange losses are presented on the consolidated statements of earnings 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 per cent 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 (see Note 19).

Purchased emission allowances are recorded on the consolidated balance sheets, 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 sheets, 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. SEGMENTED INFORMATION

	ENMAX Energy		ENMAX Power		Corporate & Intersegment Eliminations		Consolidated Totals	
Year Ended December 31, (millions of dollars)	2012	2011	2012	2011	2012	2011	2012	2011
REVENUE								
Electricity	2,510.2	2,395.6	185.9	216.0	(419.6)	(416.6)	2,276.5	2,195.0
Natural gas	300.1	333.8	-	-	-	-	300.1	333.8
Transmission and distribution	-	-	299.4	301.3	-	-	299.4	301.3
Local access fees	-	-	148.3	126.1	-	-	148.3	126.1
Contractual services	27.7	28.5	119.0	106.5	(20.9)	(23.8)	125.8	111.2
Other	13.7	14.8	3.5	3.2	(7.2)	(5.3)	10.0	12.7
TOTAL REVENUE	2,851.7	2,772.7	756.1	753.1	(447.7)	(445.7)	3,160.1	3,080.1
COST OF SERVICES PROVIDED								
Electricity	2,099.1	2,029.4	179.0	206.2	(418.6)	(416.3)	1,859.5	1,819.3
Natural gas	281.7	319.7	-	-	-	-	281.7	319.7
Transmission and distribution	-	-	100.5	116.7	-	-	100.5	116.7
Local access fees	-	-	148.3	126.1	-	-	148.3	126.1
Contractual services	3.6	2.2	91.3	84.9	(1.1)	(1.0)	93.8	86.1
Operations, maintenance and administration	165.8	151.5	110.0	97.3	(34.5)	(34.5)	241.3	214.3
Foreign exchange (gain) loss	6.4	(3.5)	-	-	-	-	6.4	(3.5)
TOTAL COSTS OF SERVICES PROVIDED	2,556.6	2,499.3	629.1	631.2	(454.2)	(451.8)	2,731.5	2,678.7
EARNINGS BEFORE AMORTIZATION, INTEREST AND INCOME TAXES	295.1	273.4	127.0	121.9	6.5	6.1	428.6	401.4
Amortization	109.0	107.4	53.3	52.3	2.1	2.7	164.4	162.4
EARNINGS BEFORE INTEREST AND INCOME TAXES	186.1	166.0	73.7	69.6	4.4	3.4	264.2	239.0
Interest							40.2	50.1
Income taxes							8.4	16.5
NET EARNINGS FROM CONTINUING OPERATIONS							215.6	172.4
Net earnings (loss) from discontinued operations							9.4	12.2
NET EARNINGS							225.0	184.6
GOODWILL	16.0	16.0					16.0	16.0
CAPITAL ADDITIONS	263.1	196.3	158.6	137.4	9.9	5.1	431.6	338.8

SEGMENTED TOTAL ASSETS

As at December 31, (millions of dollars)	2012	2011
ENMAX Energy	3,410.8	2,960.9
ENMAX Power	1,375.8	1,323.0
Corporate and eliminations	33.3	44.2
	4,819.9	4,328.1

4. FINANCIAL INSTRUMENTS, HEDGES AND RISK MANAGEMENT

RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS AND DERIVATIVES

As at December 31, 2012, and 2011	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		√	√			√

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.

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.

MARKET RISK

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

- Energy Services Agreements (ESA) – The PPAs and tolling agreements 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. ENMAX has a tolling agreement for 100 per cent of the output of McBride wind farm.
- 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 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. 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, 2012, and 2011.
- Interest rate sensitivities are based on a combination of the Canadian Dealer Offered Rate (CDOR) and the London Interbank

Offered Rate (LIBOR) with an assumption that LIBOR is equal to CDOR plus 0.001 per cent.

- Sensitivities are exclusive of any potential income tax impacts.

SENSITIVITIES OF MARKET RISKS

As at December 31, (millions of dollars)	2012		2011	
	Earnings	Other Comprehensive Income	Earnings	Other Comprehensive Income
Interest rates increased 100 basis points (1% pure rate change)	+ 0.5	+ 13.7	+ 0.5	+ 14.9
Canadian dollar strengthens compared with the U.S. dollar by 10%	- 9.2	+ 1.2	- 5.2	+ 2.7
Canadian dollar strengthens compared with the Japanese Yen by 10%	-	-	- 0.2	-
Forward price of natural gas increases by 10%	-	+ 6.5	- 0.1	+ 6.9
Forward price of electricity increases by 10%	-	+ 11.6	+ 4.2	- 23.8

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

FOREIGN EXCHANGE AND INTEREST RATE RISK

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

ENMAX is not exposed to interest rate risk and volatility as a result of the issuance of fixed-rate long-term debt and the use of interest rate hedging instruments. The fair value of ENMAX's long-term debt and any associated interest rate hedging instruments change as interest rates change, assuming all other variables remain constant. For example, a 1 per cent increase (decrease) in interest rates as at December 31, 2012, would have an effect on fair value of fixed interest rate debt of $99.1 million decrease (increase) (2011 – $78.1 million).

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

CREDIT RISK

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

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

FINANCIAL ASSETS		
As at December 31, (millions of dollars)	2012	2011
Cash and cash equivalents (1)	45.5	35.4
Accounts receivable (2)	663.6	665.9
Other current assets (3)	45.8	54.4
Other long-term assets (3)	63.1	63.5

(1) Cash and Cash Equivalents

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

(2) Accounts Receivable

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

CHANGES IN THE ALLOWANCE FOR DOUBTFUL ACCOUNTS		
As at December 31, (millions of dollars)	2012	2011
Provision at the beginning of the year	8.7	9.4
Increase to allowance	6.3	7.7
Recoveries and write-offs	(8.3)	(8.4)
Provision at end of the year	6.7	8.7

Charges to earnings as a result of credit losses for the Corporation for 2012 totalled $6.3 million (2011–$7.8 million). Management monitors credit risk exposure and has implemented measures to protect against losses. In specific situations, this includes, but is not limited to, a reduction of credit limits, requests for additional collateral or restriction of new transaction terms.

The remainder of the accounts receivable balance outstanding at December 31, 2012, consists of unbilled revenue accruals. No provision has been recorded due to the minimal credit risk at the consolidated balance sheet date.

AGING ANALYSIS OF TRADE RECEIVABLES PAST DUE BUT NOT IMPAIRED		
As at December 31, (millions of dollars)	2012	2011
1-30 days past due	29.1	14.4
31-60 days past due	3.2	3.6
61 days or more past due	8.4	10.0
Total past due	40.7	28.0

(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 investmen-grade (BBB- or higher) by recognized rating agencies.

LIQUIDITY RISK

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

CONTRACTUAL MATURITIES OF NON-DERIVATIVE FINANCIAL LIABILITIES

As at December 31, (millions of dollars)	2012	2011
2013	931.3	124.4
2014	374.6	364.4
2015	114.4	104.2
2016	126.9	117.2
2017	105.0	96.3
Thereafter	1,334.5	1,204.4

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 derivative financial liabilities:

CONTRACTUAL MATURITIES OF DERIVATIVE FINANCIAL LIABILITIES

As at December 31, (millions of dollars)	2012	2011
2013	29.2	15.9
2014	23.3	7.7
2015	10.4	9.0
2016	9.5	6.0
2017	7.6	4.9
Thereafter	21.9	12.5

As at December 31, 2012, 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 20 to these consolidated financial statements.

DERIVATIVE ASSETS AND LIABILITIES				
As at December 31, (millions of dollars)	2012		2011	
	Hedge Instruments	Non-Hedge Derivatives	Hedge Instruments	Non-Hedge Derivatives
Assets				
Current	15.6	11.9	3.7	18.9
Non-current	23.5	21.0	8.1	24.2
Liabilities				
Current	19.8	9.4	42.3	16.8
Non-current	40.5	32.2	50.4	31.8

DERIVATIVE ASSETS AND LIABILITIES

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 2012, losses of $1.4 million (2011–$0.1 million losses) were recognized in earnings as a reflection of the ineffectiveness of the relevant hedges. Gains and losses on cash flow hedges are reclassified immediately to net earnings when the hedged item is sold or terminated early, or when a hedged anticipated transaction is no longer likely to occur. During 2012, there was no impact to earnings related to hedges that no longer qualified for hedge accounting (2011–$0.3 million loss).

Financial derivative instruments are recorded on the consolidated balance sheets at fair value. As at December 31, 2012, the mark-to-market adjustment based on the fair value of these hedge contracts resulted in unrealized gains or losses on derivative instruments, which are included in the consolidated balance sheets as per the table below:

Foreign exchange exposures on the Corporation's futures margin trading account are managed through economic hedges. For these hedges, the change in the fair value of the hedging derivative and the hedged items are recognized directly in net earnings. During 2012, there were gains of $0.1 million (2011–$0.1 million losses) recognized.

The Corporation estimates that, of the $19.6 million of losses reported in accumulated other comprehensive income as at December 31, 2012, $1.7 million are expected to be realized within the next 12 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 earnings. During 2012, there were losses of $3.2 million (2011–$24.0 million losses) recorded in net earnings.

FAIR VALUE

Fair value of financial instruments and derivatives 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.

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

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

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

Level III

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

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

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 that transaction (Level I – highest and Level III – lowest).

FAIR VALUES OF THE CORPORATION'S FINANCIAL ASSETS AND LIABILITIES

As at December 31, 2012 (millions of dollars)	Quoted Prices in Active Markets	Fair Value [1] Significant Other Observable Inputs	Significant Unobservable Inputs [2]	
	(LEVEL I)	(LEVEL II)	(LEVEL III)	TOTAL
Financial assets measured at fair value:				
Energy trading forward contracts	0.1	24.5	15.5	40.1
Foreign currency forward contracts	-	9.9	-	9.9
Interest rate swap	-	22.0	-	22.0
Financial assets total	0.1	56.4	15.5	72.0
Financial liabilities measured at fair value:				
Energy trading forward contracts	3.7	30.6	6.0	40.3
Foreign currency forward contracts	-	1.9	-	1.9
Interest rate swap	-	59.7	-	59.7
Financial liabilities total	3.7	92.2	6.0	101.9
Net risk management assets (liabilities)	(3.6)	(35.8)	9.5	(29.9)

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

FAIR VALUES OF THE CORPORATION'S FINANCIAL ASSETS AND LIABILITIES

As at December 31, 2011 (millions of dollars)	Quoted Prices in Active Markets	Fair Value [1] Significant Other Observable Inputs	Significant Unobservable Inputs [2]	
	(LEVEL I)	(LEVEL II)	(LEVEL III)	TOTAL
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.

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:

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

(millions of dollars)	Hedges
Net risk management liabilities as at December 31, 2011	(10.1)
Changes attributable to:	
Commodity price changes	16.1
New contracts entered	2.6
Transfers in/out of Level III	0.9
Net risk management assets at December 31, 2012	**9.5**
Total change in fair value included in other comprehensive income	18.7
Total change in fair value included in pre-tax earnings	-

NON-DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

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

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

CARRYING AMOUNTS AND FAIR VALUES OF LONG-TERM DEBT

As at December 31, (millions of dollars)	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt [1], consisting of:				
Debentures, with remaining terms of				
Less than 5 years	47.0	49.8	50.1	54.7
6 – 10 years	135.4	150.4	147.4	164.5
11 – 15 years	7.9	9.4	-	-
16 – 20 years	138.3	162.3	60.0	67.9
21 – 25 years	499.3	565.1	475.4	550.2
Private debentures				
Series 1 (6.15%)	297.8	345.2	297.4	343.6
Series 2 (5.85%)	249.5	260.8	249.2	269.4
Non-recourse term financing Kettles Hill Wind Farm (Kettles) and Calgary Energy Centre (CEC)	229.3	219.8	237.4	222.3
Promissory note	5.0	5.3	5.3	5.3
	1,609.5	1,768.1	1,522.2	1,677.9

(1) Includes current portion of $59.7 million (December 31, 2011 – $53.7 million). Maturity dates range from April 2014 to June 2037.

5. 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:

REGULATORY ASSETS AND LIABILITIES

As at December 31, (millions of dollars)	2012	2011
Regulatory assets		
Accounts receivable: purchased power variances (1)	21.7	69.9
Distribution assets: inter-company profit on underground residential development (2)	39.5	39.0
Other regulatory assets (3)	16.0	14.1
Total regulatory assets	77.2	123.0
Regulatory liabilities		
Other regulatory liabilities (4)	3.3	1.2
Total regulatory liabilities	3.3	1.2

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 2012 would have been $48.2 million higher (2011–$33.9 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 earnings for 2012 would be a reduction of $0.5 million (2011–$3.5 million) representing the profit on these services. The balances for PPE and retained earnings at December 31, 2012, would be further reduced by $39.5 million (December 31, 2011–$39.0 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 relate 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, 2012, was a $5.4 million loss (2011–$9.6 million loss) representing the gains and losses on disposals and retirements of regulated assets.

6. INCOME TAXES

RECONCILIATION OF INCOME TAX EXPENSE

Year ended December 31, (millions of dollars)	2012	2011
Earnings before income taxes from continuing operations	224.0	188.9
Income not subject to taxes	(178.2)	(144.4)
	45.8	44.5
Federal and provincial tax rate	25.0%	26.5%
Expected income tax expense	11.4	11.8
Non-deductible expenses	1.1	4.0
Adjustment for future tax reversal and other estimate revisions	(4.1)	0.7
Income taxes on continuing operations	8.4	16.5

As at December 31, 2012, the Corporation has non-capital loss carry-forwards that will be used to offset taxes in future years. These non-capital loss carry-forwards expire as follows:

NON-CAPITAL LOSS CARRY-FORWARDS

(millions of dollars)	
2027	17.3
2028	18.9
2029	7.9
2030	22.0
2031	2.3
2032	10.1
	78.5

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:

FUTURE INCOME TAX ASSET AND LIABILITY

As at December 31, (millions of dollars)	2012	2011
Future income tax asset:		
PPAs(1)	22.7	33.8
PPE–differences in net book value and undepreciated capital cost	(4.8)	4.6
Cumulative eligible capital	6.5	6.8
Other	4.6	0.5
Non-capital loss carry-forwards	38.5	34.1
Unrealized derivative	0.1	2.2
Other comprehensive income	0.6	6.3
	68.2	88.3
Less current portion	(7.2)	(13.9)
	61.0	74.4
Future income tax liability:		
PPE – differences in net book value and undepreciated capital cost	89.4	95.4
Power purchase arrangements	17.1	13.5
Non-capital loss carry-forwards	(12.6)	(10.7)
Other comprehensive income	(1.1)	(5.9)
Mark-to-market liability	(3.0)	(0.1)
Other	(1.6)	1.1
	88.2	93.3
Less current portion	(3.4)	(1.4)
	84.8	91.9
Net future income tax liability	(20.0)	(5.0)

(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.

7. OTHER ASSETS AND LIABILITIES

OTHER ASSETS AND LIABILITIES		
As at December 31, (millions of dollars)	2012	2011
Other current assets		
Hedge instruments	15.6	3.7
Non-hedge derivatives	11.9	18.9
Restricted cash	3.6	17.8
Prepaid expenses	12.4	12.6
Inventory	2.3	1.4
	45.8	54.4
Other long-term assets		
Hedge instruments	23.5	8.1
Non-hedge derivatives	21.0	24.2
Restricted cash	8.9	14.1
Shares in other companies	0.2	0.4
Prepaid expenses	4.3	11.7
Other	5.2	5.0
	63.1	63.5
Other current liabilities		
Hedge instruments	19.8	42.3
Non-hedge derivative	9.4	16.8
Deposits	18.3	23.0
Deferred revenue	11.8	7.4
	59.3	89.5
Other long-term liabilities		
Hedge instruments	40.5	50.4
Non-hedge derivative	32.2	31.8
Long-term payables	9.6	13.8
Deferred revenue	4.3	6.4
	86.6	102.4

8. RESTRICTED CASH

Other current assets include restricted cash and cash equivalents of $3.6 million (2011–$17.8 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 $8.9 million (2011–$14.1 million), relating to a debt servicing obligation on a non-recourse financing arrangement (see Note 16).

9. ASSETS HELD FOR SALE

During 2012 the Corporation pursued partnership opportunities to finance ENMAX Energy's Shepard Energy Centre (Shepard). On December 5, 2012, ENMAX Corporation and Capital Power Corporation (Capital Power) entered into a two-part purchase and sale arrangement for Capital Power to purchase a 50 per cent ownership interest in Shepard. Under the arrangement, Capital Power will acquire a 25 per cent interest in Shepard in the first quarter of 2013 plus obligations for 25 per cent of all future costs, and a further 25 per cent interest in the first quarter of 2014 plus obligations for a further 25 per cent of all future costs. Both the Corporation and Capital Power (the Parties) will hold their ownership interests in an unincorporated joint venture to build, own, and operate Shepard under a Joint Venture Agreement (JVA). Under the JVA, ENMAX will continue to provide construction management services to the Parties, and will be appointed as the operator for the provision of operating and maintenance services and as the Joint Venture Manager for the provision of accounting and settlement services. Capital Power will be appointed as the Real Time Operator to dispatch each party's electricity entitlement under the AESO rules. A Management Committee appointed by the Parties will manage and govern the joint venture.

In addition to the Shepard transaction noted above, during the year ENMAX Energy began soliciting interest from potential purchasers for some of its non-core assets. As such, the assets and liabilities of this disposal group have been reclassified to assets held for sale and liabilities held for sale on the consolidated balance sheets. Operating results related to these assets and liabilities have been included in net earnings from discontinued operations on the consolidated statements of earnings and comprehensive income. Comparative periods for the ENMAX Energy segment have been restated.

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 sheets 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 from discontinued operations, net of tax on the consolidated statements of earnings 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.

ASSETS AND LIABILITIES HELD FOR SALE

As at December 31, (millions of dollars)	2012	2011
ASSETS		
Accounts receivable	3.2	2.9
Other current assets	0.3	-
Property, plant and equipment [1]	553.1	360.9
Intangible assets [1]	18.7	0.2
Other long-term assets	0.3	-
TOTAL ASSETS	575.6	364.0
LIABILITIES		
Accounts payable and accrued liabilities	2.1	1.9
Other current liabilities	1.7	0.7
Other long-term liabilities	5.3	3.5
Asset retirement obligations	0.4	0.3
TOTAL LIABILITIES	9.5	6.4

(1) Property, plant and equipment includes Shepard Energy Centre construction costs of $510.1 million (2011-$360.9 million). Intangible assets include $18.6 million Shepard Energy Centre related costs (2011–nil).

NET EARNINGS FROM DISCONTINUED OPERATIONS

Year ended December 31 (millions of dollars)	2012	2011
REVENUE		
Electricity	-	0.3
Contractual services	28.8	25.5
Other	0.5	1.6
TOTAL REVENUE	29.3	27.4
COST OF SERVICES PROVIDED		
Contractual services	4.4	3.8
OM&A	10.5	9.9
COST OF SERVICES PROVIDED	14.9	13.7
Gain on sale	-	3.4
Amortization	4.8	4.5
Interest	0.2	0.4
NET EARNINGS FROM DISCONTINUED OPERATIONS, net of tax	9.4	12.2

10. PROPERTY, PLANT AND EQUIPMENT

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

As at December 31, 2011 (millions of dollars)	Cost	Accumulated Amortization	Net Book Value
Transmission, distribution and substation equipment	1,656.6	(550.4)	1,106.2
Generation facilities and equipment	999.2	(145.3)	853.9
Construction in progress	482.6	-	482.6
Buildings and site development	192.5	(51.3)	141.2
Tools, systems and equipment	87.7	(52.4)	35.3
Land	31.8	-	31.8
Capital spares and other	28.4	-	28.4
Vehicles	27.4	(10.6)	16.8
	3,506.2	(810.0)	2696.2
Government grants	(20.5)	1.0	(19.5)
Contributions in aid of construction	(376.8)	81.6	(295.2)
	3,108.9	(727.4)	2,381.5

11. 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, 2012			
Battle River	572.0	(236.7)	335.3
Keephills	256.5	(169.6)	86.9
	828.5	(406.3)	422.2
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

12. INTANGIBLE ASSETS

(millions of dollars)	Cost	Accumulated Amortization	Net Book Value
As at December 31, 2012			
Computer systems	245.9	(173.1)	72.8
Renewable energy certificates and water licenses	12.4	(6.1)	6.3
Customer lists and contracts	20.0	(15.8)	4.2
Land easements, rights and lease options	3.2	(2.7)	0.5
Work in progress	32.5	-	32.5
	314.0	(197.7)	116.3
As at December 31, 2011			
Computer systems	240.8	(158.3)	82.5
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
Work in progress	8.6	-	8.6
	286.0	(179.3)	106.7

13. EMPLOYEE FUTURE BENEFITS

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

The Corporation also sponsors a supplemental pension plan providing an additional DB pension based on years of service and highest average earnings (including incentive pay) to both DB and DC members whose benefits are limited by maximum pension rules under the Income Tax Act (Canada) (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 2012, 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 $16.7 million (2011–$20.6 million).

For the year ended December 31, 2012, the total expense for the DC provisions of the plan is $8.4 million (2011–$7.7 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:

DB PROVISIONS, INCLUDING SUPPLEMENTAL PENSION PLAND AND POST-RETIREMENT NON-PENSION BENEFIT PLAN

Years ended December 31, (millions of dollars)	2012		2011	
	Pension Benefit Plan	Other Benefit Plan	Pension Benefit Plan	Other Benefit Plan
Change in benefit obligation:				
Benefit obligation, beginning of year	259.5	9.9	220.2	8.8
Current service cost	7.2	0.9	5.8	0.7
Employee contributions	2.7	-	2.7	-
Benefits paid	(17.5)	(0.6)	(12.4)	(0.4)
Interest cost	11.0	0.4	11.8	0.4
Non-investment expenses	(0.3)	-	(0.3)	-
Experience gain	11.1	0.5	31.7	0.4
Benefit obligation, end of year	273.7	11.1	259.5	9.9
Change in plan assets:				
Plan assets at market-related value, beginning of year	192.5	-	182.8	-
Employer contributions	7.8	0.6	12.9	0.4
Employee contributions	2.7	-	2.7	-
Benefits paid	(17.5)	(0.6)	(12.4)	(0.4)
Non-investment expenses	(0.3)	-	(0.3)	-
Return on plan assets	12.4	-	13.1	-
Acquisitions and divestitures	0.1	-	0.3	-
Experience loss	4.4	-	(6.6)	-
Plan assets at market-related value, end of year	202.1	-	192.5	-
Deferred investment gain	4.0	-	5.0	-
Plan assets at fair value, end of year	206.1	-	197.5	-
Funded status – plan deficit	(67.6)	(11.1)	(62.0)	(9.9)
Unamortized past service cost	-	(0.6)	(0.1)	(0.7)
Unamortized experience losses	94.9	2.9	95.7	2.4
Accrued benefit asset (liability)	27.3	(8.8)	33.6	(8.2)

Plan assets at December 31, 2012, consist of Canadian equity securities of 30 per cent (2011–30 per cent), foreign equity securities of 31 per cent (2011–29 per cent), long-term fixed-income securities of 38 per cent (2011–37 per cent) and cash and short-term securities of 1 per cent (2011–4 per cent).

NET BENEFIT COST

Year ended December 31, (millions of dollars)	2012		2011	
	Pension Benefit Plan	Other Benefit Plan	Pension Benefit plan	Other Benefit Plan
Current service costs	7.1	0.9	5.8	0.7
Interest cost	11.0	0.4	11.8	0.4
Actual return on assets	(15.9)	-	(6.6)	-
Actuarial gains	11.1	0.5	31.7	0.4
Difference between expected and actual return	3.5	-	(6.4)	-
Difference between recognized and actual actuarial gains	(2.7)	(0.4)	(26.3)	(0.3)
Difference between amortization of past service costs and actual plan amendments for the year	-	(0.1)	-	(0.1)
Net benefit plan expense	14.1	1.3	10.0	1.1

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

SIGNIFICANT WEIGHTED-AVERAGE ACTUARIAL ASSUMPTIONS

Year ended December 31,	2012		2011	
%	Pension Benefit Plan	Other Benefit Plan	Pension Benefit Plan	Other Benefit Plan
Accrued benefit obligation:				
Discount rate	4.00	4.00	4.25	4.00
Rate of compensation increase	3.25	3.50	3.50	3.50
Health care cost trend rate for next year	n/a	8.00	n/a	9.50
Decreasing gradually to 5% in the year	n/a	2020	n/a	2021
Benefit cost:				
Discount rate	4.25	4.00	5.25	4.75
Expected long-term rate of return on plan assets	6.50	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	9.50	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 5.0% per year (2011 – 4.5%).

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 2012:

ONE-PERCENTAGE-POINT CHANGE IN ASSUMED HEALTH CARE COST TREND RATE

(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	0.3	(0.3)

14. SHORT-TERM DEBT

The Corporation has unsecured credit facilities amounting to $1,150.0 million (2011–$900.0 million) to fund general operating requirements and to provide liquidity support for commercial paper and commodity marketing programs. Combined, all of the facilities encompass $900.0 million in operating facilities and $250.0 million of syndicated credit facilities. As at December 31, 2012, $355.0 million (2011–$355.5 million) of operating facilities and $30.0 million (2011–$31.9 million) of syndicated facilities were used in support of outstanding letters of credit (see Note 19).

Short-term debt is comprised of commercial paper, bank overdrafts and bankers' acceptances, which are guaranteed by the Corporation's credit facilities. At December 31, 2012, the Corporation had $165.9 million in commercial paper and bank overdrafts at a weighted average rate of 1.31 per cent (2011–$166.8 million at weighted average rate of 1.11 per cent).

15. LONG-TERM DEBT

LONG-TERM DEBT

As at December 31, (millions of dollars)	2012	Weighted Average Interest Rates	2011	Weighted Average Interest Rates
City debentures [1], with remaining terms of:				
Less than 5 years	47.0	4.56%	50.1	5.50%
5 – 10 years	135.4	4.43%	147.4	4.50%
10 – 15 years	7.9	5.00%	-	-
15 – 20 years	138.3	4.61%	60.0	4.37%
20 – 25 years	499.3	4.17%	475.4	4.58%
Private debentures [1]	547.3	6.01%	546.6	6.01%
Non-recourse financing	229.3	6.38%	237.4	6.22%
Promissory note	5.0	5.00%	5.3	5.00%
	1,609.5	-	1,522.2	-
Less: current portion	59.7	-	53.7	-
	1,549.8	-	1,468.5	-

(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, 2012, the Corporation obtained $143.4 million of 5-, 10-, 20- and 25-year debentures from The City through arrangements with the ACFA (June 2011–$145.8 million in 5-, 10-, 20- and 25-year debentures). Interest on the debentures is compounded semi-annually as follows: $12.9 million, which matures in June 2017, at 1.59 per cent; $4.2 million, maturing in June 2022, at 2.27 per cent; $6.7 million, maturing in June 2032, at 2.92 per cent; and the remaining $119.6 million of the debt, which matures in June 2037, at 3.12 per cent. 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 per cent on the average monthly outstanding debenture balance held by The City on behalf of the Corporation.

PRIVATE DEBENTURES

No private debentures were issued in 2012 or 2011. The private debentures bear interest at rates of 5.85 per cent – 6.15 per cent, 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

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, 2012, was $19.8 million (2011–$19.8 million), which bears interest at a fixed rate of 5.86 per cent, payable monthly, maturing in December 2016. As at December 31, 2012, 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, 2012, was $209.5 million (2011–$217.6 million), which was effectively fixed to an interest rate of 6.74 per cent using an interest rate swap that was also acquired as part of the acquisition. The CEC debt is payable quarterly and matures in September 2026.

As at December 31, 2012 (millions of dollars)	Principal Outstanding	Maturity Date	Average Interest Rate
CEC	209.5	Sep. 2026	6.43%
Kettles	19.8	Dec. 2016	5.86%
	229.3		6.38%
Less: current portion	8.8		
	220.5		

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

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 per cent 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, 2012 are as follows:

REQUIRED REPAYMENTS OF PRINCIPAL

(millions of dollars)	
2013	58.9
2014	308.5
2015	57.5
2016	72.0
2017	53.1
Thereafter	1,059.5

16. 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, 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 is 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, 2012, the Corporation has asset retirement obligations relating to the following project generating assets: McBride, Taber, Crossfield, Kettles and CEC. The accretion expense on these assets is included in the amortization line item on the consolidated statement of earnings. The change in the carrying amount of the asset retirement obligations is disclosed in the table below:

CHANGE IN CARRYING AMOUNT OF ASSET RETIREMENT OBLIGATIONS

(millions of dollars)	2012	2011
Balance, beginning of year	13.6	6.7
Liabilities incurred in the current period	-	-
Accretion expense	0.8	0.8
Revisions in estimates	-	6.1
Balance, end of year	14.4	13.6

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%:

EXPECTED REMEDIATIONLIABILITY AND TIMING

(millions of dollars)	Amount	Date
McBride	47.8	September 2057
Taber	32.4	December 2057
Kettle Hills	26.2	May 2071
Crossfield	10.4	December 2048
CEC	29.6	March 2043

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.

17. SHARE CAPITAL

SHARE CAPITAL

(millions of dollars, except share amounts)	Number of Shares	Amount
Authorized:		
Unlimited number of common shares		
Issued and outstanding:		
Balance, December 31, 2011 and 2012:		
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, 2011 and 2012	**3**	**280.1**

18. ACCUMULATED OTHER COMPREHENSIVE INCOME

ACCUMULATED OTHER COMPREHENSIVE INCOME

As at December 31, (millions of dollars)	2012	2011
Unrealized losses on available-for-sale financial assets	(0.1)	(0.2)
Unrealized losses on derivatives designated as cash flow hedges	(19.5)	(68.6)
Accumulated other comprehensive losses, including a future income tax recovery of $1.7 million (2011 - recovery of $12.2 million)	(19.6)	(68.8)

19. 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:

MAJOR CAPITAL COMMITMENTS OVER THE NEXT FIVE YEARS

(millions of dollars)	
2013	71.8
2014	7.1
2015	1.1
2016	0.9
2017	0.9
Thereafter	22.0

OBLIGATIONS UNDER OTHER AGREEMENTS

The Corporation rents premises, vehicles and equipment under multiple lease contracts with varying expiration dates. The aggregate payments under these arrangements over the next five years are as follows:

AGGREGATE PAYMENTS UNDER OTHER AGREEMENTS

(millions of dollars)	
2013	41.2
2014	36.9
2015	14.7
2016	7.8
2017	6.2
Thereafter	35.1

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.

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.

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.

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.

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. Due to the change of law provisions in ENMAX Energy's PPAs and Tolling Agreements ENMAX Energy is exposed to the associated compliance costs.

For the year ended December 31, 2012, the consolidated financial statements include a charge to earnings in the amount of $20.7 million (2011–$28.8 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-fuelled 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, 2012, the Corporation had issued letters of credit amounting to $385.0 million (December 31, 2011–$387.4 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.

20. CAPITAL MANAGEMENT

The Corporation's objectives when managing capital are threefold: (i) to maintain a flexible capital structure that optimizes corporate liquidity as well as the cost of capital at acceptable risk; (ii) to manage capital in a manner that 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 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.

CAPITAL STRUCTURE

As at December 31, (millions of dollars)	2012	2011
Long-term debt [1]	1,609.5	1,522.2
Less: cash and cash equivalents	45.5	35.4
Net debt	1,564.0	1,486.8
Shareholder's equity	2,161.9	1,943.7
Total capital	3,725.9	3,430.5

(1) Includes current portion of $59.7 million (2011 – $53.7 million). Maturity dates range from April 2014 to June 2037.

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:

EBITDA

As at December 31, (millions of dollars)	2012	2011
Adjusted EBITDA	443.0	414.2
Less: EBITDA from discontinued operations	14.4	12.8
Standardized EBITDA	428.6	401.4
Deduct: Amortization	164.4	162.4
Earnings before interest and taxes (EBIT)	264.2	239.0
Deduct: Interest	40.2	50.1
Deduct: Income taxes	8.4	16.5
Net earnings from continuing operations	215.6	172.4

In addition, the Corporation monitors its capital using various ratios including (i) long-term debt to total capitalization and (ii) earnings before interest, income taxes, depreciation and amortization (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 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, 2012, the Corporation is in compliance with its financial covenants related to debt classified as long-term debt on the consolidated balance sheets.

21. INTEREST

INTEREST		
Year ended December 31, (millions of dollars)	2012	2011
Interest on long-term debt	86.0	82.4
Short-term interest and other financing charges	4.5	3.7
Less: capitalized interest	(50.3)	(36.0)
	40.2	50.1

22. CHANGE IN NON-CASH WORKING CAPITAL

CHANGE IN NON-CASH WORKING CAPITAL		
As at December 31, (millions of dollars)	2012	2011
Accounts receivable	2.2	(169.3)
Income taxes receivable	(37.3)	(18.6)
Other current assets	(0.8)	9.6
Accounts payable and accrued liabilities	143.7	(15.2)
Other current liabilities	(0.3)	14.9
Income taxes payable	4.4	(28.0)
	111.9	(206.6)

23. 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 tubines began generating electricity in 2003, and the Corporation has a 50 per cent ownership interest. The Corporation has also agreed to purchase 100 per cent of the output from the wind farm under a 20-year PPA.

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 was completed and the

West LRT was operational as of December 10, 2012.

PROPORTIONATE SHARE OF THE JOINT VENTURES' NET ASSETS						
As at December 31,	2012			2011		
(millions of dollars)	SNC-Lavalin	McBride	Total	SNC-Lavalin	McBride	Total
Cash and cash equivalents	4.9	-	4.9	6.1	-	6.1
Accounts receivable	4.7	0.6	5.3	4.6	1.0	5.6
PPE	-	35.7	35.7	-	37.9	37.9
Accounts payable	(1.5)	(0.2)	(1.7)	(1.9)	(0.1)	(2.0)
Other current liabilities	(3.2)	-	(3.2)	(6.5)	-	(6.5)
Other long-term liabilities	-	(4.0)	(4.0)	-	(3.8)	(3.8)
Proportionate share in net assets of joint ventures	4.9	32.1	37.0	2.3	35.0	37.3

PROPORTIONATE SHARE OF THE JOINT VENTURES' CASH FLOWS						
For the year ended December 31,	2012			2011		
(millions of dollars)	SNC-Lavalin	McBride	Total	SNC-Lavalin	McBride	Total
Operating activities	(1.2)	4.9	3.7	4.9	2.9	7.8
Financing activities	-	(4.9)	(4.9)	-	(2.9)	(2.9)
Proportionate share in the increase/(decrease) in cash and cash equivalents of joint venture	(1.2)	-	(1.2)	4.9	-	4.9

PROPORTIONATE SHARE OF THE JOINT VENTURES' NET EARNINGS

For the year ended December 31, (millions of dollars)	2012			2011		
	SNC-Lavalin	McBride	Total	SNC-Lavalin	McBride	Total
Earnings						
Revenue	13.9	7.9	21.8	16.4	8.3	24.7
Costs and expenses	(11.2)	(3.2)	(14.4)	(14.3)	(3.1)	(17.4)
Amortization	(0.1)	(2.3)	(2.4)	-	(2.2)	(2.2)
Interest	-	(0.3)	(0.3)	-	(0.4)	(0.4)
Income taxes recovery (expenses)	-	-	-	-	-	-
Proportionate share in net earnings of joint venture	2.6	2.1	4.7	2.1	2.6	4.7

24. 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, 2012, were $109.8 million (2011–$102.8 million). The significant components include contract sales of electricity, construction of infrastructure, provision of non-regulated power distribution services and billing and customer care services relating to The City's utilities departments. ENMAX has committed to a water supply agreement with The City, to commence upon completion of Shepard Energy Centre (SEC), whereby The City will supply a specified amount of water annually to facilitate SEC operations.

As at December 31, 2012, amounts owing to the Corporation from The City for services provided were $26.4 million ($16.7 million at December 31, 2011). Included in accounts payable are amounts owed to The City as follows:

ACCOUNTS PAYABLE OWED TO THE

As at December 31, (millions of dollars)	2012	2011
Goods and services received	0.4	0.3
Local access fees	10.7	13.4
Total payable to The City	11.1	13.7

Total expenditures for goods and services received from The City for the year ended December 31, 2012, were $155.4 million (2011-$133.6 million). Most of these expenditures were for local access fees for use of The City's rights-of-way, the cost of which is passed through by ENMAX directly to transmission and distribution customers. The measurement basis used in determining the above values is the contract amount that is considered fair market value; that is, the measurement basis is the same as would be used for a third-party arm's-length transaction.

In addition, on June 15, 2012, the Corporation obtained $143.4 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 $827.8 million at December 31, 2012 ($732.9 million at December 31, 2011). Interest paid on this debt for the year ended December 31, 2012, was $35.5 million ($32.5 million for December 31, 2011). The Corporation is required to pay an administration fee to The City of 0.25 per cent of the average monthly outstanding City debenture balance. For the year ended December 31, 2012, the

administration fee paid was $1.9 million (2011–$1.7 million).

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

25. GOVERNMENT GRANTS

On October 7, 2008, the Corporation and The City entered into an infrastructure funding agreement for the construction of the DDEC. Funding of $10.0 million was received by the Corporation from the Government of Alberta and an additional $10.0 million was received from the 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, 2012, amortization of $0.6 million was recognized on the grants (2011–$0.7 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, 2012, $0.7 million of assistance has been recorded (2011-$1.2 million).

26. COMPARATIVE FIGURES

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

LOCAL ACCESS FEES REVENUE

During the third quarter, the Corporation reclassified revenues related to Local Access Fees from Transmission and Distribution to be presented separately in the Consolidated Statements of Earnings and Comprehensive Income. The presentation change was completed for revenues to have consistent detail as the presentation of cost of services provided. The change in presentation has been applied to the comparative year. For the year ended December 31, 2011, Transmission and Distribution revenue is $301.9 million and Local Access Fees revenue is $148.3 million.

FOREIGN EXCHANGE GAINS

During the second quarter, the Corporation reclassified its foreign exchange gains from other revenue to foreign exchange loss (gain) within total costs of services provided. As a result, the prior year's comparative figures (2011-$3.5 million) have been reclassified to conform to the current year's presentation.

27. SUBSEQUENT EVENTS

On February 28, 2013, ENMAX received from Capital Power $273.7 million in exchange for a 25 per cent interest in the Shepard Energy Centre plus obligations for 25 per cent of all future costs. As discussed in Note 9, on December 5, 2012, the Corporation entered into a two-part purchase and sale arrangement with Capital Power.

On March 7, 2013, the Corporation declared a dividend of $67.5 million payable to The City in quarterly instalments in 2013.

28. ITEMS NOT INVOLVING CASH

ITEMS NOT INVOLVING CASH

As at December 31 (millions of dollars)	2012	2011
Gain on disposal of assets held for sale (Note 9)	-	(3.4)
Amortization	164.4	162.4
Future income taxes (Note 6)	3.3	25.4
Change in unrealized market value of financial contracts (Note 4)	3.4	24.0
Other	0.3	13.5
	171.4	221.9

- END OF AUDITED FINANCIAL STATEMENTS -

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
ECTP	East Calgary Transmission Project
EMS	Environmental Management System
ENMAX	ENMAX Corporation and its subsidiaries
ESA	Energy Services Agreement
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
GW	Gigawatt
GWh	Gigawatt Hours
GJ	Gigajoule
IASB	International Accounting Standards Board
IDC	Interest During Construction
IFRS	International Financial Reporting Standard
ITA	Income Tax Act (Canada)
JVA	Joint Venture Agreement
Kettles	Kettles Hill Wind Farm
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
SAIDI	System average interruption duration index
SAIFI	System average interruption frequency index
Shepard	Shepard Energy Centre
Taber	Taber Wind Farm
TJ	Terajoule
TRIF	Total recordable injury frequency
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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