Report of Management

ENMAX

The consolidated financial statements and all the information in the 2007 annual report are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and management's best estimates and judgments. The financial and operating information presented in this annual report is consistent with the consolidated financial statements and accompanying notes.

Management has prepared the management's discussion and analysis (MD&A). The MD&A compares the Corporation's financial performance in 2007 to 2006 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, Ernst & Young LLP, have been appointed by the shareholder to express an opinion on ENMAX's consolidated financial statements. The accompanying report of Ernst & Young LLP outlines the scope of their examination and their opinion on the consolidated financial statements.

(signed)

GARY R. HOLDEN
President and Chief Executive Officer

(signed)

KIM R. HUBICK, CA
Executive Vice-President, Finance and
Chief Financial Officer

Auditors' Report

To the Shareholder of ENMAX Corporation

We have audited the consolidated balance sheets of ENMAX Corporation as at December 31, 2007 and 2006 and the consolidated statements of earnings and comprehensive income, shareholder's equity and retained earnings and cash flows for each of the years in the two-year period ended December 31, 2007. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

(signed)

ERNST AND YOUNG LLP
Chartered Accountants
Calgary, Canada

March 11, 2008

Consolidated Balance Sheets

ENMAX Corporation

As at December 31	2007	2006
$ millions		
ASSETS		
Cash	**52.4**	55.1
Accounts receivable [notes 3, 5, 19 and 22]	**495.0**	409.5
Inventories	**19.1**	21.6
Income taxes receivable [note 20]	**40.6**	40.6
Future income tax asset [note 17]	**16.7**	12.4
Other current assets	**68.6**	18.6
	692.4	557.8
Property, plant and equipment [note 7]	**1,073.7**	927.9
Power purchase arrangements [note 8]	**490.7**	469.5
Intangible assets [note 9]	**19.9**	21.1
Employee future benefits [note 13]	**9.9**	6.8
Future income tax asset [notes 3 and 17]	**128.1**	150.8
Other long-term assets [notes 3, 7, 10 and 19]	**41.5**	26.5
Total assets	**2,456.2**	2,160.4
LIABILITIES		
Short-term financing [note 11]	**35.9**	51.0
Accounts payable and accrued liabilities [notes 2, 3, 5, 19 and 22]	**439.4**	312.3
Income taxes payable	**24.5**	10.7
Customer guarantee deposits	**14.4**	14.5
Future income tax liability [note 17]	**1.1**	2.7
Current portion of long-term debt [note 12]	**35.0**	39.6
	550.3	430.8
Long-term debt [note 12]	**391.7**	320.7
Future income tax liability [note 17]	**11.8**	8.6
Other long-term liabilities [notes 3, 5 and 19]	**43.6**	14.6
Non-controlling interest [note 18]	**–**	0.2
SHAREHOLDER'S EQUITY		
Share capital [note 14]	**280.1**	280.1
Retained earnings	**1,197.2**	1,105.4
Accumulated other comprehensive income (loss)	**(18.5)**	–
	1,458.8	1,385.5
Commitments and contingencies [notes 6, 8, 19 and 20]		
Total liabilities and shareholder's equity	**2,456.2**	2,160.4

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(signed)

THOMPSON MACDONALD
Chair, ENMAX Board of Directors

(signed)

CLIFF FRYERS, LLB
Chair, Audit and Finance Committee

Consolidated Statements of Earnings and Comprehensive Income

ENMAX Corporation

Years ended December 31	2007	2006
$ millions		
REVENUE [note 22]		
Electricity	**1,426.4**	1,072.3
Natural gas	**247.8**	168.5
Transmission and distribution	**324.1**	315.1
Contractual services	**103.4**	103.0
Other	**8.0**	8.7
Total revenue	**2,109.7**	1,667.6
COST OF SERVICES PROVIDED [note 22]		
Electricity [notes 3 and 19]	**1,155.1**	853.7
Natural gas [note 19]	**242.5**	171.8
Local access fees and grid charges	**182.2**	175.0
Contractual services	**68.6**	69.2
Operations, maintenance and administration [note 13]	**160.5**	142.6
Total cost of services provided	**1,808.9**	1,412.3
Earnings before amortization, interest, income taxes and non-controlling interest	**300.8**	255.3
Amortization	**101.1**	88.1
Interest [note 16]	**21.4**	17.6
Income taxes [note 17]	**36.5**	20.0
Non-controlling interest [note 18]	**–**	(0.5)
Net earnings	**141.8**	130.1
Other comprehensive income, net of tax [note 3]		
Unrealized gains on available-for-sale financial assets arising during the year	**1.9**	–
Losses on derivatives designated as cash flow hedges transferred to net earnings in the current year [note 3]	**2.3**	–
Other comprehensive income, net of future income tax benefit of $3.0	**4.2**	–
Comprehensive income	**146.0**	130.1

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholder's Equity

ENMAX Corporation

$ millions	Share capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2006	280.1	1,025.3	–	**1,305.4**
Net earnings for the year	–	130.1	–	**130.1**
Dividends	–	(50.0)	–	**(50.0)**
Balance, December 31, 2006	280.1	1,105.4	–	**1,385.5**
Change in accounting policy [note 3]	–	–	(22.7)	**(22.7)**
Balance, January 1, 2007, as adjusted	280.1	1,105.4	(22.7)	**1,362.8**
Net earnings for the year	–	141.8	–	**141.8**
Dividends	–	(50.0)	–	**(50.0)**
Other comprehensive income, net of future income tax benefits of $3.0	–	–	4.2	**4.2**
Balance, December 31, 2007	280.1	1,197.2	(18.5)	**1,458.8**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ENMAX Corporation

Years ended December 31	2007	2006
$ millions		
Cash provided by (used in):		
OPERATING ACTIVITIES		
Net earnings	**141.8**	130.1
Items not involving cash:		
Amortization	**101.1**	88.1
Future income taxes [note 17]	**22.3**	18.6
Change in unrealized fair value of financial contracts [note 19]	**4.4**	(22.5)
Other	**16.2**	–
Non-controlling interest	**–**	(0.5)
	285.8	213.8
Change in non-cash working capital [note 21]	**(18.3)**	(24.0)
	267.5	189.8
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(226.7)**	(124.1)
Additions to power purchase arrangements [note 8]	**(59.1)**	(345.5)
Contributions in aid of construction	**20.9**	10.7
Proceeds on disposal of property, plant and equipment	**–**	1.0
Employee future benefits	**(3.1)**	(1.7)
Other long-term assets	**(2.0)**	(5.3)
Acquisitions, net of cash acquired [note 18]	**(1.6)**	–
Receipt (refund) of customer guarantee deposits	**(0.1)**	0.8
Proceeds on disposition of marketable securities	**–**	174.8
	(271.7)	(289.3)
FINANCING ACTIVITIES		
Proceeds of long-term debt [note 12]	**107.4**	160.6
Repayment of long-term debt	**(41.0)**	(34.6)
Proceeds from (repayment of) short-term financing	**(15.1)**	51.0
Dividend paid	**(50.0)**	(50.0)
Other long-term liabilities	**0.2**	0.5
	1.5	127.5
Increase (decrease) in cash and cash equivalents	**(2.7)**	28.0
Cash, beginning of year	**55.1**	27.1
Cash, end of year	**52.4**	55.1
Cash interest paid	**24.2**	21.8
Cash income taxes paid	**5.2**	36.7

See accompanying notes to consolidated financial statements.

1 DESCRIPTION OF THE BUSINESS

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

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

ENMAX Energy

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

ENMAX Power

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

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

All inter-company accounts and transactions have been eliminated, except as described in note 5.

Measurement uncertainty

The preparation of the Corporation's 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 have been challenged to completely and accurately capture all customer movement, load classification and consumption data. In addition, by regulation, wire service providers are not required to submit final load settlement data on customer electricity usage until eight months after the month in which such electricity was consumed. The data and associated processes and systems are used by the Corporation to estimate electricity revenues and costs, including unbilled consumption. The Corporation's estimation procedures will not necessarily detect errors in underlying data provided by industry participants including wire service providers and load settlement agents. Any such changes will be accounted for as a change in estimate in the period they occur.

For determining potential asset impairments and certain disclosures, the Corporation is required to estimate the fair value of certain assets and obligations. Estimates of fair values are mainly based on discounted cash flow techniques employing estimated cash flows based on a number of assumptions and using an appropriate discount rate. Financial instruments are recorded at fair value, which may, due to market illiquidity, require the use of estimated future prices.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Cash

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

Inventories

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

Property, plant and equipment

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

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

Buildings and site development	2.13%	–	20.00%
Transmission, distribution and substation equipment	0.55%	–	14.37%
Generation equipment	3.33%	–	5.00%
Tools, systems and equipment	3.33%	–	33.33%
Vehicles	2.36%	–	13.71%

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

Original costs of retired regulated depreciable assets are charged and the related net disposal proceeds are credited to accumulated amortization. As a result, all gains and losses on the disposal of regulated depreciable assets are deferred and amortized over the estimated remaining service life of the related assets, as described in note 5. Gains and losses on the disposal of non-regulated non-depreciable assets are recognized in the year of disposal.

2 **SIGNIFICANT ACCOUNTING POLICIES** (continued)

Intangible assets

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

Customer lists and contracts	5.00%	–	10.90%
Land easements, rights and lease options	2.14%	–	4.01%

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

Asset impairment

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

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

Asset retirement obligation

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

At December 31, 2007, the Corporation's asset retirement obligations relate to costs associated with the removal and decommissioning of its fibre optic network and proportionate share of wind turbines. In addition, the Corporation has an obligation to decommission its electricity transmission and distribution assets in Alberta and the run-of-river hydroelectric generating station in British Columbia; however, the likely timing, method and cost of such future decommissioning activities is unknown and cannot be reasonably estimated. Accordingly, the Corporation is unable to estimate the fair value of this asset retirement obligation and has not recorded it in the consolidated financial statements. The obligation will be recorded when sufficient information is available to reasonably estimate the settlement date and the cost and method of settlement.

Contributions in aid of construction

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

Power Purchase Arrangements

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

Revenue recognition

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

Income tax

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

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

Financial instruments

The fair values of cash and cash equivalents, accounts receivable, income taxes receivable, short-term financing, accounts payable and customer guarantee deposits approximate the carrying amounts of these instruments due to their short period to maturity (see notes 12 and 19).

Hedging

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

Financial instruments are tested for effectiveness when designated as a hedge and on an ongoing basis. Effectiveness is measured with reference to the risk management objective and strategy for the financial instrument. For instruments that qualify for hedge accounting, gains and losses are recognized in income in the same period and in the same financial statement category as the income or expense from the hedged position. Financial instruments are recognized on the balance sheet, in other long-term assets or liabilities and measured at fair value, for those that do not qualify for hedge accounting, changes in fair value are recognized in income through a charge or credit to earnings as cost of electricity or natural gas.

Employee benefit plans

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Emission Credits and Allowances

Effective July 1, 2007, the Climate Change and Emissions Management Amendment Act (the Act) was enacted into law in Alberta. The 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 Corporations's PPAs have the potential to expose the Corporation to significant portions of these compliance costs (see note 20). The Corporation's accounting policy for emission credits and allowances, which will form part of the compliance cost, is described below.

Purchased emission allowances are recorded on the balance sheet, as part of intangible assets, at historical cost and are carried at the lower of weighted average cost and net realizable value. Allowances granted to the Corporation or internally generated, from approved projects, that meet the definition of a derivative are accounted for using the fair value method of accounting. Allowances that do not satisfy the criteria of a derivative are accounted for at cost.

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

3 CHANGE IN ACCOUNTING POLICY

Effective January 1, 2007, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1506: Accounting Changes, CICA Handbook Section 1530: Comprehensive Income, CICA Handbook Section 3251: Equity, CICA Handbook Section 3855: Financial Instruments – Recognition and Measurement, CICA Handbook Section 3861: Financial Instruments – Disclosure and Presentation and CICA Handbook Section 3865: Hedges. These new Handbook sections provide comprehensive requirements for the disclosure of changes in accounting policy, recognition and measurement of financial instruments, as well as standards describing when and how hedge accounting may be applied.

Handbook Section 1530 also establishes standards for reporting and presenting comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income (loss) refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles. A new financial statement has been presented in relation to the new standards.

According to these new standards, all financial instruments must be classified into one of the following five categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are included on the consolidated balance sheet and are measured at fair value with the exception of loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments will depend on their initial classification. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income (loss) until the assets are removed from the balance sheet.

The standards also require derivative instruments to be recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as a normal purchase and sale. Certain derivatives embedded in other contracts must also be measured at fair value. All changes in the fair value of derivatives are recognized in earnings unless specific hedge criteria are met, which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. For the twelve months ended December 31, 2007, net earnings include a loss of $2.3 million relating to derivatives designated as cash flow hedges in prior periods that settled during the period. These amounts are included in the electricity component of costs of services provided.

As a result of prospectively adopting these new standards, the Corporation recorded a transitional adjustment of $22.7 million for the change in accounting for derivatives designated as cash flow hedges as follows:

3 CHANGE IN ACCOUNTING POLICY (continued)

$ millions	
Accounts receivable	**13.7**
Other long-term assets	**23.0**
Accounts payable and accrued liabilities	**(28.4)**
Other long-term liabilities	**(32.6)**
Future income tax benefit on above	**1.6**
	(22.7)

These amounts are reported as a one-time cumulative effect of a change in accounting policy in opening accumulated other comprehensive income (loss) on January 1, 2007.

With the exception of long-term debt, the carrying amounts of these financial instruments approximate fair values due to their short-term nature. At December 31, 2007, the fair value of the long-term debt is $480.3 million (December 31, 2006 – $433.7 million). Calculation of the estimated fair value of the debt is based on current lending rates of the Alberta Capital Finance Authority, the lender of these funds, for debentures with comparable terms and maturities.

The Corporation uses industry standard mark-to-market (MTM) techniques to determine the fair value of financial instruments. Fair values are determined internally using valid valuation techniques or validated independently by reference to published market price quotations.

4 FUTURE ACCOUNTING CHANGES

Capital Disclosures and Financial Instruments – Disclosure and Presentations

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535: Capital Disclosures, Handbook Section 3862: Financial Instruments – Disclosures, and Handbook Section 3863: Financial Instruments – Presentation. These new standards will be effective on January 1, 2008.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The new Sections 3862 and 3863 replace Handbook Section 3861: Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The impact of these new standards on our financial statements is currently being assessed.

Inventories

In March 2007, the CICA issued Section 3031: Inventories, which aligns accounting for inventories under Canadian GAAP with International Financial Reporting Standards (IFRS). This standard will not have a material affect on the Corporation's financial statements.

International Financial Reporting Standards

In 2005, the Accounting Standards Board of Canada (AcSB) announced that accounting standards in Canada are to converge with IFRS. The AcSB has indicated that Canadian enterprises with public accountabilities will need to begin reporting under IFRS by the first quarter of 2011 with appropriate comparative information for the prior year. Under IFRS, the primary audience is capital markets, and as a result, there is significantly more disclosure required, specifically for quarterly reporting. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed. The impact of these new standards on ENMAX's consolidated financial statements is currently being assessed.

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.

Regulatory assets

Years ended December 31	2007	2006
$ millions		
REGULATORY ASSETS		
Accounts receivable – Purchased power price variance	**26.3**	14.2
Distribution assets – inter-company profit on underground residential development	**27.3**	22.7
Total regulatory assets	**53.6**	36.9
REGULATORY LIABILITY		
Other long-term liabilities – pension funding	**4.9**	2.2
Total regulatory liabilities	**4.9**	2.2

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.

Purchased power costs are included in allowed rates on a forecast basis. For rate-setting purposes, differences between forecast and actual purchased power costs in the rate year are held until the following year, when their final disposition is decided. The Corporation recognizes purchased power cost variances as a regulatory asset or liability, based on the expectation that amounts held from one year to the next for rate-setting purposes will be approved for collection from, or refund to, future customers. The regulatory asset represents the excess of actual over forecast purchased power costs. In the absence of rate regulation, generally accepted accounting principles would require that actual purchased power costs be recognized as an expense when incurred. In this case, operating results for 2007 would have been $12.1 million lower (2006 – $10.0 million lower). The regulatory asset is included in accounts receivable.

Distribution assets for the regulated operations of the Corporation include inter-company profit relating to construction work performed by an ENMAX subsidiary. Such profit is deemed to be realized to the extent that the transfer price is recognized for rate-making purposes by the regulator and included in the capital cost. In the absence of rate regulation, generally accepted accounting principles would require that inter-company profits be eliminated upon consolidation. The impact on current year earnings would be a reduction of $4.6 million (2006 – $4.1 million), representing the profit on these services. The balances for property, plant and equipment and retained earnings at December 31, 2007 would further be reduced by $27.3 million (2006 – $22.7 million).

Pension costs are recorded using the accrual method as required by GAAP. The EUB approved a revenue requirement which allowed for the recovery of solvency payments on a cash basis over 10 years. As a result, ENMAX has recorded a regulatory liability in the amount of $4.9 million (2006 – $2.2 million) to reflect this regulatory treatment. In the absence of rate regulation, current year distribution and transmission revenues would have been $2.7 million higher (2006 – $2.2 million). At December 31, 2007 other long-term liabilities would have been reduced and retained earnings would have been increased by $4.9 million, respectively.

For certain of the regulatory items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the regulator in determining the item's treatment for rate-setting purposes. For example, the Corporation's treatment of purchased power costs is dependent on the continued use of an automatic adjustment mechanism for regulatory purposes, and would require reconsideration if the regulator decided to discontinue the use of this mechanism or to require the Corporation to absorb cost variances in a particular year. Similarly, there is a risk that the regulator may disallow a portion of certain costs incurred in the current year for recovery through future rates, or disagree with the proposed recovery period.

5 FINANCIAL STATEMENT EFFECTS OF RATE REGULATION (continued)

Other items affected by rate regulation

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

Gains and losses on the disposal and retirement of regulated depreciable assets are deferred and amortized over the estimated remaining service life of the related assets, through a charge to accumulated amortization equal to the net book value of the disposed or retired asset. In the absence of rate regulation, under 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 regulator permits AFUDC, based on ENMAX's weighted-average cost of capital, to be included in the rate base. AFUDC is also included in the cost of property, plant and equipment for financial reporting purposes, and is depreciated over future periods as part of the total cost of the related asset, based on the expectation that depreciation expense, including the AFUDC component, will be approved for inclusion in future customer rates. Since AFUDC includes not only an interest component, but also a cost-of-equity component, it exceeds the amount allowed to be capitalized in similar circumstances in the absence of rate regulation. As of December 31, 2007, AFUDC and capitalized interest totaling $6.3 million (2006 – $4.2 million) were included in property, plant and equipment.

6 JOINT VENTURE INVESTMENT

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

Summarized financial information of ENMAX's proportionate share of the joint venture's assets, operations and cash flows is as follows:

As at December 31	2007	2006
$ millions		
BALANCE SHEET		
Accounts receivable	**1.5**	0.6
Other current assets	**–**	–
Property, plant and equipment	**45.4**	44.2
Future income taxes asset (liability)	**(0.4)**	0.1
Accounts payable and accrued liabilities	**(0.3)**	(0.1)
Other long-term liabilities	**(0.4)**	(0.4)
Proportionate share in net assets of joint venture	**45.8**	44.4
INCOME STATEMENT		
Earnings		
Revenue	**8.4**	7.2
Costs and expenses	**(2.6)**	(1.7)
Amortization	**(1.7)**	(1.7)
Income taxes recovery (expense)	**–**	0.2
Proportionate share in net earnings of joint venture	**4.1**	4.0

6 JOINT VENTURE INVESTMENT (continued)

As at December 31	2007	2006
$ millions		
CASH FLOWS		
Operating activities	**5.8**	5.6
Financing activities	**–**	0.1
Proportionate share in the increase in cash and cash equivalents of joint venture	**5.8**	5.7

7 PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated amortization	Net book value
$ millions			
AS AT DECEMBER 31, 2007			
Transmission, distribution and substation equipment	**1,182.2**	**(438.1)**	**744.1**
Tools, systems and equipment	**282.8**	**(153.4)**	**129.4**
Construction in progress	**81.3**	**–**	**81.3**
Buildings and site development	**111.9**	**(31.4)**	**80.5**
Generation equipment	**205.8**	**(11.8)**	**194.0**
Land	**16.7**	**–**	**16.7**
Vehicles	**21.5**	**(9.7)**	**11.8**
	1,902.2	**(644.4)**	**1,257.8**
Contributions in aid of construction (CIAC)	**(240.5)**	**56.4**	**(184.1)**
	1,661.7	**(588.0)**	**1,073.7**
AS AT DECEMBER 31, 2006			
Transmission, distribution and substation equipment	1,094.7	(414.3)	680.4
Tools, systems and equipment	270.9	(133.8)	137.1
Construction in progress	111.7	–	111.7
Buildings and site development	107.1	(29.0)	78.1
Generation equipment	68.8	(7.2)	61.6
Land	17.5	–	17.5
Vehicles	17.0	(9.5)	7.5
	1,687.7	(593.8)	1,093.9
Contributions in aid of construction (CIAC)	(216.4)	50.4	(166.0)
	1,471.3	(543.4)	927.9

8 POWER PURCHASE ARRANGEMENTS

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

8 POWER PURCHASE ARRANGEMENTS (continued)

In June 2006, the Corporation purchased a 55% interest in the Battle River PPA for $345.5 million. On January 1, 2007, the Corporation purchased an additional 10% interest in the Battle River PPA for $59.1 million. The agreement also provides that the Corporation will purchase the remaining 35% in annual increments of 10 – 15% over the three and one-half years for total additional consideration of $162.9 million (see note 20).

$ millions	Cost	Accumulated amortization	Net book value
AS AT DECEMBER 31, 2007			
Battle River	**404.6**	**(43.7)**	**360.9**
Keephills	**247.7**	**(117.9)**	**129.8**
	652.3	**(161.6)**	**490.7**
AS AT DECEMBER 31, 2006			
Battle River	345.5	(15.8)	329.7
Keephills	247.7	(107.9)	139.8
	593.2	(123.7)	469.5

9 INTANGIBLE ASSETS

$ millions	Cost	Accumulated amortization	Net book value
AS AT DECEMBER 31, 2007			
Customer lists and contracts	**22.7**	**(7.7)**	**15.0**
Land easements, rights and lease options	**1.7**	**(0.2)**	**1.5**
Renewable energy certificates and water licenses	**3.4**	**–**	**3.4**
	27.8	**(7.9)**	**19.9**
AS AT DECEMBER 31, 2006			
Customer lists and contracts	21.8	(6.3)	15.5
Land easements, rights and lease options	2.3	(0.2)	2.1
Renewable energy certificates and water licenses	3.5	–	3.5
	27.6	(6.5)	21.1

10 RESTRICTED CASH

Other long-term assets include restricted cash and cash equivalents of $1.4 million (2006 – $1.5 million), relating to a debt servicing obligation on the non-recourse financing (see note 12). Commencing October 2007, the balance is being reduced monthly at varying amounts until September 2015.

11 SHORT-TERM FINANCING

Short-term financing is comprised of commercial paper and bankers' acceptances which are guaranteed by the Corporation's credit facilities. At December 31, 2007 the Corporation had issued $35.9 million (December 31, 2006 - $51.0 million) at weighted average rates of 4.80%.

11 SHORT-TERM FINANCING (continued)

ENMAX has unsecured credit facilities amounting to $650.0 million (2006 – $550.0 million) to fund general operating requirements and to provide liquidity support for commercial paper and commodity marketing programs. During the year, the Corporation kept its operating facilities at $400.0 million and in July 2007 increased its syndicated credit facilities to $250.0 million. As at December 31, 2007, $230.8 million (2006 – $293.0 million) of operating facilities and $30.0 million (2006 – $33.9 million) of syndicated facilities were used in support of outstanding letters of credit (see note 20).

12 LONG-TERM DEBT

As at December 31	2007	2006	Weighted average interest rates
$ millions			
Debentures, with remaining terms of:			
Less than 5 years	**42.2**	46.2	**5.72%**
5 – 10 years	**82.2**	103.4	**5.81%**
10 – 15 years	**180.0**	190.1	**4.56%**
15 – 20 years	**15.6**	–	**6.06%**
20 – 25 years	**86.9**	–	**4.95%**
Non-recourse term financing (Furry Creek)	**13.7**	14.3	**7.37%**
Promissory note	**6.1**	6.3	**5.00%**
	426.7	360.3	
Less: current portion	**35.0**	39.6	
	391.7	320.7	

Debentures

Debentures were initially issued by the City on behalf of the CES pursuant to City bylaw authorizations prior to January 1, 1998. Pursuant to the Master Agreement between the Corporation and the City, the debentures were included in the assumed liabilities upon transfer of substantially all of the assets and liabilities of the CES from the City to the Corporation at January 1, 1998. In accordance with a debt management service level agreement between the Corporation and the City, the City shall continue to service the existing debentures through the disbursement of principal and interest payments. In June 2007, the Corporation issued $107.4 million in 10, 20 and 25-year debentures (2006 – $154.3 million) from the City of Calgary through arrangements with the Alberta Capital Finance Authority. Interest on the debentures is compounded semi-annually as follows: $3.7 million of the debt, which matures in June 2017, at 5.05%; $9.7 million, maturing in June 2027, at 5.00%; and the remaining $94.0 million of the debt, which matures in June 2032, at 4.95%. The funds will be used for capital expenditures in ENMAX Power only and not in ENMAX's competitive business.

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

Non-recourse financing

The non-recourse financing represents the Corporation's share, through its subsidiary ENMAX Green Power Inc., of loans for the construction of an 11 MW hydroelectric facility. Of the $14.9 million originally assumed, the balance outstanding at December 31, 2007 is $13.7 million, of which $13.6 million (2006 – $14.0 million) bears interest at a fixed rate of 7.37% and the remaining $0.1 million (2006 – $0.3 million) at a floating rate equal to the lender's prime interest rate plus a spread of 10.00%. Currently, ENMAX Green Power Inc. has provided a limited recourse guarantee to the extent of its interest in the shares of Furry Creek Power Ltd. The construction loan was converted to project debt in December 2006. Once post conversion land registrations are completed the limited recourse guarantee will be released and a charge against project assets, which have a carrying value of $18.9 million, will remain as security.

12 **LONG-TERM DEBT** (continued)

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 5.00% and is repayable in monthly installments. The Corporation provided a fixed charge over two wind turbines located at Taber, Alberta, as security for the loan. Concurrent with execution of the loan, WPC executed a 20-year electricity services agreement with ENMAX Energy.

Principal repayments

The required repayments of principal on the long-term debt outstanding at December 31, 2007 are as follows:

$ millions	
2008	35.0
2009	35.5
2010	33.8
2011	32.6
2012	30.9
Thereafter	258.9

13 EMPLOYEE FUTURE BENEFITS

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

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

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, 2004. As the DB plan has a solvency ratio of less than 85%, actuarial valuations would normally be required annually. During the year ended December 31, 2005, the Corporation applied for and received an exemption from Alberta Finance waiving this requirement. The next required valuation will be performed as for the period ended December 31, 2009.

Total cash payments for employee future benefits for 2007, 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 $13.7 million (2006 – $15.8 million).

For the year ended December 31, 2007, the total expense for the DC provisions of the plan is $3.7 million (2006 – $3.3 million).

13 EMPLOYEE FUTURE BENEFITS (continued)

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

Years ended December 31	2007		2006	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
$ millions				
Change in benefit obligation				
Benefit obligation – beginning of year	**168.5**	**7.2**	147.4	5.5
Current service cost	**5.2**	**0.5**	5.3	0.5
Employee contributions	**1.7**	**–**	1.5	–
Benefits paid	**(10.4)**	**(0.5)**	(5.6)	(0.2)
Interest cost	**8.7**	**0.4**	7.8	0.3
Experience loss	**(4.8)**	**(0.2)**	12.1	1.1
Benefit obligation – end of year	**168.9**	**7.4**	168.5	7.2
Change in plan assets				
Plan assets at market-related value – beginning of year	**124.4**	**–**	102.6	–
Employer contributions	**12.5**	**0.5**	11.8	0.2
Employee contributions	**1.7**	**–**	1.5	–
Benefits paid	**(10.4)**	**(0.5)**	(5.6)	(0.2)
Return on plan assets	**9.3**	**–**	8.0	–
Experience gain/(loss)	**3.8**	**–**	6.1	–
Plan assets at market-related value – end of year	**141.3**	**–**	124.4	–
Deferred investment gain	**6.4**	**–**	15.2	–
Plan assets at fair value – end of year	**147.7**	**–**	139.6	–
Funded status – plan deficit	**(21.2)**	**(7.4)**	(28.9)	(7.2)
Unamortized transitional asset	**(1.2)**	**(0.1)**	(1.6)	(0.1)
Unamortized experience losses	**37.7**	**2.1**	42.2	2.4
Accrued benefit asset/(liability), net of valuation allowance of nil	**15.3**	**(5.4)**	11.7	(4.9)

Plan assets at December 31, 2007, consist of Canadian equity securities of 35% (2006 – 39%), foreign equity securities of 25% (2006 – 32%), long-term fixed income securities of 38% (2006 – 27%) and cash and short-term securities of 2% (2006 – 2%).

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

Years ended December 31	2007		2006	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
%				
Accrued benefit obligation at December 31:				
Discount rate	**5.25**	**5.25**	5.00	5.00
Rate of compensation increase	**3.60**	**3.60**	3.60	3.60
Benefit cost for year ended December 31:				
Discount rate	**5.00**	**5.00**	5.00	5.00
Expected long-term rate of return on plan assets	**7.25**	**n/a**	7.25	n/a
Rate of compensation increase	**3.60**	**3.60**	3.60	3.60

13 EMPLOYEE FUTURE BENEFITS (continued)

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2007 (2006 – 10%). The rate was assumed to decrease gradually to 5% in 2018 and to remain at that level thereafter. The per capita cost of covered dental benefits was assumed to increase by 4.5% per year.

The Corporation's net benefit cost is as follows:

Years ended December 31	2007		2006	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
$ millions				
Current service cost	**5.2**	**0.5**	5.3	0.5
Interest cost	**8.7**	**0.4**	7.8	0.3
Actual return on assets	**(4.3)**	**–**	(10.1)	–
Actuarial losses/(gains)	**(4.8)**	**(0.2)**	11.8	0.7
Difference between expected and actual return	**(5.0)**	**–**	2.1	–
Difference between recognized and actual actuarial losses (gains)	**9.4**	**0.3**	(7.2)	(0.6)
Amortization of net transitional asset	**(0.4)**	**–**	(0.4)	–
Net benefit plan expense	**8.8**	**1.0**	9.3	0.9

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 2007:

Effect of change in health care cost trend rate

	Other benefit plans	
	1% increase	1% decrease
$ millions		
Increase (decrease) in service cost for year ended December 31	**0.07**	**(0.06)**
Increase (decrease) in interest cost for year ended December 31	**0.04**	**(0.03)**
Increase (decrease) in accrued benefit obligation at December 31	**0.67**	**(0.62)**

14 SHARE CAPITAL

	Number of Shares	Amount
$ millions except share amounts		
Authorized:		
Unlimited number of common shares		
Issued and outstanding:		
Issued on incorporation (one dollar)	1	–
Issued on transfer of net assets from CES [note 1]	1	278.2
Issued on transfer of billing and customer care assets from the City in 2001	1	1.9
Outstanding at December 31, 2007 and 2006	3	280.1

15 SEGMENTED INFORMATION

	ENMAX Energy		ENMAX Power		Corporate & Intersegment Eliminations		Consolidated Totals	
Years ended December 31 [1]	2007	2006	2007	2006	2007	2006	2007	2006
$ millions								
Revenue								
Electricity	**1,562.3**	1,270.2	**250.5**	203.4	**(386.4)**	(401.3)	**1,426.4**	1,072.3
Natural gas	**247.8**	168.5	**–**	–	**–**	–	**247.8**	168.5
Transmission and distribution	**–**	–	**324.1**	315.1	**–**	–	**324.1**	315.1
Contractual services	**30.0**	30.2	**103.7**	103.5	**(30.3)**	(30.7)	**103.4**	103.0
Other	**10.8**	6.6	**3.8**	2.8	**(6.5)**	(0.7)	**8.0**	8.7
Total revenue	**1,850.9**	1,475.5	**682.1**	624.8	**(423.2)**	(432.7)	**2,109.7**	1,667.6
Cost of services provided								
Electricity	**1,297.6**	1,058.8	**243.5**	197.3	**(386.0)**	(402.4)	**1,155.1**	853.7
Natural gas	**242.5**	171.8	**–**	–	**–**	–	**242.5**	171.8
Local access fees and grid charges	**–**	–	**182.2**	175.0	**–**	–	**182.2**	175.0
Contractual services	**–**	–	**69.0**	69.6	**(0.4)**	(0.4)	**68.6**	69.2
Operations, maintenance and administration [note 8]	**100.8**	88.8	**103.3**	90.4	**(43.6)**	(36.6)	**160.5**	142.6
Total cost of services provided	**1,640.9**	1,319.4	**598.0**	532.3	**(430.0)**	(439.4)	**1,808.9**	1,412.3
Earnings before amortization, interest, income taxes, and non-controlling interest	**210.0**	156.1	**84.1**	92.5	**6.8**	6.7	**300.8**	255.3
Amortization	**54.4**	41.2	**41.7**	41.5	**5.0**	5.4	**101.1**	88.1
Non-controlling interest	**–**	(0.5)	**–**	–	**–**	–	**–**	(0.5)
Earnings before interest and income taxes	**155.6**	115.4	**42.4**	51.0	**1.8**	1.3	**199.7**	167.7
Interest							**21.4**	17.6
Income Taxes							**36.5**	20.0
Net earnings							**141.8**	130.1
Capital additions [2]	**153.7**	390.3	**121.1**	77.1	**11.0**	2.2	**285.8**	469.6

[1] In 2007, ENMAX realigned its reportable segments to be consistent with changes in its internal management structure. This realignment transferred reporting of ENMAX Encompass from ENMAX Power to ENMAX Energy. Comparative amounts have been restated.
[2] Capital additions for ENMAX Energy include non-cash amounts of $1.5 million (2006 - nil), for the year ended December 31, 2007, relating to asset retirement obligations for the Taber wind farm.

Total assets

As at December 31	2007	2006
$ millions		
ENMAX Energy [3]	**1,456.6**	1,157.9
ENMAX Power	**937.1**	902.8
Corporate and eliminations	**62.5**	99.7
	2,456.2	2,160.4

[3] Includes assets for ENMAX Encompass, previously reported in ENMAX Power, in the amount of $26.3 million (2006 - $32.4 million). Comparative amounts have been restated to conform to this presentation.

16 INTEREST

Interest expense is comprised of the following:

As at December 31	2007	2006
$ millions		
Interest on long-term debt	**21.7**	19.3
Short-term interest and other financing charges	**5.0**	2.5
Less: allowance for funds used during construction and capitalized interest	**(5.3)**	(4.2)
	21.4	17.6

17 INCOME TAXES

Provision for income taxes

As at December 31	2007	2006
$ millions		
Current	**14.2**	1.4
Future	**22.3**	18.6
	36.5	20.0

Reconciliation of income tax expense

As at December 31	2007	2006
$ millions		
Earnings before income taxes	**178.4**	149.6
Income not subject to taxes	**(119.4)**	(96.3)
	59.0	53.3
Federal and provincial tax rate	**32.12%**	32.49%
Expected income tax expense	**19.0**	17.3
Non-deductible expenses	**0.1**	0.1
Adjustment to future tax asset for enacted changes in rates and other estimate revisions	**17.4**	21.0
Benefit of previously unrecognized loss carry forwards	**–**	(18.7)
Other	**–**	0.3
Actual income tax expense	**36.5**	20.0

17 INCOME TAXES (continued)

Future income tax asset

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

As at December 31	2007	2006
$ millions		
Future income tax asset:		
Power purchase arrangements [1]	**107.9**	132.3
Cumulative eligible capital	**14.4**	12.2
Derivative financial instruments	**0.7**	–
Loss carry forwards	**18.8**	18.7
Other comprehensive income	**3.0**	–
	144.8	163.2
Less current portion	**(16.7)**	(12.4)
	128.1	150.8
Future income tax liability:		
Property, plant and equipment – differences in net book value and undepreciated capital cost	**7.5**	1.7
Cumulative eligible capital	**4.6**	4.8
Derivative financial instruments	**0.8**	4.8
	12.9	11.3
Less current portion	**(1.1)**	(2.7)
	11.8	8.6
Net future income tax asset	**131.9**	151.9

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

18 ACQUISITION

On April 2, 2007, the Corporation acquired the remaining 35% non-controlling interest in Hydromax Energy Ltd., a business venture created with Eaton Power Corporation in April 2005 to develop run-of-river hydro projects in British Columbia.

The Corporation accounted for this acquisition using the purchase method and the results of operations have been included in the consolidated financial statements since the effective date of the acquisition. The purchase price of $1.6 million has been allocated to intangible assets.

19 FINANCIAL INSTRUMENTS

Hedging activities

The Corporation is fully exposed to price fluctuations in the market in which its sales are made. To manage this exposure, the Corporation acquired energy PPAs for the output of coal-fired generating plants (see note 8).

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

19 **FINANCIAL INSTRUMENTS** (continued)

All hedges are documented at inception, including information such as the hedging relationship, the risk management objective and strategy, the method for assessing effectiveness and the method of accounting for the hedging relationship. Financial instruments that do not qualify for hedge accounting are recognized on the balance sheet and measured at fair value, with changes in fair value recognized currently in income. The Corporation uses industry standard MTM techniques to determine the fair value of financial instruments. Fair values are determined internally using valid valuation techniques or validated independently by reference to published market price quotations. For the year ended December 31, 2007, the impact of financial instruments that did not qualify for hedge accounting is an increase to net earnings of $2.5 million (2006 – increase of $17.3 million), which is included in electricity and natural gas costs in the consolidated statement of earnings. The fair value of these financial instruments is included in the balance sheet as follows:

As at December 31	2007	2006
$ millions		
Accounts receivable	**11.2**	15.9
Other long-term assets	**2.6**	10.1
Accounts payable and accrued liabilities	**6.1**	10.2
Other long-term liabilities	–	3.5

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

Years ended at December 31	2007	2006
	Notional quantity	Notional quantity
Electricity sales	**4.4 million MWh**	1.9 million MWh
Natural gas sales	–	9.2 million Gj
Electricity purchases	**4.7 million MWh**	2.2 million MWh
Natural gas purchases	**41.9 million Gj**	26.3 million Gj

The fair value of the Corporation's contract-for-differences is determined by estimating the amounts that would have to be received or paid to counterparties to terminate the contracts at December 31, 2007 and 2006.

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

At December 31, 2007, on the basis of electricity and natural gas prices at that date, the estimated unrecorded fair value of these hedge contracts, net of the PPA sales, would be a negative mark-to-market adjustment amounting to $21.5 million (2006 – $24.3 million). This amount does not reflect the fact that these contracts will settle at prices in effect at the time of expiration.

Financial risk management

ENERGY COMMODITIES PRICE RISK MANAGEMENT

ENMAX is exposed to commodity price risk through fixed price contracts to sell forecasted amounts of electricity and natural gas. Most of this demand is mitigated through physical supply contracts, including PPAs and tolling agreements. To the extent there is remaining exposure ENMAX enters into financial instruments, in the form of forward and swap contracts, to mitigate its risk resulting from changes in the market prices of these commodities.

INTEREST RATE RISK MANAGEMENT

ENMAX is not exposed to interest rate risk because it has fixed the interest rates on long-term debt through fixed-rate borrowings. The fair value of ENMAX's long-term debt changes as interest rates change. The fair value of the liability as at December 31, 2007 was $480.3 million (2006 – $433.7 million).

CREDIT RISK

Credit risks associated with accounts receivable arise from the inability of counterparties to settle their accounts when due. These risks are mitigated by a thorough credit approval process, including credit checks, and collections management. Our commercial business is characterized by major creditworthy customers.

Accounts receivable are not subject to any significant concentrations of credit risk, and collection risk is mitigated by the large number of customers operating in numerous industries.

19 FINANCIAL INSTRUMENTS (continued)

FOREIGN EXCHANGE RISK

Foreign exchange risks arise through ENMAX's US denominated commodity contracts, primarily for natural gas. These risks are mitigated by the use of forward foreign exchange contracts.

20 COMMITMENTS AND CONTINGENCIES

Property, plant and equipment

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

$ millions	
2008	91.5
2009	61.1
2010	63.8
2011	–
2012	–

Obligations under leases, power purchase arrangements and tolling agreements

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

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

The Corporation entered into a 20-year tolling agreement, effective January 1, 2007, for the Calgary Energy Centre, a 300 MW gas-fired generation facility located in northeast Calgary. Under the tolling agreement, ENMAX pays fixed and variable payments in exchange for the right to dispatch and receive revenues from the plant's generation.

The estimated aggregate payments under these arrangements over the next five years are as follows:

$ millions	
2008	274.7
2009	294.8
2010	322.4
2011	331.2
2012	340.8

Regulatory

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

Legal claims

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

Income tax

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

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

20 COMMITMENTS AND CONTINGENCIES (continued)

In June 2005, ENMAX Energy received a Notice of Reassessment from Alberta Finance in respect of the 2001 taxation year, claiming an amount owing for income taxes of $16.9 million, including $3.2 million of interest. In July and November 2006, ENMAX Energy received additional Notices of Reassessment relating to the 2002 and 2003 taxation years, in the amount of $23.7 million, including $5.0 million of interest, and $58.0 million, including $10.4 million of interest, respectively. Subsequently, in July 2007, ENMAX Energy received an amended Notice of Reassessment for the 2003 taxation year for an additional $1.8 million relating to items not previously assessed. The reassessments relate primarily to the value of certain power purchase arrangement assets established for the purpose of the PILOT Regulation and the allocation of costs and benefits of the energy supply portfolio between taxable and non-taxable operations for those years.

The Corporation does not agree with the assessments and has commenced the necessary steps to defend its position through the formal appeals process. However, ENMAX Energy voluntarily remitted certain amounts to minimize interest and penalties until the issues are resolved, which are recorded as income taxes receivable as at December 31, 2007 and 2006. The Corporation expects this process to be successful and will vigorously pursue all options available should the appeals process result in an unfavourable outcome. The amount of possible adjustment, which could have a material impact on net earnings, cannot be reasonably estimated at this time and no provision has been made in the consolidated financial statements for any additional income tax expense that may be payable relating to these assessments.

Environmental

The Alberta government announced new regulations aimed at reducing the levels of greenhouse gas emissions which took effect July 2007. The costs to comply with the terms of the legislation may be substantial. The change in law provisions in the PPA contracts has the potential to expose ENMAX to a significant portion of these compliance costs. For the year ended December 31, 2007, the financial statements include a charge to earnings in the amount of $9.4 million, included in costs of electricity services provided, relating to estimated compliance costs under the provincial regulations, associated with ENMAX's ownership interests in coal-fired generation facilities through its PPAs and the tolling agreement under the Calgary Energy Centre. As the regulations and applicable compliance details have not yet been finalized, the total amount of these costs, which could have a material impact on net earnings, could change from the currently estimated amounts. The Corporation continues to assess and monitor the implications these changes in legislation may have on its business.

Guarantees

LETTERS OF CREDIT

In the normal course of operations, letters of credit are issued to facilitate the extension of sufficient credit for counter-parties having credit exposure to the Corporation or its subsidiaries. The Corporation has issued letters of credit amounting to $260.8 million at December 31, 2007 (2006 – $326.9 million).

DIRECTOR/OFFICER INDEMNIFICATIONS

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

OTHER INDEMNIFICATIONS

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

21 CHANGES IN NON-CASH WORKING CAPITAL

Years ended at December 31	2007	2006
$ millions		
Accounts receivable	**(55.1)**	(97.5)
Inventories	**2.5**	(8.6)
Income taxes receivable	**–**	(23.7)
Other current assets	**(50.0)**	(15.9)
Accounts payable and accrued liabilities	**70.5**	133.5
Income taxes payable	**13.8**	(11.8)
Change in non-cash working capital	**(18.3)**	(24.0)

22 RELATED PARTY TRANSACTIONS

Total revenues received from the City for the year ended December 31, 2007 were $93.9 million (2006 – $78.2 million). Revenues include contract sales of electricity, provision of non-regulated power distribution services, and billing and customer care services relating to the City's utilities departments.

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

Years ended at December 31	2007	2006
$ millions		
Services provided	**26.3**	19.3
Total receivable from the City	**26.3**	19.3

Total expenditures for goods and services received from the City for the year ended December 31, 2007 were $117.9 million (2006 – $97.4 million). Expenditures include local access fees for the use of the City's rights-of-way.

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

Years ended at December 31	2007	2006
$ millions		
Goods and services received	**0.7**	0.3
Local access fees and equity funding rider	**9.3**	10.3
Total payable to the City	**10.0**	10.6

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

23 SUBSEQUENT EVENT

Business acquisitions

On February 19, 2008, the Corporation entered into an agreement with Cordero Energy Inc. whereby ENMAX will make an offer to acquire all of its issued and outstanding common shares by way of a takeover bid. Under the offer, ENMAX will acquire the shares at a price of $4.35 per share and assume Cordero's outstanding debt, valuing the proposed transaction at approximately $218 million.

The offer, unless extended, will expire on March 25, 2008, with anticipated closing in mid-April 2008. Cordero has agreed to pay ENMAX a fee of $7.0 million in certain circumstances should the proposed transaction not be completed.

24 COMPARATIVE FIGURES

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