ENMAX Corporation

2017 | Q1 INTERIM REPORT

ENMAX Corporation |

CAUTION TO READER

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

When used in this 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.

BUSINESS OVERVIEW

ENMAX is a wholly owned subsidiary of The City of Calgary (The City), headquartered in Calgary, Alberta, Canada. ENMAX's vision is to be Canada's leader in the electricity industry through its mission of powering the potential of people, businesses and communities by safely and responsibly providing electricity and energy services in a way that matters to them now and in the future. ENMAX has a proud history of providing Albertans with electricity for over 100 years and continues to explore ways to improve the province's electricity system and provide progressive solutions for its customers.

ENMAX's core operations include the competitive generation and sale of electricity across Alberta through an operating segment named ENMAX Competitive Energy, and the regulated transmission and distribution of electricity in The City through an operating segment named ENMAX Power Delivery:

- ENMAX Competitive Energy carries out competitive energy supply and retail functions through various legal entities and affiliated companies. The ENMAX Competitive Energy integrated strategy is to provide customers with competitive energy products and services with a focus on longer-term fixed electricity contracts. These contracts link customer demand to ENMAX Competitive Energy's generating assets. Further, Competitive Energy manages risks and optimizes margin on market opportunities by managing dispatch, fuel supply, and market position. In the short term, this strategy typically results in relatively stable margins, even during times of volatile or low wholesale electricity prices as experienced in 2016. In the longer term, persistent low power prices will likely negatively impact revenues as longer-term fixed electricity contract terms expire and renew at lower prices.
- ENMAX Power Delivery owns and operates electricity transmission and distribution assets in the Calgary service area. The segment also has the legislated responsibility to provide electricity for customers who have not entered into a contract with a competitive electricity retailer and elected to stay with the Calgary Regulated Rate Option (RRO). ENMAX Power Delivery's objective is to safely and efficiently maintain the high reliability of its transmission and distribution system while meeting Calgary's infrastructure needs. In addition to safety and reliable delivery, cost and capital management are key priorities. Other priorities include minimizing regulatory earnings lag and updating critical technology as a platform for future initiatives. The regulated business segment, somewhat insulated from the economic climate of Alberta, provides a stable and predictable earnings base for ENMAX. The need to replace aging infrastructure leads to a growing rate base for the business.

ENMAX Corporate, both directly or indirectly through its subsidiaries, provides shared services and financing to ENMAX Competitive Energy and ENMAX Power Delivery.

MARKET CONDITIONS

In the first quarter of 2017, the economic conditions in Alberta remained poor; and little clarity was provided with respect to the details of the Government of Alberta's electricity market and related climate reforms announced in late 2016. This environment remains a significant challenge for ENMAX. However, the Corporation's vertically integrated business model, which includes making, moving and marketing electricity, continues to position it well in this difficult and uncertain environment.

OVERALL FINANCIAL PERFORMANCE

The table below presents ENMAX's adjusted EBITDA, adjusted EBIT and comparable net earnings that are normalized for unrealized gains and losses on commodities where settlement on derivatives will occur in a future period. The Corporation does not consider unrealized gains and losses to be reflective of underlying operations for the periods presented. Refer to the Non-IFRS Financial Measures section for definition of the financial measures and further description.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Three months ended March 31, (millions of dollars)	2017	2016
Total Revenue	**814.2**	746.4
Adjusted EBITDA [1]	**113.7**	118.7
Adjusted EBIT [1]	**59.1**	64.4
Comparable Net Earnings [1]	**43.2**	41.8
Net (Loss) Earnings	**(2.5)**	34.5

[1] Non-IFRS financial measures. See discussion that follows in Non-IFRS Financial Measures section.

ENMAX's net earnings for the quarter ended March 31, 2017 decreased by $37.0 million from the same period in 2016. The decrease in net earnings was mainly driven by a $52.6 million increase in unrealized losses related to fair value revaluation of derivatives used as economic hedges for the costs of electricity, offset by a corresponding increase in deferred income recovery of $14.2 million.

ENMAX's adjusted EBIT decreased by $5.3 million from the same period in 2016. The primary drivers for the change in adjusted EBIT were as follows:

- ENMAX Competitive Energy – lower pool prices, which impact retail pricing and customer product preferences, presented challenges to the electricity margins. Notwithstanding the adverse market conditions, the Competitive Energy segment adapted and minimized the impact through its integrated strategy and its flexible generation portfolio cost base. Lower supply costs partially offset the declining market price's effect on the electricity margins, as a Power Purchase Arrangement (PPA) was replaced with lower cost market supply. Furthermore, margins on natural gas products also partially offset the decrease in electricity margins from the comparative prior period.

- ENMAX Power Delivery – the regulated business continued to grow through a steady increase in rate base and customer sites, largely a result of Calgary's growth and need to replace aging infrastructure. Power Delivery is actively pursuing its regulatory agenda to minimize regulatory earnings lag. The increase in regulatory margins in 2017 reflected the interim capital tracker and interim performance-based regulation (PBR) rate adjustment decisions that were both received in December 2016 for Distribution Access Service (DAS). The regulatory margin increase was offset by an increase in operations, maintenance and administration (OM&A) costs and an increase in depreciation.
- ENMAX Corporate – overall impact to earnings has been flat due to multiple offsetting factors. There was an increase in system costs in Q1 2017 due to higher IT infrastructure management costs, and the continuation of the non-capital IT Software as a Service (SaaS) project executed during 2016. This was partially offset by a decrease in datacenter transformation project costs. The Corporation expects process and cost efficiencies from these critical technology initiatives. The increase in expenses was offset by higher foreign exchange gains in Q1 2017.

Additional details on the financial performance of the Corporation are discussed in the ENMAX Financial Results section.

Results of operations are not necessarily indicative of future performance due to fluctuating commodity prices, timing of receipt of regulatory decisions, the performance and retirement of existing generation facilities, the addition of new generation facilities and the impact of government policies.

ENMAX COMPETITIVE ENERGY BUSINESS AND UPDATE

ENMAX Competitive Energy's core strategy is to profitably grow its customer base across Alberta and invest in power generation facilities required to serve its electricity customers. ENMAX Competitive Energy supplies electricity through its own wind and natural gas-fuelled generation facilities. Energy portfolio requirements are balanced through the purchase and sale of electricity and natural gas from and into Alberta wholesale markets. ENMAX Competitive Energy provides customers with competitive energy products and services with a focus on longer-term fixed electricity and natural gas contracts. Electricity contracts link customer demand to ENMAX Competitive Energy's generating assets, which results in relatively stable margins, even during times of volatile or low wholesale electricity prices. Natural gas retail contracts are backed by market transactions to provide supply certainty while generating margin stability and risk mitigation.

As at March 31, 2017, ENMAX Competitive Energy's capacity ownership interest was 1,614 megawatts (MW) of electricity generation to supply customer demands. The remaining power and natural gas required to meet ENMAX Competitive Energy's consumer electricity and natural gas demand is acquired through the competitive wholesale power and natural gas markets. During times when ENMAX Competitive Energy has excess generation capacity, it can sell the energy to the market; whereas, when it requires power to meet its retail or wholesale customer needs, it is achieved through a combination of generation capacity and/or purchases of energy from the market. These decisions are based on market conditions.

KEY BUSINESS STATISTICS

Three months ended March 31,	2017	2016
Plant availability (%) [1]	**98.00**	94.00
Average flat pool price ($/MWh)	**22.38**	18.09
Spark spread ($)	**3.27**	5.06

[1] Plant availability includes planned maintenance and forced outages.

Plant availability for the three months ended March 31, 2017 improved over the same period in 2016. Plant availability was lower in 2016 due to outage events at the Shepard Energy Centre (Shepard) facility.

For the three months ended March 31, 2017, the average flat pool power price increased from 2016 levels. This was primarily due to higher natural gas prices, increased marginal carbon compliance costs (Specified Gas Emitters Rates) affecting coal plants and higher system load.

Spark spread, which represents the notional gross margin contribution of a gas-fuelled power plant from generating a unit of electricity, decreased from 2016 levels. This decrease was driven by higher average natural gas prices for the three months ended Q1 2017 of $2.55/Gigajoule (Q1 2016 - $1.74/ Gigajoule), partially offset by an increase in average flat pool prices.

ENMAX POWER DELIVERY BUSINESS AND UPDATE

ENMAX Power Delivery's highest priority is providing safe, reliable and efficient delivery of electricity to Calgarians.

ENMAX Power Delivery continues to invest in its electricity transmission and distribution system infrastructure to meet Calgary's growing needs. This includes expansion of the distribution system, reinforcement of the transmission system and replacement of aging infrastructure in both systems. Distribution projects include investments in system infrastructure to accommodate residential, commercial and industrial growth, as well as the replacement and modification of existing assets required to meet industry safety and reliability standards. Transmission projects include capacity upgrades to existing substations, new substations and transmission lines to deliver reliable electricity to meet Calgary's growing demand.

ENMAX Power Delivery submits applications to the Alberta Utilities Commission (AUC) to request the approval for the need to construct or replace transmission utility-related facilities, to set rates, or allocate costs related to the operation of providing electric energy-delivery related services to Calgarians.

- In September 2016, ENMAX Power Delivery filed a Capital Tracker application seeking approval for a 2015-2017 distribution capital program that will recover capital related costs (interest, depreciation and return) on distribution capital (referred to as the "K" factor) for 2015-2017. If successful, ENMAX Power Delivery will receive approval to collect approximately $50.0 million of capital-related costs over the three-year period. ENMAX Power Delivery expects to receive a final decision on this application in 2017.
- In October 2016, the AUC approved ENMAX Power Delivery's 2016-2017 equity ratio of 37.0 per cent as a placeholder and required it to file an application for approval of its equity ratio on a final basis. On November 30, 2016, ENMAX Power Delivery filed an application requesting approval of a 37.0 per cent deemed equity ratio for its distribution and transmission functions for 2016 and 2017 on a final basis, with the AUC decision expected by mid-2017.
- On December 9, 2016, ENMAX Power Delivery filed an application with the AUC seeking approval of Transmission Revenue Requirements of $75.2 million and $81.9 million for 2016 and 2017, respectively. ENMAX Power Delivery expects a decision from the AUC on this application in 2017.

- On December 16, 2016, the AUC issued a decision with respect to the AUC-initiated proceeding to establish parameters for the next generation of PBR plans (Next Generation PBR). This decision determined the parameters that ENMAX Power Delivery must use to formulate a notional 2017 revenue requirement that will serve as the basis for going-in DAS rates for the 2018-2022 PBR term, as well as the DAS rates during the term. ENMAX Power Delivery submitted its compliance filing related to this decision to the AUC on April 21, 2017.
- On December 22, 2016, the AUC released a decision approving ENMAX Power Delivery's 2017 interim DAS rates application as filed. These rates were approved on an interim basis with an effective date of January 1, 2017, which provides for 2017 revenue of $226.4 million. The decision included interim approval of $31.4 million (60.0 per cent of the applied for capital tracker revenue and DAS true-up), of which $14.9 million pertaining to 2015 and 2016 capital tracker and DAS true-up was recognized in 2016.

ENMAX Power Delivery's continued efforts to reduce regulatory lag, promote cost efficiencies and focus on prudent capital expenditures provide a solid rate base for current and future earnings.

KEY BUSINESS STATISTICS

Three months ended March 31,	**2017**	**2016**
Distribution volumes (GWh)	**2,374**	2,388
System average interruption duration index (SAIDI) [1]	**0.06**	0.06
System average interruption frequency index (SAIFI) [2]	**0.06**	0.10

[1] SAIDI equals the total duration of a sustained interruption per average customer during a predefined period of time. A sustained interruption has a duration greater than or equal to one minute. The lower the SAIDI, the better the reliability.

[2] SAIFI equals how often the average customer experiences a sustained interruption over a predefined period of time. A sustained interruption has a duration greater than or equal to one minute. The lower the SAIFI, the better the reliability.

Total electricity delivered in gigawatt hours (GWh) in the Calgary service area for the three months ended March 31, 2017 was slightly lower than the same period in 2016. The decrease was primarily due to lower demand directly correlated to the state of the economy in Calgary and customers' continued focus on electricity efficiency, partially offset by an increase in customer sites.

ENMAX has consistently been one of the most reliable transmission and distribution utilities in Canada for many years. SAIDI results for the period ended March 31, 2017 were steady over the same period in the prior year. SAIFI results showed improvement in the period that reflects ENMAX Power Delivery's investments in distribution automation.

ENMAX FINANCIAL RESULTS

ADJUSTED EARNINGS BEFORE INTEREST AND INCOME TAXES (ADJUSTED EBIT) COMPARED WITH THE SAME PERIOD IN 2016

(millions of dollars)	ENMAX Competitive Energy	ENMAX Power Delivery	ENMAX Corporate	Consolidated
Adjusted EBIT[1] for the period ended March 31, 2016	41.6	22.2	0.6	64.4
Increased (decreased) margins attributable to:				
Electricity	(12.0)	(0.3)	1.3	(11.0)
Natural gas	3.0	-	(0.3)	2.7
Transmission and distribution	-	3.7	-	3.7
Contractual services and other	2.0	1.2	(0.5)	2.7
Decreased (increased) expenses:				
Operation, maintenance & administration[2]	(1.0)	(3.3)	(0.3)	(4.6)
Foreign exchange (FX)	1.2	-	0.3	1.5
Amortization	1.9	(1.7)	(0.5)	(0.3)
Adjusted EBIT[1] for the period ended March 31, 2017	36.7	21.8	0.6	59.1

[1] Adjusted EBIT is a Non-IFRS measure. See Non-IFRS Financial Measures section.
[2] Normalized to exclude impact of intercompany transactions with no consolidated impact.

Electricity margins for the three months ended March 31, 2017 decreased $11.0 million or 10.9 per cent compared to the same period in 2016. The decrease was primarily driven by reduced margins in retail products due to lower pool prices directly impacting pricing and customer product preferences. The impact was minimized through lower portfolio supply costs in the current quarter as compared with the prior period due to the recent changes in ENMAX's generation portfolio moving away from base load coal generating assets.

Natural gas margins for the three months ended March 31, 2017 increased $2.7 million or 17.4 per cent compared to the three months ended March 31, 2016. The increase was primarily due to higher retail consumption volumes due to colder weather and increased site acquisitions.

For the three months ended March 31, 2017, transmission and distribution margins increased $3.7 million or 5.4 per cent despite low load growth. The favourable margin was largely due to interim capital tracker and interim PBR rate adjustment decisions received in December 2016 for DAS.

For the three months ended March 31, 2017, contractual services and other margins increased $2.7 million or 11.3 per cent compared to the first quarter of 2016. This stronger margin was primarily due to gains from sales of emissions offsets and a greater proportion of higher margin contracts.

Operation, maintenance and administration (OM&A) for the three months ended March 31, 2017 increased $4.6 million or 5.2 per cent from the three months ended March 31, 2016. Higher salaries and benefits partially contributed to the increase in Q1 2017 due to annual increments for union employees and an increase in defined benefit pension costs. In addition, IT infrastructure management costs and the costs for the non-capital IT SaaS project executed during 2016 also increased from prior year.

For the three months ended March 31, 2017, a net foreign exchange gain of $0.4 million was recognized, compared to a loss of $1.1 million in the first quarter of 2016. Foreign exchange gains or losses were primarily the result of long-term service agreements denominated in U.S. currencies, as well as associated foreign exchange hedges.

Amortization expense increased $0.3 million or 0.6 per cent compared to the first quarter of 2017. The net increase in expense was primarily due to an increase in regulatory assets that was partially offset by a reduction in PPA amortization.

OTHER NET EARNINGS ITEMS

Finance charges decreased $1.4 million or 7.3 per cent compared to the same period in 2016. This was due to lower levels of long-term debt.

Unrealized losses on commodities increased $52.6 million for the three months ended March 31, 2017 compared to three months ended March 31, 2016. These unrealized losses relate to fair value revaluation of derivatives used as economic hedges for the costs of electricity. The unfavourable variance for the period was primarily related to a decrease in long-term forward prices on natural gas and power contracts, the majority of which will settle beyond 2017.

OTHER COMPREHENSIVE INCOME

Other comprehensive income (OCI) illustrates 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.

For the three months ended March 31, 2017, OCI had total losses of $20.0 million, compared with losses of $13.5 million for the same period in 2016. The OCI losses reflected the unfavorable fair value changes in commodity positions where hedge accounting is applied.

NON-IFRS FINANCIAL MEASURES

The Corporation uses adjusted EBITDA; adjusted EBIT; comparable net earnings; and, funds from operations (FFO) as financial performance measures. These measures do not have any standard meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. The purpose of these financial measures and their reconciliation to IFRS financial measures are shown below. These non-IFRS measures are consistently applied in the previous period, except where otherwise noted.

Adjusted EBITDA

Three months ended March 31, (millions of dollars)	**2017**	**2016**
Adjusted EBITDA (non-IFRS financial measure)	**113.7**	118.7
Deduct:		
Depreciation and amortization	**54.6**	54.3
Finance charges	**17.9**	19.3
Income tax (recovery) expense	**(2.0)**	3.3
Comparable net earnings (non-IFRS financial measure)	**43.2**	41.8
Unrealized losses on commodities	**62.6**	10.0
Income tax (recovery) on unrealized losses on commodities	**(16.9)**	(2.7)
Net (loss) earnings (IFRS financial measure)	**(2.5)**	34.5

Adjusted EBITDA is a useful measure of business performance as it provides an indication of the cash flow results generated by primary business activities without consideration as to how those activities are financed and amortized, or how the results are taxed in various business jurisdictions. Adjusted EBITDA is also used to evaluate certain debt coverage ratios. During Q4 2016, the Corporation changed adjusted EBITDA to normalize for unrealized gains and losses on commodities.

Unrealized gains and losses on commodities reflect the impact of changes in forward natural gas and power prices and the volume of the positions for these derivatives over a certain period of time. These unrealized gains and losses do not necessarily reflect the actual gains and losses that will be realized on settlement. Furthermore, unlike commodity derivatives, ENMAX's generation capacity and future sales to retail customers are not marked-to-market. As a result, the Corporation does not consider the unrealized gains and losses on commodities to be reflective of underlying operations for the periods presented.

Adjusted EBIT

Three months ended March 31, (millions of dollars)	2017	2016
Operating profit (IFRS financial measure)	**(23.0)**	65.1
Add back:		
Adjustments for rate-regulated activities	**19.5**	(10.7)
Unrealized losses on commodities	**62.6**	10.0
Adjusted EBIT (non-IFRS financial measure)	**59.1**	64.4
Deduct:		
Unrealized losses on commodities	**62.6**	10.0
Finance charges	**17.9**	19.3
Income tax (recovery) expense	**(18.9)**	0.6
Net (loss) earnings (IFRS financial measure)	**(2.5)**	34.5

During Q1 2017, instead of EBIT, the Corporation focused on adjusted EBIT, which excludes the impact of unrealized gains (losses) on commodities. Adjusted EBIT is a useful measure of business performance, which provides an indication of the operating results generated by primary business activities, including the costs of amortization but excluding the changes in the fair value of derivatives used to reduce the Corporation's exposure to commodity price risks. Adjusted EBIT does not consider how those activities are financed or how the results are taxed in various business jurisdictions.

Normalizing for the unrealized gains and losses on commodities provides a better representation of the underlying operations of the Corporation. Refer to Adjusted EBITDA above.

FFO

Three months ended March 31, (millions of dollars)	2017	2016
Cash flow from operations (IFRS financial measure)	**13.2**	47.0
Changes in non-cash working capital	**112.2**	69.9
Post-employment benefits	**(1.4)**	0.8
Contributions in aid of construction	**(11.8)**	(6.9)
Funds from operations (non-IFRS financial measure)	**112.2**	110.8

FFO is used as an additional metric of cash flow without regard to changes in the Corporation's non-cash working capital and adjusted for contributions in aid of construction.

FINANCIAL CONDITION

SIGNIFICANT CHANGES IN THE CORPORATION'S FINANCIAL CONDITION

As at (millions of dollars, except % change)	March 31, 2017	December 31, 2016	$ Change	% Change	Explanation for Change
ASSETS					
Cash and cash equivalents	**49.7**	117.5	(67.8)	(58%)	Primarily due to cash used in purchase of property, plant and equipment, repayment of long-term debt, and dividend payment, which more than offset the net proceeds received from short-term debt and cash flow from operating activities.
Accounts receivable	**544.6**	507.4	37.2	7%	Increase due to higher revenue in the first quarter of 2017 as compared with the last quarter of 2016.
Property, plant and equipment (PPE)	**4,078.1**	4,071.4	6.7	1%	General capital additions partially offset by amortization.
LIABILITIES AND SHAREHOLDER'S EQUITY					
Short term debt	**30.0**	-	30.0	100%	Increase due to issuance of commercial paper to fund operations of the Corporation.
Accounts payable	**366.2**	376.5	(10.3)	(3%)	Decrease mainly due to timing.
Dividend payable	**36.0**	-	36.0	100%	Dividend declared in March 2017 to be paid in quarterly instalments during 2017.
Financial liabilities [1]	**168.3**	75.0	93.3	124%	Change in fair value of hedged and non-hedged derivatives.
Long-term debt [1]	**1,639.4**	1,647.2	(7.8)	(1%)	Primarily due to repayment of long-term debt

[1] Net current and long-term asset and liability positions.

FUTURE ACCOUNTING CHANGE

The International Accounting Standards Board (IASB) issued new standards and amendments to existing standards that were not yet effective as of March 31, 2017 but are effective for January 1, 2018 and 2019. Please refer to Note 3 of the condensed consolidated interim financial statements for a list of the upcoming accounting changes.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

As at *(unaudited)* *(millions of Canadian dollars)*		March 31, 2017		December 31, 2016
ASSETS				
Cash and cash equivalents	$	**49.7**	$	117.5
Accounts receivable		**544.6**		507.4
Income taxes receivable		**131.1**		132.4
Current portion of financial assets (Note 5)		**68.8**		96.1
Other current assets (Note 7)		**113.8**		81.0
		908.0		934.4
Property, plant and equipment		**4,078.1**		4,071.4
Intangible assets		**164.2**		159.9
Deferred income tax assets (Note 8)		**97.8**		72.0
Financial assets (Note 5)		**40.3**		55.1
Other long-term assets (Note 7)		**36.8**		32.9
TOTAL ASSETS		**5,325.2**		5,325.7
REGULATORY DEFERRAL ACCOUNT DEBIT BALANCES (Note 6)		**52.3**		39.8
TOTAL ASSETS AND REGULATORY DEFERRAL ACCOUNT DEBIT BALANCES	$	**5,377.5**	$	5,365.5
LIABILITIES				
Short-term debt	$	**30.0**	$	-
Accounts payable and accrued liabilities		**366.2**		376.5
Dividend payable (Note 11)		**36.0**		-
Income taxes payable		**-**		0.8
Current portion of long-term debt (Note 5)		**67.3**		67.0
Current portion of financial liabilities (Note 5)		**113.6**		104.2
Current portion of deferred revenue		**5.6**		5.6
Other current liabilities (Note 7)		**30.3**		43.9
Current portion of asset retirement obligations and other provisions		**2.8**		2.8
		651.8		600.8
Long-term debt (Note 5)		**1,572.1**		1,580.2
Deferred income tax liabilities (Note 8)		**95.1**		98.0
Post-employment benefits		**56.4**		54.6
Financial liabilities (Note 5)		**163.8**		122.0
Deferred revenue		**465.2**		457.1
Other long-term liabilities (Note 7)		**16.4**		18.5
Asset retirement obligations and other provisions		**125.2**		125.3
TOTAL LIABILITIES		**3,146.0**		3,056.5
REGULATORY DEFERRAL ACCOUNT CREDIT BALANCES (Note 6)		**10.7**		17.7
SHAREHOLDER'S EQUITY				
Share capital		**280.1**		280.1
Retained earnings		**2,050.0**		2,100.5
Accumulated other comprehensive (loss) (Note 9)		**(109.3)**		(89.3)
		2,220.8		2,291.3
TOTAL LIABILITIES, REGULATORY DEFERRAL ACCOUNT CREDIT BALANCES AND SHAREHOLDER'S EQUITY	$	**5,377.5**	$	5,365.5

Commitments and contingencies (Note 14)
See accompanying Notes to Condensed Consolidated Interim Financial Statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EARNINGS

Three months ended March 31, *(unaudited)* *(millions of Canadian dollars)*		**2017**		**2016**
REVENUE (Note 4)				
Electricity	**$**	**435.3**	$	428.4
Natural gas		**172.0**		116.9
Transmission and distribution		**136.6**		137.3
Local access fees		**25.3**		25.4
Other revenue (Note 10)		**45.0**		38.4
TOTAL REVENUE		**814.2**		746.4
OPERATING EXPENSES (Note 4)				
Electricity and fuel purchases		**409.5**		337.4
Natural gas and delivery		**153.8**		101.4
Transmission and distribution		**82.8**		56.2
Local access fees		**25.3**		25.4
Depreciation and amortization		**54.6**		54.3
Other expenses (Note 10)		**111.2**		106.6
TOTAL OPERATING EXPENSES		**837.2**		681.3
OPERATING (LOSS) PROFIT		**(23.0)**		65.1
Finance charges		**17.9**		19.3
NET (LOSS) EARNINGS BEFORE TAX		**(40.9)**		45.8
Current income tax expense (Note 8)		**1.5**		2.0
Deferred income tax (recovery) (Note 8)		**(20.4)**		(1.4)
NET (LOSS) EARNINGS —BEFORE NET MOVEMENT IN REGULATORY DEFERRAL ACCOUNT BALANCES		**(22.0)**		45.2
NET MOVEMENT IN REGULATORY DEFERRAL ACCOUNT BALANCES (Notes 4 and 6)		**19.5**		(10.7)
NET (LOSS) EARNINGS	**$**	**(2.5)**	$	34.5

See accompanying Notes to the Condensed Consolidated Interim Financial Statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

Three months ended March 31, *(unaudited)* *(millions of Canadian dollars)*		**2017**		**2016**
NET (LOSS) EARNINGS	**$**	**(2.5)**	$	34.5
Items that will not be reclassified subsequently to statement of earnings				
Deferred tax recovery on re-measurement losses on retirement benefits[1]		**0.2**		-
Items that will be reclassified subsequently to statement of earnings				
Unrealized (losses) on derivative instruments[2]		**(32.0)**		(22.4)
Reclassification of losses on derivative instruments to net earnings[3]		**11.8**		8.9
Other comprehensive (loss), net of income tax		**(20.0)**		(13.5)
TOTAL COMPREHENSIVE (LOSS) INCOME	**$**	**(22.5)**	$	21.0

[1] Net deferred income tax recovery of $0.2 million for the three months ended March 31, 2017 (2016—$nil).
[2] Net deferred income tax recovery of $11.8 million for the three months ended March 31, 2017 (2016—$5.8 million tax recovery).
[3] Net deferred income tax recovery of $3.6 million for the three months ended March 31, 2017 (2016—$1.5 million tax recovery).

See accompanying Notes to the Condensed Consolidated Interim Financial Statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

(millions of Canadian dollars)		Share Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
As at January 1, 2017	$	280.1	2,100.5	(89.3)	2,291.3
Net (Loss)		-	(2.5)	-	(2.5)
Other comprehensive (loss), net of income tax		-	-	(20.0)	(20.0)
Total Comprehensive (Loss)		-	(2.5)	(20.0)	(22.5)
Dividends (Note 11)		-	(48.0)	-	(48.0)
As at March 31, 2017		**280.1**	**2,050.0**	**(109.3)**	**2,220.8**
As at January 1, 2016	$	280.1	2,042.9	(23.8)	2,299.2
Net earnings		-	34.5	-	34.5
Other comprehensive (loss), net of income tax		-	-	(13.5)	(13.5)
Total Comprehensive Income		-	34.5	(13.5)	21.0
Dividends (Note 11)		-	(47.0)	-	(47.0)
As at March 31, 2016		280.1	2,030.4	(37.3)	2,273.2

See accompanying Notes to the Condensed Consolidated Interim Financial Statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

Three months ended March 31, *(unaudited)* *(millions of Canadian dollars)*	**2017**	**2016**
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net (loss) earnings	**$ (2.5)**	$ 34.5
Contributions in aid of construction	**11.8**	6.9
Amortization of customer contributions	**(3.7)**	(3.4)
Depreciation and amortization	**54.6**	54.3
Finance charges	**17.9**	19.3
Income tax (recovery) expense (Note 8)	**(18.9)**	0.6
Change in unrealized market value of financial contracts	**64.8**	5.5
Post-employment benefits	**1.4**	(0.8)
Change in non-cash working capital (Note 12)	**(112.2)**	(69.9)
Cash flow from operations	**13.2**	47.0
Interest paid[1]	**(1.1)**	(1.7)
Income taxes paid	**(0.8)**	-
Net cash flow provided by operating activities	**11.3**	45.3
INVESTING ACTIVITIES		
Purchase of PPE and intangibles[1]	**(89.2)**	(56.8)
Cash used in investing activities	**(89.2)**	(56.8)
FINANCING ACTIVITIES		
Repayment of short-term debt	**(59.9)**	(20.0)
Proceeds of short-term debt	**89.9**	20.0
Proceeds of long-term debt	**-**	0.1
Repayment of long-term debt	**(7.9)**	(8.1)
Dividend paid (Note 11)	**(12.0)**	(11.7)
Cash flow provided by (used in) financing activities	**10.1**	(19.7)
Decrease in cash and cash equivalents	**(67.8)**	(31.2)
Cash and cash equivalents, beginning of year	**117.5**	143.7
CASH AND CASH EQUIVALENTS, END OF YEAR[2]	**$ 49.7**	$ 112.5
Cash and cash equivalents consist of:		
Cash	**49.7**	58.9
Short-term investments	**-**	53.6

(1) Total interest paid during the period was $2.6 million (2016—$2.6 million). Purchase of PPE and intangibles includes $1.5 million of capitalized borrowing costs (2016–$0.9 million).

(2) Cash and cash equivalents include restricted cash of $9.2 million (March 31, 2016 - $3.8 million) relating to margin posted with a financial institution. This margin is required as part of the Corporation's commodity trading activity.

See accompanying Notes to Condensed Consolidated Interim Financial Statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM 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 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. 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. Since 1998, the Corporation has grown from its transmission and distribution wires roots to include electricity generation, commercial and residential solar, electricity and natural gas retail businesses.

The Corporation's registered and head office is at 141 - 50 Avenue SE, Calgary, AB, T2G 4S7. The Corporation's principal place of business is Alberta.

2. BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared by management in accordance with International Accounting Standards (IAS) 34, Interim Financial Reporting. These condensed consolidated interim financial statements have been prepared following the same accounting policies and methods as those used in preparing the most recent consolidated financial statements for the year ended December 31, 2016, and have been prepared under the historical costs basis, except for the revaluation of financial derivative instruments to fair value and to reflect asset impairment (if any). The financial statements do not include all disclosure required for the preparation of annual financial statements. Accordingly, the financial statements should be read in conjuction with the 2016 annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS), which are available on ENNMAX's website at www.enmax.com.

These condensed consolidated interim financial statements were authorized for issuance by the Board of Directors on May 11, 2017.

3. ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

The following standards and interpretations are not yet effective and have not been applied in preparing these condensed consolidated interim financial statements. The Corporation is progressing on its implementation plan of each of the standards below and is on track for full implementation effective January 1, 2018.

IFRS 9 (July 2014) *Financial Instruments*

The final standard replaces IAS 39 Financial Instruments: Recognition and Measurement and previous versions of IFRS 9. The entire standard provides guidance and requirements on classification and measurement of financial assets and liabilities, impairment and hedging. The standard has introduced a single expected credit loss model for all financial assets measured at amortized cost and fair value through other comprehensive income (OCI). The standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers*

The new standard provides a framework that replaces existing revenue recognition guidance. Entities will apply a five-step model to determine when to recognize revenue and at what amount. The model specifies that revenue should be recognized when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. The standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 16 *Leases*

The new leases standard requires companies to bring most leases on-balance sheet and eliminates the distinction between operating and finance leases. Lessor accounting remains mostly unchanged from previous guidance. The key objective of the new standard is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The standard is effective January 1, 2019. Early application is permitted for companies that also apply IFRS 15 Revenue from Contracts with Customers. The Corporation plans to early adopt IFRS 16 on January 1, 2018, at the same time as IFRS 9 and IFRS 15.

4. SEGMENT INFORMATION

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

The Corporation uses a shared service allocation model to allocate cost between segments.

ENMAX COMPETITIVE ENERGY

ENMAX Competitive Energy is an operating segment established to carry out competitive energy supply and retail functions through various legal entities and affiliated companies. ENMAX Competitive Energy also includes ENMAX Power Services and ENCOMPASS Customer Care.

ENMAX POWER DELIVERY

ENMAX Power Delivery is a regulated operating segment established to carry out electricity transmission and distribution service functions and the Regulated Rate Option (RRO) retail function through various legal entities and affiliated companies.

SEGMENTED TOTAL ASSETS AND REGULATORY DEFERRAL ACCOUNT BALANCES

As at *(millions of dollars)*	**March 31, 2017**	**December 31, 2016**
ENMAX Competitive Energy	**2,905.8**	2,901.5
ENMAX Power Delivery	**2,317.6**	2,268.9
Corporate and Intersegment Eliminations	**101.8**	155.3
Total Assets	**5,325.2**	5,325.7
Regulatory Deferral Account Debit Balances	**52.3**	39.8
Total Assets and Regulatory Deferral Account Debit Balances	**5,377.5**	5,365.5

COMPARATIVE SEGMENT INFORMATION

Segment information for the three months ended March 31, 2016 has been reclassified to reflect the presentation regularly reviewed by the chief operating decision maker, which excludes the unrealized gains and losses on commodities from the operating profit. Unrealized gains and losses on commodities reflect the impact of changes in forward natural gas and power prices and the volume of the positions for these derivatives over a certain period of time. Unrealized gains and losses on commodities do not necessarily reflect the actual gains and losses that will be realized on settlement. As a result, the Corporation does not consider them reflective of underlying operations for the period presented.

The presentation change had no impact on reported consolidated net earnings.

THREE MONTHS ENDED MARCH 31, 2017

(millions of dollars)	ENMAX Competitive Energy	ENMAX Power Delivery	Corporate and Intersegment Eliminations	Adjusted Consolidated Totals	Movement in Regulatory Deferral Account	Other Presentation Reclass	Consolidated Totals
REVENUE							
Electricity	**512.4**	**17.6**	**(93.1)**	**436.9**	**(1.6)**	**-**	**435.3**
Natural gas	**172.6**	**-**	**(0.6)**	**172.0**	**-**	**-**	**172.0**
Transmission and distribution	**-**	**137.2**	**-**	**137.2**	**(0.6)**	**-**	**136.6**
Local access fees	**-**	**25.3**	**-**	**25.3**	**-**	**-**	**25.3**
Other revenue	**46.5**	**8.0**	**(5.2)**	**49.3**	**(4.3)**	**-**	**45.0**
TOTAL REVENUE	**731.5**	**188.1**	**(98.9)**	**820.7**	**(6.5)**	**-**	**814.2**
OPERATING EXPENSES							
Electricity and fuel purchases	**429.2**	**12.0**	**(94.3)**	**346.9**	**-**	**62.6**	**409.5**
Natural gas and delivery	**153.8**	**-**	**-**	**153.8**	**-**	**-**	**153.8**
Transmission and distribution	**-**	**65.4**	**-**	**65.4**	**17.4**	**-**	**82.8**
Local access fees	**-**	**25.3**	**-**	**25.3**	**-**	**-**	**25.3**
Depreciation and amortization	**28.8**	**23.0**	**2.8**	**54.6**	**-**	**-**	**54.6**
Other expenses	**83.0**	**40.6**	**(8.0)**	**115.6**	**(4.4)**	**-**	**111.2**
TOTAL OPERATING EXPENSES	**694.8**	**166.3**	**(99.5)**	**761.6**	**13.0**	**62.6**	**837.2**
OPERATING PROFIT (LOSS)	**36.7**	**21.8**	**0.6**	**59.1**	**(19.5)**	**(62.6)**	**(23.0)**
Unrealized losses on commodities				**62.6**	**-**	**(62.6)**	**-**
Finance charges				**17.9**	**-**	**-**	**17.9**
NET LOSS BEFORE TAX				**(21.4)**	**(19.5)**	**-**	**(40.9)**
Current income tax expense				**1.5**	**-**	**-**	**1.5**
Deferred income tax (recovery)				**(20.4)**	**-**	**-**	**(20.4)**
NET LOSS BEFORE NET MOVEMENT IN REGULATORY DEFERRAL BALANCES				**(2.5)**	**(19.5)**	**-**	**(22.0)**
NET MOVEMENT IN REGULATORY DEFERRAL ACCOUNT BALANCES				**-**	**19.5**	**-**	**19.5**
NET LOSS				**(2.5)**	**-**	**-**	**(2.5)**

THREE MONTHS ENDED MARCH 31, 2016

(millions of dollars)	ENMAX Competitive Energy	ENMAX Power Delivery	Corporate and Intersegment Eliminations	Adjusted Consolidated Totals	Movement in Regulatory Deferral Account	Other Presentation Reclass	Consolidated Totals
REVENUE							
Electricity	508.3	20.6	(100.5)	428.4	-	-	428.4
Natural gas	117.2	-	(0.3)	116.9	-	-	116.9
Transmission and distribution	-	136.1	-	136.1	1.2	-	137.3
Local access fees	-	25.4	-	25.4	-	-	25.4
Other revenue	40.4	7.1	(4.5)	43.0	(4.6)	-	38.4
TOTAL REVENUE	665.9	189.2	(105.3)	749.8	(3.4)	-	746.4
OPERATING EXPENSES							
Electricity and fuel purchases	413.1	14.7	(100.4)	327.4	-	10.0	337.4
Natural gas and delivery	101.4	-	-	101.4	-	-	101.4
Transmission and distribution	-	68.0	-	68.0	(11.8)	-	56.2
Local access fees	-	25.4	-	25.4	-	-	25.4
Depreciation and amortization	30.7	21.3	2.3	54.3	-	-	54.3
Other expenses	79.1	37.6	(7.8)	108.9	(2.3)	-	106.6
TOTAL OPERATING EXPENSES	624.3	167.0	(105.9)	685.4	(14.1)	10.0	681.3
OPERATING PROFIT	41.6	22.2	0.6	64.4	10.7	(10.0)	65.1
Unrealized losses on commodities				10.0	-	(10.0)	-
Finance charges				19.3	-	-	19.3
NET EARNINGS BEFORE TAX				35.1	10.7	-	45.8
Current income tax expense				2.0	-	-	2.0
Deferred income tax recovery				(1.4)	-	-	(1.4)
NET EARNINGS BEFORE NET MOVEMENT IN REGULATORY DEFERRAL BALANCES				34.5	10.7	-	45.2
NET MOVEMENT IN REGULATORY DEFERRAL ACCOUNT BALANCES				-	(10.7)	-	(10.7)
NET EARNINGS				34.5	-	-	34.5

5. FINANCIAL INSTRUMENTS, HEDGES AND RISK MANAGEMENT

MARKET RISK

The Corporation manages its exposure to market risk (interest rate risk, foreign currency exchange risk, commodity price risk and equity price risk) on a portfolio basis. This includes managing its 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.

VALUATION OF DERIVATIVE ASSETS AND LIABILITIES

Financial derivative instruments are recorded at fair value on the statement of financial position. As at March 31, 2017, the fair values of derivatives were as follows:

As at *(millions of dollars)*	**March 31, 2017**		**December 31, 2016**	
	Hedge Instruments	**Non-Hedge Derivatives**	**Hedge Instruments**	**Non-Hedge Derivatives**
Assets				
Current	**20.7**	**48.1**	27.6	68.5
Non-current	**29.1**	**11.2**	36.5	18.6
Liabilities				
Current	**74.0**	**39.6**	61.7	42.5
Non-current	**105.2**	**58.6**	103.4	18.6

For cash flow hedges, gains and losses are reclassified immediately to net earnings when anticipated hedged transactions are no longer likely to occur. During Q4 2016, the Corporation voluntarily de-designated a portion of its cash flow hedges. At the time of de-designation, the accumulated gain in OCI was $8.8 million and is currently being reclassified to net earnings in the same period as the anticipated hedge transactions settle or when deemed ineffective. During the three months ended March 31, 2017, there was a $3.3 million impact recognized in electricity and fuel purchases (2016–$nil) as a reflection of the ineffectiveness of the relevant hedges.

For non-hedge derivatives, there were unrealized losses of $64.8 million in the three months ended March 31, 2017 (2016–$5.5 million unrealized losses), primarily recorded in electricity and fuel purchases. The anticipated non-hedge derivatives are expected to settle from 2017 through 2024. The mark-to-market adjustments do not consider the impact of any interrelationship among the factors such as the underlying position and the optionality of the Corporation's integrated business. The issue is that the generation capacity or future sales to customers are not mark-to-market, which creates an earnings mismatch.

NON-DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

Fair values for cash and cash equivalents, 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 Corporation estimated the fair value of its long-term debt 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 for comparable entities.

CARRYING AMOUNTS AND FAIR VALUES OF LONG-TERM DEBT

As at *(millions of dollars)*	March 31, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt [1] consisting of:				
Debentures, with remaining terms of				
Less than 5 years	**91.4**	**95.4**	99.2	104.2
5–10 years	**10.2**	**10.4**	10.2	10.4
10–15 years	**47.6**	**53.4**	47.6	53.2
15–20 years	**455.4**	**518.8**	455.4	516.0
20–25 years	**532.8**	**542.9**	532.8	540.9
Private debentures				
Series 1 (6.15%)	**299.4**	**322.1**	299.3	321.2
Series 3 (3.81%)	**198.8**	**210.8**	198.8	204.2
Promissory note	**3.8**	**4.1**	3.9	4.1
	1,639.4	**1,757.9**	1,647.2	1,754.2

[1] Includes current portion of $67.3 million (December 31, 2016–$67.0 million). Maturity dates range from June 2017 to June 2040.

6. REGULATORY DEFERRAL BALANCES

The timing of recognition of certain regulatory debits, credits, revenues and expenses may differ from what is otherwise expected under IFRS for non-regulated operations. The Corporation has recorded the following regulatory deferral debit and credit balances:

As at *(millions of dollars)*	January 1, 2017	Balances Arising in the Period[1]	Recovery (Reversal) [2]	March 31, 2017	Expected Recovery/Reversal Period
Regulatory deferral account debit balances					
Accounts receivable (a)	-	37.1	(22.2)	**14.9**	2 Mo
Un-eliminated inter-company profit (b)	8.8	(0.1)	-	**8.7**	25 Yr
Other regulatory debits (c)	31.0	-	(2.3)	**28.7**	12 Mo
Total regulatory deferral account debit balances	39.8	37.0	(24.5)	**52.3**	
Regulatory deferral account credit balances					
Other regulatory credits (d)	13.2	-	(2.5)	**10.7**	12 Mo
Accounts payable (a)	4.5	-	(4.5)	**-**	2 Mo
Total regulatory deferral account credit balances	17.7	-	(7.0)	**10.7**	

As at *(millions of dollars)*	January 1, 2016	Balances Arising in the Period[1]	Recovery (Reversal) [2]	March 31, 2016	Expected Recovery/Reversal Period
Regulatory deferral account debit balances					
Accounts receivable (a)	19.8	32.4	(44.2)	8.0	2 Mo
Un-eliminated inter-company profit (b)	2.0	0.5	-	2.5	24 Yr
Other regulatory debits (c)	12.7	-	(0.3)	12.4	12 Mo
Total regulatory deferral account debit balances	34.5	32.9	(44.5)	22.9	
Regulatory deferral account credit balances					
Other regulatory credits (d)	13.5	0.6	(1.5)	12.6	12 Mo
Total regulatory deferral account credit balances	13.5	0.6	(1.5)	12.6	

[1] "Balances Arising in the Period" column consists of new additions to regulatory deferral debits and credit balances.
[2] "Recovery (Reversal)" column consists of amounts collected/refunded through rate riders or transactions reversing existing regulatory balances.

The following describes each of the circumstances in which rate regulation affects the accounting for a transaction or event. Regulatory deferral debit balances represent 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 deferral credit balances 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.

(a) Accounts receivable and payable

Accounts receivable and payable represent a price-only deferral account for transmission charges from the Alberta Electric System Operator (AESO). In the absence of rate regulation and the interim standard, IFRS would require that actual costs be recognized as an expense when incurred.

(b) Inter-company profit

A subsidiary of the Corporation performs construction work for the regulated operations of ENMAX Power Delivery at a profit. 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 of distribution assets. In the absence of rate regulation and the interim standard, IFRS would require that intercompany profits be eliminated upon consolidation.

(c) Other regulatory debits

Other regulatory debits primarily relate to the Alberta Utilities Commission (AUC) flow-through items and other costs that will be collected from customers via future rates such as access service charges. Timing of the decision on collection of these items can result in significant fluctuation in balances from year to year.

(d) Other regulatory credits

Other regulatory credits primarily relate to items that will be refunded to customers through future rates. For certain 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 ENMAX Power Delivery 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. Any impairment related to regulatory deferral account debit balances are recorded in the period in which the related regulatory decisions are received.

7. OTHER ASSETS AND LIABILITIES

As at *(millions of dollars)*	March 31, 2017	December 31, 2016
Other current assets		
Prepaid expenses	**11.3**	10.2
Collateral paid	**64.8**	31.5
Deferred asset	**0.3**	0.3
Other	**37.4**	39.0
	113.8	81.0
Other long-term assets		
Prepaid expenses	**7.0**	4.5
Long-term accounts receivable	**1.2**	2.1
Deferred asset	**3.7**	3.8
Long-term collateral paid	**11.3**	7.8
Other	**13.6**	14.7
	36.8	32.9
Other current liabilities		
Capital lease	**0.7**	0.7
Deposits	**19.9**	33.8
Other	**9.7**	9.4
	30.3	43.9
Other long-term liabilities		
Capital lease	**4.5**	4.6
Other	**11.9**	13.9
	16.4	18.5

8. INCOME TAXES

The calculation of the Corporation's current and deferred income taxes involves a degree of estimation and judgment. The carrying value of deferred income tax assets is reviewed at the end of each reporting period. For the three months ended March 31, 2017, management adjusted the income tax provision utilizing its best estimate with considerations including management's expectation of future operating results, interpretation of applicable tax positions, and allowances where uncertainty surrounding the realization of the tax benefit exists.

9. ACCUMULATED OTHER COMPREHENSIVE LOSS

As at *(millions of dollars)*	March 31, 2017	December 31, 2016
Net unrealized (losses) on derivatives designated as cash flow hedges, including deferred income tax recovery of $30.6 million (December 31, 2016–recovery of $22.3 million)	**(98.7)**	(78.5)
Net actuarial (losses) on defined benefit plans, including deferred income tax recovery of $0.3 million (December 31, 2016–recovery of $0.1 million)	**(10.6)**	(10.8)
Accumulated other comprehensive (losses), including deferred income tax recovery of $30.9 million (December 31, 2016–recovery of $22.4 million)	**(109.3)**	(89.3)

10. OTHER REVENUE AND EXPENSES

OTHER REVENUE

Three months ended March 31, *(millions of dollars)*	2017	2016
Contractual services	**31.6**	25.3
Interest and penalty revenue	**3.1**	2.6
Amortization of CIAC	**3.7**	3.4
Miscellaneous	**6.6**	7.1
	45.0	38.4

OTHER EXPENSES

Three months ended March 31, *(millions of dollars)*	2017	2016
Salaries and wages	**63.7**	60.6
Materials and supplies	**8.0**	6.4
Goods and services	**20.7**	20.2
Administrative and office expenses	**2.9**	2.3
Building expense	**11.4**	11.5
Vehicles and other	**4.9**	4.5
Foreign exchange (gains) losses	**(0.4)**	1.1
	111.2	106.6

11. DIVIDEND

On March 16, 2017, the Corporation declared a dividend of $48.0 million to The City (2016–$47.0 million). The dividend will be paid in equal quarterly instalments during 2017.

12. CHANGE IN NON-CASH WORKING CAPITAL

Three months ended March 31, *(millions of dollars)*	2017	2016
Accounts receivable	**(37.2)**	19.9
Regulatory deferral account debit balances	**(12.5)**	11.6
Other assets	**(36.7)**	(38.0)
Accounts payable and accrued liabilities	**(2.5)**	(49.6)
Regulatory deferral account credit balances	**(7.0)**	(0.9)
Other liabilities	**(15.8)**	(11.7)
Provisions	**(0.5)**	(1.2)
Change in non-cash working capital	**(112.2)**	(69.9)

13. RELATED PARTY TRANSACTIONS

The City is the sole shareholder of the Corporation. The following tables summarize the related party transactions between the Corporation and The City.

Statements of earnings

Three months ended March 31, *(millions of dollars)*	**2017**	**2016**
Revenue [1]	**35.7**	33.4
Local access fees and other expenses [2]	**27.4**	26.4

[1] 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.
[2] This cost is passed through the Corporation directly to transmission and distribution customers.

Statements of financial position

As at *(millions of dollars)*	**March 31, 2017**	**December 31, 2016**
Accounts receivable	**27.8**	21.6
Other long-term assets	**1.1**	1.3
Property, plant and equipment [1]	**3.7**	3.7
Accounts payable and accrued liabilities	**9.0**	9.8
Long-term debt [2]	**1,137.4**	1,145.2
Other long-term liabilities [3]	**7.0**	7.0

[1] Assets under lease.
[2] Interest and principal payments for the three months ended March 31, 2017 were $1.5 million (2016 - $1.8 million) and $7.8 million (2016 - $7.4 million) respectively. In addition, the Corporation paid a management fee of $0.7 million to The City for the three month period ended March 31, 2017, (2016 - $0.8 million).
[3] Finance lease obligation.

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.

The Corporation has committed to a water supply agreement, whereby The City supplies a specified amount of water annually to facilitate Shepard Energy Centre (Shepard) operations.

14. COMMITMENTS AND CONTINGENCIES

POWER PURCHASE ARRANGEMENTS (PPA)

The Corporation notified the Balancing Pool of its decisions to terminate the Battle River 5 PPA and the Keephills PPA effective January 1, 2016 and May 5, 2016, respectively.

The Balancing Pool confirmed the Corporation's termination of the Battle River 5 PPA on January 27, 2016 and assumed full and final operational control of the PPA on July 13, 2016. The Balancing Pool and the Corporation differ in opinion as to the effective date of the termination; the Corporation's position is that the effective date is January 1, 2016, whereas the Balancing Pool's position is that the effective date is July 13, 2016. In the event that the termination date is determined to be later than January 1, 2016 (up to July 13, 2016), the Corporation may be exposed to an estimated loss of up to $45.0 million. The dispute between the Balancing Pool and the Corporation regarding the effective date of termination of the Battle River 5 PPA is before the Court of Queen's Bench.

On July 25, 2016, the Attorney General of Alberta filed an application with the Court of Queen's Bench seeking (1) judicial review of the Balancing Pool's decision to accept the Battle River 5 PPA termination and (2) declaratory relief regarding the validity and interpretation of certain terms within the PPAs and related regulations (Alberta Application). ENMAX PPA Management Inc., an affiliate of ENMAX, is the named respondent in the Alberta Application.

On September 16, 2016, the Balancing Pool notified the Corporation that it would not be completing its investigation of the Keephills PPA until a decision has been made by the Court on the Alberta Application. If the Balancing Pool confirms the Corporation's right to terminate the Keephills PPA, the Balancing Pool may still challenge the effective date of termination. If the effective date of that termination is determined to be later than May 5, 2016, the Corporation may be exposed to an estimated loss of up to $64.8 million (up to March 31, 2017).

No provisions have been recognized with respect to the above matters as the Corporation believes the terminations were exercised in accordance with the provisions of the PPAs.

HISTORICAL TRANSMISSION LINE LOSS CHARGES

The Corporation is participating in an AUC proceeding and related Court processes and appeals regarding the Line Loss Rule (LLR). The LLR establishes the loss factors that form the basis for certain transmission charges paid by Alberta generators, including ENMAX. Proceedings relating to the LLR address the AUC's authority to order retroactive adjustments (Module A); the replacement of the 2006-2016 methodology (Module B); and the calculation and payment of retroactive loss charges and credits for the 2006-2016 period (Module C).

No provision has been recognized related to potential retroactive adjustments, though they may be material, since the outcomes of the LLR proceedings and the multiple associated court appeals in process remain uncertain and unquantifiable at this time.

In addition to the potential for material retroactive adjustments, the Corporation may incur material additional transmission charges on a go-forward basis depending on the line loss methodology ultimately approved and implemented.

LEGAL AND REGULATORY PROCEEDINGS

In the normal course of business, the Corporation is and may be named as a defendant or party in lawsuits and regulatory proceedings related to various matters. The Corporation currently believes the outcome of these lawsuits and regulatory proceedings will not have a material impact on the operating results or financial position of the Corporation.

The Corporation, along with other market participants in the province of Alberta, is subject to decisions, market rules, regulations, regulatory proceedings and/or jurisdiction of the AUC, AESO, Market Surveillance Administrator (MSA) and other authorities. The financial impact of decisions, market rules, regulations and regulatory proceedings is reflected in the consolidated financial statements when the amount can be reasonably estimated.