



# FINANCIAL REVIEW

ENMAX 2017

## **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.

For further information, see the Management’s Discussion & Analysis (MD&A) section, Risk Management and Uncertainties.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This MD&A, dated March 15, 2018, is a review of the results of operations of ENMAX Corporation and its subsidiaries (ENMAX or the Corporation) for the year ended December 31, 2017, compared with 2016, and of the Corporation's financial condition and future prospects. This discussion contains forward-looking information that is qualified by reference to and should be read in light of the Caution to Reader previously mentioned.

ENMAX's Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The Consolidated Financial Statements and MD&A were reviewed by ENMAX's Audit Committee (AC), and the Consolidated Financial Statements were approved by ENMAX's Board of Directors (the Board). All amounts are in millions of Canadian dollars unless otherwise specified.

The Corporation reports on certain non-IFRS financial performance measures that are used by management to evaluate performance of business segments. Because non-IFRS financial measures do not have a standard meaning prescribed by IFRS, the Corporation has defined and reconciled them with their nearest IFRS measure. For the reader's reference, the definition, calculation and reconciliation of non-IFRS financial measures is provided in the Non-IFRS Financial Measures section.

### Contents

Business Overview .....	3
Market Conditions .....	4
Overall Financial Performance.....	5
Significant Events.....	6
ENMAX Competitive Energy Business and Update.....	7
ENMAX Power Delivery Business and Update.....	8
ENMAX Financial Results .....	9
Non-IFRS Financial Measures .....	11
Financial Condition .....	13
Liquidity and Capital Resources .....	13
Risk Management and Uncertainties .....	15
Climate Change and The Environment .....	24
Interest of Experts .....	25

Glossary of terms can be found on page 74 of the Consolidated Financial Statements

## 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.

As a result of significant transformation of the electricity industry both within and outside of Alberta, ENMAX adjusted its strategic direction in 2017. Our updated strategy is to develop a business with strong regulated and contracted cash flows and a diversity of revenue streams from services and "close to the customer" businesses, all built upon an efficient platform.

ENMAX's has core operations through two main business segments, ENMAX Competitive Energy and ENMAX Power Delivery. ENMAX Competitive Energy includes the competitive generation and sale of electricity across Alberta, and power project services and solutions. ENMAX Power Delivery includes the regulated transmission and distribution of electricity in the City of Calgary.

- 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. In the longer term, persistent low power prices will likely negatively impact revenues as longer-term fixed electricity contracts expire and are renewed at lower prices. Competitive Energy delivers solutions to serve increasing customer desire for simple access to reliable low-cost sustainable energy, such as distributed energy assets and services. ENMAX Power Services Corporation (EPSC) delivers project execution for customer infrastructure in areas such as power infrastructure, light rail transit, and commercial and residential development.
- 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 through the Calgary Regulated Rate Option (RRO). ENMAX Power Delivery's objective is to safely and efficiently operate and maintain the high reliability of its transmission and distribution system while meeting Calgary's power delivery infrastructure needs. In addition to safe, 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 need to replace aging infrastructure in Calgary provides a significant and predictable growth opportunity for ENMAX.

The final segment is ENMAX Corporate. It is responsible for providing shared services and financing to ENMAX Competitive Energy and ENMAX Power Delivery.

## MARKET CONDITIONS

Electricity prices for 2017 settled just above \$22/Megawatt Hour (MWh), or \$4 higher than the previous year. The unusually weak prices over the last two years have been a result of an oversupplied market, weak economic conditions, negative electricity demand growth, and control of the Province's coal Power Purchase Arrangements (PPAs) by the Balancing Pool, which has resulted in the Balancing Pool offering of the PPA capacity at low prices. ENMAX's unique vertically integrated business model, which includes making, moving and marketing electricity, has positioned the Corporation well in these difficult and uncertain circumstances.

In 2017, along with strengthening economic growth and crude oil prices, the Province experienced a rebound in electricity demand, increasing by 4 per cent after two years of demand contraction.

Alberta's economy is gradually gaining momentum with historic investment in infrastructure, increased investor confidence, positive trends in recent job creation, and consumer spending and contribution to Canadian export. Market conditions for the Power Delivery business are influenced by a steady increase in customer sites and investment resulting from both growth in Calgary and the replacement of aging infrastructure.

There were several market changes during 2017 that together led to significantly increased electricity forward prices.

- The Government of Alberta introduced the Carbon Competitiveness Incentive Regulation. This regulation came into effect January 1, 2018. This will significantly increase the greenhouse gas compliance costs for coal-fuelled generation, while lowering the relative cost for natural gas fuelled-generation.
- TransAlta announced its intention to retire and mothball several coal-fuelled generating units. Sundance Unit 1 and Unit 2 were retired and mothballed on January 1, 2018.
- On September 18, 2017 the Balancing Pool announced its intention to terminate the Sundance PPA and return the facility to its owner TransAlta by March 31, 2018.
- Sundance Unit 3 and Unit 5 will be mothballed on April 1, 2018; Unit 4 is planned to be mothballed on April 1, 2019.

In 2017, the Alberta Electric System Operator (AESO) held the first Renewable Energy Program auction. Through the auction, AESO procured 600 Megawatts (MW) of wind capacity, slated to come on line by the end of 2019, at a reported average price of \$37/MWh. AESO also initiated a Capacity Market Transition Consultation at the request of the Government of Alberta. A capacity market creates a separate additional stream of revenue from the energy market based on having capacity available to generate, as compared to the energy market, which provides revenue from actual generation. It is expected that there will be both an energy market and a capacity market functioning in tandem in the future in the Province of Alberta. The first capacity market auction is expected in Q4 2019, for delivery in mid-2021. It is expected that ENMAX's generation fleet will be eligible to participate in both the capacity and energy markets.

## OVERALL FINANCIAL PERFORMANCE

The table below presents ENMAX's Adjusted EBITDA, Adjusted EBIT and Comparable Net Earnings that are normalized for impairment, onerous liability charges on long-term contracts, and unrealized gains (losses) on commodities where settlement on derivatives will occur in a future period. Management believes that a measure of operating performance is more meaningful if results not related to normal operations, such as impairment, onerous provision charges on long-term contracts, and unrealized gains and losses on commodity contracts related to future periods, are excluded from the adjusted financial information. Refer to the Non-IFRS Financial Measures section for definition of the financial measures and further description. See page 11 for further discussion.

### SELECTED CONSOLIDATED FINANCIAL INFORMATION

#### Year ended December 31

(millions of dollars)

	2017	2016
Total Revenue	2,997.0	2,801.0
Adjusted EBITDA <sup>(1)(3)</sup>	412.8	465.3
Adjusted EBIT <sup>(1)</sup>	187.9	250.3
Comparable Net Earnings <sup>(1)(2)</sup>	132.0	184.1
Net (Loss) Earnings <sup>(2)</sup>	(30.3)	104.6

<sup>(1)</sup> Non-IFRS financial measure. See discussion that follows in Non-IFRS Financial Measures section.

<sup>(2)</sup> Comparable Net Earnings do not include one-time items such as impairments, onerous liabilities and unrealized electricity and gas mark-to-market gains/losses.

<sup>(3)</sup> Includes non-recurring items of approximately \$15.0 million.

During the year, two events were deemed to not be typical of normal operations and have been normalized out of Adjusted EBITDA, Adjusted EBIT and Comparable Net Earnings for the year ended December 31, 2017. The Corporation recognized an impairment charge of \$10.3 million associated with property, plant and equipment (work in progress) that it no longer expects to complete due to market conditions. ENMAX's Competitive Energy business segment also recognized a charge to increase its onerous provision by \$16.8 million to reflect changes in circumstances associated with the expected timing and amounts of certain long-term onerous contracts. The final item to be normalized out of Adjusted EBITDA, Adjusted EBIT and Comparable Net Earnings is the unrealized losses on commodity contracts related to future periods of \$185.2 million, for the year ended December 31, 2017 (2016 - \$30.5 million gain). The majority of this movement relates to lower forward natural gas prices, which will be reflected in lower cost of sales elsewhere in ENMAX's financial results.

ENMAX's Adjusted EBIT decreased by \$62.5 million for the year ended December 31, 2017, as compared with the prior year. The primary drivers for the change in Adjusted EBIT were as follows:

- ENMAX Competitive Energy – Excess market supply, combined with the ongoing effect of lower pool prices on retail pricing and customer product preferences, and higher supply costs, led to reduced electricity margins. These impacts were minimized through the Competitive Energy segment's integrated business model and its flexible generation portfolio cost base. Several historical operational disputes with counterparties, including matters relating to wind generation facilities and the Keephills PPA, were resolved in Q4 and partially offset the reduced electricity margins. Furthermore, higher margins on natural gas products and contractual services, and a slight decrease in operations, maintenance and administration (OM&A) costs also partially offset the decrease in electricity margins from the prior period.

- ENMAX Power Delivery – The regulated business continued to grow through a steady increase in investment and customer sites, largely a result of Calgary’s growth and the need to replace aging infrastructure. Power Delivery is pursuing its regulatory strategy to minimize regulatory earnings lag. The increase in regulatory margins in 2017 reflected incremental Capital Tracker adjustments that apply to Distribution Access Service (DAS) rates. The regulatory margin increase was offset by a modest increase in OM&A costs and an increase in depreciation.
- ENMAX Corporate – Higher systems investment costs within the segment resulted in decreased earnings in 2017. This investment will yield future process and cost efficiencies and improve the effectiveness of ENMAX’s integrated systems. These systems went live January 1, 2018.

Adjusting for these events not related to normal operations as well as the unrealized losses on commodities, ENMAX’s Comparable Net Earnings for the year December 31, 2017 decreased by \$52.1 million from the prior year.

ENMAX’s Net (Loss) Earnings decreased by \$134.9 million for the year ended December 31, 2017 as compared with the prior year.

ENMAX closed the year with a healthy balance sheet despite challenging market conditions. ENMAX’s balance sheet and cash flow enable the Corporation to continue to achieve growth and profitability in the uncertain economic environment.

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 factors including 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.

## **SIGNIFICANT EVENTS**

### **PPA TERMINATIONS**

ENMAX terminated the Battle River PPA on January 1, 2016 and the Keephills PPA on May 5, 2016. On July 25, 2016, the Attorney General of Alberta filed an application with the Court of Queen’s Bench seeking various remedies relating to the interpretation of certain terms within the PPAs and related regulations (Alberta Application) and relating to the Balancing Pool’s decision to accept the Battle River PPA termination. ENMAX PPA Management Inc., an affiliate of ENMAX, was a named respondent in the Alberta Application.

On October 11, 2017, the Court of Queen’s Bench issued a decision confirming ENMAX’s January 1, 2016 termination effective date for the Battle River PPA. The determination of the effective date was the subject of a dispute between ENMAX and the Balancing Pool. The Balancing Pool did not appeal this decision and the time for doing so has passed.

On July 14, 2017, the Corporation filed an action and application against the Balancing Pool seeking, among other things, assistance from the Court to compel the Balancing Pool to complete and communicate to ENMAX the results of its assessment and verification process for the Keephills PPA termination. On November 22, 2017, the Court of Queen’s Bench granted relief to ENMAX and ordered the Balancing Pool to complete that process. On December 6, 2017, the Balancing Pool confirmed ENMAX’s right to terminate the Keephills PPA. The Balancing Pool also confirmed the effective date of termination of the Keephills PPA was May 5, 2016. The Balancing Pool did not appeal this decision and the time for doing so has passed.

On March 9, 2018, the Government of Alberta dismissed the Alberta Application against all parties, including ENMAX. In connection with this, ENMAX agreed to transfer 166,667 carbon offset credits to the Balancing Pool during 2018 and the Balancing Pool paid ENMAX \$5.0 million in relation to previously disputed and unpaid dispatch services and PPA transition matters.

No provisions were recognized with respect to the Alberta Application as the Corporation always believed that the terminations were exercised in accordance with the provisions of the PPAs.

## ENMAX COMPETITIVE ENERGY BUSINESS AND UPDATE

ENMAX Competitive Energy is an integrated business providing customers with electricity, natural gas, energy solutions, and power project services. Our competitive advantage is our retail business which acts as a hedge of our wind and gas-fuelled generation assets and provides opportunities to offer additional energy solutions such as solar installations for our customers. As at December 31, 2017, ENMAX Competitive Energy's capacity ownership interest was 1,614 MW of electricity generation to supply customer demands. This capacity is comprised of 1,397 MW of natural gas-fuelled plants and 217 MW of wind power. Electricity contracts link customer demand to generating assets resulting in relatively predictable margins. If ENMAX Competitive Energy requires power to meet its retail or wholesale customer needs, it is procured from the energy market. During times when ENMAX Competitive Energy has excess generation capacity, it can sell the energy to the market.

Natural gas retail contracts are backed by market transactions to provide supply certainty while also providing margin stability and risk mitigation. Natural gas fuel requirements for the portfolio are balanced through the purchase and sale of natural gas from and in to the Alberta market.

### KEY BUSINESS STATISTICS

	2017	2016
Plant availability (%) <sup>(1)</sup>	95.29	90.81
Average flat pool price (\$/MWh)	22.17	18.25
Spark spread (\$) <sup>(2)</sup>	6.81	2.83

<sup>(1)</sup> Plant availability includes planned maintenance and forced outages.

<sup>(2)</sup> Based on market prices.

Plant availability improved compared to the prior year. Plant availability was lower in 2016 due to maintenance activities at the Shepard Energy Centre.

During 2017, the average flat pool power price increased from 2016 levels for the comparative periods. This was primarily due to higher natural gas prices and slightly higher system load.

Spark spread, which represents the notional gross margin contribution of a gas-fuelled power plant from generating a unit of electricity, improved from record low levels in 2016. This increase was driven by increased average flat pool prices of \$22.17/MWh (2016 - \$18.25/MWh).

## ENMAX POWER DELIVERY BUSINESS AND UPDATE

ENMAX Power Delivery’s highest priority is providing safe, reliable and efficient delivery of electricity to its customers.

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 approval of the need to construct or replace utility-related facilities and to set rates for providing electric energy delivery-related services to its customers, among other things.

- On April 21, 2017, ENMAX Power Delivery filed an application for a revenue requirement of \$224.1 million for going-in distribution rates for the 2018-2022 term. A decision on this application was received in February 2018.
- On July 5, 2017, the AUC initiated the 2018 Generic Cost of Capital proceeding. The proceeding will establish ENMAX Power Delivery’s allowed Return on Equity and approved deemed equity ratios for the years 2018, 2019 and 2020. A hearing will be held in Calgary commencing March 6, 2018.
- In September 2016, ENMAX Power Delivery filed a Capital Tracker Application seeking approval for a distribution capital program to recover capital-related costs (interest, depreciation and return) for 2015-2017. ENMAX Power Delivery, the Office of the Utilities Consumer Advocate and the Consumers’ Coalition of Alberta filed a negotiated settlement agreement on August 28, 2017. On December 13, 2017, the AUC issued a decision approving ENMAX’s 2015-2017 Capital Tracker Negotiated Settlement Agreement (NSA) in its entirety. The difference between the applied-for amount and the settlement amount is approximately \$2.0 million over the three-year term. The NSA approved amount is based on 2017 forecast figures and is subject to adjustment in an upcoming capital tracker true-up application.
- 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, for a total of \$157.1 million. On December 4, 2017, the Commission issued a decision on this application. Based on the AUC’s directions in this decision, EPC has estimated the approved revenue requirements are \$72.0 million for 2016 and \$81.5 million for 2017, for a total of \$153.5 million. Final amounts are expected to be confirmed in 2018 through a subsequent compliance filing.

ENMAX Power Delivery continues efforts to reduce regulatory lag, promote cost efficiencies and focus on prudent capital expenditures.

### KEY BUSINESS STATISTICS

	2017	2016
Distribution volumes in Gigawatt Hours (GWh)	9,500	9,295
System average interruption duration index (SAIDI) <sup>(1)</sup>	0.47	0.38
System average interruption frequency index (SAIFI) <sup>(2)</sup>	0.64	0.59

<sup>(1)</sup> 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.

<sup>(2)</sup> 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 GWh to the Calgary service area for 2017 was slightly higher than the prior year. An increase in the number of customer sites also contributed to increased distribution volume in 2017.

ENMAX has consistently been one of the most reliable transmission and distribution utilities in Canada for many years. Both the system average interruption frequency index (SAIFI) and the system average interruption duration index (SAIDI) were slightly higher than the prior year. This was due to a slight increase in adverse weather, unplanned outages for defective equipment and slightly more planned system maintenance outages than the prior year.

## ENMAX FINANCIAL RESULTS

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

<b>For the year ended December 31, (millions of dollars)</b>	<b>ENMAX Competitive Energy</b>	<b>ENMAX Power Delivery</b>	<b>ENMAX Corporate</b>	<b>ENMAX Consolidated</b>
Adjusted EBIT <sup>(1)</sup> for the year ended December 31, 2016	140.4	107.0	2.9	250.3
Increased (decreased) margins attributable to:				
Electricity	(75.2)	(1.4)	1.0	(75.6)
Natural gas	5.4	-	(0.6)	4.8
Transmission and distribution	-	15.3	-	15.3
Contractual services and other	25.2	4.5	(5.5)	24.2
Decreased (increased) expenses:				
Operations, maintenance & administration <sup>(2)</sup>	2.6	(9.7)	(1.5)	(8.6)
Foreign exchange (FX)	(13.1)	-	0.5	(12.6)
Amortization	(0.5)	(8.5)	(0.9)	(9.9)
<b>Adjusted EBIT<sup>(1)</sup> for the year ended December 31, 2017</b>	<b>84.8</b>	<b>107.2</b>	<b>(4.1)</b>	<b>187.9</b>

<sup>(1)</sup> Adjusted EBIT is a non-IFRS measure. See Non-IFRS Financial Measures section.

<sup>(2)</sup> Normalized to exclude impact of intercompany transactions with no consolidated impact.

Electricity margins for the year ended December 31, 2017 decreased \$75.6 million or 19.3 per cent, compared to the prior year. Impact of recent years' lower realized spark spreads on fixed electricity contracts, higher supply costs and changing customer preferences led to lower margin products, resulting in a year-over-year decrease in electricity margins. Increased gas prices and hedging costs have led to increased portfolio supply costs, further minimizing margins.

Natural gas margins for the year ended December 31, 2017 increased \$4.8 million or 9.7 per cent compared to the prior year. The increase was primarily due to higher retail consumption volumes as a result of increased site acquisitions and below average temperatures.

For the year ended December 31, 2017, transmission and distribution margins increased \$15.3 million or 5.3 per cent compared to the same period in 2016. The favourable variance was largely due to incremental Capital Tracker adjustments that apply to distribution rates for 2017.

For the year ended December 31, 2017, contractual services and other margin increased \$24.2 million or 27.5 per cent compared to the prior year. The favourable variance for the year was primarily due to the resolution of multiple historical operational disputes with counterparties, including matters relating to wind generation facilities and the Keephills PPA, as well as the receipt of interest on a tax refund. The stronger margin was also favourably impacted by gains from sales of emissions offsets and completion of a greater proportion of contractual service contracts in the fourth quarter.

OM&A for 2017 increased \$8.6 million or 2.4 per cent from the prior year. The increase was primarily due to increased salaries and higher IT project costs, as ENMAX made long-term investments into IT infrastructure during 2017.

For the year ended December 31, 2017, net foreign exchange losses were \$11.1 million compared to a gain of \$1.5 million for the comparative period, a decrease of \$12.6 million. These losses were primarily the result of marking to market the long-term service agreements denominated in U.S. currencies, as well as associated U.S. exchange forward contracts. The exchange rate of the Canadian dollar relative to the U.S. dollar strengthened significantly in 2017, resulting in net unrealized losses for 2017.

Amortization expense increased \$9.9 million or 4.6 per cent compared to the same period in 2016. The increase in expense was consistent with an increase in capital assets in 2017, offset by a reduction in PPA amortization.

### **OTHER NET EARNINGS ITEMS**

Finance charges for the year ended December 31, 2017 were \$4.5 million or 6.0 per cent lower compared to the prior year due to lower levels of long-term debt.

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 year ended December 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 regulations positions, allowances where uncertainty surrounding the realization of the tax benefit exists, and the settlement of the various tax disputes.

### **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 as well as re-measurement gains and losses on pension retirement benefits.

For the year ended December 31, 2017, OCI had total gains of \$101.0 million, compared with losses of \$65.5 million for the same period in 2016. The OCI gains primarily reflect the favourable fair value changes in electricity and commodity positions. The remaining OCI gains related to change in re-measurement gains and losses on retirement benefits, which is a result of investment returns being greater than the returns implied by the discount rate.

## NON-IFRS FINANCIAL MEASURES

The Corporation uses adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA), adjusted earnings before interest and taxes (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 EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (ADJUSTED EBITDA)

<i>(millions of dollars)</i>	<b>2017</b>	<b>2016</b>
Adjusted EBITDA (non-IFRS financial measure)	<b>412.8</b>	465.3
Deduct:		
Depreciation and amortization	<b>224.9</b>	214.9
Finance charges	<b>70.4</b>	74.9
Income tax recovery	<b>(14.5)</b>	(8.6)
Comparable Net Earnings (non-IFRS financial measure)	<b>132.0</b>	184.1
Unrealized losses (gains) on commodities	<b>185.2</b>	(30.5)
Income tax (recovery) expense on unrealized losses on commodities	<b>(50.0)</b>	8.2
Non-recurring tax adjustments <sup>(1)</sup>	-	46.0
Impairment	<b>10.3</b>	51.4
Onerous liability	<b>16.8</b>	4.4
Net (loss) earnings (IFRS financial measure)	<b>(30.3)</b>	104.6

<sup>(1)</sup> A net \$46.0 million increase in the income tax provision mainly driven by de-recognition of deferred tax assets, partially the one-time reversal of a provision related to tax litigation.

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.

Adjusted EBITDA is normalized for impairment, onerous liability charges for long-term contracts, and unrealized gains (losses) on commodities. Management believes that a measure of operating performance is more meaningful if results not related to normal operations such as impairment, onerous provision charges on long-term contracts, and unrealized gains (losses) on commodities are excluded from the adjusted operating profit. Unrealized gains (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 (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.

**ADJUSTED EBIT**

<i>(millions of dollars)</i>	<b>2017</b>	<b>2016</b>
Operating (loss) profit (IFRS financial measure)	<b>(69.1)</b>	223.9
Add back:		
Adjustments for rate-regulated activities	<b>44.7</b>	1.1
Unrealized losses (gains) on commodities	<b>185.2</b>	(30.5)
Impairment	<b>10.3</b>	51.4
Onerous liability	<b>16.8</b>	4.4
Adjusted EBIT (non-IFRS financial measure)	<b>187.9</b>	250.3
Deduct:		
Unrealized losses (gains) on commodities	<b>185.2</b>	(30.5)
Impairment	<b>10.3</b>	51.4
Onerous liability	<b>16.8</b>	4.4
Finance charges	<b>70.4</b>	74.9
Income tax (recovery) expense	<b>(64.5)</b>	45.5
Net (loss) earnings (IFRS financial measure)	<b>(30.3)</b>	104.6

The Corporation focuses on Adjusted EBIT, which excludes the impact of impairment, onerous liability charges for long-term contracts and 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.

Normalizing for impairment, onerous liability charges for long-term contracts and the unrealized gains (losses) on commodities provides a better representation of the underlying operations of the Corporation. Refer to Adjusted EBITDA above.

**FFO**

<i>(millions of dollars)</i>	<b>2017</b>	<b>2016</b>
Cash flow from operations (IFRS financial measure)	<b>249.3</b>	463.3
Changes in non-cash working capital	<b>202.1</b>	49.8
Post-employment benefits	<b>1.7</b>	1.2
Contributions in aid of construction	<b>(68.5)</b>	(73.8)
Funds from operations (non-IFRS financial measure)	<b>384.6</b>	440.5

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.

The increase in non-cash working capital is driven by higher accounts receivables due to colder weather and project work completed but not billed, as well as timing of payments made on payables at year end.

## FINANCIAL CONDITION

### SIGNIFICANT CHANGES IN THE CORPORATION'S FINANCIAL CONDITION

As at December 31, (millions of dollars, except % change)	2017	2016	\$ Change	% Change	Explanation for Change
<b>ASSETS</b>					
Cash and cash equivalents	81.2	117.5	(36.3)	(31%)	Primarily due to cash used for 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 from operating activities.
Accounts receivable	629.5	507.4	122.1	24%	Increase driven by higher electricity and gas consumption due to colder weather and project work completed but not billed.
Property, plant and equipment (PPE)	4,148.7	4,071.4	77.3	2%	General capital additions partially offset by amortization.
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>					
Accounts payable	367.7	376.5	(8.8)	(2%)	Decrease mainly attributable to lower gas volumes and lower capital accruals.
Financial liabilities <sup>(1)</sup>	134.8	75.0	59.8	80%	Change in fair value of hedged and non-hedged derivatives.
Long-term debt <sup>(1)</sup>	1,580.8	1,647.2	(66.4)	(4%)	Primarily due to repayment of long-term debt.

<sup>(1)</sup> Net current and long-term asset and liability positions.

## LIQUIDITY AND CAPITAL RESOURCES

### TOTAL LIQUIDITY AND CAPITAL RESERVES

As at December 31, (millions of dollars)	2017	2016
Committed and available bank credit facilities	850.0	850.0
Letters of credit issued:		
Power pool purchases	55.9	52.5
Energy trading	50.0	62.2
Regulatory commitments	116.4	89.8
Asset commitments	0.8	0.9
PPAs <sup>(1)</sup>	39.2	39.2
	262.3	244.6
Remaining available bank facilities	587.7	605.4
Cash and cash equivalents	81.2	117.5
Short term financing	(207.7)	-
Total liquidity and capital reserves	461.2	722.9

<sup>(1)</sup> ENMAX terminated the Battle River PPA on January 1, 2016 and the Keephills PPA on May 5, 2016.

Cash on hand decreased to \$81.2 million as at December 31, 2017, compared to \$117.5 million at the same time last year. Short term financing of \$207.7 million at year end reflects a temporary use of credit facilities to address timing of expenditures. ENMAX's net cash position was restored to normal levels in January 2018.

## CAPITAL STRATEGY

The business is funded with a view to maintaining a capital structure in line with ENMAX's strategy of maintaining a stable, investment-grade credit rating. As at December 31, 2017, the long-term debt-to-total capitalization ratio is 34.4 per cent, compared with 41.7 per cent at year end 2016. Standard & Poor's has assigned ENMAX a BBB+ rating with a stable outlook. Dominion Bond Rating Services has assigned a credit rating of A (low). These ratings provide reasonable access to debt capital markets.

The principal financial covenant in ENMAX's credit facilities is debt-to-capitalization.

## CASH PROVIDED BY OPERATING ACTIVITIES

FFO for the year ended December 31, 2017 is \$384.6 million, compared with \$440.5 million in the same period in 2016. Cash provided by operating activities for the year ended December 31, 2017 is \$249.3 million, compared to \$463.3 million in the same period in 2016. Both reductions are largely due to reduced operating margins as a result of weaker commodity pricing.

## INVESTING ACTIVITIES

The following table outlines investment in capital additions for the year ended December 31, 2017.

### CAPITAL ADDITIONS

<i>(millions of dollars)</i>	2017	2016
Residential and non-residential developments	60.5	53.3
AESO required capital projects	72.1	52.7
System infrastructure	85.1	93.9
Asset replacement & modification	22.5	8.1
Information technology, facilities and tools	40.1	42.7
ENMAX Power Delivery	280.3	250.7
Shepard	-	6.0
Other	40.9	39.1
ENMAX Competitive Energy	40.9	45.1
Other	40.5	22.4
Total	361.7	318.2

During the year ended December 31, 2017, ENMAX continued to execute its capital plans to expand the distribution system, reinforce the transmission system and replace aging infrastructure in both systems.

## FINANCING ACTIVITIES

ENMAX made regularly scheduled long-term debt principal payments of \$67.0 million during the year ended December 31, 2017, compared with \$66.2 million in the same period in 2016.

On March 16, 2017, ENMAX declared a dividend of \$48.0 million payable to the City in quarterly instalments throughout 2017. All quarterly instalments of this dividend were paid by the end of 2017. On March 15, 2018, a dividend of \$40.0 million was declared payable to the City in four quarterly instalments.

ENMAX has historically paid the City annual dividends of; the greater of 30.0 per cent of the prior year's net earnings or \$30.0 million. Dividends for a fiscal year are established in the first quarter of the same fiscal year. The payment and level of future dividends on the common shares will be affected by such factors as financial performance and ENMAX's liquidity requirements.

In September 2017, ENMAX extended the terms of some of its bilateral credit facilities. ENMAX's total credit facilities remain at \$850.0 million with no effective changes to pricing, and terms ranging from 2020 to 2021.

## **RISK MANAGEMENT AND UNCERTAINTIES**

ENMAX's approach to risk management addresses risk exposures across all of the Corporation's business activities and risk types. ENMAX utilizes an Enterprise Risk Management (ERM) program to identify, analyze, evaluate, treat and communicate the Corporation's risk exposures in a manner consistent with ENMAX's business objectives and risk tolerance.

Risk exposures are managed within levels approved by the Board and the Chief Executive Officer, and monitored by personnel in the business units, the planning and risk department, and the senior management team. At a management level, each accountability area is responsible for assessing its risk exposures and implementing risk management plans. ENMAX's treasury and risk department coordinates an enterprise risk assessment process and provides risk reporting. Risk oversight is provided through the Board's Governance Committee, the Risk Management Committee (RMC), and the Commodity Risk Management Committee (CRMC) which are comprised of senior management members. Together, the RMC, CRMC and the Board oversee identified risk exposures and risk management programs, including the ERM program.

ENMAX's overall risk control environment includes:

- clearly articulated corporate values, principles of business ethics;
- published enterprise-wide policies and standards in key risk areas such as delegation of authority;
- documented commodity trading and position limits;
- an internal audit function to test compliance with internal controls and policies;
- regular reporting of risk exposures and mitigations, including insurance programs, to the RMC, CRMC, and Board;
- regular monitoring of ENMAX's financial exposure to changing market conditions;
- the use of industry-accepted tools and methodologies for assessing risk exposures; and
- a Safety and Ethics Line for employees to anonymously report suspected illegal or unethical behaviour.

These risk management programs and governance structures are designed to manage and mitigate a number of risk factors affecting ENMAX's business. In addition, by its nature, a discussion of enterprise risks typically focuses on mitigation of downside risk. Many of the risks ENMAX faces also present opportunities. The following discussion focuses predominantly on the mitigation of risks as opposed to leveraging of opportunities.

The following discussion does not consider the result of any inter-relationship among the factors.

### **MARKET RISK**

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

ENMAX Competitive Energy utilizes numerous tools to forecast electricity consumption and generation, as well as the pattern of consumption and generation between peak and off-peak hours (load shape). However, it is not possible to hedge all positions every hour. As such, there is exposure to volume and load shape risk. ENMAX actively manages its supply to match generation and market purchases to consumption volumes, and has facilities that allow for quick reaction to unexpected supply and demand factors. ENMAX Competitive Energy may also purchase blocks of electricity in the open market in advance of consumption in order to minimize exposure to price fluctuations between off-peak and peak hours.

ENMAX may have future earnings variability as it relates to the sustainability and diversification of its portfolio, valuation modelling errors, commodity price levels, as well as demand volatility from retail residential, small business, industrial, commercial and institutional customers that could reduce retail margins or decrease renewal and acquisition rates. ENMAX Competitive Energy uses derivative instruments, such as swaps and forwards, to manage exposure to commodity price risk. Financial gains and losses could be recognized as a result of volatility in the market values of these contracts. In the absence of actively quoted market prices and pricing information from external sources, the valuation of these derivative instruments may involve management's judgment or use of estimates. As a result, changes in the underlying assumptions or use of alternative valuation methods could affect the reported fair value of these contracts. The inability or failure to effectively hedge its portfolio and prevent financial losses from derivative instruments could adversely affect ENMAX's business, results of operations, financial condition or prospects of the Corporation. ENMAX's hedging strategies control and mitigate these commodity price risks. Occasionally, hedging is ineffective as it is based upon predictions about future market conditions and may require a minimum level of market liquidity to actively manage positions.

ENMAX has foreign exchange rate exposures arising from certain procurement and energy commodity business activity. ENMAX hedges the majority of its FX risk exposures as such exposures arise. However, such hedges may not be sufficient to cover FX exposure in the event of timing mismatches or extreme FX rate movements.

Changes in interest rates can impact borrowing costs and certain revenue streams from business activities. Substantially all of ENMAX's long-term debt is comprised of debentures and private debentures. This structure effectively mitigates exposure to interest rate fluctuations in the near-term. Short-term debt is generally variable rate, and long-term debt will need to be replaced at maturity leading to longer-term exposure.

For additional details on ENMAX's market risk exposures and sensitivities, refer to Note 7 in the Notes to the Consolidated Financial Statements.

## **OPERATIONAL RISK**

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

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

Events that could result from war, terrorism, civil unrest or vandalism may cause damage to ENMAX and its assets and have an impact on its generation, transmission and distribution operations or administrative functions in unpredictable ways.

These operational risks may affect ENMAX's ability to execute its strategy in an effective and efficient manner, affect the quality of customer service, and result in lost revenues and/or increased costs. These risks are actively managed using incentives, site planning, controls, safety, and security and insurance programs, in addition to a number of other measures within certain critical areas. ENMAX has implemented security measures and emergency response plans within certain critical areas.

ENMAX has obtained property, business interruption and other insurance coverage to mitigate some of these risk exposures, although such programs and measures may not prevent or cover the occurrence of any or all of these events and the adverse effects they may generate. There can be no assurance that ENMAX will be able to obtain or maintain adequate insurance in the future at rates the Corporation considers reasonable, that insurance will continue to be available on terms as favourable as the existing arrangements, or that insurance companies will pay claims. Further, there can be no assurance that available insurance will cover all losses or liabilities that may arise in the conduct of ENMAX business.

Earnings could be affected by a regulated transmission or distribution blackout/brownout, failure of metering equipment or loss of communication services. Fuel supply shortages, failure of third-party services or infrastructure, human error, labour disruption, hazards to facilities and regulatory decisions could cause earnings variability. Earnings variability could also be seen, as a result of the non-performance of contracted physical electricity or natural gas by counterparties.

## **ENVIRONMENTAL RISK**

ENMAX is subject to regulation by federal, provincial and local authorities with regard to air, land and water quality and other environmental matters. The generation, transmission and distribution of electricity results in and requires disposal of certain hazardous materials, which are subject to these laws and regulations. In addition to imposing continuing compliance obligations, these laws and regulations authorize the imposition of substantial penalties for non-compliance, including fines, injunctive relief and other sanctions. New environmental laws and regulations affecting ENMAX operations may be adopted and new interpretations of existing laws and regulations could be invoked or become applicable, which may substantially increase environmental expenditures in the future. New facilities or modifications of existing facilities may require new environmental permits or amendments to existing permits. Delays in the environmental permitting process, denials of permit applications, and conditions imposed in permits may materially affect the cost and timing of projects. Non-compliance with environmental laws and regulations or incurrence of new costs or liabilities could adversely affect the business, results of operations, financial condition or prospects of the Corporation. ENMAX has implemented various programs to manage environmental risk exposures, many of which focus on prevention of and preparedness for adverse events. Overall, moderate earnings variability exposure is possible if ENMAX fails to comply with its Environmental Management System. Exposure to further moderate volatility

is possible due to potential of spills, releases and fire from hazardous materials, or as a result of greenhouse gas GHG emissions policy changes.

Public awareness of climate change and greenhouse gases is growing, and ENMAX expects regulation of greenhouse gases to become more restrictive over time. ENMAX also expects tightening restrictions on other air pollutants such as NO<sub>x</sub>, SO<sub>2</sub>, and mercury. Utilities around the world are grappling with the challenge of meeting reliability targets while reducing air pollution. Industry best practice for minimizing air pollution currently involves increasing intermittent renewable generation, backed by clean-burning, flexible natural gas-fueled generation-where no large-scale hydroelectric alternatives are available. Since renewable generation is highly variable, it must be supplemented by flexible generation sources. Non-emitting nuclear baseload facilities are not an option for backing up renewables since they are not flexible. Nuclear generation also has its own environmental issues. Power storage will play a bigger role in the future as costs decline. ENMAX also expects demand-side management to increase in the future, especially with the growing penetration of smart meters. However, power storage and demand management are currently too small to replace firm, flexible natural gas-fueled generation as backup for renewables. Therefore, the best large-scale, economical alternative is clean-burning natural gas generation. ENMAX's wholesale generation portfolio is comprised entirely of wind power and natural gas-fueled generation, so ENMAX is well positioned for Alberta's green future.

Current provincial regulations such as the Climate Leadership Plan and Carbon Competitiveness Incentive Regulation seek to reduce generation from the worst polluters (coal plants) by increasing their carbon taxes to \$30 on emissions over 0.37 tonnes per MWh, and forcing them to retire before 2030. Recently proposed federal regulations such as "Regulations Amending the Reduction of Carbon Dioxide Emissions from Coal-fired Generation of Electricity" and "Regulations Limiting Carbon Dioxide Emissions from Natural Gas-fueled Generation of Electricity" largely align with provincial regulations, in requiring coal plants either to retire at the end of their useful life, or December 31, 2029, or achieve the same emissions intensity as natural gas-fueled power plants. The proposed regulations indirectly reward renewables and natural gas facilities by raising coal facilities' variable costs, forcing them to offer their power at higher prices. This has led to an increase in Alberta's forward power market and spark spreads to date in 2018.

Besides investing in clean, environmentally friendly generation technology, ENMAX manages climate change regulatory risk by advocating for well-designed and cost-effective policy at the provincial and federal levels. ENMAX also has internal compliance procedures in place to monitor and control our plants' emissions. Finally, ENMAX purchases emissions offsets as required.

## **REGULATORY RISK**

ENMAX operates in competitive and regulated sectors of the electricity and natural gas industries. It is subject to regulation by federal, provincial and municipal regulatory and market authorities. Oversight of ENMAX's operations is provided by the Alberta Department of Energy, the AUC, the Market Surveillance Administrator, AESO, the National Energy Board, the North American Electric Reliability Corporation, and the U.S. Federal Energy Regulatory Commission and other agencies.

Regulations and regulatory decisions affect ENMAX's regulated business, ENMAX Power Delivery, in a number of areas, including: allowed rates of return; capital structure; industry and rate structure; the development and operation of transmission and distribution assets; acquisitions, disposal, depreciation and amortization; and recovery of certain operating costs.

ENMAX Competitive Energy and ENMAX Power Delivery are subject to a number of specific regulations established to help ensure Alberta's wholesale and retail electricity, and natural gas markets operate in a fair, efficient and openly competitive manner. ENMAX Power Delivery is a transmission and distribution system owner and an electrical utility that is regulated by the AUC. It is also subject to AUC regulatory oversight for the provision of the RRO. ENMAX Power Delivery has arranged for ENMAX Competitive Energy to provide the RRO service within the City of Calgary. ENMAX Competitive Energy is an affiliated retailer of ENMAX Power Delivery and must comply with general energy marketing regulations and the Code of Conduct Regulation, which provides a level playing field for all energy retailers.

ENMAX cannot predict future municipal, provincial or federal government policies that may impact the development of regulation over ENMAX's business or the ultimate effect that any changes to the regulatory environment may have on its business. Regulatory decisions may restrict ENMAX's ability to grow earnings, recover costs or achieve a targeted ROE in certain parts of its competitive and regulated businesses, or cause delays in or impact business planning and transactions and increase costs.

Non-compliance with laws or regulations or changes to the regulatory environment could adversely impact the business, results of operations, financial condition or prospects of the Corporation.

The timing of regulatory decisions is expected to result in delays to revenue recognition, and therefore earnings, although this is mitigated at times by the use of interim rates.

ENMAX actively participates in the various regulatory processes that influence its business environment and operations. ENMAX actively monitors the business activities that are subject to regulation and has implemented compliance programs to mitigate regulatory risk exposures.

ENMAX is potentially exposed to financial impact from changes to existing, new or upcoming policies, protocols, standards, administrative orders or regulations that can have an impact on ENMAX activities and operations. ENMAX is also potentially exposed to financial impact from regulatory decisions and matters related to generation operations.

## **HUMAN RESOURCES RISK**

ENMAX is subject to workforce factors, including loss or retirement of key executives or other employees; availability of and ability to attract, develop and retain qualified personnel; collective bargaining agreements with union employees, who represent 63.4 per cent of our workforce; and performance of key suppliers and service providers. A number of personnel with highly specialized knowledge, skills and experience are required to lead and operate competitive and regulated businesses and shared services departments. Failure to manage human resources risk could adversely affect the business, results of operations, financial condition or prospects of the Corporation. ENMAX has mitigated this risk by implementing a number of programs to attract, develop and retain personnel, including recruitment, talent development, recognition and competitive compensation and benefits programs.

As at the end of 2017, unionized employees made up approximately 63.4 per cent of ENMAX's workforce. ENMAX believes it has an effective relationship with the Corporation's unions. There are risks that successful negotiations will not be completed with collective bargaining units on mutually agreeable terms. Difficulties in negotiating these agreements or continuing these programs could lead to higher employee costs, a work stoppage or strike, and attraction or retention rates below expectations. ENMAX has two collective bargaining agreements covering its workforce. The Canadian Union of Public Employees (CUPE) collective bargaining agreement has a three-year term that expires on December 31, 2019. The International Brotherhood of Electrical Workers (IBEW) collective bargaining agreement renegotiated in 2014 has expired on December 31, 2017 and the parties are currently engaged in ongoing negotiations. Exposure in relation to a breakdown in labour relations with either of the two unions is possible.

Earnings variability could result from workforce attraction and retention issues and, an aging workforce. However, initiatives such as employee engagement and a focus on workplace culture help mitigate this risk.

### **TECHNOLOGICAL RISK**

ENMAX operates a variety of complex technologies across the business, from operational technology in transmission and distribution, generation plants and information technology. Significant investment to update and replace aging and obsolete technologies has been made over the last several years with many offered as Software as a Service, redundancy and Disaster Recovery services.

Through activities under the Data Centre Transformation, ENMAX has mitigated risk in our infrastructure by physical consolidation and migration into the Cloud. Actions to optimize our hybrid infrastructure presence will ensure a reliable, scalable and secure infrastructure foundation to support ENMAX's growing business needs.

Strong technology and project governance will continue to align technology investments to corporate objectives.

### **LIQUIDITY RISK**

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

ENMAX offers a defined benefit (DB) pension plan for qualifying employees. Our contributions to the pension plan are based on periodic actuarial valuations, the most recent being completed for December 31, 2016. For accounting purposes, as at December 31, 2017, the pension plan had an estimated deficit of \$37.6 million (\$42.3 million at December 31, 2016). The actual amount of contributions required in the future will depend on future investment returns, changes in benefits and actuarial assumptions. Failure to effectively manage financial resources and related exposures could adversely affect the business, results of operations, financial condition or prospects of the Corporation. To manage this risk, ENMAX engages expert investment managers and has investment policies and procedures in place to set out the investment framework of the funds, including permitted investments and various investment constraints. These policies and procedures are approved annually by the Safety and Human Resources Committee of the Board, which also monitors the performance of the pension plan.

Notwithstanding mitigation in place, ENMAX could be exposed to earnings variability if its credit ratings were to be downgraded, covenants were breached on recourse debt or insufficient liquidity was experienced.

For additional details on ENMAX's liquidity risk exposures, refer to Note 7 in the Notes to the Consolidated Financial Statements. For additional details on its pension plan, refer to Note 16 in the Notes to the Consolidated Financial Statements.

## **CREDIT RISK**

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

ENMAX has implemented a credit risk management program to mitigate its exposures to credit risk. While it seeks to manage credit exposure by evaluating creditworthiness before and after entering into such agreements, monitoring business activity and obtaining collateral when prudent to do so, ENMAX may not be able to identify and avoid all counterparties that are not creditworthy. Defaults by suppliers, service providers, customers and other counterparties could adversely affect the business, results of operations, financial condition or prospects of the Corporation.

ENMAX's credit and collections activities include monitoring credit risk exposures and initiating mitigation measures to protect against any future losses. In specific situations, this includes but is not limited to a reduction of credit limits, requests for credit assurances in the form of additional collateral, as well as requirements for performance bonds on significant projects or restriction of new transaction terms.

Financial results could be affected as a result of industrial, commercial or institutional customer default or as a result of default by residential, small commercial and wholesale customers. For additional details on its credit risk exposures, refer to Note 7 in the Notes to the Consolidated Financial Statements.

## **DEVELOPMENT RISK**

ENMAX's asset ownership strategy requires the development and construction of generation, transmission and distribution projects as well as capital improvements to existing assets. Its ability to complete these projects in a timely manner and within established budgets is contingent upon many variables and subject to a variety of risks, some of which are beyond the Corporation's control. Should any such risks occur, ENMAX could be subject to additional costs, delays to the in-service dates of these projects, termination payments under committed contracts and/or the write-off of the investment. In addition, while ENMAX's business model is designed to mitigate exposure to risks, the Corporation's strategy is to manage construction costs by contractually fixing the price with contractors. ENMAX may be required to purchase additional electricity or natural gas to fulfill demand obligations until these projects are completed.

ENMAX's ability to successfully identify, value, evaluate, complete and integrate new acquisition or organic growth opportunities and major capital projects is subject to risk. These include increased competition for acquisition targets, capital and other resources, the performance of the Alberta economy and regulatory intervention by the Government of Alberta. Such business development challenges could adversely affect the business, operations, financial condition, and growth prospects of the Corporation.

ENMAX's budgets for capital programs and projects on an annual basis and funding for specific approved capital programs and projects on an ongoing basis. ENMAX performs risk assessments and develops risk mitigation plans for major capital programs and projects, and uses a phase gate approval process on developments and acquisitions to mitigate risks. Project performance relative to expectations is regularly reported to senior management and the Board, and any corrective measures are taken as required. Delays and overspending in the development and construction of capital projects could affect ENMAX's financial results.

## **LEGAL RISK**

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

ENMAX reviews and actively monitors business activity that could be subject to public or private legal actions, including changes to certain legislation, contracts with outside parties and incidents or claims allegedly involving the Corporation. Programs have been implemented to mitigate ENMAX's legal risk exposures. The Corporation could experience earnings variability as it relates to matters including legal or regulatory action; an incident of material unauthorized communication; a breach of a material contract; payment in lieu of tax (PILOT) litigation or other litigation; or a material breach of legislation, regulation or rules.

The Corporation is occasionally named as a party in various claims and legal proceedings that arise during the normal course of its business. The Corporation reviews each of these claims, including the nature of the claim and the amount in dispute. Although there is no assurance that each claim will be resolved in favour of the Corporation, the Corporation does not believe that the outcome of any claims or potential claims it is currently aware of will have a material adverse effect on the financial results or position of the Corporation, after taking into account amounts previously reserved by the Corporation. For further information, refer to Note 25 in the Notes to the Consolidated Financial Statements.

## **CORPORATE STRUCTURE RISK**

ENMAX conducts a significant amount of business through subsidiaries and joint arrangements. The ability to meet and service debt obligations is dependent on the operational results of these investments and their ability to distribute funds to ENMAX. Any restrictions on the ability of these investments to distribute funds to ENMAX may affect the ability to service the corporate debt. ENMAX closely monitors the financial performance of these entities, has full control over its subsidiaries and is the operator of the largest joint arrangement.

## **REPORTING/DISCLOSURE RISK**

The application of critical accounting policies reflects complex judgments and estimates. These policies include industry-specific accounting applicable to regulated public utilities, to pensions and to derivative instruments. The adoption of new accounting standards or changes to current accounting policies or interpretations of such policies could adversely affect the business, results of operations, financial condition or prospects of the Corporation. ENMAX has implemented various programs to reinforce its Internal Control over Financial Reporting, including periodic assessments of controls by internal and external auditors and review of certain disclosures by the Board.

## TAX RISK

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

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

When Alberta Finance conducted its 2006 audit of ENMAX Energy Corporation and ENMAX PSA Corporation, it disagreed with the interest expense deducted on the PILOT returns. ENMAX Corporation entered into intercompany loans with its affiliates ENMAX Energy Corporation in 2004 and ENMAX PSA Corporation in 2006 and 2007. ENMAX has received reassessments and communications from Alberta Finance in respect of the taxation years from 2004 through 2013. This matter was heard before the Court of Queen's Bench of Alberta with a decision rendered in favour of ENMAX on June 17, 2016. Following this decision, the Crown appealed and the appeal was heard by the Court of Appeal of Alberta on October 12, 2017. A decision is expected in 2018.

There remain other concerns for which ENMAX and Alberta Finance are in disagreement but communications between both parties are ongoing. ENMAX has taken the necessary steps to defend its positions through the formal appeals and litigation process.

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

The determination of the income tax provision is an inherently complex process, requiring management to interpret continually changing regulations and to make certain judgments. Tax filings are subject to audit by taxation authorities, and the outcome of such audits may increase tax liabilities. Issues in dispute for audited years and audits for subsequent years are ongoing and in various stages of completion. The Corporation estimates and monitors any uncertain tax position and recognizes an income tax expense if and when it is probable that the disputes will result in some changes to the tax liability. As a consequence, earnings variability in relation to reassessments from Alberta Finance in regard to prior years' returns and other contingent tax liabilities is possible. Considering the above, tax risk is considered to be moderate to low for the Corporation in the one-year time frame.

## **STRATEGIC RISK**

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

ENMAX has several competitors that operate in the electricity and natural gas markets where it serves customers. Competitors vary in size from small companies to large corporations, some of which have significantly greater financial, marketing and procurement resources than ENMAX. ENMAX Competitive Energy must also compete with the RRO service provided by various parties throughout Alberta. Failure to attract and retain customers could adversely affect the business, results of operations, financial condition or prospects of the Corporation. ENMAX could potentially see earnings variability as it relates to constraints on its growth targets for market share. To mitigate this risk, ENMAX continually monitors the market and adjusts its offerings to remain competitive.

## **CLIMATE CHANGE AND THE ENVIRONMENT**

### **ENVIRONMENTAL RISKS**

Refer to the Risk Management and Uncertainties section for discussion regarding environmental risks.

### **TRENDS AND UNCERTAINTIES**

Environmental matters cause certain trends and uncertainties. Customers are becoming more attuned to the source of their energy. As a result, the demand is increasing for energy from alternative production methods and renewable resources. Based on ENMAX's asset portfolio, it is positioned to offer consumers choices and progressive technologies that will help increase revenues should this trend continue to develop. Several examples include ENMAX's distributed solar products, combined heat and power systems and district energy heating.

### **ENVIRONMENTAL LIABILITIES**

Environmental liabilities recorded in ENMAX's financial statements include GHG liabilities. The GHG liabilities relate to electricity generated from ENMAX-owned generation facilities. These items have been reflected as liabilities in the Consolidated Financial Statements as at December 31, 2017. ENMAX continues to actively monitor and abide with current and future environmental regulations.

ENMAX currently has no outstanding litigation for environmental matters. There are no other material environmental liabilities at this time.

## **INTEREST OF EXPERTS**

### **INDEPENDENT AUDITOR**

ENMAX's external auditor is Deloitte LLP, Chartered Professional Accountants, Suite 700, 850 – 2 Street SW, Calgary, Alberta, T2P 0R8. Deloitte LLP is independent with respect to ENMAX within the meaning of the Rules of Professional Conduct of the Institute of Chartered Professional Accountants of Alberta.

### **ACTUARY**

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

# CONSOLIDATED FINANCIAL STATEMENTS

## Contents

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING.....	27
INDEPENDENT AUDITOR’S REPORT.....	28
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION.....	29
CONSOLIDATED STATEMENTS OF (LOSS) EARNINGS.....	30
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS).....	31
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER’S EQUITY.....	32
CONSOLIDATED STATEMENTS OF CASH FLOWS.....	33
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.....	34
1. DESCRIPTION OF THE BUSINESS.....	34
2. BASIS OF PREPARATION.....	34
3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS.....	34
4. SIGNIFICANT ACCOUNTING POLICIES.....	35
5. ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED.....	46
6. SEGMENT INFORMATION.....	47
7. FINANCIAL INSTRUMENTS, HEDGES AND RISK MANAGEMENT MARKET RISK.....	49
8. INCOME TAXES.....	56
9. REGULATORY DEFERRAL ACCOUNT BALANCES.....	58
10. OTHER ASSETS AND LIABILITIES.....	60
11. PROPERTY, PLANT AND EQUIPMENT (PPE).....	61
12. INTANGIBLE ASSETS.....	62
13. LONG-TERM DEBT.....	62
14. ASSET RETIREMENT OBLIGATIONS AND OTHER PROVISIONS.....	64
15. SHARE CAPITAL.....	64
16. POST-EMPLOYMENT BENEFITS.....	64
17. DEFERRED REVENUE.....	68
18. ACCUMULATED OTHER COMPREHENSIVE LOSS.....	69
19. OTHER REVENUE AND EXPENSES.....	69
20. JOINT ARRANGEMENTS.....	69
21. DIVIDENDS.....	69
22. FINANCE CHARGES.....	70
23. CHANGE IN NON-CASH WORKING CAPITAL.....	70
24. RELATED PARTY TRANSACTIONS.....	70
25. COMMITMENTS AND CONTINGENCIES.....	71
26. SUBSEQUENT EVENT.....	73
27. COMPARATIVE FIGURES.....	73
GLOSSARY OF TERMS.....	74
ADDITIONAL INFORMATION.....	75

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The preparation and presentation of the accompanying consolidated financial statements of ENMAX Corporation are the responsibility of management and the consolidated financial statements have been approved by the Board of Directors (the Board). In management's opinion, the consolidated financial statements have been prepared within reasonable limits of materiality in accordance with International Financial Reporting Standards (IFRS). The preparation of financial statements necessarily requires judgment and estimation when events affecting the current year depend on determinations to be made in the future. Management has exercised careful judgment where estimates were required, and these consolidated financial statements reflect all information available to March 15, 2018. Financial information presented elsewhere in this report is consistent with that in the consolidated financial statements.

To discharge its responsibility for financial reporting, management maintains systems of internal controls designed to provide reasonable assurance that the Corporation's assets are safeguarded, that transactions are properly authorized and that reliable financial information is relevant, accurate and available on a timely basis. The internal control systems are monitored by management, and evaluated by an internal audit function that regularly reports its findings to management and the Audit Committee of the Board.

The consolidated financial statements have been audited by Deloitte LLP, the Corporation's external auditor. The external auditor is responsible for examining the consolidated financial statements and expressing an opinion on the fairness of the financial statements in accordance with IFRS. The auditor's report outlines the scope of their audit examination and states the opinion.

The Board, through the Audit Committee, is responsible for ensuring management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, which is comprised of independent directors, meets regularly with management, the internal auditors and the external auditor to satisfy itself that each group is discharging its responsibilities with respect to internal controls and financial reporting. The Audit Committee reviews the consolidated financial statements and annual financial report and recommends their approval to the Board. The external auditor has full and open access to the Audit Committee, with and without the presence of management. The Audit Committee is also responsible for reviewing and recommending the annual appointment of the external auditor and approving the annual external audit plan.

On behalf of management,



Gianna Manes  
President and Chief Executive Officer



Helen Wesley  
Executive Vice President and  
Chief Financial Officer

March 15, 2018



## INDEPENDENT AUDITOR'S REPORT

To the Shareholder of ENMAX Corporation:

We have audited the accompanying consolidated financial statements of ENMAX Corporation, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, and the consolidated statements of (loss) earnings, consolidated statements of comprehensive income (loss), consolidated statements of changes in shareholder's equity and consolidated statements of cash flows for the years then ended, and the notes to the consolidated financial statements.

### MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

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

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

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

### OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ENMAX Corporation as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

A stylized, handwritten-style signature of "Deloitte LLP" in black ink.

Chartered Professional Accountants  
March 15, 2018  
Calgary, Alberta

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<b>As at</b> <i>(millions of Canadian dollars)</i>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 81.2	\$ 117.5
Accounts receivable (Note 7)	629.5	507.4
Income taxes receivable (Note 8)	87.5	132.4
Current portion of financial assets (Note 7)	98.9	96.1
Other current assets (Note 10)	109.4	81.0
	<b>1,006.5</b>	934.4
Property, plant and equipment (Note 11)	4,148.7	4,071.4
Intangible assets (Note 12)	182.9	159.9
Deferred income tax assets (Note 8)	81.3	72.0
Financial assets (Note 7)	49.4	55.1
Other long-term assets (Notes 7 and 10)	26.1	32.9
<b>TOTAL ASSETS</b>	<b>5,494.9</b>	5,325.7
<b>REGULATORY DEFERRAL ACCOUNT DEBIT BALANCES (Note 9)</b>	<b>76.2</b>	39.8
<b>TOTAL ASSETS AND REGULATORY DEFERRAL ACCOUNT DEBIT BALANCES</b>	<b>\$ 5,571.1</b>	\$ 5,365.5
<b>LIABILITIES</b>		
Short term financing (Note 13)	\$ 207.7	\$ 0.0
Accounts payable and accrued liabilities	367.7	376.5
Income taxes payable (Note 8)	1.8	0.8
Current portion of long-term debt (Notes 7 and 13)	367.3	67.0
Current portion of financial liabilities (Note 7)	141.8	104.2
Current portion of deferred revenue (Note 17)	4.7	5.6
Other current liabilities (Note 10)	27.4	43.9
Current portion of asset retirement obligations and other provisions (Note 14)	2.8	2.8
	<b>1,121.2</b>	600.8
Long-term debt (Notes 7 and 13)	1,213.5	1,580.2
Deferred income tax liabilities (Note 8)	74.6	98.0
Post-employment benefits (Note 16)	50.4	54.6
Financial liabilities (Note 7)	141.3	122.0
Deferred revenue (Note 17)	510.3	457.1
Other long-term liabilities (Note 10)	15.9	18.5
Asset retirement obligations and other provisions (Note 14)	120.5	125.3
<b>TOTAL LIABILITIES</b>	<b>3,247.7</b>	3,056.5
<b>REGULATORY DEFERRAL ACCOUNT CREDIT BALANCES (Note 9)</b>	<b>9.4</b>	17.7
<b>SHAREHOLDER'S EQUITY</b>		
Share capital (Note 15)	280.1	280.1
Retained earnings	2,022.2	2,100.5
Accumulated other comprehensive income (loss) (Note 18)	11.7	(89.3)
	<b>2,314.0</b>	2,291.3
<b>TOTAL LIABILITIES, REGULATORY DEFERRAL ACCOUNT CREDIT BALANCES AND SHAREHOLDER'S EQUITY</b>	<b>\$ 5,571.1</b>	\$ 5,365.5

Commitments and contingencies (Note 25)

See accompanying Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF (LOSS) EARNINGS

<b>Year ended December 31,</b> <i>(millions of Canadian dollars)</i>	<b>2017</b>	<b>2016</b>
REVENUE (Note 6)		
Electricity	\$ 1,687.3	\$ 1,650.2
Natural gas	443.5	376.1
Transmission and distribution	594.4	536.7
Local access fees	95.8	87.9
Other revenue (Note 19)	176.0	150.1
<b>TOTAL REVENUE</b>	<b>2,997.0</b>	<b>2,801.0</b>
OPERATING EXPENSES (Note 6)		
Electricity and fuel purchases	1,559.6	1,225.8
Natural gas and delivery	389.3	326.7
Transmission and distribution	333.2	245.7
Local access fees	95.8	87.9
Depreciation and amortization	224.9	214.9
Impairment (Notes 6 and 11)	10.3	51.4
Other expenses (Note 19)	453.0	424.7
<b>TOTAL OPERATING EXPENSES</b>	<b>3,066.1</b>	<b>2,577.1</b>
OPERATING (LOSS) PROFIT	(69.1)	223.9
Finance charges (Note 22)	70.4	74.9
NET (LOSS) EARNINGS BEFORE TAX	(139.5)	149.0
Current income tax expense (recovery) (Note 8)	5.2	(18.5)
Deferred income tax expense (recovery) (Note 8)	(69.7)	64.0
NET (LOSS) EARNINGS - BEFORE NET MOVEMENT IN REGULATORY DEFERRAL ACCOUNT BALANCES	(75.0)	103.5
NET MOVEMENT IN REGULATORY DEFERRAL ACCOUNT BALANCES (Notes 6 and 9)	44.7	1.1
<b>NET (LOSS) EARNINGS</b>	<b>\$ (30.3)</b>	<b>\$ 104.6</b>

See accompanying Notes to the Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

**Year ended December 31,**

*(millions of Canadian dollars)*

	<b>2017</b>	<b>2016</b>
NET (LOSS) EARNINGS	\$ (30.3)	\$ 104.6
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAX		
<b>Items that will not be reclassified subsequently to statement of earnings</b>		
Re-measurement gains (losses) on retirement benefits (Note 16) <sup>(1)</sup>	4.6	(14.8)
<b>Items that will be reclassified subsequently to statement of earnings</b>		
Unrealized gains (losses) on derivative instruments <sup>(2)</sup>	51.7	(87.5)
Reclassification of gains on derivative instruments to net earnings <sup>(3)</sup>	44.7	36.8
Other comprehensive income (loss), net of income tax	101.0	(65.5)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$ 70.7</b>	<b>\$ 39.1</b>

<sup>(1)</sup> Net deferred income tax recovery of \$0.3 million for the year ended December 31, 2017 (2016 - \$0.1 million tax expense).

<sup>(2)</sup> Net deferred income tax expense of \$19.1 million for the year ended December 31, 2017 (2016 - \$31.4 million tax recovery).

<sup>(3)</sup> Net deferred income tax recovery of \$14.6 million for the year ended December 31, 2017 (2016 - \$9.9 million tax recovery).

See accompanying Notes to the Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

<i>(millions of Canadian dollars)</i>	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)	-	(30.3)	-	(30.3)
Other comprehensive income, net of income tax	-	-	101.0	101.0
Total comprehensive (loss) income	-	(30.3)	101.0	70.7
Dividends (Note 21)	-	(48.0)	-	(48.0)
<b>As at December 31, 2017</b>	<b>\$ 280.1</b>	<b>\$ 2,022.2</b>	<b>\$ 11.7</b>	<b>\$ 2,314.0</b>
As at January 1, 2016	\$ 280.1	\$ 2,042.9	\$ (23.8)	\$ 2,299.2
Net earnings	-	104.6	-	104.6
Other comprehensive (loss), net of income tax	-	-	(65.5)	(65.5)
Total comprehensive income (loss)	-	104.6	(65.5)	39.1
Dividends (Note 21)	-	(47.0)	-	(47.0)
As at December 31, 2016	\$ 280.1	\$ 2,100.5	\$ (89.3)	\$ 2,291.3

See accompanying Notes to the Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

**Year ended December 31,**

*(millions of Canadian dollars)*

	<b>2017</b>	<b>2016</b>
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net (loss) earnings	\$ (30.3)	\$ 104.6
Items not involving cash:		
Contributions in aid of construction (CIAC)	68.5	73.8
Amortization of CIAC (Note 17)	(16.2)	(14.1)
Depreciation and amortization	224.9	214.9
Impairment	10.3	51.4
Finance charges (Note 22)	70.4	74.9
Income tax (recovery) expense (Note 8)	(64.5)	45.5
Change in unrealized market value of financial contracts	190.0	(36.7)
Post-employment benefits	(1.7)	(1.2)
Change in non-cash working capital (Note 23)	(202.1)	(49.8)
Cash flow from operations	249.3	463.3
Interest paid <sup>(1)</sup>	(65.5)	(70.2)
Income taxes received	44.2	-
Net cash flow provided by operating activities	228.0	393.1
INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangibles <sup>(1)</sup> (Notes 11 and 12)	(357.0)	(306.1)
Cash flow used in investing activities	(357.0)	(306.1)
FINANCING ACTIVITIES		
Repayment of short-term debt	(194.9)	(80.0)
Proceeds of short-term debt	402.6	80.0
Repayment of long-term debt	(67.0)	(66.2)
Dividend paid (Note 21)	(48.0)	(47.0)
Cash flow from (used in) financing activities	92.7	(113.2)
Decrease in cash and cash equivalents	(36.3)	(26.2)
Cash and cash equivalents, beginning of year	117.5	143.7
CASH AND CASH EQUIVALENTS, END OF YEAR <sup>(2)</sup>	\$ 81.2	\$ 117.5
Cash and cash equivalents consist of:		
Cash	81.2	67.5
Short-term investments	-	50.0

<sup>(1)</sup> Total interest paid during the year was \$73.4 million (2016 - \$75.4 million). Purchase of PPE and intangibles includes \$7.9 million of capitalized borrowing costs (2016 - \$5.2 million).

<sup>(2)</sup> Cash and cash equivalents include restricted cash of \$6.7 million (December 31, 2016 - \$7.1 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 Consolidated Financial Statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. DESCRIPTION OF THE BUSINESS

ENMAX Corporation (ENMAX or the Corporation), a wholly-owned subsidiary of the City 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 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

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as set out in Part I of the Chartered Professional Accountants Handbook.

#### BASIS OF MEASUREMENT

These consolidated financial statements have been prepared on the historical cost basis except for the revaluation of financial derivative instruments to fair value and to reflect asset impairment (if any).

#### FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements are presented in millions of Canadian dollars, which is the Corporation's functional currency.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these consolidated financial statements requires management to select appropriate accounting policies and to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, as well as to disclose contingent assets and liabilities. These estimates and judgments concern matters that are inherently complex and uncertain. Judgments and estimates are continually evaluated and are based on historical experience and expectations of future events. Changes to accounting estimates are recognized prospectively.

Significant judgments and estimates are required in the application of accounting policies. These are referenced in the following tables:

**SIGNIFICANT ACCOUNTING JUDGMENTS**

<b>Financial Statement Area</b>	<b>Accounting Policy</b>	<b>Judgment Areas</b>
Property, plant and equipment	Note 4 (g)	Determination of components and useful lives
Long-lived assets and intangible assets impairment	Note 4 (l)	Assessment of impairment indicators and grouping of cash-generating units (CGUs)
Leases	Note 4 (o)	Assessment of contracts for lease arrangements
Provisions	Note 4 (q)	Determination of probability of outflow of resources
Income taxes	Note 4 (u)	Interpretation of uncertain tax positions and application tax regulations

**SIGNIFICANT ACCOUNTING ESTIMATES**

<b>Financial Statement Area</b>	<b>Accounting Policy</b>	<b>Estimation Uncertainty</b>
Regulatory deferral balances	Note 4 (c)	Estimates related to regulatory proceedings or decisions
Impairment of receivables	Note 4 (d)	Estimates of allowance for doubtful accounts
Fair value measurements and valuation	Note 4 (d)	Estimates of fair value for financial assets and liabilities
Long-lived assets and intangible assets impairment	Note 4 (l)	Estimates of recoverable amount of long-lived assets
Post-retirement benefits	Note 4 (n)	Estimates of key assumptions used to calculate post-retirement benefits
Asset retirement obligation	Note 4 (p)	Estimates of amount and timing of asset retirements
Revenue and costs	Note 4 (r)	Estimates of unbilled consumption of electricity revenue and costs
Income tax	Note 4 (u)	Estimates of deferred income taxes

**4. SIGNIFICANT ACCOUNTING POLICIES**

The policies applied in these consolidated financial statements are based on IFRS applicable as at December 31, 2017. These consolidated financial statements are authorized for issuance by the Board of Directors as of March 15, 2018.

**(a) CONSOLIDATION**

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation, except as disclosed under Note 9 (Regulatory Deferral Balances). The consolidated financial statements of the subsidiaries are prepared for the same reporting period and apply accounting policies consistent with the Corporation.

Subsidiaries are fully consolidated from the date on which control is obtained by the Corporation until the date that control ceases. Control exists when the Corporation possesses power over the investee, has exposure or rights to variable returns from its involvement with the investee, and has the ability to use its power over the investee to affect its returns.

## **(b) JOINT ARRANGEMENT**

A joint arrangement is an arrangement in which two or more parties have joint control and must act together to direct the activities that significantly affect the returns of the arrangement. The Corporation classifies its interest in joint arrangements as either joint operations or joint ventures depending on the Corporation's rights to the assets and obligations for the liabilities. When making this assessment, the Corporation exercises judgments and considers the structure and contractual terms of the arrangement, as well as the legal form of any separate vehicles, in addition to all other relevant facts and circumstances.

Joint arrangements that provide all parties with rights to the assets and obligations for the liabilities are classified as joint operations. The Corporation's consolidated financial statements include its share of assets, liabilities, revenues, expenses and other comprehensive income (OCI) from the joint operations.

Joint arrangements that provide all parties with rights to the net assets of the entities under the arrangements are classified as joint ventures. Joint ventures are accounted for under the equity method of accounting. Under this method, the Corporation's interests in joint ventures are initially recognized at cost and are adjusted thereafter to recognize the Corporation's share of profits or losses, movements in other comprehensive income, and dividends or distributions received.

When a corporation transacts with a jointly controlled entity of the Corporation, unrealized profits and losses are eliminated to the extent of the Corporation's interest in the joint venture.

## **(c) REGULATORY DEFERRAL ACCOUNTS**

In accordance with IFRS 14 *Regulatory Deferral Accounts*, the Corporation continues to recognize amounts that qualify as regulatory deferral balances in accordance with the basis of accounting used immediately before transition to IFRS. A regulatory deferral account balance is any expense (or income) account that:

- is included, or expected to be included, by the rate regulator in establishing the rate(s) that can be charged to the customers; and
- would not otherwise be recognized as an asset or liability in accordance with other IFRS.

In accordance with this standard, the Corporation has presented regulatory deferral account debits and credits on a separate line in the consolidated statements of financial position. As well, the net movement in regulatory deferral accounts is presented on a separate line in the statement of earnings.

## **(d) FINANCIAL INSTRUMENTS**

### **Recognition**

Financial assets and liabilities are initially recognized at fair value when the Corporation becomes a party to the contractual provisions of the instrument. However, where the fair value differs on initial recognition from the transaction price and the fair value is not measured using entirely observable inputs, the instrument is recognized at the transaction price. Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 7 for disclosures of the fair value of financial instruments. In the case of instruments not measured at fair value through profit or loss, incremental directly attributable transaction costs are accounted for as an adjustment to the carrying amount, and in all other cases such transaction costs are expensed as incurred.

The Corporation evaluates contracts to purchase non-financial items, which are subject to net settlement to determine whether such contracts should be considered derivatives or if they were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements ("own use"). If such contracts qualify as own use, they are considered executory contracts outside the scope of financial instrument accounting.

The Corporation evaluates financial and non-financial contracts not measured at fair value through profit or loss to determine whether they contain embedded derivatives. An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract-with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. For such instruments, an embedded derivative is separated where the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

### **Derecognition**

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or it transfers the financial instrument in a manner that qualifies for derecognition through transfer of substantially all risks and rewards or transfer of control.

Financial liabilities are derecognized upon extinguishment. A modification of a financial liability with an existing lender is evaluated to determine whether the amendment results in substantially different terms in which case it is accounted for as an extinguishment.

### **Classification**

The financial instruments of the Corporation are classified in the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables, available for sale financial assets and other financial liabilities. The classification depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition.

#### **(i) Financial assets and liabilities at fair value through profit or loss (FVTPL)**

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term or when the instrument is a derivative instrument that is not designated in a qualifying hedging relationship.

Financial instruments in this category are recognized initially and subsequently at fair value, with any gains and losses arising from changes in fair value recognized in earnings.

#### **(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Corporation's loans and receivables are comprised of cash and cash equivalents and current and long-term accounts receivables. Cash and cash equivalents and current accounts receivable are included in current assets due to their short-term nature.

Financial instruments in this category are initially recorded at fair value and subsequently carried at amortized cost using the effective interest rate method, with interest and other income earned from these financial assets recorded in earnings.

### **(iii) Other financial liabilities**

Other financial liabilities include accounts payable and accrued liabilities, long-term debt, other current liabilities and other long-term liabilities.

Financial instruments in this category are initially recorded at fair value, net of any transaction costs incurred, and subsequently carried at amortized cost using the effective interest method.

#### ***Estimation Uncertainty***

In estimating the fair value of financial assets or liabilities, the Corporation uses market-observable data when available. When observable data is not available, the Corporation determines fair value using inputs other than quoted prices observable for the asset or liability, or valuation techniques with inputs based on historical data.

#### **Presentation**

Financial assets and liabilities are not offset unless they are with a counterparty for which the Corporation has a legally enforceable right to settle the financial instruments on a net basis and the Corporation intends to settle on a net basis.

#### **Impairment of Financial Assets**

An impairment of loans and receivables carried at amortized cost is recognized in earnings when the asset's carrying amount exceeds the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. A reduction in an impairment charge may be recognized if the decrease is related objectively to an event occurring after the impairment was recognized.

#### ***Estimation Uncertainty***

Estimates are made to set up allowance for doubtful accounts which reflects the amount of accounts receivable that are ultimately expected to be noncollectible based on factors, including the aging of accounts receivable, historical write-offs, assessments of the collectability of amounts from individual customers and general economic conditions.

#### **Hedges**

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

Cash flow hedges are used to manage the variability of cash flows resulting from the purchase and sale of electricity, natural gas and foreign exchange exposure.

For cash flow hedges, changes in the fair value of the effective portion of the derivative designated in a hedging relationship are accumulated in OCI and recognized in earnings during the periods when the cash flows of the hedged item are realized. Gains and losses on cash flow hedges are reclassified immediately to earnings when a hedged anticipated transaction is no longer probable.

Where the hedged item continues to be probable of occurring but is no longer highly probable of occurring, the hedging relationship terminates. The accumulated amount in other comprehensive income is retained until the hedged transaction occurs or it is no longer probable of occurring.

For cash flow hedges, ineffectiveness is measured based on comparing the cumulative change in the fair value of the hedged item with the cumulative change in the fair value of the hedging instrument in absolute terms. If the cumulative change in fair value of the hedging instrument exceeds the cumulative change in fair value of the hedged item, ineffectiveness is recorded in profit or loss for the excess.

Changes in fair value of de-designated or discontinued hedges are recorded in earnings from the date of de-designation or discontinuation. The unrealized changes in fair value recorded prior to de-designation or discontinuation are reclassified from accumulated other comprehensive income to earnings when the relating hedged item is recognized in earnings.

**(e) FOREIGN CURRENCY TRANSLATION**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary items and liabilities denominated in foreign currencies are recognized in the statement of earnings, except when deferred in equity as qualifying cash flow hedges.

Foreign exchange gains and losses are included on the statements of earnings within other expenses.

**(f) CASH AND CASH EQUIVALENTS**

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

**(g) PROPERTY, PLANT AND EQUIPMENT**

Items of property, plant and equipment (PPE) are measured at cost less accumulated depreciation and any impairment losses. The cost of self-constructed assets includes the cost of materials and direct labour, and any other costs directly attributable to bringing the assets to a condition suitable for their intended use. Subsequent costs are included in the assets' carrying amount or recognized as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the items will flow to the Corporation and the costs can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Major overhauls and inspections are capitalized. Repairs and maintenance are charged to the statement of earnings in the period in which they are incurred.

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

<b>Asset Class</b>	<b>Depreciation Rates</b>		
Buildings and site development equipment	0.61%	to	4.60%
Generation facilities and equipment	2.00%	to	20.00%
Generation overhauls and inspections	9.02%	to	67.11%
Tools, systems and equipment	4.53%	to	25.00%
Vehicles	2.36%	to	8.00%

Construction in progress represents assets that are not yet available for use and therefore not subject to depreciation. Capital spares and inventory are not amortized until they are put into service.

Gains or losses on disposal of an item of PPE are determined by comparing the proceeds from disposal with the carrying amount of PPE and are recognized in earnings.

For transmission, distribution and substation equipment depreciated using the group life depreciation method (regulated depreciable assets), with depreciation rates ranging from 0.00 per cent to 20.00 per cent, gains or losses on the disposal of regulated depreciable assets are typically deferred and amortized over the estimated remaining service life of the related regulated depreciable assets. Gains or losses on the disposal and retirement of regulated depreciable assets outside the course of normal business are charged or credited to other expenses, with the offset recorded as net movement in regulatory deferral account balances in the statement of earnings under IFRS 14.

### ***Significant Judgment***

Where significant parts of an item of PPE have different useful lives in relation to the total cost of the item, they are accounted for as separate items of PPE and are depreciated separately. Useful lives are determined based on past experience and current facts, taking into account future expected usage and potential for technological obsolescence. Depreciation methods, useful lives and residual values are reviewed annually and adjusted, if appropriate.

### **(h) CONTRIBUTIONS IN AID OF CONSTRUCTION (DEFERRED REVENUE)**

Under various statutory requirements and agreements with customers and developers, the Corporation receives contributions in aid of construction (CIAC) in the form of cash contributions. Such contributions are recorded as deferred revenue when funds are expended and recognized into other revenue over the useful life of the underlying asset to which the contribution related.

### **(i) GOVERNMENT GRANTS**

Government grants are not recognized until there is reasonable assurance that the Corporation will comply with the conditions attached to them and that the grants will be received. Government grants received for the purchase of certain items of PPE are deducted from the carrying amount of the related asset. Amounts received related to expense reimbursement reduce the expense in the period in which it is incurred.

### **(j) CAPITALIZATION OF BORROWING COSTS**

Borrowing costs directly attributable to the construction of a qualifying asset are eligible for capitalization. Qualifying assets are assets for which a substantial period of time is required to prepare the asset for its intended use. The Corporation borrows funds to finance its capital construction projects. The borrowing costs are capitalized, until construction is completed, at a rate based on the actual costs of debt used to finance the capital construction projects. Capitalized borrowing costs cannot exceed the actual cost incurred to borrow the funds.

### **(k) POWER PURCHASE ARRANGEMENTS**

The costs to acquire the Power Purchase Arrangements (PPAs) were recorded on the statement of financial position as an intangible asset. The costs were amortized based on available capacity per PPA unit over the term of the PPA. The carrying amount of the intangible asset was reviewed for indicators of impairment and tested for impairment when events or changes in circumstances indicated that the carrying amount may not be recoverable. In 2016 the PPAs were impaired upon termination of the Battle River 5 PPA and Keephills PPA.

**(l) INTANGIBLE ASSETS**

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

Asset Class	Depreciation Rates		
Renewable energy certificates and water license	11.00%	to	11.00%
Computer systems	2.81%	to	25.00%
Land easements, rights and lease options	1.73%	to	25.86%

Intangible assets with indefinite 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.

**(m) ASSET IMPAIRMENT**

Long-lived assets and intangible assets with finite lives are tested for impairment when events or changes in circumstances indicate possible impairment. Test for impairment is performed at the CGU level. Impairment loss is recognized in the statement of earnings if the recoverable amount of a CGU is estimated to be less than its carrying amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. Impairment losses recognized in prior periods are assessed at each reporting date for indications that the loss has decreased or no longer exists. The impairment loss can be reversed up to the original carrying value of the asset that would have been determined, net of depreciation, had no impairment loss been recognized. A reversal of impairment is recognized immediately in the statement of earnings.

***Significant Judgment and Estimation Uncertainty***

Impairment indicator assessment and the grouping of CGUs are significant judgments in the process of asset impairment analysis. The determination of CGU recoverable amounts involves significant estimates, including timing of cash flows, expected future prices for inputs and outputs, expected usage of the assets and appropriate discount rates.

During the year, the Corporation performed an impairment test of its power generating assets organized into three distinct CGUs. The impairment test was calculated based on the net present value of cash flow projections incorporating estimates of annual revenues, expenses and capital expenditures to the end of each power generating asset's useful life. These estimates incorporate past experience and the Corporation's current view of future generating capacity, natural gas forward pricing as well as electricity pricing. The Alberta power price and the after-tax discount rate are significant inputs used in determining the recoverable amount of each CGU. The Corporation gave consideration to externally available information related to future pricing of electricity and natural gas inputs when developing certain pricing assumptions. These external sources of information include market information from the AESO and research firms serving the industry. A discount rate was used for each CGU which reflects the market weighted average cost of capital (WACC) using a capital asset pricing model approach, giving consideration to the risks specific to each CGU and the risks embedded in the net cash flow projections. For all CGUs, the estimated recoverable amount exceeded the CGUs' respective carrying value; no impairment expense was required related to the CGUs (Note 11). For all CGUs tested for impairment, if the long-term average power price and discount rate used in the impairment model were decreased by 5.00 per cent and increased by 0.50 per cent respectively, the net estimated recoverable amount would decrease by \$81.4 million and \$90.1 million, respectively, and fall below their respective carrying value. These sensitivity analyses are for illustration purposes and may not be representative, as a change in one variable would potentially be tempered by changes in other variables. For example, a decrease in power price may be offset by a decrease in input costs such as natural gas prices.

#### **(n) POST-EMPLOYMENT BENEFITS**

The Corporation sponsors pension plans that contain both defined contribution (DC) and defined benefits (DB) provisions.

For DC pension plans, the Corporation's obligations for contributions are recognized as other expenses in the statement of earnings when services are rendered by employees.

For DB pension plans and other post-employment benefits, the level of benefit provided is based on years of service and earnings of the person entitled. The service cost of DB pension and other post-employment benefits earned by employees is actuarially determined using the projected unit credit method pro-rated on service and management's best estimate of expected health care costs. The related pension liability recognized in the statement of financial position is the present value of the DB and post-retirement benefit obligation at the statement of financial position date less the market value of the plan assets.

Actuarial valuations for defined benefit plans are carried out every three years at December 31. The discount rate applied in arriving at the present value of the pension liability represents yields on high-quality Canadian corporate bonds that have terms to maturity approximating the terms of the related pension liability.

Components of DB costs include service cost, net interest on the net DB liability and re-measurements of the net DB liability. Service cost is recognized as other expenses in the statement of earnings. Net interest is calculated by applying the discount rate to the net DB liability at the beginning of the annual period and takes into account projected contributions and benefit payments during the period. The net interest is recognized as interest expense in the statement of earnings. Re-measurement gains and losses, resulting from experience adjustments and changes in assumptions used to measure the accrued benefit obligation, are recognized in full in the period in which they occur through other comprehensive income.

#### ***Estimation Uncertainty***

Significant assumptions and estimates are used in the accounting for DB pension plans. The Corporation consults with an actuarial specialist when setting the key assumptions used to estimate the post-employment benefits and the costs of providing post-retirement benefits. Key assumptions include future return on plan assets, retirement age, mortality rates, discount rates, future health care costs, salary escalation rates and claims experiences.

#### **(o) LEASES**

When an arrangement is entered into for the use of items of PPE, the Corporation evaluates the arrangement to determine whether it contains a lease. A specific asset would qualify as a lease if fulfillment of the arrangement is dependent on the use of the specific asset. An arrangement constitutes the right to use the asset if the Corporation has the right to control the use of the underlying asset. When an arrangement is determined to be a lease, the Corporation classifies the lease as either operating or financing depending on whether substantially all the risks and rewards of the asset have been transferred.

#### ***Significant Judgment***

The Corporation assesses contract arrangements to determine if they contain a lease. The Corporation considers all facts and circumstances to determine if substantially all risks and rewards of ownership has been transferred to the lessee to classify the lease arrangement as finance or operating lease.

#### **(p) ASSET RETIREMENT OBLIGATIONS**

Asset retirement obligations (ARO) are provisions for legal and constructive obligations for decommissioning and restoring the Corporation's generating assets and the Corporation's share of jointly-operated generating assets.

The estimated future cash flows of the asset retirement costs are risk adjusted and discounted using a pre-tax, risk-free rate that reflects the time value of money. 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. Changes due to revisions to discount rates, the timing or the amount of the original estimate of the provision are reflected on a prospective basis by adjusting the carrying amount of the related PPE.

#### ***Estimation Uncertainty***

Significant assumptions and estimates are used in the accounting of ARO that include the amount and timing of asset retirements, the extent of site remediation required, and related future cash flows, inflation rates and discount rates.

#### **(q) PROVISIONS AND CONTINGENCIES**

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect of discounting is significant. A pre-tax, risk-free rate is used to discount estimated future risk-adjusted cash outflows. The unwinding of the discount (accretion) is recognized as a finance cost. The Corporation re-measures provisions each reporting period, taking into account changes in the likelihood and timing of future outflows and changes in discount rates.

The Corporation performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

#### ***Significant Judgment***

Judgment is involved to determine the probability of outflow of resources.

#### **(r) REVENUE RECOGNITION**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received and is reduced for rebates and other similar allowances.

#### ***Electricity and gas***

Revenue from the sale of electricity and gas is recognized when all of the following conditions are satisfied:

- the Corporation has transferred to the buyer significant risks and rewards of ownership of the commodity sold;
- the Corporation retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the commodity sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Corporation; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### ***Estimation Uncertainty***

By regulation, wire service providers are not required to submit final load settlement data on customer electricity usage until four months after the month in which such electricity was consumed. The Corporation uses processes and systems to estimate electricity revenues and costs, including unbilled consumption. Any changes to electricity revenues and costs arising from these estimation processes will be accounted for as a change in estimate in the period they occur.

### **Transmission and distribution**

Revenues are recognized in a manner that is consistent with the underlying rate decision as mandated by the Alberta Utilities Commission (AUC).

Revenues are recognized on an accrual basis as services are provided and include an estimate of fees for services provided but not yet billed.

### **Estimation Uncertainty**

Estimates are necessary given that 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 proceedings or decisions.

### **Rendering of services**

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. The stage of completion of the contract is measured by reference to costs incurred to date as a percentage of total estimated costs for each contract. The estimation of the total costs is reviewed on a monthly basis. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses recognized are recoverable.

Where costs are expected to exceed revenues in a contractual commitment, the loss is recognized immediately in the statement of earnings and a provision made for the onerous amount.

### **(s) EMISSION CREDITS AND ALLOWANCES**

Effective July 1, 2007, the *Climate Change and Emissions Management Amendment Act* (CCEMA Act) was enacted into law in Alberta. The CCEMA Act, and regulations thereunder, such as the Specified Gas Emitters Regulation (SGER), establish baseline emission intensity levels for each large generating facility, and emissions over this baseline are subject to a surcharge. Changes in law provisions related to the Corporation's fleet of gas-fueled assets have the potential to expose the Corporation to significant compliance costs (see Note 25).

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

The Corporation has recorded emissions liabilities on the statement of financial position, 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. These amounts are recognized as cost of electricity services provided and charged to the statement of earnings in the period they are levied.

### **(t) DIVIDEND**

Dividends on common shares are recognized in the Corporation's consolidated financial statements as a reduction of retained earnings in the period in which the dividends are approved by the Board of Directors of the Corporation.

**(u) INCOME TAXES**

The Corporation and its subsidiaries operating in the province of Alberta in the country of Canada are municipally owned and are generally not subject to federal and provincial income taxes. Some subsidiaries exempt from federal and provincial income taxes calculate certain portions of the operations based on the payment in lieu of tax regulation (PILOT) and the *Electric Utilities Act* (EUA). These PILOT payments are made to the Balancing Pool of Alberta. Those subsidiaries that do not meet the criteria for municipal exemption are taxable under the *Income Tax Act* (ITA) and the *Alberta Corporate Tax Act* (ACTA). Any further reference to income tax recognizes the combined obligations under PILOT, the ITA, and the ACTA.

The Corporation recognizes current and deferred income tax in the profit or loss for the period, except to the extent that it relates to a business combination or other transactions that are directly recognized in equity or other comprehensive income.

Current tax liabilities or assets are measured at the amount expected to be paid to or recovered from the taxation authorities or the Balancing Pool of Alberta for the current and prior periods, using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and liabilities are recognized for temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, using the tax rates that are expected to apply in the period in which the deferred tax asset or liability is expected to be realized or settled, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized, with the exception that the deferred tax asset arises from the initial recognition of assets or liabilities in a transaction (other than in a business combination) that affects neither accounting income nor taxable income.

A deferred tax liability is recognized for all taxable temporary differences, unless the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of other assets or liabilities in a transaction (other than in a business combination) that affects neither accounting income nor taxable income.

The Corporation recognizes deferred tax liabilities for the taxable temporary differences associated with investments in subsidiaries, and interests in joint arrangements, unless the Corporation is able to control the timing of the reversal of the temporary difference and it is probable the temporary difference will not reverse in the foreseeable future. The Corporation recognizes deferred tax assets for the deductible temporary differences arising from investments in subsidiaries, and interests in joint arrangements only under the circumstances where the temporary differences are expected to reverse in the foreseeable future and there is sufficient taxable income available against which the temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Corporation and its subsidiaries intend to settle their current tax assets and liabilities on a net basis.

### ***Significant Judgment and Estimation Uncertainty***

The calculation of the Corporation's total income tax expense involves a degree of estimation and judgment, and management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities or the Balancing Pool of Alberta. The calculation includes consideration of whether it is more likely than not for a contingent liability to be recognized in the financial statements.

The carrying amounts of deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow the benefit of part or all of that deferred tax asset to be realized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

## **5. ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED**

The following standards and interpretations are not yet effective and have not been applied in preparing these consolidated financial statements.

### ***IFRS 9 Financial Instruments***

The Corporation will adopt IFRS 9 on January 1, 2018. IFRS 9 *Financial Instrument* replaces IAS 39 which 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 Corporation was required to revise its impairment methodology under IFRS 9 for accounts receivable arising on the sales of commodity, transmission service, distribution service and other services. The adoption of this standard is not expected to result in any change to comparative amounts. The Corporation will use the full retrospective approach for transition.

### ***IFRS 15 Revenue from Contracts with Customers***

The Corporation will adopt IFRS 15 on January 1, 2018. IFRS 15 *Revenue from Contracts with Customers* provides a framework that replaces existing revenue recognition guidance. The Corporation applies 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 model also requires principal versus agent consideration for each revenue stream. The Corporation will use the full retrospective approach for transition.

### ***IFRS 16 Leases***

The new leases standard requires companies to bring most leases onto the balance sheet and eliminates the distinction between operating and finance leases. 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 is currently assessing the impact of adopting this standard and plans to fully implement it effective January 1, 2019.

## 6. 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. 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. Competitive Energy products deliver solutions to serve increasing customer desire for simple access to reliable low cost sustainable energy (i.e. distributed energy assets and services). ENMAX Competitive Energy also delivers project execution for customer infrastructure in areas such as, power infrastructure, light rail transit and commercial, residential development.

### 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

<b>As at</b> <i>(millions of Canadian dollars)</i>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
ENMAX Competitive Energy	<b>2,845.5</b>	2,901.5
ENMAX Power Delivery	<b>2,538.4</b>	2,268.9
Corporate and Intersegment Eliminations	<b>111.0</b>	155.3
<b>Total Assets</b>	<b>5,494.9</b>	5,325.7
<b>Regulatory Deferral Account Debit Balances</b>	<b>76.2</b>	39.8
<b>Total Assets and Regulatory Deferral Account Debit Balances</b>	<b>5,571.1</b>	5,365.5

### COMPARATIVE SEGMENT INFORMATION

Segment information reflects the presentation regularly reviewed by the chief operating decision maker. Management believes that a measure of operating performance is more meaningful if results not related to normal operations such as impairment, onerous provision charges on long-term contracts, and unrealized gains and losses on commodities are excluded from the adjusted 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.

Segment information as at and for the year ended December 31, 2016 has been reclassified to conform with the current year's presentation. The presentation change had no impact on reported consolidated net earnings.

Year Ended December 31, 2017 (millions of Canadian dollars)	ENMAX Competitive Energy	ENMAX Power Delivery	Corporate and Intersegment Eliminations	Adjusted Consolidated Totals	Movement	Other Presentation Reclass	Consolidated Totals
					in Regulatory Deferral Account		
<b>REVENUE</b>							
Electricity	2,011.2	63.6	(385.0)	1,689.8	(2.5)	-	1,687.3
Natural gas	444.9	-	(1.4)	443.5	-	-	443.5
Transmission and distribution	-	604.4	-	604.4	(10.0)	-	594.4
Local access fees	-	95.8	-	95.8	-	-	95.8
Other revenue	204.0	35.1	(25.3)	213.8	(37.8)	-	176.0
<b>TOTAL REVENUE</b>	<b>2,660.1</b>	<b>798.9</b>	<b>(411.7)</b>	<b>3,047.3</b>	<b>(50.3)</b>	<b>-</b>	<b>2,997.0</b>
<b>OPERATING EXPENSES</b>							
Electricity and fuel purchases	1,717.4	42.2	(385.2)	1,374.4	-	185.2	1,559.6
Natural gas and delivery	389.3	-	-	389.3	-	-	389.3
Transmission and distribution	-	302.2	-	302.2	31.0	-	333.2
Local access fees	-	95.8	-	95.8	-	-	95.8
Depreciation and amortization	117.4	97.1	10.4	224.9	-	-	224.9
Impairment <sup>1</sup>	-	-	-	-	-	10.3	10.3
Other expenses <sup>1</sup>	351.2	154.4	(32.8)	472.8	(36.6)	16.8	453.0
<b>TOTAL OPERATING EXPENSES</b>	<b>2,575.3</b>	<b>691.7</b>	<b>(407.6)</b>	<b>2,859.4</b>	<b>(5.6)</b>	<b>212.3</b>	<b>3,066.1</b>
<b>OPERATING PROFIT (LOSS)</b>							
Unrealized losses on commodities	84.8	107.2	(4.1)	187.9	(44.7)	(212.3)	(69.1)
Impairment <sup>1</sup>	-	-	-	185.2	-	(185.2)	-
Onerous provision <sup>1</sup>	-	-	-	10.3	-	(10.3)	-
Finance charges	-	-	-	16.8	-	(16.8)	-
	-	-	-	70.4	-	-	70.4
<b>NET (LOSS) BEFORE TAX</b>				<b>(94.8)</b>	<b>(44.7)</b>	<b>-</b>	<b>(139.5)</b>
Current income tax expense				5.2	-	-	5.2
Deferred income tax (recovery)				(69.7)	-	-	(69.7)
<b>NET LOSS BEFORE NET MOVEMENT IN REGULATORY DEFERRAL ACCOUNT BALANCES</b>							
				<b>(30.3)</b>	<b>(44.7)</b>	<b>-</b>	<b>(75.0)</b>
<b>NET MOVEMENT IN REGULATORY DEFERRAL ACCOUNT BALANCES</b>							
				<b>-</b>	<b>44.7</b>	<b>-</b>	<b>44.7</b>
<b>NET LOSS</b>				<b>(30.3)</b>	<b>-</b>	<b>-</b>	<b>(30.3)</b>

<sup>(1)</sup> During the year ended December 31, 2017, the ENMAX Competitive Energy segment recognized an impairment loss of \$10.3 million associated with certain property, plant and equipment (prior to the project being completed and included in one of ENMAX's CGU's) it no longer expects to bring to market due to market conditions. The segment also increased its onerous provision by \$16.8 million to reflect changes in circumstances associated with the expected timing and amounts of certain longer term onerous contracts, during the year ended December 31, 2017.

Year Ended December 31, 2016 (millions of Canadian dollars)	ENMAX Competitive Energy	ENMAX Power Delivery	Corporate and Intersegment Eliminations	Adjusted Consolidated Totals	Movement in Regulatory Deferral Account	Other Presentation Reclass	Consolidated Totals
<b>REVENUE</b>							
Electricity	1,939.3	72.9	(364.9)	1,647.3	2.9	-	1,650.2
Natural gas	376.9	-	(0.8)	376.1	-	-	376.1
Transmission and distribution	-	554.9	-	554.9	(18.2)	-	536.7
Local access fees	-	87.9	-	87.9	-	-	87.9
Other revenue	168.2	31.4	(19.1)	180.5	(30.4)	-	150.1
<b>TOTAL REVENUE</b>	<b>2,484.4</b>	<b>747.1</b>	<b>(384.8)</b>	<b>2,846.7</b>	<b>(45.7)</b>	<b>-</b>	<b>2,801.0</b>
<b>OPERATING EXPENSES</b>							
Electricity and fuel purchases	1,570.3	50.1	(364.1)	1,256.3	-	(30.5)	1,225.8
Natural gas and delivery	326.7	-	-	326.7	-	-	326.7
Transmission and distribution	-	268.0	-	268.0	(22.3)	-	245.7
Local access fees	-	87.9	-	87.9	-	-	87.9
Depreciation and amortization	116.9	88.6	9.5	215.0	(0.1)	-	214.9
Impairment <sup>2</sup>	-	-	-	-	-	51.4	51.4
Other expenses <sup>2</sup>	330.1	145.5	(33.1)	442.5	(22.2)	4.4	424.7
<b>TOTAL OPERATING EXPENSES</b>	<b>2,344.0</b>	<b>640.1</b>	<b>(387.7)</b>	<b>2,596.4</b>	<b>(44.6)</b>	<b>25.3</b>	<b>2,577.1</b>
<b>OPERATING PROFIT (LOSS)</b>	<b>140.4</b>	<b>107.0</b>	<b>2.9</b>	<b>250.3</b>	<b>(1.1)</b>	<b>(86.3)</b>	<b>223.9</b>
Unrealized gain on commodities				(30.5)	-	30.5	-
Impairment <sup>2</sup>				51.4	-	(51.4)	-
Onerous provision <sup>2</sup>				4.4	-	(4.4)	-
Finance charges				74.9	-	-	74.9
<b>NET EARNINGS (LOSS) BEFORE TAX</b>				<b>150.1</b>	<b>(1.1)</b>	<b>-</b>	<b>149.0</b>
Current income tax (recovery)				(18.5)	-	-	(18.5)
Deferred income tax expense				64.0	-	-	64.0
<b>NET LOSS BEFORE NET MOVEMENT IN REGULATORY DEFERRAL ACCOUNT BALANCES</b>				<b>104.6</b>	<b>(1.1)</b>	<b>-</b>	<b>103.5</b>
<b>NET MOVEMENT IN REGULATORY DEFERRAL ACCOUNT BALANCES</b>				<b>-</b>	<b>1.1</b>	<b>-</b>	<b>1.1</b>
<b>NET EARNINGS</b>				<b>104.6</b>	<b>-</b>	<b>-</b>	<b>104.6</b>

<sup>(2)</sup> During the year ended December 31, 2016, the ENMAX Competitive Energy segment recognized an impairment of \$51.4 million as a result of the decision to terminate the Keepphills PPA on May 5, 2016. The segment also increased its onerous provision by \$4.4 million to reflect changes in circumstances associated with the expected timing and amounts of certain longer-term onerous contracts, during the year ended December 31, 2016.

## 7. FINANCIAL INSTRUMENTS, HEDGES AND RISK MANAGEMENT MARKET RISK

### 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.

The sensitivities provided in each of the following risk discussions disclose how earnings and OCI would have been affected by changes in relevant risk variables that were reasonably possible at the reporting date. These sensitivities are based on financial instruments carried at fair value, which include derivative contracts. The impact of a change in one factor may be compounded or offset by changes in other factors. Those sensitivities do not consider tax nor the impact of any interrelationship among the factors such as the underlying position and the optionality of the Corporation's integrated business. Generation capacity or future sales to customers are not mark-to-market which creates an earnings mismatch. The sensitivities are hypothetical and should not be considered to be indicative of actual future results.

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

- The same fair value methodologies have been used as were used to obtain actual fair values in the fair values section of this note.
- Changes in the fair value of derivative instruments that are effective cash flow hedges are recorded in OCI.
- Changes in the fair value of derivative instruments that are not designated as hedges, that are fair value hedges or that are ineffective cash flow hedges are recorded in earnings.
- Foreign currency balances, principal and notional amounts are based on amounts as at December 31, 2017 and 2016.

#### **COMMODITY PRICE RISK**

The Corporation uses electricity and gas forward contracts to manage its exposure to certain market risks. Forward prices of natural gas and electricity fluctuations impact the fair value of these commodity derivatives. As at December 31, 2017, holding all other variables constant, an unrealized mark-to-market adjustment on outstanding gas forward contracts related to a 10.00 per cent increase or decrease in the forward price of natural gas would increase or decrease earnings by \$37.7 million, respectively (2016 - \$42.8 million) and no change in OCI (2016 - \$nil). As at December 31, 2017, holding all other variables constant, an unrealized mark-to-market adjustment on outstanding electricity forward contracts related to a 10.00 per cent increase or decrease in the forward price of electricity would increase or decrease earnings by \$2.8 million, respectively (2016 - \$8.8 million) and increase or decrease OCI by \$47.6 million, respectively (2016 - \$49.1 million). These gas and electricity forward contracts extend out to 2024.

#### **FOREIGN EXCHANGE AND INTEREST RATE RISK**

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

The Corporation is not exposed to significant interest rate risk and volatility as a result of the issuance of fixed-rate long-term debt. The fair value of the Corporation's long-term debt changes as interest rates change, assuming all other variables remain constant.

Changes in the value of the Canadian dollar relative to the U.S. dollar could impact the Canadian dollar cost of natural gas, which affects the input cost of the Corporation's natural gas-fuelled generation capacity, as well as the cost to the Corporation of offering fixed price gas contracts to its customers. The foreign exchange impact on these gas purchases is offset, when possible, by foreign exchange contracts. Foreign exchange exposure resulting from procurement contracts has also been mitigated by foreign exchange contracts. As at December 31, 2017, a 10 per cent strengthening in the Canadian dollar in relation to the U.S. dollar, holding all other variables constant, would decrease earnings by \$8.3 million (2016 - increase earnings by \$6.7 million), and vice versa.

#### **CREDIT RISK**

The Corporation is exposed to credit risk primarily through its wholesale and retail energy sales business. Credit risk is the loss that may result from counterparties' non-performance. The Corporation evaluates the credit risk of wholesale and retail competitive supply activities separately as discussed below. The Corporation's maximum financial statement exposure to credit risk is the carrying value of the financial assets, as set out in the table below. This maximum exposure does not necessarily reflect losses expected by management nor does it necessarily reflect losses experienced in the past.

## FINANCIAL ASSETS

<i>As at</i> <i>(millions of dollars)</i>	December 31, 2017	December 31, 2016
Cash and cash equivalents (a)	81.2	117.5
Accounts receivable (b)	629.5	507.4
Current portion of financial assets (c)	98.9	96.1
Financial assets (c)	49.4	55.1
Long-term accounts receivable (b)	0.6	2.1

### (a) Cash and Cash Equivalents

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

### (b) Current and Long-Term Accounts Receivable

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

Charges to earnings as a result of credit losses for the Corporation for the year ended December 31, 2017, totalled \$12.0 million (2016 - \$11.2 million). Management monitors credit risk exposure and has implemented measures to mitigate losses. In specific situations, this includes, but is not limited to, a reduction of credit limits, requests for additional collateral or restrictions on new transaction terms.

## AGING ANALYSIS OF TRADE RECEIVABLES PAST DUE

<i>As at</i> <i>(millions of dollars)</i>	December 31, 2017	December 31, 2016
1-30 days past due	34.9	13.7
31-60 days past due	5.5	3.3
61 days or more past due	19.1	17.3
Total past due	59.5	34.3

## CHANGES IN THE ALLOWANCE FOR DOUBTFUL ACCOUNTS

<i>As at</i> <i>(millions of dollars)</i>	December 31, 2017	December 31, 2016
Provision at the beginning of the year	14.9	11.3
Increase to allowance	12.0	11.2
Recoveries and write-offs	(8.3)	(7.6)
Provision at end of the year	18.6	14.9

The remainder of the accounts receivable balance outstanding at December 31, 2017, consists of current trade receivables and unbilled revenue accruals. No provision has been recorded due to the minimal credit risk at the statement of financial position date.

**(c) Current and Non-Current Financial Assets**

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

Due to the possibility of extreme volatility in the prices of energy commodities and derivatives, the market value of contractual positions with individual counterparties could exceed established credit limits or collateral provided by those counterparties. In such cases, the Corporation would make a margin call for additional collateral. The Corporation deems that the risk of a material loss from a counterparty failing to perform its obligations under its contract is low.

Additionally, if a counterparty were to default and the Corporation were to liquidate all contracts with that entity, the credit loss would include the loss in value of mark-to-market contracts, the amount owed for settled transactions and unbilled deliveries and additional payments, if any, that would have to be made to settle unrealized losses on accrual contracts. The majority of counterparties enabled for wholesale transactions are rated investment grade (BBB- or higher) by recognized rating agencies.

**LIQUIDITY RISK**

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation’s approach to managing liquidity risk is to ensure that it always has sufficient cash and credit facilities (see Note 25) to meet its obligations when due.

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

**CONTRACTUAL MATURITIES OF NON-DERIVATIVE FINANCIAL LIABILITIES**

<i>As at</i> <i>(millions of dollars)</i>	December 31, 2017	December 31, 2016
Less than 1 year (includes accounts payable)	1,026.8	555.1
1–3 years	222.1	546.5
3–5 years	178.0	194.2
More than 5 years	1,237.3	1,323.3

The following table details the remaining contractual maturities for the Corporation’s derivative financial liabilities:

**CONTRACTUAL MATURITIES OF DERIVATIVE FINANCIAL LIABILITIES**

<i>As at</i> <i>(millions of dollars)</i>	December 31, 2017	December 31, 2016
Less than 1 year	141.8	104.2
1–3 years	95.7	89.2
3–5 years	35.8	31.1
More than 5 years	9.8	1.7

## VALUATION OF DERIVATIVE ASSETS AND LIABILITIES

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

<b>As at</b>	<b>December 31, 2017</b>		<b>December 31, 2016</b>	
	<b>Hedge Instruments</b>	<b>Non-Hedge Derivatives</b>	<b>Hedge Instruments</b>	<b>Non-Hedge Derivatives</b>
<i>(millions of Canadian dollars)</i>				
Assets				
Current	44.6	54.3	27.6	68.5
Non-current	38.3	11.1	36.5	18.6
Liabilities				
Current	18.1	123.7	61.7	42.5
Non-current	35.6	105.7	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 2017, there was a \$3.3 million impact recognized in electricity and fuel purchases due to the ineffectiveness of the relevant hedges.

For non-hedge derivatives, there were unrealized losses of \$190.0 million for the year ended December 31, 2017 (2016 - \$36.9 million gain), primarily recorded in electricity and fuel purchases. The anticipated non-hedge derivatives are expected to settle in 2018 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. Generation capacity or future sales to customers are not mark-to-market, which creates a mismatch in the timing of earnings.

## FAIR VALUE

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

### Level Determination and Classifications

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

#### Level I

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

#### Level II

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

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

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

### Level III

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

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

### FAIR VALUES OF THE CORPORATION'S DERIVATIVES

<b>As at December 31, 2017</b> <i>(millions of dollars)</i>	<b>Quoted Prices in Active Markets</b>	<b>Significant Other Observable Inputs</b>	<b>Significant Unobservable Inputs<sup>(1)</sup></b>	<b>TOTAL</b>
	<b>(LEVEL I)</b>	<b>(LEVEL II)</b>	<b>(LEVEL III)</b>	
Financial assets measured at fair value:				
Energy trading forward contracts	23.0	107.7	15.4	146.1
Foreign currency forward contracts	-	2.0	-	2.0
Available for sale securities	0.2	-	-	0.2
<b>Financial assets total</b>	<b>23.2</b>	<b>109.7</b>	<b>15.4</b>	<b>148.3</b>
Financial liabilities measured at fair value:				
Energy trading forward contracts	(41.6)	(189.9)	(46.8)	(278.3)
Foreign currency forward contracts	-	(4.8)	-	(4.8)
<b>Financial liabilities total</b>	<b>(41.6)</b>	<b>(194.7)</b>	<b>(46.8)</b>	<b>(283.1)</b>
<b>Net derivative liabilities</b>	<b>(18.4)</b>	<b>(85.0)</b>	<b>(31.4)</b>	<b>(134.8)</b>

<sup>(1)</sup> Market-observable data are not available. Fair values are determined using valuation techniques.

<b>As at December 31, 2016</b> <i>(millions of dollars)</i>	<b>Quoted Prices in Active Markets</b>	<b>Significant Other Observable Inputs</b>	<b>Significant Unobservable Inputs<sup>(1)</sup></b>	<b>TOTAL</b>
	<b>(LEVEL I)</b>	<b>(LEVEL II)</b>	<b>(LEVEL III)</b>	
Financial assets measured at fair value:				
Energy trading forward contracts	56.2	68.1	24.0	148.3
Foreign currency forward contracts	-	2.7	-	2.7
Available for sale securities	0.2	-	-	0.2
<b>Financial assets total</b>	<b>56.4</b>	<b>70.8</b>	<b>24.0</b>	<b>151.2</b>
Financial liabilities measured at fair value:				
Energy trading forward contracts	(39.8)	(130.3)	(55.3)	(225.4)
Foreign currency forward contracts	-	(0.8)	-	(0.8)
<b>Financial liabilities total</b>	<b>(39.8)</b>	<b>(131.1)</b>	<b>(55.3)</b>	<b>(226.2)</b>
<b>Net derivative assets (liabilities)</b>	<b>16.6</b>	<b>(60.3)</b>	<b>(31.3)</b>	<b>(75.0)</b>

<sup>(1)</sup> Market-observable data are not available. Fair values are determined using valuation techniques.

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

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

<i>(millions of dollars)</i>	<b>Hedges</b>
Net derivative assets as at January 1, 2016	11.0
Changes attributable to:	
Commodity price changes	(20.1)
Commodity price changes (de-designated)	(8.5)
New contracts entered	(12.4)
Transfers in/out of Level III	(1.3)
Net derivative liabilities as at December 31, 2016	(31.3)
Changes attributable to:	
Commodity price changes	<b>(24.3)</b>
Commodity price changes (de-designated)	-
New contracts entered	<b>0.4</b>
Transfers in/out of Level III	<b>23.8</b>
<b>Net derivative (liabilities) as at December 31, 2017</b>	<b>(31.4)</b>
Total change in fair value included in OCI	<b>28.6</b>
Total change in fair value included in pre-tax earnings	<b>(28.6)</b>

## 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

<i>As at</i>	<b>December 31, 2017</b>		<b>December 31, 2016</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
<i>(millions of Canadian dollars)</i>				
Long-term debt <sup>(1)</sup> consisting of:				
Debentures, with remaining terms of:				
Less than 5 years	<b>73.0</b>	<b>75.3</b>	99.2	104.2
5–10 years	<b>12.6</b>	<b>13.3</b>	10.2	10.4
10–15 years	<b>111.9</b>	<b>125.6</b>	47.6	53.2
15–20 years	<b>465.7</b>	<b>509.0</b>	455.4	516.0
20–25 years	<b>415.4</b>	<b>424.3</b>	532.8	540.9
Private debentures				
Series 1 (6.15%) <sup>(2)</sup>	<b>299.7</b>	<b>307.1</b>	299.3	321.2
Series 3 (3.81%)	<b>198.9</b>	<b>204.5</b>	198.8	204.2
Promissory note	<b>3.6</b>	<b>3.8</b>	3.9	4.1
	<b>1,580.8</b>	<b>1,662.9</b>	1,647.2	1,754.2

<sup>(1)</sup> Includes current portion of \$367.3 million (December 31, 2016—\$67.0 million). Maturity dates range from June 2018 to June 2040.

<sup>(2)</sup> Matures June 2018, whole balance included in current portion as at December 31, 2017.

### Financial Assets and Financial Liabilities Subject to Offsetting

Information about the Corporation's financial assets and liabilities that are subject to enforceable master netting arrangements or similar agreements is as follows:

<i>As at</i>	December 31, 2017		December 31, 2016	
	Accounts Receivable	Accounts Payable and Accrued Liabilities	Accounts Receivable	Accounts Payable and Accrued Liabilities
<i>(millions of dollars)</i>				
Gross amounts recognized	-	(41.9)	-	(99.8)
Gross amounts set-off	-	24.2	-	24.3
Net amounts as presented in the Consolidated Statement of Financial Position	-	(17.7)	-	(75.5)

### 8. INCOME TAXES

<i>Year ended December 31,</i> <i>(millions of dollars)</i>	2017	2016
<b>Current income tax expense (recovery)</b>		
Expense (recovery) for current year	2.5	(5.1)
Adjustment in respect of prior years	(0.8)	(7.6)
Other	3.5	(5.8)
Total current income tax expense (recovery)	5.2	(18.5)
<b>Deferred income tax expense (recovery)</b>		
Origination and reversal of temporary differences	(73.7)	91.4
Adjustment in respect of prior years	(0.8)	7.6
Other	4.8	(35.0)
Total deferred income tax expense (recovery)	(69.7)	64.0
Total income tax expense (recovery)	(64.5)	45.5

### THE RECONCILIATION OF STATUTORY AND EFFECTIVE INCOME TAX EXPENSE (RECOVERY)

<i>Year ended December 31,</i> <i>(millions of dollars)</i>	2017	2016
Net (loss) earnings before tax	(139.5)	149.0
Income not subject to tax	(161.1)	(212.0)
	(300.6)	(63.0)
Federal and provincial tax rates	27.0%	27.0%
Expected income tax recovery	(81.3)	(17.0)
Non-deductible expense	(0.2)	1.5
Adjustment for deferred tax reversal and other estimate revisions	17.0	61.0
Total income tax expense (recovery)	(64.5)	45.5

The changes in deferred income tax assets and liabilities during the years ended December 31, 2017 and 2016 were as follows:

<i>(millions of dollars)</i>	January 1, 2017	Recognized In Net Income	Recognized In Other Comprehensive Income	December 31, 2017
<b>Deferred income tax assets</b>				
Property, plant and equipment	(31.0)	(6.6)	-	(37.6)
Eligible capital expenditure	6.1	(0.5)	-	5.6
Loss carried forward	74.5	0.7	-	75.2
Unrealized derivatives	(6.4)	50.0	-	43.6
Other comprehensive income	22.4	(14.6)	(18.8)	(11.0)
Other	6.4	(0.9)	-	5.5
	72.0	28.1	(18.8)	81.3
<b>Deferred income tax liabilities</b>				
Property, plant and equipment	139.4	(28.2)	-	111.2
Eligible capital expenditure	(2.9)	2.2	-	(0.7)
Loss carried forward	(13.4)	0.2	-	(13.2)
Unrealized derivatives	0.5	(1.3)	-	(0.8)
Other comprehensive income	-	(0.1)	-	(0.1)
Other	(25.6)	3.8	-	(21.8)
	98.0	(23.4)	-	74.6
Net deferred tax (liability) asset	(26.0)	51.5	(18.8)	6.7

<i>(millions of dollars)</i>	January 1, 2016	Recognized In Net Income	Recognized In Other Comprehensive Income	December 31, 2016
<b>Deferred income tax assets</b>				
Power purchase arrangement	84.1	(84.1)	-	-
Property, plant and equipment	(67.1)	36.1	-	(31.0)
Eligible capital expenditure	6.1	-	-	6.1
Loss carried forward	65.1	9.4	-	74.5
Unrealized derivatives	1.8	(8.2)	-	(6.4)
Other comprehensive income	1.0	(9.9)	31.3	22.4
Other	2.9	3.5	-	6.4
	93.9	(53.2)	31.3	72.0
<b>Deferred income tax liabilities</b>				
Property, plant and equipment	169.6	(30.2)	-	139.4
Eligible capital expenditure	(3.1)	0.2	-	(2.9)
Loss carried forward	(20.5)	7.1	-	(13.4)
Unrealized derivatives	(1.1)	1.6	-	0.5
Other comprehensive income	(0.1)	-	0.1	-
Other	(61.7)	36.1	-	(25.6)
	83.1	14.8	0.1	98.0
Net deferred tax asset (liability)	10.8	(68.0)	31.2	(26.0)

The Corporation has the following tax losses carry-forward and deductible temporary differences for which no deferred tax assets have been recognized:

<i>Year ended December 31, (millions of dollars)</i>	2017	2016
Non-capital loss	10.8	6.8
Property, plant and equipment	62.5	52.2
Contingent liabilities	35.5	20.5
	108.8	79.5

The changes in income taxes receivable and income taxes payable during the years ended December 31, 2017 and 2016 were as follows:

<i>(millions of dollars)</i>	Income Taxes Receivable	Income Taxes Payable	Net Position
January 1, 2016	118.8	-	118.8
Adjustments for prior periods	7.6	-	7.6
Current year provision	5.9	(0.8)	5.1
Other	0.1	-	0.1
<b>December 31, 2016</b>	<b>132.4</b>	<b>(0.8)</b>	<b>131.6</b>
Adjustments for prior periods	0.8	-	0.8
Instalments and refunds	(41.4)	(2.7)	(44.1)
Current year provision	-	(2.5)	(2.5)
Other	(4.3)	4.2	(0.1)
<b>December 31, 2017</b>	<b>87.5</b>	<b>(1.8)</b>	<b>85.7</b>

As at December 31, 2017, the Corporation has non-capital loss carry-forwards that can be used to offset taxes in future years. These non-capital loss carry-forwards expire as follows:

#### **NON-CAPITAL LOSS CARRY FORWARD**

<i>(millions of dollars)</i>	<b>2017</b>
2028	0.7
2029	0.3
2030	0.7
2031	1.7
2032	5.7
2033	1.2
2034	30.3
2035	77.8
2036	74.1
2037	24.0

## **9. REGULATORY DEFERRAL ACCOUNT BALANCES**

### **NATURE AND ECONOMIC EFFECT OF RATE REGULATION**

ENMAX Transmission and ENMAX Distribution (the Divisions) are divisions of ENMAX Power Delivery segment. The Divisions are regulated operations established to carry out all electrical transmission and distribution service functions in its own right. The AUC approves the Division's Transmission and Distribution Tariffs (rates and terms and conditions of service) subject to Sections 37 and 102 of the Electric Utilities Act.

With respect to Distribution, the 2015-2017 Distribution Access Service (DAS) rates are set based on a formula approved by the AUC as part of a negotiated settlement agreed to by the Divisions and customer interveners. The Divisions filed a Capital Tracker application in September 2016 seeking approval for the recovery of interest, depreciation and return in relation to the 2015-2017 distribution capital programs. On August 28, 2017, the Divisions filed a 2015-2017 Capital Tracker Negotiated Settlement Agreement between the Divisions and customer interveners with the AUC for approval. On December 13, 2017, the AUC approved the settlement amount of approximately \$40.0 million in its entirety for the three year term.

## REGULATORY 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 account debit and credit balances:

<i>As at</i> <i>(millions of Canadian dollars)</i>	Accounts Receivable (a)	Un-Eliminated Inter-Company Profit (b)	Other Regulatory Debits (c)	Total Regulatory Deferral Account Debit Balances
<b>Regulatory deferral account debit balances</b>				
January 1, 2017	-	8.8	31.0	39.8
Balances arising in the period <sup>(1)</sup>	166.9	1.1	17.0	185.0
Recovery (reversal) <sup>(2)</sup>	(132.5)	-	(16.1)	(148.6)
<b>December 31, 2017</b>	<b>34.4</b>	<b>9.9</b>	<b>31.9</b>	<b>76.2</b>
Expected recovery/reversal period	2 Months	25 Years	12 Months	
January 1, 2016	19.8	2.0	12.7	34.5
Balances arising in the period <sup>(1)</sup>	122.2	6.9	16.8	145.9
Recovery (reversal) <sup>(2)</sup>	(142.0)	(0.1)	1.5	(140.6)
December 31, 2016	-	8.8	31.0	39.8
Expected recovery/reversal period	2 Months	24 Years	12 Months	

<sup>(1)</sup> "Balances Arising in the Period" column consists of new additions to regulatory deferral debits and credit balances.

<sup>(2)</sup> "Recovery (Reversal)" column consists of amounts collected/refunded through rate riders or transactions reversing existing regulatory balances.

<i>As at</i> <i>(millions of Canadian dollars)</i>	Accounts Payable (a)	Other Regulatory Credits (d)	Total Regulatory Deferral Account Credit Balances
<b>Regulatory deferral account credit balances</b>			
January 1, 2017	4.5	13.2	17.7
Balances arising in the period <sup>(1)</sup>	-	0.2	0.2
Recovery (reversal) <sup>(2)</sup>	(4.5)	(4.0)	(8.5)
<b>December 31, 2017</b>	<b>-</b>	<b>9.4</b>	<b>9.4</b>
Expected recovery/reversal period		12 Months	
January 1, 2016	-	13.5	13.5
Balances arising in the period <sup>(1)</sup>	4.5	7.5	12.0
Recovery (reversal) <sup>(2)</sup>	-	(7.8)	(7.8)
December 31, 2016	4.5	13.2	17.7
Expected recovery/reversal period	2 Months	12 Months	

<sup>(1)</sup> "Balances Arising in the Period" column consists of new additions to regulatory deferral debits and credit balances.

<sup>(2)</sup> "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 account 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 account 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 deferral account for transmission charges from the AESO. In the absence of rate regulation and the 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 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 standard, IFRS would require that intercompany profits be eliminated upon consolidation.

**(c) Other regulatory debits**

Other regulatory debits primarily relate to the AUC flow-through items and other costs that will be collected from customers via future rates such as access service charges. The 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 and including those inherent in rate-setting regulatory processes. 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.

**10. OTHER ASSETS AND LIABILITIES**

<i>As at</i> <i>(millions of Canadian dollars)</i>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
<b>Other current assets</b>		
Prepaid expenses	9.1	10.2
Collateral paid	58.0	31.5
Deferred asset	0.3	0.3
Emission offsets	39.0	38.1
Other	3.0	0.9
	<b>109.4</b>	<b>81.0</b>
<b>Other long-term assets</b>		
Prepaid expenses	9.1	4.5
Long-term accounts receivable	0.6	2.1
Deferred asset	3.5	3.8
Long-term collateral paid	-	7.8
Other	12.9	14.7
	<b>26.1</b>	<b>32.9</b>
<b>Other current liabilities</b>		
Capital lease	0.3	0.7
Deposits	18.7	33.8
Other	8.4	9.4
	<b>27.4</b>	<b>43.9</b>
<b>Other long-term liabilities</b>		
Capital lease	4.3	4.6
Other	11.6	13.9
	<b>15.9</b>	<b>18.5</b>

## 11. PROPERTY, PLANT AND EQUIPMENT (PPE)

	Transmission, Distribution and Substation Equipment	Generation Facilities and Equipment	Buildings and Site Development	Tools, Systems and Equipment	Land	Capital Spares and Other	Vehicles	Work in Progress	Government Grants	Total
<b>Cost</b>										
As at January 1, 2016	1,794.9	2,225.7	408.3	99.9	49.1	43.5	26.1	86.2	(20.0)	4,713.7
Additions	-	-	-	-	-	3.1	-	284.1	-	287.2
Transfers	155.2	34.2	14.6	6.9	(0.4)	-	2.4	(211.8)	-	1.1
Disposals	(4.2)	-	-	0.4	-	-	(0.6)	(5.9)	-	(10.3)
Changes to asset retirement costs	-	17.3	-	-	-	-	-	-	-	17.3
As at December 31, 2016	1,945.9	2,277.2	422.9	107.2	48.7	46.6	27.9	152.6	(20.0)	5,009.0
Additions	-	-	-	-	-	(2.1)	-	320.1	-	318.0
Transfers	286.2	15.9	16.3	15.9	0.6	-	6.9	(341.8)	-	-
Disposals	(3.9)	(11.6)	(0.9)	(0.7)	-	-	(2.6)	(7.1)	-	(26.8)
Changes to asset retirement costs	-	(20.0)	-	-	-	-	-	-	-	(20.0)
Impairment	-	-	-	-	-	-	-	(10.3)	-	(10.3)
<b>As at December 31, 2017</b>	<b>2,228.2</b>	<b>2,261.5</b>	<b>438.3</b>	<b>122.4</b>	<b>49.3</b>	<b>44.5</b>	<b>32.2</b>	<b>113.5</b>	<b>(20.0)</b>	<b>5,269.9</b>
<b>Accumulated Depreciation</b>										
As at January 1, 2016	(122.4)	(503.0)	(61.5)	(62.2)	-	-	(7.4)	-	3.7	(752.8)
Depreciation	(73.9)	(92.9)	(11.4)	(11.2)	-	-	(3.0)	-	0.6	(191.8)
Transfers	-	0.7	-	(1.3)	-	-	-	-	-	(0.6)
Disposal	7.5	-	-	(0.4)	-	-	0.5	-	-	7.6
As at December 31, 2016	(188.8)	(595.2)	(72.9)	(75.1)	-	-	(9.9)	-	4.3	(937.6)
Depreciation	(82.0)	(96.2)	(12.1)	(12.2)	-	-	(2.4)	-	0.7	(204.2)
Transfers	-	-	0.1	(0.1)	-	-	-	-	-	-
Disposals	10.0	11.3	0.9	0.7	-	-	2.4	-	-	25.3
Adjustments <sup>(1)</sup>	(4.5)	-	(0.2)	-	-	-	-	-	-	(4.7)
<b>As at December 31, 2017</b>	<b>(265.3)</b>	<b>(680.1)</b>	<b>(84.2)</b>	<b>(86.7)</b>	<b>-</b>	<b>-</b>	<b>(9.9)</b>	<b>-</b>	<b>5.0</b>	<b>(1,121.2)</b>
<b>Net Book Value</b>										
As at December 31, 2016	1,757.1	1,682.0	350.0	32.1	48.7	46.6	18.0	152.6	(15.7)	4,071.4
<b>As at December 31, 2017</b>	<b>1,962.9</b>	<b>1,581.4</b>	<b>354.1</b>	<b>35.7</b>	<b>49.3</b>	<b>44.5</b>	<b>22.3</b>	<b>113.5</b>	<b>(15.0)</b>	<b>4,148.7</b>

<sup>(1)</sup> In 2017 ENMAX retired assets related to the construction of the SW Ring Road that were not fully depreciated. ENMAX successfully filed a request to the AUC to recognize the retired assets' remaining net book value of \$4.7M in accumulated depreciation in 2017.

Real property, including land and buildings, with a carrying amount of \$403.3 million as at December 31, 2017 (December 31, 2016—\$398.6 million), was subject to a right of first refusal to purchase held by the City.

For the year ended December 31, 2017, capitalized borrowing costs amounted to \$7.9 million (2016—\$5.2 million), with capitalization rates ranging from 3.91 per cent to 5.34 per cent. Interest is capitalized based on the actual cost of debt used to finance the capital construction projects. Interest rates ranged from 0.81 per cent to 6.31 per cent (2016—0.75 per cent to 6.31 per cent).

During 2017 and 2016, the Corporation performed an impairment test of all of its CGUs (Note 4(m)). No impairment expense was required as a result of these procedures.

During the year ended December 31, 2017, ENMAX recognized an impairment loss of \$10.3 million associated with certain property, plant and equipment (prior to the project being completed and included in one of ENMAX's CGU's). ENMAX no longer expects to bring the project to market due to changes in market conditions.

## 12. INTANGIBLE ASSETS

	Computer Systems	Renewable Energy Certificates and Water Licenses	Land Easements, Rights and Lease Options	Work in Progress	Total
<b>Cost</b>					
As at January 1, 2016	224.4	12.4	33.2	20.6	290.6
Additions	-	-	-	34.0	34.0
Transfers	25.1	-	0.3	(26.5)	(1.1)
Disposals	(3.1)	-	-	-	(3.1)
As at December 31, 2016	246.4	12.4	33.5	28.1	320.4
Additions	-	-	-	43.7	43.7
Transfers	27.7	-	-	(27.7)	-
Disposals	(0.3)	-	-	-	(0.3)
<b>As at December 31, 2017</b>	<b>273.8</b>	<b>12.4</b>	<b>33.5</b>	<b>44.1</b>	<b>363.8</b>
<b>Accumulated amortization</b>					
As at January 1, 2016	(131.5)	(9.9)	(3.4)	-	(144.8)
Amortization	(16.9)	(1.1)	(1.4)	-	(19.4)
Disposals	3.1	-	-	-	3.1
Transfers	1.3	(0.7)	-	-	0.6
As at December 31, 2016	(144.0)	(11.7)	(4.8)	-	(160.5)
Amortization	(18.7)	(0.6)	(1.4)	-	(20.7)
Disposals	0.3	-	-	-	0.3
<b>As at December 31, 2017</b>	<b>(162.4)</b>	<b>(12.3)</b>	<b>(6.2)</b>	<b>-</b>	<b>(180.9)</b>
<b>Net book value</b>					
As at December 31, 2016	102.4	0.7	28.7	28.1	159.9
<b>As at December 31, 2017</b>	<b>111.4</b>	<b>0.1</b>	<b>27.3</b>	<b>44.1</b>	<b>182.9</b>

## 13. LONG-TERM DEBT

<i>As at</i> <i>(millions of dollars)</i>	December 31, 2017	Weighted Average Interest Rates	December 31, 2016	Weighted Average Interest Rates
City debentures <sup>(1)</sup> with remaining terms of:				
Less than 5 years	73.0	3.69%	99.2	3.63%
5 – 10 years	12.6	3.55%	10.2	2.31%
10 – 15 years	111.9	4.62%	47.6	4.36%
15 – 20 years	465.7	4.07%	455.4	4.41%
20 – 25 years	415.4	3.28%	532.8	3.25%
Private debenture <sup>(1)</sup>	498.6	5.21%	498.1	5.21%
Promissory note	3.6	5.00%	3.9	5.00%
	<b>1,580.8</b>		1,647.2	
Less: current portion	<b>(367.3)</b>		(67.0)	
	<b>1,213.5</b>		1,580.2	

<sup>(1)</sup> Unsecured debentures.

**CITY DEBENTURES**

Debentures were initially issued by the City on behalf of the CES pursuant to City bylaw authorizations prior to January 1, 1998. Pursuant to the master agreement between the Corporation and the City, the debentures were included in the assumed liabilities upon transfer of substantially all of the assets and liabilities of the CES from the City to the Corporation at January 1, 1998. In accordance with a debt management service level agreement between the Corporation and the City, the City continues to administer the new and existing debentures on behalf of the Corporation. During 2017, the Corporation requested additional Alberta Capital Finance Authority (ACFA) borrowings, the request has been approved however final terms will not be set until the funds are drawn. ENMAX expects the funds to be drawn upon in June 2018.

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 ACFA. In addition, the Corporation is required to pay a loan guarantee and administration fee to the City of 0.25 per cent on the average monthly outstanding ACFA debenture balance held by the City on behalf of the Corporation.

**PRIVATE DEBENTURES**

No private debentures were issued in 2017. The outstanding unsecured private debentures of \$300.0 million and \$200.0 million at December 31, 2017, bear interest at a rate of 6.15 per cent and 3.81 per cent, respectively, payable semi-annually and mature on June 19, 2018, and December 5, 2024, respectively.

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

**SHORT TERM FINANCING**

As at December 31, 2017, ENMAX had \$207.7 million (2016 - \$nil) of Commercial Paper outstanding. The interest rate on this paper averaged 1.40 per cent (2016 – nil per cent), management expects this balance to be repaid within a year.

**PRINCIPAL REPAYMENTS**

The required repayments of principal on the long-term debt at December 31, 2017, are as follows:

**REQUIRED REPAYMENTS OF PRINCIPAL**

*As at December 31,  
(millions of dollars)*

	<b>2017</b>
Less than 1 year	<b>367.3</b>
1–3 years	<b>174.5</b>
3–5 years	<b>46.7</b>
More than 5 years	<b>993.6</b>

## 14. ASSET RETIREMENT OBLIGATIONS AND OTHER PROVISIONS

<i>(millions of dollars)</i>	Asset Retirement Obligations	Onerous Contracts and Other	Total
As at January 1, 2016	86.4	21.2	107.6
Additions	-	4.4	4.4
Settled in the year	-	(2.9)	(2.9)
Accretion expense	1.7	-	1.7
Revision in discount rate	17.3	-	17.3
As at December 31, 2016	105.4	22.7	128.1
Additions	-	16.8	16.8
Settled in the year	-	(3.5)	(3.5)
Accretion expense	1.9	-	1.9
Revision in discount rate	(20.0)	-	(20.0)
<b>As at December 31, 2017</b>	<b>87.3</b>	<b>36.0</b>	<b>123.3</b>

### Asset Retirement Obligations

The Corporation has estimated the net present value of the decommissioning liabilities associated with ENMAX Competitive Energy based on a total undiscounted future liability of \$195.1 million (December 31, 2016 - \$195.1 million) calculated using an inflation rate of 2.00 per cent (December 31, 2016 - 2.00 per cent). These payments are expected to be made between 2039 and 2071. The Corporation calculated the present value of the obligations using discount rates between 1.89 per cent and 2.23 per cent (December 31, 2016- between 1.43 per cent and 1.66 per cent) to reflect the market assessment of the time value of money.

### Onerous contracts and Other

The Corporation increased its onerous contracts provision by \$16.8 million (2016 - \$4.4 million) to reflect changes in the expected timing and amounts of certain longer term onerous contracts.

## 15. SHARE CAPITAL

<i>(millions of dollars, except share amounts)</i>	Number of Shares	Amount
Authorized:		
Unlimited number of common shares		
Issued and outstanding:		
Balance, December 31, 2016 and 2017:		
Issued on incorporation	1	-
Issued on transfer of net assets from CES	1	278.2
Issued on transfer of billing and customer care assets from the City in 2001	1	1.9
<b>Balance, December 31, 2016 and 2017</b>	<b>3</b>	<b>280.1</b>

## 16. POST-EMPLOYMENT BENEFITS

The Corporation has a registered pension plan that substantially covers all employees and includes both Defined Benefit (DB) and Defined Contribution (DC) provisions. The DB provisions provide a pension based on years of service and highest average earnings over five consecutive years of employment. DB pension benefits under the registered plan will increase annually by at least 60.00 per cent of the consumer price index for Alberta. Under the DC provisions, the employer provides a base level of contributions, and additional employer contributions are matched based on the participating members' contribution levels and points (age plus service) calculation.

The Corporation also sponsors a supplemental pension plan providing an additional DC or DB pension to members whose benefits are limited by maximum pension rules under the ITA. The supplemental pension plan benefits do not automatically increase. In addition, the Corporation provides employees with post-retirement benefits other than pensions, including extended health benefits beyond those provided by government-sponsored plans, life insurance, Health Care Spending accounts and a lump-sum allowance payable at retirement, up to age 65.

Total cash payments for employee future benefits for the year ended December 31, 2017, 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 \$21.5 million (2016 - \$22.7 million).

For the year ended December 31, 2017, the total expense for the defined contribution provisions of the plan is \$9.9 million (2016 - \$9.5 million).

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

	December 31, 2017			December 31, 2016		
	Pension Benefit Plan	Other Benefit Plan	Total	Pension Benefit Plan	Other Benefit Plan	Total
<i>(millions of dollars)</i>						
<b>Change in defined benefit obligation:</b>						
Balance, beginning of year	333.4	12.3	345.7	305.3	11.6	316.9
Current service cost	11.8	0.9	12.7	10.6	0.9	11.5
Interest cost	12.2	0.4	12.6	11.9	0.4	12.3
Employee contributions	3.5	-	3.5	3.3	-	3.3
Actuarial losses (gains)	10.6	(0.2)	10.4	19.9	-	19.9
Benefits paid	(16.0)	(0.6)	(16.6)	(17.6)	(0.6)	(18.2)
Defined benefit obligation, end of year	355.5	12.8	368.3	333.4	12.3	345.7
<b>Change in plan assets:</b>						
Fair value, beginning of year	291.1	-	291.1	277.0	-	277.0
Interest income	10.9	-	10.9	11.0	-	11.0
Return on plan assets, excluding amounts included in interest expense	14.7	-	14.7	5.1	-	5.1
Employer contributions	12.5	-	12.5	11.2	-	11.2
Employee contributions	3.5	-	3.5	3.3	-	3.3
Benefits paid	(14.4)	-	(14.4)	(16.2)	-	(16.2)
Non-investment expenses	(0.4)	-	(0.4)	(0.3)	-	(0.3)
Plan assets at fair value, end of year	317.9	-	317.9	291.1	-	291.1
<b>Funded status-plan deficit</b>						
Accrued benefit liability	(37.6)	(12.8)	(50.4)	(42.3)	(12.3)	(54.6)

**DEFINED BENEFIT COST – STATEMENT OF EARNINGS**

	December 31, 2017			December 31, 2016		
	Pension Benefit Plan	Other Benefit Plan	Total	Pension Benefit Plan	Other Benefit Plan	Total
<i>(millions of dollars)</i>						
Current service costs	11.8	0.9	12.7	10.6	0.9	11.5
Net interest on net benefit liability	1.3	0.4	1.7	0.9	0.4	1.3
Admin costs	0.4	-	0.4	0.3	-	0.3
Net benefit plan expense	13.5	1.3	14.8	11.8	1.3	13.1

**DEFINED BENEFIT COST – STATEMENT OF COMPREHENSIVE INCOME**

	December 31, 2017			December 31, 2016		
	Pension Benefit Plan	Other Benefit Plan	Total	Pension Benefit Plan	Other Benefit Plan	Total
<i>(millions of dollars)</i>						
Return on plan assets (greater) less than discount rate	(14.7)	-	(14.7)	(5.1)	-	(5.1)
Actuarial (gains) losses						
Experience adjustments	3.5	(0.2)	3.3	-	(0.2)	(0.2)
Changes in assumptions <sup>(1)</sup>	7.2	(0.1)	7.1	19.9	0.2	20.1
Re-measurement effects recognized (OCI)	(4.0)	(0.3)	(4.3)	14.8	-	14.8

<sup>(1)</sup> See changes in assumptions – Note 16(a)

The defined pension benefits plan's assets are comprised as follows:

<i>As at</i>	December 31, 2017				December 31, 2016			
	Quoted	Un-quoted	Total	In %	Quoted	Un-quoted	Total	In %
<i>(millions of dollars)</i>								
<b>Canadian equity securities</b>			<b>88.0</b>	<b>27.7%</b>			82.7	28.4%
Small company equity fund	11.2	-	11.2		10.7	-	10.7	
Canadian equity fund	76.8	-	76.8		72.0	-	72.0	
<b>Foreign equity securities</b>			<b>102.8</b>	<b>32.3%</b>			88.7	30.4%
U.S. large company equity fund	58.1	-	58.1		51.4	-	51.4	
Developed country equity fund	44.7	-	44.7		37.3	-	37.3	
<b>Fixed-income securities</b>			<b>100.5</b>	<b>31.6%</b>			96.0	33.0%
Canadian fixed-income fund	5.4	-	5.4		5.3	-	5.3	
Canadian long-duration bond fund	32.7	-	32.7		32.0	-	32.0	
Real return bond fund	16.0	-	16.0		15.9	-	15.9	
Long duration credit bond fund	29.5	-	29.5		27.0	-	27.0	
U.S. high yield bond fund	16.9	-	16.9		15.8	-	15.8	
<b>Real estate investments</b>	-	23.2	23.2	7.3%	-	22.1	22.1	7.6%
<b>Cash and cash equivalents</b>	-	2.1	2.1	0.7%	-	0.8	0.8	0.3%
<b>Non-investment asset</b>	-	1.6	1.6	0.5%	-	0.8	0.8	0.3%
<b>Total plan assets</b>			<b>318.2</b>	<b>100.0%</b>			291.1	100%

**(a) Assumptions**

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

<i>(millions of dollars)</i>	December 31, 2017		December 31, 2016	
	Pension Benefit Plan	Other Benefit Plan	Pension Benefit Plan	Other Benefit Plan
Defined benefit obligation:				
Discount rate	3.50%	3.25%	3.75%	3.25%
Inflation rate	1.80%	n/a	2.00%	n/a
Rate of compensation increase	2.80%	2.80%	3.00%	3.00%
Health care cost trend rate for next year	n/a	7.00%	n/a	7.00%
Decreasing gradually to 5% in the year	n/a	2021	n/a	2021
Average life expectancy <sup>(1)</sup>				
Male	21.7	n/a	21.5	n/a
Female	24.1	n/a	23.9	n/a
Net benefit plan expense:				
Discount rate	3.75%	3.25%	4.00%	3.50%
Inflation rate	2.00%	n/a	2.25%	n/a
Rate of compensation increase	3.00%	3.00%	3.25%	3.25%
Health care cost trend rate for next year	n/a	7.00%	n/a	7.00%
Decreasing gradually to 5% in the year	n/a	2021	n/a	2021

<sup>(1)</sup> The average life expectancy for a 65 year old based on the mortality tables used for year-end disclosures.

The per capita cost of covered dental benefits was assumed to increase by 4.50 per cent per year (2016 – 4.50 per cent).

The sensitivity of the defined benefit obligation (DBO) to changes in assumptions is set out below. The effects on each plan of a change in an assumption are weighted proportionately to the total plan obligations to determine the total impact for each assumption presented.

**SENSITIVITIES OF ASSUMPTIONS**

<i>(millions of dollars)</i>	December 31, 2017		
	Change in assumption	Increase	Decrease
<b>Impact on Pension Benefit Plan DBO</b>			
Discount rate	1%	(52.2)	68.7
Rate of compensation increase	1%	8.8	(8.6)
Inflation rate	1%	28.0	(25.8)
Life expectancy	1 year	7.9	(8.1)
<b>Impact on Other Benefit Plan DBO</b>			
Discount rate	1%	(0.1)	1.2
Rate of compensation increase	1%	0.4	(0.4)
Health care cost trend rate	1%	(0.4)	0.4
Life expectancy	1 year	-	n/a

Each sensitivity analysis disclosed in this note is based on changing one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to variations in significant actuarial assumptions, the same method (present value of the DBO calculated with the projected unit credit method at the end of the reporting period) has been applied as for calculating the liability recognized in the statement of financial position.

**(b) Maturity analysis**

An actuarial valuation was performed as of December 31, 2016. The aggregate solvency deficit in the Corporation’s funded pension plans amounted to \$28.8 million. The Corporation will make special payments for past service of \$5.5 million annually to fund the defined pension benefits plans’ deficit over 5 years. Current agreed service contributions is 11.08 per cent of pensionable salaries and continue to be made in the normal course. Total expected contributions to post-employment benefit plans for the year ending December 31, 2018 (including the past service contributions) are \$11.5 million.

The weighted average duration of the defined benefit obligation for the pension benefit plan and the other benefit plan is 17.0 years and 8.7 years respectively (2016: 13.8 years and 8.6 years).

Expected maturity analysis of undiscounted pension and other benefit plans:

	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
Defined pension benefit plan	17.5	37.6	37.0	99.9	192.0
Other benefit plans	1.0	2.2	2.1	4.8	10.1
<b>At December 31, 2017</b>	<b>18.5</b>	<b>39.8</b>	<b>39.1</b>	<b>104.7</b>	<b>202.1</b>

**(c) Risk assessment**

Funding risk

The primary risk associated with the DB pension for the plan sponsor is the risk that investment asset growth and contribution rates will not be sufficient to cover pending funding obligations, resulting in unfunded liabilities.

Alberta registered plans are required to file funding valuations on a triennial basis with a few exceptions. If the going concern funded status is less than 85.00 per cent, a plan may be required to file an annual valuation. Based on the 2016 pension valuation, the DB Provisions are 1.18 per cent funded on a going-concern basis and 90.97 per cent on a solvency basis. The funding ratio is monitored on an ongoing basis. The next valuation will be completed for December 31, 2019, and the report is expected to be completed by the end of May 2020.

Investment risk

The Corporation makes investment decisions for its funded plan based on an asset-liability matching analysis reflecting the results of its aforementioned funding valuations. The Corporation attempts to achieve investment returns in excess of its liabilities by setting an asset-allocation target based on risks and returns. This targeted asset allocation is recorded in ENMAX Pension Plan Statement of Investment Policies and Procedures (SIPP). The plan’s asset portfolio is regularly monitored to ensure compliance to the SIPP, as well as its performance as compared to a liability benchmark intended to approximate the growth in the plan’s future obligations. Given the likely significant shortening of the liability structure with the passage of time, the continuing appropriateness of the plan’s asset allocation is evaluated at least once every three years.

**17. DEFERRED REVENUE**

Revenues arising from the recognition of CIAC was \$16.2 million for the year ended December 31, 2017 (2016 - \$14.1 million).

## 18. ACCUMULATED OTHER COMPREHENSIVE LOSS

<i>As at</i> (millions of Canadian dollars)	December 31, 2017	December 31, 2016
Net unrealized gains (losses) on derivatives designated as cash flow hedges, including deferred income tax expense of \$11.3 million (December 31, 2016-recovery of \$22.3 million)	17.9	(78.5)
Net actuarial (losses) on defined benefit plans, including deferred income tax recovery of \$0.4 million (December 31, 2016-recovery of \$0.1 million)	(6.2)	(10.8)
Accumulated other comprehensive (losses), including deferred income tax expense of \$10.9 million (December 31, 2016-recovery of \$22.4 million)	11.7	(89.3)

## 19. OTHER REVENUE AND EXPENSES

### OTHER REVENUE

<i>Year ended December 31,</i> (millions of dollars)	2017	2016
Contractual services	120.9	114.4
Interest and penalty revenue	9.5	9.6
Amortization of CIAC	16.2	14.1
Settlement of historical commercial disputes	14.6	-
Miscellaneous	14.8	12.0
	176.0	150.1

### OTHER EXPENSES

<i>Year ended December 31,</i> (millions of dollars)	2017	2016
Salaries and wages	219.1	224.3
Materials and supplies	26.9	27.4
Goods and services	96.0	92.3
Administrative and office expenses	12.0	11.2
Building expense	53.7	53.6
Vehicles and other	34.1	17.4
Foreign exchange losses (gains)	11.2	(1.5)
	453.0	424.7

## 20. JOINT ARRANGEMENTS

Significant joint operations included in the consolidated financial statements at December 31, 2017 are listed below.

Significant Joint Operations	Operating Jurisdiction	Ownership Percent	Principal Activity
McBride Lake Wind Facility	Canada	50%	Wind turbine generating facility
Shepard Energy Centre	Canada	50%	Gas-fueled generating facility
Balzac Power Station	Canada	50%	Gas-fueled generating facility
Genesee 4 and 5	Canada	50%	Gas-fueled generating project

## 21. DIVIDENDS

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

## 22. FINANCE CHARGES

<i>Year ended December 31, (millions of dollars)</i>	<b>2017</b>	<b>2016</b>
Accretion expense	1.9	1.7
Interest expense - pension	1.7	1.2
Interest on long-term debt	71.7	74.3
Short-term interest and other financing charges	3.0	2.9
Less: capitalized borrowing costs	(7.9)	(5.2)
	<b>70.4</b>	<b>74.9</b>

## 23. CHANGE IN NON-CASH WORKING CAPITAL

<i>As at (millions of dollars)</i>	<b>2017</b>	<b>2016</b>
Accounts receivable	(122.1)	(2.7)
Regulatory deferral account debit balances	(36.4)	(5.3)
Other assets	(21.6)	(48.5)
Accounts payable and accrued liabilities	(7.5)	(4.7)
Regulatory deferral account credit balances	(8.3)	4.2
Other liabilities	(19.4)	5.6
Provisions	13.2	1.6
Change in non-cash working capital	<b>(202.1)</b>	<b>(49.8)</b>

## 24. 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

<i>Year ended December 31, (millions of dollars)</i>	<b>2017</b>	<b>2016</b>
Revenue <sup>(1)</sup>	141.1	127.1
Local access fees and other expenses <sup>(2)</sup>	102.9	93.7

<sup>(1)</sup> 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.

<sup>(2)</sup> This cost is passed through the Corporation directly to transmission and distribution customers.

### STATEMENTS OF FINANCIAL POSITION

<i>As at December 31, (millions of Canadian dollars)</i>	<b>2017</b>	<b>2016</b>
Accounts receivable	36.0	21.6
Other long-term assets	0.6	1.3
Property, plant and equipment <sup>(1)</sup>	3.6	3.7
Accounts payable and accrued liabilities	9.4	9.8
Long-term debt <sup>(2)</sup>	1,078.5	1,145.2
Other long-term liabilities <sup>(3)</sup>	6.7	7.0

<sup>(1)</sup> Assets under lease.

<sup>(2)</sup> Interest and principal payments for the year ended December 31, 2017 were \$42.7 million (2016 - \$45.1 million) and \$66.7 million (2016 - \$65.9 million) respectively. In addition, for the year ended December 31, 2017, the Corporation paid a management fee of \$2.8 million (2016 - \$2.8 million) to the City.

<sup>(3)</sup> Finance lease obligation.

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

**Compensation of key management**

The Corporation’s key management personnel are members of the Board of Directors and the executive management team considered to have the authority and responsibility for planning, directing and controlling the activities at the Corporation.

The total compensation and remuneration paid by the Corporation and its subsidiary companies to key management personnel is presented below:

**Year ended December 31,**  
*(millions of dollars)*

	<b>2017</b>	<b>2016</b>
Salaries and other short-term employee benefits	<b>7.0</b>	6.7
Other long-term benefits	<b>3.0</b>	2.8
Retirement and post-employment benefits	<b>0.6</b>	0.4
	<b>10.6</b>	9.9

**25. COMMITMENTS AND CONTINGENCIES**

The Corporation is committed to expenditures for capital additions, rent for premises, vehicles and equipment under multiple lease contracts with varying expiration dates.

The Corporation commits to the purchase of renewable energy certificates and carbon offset credits. The Corporation commits to long-term service arrangements on certain generating assets.

The aggregated minimum payments under these arrangements over the next five years and thereafter are as follows:

*(millions of dollars)*

2018	88.7
2019	61.7
2020	58.7
2021	13.8
2022	11.5
Thereafter	61.0

**HISTORICAL TRANSMISSION LINE LOSS CHARGES**

The Corporation is participating in various proceedings regarding the AESO’s 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). The AUC issued its decision on the last module, Module C, on December 18, 2017. The AUC’s decisions in each of Module A, B and C are the subject of permission to appeal applications before the Alberta Court of Appeal as well as review and variance applications before the AUC.

No provision has been recognized with respect to the above matter at this time as, with respect to currently held assets, the amount owing is expected to be \$nil.

## **INCOME TAX**

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

When Alberta Finance conducted its 2006 audit of ENMAX Energy Corporation and ENMAX PSA Corporation, it disagreed with the interest expense deducted on the PILOT returns. ENMAX Corporation entered into intercompany loans with its affiliates ENMAX Energy Corporation in 2004 and ENMAX PSA Corporation in 2006 and 2007. ENMAX has received reassessments and communications from Alberta Finance in respect of the taxation years from 2004 through 2013. This matter was heard before the Court of Queen's Bench of Alberta with a decision rendered in favour of ENMAX on June 17, 2016. Following this decision, the Crown appealed and the appeal was heard by the Court of Appeals of Alberta on October 12, 2017. A decision is expected in 2018.

There remain other concerns for which ENMAX and Alberta Finance are in disagreement but communications between both parties are ongoing. ENMAX has taken the necessary steps to defend its positions through the formal appeals and litigation process.

The Corporation regularly reviews the potential for adverse outcomes in respect of tax matters and believes it has adequate provisions for these tax matters. The determination of the income tax provision is an inherently complex process, requiring management to interpret continually changing regulations and to make certain judgments. Although there can be no assurance that the disputes will be resolved in the Corporation's favor, the Corporation does not believe that the outcome of these disputes will have a material adverse effect on its financial position.

## **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.

## **ENVIRONMENTAL**

Provincial regulations aimed at reducing the levels of greenhouse gas (GHG) emissions took effect July 2007 and were subsequently updated in June 2015 for the years 2016-17. Due to the change of law provisions in ENMAX Competitive Energy's PPAs and tolling agreements, ENMAX Competitive Energy is exposed to the associated compliance costs. This policy has not been drafted into legislation and this impact may vary depending on the final tabled legislation. This policy announcement has no material financial impact to the Corporation's fleet of gas -fueled assets.

For the year ended December 31, 2017, the consolidated financial statements include a charge to earnings in the amount of \$3.9 million (2016-\$7.8 million) included in costs of electricity services provided, relating to estimated compliance costs under the provincial GHG regulations for ENMAX Competitive Energy's interests in coal and natural gas-fueled generation facilities through its PPAs and owned assets. Compliance payments are due to the Province of Alberta, directly or via plant owners, by June 30 of the year following the compliance year. ENMAX Competitive Energy has taken steps, including acquiring qualified offset credits from both its wind-generation assets and purchases on the wholesale market, to mitigate impacts of the GHG regulations.

## LETTERS OF CREDIT

In the normal course of operations, letters of credit are issued to facilitate the extension of sufficient credit for counterparties having credit exposure to the Corporation or its subsidiaries. The Corporation uses unsecured credit facilities to fund general operating requirements and to provide liquidity support for commercial paper and commodity marketing programs. As at December 31, 2017, the Corporation had issued letters of credit amounting to \$262.3 million (December 31, 2016-\$244.6 million).

<b>As at</b> <i>(millions of dollars)</i>	<b>December 31, 2017</b>		<b>December 31, 2016</b>	
	<b>Available</b>	<b>Used</b>	<b>Available</b>	<b>Used</b>
Unsecured credit facilities				
Bilateral operating facilities	<b>600.0</b>	<b>262.3</b>	600.0	244.6
Syndicated credit facilities	<b>250.0</b>	-	250.0	-
	<b>850.0</b>	<b>262.3</b>	850.0	244.6

## 26. SUBSEQUENT EVENTS

### DIVIDEND

On March 15, 2018, the Corporation declared a dividend of \$40.0 million payable to the City in quarterly instalments during 2018.

### RESOLUTION OF POWER PURCHASE ARRANGEMENTS (PPA) LITIGATION

ENMAX terminated the Battle River PPA on January 1, 2016 and the Keephills PPA on May 5, 2016. On July 25, 2016, the Attorney General of Alberta filed an application with the Court of Queen's Bench seeking various remedies relating to the interpretation of certain terms within the PPAs and related regulations (Alberta Application) and relating to the Balancing Pool's decision to accept the Battle River PPA termination. ENMAX PPA Management Inc., an affiliate of ENMAX, was a named respondent in the Alberta Application.

On March 9, 2018, the Government of Alberta dismissed the Alberta Application against all parties, including ENMAX. In connection with this, ENMAX agreed to transfer 166,667 carbon offset credits to the Balancing Pool during 2018 and the Balancing Pool paid ENMAX \$5.0 million in relation to previously disputed and unpaid dispatch services and PPA transition matters.

## 27. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation. Refer to Note 6 for further information.

**GLOSSARY OF TERMS**

<b>AC</b>	Audit Committee	<b>FX</b>	Foreign exchange
<b>ACFA</b>	Alberta Capital Finance Authority	<b>GHG</b>	Greenhouse gas
<b>ACTA</b>	Alberta Corporate Tax Act	<b>GJ</b>	Gigajoule
<b>AESO</b>	Alberta Electric System Operator	<b>GWh</b>	Gigawatt hour
<b>Alberta Finance</b>	Alberta Finance, Tax and Revenue Administration	<b>IBEW</b>	International Brotherhood of Electrical Workers
<b>AQMS</b>	National Air Quality Management System	<b>ICFR</b>	Internal control over financial reporting
<b>AUC</b>	Alberta Utilities Commission	<b>IFRS</b>	International Financial Reporting Standard
<b>BLIERS</b>	Base level industrial emissions Requirements	<b>ITA</b>	Income Tax Act (Canada)
<b>Board Corporation</b>	ENMAX's Board of Directors ENMAX Corporation and its subsidiaries	<b>JVA</b>	Joint venture agreement
<b>CES</b>	Calgary Electric System	<b>LLR</b>	Line Loss Rule
<b>CCEMA</b>	Change and Emissions Management Amendment	<b>MD&amp;A</b>	Management's Discussion and Analysis
<b>CIAC</b>	Contributions in aid of construction	<b>MSA</b>	Market Surveillance Administrator
<b>CPA Handbook</b>	Canadian Professional Accountants Handbook	<b>MW</b>	Megawatt
<b>CRMC</b>	Commodity Risk Management Committee	<b>MWh</b>	Megawatt hour
<b>CUPE</b>	The Canadian Union of Public Employees	<b>NOx</b>	Nitrogen oxide
<b>DAS</b>	Distribution Access Services	<b>OCI</b>	Other comprehensive income
<b>DB</b>	Defined benefit	<b>OM&amp;A</b>	Operations, maintenance and administration
<b>DBO</b>	Defined benefit obligation	<b>PBR</b>	Performance based regulation
<b>DC</b>	Defined contribution	<b>PILOT</b>	Payment in lieu of tax
<b>Divisions</b>	ENMAX Transmission and ENMAX Distribution	<b>PPA</b>	Power purchase arrangement
<b>EBIT</b>	Earnings before interest and income taxes	<b>PPE</b>	Property, plant and equipment
<b>EBITDA</b>	Earnings before interest, income tax and depreciation and amortization	<b>RMC</b>	Risk Management Committee
<b>EMS</b>	Environmental management system	<b>ROE</b>	Return on equity
<b>ENMAX</b>	ENMAX Corporation and its subsidiaries	<b>RRO</b>	Calgary Regulated rate option
<b>ERM</b>	Enterprise risk management	<b>SaaS</b>	Software as a service
<b>EUA</b>	Alberta Electric Utilities Act	<b>SAIDI</b>	System average interruption duration index
<b>FFO</b>	Funds from operations	<b>SAIFI</b>	System average interruption frequency index
<b>FVTPL</b>	Fair value through profit or loss	<b>SGER</b>	Specified Gas Emitters Regulation
		<b>Shepard</b>	Shepard Energy Centre
		<b>SIPP</b>	Statement of Investment Policies and Procedures
		<b>SO2</b>	Sulphur dioxide
		<b>The City</b>	The City of Calgary
		<b>WACC</b>	Weighted average cost of capital
		<b>WPC</b>	Wind Participation Consortium

## **ADDITIONAL INFORMATION**

ENMAX welcomes questions from stakeholders.

Additional information relating to ENMAX can be found at [enmax.com](http://enmax.com).

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