



# ENMAX CORPORATION

## Q1 2019 INTERIM REPORT

### 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This MD&A, dated May 23, 2019, is a review of the results of operations of ENMAX Corporation and its subsidiaries ('the Corporation') for the three months ended March 31, 2019, compared with 2018, and of the Corporation's financial condition and future prospects. This MD&A should be read in conjunction with the Q1 2019 Condensed Consolidated Interim Financial Statements and the 2018 ENMAX Financial Report, which is available on ENMAX's website at [www.enmax.com](http://www.enmax.com), as information has been omitted from this MD&A if it remains substantially unchanged.

ENMAX's Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The Condensed Consolidated Interim Financial Statements and MD&A were reviewed by ENMAX's Audit Committee, and were approved by ENMAX's Board of Directors. 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 the Corporation and its 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.

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Glossary of terms can be found on page 37 of the Condensed Consolidated Interim Financial Statements.

## MARKET CONDITIONS

The Alberta power market pool price settled at \$70.73 per megawatt hour (MWh) for the first quarter of 2019 representing a 103 per cent increase over the same period in 2018 when the average was \$34.81 per MWh. Spark spreads settled at \$52.43 for the first quarter of 2019 compared to \$20.15 for the same period in 2018. Strong power prices in February were driven by strong demand linked to protracted extremely cold weather, coal unit forced outages, low wind generation and strong prices in the inter-connected U.S. Pacific Northwest. ENMAX's hedging strategy secures significant margins before entering the year, offering protection from decreasing power prices while maintaining some ability to capitalize on price increases.

Alberta demand (load) averaged 10,305 MW in the first quarter of 2019, which is less than a 1 per cent increase over the same quarter in 2018. ENMAX's business model, which includes making, moving and marketing electricity, benefits from demand growth through increases in generator revenue, retail sites and distribution rate base.

Alberta natural gas prices averaged \$2.44 per gigajoule (GJ) for the first quarter in 2019, which is a 25 per cent increase compared to the average for the first quarter of 2018. Higher gas prices in the first quarter of 2019 were driven by extreme weather experienced in the period. Despite colder average temperatures to date, natural gas prices are expected to be weak in the near term as maintenance on the Nova Gas Transmission Ltd. system (NGTL) is expected to continue until 2021/2022, restricting access to export markets and gas storage. Lower natural gas prices are generally positive for ENMAX's portfolio of natural gas-fuelled power plants; however, the continued pipeline restrictions pose gas delivery risk to ENMAX's assets, which could create financial and operational challenges.

As a result of the provincial election in April 2019, the United Conservative Party became the majority government. Their platform includes statements regarding several topics that will affect aspects of the Alberta electricity market including carbon pricing mechanisms and the timing and/or introduction of the capacity market. Regulatory proceedings related to the electricity capacity market are currently underway and are expected to continue through 2019. The first capacity market auction is targeted to occur in 2020 with the first delivery period scheduled to begin at the end of 2021. ENMAX is continuing to evaluate the potential impact of the various scenarios on its business and customers, including whether the capacity market will proceed as planned.

## FINANCIAL PERFORMANCE

Management believes that a measure of operating performance is more meaningful if the impact of specific items is excluded from the adjusted financial information. As a result, the table below presents ENMAX's adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA), adjusted earnings before interest and taxes (Adjusted EBIT) and comparable net earnings. These financial metrics exclude onerous provisions (recoveries) on long-term contracts, foreign exchange gains (losses), unrealized gains (losses) on commodities where settlement on derivatives will occur in a future period and Emera Maine acquisition related costs (see Significant Events section). Refer to the Non-IFRS Financial Measures section on page 9 for definitions and further descriptions of the financial measures.

### SELECTED CONSOLIDATED FINANCIAL INFORMATION

#### Three months ended March 31,

(millions of Canadian dollars)

	2019	2018
Total revenue	712.4	568.1
Adjusted EBITDA <sup>(1)(2)</sup>		
Competitive Energy	71.8	64.3
Power Delivery	60.5	48.1
Corporate and Eliminations	(0.7)	(9.7)
Consolidated	131.6	102.7
Adjusted EBIT <sup>(1)(2)</sup>		
Competitive Energy	40.5	34.2
Power Delivery	31.1	21.1
Corporate and Eliminations	0.3	(9.6)
Consolidated	71.9	45.7
Comparable net earnings <sup>(1)(2)(3)</sup>	47.1	31.5
Net earnings (loss)	74.2	(123.1)
Free cash flow (FCF) <sup>(1)(4)</sup>	138.1	(13.6)
Capital expenditures	101.0	79.7

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

<sup>(2)</sup> Does not include:

- Realized and unrealized foreign exchange gains of \$0.7 million (2018 - \$6.3 million gains) for the three months ended March 31, 2019.
- Unrealized electricity and gas mark-to-market for the three months ended March 31, 2019 of \$31.3 million gains (2018 - \$10.2 million losses).
- Onerous provision of nil (2018 - \$12.5 million recovery) for the three months ended March 31, 2019.
- Emera Maine acquisition related costs of \$4.9 million (2018 - nil) for the three months ended March 31, 2019, including \$2.6 million related to finance charges that are included in calculating Comparable net earnings.

<sup>(3)</sup> Does not include a one-time tax adjustment of nil (2018 - \$164.3 million expense) for the three months ended March 31, 2019.

<sup>(4)</sup> FCF is calculated for the twelve months ended March 31, 2019 and 2018 respectively.

Total revenue for the three months ended March 31, 2019 has increased by \$144.3 million from the comparable period in 2018. This strong growth is related to conditions in the Alberta electricity market (see Market Conditions section) that have increased the price we receive from our customers, with the majority of the change due to customers who have not selected a competitive fixed price electricity contract and are exposed to volatile market prices. ENMAX has also seen revenue growth in our transmission and distribution segment related to our regulated revenues.

ENMAX's Adjusted EBIT increased by \$26.2 million for the three months ended March 31, 2019, as compared with the three months ended March 31, 2018. For the first quarter of 2019, ENMAX has had strong, stable growth through its business segments by taking advantage of favourable market conditions, continued monitoring of regulatory environments and implementation of strategic initiatives. The primary drivers for the change in Adjusted EBIT were as follows:

- ENMAX Competitive Energy (Competitive Energy) – For the three months ended March 31, 2019, Competitive Energy achieved a higher Adjusted EBIT compared to the prior period on higher electricity margins due to capturing higher spark spreads offered in the Alberta electricity market in 2019. With respect to natural gas products, Competitive Energy realized higher margins due to increased sales to customers. The power services business executed additional projects compared to the prior period. Operational costs for the three months ended March 31, 2019, compared to the same period in 2018, were higher due to general cost increases across Competitive Energy.
- ENMAX Power Delivery (Power Delivery) – The regulated business continues to grow through investment and an increase in customer sites. This is largely a result of the Calgary service area's need to replace its aging infrastructure and continued growth. The increase in transmission and distribution margins over 2018 resulted largely from the timing of an early Alberta Utilities Commission (AUC) decision approving the interim Transmission Compliance filing in the first quarter of 2019.
- ENMAX Corporate and Eliminations (Corporate and Eliminations) – This segment experienced higher adjusted EBIT for the three months ended March 31, 2019 compared to the comparative period. This change is primarily the result of organizational process changes that were prospectively applied in the third quarter of 2018, which has no impact on the consolidated results of the Corporation.

ENMAX's net earnings for the three months ended March 31, 2019 were \$74.2 million as compared with a net loss of \$123.1 million in the comparable period in 2018. The main driver for the prior year's net loss was a one-time tax adjustment. In addition, in the three months ended March 31, 2019, the Corporation recorded \$31.3 million in unrealized gains, compared to \$10.2 million unrealized losses in the comparable period, on commodities where settlement on derivatives will occur in a future period.

As at March 31, 2019, ENMAX's balance sheet continued to show strength as the Corporation carefully manages debt to cash flow ratios as well as capital investment. ENMAX's prudent balance sheet management has enabled the Corporation to continue to achieve growth and profitability in the uncertain economic environment.

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.

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

## SIGNIFICANT EVENTS

### EMERA MAINE ACQUISITION

On March 25, 2019, the Corporation announced that it had entered into a definitive agreement to acquire Emera Maine, a regulated electric transmission and distribution company in Maine, for a purchase price of \$1,286 million. Including assumed debt, the aggregate enterprise value is expected to be approximately \$1,800 million. This transaction is aligned with the Corporate strategy to grow regulated cash flows and diversify revenue streams within North America. The acquisition will raise regulated rate base by approximately 50 per cent and increase the portion of future cash flows from regulated and non-commodity sources to 70 per cent. ENMAX intends to finance this transaction through a combination of a two-year bank loan, which is intended to be repaid before maturity, and private notes.

### TAX LITIGATION UPDATE

On April 26, 2018, the Alberta Court of Appeal issued its decision relating to interest expense deductions by ENMAX Energy Corporation and ENMAX PSA Corporation. ENMAX had filed an application with the Supreme Court of Canada seeking leave to appeal. On February 28, 2019 the Supreme Court of Canada dismissed the application (see Income Tax section).

## ENMAX COMPETITIVE ENERGY BUSINESS AND UPDATE

Competitive Energy is an integrated business providing customers with electricity, natural gas, distributed energy resource solutions, and engineering, procurement and construction services. Our competitive advantage is our ability to hedge our generation assets through our retail business, the largest in Alberta by number of customers and energy consumed. The competitive retail business provides customers with fixed-price electricity linked to our wind and gas-fuelled generation assets, and provides opportunities to offer additional energy services, such as solar installations and thermal energy. As at March 31, 2019, Competitive Energy's capacity ownership interest was 1,509 MW of electricity generation: 1,289 MW from natural gas-fuelled plants, 217 MW from wind power and 3 MW from combined heat and power (CHP) generation.

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

### KEY BUSINESS STATISTICS

Three months ended March 31,	2019	2018
Plant availability (%) <sup>(1)</sup>	97.48	97.74
Average flat pool price (\$/MWh)	70.73	34.81
Spark spread (\$) <sup>(2)</sup>	52.43	20.15

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

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

Plant availability was largely consistent with the prior period; both periods experienced minor outages.

During the first three months of 2019, the average flat pool power price increased compared to the same period in 2018. This was primarily due to the extreme temperatures Alberta experienced during February 2019 which increased demand in a tightened supply market.

Spark spread, which is the difference between the wholesale electricity price and the price of natural gas to produce the electricity, represents the gross margin contribution of a gas-fuelled power plant from generating an unhedged unit of electricity. The improvement from 2018 levels is driven by the extreme weather experienced in February 2019 having a much higher impact on the average flat pool prices than the price of natural gas.

ENMAX manages its portfolio to deliver on our cash flow targets by using a combination of retail sales and forward markets with hedges. This reduces volatility of cash flows with respect to the market prices. However, due to our hedging and contracting strategies, the impact of in-year price movements is tempered given our strategy to smooth cash flows over time.

## ENMAX POWER DELIVERY BUSINESS AND UPDATE

Power Delivery's highest priorities are providing safe, reliable and efficient delivery of electricity to its customers.

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 can include capacity upgrades to existing substations, existing transmission lines, new substations, and new transmission lines to deliver reliable electricity to meet Calgary's growing demand.

Power Delivery submits applications to the AUC to request approval for construction or replacement of utility-related facilities, and to set rates for providing electric energy delivery-related services to its customers, among other things.

- On March 5, 2019, the AUC issued a decision approving \$22.7 million for 2017 capital related revenue, inclusive of certain interim placeholders which will be decided upon in future proceedings. Relative to 2018 approved interim rates, this resulted in increased revenue of \$4.0 million for 2019.
- On March 1, 2019, the AUC issued a decision disallowing recovery of capital revenue related to costs incurred for conductors and underground cables during 2015 - 2016. Relative to 2018 approved rates, the impact of this decision is a decrease to 2019 revenue of \$4.4 million.
- On February 14, 2019, the AUC initiated a second review phase in response to utilities' requests for proposed anomaly adjustments used to establish 2019 Performance Based Regulation (PBR) rates for distribution utilities. This review phase comes in response to the utilities' applications for a review and variance decision by the AUC regarding the Generic PBR decision issued by the AUC on February 5, 2018, denying utilities' requests for proposed anomaly adjustments.
- On February 12, 2019, the AUC approved the 2019 Interim Transmission Tariff Application of \$89.9 million, effective May 1, 2019, which resulted in \$8.7 million higher revenue than the 2017 interim Transmission tariff that was in place prior to this decision.
- On December 21, 2018, the AUC issued a decision approving 2019 PBR distribution rates on an interim basis and distribution tariff terms and conditions for the period of January 1, 2019 to December 31, 2019, which resulted in \$1.0 million additional 2019 revenue due to a rate adjustment.
- On December 12, 2018, the 2018-2020 Transmission General Tariff Application was filed with the AUC requesting final approval of forecast revenue requirements of \$85.7 million, \$95.7 million, and \$106.4 million in 2018, 2019 and 2020, respectively.

- On November 2, 2018, ENMAX Power Delivery filed an application for approval to recover approximately \$14.2 million of distribution costs related to The City of Calgary's Green Line LRT Project for the period of 2020 to 2022.

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

## KEY BUSINESS STATISTICS

Three months ended March 31,	2019	2018
Distribution volumes in Gigawatt Hours (GWh)	2,431	2,434
System average interruption duration index (SAIDI) <sup>(1)</sup>	0.07	0.10
System average interruption frequency index (SAIFI) <sup>(2)</sup>	0.14	0.12

<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 to date in 2019 was slightly lower than the prior year as a result of an overall decrease in customer usage over the first three months of 2018.

When compared to other Canadian Electricity Association member utilities with first quarter performance, ENMAX has remained one of the most reliable transmission and distribution utilities in Canada. SAIFI is moderately unfavourable compared to the same period in 2018 due to increased cable failures. ENMAX continues to monitor the cause of these to mitigate increasing occurrences. SAIDI is favourable compared to the same period in 2018 as fewer scheduled outages were necessary.

## ENMAX FINANCIAL RESULTS

### ADJUSTED EARNINGS BEFORE INTEREST AND INCOME TAXES (ADJUSTED EBIT) COMPARED WITH THE SAME PERIOD IN 2018

For the three months ended March 31, (millions of Canadian dollars)	Competitive Energy	Power Delivery	Corporate	Consolidated
Adjusted EBIT <sup>(1)</sup> for the period ended March 31, 2018	34.2	21.1	(9.6)	45.7
Increased (decreased) margins attributable to:				
Electricity	10.7	-	(0.1)	10.6
Natural gas	0.9	-	-	0.9
Transmission and distribution	-	7.2	-	7.2
Contractual services and other	4.8	(0.1)	5.1	9.8
Decreased (increased) expenses:				
Operations, maintenance & administration (OM&A) <sup>(2)</sup>	(8.9)	5.3	4.0	0.4
Depreciation and amortization	(1.2)	(2.4)	0.9	(2.7)
Adjusted EBIT <sup>(1)</sup> for the period ended March 31, 2019	40.5	31.1	0.3	71.9

<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 three months ended March 31, 2019 increased by \$10.6 million or 13 per cent, compared to the same period in 2018. The favourable variance is due to the positive impact of spark spreads on our uncontracted positions. Our risk mitigation strategies, which resulted in the contracting of a majority of our market position, continue to deliver most of our margin with less exposure to volatility of spark spreads. Offsetting this somewhat, our competitive products were impacted by higher cost of goods sold and the impact of Bill 16 (An Act to Cap Regulated Electricity Rates, implemented June 1, 2017).



Natural gas margins for the three months ended March 31, 2019 increased \$0.9 million or 4 per cent compared to the first three months of 2018. The increase was primarily due to higher retail consumption volumes as a result of increased site acquisitions.

For the three months ended March 31, 2019, transmission and distribution margins increased \$7.2 million or 10 per cent compared to the same period in 2018. The favourable variance was largely due to changes resulting from the AUC approved 2019 interim Transmission Compliance filing.

Contractual services and other margins increased \$9.8 million or 71 per cent for the three months ended March 31, 2019 when compared to the same period in the prior year. The favourable variance was primarily due to increased power services activity compared to lower volumes experienced in the first quarter of 2018.

OM&A for the three months ended March 31, 2019 decreased \$0.4 million or less than 1 per cent when compared to the same period in 2018. The favourable variance is the result of decreased salary costs as a result of strategic restructuring at the end of 2018, partially offset by slightly higher other OM&A costs.

During the three months ended March 31, 2019, the Corporation recorded \$4.9 million in Emera Maine acquisition related costs, of which \$2.6 million are related to finance charges.

Depreciation and amortization expense increased \$2.7 million or 5 per cent compared to the same period in 2018. The increase was consistent with capital asset additions in the period.

## **OTHER NET EARNINGS ITEMS**

Finance charges for the three months ended March 31, 2019 increased \$2.9 million or 2 per cent compared to the same period in 2018 primarily driven by \$2.6 million in financing costs related to the Emera Maine acquisition.

The calculation of the Corporation's current and deferred income taxes involves a degree of estimation and judgment. The carrying value of deferred income tax assets is reviewed at the end of each reporting period. For the three months ended March 31, 2019, 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 various tax disputes.

The Corporation recorded a current and deferred income tax expense of \$7.1 million for three months ended March 31, 2019 compared to a \$160.1 million expense in 2018 when the Corporation recorded the impact of the Alberta Court of Appeal decision in the first quarter of 2018.

## **OTHER COMPREHENSIVE INCOME AND SHAREHOLDER'S EQUITY**

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 revenues and expenses, as well as re-measurement gains and losses on pension retirement benefits.

For the three months ended March 31, 2019, OCI had total gains of \$12.8 million, compared with gains of \$27.9 million for the same period in 2018. The OCI gains primarily reflect the favourable fair value changes in electricity and commodity positions. This is partially offset by the reclassification of gains on derivative instruments to net earnings.

Accumulated other comprehensive income (loss) is reflected in shareholder's equity along with retained earnings and share capital. Retained earnings for the period increased \$24.2 million largely from the net earnings recognized in 2019, partially offset by dividends on common shares.

## NON-IFRS FINANCIAL MEASURES

The Corporation uses Adjusted EBITDA, Adjusted EBIT, comparable net earnings, and free cash flow (FCF) 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.

### ADJUSTED EBITDA

<b>For the three months ended March 31,</b> <i>(millions of Canadian dollars)</i>		
	<b>2019</b>	<b>2018</b>
<b>Net earnings (loss) (IFRS financial measure)</b>	<b>74.2</b>	<b>(123.1)</b>
Add (deduct):		
Unrealized (gains) losses on commodities	<b>(31.3)</b>	10.2
Foreign exchange (gains)	<b>(0.6)</b>	(6.3)
Costs related to the acquisition of Emera Maine	<b>2.3</b>	-
Onerous provision (recovery)	-	(12.5)
Net income tax expense (recovery) on unrealized (gains) losses on commodities, and foreign exchange (gains)	<b>2.5</b>	(1.1)
One-time tax adjustment	-	164.3
<b>Comparable net earnings (non-IFRS financial measure)</b>	<b>47.1</b>	<b>31.5</b>
Add (deduct):		
Depreciation and amortization	<b>59.7</b>	57.0
Finance charges related to the acquisition of Emera Maine	<b>2.6</b>	-
Remaining finance charges	<b>17.6</b>	17.3
Remaining income tax expense (recovery)	<b>4.6</b>	(3.1)
<b>Adjusted EBITDA (non-IFRS financial measure)</b>	<b>131.6</b>	<b>102.7</b>

Management considers Adjusted EBITDA a useful measure of business performance, as it provides an indication of the cash flow results generated by primary business activities without consideration of how those activities are financed and amortized, or how the results are taxed. Adjusted EBITDA is also used to evaluate certain debt coverage ratios.

Adjusted EBITDA excludes the impact for unrealized (gains) losses on commodities, foreign exchange (gains) losses, Emera Maine acquisition related costs, and (recoveries) of onerous provisions from the adjusted operating profit. Management believes that a measure of operating performance is more meaningful if results not related to normal operations, such as onerous provisions on long-term contracts, foreign exchange (gains) losses, 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 under IFRS.

## ADJUSTED EBIT

<b>For the three months ended March 31,</b> <i>(millions of Canadian dollars)</i>		
	<b>2019</b>	<b>2018</b>
<b>Net earnings (loss) (IFRS financial measure)</b>	<b>74.2</b>	<b>(123.1)</b>
Add (deduct):		
Unrealized (gains) losses on commodities	<b>(31.3)</b>	10.2
Foreign exchange (gains)	<b>(0.6)</b>	(6.3)
Finance charges	<b>17.6</b>	17.3
Total costs related to the acquisition of Emera Maine	<b>4.9</b>	-
Onerous provision (recovery)	-	(12.5)
Income tax expense	<b>7.1</b>	160.1
<b>Adjusted EBIT (non-IFRS financial measure)</b>	<b>71.9</b>	<b>45.7</b>

The Corporation focuses on Adjusted EBIT, which excludes the impact of foreign exchange (gains) losses, unrealized (gains) losses on commodities, Emera Maine acquisition related costs, and (recoveries) of onerous provisions. Adjusted EBIT is a useful measure of business performance, which provides an indication of the operating results generated by primary business activities.

Management believes that this non-IFRS measure provides a better representation of the underlying operations of the Corporation.

## FREE CASH FLOW (FCF)

ENMAX defines free cash flow as IFRS net cash provided by operating activities less capital expenditures funded from operations. Management believes that FCF is a liquidity measure that provides useful information regarding cash provided by operating activities, and operational cash used for investments in property and equipment that are required to maintain and grow the business over a twelve month cycle.

<b>For the twelve months ended March 31,</b> <i>(millions of Canadian dollars)</i>		
	<b>2019</b>	<b>2018</b>
Net cash (used in) provided by operating activities <sup>(1)</sup>	<b>335.5</b>	323.0
Capital expenditures funded from operations <sup>(2)</sup>	<b>(197.4)</b>	(336.6)
<b>Free cash flow (non-IFRS financial measure)</b>	<b>138.1</b>	<b>(13.6)</b>

<sup>(1)</sup> Refer to Liquidity and Capital Resources section.

<sup>(2)</sup> Includes cash provided to fund capital expenditures in Power Delivery that would otherwise be considered financing activities.

ENMAX's FCF increased \$151.7 million for the twelve months ended March 31, 2019, as compared with the twelve months ended March 31, 2018. In the comparative period, a greater portion of capital expenditures were funded using cash from operations than the twelve months ending March 31, 2019.

## FINANCIAL CONDITION

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

As at <i>(millions of Canadian dollars, except % change)</i>	March 31, 2019	December 31, 2018	\$ Change	% Change	Explanation for Change
<b>ASSETS</b>					
Cash and cash equivalents	36.4	89.0	(52.6)	(59%)	Refer to Liquidity section.
Accounts receivable	797.7	711.6	86.1	12%	Increase driven by higher pool prices in the first quarter of 2019, compared to the last quarter of 2018.
Property, plant and equipment (PPE)	4,320.4	4,253.9	66.5	2%	General capital additions partially offset by amortization.
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>					
Short-term financing	119.9	18.0	101.9	566%	Refer to Liquidity section.
Accounts payable	508.3	624.6	(116.3)	(19%)	Decrease mainly attributable to timing of disbursements.
Dividend payable	37.5	-	37.5	100%	Dividend declared in March to be paid in quarterly payments over the course of 2019.
Financial liabilities <sup>(1)</sup>	104.5	155.4	(50.9)	(33%)	Change in fair value of hedged and non-hedged derivatives.
Lease liabilities <sup>(1)</sup>	61.0	4.2	56.8	1352%	Increase is due to prospective adoption of IFRS 16.

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

## LIQUIDITY

ENMAX actively monitors its cash position and anticipated cash flows to optimize funding levels. ENMAX finances working capital requirements, capital investments and any maturities of long-term debt, through a combination of cash flow from operations, commercial paper and long-term debt. No funding is provided from the City of Calgary.

ENMAX has maintained an investment grade credit rating since the Corporation's inception. By maintaining this strong credit rating, ENMAX is able to minimize the Corporation's financing costs and allow efficient and cost-effective access to funds used in operations and growth. In response to the Corporation's announcement to enter into a definitive agreement to acquire Emera Maine, both S&P Global and DBRS have continued to maintain the Corporation's current credit ratings of BBB and A(low), respectively, while adjusting the associated modifiers. S&P Global has changed the outlook to negative and DBRS has placed the company under review – negative, citing an increase in financial risk due to the associated additional debt. ENMAX is committed to maintaining our credit ratings and intends to use FCF to maximize deleveraging in two or three years following closing of the deal.

Our credit facility agreements and term debt indentures include standard events of default and covenant provisions whereby accelerated repayment and/or termination of the agreements may result if we were to default on payment or violate certain covenants. As at March 31, 2019, the Corporation was in compliance with all debt covenants and expects to continue to comply with such covenants.

ENMAX's total debt balance at March 31, 2019 was \$1,797.4 million (December 31, 2018 - \$1,703.9 million) of which \$119.9 million (December 31, 2018 - \$18.0 million) is in commercial paper.

Currently, ENMAX has access to approximately \$2,300.0 million (December 31, 2018 - \$850.0 million) in credit facilities, of which \$487.9 million (December 31, 2018 - \$376.4 million) has been drawn upon. These credit facilities mature between 2021 and 2022 and are provided by international, national and regional lenders.

When prudent, ENMAX invests temporary surplus cash balances in short-term interest-bearing instruments to maximize investment income to fund future operating and maintenance costs. Short-term financing of \$119.9 million as at March 31, 2019 reflects a temporary use of credit facilities to address timing of expenditures.

## **INCOME TAX**

When Alberta Finance conducted its 2006 audit of ENMAX Energy Corporation and ENMAX PSA Corporation, it disagreed with the interest expense deducted on the Payment in lieu of tax (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. On April 26, 2018, the Alberta Court of Appeal issued its decision allowing the Crown's appeal and reinstating the Notices of Reassessment previously issued by Alberta Finance. On June 21, 2018, ENMAX filed an application seeking leave to appeal to the Supreme Court of Canada. On February 28, 2019 the Supreme Court of Canada dismissed the application.

## **RISK MANAGEMENT AND UNCERTAINTIES**

There have been no material changes in the three months ended March 31, 2019 to the Corporation's business and operational risks as described in the Corporation's December 31, 2018 MD&A.

# CONSOLIDATED FINANCIAL STATEMENTS

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## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

**As at**

*(unaudited)*

*(millions of Canadian dollars)*

	March 31, 2019	December 31, 2018
<b>ASSETS</b>		
Cash and cash equivalents	\$ 36.4	\$ 89.0
Accounts receivable	797.7	711.6
Income taxes receivable	45.8	45.6
Current portion of financial assets (Note 6)	67.3	58.3
Other current assets (Note 10)	100.4	118.9
	1,047.6	1,023.4
Property, plant and equipment (Notes 4 and 8)	4,320.4	4,253.9
Intangible assets	175.6	177.8
Deferred income tax assets (Note 11)	37.4	52.2
Financial assets (Note 6)	31.0	29.9
Other long-term assets (Note 10)	26.1	27.1
<b>TOTAL ASSETS</b>	<b>5,638.1</b>	<b>5,564.3</b>
<b>REGULATORY DEFERRAL ACCOUNT DEBIT BALANCES (Note 7)</b>	<b>70.3</b>	<b>82.0</b>
<b>TOTAL ASSETS AND REGULATORY DEFERRAL ACCOUNT DEBIT BALANCES</b>	<b>\$ 5,708.4</b>	<b>\$ 5,646.3</b>
<b>LIABILITIES</b>		
Short-term financing (Note 6)	\$ 119.9	\$ 18.0
Accounts payable and accrued liabilities	508.3	624.6
Income taxes payable (Note 11)	0.1	0.1
Dividend payable (Note 14)	37.5	-
Current portion of long-term debt (Notes 6)	68.9	71.3
Current portion of financial liabilities (Note 6)	86.2	108.4
Current portion of deferred revenue (Note 9)	9.2	7.2
Current portion of lease liabilities (Notes 4 and 8)	4.6	0.1
Other current liabilities (Note 10)	23.2	24.8
Current portion of asset retirement obligations and other provisions	1.3	1.7
	859.2	856.2
Long-term debt (Notes 6)	1,608.6	1,614.6
Deferred income tax liabilities (Note 11)	54.0	57.3
Post-employment benefits	53.0	51.1
Financial liabilities (Note 6)	116.6	135.2
Deferred revenue (Note 9)	542.8	543.4
Lease liabilities (Notes 4 and 8)	56.4	4.1
Other long-term liabilities (Note 10)	9.1	12.1
Asset retirement obligations and other provisions	106.3	106.0
<b>TOTAL LIABILITIES</b>	<b>3,406.0</b>	<b>3,380.0</b>
<b>REGULATORY DEFERRAL ACCOUNT CREDIT BALANCES (Note 7)</b>	<b>4.1</b>	<b>5.0</b>
<b>SHAREHOLDER'S EQUITY</b>		
Share capital	280.1	280.1
Retained earnings	2,010.1	1,985.9
Accumulated other comprehensive income (loss) (Note 12)	8.1	(4.7)
	2,298.3	2,261.3
<b>TOTAL LIABILITIES, REGULATORY DEFERRAL ACCOUNT CREDIT BALANCES AND SHAREHOLDER'S EQUITY</b>	<b>\$ 5,708.4</b>	<b>\$ 5,646.3</b>

Commitments and contingencies (Note 17)

See accompanying Notes to Condensed Consolidated Interim Financial Statements.

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EARNINGS (LOSS)

**Three months ended March 31,**

*(unaudited)*

*(millions of Canadian dollars)*

	2019	2018
REVENUE (Note 5)		
Electricity	\$ 357.6	\$ 272.5
Natural gas	94.3	74.7
Transmission and distribution	182.5	160.1
Local access fees	35.6	29.4
Contractual services	33.7	23.9
Contributions in aid of construction (CIAC) revenue (Note 9)	4.7	4.2
Other revenue (Note 13)	4.0	3.3
TOTAL REVENUE	712.4	568.1
OPERATING EXPENSES (Note 5)		
Electricity and fuel purchases	232.1	199.0
Natural gas and delivery	73.1	54.4
Transmission and distribution	89.4	88.0
Local access fees	35.6	29.4
Depreciation and amortization	58.3	57.0
Other expenses (Note 13)	111.6	89.8
TOTAL OPERATING EXPENSES	600.1	517.6
OPERATING PROFIT	112.3	50.5
Finance charges	20.2	17.3
NET EARNINGS BEFORE TAX	92.1	33.2
Current income tax expense (Note 11)	0.2	133.4
Deferred income tax expense (Note 11)	6.9	26.7
NET EARNINGS (LOSS) - BEFORE NET MOVEMENT IN REGULATORY DEFERRAL ACCOUNT BALANCES	85.0	(126.9)
NET MOVEMENT IN REGULATORY DEFERRAL ACCOUNT BALANCES (Note 7)	(10.8)	3.8
NET EARNINGS (LOSS)	\$ 74.2	\$ (123.1)

See accompanying Notes to the Condensed Consolidated Interim Financial Statements.



## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

**Three months ended March 31,**

*(unaudited)*

*(millions of Canadian dollars)*

	2019	2018
NET EARNINGS (LOSS)	\$ 74.2	\$ (123.1)
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX		
<b>Items that will not be reclassified subsequently to statement of earnings</b>		
Remeasurement (losses) on retirement benefits <sup>(1)</sup>	(0.2)	-
<b>Items that will be reclassified subsequently to statement of earnings</b>		
Unrealized gains on derivative instruments <sup>(2)</sup>	17.3	22.5
Reclassification of (gains) losses on derivative instruments to net earnings <sup>(3)</sup>	(4.3)	5.4
Other comprehensive income, net of income tax	12.8	27.9
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>\$ 87.0</b>	<b>\$ (95.2)</b>

<sup>(1)</sup> Net deferred income tax expense of \$0.2 million for the three months ended March 31, 2019 (2018 - \$nil).

<sup>(2)</sup> Net deferred income tax expense of \$6.4 million for the three months ended March 31, 2019 (2018 - \$8.4 million tax expense).

<sup>(3)</sup> Net deferred income tax expense of \$1.9 million for the three months ended March 31, 2019 (2018 - \$1.4 million tax expense).

See accompanying Notes to the Condensed Consolidated Interim Financial Statements.

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

<i>(unaudited)</i> <i>(millions of Canadian dollars)</i>	Share Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
As at January 1, 2019	\$ 280.1	\$ 1,985.9	\$ (4.7)	\$ 2,261.3
Net earnings	-	74.2	-	74.2
Other comprehensive income, net of income tax	-	-	12.8	12.8
Total comprehensive income	-	74.2	12.8	87.0
Dividends (Note 14)	-	(50.0)	-	(50.0)
<b>As at March 31, 2019</b>	<b>\$ 280.1</b>	<b>\$ 2,010.1</b>	<b>\$ 8.1</b>	<b>\$ 2,298.3</b>
As at January 1, 2018, as previously presented	\$ 280.1	\$ 2,022.2	\$ 11.7	\$ 2,314.0
Impact of the adoption of IFRS 9	-	(1.4)	-	(1.4)
As at January 1, 2018, as restated	280.1	2,020.8	11.7	2,312.6
Net loss	-	(123.1)	-	(123.1)
Other comprehensive income, net of income tax	-	-	27.9	27.9
Total comprehensive (loss) income	-	(123.1)	27.9	(95.2)
Dividends (Note 14)	-	(40.0)	-	(40.0)
As at March 31, 2018	280.1	1,857.7	39.6	2,177.4
Net earnings	-	128.2	-	128.2
Other comprehensive (loss), net of income tax	-	-	(44.3)	(44.3)
<b>As at December 31, 2018</b>	<b>\$ 280.1</b>	<b>\$ 1,985.9</b>	<b>\$ (4.7)</b>	<b>\$ 2,261.3</b>

See accompanying Notes to the Condensed Consolidated Interim Financial Statements.

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

**Three months ended March 31,**

*(unaudited)*

*(millions of Canadian dollars)*

	2019	2018
CASH (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES		
Net earnings (loss)	\$ 74.2	\$ (123.1)
Items not involving cash:		
CIAC	6.1	5.0
CIAC revenue (Note 9)	(4.7)	(4.2)
Depreciation and amortization	58.3	57.0
Finance charges	20.2	17.3
Income tax expense (Note 11)	7.1	160.1
Change in unrealized market value of financial contracts	(33.4)	5.9
Post-employment benefits	1.5	0.8
Change in non-cash working capital (Note 15)	(157.2)	2.1
Cash flow (used in) from operations	(27.9)	120.9
Interest paid <sup>(1)</sup>	(3.3)	(0.9)
Income taxes paid	(0.5)	(2.6)
Net cash flow (used in) provided by operating activities	(31.7)	117.4
INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangibles <sup>(1)</sup>	(101.0)	(79.7)
Cash flow used in investing activities	(101.0)	(79.7)
FINANCING ACTIVITIES		
Repayment of short-term debt	(170.9)	(477.6)
Proceeds from short-term debt	272.9	407.9
Repayment of long-term debt	(8.6)	(8.2)
Repayment of lease liability	(0.8)	-
Dividend paid (Note 14)	(12.5)	(10.0)
Cash flow provided by (used in) financing activities	80.1	(87.9)
(Decrease) in cash and cash equivalents	(52.6)	(50.2)
Cash and cash equivalents, beginning of period	89.0	81.2
CASH AND CASH EQUIVALENTS, END OF PERIOD <sup>(2)</sup>	\$ 36.4	\$ 31.0
Cash and cash equivalents consist of:		
Cash	36.4	31.0

<sup>(1)</sup> Total interest paid during the three months ended March 31, 2019 was \$4.5 million (2018 - \$2.3 million). Purchase of PPE and intangibles includes \$1.2 million of capitalized borrowing costs (2018 - \$1.4 million).

<sup>(2)</sup> Cash and cash equivalents include restricted cash of \$6.2 million (December 31, 2018 - \$12.4 million) relating to margin posted with a financial institution. This margin is required as part of the Corporation's commodity trading activity.

See accompanying Notes to Condensed Consolidated Interim Financial Statements.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

### 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 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

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards (IAS) 34, *Interim Financial Reporting*, and have been prepared following the same accounting policies and methods as those used in preparing the most recent consolidated financial statements, except as outlined in Notes 3 and 4. These unaudited condensed consolidated interim financial statements have been prepared under the historical costs basis, except for certain financial instruments which are stated at fair value. These unaudited condensed consolidated interim financial statements do not include all disclosures required for the preparation of audited annual financial statements. Accordingly, these unaudited condensed interim consolidated financial statements should be read in conjunction with the 2018 audited annual consolidated financial statements, which are available on ENMAX's website at [www.enmax.com](http://www.enmax.com).

These condensed consolidated interim financial statements were authorized for issuance by the Board of Directors on May 23, 2019.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these unaudited condensed consolidated interim 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 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. The following table outlines new significant accounting judgments and estimates for the period start January 1, 2019, reflecting the implementation of the new accounting standards in Note 4:

#### **SIGNIFICANT ACCOUNTING JUDGMENTS**

<b>Financial Statement Area</b>	<b>Judgment Area</b>
Leases	Identifying whether a contract contains a lease Determining whether it is reasonably certain extension or termination option(s) will be exercised Determination of whether variable payments are in-substance fixed

#### **SIGNIFICANT ACCOUNTING ESTIMATES**

<b>Financial Statement Area</b>	<b>Estimate Area</b>
Leases	Estimation of the term of the lease Selection of the appropriate discount rate applied to lease payments Assessment of whether a right-of-use asset is impaired

#### **4. ADOPTION OF NEW ACCOUNTING STANDARDS**

ENMAX has adopted the following new accounting standard for the first time for the financial year beginning on January 1, 2019.

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

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases (leases with a term of less than 12 months) and leases of low-value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on ENMAX's unaudited condensed consolidated interim financial statements is described below and in Note 8.

ENMAX has adopted IFRS 16 as an adjustment to opening balances on January 1, 2019. There was no impact to opening retained earnings on adoption.

In the initial recognition calculation of lease liabilities ENMAX used a weighted average rate of 3.8 per cent to determine the net present value of future lease payments. As at December 31, 2018 \$69.5 million was included in the commitment and contingency note related to future lease payments that have now been included in the initial finance lease obligations. ENMAX has recognized \$57.8 million of lease liabilities on initial application of IFRS 16 on January 1, 2019.

<i>(millions of Canadian dollars)</i>	<b>As at January 1, 2019</b>
Operating lease commitment as at December 31, 2018	<b>69.5</b>
Present value impact	<b>(20.5)</b>
Discounted using the incremental borrowing rate at January 1, 2019	<b>49.0</b>
Extension and termination options reasonably certain to be exercised	<b>8.8</b>
Finance lease liabilities on adoption of IFRS 16	<b>57.8</b>
Finance lease liabilities recognized as at December 31, 2018	<b>4.2</b>
Lease liabilities recognized at January 1, 2019	<b>62.0</b>

## Impact of the new definition of a lease

IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

ENMAX applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered or modified on or after January 1, 2019. In preparation for the initial application of IFRS 16, ENMAX has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease.

## Impact on lease accounting

IFRS 16 changes how ENMAX accounts for leases previously classified as operating leases under IAS 17 and International Financial Reporting Interpretations Committee (IFRIC) 4.

ENMAX accounts for leases as follows:

- a. Recognizes right-of-use assets and lease liabilities in the condensed consolidated interim financial statement of position, initially measured at the present value of future lease payment;
- b. Recognizes depreciation of right-of-use assets and interest on lease liabilities in the condensed consolidated interim statement of earnings; and
- c. Separates the total amount of cash paid into a principal portion and interest in the condensed consolidated interim statement of earnings.

Lease incentives are recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortized as a reduction of rental expense on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 *Impairment of Assets*. This replaces the previous requirement to recognize a provision for onerous lease contracts.

## ELECTED PRACTICAL EXPEDIENTS

### ***Single discount rate***

To apply a single discount rate to a portfolio of leases with reasonably similar characteristics (remaining term, class of underlying asset, and economic environment).

### ***Onerous leases***

Prior to adoption, the Corporation assessed all leases under IAS 37 as an alternative to performing an impairment review subsequent to adoption. The right-of-use asset at the date of initial application will be adjusted by the amount of any provision for onerous leases recognized in the statement of financial position immediately before the date of initial application.

### ***Short-term leases***

Exclude leases from initial recognition for which the lease term ends within 12 months of the date of initial application or lease commencement.

### ***Indirect costs***

To exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.

### ***Hindsight***

To use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

## CHANGES TO SIGNIFICANT ACCOUNTING POLICIES DUE TO ADOPTION OF NEW ACCOUNTING STANDARDS

### LEASES

#### ENMAX as Lessee

ENMAX assesses whether a contract is or contains a lease, at inception of the contract. ENMAX recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term and low-value leases. For these, ENMAX recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systemic basis is more representative of the time pattern in which economic benefits from the leased assets are realized.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, ENMAX uses the incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise of the following:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives.
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.
- The amount expected to be payable by ENMAX under residual value guarantees.
- The exercise price of purchase options, if ENMAX is reasonably certain to exercise the options.
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the condensed consolidated interim statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

ENMAX remeasures the lease liability and makes a corresponding adjustment to the related right-of-use asset under the following conditions:

- The lease term changes or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to movements in an index or rate or a change in expected payment under a guaranteed residual value. In such cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

ENMAX did not make any such adjustments during the period presented.

The right-of-use assets are comprised of the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever ENMAX incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. The cost is included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that ENMAX expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

ENMAX applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'Other expenses' in the statement of earnings or loss.

## **5. SEGMENT INFORMATION**

The Corporation has core operations through two main business segments representing separately managed business units, each of which offers different products and services.

### **ENMAX COMPETITIVE ENERGY (COMPETITIVE ENERGY)**

Competitive Energy is an operating segment established to carry out competitive energy supply and retail functions and the Calgary Regulated Rate Option (RRO) retail function through various legal entities and affiliated companies. The 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 an increasing desire from customers for simple access to reliable low-cost sustainable energy (i.e. distributed energy assets and services). Competitive Energy also delivers project execution for customer infrastructure in areas such as power infrastructure, light rail transit and commercial and residential development.

### **ENMAX POWER DELIVERY (POWER DELIVERY)**

Power Delivery is a regulated operating segment established to own and operate electricity transmission and distribution assets in the Calgary service area through various legal entities and affiliated companies. 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.

The final segment is ENMAX Corporate and Eliminations (Corporate and Eliminations). It is responsible for providing shared services and financing to ENMAX Competitive Energy and ENMAX Power Delivery. Certain comparative figures have been reclassified to conform to the current period's presentation.



## SEGMENTED TOTAL ASSETS AND REGULATORY DEFERRAL ACCOUNT BALANCES

<b>As at</b> <i>(millions of Canadian dollars)</i>	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Competitive Energy	2,928.2	2,849.4
Power Delivery	2,598.8	2,551.4
Corporate and Eliminations	111.1	163.5
Total assets	5,638.1	5,564.3
Regulatory deferral account debit balances	70.3	82.0
Total assets and regulatory deferral account debit balances	5,708.4	5,646.3

## COMPARATIVE SEGMENT INFORMATION

Segment information reflects the presentation regularly reviewed by the chief operating decision maker. The chief operating decision maker uses adjusted operating profit as the basis for making decisions around asset allocation or assessing performance. Adjusted operating profit adjusts for items such as unrealized gains and losses on commodities, foreign exchange, onerous provision recoveries on long-term contracts, and Emera Maine acquisition related costs, and are reflected in the column 'Adjusted Consolidated Totals' below.

Segment information as at March 31, 2018 has been reclassified to conform with the current year's presentation. The presentation change had no impact on reported consolidated net earnings.

<b>Three months ended March 31, 2019</b> <i>(millions of Canadian dollars)</i>	<b>Competitive Energy</b>	<b>Power Delivery</b>	<b>Corporate and Eliminations</b>	<b>Adjusted Consolidated Totals</b>	<b>Regulatory Deferral Movement</b>	<b>Other Presentation Reclass</b>	<b>Consolidated Totals</b>
REVENUE							
Electricity	391.7	-	(34.1)	357.6	-	-	357.6
Natural gas	94.4	-	(0.1)	94.3	-	-	94.3
Transmission and distribution	-	179.7	-	179.7	2.8	-	182.5
Local access fees	-	35.6	-	35.6	-	-	35.6
Other revenue	42.4	8.9	(1.3)	50.0	(7.6)	-	42.4
TOTAL REVENUE	528.5	224.2	(35.5)	717.2	(4.8)	-	712.4
OPERATING EXPENSES							
Electricity and fuel purchases	297.4	-	(34.0)	263.4	-	(31.3)	232.1
Natural gas and delivery	73.0	-	0.1	73.1	-	-	73.1
Transmission and distribution	-	96.7	-	96.7	(7.3)	-	89.4
Local access fees	-	35.6	-	35.6	-	-	35.6
Depreciation and amortization	31.3	29.4	(1.0)	59.7	(1.4)	-	58.3
Other expenses	86.3	31.4	(0.9)	116.8	(6.9)	1.7	111.6
TOTAL OPERATING EXPENSES	488.0	193.1	(35.8)	645.3	(15.6)	(29.6)	600.1
OPERATING PROFIT (LOSS)	40.5	31.1	0.3	71.9	10.8	29.6	112.3
Unrealized gain on commodities				(31.3)	-	31.3	-
Foreign exchange (gain)				(0.6)	-	0.6	-
Emera Maine acquisition costs <sup>(1)</sup>				2.3	-	(2.3)	-
Finance charges				20.2	-	-	20.2
NET EARNINGS BEFORE TAX				81.3	10.8	-	92.1
Current income tax expense				0.2	-	-	0.2
Deferred income tax expense				6.9	-	-	6.9
NET EARNINGS BEFORE NET MOVEMENT IN REGULATORY DEFERRAL ACCOUNT BALANCES				74.2	10.8	-	85.0
NET MOVEMENT IN REGULATORY DEFERRAL ACCOUNT BALANCES				-	(10.8)	-	(10.8)
NET EARNINGS				74.2	-	-	74.2

<sup>(1)</sup> During the three months ended March 31, 2019, ENMAX recognized other expenses related to the acquisition of Emera Maine (see Note 18) of \$2.3 million.

Three months ended March 31, 2018 (millions of Canadian dollars)	Competitive Energy	Power Delivery	Corporate and Eliminations	Adjusted Consolidated Totals	Regulatory Deferral Movement	Other Presentation Reclass	Consolidated Totals
<b>REVENUE</b>							
Electricity	305.4	-	(33.0)	272.4	0.1	-	272.5
Natural gas	74.8	-	(0.1)	74.7	-	-	74.7
Transmission and distribution	-	160.9	-	160.9	(0.8)	-	160.1
Local access fees	-	29.4	-	29.4	-	-	29.4
Other revenue	29.2	8.4	(5.9)	31.7	(0.3)	-	31.4
<b>TOTAL REVENUE</b>	<b>409.4</b>	<b>198.7</b>	<b>(39.0)</b>	<b>569.1</b>	<b>(1.0)</b>	<b>-</b>	<b>568.1</b>
<b>OPERATING EXPENSES</b>							
Electricity and fuel purchases	221.8	-	(33.0)	188.8	-	10.2	199.0
Natural gas and delivery	54.3	-	0.1	54.4	-	-	54.4
Transmission and distribution	-	85.1	-	85.1	2.9	-	88.0
Local access fees	-	29.4	-	29.4	-	-	29.4
Depreciation and amortization	30.1	27.0	(0.1)	57.0	-	-	57.0
Other expenses	69.0	36.1	3.6	108.7	(0.1)	(18.8)	89.8
<b>TOTAL OPERATING EXPENSES</b>	<b>375.2</b>	<b>177.6</b>	<b>(29.4)</b>	<b>523.4</b>	<b>2.8</b>	<b>(8.6)</b>	<b>517.6</b>
<b>OPERATING PROFIT (LOSS)</b>	<b>34.2</b>	<b>21.1</b>	<b>(9.6)</b>	<b>45.7</b>	<b>(3.8)</b>	<b>8.6</b>	<b>50.5</b>
Unrealized loss on commodities				10.2	-	(10.2)	-
Foreign exchange (gain)				(6.3)	-	6.3	-
Recovery of onerous provision <sup>(1)</sup>				(12.5)	-	12.5	-
Finance charges				17.3	-	-	17.3
<b>NET EARNINGS (LOSS) BEFORE TAX</b>				<b>37.0</b>	<b>(3.8)</b>	<b>-</b>	<b>33.2</b>
Current income tax expense				133.4	-	-	133.4
Deferred income tax expense				26.7	-	-	26.7
<b>NET LOSS BEFORE NET MOVEMENT IN REGULATORY DEFERRAL ACCOUNT BALANCES</b>				<b>(123.1)</b>	<b>(3.8)</b>	<b>-</b>	<b>(126.9)</b>
<b>NET MOVEMENT IN REGULATORY DEFERRAL ACCOUNT BALANCES</b>				<b>-</b>	<b>3.8</b>	<b>-</b>	<b>3.8</b>
<b>NET LOSS</b>				<b>(123.1)</b>	<b>-</b>	<b>-</b>	<b>(123.1)</b>

<sup>(1)</sup> During the three months ended March 31, 2018, ENMAX Competitive Energy segment recognized a recovery of its onerous provision by \$12.5 million to reflect changes in circumstances associated with the expected timing and amounts of certain longer-term onerous contracts.

## REVENUE

### Types of Customers and

Sales Channel	Nature and significant payment terms
Mass market	Mass Market is comprised of residential and small business customers who consume less than 250,000 kWh/year. These customers can be supplied electricity through competitive contracts or the Regulated Rate Option. Natural gas is always supplied under a competitive contract.
Commercial market	Commercial Market is business to business competitive contracting for electricity and/or natural gas. A small number of commercial customers who do not negotiate a contract are supplied electricity on a regulated default supply.
Government and institutional	ENMAX receives revenue from governments and municipalities (counties, cities and towns), entities backed by the government, universities, colleges and school boards.
Non-government and non-institutional	ENMAX receives revenue from individual consumers to large corporations; these individuals and corporations receive credit and terms based on their respective products and their credit history.
Transmission	ENMAX receives revenue from Alberta Electric System Operator (AESO) specifically for the use of its transmission grid system.
Distribution	ENMAX receives revenue from electricity retailers specifically for the use of its electricity distribution system to deliver electricity to the end customers.
City of Calgary local access fees	ENMAX receives revenue from electricity end users to offset municipal levies by the City of Calgary in lieu of property taxes.

## REVENUE – MAJOR CUSTOMERS AND SALES CHANNELS

<i>(millions of Canadian dollars)</i>	Mass Market	Commercial Market	Government and Institutional	Non-Government and Non-Institutional	Transmission	Distribution	City of Calgary Local Access Fees	Total
<b>Three months ended March 31, 2019</b>								
Electricity								
Competitive Energy	61.8	257.9	-	-	-	-	-	319.7
Regulated	29.9	8.0	-	-	-	-	-	37.9
Natural gas	69.9	24.4	-	-	-	-	-	94.3
Transmission & distribution	-	-	-	-	20.3	162.2	-	182.5
Local access fees	-	-	-	-	-	-	35.6	35.6
Contractual services	-	-	10.1	23.6	-	-	-	33.7
Other revenue & CIAC	-	-	-	8.7	-	-	-	8.7
<b>TOTAL REVENUE</b>	<b>161.6</b>	<b>290.3</b>	<b>10.1</b>	<b>32.3</b>	<b>20.3</b>	<b>162.2</b>	<b>35.6</b>	<b>712.4</b>

### Three months ended March 31, 2018

Electricity								
Competitive Energy	57.0	187.1	-	-	-	-	-	244.1
Regulated	23.9	4.5	-	-	-	-	-	28.4
Natural gas	54.4	20.3	-	-	-	-	-	74.7
Transmission & distribution	-	-	-	-	18.5	141.6	-	160.1
Local access fees	-	-	-	-	-	-	29.4	29.4
Contractual services	-	4.2	5.9	13.8	-	-	-	23.9
Other revenue & CIAC	-	-	-	7.5	-	-	-	7.5
<b>TOTAL REVENUE</b>	<b>135.3</b>	<b>216.1</b>	<b>5.9</b>	<b>21.3</b>	<b>18.5</b>	<b>141.6</b>	<b>29.4</b>	<b>568.1</b>

## 6. 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 interests in generation facilities, liability positions arising from commitments to customers and transacting positions arising from hedging activities.

### VALUATION OF DERIVATIVE ASSETS AND LIABILITIES

Financial derivative instruments are recorded at fair value on the condensed consolidated interim statement of financial position. As at March 31, 2019, the fair values of derivatives were as follows:

<b>As at</b>	<b>March 31, 2019</b>		<b>December 31, 2018</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	31.1	36.2	22.2	36.1
Non-current	16.2	14.8	15.7	14.2
Liabilities				
Current	10.3	75.9	14.9	93.5
Non-current	17.4	99.2	20.8	114.4

For cash flow hedges, gains and losses are reclassified immediately to net earnings when anticipated hedged transactions are no longer likely to occur.

For non-hedge derivatives, there were unrealized gains of \$33.4 million for the three months ended March 31, 2019 (2018 - \$5.9 million loss), primarily recorded in electricity and fuel purchases. The anticipated non-hedge derivatives are expected to settle in 2019 through 2032. 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 fair valued, which creates a mismatch in the timing of earnings.

## NON-DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

Fair values for cash and cash equivalents, accounts receivable, short-term financing, accounts payable and accrued liabilities are not materially different from their carrying amounts due to their short-term nature.

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

### CARRYING AMOUNTS AND FAIR VALUES OF LONG-TERM DEBT

As at	March 31, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>(millions of Canadian dollars)</i>				
Long-term debt <sup>(1)</sup> consisting of:				
Debtentures, with remaining terms of:				
Less than 5 years	49.3	50.2	57.8	58.9
5–10 years	21.1	22.4	21.1	22.0
10–15 years	150.5	169.9	150.4	166.3
15–20 years	507.9	553.2	507.9	537.4
20–25 years	448.1	461.2	448.1	447.0
Private debtentures				
Series 3 (3.81%)	199.1	209.7	199.0	203.0
Series 4 (3.84%)	298.3	313.9	298.3	301.2
Promissory note	3.2	3.4	3.3	3.4
	<b>1,677.5</b>	<b>1,783.9</b>	1,685.9	1,739.2

<sup>(1)</sup> Includes current portion of \$68.9 million (December 31, 2018 – \$71.3 million). Maturity dates range from June 2019 to June 2043.

As at March 31, 2019, ENMAX had \$119.9 million with a fair value of \$119.9 million of commercial paper with an average interest rate of 1.91 per cent (December 31, 2018 - \$18.0 million, fair value of \$18.0 million with an average interest rate of 2.25 per cent).

## 7. REGULATORY DEFERRAL ACCOUNT BALANCES

### NATURE AND ECONOMIC EFFECT OF RATE REGULATION

ENMAX Transmission and ENMAX Distribution (the Divisions) are divisions of the 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 Transmission and Distribution Tariffs (rates and terms and conditions of service) subject to Sections 37 and 102 of the Electric Utilities Act.

### 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, 2019	62.8	10.8	8.4	82.0
Balances arising in the period <sup>(1)</sup>	43.4	0.2	3.0	46.6
Recovery (reversal) <sup>(2)</sup>	(54.9)	(1.4)	(2.0)	(58.3)
<b>March 31, 2019</b>	<b>51.3</b>	<b>9.6</b>	<b>9.4</b>	<b>70.3</b>
Expected recovery/reversal period	3 Months	25 Years	12 Months	
January 1, 2018	34.4	9.9	31.9	76.2
Balances arising in the period <sup>(1)</sup>	37.0	0.2	0.4	37.6
Recovery (reversal) <sup>(2)</sup>	(32.7)	-	(1.3)	(34.0)
<b>March 31, 2018</b>	<b>38.7</b>	<b>10.1</b>	<b>31.0</b>	<b>79.8</b>
Balances arising in the period <sup>(1)</sup>	130.7	0.7	3.3	134.7
Recovery (reversal) <sup>(2)</sup>	(106.6)	-	(25.9)	(132.5)
<b>December 31, 2018</b>	<b>62.8</b>	<b>10.8</b>	<b>8.4</b>	<b>82.0</b>
Expected recovery/reversal period	3 Months	25 Years	12 Months	

<sup>(1)</sup> "Balances arising in the period" row consists of new additions to regulatory deferral debits and credit balances.

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

<b>As at</b> <i>(millions of Canadian dollars)</i>	<b>Accounts Payable (a)</b>	<b>Other Regulatory Credits (d)</b>	<b>Total Regulatory Deferral Account Credit Balances</b>
<b>Regulatory deferral account credit balances</b>			
January 1, 2019	-	5.0	5.0
Recovery (reversal) <sup>(1)</sup>	-	(0.9)	(0.9)
<b>March 31, 2019</b>	-	<b>4.1</b>	<b>4.1</b>
Expected recovery/reversal period		12 Months	
January 1, 2018	-	9.4	9.4
Recovery (reversal) <sup>(1)</sup>	-	(0.2)	(0.2)
<b>March 31, 2018</b>	-	<b>9.2</b>	<b>9.2</b>
Balances arising in the period <sup>(2)</sup>	-	0.1	0.1
Recovery (reversal) <sup>(1)</sup>	-	(4.3)	(4.3)
<b>December 31, 2018</b>	-	<b>5.0</b>	<b>5.0</b>
Expected recovery/reversal period		12 Months	

<sup>(1)</sup> "Recovery (reversal)" row consists of amounts collected/refunded through rate riders or transactions reversing existing regulatory balances.

<sup>(2)</sup> "Balances arising in the period" row consists of new additions to regulatory deferral debits and credit 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, that 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 represents a deferral account for transmission charges from the AESO. In the absence of rate regulation and the standard, IFRS 14 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 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 inter-company 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 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.

## 8. LEASES

ENMAX leases several assets categorized as: generation facilities and equipment, buildings and site development, land, tools, systems and equipment and vehicles. The average term remaining on the leases is 5.7 years.

### Generation Facilities and Equipment

ENMAX leases a pipeline to supply the necessary water to one of its generation facilities. The term of this lease is 30 years with fixed payments over the life of the lease.

### Buildings and Site Development

ENMAX has entered into building leases to house various operations. As at January 1, 2019, the leases that were capitalized have five to nine years remaining.

### Land

In relation to several of ENMAX's generating facilities, additional land surrounding the facilities are leased to allow for the installation of substations and water reservoirs. The contracted lengths and terms of payments of the leases vary. As at January 1, 2019, ENMAX expects all land leases to be renewed until the end of the useful life of each respective generating facility.

### Tools, Systems and Equipment

ENMAX has entered into a lease for various copiers and printers at its facilities. The lease term is for one year. At adoption it could not be reasonably determined if this lease would be renewed.

### Vehicles

ENMAX leases vehicles that are mainly used by its field services crews for the installation and maintenance of the electrical system. The lease terms of the vehicles vary based on the specific use of the vehicle but are typically for five years.

### Right-of-use assets

The changes in the net book value for the Corporation's right-of-use assets during the three months ended March 31, 2019 were as follows:

<i>(millions of Canadian dollars)</i>	Generation Facilities and Equipment	Buildings and Site Development	Land	Tools, Systems and Equipment	Vehicles	Total
Cost						
As at January 1, 2019	5.1	-	-	-	-	5.1
Opening balance adjustment IFRS 16	27.9	13.3	8.8	0.1	7.7	57.8
Net Changes	-	(1.6)	-	-	-	(1.6)
<b>As at March 31, 2019</b>	<b>33.0</b>	<b>11.7</b>	<b>8.8</b>	<b>0.1</b>	<b>7.7</b>	<b>61.3</b>
Accumulated Depreciation						
As at January 1, 2019	1.7	-	-	-	-	1.7
Opening balance adjustment IFRS 16	-	-	-	-	-	-
Net Changes	0.3	0.4	0.1	-	0.6	1.4
<b>As at March 31, 2019</b>	<b>2.0</b>	<b>0.4</b>	<b>0.1</b>	<b>-</b>	<b>0.6</b>	<b>3.1</b>
Net Book Value						
As at January 1, 2019	3.4	-	-	-	-	3.4
<b>As at March 31, 2019</b>	<b>31.0</b>	<b>11.3</b>	<b>8.7</b>	<b>0.1</b>	<b>7.1</b>	<b>58.2</b>



## Amounts recognized in profit and loss

### Three months ended March 31,

(millions of Canadian dollars)

	2019
Depreciation expense	1.4
Lease expense on short-term leases	0.1
Interest expense on lease liabilities	0.9
<b>Amounts expensed in profit and loss</b>	<b>2.4</b>

## Lease payments

The required lease payments of the lease liability at March 31, 2019, are as follows:

### As at March 31,

(millions of Canadian dollars)

	2019
Less than 1 year	7.0
1–5 years	27.0
More than 5 years	57.4

The total cash outflow for leases amounts to \$1.7 million for the three months ended March 31, 2019. ENMAX does not face a significant liquidity risk with regards to its lease liabilities. Lease liabilities are monitored through ENMAX's treasury function.

## 9. DEFERRED REVENUE

### As at

(millions of Canadian dollars)

	CIAC	Other	Total
January 1, 2019	533.6	17.0	550.6
Additions	4.2	2.2	6.4
Recognized as revenue	(4.7)	(0.3)	(5.0)
<b>March 31, 2019</b>	<b>533.1</b>	<b>18.9</b>	<b>552.0</b>
Less: current portion	-	(9.2)	(9.2)
	533.1	9.7	542.8
January 1, 2018	501.5	13.5	515.0
Additions	4.7	1.4	6.1
Movements to PPE	(0.7)	-	(0.7)
Recognized as revenue	(4.2)	(0.4)	(4.6)
March 31, 2018 <sup>(1)</sup>	501.3	14.5	515.8
Additions	53.0	6.2	59.2
Movements to PPE	(7.0)	-	(7.0)
Recognized as revenue	(13.7)	(3.7)	(17.4)
<b>December 31, 2018</b>	<b>533.6</b>	<b>17.0</b>	<b>550.6</b>
Less: current portion	-	(7.2)	(7.2)
	533.6	9.8	543.4

<sup>(1)</sup> Includes current portion of \$5.7 million in other deferred revenue as at March 31, 2018.

## 10. OTHER ASSETS AND LIABILITIES

<i>As at</i> <i>(millions of Canadian dollars)</i>	March 31, 2019	December 31, 2018
<b>Other current assets</b>		
Prepaid expenses	15.2	9.2
Collateral paid	41.5	71.9
Deferred asset	0.4	0.3
Emission offsets	38.3	32.3
Other	5.0	5.2
	100.4	118.9
<b>Other long-term assets</b>		
Prepaid expenses	7.6	8.2
Long-term accounts receivable	2.5	2.5
Deferred asset	3.2	3.3
Other	12.8	13.1
	26.1	27.1
<b>Other current liabilities</b>		
Deposits	14.6	17.9
Other	8.6	6.9
	23.2	24.8
<b>Other long-term liabilities</b>		
Other	9.1	12.1
	9.1	12.1

## 11. INCOME TAXES

The calculation of the Corporation's current and deferred income taxes involves a degree of estimation and judgment. The carrying value of deferred income tax assets is reviewed at the end of each reporting period. For the three months ended March 31, 2019, management adjusted the income tax provision using its best estimate with considerations including management's expectation of future operating results and interpretation of applicable tax positions and allowances, where uncertainty surrounding the realization of the tax benefit exists.

## 12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

<i>As at</i> <i>(millions of Canadian dollars)</i>	March 31, 2019	December 31, 2018
Net unrealized gains (losses) on derivatives designated as cash flow hedges, including deferred income tax expense of \$7.4 million (December 31, 2018 - expense of \$2.9 million)	12.2	(0.8)
Net actuarial losses on defined benefit plans, including deferred income tax recovery of \$0.2 million (December 31, 2018 - recovery of \$0.4 million)	(4.1)	(3.9)
Accumulated other comprehensive gains (losses), including deferred income tax expense of \$7.2 million (December 31, 2018 - expense of \$2.5 million)	8.1	(4.7)

### 13. OTHER REVENUE AND EXPENSES

#### OTHER REVENUE

*Three months ended March 31,  
(millions of Canadian dollars)*

	2019	2018
Interest and penalty revenue	2.4	2.5
Miscellaneous	1.6	0.8
	4.0	3.3

#### OTHER EXPENSES

*Three months ended March 31,  
(millions of Canadian dollars)*

	2019	2018
Salaries and wages	56.1	67.1
Materials and supplies	7.5	4.3
Goods and services	23.8	23.8
Administrative and office expenses	4.3	3.4
Building expense	20.8	9.4
Vehicles and other	(0.3)	0.6
Onerous provision (recovery)	-	(12.5)
Foreign exchange (gains)	(0.6)	(6.3)
	111.6	89.8

### 14. DIVIDENDS

On March 13, 2019, the Corporation declared a dividend of \$50.0 million to the City (2018 – \$40.0 million). The dividend is paid in equal quarterly instalments during 2019.

### 15. CHANGE IN NON-CASH WORKING CAPITAL

*Three months ended March 31,  
(millions of Canadian dollars)*

	2019	2018
Accounts receivable	(86.1)	(7.0)
Regulatory deferral account debit balances	11.7	(3.6)
Other assets	19.5	(4.1)
Accounts payable and accrued liabilities	(95.5)	36.8
Regulatory deferral account credit balances	(0.9)	(0.2)
Other liabilities	(5.5)	(5.1)
Provisions	(0.4)	(14.7)
Change in non-cash working capital	(157.2)	2.1

Non-cash working capital decreased \$157.2 million for the three months ended March 31, 2019. This was primarily driven by two significant changes:

- Increased accounts receivable in the first quarter of 2019 is the result of higher average pool prices in the period that led to higher billing that is expected to be collected in the remainder of 2019.
- Decreased accounts payable and accrued liabilities in the first quarter of 2019 is primarily attributable to the timing of disbursements, where the Corporation accrued for two months of electricity and fuel purchases at December 31, 2018 where normally only one month is expected.

## 16. 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.

### CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EARNINGS

**Three months ended March 31,**  
(millions of Canadian dollars)

	2019	2018
Revenue <sup>(1)</sup>	42.2	35.8
Local access fees and other expenses <sup>(2)</sup>	36.8	31.1

<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.

### CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

As at (millions of Canadian dollars)	March 31, 2019	December 31, 2018
Accounts receivable	34.0	29.6
Property, plant and equipment <sup>(1)</sup>	3.4	3.4
Accounts payable and accrued liabilities	15.3	13.2
Long-term debt <sup>(2)</sup>	1,176.9	1,185.4
Other long-term liabilities <sup>(3)</sup>	6.4	6.3

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

<sup>(2)</sup> Interest and principal payments for the three months ended March 31, 2019 were \$0.8 million (2018 - \$1.1 million) and \$8.5 million (2018 - \$8.1 million) respectively. In addition, for the three months ended March 31, 2018, the Corporation paid a management fee of \$0.7 million (2018 - \$0.7 million) to the City.

<sup>(3)</sup> Includes 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's operations.

## 17. 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 and to long-term service arrangements on certain generating assets.

### HISTORICAL TRANSMISSION LINE LOSS CHARGES

ENMAX has participated 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 invoicing 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 and C have been the subject of permission to appeal applications before the Alberta Court of Appeal as well as review and variance applications before the AUC.

The permission to appeal applications was heard by the Alberta Court of Appeal in the second quarter of 2018. On December 20, 2018 the Court issued a decision denying permission to appeal the AUC's decision on Module A and further reserving its decision on permission to appeal Module C and related matters. Since the Court did not grant permission to appeal Module A, the decision of the AUC will stand unless the Court's decision is further challenged.

Based on the Court's decision in Module A, management believes that ENMAX may be required to make material payments to the AESO for historical amounts if the Court upholds the AUC's decision in Module C. Because the AUC's previous decisions do not require the AESO to consider commercial agreement terms and service transfer circumstances when the AESO determines which party to invoice, ENMAX could be invoiced for amounts for which it may not ultimately, in whole or in part, be responsible. Moreover, the invoices may not reflect the benefit of credits to which ENMAX is entitled nor any of ENMAX's rights to subsequently seek compensation including under commercial agreements from other parties such as the Balancing Pool.

Management does not have the information necessary to calculate a reliable range of expected charges and credits across the portfolio of generation held during the relevant periods and the impact to ENMAX of such amounts; however, ENMAX believes it has sufficient access to cash to satisfy any amounts which may be required to be paid.

## **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 condensed consolidated interim financial statements when the amount can be reasonably estimated.

## **18. SIGNIFICANT EVENTS**

On March 25, 2019, the Corporation announced that it had entered into a definitive agreement to acquire Emera Maine, a regulated electric transmission and distribution company in Maine, for a purchase price of \$1,286 million. Including assumed debt, the aggregate enterprise value is expected to be approximately \$1,800 million. This transaction is aligned with the Corporate strategy to grow regulated cash flows and diversify revenue streams within North America. The acquisition will raise regulated rate base by approximately 50 per cent and increase the portion of future cash flows from regulated and non-commodity sources to 70 per cent. ENMAX intends to finance this transaction through a combination of a two-year bank loan, which is intended to be repaid before maturity, and private notes.

## 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>AUC</b>	Alberta Utilities Commission	<b>ICFR</b>	Internal control over financial reporting
<b>Board</b>	ENMAX's Board of Directors	<b>IFRS</b>	International Financial Reporting Standard
<b>Corporation</b>	ENMAX Corporation and its subsidiaries	<b>ITA</b>	Income Tax Act (Canada)
<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>	Chartered 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>FCF</b>	Free cash flow	<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>FVOCI</b>	Fair value through other comprehensive income	<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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# FINANCIAL REVIEW

ENMAX 2018



## 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 13, 2019, is a review of the results of operations of ENMAX Corporation and its subsidiaries (ENMAX or the Corporation) for the year ended December 31, 2018, compared with 2017, 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 set out.

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.

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Glossary of terms can be found on page 84 of the Consolidated Financial Statements.

## BUSINESS OVERVIEW

ENMAX is a wholly owned subsidiary of the City of Calgary (the City), and is 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, and continued this direction throughout 2018. Our strategy is to develop a business with strong regulated and contracted cash flows and a diversity of revenue streams within North America from services and "close to the customer" businesses, all built upon an efficient platform.

ENMAX has core operations through two main business segments, ENMAX Competitive Energy (Competitive Energy) and ENMAX Power Delivery (Power Delivery). Competitive Energy includes the competitive generation and sale of electricity across Alberta, and power project services and solutions. 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 affiliated legal entities. 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, and persistent higher power prices will have the opposite effect. Competitive Energy also 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 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 and Eliminations (Corporate). It is responsible for providing shared services and financing to ENMAX Competitive Energy and ENMAX Power Delivery.

## MARKET CONDITIONS

The Alberta power market pool price settled at \$50.19 per MWh for 2018 representing 126 per cent increase over the prior year's average of \$22.17 per MWh. Spark spreads settled at \$39.38 per MWh for 2018 compared to \$6.81 per MWh the prior year. Power prices were reflective of several factors including an increase in the carbon tax and its effect on market participant portfolios and behaviors. ENMAX's hedging strategy secures significant margins before entering the year, offering protection from fluctuating power prices while maintaining some ability to capitalize on price increases.

The federal Greenhouse Gas Pollution Pricing Act (GGPPA) that is expected to come into effect in 2019 is not expected to have any near-term impacts on the Alberta power market until at least 2021. Alberta has its own, more-stringent, climate-change plan (Carbon Competitiveness Incentive Regulation) at a value of \$30 per tonne of carbon emissions, compared to the \$20 per tonne proposed for 2019 under the federal plan. Any changes to the provincial carbon tax structure in the near-term, or the federal carbon tax structure in the long-term could impact electricity price outcomes and costs for power generation facilities.

Electricity demand averaged 9,744 MW for 2018, representing growth of 3 per cent over the prior year's average demand of 9,428 MW and was in the range of long-term historical trends. Mandated production cuts, high volatility in the West Texas Intermediate-Western Canadian Select (WTI-WCS) oil price differential, and continued market access challenges could have a dampening effect on electricity demand growth in 2019. ENMAX's unique vertically integrated business model, which includes making, moving and marketing electricity, benefits from demand growth through increases in generator revenue, retail sites, and distribution network size.

Alberta natural gas prices averaged \$1.44 per gigajoule (GJ) for 2018, representing a 30 per cent decrease compared to 2017's average natural gas price of \$2.05 per GJ. Natural gas prices are expected to remain weak in the near term as the Nova Gas Transmission Ltd. system (NGTL) maintenance is expected to continue until 2021/2022, restricting access to export markets and gas storage. The downward pressure on natural gas prices is generally positive for ENMAX's portfolio of natural gas-fueled power plants; however, the continued pipeline restrictions pose gas delivery risk to ENMAX's assets, creating financial and operational challenges.

The Alberta Electric System Operator (AESO) is currently in the process of writing capacity market rules based on the Comprehensive Market Design (CMD), with stakeholder review and regulatory proceedings expected to continue through 2019. The first capacity market auction is targeted to occur in 2020 with the first delivery period scheduled to begin at the end of 2021. ENMAX is continuing to evaluate the impact of the capacity market on its business and customers.

## FINANCIAL PERFORMANCE

Management believes that a measure of operating performance is more meaningful if the impact of specific items are excluded from the adjusted financial information. As a result, the table below presents ENMAX's adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA), adjusted earnings before interest and taxes (Adjusted EBIT), and comparable net earnings. These financial metrics exclude impairment, onerous provision charges (recoveries) on long-term contracts, foreign exchange gains (losses) and unrealized gains (losses) on commodities where settlement on derivatives will occur in a future period. Refer to the Non-IFRS Financial Measures section on page 12 for definitions and further descriptions of the financial measures.

### SELECTED CONSOLIDATED FINANCIAL INFORMATION

**Year ended December 31,**

*(millions of Canadian dollars)*

	<b>2018</b>	<b>2017</b>
Total revenue	<b>2,378.8</b>	1,970.6
Adjusted EBITDA <sup>(1)(2)</sup>		
Competitive Energy	<b>215.5</b>	221.9
Power Delivery	<b>214.6</b>	210.1
Corporate and Eliminations	<b>4.9</b>	(8.0)
Consolidated	<b>435.0</b>	424.0
Adjusted EBIT <sup>(1)(2)</sup>		
Competitive Energy	<b>94.7</b>	97.8
Power Delivery	<b>103.8</b>	108.2
Corporate and Eliminations	<b>5.9</b>	(6.9)
Consolidated	<b>204.4</b>	199.1
Comparable net earnings <sup>(1)(2)(3)</sup>	<b>149.2</b>	140.2
Net earnings (loss)	<b>5.1</b>	(30.3)
Free cash flow <sup>(1)</sup>	<b>131.0</b>	(129.0)
Capital expenditures	<b>342.5</b>	357.0

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

<sup>(2)</sup> Does not include:

- Realized and unrealized foreign exchange gains of \$10.6 million (2017 - \$11.2 million losses) for the year ended December 31, 2018.
- Unrealized electricity and gas mark-to-market for the year ended December 31, 2018 of \$6.5 million gains (2017 - \$185.2 million losses).
- Impairment charges of \$26.9 million (2017 - \$10.3 million) for the year ended December 31, 2018.
- Onerous provision recovery of \$12.5 million (2017 - \$16.8 million increase) for the year ended December 31, 2018.

<sup>(3)</sup> Does not include tax adjustments of \$144.3 million (2017 - \$nil).

During the year, two events were deemed not typical of normal operations and have been normalized out of Adjusted EBITDA, Adjusted EBIT and comparable net earnings for the year ended December 31, 2018. The Corporation recognized an impairment charge of \$26.9 million compared to \$10.3 million in the prior year related to property, plant and equipment. ENMAX's Competitive Energy business segment also recognized a recovery to decrease its onerous provision by \$12.5 million (2017 -\$16.8 million increase) to reflect changes in circumstances associated with the expected timing and amounts of certain long-term onerous contracts. Other items that are normalized out of Adjusted EBITDA, Adjusted EBIT and comparable net earnings for the year are unrealized gains on commodity contracts related to future periods of \$6.5 million (2017 - \$185.2 million loss) and foreign exchange gains of \$10.6 million (2017 - \$11.2 million loss). Unrealized commodity gains (losses) relate to higher or lower forward natural gas prices at the time of valuation. Foreign exchange gains 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.

ENMAX's Adjusted EBIT increased by \$5.3 million for the year ended December 31, 2018, as compared with the prior year. The primary drivers for the change in Adjusted EBIT were as follows:

- ENMAX Competitive Energy – For the year ended December 31, 2018, Competitive Energy's electricity margin reflected the increase in market power prices experienced in the year. This impact is somewhat limited due to Competitive Energy's strategy of hedging a significant portion of our commodity margin prior to entering the current year. The higher prices are, however, expected to have a positive impact in future years due to our forward contracting strategy. With respect to natural gas products, Competitive Energy was able to realize higher margins due to increased sales to customers.
- ENMAX Power Delivery – The regulated business continues to grow through investment and an increase in customer sites. This is largely a result of the Calgary service area's continued growth and the need to replace its aging infrastructure. The increase in regulatory margins over 2017 resulted from the Alberta Utilities Commission (AUC) approved 2016-2017 Transmission Compliance filing earlier in the year.
- ENMAX Corporate and Eliminations – With the completion of ENMAX's new integrated systems on January 3, 2018, the higher system investment costs incurred throughout 2017 returned to sustainment levels in 2018.

ENMAX's net earnings for the year ended December 31, 2018 were \$5.1 million as compared with a net loss of \$30.3 million in the prior year. The prior year net loss was driven by unrealized losses of \$185.2 million on commodity future period contracts as ENMAX revaluates the contracts to forward prices at the end of the year. In 2018, positive operating profits were partially offset by higher tax expenses driven by one-time tax adjustments.

Adjusting for events not related to normal operations as well as the unrealized gains on commodities and foreign exchange gains, ENMAX's Comparable Net Earnings for the year December 31, 2018 increased by \$9.0 million from 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

### TAX LITIGATION UPDATE

On April 26, 2018, the Alberta Court of Appeal issued its decision relating to interest expense deductions by ENMAX Energy Corporation and ENMAX PSA Corporation. ENMAX has filed an application with the Supreme Court of Canada seeking leave to appeal; see the Income Tax Risk section of this document.

On December 13, 2018, ENMAX Energy Corporation settled the remaining historical Payment in Lieu of Tax (PILOT) issues with Alberta Finance.

### PPA TERMINATIONS

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 Power Purchase Arrangement (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, distributed energy resource solutions, and engineering, procurement and construction services. Our competitive advantage is our ability to hedge our generation assets through our retail business, the largest in Alberta by number of customers and energy consumed. The competitive retail business provides customers with fixed-price electricity linked to our wind and gas-fueled generation assets, and provides opportunities to offer additional energy services, such as solar installations and thermal energy. As at December 31, 2018, Competitive Energy's capacity ownership interest was 1,617 MW of electricity generation: 1,397 MW from natural gas-fueled plants, 217 MW from wind power and 3 MW from combined heat and power (CHP) generation.

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

## KEY BUSINESS STATISTICS

	2018	2017
Plant availability (%) <sup>(1)</sup>	93.41	95.29
Average flat pool price (\$/MWh)	50.19	22.17
Spark spread (\$) <sup>(2)</sup>	39.38	6.81

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

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

Plant availability was lower than the prior year due to planned outages in 2018 at the Shepard Energy Centre and Calgary Energy Centre. This resulted in increased OM&A and capital investment in 2018.

During 2018, the average flat pool power price increased from 2017. This was primarily due to the increase in the carbon levy on coal generation, higher system load and the retirement and mothballing of coal assets.

Spark spread, which is the difference between the wholesale electricity price and the price of natural gas to produce the electricity, represents the gross margin contribution of a gas-fueled power plant from generating an unhedged unit of electricity. The improvement from 2017 levels is driven by increased average flat pool prices, combined with a decrease in the market prices related to natural gas.

ENMAX manages its portfolio to deliver on our cash flow targets by using a combination of retail sales and forward markets with hedges. This reduces volatility of cash flows with respect to the market prices. However, due to our hedging and contracting strategies, the impact of in-year price movements is tempered given our strategy to smooth cash flows over time.

## ENMAX POWER DELIVERY BUSINESS AND UPDATE

ENMAX Power Delivery's highest priorities are providing safe, reliable and efficient delivery of electricity to its customers.

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 can include capacity upgrades to existing substations, existing transmission lines, new substations, and new transmission lines to deliver reliable electricity to meet Calgary's growing demand.

Power Delivery submits applications to the AUC to request approval for construction or replacement of utility-related facilities, and to set rates for providing electric energy delivery-related services to its customers, among other things.

- On December 21, 2018, the AUC issued a decision approving 2019 PBR distribution rates on the interim basis and distribution tariff terms and conditions for the period of January 1, 2019 to December 31, 2019.
- On December 12, 2018, the 2018-2020 Transmission General Tariff Application was filed with the AUC requesting approval of forecast revenue requirements of \$85.7 million, \$95.7 million, and \$106.4 million in 2018, 2019 and 2020, respectively.
- On November 2, 2018, ENMAX Power Delivery filed an application for approval to recover approximately \$15.0 million of distribution costs related to The City of Calgary's Green Line LRT Project for the period of 2021 to 2023.



- On August 2, 2018, a decision was issued on the 2018 Generic Cost of Capital proceeding, which applies to 2018 to 2020. The final approved return on equity for ENMAX Power Delivery remained at 8.5% and the approved deemed equity ratio increased from 36% to 37%. The results of this decision will be reflected in the year end and other future financial statements.
- On June 29, 2018, an application was filed with the AUC seeking approval of 2017 distribution capital tracker revenue of \$21.9 million. On December 6, 2018, ENMAX Power Delivery reached a negotiated settlement agreement with customer interveners of \$21.7 million, which is subject to AUC approval.
- On June 19, 2018, the AUC issued a decision on ENMAX Power Delivery's compliance filing to its 2016-2017 Transmission General Tariff Application. The AUC approved a revenue requirement of \$71.6 million for 2016, and \$81.2 million for 2017.
- In the Generic PBR decision issued on February 5, 2018, the AUC denied utilities' requests for proposed adjustments and reduced the incremental capital funding mechanism. This decision negatively impacts the revenue for the distribution business for a five-year period, starting January 1, 2018. On April 6, 2018, ENMAX Power Delivery filed an application to review and vary the decision and, on October 30, 2018, the AUC granted a review with respect to utility adjustments.

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

#### KEY BUSINESS STATISTICS

	2018	2017
Distribution volumes in Gigawatt Hours (GWh)	9,520	9,500
System average interruption duration index (SAIDI) <sup>(1)</sup>	0.54	0.47
System average interruption frequency index (SAIFI) <sup>(2)</sup>	0.80	0.64

<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 2018 was slightly higher than the prior year, as a result of an increase in the number of customer sites.

When compared to other Canadian Electricity Association member utilities, ENMAX has consistently been, and remains as one of the most reliable transmission and distribution utilities in Canada. The SAIDI and SAIFI are moderately unfavourable compared to the same periods in 2017 due to increased cable faults, pole fires and scheduled outages. The scheduled outages are performed for equipment repairs and capital projects from infrastructure builds.

## ENMAX FINANCIAL RESULTS

### ADJUSTED EARNINGS BEFORE INTEREST AND INCOME TAXES (ADJUSTED EBIT) COMPARED WITH THE SAME PERIOD IN 2017

<i>For the year ended December 31, (millions of Canadian dollars)</i>	<b>Competitive Energy</b>	<b>Power Delivery</b>	<b>Corporate</b>	<b>Consolidated</b>
Adjusted EBIT <sup>(1)</sup> for the year ended December 31, 2017	97.8	108.2	(6.9)	199.1
Increased (decreased) margins attributable to:				
Electricity	28.0	(0.9)	(1.8)	25.3
Natural gas	2.3	-	0.1	2.4
Transmission and distribution	-	11.4	-	11.4
Contractual services and other	(31.7)	1.5	12.8	(17.4)
Decreased (increased) expenses:				
Operations, maintenance & administration (OM&A) <sup>(2)</sup>	(5.0)	(1.1)	6.8	0.7
Strategic restructuring	-	(6.4)	(5.0)	(11.4)
Depreciation and amortization	3.3	(8.9)	(0.1)	(5.7)
<b>Adjusted EBIT <sup>(1)</sup> for the year ended December 31, 2018</b>	<b>94.7</b>	<b>103.8</b>	<b>5.9</b>	<b>204.4</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, 2018 increased \$25.3 million or 8 per cent, compared to the prior year. The favourable variance is due to the positive impact of spark spreads on our uncontracted positions combined with the increase in margins from the ancillary services market. Our risk mitigation strategies, which resulted in the contracting of a majority of our market position, continue to deliver the majority of our margin with less exposure to volatility of spark spreads. In addition, our competitive products were impacted by Bill 16 (An Act to Cap Regulated Electricity Rates) and the continued shift of customer products preferences also impacted our margins.

Natural gas margins for the year ended December 31, 2018 increased \$2.4 million or 4 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 higher volumes resulting from colder temperatures experienced in the first three months of 2018 compared to 2017.

For the year ended December 31, 2018, transmission and distribution margins increased \$11.4 million or 4 per cent compared to the same period in 2017. The favourable variance was largely due to changes to the AUC approved 2016-2017 Transmission compliance filing.

For the year ended December 31, 2018, contractual services and other margin decreased \$17.4 million or 16 per cent compared to the prior year. The reduced margin is due to various positive one-time items in 2017, such as the resolution of multiple historical operational disputes with counterparties, including matters relating to wind generation facilities and Keephills PPA, as well as the receipt of interest on a tax refund. In 2018, we realized higher emission offset sales compared to 2017.

OM&A for 2018 decreased \$0.7 million or less than 1 per cent from the prior year. The favourable variance is the result of decreased salaries and lower IT project costs, offset by year over year planned outage related repair and maintenance costs at two of ENMAX's facilities in 2018 that did not occur in the prior year.

During 2018, the Corporation recorded \$11.4 million in one-time costs from restructuring activities related to strategic transformation.

Depreciation and amortization expense increased \$5.7 million or 3 per cent compared to the same period in 2017, consistent with an increase in capital assets in 2018.

## OTHER NET EARNINGS ITEMS

Finance charges for the year ended December 31, 2018 were \$1.9 million or 3 per cent lower compared to the prior year due to the repayment of a Series 1 Private Debenture of \$300.0 million with a coupon rate of 6.15 per cent, and issuance of a Series 4 Private Debenture of \$300.0 million with a coupon rate of 3.84 per cent.

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, 2018, 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 various tax disputes.

The Corporation recorded a current and deferred income tax expense of \$133.5 million (2017 - recoveries of \$64.5 million) for the year ended December 31, 2018. The change in the income tax expense is primarily due to the impact of the Alberta Court of Appeal decision in the first quarter of 2018.

## OTHER COMPREHENSIVE INCOME AND SHAREHOLDER'S EQUITY

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, 2018, OCI had total losses of \$11.3 million, compared with gains of \$70.7 million for the same period in 2017. The OCI losses primarily reflect the unfavourable fair value changes in electricity and commodity positions. This is offset by an OCI gain related to the favourable change in re-measurement on retirement benefits, which is a result of investment returns being greater than the returns implied by the discount rate.

Accumulated other comprehensive income (loss) is reflected in shareholder's equity along with retained earnings and share capital. Retained earnings for the period declined \$36.3 million largely from the recognition of 2018 dividends on common shares.

## NON-IFRS FINANCIAL MEASURES

The Corporation uses Adjusted EBITDA, Adjusted EBIT, comparable net earnings, and free cash flow (FCF) 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.

### ADJUSTED EBITDA

<i>For the year ended December 31, (millions of Canadian dollars)</i>		
	<b>2018</b>	<b>2017</b>
<b>Net earnings (loss) (IFRS financial measure)</b>	<b>5.1</b>	<b>(30.3)</b>
Add (deduct):		
Unrealized (gains) losses on commodities	<b>(6.5)</b>	185.2
Foreign exchange (gains) losses	<b>(10.6)</b>	11.2
Impairment	<b>26.9</b>	10.3
Onerous provision (recovery) charge	<b>(12.5)</b>	16.8
Net income tax expense (recovery) on unrealized (gains) loss on commodities, foreign exchange losses (gains), and impairment	<b>2.5</b>	(53.0)
Tax adjustments	<b>144.3</b>	-
<b>Comparable net earnings (non-IFRS financial measure)</b>	<b>149.2</b>	<b>140.2</b>
Add (deduct):		
Depreciation and amortization	<b>230.6</b>	224.9
Finance charges	<b>68.5</b>	70.4
Remaining income tax (recovery)	<b>(13.3)</b>	(11.5)
<b>Adjusted EBITDA (non-IFRS financial measure)</b>	<b>435.0</b>	<b>424.0</b>

Management considers Adjusted EBITDA 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. Adjusted EBITDA is also used to evaluate certain debt coverage ratios.

Adjusted EBITDA excludes the impact for unrealized (gains) losses on commodities, foreign exchange (gains) losses, impairments, and (recoveries) charges of onerous provisions from the adjusted operating profit. Management believes that a measure of operating performance is more meaningful if results not related to normal operations, such as impairment, onerous provisions on long-term contracts, foreign exchange (gains) losses, 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 under IFRS.

## ADJUSTED EBIT

**For the year ended December 31,**  
*(millions of Canadian dollars)*

	2018	2017
<b>Net earnings (loss) (IFRS financial measure)</b>	<b>5.1</b>	<b>(30.3)</b>
Add (deduct):		
Unrealized (gains) losses on commodities	<b>(6.5)</b>	185.2
Foreign exchange (gains) losses	<b>(10.6)</b>	11.2
Finance charges	<b>68.5</b>	70.4
Impairment	<b>26.9</b>	10.3
Onerous provision (recovery) charge	<b>(12.5)</b>	16.8
Income tax expense (recovery)	<b>133.5</b>	(64.5)
<b>Adjusted EBIT (non-IFRS financial measure)</b>	<b>204.4</b>	199.1

The Corporation focuses on Adjusted EBIT, which excludes the impact of foreign exchange (gains) losses, unrealized (gains) losses on commodities and (recoveries) charges of onerous provisions. Adjusted EBIT is a useful measure of business performance, which provides an indication of the operating results generated by primary business activities.

Management believes that this non-IFRS measure provides a better representation of the underlying operations of the Corporation.

## FREE CASH FLOW

ENMAX defines free cash flow as IFRS net cash provided by operating activities less capital expenditures. Management believes that FCF is a liquidity measure that provides useful information regarding cash provided by operating activities, and cash used for investments in property and equipment that are required to maintain and grow the business.

**For the year ended December 31,**  
*(millions of Canadian dollars)*

	2018	2017
Net cash provided by operating activities	<b>473.5</b>	228.0
Capital expenditures	<b>(342.5)</b>	(357.0)
<b>Free cash flow (non-IFRS financial measure)<sup>(1)</sup></b>	<b>131.0</b>	(129.0)

<sup>(1)</sup> Refer to Liquidity and Capital Resources section.

## FINANCIAL CONDITION

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

<i>As at December 31,</i> <i>(millions of Canadian dollars, except % change)</i>	2018	2017	\$ Change	% Change	Explanation for Change
<b>ASSETS</b>					
Cash and cash equivalents	89.0	81.2	7.8	10%	Refer to Liquidity and Capital Resources section.
Accounts receivable	711.6	657.8	53.8	8%	Increase driven by higher year end pool prices and timing of receipts compared to the prior year.
Property, plant and equipment (PPE)	4,253.9	4,148.7	105.2	3%	General capital additions partially offset by amortization.
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>					
Short-term financing	18.0	207.7	(189.7)	(91%)	Refer to Liquidity and Capital Resources section.
Accounts payable	624.6	396.0	228.6	58%	Increase mainly attributable to timing of disbursements.
Financial liabilities <sup>(1)</sup>	155.4	134.8	20.6	16%	Change in fair value of hedged and non-hedged derivatives.
Long-term debt <sup>(1)</sup>	1,685.9	1,580.8	105.1	7%	Receipt of \$177.4 million in new Alberta Capital Finance Authority (ACFA) debt offset by regular principle repayments.
Deferred income tax liabilities <sup>(1)</sup>	5.1	(6.7)	11.8	176%	Mainly as a result of Court of Appeal decision in Tax.

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

## LIQUIDITY AND CAPITAL RESOURCES

### TOTAL LIQUIDITY AND CAPITAL RESERVES

<i>As at December 31,</i> <i>(millions of Canadian dollars)</i>	2018	2017
Committed and available bank credit facilities	850.0	850.0
Letters of credit issued:		
Power pool purchases	171.8	55.9
Energy trading	55.5	50.0
Regulatory commitments	146.0	116.4
Asset commitments	1.1	0.8
PPAs <sup>(1)</sup>	2.0	39.2
	376.4	262.3
Remaining available bank facilities	473.6	587.7
Cash and cash equivalents	89.0	81.2
Short term financing	(18.0)	(207.7)
Total liquidity and capital reserves	544.6	461.2

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

Cash on hand increased to \$89.0 million as at December 31, 2018, compared to \$81.2 million at the same time last year. Short term financing of \$18.0 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 2019.

## 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, 2018, the long-term debt-to-total capitalization ratio is 43 per cent, compared with 44 per cent at year end 2017. S&P Global has assigned ENMAX a BBB+ rating with a stable outlook. DBRS 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 at 65 per cent.

## CASH PROVIDED BY OPERATING ACTIVITIES

FCF for the year ended December 31, 2018 is \$131.0 million, compared with a \$129.0 million shortfall in the same period in 2017. Cash provided by operating activities for the year ended December 31, 2018 is \$473.5 million, compared to \$228.0 million in the same period in 2017. Both increases are due to timing of net working capital disbursements due to the system cutover requirements at the end of 2017, and higher operating margins.

## INVESTING ACTIVITIES

The following table outlines investment in capital additions and other changes for the year ended December 31, 2018.

### ***Year ended December 31,***

*(millions of Canadian dollars)*

	<b>2018</b>	<b>2017</b>
Property, plant and equipment	<b>359.6</b>	314.0
Intangibles	<b>18.6</b>	43.9
Impairment to property, plant and equipment and intangibles	<b>(26.9)</b>	(10.3)
Capital accruals	<b>(15.1)</b>	1.6
Capitalized interest	<b>6.3</b>	7.8
Total	<b>342.5</b>	357.0

During the year ended December 31, 2018, 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

During the year ended December 31, 2018, ENMAX repaid \$300.0 million in outstanding debentures in addition to regularly scheduled payments of \$70.9 million, compared with \$67.0 million in the same period in 2017.

In July 2018, 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 2021 to 2022.

During 2018, the Corporation requested additional 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 2019. On June 5, 2018, a Series 4 Private Debenture of \$300.0 million at 3.84 per cent was issued.

On March 15, 2018, ENMAX declared a dividend of \$40.0 million payable to the City in quarterly instalments throughout 2018. All quarterly instalments of this dividend were paid by the end of 2018. On March 13, 2019, a dividend of \$50.0 million was declared payable to the City in four quarterly instalments.

ENMAX has historically paid the City annual dividends of, the greater of 30 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.

## **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 Strategy 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 several 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 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 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 may require a minimum level of market liquidity to actively manage positions.

ENMAX has foreign exchange (FX) 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. 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 several 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. Renewable energy 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 several 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 regarding 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. 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 and forcing them to retire before 2030. Recently proposed amendments to coal-fueled and natural-gas-fueled electricity regulations 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.

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. 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 MSA, AESO, the National Energy Board, the North American Electric Reliability Corporation, and the U.S. Federal Energy Regulatory Commission and other agencies.

ENMAX Competitive Energy and ENMAX Power Delivery are subject to regulations established to help ensure Alberta's electric and natural gas markets operate in a fair, efficient and openly competitive manner.

ENMAX Power Delivery is a transmission and distribution system owner that is regulated by the AUC. Regulations and regulatory decisions may affect: ENMAX's AUC allowed rate of return and deemed capital structure; rate structure; the development and operation of transmission and distribution assets; acquisitions, disposal, depreciation and amortization; service quality and reliability levels; and recovery of operating costs.

ENMAX Power Delivery 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 ENMAX Power Corporation service territory. 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.

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

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 may result in delays to revenue recognition, and therefore earnings, although this may be partially mitigated with approved interim rates.

ENMAX actively participates in 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 the 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 over 60 per cent of our workforce; and performance of key suppliers and service providers. Certain 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 various programs to attract, develop and retain personnel, including recruitment, talent development, recognition and competitive compensation and benefits programs.

As at the end of 2018, unionized employees made up approximately over 60 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 had 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, strategic talent management 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 investments to update and replace aging and obsolete technologies have been made over the last several years with many offered as Software as a Service (SaaS), as well as improving our redundancy and Disaster Recovery capabilities.

Through activities under the Datacenter Refresh Project, ENMAX has mitigated risk in our infrastructure by physical consolidation, updating end of life systems 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 with corporate strategic objectives while ensuring we are managing cyber security and overall information technology risks.

## **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, 2018, the pension plan had an accrued benefit liability of \$39.2 million (\$37.6 million at December 31, 2017). 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 seeking fixed price contracts with vendors. 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 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; 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.

## INCOME 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. On April 26, 2018, the Alberta Court of Appeal issued its decision allowing the Crown's appeal and reinstating the Notices of Reassessment previously issued by Alberta Finance. On June 21, 2018, ENMAX filed an application seeking leave to appeal to the Supreme Court of Canada. On February 28, 2019 the Supreme Court of Canada dismissed the application.



There remain other concerns for which ENMAX and Alberta Finance are in disagreement. On December 13, 2018 ENMAX and Alberta Finance settled all remaining issues thereby forsaking the appeal and litigation process commenced. 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.

ENMAX faces considerable risk with respect to its strategy due to changing government policies. Political uncertainties and changing provincial governments with different perspectives and ideologies could potentially impact ENMAX's ability to deliver on its strategy. ENMAX's strategy factors in these uncertainties and attempts to mitigate this risk by focusing resources on regulated businesses and industries. By focusing on stable predictable cash flows and contracted revenue ENMAX helps reduce the risk of disruptive government intervention.

## **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, 2018. 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

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## 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 13, 2019. 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.

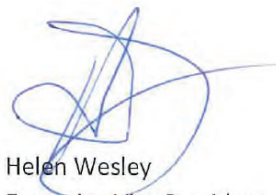
The consolidated financial statements have been audited by Deloitte LLP, the Corporation's external auditor. The external auditor is responsible for examining the consolidated financial statements and expressing an opinion on the fairness of the financial statements in accordance with IFRS. The auditor's 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 13, 2019

## INDEPENDENT AUDITOR'S REPORT

To the Shareholder of ENMAX Corporation

### OPINION

We have audited the consolidated financial statements of ENMAX Corporation and its subsidiaries (the "Corporation"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of earnings (loss), comprehensive (loss) income, changes in shareholder's equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in the Financial Report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Financial Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

### RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

## **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Deloitte LLP*

Chartered Professional Accountants

March 13, 2019

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<b>As at</b> <i>(millions of Canadian dollars)</i>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 89.0	\$ 81.2
Accounts receivable (Notes 4 and 7)	711.6	657.8
Income taxes receivable (Note 8)	45.6	87.5
Current portion of financial assets (Note 7)	58.3	98.9
Other current assets (Note 10)	118.9	109.4
	<b>1,023.4</b>	1,034.8
Property, plant and equipment (Note 11)	4,253.9	4,148.7
Intangible assets (Note 12)	177.8	182.9
Deferred income tax assets (Note 8)	52.2	81.3
Financial assets (Note 7)	29.9	49.4
Other long-term assets (Notes 7 and 10)	27.1	26.1
<b>TOTAL ASSETS</b>	<b>5,564.3</b>	5,523.2
<b>REGULATORY DEFERRAL ACCOUNT DEBIT BALANCES (Note 9)</b>	<b>82.0</b>	76.2
<b>TOTAL ASSETS AND REGULATORY DEFERRAL ACCOUNT DEBIT BALANCES</b>	<b>\$ 5,646.3</b>	\$ 5,599.4
<b>LIABILITIES</b>		
Short-term financing (Note 13)	\$ 18.0	\$ 207.7
Accounts payable and accrued liabilities	624.6	396.0
Income taxes payable (Note 8)	0.1	1.8
Current portion of long-term debt (Notes 7 and 13)	71.3	367.3
Current portion of financial liabilities (Note 7)	108.4	141.8
Current portion of deferred revenue (Note 17)	7.2	4.7
Other current liabilities (Note 10)	24.9	27.4
Current portion of asset retirement obligations and other provisions (Note 14)	1.7	2.8
	<b>856.2</b>	1,149.5
Long-term debt (Notes 7 and 13)	1,614.6	1,213.5
Deferred income tax liabilities (Note 8)	57.3	74.6
Post-employment benefits (Note 16)	51.1	50.4
Financial liabilities (Note 7)	135.2	141.3
Deferred revenue (Note 17)	543.4	510.3
Other long-term liabilities (Note 10)	16.2	15.9
Asset retirement obligations and other provisions (Note 14)	106.0	120.5
<b>TOTAL LIABILITIES</b>	<b>3,380.0</b>	3,276.0
<b>REGULATORY DEFERRAL ACCOUNT CREDIT BALANCES (Note 9)</b>	<b>5.0</b>	9.4
<b>SHAREHOLDER'S EQUITY</b>		
Share capital (Note 15)	280.1	280.1
Retained earnings	1,985.9	2,022.2
Accumulated other comprehensive (loss) income (Note 18)	(4.7)	11.7
	<b>2,261.3</b>	2,314.0
<b>TOTAL LIABILITIES, REGULATORY DEFERRAL ACCOUNT CREDIT BALANCES AND SHAREHOLDER'S EQUITY</b>	<b>\$ 5,646.3</b>	\$ 5,599.4
Commitments and contingencies (Note 25)		

See accompanying Notes to Consolidated Financial Statements.



## CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

<b>Year ended December 31,</b> <i>(millions of Canadian dollars)</i>	<b>2018</b>	<b>2017</b> <b>(Note 5)</b>
REVENUE (Notes 4 and 6)		
Electricity	\$ 1,242.1	\$ 915.4
Natural gas	167.6	189.0
Transmission and distribution	664.6	594.4
Local access fees	137.1	95.8
Contractual services	124.9	121.0
Contributions in aid of construction (CIAC) revenue (Note 17)	17.9	16.2
Other revenue (Note 19)	24.6	38.8
<b>TOTAL REVENUE</b>	<b>2,378.8</b>	<b>1,970.6</b>
OPERATING EXPENSES (Note 6)		
Electricity and fuel purchases	894.8	787.7
Natural gas and delivery	111.0	134.8
Transmission and distribution	360.4	333.2
Local access fees	137.1	95.8
Depreciation and amortization	230.6	224.9
Impairment (Notes 6 and 11)	26.9	10.3
Other expenses (Note 19)	421.1	453.0
<b>TOTAL OPERATING EXPENSES</b>	<b>2,181.9</b>	<b>2,039.7</b>
OPERATING PROFIT (LOSS)	196.9	(69.1)
Finance charges (Note 22)	68.5	70.4
<b>NET EARNINGS (LOSS) BEFORE TAX</b>	<b>128.4</b>	<b>(139.5)</b>
Current income tax expense (Note 8)	115.0	5.2
Deferred income tax expense (recovery) (Note 8)	18.5	(69.7)
<b>NET (LOSS) - BEFORE NET MOVEMENT IN REGULATORY DEFERRAL ACCOUNT BALANCES</b>	<b>(5.1)</b>	<b>(75.0)</b>
NET MOVEMENT IN REGULATORY DEFERRAL ACCOUNT BALANCES (Notes 6 and 9)	10.2	44.7
<b>NET EARNINGS (LOSS)</b>	<b>\$ 5.1</b>	<b>\$ (30.3)</b>

See accompanying Notes to the Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

**Year ended December 31,**

*(millions of Canadian dollars)*

	<b>2018</b>	<b>2017</b>
NET EARNINGS (LOSS)	\$ <b>5.1</b>	\$ (30.3)
OTHER COMPREHENSIVE (LOSS) INCOME, NET OF INCOME TAX		
<b>Items that will not be reclassified subsequently to statement of earnings</b>		
Remeasurement gains on retirement benefits (Note 16) <sup>(1)</sup>	<b>2.2</b>	4.6
<b>Items that will be reclassified subsequently to statement of earnings</b>		
Unrealized (loss) gains on derivative instruments <sup>(2)</sup>	<b>(4.0)</b>	51.7
Reclassification of (gains) losses on derivative instruments to net earnings <sup>(3)</sup>	<b>(14.6)</b>	44.7
Other comprehensive (loss) income, net of income tax	<b>(16.4)</b>	101.0
<b>TOTAL COMPREHENSIVE (LOSS) INCOME</b>	<b>\$ (11.3)</b>	<b>\$ 70.7</b>

<sup>(1)</sup> Net deferred income tax recovery of \$nil for the year ended December 31, 2018 (2017 - \$0.3 million tax recovery).

<sup>(2)</sup> Net deferred income tax recovery of \$1.5 million for the year ended December 31, 2018 (2017 - \$19.1 million tax expense).

<sup>(3)</sup> Net deferred income tax expense of \$7.0 million for the year ended December 31, 2018 (2017 - \$14.6 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, 2018, as previously presented	\$ 280.1	\$ 2,022.2	\$ 11.7	\$ 2,314.0
Impact of the adoption of IFRS 9 (Note 5)	-	(1.4)	-	(1.4)
As at January 1, 2018, as restated	280.1	2,020.8	11.7	2,312.6
Net earnings	-	5.1	-	5.1
Other comprehensive (loss), net of income tax	-	-	(16.4)	(16.4)
Total comprehensive (loss) income	-	5.1	(16.4)	(11.3)
Dividends (Note 21)	-	(40.0)	-	(40.0)
<b>As at December 31, 2018</b>	<b>\$ 280.1</b>	<b>\$ 1,985.9</b>	<b>\$ (4.7)</b>	<b>\$ 2,261.3</b>
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)
As at December 31, 2017	\$ 280.1	\$ 2,022.2	\$ 11.7	\$ 2,314.0

See accompanying Notes to the Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

**Year ended December 31,**

*(millions of Canadian dollars)*

	<b>2018</b>	<b>2017</b>
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net earnings (loss)	\$ 5.1	\$ (30.3)
Items not involving cash:		
CIAC	53.5	68.5
CIAC revenue (Note 17)	(17.9)	(16.2)
Depreciation and amortization	230.6	224.9
Impairment	26.9	10.3
Finance charges (Note 22)	68.5	70.4
Income tax expense (recovery) (Note 8)	133.5	(64.5)
Change in unrealized market value of financial contracts	(6.4)	190.0
Post-employment benefits	1.5	(1.7)
Change in non-cash working capital (Note 23)	115.2	(202.1)
Cash flow from operations	610.5	249.3
Interest paid <sup>(1)</sup>	(64.0)	(65.5)
Income taxes (paid) received	(73.0)	44.2
Net cash flow provided by operating activities	473.5	228.0
INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangibles <sup>(1)</sup> (Notes 11 and 12)	(342.5)	(357.0)
Cash flow used in investing activities	(342.5)	(357.0)
FINANCING ACTIVITIES		
Repayment of short-term debt	(919.3)	(194.9)
Proceeds from short-term debt	729.6	402.6
Repayment of long-term debt	(370.9)	(67.0)
Proceeds from long-term debt	477.4	-
Dividend paid (Note 21)	(40.0)	(48.0)
Cash flow (used in) from financing activities	(123.2)	92.7
Increase (decrease) in cash and cash equivalents	7.8	(36.3)
Cash and cash equivalents, beginning of year	81.2	117.5
CASH AND CASH EQUIVALENTS, END OF YEAR <sup>(2)</sup>	\$ 89.0	\$ 81.2
Cash and cash equivalents consist of:		
Cash	89.0	81.2

<sup>(1)</sup> Total interest paid during the year was \$70.3 million (2017 - \$73.4 million). Purchase of PPE and intangibles includes \$6.3 million of capitalized borrowing costs (2017 - \$7.9 million).

<sup>(2)</sup> Cash and cash equivalents include restricted cash of \$12.4 million (December 31, 2017 - \$6.7 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 (m)	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>Judgment Areas</b>
Regulatory deferral balances	Note 4 (c)	Estimates related to regulatory proceedings or decisions
Accounts receivable	Note 4 (d)	Assumptions as input to calculate the expected loss rates
Fair value measurements and valuation	Note 4 (d)	Estimates of fair value for financial assets and liabilities
Property, plant and equipment	Note 4 (g)	Determination of components and useful lives
Long-lived assets and intangible assets impairment	Note 4 (m)	Assessment of impairment indicators and grouping of cash-generating units (CGUs)
Post-retirement benefits	Note 4 (n)	Estimates of key assumptions used to calculate post-retirement benefits
Leases	Note 4 (o)	Assessment of contracts for lease arrangements
Asset retirement obligation	Note 4 (p)	Estimates of amount and timing of asset retirements
Provisions	Note 4 (q)	Determination of probability of outflow of resources
Revenue	Note 4 (r)	Contributions In Aid of Construction are contributions received for work performed under various statutory requirements, therefore is determined not to contain significant financing component; and Principal vs. agent consideration for each revenue stream
Income taxes	Note 4 (u)	Interpretation of uncertain tax positions and application tax regulations

## 4. SIGNIFICANT ACCOUNTING POLICIES

The policies applied in these consolidated financial statements are based on IFRS applicable as at December 31, 2018. These consolidated financial statements are authorized for issuance by the Board of Directors as of March 13, 2019.

### (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 Account 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 (Note 9).

## **(d) FINANCIAL INSTRUMENTS**

As at January 1, 2018, ENMAX adopted IFRS 9, Financial Instruments (Note 5). As part of adoption, certain practical expedients were applied.

### **ELECTED PRACTICAL EXPEDIENTS**

#### ***Simplified impairment approach on accounts receivables***

The Corporation calculates the expected credit losses on accounts receivable using a provision matrix, which is based on the Corporation's historical credit loss experience for accounts receivable to estimate the lifetime expected credit losses. The provision matrix specifies fixed provision rates depending on the number of days that a trade receivable is past due.

### **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 (FVTPL), 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 FVTPL 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 classification of the Corporation's financial instrument depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition.

The financial assets of the Corporation are classified in the following categories:

- Amortized cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Financial assets of the Corporation included in this category are cash and cash equivalents, and current and long-term accounts receivables.
- Fair value through other comprehensive income (FVOCI): assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Financial assets of the Corporation included in this category are equity investments.
- FVTPL: assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through earnings. Financial assets of the Corporation included in this category are derivative instruments.

The financial liabilities of the Corporation are classified either as amortized cost or at FVTPL. Financial liabilities of the Corporation included under amortized cost are accounts payable, current and long-term debt and other current and other long-term liabilities. Financial liabilities of the Corporation included under FVTPL are derivative instruments.

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.

## Derivatives and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 7. Movements in the hedging reserve in shareholder's equity are shown in Note 18. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as current assets or liabilities.

## Cash flow hedges

The Corporation utilizes forward and swap contracts as hedging instruments to manage the commodity price risk associated with its highly probable commodity sales and purchases. At the inception of the hedging transaction, the Corporation documents the economic relationship between hedging instruments and hedged items, including whether the hedging instrument is expected to offset changes in cash flows of hedged items.

Sources of hedge ineffectiveness can occur as a result of credit risk, change in hedge ratio and forecast adjustments leading to over-hedging. If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedging instrument, or the volume of the hedged item, so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for in earnings at the time of the hedge relationship rebalancing.

The Corporation can only discontinue hedge accounting prospectively if there is no longer an economic relationship between the hedged item and hedging instrument, the risk management objective changes, the derivative no longer is designated as a hedging instrument or the underlying hedged item is derecognized. If the Corporation discontinues hedge accounting, the cumulative gain or loss in AOCI is transferred to earnings at the same time as the hedged item affects earnings. The amount in AOCI is immediately transferred to earnings if the hedged item is derecognized or it is probable that a forecast transaction will not occur in the originally specified time frame.

#### **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**

The impairment provisions for accounts receivable disclosed at Note 7(b) are based on assumptions on expected loss rates. The Corporation uses judgment in making these assumptions and selecting the inputs to the impairment calculation based on the Corporation's history, existing market conditions, as well as forward looking estimates at the end of each reporting period.

#### **Estimation Uncertainty**

Estimates are made to set up the impairment provision for accounts receivable, which reflects the amount of accounts receivable that are ultimately expected to be non-collectible based on their expected credit losses.

#### **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) DEFERRED REVENUE**

Under various statutory requirements and agreements with customers and developers, the Corporation receives CIAC in the form of cash contributions. Such contributions are recorded as deferred revenue when funds are received and recognized into revenue over the useful life of the underlying asset to which the contribution related. In addition to CIAC, the Corporation receives fixed capacity charges and warranty deposits on long-term contracts in the form of cash. Such contributions are recorded as deferred revenue when funds are received and recognized into revenue over the term of the underlying contract.

### **(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. As at December 31, 2018 the Corporation held no active PPAs.

## **(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:

<b>Asset Class</b>	<b>Depreciation Rates</b>		
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, 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 on a CGU based on an impairment indicator assessment. 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 asset's useful life. These estimates incorporate past experience and the Corporation's current view of future cash flow generated by the CGU. The Corporation gave consideration to externally available information related to future commodity pricing and current economic conditions within the province when developing certain pricing assumptions. A discount rate was used which reflects the market weighted average cost of capital (WACC) using a capital asset pricing model approach, giving consideration to the risks specific to the CGU and the risks embedded in the net cash flow projections. An impairment loss of \$20.3 million was recognized during 2018.

## **(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 prorated 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 have 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 of 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 charge. 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.

As at January 1, 2018, ENMAX adopted IFRS 15, Revenue from Contracts with Customers (Note 5). As part of adoption, certain practical expedients were applied.

#### **Elected practical expedients**

- Right to invoice: ENMAX applies the practical expedient to provide limited disclosure on transaction price of its performance obligation as ENMAX either has the right to consideration from its customers in the amount that corresponds directly with the value to the customers of ENMAX's performance completed to date, or ENMAX expects the performance obligation will be satisfied within one year or less.
- The existence of a significant financing component: ENMAX applies the practical expedient not to adjust its revenue for the effect of a significant financing component if ENMAX expects, at contract inception, that the period between when ENMAX transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. CIAC are contributions received for work performed under various statutory requirements, and therefore is determined not to contain a significant financing component.

## Electricity and gas

Contracts with customers within the Competitive Energy operation mainly consist of contracts to provide and deliver supplies of electricity and/or natural gas (the commodity) to customers' specified locations.

### Performance obligations

Typical commodity contracts with customers include two performance obligations, which are to provide supplies of the commodity and to arrange for the delivery of these supplies to the customers' specified locations. These performance obligations are considered to be a series of performance obligations satisfied over time as the customers simultaneously consume the commodity and generate benefits upon receipt. The method of recognition of revenue for the commodity is an output method, which is based on volume of commodity delivered to the customers.

As required under IFRS 15, ENMAX performed the principal versus agent assessment and treatment of delivery charges collected within the Calgary city limit does not change under IFRS 15 as ENMAX is considered a principal for the provision of supplies of the commodity, with these charges reflected as gross revenue on ENMAX's consolidated financial statements. For delivery charges outside the Calgary city limit, ENMAX is an agent in relation to the performance obligation to arrange for delivery of the commodity and therefore the payment and recovery of the flow-through costs are presented on a net basis.

### Transaction price

The transaction price for the commodity contract involves consideration from customers that is variable and constrained due to unknown volume of the commodity that will be consumed. Certain commodity contracts may also include a price constraint as the relevant commodity price would be based on the commodity pool price at the time of the consumption. The variable consideration is no longer constrained when the volume and/or price of the commodity consumed by customers become known at each period. The resolved transaction price for the commodity delivered to customer at each billing period will be allocated to the single performance obligation to provide the commodity.

### Revenue recognition

The method utilized to recognize revenue for a commodity contract is an output method, which is based on actual volume of commodity distributed each period.

### 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

Contracts with customers under transmission and distribution operations are ENMAX's promises to provide transmission and distribution services to end customers through collaboration with electricity retailers. The customer for transmission service is the Alberta Electric System Operator (AESO), while the customers for the distribution service are electricity retailers.



### **Performance obligation**

The transmission contract includes one performance obligation, which is a stand-ready obligation to provide transmission service for the period. This performance obligation is satisfied when the stand-ready obligation to provide transmission service has been performed each month. The distribution contract includes one performance obligation, which is to provide distribution services. This performance obligation is satisfied when the end customer receives electricity. ENMAX's promises to provide transmission and distribution services to the customer are performance obligations that are satisfied over time as the customer is able to simultaneously consume the electricity transmitted and distributed to the customer's location.

### **Transaction price**

The transaction price for the transmission service involves consideration that is variable and constrained. The variable consideration is no longer constrained when Alberta Utilities Commission (AUC) approves the Cost of Service, which allows the Corporation to recover the cost to build, operate and maintain the transmission lines.

The transaction price for the distribution contract involves consideration that is variable and constrained. The variable consideration is no longer constrained when the actual number of customers serviced during each billing period becomes known.

### **Revenue recognition**

The method utilized to recognize revenue for the transmission contract is an input method, which is based on the passage of time as the stand-ready performance obligation is completed each period. The method utilized to recognize revenue for the distribution contract is an output method, which is based on actual volume of electricity distributed and actual number of customers serviced each period.

### **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.

### **Contractual services**

Contracts with a customer where ENMAX promises to render services mainly consist of services to maintain customer's assets or to develop specific assets.

### **Performance obligation**

The rendering of a service contract includes one performance obligation, which is to either maintain customer's assets or to develop an asset. This performance obligation is satisfied over time either because the customer simultaneously benefits from the maintenance services completed, or because they either enhance the customer's assets, or the new assets are highly specific for the customer and ENMAX has the right to receive payment for all the services performed at the end of each reporting period.

### **Transaction price**

The transaction price for the rendering of a service contract includes consideration from the customer that is fixed.

Certain contracts may also include variable considerations that are constrained, hence are not included in the transaction prices. The transaction price for all services rendered to the customer at each billing period will be allocated to the single performance obligation to provide a service to the customer.

## Revenue recognition

Both input and output methods are used to recognize revenue for the rendering of service contracts depending on which method more accurately depicts ENMAX's promise to transfer services to the customer. For contracts where an input method is used, revenue is recognized based on actual labor cost and materials consumed to perform the required service during each billing period. For contracts where an output method is used, the revenue is recognized based on actual services delivered to the customer during each billing period.

### (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) DIVIDENDS

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 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

### ADOPTION OF NEW ACCOUNTING STANDARDS

The following standards have been adopted by ENMAX for the first time for the financial year beginning on January 1, 2018 and have the following impact.

#### **IFRS 9, *Financial Instruments* replaces IAS 39**

IFRS 9 provides guidance and requirements on classification and measurement of financial assets and liabilities, impairment and hedging. The Corporation adopts IFRS 9 with the exception of the hedge accounting where ENMAX will continue to follow IAS 39 guidance on hedge accounting. The standard has introduced a single expected credit loss model for all financial assets measured at amortized cost and FVOCI. The Corporation was required to revise its impairment methodology under IFRS 9 over the accounts receivable for sales of commodity, transmission service, distribution service and other services and has adopted full retrospective approach without restating prior years.

The expected credit loss allowance calculated as at January 1, 2018 was \$20.0 million, which represents an increase of \$1.4 million to the allowance as previously presented.

<b><i>As at January 1, 2018</i></b> <b><i>(millions of Canadian dollars)</i></b>	<b>Current</b>	<b>More than 30 days past due</b>	<b>More than 60 days past due</b>	<b>More than 90 days past due</b>	<b>Total</b>
Expected loss rate	1.2%	24.1%	52.9%	80.6%	
Gross carrying amount	347.4	5.4	1.7	17.0	371.5
Loss allowance	4.1	1.3	0.9	13.7	20.0

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

IFRS 15 provides a framework that replaces existing revenue recognition guidance. ENMAX 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.

## IMPACT OF CHANGE IN ACCOUNTING POLICY ON CONSOLIDATED STATEMENTS OF EARNINGS:

<i>(millions of Canadian dollars)</i>		Year ended December 31, 2017 originally disclosed	IFRS 15 adoption	Year ended December 31, 2017 as presented
<b>REVENUE</b>				
Electricity	(a)	1,687.3	(771.9)	915.4
Natural gas	(a)	443.5	(254.5)	189.0
Transmission and distribution		594.4	-	594.4
Local access fees		95.8	-	95.8
Other revenue		176.0	-	176.0
<b>TOTAL REVENUE</b>		<b>2,997.0</b>	<b>(1,026.4)</b>	<b>1,970.6</b>
<b>COST OF SERVICES PROVIDED</b>				
Electricity and fuel purchases	(a)	1,559.6	(771.9)	787.7
Natural gas and delivery	(a)	389.3	(254.5)	134.8
Transmission and distribution		333.2	-	333.2
Local access fees		95.8	-	95.8
Depreciation and amortization		224.9	-	224.9
Impairment		10.3	-	10.3
Other Expenses		453.0	-	453.0
<b>TOTAL OPERATING EXPENSES</b>		<b>3,066.1</b>	<b>(1,026.4)</b>	<b>2,039.7</b>
<b>OPERATING (LOSS)</b>		<b>(69.1)</b>	<b>-</b>	<b>(69.1)</b>

### EXPLANATION OF THE MEASUREMENT ADJUSTMENTS IN THE TABLE ABOVE

#### (a) Revenue and cost of services provided for electricity and natural gas

Under IFRS 15, when another party is involved in providing goods or services to a customer, ENMAX shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (ENMAX is the principal) or to arrange for those goods or services to be provided by the other party (ENMAX is the agent).

ENMAX is a principal in relation to the performance obligations to provide: supplies of commodity, transmission service, distribution service and service to maintain or develop a customer's asset. ENMAX is an agent in relation to the performance obligation to arrange for the delivery of commodity to the customers' specified locations and therefore the payment and the recovery of such flow-through costs were revised to be presented as net.

### 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, with no bottom line impact.

#### IFRS 16 Leases

The Corporation will adopt IFRS 16 on January 1, 2019. 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 statement of financial position and disclosing key information about leasing arrangements.

The Corporation has made significant progress in the review and assessment of its contracts that contain leases. The accounting impact from the IFRS 16 adoption is expected to be significant for both lease liabilities and right-of-use assets from all of the Corporation's lease contracts. No material impact is expected on the Corporation's operating earnings. Where the Corporation is the lessee, assets will be recorded on the consolidated statements of financial position. The Corporation has chosen to apply the IFRS 16 standard to its leases retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application as an adjustment to the opening balance of retained earnings. The Corporation intends to apply both the short-term and low-value exemptions on all of its lease contracts.

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

### ENMAX POWER DELIVERY (POWER DELIVERY)

Power Delivery is a regulated operating segment established to carry out electricity transmission and distribution service functions and the Calgary 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, 2018</b>	<b>December 31, 2017</b>
Competitive Energy	2,804.1	2,873.8
Power Delivery	2,596.7	2,538.4
Corporate and Eliminations	163.5	111.0
Total Assets	5,564.3	5,523.2
Regulatory deferral account debit balances	82.0	76.2
Total assets and regulatory deferral account debit balances	5,646.3	5,599.4

### COMPARATIVE SEGMENT INFORMATION

Segment information reflects the presentation regularly reviewed by the chief operating decision maker. The chief operating decision maker uses adjusted operating profit as the basis for making decisions around asset allocation or assessing performance. Adjusted operating profit adjusts for items such as impairment, foreign exchange, onerous provision charges on long-term contracts, and unrealized gains and losses on commodities is reflected in the column 'Adjusted Consolidated Totals' below.

Segment information as at and for the year ended December 31, 2017 has been reclassified to conform with the current year's presentation. The presentation change had no impact on reported consolidated net earnings.

<b>Year Ended December 31, 2018</b> <i>(millions of Canadian dollars)</i>	<b>Competitive Energy</b>	<b>Power Delivery</b>	<b>Corporate and Eliminations</b>	<b>Adjusted Consolidated Totals</b>	<b>Regulatory Deferral Movement</b>	<b>Other Presentation Reclass</b>	<b>Consolidated Totals</b>
<b>REVENUE</b>							
Electricity	1,222.3	103.6	(83.9)	1,242.0	0.1	-	1,242.1
Natural gas	167.7	-	(0.1)	167.6	-	-	167.6
Transmission and distribution	-	661.4	-	661.4	3.2	-	664.6
Local access fees	-	137.1	-	137.1	-	-	137.1
Other revenue	177.0	37.4	(12.0)	202.4	(35.0)	-	167.4
<b>TOTAL REVENUE</b>	<b>1,567.0</b>	<b>939.5</b>	<b>(96.0)</b>	<b>2,410.5</b>	<b>(31.7)</b>	<b>-</b>	<b>2,378.8</b>
<b>OPERATING EXPENSES</b>							
Electricity and fuel purchases	900.6	83.1	(82.4)	901.3	-	(6.5)	894.8
Natural gas and delivery	110.8	-	0.2	111.0	-	-	111.0
Transmission and distribution	-	347.8	-	347.8	12.6	-	360.4
Local access fees	-	137.1	-	137.1	-	-	137.1
Depreciation and amortization	120.8	110.8	(1.0)	230.6	-	-	230.6
Impairment <sup>(1)</sup>	-	-	-	-	-	26.9	26.9
Other expenses	340.1	156.9	(18.7)	478.3	(34.1)	(23.1)	421.1
<b>TOTAL OPERATING EXPENSES</b>	<b>1,472.3</b>	<b>835.7</b>	<b>(101.9)</b>	<b>2,206.1</b>	<b>(21.5)</b>	<b>(2.7)</b>	<b>2,181.9</b>
<b>OPERATING PROFIT (LOSS)</b>	<b>94.7</b>	<b>103.8</b>	<b>5.9</b>	<b>204.4</b>	<b>(10.2)</b>	<b>2.7</b>	<b>196.9</b>
Unrealized gain on commodities				(6.5)	-	6.5	-
Foreign exchange gain				(10.6)	-	10.6	-
Impairment <sup>(1)</sup>				26.9	-	(26.9)	-
Recovery of onerous provision <sup>(1)</sup>				(12.5)	-	12.5	-
Finance charges				68.5	-	-	68.5
<b>NET EARNINGS BEFORE TAX</b>				<b>138.6</b>	<b>(10.2)</b>	<b>-</b>	<b>128.4</b>
Current income tax expense				115.0	-	-	115.0
Deferred income tax expense				18.5	-	-	18.5
<b>NET EARNINGS (LOSS) BEFORE NET MOVEMENT IN REGULATORY DEFERRAL ACCOUNT BALANCES</b>				<b>5.1</b>	<b>(10.2)</b>	<b>-</b>	<b>(5.1)</b>
<b>NET MOVEMENT IN REGULATORY DEFERRAL ACCOUNT BALANCES</b>				<b>-</b>	<b>10.2</b>	<b>-</b>	<b>10.2</b>
<b>NET EARNINGS</b>				<b>5.1</b>	<b>-</b>	<b>-</b>	<b>5.1</b>

<sup>(1)</sup> During the year ended December 31, 2018, the ENMAX Competitive Energy segment recognized an impairment loss of \$26.9 million associated with certain property, plant and equipment. During the year, the segment also recognized a recovery of its onerous provision by \$12.5 million to reflect changes in circumstances associated with the expected timing and amounts of certain longer-term onerous contracts.

<b>Year Ended December 31, 2017</b> <i>(millions of Canadian dollars)</i>	<b>Competitive Energy</b>	<b>Power Delivery</b>	<b>Corporate and Eliminations</b>	<b>Adjusted Consolidated Totals</b>	<b>Regulatory Deferral Movement</b>	<b>Other Presentation Reclass</b>	<b>Consolidated Totals</b>
<b>REVENUE</b>							
Electricity	897.3	63.6	(43.0)	917.9	(2.5)	-	915.4
Natural gas	189.2	-	(0.2)	189.0	-	-	189.0
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>1,290.5</b>	<b>798.9</b>	<b>(68.5)</b>	<b>2,020.9</b>	<b>(50.3)</b>	<b>-</b>	<b>1,970.6</b>
<b>OPERATING EXPENSES</b>							
Electricity and fuel purchases	603.6	42.2	(43.3)	602.5	-	185.2	787.7
Natural gas and delivery	134.6	-	0.2	134.8	-	-	134.8
Transmission and distribution	-	302.2	-	302.2	31.0	-	333.2
Local access fees	-	95.8	-	95.8	-	-	95.8
Depreciation and amortization	124.1	101.9	(1.1)	224.9	-	-	224.9
Impairment <sup>(2)</sup>	-	-	-	-	-	10.3	10.3
Other expenses	330.4	148.6	(17.4)	461.6	(36.6)	28.0	453.0
<b>TOTAL OPERATING EXPENSES</b>	<b>1,192.7</b>	<b>690.7</b>	<b>(61.6)</b>	<b>1,821.8</b>	<b>(5.6)</b>	<b>223.5</b>	<b>2,039.7</b>
<b>OPERATING PROFIT (LOSS)</b>	<b>97.8</b>	<b>108.2</b>	<b>(6.9)</b>	<b>199.1</b>	<b>(44.7)</b>	<b>(223.5)</b>	<b>(69.1)</b>
Unrealized loss on commodities				185.2	-	(185.2)	-
Foreign exchange loss				11.2	-	(11.2)	-
Impairment <sup>(2)</sup>				10.3	-	(10.3)	-
Onerous provision <sup>(2)</sup>				16.8	-	(16.8)	-
Finance charges				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</b>							
IN REGULATORY DEFERRAL							
ACCOUNT BALANCES				(30.3)	(44.7)	-	(75.0)
<b>NET MOVEMENT IN REGULATORY</b>							
DEFERRAL ACCOUNT BALANCES				-	44.7	-	44.7
<b>NET LOSS</b>				<b>(30.3)</b>	<b>-</b>	<b>-</b>	<b>(30.3)</b>

<sup>(2)</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 (work in progress) it no longer expected to bring to market due to market conditions. During the prior year, 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.



## REVENUE

<b>Types of Customers and Sales Channel</b>	<b>Nature and significant payment terms</b>
Mass market	Mass Market is comprised of residential and small business customers who consume less than 250,000 kWh/year. These customers can be supplied electricity through competitive contracts or through the Regulated Rate Option. Natural gas is always supplied under a competitive contract.
Commercial market	Commercial Market is business to business competitive contracting for electricity and/or natural gas. A small number of commercial customers that do not negotiate a contract are supplied electricity on a regulated Default supply.
Government and institutional	ENMAX receives revenue from governments and municipalities (counties, cities and towns), entities backed by the government, universities, colleges and school boards.
Non-government and non-institutional	ENMAX receives revenue from individual consumers to large corporations; these individuals and corporations receive credit and terms based on the revenue product and their credit history.
Transmission	ENMAX receives revenue from Alberta Electric System Operator (AESO) specifically for the use of its transmission grid system.
Distribution	ENMAX receives revenue from electricity retailers specifically for the utilization of its electricity distribution system in delivering electricity to the end customers.
City of Calgary local access fees	ENMAX receives revenue from electricity end users to offset municipal levies by the City of Calgary in lieu of property taxes.

## REVENUE – MAJOR CUSTOMERS AND SALES CHANNELS

<i>(millions of Canadian dollars)</i>	Mass Market	Commercial Market	Government and Institutional	Non-Government and Non-Institutional	Transmission	Distribution	City of Calgary Local Access Fees	Total
<b>Year Ended December 31, 2018</b>								
Electricity								
Competitive Energy	223.7	879.0	-	-	-	-	-	1,102.7
Regulated	112.5	26.9	-	-	-	-	-	139.4
Natural gas	123.8	43.8	-	-	-	-	-	167.6
Transmission & distribution	-	-	-	-	92.6	572.0	-	664.6
Local access fees	-	-	-	-	-	-	137.1	137.1
Contractual services	-	12.9	37.0	75.0	-	-	-	124.9
Other revenue & CIAC	-	-	-	42.5	-	-	-	42.5
<b>TOTAL REVENUE</b>	<b>460.0</b>	<b>962.6</b>	<b>37.0</b>	<b>117.5</b>	<b>92.6</b>	<b>572.0</b>	<b>137.1</b>	<b>2,378.8</b>
<b>Year Ended December 31, 2017</b>								
Electricity								
Competitive Energy	197.4	623.2	-	-	-	-	-	820.6
Regulated	73.7	21.1	-	-	-	-	-	94.8
Natural gas	138.5	50.5	-	-	-	-	-	189.0
Transmission & distribution	-	-	-	-	74.9	519.5	-	594.4
Local access fees	-	-	-	-	-	-	95.8	95.8
Contractual services	-	17.2	43.9	59.9	-	-	-	121.0
Other revenue & CIAC	-	-	-	55.0	-	-	-	55.0
<b>TOTAL REVENUE</b>	<b>409.6</b>	<b>712.0</b>	<b>43.9</b>	<b>114.9</b>	<b>74.9</b>	<b>519.5</b>	<b>95.8</b>	<b>1,970.6</b>

## 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, 2018 and 2017.

#### **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, 2018, holding all other variables constant, an unrealized mark-to-market adjustment on outstanding gas forward contracts related to a 10 per cent increase or decrease in the forward price of natural gas would increase or decrease earnings by \$44.5 million, respectively (2017 - \$37.7 million) and no change in OCI (2017 - \$nil). As at December 31, 2018, holding all other variables constant, an unrealized mark-to-market adjustment on outstanding electricity forward contracts related to a 10 per cent increase or decrease in the forward price of electricity would increase or decrease earnings by \$0.6 million, respectively (2017 - \$2.8 million) and increase or decrease OCI by \$29.7 million, respectively (2017 - \$47.6 million). These gas and electricity forward contracts extend out to 2023 and 2024 respectively.

#### **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, 2018, a 10 per cent strengthening in the Canadian dollar in relation to the U.S. dollar, holding all other variables constant, would increase earnings by \$1.0 million (2017 - decrease earnings by \$8.3 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> (millions of Canadian dollars)	December 31, 2018	December 31, 2017
Cash and cash equivalents (a)	89.0	81.2
Accounts receivable (b)	711.6	657.8
Current portion of financial assets (c)	58.3	98.9
Financial assets (c)	29.9	49.4
Long-term accounts receivable (b)	2.5	0.6

### (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, 2018, totalled \$7.0 million (2017 - \$12.0 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> (millions of Canadian dollars)	December 31, 2018	December 31, 2017
1-30 days past due	14.7	34.9
31-60 days past due	3.5	5.5
61 days or more past due	21.1	19.1
Total past due	39.3	59.5

## CHANGES IN THE ALLOWANCE FOR DOUBTFUL ACCOUNTS

<i>As at</i> (millions of Canadian dollars)	December 31, 2018	December 31, 2017
Provision at the beginning of the year	18.6	14.9
Increase to allowance	7.0	12.0
Recoveries and write-offs	(9.1)	(8.3)
Provision at end of the year	16.5	18.6

The remainder of the accounts receivable balance outstanding at December 31, 2018, 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

<b>As at</b> <i>(millions of Canadian dollars)</i>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Less than 1 year (includes accounts payable)	801.1	1,055.1
1–3 years	253.4	222.1
3–5 years	218.0	178.0
More than 5 years	1,693.5	1,237.3

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

#### CONTRACTUAL MATURITIES OF DERIVATIVE FINANCIAL LIABILITIES

<b>As at</b> <i>(millions of Canadian dollars)</i>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Less than 1 year	108.4	141.8
1–3 years	97.6	95.7
3–5 years	30.4	35.8
More than 5 years	7.2	9.8

## VALUATION OF DERIVATIVE ASSETS AND LIABILITIES

Financial derivative instruments are recorded at fair value on the statement of financial position. As at December 31, 2018, the fair values of derivatives were as follows:

<b>As at</b> <i>(millions of Canadian dollars)</i>	<b>December 31, 2018</b>		<b>December 31, 2017</b>	
	<b>Hedge Instruments</b>	<b>Non-Hedge Derivatives</b>	<b>Hedge Instruments</b>	<b>Non-Hedge Derivatives</b>
Assets				
Current	<b>22.2</b>	<b>36.1</b>	44.6	54.3
Non-current	<b>15.7</b>	<b>14.2</b>	38.3	11.1
Liabilities				
Current	<b>14.9</b>	<b>93.5</b>	18.1	123.7
Non-current	<b>20.8</b>	<b>114.4</b>	35.6	105.7

For cash flow hedges, gains and losses are reclassified immediately to net earnings when anticipated hedged transactions are no longer likely to occur. During the fourth quarter of 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 2018, there was no impact recognized in electricity and fuel purchases (2017 - \$3.3 million) due to the ineffectiveness of the relevant hedges.

For non-hedge derivatives, there were unrealized gains of \$6.4 million for the year ended December 31, 2018 (2017 - \$190.0 million loss), primarily recorded in electricity and fuel purchases. The anticipated non-hedge derivatives are expected to settle in 2019 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.

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 is 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, 2018</b> <i>(millions of Canadian dollars)</i>	<b>Quoted Prices in Active Markets</b>	<b>Significant Other Observable Inputs</b>	<b>Significant Unobservable Inputs<sup>(1)</sup></b>	
	<b>(LEVEL I)</b>	<b>(LEVEL II)</b>	<b>(LEVEL III)</b>	<b>TOTAL</b>
Financial assets measured at fair value:				
Energy trading forward contracts	16.2	67.8	3.5	87.5
Foreign currency forward contracts	-	0.5	-	0.5
Available for sale securities	0.2	-	-	0.2
Financial assets total	16.4	68.3	3.5	88.2
Financial liabilities measured at fair value:				
Energy trading forward contracts	(45.0)	(163.0)	(32.3)	(240.3)
Foreign currency forward contracts	-	(3.3)	-	(3.3)
Financial liabilities total	(45.0)	(166.3)	(32.3)	(243.6)
Net derivative liabilities	(28.6)	(98.0)	(28.8)	(155.4)

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

<b>As at December 31, 2017</b> <i>(millions of Canadian dollars)</i>	<b>Quoted Prices in Active Markets</b>	<b>Significant Other Observable Inputs</b>	<b>Significant Unobservable Inputs<sup>(1)</sup></b>	
	<b>(LEVEL I)</b>	<b>(LEVEL II)</b>	<b>(LEVEL III)</b>	<b>TOTAL</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
Financial assets total	23.2	109.7	15.4	148.3
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)
Financial liabilities total	(41.6)	(194.7)	(46.8)	(283.1)
Net derivative assets (liabilities)	(18.4)	(85.0)	(31.4)	(134.8)

<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, 2017	(31.3)
Changes attributable to:	
Commodity price changes	(24.3)
Commodity price changes (de-designated)	-
New contracts entered	0.4
Transfers in/out of Level III	23.8
Net derivative (liabilities) as at December 31, 2017	(31.4)
Changes attributable to:	
Commodity price changes	(2.1)
Commodity price changes (de-designated)	-
New contracts entered	(0.3)
Transfers in/out of Level III	5.0
<b>Net derivative (liabilities) as at December 31, 2018</b>	<b>(28.8)</b>
Total change in fair value included in OCI	5.3
Total change in fair value included in pre-tax earnings	(2.7)

## NON-DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

Fair values for cash and cash equivalents, accounts receivable, short-term financing, 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

<b>As at</b>	<b>December 31, 2018</b>		<b>December 31, 2017</b>	
<i>(millions of Canadian dollars)</i>	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
Long-term debt <sup>(1)</sup> consisting of:				
Debtentures, with remaining terms of:				
Less than 5 years	57.8	58.9	73.0	75.3
5–10 years	21.1	22.0	12.6	13.3
10–15 years	150.4	166.3	111.9	125.6
15–20 years	507.9	537.4	465.7	509.0
20–25 years	448.1	447.0	415.4	424.3
Private debtentures				
Series 1 (6.15%)	-	-	299.7	307.1
Series 3 (3.81%)	199.0	203.0	198.9	204.5
Series 4 (3.84%) <sup>(2)</sup>	298.3	301.2	-	-
Promissory note	3.3	3.4	3.6	3.8
	<b>1,685.9</b>	<b>1,739.2</b>	<b>1,580.8</b>	<b>1,662.9</b>

<sup>(1)</sup> Includes current portion of \$71.3 million (December 31, 2017–\$367.3 million). Maturity dates range from March 2019 to June 2043.

<sup>(2)</sup> On June 5, 2018, \$300.0 million of Series 4 Private Debtentures were issued for a 10-year term with a coupon rate of 3.84 per cent.

As at December 31, 2018, ENMAX had \$18.0 million with a fair value of \$18.0 million of commercial paper with an average rate of 2.25 per cent (December 31, 2017 - \$207.7 million, fair value of \$207.7 million with an average rate of 1.40 per cent).



## 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, 2018		December 31, 2017	
	Accounts Receivable	Accounts Payable and Accrued Liabilities	Accounts Receivable	Accounts Payable and Accrued Liabilities
<i>(millions of Canadian dollars)</i>				
Gross amounts recognized	-	(38.2)	-	(41.9)
Gross amounts set-off	-	13.7	-	8.6
Net amounts as presented in the Consolidated Statement of Financial Position	-	(24.5)	-	(33.3)

## 8. INCOME TAXES

<i>Year ended December 31, (millions of Canadian dollars)</i>	2018	2017
<b>Current income tax expense (recovery)</b>		
Expense for current year	0.3	2.5
Adjustment in respect of prior years	-	(0.8)
Other	114.7	3.5
Total current income tax expense	115.0	5.2
<b>Deferred income tax expense (recovery)</b>		
Origination and reversal of temporary differences	(12.8)	(73.7)
Adjustment in respect of prior years	(1.2)	(0.8)
Other	32.5	4.8
Total deferred income tax expense (recovery)	18.5	(69.7)
Total income tax expense (recovery)	133.5	(64.5)

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

<i>Year ended December 31, (millions of Canadian dollars)</i>	2018	2017
Net earnings (loss) before tax	128.4	(139.5)
Income not subject to tax	(163.5)	(161.1)
	(35.1)	(300.6)
Federal and provincial tax rates	27.0%	27.0%
Expected income tax recovery	(9.4)	(81.3)
Non-deductible expense (recovery)	6.0	(0.2)
Adjustment for deferred tax reversal and other estimate revisions	136.9	17.0
Total income tax expense (recovery)	133.5	(64.5)

The changes in deferred income tax assets and liabilities during the years ended December 31, 2018 and 2017 were as follows:

<i>(millions of Canadian dollars)</i>	<b>January 1, 2018</b>	<b>Recognized In Net Income</b>	<b>Recognized In Other Comprehensive Income</b>	<b>December 31, 2018</b>
<b>Deferred income tax assets</b>				
Property, plant and equipment	(32.0)	0.3	-	<b>(31.7)</b>
Loss carried forward	75.2	(33.2)	-	<b>42.0</b>
Unrealized derivatives	43.6	(1.8)	-	<b>41.8</b>
Other comprehensive income	(11.0)	7.0	1.5	<b>(2.5)</b>
Other	5.5	(2.9)	-	<b>2.6</b>
	<b>81.3</b>	<b>(30.6)</b>	<b>1.5</b>	<b>52.2</b>
<b>Deferred income tax liabilities</b>				
Property, plant and equipment	110.5	(13.8)	-	<b>96.7</b>
Loss carried forward	(13.2)	(0.9)	-	<b>(14.1)</b>
Unrealized derivatives	(0.8)	0.1	-	<b>(0.7)</b>
Other comprehensive income	(0.1)	-	-	<b>(0.1)</b>
Other	(21.8)	(2.7)	-	<b>(24.5)</b>
	<b>74.6</b>	<b>(17.3)</b>	<b>-</b>	<b>57.3</b>
Net deferred tax assets (liabilities)	<b>6.7</b>	<b>(13.3)</b>	<b>1.5</b>	<b>(5.1)</b>

<i>(millions of Canadian dollars)</i>	<b>January 1, 2017</b>	<b>Recognized In Net Income</b>	<b>Recognized In Other Comprehensive Income</b>	<b>December 31, 2017</b>
<b>Deferred income tax assets</b>				
Property, plant and equipment	(24.9)	(7.1)	-	<b>(32.0)</b>
Loss carried forward	74.5	0.7	-	<b>75.2</b>
Unrealized derivatives	(6.4)	50.0	-	<b>43.6</b>
Other comprehensive income	22.4	(14.6)	(18.8)	<b>(11.0)</b>
Other	6.4	(0.9)	-	<b>5.5</b>
	<b>72.0</b>	<b>28.1</b>	<b>(18.8)</b>	<b>81.3</b>
<b>Deferred income tax liabilities</b>				
Property, plant and equipment	136.5	(26.0)	-	<b>110.5</b>
Loss carried forward	(13.4)	0.2	-	<b>(13.2)</b>
Unrealized derivatives	0.5	(1.3)	-	<b>(0.8)</b>
Other comprehensive income	-	(0.1)	-	<b>(0.1)</b>
Other	(25.6)	3.8	-	<b>(21.8)</b>
	<b>98.0</b>	<b>(23.4)</b>	<b>-</b>	<b>74.6</b>
Net deferred tax asset (liability)	<b>(26.0)</b>	<b>51.5</b>	<b>(18.8)</b>	<b>6.7</b>

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

<b>Year ended December 31,</b> <i>(millions of Canadian dollars)</i>	<b>2018</b>	<b>2017</b>
Non-capital loss	<b>14.5</b>	10.8
Property, plant and equipment	<b>62.5</b>	62.5
Contingent liabilities	<b>19.9</b>	35.5
	<b>96.9</b>	108.8

The changes in income taxes receivable and income taxes payable during the years ended December 31, 2018 and 2017 were as follows:

<i>(millions of Canadian dollars)</i>	Income Taxes Receivable	Income Taxes Payable	Net Position
January 1, 2017	132.4	(0.8)	131.6
Adjustments for prior periods	0.8	-	0.8
Installment and refunds	(41.4)	(2.7)	(44.1)
Current year provision	-	(2.5)	(2.5)
Other	(4.3)	4.2	(0.1)
December 31, 2017	<b>87.5</b>	<b>(1.8)</b>	<b>85.7</b>
Instalments and refunds	(59.9)	-	(59.9)
Current year provision	(0.2)	(0.1)	(0.3)
Other	18.2	1.8	20.0
<b>December 31, 2018</b>	<b>45.6</b>	<b>(0.1)</b>	<b>45.5</b>

As at December 31, 2018, 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>	2018
2031	1.3
2032	4.9
2033	1.0
2034	29.9
2035	7.1
2036	34.5
2037	15.0
2038	10.3

## 9. REGULATORY DEFERRAL ACCOUNT BALANCES

### NATURE AND ECONOMIC EFFECT OF RATE REGULATION

ENMAX Transmission and ENMAX Distribution (the Divisions) are divisions of the 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 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 2018-2022 Distribution Access Service (DAS) rates are subject to the Performance Based Regulation (PBR) mechanism. In December 2018, the AUC approved formula-based rates for the period effective January 1, 2019, which replaced approved interim rates that had been in place since April 1, 2018.

Transmission division rates are set based on an AUC approved revenue requirement and are regulated under a traditional cost of service framework. Interim rates are currently in place pending a decision on the 2018-2020 General Tariff Application, which was filed in December 2018.

## 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, 2018	34.4	9.9	31.9	76.2
Balances arising in the period <sup>(1)</sup>	167.7	0.9	3.7	172.3
Recovery (reversal) <sup>(2)</sup>	(139.3)	-	(27.2)	(166.5)
<b>December 31, 2018</b>	<b>62.8</b>	<b>10.8</b>	<b>8.4</b>	<b>82.0</b>
Expected recovery/reversal period	3 Months	25 Years	12 Months	
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)
December 31, 2017	34.4	9.9	31.9	76.2
Expected recovery/reversal period	2 Months	25 Years	12 Months	

<sup>(1)</sup> "Balances arising in the period" row consists of new additions to regulatory deferral debits and credit balances.

<sup>(2)</sup> "Recovery (reversal)" row 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, 2018	-	9.4	9.4
Balances arising in the period <sup>(1)</sup>	-	0.1	0.1
Recovery (reversal) <sup>(2)</sup>	-	(4.5)	(4.5)
<b>December 31, 2018</b>	<b>-</b>	<b>5.0</b>	<b>5.0</b>
Expected recovery/reversal period		12 Months	
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)
December 31, 2017	-	9.4	9.4
Expected recovery/reversal period		12 Months	

<sup>(1)</sup> "Balances arising in the period" row consists of new additions to regulatory deferral debits and credit balances.

<sup>(2)</sup> "Recovery (reversal)" row 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 14 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 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 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**

<b>As at</b> <i>(millions of Canadian dollars)</i>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
<b>Other current assets</b>		
Prepaid expenses	9.2	9.1
Collateral paid	71.9	58.0
Deferred asset	0.3	0.3
Emission offsets	32.3	39.0
Other	5.2	3.0
	<b>118.9</b>	<b>109.4</b>
<b>Other long-term assets</b>		
Prepaid expenses	8.2	9.1
Long-term accounts receivable	2.5	0.6
Deferred asset	3.3	3.5
Other	13.1	12.9
	<b>27.1</b>	<b>26.1</b>
<b>Other current liabilities</b>		
Finance lease	0.1	0.3
Deposits	17.9	18.7
Other	6.9	8.4
	<b>24.9</b>	<b>27.4</b>
<b>Other long-term liabilities</b>		
Finance lease	4.1	4.3
Other	12.1	11.6
	<b>16.2</b>	<b>15.9</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, 2017	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)
As at December 31, 2017	2,228.2	2,261.5	438.3	122.4	49.3	44.5	32.2	113.5	(20.0)	5,269.9
Additions	-	-	-	0.1	-	4.0	-	335.4	-	339.5
Transfers	224.3	36.1	37.3	17.9	-	-	13.3	(328.9)	-	-
Disposals	(8.0)	(20.1)	-	(53.1)	-	-	(3.7)	(1.6)	-	(86.5)
Impairment	-	-	-	-	-	-	-	(4.7)	-	(4.7)
<b>As at December 31, 2018</b>	<b>2,444.5</b>	<b>2,277.5</b>	<b>475.6</b>	<b>87.3</b>	<b>49.3</b>	<b>48.5</b>	<b>41.8</b>	<b>113.7</b>	<b>(20.0)</b>	<b>5,518.2</b>
<b>Accumulated Depreciation</b>										
As at January 1, 2017	(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)
As at December 31, 2017	(265.3)	(680.1)	(84.2)	(86.7)	-	-	(9.9)	-	5.0	(1,121.2)
Depreciation	(89.3)	(92.6)	(13.0)	(9.7)	-	-	(2.7)	-	0.6	(206.7)
Transfers	-	-	-	-	-	-	-	-	-	-
Disposals	8.4	19.5	0.1	53.1	-	-	2.8	-	-	83.9
Impairment	-	(19.6)	(8.0)	-	-	-	-	-	7.3	(20.3)
<b>As at December 31, 2018</b>	<b>(346.2)</b>	<b>(772.8)</b>	<b>(105.1)</b>	<b>(43.3)</b>	<b>-</b>	<b>-</b>	<b>(9.8)</b>	<b>-</b>	<b>12.9</b>	<b>(1,264.3)</b>
<b>Net Book Value</b>										
As at December 31, 2017	1,962.9	1,581.4	354.1	35.7	49.3	44.5	22.3	113.5	(15.0)	4,148.7
<b>As at December 31, 2018</b>	<b>2,098.3</b>	<b>1,504.7</b>	<b>370.5</b>	<b>44.0</b>	<b>49.3</b>	<b>48.5</b>	<b>32.0</b>	<b>113.7</b>	<b>(7.1)</b>	<b>4,253.9</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 \$4.7 million in accumulated depreciation in 2017.

Real property, including land and buildings, with a carrying amount of \$419.8 million as at December 31, 2018 (December 31, 2017 - \$403.3 million), was subject to a right of first refusal to purchase held by the City.

For the year ended December 31, 2018, capitalized borrowing costs amounted to \$6.3 million (2017 - \$7.9 million), with capitalization rates ranging from 3.15 per cent to 5.32 per cent (2017 - 3.91 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 1.80 per cent to 6.31 per cent (2017 - 0.81 to 6.31 per cent).

During 2018, the Corporation performed an impairment test on a CGU where circumstances indicated possible impairment (Note 4(m)). An impairment loss was recognized for \$20.3 million (2017 - \$nil).

During the year ended December 31, 2018, ENMAX recognized an impairment loss of \$6.6 million (2017 - \$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 the 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, 2017	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)
As at December 31, 2017	273.8	12.4	33.5	44.1	363.8
Additions	-	-	-	20.6	20.6
Transfers	53.3	-	0.4	(53.7)	-
Impairment	-	-	-	(1.9)	(1.9)
Disposals	(78.7)	-	-	-	(78.7)
<b>As at December 31, 2018</b>	<b>248.4</b>	<b>12.4</b>	<b>33.9</b>	<b>9.1</b>	<b>303.8</b>
<b>Accumulated amortization</b>					
As at January 1, 2017	(144.0)	(11.7)	(4.8)	-	(160.5)
Amortization	(18.7)	(0.6)	(1.4)	-	(20.7)
Disposals	0.3	-	-	-	0.3
As at December 31, 2017	(162.4)	(12.3)	(6.2)	-	(180.9)
Amortization	(22.3)	-	(1.5)	-	(23.8)
Disposals	78.7	-	-	-	78.7
<b>As at December 31, 2018</b>	<b>(106.0)</b>	<b>(12.3)</b>	<b>(7.7)</b>	<b>-</b>	<b>(126.0)</b>
<b>Net book value</b>					
As at December 31, 2017	111.4	0.1	27.3	44.1	182.9
<b>As at December 31, 2018</b>	<b>142.4</b>	<b>0.1</b>	<b>26.2</b>	<b>9.1</b>	<b>177.8</b>

## 13. LONG-TERM DEBT

<b>As at</b> <i>(millions of Canadian dollars)</i>	<b>December 31, 2018</b>	<b>Weighted Average Interest Rates</b>	<b>December 31, 2017</b>	<b>Weighted Average Interest Rates</b>
City debentures <sup>(1)</sup> with remaining terms of:				
Less than 5 years	57.8	3.54%	73.0	3.69%
5 – 10 years	21.1	3.69%	12.6	3.55%
10 – 15 years	150.4	4.58%	111.9	4.62%
15 – 20 years	507.9	3.86%	465.7	4.07%
20 – 25 years	448.1	3.23%	415.4	3.28%
Private debenture <sup>(1)</sup>	497.3	3.82%	498.6	5.21%
Promissory note	3.3	5.00%	3.6	5.00%
	<b>1,685.9</b>		<b>1,580.8</b>	
Less: current portion <sup>(2)</sup>	<b>(71.3)</b>		<b>(367.3)</b>	
	<b>1,614.6</b>		<b>1,213.5</b>	

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

<sup>(2)</sup> During 2018, the Corporation repaid \$300.0 million in outstanding Series 1 Private Debentures with a coupon rate of 6.15 per cent.

## 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 2018, 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 2019.

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

On June 5, 2018, a Series 4 Private Debenture of \$300.0 million at 3.84 per cent was issued. As at December 31, 2018, the outstanding unsecured private debentures of \$200.0 million and \$300.0 million bear interest at a rate of 3.81 per cent and 3.84 per cent respectively, payable semi-annually, and mature on December 5, 2024, and June 5, 2028, 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 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.

## PRINCIPAL REPAYMENTS

The required repayments of principal on the long-term debt at December 31, 2018, are as follows:

### REQUIRED REPAYMENTS OF PRINCIPAL

**As at December 31,**

*(millions of Canadian dollars)*

	2018
Less than 1 year	71.3
1–3 years	125.7
3–5 years	109.7
More than 5 years	1,382.0

## SHORT TERM FINANCING

As at December 31, 2018, ENMAX had \$18.0 million (2017 - \$207.7 million) of commercial paper outstanding. The interest rate averaged 2.25 per cent (2017 – 1.40 per cent); management expects this balance to be repaid within a year.



## 14. ASSET RETIREMENT OBLIGATIONS AND OTHER PROVISIONS

<i>(millions of Canadian dollars)</i>	<b>Asset Retirement Obligations</b>	<b>Onerous Contracts and Other</b>	<b>Total</b>
As at January 1, 2017	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)
As at December 31, 2017	87.3	36.0	123.3
Additions (recoveries)	-	(12.5)	(12.5)
Settled in the year	-	(4.9)	(4.9)
Accretion expense	1.8	-	1.8
<b>As at December 31, 2018</b>	<b>89.1</b>	<b>18.6</b>	<b>107.7</b>
Less: current portion	-	1.7	1.7
	<b>89.1</b>	<b>16.9</b>	<b>106.0</b>

### Asset Retirement Obligations

The Corporation has estimated the net present value of the decommissioning liabilities associated with the assets of ENMAX Competitive Energy based on a total undiscounted future liability of \$195.1 million (December 31, 2017 - \$195.1 million) calculated using an inflation rate of 2 per cent (December 31, 2017 - 2 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, 2017 - between 1.89 per cent and 2.23 per cent) to reflect the market assessment of the time value of money.

### Onerous contracts and Other

The Corporation decreased its onerous contracts provision by \$12.5 million (2017 - \$16.8 million increase) to reflect changes in the expected timing and amounts of certain longer-term onerous contracts.

## 15. SHARE CAPITAL

<i>(millions of Canadian dollars, except share amounts)</i>	<b>Number of Shares</b>	<b>Amount</b>
Authorized:		
Unlimited number of common shares		
Issued and outstanding:		
Balance, December 31, 2017 and 2018:		
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, 2017 and 2018</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, 2018, 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 \$22.4 million (2017 - \$21.5 million).

For the year ended December 31, 2018, the total expense for the DC provisions of the plan is \$10.2 million (2017 - \$9.9 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, 2018			December 31, 2017		
	Pension Benefit Plan	Other Benefit Plan	Total	Pension Benefit Plan	Other Benefit Plan	Total
<i>(millions of Canadian dollars)</i>						
<b>Change in defined benefit obligation:</b>						
Balance, beginning of year	355.5	12.8	368.3	333.4	12.3	345.7
Current service cost	12.5	0.9	13.4	11.8	0.9	12.7
Interest cost	12.1	0.4	12.5	12.2	0.4	12.6
Employee contributions	3.6	-	3.6	3.5	-	3.5
Actuarial losses (gains)	(15.7)	(1.9)	(17.6)	10.6	(0.2)	10.4
Benefits paid	(31.9)	(0.6)	(32.5)	(16.0)	(0.6)	(16.6)
Defined benefit obligation, end of year	336.1	11.6	347.7	355.5	12.8	368.3
<b>Change in plan assets:</b>						
Fair value, beginning of year	317.9	-	317.9	291.1	-	291.1
Interest income	11.1	-	11.1	10.9	-	10.9
Return on plan assets, excluding amounts included in interest expense	(15.1)	-	(15.1)	14.7	-	14.7
Employer contributions	10.2	-	10.2	12.5	-	12.5
Employee contributions	3.7	-	3.7	3.5	-	3.5
Benefits paid	(30.5)	-	(30.5)	(14.4)	-	(14.4)
Non-investment expenses	(0.4)	-	(0.4)	(0.4)	-	(0.4)
Plan assets at fair value, end of year	296.9	-	296.9	317.9	-	317.9
<b>Funded status-plan deficit</b>						
Accrued benefit liability	(39.2)	(11.6)	(50.8)	(37.6)	(12.8)	(50.4)

## DEFINED BENEFIT COST – STATEMENT OF EARNINGS

	December 31, 2018			December 31, 2017		
	Pension Benefit Plan	Other Benefit Plan	Total	Pension Benefit Plan	Other Benefit Plan	Total
<i>(millions of Canadian dollars)</i>						
Current service costs	12.5	0.9	13.4	11.8	0.9	12.7
Net interest on net benefit liability	1.0	0.4	1.4	1.3	0.4	1.7
Admin costs	0.3	-	0.3	0.4	-	0.4
Net benefit plan expense	13.8	1.3	15.1	13.5	1.3	14.8

## DEFINED BENEFIT COST – STATEMENT OF COMPREHENSIVE INCOME

	December 31, 2018			December 31, 2017		
	Pension Benefit Plan	Other Benefit Plan	Total	Pension Benefit Plan	Other Benefit Plan	Total
<i>(millions of Canadian dollars)</i>						
Return on plan assets (greater) less than discount rate	15.3	0.1	15.4	(14.7)	-	(14.7)
Actuarial (gains) losses						
Experience adjustments	(0.4)	(0.4)	(0.8)	3.5	(0.2)	3.3
Changes in assumptions <sup>(1)</sup>	(15.4)	(1.4)	(16.8)	7.2	(0.1)	7.1
Re-measurement effects recognized in OCI	(0.5)	(1.7)	(2.2)	(4.0)	(0.3)	(4.3)

<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, 2018				December 31, 2017			
	Quoted	Un-quoted	Total	In %	Quoted	Un-quoted	Total	In %
<i>(millions of Canadian dollars)</i>								
<b>Canadian equity securities</b>			78.0	26.1%			88.0	27.7%
Small company equity fund	9.4	-	9.4		11.2	-	11.2	
Canadian equity fund	68.6	-	68.6		76.8	-	76.8	
<b>Foreign equity securities</b>			92.7	31.1%			102.8	32.3%
U.S. large company equity fund	53.8	-	53.8		58.1	-	58.1	
Developed country equity fund	38.9	-	38.9		44.7	-	44.7	
<b>Fixed-income securities</b>			101.0	33.9%			100.5	31.6%
Canadian fixed-income fund	5.5	-	5.5		5.4	-	5.4	
Canadian long-duration bond fund	33.9	-	33.9		32.7	-	32.7	
Real return bond fund	16.0	-	16.0		16.0	-	16.0	
Long duration credit bond fund	29.2	-	29.2		29.5	-	29.5	
U.S. high yield bond fund	16.4	-	16.4		16.9	-	16.9	
<b>Real estate investments</b>	-	25.2	25.2	8.5%	-	23.2	23.2	7.3%
<b>Cash and cash equivalents</b>	-	0.9	0.9	0.3%	-	2.1	2.1	0.7%
<b>Non-investment asset</b>	-	0.4	0.4	0.1%	-	1.6	1.6	0.4%
<b>Total plan assets</b>			298.2	100.0%			318.2	100.0%

## (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:

	December 31, 2018		December 31, 2017	
(millions of Canadian dollars)	Pension Benefit Plan	Other Benefit Plan	Pension Benefit Plan	Other Benefit Plan
Defined benefit obligation:				
Discount rate	3.75%	3.50%	3.50%	3.25%
Inflation rate	1.80%	n/a	1.80%	n/a
Rate of compensation increase	2.80%	2.80%	2.80%	2.80%
Health care cost trend rate for next year	n/a	6.50%	n/a	7.00%
Decreasing gradually to 5% in the year	n/a	2025	n/a	2021
Average life expectancy <sup>(1)</sup>				
Male	21.7	n/a	21.7	n/a
Female	24.1	n/a	24.1	n/a
Net benefit plan expense:				
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	6.50%	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 (2017 – 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

	December 31, 2018		
(millions of Canadian dollars)	Change in assumption	Increase	Decrease
<b>Impact on Pension Benefit Plan DBO</b>			
Discount rate	1%	(48.2)	63.2
Rate of compensation increase	1%	7.1	(7.4)
Inflation rate	1%	27.1	(24.6)
Life expectancy	1 year	7.3	(7.5)
<b>Impact on Other Benefit Plan DBO</b>			
Discount rate	1%	(0.9)	1.1
Rate of compensation increase	1%	0.4	(0.3)
Health care cost trend rate	1%	0.3	(0.3)
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 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 \$3.3 million annually to fund the defined pension benefits plans' deficit over 10 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, 2019 (including the past service contributions) are \$7.7 million.

The weighted average duration of the defined benefit obligation for the pension benefit plan and the other benefit plan is 16.2 years and 8.5 years respectively (2017 - 17.0 years and 8.7 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	18.5	37.2	38.3	102.5	196.5
Other benefit plans	1.0	2.1	2.1	4.5	9.7
<b>At December 31, 2018</b>	<b>19.5</b>	<b>39.3</b>	<b>40.4</b>	<b>107.0</b>	<b>206.2</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 per cent, a plan may be required to file an annual valuation. Based on the 2016 pension valuation, the DB Provisions are 120 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 Corporation has elected to file a valuation as at December 31, 2018. The December 31, 2018 valuation has not yet been finalized and therefore is not considered in these financial statements.

### 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

<i>(millions of Canadian dollars)</i>	CIAC	Other	Total
As at December 31, 2017	501.5	13.5	515.0
Net additions	57.7	3.5	61.2
Movements to PPE	(7.7)	-	(7.7)
Recognized as revenue	(17.9)	-	(17.9)
<b>As at December 31, 2018</b>	<b>533.6</b>	<b>17.0</b>	<b>550.6</b>
Less: current portion	-	(7.2)	(7.2)
	<b>533.6</b>	<b>9.8</b>	<b>543.4</b>

## 18. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

<i>As at (millions of Canadian dollars)</i>	December 31, 2018	December 31, 2017
Net unrealized (losses) gains on derivatives designated as cash flow hedges, including deferred income tax expense of \$2.9 million (December 31, 2017- expense of \$11.3 million)	(0.8)	17.9
Net actuarial losses on defined benefit plans, including deferred income tax recovery of \$0.4 million (December 31, 2017- recovery of \$0.4 million)	(3.9)	(6.2)
Accumulated other comprehensive (losses) gains, including deferred income tax expense of \$2.5 million (December 31, 2017- expense of \$10.9 million)	(4.7)	11.7

## 19. OTHER REVENUE AND EXPENSES

### OTHER REVENUE

<i>Year ended December 31, (millions of Canadian dollars)</i>	2018	2017
Interest and penalty revenue	8.4	9.5
Miscellaneous	16.2	29.3
	<b>24.6</b>	<b>38.8</b>

### OTHER EXPENSES

<i>Year ended December 31, (millions of Canadian dollars)</i>	2018	2017
Salaries and wages	240.1	219.1
Materials and supplies	22.5	26.9
Goods and services	106.7	96.0
Administrative and office expenses	15.9	12.0
Building expense	73.0	53.7
Vehicles and other	(14.1)	17.3
Onerous provision (recovery) charges	(12.5)	16.8
Foreign exchange (gains) losses	(10.5)	11.2
	<b>421.1</b>	<b>453.0</b>

## 20. JOINT ARRANGEMENTS

Significant joint operations included in the consolidated financial statements at December 31, 2018 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 15, 2018, the Corporation declared a dividend of \$40.0 million to the City (2017 – \$48.0 million). The dividend was paid in equal quarterly instalments during 2018.

## 22. FINANCE CHARGES

<i>Year ended December 31, (millions of Canadian dollars)</i>	2018	2017
Accretion expense	1.8	1.9
Interest expense – pension	1.4	1.7
Interest on long-term debt	68.9	71.7
Short-term interest and other financing charges	2.7	3.0
Less: capitalized borrowing costs	(6.3)	(7.9)
	68.5	70.4

## 23. CHANGE IN NON-CASH WORKING CAPITAL

<i>Year ended December 31, (millions of Canadian dollars)</i>	2018	2017
Accounts receivable	(55.3)	(136.2)
Regulatory deferral account debit balances	(5.8)	(36.4)
Other assets	(10.5)	(21.6)
Accounts payable and accrued liabilities	211.1	6.6
Regulatory deferral account credit balances	(4.4)	(8.3)
Other liabilities	(2.5)	(19.4)
Provisions	(17.4)	13.2
Change in non-cash working capital	115.2	(202.1)

## 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

**Year ended December 31,**

*(millions of Canadian dollars)*

	2018	2017
Revenue <sup>(1)</sup>	153.2	141.1
Local access fees and other expenses <sup>(2)</sup>	143.9	102.9

<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

**As at December 31,**

*(millions of Canadian dollars)*

	2018	2017
Accounts receivable	29.6	36.0
Other long-term assets	-	0.6
Property, plant and equipment <sup>(1)</sup>	3.4	3.6
Accounts payable and accrued liabilities	13.2	9.4
Long-term debt <sup>(2)</sup>	1,185.4	1,078.5
Other long-term liabilities <sup>(3)</sup>	6.3	6.7

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

<sup>(2)</sup> Interest and principal payments for the year ended December 31, 2018 were \$43.0 million (2017 - \$42.7 million) and \$70.6 million (2017 - \$66.7 million) respectively. In addition, for the year ended December 31, 2018, the Corporation paid a management fee of \$2.9 million (2017 - \$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 Canadian dollars)*

	2018	2017
Salaries and other short-term employee benefits	6.0	7.0
Other long-term benefits	2.3	3.0
Retirement and post-employment benefits	0.6	0.6
	8.9	10.6



## 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 Canadian dollars)*

2019	89.0
2020	67.8
2021	65.8
2022	19.7
2023	15.8
Thereafter	53.0

### HISTORICAL TRANSMISSION LINE LOSS CHARGES

ENMAX has participated 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 invoicing 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 and C have been the subject of permission to appeal applications before the Alberta Court of Appeal as well as review and variance applications before the AUC.

The permission to appeal applications was heard by the Alberta Court of Appeal in the second quarter of 2018. On December 20, 2018 the Court issued a decision denying permission to appeal the AUC's decision on Module A and further reserving its decision on permission to appeal Module C and related matters. Since the Court did not grant permission to appeal Module A, the decision of the AUC will stand unless the Court's decision is further challenged.

Based on the Court's decision in Module A, management believes that ENMAX may be required to make material payments to the AESO for historical amounts if the Court upholds the AUC's decision in Module C. Because the AUC's previous decisions do not require the AESO to consider commercial agreement terms and service transfer circumstances when the AESO determines which party to invoice, ENMAX could be invoiced for amounts for which it may not ultimately, in whole or in part, be responsible. Moreover, the invoices may not reflect the benefit of credits to which ENMAX is entitled nor any of ENMAX's rights to subsequently seek compensation including under commercial agreements from other parties such as the Balancing Pool.

Management does not have the information necessary to calculate a reliable range of expected charges and credits across the portfolio of generation held during the relevant periods and the impact to ENMAX of such amounts; however, ENMAX believes it has sufficient access to cash to satisfy any amounts which may be required to be paid.

## **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. On April 26, 2018, the Alberta Court of Appeal issued its decision allowing the Crown's appeal and reinstating the Notices of Reassessment previously issued by Alberta Finance. On June 21, 2018, ENMAX filed an application seeking leave to appeal to the Supreme Court of Canada. On February 28, 2019 the Supreme Court of Canada dismissed the application.

There remain other concerns for which ENMAX and Alberta Finance are in disagreement. On December 13, 2018 ENMAX and Alberta Finance settled all remaining issues thereby forsaking the appeal and litigation process commenced.

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 believes that the outcome of these disputes will not 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, 2018, the consolidated financial statements include a charge to earnings in the amount of \$6.5 million (2017-\$3.9 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 natural gas-fueled generation facilities through its 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, 2018, the Corporation had issued letters of credit amounting to \$376.4 million (December 31, 2017 - \$262.3 million).

<b>As at</b>	<b>December 31, 2018</b>		<b>December 31, 2017</b>	
<i>(millions of Canadian dollars)</i>	<b>Available</b>	<b>Used</b>	<b>Available</b>	<b>Used</b>
Unsecured credit facilities				
Bilateral operating facilities	<b>600.0</b>	<b>376.4</b>	600.0	262.3
Syndicated credit facilities	<b>250.0</b>	-	250.0	-
	<b>850.0</b>	<b>376.4</b>	850.0	262.3

## 26. SUBSEQUENT EVENTS

### DIVIDENDS

On March 13, 2019, the Corporation declared a dividend of \$50.0 million payable to the City in quarterly instalments during 2019.

## 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>AUC</b>	Alberta Utilities Commission	<b>ICFR</b>	Internal control over financial reporting
<b>Board</b>	ENMAX's Board of Directors	<b>IFRS</b>	International Financial Reporting Standard
<b>Corporation</b>	ENMAX Corporation and its subsidiaries	<b>ITA</b>	Income Tax Act (Canada)
<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>	Chartered 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>FCF</b>	Free cash flow	<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>FVOCI</b>	Fair value through other comprehensive income	<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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