Condensed Consolidated Interim Financial Statements of

EPCOR UTILITIES INC.

Three months ended March 31, 2017 and 2016

EPCOR UTILITIES INC.

Condensed Consolidated Interim Financial Statements

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EPCOR UTILITIES INC.

Condensed Consolidated Interim Statements of Comprehensive Income
(In millions of Canadian dollars)

Three months ended March 31, 2017 and 2016

	2017	2016
Revenues and other income:		
Revenues	$ 455	$ 475
Other income	3	5
	458	480
Operating expenses:		
Energy purchases and system access fees	201	179
Other raw materials and operating charges	33	40
Staff costs and employee benefits expenses	67	68
Depreciation and amortization	48	37
Franchise fees and property taxes	26	24
Other administrative expenses	21	22
	396	370
Operating income	62	110
Finance expenses	(27)	(34)
Dividend income from available-for-sale investment in Capital Power	-	3
Fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income	1	-
Income before income taxes	36	79
Income tax recovery (expense)	2	(1)
Net income for the periods– all attributable to the Owner of the Company	38	78
Other comprehensive income (loss):		
Items that have been or may subsequently be reclassified to net income:		
Fair value gain on available-for-sale investment in Capital Power	-	2
Fair value gain on available-for-sale investment in Capital Power reclassified to net income	(1)	-
Unrealized loss on foreign currency translation	(4)	(24)
	(5)	(22)
Comprehensive income for the periods - all attributable to the Owner of the Company	$ 33	$ 56

The accompanying notes are an integral part of these condensed consolidated interim financial statements

EPCOR UTILITIES INC.

Condensed Consolidated Interim Statements of Financial Position
(In millions of Canadian dollars)

March 31, 2017 and December 31, 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 143	$ 191
Trade and other receivables	445	325
Available-for-sale investment in Capital Power	-	6
Inventories	15	14
	603	536
Non-current assets:		
Other financial assets	103	265
Deferred tax assets	84	84
Property, plant and equipment	5,026	4,983
Intangible assets and goodwill	290	293
	5,503	5,625
TOTAL ASSETS	$ 6,106	$ 6,161
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	$ 247	$ 299
Loans and borrowings	415	15
Deferred revenue	25	25
Provisions	29	25
Other liabilities	25	26
	741	390
Non-current liabilities:		
Loans and borrowings	1,499	1,905
Deferred revenue	1,017	1,016
Deferred tax liabilities	46	46
Provisions	89	86
Other liabilities	46	46
	2,697	3,099
Total liabilities	3,438	3,489
Equity attributable to the Owner of the Company:		
Share capital	24	24
Accumulated other comprehensive income	81	86
Retained earnings	2,563	2,562
Total equity	2,668	2,672
TOTAL LIABILITIES AND EQUITY	$ 6,106	$ 6,161

The accompanying notes are an integral part of these condensed consolidated interim financial statements

EPCOR UTILITIES INC.

Condensed Consolidated Interim Statements of Changes in Equity
(In millions of Canadian dollars)

Three months ended March 31, 2017 and 2016

	Share capital	Accumulated other comprehensive income (loss): Available-for-sale financial assets	Cumulative translation account	Employee benefits account	Retained earnings	Equity attributable to the Owner of the Company
Equity at December 31, 2016	$ 24	$ 2	$ 94	$ (10)	$ 2,562	$ 2,672
Net income for the period	-	-	-	-	38	38
Other comprehensive loss:						
Fair value gain on available-for-sale investment in Capital Power reclassified to net income	-	(1)	-	-	-	(1)
Unrealized loss on foreign currency translation	-	-	(4)	-	-	(4)
Total comprehensive income (loss)	-	(1)	(4)	-	38	33
Dividends	-	-	-	-	(37)	(37)
Equity at March 31, 2017	$ 24	$ 1	$ 90	$ (10)	$ 2,563	$ 2,668

	Share capital	Accumulated other comprehensive income (loss): Available-for-sale financial assets	Cumulative translation account	Employee benefits account	Retained earnings	Equity attributable to the Owner of the Company
Equity at December 31, 2015	$ 24	$ 1	$ 105	$ (9)	$ 2,394	$ 2,515
Net income for the period	-	-	-	-	78	78
Other comprehensive income (loss):						
Fair value gain on available-for-sale investment in Capital Power	-	2	-	-	-	2
Unrealized loss on foreign currency translation	-	-	(24)	-	-	(24)
Total comprehensive income (loss)	-	2	(24)	-	78	56
Dividends	-	-	-	-	(35)	(35)
Equity at March 31, 2016	$ 24	$ 3	$ 81	$ (9)	$ 2,437	$ 2,536

EPCOR UTILITIES INC.

Condensed Consolidated Interim Statements of Cash Flows
(In millions of Canadian dollars)

Three months ended March 31, 2017 and 2016

	2017	2016
Cash flows from (used in) operating activities:		
Net income for the period	$ 38	$ 78
Reconciliation of net income for the year to cash from (used in) operating activities:		
Interest paid	(23)	(29)
Finance expenses	27	34
Income taxes paid	(5)	-
Income tax expense (recovery)	(2)	1
Depreciation and amortization	48	37
Change in employee benefits provisions	5	6
Contributions received	9	6
Deferred revenue recognized	(6)	(7)
Fair value change on derivative instruments	-	(1)
Fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income	(1)	-
Dividend income from available-for-sale investment in Capital Power	-	(3)
Other	(1)	(5)
Funds from operations	89	117
Change in non-cash operating working capital	(7)	19
Net cash flows from operating activities	82	136
Cash flows from (used in) investing activities:		
Acquisition or construction of property, plant and equipment and other assets[1]	(98)	(88)
Proceeds on disposal of property, plant and equipment	1	16
Change in non-cash investing working capital	(5)	1
Net payments received on other financial assets	5	151
Net proceeds on sale of available-for-sale investment in Capital Power	6	-
Distributions received from Capital Power	-	3
Net cash flows from (used in) investing activities	(91)	83
Cash flows used in financing activities:		
Net repayment of short-term loans and borrowings	-	(51)
Repayment of long-term loans and borrowings	(2)	(132)
Refunds to customers and developers, net of contributions received	-	(1)
Dividends paid	(37)	(35)
Net cash flows used in financing activities	(39)	(219)
Decrease in cash and cash equivalents	(48)	-
Cash and cash equivalents, beginning of period	191	36
Cash and cash equivalents, end of period	$ 143	$ 36

1 Interest payment of $1 million (2016 – $1 million) is included in acquisition or construction of property, plant and equipment and other assets.

The accompanying notes are an integral part of these condensed consolidated interim financial statements

1. Nature of operations

EPCOR Utilities Inc. (the Company or EPCOR) builds, owns and operates electrical transmission and distribution networks, water and wastewater treatment facilities and infrastructure, and provides electricity, water and natural gas products and services to residential and commercial customers.

The Company operates in Canada and the United States (U.S.) with its registered head office located at 2000, 10423 - 101 Street NW, Edmonton, Alberta, Canada, T5H 0E8.

The common shares of EPCOR are owned by The City of Edmonton (the City). The Company was established by Edmonton City Council under City Bylaw 11071.

Interim results will fluctuate due to the seasonal demands for electricity, water and natural gas, changes in electricity and natural gas prices, and the timing and recognition of regulatory decisions. Consequently, interim results are not necessarily indicative of annual results.

2. Basis of presentation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared by management in accordance with International Accounting Standard 34 – Interim Financial Reporting, as issued by the International Accounting Standards Board. These condensed consolidated interim financial statements do not include all of the disclosure normally provided in the annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on May 4, 2017.

(b) Basis of measurement

The Company's condensed consolidated interim financial statements are prepared on the historical cost basis, except for its beneficial interest in the sinking fund held with the City, available-for-sale investment in Capital Power and derivative financial instruments, which are measured at fair value.

3. Significant accounting policies

(a) These condensed consolidated interim financial statements have been prepared following the same accounting policies and methods as those used in preparing the Company’s most recent annual consolidated financial statements. EPCOR adopted amendments to various accounting standards effective January 1, 2017, that did not have a significant impact on these financial statements.

(b) Standards and interpretations not yet applied

A number of new standards, amendments to standards and interpretations have been issued by the IASB and the International Financial Reporting Interpretations Committee the application of which is effective for periods beginning on or after January 1, 2018. Those which may be relevant to the Company and may impact the accounting policies of the Company are set out below. The Company does not plan to adopt these standards early.

IFRS 9 – Financial Instruments (IFRS 9), which replaces IAS 39 – Financial Instruments: Recognition and Measurement, eliminates the existing classification of financial assets and requires financial assets to be measured based on the business model in which they are held and the characteristics of their contractual cash flows. The effective date for implementation of IFRS 9 has been set for annual periods beginning on or after January 1, 2018. Based on the Company’s existing financial instruments, the Company is currently evaluating the impact of the application of IFRS 9 but does not expect it to have a significant impact on its consolidated financial statements.

IFRS 15 - Revenue from Contracts with Customers (IFRS 15), which replaces IAS 11 - Construction Contracts and IAS 18 - Revenue and related interpretations, is effective for annual periods commencing on or after January 1, 2018. IFRS 15 introduces a new single revenue recognition model for contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. The Company has developed an implementation plan and is in the process of identifying the revenue streams and underlying contracts with customers that may be impacted on adoption of IFRS 15. The Company will continue to assess the impact of IFRS 15 on the consolidated financial statements and disclose applicable quantitative data in subsequent reporting periods.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

IFRS 16 – Leases (IFRS 16), which replaces IAS 17 – Leases (IAS 17), is effective for annual periods commencing on or after January 1, 2019. IFRS 16 combines the existing dual model of operating and finance leases in IAS 17 into a single lessee model. The Company is currently reviewing contracts that are identified as leases in order to evaluate the impact of adoption of IFRS 16 on the consolidated financial statements. The Company continues to assess the impact of IFRS on the consolidated financial statements. However, based on its preliminary assessment the Company expects that there will be a material impact on its statements of financial position requiring the recognition of lease assets and lease obligations with respect to its leases for office space, which are currently classified as operating leases.

4. Changes in liabilities arising from financing activities:

	At December 31, 2016	Issued or received	Redemptions, repayments or payments	Foreign currency valuation adjustment	Other	At March 31, 2017
Long-term loans and borrowings:						
Obligation to the City, net of sinking fund	$ 91	$ -	$ (2)	$ -	$ -	$ 89
Public debenture	1,450	-	-	-	-	1,450
Private debt notes	390	-	-	(4)	-	386
Deferred debt issuance costs	(11)	-	-	-	-	(11)
Total long-term loans and borrowings	$ 1,920	$ -	$ (2)	$ (4)	$ -	$ 1,914
Contributions from customers and developers	$ 21	$ -	$ -	$ -	$ 1	$ 22

	At December 31, 2015	Issued or received	Redemptions, repayments or payments	Foreign currency valuation adjustment	Other	At March 31, 2016
Long-term loans and borrowings:						
Obligation to the City, net of sinking fund	$ 105	$ -	$ (2)	$ -	$ (1)	$ 102
Public debenture	1,580	-	(130)	-	-	1,450
Private debt notes	346	-	-	(20)	-	326
Deferred debt issuance costs	(12)	-	-	-	-	(12)
Total long-term loans and borrowings	$ 2,019	$ -	$ (132)	$ (20)	$ (1)	$ 1,866
Short term loans and borrowings	$ 98	$ 291	$ (342)	$ -	$ -	$ 47
Contributions from customers and developers	$ 23	$ -	$ (1)	$ (4)	$ -	$ 18

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

5. Financial instruments

Classification

The classification of the Company's financial instruments at March 31, 2017 and December 31, 2016 is summarized as follows:

	Classification				
	Fair value through profit or loss	Loans and receivables	Other liabilities	Available-for-sale	Fair value hierarchy
Measured at fair value					
Available-for-sale investment in Capital Power				X	Level 1
Beneficial interest in sinking fund				X	Level 1
Other liabilities					
Contingent consideration – designated	X				Level 3
Measured at amortized cost					
Cash and cash equivalents		X			Level 1
Trade and other receivables		X			Level 3
Other financial assets		X			Level 2
Trade and other payables			X		Level 3
Debentures and borrowings			X		Level 2
Other liabilities					
Customer deposits			X		Level 3

Fair value

The carrying amounts of cash and cash equivalents, trade and other receivables, current portion of other financial assets, trade and other payables and certain other liabilities (including customer deposits) approximate their fair values due to the short-term nature of these financial instruments.

The carrying amounts and fair values of the Company's remaining financial assets and liabilities are as follows:

	March 31, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Available-for-sale investment in Capital Power	$ -	$ -	$ 6	$ 6
Non-current portion of other financial assets[1]	102	116	264	275
Loans and borrowings				
Debentures and borrowings	2,002	2,352	2,007	2,328
Beneficial interest in sinking fund	(88)	(88)	(87)	(87)
Other liabilities				
Contingent consideration	36	36	36	36

1 Excluding finance lease receivables $1 million (December 31, 2016 – $1 million).

Fair value hierarchy

The financial instruments of the Company that are recorded at fair value have been classified into levels using a fair value hierarchy. A Level 1 valuation is determined by unadjusted quoted prices in active markets for identical assets or liabilities.

A Level 2 valuation is based upon inputs other than quoted prices included in Level 1 that are observable for the instruments either directly or indirectly. A Level 3 valuation for the assets and liabilities are not based on observable market data.

Available-for-sale investment in Capital Power

The available-for-sale investment in Capital Power represents an investment in common shares of Capital Power Corporation. The fair value of the investment is based on the quoted price of common shares of Capital Power Corporation (CPX) on the Toronto Stock Exchange at December 31, 2016. During the first quarter of 2017 the remainder of this investment was disposed.

Other financial assets

The fair value of the Company's unsecured long-term receivable from Capital Power is based on a current yield for the Company's receivable at March 31, 2017, and December 31, 2016. This yield is based on an estimated credit spread for Capital Power over the yields of long-term Government of Canada bonds that have similar maturities to the Company's receivable. The estimated credit spread is based on Capital Power's indicative spread as published by independent financial institutions.

The fair values of the Company's other long-term loans and receivables are based on the estimated interest rates implicit in comparable loan arrangements plus an estimated credit spread based on the counterparty risks at March 31, 2017, and December 31, 2016.

Loans and borrowings

The fair value of the Company's long-term public debt is based on the pricing sourced from market data as of March 31, 2017 and December 31, 2016. The fair value of the Company's remaining long-term loans and borrowings is based on determining a current yield for the Company's debt at March 31, 2017, and December 31, 2016. This yield is based on an estimated credit spread for the Company over the yields of long-term Government of Canada bonds for Canadian dollar loans and U.S. Treasury bonds for U.S. dollar loans that have similar maturities to the Company's debt. The estimated credit spread is based on the Company's indicative spread as published by independent financial institutions. The Company's long-term loans and borrowings (including the current portion) include City debentures which are offset by payments made by the Company into the sinking fund. The Company's beneficial interest in the sinking fund is a related party balance and has been recorded at fair value as it has been classified as an available-for-sale financial asset in accordance with the requirements of IFRS. The fair value of the beneficial interest in the sinking fund is based on quoted market values as determined by the City at or near the reporting date.

Contingent consideration

The contingent consideration is payable in U.S. dollars and payment is mainly dependent on securing newly executed long-term contracts for the supply of water by EPCOR 130 Project Inc., the timing of which is uncertain. The fair value of the Company's contingent consideration is determined based on the expected timing of execution of such new contracts and the resulting cash flows are then discounted at risk adjusted discount rates. Any change in the timing of execution of new contracts, discount rate or foreign exchange rate can have material impact on the fair value of contingent consideration.

6. Segment disclosures

The Company operates in the following reportable business segments, which follow the organization, management and reporting structure within the Company.

Water Services

Water Services is primarily involved in the treatment, distribution and sale of water and the treatment of wastewater within Edmonton and other communities throughout Western Canada and the Southwestern U.S. This segment also provides commercial services including construction, operation and maintenance of water and wastewater treatment plants.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Distribution and Transmission

Distribution and Transmission is involved in the transmission and distribution of electricity within Edmonton. This segment also provides commercial services including the maintenance and repair of the City-owned street lighting and transportation support facilities.

Energy Services

Energy Services is primarily involved in the provision of regulated tariff electricity service and default supply electricity services to residential, small commercial and agricultural customers in Alberta. Energy Services also provides competitive electricity and natural gas products through Encor.

Corporate

Corporate reflects the costs of the Company's net unallocated corporate office expenses and financing revenues on the long-term receivable from Capital Power. Corporate also held the available-for-sale investment in Capital Power.

Lines of business information

Three months ended March 31, 2017	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
External revenues and other income	$ 136	$ 112	$ 207	$ 3	$ -	$ 458
Inter-segment revenue	-	47	3	-	(50)	-
Total revenues and other income	136	159	210	3	(50)	458
Energy purchases and system access fees	-	63	184	-	(46)	201
Other raw materials and operating charges	28	7	-	-	(2)	33
Staff costs and employee benefits expenses	32	19	7	9	-	67
Depreciation and amortization	25	19	1	3	-	48
Franchise fees and property taxes	7	19	-	-	-	26
Other administrative expenses	6	5	7	5	(2)	21
Operating expenses	98	132	199	17	(50)	396
Operating income (loss) before corporate charges	38	27	11	(14)	-	62
Corporate income (charges)	(8)	(7)	(2)	17	-	-
Operating income	30	20	9	3	-	62
Finance recoveries (expenses)	(25)	(14)	(1)	13	-	(27)
Fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income	-	-	-	1	-	1
Income tax recovery	1	-	-	1	-	2
Net income	$ 6	$ 6	$ 8	$ 18	$ -	$ 38
Capital additions	$ 32	$ 64	$ 1	$ 1	$ -	$ 98

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Three months ended March 31, 2016	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
External revenues and other income	$ 151	$ 110	$ 214	$ 5	$ -	$ 480
Inter-segment revenue	-	46	3	-	(49)	-
Total revenues and other income	151	156	217	5	(49)	480
Energy purchases and system access fees	-	40	183	-	(44)	179
Other raw materials and operating charges	32	10	-	-	(2)	40
Staff costs and employee benefits expenses	34	20	7	9	(2)	68
Depreciation and amortization	14	18	2	3	-	37
Franchise fees and property taxes	7	17	-	-	-	24
Other administrative expenses	10	5	5	3	(1)	22
Operating expenses	97	110	197	15	(49)	370
Operating income (loss) before corporate charges	54	46	20	(10)	-	110
Corporate income (charges)	(7)	(7)	(2)	16	-	-
Operating income	47	39	18	6	-	110
Finance recoveries (expenses)	(24)	(13)	(1)	4	-	(34)
Dividend income from available-for-sale investment in Capital Power	-	-	-	3	-	3
Income tax recovery (expense)	(2)	-	-	1	-	(1)
Net income	$ 21	$ 26	$ 17	$ 14	$ -	$ 78
Capital additions	$ 29	$ 57	$ -	$ 2	$ -	$ 88

The Company's assets and liabilities by lines of business at March 31, 2017 and December 31, 2016 are summarized as follows:

March 31, 2017	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
Total assets	$ 3,425	$ 2,126	$ 146	$ 3,133	$ (2,724)	$ 6,106
Total liabilities	2,658	1,447	125	1,932	(2,724)	3,438

December 31, 2016	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
Total assets	$ 3,520	$ 2,080	$ 163	$ 3,272	$ (2,874)	$ 6,161
Total liabilities	2,769	1,407	150	2,037	(2,874)	3,489

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Geographic information

	Three months ended March 31, 2017				Three months ended March 31, 2016			
	Canada	U.S.	Inter-segment eliminations	Total	Canada	U.S.	Inter-segment eliminations	Total
External revenues and other income	$ 412	$ 46	$ -	$ 458	$ 433	$ 47	$ -	$ 480
Inter-segment revenues	50	-	(50)	-	49	-	(49)	-
Total revenues and other income	$ 462	$ 46	$ (50)	$ 458	$ 482	$ 47	$ (49)	$ 480

Non-current assets

	March 31, 2017	December 31, 2016
Canada	$ 4,351	$ 4,469
U.S.	1,152	1,156
	$ 5,503	$ 5,625

7. Subsequent events

Transfer of Drainage Utility Services from the City of Edmonton

On April 12, 2017, Edmonton`s City Council approved the transfer of its Drainage Utility Services (Drainage) to EPCOR. Drainage operations are comprised of the sanitary drainage utility and the stormwater drainage utility which provide services in sanitary wastewater and stormwater collection and bio solids management and disposal. The transfer of the Drainage utility will be structured as a transfer of assets and assumption of liabilities between the City and EPCOR, with EPCOR assuming financial responsibility for the Drainage related debt issued prior to the transfer. EPCOR anticipates that finalization of the terms of the Drainage transfer, including completion of a franchise agreement, will occur over the next several months with the transfer of the assets and assumption of liabilities expected to take place on September 1, 2017. The Company will pay $75 million to the City over a period of time to be determined by the City to compensate the City for costs related to the transfer.

8. Comparative information

The comparative information in these financial statements have been reclassified, where applicable, to conform to current period presentation.