EPCOR Utilities Inc.
Interim Management's Discussion and Analysis
March 31, 2017

This management's discussion and analysis (MD&A) dated May 4, 2017, should be read in conjunction with the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the three months ended March 31, 2017, and 2016, including significant accounting policies (note 3), changes in liabilities arising from financing activities (note 4), financial instruments (note 5), the consolidated financial statements and MD&A for the year ended December 31, 2016, including standards and interpretations not yet applied (note 3(v)), related party transactions (note 27) and financial instruments (note 28), and the cautionary statement regarding forward-looking information at the end of this MD&A. In this MD&A, any reference to "the Company", "EPCOR", "it", "its", "we", "our" or "us", except where otherwise noted or the context otherwise indicates, means EPCOR Utilities Inc., together with its subsidiaries. In this MD&A, Capital Power refers to Capital Power Corporation and its directly and indirectly owned subsidiaries including Capital Power L.P., except where otherwise noted or the context otherwise indicates. Financial information in this MD&A is based on the condensed consolidated interim financial statements, which were prepared in accordance with International Financial Reporting Standards (IFRS), and is presented in Canadian dollars unless otherwise specified. In accordance with its terms of reference, the Audit Committee of the Company's Board of Directors reviews the contents of the MD&A and recommends its approval by the Board of Directors. This MD&A was approved and authorized for issue by the Board of Directors on May 4, 2017.

OVERVIEW

EPCOR is wholly owned by The City of Edmonton (the City). EPCOR, through wholly owned subsidiaries, builds, owns and operates electrical transmission and distribution networks and provides Regulated Rate Option (RRO) and default supply electricity related services. EPCOR sells electricity and natural gas to Alberta residential consumers under contracts through its Encor brand. In addition, EPCOR builds, owns and operates water and wastewater treatment facilities and infrastructure in Canada and the Southwestern United States (U.S.). The water business also includes design, build, finance, operating and maintenance services for municipal and industrial customers in Western Canada.

Net income was $38 million for the three months ended March 31, 2017, compared with net income of $78 million for the comparative period in 2016. The decrease of $40 million in the quarter is primarily due to lower income from core operations, as described below, unfavorable fair value adjustments related to financial electricity purchase contracts and no dividend income due to the sale of Capital Power shares (also referred to as the "available-for-sale investment in Capital Power"). Partially offsetting these decreases was the recognition of the fair value gain resulting from the final sale of Capital Power shares and an unfavorable fair value adjustment related to interest swaps in the first quarter of 2016 with no corresponding transaction in the current year.

Net income from core operations was $38 million for the three months ended March 31, 2017, compared with $75 million for the comparative period in 2016. The decrease of $37 million in the quarter was driven in part by lower net system access collections, lower gains as a result of sales of surplus land in the first quarter of 2016, lower income related to industrial service contracts and lower Energy Price Setting Plan margins. Partially offsetting these decreases were higher distribution, transmission and water customer rates. Income from core operations is a non-IFRS financial measure as described in Net Income on page 3 of this MD&A.

SIGNIFICANT SUBSEQUENT EVENT

Transfer of Drainage Utility Services from the City of Edmonton

In April 2017, Edmonton City Council approved the transfer of its Drainage Utility Services (Drainage) to EPCOR. Following the transfer, City Council will continue to regulate Drainage customer rates and set performance standards for the utility. Once the transfer is complete, EPCOR will own and operate the entire water utility cycle in the City of Edmonton, consisting of drinking water treatment and distribution, sanitary and stormwater collection and wastewater treatment. 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. Refer to the Capital Requirements and Contractual Obligations section for additional information.

CONSOLIDATED RESULTS OF OPERATIONS

Revenues

(Unaudited, $ millions)		
Revenues for the period ended March 31, 2016	**$**	**475**
Lower Water Services segment revenues		(15)
Higher electricity Distribution and Transmission segment revenues		3
Lower Energy Services segment revenues		(7)
Other		(1)
Decrease in revenues from core operations		(20)
Revenues for the period ended March 31, 2017	**$**	**455**

Consolidated revenues were lower by $20 million for the three months ended March 31, 2017, compared with the corresponding period in 2016 primarily due to the net impact of the following:

- Water Services segment revenues were lower primarily due to lower construction revenues from the Regina wastewater treatment plant project, lower industrial service contract revenues and lower water sales volumes due to decline in customer consumption, partially offset by higher customer rates and growth.
- Electricity Distribution and Transmission segment revenues were higher primarily due to higher distribution and transmission customer rates, partially offset by lower revenue from commercial services.
- Energy Services segment revenues were lower primarily due to lower electricity prices and volumes, partially offset by customer growth.

Net Income

We use income from core operations to distinguish operating results from the Company's water and electricity businesses from results with respect to its investment in Capital Power and changes in the fair value of financial instruments. The change in the fair value of financial instruments is the difference between the opening fair value of the derivative instruments for the period and the closing fair value of the derivative instruments. Income from core operations is a non-IFRS financial measure which does not have any standardized meaning prescribed by IFRS and is unlikely to be comparable to similar measures published by other entities. However, it is presented below as it provides a useful income performance measure of the Company's core operations and may be referred to by debt holders and other interested parties in evaluating the Company's financial performance and in assessing its creditworthiness.

(Unaudited, $ millions)		
Net income for the period ended March 31, 2016	**$**	**78**
2016 change in the fair value of contracts-for-differences		(5)
2016 change in the fair value of interest rate swaps		5
2016 dividend income from available-for-sale investment in Capital Power		(3)
2016 income from core operations		**75**
Lower Water Services segment operating income		(17)
Lower Distribution and Transmission segment operating income		(19)
Lower Energy Services segment operating income excluding change in the fair value of contracts-for-differences		(3)
Other		2
Decrease in income from core operations		(37)
2017 income from core operations		**38**
2017 change in the fair value of contracts-for-differences		(1)
2017 fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income		1
Net income for the period ended March 31, 2017	**$**	**38**

Changes in each business segment's operating results compared with the corresponding period in 2016 are described in Segment Results below. Explanations of the remaining variances in net income for the three months ended March 31, 2017 are:

- Unfavorable changes in the fair value of contracts-for-differences.
- Unfavorable fair value adjustments related to interest rate swaps in 2016 with no corresponding adjustment in 2017 due to the settlement of the interest rate swaps.
- No dividend income from the Capital Power shares recognized for the three months ended March 31, 2017, compared with the corresponding period in 2016, due to the sale of the remaining shares in January 2017.
- Recognition of a gain on sale of its remaining investment in Capital Power in 2017 with no corresponding transaction in 2016.

SEGMENT RESULTS

Water Services

(Unaudited, $ millions, including intersegment transactions)				
Three months ended March 31,		**2017**		**2016**
Revenues	$	136	$	151
Expenses		(106)		(104)
Operating income	**$**	**30**	**$**	**47**

Water Services' operating income decreased by $17 million for the three months ended March 31, 2017, compared with the corresponding period in 2016, primarily due to gains on sale of surplus land in the first quarter of 2016, lower income related to industrial service contracts and lower water volumes due to decline in customer consumption, partially offset by higher customer rates and growth.

Distribution and Transmission

(Unaudited, $ millions, including intersegment transactions)				
Three months ended March 31,		**2017**		**2016**
Revenues	$	159	$	156
Expenses		(139)		(117)
Operating income	**$**	**20**	**$**	**39**

Distribution and Transmission's operating income decreased by $19 million for the three months ended March 31, 2017, compared with the corresponding period in 2016, primarily due to lower net system access collections and lower income related to commercial services, partially offset by higher distribution and transmission customer rates.

Energy Services

(Unaudited, $ millions, including intersegment transactions)				
Three months ended March 31,		**2017**		**2016**
Revenues	$	210	$	217
Expenses		(201)		(199)
Operating income		**9**		**18**
Exclude change in the fair value of contracts-for-differences		1		(5)
Operating income excluding change in the fair value of contracts-for-differences	**$**	**10**	**$**	**13**

Energy Services' operating income, excluding change in the fair value of contracts-for-differences, decreased by $3 million for the three months ended March 31, 2017, compared with the corresponding period in 2016, primarily due to lower Energy Price Setting Plan margins.

Capital Spending and Investment

(Unaudited, $ millions) **Three months ended March 31,**		**2017**		**2016**
Water Services	$	32	$	29
Distribution and Transmission		64		57
Energy Services		1		-
Corporate		1		2
Total capital spending and investment	**$**	**98**	**$**	**88**

Total capital spending and investment was higher for the three months ended March 31, 2017, compared with the corresponding period in 2016, primarily due to increased spending in the Distribution and Transmission segment on the installation of advanced meter infrastructure for customers in Edmonton and ongoing renovations to its major work center. In addition, the Water segment had increased spending on the Gold Bar Hydrovac Sanitary Grit Treatment Facility project continuing from 2016 into 2017 and various projects in the U.S. This was partially offset by decreased spending in the Water Services segment due to the Gold Bar Grit Tanks project being substantially completed and placed into service in 2016.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited, $ millions)	**March 31, 2017**	**December 31, 2016**	**Increase (decrease)**	**Explanation of material changes**
Cash and cash equivalents	$ 143	$ 191	$ (48)	Refer to Consolidated Statements of Cash Flows section.
Trade and other receivables	445	325	120	Increase primarily due to reclassification of the current portion of the Capital Power receivable related to the back-to-back debt, partially offset by a decrease in accrued energy revenue.
Available-for-sale investment in Capital Power	-	6	(6)	Decrease due to sale of the remaining Capital Power shares.
Inventories	15	14	1	
Other financial assets	103	265	(162)	Decrease due to reclassification of the current portion of the Capital Power receivable related to the back-to-back debt to trade and other receivables, net of construction financing.
Deferred tax assets	84	84	-	
Property, plant and equipment	5,026	4,983	43	Increase primarily due to capital expenditures, partially offset by unfavorable foreign currency valuation adjustments, depreciation and asset disposals and retirements.
Intangible assets and goodwill	290	293	(3)	Decrease primarily due to amortization of assets with finite lives and unfavorable foreign currency valuation adjustments, partially offset by capital expenditures.
Trade and other payables	247	299	(52)	Decrease primarily due to payments and release of holdbacks on the Regina wastewater treatment plant project as well as lower capital accruals, partially offset by an increase in delivery service charges payable.
Loans and borrowings (including current portion)	1,914	1,920	(6)	Decrease primarily due to repayment of long-term debt and favorable foreign currency valuation adjustments on U.S. dollar denominated debt.
Deferred revenue (including current portion)	1,042	1,041	1	Increase primarily due to contributions received from developers, partially offset by revenue recognized and favorable foreign currency valuation adjustments.
Provisions (including current portion)	118	111	7	Increase primarily due to employee benefits accruals and net receipts of refundable contributions from customers and developers.
Other liabilities (including current portion)	71	72	(1)	
Deferred tax liabilities	46	46	-	
Equity attributable to the Owner of the Company	2,668	2,672	(4)	Decrease due to dividends paid and other comprehensive loss, partially offset by comprehensive income for the period.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, $ millions)
Cash inflows (outflows)

Three months ended March 31,	**2017**	**2016**	**Increase (decrease)**	**Explanation**
Operating	$ 82	$ 136	$ (54)	Decrease primarily reflects lower funds from operations as a result of reduced income from operations and lower funds from the change in non-cash operating working capital resulting from a lower decrease in trade and other receivables and a higher decrease in trade and other payables.
Investing	(91)	83	(174)	Decrease is primarily due to lower payments related to long-term loans receivable from Capital Power, lower payments from Regina due to receipt of the milestone payment in the first quarter of 2016, lower proceeds from the disposal of assets and higher capital expenditures partially offset by lower advances on construction financing and proceeds from the sale of the remaining shares of Capital Power.
Financing	(39)	(219)	180	Increase is primarily due to lower repayment of long-term debt, including obligations related to Capital Power, and short-term loans and borrowings partially offset by higher payment of dividend to the City.
Opening cash and cash equivalents	191	36	155	
Closing cash and cash equivalents	$ 143	$ 36	$ 107	

Operating Activities and Liquidity

The Company maintains its financial position through rate-regulated utility and contracted operations which generate stable cash flows.

The Company expects to have sufficient liquidity to finance its plans and fund its obligations for the remainder of 2017 with a combination of cash on hand, cash flow from operating activities, interest and principal payments related to long-term loans receivable from Capital Power, the issuance of commercial paper, public or private debt offerings and draws upon existing credit facilities described below under Financing.

Cash flows from operating activities would be impaired by events that cause severe damage to our facilities and would require unplanned cash outlays for system restoration repairs. Under those circumstances, more reliance would be placed on our credit facilities for working capital requirements until a regulatory approved recovery mechanism or insurance proceeds are put in place.

Capital Requirements and Contractual Obligations

In April 2017, Edmonton City Council approved the transfer of Drainage to EPCOR as described in the Significant Subsequent Event section. Under the proposed terms, EPCOR intends to increase the dividend paid to the City by $20 million in 2018 (and by a prorated amount in 2017) subject to Board and Shareholder approval. In addition, 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. EPCOR will become responsible for future capital costs and assume

responsibility for approximately $600 million to $650 million in current drainage-related City debt through a back-to-back agreement with the City. For the first full year of operations, capital spending is expected to be approximately $120 million to $200 million.

The timing of the total commitment of $91 million for several Distribution and Transmission projects, as directed by Alberta Electricity System Operator, has changed since the fourth quarter of 2016 to $2 million in 2017, $38 million in 2018, $46 million in 2019 and $5 million in 2020.

During the first quarter of 2017 there were no other material changes to the Company's capital requirements or purchase obligations, including payments for the next five years and thereafter, as previously disclosed in the 2016 annual MD&A.

Financing

Generally, our external capital is raised at the corporate level and invested in the operating business units. Our external financing has consisted of commercial paper issuance, borrowings under committed syndicated bank credit facilities, debentures payable to the City, publicly issued medium-term notes, U.S. private debt notes and issuance of preferred shares.

The Company has bank credit facilities which are used principally for the purpose of backing the Company's commercial paper program and providing letters of credit, as outlined below:

(Unaudited, $ millions) **March 31, 2017**	**Expiry**	**Total facilities**	**Banking commercial paper issued**	**Letters of credit and other facility draws**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	November 2019	$ 200	$ -	$ 61	$ 139
Syndicated bank credit facility	November 2020	350	-	-	350
Total committed		550	-	61	489
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
Total credit facilities		**$ 575**	**$ -**	**$ 61**	**$ 514**

(Unaudited, $ millions) **December 31, 2016**	**Expiry**	**Total facilities**	**Banking commercial paper issued**	**Letters of credit and other facility draws**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	November 2019	$ 200	$ -	$ 73	$ 127
Syndicated bank credit facility	November 2020	350	-	-	350
Total committed		550	-	73	477
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
Total credit facilities		**$ 575**	**$ -**	**$ 73**	**$ 502**

1 Restricted to letters of credit.

Letters of credit are issued to meet the credit requirements of energy market participants and conditions of certain service agreements. Letters of credit totaling $61 million (December 31, 2016 - $73 million) were issued and outstanding at March 31, 2017.

The committed syndicated bank credit facilities cannot be withdrawn by the lenders until expiry, provided that the Company operates within the related terms and covenants. The extension feature of EPCOR's committed syndicated bank credit facilities gives the Company the option each year to re-price and extend the terms of the facilities by one or more years subject to agreement with the lending syndicate. The Company regularly monitors market conditions and may elect to enter into negotiations to extend the maturity dates.

The Company has a Canadian base shelf prospectus under which it may raise up to $1 billion of debt with maturities of not less than one year. At March 31, 2017, the available amount remaining under this base shelf prospectus was $1 billion (December 31, 2016 - $1 billion). The base shelf prospectus expires in December 2017.

No commercial paper was issued and outstanding at March 31, 2017 (December 31, 2016 - nil).

If the economy were to deteriorate in the longer term, particularly in Canada and the U.S., the Company's ability to extend the maturity or revise the terms of bank credit facilities, arrange long-term financing for its capital expenditure programs and acquisitions, or refinance outstanding indebtedness when it matures could be adversely impacted. We believe that these circumstances have a low probability of occurring. We continually monitor our capital programs and operating costs to minimize the risk that the Company becomes short of cash or unable to honor its debt servicing obligations. If required, the Company would look to reduce capital expenditures and operating costs.

Credit Rating

In August 2016, DBRS confirmed its A (low) / stable senior unsecured debt and R-1 (low) / stable short-term debt ratings for EPCOR and Standard & Poor's Ratings Services confirmed its A- / stable long-term corporate credit and senior unsecured debt ratings for EPCOR. We do not anticipate any changes to EPCOR's credit ratings due to the transfer of Drainage.

Financial Covenants

EPCOR is currently in compliance with all of its financial covenants in relation to its syndicated bank credit facilities, Canadian public medium-term notes and U.S. private debt notes. Based on current financial covenant calculations, the Company has sufficient borrowing capacity to fund current and long-term requirements. Although the risk is low, breaching these covenants could potentially result in a revocation of EPCOR's credit facilities causing a significant loss of access to liquidity or resulting in the Company's publicly issued medium-term notes and private debt notes becoming immediately due and payable thereby causing the Company to find a means of funding which could include the sale of assets.

For further information on the Company's contractual obligations, refer to the 2016 annual MD&A.

RISK MANAGEMENT

This section should be read in conjunction with the Risk Management section of the 2016 annual MD&A. EPCOR believes that risk management is a key component of the Company's culture and we have put cost-effective risk management practices into place. At the same time, EPCOR views risk management as an ongoing process and we continually review our risks and look for ways to enhance our risk management processes.

As part of ongoing risk management practices, the Company reviews current and proposed transactions to consider their impact on the risk profile of the Company. Due to the approval of the Drainage transfer, there have been changes to EPCOR's risk profile and risk management strategies as previously described in the 2016 annual MD&A.

Currently, EPCOR's risks include new business integration, strategy execution risk, political and legislative risk, regulatory risk, health and safety risk, information technology related security risks, risk of reputational damage, environment risk, business interruption risks, failure to attract, retain or develop top talent, water scarcity risk, electricity price and volume risk, project risk, weather risk, financial liquidity risk, counterparty and credit risk, billing error risk, foreign exchange risk, conflicts of interest, and general economic conditions, business environment and other risks.

The following risk has been revised since issuance of the 2016 annual MD&A as follows:

New Business Integration Risk

EPCOR plans to diversify its utility infrastructure investments across investment types and North American geographies to reduce investment risk. The Company is planning to accomplish this through expansion into the natural gas distribution and drainage utility businesses.

These types of utility businesses are new to EPCOR which introduces risk to the Company due to potential unfamiliarity with the associated operational, safety and regulatory risks in addition to the risks associated with integrating these businesses into EPCOR.

In April 2017, the City of Edmonton approved the transfer of its Drainage utility to EPCOR. The transfer will be material to the Company due to the size of the utility, requiring substantial efforts to successfully integrate the operations into EPCOR. The integration will encompass many important elements that must be completed successfully. In addition, the Company may be integrating a new natural gas distribution business (Natural Gas Resources Limited or NRGL) concurrently with the Drainage integration. Failing to successfully integrate these new businesses and the resultant effects on the Company, including reputational impact, make this EPCOR's most significant risk for the time being.

EPCOR has developed comprehensive integration plans and integration of the Drainage and natural gas distribution businesses will be a top priority for the Company, ensuring that personnel with appropriate skills are in place to operate the business safely and properly immediately upon the effective date of the transfer.

Litigation Update

The Company is not involved in any material litigation at this time.

FUTURE ACCOUNTING STANDARD CHANGES

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.

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.

CRITICAL ACCOUNTING ESTIMATES

In preparing the condensed consolidated interim financial statements, management necessarily made judgments and estimates in determining transaction amounts and financial statement balances. The following are the items for which significant estimates were made in the condensed consolidated interim financial statements: electricity revenues and costs, unbilled consumption of electricity and water, fair values and income taxes. Although the current condition of the economy has not impacted our methods of estimating accounting values, it has impacted the inputs in those determinations and the resulting values. Interim results will fluctuate due to the seasonal demands for electricity and water, changes in electricity prices, and the timing and recognition of regulatory decisions. Consequently, interim results are not necessarily indicative of annual results.

For further information on the Company's other critical accounting estimates, refer to the 2016 annual consolidated financial statements and 2016 annual MD&A.

OUTLOOK

For the remainder of 2017, EPCOR will focus on the transfer and integration of the Drainage utility. In addition, we will continue to target growth in rate-regulated water, electricity and natural gas infrastructure. We expect much of this investment to come from new infrastructure to accommodate customer growth and lifecycle replacement of existing infrastructure primarily related to the Edmonton and U.S. based operations. EPCOR intends to expand our water and electricity commercial services activities and to invest in the area of renewable energy generation, including solar and bio gas facilities, to enhance our environmental performance.

Over the long-term, demand for water is expected to increase and we anticipate escalating requirements for better water management practices including watershed management and conservation. We will pursue expansion of our portfolio of commercial water contracts.

EPCOR has been awarded franchises by three municipalities in the Southern Bruce region of Ontario near Kincardine to build and operate a natural gas distribution system. In March 2016 EPCOR applied to the Ontario Energy Board (OEB) for the approval of these franchise agreements. In January 2017 the OEB requested indications of interest from any parties interested in servicing these areas. A single company did indicate an interest. The OEB has subsequently issued a Procedural Order including an issues list as a first step in developing a process for hearing competing applications. It is not clear at this time when the OEB will finalize its competitive process and adjudicate EPCOR's Franchise Application.

In December 2016, the Government of Alberta passed Bill 21: the Modernized Municipal Government Act which could impose restrictions on the ability of a municipally controlled corporation (MCC) to conduct its business. EPCOR, which is a MCC of the City of Edmonton, was previously exempted by regulation from the MGA and a similar exemption by way of regulation has not been tabled. EPCOR is working to ensure the previous exemption is re-instated as the related regulations are developed. Municipal Affairs has advised that the posting of the draft MCC regulation is expected to occur in the second quarter of 2017.

In November 2016 the Company entered into a definitive asset purchase agreement to acquire substantially all of the assets of NRGL for consideration of $21 million, subject to certain adjustments. NRGL is a natural gas distributor in southwestern Ontario near London, providing services to approximately 8,000 residential, commercial and industrial customers in the counties of Elgin, Middlesex, Oxford and Norfolk. The OEB is currently reviewing the application for approval of this arrangement and the Company expects to complete the transaction in the second half of 2017.

QUARTERLY RESULTS

(Unaudited, $ millions)

Quarters ended	Revenues	Net income
March 31, 2017	$ 455	$ 38
December 31, 2016	474	88
September 30, 2016	504	76
June 30, 2016	479	67
March 31, 2016	475	78
December 31, 2015	523	65
September 30, 2015	511	(13)
June 30, 2015	489	139

Events for the past eight quarters compared to the same quarters of the prior year that have significantly impacted net income included:

- March 31, 2017, first quarter results included unfavorable fair value adjustments related to financial electricity purchase contracts and no dividend income due to the sale of Capital Power shares, lower net system access collections, lower gains as a result of sales of surplus land in the first quarter of 2016, lower income related to industrial service contracts and lower Energy Price Setting Plan margins. Partially offsetting these decreases was higher distribution, transmission and water customer rates and an unfavorable fair value adjustment related to interest swaps in the first quarter of 2016.
- December 31, 2016, fourth quarter results included the recognition of the fair value gain resulting from the sale of Capital Power shares, greater favorable fair value adjustments related to financial electricity purchase contracts and interest rate swaps and higher approved distribution and water customer rates, partially offset by lower transmission customer rates, lower billing charge rates, higher depreciation and lower income related to industrial services contracts.
- September 30, 2016 third quarter results included greater favorable fair value adjustments related to financial electricity purchase contracts, the recognition of the fair value gain resulting from the sale of the Capital Power shares, and higher approved electricity and water customer rates, partially offset by lower billing charge rates and higher depreciation. In addition, 2015 included an impairment of the Capital Power shares.
- June 30, 2016 second quarter results included lower favorable fair value adjustments related to financial electricity purchase contracts and interest rate swaps and excluded any gains related to Capital Power. These decreases were partially offset by higher approved electricity and water customer rates and higher income related to industrial service contracts.

- March 31, 2016 first quarter results included higher approved electricity and water customer rates, gains on sales of surplus lands, higher income related to industrial services contracts, and higher dividend income from Capital Power. This was partially offset by no equity share of income of Capital Power, and lower favorable fair value adjustments on financial electricity purchase contracts.
- December 31, 2015 fourth quarter results included an impairment of the available-for-sale investment in Capital Power, no equity share of income of Capital Power and lower deferred income tax recovery. This was partially offset by higher approved water and electricity customer rates, higher billing charge rates, higher customer water consumption, and higher favorable fair value adjustments on financial electricity purchase contracts.
- September 30, 2015 third quarter results included the impairment of the available-for-sale investment in Capital Power and unfavorable fair value adjustments related to the financial electricity purchase contracts, partially offset by higher approved water and electricity customer rates, higher billing charge rates, and higher EPSP margins.
- June 30, 2015 second quarter results included a gain on sale of a portion of investment in Capital Power and a gain on reclassification of investment in Capital Power to an available-for-sale asset. It also included higher approved water and electricity customer rates, higher fair value adjustments on financial electricity purchase contracts, lower income tax expense due to the re-organization of Energy Services, and favorable fair value adjustments related to the interest rate swap.

FORWARD - LOOKING INFORMATION

Certain information in this MD&A is forward-looking within the meaning of Canadian securities laws as it relates to anticipated financial performance, events or strategies. When used in this context, words such as “will”, “anticipate”, “believe”, “plan”, “intend”, “target”, and “expect” or similar words suggest future outcomes.

The purpose of forward-looking information is to provide investors with management’s assessment of future plans and possible outcomes and may not be appropriate for other purposes. Material forward-looking information within this MD&A, including related material factors or assumptions and risk factors, are noted in the table below:

Forward-looking Information	Material Factors or Assumptions	Risk Factors
The Company expects to have sufficient liquidity to finance its plans and fund its obligations in 2017.	EPCOR is able to generate the expected cash flow from operations and various means of funding remain available to the Company.	EPCOR’s operations do not generate the expected level of cash flow and / or circumstances arise limiting or restricting the Company’s ability to access funds through the various means otherwise available.
Drainage will be transferred under the proposed terms, including the estimated transfer date: • EPCOR intends to increase the dividend paid to the City by $20 million in 2018 (and by a prorated amount in 2017) subject to Board and Shareholder approval. • EPCOR will pay $75 million to the City over a period of time to be determined by the City. • EPCOR will assume responsibility for approximately $600 million to $650 million in current drainage-related City debt through a back-to-back agreement with the City. • For the first full year of operations, capital spending is expected to be approximately $120 million to $200 million.	Transfer takes place on the estimated transfer date and under the proposed terms.	Estimated transfer date changes. Transfer or terms are varied. Actuals vary from estimated amounts.

Whether actual results, performance or achievements will conform to the Company’s expectations and predictions is subject to a number of known and unknown risks and uncertainties which could cause actual results to differ from expectations and are discussed in the Risk Management section above.

Readers are cautioned not to place undue reliance on forward-looking statements as actual results could differ materially from the plans, expectations, estimates or intentions expressed in the forward-looking statements. Except as required by law, EPCOR disclaims any intention and assumes no obligation to update any forward-looking statement even if new information becomes available, as a result of future events or for any other reason.

ADDITIONAL INFORMATION

Additional information relating to EPCOR including the Company’s 2016 Annual Information Form is available on SEDAR at www.sedar.com.