Condensed Consolidated Interim Financial Statements of

# EPCOR UTILITIES INC.

(Unaudited)

Three months ended March 31, 2021 and 2020

# EPCOR UTILITIES INC.

Condensed Consolidated Interim Financial Statements (unaudited)

Three months ended March 31, 2021 and 2020

# EPCOR UTILITIES INC.
Condensed Consolidated Interim Statements of Comprehensive Income
(Unaudited, in millions of Canadian dollars)

Three months ended March 31, 2021 and 2020

| | 2021 | 2020 |
|---|---|---|
| Revenues (note 5) | $ 519 | $ 487 |
| Operating expenses: | | |
| Energy purchases and system access fees | 139 | 126 |
| Other raw materials and operating charges | 55 | 45 |
| Staff costs and employee benefits expenses | 89 | 92 |
| Depreciation and amortization | 92 | 83 |
| Franchise fees and property taxes | 34 | 33 |
| Other administrative expenses | 20 | 24 |
| | 429 | 403 |
| Operating income | 90 | 84 |
| Finance expenses | (36) | (34) |
| Income before income taxes | 54 | 50 |
| Income tax recovery | 1 | - |
| Net income | 55 | 50 |
| Other comprehensive income (loss): | | |
| Items that may subsequently be reclassified to net income: | | |
| Foreign exchange gain (loss) on U.S. denominated debt designated as a hedge of net investment in foreign operations | 5 | (35) |
| Unrealized loss on derivative financial instruments designated as hedges of net investment in foreign operations (note 7) | (1) | - |
| Unrealized gain (loss) on foreign currency translation | (16) | 90 |
| Other comprehensive income (loss) | (12) | 55 |
| Comprehensive income | $ 43 | $ 105 |

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

# EPCOR UTILITIES INC.

Condensed Consolidated Interim Statements of Financial Position
(Unaudited, in millions of Canadian dollars)

March 31, 2021 and December 31, 2020

| | 2021 | 2020 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 22 | $ 8 |
| Trade and other receivables | 490 | 488 |
| Inventories | 18 | 17 |
| | 530 | 513 |
| Non-current assets: | | |
| Other financial assets | 195 | 189 |
| Deferred tax assets | 95 | 97 |
| Property, plant and equipment | 11,187 | 10,913 |
| Intangible assets and goodwill | 560 | 468 |
| | 12,037 | 11,667 |
| TOTAL ASSETS | $ 12,567 | $ 12,180 |
| | | |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Trade and other payables | $ 418 | $ 426 |
| Loans and borrowings | 573 | 365 |
| Deferred revenue | 81 | 83 |
| Provisions | 38 | 33 |
| Other liabilities | 46 | 49 |
| | 1,156 | 956 |
| Non-current liabilities: | | |
| Loans and borrowings | 3,207 | 3,207 |
| Deferred revenue | 3,986 | 3,909 |
| Deferred tax liabilities | 41 | 43 |
| Provisions | 196 | 109 |
| Other liabilities | 190 | 165 |
| | 7,620 | 7,433 |
| Total liabilities | 8,776 | 8,389 |
| Equity: | | |
| Share capital | 798 | 798 |
| Accumulated other comprehensive income | 21 | 33 |
| Retained earnings | 2,972 | 2,960 |
| Total equity | 3,791 | 3,791 |
| TOTAL LIABILITIES AND EQUITY | $ 12,567 | $ 12,180 |

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
(Unaudited, in millions of Canadian dollars)

Three months ended March 31, 2021 and 2020

| | | Accumulated other comprehensive income (loss) | | | | |
|---|---|---|---|---|---|---|
| | Share capital | Cash flow hedges | Cumulative translation account | Employee benefits account | Retained earnings | Total equity |
| Equity at December 31, 2020 | $ 798 | $ (9) | $ 63 | $ (21) | $ 2,960 | $ 3,791 |
| Net income | - | - | - | - | 55 | 55 |
| Other comprehensive income (loss): | | | | | | |
| Foreign exchange gain on U.S. denominated debt designated as a hedge of net investment in foreign operations | - | - | 5 | - | - | 5 |
| Unrealized loss on derivative financial instruments designated as hedges of net investment in foreign operations | - | - | (1) | - | - | (1) |
| Unrealized loss on foreign currency translation | - | - | (16) | - | - | (16) |
| Total comprehensive income (loss) | - | - | (12) | - | 55 | 43 |
| Dividends | - | - | - | - | (43) | (43) |
| Equity at March 31, 2021 | $ 798 | $ (9) | $ 51 | $ (21) | $ 2,972 | $ 3,791 |

| | | Accumulated other comprehensive income (loss) | | | | |
|---|---|---|---|---|---|---|
| | Share capital | Cash flow hedges | Cumulative translation account | Employee benefits account | Retained earnings | Total equity |
| Equity at December 31, 2019 | $ 798 | $ (9) | $ 79 | $ (19) | $ 2,855 | $ 3,704 |
| Net income | - | - | - | - | 50 | 50 |
| Other comprehensive income (loss): | | | | | | |
| Foreign exchange loss on U.S. denominated debt designated as a hedge of net investment in foreign operations | - | - | (35) | - | - | (35) |
| Unrealized gain on foreign currency translation | - | - | 90 | - | - | 90 |
| Total comprehensive income | - | - | 55 | - | 50 | 105 |
| Dividends | - | - | - | - | (43) | (43) |
| Equity at March 31, 2020 | $ 798 | $ (9) | $ 134 | $ (19) | $ 2,862 | $ 3,766 |

# EPCOR UTILITIES INC.

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited, in millions of Canadian dollars)

Three months ended March 31, 2021 and 2020

| | 2021 | 2020 |
|---|---|---|
| Cash flows from (used in) operating activities: | | |
| Net income | $ 55 | $ 50 |
| Reconciliation of net income to cash from (used in) operating activities: | | |
| Interest paid | (16) | (16) |
| Finance expenses | 36 | 34 |
| Income tax recovery | (1) | - |
| Depreciation and amortization | 92 | 83 |
| Change in employee benefits provisions | 7 | 7 |
| Contributions received | 20 | 41 |
| Deferred revenue recognized | (21) | (18) |
| Changes in fair value of financial electricity purchase contracts | - | 1 |
| Other | (1) | (3) |
| Net cash flows from operating activities before non-cash operating working capital changes | 171 | 179 |
| Changes in non-cash operating working capital | 10 | (26) |
| Net cash flows from operating activities | 181 | 153 |
| Cash flows from (used in) investing activities: | | |
| Acquisitions and construction of property, plant and equipment and intangible assets[1] | (145) | (143) |
| Business acquisition, net of acquired cash (note 4) | (126) | - |
| Proceeds on disposal of property, plant and equipment | 2 | 1 |
| Net payments received (advances) on other financial assets | (6) | 1 |
| Payment of Drainage transition cost compensation to the City of Edmonton | (9) | (14) |
| Changes in non-cash investing working capital | (42) | (33) |
| Net cash flows used in investing activities | (326) | (188) |
| Cash flows from (used in) financing activities: | | |
| Net issuance of short-term loans and borrowings | 210 | 90 |
| Repayments of long-term loans and borrowings | (5) | (5) |
| Net refunds to customers and developers | (1) | - |
| Payments of lease liabilities, net of proceeds from finance lease receivable | (2) | (3) |
| Dividends paid | (43) | (43) |
| Net cash flows from financing activities | 159 | 39 |
| Increase in cash and cash equivalents | 14 | 4 |
| Cash and cash equivalents, beginning of period | 8 | 33 |
| Cash and cash equivalents, end of period | $ 22 | $ 37 |

1 Interest payments of $2 million (2020 - $2 million) have been capitalized and included in acquisitions and construction of property, plant and equipment (PP&E) and intangible assets.

## 1. Nature of operations

EPCOR Utilities Inc. (the Company or EPCOR) builds, owns and operates electrical, natural gas and water transmission and distribution networks, water and wastewater treatment facilities and sanitary and stormwater systems and infrastructure. The Company also provides electricity, natural gas and water 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.

*Novel coronavirus*

The novel coronavirus (COVID -19) outbreak continues to evolve and disrupt business activities around the world, resulting in a global economic slowdown. In view of the recent resurgence in the spread of the virus, particularly related to an increased number of cases linked to the highly contagious virus variants, the governmental authorities in Canada and the U.S. continued various measures to limit spread of the virus, including non-essential business closures, quarantines, self-isolation, social and physical distancing and shelter-in-place. Recently, in the U.S. where our operations are based, the local governments have started lifting restrictions. The Company is closely monitoring the situation and continues to operate under its business continuity plan to ensure safety of its employees and customers.

Since the majority of the Company’s operations consist of the provision of essential utility services, the Company has not experienced any significant impact on its operations and financial results except for a decline in sales to commercial customers mainly due to business closures, which has largely been offset by an increase in sales to residential customers. Overall, the COVID -19 pandemic did not result in any material impact on the financial results of the Company for the period ended March 31, 2021.

## 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*. These condensed consolidated interim financial statements do not include all of the disclosures 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, 2020, which were 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 April 27, 2021.

(b) Basis of measurement

The Company's condensed consolidated interim financial statements are prepared on the historical cost basis, except for its derivative financial instruments, long-term investment and contingent consideration, which are measured at fair value.

These condensed consolidated interim financial statements are presented in Canadian dollars. The functional currency of EPCOR and its Canadian subsidiaries is the Canadian dollar; the functional currency of U.S. subsidiaries is the U.S. dollar. All the values in these condensed consolidated interim financial statements have been rounded to nearest million except where otherwise stated.

## 3. Significant accounting policies

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. The Company has adopted amendments to various accounting standards effective January 1, 2021, which did not have a significant impact on these consolidated financial statements.

(Unaudited, tabular amounts in millions of Canadian dollars unless otherwise indicated)

(a) Standards and interpretations not yet applied

A number of new standards, amendments to standards and interpretations of standards have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee, the application of which is effective for periods beginning on or after January 1, 2022. The Company does not expect the implementation of these new accounting pronouncements to have a significant impact on its accounting policies.

**4. Business acquisition**

*Acquisition of Johnson Utilities LLC operations*

On January 29, 2021, the Company acquired the operations of Johnson Utilities LLC (JU), through its wholly owned U.S. subsidiary EPCOR Water Arizona Inc., for total consideration of $141 million (US$110 million) including cash consideration of $128 million (US$100 million) and a long-term unsecured promissory note of $13 million (US$10 million).

The operations acquired from JU include the water treatment and distribution and wastewater collection and treatment assets (collectively JU operations), located southeast of the greater metropolitan Phoenix area. These operations provide services to approximately 30,000 water and 42,000 wastewater customers and hold a certificate of convenience and necessity that covers 160 square miles. The JU operations are regulated by the Arizona Corporation Commission.

The purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair values on the date of acquisition, in Canadian dollars, as follows:

| | | 2021 |
|---|---|---|
| Fair value of net assets acquired: | | |
| Cash and cash equivalent | $ | 2 |
| Trade and other receivables | | 12 |
| Inventories | | 1 |
| Other financial assets | | 2 |
| Property, plant and equipment | | 218 |
| Intangible assets and goodwill | | 97 |
| Trade and other payables | | (12) |
| Deferred revenue | | (59) |
| Provisions | | (87) |
| Other liabilities | | (33) |
| Net assets at fair value | $ | 141 |
| Consideration: | | |
| Cash | $ | 128 |
| Long-term unsecured promissory note | | 13 |
| Total consideration | $ | 141 |

PP&E of $218 million (US$170 million) primarily consists of the water and wastewater infrastructure including pipelines and treatment facilities. PP&E also includes construction work in progress of $8 million (US$6 million).

The intangible assets and goodwill of $97 (US$76 million) million represents the goodwill recognized on the acquisition of operations. The goodwill represents the expected customer connection growth, leverage benefit and the potential synergies from the Company's expanded operations in Arizona. The goodwill is deductible for income tax purposes over time.

Deferred revenue of $59 million (US$46 million) represents the fair value of contributions received from customers and developers. Deferred revenue will be recognized as revenue over the corresponding life of the respective assets to which the contributions relate.

(Unaudited, tabular amounts in millions of Canadian dollars unless otherwise indicated)

Provisions of $87 million (US$68 million) represents the fair value of advances in aid of construction (AIAC) from developers. The AIAC balances are refundable to the developers based on a percentage of revenues generated from the customers connected to assets for which AIAC was initially received.

Other liabilities primarily consist of a liability of $27 million (US$21 million) related to the settlement with the Arizona Department of Environmental Quality, requiring the Company to contribute 30 percent up to a maximum of US$ 21 million towards the construction of a new wastewater treatment plant, to be built and operated by the Company.

The consideration in the form of a long-term unsecured promissory note consisted of a $13 million (US$10 million) note, carrying an interest rate of 3% per annum. On January 30, 2021, an amount of $7 million (US$5 million) against the note was settled for the trade and other receivables which were due from the previous owner. As of March 31, 2021, the remaining principal balance of the long-term unsecured promissory note is $6 million (US$5 million) which is due in February 2024.

The transaction has been accounted for as a business combination using the acquisition method in conformance with IFRS 3 – *Business Combinations,* with the results of operations included in the condensed consolidated interim financial statements from the date of acquisition.

Since the date of acquisition to March 31, 2021, the financial performance of the JU operations was as follows:

| | | 2021 |
|---|---|---|
| Revenues | $ | 7 |
| Operating expenses | | (7) |
| Operating income | $ | - |

Management used assumptions and estimates about future events in the determination of fair values. The assumptions and estimates with respect to the determination of the fair value of PP&E and AIAC required the most judgment. Based on those assumptions and estimates the purchase price was allocated to the identified assets acquired and liabilities assumed with the residual amount attributed to goodwill. The fair values were estimated by applying standard valuation techniques and were based on significant inputs which are not observable in the market. The key assumptions in the determination of fair value included the discount rate, future customer connection growth and customer rates including a future surcharge as approved by the regulator.

## 5. Revenues

Revenues disaggregated by major goods or services excluding intersegment revenues, are as follows:

| Three months ended March 31, 2021 | Water Services | Distribution & Transmission | Energy Services | U.S. Operations | Other | Consolidated |
|---|---|---|---|---|---|---|
| Energy and water sales | $ 55 | $ - | $ 135 | $ 41 | $ 13 | $ 244 |
| Provision of services | 109 | 114 | 6 | 23 | 5 | 257 |
| Construction revenue | 4 | - | - | - | 12 | 16 |
| Other commercial revenue | 2 | - | - | - | - | 2 |
| | $ 170 | $ 114 | $ 141 | $ 64 | $ 30 | $ 519 |

| Three months ended March 31, 2020 | Water Services | Distribution & Transmission | Energy Services | U.S. Operations | Other | Consolidated |
|---|---|---|---|---|---|---|
| Energy and water sales | $ 54 | $ - | $ 124 | $ 40 | $ 15 | $ 233 |
| Provision of services | 104 | 115 | 6 | 17 | 4 | 246 |
| Construction revenue | 1 | - | - | - | 5 | 6 |
| Other commercial revenue | 1 | - | - | - | 1 | 2 |
| | $ 160 | $ 115 | $ 130 | $ 57 | $ 25 | $ 487 |

(Unaudited, tabular amounts in millions of Canadian dollars unless otherwise indicated)

## 6. Financial instruments

### Classification

The classifications of the Company's financial instruments measured at fair value at March 31, 2021 and December 31, 2020 are summarized as follows:

| | Fair value hierarchy |
|---|---|
| Long-term investment | Level 3 |
| Derivative financial instruments | |
| Financial electricity purchase contracts | Level 1 |
| Cross-currency interest rate swap contracts | Level 2 |
| Foreign exchange swap contracts | Level 2 |
| Other liabilities | |
| Contingent consideration | Level 3 |

### Fair value

The carrying amounts of cash and cash equivalents, trade and other receivables (excluding derivative financial instruments), trade and other payables (excluding derivative financial instruments) 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 financial liabilities measured at amortized cost are as follows:

| | | March 31, 2021 | | December 31, 2020 | |
|---|---|---|---|---|---|
| | Fair value hierarchy | Carrying amount | Fair value | Carrying amount | Fair value |
| Non-current portion of other financial assets[1] | Level 2 | $ 188 | $ 188 | $ 182 | $ 187 |
| Loans and borrowings | Level 2 | 3,780 | 4,216 | 3,572 | 4,374 |
| Other liabilities | | | | | |
| Drainage transition cost compensation | Level 2 | 6 | 6 | 15 | 15 |

1 Excluding long-term investment in Vista Ridge LLC (Vista Ridge) of $7 million (December 31, 2020 - $7 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 using 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.

*Long-term investment*

The long-term investment consists of the Company's 5% equity interest in Vista Ridge. Vista Ridge is a privately owned company therefore, its equity instruments are not traded in an active market and the fair value of equity is not readily observable. Accordingly, the fair value of the long-term investment in Vista Ridge is determined based on unobservable inputs including the expected future cash flows from the investment discounted at a risk-adjusted discount rate.

*Derivative financial instruments*

The fair value of the Company's financial electricity purchase contracts is determined based on exchange index prices in active markets and are based on the external readily observable market data such as forward electricity prices. It is possible that the fair value amounts will differ from future outcomes and the impact of such variations could be material.

The fair value of the Company's cross-currency interest rate swap (CCIRS) contracts is determined as the present value of the estimated future cash flows using an appropriate interest rate yield curve and foreign exchange rate based on market conditions at March 31, 2021, discounted at a market rate. Derivative instruments reflect the estimated amount that the company would receive or pay to settle the CCIRS contracts at March 31, 2021.

Within the condensed consolidated interim statements of financial position, long-term derivative financial assets are presented within other financial assets, long-term derivative financial liabilities are presented within other liabilities, short-term derivative financial assets are presented within trade and other receivables and short-term derivative financial liabilities are presented within trade and other payables. At March 31, 2021, derivative financial instruments had a balance of $1 million, included in other liabilities.

*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. and additional customer connections for natural gas by EPCOR Gas Texas Inc., the timing of which is uncertain. The fair value of the Company's contingent consideration is determined based on the expected timing of securing new contracts and customer connections and the resulting cash flows are then discounted at risk-adjusted discount rates. Any change in the timing of execution of new contracts and additional customer connections, discount rate or foreign exchange rate can have a material impact on the fair value of contingent consideration.

*Non-current portion of other financial assets*

The fair values of the Company's long-term 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, 2021 and December 31, 2020. The fair value of finance lease receivables is based on the estimated current market rates for similar assets discounted at the prevailing interest rates for comparable investments plus an estimated credit spread based on counterparty risks at March 31, 2021 and December 31, 2020.

*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, 2021 and December 31, 2020. 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, 2021 and December 31, 2020. 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.

Short-term loans and borrowings are measured at amortized cost and their carrying value approximates their fair value due to the short-term nature of these financial instruments.

*Drainage transition cost compensation*

The transition cost compensation is payable in installments to the City to compensate for stranded costs related to the transfer of the Drainage business. The carrying value of the Drainage transition cost compensation represents the present value of the liability, discounted using interest rates prevailing at the time of initial recognition of liability. The fair value of the Drainage transition cost compensation is determined based on the future cash outflows discounted at risk-adjusted interest rates prevailing at March 31, 2021 and December 31, 2020.

## 7. Financial risk management

This note disclosure should be read in conjunction with the financial risk management (note 27) in the annual consolidated financial statements for the year ended December 31, 2020.

*Liquidity risk*

Further to the liquidity risks identified and disclosed in the annual consolidated financial statements for the year ended December 31, 2020, the Company has added a new committed bank credit facility totaling $200 million during the period ended March 31, 2021. This facility is valid for a period of three years and can be used for direct borrowing, issuance of letters of credit, and backstopping EPCOR's commercial paper program. At March 31, 2021, there were no amounts drawn on this facility.

(Unaudited, tabular amounts in millions of Canadian dollars unless otherwise indicated)

*Foreign exchange risk*

Further to the foreign exchange risks identified and disclosed in the annual consolidated financial statements for the year ended December 31, 2020, the Company during the period ended March 31, 2021, entered into CCIRS contracts designated as hedges of net investment in foreign operations and foreign exchange swap contracts to manage exchange rate exposure.

*Derivative financial instruments - Hedges of net investment in foreign operations*

The Company uses derivative financial instruments including the CCIRS contracts as a hedge of net investment in foreign operations to reduce the impacts of foreign exchange rate fluctuations arising from the retranslation of the net investment in foreign operations into the Company's functional currency in the condensed consolidated interim financial statements. In order to hedge the foreign currency risk exposure related to net investment in foreign operations, the Company has executed the following CCIRS contracts and designated these as hedges of net investment in foreign operations:

- On March 17, 2021, the Company entered into a 30-year CCIRS contract, to swap Canadian dollars for U.S. dollars. The Company swapped the notional amount of $62 million for US$50 million at an exchange rate of $1.2405 to US$1. The Company will semi-annually receive interest in Canadian dollars at 3.471% per annum and will pay interest in US$ at 3.221% per annum on the aforementioned notional values. At maturity in March 2051, the Company will swap the original notional amounts at the same exchange rate.
- On March 23, 2021, the Company entered into a 30-year CCIRS contract, to swap the notional amount of $100 million for US$79 million at an exchange rate of $1.2587 to US$1. The Company will semi-annually receive interest in Canadian dollars at 3.39% per annum and will pay interest in US$ at 3.183% per annum on the aforementioned notional values. There was no physical exchange of currencies at inception, however at maturity in 2051, the Company will physically swap the original notional amounts at the same exchange rate.

The counterparties to the CCIRS contracts are major financial institutions. The fair value of the Company's CCIRS contracts is determined based on a discounted cash flow model, using readily available information from the market. The inputs used include notional amounts, foreign exchange rates, the contractual fixed settlement rates and an applicable discount factor.

The Company performed an effectiveness test at inception by comparing the changes in fair value of the net investment in foreign operations (hedged item), due to movements in the foreign currency rate with the changes in fair value of the hedging instruments used to hedge the exposure and determined that a perfect hedging relationship existed at inception. The Company uses the hypothetical derivative method to determine the subsequent changes in fair value of the hedged item. Subsequently, the Company performs the effectiveness test at each reporting date to ensure that the changes in fair values of the hedging instruments and the hedged item are moving in opposite directions and offsetting each other. At March 31, 2021, the Company performed the effectiveness test on the outstanding CCIRS contracts designated as hedges and determined that the hedges are effective and the hedging instrument and hedged item are moving in the opposite direction.

The change in fair value of $1 million of the effective portion of the hedges of net investment in foreign operations for the period ended March 31, 2021 was recorded in other comprehensive income. There was no ineffective portion of the hedges of net investment in foreign operations identified during the period.

The following table summarizes the Company's outstanding CCIRS contracts designated as hedges of net investment in foreign operations:

| | | | | | **March 31, 2021** |
|---|---|---|---|---|---|
| Receive notional | Receive rate in $ | Pay notional | Pay rate in US$ | Maturity | Fair value |
| $ 62 | 3.471% | US$ 50 | 3.221% | March 19, 2051 | $ - |
| $ 100 | 3.390% | US$ 79 | 3.183% | September 15, 2051 | (1) |
| | | | | | $ (1) |

*Foreign exchange swap contracts*

The Company has entered in two foreign exchange swap contracts on March 19, 2021, to convert excess foreign currency to Canadian dollars for a short duration. As per the terms of the contracts, the Company has swapped US$50 million for $63 million at a fixed exchange rate. At maturity on April 27, 2021, the Company will swap the currencies at a predetermined fixed exchange rate. The Company has not designated these financial contracts as hedges and changes in the fair value of the contracts are being recognized in net income. During the period ended March 31, 2021, change in fair value of the foreign exchange swaps of $nil was recognized in net income.

## 8. 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, transmission, distribution and sale of water, the collection and conveyance of sanitary and storm water, and the treatment of wastewater within Edmonton and other communities in Western Canada. This segment's water and wastewater business includes the provision of design, build, finance, operating and maintenance services for municipal and industrial customers in Western Canada.

**Distribution and Transmission**

Distribution and Transmission is involved in the transmission and distribution of electricity within Edmonton. This segment also provides contract commercial services including the design, construction and maintenance and other support services of street lighting, traffic signal, light rail transit and other utility electrical infrastructure for municipal and commercial customers in Alberta.

**Energy Services**

Energy Services is primarily involved in the provision of regulated rate option electricity service and default supply electricity services to customers in Alberta. This segment also provides competitive electricity and natural gas products under the Encor brand.

**U.S. Operations**

U.S. operations is primarily involved in the treatment, transmission, distribution and sale of water, the collection and treatment of wastewater, and operating and maintenance services within the Southwestern U.S. This segment also provides natural gas distribution and transmission services in Texas. All of the Company's operations conducted in the U.S. are included in this segment.

**Other**

Other includes all of the remaining business segments of the Company, which do not meet the criteria of a reportable business segment. Other primarily includes Ontario natural gas and electricity distribution businesses, certain Canadian business development projects including the electrical infrastructure related to the Trans Mountain pipeline expansion project and the cost of the Company's net unallocated corporate office expenses.

(Unaudited, tabular amounts in millions of Canadian dollars unless otherwise indicated)

| Three months ended March 31, 2021 | Water Services | Distribution & Transmission | Energy Services | U.S. Operations | Other | Intersegment Elimination | Consolidated |
|---|---|---|---|---|---|---|---|
| External revenues | $ 170 | $ 114 | $ 141 | $ 64 | $ 30 | $ - | $ 519 |
| Inter-segment revenues | - | 2 | 4 | - | - | (6) | - |
| Total revenues | 170 | 116 | 145 | 64 | 30 | (6) | 519 |
| Energy purchases and system access fees | - | - | 113 | 14 | 12 | - | 139 |
| Other raw materials and operating charges | 21 | 8 | - | 15 | 12 | (1) | 55 |
| Staff costs and employee benefits expenses | 36 | 19 | 10 | 11 | 14 | (1) | 89 |
| Depreciation and amortization | 41 | 25 | 2 | 16 | 8 | - | 92 |
| Franchise fees and property Taxes | 8 | 23 | - | 3 | - | - | 34 |
| Other administrative expenses | 8 | 4 | 5 | 6 | 1 | (4) | 20 |
| Operating expenses | 114 | 79 | 130 | 65 | 47 | (6) | 429 |
| Operating income (loss) before corporate income (charges) | 56 | 37 | 15 | (1) | (17) | - | 90 |
| Corporate income (charges) | (9) | (5) | (4) | (1) | 19 | - | - |
| Operating income (loss) | 47 | 32 | 11 | (2) | 2 | - | 90 |
| Finance recoveries (expenses) | (19) | (15) | (1) | (12) | 11 | - | (36) |
| Income tax recoveries (expenses) | - | - | - | 3 | (2) | - | 1 |
| Net income (loss)[1] | $ 28 | $ 17 | $ 10 | $ (11) | $ 11 | $ - | $ 55 |
| Capital additions | $ 71 | $ 50 | $ - | $ 17 | $ 7 | $ - | $ 145 |

1 Net loss in U.S. Operations is due to higher natural gas procurements costs during the Texas winter storm “Uri”. The natural gas procurement costs in U.S. Operations are considered flow through costs, which are expected to be recovered in future periods through a regulatory mechanism.

(Unaudited, tabular amounts in millions of Canadian dollars unless otherwise indicated)

| Three months ended March 31, 2020 | Water Services | Distribution & Transmission | Energy Services | U.S. Operations | Other | Intersegment Elimination | Consolidated |
|---|---|---|---|---|---|---|---|
| External revenues | $ 160 | $ 115 | $ 130 | $ 57 | $ 25 | $ - | $ 487 |
| Inter-segment revenues | - | 2 | 4 | - | - | (6) | - |
| Total revenues | 160 | 117 | 134 | 57 | 25 | (6) | 487 |
| Energy purchases and system access fees | - | - | 110 | 2 | 14 | - | 126 |
| Other raw materials and operating charges | 17 | 11 | - | 12 | 6 | (1) | 45 |
| Staff costs and employee benefits expenses | 38 | 21 | 9 | 10 | 15 | (1) | 92 |
| Depreciation and amortization | 38 | 23 | 2 | 14 | 6 | - | 83 |
| Franchise fees and property taxes | 9 | 22 | - | 2 | - | - | 33 |
| Other administrative expenses | 8 | 4 | 8 | 4 | 4 | (4) | 24 |
| Operating expenses | 110 | 81 | 129 | 44 | 45 | (6) | 403 |
| Operating income (loss) before corporate income (charges) | 50 | 36 | 5 | 13 | (20) | - | 84 |
| Corporate income (charges) | (10) | (6) | (4) | (2) | 22 | - | - |
| Operating income | 40 | 30 | 1 | 11 | 2 | - | 84 |
| Finance recoveries (expenses) | (19) | (15) | (1) | (12) | 13 | - | (34) |
| Net income (loss) | $ 21 | $ 15 | $ - | $ (1) | $ 15 | $ - | $ 50 |
| Capital additions | $ 58 | $ 44 | $ - | $ 30 | $ 11 | $ - | $ 143 |

The Company's assets and liabilities by business segments at March 31, 2021 and December 31, 2020 are summarized as follows:

| March 31, 2021 | Water Services | Distribution & Transmission | Energy Services | U.S. Operations | Other | Intersegment Elimination | Consolidated |
|---|---|---|---|---|---|---|---|
| Total assets | $ 7,243 | $ 2,641 | $ 271 | $ 1,843 | $ 4,962 | $ (4,393) | $ 12,567 |
| Total liabilities | 5,608 | 1,775 | 214 | 1,551 | 4,021 | (4,393) | 8,776 |

| December 31, 2020 | Water Services | Distribution & Transmission | Energy Services | U.S. Operations | Other | Intersegment Elimination | Consolidated |
|---|---|---|---|---|---|---|---|
| Total assets | $ 7,204 | $ 2,636 | $ 253 | $ 1,547 | $ 4,817 | $ (4,277) | $ 12,180 |
| Total liabilities | 5,594 | 1,787 | 206 | 1,240 | 3,839 | (4,277) | 8,389 |

(Unaudited, tabular amounts in millions of Canadian dollars unless otherwise indicated)

**Non-current assets by geography**

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| Canada | $ 10,248 | $ 10,175 |
| U.S. | 1,789 | 1,492 |
| | $ 12,037 | $ 11,667 |