Condensed Consolidated Interim Financial Statements of

EPCOR UTILITIES INC.

(Unaudited)

Three months ended March 31, 2022 and 2021

EPCOR UTILITIES INC.

Condensed Consolidated Interim Financial Statements (unaudited)

Three months ended March 31, 2022 and 2021

EPCOR UTILITIES INC.

Condensed Consolidated Interim Statements of Comprehensive Income
(Unaudited, in millions of Canadian dollars)

Three months ended March 31, 2022 and 2021

	2022	2021
Revenues (note 4)	$ 591	$ 519
Operating expenses:		
Energy purchases and system access fees	182	139
Other raw materials and operating charges	52	55
Staff costs and employee benefits expenses	89	89
Depreciation and amortization	91	92
Franchise fees and property taxes	36	34
Other administrative expenses	26	20
	476	429
Operating income	115	90
Finance expenses	(37)	(36)
Income before income taxes	78	54
Income tax recovery (expense)	(4)	1
Net income	74	55
Other comprehensive income (loss):		
Items that may subsequently be reclassified to net income:		
Foreign exchange gain on U.S. denominated debt designated as a hedge of net investment in foreign operations	4	5
Unrealized loss on derivative financial instruments designated as hedges of net investment in foreign operations	(5)	(1)
Unrealized gain on derivative financial instruments designated as cash flow hedges	7	-
Unrealized loss on foreign currency translation	(17)	(16)
Other comprehensive loss	(11)	(12)
Comprehensive income	$ 63	$ 43

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, 2022 and December 31, 2021

	2022	2021
ASSETS		
Current assets:		
Cash	$ 26	$ 30
Trade and other receivables	553	582
Inventories	17	18
	596	630
Non-current assets:		
Other financial assets	248	243
Deferred tax assets	89	91
Property, plant and equipment	11,785	11,725
Intangible assets and goodwill	550	558
	12,672	12,617
TOTAL ASSETS	$ 13,268	$ 13,247
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	$ 476	$ 506
Loans and borrowings	413	391
Deferred revenue	82	78
Provisions	53	47
Other liabilities	34	43
	1,058	1,065
Non-current liabilities:		
Loans and borrowings	3,632	3,638
Deferred revenue	4,121	4,109
Deferred tax liabilities	75	74
Provisions	174	174
Other liabilities	182	180
	8,184	8,175
Total liabilities	9,242	9,240
Equity:		
Share capital	798	798
Accumulated other comprehensive income	21	32
Retained earnings	3,207	3,177
Total equity	4,026	4,007
TOTAL LIABILITIES AND EQUITY	$ 13,268	$ 13,247

EPCOR UTILITIES INC.

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

Three months ended March 31, 2022 and 2021

	Share capital	Accumulated other comprehensive income (loss): Cash flow hedges	Cumulative translation account	Employee benefits account	Retained earnings	Total equity
Equity at December 31, 2021	$ 798	$ (9)	$ 53	$ (12)	$ 3,177	$ 4,007
Net income	-	-	-	-	74	74
Other comprehensive income (loss):						
Foreign exchange gain on U.S. denominated debt designated as a hedge of net investment in foreign operations	-	-	4	-	-	4
Unrealized loss on derivative financial instruments designated as hedges of net investment in foreign operations	-	-	(5)	-	-	(5)
Unrealized gain on derivative financial instruments designated as cash flow hedges	-	7	-	-	-	7
Unrealized loss on foreign currency translation	-	-	(17)	-	-	(17)
Total comprehensive income (loss)	-	7	(18)	-	74	63
Dividends	-	-	-	-	(44)	(44)
Equity at March 31, 2022	$ 798	$ (2)	$ 35	$ (12)	$ 3,207	$ 4,026

	Share capital	Accumulated other comprehensive income (loss): 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

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

EPCOR UTILITIES INC.

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

Three months ended March 31, 2022 and 2021

	2022	2021
Cash flows from (used in) operating activities:		
Net income	$ 74	$ 55
Reconciliation of net income to cash from (used in) operating activities:		
Interest paid	(13)	(15)
Finance expenses	37	36
Income tax (recovery) expense	4	(1)
Depreciation and amortization	91	92
Change in employee benefits provisions	8	7
Contributions received	27	20
Deferred revenue recognized	(21)	(21)
Other	-	(1)
Net cash flows from operating activities before non-cash operating working capital changes	207	172
Changes in non-cash operating working capital	(8)	10
Net cash flows from operating activities	199	182
Cash flows from (used in) investing activities:		
Acquisitions and construction of property, plant and equipment and intangible assets[1]	(167)	(145)
Business acquisition, net of acquired cash	-	(126)
Proceeds from expropriation of the Bullhead City water utility systems	25	-
Proceeds on disposal of property, plant and equipment	8	2
Net advances on other financial assets	(3)	(6)
Payment of Drainage transition cost compensation to the City of Edmonton	(6)	(9)
Changes in non-cash investing working capital	(30)	(42)
Net cash flows used in investing activities	(173)	(326)
Cash flows from (used in) financing activities:		
Net issuance of short-term loans and borrowings	24	210
Repayments of long-term loans and borrowings	(5)	(5)
Net refunds to customers and developers	(2)	(1)
Payments of lease liabilities, net of proceeds from finance lease receivable	(3)	(3)
Dividends paid	(44)	(43)
Net cash flows from (used in) financing activities	(30)	158
Increase (decrease) in cash	(4)	14
Cash, beginning of period	30	8
Cash, end of period	$ 26	$ 22

1 Interest payments of $3 million (2021 - $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.

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, 2021, which were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB).

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on May 3, 2022.

(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, 2022, which did not have a significant impact on these consolidated financial statements.

(a) Standards and interpretations not yet applied

A number of new standards, amendments to standards and interpretations of standards 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, 2023. The Company does not expect the implementation of these new accounting pronouncements to have a significant impact on its accounting policies.

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

4. Revenues

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

Three months ended March 31, 2022	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Consolidated
Energy and water sales	$ 56	$ -	$ 193	$ 44	$ 15	$ 308
Provision of services	111	122	8	27	6	274
Construction revenue	-	-	-	3	3	6
Other commercial revenue	1	-	-	-	2	3
	$ 168	$ 122	$ 201	$ 74	$ 26	$ 591

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

5 Financial instruments

Classification

The classifications of the Company's financial instruments measured at fair value at March 31, 2022 and December 31, 2021 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
Interest rate swap contract	Level 2
Bond forward contract	Level 2
Other liabilities	
Contingent consideration	Level 3

Fair value

The carrying amounts of cash, trade and other receivables (excluding derivative financial instruments), trade and other payables (excluding derivative financial instruments) and certain other liabilities approximate their fair values due to the short-term nature of these financial instruments.

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

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, 2022		December 31, 2021	
	Fair value hierarchy	Carrying amount	Fair value	Carrying amount	Fair value
Non-current portion of other financial assets[1]	Level 2	$ 238	$ 244	$ 237	$ 256
Loans and borrowings	Level 2	4,045	4,099	4,029	4,537
Other liabilities					
Drainage transition cost compensation	Level 2	-	-	6	6

1. Excluding long-term investment in Vista Ridge LLC (Vista Ridge) of $6 million (December 31, 2021 - $6 million) and derivative financial instrument of $4 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 the measurement date discounted at a market rate. Derivative instruments reflect the estimated amount that the Company would receive or pay to settle the CCIRS contracts at each measurement date.

The fair value of the Company's interest rate swap contract is determined as the present value of the estimated future cash flows using an appropriate interest rate yield curve based on market conditions at the measurement date, discounted at a market rate. The derivative instrument reflects the estimated amount that the Company would receive or pay to settle the interest rate swap contract at the measurement date.

The fair value of the Company's bond forward contract is estimated using the difference between the contractual forward price and the current forward price based on market conditions at the measurement date. The derivative instrument reflects the estimated amount that the Company would receive or pay to settle the bond forward contract at the measurement date.

Within these 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. As at March 31, 2022, derivative financial instruments had balances of $3 million within trade and other receivables, $4 million within other financial assets, and $11 million within other liabilities (December 31, 2021 - $6 million included within 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., 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 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 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 the measurement date. 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 each measurement date.

Loans and borrowings

The fair value of the Company's long-term public debt is based on the pricing sourced from market data at the measurement date. 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 each measurement date. 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 was 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 December 31, 2021. The Company paid the final installment of $6 million on January 4, 2022.

6 Financial risk management

This note disclosure should be read in conjunction with the financial risk management (note 28) in the annual consolidated financial statements for the year ended December 31, 2021.

Interest rate risk

During the period ended March 31, 2022, the Company entered into an interest rate swap contract and a bond forward contract (the hedging instruments) to manage its interest rate risk associated with movements in long-term Canadian benchmark interest rates related to future planned long-term debt issuances (the hedged items). The Company performed effectiveness tests at inception and will continue to perform effectiveness tests at each measurement date to ensure that the changes in fair values of the hedging instruments and the hedged items are moving in opposite directions and offsetting each other. These financial instruments have been classified as cash flow hedges. In the cash flow hedging relationship, the effective portion of the change in the fair value of the hedging instrument is recognized in other comprehensive income (OCI), while the ineffective portion is recognized in net income within finance expenses. The amounts recognized in OCI as cash flow hedging gains or losses will be reclassified to net income as the interest payments on the hedged item are recognized in net income and will effectively adjust the interest expense related to the hedged item. If it becomes probable that the planned long-term debt issuance will not occur all the amounts recognized in OCI as cash flow hedging gains or losses, pertaining to the specified debt issuance, will immediately be reclassified to net income.

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

The following table summarizes the key terms of the Company's outstanding interest rate swap contract and bond forward contract:

Type of instrument	Contract maturity	Term	Notional value	Pay fixed interest rate	Receive variable interest rate
Interest rate swap contract	December 31, 2023	30 years	$ 50	2.4935%	3 month CDOR[1]
Bond forward contract	September 29, 2022	30 years	$ 50	2.0264%	N/A

1 Canadian Dollar Offered Rate (CDOR)

The counterparties to the interest rate swap and bond forward contracts are major Canadian financial institutions. The Company can settle the interest rate swap and bond forward contracts at any time before the mandatory contract maturity date.

During the period ended March 31, 2022, the change in fair value of $7 million of the effective portion of these cash flow hedges was recorded in OCI.

7. Commitments

This note disclosure should be read in conjunction with the commitments, contingencies and guarantees (note 30) in the annual consolidated financial statements for the year ended December 31, 2021.

The Company has signed two Preliminary Services Agreements (the "PSAs") with a wholly owned subsidiary of an investment grade company in Texas, to carry out design work, site investigation, procurement of long lead equipment and completion of early works for construction of a groundwater supply system and an industrial water treatment plant, in central Texas. The initial value of the PSAs is estimated to be $394 million (US$315 million). The Company has retained third party consultants and sub-contractors to carry out the initial work including the procurement of the long-lead equipment. On completion of the early works, the parties will either enter into definitive agreements to proceed with the construction of a groundwater supply system and an industrial water treatment plant or the costs incurred under the PSA's will become recoverable by the Company.

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 stormwater, 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.

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

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 construction and leases of electrical infrastructure related to the Trans Mountain pipeline expansion project and water treatment plant in Darlington, and the cost of the Company's net unallocated corporate office expenses.

Three months ended March 31, 2022

	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
External revenues	$ 168	$ 122	$ 201	$ 74	$ 26	$ -	$ 591
Inter-segment revenues	-	3	4	-	-	(7)	-
Revenues	168	125	205	74	26	(7)	591
Energy purchases and system access fees	-	-	167	1	14	-	182
Other raw materials and operating charges	21	9	1	19	3	(1)	52
Staff costs and employee benefits expenses	37	18	9	12	15	(2)	89
Depreciation and amortization	39	26	2	16	8	-	91
Franchise fees and property Taxes	9	25	-	2	-	-	36
Other administrative expenses	8	4	8	5	5	(4)	26
Operating expenses	114	82	187	55	45	(7)	476
Operating income (loss) before corporate income (charges)	54	43	18	19	(19)	-	115
Corporate income (charges)	(10)	(6)	(5)	(2)	23	-	-
Operating income	44	37	13	17	4	-	115
Finance recoveries (expenses)	(20)	(15)	(2)	(12)	12	-	(37)
Income tax expenses	-	-	-	(1)	(3)	-	(4)
Net income	$ 24	$ 22	$ 11	$ 4	$ 13	$ -	$ 74
Capital additions	$ 74	$ 55	$ -	$ 32	$ 6	$ -	$ 167

(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)	-
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 was 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 normally recovered in future periods through a regulatory mechanism. The Company recorded the recovery of extraordinary high natural gas procurement costs in fourth quarter of 2021.

The Company’s assets and liabilities by business segments at March 31, 2022 and December 31, 2021 are summarized as follows:

March 31, 2022	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
Total assets	$ 7,648	$ 2,786	$ 316	$ 1,908	$ 5,195	$ (4,585)	$ 13,268
Total liabilities	5,923	1,859	253	1,499	4,293	(4,585)	9,242

December 31, 2021	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
Total assets	$ 7,616	$ 2,773	$ 330	$ 1,939	$ 5,208	$ (4,619)	$ 13,247
Total liabilities	5,915	1,869	278	1,528	4,269	(4,619)	9,240

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

Non-current assets by geography

	March 31, 2022	December 31, 2021
Canada	$ 10,859	$ 10,796
U.S.	1,813	1,821
	$ 12,672	$ 12,617