

Consolidated Financial Statements of

**EPCOR UTILITIES INC.**

Years ended December 31, 2015 and 2014

## Management's responsibility for financial reporting

The preparation and presentation of the accompanying consolidated financial statements of EPCOR Utilities Inc. are the responsibility of management and the consolidated financial statements have been approved by the Board of Directors. In management's opinion, the consolidated financial statements have been prepared within reasonable limits of materiality in accordance with International Financial Reporting Standards. The preparation of financial statements necessarily requires judgment and estimation when events affecting the current year depend on determinations to be made in the future. Management has exercised careful judgment where estimates were required, and these consolidated financial statements reflect all information available to March 3, 2016. Financial information presented elsewhere is consistent with that in the consolidated financial statements.

To discharge its responsibility for financial reporting, management maintains systems of internal controls designed to provide reasonable assurance that the Company's assets are safeguarded, that transactions are properly authorized and that reliable financial information is relevant, accurate and available on a timely basis. The internal control systems are monitored by management, and evaluated by an internal audit function that regularly reports its findings to management and the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited by KPMG LLP, the Company's external auditors. The external auditors are responsible for auditing the consolidated financial statements and expressing their opinion on the fairness of the financial statements in accordance with International Financial Reporting Standards. The auditors' report outlines the scope of their audit and states their opinion.

The Board of Directors, through the Audit Committee, is responsible for ensuring management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, which is composed of independent directors, meets regularly with management, the internal auditors and the external auditors to satisfy itself that each group is discharging its responsibilities with respect to internal controls and financial reporting. The Audit Committee reviews the consolidated financial statements and management's discussion and analysis and recommends their approval to the Board of Directors. The external auditors have full and open access to the Audit Committee, with and without the presence of management. The Audit Committee is also responsible for reviewing and recommending the annual appointment of the external auditors and approving the annual external audit plan.

On behalf of management,



Stuart Lee  
President and Chief Executive Officer



Guy Bridgeman  
Senior Vice President and Chief Financial Officer

March 3, 2016

# EPCOR UTILITIES INC.

Consolidated Financial Statements

Years ended December 31, 2015 and 2014

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## INDEPENDENT AUDITORS' REPORT

To the Shareholder of EPCOR Utilities Inc.

We have audited the accompanying consolidated financial statements of EPCOR Utilities Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of EPCOR Utilities Inc. as at December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants  
March 3, 2016  
Edmonton, Canada

# EPCOR UTILITIES INC.

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

Years ended December 31, 2015 and 2014

	2015	2014
Revenues and other income:		
Revenues (note 5)	\$ 1,996	\$ 1,904
Other income (note 5)	22	23
	2,018	1,927
Operating expenses:		
Energy purchases and system access fees	792	868
Other raw materials and operating charges	229	173
Staff costs and employee benefits expenses (note 6)	298	292
Depreciation and amortization (note 6)	178	159
Franchise fees and property taxes	97	94
Other administrative expenses (note 6)	59	56
	1,653	1,642
Operating income	365	285
Finance expenses (note 7)	(117)	(119)
Gains on equity investment in Capital Power (note 15)	60	-
Impairment of available-for-sale investment in Capital Power (note 15)	(60)	-
Dividend income from available-for-sale investment in Capital Power	10	-
Equity share of income of Capital Power (note 15)	5	15
Gain on dilution of equity interest in Capital Power (note 15)	-	8
Income before income taxes	263	189
Income tax recovery (expense) (note 8)	(3)	2
Net income for the year – all attributable to the Owner of the Company	260	191
Other comprehensive income (loss):		
Item that will not be reclassified to net income:		
Re-measurements of net defined benefit plans <sup>1</sup>	2	(7)
Items that may subsequently be reclassified to net income:		
Equity share of other comprehensive income of Capital Power <sup>2</sup> (note 15)	2	8
Equity share of other comprehensive income of Capital Power realized in net income <sup>3</sup> (note 15)	(9)	-
Fair value loss on available-for-sale investment in Capital Power (note 15)	(60)	-
Impairment of available-for-sale investment in Capital Power reclassified to net income (note 15)	60	-
Unrealized gain on foreign currency translation	61	27
	54	35
	56	28
Comprehensive income for the year		
- all attributable to the Owner of the Company	\$ 316	\$ 219

1 For the years ended December 31, 2015 and 2014, net of income tax recovery of nil and \$2 million, respectively.

2 For the years ended December 31, 2015 and 2014, net of income tax expense of nil and \$2 million, respectively.

3 For the years ended December 31, 2015 and 2014, net of reclassification of income tax expense of \$2 million and nil, respectively.

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

# EPCOR UTILITIES INC.

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

December 31, 2015 and 2014

	2015	2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (note 9)	\$ 36	\$ 37
Trade and other receivables (note 10)	620	333
Inventories (note 11)	15	14
	671	384
Non-current assets:		
Finance lease receivables (note 12)	1	118
Other financial assets (note 13)	316	408
Deferred tax assets (note 14)	77	69
Investment in Capital Power (note 15)	-	393
Available-for-sale investment in Capital Power (note 15)	167	-
Property, plant and equipment (note 16)	4,568	4,112
Intangible assets and goodwill (note 17)	288	254
	5,417	5,354
<b>TOTAL ASSETS</b>	<b>\$ 6,088</b>	<b>\$ 5,738</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Trade and other payables (note 18)	\$ 259	\$ 248
Loans and borrowings (note 19)	242	117
Deferred revenue (note 20)	32	23
Provisions (note 21)	37	38
Derivatives (note 22)	2	3
Other liabilities (note 23)	27	25
	599	454
Non-current liabilities:		
Loans and borrowings (note 19)	1,875	1,963
Deferred revenue (note 20)	920	847
Deferred tax liabilities (note 14)	35	19
Provisions (note 21)	123	97
Derivatives (note 22)	10	6
Other liabilities (note 23)	11	12
	2,974	2,944
<b>Total liabilities</b>	<b>3,573</b>	<b>3,398</b>
Equity attributable to the Owner of the Company:		
Share capital (note 24)	24	24
Accumulated other comprehensive income (note 25)	97	41
Retained earnings	2,394	2,275
<b>Total equity</b>	<b>2,515</b>	<b>2,340</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 6,088</b>	<b>\$ 5,738</b>

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

# EPCOR UTILITIES INC.

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

December 31, 2015 and 2014

	Accumulated other comprehensive income (loss)							Equity attributable to the Owner of the Company
	Share capital (note 24)	Cash flow hedges (note 25)	Available-for-sale financial assets (note 25)	Cumulative translation account (note 25)	Employee benefits account (note 25)	Investment in Capital Power (note 25)	Retained earnings	
Equity at December 31, 2014	\$ 24	\$ (5)	\$ 1	\$ 44	\$ (11)	\$ 12	\$ 2,275	\$ 2,340
Net income for the year	-	-	-	-	-	-	260	260
Other comprehensive income (loss):								
Re-measurements of net defined benefit plans	-	-	-	-	2	-	-	2
Equity share of other comprehensive income of Capital Power	-	-	-	-	-	2	-	2
Equity share of other comprehensive income of Capital Power realized in net income	-	5	-	-	-	(14)	-	(9)
Fair value loss on available-for-sale investment in Capital Power	-	-	(60)	-	-	-	-	(60)
Impairment of available-for-sale investment in Capital Power reclassified to net income	-	-	60	-	-	-	-	60
Unrealized gain on foreign subsidiary	-	-	-	61	-	-	-	61
Total comprehensive income (loss)	-	5	-	61	2	(12)	260	316
Dividends	-	-	-	-	-	-	(141)	(141)
Equity at December 31, 2015	\$ 24	\$ -	\$ 1	\$ 105	\$ (9)	\$ -	\$ 2,394	\$ 2,515

	Accumulated other comprehensive income (loss)							Equity attributable to the Owner of the Company
	Share capital (note 24)	Cash flow hedges (note 25)	Available-for-sale financial assets (note 25)	Cumulative translation account (note 25)	Employee benefits account (note 25)	Investment in Capital Power (note 25)	Retained earnings	
Equity at December 31, 2013	\$ 24	\$ (5)	\$ 1	\$ 17	\$ (4)	\$ 4	\$ 2,225	\$ 2,262
Net income for the year	-	-	-	-	-	-	191	191
Other comprehensive income (loss):								
Re-measurements of net defined benefit plans	-	-	-	-	(7)	-	-	(7)
Equity share of other comprehensive income of Capital Power	-	-	-	-	-	8	-	8
Unrealized gain on foreign subsidiary	-	-	-	27	-	-	-	27
Total comprehensive income (loss)	-	-	-	27	(7)	8	191	219
Dividends	-	-	-	-	-	-	(141)	(141)
Equity at December 31, 2014	\$ 24	\$ (5)	\$ 1	\$ 44	\$ (11)	\$ 12	\$ 2,275	\$ 2,340

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

# EPCOR UTILITIES INC.

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

Years ended December 31, 2015 and 2014

	2015	2014
Cash flows from (used in) operating activities:		
Net income for the year	\$ 260	\$ 191
Reconciliation of net income for the year to cash from (used in) operating activities:		
Interest paid	(120)	(118)
Finance expenses (note 7)	117	119
Income taxes recovered (paid)	1	(9)
Income tax expense (recovery) (note 8)	3	(2)
Depreciation and amortization (note 6)	178	159
Change in employee benefits provisions	(3)	12
Contributions received (note 20)	30	23
Deferred revenue recognized (note 20)	(24)	(23)
Fair value change on derivative instruments (note 22)	3	8
Gain on dilution of equity interest in Capital Power (note 15)	-	(8)
Gains on equity investment in Capital Power (note 15)	(60)	-
Impairment of available-for-sale investment in Capital Power (note 15)	60	-
Equity share of income from Capital Power (note 15)	(5)	(15)
Dividend income from available-for-sale investment in Capital Power (note 15)	(10)	-
Other	5	-
Funds from operations	435	337
Change in non-cash operating working capital (note 26)	(19)	17
Net cash flows from operating activities	416	354
Cash flows from (used in) investing activities:		
Acquisition or construction of property, plant and equipment and other assets <sup>1</sup>	(463)	(385)
Proceeds on disposal of property, plant and equipment	24	2
Change in non-cash investing working capital (note 26)	3	(2)
Advances on finance lease receivables and other financial assets	(55)	(23)
Payment of Gold Bar transfer fees	(1)	(6)
Net proceeds on sale of a portion of investment in Capital Power	216	-
Distributions received from Capital Power	19	24
Net cash flows used in investing activities	(257)	(390)
Cash flows from (used in) financing activities:		
Proceeds from issuance (repayment) of short-term loans and borrowings	(5)	103
Repayment of long-term loans and borrowings	(10)	(16)
Provisions	(4)	(3)
Dividends paid	(141)	(141)
Net cash flows used in financing activities	(160)	(57)
Decrease in cash and cash equivalents	(1)	(93)
Cash and cash equivalents, beginning of year	37	130
Cash and cash equivalents, end of year	\$ 36	\$ 37

<sup>1</sup> Interest payment of \$6 million (2014 – \$5 million) is included in acquisition or construction of property, plant and equipment and other assets.



# EPCOR UTILITIES INC.

Notes to the Consolidated Financial Statements  
(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Years ended December 31, 2015 and 2014

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## 1. Nature of operations

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

## 2. Basis of presentation

### (a) Statement of compliance

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 3, 2016.

### (b) Basis of measurement

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

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements unless otherwise indicated.

### (a) Basis of consolidation

These consolidated financial statements include the accounts of EPCOR, its wholly owned subsidiaries and joint arrangements at December 31, 2015. Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from the performance of the entity and has the ability to affect those returns through its control over the entity. Subsidiaries are fully consolidated from the date on which EPCOR obtains control, and continue to be consolidated until the date that such control ceases to exist. All intercompany balances and transactions have been eliminated on consolidation. Unrealized gains arising from transactions with equity-accounted associates are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment. The financial statements of the subsidiaries are prepared for the same reporting period as EPCOR, using consistent accounting policies.

### (b) Changes in significant accounting policies

The Company adopted amendments to various accounting standards effective January 1, 2015, that did not have a significant impact on these financial statements.

### (c) Business combinations and goodwill

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition in exchange for control of the acquired business. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognized in net income. Transaction costs that the Company incurs in connection with a business combination, other than those associated with the issue of debt or equity securities, are expensed as incurred.

# EPCOR UTILITIES INC.

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Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured and settlement is accounted for within equity. Subsequent changes in the fair value of the contingent consideration are recognized in net income.

Goodwill is initially recorded at the consideration paid at acquisition less the fair value of the net assets of the consolidated business acquired. Subsequently, goodwill is measured at cost less accumulated impairment losses, if any. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the carrying amount may be impaired. Impairment is determined by assessing the recoverable amount of the cash generating unit to which goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognized.

(d) Revenue recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company for the provision of goods or services and where the revenue can be reliably measured. Revenues are measured at the fair value of the consideration received or to be received, excluding discounts, rebates and sales taxes or duty.

Certain water services contracts contain multiple-deliverables arrangements. Each deliverable that is considered to be a separate unit of account is accounted for individually. Significant judgment is required to determine an appropriate allocation of the total contract value to each unit of account based on the relative fair values of each unit. If the fair value of the delivered item is not reliably measurable, then revenue is allocated based on the difference between the total arrangement consideration and the fair value of the undelivered units of account. The primary identifiable deliverables under such contracts are plant construction and project upgrades and expansions, financing or leasing of upgrades, facilities operations and maintenance.

The Company's principal sources of revenue and recognition of these revenues for financial statement purposes are as follows:

*Sale of goods*

Revenues from sales of electricity and water are recognized upon delivery. These revenues include an estimate of the value of electricity and water consumed by customers billed subsequent to the reporting period.

Revenues from the sale of other goods are recognized when the products have been delivered and collectability is reasonably assured.

*Provision of services*

Revenues from the provision of electricity distribution and transmission services and wastewater treatment services are recognized over the period in which the service is performed and collectability is reasonably assured. Revenues from the provision of other services are recognized when the services have been rendered and collectability is reasonably assured.

*Construction contracts*

Contract revenue from the construction of water and wastewater treatment plants and other project upgrades and expansions provided to customers is recognized in profit or loss on the percentage of completion basis when the projected final cost of a construction contract can be reliably estimated. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be reliably measured. Percentage of completion is estimated based on an assessment of progress towards the completion of contract tasks. These estimates may result in the recognition of unbilled receivables when the revenues are earned prior to billing customers. If progress billings exceed costs incurred plus recognized profits, then the difference is presented as deferred revenue in the statement of financial position. Contract expenses are recognized as incurred unless they create an asset related to future contract activity.

# EPCOR UTILITIES INC.

Notes to the Consolidated Financial Statements  
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When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.

Provisions for estimated losses on uncompleted contracts are made for the full amount of the projected loss in the period in which the losses are identified. Revenues and costs related to variations are included in the total estimated contract revenue and expenses when it is probable that the customer will approve the variation and the amount of revenue arising from the variation can be reliably measured.

#### *Revenues earned under finance leases*

Finance income earned from arrangements where the Company leases water and wastewater assets to customers are accounted for as finance leases, as described in note 3(h).

#### *Interest income*

Revenue from the financing of project upgrades and expansions is recognized over the term of each contract using the effective interest method based on the fair value of the loan calculated at inception for each contract.

Interest income related to the loans receivable from Capital Power are recognized over the terms of the loans based on the interest rate applicable to each loan.

#### (e) Income taxes

Under the Income Tax Act (Canada) (ITA), a municipally owned corporation is subject to income tax on its taxable income if the income from activities for any relevant period that was earned outside the geographical boundaries of the municipality exceeds 10% of the corporation's total income for that period. As a result of these and other provisions, certain Canadian subsidiaries of the Company are taxable under the ITA and provincial income tax acts. The U.S. subsidiaries are subject to income taxes pursuant to U.S. federal and state income tax laws.

Current income taxes for the current or prior periods are measured at the amount expected to be recovered from or payable to the taxation authorities based on the tax rates that are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted rates of tax expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the date of enactment or substantive enactment. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in associates and interests in joint arrangements except where the Company is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with investments in subsidiaries and interests in joint ventures are only recognized to the extent that the temporary difference will reverse in the foreseeable future and the Company judges that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences. Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill arising from a business combination or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects

# EPCOR UTILITIES INC.

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neither taxable income nor accounting income.

Current and deferred taxes are recognized in profit or loss, except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

(f) Cash and cash equivalents

Cash and cash equivalents include cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(g) Inventories

Small parts and other consumables, the majority of which are consumed by the Company in the provision of its goods and services, are valued at the lower of cost and net realizable value. Cost includes the purchase price, transportation costs and other costs to bring the inventories to their present location and condition. The costs of inventory items that are interchangeable are determined on an average cost basis. For inventory items that are not interchangeable, cost is assigned using specific identification of their individual costs. Previous write downs of inventories from cost to net realizable value can be fully or partially reversed if supported by economic circumstances. The Company estimates the value of inventory that is expected to be used in the construction of property, plant and equipment (PP&E) and reports this value as construction work in progress under PP&E. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(h) Lease arrangements

At the inception of an arrangement entered into for the use of PP&E, the Company determines whether such an arrangement is, or contains, a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of the specific asset and the arrangement conveys a right to use the asset. An arrangement conveys the right to use the asset if the right to control the use of the underlying asset is transferred. Where it is determined that the arrangement contains a lease, the Company classifies the lease as either a finance or operating lease dependent on whether substantially all the risks or rewards of ownership of the asset have been transferred.

Where the Company is the lessor, finance income related to leases or arrangements accounted for as finance leases is recognized in a manner that produces a constant rate of return on the net investment in the lease. The net investment in the lease is the aggregate of net minimum lease payments and unearned finance income discounted at the interest rate implicit in the lease. Unearned finance income is deferred and recognized in net income over the lease term.

Where the Company is the lessee, leases or other arrangements that transfer substantially all of the benefits and risks of ownership of property to the Company are classified as finance leases. All other arrangements that are determined to contain a lease are classified as operating leases. Rental payments under arrangements classified as operating leases are expensed on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(i) Investment in Capital Power

In these consolidated financial statements, Capital Power refers to Capital Power Corporation and its subsidiaries, including Capital Power L.P., except where otherwise noted or the context indicates otherwise.

Prior to April 2, 2015, the Company held 18.8 million exchangeable limited partnership units of Capital Power L.P. (exchangeable for common shares of Capital Power Corporation on a one-for-one basis) representing an 18% interest in Capital Power. Each exchangeable limited partnership unit was accompanied by a special voting share in Capital Power Corporation which entitled the holder to a vote at Capital Power Corporation shareholder meetings, subject to the restriction that such special voting shares must at all times represent not more than 49% of the votes attached to all Capital Power Corporation common shares and special voting shares, taken together. The special voting shares also entitled EPCOR, voting separately as a class, to nominate and elect a maximum of two directors, and reduced to no directors when ownership fell below 10%. A key judgment in determining the appropriate

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accounting treatment for the investment in Capital Power was that EPCOR exercised significant influence over Capital Power as it was entitled to nominate a certain number of directors of Capital Power Corporation but did not control Capital Power's operations as it did not have the power to direct the activities of Capital Power. Accordingly, EPCOR applied the equity method to account for its investment in Capital Power prior to April 2, 2015.

On April 2, 2015, EPCOR exchanged 9,450,000 limited partnership units for an equal number of common shares of Capital Power Corporation which were immediately sold through secondary offering. In addition, EPCOR also exchanged all of its remaining 9,391,000 exchangeable limited partnership units for common shares of Capital Power Corporation and forfeited the attached special voting rights as well as right to appoint directors of Capital Power Corporation. Immediately following the completion of the offering, EPCOR directly owned 9% of Capital Power Corporation and accordingly, the Company no longer exerted significant influence over Capital Power and has reclassified its remaining investment in Capital Power as an available-for-sale asset.

The Company applies judgment at each reporting date to determine whether there is objective evidence that the investment in Capital Power is impaired. Previously, when Capital Power was accounted for as equity investment, impairment was being recorded when the carrying amount of its investment in Capital Power exceeded its estimated recoverable amount. The recoverable amount was being determined as the higher of the investment's fair value less costs to sell the investment, and its value in use.

Subsequent to reclassification of the investment in Capital Power as available-for-sale asset, evidence of impairment is deemed to exist when there is a significant or prolonged decline in the fair value of the investment below its value on initial recognition as available-for-sale. If objective evidence of impairment exists, any impaired amount previously recorded as an unrealized loss in accumulated other comprehensive income is reclassified in net income. Any subsequent increase in the fair value is recognized in other comprehensive income and the impairment is not reversed.

The fair value of the investment is based on the market price of Capital Power Corporation common shares (CPX) traded on the Toronto Stock Exchange. The value in use of an asset is the present value of estimated future cash flows, applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(j) Property, plant and equipment

PP&E are recorded at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Cost includes contracted services, materials, direct labor, directly attributable overhead costs, borrowing costs on qualifying assets and decommissioning costs. Where parts of an item of PP&E have different estimated economic useful lives, they are accounted for as separate items (major components) of PP&E.

The cost of major inspections and maintenance is recognized in the carrying amount of the item if the asset recognition criteria are satisfied. The carrying amount of a replaced part is derecognized. The costs of day-to-day servicing are expensed as incurred.

Depreciation of cost less residual value is charged on a straight-line basis over the estimated economic useful lives of items of each depreciable component of PP&E, from the date they are available for use, as this most closely reflects the expected usage of the assets. Land and construction work in progress are not depreciated. Estimating the appropriate economic useful lives of assets requires significant judgment and is generally based on estimates of life characteristics of similar assets. The estimated economic useful lives, methods of depreciation and residual values are reviewed annually with any changes adopted on a prospective basis.

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The ranges of estimated economic useful lives for PP&E assets used are as follows:

Water and wastewater treatment and distribution	3 – 95 years
Electricity transmission and distribution	3 – 65 years
Retail systems and equipment	4 – 20 years
Corporate information systems and equipment	2 – 20 years
Leasehold improvements	5 – 25 years

Gains and losses on the disposal of PP&E are determined as the difference between the net disposal proceeds and the carrying amount at the date of disposal. The gains or losses are included within depreciation and amortization.

(k) Capitalized borrowing costs

The Company capitalizes interest during construction of a qualifying asset using the weighted average cost of debt incurred on the Company's external borrowings or specific borrowings used to finance qualifying assets. Qualifying assets are considered to be those that take a substantial period of time to construct.

(l) Intangible assets

Intangible assets with finite lives are stated at cost, net of accumulated amortization and impairment losses, if any. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair value.

Customer rights represent the costs to acquire the rights to provide electricity services to particular customer groups for a finite period of time. Customer rights are recorded at cost at the date of acquisition. A subsequent expenditure is capitalized only when it increases the future economic benefit in the specific asset to which it relates.

Other rights represent the costs to acquire the rights, for finite periods of time, to access electricity delivery corridors, to the supply of water, to provide sewage treatment and transportation services, to withdraw groundwater and to the supply of potable water for emergency and peak purposes.

The cost of intangible software includes the cost of license acquisitions, contracted services, materials, direct labor, along with directly attributable overhead costs and borrowing costs on qualifying assets.

Amortization of the cost of finite life intangible assets is recognized on a straight-line basis over the estimated economic useful lives of the assets, from the date they are available for use, as this most closely reflects the expected usage of the asset. Work in progress is not amortized. The estimated economic useful lives and methods of amortization are reviewed annually with any changes adopted on a prospective basis.

The estimated economic useful lives for intangible assets with finite lives are as follows:

Customer rights	20 years
Software	2 – 20 years
Other rights	50 years
Water rights	100 years

Certificates of convenience and necessity (CCN) represent the costs to acquire the exclusive rights for the Company to serve within its specified geographic areas in the U.S. for an indefinite period of time. CCN are not amortized but are subject to review for impairment at the end of each reporting period.

Gains or losses on the disposal of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount at the date of disposal. The gains or losses are included within depreciation and amortization.

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## (m) Service concession arrangements

Service concession arrangements are contracts between the Company and government entities and can involve the design, build, finance, operate and maintenance of public infrastructure in which the government entity controls (i) the services provided by the Company and (ii) significant residual interest in the infrastructure. Service concession arrangements are classified in one of the following categories:

### (i) financial asset

The Company recognizes a financial asset arising from service concession arrangement when it has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement. The financial asset is measured at the fair value of consideration received or receivable. When the Company delivers more than one category of activities in a service concession arrangement, the consideration received or receivable is allocated by reference to the relative fair value of the activity, when amounts are separately identifiable.

### (ii) intangible asset

The Company recognizes an intangible asset arising from service concession arrangement when it has a right to charge for usage of the public infrastructure. The intangible asset, recognized as consideration for providing construction or upgrade services under a service concession arrangement, is measured at fair value upon initial recognition. Subsequent to initial recognition, the intangible asset is measured at cost less accumulated amortization and impairment losses, if any.

Revenue under the service concession arrangements is recognized as per the revenue recognition policy of the Company described in note 3(d) by reference to each activity when the amount of revenue is separately identifiable.

The accounting for investment in contracts with government entities requires the application of judgment in determining if they fall within the scope of IFRIC 12 – Service Concession Arrangements (IFRIC 12). Additional judgment also needs to be exercised when determining, among other things, the classification to be applied to the service concession asset (i.e. financial asset or intangible asset), allocation of consideration between revenue generating activities, classification of cost incurred on such concessions and the effective interest rate to be applied to the service concession asset. Contracts falling under IFRIC 12 require use of estimates over the term of the arrangement, and therefore any change in the long term estimates could result in significant variation in the amounts recognized under service concession arrangements.

## (n) Deferred revenue

Certain assets may be acquired or constructed using non-repayable government grants or contributions from developers or customers. Non-refundable contributions received towards construction or acquisition of an item of PP&E which are used to provide ongoing service to a customer are recorded as deferred revenue and are amortized on a straight line basis over the estimated economic useful lives of the assets to which they relate.

## (o) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as a financing expense over the estimated time period until settlement of the obligation.

The Company recognizes a decommissioning provision in the period in which a legal or constructive obligation is incurred. A corresponding asset for the decommissioning cost is added to the carrying amount of the associated PP&E, and is depreciated over the estimated useful life of the asset.

The Company may receive contributions from customers, homebuilders, real estate developers, and others to fund construction necessary to extend service to new areas. Certain of these contributions may be refunded for a limited period of time as new customers begin to receive service or other contractual obligations are fulfilled. The portion of

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contributions which are estimated to be refunded in the future are recorded as provisions. The remaining contributions are classified as deferred revenue.

(p) Employee benefits

The employees of the Company are either members of the Local Authorities Pension Plan (LAPP) or other defined benefit or defined contribution pension plans.

The LAPP is a multi-employer defined benefit pension plan. The trustee of the plan is the Alberta President of Treasury Board and Minister of Finance and the plan is administered by a Board of Trustees. The Company and its employees make contributions to the plan at rates prescribed by the Board of Trustees to cover costs and an unfunded liability under the plan. The rates are based on a percentage of the pensionable salary. The most recent actuarial report of the plan discloses an unfunded liability. It is accounted for as a defined contribution plan as the LAPP is not able to provide information which reflects EPCOR's specific share of the defined benefit obligation or plan assets that would enable the Company to account for the plan as a defined benefit plan. Accordingly, the Company does not recognize its share of any plan surplus or deficit.

The Company maintains additional defined contribution and defined benefit pension plans to provide pension benefits to those employees who are not otherwise served by the LAPP, including employees of new or acquired operations. Employees participating in such defined benefit and contribution plans comprise less than 17% of total employees (2014 – 16%).

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability for short-term employee benefits is recognized for the amount expected to be paid if the Company has a legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Company recognizes the contribution payable to a defined contribution plan as an expense and a liability in the period during which the service is rendered.

(q) Derivative financial instruments

The Company uses various risk management techniques to reduce its exposure to movements in electricity prices, interest rates and foreign currency exchange rates. These include the use of derivative financial instruments such as forward contracts or contracts-for-differences and interest rate swaps. Such instruments may be used to establish a fixed price for electricity, fixed interest rates for borrowings or anticipated transactions denominated in a foreign currency. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

The Company sells electricity to customers under a Regulated Rate Tariff (RRT). As part of the RRT, the amount of electricity to be economically hedged, the hedging method and the electricity selling prices to be charged to these customers is determined by a regulatory approved Energy Price Setting Plan (EPSP). Under the EPSP, the Company manages its exposure to fluctuating wholesale electricity spot prices by entering into financial electricity purchase contracts up to 120 days in advance of the month of consumption in order to economically hedge the price of electricity under a well-defined risk management process set out in the EPSP. Under these instruments, the Company agrees to exchange, with a single creditworthy and adequately secured counterparty, the difference between the Alberta Electric System Operator (AESO) market price and the fixed contract price for a specified volume of electricity for the forward months, all in accordance with the EPSP. The Company may enter into additional financial electricity purchase contracts outside the EPSP to further economically hedge the price of electricity.

Interest rates swaps are used by the Company to manage interest rate risks associated with long-term loans and borrowings and result in securing fixed interest rates over the term of the loans and borrowings against the floating interest rate.

Foreign exchange forward contracts may be used by the Company to manage foreign exchange exposures, consisting mainly of U.S. dollar exposures, resulting from anticipated transactions denominated in foreign currencies.



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All derivative financial instruments are recorded at fair value as derivative assets or derivative liabilities on the statement of financial position, to the extent they have not been settled, with all changes in the fair value of derivatives recorded in net income. At initial recognition, attributable transaction costs are recognized in net income.

The fair value of derivative financial instruments reflects changes in the electricity prices, interest rate and foreign exchange rates. Fair value is determined based on exchange or over-the-counter price quotations by reference to bid or asking price, as appropriate, in active markets. Fair value amounts reflect management's best estimates using external readily observable market data, such as forward prices, interest rates, foreign exchange rates and discount rates for time value. It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

(r) Non-derivative financial instruments

Financial assets are identified and classified as one of the following: measured at fair value through profit or loss, loans and receivables, or available-for-sale financial assets. Financial assets are measured at fair value through profit or loss if classified as held for trading or designated as such upon initial recognition. Financial liabilities are classified as measured at fair value through profit or loss or as other liabilities.

Financial assets and financial liabilities are presented on a net basis when the Company has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

*Financial instruments at fair value through profit or loss*

The Company may designate financial instruments as measured at fair value through profit or loss when such financial instruments have a reliably determinable fair value and where doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities or recognizing gains and losses on them on a different basis.

Upon initial recognition, directly attributable transaction costs are recognized in net income as incurred. Changes in fair value of financial assets measured at fair value through profit or loss are recognized in net income.

*Loans and receivables*

Cash and cash equivalents, trade and other receivables, and other financial assets are classified as loans and receivables.

The Company's loans and receivables are recognized initially at fair value plus directly attributable transaction costs, if any. After initial recognition, they are measured at amortized cost using the effective interest method less any impairment as described in note 3(s). The effective interest method calculates the amortized cost of a financial asset or liability and allocates the finance income or expense over the term of the financial asset or liability using an effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or a shorter period when appropriate, to the net carrying amount of the financial asset or financial liability.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in other categories. These assets are initially recognized at fair value plus directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value with unrealized gains and losses, other than impairment losses, recognized in other comprehensive income and presented within equity in the fair value reserve. On derecognition of an available-for-sale financial asset, the cumulative gain or loss that was previously held in equity is transferred to net income.

The Company's beneficial interest in the sinking fund with the City and available-for-sale investment in Capital Power do not meet the criteria for classification in any of the previous categories and are classified as available-for-sale financial assets and measured at fair value with changes in fair value reported in other comprehensive income until it is disposed of or becomes impaired, as described in note 3(s).

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## *Other liabilities*

The Company's trade and other payables, loans and borrowings and other liabilities are recognized on the date at which the Company becomes a party to the contractual arrangement. Other liabilities are derecognized when the contractual obligations are discharged, cancelled or expire.

Other liabilities are recognized initially at fair value including debenture discounts and premiums, plus directly attributable transaction costs, such as issue expenses, if any. Subsequently, these liabilities are measured at amortized cost using the effective interest rate method.

### (s) Impairment of financial assets

The Company's financial assets held as loans and receivables or available-for-sale assets are assessed for indicators of impairment at each reporting date. An impairment loss for financial assets is recorded when it is identified that there is objective evidence that one or more events has occurred, after the initial recognition of the asset, that has had a negative impact on the estimated future cash flows of the asset and that can be reliably estimated. The objective evidence for these types of assets is as follows:

- (i) For listed and unlisted investments in equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered to be objective evidence of impairment. Impairment losses recognized are not reversed in subsequent periods.
- (ii) For all other financial assets, including finance lease receivables, objective evidence of impairment includes significant financial difficulty of the counterparty or default or delinquency in interest or principal payments.
- (iii) Trade receivables and other assets that are not assessed for impairment individually are assessed for impairment on a collective basis. Objective evidence of impairment includes the Company's past experience of collecting payments as well as observable changes in national or local economic conditions.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is adjusted within net income.

### (t) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. Non-financial assets include PP&E, intangible assets and goodwill. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or CGU). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net income. Impairment losses recognized in respect of CGUs are

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allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a fundamental change, since the date of impairment, which may improve the financial performance of the non-financial asset. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(u) Foreign currency transactions and translation

*Foreign currency transactions*

Transactions denominated in currencies other than the Canadian dollar are translated at exchange rates in effect at the transaction date. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the end of the reporting period. Other non-monetary assets and liabilities are not re-translated unless they are carried at fair value. Revenues and expenses are translated at average exchange rates prevailing during the period. The resulting foreign exchange gains and losses are included in net income.

*Foreign operations*

On consolidation, the assets and liabilities of foreign operations that have a functional currency other than Canadian dollars are translated into Canadian dollars at the exchange rates in effect at the end of the reporting period. Revenues and expenses are translated at average exchange rates prevailing during the period. The resulting translation gains and losses are deferred and included in the cumulative translation account in accumulated other comprehensive income. The functional currency of the Company's U.S. operations is the U.S. dollar.

(v) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. Transactions between segments are made under terms that approximate market value. The accounting policies of the segments are the same as those described in note 3 and other relevant notes and are measured in a manner consistent with that of the consolidated financial statements. All operating segments' results are reviewed regularly by the Company's management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to management include items directly attributable to a segment as well as those that can be allocated on a reasonable and consistent basis. Unallocated items comprise mainly corporate assets, head office expenses and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire or construct PP&E and intangible assets other than goodwill.

The Canadian and U.S. water operating segments are aggregated as one reportable segment since both operating segments offer similar water and wastewater services, the processes to treat water and wastewater are similar in both operating segments, the customer bases for each operating segment are similar, and both segments operate under similar rate-regulations.

(w) Standards and interpretations not yet applied

A number of new standards, amendments to standards and interpretations were issued by the IASB and the International Financial Reporting Interpretations Committee for application beginning on or after January 1, 2016. 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. The extent of the impact of adoption of the standards has not yet been determined.

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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. Gains and losses on re-measurement of financial assets at fair value will be recognized in profit or loss, except for an investment in an equity instrument which is not held-for-trading. Changes in fair value attributable to changes in credit risk of financial liabilities measured under the fair value option will be recognized in other comprehensive income with the remainder of the change recognized in profit or loss unless an accounting mismatch in profit or loss occurs at which time the entire change in fair value will be recognized in profit or loss. Derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument must be measured at fair value. The impairment model has also been amended by introducing a new ‘expected credit loss’ model for calculating impairment, and new general hedge accounting requirements. The effective date for implementation of IFRS 9 has been set for annual periods beginning on or after January 1, 2018.

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. New estimates and judgmental thresholds have been introduced, which may affect the amount and / or timing of revenue recognized. The requirements of the standard also apply to the recognition and measurement of gains and losses on sale of some non-financial assets that are not part of the entity’s ordinary activities.

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. This requires a lessee to recognize assets and liabilities for the rights and obligations created by the lease. It would also cause expenses to be higher at the beginning of a lease and lower towards the end of a lease, even when payments are consistent. A lessee would recognize assets and liabilities for leases of more than twelve months. A lessee with leases less than twelve months would not recognize assets and liabilities, and expense payments over the term of the lease agreement.

#### 4. Use of judgments and estimates

The preparation of the Company’s consolidated financial statements in accordance with IFRS requires management to make judgments in the application of accounting policies, and estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the consolidated financial statements.

##### (a) Judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are included in notes:

- Note 3(d) – Revenue recognition
- Note 3(i) – Investment in Capital Power
- Note 3(m) – Service concession arrangements
- Note 3(v) – Segment reporting

##### (b) Estimates

The Company reviews its estimates and assumptions on an ongoing basis and uses the most current information available and exercises careful judgment in making these estimates and assumptions. Adjustments to previous estimates, which may be material, are recorded in the period in which they become known. Actual results may differ from these estimates.

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Assumptions and uncertainties that have a significant risk of resulting in a material adjustment within the next financial year include:

## Revenues

By regulation, electricity wire service providers in Alberta have four months to submit the final electricity load settlement data after the month in which such electricity was consumed. The data and associated processes and systems used by the Company to estimate electricity revenues and costs, including unbilled consumption, are complex. The Company's estimation procedures will not necessarily detect errors in underlying data provided by industry participants including wire service providers and load settlement agents.

## Fair value measurement

For accounting measures such as determining asset impairments, purchase price allocations for business combinations, recording financial assets and liabilities, recording and disclosure of certain non-financial assets, the Company is required to estimate the fair value of certain assets or obligations. Estimates of fair value may be based on readily determinable market values or on depreciable replacement cost or discounted cash flow techniques employing estimated future cash flows based on a number of assumptions and using an appropriate discount rate. Financial instruments that are not classified as loans and receivables are recorded at fair value, which may require the use of estimated future prices.

## Deferred taxes

Significant estimation and judgment is required in determining the provision for income taxes. Recognition of deferred tax assets in respect of deductible temporary differences and unused tax losses and credits is based on management's estimation of future taxable profit against which the deductible temporary differences and unused tax losses and credits can be utilized. The actual utilization of these deductible temporary differences and unused tax losses and credits may vary materially from the amounts estimated.

## 5. Revenues and other income

	2015	2014
<b>Revenue</b>		
Energy and water sales	\$ 1,307	\$ 1,326
Provision of services	573	510
Construction revenues	102	53
Finance lease income	14	15
	1,996	1,904
<b>Other income</b>		
Interest income on long-term receivable from Capital Power	21	22
Other	1	1
	22	23
	\$ 2,018	\$ 1,927

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## 6. Expense analysis

	2015	2014
<b>Included in staff costs and employee benefits expenses</b>		
Post-employment defined contribution plan expense	\$ 36	\$ 32
Post-employment defined benefit plan expense	5	4
<b>Included in depreciation and amortization</b>		
Depreciation of property, plant and equipment	152	134
Amortization of intangible assets	18	17
Loss on disposal of assets	8	8
	178	159
<b>Included in other administrative expenses</b>		
Operating lease expenses	15	15
Lease recoveries through sub-lease	(5)	(6)

## 7. Finance expenses

	2015	2014
Interest on loans and borrowings	\$ 123	\$ 124
Capitalized interest (note 16)	(6)	(5)
	\$ 117	\$ 119

## 8. Income tax recovery (expense)

	2015	2014
Current income tax recovery (expense)	\$ 1	\$ (7)
Deferred income tax recovery (expense)		
Relating to origination and reversal of temporary differences	(25)	1
Change in tax rates	13	-
Recognition of previously unrecognized deferred tax assets	8	8
	(4)	9
Total income tax recovery (expense)	\$ (3)	\$ 2

Income taxes differ from the amounts that would be computed by applying the federal and provincial income tax rates as follows:

	2015	2014
Income before taxation	\$ 263	\$ 189
Income tax at the statutory rate of 26% (2014 – 25%)	(68)	(47)
(Increase) decrease resulting from:		
Income exempt from income taxes at statutory rates	53	42
Non-taxable amounts	2	-
Recognition of deferred tax assets	(1)	10
Change in tax rates on deferred taxes	13	-
Effect of higher tax rate in the U.S.	(1)	(3)
Other	(1)	-
Total income tax recovery (expense)	\$ (3)	\$ 2

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During the year, the Government of Alberta increased the provincial corporate tax rate from 10% to 12% effective July 1, 2015. Accordingly, the change in provincial corporate tax rate has increased the Company's tax rate for the year ended December 31, 2015, to 26% and for the years 2016 onward to 27%.

## 9. Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit with various financial institutions.

### Restricted balances

Under certain agreements between the Company and the Natural Gas Exchange (NGX) for the purchase of electricity derivative financial instruments, the Company established separate bank accounts through which the settlement of the electricity derivative financial contracts are processed in conjunction with letters of credit and cash as collateral. As security for the payment and performance of its obligations, the Company assigned a first ranking security interest on the balance of these accounts to the NGX. The Company's use of this cash is restricted to these purposes. At December 31, 2015, \$3 million (2014 – \$17 million) was held in these bank accounts.

## 10. Trade and other receivables

	2015	2014
Trade receivables	\$ 216	\$ 203
Accrued revenues	120	111
Gross accounts receivable	336	314
Allowance for doubtful accounts	(3)	(3)
Net accounts receivable	333	311
Income tax recoverable	2	2
Prepaid expenses	5	4
	340	317
Current portion of finance lease receivables (note 12)	103	4
Current portion of long-term receivables (note 13)	177	12
	\$ 620	\$ 333

Details of the aging of accounts receivable and analysis of the changes in the allowance for doubtful accounts are provided in note 29.

## 11. Inventories

During the year ended December 31, 2015, \$23 million (2014 – \$22 million) was expensed to other raw materials and operating charges.

No significant inventory write-downs were recognized in the years ended December 31, 2015 or 2014. No significant reversals of previous write-downs were recorded in the years ended December 31, 2015 or 2014.

At December 31, 2015 or 2014, no inventories were pledged as security for liabilities.

## 12. Leases

### Finance lease receivables

In 2009, the Company acquired potable water and wastewater treatment plant assets for approximately \$100 million and agreed to lease the assets back to Suncor for a 20-year term after which Suncor had the option to purchase the assets from the Company for a specified price. As part of the arrangement, the Company also agreed to construct additional water and wastewater treatment plant assets for Suncor and to operate and maintain the original assets acquired and leased back to Suncor and the additional constructed assets over the 20-year lease term.

In February 2015, Suncor gave notice to the Company that it will exercise its contractual rights to buy back the leased assets and terminate the related financing (note 13) and operating agreements. The transfer of assets and operations back to Suncor is to take place over an 18-month period. The first transfer of assets was completed in September 2015

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and the remaining assets will be transferred by September 2016 unless otherwise agreed by the parties. Consequently, the Company has reclassified its finance lease receivables and other financial assets from Suncor under trade and other receivables (note 10). This is not expected to have any material impact on the Company or its operations.

Approximate future payments to the Company are as follows:

	Minimum lease receivable		Present value of minimum lease receivable	
	2015	2014	2015	2014
Within one year	\$ 110	\$ 15	\$ 103	\$ 4
Between one and five years	-	60	-	22
More than five years	1	145	1	96
Less: unearned finance income	(7)	(98)	-	-
	104	122	104	122
Less: current portion <sup>1</sup> (included in trade and other receivables) (note 10)	103	4	103	4
	\$ 1	\$ 118	\$ 1	\$ 118

1 Net of unearned finance income

## Operating leases payable

The Company has entered into operating leases for premises.

In 2007, the Company entered into a long-term agreement to lease commercial space in a new office tower in Edmonton, Canada, primarily for its head office (head office lease). The agreement, which became effective in the fourth quarter of 2011, has an initial lease term of approximately 20 years, expiring on December 31, 2031, and provides for three successive five-year renewal options. The Company's annual lease commitments, net of annual payments to be paid to the Company by Capital Power and another company under the sub-leases receivable discussed below, under the terms of the lease are as follows:

	Minimum lease payable	
	2015	2014
January 1, 2016 through December 31, 2022	\$ 6	\$ 6
January 1, 2023 through December 31, 2023	7	7
January 1, 2024 through December 31, 2031	8	8

Approximate gross future payments under this and other operating leases payable for premises are as follows:

	Minimum lease payable	
	2015	2014
Within one year	\$ 14	\$ 15
Between one to five years	53	53
More than five years	131	143
	\$ 198	\$ 211

## Operating lease receivable

The Company has sub-leased a portion of the space under its head office lease to Capital Power under the same terms and conditions as the Company's lease with its landlord.

Effective November 1, 2013, the Company also sub-leased a portion of the space under its head office lease to a third party. The term of the sub-lease to the third party expires on October 31, 2023 with two renewal options of four years each.



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Approximate future payments to the Company under the sub-leases receivable are as follows:

	Minimum lease receivable	
	2015	2014
Within one year	\$ 5	\$ 5
Between one to five years	20	21
More than five years	48	53
	\$ 73	\$ 79

## 13. Other financial assets

	2015	2014
Long-term loans receivable from Capital Power	\$ 323	\$ 332
Long-term receivables from service concession arrangements	135	47
Loans and other long-term receivables	34	40
Other	1	1
	493	420
Less: current portion (included in trade and other receivables) (note 10)	177	12
	\$ 316	\$ 408

### Long-term loans receivable from Capital Power

On July 9, 2009, EPCOR received \$896 million in long-term loans receivable from Capital Power as part of the consideration on the sale of the power generation business. These loans effectively mirror certain long-term debt obligations of EPCOR. The interest rates on the long-term loans receivable range from 5.8% to 9.0% and the remaining balance to be repaid at various dates out to June 30, 2018 as follows:

	2015	2014
Within one year	\$ 139	\$ 9
Between one to five years	184	323
	\$ 323	\$ 332

### Service concession arrangements

The Company has executed service concession arrangements to design, build, upgrade, finance, operate and maintain, under public private partnerships, wastewater treatment facilities with the City of Regina and water and wastewater treatment facilities with Her Majesty the Queen in Right of Alberta for Kananaskis Village. The consideration under the service concession arrangements constitute rights to a financial asset and have been classified as a financial asset and recorded as a long-term receivable under other financial assets. The significant terms of the arrangement are summarized below:

#### (a) City of Regina

EPCOR won a bid to design, build, finance, operate and maintain a new wastewater treatment facility in the city of Regina under a public private partnership, for which the contract was signed in July 2014. In August 2014, EPCOR took over the operations of the existing wastewater treatment plant in Regina. Construction on the new plant is in progress and is expected to be completed by December 2016. The contract includes operation of the new and existing facilities for a term of 30 years. Contracted undiscounted cash flows from this project are estimated to be \$444 million. As of December 31, 2015, an amount of \$129 million (2014 – \$41 million) has been recorded as a financial asset which will be recovered along with financing cost at the interest rate established in the arrangement over the life of the arrangement.

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## (b) Kananaskis Village

The Company won a bid to design, build, finance, upgrade, operate and maintain the water and wastewater treatment facility in Kananaskis Village in October 2012. The arrangement includes operation of the facilities for a term of 10 years after completion of construction. The construction of the new facility was completed in August 2014 following which the Company started operating and maintaining the facility. At December 31, 2015, an amount of \$6 million (2014 – \$6 million) recognized as a financial asset pertaining to Kananaskis Village will be recovered along with financing cost at the interest rate established in the arrangement over the life of the arrangement.

The aggregate amount of revenues and operating income relating to construction services for financial assets under service concession arrangements for the year ended December 31, 2015, is \$89 million (2014 – \$49 million) and \$2 million (2014 – \$1 million), respectively.

## 14. Deferred tax assets / liabilities

Deferred tax assets are attributable to the following:

	2015	2014
Losses carried forward	\$ 78	\$ 78
Investment in partnerships	5	-
Canadian resource expenditures	8	7
Provisions	8	-
Deferred revenue	106	78
Other items	-	12
Tax assets	205	175
Set off by tax liabilities	(128)	(106)
Net tax assets	\$ 77	\$ 69

Deferred tax liabilities are attributable to the following:

	2015	2014
Investment in partnerships	\$ -	\$ 4
Other financial assets	3	-
Intangible assets	12	8
Goodwill	5	3
Property, plant and equipment	142	103
Other items	1	7
Tax liabilities	163	125
Set off by tax assets	(128)	(106)
Net tax liabilities	\$ 35	\$ 19

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The changes in temporary differences during the years ended December 31, 2015 and 2014, were as follows:

	Balance, beginning of 2015	Recognized in net income	Recognized in other comprehensive income, net of re-classes to net income	Other	Balance, end of 2015
Losses carried forward	\$ 78	\$ (2)	\$ -	\$ 2	\$ 78
Investment in partnerships	(4)	7	2	-	5
Canadian resource expenditures	7	1	-	-	8
Provisions	-	1	-	7	8
Deferred revenue	78	12	-	16	106
Other financial assets	-	-	-	(3)	(3)
Intangible assets	(8)	(2)	-	(2)	(12)
Goodwill	(3)	(1)	-	(1)	(5)
Property, plant and equipment	(103)	(18)	-	(21)	(142)
Other items	5	(2)	-	(4)	(1)
	\$ 50	\$ (4)	\$ 2	\$ (6)	\$ 42

	Balance, beginning of 2014	Recognized in net income	Recognized in other comprehensive income, net of re-classes to net income	Other	Balance, end of 2014
Losses carried forward	\$ 38	\$ 39	\$ -	\$ 1	\$ 78
Investment in partnerships	(2)	(4)	(2)	4	(4)
Canadian resource expenditures	5	2	-	-	7
Decommissioning provisions and assets	14	(14)	-	-	-
Deferred revenue	67	4	-	7	78
Intangible assets	(2)	(1)	-	(5)	(8)
Goodwill	(1)	(2)	-	-	(3)
Property, plant and equipment	(79)	(15)	-	(9)	(103)
Other items	1	-	2	2	5
	\$ 41	\$ 9	\$ -	\$ -	\$ 50

The Company has the following deductible temporary differences for which no deferred tax assets have been recognized:

	2015	2014
Non-capital losses	\$ 125	\$ 137
Capital losses	265	339
Other deductible temporary differences	115	60

The Company also has taxable temporary differences of \$155 million (2014 - \$105 million), associated with investments in subsidiaries and partnerships, for which no deferred tax liability has been recognized. In addition, no deferred tax liability has been recognized in respect of unremitted earnings of subsidiaries as the Company is in a position to control the timing of the reversal of temporary difference and it is probable that such differences will not be reversed in the foreseeable future.

The non-capital losses expire between the years 2028 and 2035.

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Deferred tax assets have been recognized to the extent that it is probable that taxable income will be available against which the deductible temporary difference can be utilized. The Company has recognized deferred tax assets in the amount of \$77 million (2014 – \$69 million), the utilization of which is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences. The recognition of these deferred tax assets is based on taxable income forecasts that incorporate existing circumstances that will result in positive taxable income against which non-capital loss carry-forwards can be utilized as well as management's intention to implement specific income tax planning strategies that will allow for the offset of remaining deductible temporary differences against future earnings of taxable entities within the consolidated group.

## 15. Investment in Capital Power

Capital Power builds, owns and operates power plants in North America and manages its related electricity and natural gas portfolios by undertaking trading and marketing activity. On December 31, 2014, the Company owned 18.8 million exchangeable limited partnership units of Capital Power L.P. (exchangeable for common shares of Capital Power Corporation on a one-for-one basis), representing an 18% economic interest in Capital Power. The investment in Capital Power represented an investment subject to significant influence and was accounted for using the equity method.

As per the terms of the partnership agreement with Capital Power, the income of the partnership is allocated to each partner, who was a partner during the year, based on the annual income of Capital Power L.P. and its percentage of distributions received in the year. In view of the above provision, the Company's share of income from Capital Power was calculated based on the annual income of Capital Power L.P. with corresponding adjustments made to amounts recognized during interim periods when annual income became available.

On April 2, 2015, EPCOR exchanged 9,450,000 limited partnership units for an equal number of common shares of Capital Power Corporation, which were immediately sold at an offering price of \$23.85 per share for aggregate gross proceeds of \$225 million. As a result of this transaction, the Company recognized a net gain before income tax of \$24 million in net income, including \$5 million on items previously recognized in other comprehensive income. In addition, EPCOR exchanged all of its remaining 9,391,000 exchangeable limited partnership units for common shares of Capital Power Corporation. Following the completion of the offering, EPCOR directly owned approximately 9% of Capital Power and as a result, the Company no longer exerts significant influence over Capital Power. Accordingly, the Company reclassified its remaining investment in Capital Power as an available-for-sale asset on at the market value of \$24.11 per share. On initial recognition of the investment in Capital Power as an available-for-sale asset, the Company recognized a net gain before income tax of \$36 million in net income including \$6 million on items previously recognized in other comprehensive income.

Management has used judgment to determine that the fair value of the investment in Capital Power has declined significantly since it was initially reclassified as available-for-sale asset. Accordingly, management concluded that the available-for-sale investment in Capital Power was impaired. As a result, the Company recognized an impairment and reclassified the accumulated loss of \$60 million before tax from other comprehensive income to net income during the year ended December 31, 2015.

Details of gains on equity investment in Capital Power realized in net income are as follows:

	2015
Gain on sale of a portion of investment	\$ 24
Gain on reclassification of investment as available-for-sale asset	36
	\$ 60

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Details of equity share of other comprehensive income of Capital Power, reclassified in net income are as follows:

	2015
Amount realized on sale of portion of investment <sup>1</sup>	\$ (4)
Amount realized on reclassification of investment as available-for-sale asset <sup>2</sup>	(5)
	\$ (9)

1 Net of reclassification of income tax expense of \$1 million.

2 Net of reclassification of income tax expense of \$1 million.

The change in investment in Capital Power is detailed as follows:

	2015	2014
Balance, beginning of year	\$ 393	\$ 385
Equity share of net income	5	15
Equity share of other comprehensive income	2	10
Distributions declared	(6)	(25)
Gain on dilution of equity interest	-	8
Sale of a portion of the investment	(197)	-
Reclassification of investment as available-for-sale asset	(197)	-
Balance, end of year	\$ -	\$ 393

The change in available-for-sale investment in Capital Power is detailed as follows:

	2015
Transfer on reclassification from investment in Capital Power	\$ 197
Net gain on initial recognition as available-for-sale asset	30
Fair value loss for the period recorded in other comprehensive income <sup>1</sup>	(60)
Balance, end of year	\$ 167

1 The fair value loss recorded in other comprehensive income was reclassified to net income as an impairment of the available-for-sale investment in Capital Power.

The common shares of Capital Power Corporation are listed on the Toronto Stock Exchange under the symbol CPX. At December 31, 2015, the quoted market price of the common shares of Capital Power Corporation was \$17.77 per share.

Summarized financial information of Capital Power up to the period it was considered as an associate of the Company is as follows:

	2015 <sup>1</sup>	2014
<b>Statements of Financial Position</b>		
Current assets	\$ -	\$ 487
Non-current assets	-	4,956
Current liabilities	-	(877)
Non-current liabilities	-	(1,732)

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	2015	2014
<b>Statements of Comprehensive Income</b>		
Revenue and other income	\$ 1,245	\$ 1,220
Net income attributable to non-controlling interests	(8)	(10)
Net income attributable to partners	120	73
Total net income	112	63
Other comprehensive income all attributable to the partners of Capital Power L.P.	46	52
Total comprehensive income	\$ 158	\$ 115

1 The Company does not consider Capital Power as an associate effective April 2, 2015, accordingly, balances of assets and liabilities of Capital Power as at December 31, 2015, have not been reported.

Other information on EPCOR's investment in Capital Power:

	2015	2014
Weighted average percentage of ownership interest in Capital Power L.P.	4%	19%
Fair value adjustments at acquisition	\$ 2	\$ 6

## 16. Property, plant and equipment

	Construction work in progress	Land	Water treatment & distribution	Electricity transmission & distribution	Retail systems & equipment	Corporate information systems & other	Total
<b>Cost</b>							
Balance, beginning of 2015	\$ 146	\$ 55	\$ 3,064	\$ 2,023	\$ 3	\$ 82	\$5,373
Additions <sup>1</sup>	439	-	52	7	-	4	502
Disposals and retirements	-	(1)	(14)	(14)	-	(32)	(61)
Disposals through divesture <sup>2</sup>	(6)	-	(20)	-	-	-	(26)
Transfers into service	(447)	-	229	217	-	1	-
Transfers	-	-	-	2	-	-	2
Foreign currency valuation adjustments	7	1	145	-	-	-	153
Balance, end of 2015	139	55	3,456	2,235	3	55	5,943
<b>Accumulated depreciation</b>							
Balance, beginning of 2015	-	-	686	526	1	48	1,261
Depreciation	-	-	82	62	1	7	152
Disposals and retirements	-	-	(10)	(8)	-	(32)	(50)
Disposals through divesture <sup>2</sup>	-	-	(7)	-	-	-	(7)
Foreign currency valuation adjustments	-	-	19	-	-	-	19
Balance, end of 2015	-	-	770	580	2	23	1,375
<b>Net book value, end of 2015</b>	\$ 139	\$ 55	\$ 2,686	\$ 1,655	\$ 1	\$ 32	\$4,568

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	Construction work in progress	Land	Water treatment & distribution	Electricity transmission & distribution	Retail systems & equipment	Corporate information systems & other	Total
<b>Cost</b>							
Balance, beginning of 2014	\$ 121	\$ 48	\$ 2,812	\$ 1,849	\$ 7	\$ 81	\$4,918
Additions	374	-	42	4	-	4	424
Disposals and retirements	-	-	(14)	(9)	(4)	(3)	(30)
Transfers into service	(353)	7	167	179	-	-	-
Foreign currency valuation adjustments	4	-	57	-	-	-	61
<b>Balance, end of 2014</b>	<b>146</b>	<b>55</b>	<b>3,064</b>	<b>2,023</b>	<b>3</b>	<b>82</b>	<b>5,373</b>
<b>Accumulated depreciation</b>							
Balance, beginning of 2014	-	-	617	479	3	43	1,142
Depreciation	-	-	72	53	1	8	134
Disposals and retirements	-	-	(9)	(6)	(3)	(3)	(21)
Foreign currency valuation adjustments	-	-	6	-	-	-	6
<b>Balance, end of 2014</b>	<b>-</b>	<b>-</b>	<b>686</b>	<b>526</b>	<b>1</b>	<b>48</b>	<b>1,261</b>
<b>Net book value, end of 2014</b>	<b>\$ 146</b>	<b>\$ 55</b>	<b>\$ 2,378</b>	<b>\$ 1,497</b>	<b>\$ 2</b>	<b>\$ 34</b>	<b>\$4,112</b>

1 Additions include non-cash contributed assets of \$62 million (2014 – \$51 million).

2 As per the terms of agreement with the City of White Rock, the Company sold the White Rock utility operations to the City of White Rock.

Borrowing costs capitalized during the year ended December 31, 2015, were \$6 million (2014 – \$5 million) (note 7). The weighted average rates used to determine the borrowing costs eligible for capitalization ranged from 3.91% to 5.78% (2014 – 4.30% to 5.85%).

There are no security charges over the Company's property, plant and equipment.

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## 17. Intangible assets and goodwill

	Goodwill	Customer rights	Other rights	CCN	Software	Total
<b>Cost</b>						
Balance, beginning of 2015	\$ 42	\$ 51	\$ 54	\$ 75	\$ 183	\$ 405
Additions through acquisition	-	-	7	3	25	35
Internally generated additions	-	-	-	-	1	1
Disposals and retirements	-	-	-	-	(34)	(34)
Change in construction work in progress	-	-	(3)	-	(6)	(9)
Transfers	-	-	-	-	(2)	(2)
Foreign currency translation adjustments	8	-	8	14	-	30
Balance, end of 2015	50	51	66	92	167	426
<b>Accumulated amortization</b>						
Balance, beginning of 2015	-	36	4	-	111	151
Amortization	-	2	1	-	15	18
Disposals and retirements	-	-	-	-	(32)	(32)
Foreign currency translation adjustments	-	-	1	-	-	1
Balance, end of 2015	-	38	6	-	94	138
<b>Net book value, end of 2015</b>	<b>\$ 50</b>	<b>\$ 13</b>	<b>\$ 60</b>	<b>\$ 92</b>	<b>\$ 73</b>	<b>\$ 288</b>
<b>Cost</b>						
Balance, beginning of 2014	\$ 39	\$ 51	\$ 48	\$ 68	\$ 173	\$ 379
Additions through acquisition	-	-	-	-	10	10
Additions through business combination	-	-	-	-	5	5
Internally generated additions	-	-	3	-	-	3
Disposals and retirements	-	-	-	-	(7)	(7)
Change in construction work in progress	-	-	-	-	2	2
Foreign currency translation adjustments	3	-	3	7	-	13
Balance, end of 2014	42	51	54	75	183	405
<b>Accumulated amortization</b>						
Balance, beginning of 2014	-	33	3	-	103	139
Amortization	-	3	1	-	13	17
Disposals and retirements	-	-	-	-	(5)	(5)
Balance, end of 2014	-	36	4	-	111	151
<b>Net book value, end of 2014</b>	<b>\$ 42</b>	<b>\$ 15</b>	<b>\$ 50</b>	<b>\$ 75</b>	<b>\$ 72</b>	<b>\$ 254</b>



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There are no security charges over the Company's intangible assets. Included in customer rights are the Company's customer rights to operate in the FortisAlberta service territory which expire on December 31, 2020.

For purposes of impairment testing, CCN has been allocated to cash-generating units as follows:

	2015	2014
<b>Cash generating unit:</b>		
Water segment – Water Arizona	\$ 88	\$ 72
Water segment – Others	4	3
	<b>\$ 92</b>	<b>\$ 75</b>

For purposes of impairment testing, goodwill acquired through business combinations has been allocated to cash-generating units as follows:

	2015	2014
<b>Cash generating unit:</b>		
Water segment – Chaparral	\$ 12	\$ 10
Water segment – Water Arizona	31	26
Water segment – Others	7	6
	<b>\$ 50</b>	<b>\$ 42</b>

The most recent reviews of goodwill were performed in the fourth quarter for each cash generating unit. Management reviewed conditions since the last review was performed and determined that no circumstances occurred since then to require a revision to the assumptions used in the value in use calculations.

The recoverable amount of the cash generating units was determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a twenty year period. The projections were based on cash flow projections for the most recent long-term plan, which covered periods up to five years, with the projections for the balance of the twenty-year period extrapolated using growth rates between 1.80% and 2.63% (2014 – between 1.71% and 3.58%) that are in line with the long-term average growth rate for the industry. The pre-tax discount rates applied to cash flow projections are as follows:

	2015	2014
<b>Cash generating unit:</b>		
Water segment – Chaparral	8.46%	8.46%
Water segment – Water Arizona	6.23%	6.23%
Water segment – Others	6.34%	6.59%

## Key assumptions used in value-in-use calculations

The future cash flows of the underlying businesses are relatively stable, since they relate to ongoing water supply in a rate-regulated environment. As the cash generating units operate under a rate-regulated environment, revenues are set by the regulators to cover operating costs and to earn a return on the rate base, which is set at the regulator's approved weighted average cost of capital for the underlying utility.

The calculation of value in use for the cash generating units is most sensitive to the following assumptions:

### Discount rates

The discount rates used were estimated based on the weighted average cost of capital for the cash generating unit, which is the approved rate of return on capital allowed by the regulators. This rate was further adjusted to reflect the market assessment of any risk specific to the cash generating unit for which future estimates of cash flows have not been adjusted.

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## Timing of future rate increases

Revenue growth is forecast to continue at the same rate as operating costs. If future rate filings are delayed, rate increases and increased cash flows from revenues would be affected.

## Sensitivity to changes in assumptions

Assumptions have been tested using reasonably possible alternative scenarios. For all scenarios considered, the recoverable value remained above the carrying amount of the cash generating unit.

## 18. Trade and other payables

	2015	2014
Trade payables	\$ 160	\$ 129
Accrued liabilities	54	63
Accrued interest	27	27
Due to related parties	6	13
Due to employees	12	16
	\$ 259	\$ 248

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## 19. Loans and borrowings

	Effective interest rate	2015	2014
<b>Long-term loans and borrowings</b>			
<b>Obligation to the City, net of sinking fund</b>			
Due in 1-5 years at 8.50% (2014 – 8.50%)	11.04%	\$ 19	\$ 26
Due in 6-10 years at 7.01% (2014 – 7.01%)	7.01%	16	17
Due in 16-25 years at 5.20% (2014 – 5.20%)	5.36%	70	76
		105	119
<b>Public debentures</b>			
At 6.75%, due in 2016	6.94%	130	130
At 5.80%, due in 2018	6.02%	400	400
At 6.80%, due in 2029	7.05%	150	150
At 5.65%, due in 2035	5.88%	200	200
At 6.65%, due in 2038	6.83%	200	200
At 5.75%, due in 2039	5.88%	200	200
At 4.55%, due in 2042	4.65%	300	300
		1,580	1,580
<b>Private debt notes</b>			
Bonds at 3.74%, due in 2021	3.80%	191	160
Bonds at 5.00%, due in 2041	5.08%	155	130
		346	290
		2,031	1,989
<b>Other borrowings</b>			
Deferred debt issue costs		(12)	(12)
Total long-term loans and borrowings		2,019	1,977
Short-term loans – commercial paper	0.84%	98	103
Total Loans and borrowings		2,117	2,080
Less: current portion		242	117
		\$ 1,875	\$ 1,963

### Obligation to the City

Debentures were issued, on behalf of the Company, pursuant to the City Bylaw authorization. The outstanding debentures are a direct, unconditional obligation of the City. The Company's obligation to the City matches the City's obligation pursuant to the debentures. The 8.50% debentures, maturing in the year 2018 and totaling \$19 million, rank as subordinated debt. In the event of default on other interest obligations, the coupon and sinking fund payments on the subordinated debt may be deferred for a period of up to five years, not exceeding the maturity date. If still in default at the end of five years, all unpaid payments plus accrued interest thereon may be repaid by issuing common shares to the City. Except for the subordinated debt, the obligation to the City will rank at least equal to all future debt that may be issued by the Company.

The Company makes annual contributions into the sinking fund of the City pertaining to certain debenture issues. These payments constitute effective settlement of the respective debt as the sinking fund accumulates to satisfy the underlying debenture maturity. For any specific City debenture sinking fund requirements, the payment obligation ceases on maturity of the debenture. The sinking fund is measured at fair value and presented net of its related debenture.

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In 2009, the City transferred the Gold Bar wastewater treatment plant (Gold Bar) to EPCOR. Pursuant to the Gold Bar asset transfer agreement, EPCOR issued \$112 million of long-term debt to the City representing EPCOR's proportionate share of the City's debt obligations in respect of Gold Bar assets. The long-term debt to the City was repaid in full during the year. The long-term debt bore interest at a weighted average rate of approximately 5.20%.

## Public debentures

The public debentures are unsecured direct obligations of the Company and, subject to statutory preferred exemptions, rank equally with all other unsecured and unsubordinated indebtedness of the Company. The debentures are redeemable by the Company prior to maturity at the greater of par and a price specified under the terms of the debenture.

## Private debt notes

The private debt notes due in 2021 and 2041 were issued in U.S. dollars, are unsecured direct obligations of the Company and, subject to statutory preferred exemptions, rank equally with all other unsecured and unsubordinated indebtedness of the Company. The private debt notes are redeemable by the Company prior to maturity at the greater of par and a price specified under the terms of the private debt notes.

## Commercial paper and bankers' acceptances

In the normal course of business, the Company provides financial support and performance assurances including guarantees, letters of credit and surety bonds to third parties in respect of its subsidiaries. Bank lines of credit are unsecured and are available to the Company up to an amount of \$575 million (2014 – \$575 million), comprised of committed amounts of \$550 million (2014 – \$550 million) and uncommitted amounts of \$25 million (2014 – \$25 million) as described in note 29. Letters of credit totaling \$48 million (2014 – \$82 million) have been issued under these facilities to meet the credit requirements of electricity market participants and to meet conditions of certain service agreements. Amounts borrowed and letters of credit issued, if any, under these facilities which are not payable within one year are classified as non-current loans and borrowings.

The Company's commercial paper program has an authorized capacity of \$350 million (2014 – \$350 million). At December 31, 2015 commercial paper totaling \$98 million (2014 – \$103 million) was outstanding.

## 20. Deferred revenue

	2015	2014
Balance, beginning of year	\$ 870	\$ 806
Contributions received	74	70
Revenue recognized	(24)	(23)
Transfer on sale of business	(5)	-
Foreign currency valuation adjustments	38	16
Other	(1)	1
	952	870
Less: current portion	32	23
Balance, end of year	\$ 920	\$ 847

Contributions received include non-cash contributions of \$39 million (2014 – \$47 million).

## 21. Provisions

	2015	2014
Contributions from customers and developers	\$ 62	\$ 35
Employee benefits	98	100
	160	135
Less: current portion	37	38
	\$ 123	\$ 97

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## Contributions from customers and developers

	2015	2014
Balance, beginning of year	\$ 35	\$ 31
Contributions received	30	7
Contributions refunded	(3)	(3)
Balance, end of year	\$ 62	\$ 35

Contributions received include non-cash contributions of \$23 million (2014 – \$4 million).

## Employee benefits

	2015	2014
Other short-term employee benefit obligation	\$ 29	\$ 27
Post-employment benefit obligation	48	45
Other long-term employee benefit obligation	21	28
	\$ 98	\$ 100

## Post-employment benefits

Total cash payments for pension benefits for the year ended December 31, 2015, consisting of cash contributed by the Company to the LAPP, other defined contribution and benefit plans, and cash payments directly to beneficiaries for their unfunded pension plan, were \$39 million (2014 – \$35 million). Total contributions expected to be paid in 2016 to the LAPP, other defined contribution and benefit plans, and cash payments directly to beneficiaries for their unfunded pension plan are \$40 million.

## Other long-term employee benefits

Other long-term employee benefits consist mainly of obligations for benefits provided to employees on long-term disability leaves.

## 22. Derivatives

Derivative financial instruments are held for the purpose of electricity price risk management and interest rate risk management.

The derivative instruments assets and liabilities used for risk management purposes as described in note 29 consist of the following assets and liabilities:

## Derivative financial liabilities

	2015	2014
Electricity price forward contracts	\$ 2	\$ 3
Interest rate swaps (note 29)	10	6
	\$ 12	\$ 9
Current	\$ 2	\$ 3
Non-current	10	6
	\$ 12	\$ 9

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## Electricity price forward contracts

The forward contracts used to mitigate electricity price risk management consist of the following:

	2015	2014
<b>Derivative instruments liabilities</b>		
Fair value	\$ 9	\$ 10
Cash paid to counterparty	(7)	(7)
Net fair value	\$ 2	\$ 3
<b>Net notional buys</b>		
Terawatt hours of electricity	1.2	1.3
Range of contract terms (in years)	0.1 to 0.3	0.1 to 0.3

The fair value of electricity derivative financial instruments reflects changes in the forward electricity prices, net of cash payments to or from the counterparty. During the course of the contract, daily payments are made to or received from the counterparty to settle the fair value of the contracts.

Fair value is determined based on quoted exchange index prices by reference to bid or asking price, as appropriate, in active markets. Fair value amounts reflect management's best estimates using external readily observable market data such as forward electricity prices. It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

Changes in fair value on electricity derivative financial instruments are recorded in energy purchases and system access fees.

## 23. Other liabilities

	2015	2014
Gold Bar transfer fee payable	\$ -	\$ 1
Customer deposits	27	24
Leasehold inducements	11	12
	38	37
Less: current portion	27	25
	\$ 11	\$ 12

## 24. Share capital

### Authorized shares

Unlimited number of voting common shares without nominal or par value.

### Issued shares

Three common shares to the City.

## 25. Accumulated other comprehensive income

### Cash flow hedges

This comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that had not yet occurred prior to the disposal of the power generation business in 2009. Consequent to the partial sell down of investment in Capital Power and reclassification of remaining investment as available-for-sale asset, the Company reclassified and realized the remaining portion of cash flow hedging instruments in net income.

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## Available-for-sale financial assets

This comprises the cumulative net change in the fair value of the Company's beneficial interest in the sinking fund and investment in Capital Power Corporation, until the investments are derecognized or impaired.

## Cumulative translation accounts

The cumulative translation accounts for foreign operations represent the cumulative portion of gains and losses on retranslation of foreign operations that have a functional currency other than Canadian dollars. The cumulative deferred gain or loss on the foreign operation is reclassified to net income only on disposal of the foreign operation.

## Employee benefits account

The employee benefits account represents the cumulative impact of actuarial gains and losses, and return on plan assets excluding interest income from the Company's defined benefit pension plans.

## Investment in Capital Power

The investment in Capital Power comprises the Company's equity share in other comprehensive income and loss of Capital Power. Consequent to the partial sell down of investment in Capital Power and reclassification of remaining investment as available-for-sale asset, the Company reclassified and realized the remaining portion of its share of other comprehensive income from Capital Power in net income.

## 26. Change in non-cash working capital

	2015	2014
Trade receivables (note 10)	\$ (22)	\$ 11
Income tax recoverable (note 10)	-	(2)
Prepaid expenses (note 10)	(1)	-
Inventories	(1)	-
Trade and other payables (note 18)	11	3
	\$ (13)	\$ 12

	2015	2014
Included in specific items on statements of cash flows:		
Interest paid	\$ -	\$ (1)
Income taxes recovered (paid)	-	(2)
Distributions from Capital Power	3	-
	3	(3)
Operating activities	(19)	17
Investing activities	3	(2)
	\$ (13)	\$ 12

## 27. Related party balances and transactions

### Compensation of key management personnel

	2015	2014
Short-term employee benefits	\$ 5	\$ 5
Post-employment benefits	2	1
Other long-term benefits	3	2
	\$ 10	\$ 8

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The Company provides utility services to key management personnel as it is the sole provider of certain services. Such services are provided in the normal course of operations and are based on normal commercial rates, as approved by regulation.

## Other related party transactions

The Company is 100% owned by the City. The Company provides maintenance, repair and construction services, and customer billing services to the City, and purchases printing services and supplies, mobile equipment services, public works and various other services pursuant to service agreements. Sales between the Company and the City are in the normal course of operations, and are generally based on normal commercial rates, or as agreed to by the parties.

The following summarizes the Company's related party transactions with the City:

	2015	2014
<b>Consolidated Statements of Comprehensive Income</b>		
Revenues (a)	\$ 87	\$ 84
Other raw materials and operating charges (b)	9	10
Franchise fees and property taxes (c)	90	88
Finance expense (d)	10	11

(a) Included within revenues are electricity and water sales of \$4 million (2014 – \$4 million), service revenue including the provision of maintenance, repair and construction services of \$75 million (2014 – \$73 million) and customer billing services of \$8 million (2014 – \$7 million).

(b) Includes certain costs of printing services and supplies, mobile equipment services, public works and various other services pursuant to service agreements.

(c) Composed of franchise fees of \$55 million at 0.72 cents per kilowatt hour of electric distribution sales volume (2014 – \$56 million at 0.72 cents per kilowatt hour), franchise fees of \$20 million at 8% (2014 – \$19 million at 8%) of qualifying revenues of water services and waste water services, and property taxes of \$15 million (2014 – \$13 million) on properties owned within the City municipal boundaries.

(d) Composed of interest expense on the obligation to the City at interest rates ranging from 5.20% to 8.50% (2014 – 5.20% to 8.50%).

The following summarizes the Company's related party balances with the City:

	2015	2014
<b>Consolidated Statements of Financial Position</b>		
Trade and other receivables	\$ 50	\$ 36
Property, plant and equipment (e)	4	6
Trade and other payables (f)	6	10
Loans and borrowings (note 19)	105	119
Deferred revenue (g)	1	25
Other liabilities (h)	-	1
Equity attributable to the Owner of the Company	24	24

(e) Costs of capital construction for water distribution mains and infrastructure.

(f) Includes \$1 million (2014 – \$2 million) for drainage and construction services provided by the City.

(g) Capital contributions received for capital projects and rebates relating to maintenance, repair and construction services.

(h) Relates to a transfer fee payable to the City for Gold Bar of nil (2014 – \$1 million).



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The Company had an 18% economic interest in Capital Power and was considered an associate of the Company prior to April 2, 2015. The Company provides electricity distribution and transmission services to Capital Power. Transactions are in the normal course of operations and are based on normal commercial or regulated rates.

The following summarizes the Company's related party transactions with Capital Power prior to April 2, 2015:

	Prior to April 2, 2015	Year ended December 31, 2014
<b>Consolidated Statements of Comprehensive Income</b>		
Revenues (i)	\$ 2	\$ 8
Other income (j)	6	22
Energy purchases and system access fees (k)	3	2
Other raw materials and operating charges (l)	4	13
Other administrative expenses (m)	(2)	(7)
Equity share of income of Capital Power (note 15)	5	15
Gain on dilution of interest in Capital Power (note 15)	-	8
Equity share of other comprehensive income (note 15)	2	10

- (i) Relates to electricity distribution and transmission services provided to Capital Power by EPCOR.
- (j) Relates to financing revenue on the long-term receivable.
- (k) Relates to electricity purchases by EPCOR from Capital Power under service agreements.
- (l) Relates to utility bills and charges for provision of transitional services by Capital Power to EPCOR under services agreements.
- (m) Relates to the provision of services by EPCOR to Capital Power under services agreements.

The following summarizes the Company's related party balances with Capital Power:

	2015 <sup>1</sup>	2014
<b>Consolidated Statements of Financial Position</b>		
Trade and other receivables (n)	\$ -	\$ 14
Other financial assets (note 13)	-	332
Trade and other payables	-	3
Deferred revenue (o)	-	(6)

1 Consequent to partial sell down of the investment in Capital Power, Capital Power is no longer considered a related party effective April 2, 2015. Accordingly, balances on December 31, 2015, are in the normal course of business with Capital Power and are no longer considered related party balances for disclosure purposes.

- (n) 2014 includes \$6 million relating to the accrued interest on the long-term receivable from Capital Power (note 13).
- (o) Contributions for the construction of aerial and underground transmission lines.

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## 28. Financial instruments

### Classification

The classification of the Company's financial instruments at December 31, 2015 and 2014, is summarized as follows:

	Classification				Fair value hierarchy
	Fair value through profit or loss	Loans and receivables	Other liabilities	Available-for-sale	
<b>Measured at fair value</b>					
Beneficial interest in sinking fund (note 19)				X	Level 1
Available-for-sale investment in Capital Power (note 15)				X	Level 1
Derivatives (note 22)					
Financial electricity purchase contracts – designated	X				Level 1
Interest rate swaps – designated	X				Level 2
<b>Measured at amortized cost</b>					
Cash and cash equivalents (note 9)		X			Level 1
Trade and other receivables (note 10)		X			Level 3
Other financial assets (note 13)		X			Level 2
Trade and other payables (note 18)			X		Level 3
Debentures and borrowings (note 19)			X		Level 2
Gold Bar transfer fee payable (note 23)			X		Level 3
Customer deposits (note 23)			X		Level 3

### Fair value

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

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

	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current portion of other financial assets (note 13)	\$ 316	\$ 330	\$ 408	\$ 443
Available-for-sale investment in Capital Power (note 15)	167	167	-	-
Loans and borrowings (note 19)				
Debentures and borrowings	2,198	2,554	2,154	2,579
Beneficial interest in sinking fund	(81)	(81)	(74)	(74)
Derivatives (note 22)	12	12	9	9

### Fair value hierarchy

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

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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.

### *Loans and other long-term receivables*

The fair value of the Company's unsecured long-term receivable from Capital Power is based on a current yield for the Company's receivable at December 31, 2015 and 2014. This yield is based on an estimated credit spread for Capital Power over the yields of long-term Government of Canada bonds that have similar maturities to the Company's receivable. The estimated credit spread is based on Capital Power's indicative spread as published by independent financial institutions.

The fair values of the Company's other long-term loans and receivables are based on the estimated interest rates implicit in comparable loan arrangements plus an estimated credit spread based on the counterparty risks at December 31, 2015 and 2014.

### *Loans and borrowings*

The fair value of the Company's long-term loans and borrowings is based on determining a current yield for the Company's debt at December 31, 2015 and 2014. This yield is based on an estimated credit spread for the Company over the yields of long-term Government of Canada bonds for Canadian dollar loans and U.S. Treasury bonds for U.S. dollar loans that have similar maturities to the Company's debt. The estimated credit spread is based on the Company's indicative spread as published by independent financial institutions. The Company's long-term loans and borrowings (including the current portion) include City debentures which are offset by payments made by the Company into the sinking fund. The Company's beneficial interest in the sinking fund is a related party balance and has been recorded at fair value as it has been classified as an available-for-sale financial asset. The fair value of the beneficial interest in the sinking fund is based on quoted market values as determined by the City at or near the reporting date.

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

### *Available-for-sale investment in Capital Power*

The available-for-sale investment in Capital Power represents an investment in common shares of Capital Power Corporation. The fair value of the investment is based on the quoted price of common shares of Capital Power Corporation (CPX) on the Toronto Stock Exchange at December 31, 2015.

### *Derivatives*

The fair value of the Company's financial electricity purchase contracts is determined based on exchange index prices in active markets. Fair value amounts reflect management's best estimates using external readily observable market data such as forward electricity prices.

The fair value of the Company's interest rate swaps is based on valuations obtained from the counterparty. The fair value is determined by the counterparty using a discounted cash flow model. The inputs used include notional amounts, the quoted forward Canadian Dealer Offering Rate (CDOR) curve, the contractual fixed settlement rate and an applicable discount factor.

It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

## **29. Financial risk management**

### **Overview**

The Company is exposed to a number of different financial risks, arising from business activities and its use of financial instruments, including market risk, credit risk, and liquidity risk. The Company's overall risk management process is designed to identify, assess, measure, manage, mitigate and report on business risk which includes financial risk. Enterprise risk management is overseen by the Board of Directors and senior management is responsible for fulfilling

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objectives, targets, and policies approved by the Board of Directors. EPCOR's Corporate Treasurer in conjunction with the Company's Internal Audit function provides the Board of Directors with an enterprise risk assessment quarterly. Risk management strategies, policies and limits are designed to help ensure the risk exposures are managed within the Company's business objectives and risk tolerance. The Company's financial risk management objective is to protect and minimize volatility in earnings and cash flow.

Financial risk management including foreign exchange risk, interest rate risk, liquidity risk and the associated credit risk management is carried out by the centralized Treasury function in accordance with applicable policies. The Audit Committee of the Board of Directors, in its oversight role, performs regular and ad-hoc reviews of risk management controls and procedures to help ensure compliance.

## **Risks related to Capital Power**

Significant reliance is placed on the capacity of Capital Power to honor its back-to-back debt obligations with EPCOR. Should Capital Power fail to satisfy these obligations, EPCOR's capacity to satisfy its debt obligations would be reduced and EPCOR would need to satisfy its own debt obligations by other means. As per agreement, the back-to-back debt obligations may be called by EPCOR for repayment. Repayment must occur within 180 days of notice if the principal balance outstanding is less than \$200 million or within 365 days of notice if the principal balance outstanding is equal to or greater than \$200 million.

While EPCOR receives dividends from Capital Power, the Company does not rely on them as a source of funding. There can be no assurance that Capital Power will continue to pay dividends at current levels as they may be reduced or eliminated entirely in the future.

Capital Power has indemnified EPCOR for any losses arising from its inability to discharge its liabilities, including any amounts owing to EPCOR in relation to the long-term loans receivable.

## **Market risk**

Market risk is the risk of loss that results from changes in market factors such as electricity prices, foreign currency exchange rates, interest rates and equity prices. The level of market risk to which the Company is exposed at any point in time varies depending on market conditions, expectations of future price or market rate movements and the composition of the Company's financial assets and liabilities held, non-trading physical asset and contract portfolios, and trading portfolios. The Company's financial exposure management policy is approved by the Board of Directors and the associated procedures and practices are designed to manage the foreign exchange risk and interest rate risk throughout the Company.

To manage the exposure related to changes in market risk, the Company may use various risk management techniques including derivative financial instruments such as forward contracts, contracts-for-differences or interest rate swaps. Such instruments may be used for an anticipated transaction to establish a fixed price denominated in a foreign currency or electricity or to secure fixed interest rates.

The sensitivities provided in each of the following risk discussions disclose the effect of reasonable changes in relevant prices and rates on net income at the reporting date. The sensitivities are hypothetical and should not be considered to be predictive of future performance or indicative of earnings on these instruments. The Company's actual exposure to market risks is constantly changing as the Company's portfolio of debt, equity instruments, foreign currency and commodity contracts changes. Changes in fair values or cash flows based on market variable fluctuations cannot be extrapolated since the relationship between the change in the market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Company.

### *Electricity price and volume risk*

EPCOR sells electricity to regulated rate option (RRO) customers under a RRT. All electricity for the RRO customers is purchased in real time from the AESO in the spot market. Under the RRT, the amount of electricity to be economically hedged, the hedging method and the electricity selling prices to be charged to these customers is determined by the EPSP. Under the EPSP, the Company uses financial contracts to economically hedge the RRO requirements and

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incorporate the price into customer rates for the applicable month. Fixed volumes of electricity are economically hedged using financial contracts-for-differences up to 120 days in advance of the month in which the electricity (load) is consumed by the RRO customers. The volume of electricity economically hedged in advance is based on load (usage) forecasts for the consumption month. When consumption varies from forecast consumption patterns, EPCOR is exposed to prevailing market prices when the volume of electricity economically hedged is short of actual load requirements or greater than the actual load requirements (long). Exposure to variances in electricity volume can be exacerbated by other events such as unexpected generation plant outages and unusual weather patterns.

Under contracts-for-differences the Company agrees to exchange, with a single creditworthy and adequately secured counterparty, the difference between the AESO electricity spot market price and the fixed contract price for a specified volume of electricity up to 120 days in advance of the consumption date, all in accordance with the EPSP. The contracts-for-differences are referenced to the AESO electricity spot price and any movement in the AESO price results in changes in the contract settlement amount. If the risks of the EPSP were to become untenable, EPCOR could test the market and potentially re-contract the procurement risk under an outsourcing arrangement at a certain cost that would likely increase procurement costs and reduce margins. The Company may enter into additional financial electricity purchase contracts outside the EPSP to further economically hedge the price of electricity.

At December 31, 2015, holding all other variables constant, a \$5 per megawatt hour increase / decrease in the forward electricity spot price would increase / decrease net income by approximately \$6 million (2014 – \$6 million). In preparing the sensitivity analysis, the Company compared average AESO electricity spot prices to the forward index price for the past 24 months. Based on historical fluctuations, the Company estimates that the fair value of the contracts could increase or decrease by up to \$37 million (2014 – \$40 million) with a corresponding change to net income.

#### *Foreign exchange risk*

The Company is exposed to foreign exchange risk on foreign currency denominated future transactions and firm commitments, and monetary assets and liabilities denominated in a foreign currency and on its net investments in foreign subsidiaries.

The Company's financial exposure management policy attempts to minimize material exposures arising from movements in the Canadian dollar relative to the U.S. dollar or other foreign currencies. The Company's direct exposure to foreign exchange risk arises on commitments denominated in U.S. dollars. The Company coordinates and manages foreign exchange risk centrally by identifying opportunities for naturally occurring opposite movements and then dealing with any material residual foreign exchange risks.

The Company may use foreign currency forward contracts to fix the functional currency of its non-functional currency cash flows thereby reducing its anticipated foreign currency denominated transactional exposure. The Company looks to limit foreign currency exposures as a percentage of estimated future cash flows.

At December 31, 2015, holding all other variables constant, a 10% change in exchange rate would change the private debt balance by \$35 million (2014 – \$29 million).

#### *Interest rate risk*

The Company is exposed to changes in interest rates on its cash and cash equivalents, and floating-rate short-term loans and obligations. The Company is also exposed to interest rate risk from the possibility that changes in the interest rates will affect future cash flows or the fair values of its financial instruments. Interest rate risk associated with short-term loans and borrowings is immaterial due to its short-term maturity. At December 31, 2015 and 2014, all long-term debt was fixed rate.

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The Company entered into the following interest rate swaps to manage its interest rate risk in the Regina Wastewater project as described below:

Type	Term	Notional amount	Fixed rate	Floating rate index
Pay fixed, receive floating	August 1, 2014 – January 3, 2017	Range of \$18 – \$136	1.55%	1-month CDOR
Pay fixed, receive floating	January 3, 2017 – June 1, 2044	\$67	3.51%	1-month CDOR

The counterparty to the swap arrangements is a major Canadian financial institution. During their respective terms, the swaps are being net cash settled on a monthly basis. The Company does not anticipate any material adverse effect on its financial covenants resulting from its involvement in this type of swap arrangement, nor does it anticipate non-performance by the counterparty. At December 31, 2015, the maximum exposure to credit risk of the interest rate swaps is equal to their carrying amounts, which is a net liability of \$10 million (2014 - \$6 million) (note 22).

The interest rate swap at a fixed rate of 1.55% has monthly notional amounts that mirror the expected net development funding requirements over the project's construction term. For both swaps, the Company used the forward CDOR rate as of December 31, 2015, to determine the estimated contractual obligations of the Company. Future cash flows may differ from the amounts noted below due to changes in the monthly CDOR rate. At December 31, 2015 and 2014, the undiscounted cash flow requirements and contractual maturities of the interest rate swaps were as follows:

December 31, 2015	2016	2017	2018	2019	2020	2021 and thereafter	Total contractual cash flows
Carrying value – net	\$ 1	\$ 2	\$ 2	\$ 1	\$ 1	\$ 5	\$ 12

December 31, 2014	2015	2016	2017	2018	2019	2020 and thereafter	Total contractual cash flows
Carrying value - net	\$ -	\$ -	\$ 1	\$ 1	\$ 1	\$ 4	\$ 7

At December 31, 2015, a 50 basis point increase in the forward CDOR rate would increase fair value of the interest rate swaps by a combined amount of \$5 million (2014 - \$5 million) and a 50 basis point decrease in the forward CDOR rate would decrease fair value of the interest rate swaps by a combined amount of \$6 million (2014 - \$6 million). This analysis assumes that all other variables remain constant.

### Equity Price Risk

Equity price risk refers to the risk that the fair value of an investment will fluctuate as a result of changes in equity markets. The Company is exposed to equity price risk arising from its available-for-sale investment in the common shares of Capital Power Corporation which are listed on TSX. At December 31, 2015, an increase or decrease of \$1.00 in market price of common shares of Capital Power Corporation will result in an increase or decrease of \$9 million in the fair value of Company's available-for-sale investment in Capital Power, respectively. The Company closely monitors the equity price movement in common shares of Capital Power to determine the appropriate course of action to be taken by the Company.

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## Credit risk

Credit risk is the possible financial loss associated with the inability of counterparties to satisfy their contractual obligations to the Company, including payment and performance. The Company's counterparty credit risk management policy is approved by the Board of Directors and the associated procedures and practices are designed to manage the credit risks associated with the various business activities throughout the Company. Credit and counterparty risk management procedures and practices generally include assessment of individual counterparty creditworthiness and establishment of exposure limits prior to entering into a transaction with the counterparty. Exposures and concentrations are subsequently monitored and are regularly reported to senior management. Creditworthiness continues to be evaluated after transactions have been initiated, at a minimum, on an annual basis. Credit risk includes the Capital Power back-to-back debt obligations with EPCOR as described above. To manage and mitigate credit risk, the Company employs various credit mitigation practices such as master netting agreements, pre-payment arrangements from retail customers, credit derivatives and other forms of credit enhancements including cash deposits, parent company guarantees, and bank letters of credit.

### Maximum credit risk exposure

The Company's maximum credit exposure is represented by the carrying amount of the following financial assets:

	2015	2014
Cash and cash equivalents <sup>1</sup> (note 9)	\$ 36	\$ 37
Trade and other receivables <sup>2</sup> (note 10)	333	313
Finance lease receivables (note 12)	104	122
Loans and other long-term receivables (note 13)	493	420
	\$ 966	\$ 892

1 This table does not take into account collateral held. At December 31, 2015, the Company held cash deposits of \$27 million (2014 – \$40 million) as security for certain counterparty accounts receivable and derivative contracts. The Company is not permitted to sell or re-pledge this collateral in the absence of default of the counterparties providing the collateral.

2 The Company's maximum exposures related to trade and other receivables by major credit concentration is composed of \$209 million (2014 – \$246 million) related to rate-regulated customer balances. At December 31, 2015, the Company held credit enhancements to mitigate credit risk on trade and other receivables in the form of letters of credit of \$1 million (2014 – \$2 million) and parental guarantees of \$252 million (2014 – \$253 million).

### Credit quality and concentrations

The Company is exposed to credit risk on outstanding trade receivables associated with its energy and water sales activities and agreements with the AESO and on electricity supply agreements with wholesale and retail customers. The Company is also exposed to credit risk from its cash and cash equivalents, derivative instruments and long-term financing arrangements receivable.

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The credit quality of the Company's trade and other receivables, by major credit concentrations, finance lease receivables, and other financial assets at December 31, 2015 and 2014, was as follows:

	2015		2014	
	Investment grade or secured <sup>1,2</sup> %	Unrated %	Investment grade or secured <sup>1,2</sup> %	Unrated %
<b>Trade and other receivables</b>				
Rate-regulated customers <sup>3</sup>	-	34	-	74
Non rate-regulated customers	62	4	21	5
<b>Total trade and other receivables</b>	<b>62</b>	<b>38</b>	<b>21</b>	<b>79</b>
<b>Cash and cash equivalents</b>	<b>100</b>	<b>-</b>	<b>100</b>	<b>-</b>
<b>Loans and other long-term receivables</b>	<b>100</b>	<b>-</b>	<b>100</b>	<b>-</b>

- 1 Credit ratings are based on the Company's internal criteria and analyses, which take into account, among other factors, the investment grade ratings of external credit rating agencies when available.
- 2 Certain trade receivables and other financial assets are considered to have low credit risk as they are either secured by the underlying assets, secured by other forms of credit enhancements, or the counterparties are local or provincial governments.
- 3 Rate-regulated customer trade receivables include distribution and transmission, water sales, rate-regulated and default electricity supply receivables. Under the Electric Utilities Act (Alberta), the Company provides electricity supply in its service area to residential, agricultural and small commercial customers at regulated rates, and to those commercial and industrial customers who have not chosen a competitive offer and consume electricity under default supply arrangements.

### *Rate-regulated customer credit risk*

Credit risk exposure for residential and commercial customers under regulated electricity and water supply rates is generally limited to amounts due from customers for electricity and water consumed but not yet paid for. The Company mitigates credit risk from counterparties by performing credit checks and on higher risk customers, by taking pre-payments or cash deposits. The Company monitors credit risk for this portfolio at the gross exposure level.

### *Trade and other receivables and allowance for doubtful accounts*

Trade and other receivables consist primarily of amounts due from retail customers including commercial customers, other retailers, government-owned or sponsored entities, regulated public utility distributors, and other counterparties. Commercial customer contracts provide performance assurances through letters of credit, irrevocable guarantees and bonds. For other retail customers, represented by a diversified customer base, credit losses are generally low and the Company provides for an allowance for doubtful accounts on estimated credit losses.

The aging of accounts receivables was as follows:

	Gross accounts receivables	Allowance for doubtful accounts	Net accounts receivables
December 31, 2015			
Current <sup>1</sup>	\$ 293	\$ -	\$ 293
Outstanding 31 to 60 days	20	-	20
Outstanding 61 to 90 days	5	1	4
Outstanding more than 90 days	18	2	16
	<b>\$ 336</b>	<b>\$ 3</b>	<b>\$ 333</b>



# EPCOR UTILITIES INC.

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December 31, 2014	Gross accounts receivables	Allowance for doubtful accounts	Net accounts receivables
Current <sup>1</sup>	\$ 282	\$ -	\$ 282
Outstanding 31 to 60 days	19	-	19
Outstanding 61 to 90 days	6	1	5
Outstanding more than 90 days	9	2	7
	\$ 316	\$ 3	\$ 313

1 Current amount represents trade and other receivables outstanding up to 30 days. Amounts outstanding for more than 30 days are considered past due.

Bad debt expense of \$5 million (2014 – \$5 million) recognized in the year relates to customer amounts that the Company determined would not be fully collectable. Allowances for doubtful accounts are determined by each business unit considering the unique factors of the business unit's trade and other receivables. Allowances and write-offs are determined either by applying specific risk factors to customer groups' aged balances in trade and other receivables or by reviewing material accounts on a case-by-case basis. Reductions in trade and other accounts receivable and the related allowance for doubtful accounts are recorded when the Company has determined that recovery is not possible.

The change in the allowance for doubtful accounts was as follows:

	2015	2014
Balance, beginning of year	\$ 3	\$ 4
Additional allowances created	5	5
Recovery of receivables	1	1
Receivables written off	(6)	(7)
Balance, end of year	\$ 3	\$ 3

At December 31, 2015, the Company held \$27 million (2014 – \$24 million) of customer deposits for the purpose of mitigating the credit risk associated with trade and other receivables from residential and business customers.

## Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's liquidity is managed centrally by the Company's Treasury function. The Company manages liquidity risk through regular monitoring of cash and currency requirements by preparing short-term and long-term cash flow forecasts and by matching the maturity profiles of financial assets and liabilities to identify financing requirements. The financing requirements are addressed through a combination of committed and demand revolving credit facilities and financings in public or private debt capital markets.

The Company has revolving extendible 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:

December 31, 2015	Expiry	Total facilities	Banking commercial paper issued	Letters of credit and other facility draws	Net amounts available
<b>Committed</b>					
Syndicated bank credit facility <sup>1</sup>	November 2018	\$ 200	\$ -	\$ 48	\$ 152
Syndicated bank credit facility	November 2020	350	98	-	252
Total committed		550	98	48	404
<b>Uncommitted</b>					
Bank line of credit	No expiry	25	-	-	25
		\$ 575	\$ 98	\$ 48	\$ 429

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<b>December 31, 2014</b>	Expiry	Total facilities	Banking commercial paper issued	Letters of credit and other facility draws	Net amounts available
<b>Committed</b>					
Syndicated bank credit facility <sup>1</sup>	December 2017	\$ 200	\$ -	\$ 82	\$ 118
Syndicated bank credit facility	December 2019	350	103	-	247
<b>Total committed</b>		<b>550</b>	<b>103</b>	<b>82</b>	<b>365</b>
<b>Uncommitted</b>					
Bank line of credit	No expiry	25	-	-	25
		<b>\$ 575</b>	<b>\$ 103</b>	<b>\$ 82</b>	<b>\$ 390</b>

1 Restricted to letters of credit.

The Company's \$350 million committed syndicated bank credit facility is available and primarily used for short-term borrowing and backstopping EPCOR's \$350 million commercial paper program. 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 give 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 credit ratings of A- and A (low), assigned by Standard and Poor's and DBRS Limited, respectively.

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 December 31, 2015, the available amount remaining under this Canadian base shelf prospectus was \$1 billion. The Canadian base shelf prospectus expires in December 2017.

The undiscounted cash flow requirements and contractual maturities of the Company's financial liabilities, including interest payments, are as follows:

At December 31, 2015:

	2016	2017	2018	2019	2020	2021 and thereafter	Total contractual cash flows
Trade and other payables <sup>1</sup>	\$ 232	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 232
Loans and borrowings <sup>2</sup>	242	15	413	7	7	1,445	2,129
Interest payments on loans and borrowings	115	111	99	78	78	1,184	1,665
Other liabilities	27	1	1	1	1	7	38
	<b>\$ 616</b>	<b>\$ 127</b>	<b>\$ 513</b>	<b>\$ 86</b>	<b>\$ 86</b>	<b>\$ 2,636</b>	<b>\$ 4,064</b>

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At December 31, 2014:

	2015	2016	2017	2018	2019	2020 and thereafter	Total contractual cash flows
Trade and other payables <sup>1</sup>	\$ 221	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 221
Loans and borrowings <sup>2</sup>	117	144	15	413	7	1,396	2,092
Interest payments on loans and borrowings	118	113	108	96	76	1,232	1,743
Other liabilities	24	1	1	1	1	8	36
Gold Bar transfer fee liability <sup>3</sup>	1	-	-	-	-	-	1
	\$ 481	\$ 258	\$ 124	\$ 510	\$ 84	\$ 2,636	\$ 4,093

1 Excluding accrued interest on loans and borrowings of \$27 million (2014 – \$27 million).

2 Excluding deferred debt issue costs of \$12 million (2014 – \$12 million).

3 In 2009, the City transferred Gold Bar to EPCOR. In exchange for the net assets transferred, EPCOR agreed to pay a total transfer fee of \$75 million, of which nil (2014 – \$1 million) remains payable.

The Company's undiscounted cash flow requirements and contractual maturities in the next twelve months of \$616 million (2014 – \$481 million) are expected to be funded from operating cash flows, interest and principal payments related to the unsecured long-term receivable from Capital Power, lease repayments from Suncor, commercial paper issuance and the Company's credit facilities. In addition, the Company may issue medium-term notes or sell a portion of available-for-sale investment in Capital Power or other assets to fund its obligations or investments. The key factors in determining whether to issue medium-term notes or sell a portion of the available-for-sale investment in Capital Power are the expected interest rates for medium-term notes, the estimated demand by investors for EPCOR debt, the state of debt capital markets generally, the quoted price of Capital Power common shares and the state of equity capital markets.

The Company has long-term loans receivable from Capital Power which effectively match certain of the long-term loans and borrowings above. The following are the undiscounted maturities of the long-term loans receivable and interest payments from Capital Power:

At December 31, 2015:

	2016	2017	2018	2019	2020	2021 and thereafter	Total
Long-term loans receivable from Capital Power (note 13)	\$ 139	\$ 10	\$ 174	\$ -	\$ -	\$ -	\$ 323
Interest payments on loans receivable from Capital Power	16	11	6	-	-	-	33
	\$ 155	\$ 21	\$ 180	\$ -	\$ -	\$ -	\$ 356

At December 31, 2014:

	2015	2016	2017	2018	2019	2020 and thereafter	Total
Long-term loans receivable from Capital Power (note 13)	\$ 9	\$ 139	\$ 10	\$ 174	\$ -	\$ -	\$ 332
Interest payments on loans receivable from Capital Power	21	16	11	6	-	-	54
	\$ 30	\$ 155	\$ 21	\$ 180	\$ -	\$ -	\$ 386

# EPCOR UTILITIES INC.

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The payments from Capital Power fund a portion of the Company's contractual debt obligations. Should Capital Power be unable to make its scheduled payments to EPCOR, then the Company will rely more heavily on its credit facilities and its ability to issue medium-term notes or potentially sell a portion of its interest in Capital Power to fund its obligations.

## 30. Capital management

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, pay dividends to its shareholder in accordance with the Company's dividend policy, maintain a suitable credit rating, and to facilitate the acquisition or development of projects in Canada and the U.S. consistent with the Company's growth strategy. The Company manages its capital structure in a manner consistent with the risk characteristics of the underlying assets. This overall objective and policy for managing capital remained unchanged in the current year from the prior year.

The Company manages capital through regular monitoring of cash and currency requirements by preparing short-term and long-term cash flow forecasts and reviewing monthly financial results. The Company matches the maturity profiles of financial assets and liabilities to identify financing requirements to help ensure an adequate amount of liquidity.

The Company considers its capital structure to consist of long-term and short-term debt net of cash and cash equivalents and shareholder's equity. The following table represents the Company's total capital:

	2015	2014
Loans and borrowing (including current portion) (note 19)	\$ 2,117	\$ 2,080
Cash and cash equivalents (note 9)	(36)	(37)
Net debt	2,081	2,043
Total equity	2,515	2,340
Total capital	\$ 4,596	\$ 4,383

EPCOR has the following externally imposed financial covenants on its capital as a result of its credit facilities and outstanding debt:

- Maintenance of modified consolidated net tangible assets to consolidated net tangible assets ratio, as defined in the debt agreements, of not less than 85%;
- Maintenance of consolidated senior debt to consolidated capitalization ratio, as defined in the debt agreements, of not more than 70%;
- Maintenance of interest coverage ratio, as defined in the debt agreements, of not less than 1.75 to 1.00 if the Company's credit rating falls below investment grade; and
- Limitation on external debt issued by subsidiaries.

These capital restrictions are defined in accordance with the respective agreements. For the years ended December 31, 2015 and 2014, the Company complied with all externally imposed capital restrictions.

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## 31. Commitments, contingencies and guarantees

### Commitments

The following represent the Company's commitments not otherwise disclosed in these financial statements:

At December 31, 2015:

	2016	2017	2018	2019	2020	2021 and thereafter	Total
Water services segment projects <sup>1</sup>	\$ 33	\$ 21	\$ -	\$ -	\$ -	\$ -	\$ 54
Water services power contracts <sup>2</sup>	8	9	2	-	-	-	19
Water purchase and transportation of water agreements <sup>3</sup>	8	1	-	-	-	3	12
Billing and customer care services agreement <sup>4</sup>	6	4	4	4	3	3	24
	\$ 55	\$ 35	\$ 6	\$ 4	\$ 3	\$ 6	\$ 109

At December 31, 2014:

	2015	2016	2017	2018	2019	2020 and thereafter	Total
Distribution and Transmission segment capital projects <sup>5</sup>	\$ 8	\$ 37	\$ 2	\$ -	\$ -	\$ -	\$ 47
Water Services segment projects <sup>1</sup>	87	50	-	-	-	-	137
Water purchase and transportation of water agreements <sup>3</sup>	7	1	-	-	1	3	12
Billing and customer care services agreement <sup>4</sup>	5	5	3	3	3	7	26
	\$ 107	\$ 93	\$ 5	\$ 3	\$ 4	\$ 10	\$ 222

1 The Company has commitments to several Water Services projects in Canada through contract agreements.

2 The Company has commitments to purchase power for its wastewater treatment plant, water treatment plants and distribution sites. The agreements expire on or before December 31, 2018. Under the terms of the agreements, the Company is committed to purchase minimum and maximum contracted quantities at a fixed price. There are no early termination or cancellation clauses in these agreements.

3 Water Arizona maintains agreements with the Central Arizona Water Conservation District for the purchase and transportation of water. These agreements are for terms of 100 years expiring at the end of 2107. Under the terms of these agreements, certain minimum payments of approximately \$0.5 million are due each year in order to maintain the agreements until they expire. The Company is committed for the amount of water ordered in the fall of each year to be purchased and transported the following year.

Water New Mexico maintains agreements with the various well owners for the purchase of water. These agreements are generally for terms of ten years. Under the terms of these agreements, certain minimum purchases are due each year in order to maintain the agreements until they expire.

4 The Company has entered into an agreement for billing and customer care services for Water Arizona and Water New Mexico. The contract term is ten years, expiring on August 31, 2021.

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- 5 The Company was committed to various Distribution and Transmission segment projects as directed by the AESO. These projects have been cancelled.

## **Contingencies**

The Company and its subsidiaries are subject to various legal claims that arise in the normal course of business. Management believes that the aggregate contingent liability of the Company arising from these claims is immaterial and therefore no provision has been made.

## **Guarantees**

The Company in the normal course of business issues payment guarantees on behalf of its subsidiaries to meet the conditions of the agreements with third parties. At December 31, 2015, guarantees totaling \$408 million (2014 – \$396 million) have been issued to various third parties.

## **32. Segment disclosures**

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

### **Water Services**

Water Services is primarily involved in the treatment, distribution and sale of water and the treatment of wastewater within Edmonton and other communities throughout Western Canada and the Southwestern U.S.

### **Distribution and Transmission**

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

### **Energy Services**

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

### **Corporate**

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

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## Lines of business information

Year ended December 31, 2015							
	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated	
External revenues and other income	\$ 688	\$ 436	\$ 872	\$ 22	\$ -	\$ 2,018	
Inter-segment revenue	-	164	11	-	(175)	-	
Total revenues and other income	688	600	883	22	(175)	2,018	
Energy purchases and system access fees	-	175	770	-	(153)	792	
Other raw materials and operating charges	203	35	-	1	(10)	229	
Staff costs and employee benefits expenses	136	100	27	36	(1)	298	
Depreciation and amortization	89	69	6	14	-	178	
Franchise fees and property taxes	28	69	-	-	-	97	
Other administrative expenses	23	15	24	8	(11)	59	
Operating expenses	479	463	827	59	(175)	1,653	
Operating income (loss) before corporate charges	209	137	56	(37)	-	365	
Corporate (charges) income	(28)	(26)	(9)	63	-	-	
Operating income	181	111	47	26	-	365	
Finance (expenses) recoveries	(91)	(48)	(3)	25	-	(117)	
Gains on equity investment in Capital Power	-	-	-	60	-	60	
Impairment of available-for-sale investment in Capital Power	-	-	-	(60)	-	(60)	
Dividend income from available-for- sale investment in Capital Power	-	-	-	10	-	10	
Equity share of income of Capital Power	-	-	-	5	-	5	
Income tax (expense) recovery	(10)	-	-	7	-	(3)	
Net income	\$ 80	\$ 63	\$ 44	\$ 73	\$ -	\$ 260	
Total assets	\$ 3,375	\$ 1,907	\$ 175	\$ 3,270	\$ (2,639)	\$ 6,088	
Total liabilities	2,682	1,273	160	2,097	(2,639)	3,573	
Capital additions	214	235	1	13	-	463	

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Year ended December 31, 2014							
	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated	
External revenues and other income	\$ 578	\$ 401	\$ 925	\$ 23	\$ -	\$ 1,927	
Inter-segment revenue	-	146	11	-	(157)	-	
Total revenues and other income	578	547	936	23	(157)	1,927	
Energy purchases and system access fees	-	156	846	-	(134)	868	
Other raw materials and operating charges	143	39	-	1	(10)	173	
Staff costs and employee benefits expenses	126	102	25	40	(1)	292	
Depreciation and amortization	78	59	8	14	-	159	
Franchise fees and property taxes	25	69	-	-	-	94	
Other administrative expenses	23	13	23	9	(12)	56	
Operating expenses	395	438	902	64	(157)	1,642	
Operating income (loss) before corporate charges	183	109	34	(41)	-	285	
Corporate (charges) income	(27)	(27)	(9)	63	-	-	
Operating income	156	82	25	22	-	285	
Finance (expenses) recoveries	(84)	(43)	(6)	14	-	(119)	
Equity share of income of Capital Power	-	-	-	15	-	15	
Gain on dilution of interest in Capital Power	-	-	-	8	-	8	
Income tax (expense) recovery	(10)	-	(6)	18	-	2	
Net income	\$ 62	\$ 39	\$ 13	\$ 77	\$ -	\$ 191	
Total assets	\$ 2,956	\$ 1,728	\$ 200	\$ 3,199	\$ (2,345)	\$ 5,738	
Investment in Capital Power	-	-	-	393	-	393	
Total liabilities	2,353	1,171	189	2,030	(2,345)	3,398	
Capital additions	175	200	2	8	-	385	



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## Geographic information

	Year ended December 31, 2015				Year ended December 31, 2014			
	Canada	U.S.	Inter-segment eliminations	Total	Canada	U.S.	Inter-segment eliminations	Total
External revenues and other income	\$ 1,825	\$ 193	\$ -	\$ 2,018	\$ 1,764	\$ 163	\$ -	\$1,927
Inter-segment revenues	175	-	(175)	-	157	-	(157)	-
Total revenues and other income	\$ 2,000	\$ 193	\$ (175)	\$ 2,018	\$ 1,921	\$ 163	\$ (157)	\$1,927

## Non-current assets

	December 31, 2015	December 31, 2014
Canada	\$ 4,362	\$ 4,512
U.S.	1,055	842
	\$ 5,417	\$ 5,354