Condensed Consolidated Interim Financial Statements of

EPCOR UTILITIES INC.

Three months ended March 31, 2011 and 2010

EPCOR UTILITIES INC.

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

Three months ended March 31, 2011 and 2010

		2011		2010
Continuing operations:				
Revenues (note 15a)	$	411	$	329
Other income		11		15
Electricity purchases and system access fees		(248)		(172)
Other raw materials and operating charges		(21)		(21)
Staff costs and employee benefits		(57)		(52)
Depreciation and amortization		(25)		(24)
Franchise fees and property taxes		(19)		(16)
Other administrative expenses		(9)		(10)
Operating income		43		49
Finance expense		(29)		(34)
Equity share of income of Capital Power (note 5)		4		70
Income before income taxes		18		85
Income tax expense		(9)		(2)
Net income for the period – all attributable to owners of the Company	$	9	$	83

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

EPCOR UTILITIES INC.

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

Three months ended March 31, 2011 and 2010

		2011		2010
Net income for the period	$	9	$	83
Other comprehensive income:				
Equity share of other comprehensive (loss) income of Capital Power (note 5)[1]		(30)		2
Unrealized loss on available-for-sale financial assets[2]		(1)		-
Other comprehensive (loss) income		(31)		2
Total comprehensive (loss) income for the period - all attributable to owners of the Company	$	(22)	$	85

[1] For the three months ended March 31, 2011 and 2010, net of income tax recovery and expense of $8 million and $1 million respectively.

[2] For the three months ended March 31, 2011 and 2010, net of income tax expense of nil.

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

EPCOR UTILITIES INC.

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

As at March 31, 2011 and January 1 and December 31, 2010

	March 31, 2011	December 31, 2010	January 1, 2010
ASSETS			
Current assets:			
Cash and cash equivalents	$ 28	$ 104	$ 11
Trade and other receivables	511	506	481
Inventories	11	10	11
	550	620	503
Non-current assets:			
Finance lease receivables (note 15b)	129	130	124
Other financial assets	464	463	680
Deferred tax assets	43	42	41
Investment in Capital Power (note 5)	1,143	1,192	1,461
Intangible assets (note 6)	96	100	110
Property, plant and equipment (note 7)	2,404	2,385	2,229
	4,279	4,312	4,645
TOTAL ASSETS	$ 4,829	$ 4,932	$ 5,148
LIABILITIES AND EQUITY			
Current liabilities:			
Trade and other payables	$ 228	$ 259	$ 218
Loans and borrowings	223	219	225
Provisions	28	24	16
Other liabilities	35	36	32
	514	538	491
Non-current liabilities:			
Loans and borrowings	1,444	1,453	1,687
Deferred revenue (note 8)	542	541	509
Deferred tax liabilities	1	1	-
Provisions	26	27	37
Other liabilities	17	30	44
	2,030	2,052	2,277
Total liabilities	2,544	2,590	2,768
Equity attributable to owners of the Company:			
Share capital	24	24	24
Accumulated other comprehensive (loss) income (note 9)	(26)	5	12
Retained earnings	2,287	2,313	2,344
Total equity	2,285	2,342	2,380
TOTAL LIABILITIES AND EQUITY	$ 4,829	$ 4,932	$ 5,148

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

EPCOR UTILITIES INC.

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

Three months ended March 31, 2011 and 2010

	Share capital	Cash flow hedges (note 9)	Available-for-sale financial assets (note 9)	Investment in Capital Power (note 9)	Retained earnings	Equity attributable to owners of the Company
Balance at January 1, 2011	$ 24	$ (11)	$ 3	$ 13	$ 2,313	$ 2,342
Net income for the period	-	-	-	-	9	9
Other comprehensive loss:						
Equity share of other comprehensive loss of Capital Power	-	-	-	(30)	-	(30)
Unrealized loss on available-for-sale financial assets	-	-	(1)	-	-	(1)
Total comprehensive loss	-	-	(1)	(30)	9	(22)
Dividends	-	-	-	-	(35)	(35)
Balance at March 31, 2011	$ 24	$ (11)	$ 2	$ (17)	$ 2,287	$ 2,285

	Share capital	Cash flow hedges (note 9)	Available-for-sale financial assets (note 9)	Investment in Capital Power (note 9)	Retained earnings	Equity attributable to owners of the Company
Balance at January 1, 2010	$ 24	$ (13)	$ 4	$ 21	$ 2,344	$ 2,380
Net income for the period	-	-	-	-	83	83
Other comprehensive income:						
Equity share of other comprehensive income of Capital Power	-	-	-	2	-	2
Unrealized loss on available-for-sale financial assets	-	-	-	-	-	-
Total comprehensive income	-	-	-	2	83	85
Dividends	-	-	-	-	(34)	(34)
Balance at March 31, 2010	$ 24	$ (13)	$ 4	$ 23	$ 2,393	$ 2,431

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

EPCOR UTILITIES INC.

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

For the three months ended March 31, 2011 and 2010

		2011		2010
Cash flows from (used in) operating activities:				
Net income for the period	$	9	$	83
Reconciliation of net income for the period to cash from operating activities:				
Interest paid		(27)		(28)
Finance expense		29		34
Income taxes paid		(6)		-
Income tax expense		9		2
Depreciation and amortization		25		24
Contributions received (note 8)		4		-
Deferred revenue recognized (note 8)		(3)		(3)
Equity share of income from Capital Power (note 5)		(4)		(70)
Other		(1)		1
		35		43
Change in non-cash operating working capital		(22)		3
Net cash flows from operating activities		13		46
Cash flows from (used in) investing activities:				
Acquisition or construction of property, plant and equipment and other assets		(40)		(34)
Change in non-cash investing working capital		(8)		(5)
Payment of Gold Bar transfer fees		(15)		(15)
Distributions received from Capital Power (note 5)		15		18
Other		2		(2)
Net cash flows used in investing activities		(46)		(38)
Cash flows from (used in) financing activities:				
Net issuance of short-term loans and borrowings		3		43
Repayment of long-term loans and borrowings		(11)		(10)
Common share dividends paid		(35)		(34)
Net cash flows used in financing activities		(43)		(1)
Increase (decrease) in cash and cash equivalents		(76)		7
Cash and cash equivalents, at January 1		104		11
Cash and cash equivalents, at March 31	$	28	$	18

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

1. Nature of operations

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

The Company operates in Canada with its registered and head office located at 10065 Jasper Avenue, Edmonton, Alberta, Canada, T5J 3B1. The Company had prior operations in the United States (U.S.) and plans to own operations in the United States in the future.

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

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

2. Basis of presentation and conversion to IFRS

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared by management in accordance with International Accounting Standard (IAS) 34 - Interim Financial Reporting, as issued by the International Accounting Standards Board (IASB) and adopted by the Canadian Institute of Chartered Accountants (CICA) applicable to companies for years beginning on or after January 1, 2011. These are the Company's first condensed consolidated interim financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS 1 - First-time Adoption of International Financial Reporting Standards (IFRS 1) has been applied. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. For prior reporting periods up to and including the year ended December 31, 2010, the Company prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP) in effect for those periods.

An explanation of the impact of the transition to IFRS on the financial position, financial performance and cash flows of the Company is provided in note 14.

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on May 10, 2011.

(b) Basis of measurement

The Company's condensed consolidated interim financial statements are prepared on the historical cost basis, except for valuation of the Company's investment in its floating-rate notes and its beneficial interest in the sinking fund held with the City, which are measured at fair value. In addition, the Company's defined benefit pension assets are recognized as the net total of the plan assets, plus unrecognized past service cost and unrecognized actuarial losses, less unrecognized actuarial gains and the present value of the defined benefit obligation.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of transition to IFRS, unless otherwise indicated.

(a) Basis of consolidation

These condensed consolidated interim financial statements include the accounts of EPCOR and its subsidiaries as at March 31, 2011. 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. The financial statements of the subsidiaries are prepared for the same reporting period as EPCOR, using consistent accounting policies.

(b) Investment in Capital Power

In these condensed consolidated interim 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.

The Company holds 47.4 million exchangeable limited partnership units of Capital Power L.P. (exchangeable for common shares of Capital Power Corporation on an one-for-one basis) which represents approximately 54% of Capital Power L.P. Each exchangeable limited partnership unit is accompanied by a special voting share in Capital Power Corporation which entitles 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 entitle EPCOR, voting separately as a class, to nominate and elect a maximum of four out of the twelve directors of Capital Power Corporation.

As a result, the Company does not control Capital Power's operations as it does not have the power to direct the activities of Capital Power. Accordingly, EPCOR has significant influence in Capital Power and therefore uses the equity method to account for its investment in Capital Power.

The investment in Capital Power was recognized initially at cost. The condensed consolidated interim financial statements include the Company's equity share of the income and expenses and equity movements of Capital Power, after adjustments to align its accounting policies with those of the Company, from the date that significant influence exists until the date that significant control ceases.

The Company determines at each reporting date, whether there is objective evidence that the equity investment in Capital Power is impaired. An impairment will be recorded when the carrying amount of its investment in Capital Power exceeds its estimated recoverable amount. The investment's recoverable amount is the higher of its fair value less costs to sell and its value in use. 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. The fair value less costs to sell is based on estimated market values based on actual market transactions, if available, or a fair value estimation model. An impairment loss will be recorded as the excess of the carrying amount of the investment in Capital Power over the estimated recoverable amount. If, in a subsequent period, the recoverable amount increases, the impairment loss is reversed to the extent that the carrying amount does not exceed the carrying amount that would have been recorded had no impairment loss been recognized.

(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. Acquisition-related costs are expensed as incurred.

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. Where an acquisition involves consideration contingent on future events, any changes in the amount of consideration paid will be recognized in the income statement.

Goodwill is initially recorded as the cost of an acquisition less the fair value of the net assets of the consolidated business acquired. If the cost of an acquisition is less than the fair value of the Company's share of the net assets acquired, the difference is recognized directly in net income.

Goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually at the cash generating unit level. For the purpose of impairment testing, goodwill acquired in an acquisition is, from the date of acquisition, allocated to each of the Company's cash generating units that are expected to benefit from the acquisition, irrespective of whether other assets or liabilities of the acquired business are assigned to those units.

Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based

on the relative values of the operation disposed of and the portion of the cash generating unit retained.

(d) Foreign currency

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 on the balance sheet date. Other non-monetary assets 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.

On consolidation, the assets and liabilities of foreign operations that have a different functional currency than Canadian dollars are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the period. The resulting translation gains and losses are deferred and included in other comprehensive income in the translation account.

(e) Intangible assets

Intangible assets are stated at cost, net of accumulated amortization and any impairment losses.

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

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.

Gains or losses on the disposal of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are included within depreciation.

Amortization of the cost less estimated residual value of fixed 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 useful economic lives, methods of amortization and residual values are reviewed annually, with any changes adopted on a prospective basis.

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

Customer rights	20 years
Software assets	2 – 20 years

(f) Property, plant and equipment

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 asset retirement costs. Where parts of an item of PP&E have different 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 the replaced part is derecognized. The costs of day-to-day servicing are expensed as incurred.

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.

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 useful lives of assets requires significant judgment and is generally based on estimates of life

characteristics of similar assets. The useful economic lives, methods of depreciation and residual values are reviewed annually with any changes adopted on a prospective basis.

The range of estimated useful lives used is as follows:

Water treatment and distribution	4 – 90 years
Electricity transmission and distribution	5 – 65 years
Retail systems and equipment	4 – 65 years
Corporate information systems and equipment	2 – 20 years

(g) Capitalized borrowing costs

The Company capitalizes interest during construction of an 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.

(h) 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. The asset's recoverable amount is estimated if any indication of impairment exists. The asset's recoverable amount is the higher of its fair value less costs to sell and its value in use. The value in use is the present value of estimated future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value less costs to sell is based on estimated market values based on actual market transactions, if available, or a fair value estimation model.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount, and is recorded in the period when it is determined that the carrying amount of the asset may not be recoverable. The impairment loss will be recorded in net income for the period as the excess of the carrying amount of the asset over its recoverable amount.

At the end of each reporting period, the Company makes an assessment as to whether there is any indication that previously incurred impairment losses have reversed. If such an indication exists, the Company estimates the asset's recoverable amount, and compares it to the carrying amount, including accumulated depreciation that would have been determined had no impairment loss been recognized. Any reversal is limited to this latter amount.

(i) 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.

(j) 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. Each such obligation is discounted using a rate determined by reference to market interest rates at the date of the statement of financial position on high-quality debt instruments with cash flows that match the timing of the payments. 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 decommissioning cost is added to the carrying amount of the associated PP&E, and is depreciated over the estimated useful life of the asset.

(k) Employee future benefits

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

The LAPP is a multiemployer defined benefit pension plan. The Trustee of the plan is the Treasurer of Alberta 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 under the plan. 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 (comprising less than 1% (December 31, 2010 - 1%) of total employees) who are not otherwise served by LAPP, including employees of new or acquired operations.

The Company accrues its obligations for its defined benefit pension plans net of plan assets. The cost of pension benefits earned by employees is actuarially determined using the projected benefit method pro-rated on services and management’s best estimate of expected plan investment performance, salary escalation and retirement ages of employees. For the purpose of calculating the expected return on plan assets, those assets are valued at quoted market value. The discount rate used to calculate the interest cost on the accrued benefit obligation is determined by reference to market interest rates at the date of the statement of financial position on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. Past service costs from plan amendments are amortized on a straight-line basis over the estimated average remaining service of employees active at the date of amendment. The excess of the net cumulative unamortized actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the market value of plan assets is amortized over the estimated average remaining service period of the active employees.

The Company's obligation in respect of long-term employee benefits other than pension plans, is the amount of future benefits that employees have earned for their service in the current and past periods, and is actuarially determined using management's best estimate of salary escalation and employee retention. The benefit is discounted using a rate determined by reference to market interest rates at the date of the statement of financial position on high-quality debt instruments with cash flows that match the timing of the expected benefit payments. Any actuarial gains or losses are recognized immediately.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(l) Deferred revenue

Certain assets may be acquired or constructed using non repayable government grants, contributions from developers or customers. 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.

(m) Revenue recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and where it can be reliably measured. Revenues are measured at the fair value of the consideration 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 separately. The total contract value is allocated 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, and facilities operations.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

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

Revenues from the sale of other goods are recognized when the products have been delivered.

Provision of services

Revenues from the provision of distribution and transmission services are recognized over the period in which the service is performed.

Construction contracts

Revenue from the construction of water and wastewater plants and other project upgrades and expansions provided to customers is recognized on the percentage of completion basis. Percentage of completion is estimated based on an assessment of progress towards the completion of contract tasks. These estimates result in the recognition of unbilled receivables when the revenues are earned prior to billing customers. 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 change orders are included in the total estimated contract revenue and expenses when approval is reasonably assured.

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(r).

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.

(n) 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 income 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 income 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 future tax assets and liabilities is recognized in income in the period that includes the date of enactment or substantive enactment.

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized. Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference 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 such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred income tax assets are assessed at the end of each reporting period to determine the likelihood that they will be realized from future taxable income and are reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that neither affects taxable income or accounting income.

Current and deferred tax relating to items recognized directly in equity is recognized in equity and not in net income.

(o) Cash and cash equivalents

Cash and cash equivalents include cash or highly liquid, investment-grade, short-term investments and are recorded at fair market value.

(p) Non-derivative financial instruments

Financial assets are identified and classified as either available-for-sale, held at fair value through profit or loss, or loans and receivables. Financial liabilities are classified as either held at fair value through profit or loss or other liabilities.

Financial instruments at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. The Company may designate financial instruments as held 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. The Company has classified its investment floating-rate notes as held at fair value through profit or loss. The floating-rate notes are classified as a non-current asset due to the expected maturity dates of the notes.

Upon initial recognition, transaction costs are recognized in the consolidated income statement as incurred.

Financial assets held at fair value through profit or loss are measured at fair value with the changes in fair value recognized in net income.

Loans and receivables

Loans and receivables are comprised of cash and cash equivalents, promissory notes receivable and amounts due from customers more than one year from the balance sheet date.

The Company's loans and receivables are recognized initially at fair value plus any directly attributable transaction costs. After initial recognition they are measured at amortized cost using the effective interest method less any impairment as described in note 3(q). 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.

Available-for-sale financial assets

The Company's beneficial interest in the sinking fund with the City does not meet the criteria for classification in any of the previous categories and is classified as an available-for-sale financial asset 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(q).

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.

Other liabilities

The Company's loans and borrowings and trade and other payables 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 or cancelled or expire.

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

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.

(q) 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 the end of each reporting period. 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 an impact on the estimated future cash flows of the asset that can be reliably estimated. The objective evidence for these types of assets is as follows:

- 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.
- 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.
- Trade receivables and other assets that are assessed not to be impaired 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 year, 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.

When an available-for-sale financial asset is considered to be impaired, any cumulative gains or losses previously recognized in other comprehensive income are reclassified to net income. Impairment losses previously recognized in net income are not reversed. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

(r) 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. An arrangement conveys the right to use the asset if the right to control the use of the underlying asset is conveyed. 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 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 composed of net minimum lease payments and unearned finance income. 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. Other arrangements that are determined to contain a lease are classified as operating leases. The Company currently has not entered into any arrangements as a lessee which would be classified as finance leases. Rental payments under arrangements classified as operating leases are expensed on a straight line basis over the term of the lease.

(s) Standards and interpretations not yet applied

The following standards and interpretations have been issued by the IASB and the International Financial Reporting Interpretations Committees which are not effective for the year ended December 31, 2011:

International Accounting Standards (IAS / IFRS)	*Effective for annual periods beginning on or after:*
IFRS 7 (Amendment) – Financial Instruments: Disclosures	July 1, 2011
IAS 12 (Amendment) – Income Taxes	January 1, 2012
IFRS 9 – Financial Instruments	January 1, 2013

The amendment to IFRS 7 – Financial Instruments: Disclosures, provides clarification related to the disclosure of financial instruments. The amendment to IAS 12 – Income Taxes, provides clarification on the measurement of deferred tax with respect to the recovery of underlying assets. IFRS 9 – Financial Instruments, replaces IAS 39 – Financial Instruments: Recognition and Measurement, for classification and measurement of financial assets. The effect of adoption of these standards on the condensed consolidated interim financial statements of the Company has not yet been determined.

4. Use of estimates and judgements

The preparation of the Company's condensed consolidated interim financial statements in accordance with IFRS requires management to make judgements, 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 condensed consolidated interim financial statements.

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

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

Note 3(b) – Investment in Capital Power

Note 3(m) - Revenue recognition

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

Financial instruments

The valuation of the Company's investment in floating-rate notes and its beneficial interest in the sinking fund requires estimation of the fair value of each instrument at the reporting date.

Revenues

By regulation, wire service providers in Alberta are not required to submit final load settlement data on customer electricity usage until eight months 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.

The amount of revenues and related profit recognized under the percentage of completion method for certain plant construction and other project upgrades depends on accuracy of cost, schedule and performance estimates related to the

ability to recover additional contract costs through change orders or claims to the customer or contractors.

Fair value measurement

For certain accounting measures such as determining asset impairments, purchase price allocations for business combinations, recording financial assets and liabilities and for certain disclosures, 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.

Pension assets and obligations

Measurement of certain of the Company’s pension costs and plan assets and obligations requires the use of estimates with respect to expected plan investment performance, salary escalation, retirement ages of employees, timing of related future cash flows and appropriate discount rates for use in discounted cash flow and actuarial techniques.

Depreciation and amortization

Depreciation and amortization is an estimate to allocate the cost of an asset less its estimated residual value over its estimated useful life on a systematic and rational basis. Estimating the appropriate useful lives of each part of an asset requires significant judgment and is generally based on estimates of common life characteristics of common assets. The estimated useful lives used are provided in notes 3(e) and 3(f). Estimates are reviewed on an annual basis and updated on a prospective basis.

Deferred taxes

Income taxes are determined based on estimates of the Company’s current income taxes and estimates of deferred income taxes resulting from temporary tax differences. Deferred income tax assets are assessed to determine the likelihood that they will be realized from future taxable income.

5. Investment in Capital Power

As described in note 3(b), EPCOR does not control Capital Power. The investment in Capital Power represents an investment subject to significant influence and is accounted for using the equity method from the effective date of the sale of the power generation business by EPCOR in early July 2009. The investment was initially recorded at the initial cost of the net assets of the power generation business retained by EPCOR in the form of its 72% interest in Capital Power, and subsequently increased to recognize the Company's equity share of earnings of Capital Power and reduced by the distributions payable by Capital Power, and the subsequent disposal of any portion of the investment. In addition, there is approximately $28 million of accumulated losses associated with the investment in Capital Power included in accumulated other comprehensive loss at March 31, 2011 (December 31, 2010 - $10 million of accumulated income). On any sale of exchangeable limited partnership units of Capital Power, the Company will recognize a portion of these losses in net income in proportion to the remaining interest sold.

In December 2010, EPCOR sold 9.2 million exchangeable units of Capital Power L.P. thereby reducing its interest in Capital Power to 61%. In addition, in March 2011, Capital Power issued an additional 9.3 million common shares which translated into additional limited partnership units of Capital Power L.P. being issued which reduced EPCOR’s economic interest in Capital Power to approximately 54% at March 31, 2011.

Capital Power Corporation is listed on the Toronto Stock Exchange. The quoted market price of the common shares of Capital Power Corporation at March 31, 2011 was $25.92 per common share (December 31, 2010 - $23.65 per common share, January 1, 2010 - $21.37 per common share).

The investment in Capital Power L.P. is detailed as follows:

	March 31, 2011	December 31, 2010
Opening balance	$ 1,192	$ 1,461
Sale of a portion of the investment	-	(234)
Equity share of net income	4	55
Equity share of other comprehensive loss	(38)	(4)
Capital Power distributions	(15)	(86)
Closing balance	$ 1,143	$ 1,192

Summarized financial information of Capital Power L.P.:

Statement of Financial Position:	March 31, 2011	December 31, 2010	January 1, 2010
Current assets	$ 444	$ 541	$ 575
Non-current assets	4,750	4,784	4,597
Current liabilities	(668)	(703)	(709)
Non-current liabilities	(1,864)	(2,083)	(1,812)
Non-controlling interests	(572)	(581)	(670)
Net assets	$ 2,090	$ 1,958	$ 1,981

	Three months ended March 31,	
Consolidated Income Statement:	2011	2010
Revenue and other income	$ 461	$ 498
Net income attributable to partners	7	87

6. Intangible assets

	Goodwill	Customer Rights	Other Rights	Software	Total
Cost					
Balance at January 1, 2011	$ 2	$ 70	$ 3	$ 167	$ 242
Disposals and retirements	-	(19)	-	-	(19)
Balance at March 31, 2011	2	51	3	167	223
Accumulated amortization					
Balance at January 1, 2011	-	(44)	(1)	(97)	(142)
Disposals and retirements	-	19	-	-	19
Amortization	-	(1)	-	(3)	(4)
Balance at March 31, 2011	-	(26)	(1)	(100)	(127)
Net book value					
Balance at March 31, 2011	$ 2	$ 25	$ 2	$ 67	$ 96

	Goodwill	Customer Rights	Other Rights	Software	Total
Cost					
Balance at January 1, 2010	$ 2	$ 70	$ 3	$ 165	$ 240
Internally generated additions	-	-	-	9	9
Disposals and retirements	-	-	-	(7)	(7)
Balance at December 31, 2010	2	70	3	167	242
Accumulated amortization					
Balance at January 1, 2010	-	(40)	$ (1)	(89)	(130)
Disposals and retirements	-	-	-	7	7
Amortization	-	(4)	-	(15)	(19)
Balance at December 31, 2010	-	(44)	$ (1)	(97)	(142)
Net book value					
Balance at January 1, 2010	$ 2	$ 30	$ 2	$ 76	$ 110
Balance at December 31, 2010	$ 2	$ 26	$ 2	$ 70	$ 100

No borrowing costs were capitalized on intangible assets during the three months ended March 31, 2011 (three months ended March 31, 2010 - nil). 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 Fortis Alberta service territory. The right has a carrying amount of $25 million at March 31, 2011 (December 31, 2010 - $26 million) and has a remaining amortization period of 10 years (December 31, 2010 – 10 years).

7. Property, plant and equipment

	Construction work in progress	Land	Water treatment & distribution	Electricity transmission & distribution	Retail systems & equipment	Corporate information systems & other	Total
Cost							
Balance at January 1, 2011	$ 71	$ 30	$ 1,893	$ 1,182	$ 15	$ 80	$ 3,271
Additions	40	-	-	-	-	-	40
Balance at March 31, 2011	111	30	1,893	1,182	15	80	3,311
Accumulated Depreciation							
Balance at January 1, 2011	-	-	(474)	(352)	(7)	(53)	(886)
Depreciation	-	-	(10)	(9)	-	(2)	(21)
Balance at March 31, 2011	-	-	(484)	(361)	(7)	(55)	(907)
Net book value							
Balance at March 31, 2011	$ 111	$ 30	$ 1,409	$ 821	$ 8	$ 25	$ 2,404

	Construction work in progress	Land	Water treatment & distribution	Electricity transmission & distribution	Retail systems & equipment	Corporate information systems & other	Total
Cost							
Balance at January 1, 2010	$ 66	$ 29	$ 1,783	$ 1,073	$ 16	$ 79	$ 3,046
Additions	47	1	86	101	-	4	239
Disposals and retirements	-	-	(1)	(9)	(1)	(3)	(14)
Transfers into service	(42)	-	25	17	-	-	-
Balance at December 31, 2010	71	30	1,893	1,182	15	80	3,271
Accumulated Depreciation							
Balance at January 1, 2010	-	-	(437)	(325)	(7)	(48)	(817)
Depreciation	-	-	(38)	(32)	(1)	(8)	(79)
Disposals and retirements	-	-	1	5	1	3	10
Balance at December 31, 2010	-	-	(474)	(352)	(7)	(53)	(886)
Net book value							
Balance at January 1, 2010	$ 66	$ 29	$ 1,346	$ 748	$ 9	$ 31	$ 2,229
Balance at December 31, 2010	$ 71	$ 30	$ 1,419	$ 830	$ 8	$ 27	$ 2,385

Borrowing costs capitalized during the three months ended March 31, 2011 were $1 million (three months ended March 31, 2010 - $1 million). The weighted average rate used to determine the borrowing costs eligible for capitalization was 6% (three months ended March 31, 2010 - 6%).

Restrictions on assets

There are no direct charges over PP&E.

8. Deferred Revenue

	March 31, 2011	December 31, 2010
Opening balance	$ 541	$ 509
Contributions received	4	42
Revenue recognized	(3)	(10)
Closing balance	$ 542	$ 541

9. Accumulated other comprehensive income

Investment in Capital Power

The investment in Capital Power comprises the Company's share in the other comprehensive income of its equity investment in Capital Power.

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, until the investment is derecognized or impaired.

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. On any disposition of the Company's investment in Capital Power, the Company will recognize a portion of these losses in net income in proportion to the remaining interest in Capital Power sold.

10. Risk Management

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 also 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 debt capital markets.

As at March 31, 2011, the Company had undrawn and committed bank credit facilities, including operating lines of credit, of $457 million (December 31, 2010 - $428 million, January 1, 2010 - $155 million), which are committed for at least 2 years. The Company has a long-term debt rating of BBB+ and A (low), assigned by Standard and Poor's and DBRS Limited, respectively.

In addition, the Company has in place a Canadian shelf prospectus, which expires January 2, 2012, under which it may raise up to $1 billion of debt, with maturities of not less than one year. As at March 31, 2011, the available amount remaining under the Canadian shelf prospectus was $1 billion (December 31, 2010 - $1 billion, January 1, 2010 - $1 billion).

The following are the undiscounted cash flow requirements and contractual maturities of the Company's financial liabilities, including interest payments, as at March 31, 2011:

	Due within one year	Due 1-2 years	Due 2-3 years	Due 3-4 years	Due 4-5 years	Due after More than 5 years	Total contractual cash flows
Financial liabilities:							
Commercial Paper and Bankers' Acceptances	$ 3	$ -	$ -	$ -	$ -	$ -	$ 3
Other loans and borrowings	231	21	15	14	144	1,251	1,676
Interest payments on loans and borrowings	129	102	93	92	93	1,038	1,547
Trade and other payables[1]	195	-	-	-	-	-	195
Other liabilities (current)	23	-	-	-	-	-	23
Gold Bar transfer fee liability	12	10	6	1	-	-	29
	$ 593	$ 133	$ 114	$ 107	$ 237	$ 2,289	$ 3,473

[1] Excluding accrued interest on loans and borrowings of $33 million.

The following are the undiscounted cash flow requirements and contractual maturities of the Company's financial liabilities, including interest payments, as at December 31, 2010:

	Due within one year	Due 1-2 years	Due 2-3 years	Due 3-4 years	Due 4-5 years	Due after more than 5 years	Total contractual cash flows
Financial liabilities:							
Other loans and borrowings	$ 232	$ 24	$ 18	$ 14	$ 14	$ 1,383	$ 1,685
Interest payments on loans and borrowings	130	107	97	92	92	1,060	1,578
Trade and other payables[1]	228	-	-	-	-	-	228
Other liabilities (current)	22	-	-	-	-	-	22
Gold Bar transfer fee liability	14	12	10	6	1	-	43
	$ 626	$ 143	$ 125	$ 112	$ 107	$ 2,443	$ 3,556

[1] Excluding accrued interest on loans and borrowings of $31 million.

The Company's undiscounted cash flow requirements and contractual maturities in the next twelve months of $593 million will be funded from operating cash flows, partnership distributions from Capital Power L.P., interest and principal payments related to the unsecured long-term receivable from Capital Power and the Company's credit facilities In addition, the Company may issue medium-term notes, sell floating-rate notes or sell a portion of the investment in Capital Power or other assets to fund its obligations or investments.

The Company has long-term loans receivable from Capital Power which 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 as at March 31, 2011:

	Due within one year	Due 1-2 years	Due 2-3 years	Due 3-4 years	Due 4-5 years	Due after more than 5 years	Total
Loans and receivables from Capital Power	$ 233	$ 25	$ 14	$ 8	$ 139	$ 194	$ 613
Interest payments on loans receivable from Capital Power	41	25	23	22	21	23	155
	$ 274	$ 50	$ 37	$ 30	$ 160	$ 217	$ 768

The following are the undiscounted maturities of the long-term loans receivable and interest payments from Capital Power as at December 31, 2010:

	Due within one year	Due 1-2 years	Due 2-3 years	Due 3-4 years	Due 4-5 years	Due after more than 5 years	Total
Loans and receivables from Capital Power	$ 233	$ 25	$ 14	$ 8	$ 9	$ 324	$ 613
Interest payments on loans receivable from Capital Power	41	25	23	22	21	32	164
	$ 274	$ 50	$ 37	$ 30	$ 30	$ 356	$ 777

The payments from Capital Power comprise a significant amount of the cash required to fund the Company's 2011 contractual debt obligations. Should Capital Power be unable to fulfill its obligations to EPCOR in 2011, 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 in 2011.

11. Guarantees

At March 31, 2011, the Company had letters of credit outstanding of $103 million (December 31, 2010 - $135 million) to meet the credit requirements of energy market participants and to meet conditions of certain service agreements.

12. Commitment

In January 2011, the Company entered into an agreement to acquire 100% of the stock of the Arizona-American Water Company (Arizona Water) and New Mexico-American Water Company, Inc. (New Mexico Water), both wholly-owned subsidiaries of American Water Works Company, Inc. for total consideration of US $470 million, including the assumption of US $10 million in debt, subject to certain adjustments. The transaction is subject to regulatory approvals in both states. Arizona Water is a regulated utility that provides water service to approximately 106,000 customers and wastewater services to approximately 51,000 customers primarily located in the Phoenix area. New Mexico Water provides water and wastewater services to the City of Clovis in eastern New Mexico, and in the greater Edgewood area near Albuquerque, serving more than 17,000 customers.

13. 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 and distribution of water and the treatment of wastewater within

Edmonton and other communities throughout Western Canada. This segment also provides complementary commercial services including the maintenance and repair of the City-owned street lighting and transportation support facilities.

Distribution and Transmission

Distribution and Transmission is involved in the transmission and distribution of electricity within Edmonton.

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.

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 holds the investment in Capital Power.

Business information

Three months ended March 31, 2011	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
External revenues and other income	$ 79	$ 55	$ 277	$ 11	$ -	$ 422
Inter-segment revenue	1	37	3	-	(41)	-
Total revenue and other income	80	92	280	11	(41)	422
Electricity purchases and system access fees	-	26	257	-	(35)	248
Other raw materials and operating charges	21	2	1	-	(3)	21
Staff costs and employee benefits	27	13	5	12	-	57
Depreciation and amortization	10	10	2	3	-	25
Franchise fees and property taxes	4	15	-	-	-	19
Other administrative expenses	3	4	5	-	(3)	9
Operating expenses	65	70	270	15	(41)	379
Operating income before corporate charges	15	22	10	(4)	-	43
Corporate charges (income)	6	6	3	(15)	-	-
Operating income	$ 9	$ 16	$ 7	$ 11	$ -	43
Finance expense						(29)
Equity share of income of Capital Power						4
Income tax expense						(9)
Net income						$ 9
Total assets	$ 1,691	$ 971	$ 246	$ 1,935	$ (14)	$ 4,829
Investment in Capital Power	$ -	$ -	$ -	$ 1,143	$ -	$ 1,143
Total liabilities	$ 1,339	$ 677	$ 182	$ 360	$ (14)	$ 2,544
Capital additions	$ 10	$ 29	$ -	$ 1	$ -	$ 40

Three months ended March 31, 2010	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
External revenues and other income	$ 81	$ 44	$ 203	$ 16	$ -	$ 344
Inter-segment revenue	-	28	4	-	(32)	-
Total revenue and other income	81	72	207	16	(32)	344
Electricity purchases and system access fees	-	16	183	-	(27)	172
Other raw materials and operating charges	20	3	-	1	(3)	21
Staff costs and employee benefits	23	12	5	12	-	52
Depreciation and amortization	9	8	3	4	-	24
Franchise fees and property taxes	3	13	-	-	-	16
Other administrative expenses	3	1	6	2	(2)	10
Operating expenses	58	53	197	19	(32)	295
Operating income before corporate charges	23	19	10	(3)	-	49
Corporate charges (income)	8	7	4	(19)	-	-
Operating income	$ 15	$ 12	$ 6	$ 16	$ -	49
Finance expense						(34)
Equity share of income of Capital Power						70
Income tax expense						(2)
Net income						$ 83
Total assets	$ 1,619	$ 855	$ 176	$ 2,547	$ (9)	$ 5,188
Investment in Capital Power	$ -	$ -	$ -	$ 1,516	$ -	$ 1,516
Total liabilities	$ 1,284	$ 582	$ 128	$ 773	$ (9)	$ 2,758
Capital additions	$ 11	$ 23	$ -	$ -	$ -	$ 34

Intersegment transactions occur in the normal course of operations and are recorded at exchange values which are generally at normal commercial rates. All other accounting policies of the segments are the same as those disclosed in note 3.

There were no impairments that were recognized directly in equity during the three months ended March 31, 2011 and 2010.

14. Transition to IFRS

As described in note 2, this is the first period under which the Company's consolidated financial statements have been presented in accordance with IFRS. For all periods up to and including the year ended December 31, 2010, the Company prepared its financial statements in accordance with Canadian GAAP in effect for those periods.

In accordance with the CICA's adoption of IFRS, the Company has prepared condensed interim consolidated financial statements which comply with IFRS applicable for periods beginning on or after January 1, 2010. In preparing these condensed interim consolidated financial statements, the Company's opening statement of consolidated financial position was prepared as at January 1, 2010. This note explains the principal adjustments made by the Company in restating its Canadian GAAP consolidated statement of financial position, and its previously published Canadian GAAP financial

statements for the three months ended March 31, 2010.

The Company has applied the following exemptions and exceptions in its transition from Canadian GAAP to IFRS:

Business combinations

IFRS 1 provides the option to apply IFRS 3 - Business Combinations, retrospectively or prospectively from any date prior to the date of transition. The Company has elected not to retrospectively apply IFRS 3 – Business Combinations, to business combinations that occurred prior to the date of transition and such business combinations have not been restated.

Employee benefits

IFRS 1 provides the option to retrospectively apply IAS 19 - Employee Benefits, for the recognition of actuarial gains and losses, or to recognize all cumulative gains and losses deferred under Canadian GAAP in opening retained earnings at the date of transition. The Company has elected to recognize all cumulative actuarial gains and losses that existed at its date of transition for all of its employee benefit plans.

Cumulative translation account

IFRS 1 provides the option to deem all foreign currency translation differences held in accumulated other comprehensive income at the date of transition to be nil. The Company has elected to take this option and on transition the cumulative translation account has been reset to nil.

Reconciliation of cash flows

Interest paid and income taxes paid are now reported within the statement of cash flows, whereas they were previously disclosed as supplementary information. There are no other material differences between the statement of cash flows reported under Canadian GAAP previously to the statement of cash flows reported under IFRS.

Reconciliation of equity

Reconciliation of equity reported under Canadian GAAP to equity under IFRS at January 1, 2010, the date of transition to IFRS:

	Canadian GAAP	Measurement adjustments	Presentation adjustments	IFRS
Current assets:				
Cash and cash equivalents	$ 11	$ -	$ -	$ 11
Trade and other receivables[1] (a)	502	(21)	-	481
Inventories	11	-	-	11
Deferred tax assets (b)	1	-	(1)	-
	525	(21)	(1)	503
Non-current assets:				
Other assets (a, c, d)	164	(1)	(163)	-
Finance lease receivables (c)	-	-	124	124
Other financial assets (c)	643	-	37	680
Deferred tax asset (b)	40	-	1	41
Investment in Capital Power (e)	1,481	(20)	-	1,461
Intangible assets (d, f)	110	(2)	2	110
Property, plant and equipment (a, f, g, h)	1,778	(75)	526	2,229
	4,216	(98)	527	4,645
Total assets	$ 4,741	$ (119)	$ 526	$ 5,148
Current liabilities:				
Trade and other payables[2] (a, i)	$ 241	$ (7)	$ (16)	$ 218
Loans and borrowings	225	-	-	225
Provisions (i)	-	-	16	16
Other liabilities	32	-	-	32
	498	(7)	-	491
Non-current liabilities:				
Loans and borrowings (j)	1,692	(5)	-	1,687
Deferred revenues (g, h)	-	(17)	526	509
Provisions (a, i, k)	-	-	37	37
Other liabilities (i)	81	-	(37)	44
	1,773	(22)	526	2,277
Total liabilities	2,271	(29)	526	2,768
Equity attributable to owners of the Company:				
Share capital	24	-	-	24
Accumulated other comprehensive (loss) income (e, j, l, m)	(16)	28	-	12
Retained earnings (a, e, f, h, k, l, m)	2,462	(118)	-	2,344
Total equity	2,470	(90)	-	2,380
Total liabilities and equity	$ 4,741	$ (119)	$ 526	$ 5,148

Reconciliation of equity reported under Canadian GAAP to equity under IFRS at March 31, 2010, being the end of the comparable period:

	Canadian GAAP	Measurement adjustments	Presentation adjustments	IFRS
Current assets:				
Cash and cash equivalents	$ 17	$ -	$ -	$ 17
Trade and other receivables[1] (a)	467	(18)	-	449
Inventories	11	-	-	11
Deferred tax assets (b)	1	-	(1)	-
	496	(18)	(1)	477
Non-current assets:				
Other assets (c, d)	164	-	(163)	1
Finance lease receivables (c)	-	-	123	123
Other financial assets (c)	643	-	38	681
Deferred tax asset (b)	39	-	1	40
Investment in Capital Power (e)	1,542	(26)	-	1,516
Intangible assets (d, f)	107	(5)	2	104
Property, plant and equipment (a, f, g, h)	1,794	(72)	524	2,246
	4,289	(103)	525	4,711
Total assets	$ 4,785	$ (121)	$ 524	$ 5,188
Current Liabilities:				
Trade and other payables[2] (a, i)	$ 211	$ (4)	$ (17)	$ 190
Loans and borrowings	268	-	-	268
Provisions (i)	-	-	17	17
Other liabilities	32	-	-	32
	511	(4)	-	507
Non-current liabilities:				
Loans and borrowings (j)	1,681	(4)	-	1,677
Deferred revenues (g, h)	-	(17)	524	507
Provisions (a, i, k)	-	-	38	38
Other liabilities (i)	67	-	(38)	29
	1,748	(21)	524	2,251
Total liabilities	2,259	(25)	524	2,758
Equity attributable to owners of the Company:				
Share capital	24	-	-	24
Accumulated other comprehensive (loss) income (e, j, l, m)	(13)	27	-	14
Retained earnings (a, e, f, h, k, l, m)	2,515	(123)	-	2,392
Total equity	2,526	(96)	-	2,430
Total liabilities and equity	$ 4,785	$ (121)	$ 524	$ 5,188

Reconciliation of equity reported under Canadian GAAP to equity under IFRS at December 31, 2010, being the last period reported under Canadian GAAP:

	Canadian GAAP	Measurement adjustments	Presentation adjustments	IFRS
Current assets:				
Cash and cash equivalents	$ 104	$ -	$ -	$ 104
Trade and other receivables[1] (a)	519	(13)	-	506
Inventories	10	-	-	10
Deferred tax assets (b)	1	-	(1)	-
	634	(13)	(1)	620
Non-current assets:				
Other assets (a, c, d)	178	(2)	(176)	-
Finance lease receivables (c)	-	-	130	130
Other financial assets (c)	419	-	44	463
Deferred tax asset (b)	41	-	1	42
Investment in Capital Power (e)	1,235	(43)	-	1,192
Intangible assets (d, f)	100	(2)	2	100
Property, plant and equipment (f, g, h)	1,907	(80)	558	2,385
	3,880	(127)	559	4,312
Total assets	$ 4,514	$ (140)	$ 558	$ 4,932
Current liabilities:				
Trade and other payables[2] (a, i)	$ 279	$ 4	$ (24)	$ 259
Loans and borrowings	219	-	-	219
Provisions (i)	-	-	24	24
Other liabilities	36	-	-	36
	534	4	-	538
Non-current liabilities:				
Loans and borrowings (j)	1,456	(3)	-	1,453
Deferred revenues (g, h)	-	(17)	558	541
Deferred tax liabilities	1	-	-	1
Provisions (a, i, k)	-	(1)	28	27
Other liabilities (i)	58	-	(28)	30
	1,515	(21)	558	2,052
Total liabilities	2,049	(17)	558	2,590
Equity attributable to owners of the Company:				
Share capital	24	-	-	24
Accumulated other comprehensive (loss) income (e, j, l, m)	(18)	23	-	5
Retained earnings (a, e, f, h, k, l, m)	2,459	(146)	-	2,313
Total equity	2,465	(123)	-	2,342
Total liabilities and equity	$ 4,514	$ (140)	$ 558	$ 4,932

[1] Trade and other receivables includes accounts receivable, income taxes recoverable, prepaid expenses and the current portion of long-term receivables

[2] Trade and other payables includes accounts payable and accrued liabilities and income taxes payable

Notes to the reconciliations:

(a) IFRS does not currently contain any separate guidance relating to recognition of assets and liabilities that have arisen as a result of rate regulation. Under current IFRS standards, such items were not recognized on transition. The impact of this at January 1, 2010 was to reduce trade and other receivables by $21 million, other assets by $1 million, PP&E by $1 million, trade and other payables by $7 million and non-current provisions by $2 million with a $14 million charge to opening retained earnings. At March 31, 2010, the impact was to reduce trade and other receivables by $18 million, PP&E by $1 million, trade and other payables by $4 million and non-current provisions by $2 million with a charge to retained earnings of $13 million. At December 31, 2010, the impact was to reduce trade and other receivables by $13 million, other assets by $2 million and non-current provisions by $2 million and increase trade and other payables by $4 million with a $17 million charge to retained earnings.

(b) In accordance with IAS 12 - Income Taxes, all deferred tax balances are classified as non-current, irrespective of the underlying assets or liabilities to which they relate, or the expected reversal of the temporary difference. The effect was to reclassify $1 million at January 1, 2010, March 31, 2010 and December 31, 2010 from current deferred tax assets to non-current deferred tax assets.

(c) In accordance with IAS 1 - Financial Statements, financial assets should be separately presented from other assets. The effect was to reclassify $161 million at January 1, 2010 and March 31, 2010 and $174 million at December 31, 2010 from other assets. At January 1, 2010, $124 million is presented as finance lease receivables and $37 million is presented as other financial assets. At March 31, 2010, $123 million is presented as finance lease receivables and $38 million is presented as other financial assets and at December 31, 2010, $130 million is presented as finance lease receivables and $44 million is presented as other financial assets.

(d) In accordance with IAS 1 - Financial Statements, goodwill should be presented either on the face of the consolidated statement of financial position or as part of intangible assets. Under Canadian GAAP, goodwill was previously presented as part of other assets. The effect was to reclassify $2 million at January 1, 2010, March 31, 2010 and December 31, 2010 from other assets to intangible assets.

(e) The Company has restated its investment in Capital Power to recognize its equity share of Capital Power's IFRS adjustments. The impact was a reduction in the investment of $20 million at January 1, 2010, $26 million at March 31, 2010 and $43 million at December 31, 2010. Accumulated other comprehensive income increased by $10 million at January 1, 2010 and March 31, 2010 and by $6 million at December 31, 2010 with a charge to retained earnings of $30 million at January 1, 2010, $36 million at March 31, 2010 and $49 million at December 31, 2010.

(f) The Company previously accounted for certain transactions in accordance with applicable rate regulation (regulatory accounting). As permitted previously under Canadian GAAP, the Company applied Financial Accounting Standards Codification Section 980 – Regulated Operations, as issued by the Financial Accounting Standards Board in the U.S. as another source of GAAP.

Under regulatory accounting, gains and losses on the disposal of the Company's rate-regulated assets were previously deferred within PP&E or intangible assets. The Company also previously capitalized non-directly attributable overhead within PP&E and intangible assets where it was included within the Company's rate-regulated asset base.

Under IAS 16 - Property, Plant and Equipment and IAS 38 – Intangible Assets, assets are required to be derecognized on disposal and any associated gain or loss should be recognized in net income. Overheads may only be capitalized where they are considered to be directly attributable to the construction of the asset.

The effect of this was to reduce the net book value of PP&E by $59 million at January 1, 2010, $56 million at March 31, 2010 and $65 million at December 31, 2010. Intangible assets were reduced by $2 million at January 1, 2010, by $5 million at March 31, 2010 and by $2 million at December 31, 2010. The overall reduction in retained earnings was $61 million at January 1, 2010 and March 31, 2010 and $67 million at December 31, 2010.

(g) Although the determination of whether an arrangement contains a lease is broadly similar between Canadian GAAP and IFRS, Canadian GAAP contains more quantitative criteria in determining whether a lease is treated as capital or operating. As a result, a lease agreement which was previously determined to be an operating lease under Canadian GAAP was determined to be a finance lease under IAS 17 – Leases. The impact was a reduction in PP&E of $15 million at January 1, 2010, March 31, 2010 and December 31, 2010, which was offset by a reduction in deferred revenue of $15 million at January 1, 2010, March 31, 2010 and December 31, 2010.

(h) Under Canadian GAAP, contributions that were received from developers and customers and used to construct items of PP&E were offset against the cost of the constructed asset. Under IFRIC 18 - Transfers of Assets from Customers, contributions received in order to construct an item of PP&E that is used to provide ongoing access to electricity and water are treated as deferred revenues. The effect of this was to reclassify $526 million at January 1, 2010, $524 million at March 31, 2010 and $558 million at December 31, 2010 from PP&E to deferred revenues.

In addition, $2 million at January 1, 2010, March 31, 2010 and December 31, 2010 was recorded in net income relating to insurance proceeds that under Canadian GAAP were being deferred and amortized over the life of the replacement asset. Under IAS 16 – Plant, Property and Equipment, such proceeds should be recognized in net income on settlement of the claim.

(i) Under IAS 1 - Financial Statements, provisions should be separately presented on the face of the consolidated statement of financial position. The effect was to reclassify $16 million at January 1, 2010, $17 million at March 31, 2010 and $24 million at December 31, 2010 from trade and other payables to current provisions and to reclassify $37 million at January 1, 2010, $38 million at March 31, 2010 and $28 million at December 31, 2010 from other non-current liabilities to non-current provisions.

(j) In accordance with IAS 39 – Financial Instruments, any asset that is classified as available for sale should be recorded at fair value, with any changes in fair value recognized in other comprehensive income. Under Canadian GAAP, the Company's beneficial interest in the sinking fund is not quoted in an active market and was therefore recorded at cost. The impact was a reduction in loans and borrowings of $5 million at January 1, 2010, $4 million at March 31, 2010 and $3 million at December 31, 2010 with a corresponding increase in accumulated other comprehensive income to recognize the difference between fair value and the Canadian GAAP exchange amount.

(k) As permitted by IFRS 1, the Company has elected to recognize all cumulative actuarial gains and losses that existed at its date of transition in opening retained earnings for all of its employee benefit plans. The effect was to increase non-current provisions by $2 million at January 1, 2010 and March 31, 2010 and by $1 million at December 31, 2010.

(l) As permitted by IFRS 1, the Company has elected to reset its cumulative translation account to nil at the date of transition. The impact of this was a reclassification of $19 million from accumulated other comprehensive income to retained earnings at January 1, 2010, March 31, 2010 and December 31, 2010.

(m) The Company recognized an increase in retained earnings of $6 million at January 1, 2010 and March 31, 2010 and $5 million at December, offset by a decrease in accumulated other comprehensive income of $6 million at January 1, 2010 and March 31, 2010 and $5 million at December 31, 2010 to reflect the deferred tax impact of the adjustments noted above relating to the Company's entities subject to income tax.

Reconciliation of total comprehensive income for the three months ended March 31, 2010 reported under Canadian GAAP to total comprehensive income reported under IFRS, being the comparative period:

	Canadian GAAP	Measurement adjustments	Presentation adjustments	IFRS
Continuing operations:				
Revenues and other income (n, o)	$ 338	$ 3	$ 3	$ 344
Electricity purchases and system access fees	(172)	-	-	(172)
Operations, maintenance and administration (p)	(81)	-	81	-
Other raw materials and operating charges (p)	-	-	(21)	(21)
Staff costs and employee benefits (p)	-	-	(52)	(52)
Depreciation and amortization (o, q)	(23)	2	(3)	(24)
Franchise fees and property taxes (n)	(15)	(1)	-	(16)
Other administrative expenses (p, r)	-	(2)	(8)	(10)
Operating income	47	2	-	49
Finance expense	(34)	-	-	(34)
Equity share of income of Capital Power (t)	76	(6)	-	70
Income before income taxes	89	(4)	-	85
Income tax expense	(2)	-	-	(2)
Net income for the period	87	(4)	-	83
Other comprehensive income:				
Equity share of other comprehensive income of Capital Power (t)	3	(1)	-	2
Other comprehensive income	3	(1)	-	2
Total comprehensive income – all attributable to owners of the Company	$ 90	$ (5)	$ -	$ 85

Reconciliation of total comprehensive income for the year ended December 31, 2010 reported under Canadian GAAP to total comprehensive income reported under IFRS, being the last period reported under Canadian GAAP:

	Canadian GAAP	Measurement adjustments	Presentation adjustments	IFRS
Continuing operations:				
Revenues and other income (n, o)	$ 1,473	$ 4	$ 12	$ 1,489
Electricity purchases and system access fees (n)	(746)	(2)	-	(748)
Operations, maintenance and administration (p)	(366)	-	366	-
Other raw materials and operating charges (p, r)	-	(1)	(118)	(119)
Staff costs and employee benefits (p)	-	-	(222)	(222)
Depreciation and amortization (o, q)	(88)	2	(12)	(98)
Franchise fees and property taxes (n)	(61)	(6)	-	(67)
Other administrative expenses (p, r)	-	(6)	(26)	(32)
Operating income	212	(9)	-	203
Finance expense (s)	(127)	1	-	(126)
Equity share of income of Capital Power (t)	88	(33)	-	55
Loss on sale of a portion of Capital Power and other (t)	(33)	14	-	(19)
Income before income taxes	140	(27)	-	113
Income tax expense (u)	(7)	(1)	-	(8)
Net income for the period	133	(28)	-	105
Other comprehensive income:				
Unrealized loss on available for sale financial assets (v)	-	(1)	-	(1)
Equity share of other comprehensive loss of Capital Power (t)	(4)	1	-	(3)
Losses realized in net income upon sale of a portion of investment in Capital Power (t)	2	(5)	-	(3)
Other comprehensive income	(2)	(5)	-	(7)
Total comprehensive income – all attributable to owners of the Company	$ 131	$ (33)	$ -	$ 98

Notes to the reconciliations:

(n) As identified in note 14(f), the Company previously used regulatory accounting to recognize certain assets, liabilities, revenues and expenses. As a result, the timing of the Company's recognition of certain revenues and expenses differed from IFRS, which requires that revenues and expenses are recognized as incurred. For the three months ended March 31, 2010, the impact was an increase in revenues of $3 million offset by an increase in franchise fees and property taxes of $1 million for an overall increase to net income of $2 million.

For the year ended December 31, 2010, the impact was an increase in revenues of $4 million, an increase in electricity purchases and system access fees of $2 million and an increase in franchise fees and property taxes of $6 million for

an overall reduction in net income of $4 million.

(o) Under Canadian GAAP, the amortization of contributions received towards the construction of PP&E used to provide ongoing access to electricity and water supply was treated as depreciation. Under IFRIC 18 – Transfers of Assets from Customers, such amortization is treated as revenue. The effect was to reclassify $3 million from depreciation to revenues for the three months ended March 31, 2010 and $12 million for the year ended December 31, 2010.

(p) Under IAS 1 - Financial Statements, expenses must be presented using either a functional presentation or according to their nature. The Company has adopted presentation by nature. The effect was to reclassify salary, wages and employee benefit costs of $52 million to staff costs and employee benefits from operations, maintenance and administration for the three months ended March 31, 2010 and $222 million for the year ended December 31, 2010. The remaining operations, maintenance and administrative costs were reclassified as either other raw material and operating charges or other administrative expenses.

(q) As identified in note 14(f), PP&E and intangible assets have been adjusted for the removal of non-directly attributable overhead and deferred gains and losses on derecognized assets. As a result of this, and as a result of the review of the useful lives of the components of the Company's assets as required by IAS 16 - Plant, Property and Equipment, there was a reduction in depreciation and amortization of $2 million for the three months ended March 31, 2010. For the year ended December 31, 2010, the Company recognized a reduction of $6 million in depreciation and amortization, partially offset by a $4 million loss on disposal of assets.

(r) Under Canadian GAAP, overheads are capitalized as part of PP&E or intangible assets if they are permitted or required to be included in the Company's rate-regulated asset base. Under IAS 16 - Plant, Property and Equipment and IAS 38 – Intangible Assets, overheads may only be capitalized if they are directly attributable to the construction of PP&E or intangible assets. The effect of this was an increase to other administrative expenses of $2 million for the three months ended March 31, 2010 and an increase of $1 million to other raw materials and operating charges combined with an increase of $6 million to other administrative expenses for the year ended December 31, 2010.

(s) Under Canadian GAAP, an allowance for funds used during construction was capitalized if it was approved or required by the regulator to be included in the Company's rate-regulated asset base. Under IAS 23 – Borrowing Costs, there are more detailed rules on the methodology for capitalizing borrowing costs. As a result of the change in methodology, the Company recognized an increase in capitalized interest of $1 million for the year ended December 31, 2010.

(t) The Company's income from its equity investment in Capital Power was reduced by $6 million for the three months to March 31, 2010 and $33 million for the year ended December 31, 2010, which reflected the Company's equity share of the adjustments recognized on transition to IFRS by Capital Power. The Company's other comprehensive income from the investment in Capital Power was reduced by $1 million for the three months ended March 31, 2010 and increased by $1 million for the year ended December 31, 2010.

As a result of the restatement of the investment in Capital Power, the loss recognized in net income on disposal of a portion of interest in Capital Power was reduced by $14 million for the year ended December 31, 2010 and losses transferred to net income from other comprehensive income on disposal of a portion of interest in Capital Power were reduced by $5 million.

(u) As a result of the adjustments above, the Company recognized an increase in income tax expense of $1 million for the year ended December 31, 2010.

(v) As identified in note 14(j), the Company's beneficial interest in the sinking fund is measured at fair value under IFRS. As a result, the Company recognized a decrease in other comprehensive income of $1 million for the year ended December 31, 2010.

15. First time adoption supplementary disclosures:

(a) Revenues

	Three months ended March 31, 2011	2010
Revenue:		
Electricity and water sales	$ 319	$ 247
Provision of services	85	74
Finance lease income	3	3
Construction revenues	4	5
	$ 411	$ 329

(b) Finance lease receivables

	Minimum lease receivable			Present value of minimum lease receivable		
	March 31, 2011	December 31, 2010	January 1, 2010	March 31, 2011	December 31, 2010	January 1, 2010
Less than one year	$ 14	$ 14	$ 14	$ 3	$ 3	$ 2
Between one and five years	59	59	54	15	14	12
More than five years	197	201	201	114	116	112
Less: unearned finance income	(138)	(141)	(143)			
	132	133	126	132	133	126
Less: current portion (included in trade and other receivables)	3	3	2	3	3	2
	$ 129	$ 130	$ 124	$ 129	$ 130	$ 124

On October 7, 2009, the Company acquired potable water and wastewater treatment plant assets for approximately $100 million and agreed to lease the assets back to the vendor for a 20-year term after which the vendor has 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 treatment plant assets for the vendor and to operate and maintain both the original assets acquired and leased back to the vendor and the additional constructed assets over the 20-year lease term.

(c) Fair values of financial instruments

Loans and borrowings

The fair value of the Company's long-term debt is based on determining a current yield for the Company's debt as at March 31, 2011, December 31, 2010 and January 1, 2010. This yield is based on an estimated credit spread for the Company over the yields of long-term Government of Canada bonds 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.

The classification, carrying amounts and fair values of the Company's loans and borrowings at March 31, 2011, December 31, 2010 and January 1, 2010 are summarized as follows:

		March 31, 2011		December 31, 2010		January 1, 2010	
	Classification	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Loans and borrowings							
Debentures and other borrowings	Amortized cost	$ 1,966	$ 2,210	$ 1,966	$ 2,235	$ 2,251	$ 2,446
Beneficial interest in the sinking fund	Available for sale	(302)	(302)	(294)	(294)	(339)	(339)

Fair value hierarchy

The financial instruments of the Company that are recorded at fair value have been classified into levels using a fair value hierarchy. A Level 1 valuation is determined by unadjusted quoted prices in active markets for identical assets or liabilities. A Level 2 valuation is based upon inputs other than quoted prices included in Level 1 that are observable for the instruments either directly or indirectly. A Level 3 valuation for the assets and liabilities are not based on observable market data.

The Company's interest in the sinking fund has been categorized as a Level 1 valuation for March 31, 2011, December 31, 2010 and January 1, 2010.