

Condensed Consolidated Interim Financial Statements of

**EPCOR UTILITIES INC.**

Three months ended March 31, 2013 and 2012

# EPCOR UTILITIES INC.

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

Three months ended March 31, 2013 and 2012

	2013	2012
Revenues and other income		
Revenues	\$ 453	\$ 500
Other income	6	7
	459	507
Expenses		
Electricity purchases and system access fees	217	297
Other raw materials and operating charges	29	28
Staff costs and employee benefits expenses	70	69
Depreciation and amortization	34	32
Franchise fees and property taxes	22	20
Other administrative expenses	17	14
Foreign exchange loss	-	3
	389	463
Operating income	70	44
Finance costs	(27)	(29)
Equity share of income of Capital Power (note 4)	17	30
Income before income taxes	60	45
Income tax expense	(3)	(1)
Net income for the period – all attributable to the Owner of the Company	57	44
Other comprehensive income (loss):		
Equity share of other comprehensive income (loss) of Capital Power <sup>1</sup> (note 4)	(1)	3
Unrealized loss on available-for-sale financial assets <sup>1</sup>	-	(2)
Unrealized gain (loss) on foreign currency translation <sup>1</sup>	4	(2)
	3	(1)
Comprehensive income for the period - all attributable to the Owner of the Company	\$ 60	\$ 43

<sup>1</sup> For the three months ended March 31, 2013 and 2012, net of income tax recovery of nil.

# EPCOR UTILITIES INC.

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

March 31, 2013 and December 31, 2012

	2013	2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 183	\$ 232
Trade and other receivables	308	359
Inventories	13	13
	504	604
Non-current assets:		
Finance lease receivables	124	125
Other financial assets	382	383
Deferred tax assets	52	52
Investment in Capital Power (note 4)	628	621
Property, plant and equipment	3,491	3,417
Intangible assets	223	222
	4,900	4,820
<b>TOTAL ASSETS</b>	<b>\$ 5,404</b>	<b>\$ 5,424</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Trade and other payables	\$ 261	\$ 303
Loans and borrowings	12	14
Deferred revenue	23	21
Provisions	31	29
Derivatives	3	2
Other liabilities	26	31
	356	400
Non-current liabilities:		
Loans and borrowings	1,959	1,956
Deferred revenue	743	741
Deferred tax liabilities	5	5
Provisions (note 3)	83	83
Other liabilities	12	18
	2,802	2,803
<b>Total liabilities</b>	<b>3,158</b>	<b>3,203</b>
Equity attributable to the Owner of the Company:		
Share capital	24	24
Accumulated other comprehensive income (note 3)	9	6
Retained earnings (note 3)	2,213	2,191
<b>Total equity</b>	<b>2,246</b>	<b>2,221</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 5,404</b>	<b>\$ 5,424</b>

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, 2013 and 2012

	Accumulated other comprehensive income (loss)							Equity attributable to the Owner of the Company
	Share Capital	Cash flow hedges	Available-for-sale financial assets	Cumulative translation account	Employee benefits account (note 3)	Investment in Capital Power	Retained earnings (note 3)	
Equity at December 31, 2012	\$ 24	\$ (7)	\$ 2	\$ -	\$ (8)	\$ 19	\$ 2,191	\$ 2,221
Net income for the period	-	-	-	-	-	-	57	57
Other comprehensive income (loss):								
Equity share of other comprehensive income of								
Capital Power	-	-	-	-	-	(1)	-	(1)
Unrealized gain on foreign subsidiary	-	-	-	4	-	-	-	4
Total comprehensive Income (loss)	-	-	-	4	-	(1)	57	60
Dividends	-	-	-	-	-	-	(35)	(35)
Equity at March 31, 2013	\$ 24	\$ (7)	\$ 2	\$ 4	\$ (8)	\$ 18	\$ 2,213	\$ 2,246

	Accumulated other comprehensive income (loss)							Equity attributable to the Owner of the Company
	Share capital	Cash flow hedges	Available-for-sale financial assets	Cumulative translation account	Investment in Capital Power	Retained earnings (note 3)		
Equity at December 31, 2011	\$ 24	\$ (9)	\$ 4	\$ 1	\$ 12	\$ 2,313	\$ 2,345	
Net income for the period	-	-	-	-	-	44	44	
Other comprehensive income (loss):								
Equity share of other comprehensive income of								
Capital Power	-	-	-	-	3	-	3	
Unrealized loss on available-for-sale financial assets	-	-	(2)	-	-	-	(2)	
Unrealized loss on foreign subsidiary	-	-	-	(2)	-	-	(2)	
Total comprehensive income (loss)	-	-	(2)	(2)	3	44	43	
Dividends	-	-	-	-	-	(35)	(35)	
Equity at March 31, 2012	\$ 24	\$ (9)	\$ 2	\$ (1)	\$ 15	\$ 2,322	\$ 2,353	

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

# EPCOR UTILITIES INC.

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

Three months ended March 31, 2013 and 2012

	2013	2012
Cash flows from (used in) operating activities:		
Net income for the period	\$ 57	\$ 44
Reconciliation of net income for the period to cash from operating activities:		
Interest paid	(29)	(29)
Finance costs	27	29
Income taxes paid	(3)	(1)
Income tax expense	3	1
Depreciation and amortization	34	32
Contributions received	5	5
Deferred revenue recognized	(5)	(5)
Fair value change on derivative instruments	1	13
Equity share of income from Capital Power (note 4)	(17)	(30)
Foreign exchange gain	-	(3)
Other	2	4
Funds from operations	75	60
Change in non-cash operating working capital	-	(1)
Net cash flows from operating activities	75	59
Cash flows from (used in) investing activities:		
Acquisition or construction of property, plant and equipment and other assets	(93)	(54)
Business acquisition, net of acquired cash	-	(460)
Change in non-cash investing working capital	10	(29)
Payment of Gold Bar transfer fees	(10)	(12)
Distributions received from Capital Power	9	12
Net cash flows used in investing activities	(84)	(543)
Cash flows from (used in) financing activities:		
Proceeds from issuance of long-term loans and borrowings	-	300
Repayment of long-term loans and borrowings	(5)	(9)
Provisions	-	1
Common share dividends paid	(35)	(35)
Net cash flows from (used in) financing activities	(40)	257
Decrease in cash and cash equivalents	(49)	(227)
Cash and cash equivalents, beginning of period	232	316
Cash and cash equivalents, end of period	\$ 183	\$ 89

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

# EPCOR UTILITIES INC.

Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited, tabular amounts in millions of Canadian dollars unless otherwise indicated)

March 31, 2013

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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.

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

## 2. Basis of presentation

### (a) Statement of compliance

These condensed consolidated interim financial statements have been prepared by management in accordance with International Accounting Standard 34 – Interim Financial Reporting, as issued by the International Accounting Standards Board and adopted by the Canadian Institute of Chartered Accountants. These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on May 9, 2013.

### (b) Basis of measurement

The Company's condensed consolidated interim financial statements are prepared on the historical cost basis, except for its beneficial interest in the sinking fund held with the City, and its derivative financial instruments, 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, less the present value of the defined benefit obligation.

### (c) Additional IFRS financial measure

The Company uses "operating income" as an additional IFRS financial measure. In management's opinion, the measure is a more effective indicator of the Company's and reportable business segments' operating performance than net income because it only includes items directly related to or resulting from management's operating decisions and actions.

## 3. Significant accounting policies

These condensed consolidated interim financial statements have been prepared following the same accounting policies and methods as those used in preparing the Company's most recent annual consolidated financial statements, with the exception of accounting policies adopted as a result of the following new and amended accounting standards relevant to EPCOR effective January 1, 2013.

IFRS 7 – Financial Instruments – Disclosures – Offsetting Financial Assets and Liabilities (Amendment)

IFRS 10 – Consolidated Financial Statements

IFRS 11 – Joint Arrangements (IFRS 11)

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 13 – Fair Value Measurement (IFRS 13)

IAS 1 – Presentation of Items of Other Comprehensive Income

IAS 19 – Employee Benefits (Amendment) (IAS 19)

IAS 28 – Investments in Associates and Joint Ventures (Amendment)

IAS 34 – Interim Financial Reporting (Amendment) (IAS 34)

# EPCOR UTILITIES INC.

Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited, tabular amounts in millions of Canadian dollars unless otherwise indicated)

March 31, 2013

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Of the new and amended accounting standards which became effective January 1, 2013, the following had an impact on these condensed consolidated interim financial statements as a result of the accounting policies adopted this quarter:

IFRS 11 was issued to replace IAS 31 – Interest in Joint Ventures. The new standard classifies joint arrangements into two types, joint operations and joint ventures. The standard defines a joint operation as a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement and are required to recognize assets, liabilities, revenues and expenses in proportion to its interest in the joint arrangement. The standard defines a joint venture as a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement and are required to recognize and account for the investment in the joint arrangement using the equity method. The Company applied the new standard effective January 1, 2013 and classified its interest in the Heartland Transmission project (Heartland) as a joint operation. As a result, the condensed consolidated interim financial statements include EPCOR's relative share of the joint operation's assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis. Unrealized gains and losses on transactions between EPCOR and the joint operation are eliminated to the extent of EPCOR's interest in the joint operation and unrealized losses are eliminated only to the extent there is no evidence of impairment.

IFRS 13 replaced the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements. The Company does not expect the standard to have a material impact on the annual financial statements. However, IAS 34 was amended as a result of IFRS 13, to require financial instrument fair value disclosure in an entity's interim financial statements. The disclosures have been included in Note 5.

IAS 19 was amended to: (a) eliminate the option to defer the recognition of actuarial gains and losses associated with net defined benefit liabilities (assets); (b) require a new method of calculating finance costs on defined benefit plans whereby a single discount rate is applied to the net pension assets or obligations; and (c) enhance the disclosure requirements to provide better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in these plans. In accordance with the transitional provisions of revised IAS 19, the Company applied the revised standard retrospectively commencing January 1, 2013 and recognized in retained earnings, \$1 million of unrecognized actuarial gains related to 2012 and \$6 million of unrecognized actuarial losses related to years prior to 2012, and in accumulated other comprehensive income, \$8 million of remeasurement effects related to years prior to 2013. In addition, the Company increased non-current provisions by \$13 million.

#### **4. 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.

At March 31, 2013, the Company owned 28.4 million (December 31, 2012 – 28.4 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 a 29% (December 31, 2012 – 29%) economic interest in Capital Power.

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.

Capital Power is listed on the Toronto Stock Exchange under the symbol CPX. The quoted market price of the common shares of Capital Power at March 28, 2013 was \$21.20 per common share (December 31, 2012 – \$22.73 per common share).

# EPCOR UTILITIES INC.

Notes to the Condensed Consolidated Interim Financial Statements  
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March 31, 2013

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

	At and for the three months ended March 31, 2013	At and for the year ended December 31, 2012
Balance, beginning of period	\$ 621	\$ 987
Equity share of net income	17	41
Equity share of other comprehensive income (loss)	(1)	14
Distributions declared	(9)	(39)
Sale of a portion of the investment	-	(258)
Impairment	-	(124)
Balance, end of period	\$ 628	\$ 621

## 5. Fair values of financial instruments

The classification, carrying amounts and fair values of the Company's other financial instruments at March 31, 2013 and December 31, 2012 is summarized as follows:

	Classification	March 31, 2013		December 31, 2012	
		Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	Fair value through profit or loss	\$ 183	\$ 183	\$ 232	\$ 232
Trade and other receivables	Loans and receivables	281	281	335	335
Derivatives	Fair value through profit or loss	(3)	(3)	(2)	(2)
Finance lease receivables	Loans and receivables	127	150	128	146
Other financial assets	Loans and receivables	406	454	404	447
Trade and other payables	Other liabilities	261	261	303	303
Loans and borrowings					
Debentures and borrowings	Other liabilities	2,134	2,570	2,128	2,561
Beneficial interest in sinking fund	Available for sale	(163)	(163)	(158)	(158)
Other liabilities					
Customer deposits	Other liabilities	20	20	20	20
Gold Bar transfer fee payable	Other liabilities	7	7	17	17

### 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.



# EPCOR UTILITIES INC.

Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited, tabular amounts in millions of Canadian dollars unless otherwise indicated)

March 31, 2013

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## **Cash and cash equivalents**

The fair value of cash and cash equivalents is determined by unadjusted quoted prices from active markets. Cash and cash equivalents are classified in Level 1.

## **Trade and other receivables**

Trade and other receivables are initially measured at cost and after initial recognition, are measured at amortized cost. Due to the short-term nature of these assets, fair value is not materially different from carrying amount. Trade and other receivables are classified in Level 3.

## **Derivatives**

Fair value 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 future 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. Derivative financial assets are classified in Level 1.

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

## **Finance lease receivables**

The fair values of the Company's finance lease receivables are based on the estimated interest rates implicit in comparable lease arrangements or loans plus an estimated credit spread based on the counterparty risk at March 31, 2013 and December 31, 2012. Finance lease receivables are classified in Level 2.

## **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 March 31, 2013 and December 31, 2012. 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 long-term receivable from Capital Power is classified in Level 2.

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 March 31, 2013 and December 31, 2012. Other long-term loans and receivables are classified in Level 2.

## **Trade and other payables**

Trade and other payables are initially measured at cost and after initial recognition, are measured at amortized cost. Due to the short-term nature of these liabilities, fair value is not materially different from carrying amount. Trade and other payables are classified in Level 3.

## **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 March 31, 2013 and December 31, 2012. 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 and

# EPCOR UTILITIES INC.

Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited, tabular amounts in millions of Canadian dollars unless otherwise indicated)

March 31, 2013

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is classified in Level 1. Long-term loans and borrowings are classified in Level 2.

## **Other liabilities**

Customer deposits and Gold Bar transfer fee payable are initially measured at cost and after initial recognition, are measured at amortized cost. Due to the short-term nature of customer deposits and Gold Bar transfer fee payable fair values are not materially different from carrying amount. Customer deposits and Gold Bar transfer fee payable are classified in Level 3.

## **6. 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 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 complementary 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 service 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 revenue on the long-term receivable from Capital Power. Corporate holds the investment in Capital Power.

# EPCOR UTILITIES INC.

Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited, tabular amounts in millions of Canadian dollars unless otherwise indicated)

March 31, 2013

## Lines of business information

Three months ended March 31, 2013

	Water Services	Distribution & Transmission	Energy Services	Corporate	Eliminations	Consolidated
External revenues and other income	\$ 115	\$ 80	\$ 258	\$ 6	\$ -	\$ 459
Inter-segment revenue	-	39	3	-	(42)	-
<b>Total revenues and other income</b>	<b>115</b>	<b>119</b>	<b>261</b>	<b>6</b>	<b>(42)</b>	<b>459</b>
Electricity purchases and system access fees	-	25	229	-	(37)	217
Other raw materials and operating charges	26	5	-	-	(2)	29
Staff costs and employee benefits expenses	30	23	5	12	-	70
Depreciation and amortization	17	12	2	3	-	34
Franchise fees and property taxes	5	17	-	-	-	22
Other administrative expenses	6	3	7	4	(3)	17
<b>Operating expenses</b>	<b>84</b>	<b>85</b>	<b>243</b>	<b>19</b>	<b>(42)</b>	<b>389</b>
Operating income (loss) before corporate charges	31	34	18	(13)	-	70
Corporate (charges) income	(7)	(10)	(3)	20	-	-
<b>Operating income</b>	<b>24</b>	<b>24</b>	<b>15</b>	<b>7</b>	<b>-</b>	<b>70</b>
Finance costs	(19)	(7)	(2)	1	-	(27)
Equity share of income of Capital Power	-	-	-	17	-	17
Income tax expense	-	-	(3)	-	-	(3)
<b>Net income</b>	<b>\$ 5</b>	<b>\$ 17</b>	<b>\$ 10</b>	<b>\$ 25</b>	<b>\$ -</b>	<b>\$ 57</b>
Total assets	\$ 2,573	\$ 1,614	\$ 210	\$ 1,335	\$ (328)	\$ 5,404
Investment in Capital Power	-	-	-	628	-	628
Total liabilities	2,072	971	151	292	(328)	3,158
Capital additions	14	77	1	1	-	93

# EPCOR UTILITIES INC.

Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited, tabular amounts in millions of Canadian dollars unless otherwise indicated)

March 31, 2013

## Three months ended March 31, 2012

	Water Services	Distribution & Transmission	Energy Services	Corporate	Eliminations	Consolidated
External revenues and other income	\$ 90	\$ 78	\$ 332	\$ 7	\$ -	\$ 507
Inter-segment revenue	-	41	3	-	(44)	-
Total revenues and other income	90	119	335	7	(44)	507
Electricity purchases and system access fees	-	30	306	-	(39)	297
Other raw materials and operating charges	21	9	-	-	(2)	28
Staff costs and employee benefits expenses	27	21	7	14	-	69
Depreciation and amortization	15	11	2	4	-	32
Franchise fees and property taxes	5	15	-	-	-	20
Other administrative expenses	3	2	7	5	(3)	14
Foreign exchange loss	-	-	-	3	-	3
Operating expenses	71	88	322	26	(44)	463
Operating income (loss) before corporate charges	19	31	13	(19)	-	44
Corporate (charges) income	(9)	(10)	(4)	23	-	-
Operating income	10	21	9	4	-	44
Finance costs	(16)	(8)	(3)	(2)	-	(29)
Equity share of income of Capital Power	-	-	-	30	-	30
Income tax recovery (expense)	-	-	(2)	1	-	(1)
Net income	\$ (6)	\$ 13	\$ 4	\$ 33	\$ -	\$ 44
Total assets	\$ 2,559	\$ 1,206	\$ 245	\$ 1,692	\$ (134)	\$ 5,568
Investment in Capital Power	-	-	-	1,008	-	1,008
Total liabilities (note 3)	2,096	828	206	219	(134)	3,215
Capital additions	10	42	-	2	-	54

# EPCOR UTILITIES INC.

Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited, tabular amounts in millions of Canadian dollars unless otherwise indicated)

March 31, 2013

## Geographic information

	Three months ended March 31, 2013				Three months ended March 31, 2012			
	Canada	U.S.	Inter-segment eliminations	Total	Canada	U.S.	Inter-segment eliminations	Total
External revenues and other income	\$ 430	\$ 29	\$ -	\$ 459	\$ 488	\$ 19	\$ -	\$ 507
Inter-segment revenues	42	-	(42)	-	44	-	(44)	-
Total revenues and other income	\$ 472	\$ 29	\$ (42)	\$ 459	\$ 532	\$ 19	\$ (44)	\$ 507

## Non-current assets

	March 31, 2013	December 31, 2012
Canada	\$ 4,204	\$ 4,109
U.S.	696	711
	\$ 4,900	\$ 4,820

## 7. Comparative figures

Certain of the comparative figures have been reclassified to conform with the presentation of the current year.