

Condensed Consolidated Interim Financial Statements of

EPCOR UTILITIES INC.

Three months ended March 31, 2014 and 2013

EPCOR UTILITIES INC.

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

Three months ended March 31, 2014 and 2013

	2014	2013
Revenues and other income:		
Revenues	\$ 464	\$ 453
Other income	6	6
	470	459
Expenses:		
Electricity purchases and system access fees	234	217
Other raw materials and operating charges	27	29
Staff costs and employee benefits expenses	71	70
Depreciation and amortization	37	34
Franchise fees and property taxes	23	22
Other administrative expenses	15	17
	407	389
Operating income	63	70
Finance expenses	(28)	(27)
Equity share of income of Capital Power (note 4)	9	17
Income before income taxes	44	60
Income tax expense	(6)	(3)
Net income for the periods – all attributable to the Owner of the Company	38	57
Other comprehensive income:		
Items that may subsequently be reclassified to net income:		
Equity share of other comprehensive loss of Capital Power ¹ (note 4)	-	(1)
Unrealized gain on foreign currency translation ¹	12	4
	12	3
Comprehensive income for the periods – all attributable to the Owner of the Company	\$ 50	\$ 60

¹ For the three months ended March 31, 2014 and 2013, net of income tax of nil.

EPCOR UTILITIES INC.

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

March 31, 2014 and December 31, 2013

	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 126	\$ 130
Trade and other receivables	307	360
Inventories	15	14
	448	504
Non-current assets:		
Finance lease receivables	121	122
Other financial assets	368	367
Deferred tax assets	53	53
Investment in Capital Power (note 4)	388	385
Property, plant and equipment	3,833	3,776
Intangible assets	243	240
	5,006	4,943
TOTAL ASSETS	\$ 5,454	\$ 5,447
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	\$ 214	\$ 245
Loans and borrowings	15	15
Deferred revenue	24	23
Provisions	33	29
Derivatives	1	1
Other liabilities	22	28
	309	341
Non-current liabilities:		
Loans and borrowings	1,966	1,957
Deferred revenue	794	783
Deferred tax liabilities	12	12
Provisions	84	80
Other liabilities	12	12
	2,868	2,844
Total liabilities	3,177	3,185
Equity attributable to the Owner of the Company:		
Share capital	24	24
Accumulated other comprehensive income	25	13
Retained earnings	2,228	2,225
Total equity	2,277	2,262
TOTAL LIABILITIES AND EQUITY	\$ 5,454	\$ 5,447

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, 2014 and 2013

	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	Investment in Capital Power	Retained earnings	
Equity at December 31, 2013	\$ 24	\$ (5)	\$ 1	\$ 17	\$ (4)	\$ 4	\$ 2,225	\$ 2,262
Net income for the period	-	-	-	-	-	-	38	38
Other comprehensive income:								
Unrealized gain on foreign subsidiary	-	-	-	12	-	-	-	12
Total comprehensive income	-	-	-	12	-	-	38	50
Dividends	-	-	-	-	-	-	(35)	(35)
Equity at March 31, 2014	\$ 24	\$ (5)	\$ 1	\$ 29	\$ (4)	\$ 4	\$ 2,228	\$ 2,277

	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	Investment in Capital Power	Retained earnings	
Equity at December 31, 2012	\$ 24	\$ (7)	\$ 2	\$ -	\$ (7)	\$ 19	\$ 2,191	\$ 2,222
Net income for the period	-	-	-	-	-	-	57	57
Other comprehensive income (loss):								
Equity share of other comprehensive loss 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	\$ (7)	\$ 18	\$ 2,213	\$ 2,247

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EPCOR UTILITIES INC.

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

Three months ended March 31, 2014 and 2013

	2014	2013
Cash flows from (used in) operating activities:		
Net income for the periods	\$ 38	\$ 57
Reconciliation of net income for the periods to cash flows from (used in) operating activities:		
Interest paid	(27)	(29)
Finance expenses	28	27
Income taxes paid	(2)	(3)
Income tax expense	6	3
Depreciation and amortization	37	34
Contributions received	9	5
Deferred revenue recognized	(6)	(5)
Fair value changes on derivative instruments	-	1
Equity share of income from Capital Power	(9)	(17)
Other	1	-
Funds from operations	75	73
Change in non-cash operating working capital	26	2
Net cash flows from operating activities	101	75
Cash flows from (used in) investing activities:		
Acquisitions or construction of property, plant and equipment and other assets	(63)	(93)
Change in non-cash investing working capital	(6)	10
Payments of Gold Bar transfer fees	(6)	(10)
Distributions received from Capital Power	6	9
Net cash flows used in investing activities	(69)	(84)
Cash flows from financing activities:		
Repayments of loans and borrowings	(1)	(5)
Common share dividends paid	(35)	(35)
Net cash flows used in financing activities	(36)	(40)
Decrease in cash and cash equivalents	(4)	(49)
Cash and cash equivalents, beginning of period	130	232
Cash and cash equivalents, end of period	\$ 126	\$ 183

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, 2014

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. These condensed consolidated interim financial statements do not include all of the disclosure normally provided in the annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2013 which have been prepared in accordance with International Financial Reporting Standards (IFRS).

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on May 8, 2014.

(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 derivative financial instruments, which are measured at fair value.

(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, 2014.

IFRS 10 – Consolidated Financial Statements (Amendment)

IFRS 12 – Disclosure of Interests in Other Entities (Amendment)

IAS 32 – Financial Instruments: Presentation (Amendment)

IAS 36 – Impairment of Assets (Amendment)

IAS 39 – Financial Instruments: Recognition and Measurement (Amendment)

IFRIC 21 – Levies

There was no significant impact on these financial statements as a result of the accounting policies adopted.

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

March 31, 2014

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, 2014, the Company owned 18.8 million (December 31, 2013 – 18.8 million) exchangeable limited partnership units of Capital Power L.P. (exchangeable for common shares of Capital Power Corporation on a one-for-one basis), representing a 19% (December 31, 2013 – 19%) 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 31, 2014 was \$25.72 per common share (December 31, 2013 – \$21.30 per common share). Fair value of the Company's investment in Capital Power at March 31, 2014 was \$485 million (December 31, 2013 – \$401 million).

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

	At and for the three months ended March 31, 2014	At and for the year ended December 31, 2013
Balance, beginning of period	\$ 385	\$ 621
Equity share of net income	9	66
Equity share of other comprehensive loss	-	(13)
Distributions declared	(6)	(33)
Sale of a portion of the investment	-	(213)
Impairment	-	(43)
Balance, end of period	\$ 388	\$ 385

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March 31, 2014

5. Financial instruments

Classification

The classification of the Company's financial instruments at March 31, 2014 and December 31, 2013 is summarized as follows:

	Classification				Fair value hierarchy
	Fair value through profit or loss	Loans and receivables	Other liabilities	Available-for-sale	
Measured at fair value					
Beneficial interest in sinking fund				X	Level 1
Derivatives	X				Level 1
Measured at amortized cost					
Cash and cash equivalents		X			Level 2
Trade and other receivables		X			Level 3
Other financial assets		X			Level 2
Trade and other payables			X		Level 3
Debentures and borrowings			X		Level 2
Customer deposits			X		Level 3
Gold Bar transfer fee payable			X		Level 3

Fair value

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

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

	March 31, 2014		December 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current portion of other financial assets	\$ 368	\$ 410	\$ 367	\$ 402
Loans and borrowings				
Debentures and borrowings	2,049	2,391	2,039	2,238
Beneficial interest in sinking fund	(68)	(68)	(67)	(67)
Derivatives	(1)	(1)	(1)	(1)

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.

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, 2014 and December 31, 2013. This yield is based on an estimated credit spread for

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Capital Power over the yields of long-term Government of Canada bonds that have similar maturities to the Company's receivable. The estimated credit spread is based on Capital Power's indicative spread as published by independent financial institutions.

The fair values of the Company's other long-term loans and receivables are based on the estimated interest rates implicit in comparable loan arrangements plus an estimated credit spread based on the counterparty risks at March 31, 2014 and December 31, 2013.

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, 2014 and December 31, 2013. 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.

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

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 includes commercial services for 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.

On March 1, 2014, EPCOR completed its restructuring of Energy Services. The services formerly offered directly by EPCOR Energy Alberta Inc. are now provided by EPCOR Energy Alberta Limited Partnership, through its general partner EPCOR Energy Alberta GP Inc.

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.

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Notes to the Condensed Consolidated Interim Financial Statements
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March 31, 2014

Lines of business information

Three months ended March 31, 2014

	Water Services	Distribution & Transmission	Energy Services	Corporate	Eliminations	Consolidated
External revenues and other income	\$ 120	\$ 89	\$ 255	\$ 6	\$ -	\$ 470
Inter-segment revenues	-	40	2	-	(42)	-
Total revenues and other income	120	129	257	6	(42)	470
Electricity purchases and system access fees	-	38	233	-	(37)	234
Other raw materials and operating charges	23	6	-	-	(2)	27
Staff costs and employee benefits expenses	31	25	6	9	-	71
Depreciation and amortization	18	14	2	3	-	37
Franchise fees and property taxes	6	17	-	-	-	23
Other administrative expenses	7	4	5	2	(3)	15
Operating expenses	85	104	246	14	(42)	407
Operating income (loss) before corporate charges	35	25	11	(8)	-	63
Corporate (charges) income	(6)	(7)	(2)	15	-	-
Operating income	29	18	9	7	-	63
Finance (expenses) income	(19)	(11)	(2)	4	-	(28)
Equity share of income of Capital Power	-	-	-	9	-	9
Income tax expense	(1)	-	(5)	-	-	(6)
Net income	\$ 9	\$ 7	\$ 2	\$ 20	\$ -	\$ 38
Total assets	\$ 2,657	\$ 1,701	\$ 249	\$ 863	\$ (16)	\$ 5,454
Investment in Capital Power	-	-	-	388	-	388
Total liabilities	2,047	919	203	24	(16)	3,177
Capital additions	25	36	1	1	-	63

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March 31, 2014

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 revenues	-	39	3	-	(42)	-
Total revenues and other income	115	119	261	6	(42)	459
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
Operating expenses	84	85	243	19	(42)	389
Operating income (loss) before corporate charges	31	34	18	(13)	-	70
Corporate (charges) income	(7)	(10)	(3)	20	-	-
Operating income	24	24	15	7	-	70
Finance (expenses) income	(19)	(7)	(2)	1	-	(27)
Equity share of income of Capital Power	-	-	-	17	-	17
Income tax expense	-	-	(3)	-	-	(3)
Net income	\$ 5	\$ 17	\$ 10	\$ 25	\$ -	\$ 57
Total assets	\$ 2,387	\$ 1,436	\$ 303	\$ 1,294	\$ (16)	\$ 5,404
Investment in Capital Power	-	-	-	628	-	628
Total liabilities	1,886	793	243	251	(16)	3,157
Capital additions	14	77	1	1	-	93

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

March 31, 2014

Geographic information

	Three months ended March 31, 2014				Three months ended March 31, 2013			
	Canada	U.S.	Inter-segment eliminations	Total	Canada	U.S.	Inter-segment eliminations	Total
External revenues and other income	\$ 436	\$ 34	\$ -	\$ 470	\$ 430	\$ 29	\$ -	\$ 459
Inter-segment revenues	42	-	(42)	-	42	-	(42)	-
Total revenues and other income	\$ 478	\$ 34	\$ (42)	\$ 470	\$ 472	\$ 29	\$ (42)	\$ 459

Non-current assets

	March 31, 2014	December 31, 2013
Canada	\$ 4,218	\$ 4,190
U.S.	788	753
	\$ 5,006	\$ 4,943