

Condensed Consolidated Interim Financial Statements of

EPCOR UTILITIES INC.

Three months ended March 31, 2015 and 2014

EPCOR UTILITIES INC.

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

Three months ended March 31, 2015 and 2014

	2015	2014
Revenues and other income:		
Revenues	\$ 473	\$ 464
Other income	5	6
	478	470
Operating Expenses:		
Electricity purchases and system access fees	192	234
Other raw materials and operating charges	47	27
Staff costs and employee benefits expenses	71	71
Depreciation and amortization	40	37
Franchise fees and property taxes	24	23
Other administrative expenses	16	15
	390	407
Operating income	88	63
Finance expenses	(33)	(28)
Equity share of income of Capital Power (note 6)	12	9
Income before income taxes	67	44
Income tax recovery (expense)	2	(6)
Net income for the periods – all attributable to the Owner of the Company	69	38
Other comprehensive income:		
Items that may subsequently be reclassified to net income:		
Equity share of other comprehensive income of Capital Power ¹ (note 6)	7	-
Unrealized gain on foreign currency translation ²	29	12
	36	12
Comprehensive income for the periods – all attributable to the Owner of the Company	\$ 105	\$ 50

¹ For the three months ended March 31, 2015 and 2014, net of income tax expense of \$2 million and nil, respectively.

² For the three months ended March 31, 2015 and 2014, net of income tax of nil.

EPCOR UTILITIES INC.

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

March 31, 2015 and December 31, 2014

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 40	\$ 37
Trade and other receivables (note 4)	474	333
Inventories	14	14
	528	384
Non-current assets:		
Finance lease receivables (note 5)	92	118
Other financial assets	265	408
Deferred tax assets	69	69
Investment in Capital Power (note 6)	408	393
Property, plant and equipment	4,221	4,112
Intangible assets and goodwill	268	254
	5,323	5,354
TOTAL ASSETS	\$ 5,851	\$ 5,738
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	\$ 220	\$ 248
Loans and borrowings	253	117
Deferred revenue	24	23
Provisions	40	38
Derivatives	1	3
Other liabilities	24	25
	562	454
Non-current liabilities:		
Loans and borrowings	1,858	1,963
Deferred revenue	874	847
Deferred tax liabilities	21	19
Provisions	103	97
Derivatives	11	6
Other liabilities	12	12
	2,879	2,944
Total liabilities	3,441	3,398
Equity attributable to the Owner of the Company:		
Share capital	24	24
Accumulated other comprehensive income	77	41
Retained earnings	2,309	2,275
Total equity	2,410	2,340
TOTAL LIABILITIES AND EQUITY	\$ 5,851	\$ 5,738

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, 2015 and 2014

	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, 2014	\$ 24	\$ (5)	\$ 1	\$ 44	\$ (11)	\$ 12	\$ 2,275	\$ 2,340
Net income for the period	-	-	-	-	-	-	69	69
Other comprehensive income:								
Equity share of other comprehensive income of Capital Power	-	-	-	-	-	7	-	7
Unrealized gain on foreign subsidiary	-	-	-	29	-	-	-	29
Total comprehensive income	-	-	-	29	-	7	69	105
Dividends	-	-	-	-	-	-	(35)	(35)
Equity at March 31, 2015	\$ 24	\$ (5)	\$ 1	\$ 73	\$ (11)	\$ 19	\$ 2,309	\$ 2,410

	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

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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, 2015 and 2014

	2015	2014
Cash flows from (used in) operating activities:		
Net income for the periods	\$ 69	\$ 38
Reconciliation of net income for the periods to cash flows from (used in) operating activities:		
Interest paid	(32)	(27)
Finance expenses	33	28
Income taxes paid	-	(2)
Income tax expense (recovery)	(2)	6
Depreciation and amortization	40	37
Change in employee benefits provisions	(4)	5
Contributions received	10	9
Deferred revenue recognized	(6)	(6)
Fair value changes on derivative instruments	3	-
Equity share of income from Capital Power	(12)	(9)
Other	2	1
Funds from operations	101	80
Change in non-cash operating working capital	12	20
Net cash flows from operating activities	113	100
Cash flows from (used in) investing activities:		
Acquisitions or construction of property, plant and equipment and other assets	(70)	(63)
Change in non-cash investing working capital	3	(6)
Payments received (advances) on finance lease receivables and other financial assets	(18)	1
Payments of Gold Bar transfer fees	(1)	(6)
Distributions received from Capital Power	6	6
Net cash flows used in investing activities	(80)	(68)
Cash flows from (used in) financing activities:		
Proceeds from issuance of short-term loans and borrowings	6	-
Repayments of loans and borrowings	(1)	(1)
Common share dividends paid	(35)	(35)
Net cash flows used in financing activities	(30)	(36)
Increase (decrease) in cash and cash equivalents	3	(4)
Cash and cash equivalents, beginning of the period	37	130
Cash and cash equivalents, end of the period	\$ 40	\$ 126

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, 2015

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 as well as 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, 2014 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, 2015.

(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.

(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. EPCOR adopted amendments to various accounting standards effective January 1, 2015 that did not have a significant impact on these 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, 2015

4. Trade and other receivables

	March 31, 2015	December 31, 2014
Trade receivables	\$ 180	\$ 203
Accrued revenues	87	111
Gross accounts receivable	267	314
Allowance for doubtful accounts	(3)	(3)
Net accounts receivable	264	311
Prepaid expenses	6	4
Income tax recoverable	2	2
	272	317
Current portion of finance lease receivables (note 5)	30	4
Current portion of other financial assets	172	12
	\$ 474	\$ 333

5. Finance lease receivables

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

In February 2015, Suncor gave the Company notice that it will exercise its contractual rights to buy back the leased assets and terminate the related financing and operating agreements. The transfer of assets and operations back to Suncor is to take place over an 18-month period unless the parties agree otherwise. This is not expected to have a material impact on the Company or its operations.

Approximate future payments to the Company are as follows:

	Minimum lease receivable		Present value of minimum lease receivable	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Within one year	\$ 56	\$ 15	\$ 30	\$ 4
Between one and five years	95	60	91	22
More than five years	1	145	1	96
Less: unearned finance income	(30)	(98)	-	-
	122	122	122	122
Less: current portion (note 4)	30	4	30	4
	\$ 92	\$ 118	\$ 92	\$ 118

EPCOR UTILITIES INC.

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

March 31, 2015

6. 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, 2015, the Company owned 18.8 million (December 31, 2014 – 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 18% (December 31, 2014 – 18%) economic interest in Capital Power. EPCOR did not control Capital Power. The investment in Capital Power represented an investment subject to significant influence and was accounted for using the equity method

In April 2015, EPCOR exchanged 9,450,000 limited partnership units for an equal number of common shares of Capital Power which were immediately sold at an offering price of \$23.85 per share for aggregate gross proceeds of \$225 million. As a result of this transaction, the Company will recognize a net gain of \$19 million after tax in net income in the second quarter. In addition, EPCOR exchanged all of its remaining 9,391,000 outstanding exchangeable limited partnership units for common shares of Capital Power. Following the completion of the offering, EPCOR directly owns 9% of Capital Power. As a result, the Company will reclassify and account for the investment in Capital Power as available for sale.

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, 2015 was \$24.51 per common share (December 31, 2014 – \$26.00 per common share). Fair value of the Company's investment in Capital Power at March 31, 2015 was \$462 million (December 31, 2014 – \$490 million).

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

	At and for the three months ended March 31, 2015	At and for the year ended December 31, 2014
Balance, beginning of the period	\$ 393	\$ 385
Equity share of net income	12	15
Equity share of other comprehensive income	9	10
Distributions declared	(6)	(25)
Gain on dilution of interest	-	8
Balance, end of the period	\$ 408	\$ 393

EPCOR UTILITIES INC.

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

March 31, 2015

7. Financial instruments

Classification

The classification of the Company's financial instruments at March 31, 2015 and December 31, 2014 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					
Financial electricity purchase contracts - designated	X				Level 1
Interest rate swaps – designated	X				Level 2
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, 2015		December 31, 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current portion of other financial assets	\$ 265	\$ 302	\$ 408	\$ 443
Loans and borrowings				
Debentures and borrowings	2,186	2,748	2,154	2,579
Beneficial interest in sinking fund	(75)	(75)	(74)	(74)
Derivatives	12	12	9	9

Fair value hierarchy

The financial instruments of the Company that are recorded at fair value have been classified into levels using a fair value hierarchy. A Level 1 valuation is determined by unadjusted quoted prices in active markets for identical assets or liabilities. 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, 2015

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

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

Loans and borrowings

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

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

Derivatives

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

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

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

8. Segment disclosures

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

Water Services

Water Services is primarily involved in the treatment 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 commercial services including the maintenance and repair of the City-owned street lighting and transportation support facilities.

EPCOR UTILITIES INC.

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

March 31, 2015

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. Energy Services also provides competitive electricity and natural gas products through Encor.

Corporate

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

Lines of business information

Three months ended March 31, 2015

	Water Services	Distribution & Transmission	Energy Services	Corporate	Eliminations	Consolidated
External revenues and other income	\$ 147	\$ 101	\$ 225	\$ 5	\$ -	\$ 478
Inter-segment revenues	-	42	3	-	(45)	-
Total revenues and other income	147	143	228	5	(45)	478
Electricity purchases and system access fees	-	40	192	-	(40)	192
Other raw materials and operating charges	44	5	-	-	(2)	47
Staff costs and employee benefits expenses	32	24	6	9	-	71
Depreciation and amortization	20	15	2	3	-	40
Franchise fees and property taxes	6	18	-	-	-	24
Other administrative expenses	7	4	6	2	(3)	16
Operating expenses	109	106	206	14	(45)	390
Operating income (loss) before corporate charges	38	37	22	(9)	-	88
Corporate (charges) income	(7)	(7)	(2)	16	-	-
Operating income	31	30	20	7	-	88
Finance (expenses) income	(22)	(12)	(1)	2	-	(33)
Equity share of income of Capital Power	-	-	-	12	-	12
Income tax (expense) recovery	(1)	-	-	3	-	2
Net income	\$ 8	\$ 18	\$ 19	\$ 24	\$ -	\$ 69
Total assets	\$ 3,087	\$ 1,740	\$ 153	\$ 3,277	\$ (2,406)	\$ 5,851
Investment in Capital Power	-	-	-	408	-	408
Total liabilities	2,463	1,166	121	2,097	(2,406)	3,441
Capital additions	27	41	-	2	-	70

EPCOR UTILITIES INC.

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

March 31, 2015

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	\$ 2,744	\$ 1,574	\$ 249	\$ 2,990	\$ (2,103)	\$ 5,454	
Investment in Capital Power	-	-	-	388	-	388	
Total liabilities	2,138	1,016	203	1,923	(2,103)	3,177	
Capital additions	25	36	1	1	-	63	

EPCOR UTILITIES INC.

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

March 31, 2015

Geographic information

	Three months ended March 31, 2015				Three months ended March 31, 2014			
	Canada	U.S.	Inter-segment eliminations	Total	Canada	U.S.	Inter-segment eliminations	Total
External revenues and other income	\$ 439	\$ 39	\$ -	\$ 478	\$ 436	\$ 34	\$ -	\$ 470
Inter-segment revenues	45	-	(45)	-	42	-	(42)	-
Total revenues and other income	\$ 484	\$ 39	\$ (45)	\$ 478	\$ 478	\$ 34	\$ (42)	\$ 470

Non-current assets

	March 31, 2015	December 31, 2014
Canada	\$ 4,396	\$ 4,512
U.S.	927	842
	\$ 5,323	\$ 5,354