

Condensed Consolidated Interim Financial Statements of

**EPCOR UTILITIES INC.**

Three months ended March 31, 2016 and 2015

**EPCOR UTILITIES INC.**

Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2016 and 2015

---

Condensed Consolidated Interim Statements of Comprehensive Income ..... 3

Condensed Consolidated Interim Statements of Financial Position ..... 4

Condensed Consolidated Interim Statements of Changes in Equity ..... 5

Condensed Consolidated Interim Statements of Cash Flows ..... 6

Notes to the Condensed Consolidated Interim Financial Statements ..... 7

# EPCOR UTILITIES INC.

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

Three months ended March 31, 2016 and 2015

	2016	2015
Revenues and other income:		
Revenues	\$ 475	\$ 473
Other income	5	5
	480	478
Operating expenses:		
Energy purchases and system access fees	179	192
Other raw materials and operating charges	42	47
Staff costs and employee benefits expenses	75	71
Depreciation and amortization	37	40
Franchise fees and property taxes	24	24
Other administrative expenses	13	16
	370	390
Operating income	110	88
Finance expenses	(34)	(33)
Dividend income from available-for-sale investment in Capital Power	3	-
Equity share of income of Capital Power L.P.	-	12
Income before income taxes	79	67
Income tax recovery (expense)	(1)	2
Net income for the periods— all attributable to the Owner of the Company	78	69
Other comprehensive income (loss):		
Items that may subsequently be reclassified to net income:		
Equity share of other comprehensive income of Capital Power L.P. <sup>1</sup>	-	7
Fair value gain on available-for-sale investment in Capital Power	2	-
Unrealized gain (loss) on foreign currency translation <sup>2</sup>	(24)	29
	(22)	36
Comprehensive income for the periods - all attributable to the Owner of the Company	\$ 56	\$ 105

<sup>1</sup> For the three months ended March 31, 2016 and 2015, net of income tax expense of nil and \$2 million, respectively.

<sup>2</sup> For the three months ended March 31, 2016 and 2015, 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  
(In millions of Canadian dollars)

March 31, 2016 and December 31, 2015

	2016	2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 36	\$ 36
Trade and other receivables	462	620
Inventories	16	15
	514	671
Non-current assets:		
Finance lease receivables	1	1
Other financial assets	275	316
Deferred tax assets	79	77
Available-for-sale investment in Capital Power	169	167
Property, plant and equipment	4,570	4,568
Intangible assets and goodwill	274	288
	5,368	5,417
<b>TOTAL ASSETS</b>	<b>\$ 5,882</b>	<b>\$ 6,088</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Trade and other payables	\$ 234	\$ 259
Loans and borrowings	61	242
Deferred revenue	30	32
Provisions	40	37
Derivatives (note 4)	1	2
Other liabilities	26	27
	392	599
Non-current liabilities:		
Loans and borrowings	1,852	1,875
Deferred revenue	922	920
Deferred tax liabilities	35	35
Provisions	119	123
Derivatives (note 4)	15	10
Other liabilities	11	11
	2,954	2,974
Total liabilities	3,346	3,573
Equity attributable to the Owner of the Company:		
Share capital	24	24
Accumulated other comprehensive income	75	97
Retained earnings	2,437	2,394
Total equity	2,536	2,515
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 5,882</b>	<b>\$ 6,088</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  
(In millions of Canadian dollars)

Three months ended March 31, 2016 and 2015

	Accumulated other comprehensive income (loss)					Equity attributable to the Owner of the Company
	Share capital	Available-for-sale financial assets	Cumulative translation account	Employee benefits account	Retained earnings	
Equity at December 31, 2015	\$ 24	\$ 1	\$ 105	\$ (9)	\$ 2,394	\$ 2,515
Net income for the period	-	-	-	-	78	78
Other comprehensive income (loss):						
Fair value gain on available-for-sale investment in Capital Power	-	2	-	-	-	2
Unrealized loss on foreign subsidiary	-	-	(24)	-	-	(24)
Total comprehensive income (loss)	-	2	(24)	-	78	56
Dividends	-	-	-	-	(35)	(35)
Equity at March 31, 2016	\$ 24	\$ 3	\$ 81	\$ (9)	\$ 2,437	\$ 2,536

	Accumulated other comprehensive income (loss)							Equity attributable to the Owner of the Company
	Share capital	Cash flow hedges	Investment in Capital Power	Available-for-sale financial asset	Cumulative translation account	Employee benefits account	Retained earnings	
Equity at December 31, 2014	\$ 24	\$ (5)	\$ 12	\$ 1	\$ 44	\$ (11)	\$ 2,275	\$ 2,340
Net income for the period	-	-	-	-	-	-	69	69
Other comprehensive income:								
Equity share of other comprehensive income of Capital Power L.P.	-	-	7	-	-	-	-	7
Unrealized gain on foreign subsidiary	-	-	-	-	29	-	-	29
Total comprehensive income	-	-	7	-	29	-	69	105
Dividends	-	-	-	-	-	-	(35)	(35)
Equity at March 31, 2015	\$ 24	\$ (5)	\$ 19	\$ 1	\$ 73	\$ (11)	\$ 2,309	\$ 2,410

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

# EPCOR UTILITIES INC.

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

Three months ended March 31, 2016 and 2015

	2016	2015
Cash flows from (used in) operating activities:		
Net income for the period	\$ 78	\$ 69
Reconciliation of net income for the year to cash from (used in) operating activities:		
Interest paid	(29)	(28)
Finance expenses	34	33
Income tax expense (recovery)	1	(2)
Depreciation and amortization	37	40
Change in employee benefits provisions	6	(4)
Contributions received	6	10
Deferred revenue recognized	(7)	(6)
Fair value change on derivative instruments	(1)	(2)
Equity share of income from Capital Power L.P.	-	(12)
Dividend income from available-for-sale investment in Capital Power	(3)	-
Other	(5)	3
Funds from operations	117	101
Change in non-cash operating working capital	19	12
<b>Net cash flows from operating activities</b>	<b>136</b>	<b>113</b>
Cash flows from (used in) investing activities:		
Acquisition or construction of property, plant and equipment and other assets <sup>1</sup>	(88)	(70)
Proceeds on disposal of property, plant and equipment	16	-
Change in non-cash investing working capital	1	3
Payments received (advances) on finance lease receivables and other financial assets	151	(18)
Payment of Gold Bar transfer fees	-	(1)
Distributions received from Capital Power	3	6
<b>Net cash flows from (used in) investing activities</b>	<b>83</b>	<b>(80)</b>
Cash flows from (used in) financing activities:		
Proceeds from issuance (repayment) of short-term loans and borrowings	(51)	6
Repayment of long-term loans and borrowings	(132)	(1)
Provisions	(1)	-
Dividends paid	(35)	(35)
<b>Net cash flows used in financing activities</b>	<b>(219)</b>	<b>(30)</b>
Increase in cash and cash equivalents	-	3
Cash and cash equivalents, beginning of period	36	37
<b>Cash and cash equivalents, end of period</b>	<b>\$ 36</b>	<b>\$ 40</b>

<sup>1</sup> Interest payment of \$1 million (2015 – \$1 million) is included in acquisition or construction of property, plant and equipment and other assets.

# EPCOR UTILITIES INC.

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

March 31, 2016

---

## 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, 2015, 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 6, 2016.

### (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, available-for-sale investment in Capital Power and derivative financial instruments, which are measured at fair value.

## 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, 2016, that did not have a significant impact on these financial statements.

# EPCOR UTILITIES INC.

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

March 31, 2016

## 4. Derivatives

	March 31, 2016	December 31, 2015
Electricity price forward contracts	\$ 1	\$ 2
Interest rate swaps	15	10
	<b>\$ 16</b>	<b>\$ 12</b>
Current	\$ 1	\$ 2
Non-current	15	10
	<b>\$ 16</b>	<b>\$ 12</b>

### Electricity price forward contracts

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

	March 31, 2016	December 31, 2015
<b>Derivative instruments liabilities</b>		
Fair value	\$ 4	\$ 9
Cash paid to counterparty	(3)	(7)
Net fair value	<b>\$ 1</b>	<b>\$ 2</b>

## 5. Financial instruments

### Classification

The classification of the Company's financial instruments at March 31, 2016, and December 31, 2015, is summarized as follows:

	Classification					Fair value hierarchy
	Fair value through profit or loss	Loans and receivables	Other liabilities	Available- for-sale		
<b>Measured at fair value</b>						
Beneficial interest in sinking fund				X		Level 1
Available-for-sale						
investment in Capital Power				X		Level 1
Derivatives						
Financial electricity						
purchase contracts – designated	X					Level 1
Interest rate swaps – designated	X					Level 2
<b>Measured at amortized cost</b>						
Cash and cash equivalents		X				Level 1
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



# EPCOR UTILITIES INC.

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

March 31, 2016

## 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) 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, 2016		December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Other financial assets (non-current)	\$ 275	\$ 286	\$ 316	\$ 330
Available-for-sale investment in Capital Power	169	169	167	167
Loans and borrowings				
Debentures and borrowings	1,995	2,427	2,198	2,554
Beneficial interest in sinking fund	(82)	(82)	(81)	(81)
Derivatives	16	16	12	12

### 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.

### Other financial assets

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, 2016, and December 31, 2015. 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, 2016, and December 31, 2015.

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

The available-for-sale investment in Capital Power represents an investment in common shares of Capital Power Corporation. The fair value of the investment is based on the quoted price of common shares of Capital Power Corporation (CPX) on the Toronto Stock Exchange at March 31, 2016, and December 31, 2015.

### 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, 2016, and December 31, 2015. 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.

# EPCOR UTILITIES INC.

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

March 31, 2016

---

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

## *Derivatives*

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

The fair value of the Company's interest rate swaps is based on valuations obtained from the counterparty. The fair value is determined by the counterparty using a discounted cash flow model. The inputs used include notional amounts, the quoted forward Canadian Dealer Offering Rate 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.

## **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, distribution and sale of water and the treatment of wastewater within Edmonton and other communities throughout Western Canada and the Southwestern U.S.

### **Distribution and Transmission**

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

### **Energy Services**

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

### **Corporate**

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

# EPCOR UTILITIES INC.

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

March 31, 2016

## Lines of business information

Three months ended March 31, 2016							
	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated	
External revenues and other income	\$ 151	\$ 110	\$ 214	\$ 5	\$ -	\$ 480	
Inter-segment revenue	-	46	3	-	(49)	-	
Total revenues and other income	151	156	217	5	(49)	480	
Energy purchases and system access fees	-	40	183	-	(44)	179	
Other raw materials and operating charges	34	10	-	-	(2)	42	
Staff costs and employee benefits expenses	37	24	7	9	(2)	75	
Depreciation and amortization	14	18	2	3	-	37	
Franchise fees and property taxes	7	17	-	-	-	24	
Other administrative expenses	5	1	5	3	(1)	13	
Operating expenses	97	110	197	15	(49)	370	
Operating income (loss) before corporate charges	54	46	20	(10)	-	110	
Corporate (charges) income	(7)	(7)	(2)	16	-	-	
Operating income	47	39	18	6	-	110	
Finance (expenses) recoveries	(24)	(13)	(1)	4	-	(34)	
Dividend income from available-for- sale investment in Capital Power	-	-	-	3	-	3	
Income tax (expense) recovery	(2)	-	-	1	-	(1)	
Net income	\$ 21	\$ 26	\$ 17	\$ 14	\$ -	\$ 78	
Total assets	\$ 3,301	\$ 1,934	\$ 146	\$ 3,059	\$ (2,558)	\$ 5,882	
Total liabilities	2,598	1,273	116	1,917	(2,558)	3,346	
Capital additions	29	57	-	2	-	88	

# EPCOR UTILITIES INC.

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

March 31, 2016

Three months ended March 31, 2015							
	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated	
External revenues and other income	\$ 147	\$ 101	\$ 225	\$ 5	\$ -	\$ 478	
Inter-segment revenue	-	42	3	-	(45)	-	
Total revenues and other income	147	143	228	5	(45)	478	
Energy 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) recoveries	(22)	(12)	(1)	2	-	(33)	
Equity share of income of Capital Power L.P.	-	-	-	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 L.P.	-	-	-	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  
(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

March 31, 2016

## Geographic information

	Three months ended March 31, 2016				Three months ended March 31, 2015			
	Canada	U.S.	Inter-segment eliminations	Total	Canada	U.S.	Inter-segment eliminations	Total
External revenues and other income	\$ 433	\$ 47	\$ -	\$ 480	\$ 439	\$ 39	\$ -	\$ 478
Inter-segment revenues	49	-	(49)	-	45	-	(45)	-
Total revenues and other income	\$ 482	\$ 47	\$ (49)	\$ 480	\$ 484	\$ 39	\$ (45)	\$ 478

## Non-current assets

	March 31, 2016	December 31, 2015
Canada	\$ 4,246	\$ 4,362
U.S.	1,122	1,055
	\$ 5,368	\$ 5,417