

**EPCOR UTILITIES INC.**  
**Consolidated Statements of Income (Loss)**  
**(Unaudited, in millions of dollars)**

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Revenues	\$ 363	\$ 735	\$ 701	\$ 1,631
Expenses (income):				
Energy purchases and fuel	172	337	344	897
Operations, maintenance and administration	101	187	182	341
Franchise fees, property taxes and other taxes	15	17	30	36
Depreciation, amortization, and asset retirement accretion	22	64	45	130
Foreign exchange losses	-	5	-	2
Equity share of loss (income) of Capital Power (note 5)	27	-	(49)	-
Gain on sale of power syndicate agreement (note 6b)	-	-	-	(30)
Net financing expenses	33	38	67	80
	<u>370</u>	<u>648</u>	<u>619</u>	<u>1,456</u>
Income (loss) before income taxes and non-controlling interests	(7)	87	82	175
Income taxes	<u>1</u>	<u>6</u>	<u>3</u>	<u>12</u>
Income (loss) before non-controlling interests	(8)	81	79	163
Non-controlling interests (note 9)	<u>-</u>	<u>31</u>	<u>-</u>	<u>9</u>
Net income (loss)	<u>\$ (8)</u>	<u>\$ 50</u>	<u>\$ 79</u>	<u>\$ 154</u>

See accompanying notes to consolidated financial statements.

**EPCOR UTILITIES INC.**  
**Consolidated Balance Sheets**  
**(Unaudited, in millions of dollars)**

	June 30, 2010	December 31, 2009
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 27	\$ 11
Accounts receivable	234	245
Income taxes recoverable	-	2
Inventories	12	11
Prepaid expenses	3	2
Future income tax assets	1	1
Current portion of long-term receivables	42	254
	319	526
Property, plant and equipment	1,815	1,778
Contract and customer rights and other intangible assets	104	110
Future income tax assets	41	40
Long-term receivables	613	643
Investment in Capital Power (note 5)	1,488	1,481
Other assets (note 7)	167	163
	\$ 4,547	\$ 4,741
<b>Liabilities and Shareholder's Equity</b>		
<b>Current liabilities:</b>		
Short-term debt (note 8)	\$ 59	\$ -
Accounts payable and accrued liabilities	215	241
Income taxes payable	1	-
Other current liabilities	34	32
Current portion of long-term debt (note 8)	22	225
	331	498
Long-term debt (note 8)	1,674	1,692
Other non-current liabilities	66	81
Future income tax liabilities	1	-
	2,072	2,271
Shareholder's equity	2,475	2,470
Commitment (note 14)		
	\$ 4,547	\$ 4,741

See accompanying notes to consolidated financial statements.

**EPCOR UTILITIES INC.**  
**Consolidated Statements of Changes in Shareholder's Equity**  
**(Unaudited, in millions of dollars)**

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
<b>Share capital and contributed surplus</b>				
Balance, beginning of period	\$ 24	\$ 36	\$ 24	\$ -
Capital contribution (adjustment) (note 6a)	-	(4)	-	32
Balance, end of period	<u>24</u>	<u>32</u>	<u>24</u>	<u>32</u>
<b>Retained earnings</b>				
Balance, beginning of period	2,515	2,543	2,462	2,476
Adjustment for changes in accounting policies	-	-	-	1
Net income (loss)	(8)	50	79	154
Common share dividends paid	(34)	(34)	(68)	(67)
Refundable taxes (note 6b)	-	-	-	(5)
Balance, end of period	<u>2,473</u>	<u>2,559</u>	<u>2,473</u>	<u>2,559</u>
<b>Accumulated other comprehensive loss</b>				
Balance, beginning of period	(13)	(25)	(16)	(47)
Other comprehensive (loss) income	(9)	(18)	(6)	4
Balance, end of period	<u>(22)</u>	<u>(43)</u>	<u>(22)</u>	<u>(43)</u>
<b>Total shareholder's equity, end of period</b>	<u><u>\$ 2,475</u></u>	<u><u>\$ 2,548</u></u>	<u><u>\$ 2,475</u></u>	<u><u>\$ 2,548</u></u>

See accompanying notes to consolidated financial statements.

**EPCOR UTILITIES INC.**  
**Consolidated Statements of Comprehensive Income (Loss)**  
**(Unaudited, in millions of dollars)**

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Net income (loss)	\$ (8)	\$ 50	\$ 79	\$ 154
Other comprehensive income (loss), net of income taxes:				
Equity in other comprehensive loss from Capital Power <sup>(1)</sup>	(9)	-	(6)	-
Unrealized losses on derivative instruments designated as cash flow hedges <sup>(2)</sup>	-	(10)	-	(1)
Reclassification of losses on derivative instruments designated as cash flow hedges to net income <sup>(3)</sup>	-	5	-	12
Unrealized loss in self-sustaining foreign operations <sup>(4)</sup>	-	(42)	-	(24)
Non-controlling interests <sup>(4)</sup>	-	29	-	17
	<u>(9)</u>	<u>(18)</u>	<u>(6)</u>	<u>4</u>
Comprehensive income (loss)	<u>\$ (17)</u>	<u>\$ 32</u>	<u>\$ 73</u>	<u>\$ 158</u>

<sup>(1)</sup> For the three and six months ended June 30, 2010, net of income tax recoveries of \$1 million and \$1 million, respectively.

<sup>(2)</sup> For the three and six months ended June 30, 2009, net of income tax recoveries of \$4 million and nil, respectively.

<sup>(3)</sup> For the three and six months ended June 30, 2009, net of income tax recoveries of \$2 million and \$5 million, respectively.

<sup>(4)</sup> For the three and six months ended June 30, 2009, net of income tax expense of nil.

See accompanying notes to consolidated financial statements.

**EPCOR UTILITIES INC.**  
**Consolidated Statements of Cash Flows**  
**(Unaudited, in millions of dollars)**

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
<b>Operating activities:</b>				
Net income (loss)	\$ (8)	\$ 50	\$ 79	\$ 154
Adjustments to reconcile net income (loss) to funds from operating activities:				
Depreciation, amortization, and asset retirement accretion	22	64	45	130
Equity share of (income) loss of Capital Power (note 5)	27	-	(49)	-
Gain on sale of power syndicate agreement (note 6b)	-	-	-	(30)
Non-controlling interests in				
Capital Power Income L.P. (note 9)	-	30	-	6
Fair value changes on derivative instruments	-	(42)	-	(23)
Unrealized foreign exchange (gains) losses	-	2	-	(3)
Future income taxes	-	9	-	26
Other	(1)	(1)	(2)	9
	<u>40</u>	<u>112</u>	<u>73</u>	<u>269</u>
Change in non-cash operating working capital	(26)	(8)	(5)	(18)
	<u>14</u>	<u>104</u>	<u>68</u>	<u>251</u>
<b>Investing activities:</b>				
Property, plant and equipment and other assets	(37)	(168)	(81)	(304)
Change in non-cash investing working capital	-	(4)	(5)	(28)
Distributions from Capital Power (note 5)	18	-	36	-
Payments received on long-term receivables	244	-	244	-
Proceeds on sale of power syndicate agreement (note 6b)	-	-	-	47
Payment of Gold Bar transfer fee (note 6a)	-	-	(15)	(17)
Proceeds from disposal of Castleton	-	12	-	12
Other	(1)	2	(1)	4
	<u>224</u>	<u>(158)</u>	<u>178</u>	<u>(286)</u>
<b>Financing activities:</b>				
Net issuance of short-term debt	16	84	59	328
Proceeds from issue of long-term debt	-	9	-	38
Repayment of long-term debt	(210)	(22)	(221)	(249)
Distributions to non-controlling interests	-	(23)	-	(47)
Common share dividends paid	(34)	(34)	(68)	(67)
Other	-	(1)	-	(1)
	<u>(228)</u>	<u>13</u>	<u>(230)</u>	<u>2</u>
Foreign exchange gain (loss) on cash held in a foreign currency	-	(2)	-	3
Increase (decrease) in cash and cash equivalents	10	(43)	16	(30)
Cash and cash equivalents, beginning of period	17	124	11	111
	<u>\$ 27</u>	<u>\$ 81</u>	<u>\$ 27</u>	<u>\$ 81</u>
<b>Supplemental cash flow information:</b>				
Interest paid net of interest received	\$ 39	\$ 35	\$ 70	\$ 69
Income taxes paid net of income taxes recovered	-	12	-	18

See accompanying notes to consolidated financial statements.

**EPCOR UTILITIES INC.**  
**Notes to the Interim Consolidated Financial Statements**  
**June 30, 2010**  
**(Unaudited, tabular amounts in millions of dollars)**

**1. Basis of presentation:**

These unaudited interim consolidated financial statements of EPCOR Utilities Inc. (the Company or EPCOR) have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) for interim financial statements and do not include all of the disclosures normally found in the Company's annual consolidated financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2009.

These financial statements have been prepared following the same accounting policies and methods as those used in preparing the most recent annual consolidated financial statements.

**2. Nature of operations:**

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.

**3. Measurement uncertainty:**

In accordance with Canadian GAAP, the Company uses estimates in preparing its consolidated financial statements. Interim consolidated financial statements necessarily apply a greater use of estimates than the annual consolidated financial statements.

**4. Future accounting changes:**

In January 2009, the Canadian Institute of Chartered Accountants (CICA) issued Handbook Section 1601 – Consolidated Financial Statements and Section 1602 - Non-controlling Interests, which replace Section 1600 – Consolidated Financial Statements. Section 1601 establishes the standards for the preparation of consolidated financial statements while Section 1602 establishes the standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of International Financial Reporting (IFRS) IAS 27 – Consolidated and Separate Financial Statements.

Sections 1601 and 1602 will apply to interim and annual consolidated financial statements relating to periods commencing on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, provided Section 1582 – Business Combinations is also adopted at the same time. The impact of the new standards and the option to adopt them early will be assessed as part of the Company's IFRS conversion project.

In January 2009, the CICA issued Handbook Section 1582 – Business Combinations, which replaces Section 1581 – Business Combinations and provides the Canadian equivalent to IFRS 3 – Business Combinations. The section will apply, on a prospective basis, to future business combinations for which the acquisition date is on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year provided Sections 1601 – Consolidated Financial Statements and 1602 – Non-controlling Interests are also adopted at the same time. The impact of the new standard and the option to adopt it early will be assessed as part of the Company's IFRS conversion project.

**5. Investment in Capital Power:**

On May 8, 2009, EPCOR announced its plans to create Capital Power (consisting of Capital Power Corporation and its subsidiaries, including Capital Power L.P.), a power generation company that is headquartered in Edmonton. The final prospectus for the initial public offering of 21,750,000 common shares of Capital Power, at \$23.00 per common share, was filed with securities regulators in Canada on June 25, 2009. The initial public offering closed in early July 2009.

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Through a series of transactions, EPCOR sold substantially all of its power generation assets, net of certain liabilities, and related operations including its 30.6% interest in Capital Power Income L.P. (formerly EPCOR Power L.P.) (CPILP), to Capital Power, effective early July 2009. The assets and related operations were previously included in EPCOR's Generation and Energy Services segments. EPCOR also entered into various agreements with Capital Power to provide for certain aspects of the separation of the power generation business from EPCOR, to provide for the continuity of operations and services and to govern the ongoing relationships between the two groups of entities.

The equity interest 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 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 72.2% interest in Capital Power, and subsequently increased to recognize the Company's share of earnings of Capital Power and reduced by the distributions paid by Capital Power.

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

	June 30, 2010	December 31, 2009
Opening balance	\$ 1,481	\$ -
Initial investment	-	1,415
Equity share of net income	49	68
Equity share of other comprehensive (loss) income	(6)	16
Distributions paid by Capital Power	(36)	(18)
	<b>\$ 1,488</b>	<b>\$ 1,481</b>

Summarized financial information of Capital Power L.P.:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Revenues	\$ 305	\$ -	\$ 802	\$ -
Net income (loss)	(37)	-	59	-

	June 30, 2010	December 31, 2009
Total assets	\$ 5,043	\$ 5,031
Total debt	1,859	1,771
Total other liabilities	642	693
Total liabilities	2,501	2,464
Non-controlling interests	545	571
Total equity	1,997	1,996
Total liabilities and equity <sup>(1)</sup>	<b>\$ 5,043</b>	<b>\$ 5,031</b>

<sup>(1)</sup> Includes the Company's investment in the debt and equity of Capital Power L.P.

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**6. Other acquisitions and disposals:**

**(a) Transfer of Gold Bar Wastewater Treatment Plant:**

On March 31, 2009, the City of Edmonton (the City) transferred Gold Bar Wastewater Treatment Plant (Gold Bar) to EPCOR. Gold Bar primarily handles wastewater treatment requirements for residents of Edmonton.

The Gold Bar property, plant and equipment assets were transferred on March 31, 2009 at their carrying amounts totaling \$258 million including \$48 million of contributed assets on which EPCOR cannot earn a return. EPCOR also assumed the offsetting capital contributions associated with the \$48 million of contributed assets. Pursuant to the Gold Bar asset transfer agreement, EPCOR issued \$112 million of long-term debt to the City, being EPCOR's share of the City's debt obligations in respect of the Gold Bar assets. The long-term debt bears interest at a weighted average rate of approximately 5.21%. The \$24 million difference between the amount paid and the City's carrying amount of Gold Bar is reflected as an equity contribution from the City. At the time the transaction was first recorded in March 2009, the estimated contributed surplus arising from the transaction was \$36 million. As the transfer was finalized in 2009, subsequent revisions to the carrying amount of the assets transferred resulted in adjustments to the contributed surplus decreasing the amount to \$24 million.

In exchange for the net assets transferred, EPCOR will pay a total transfer fee of \$75 million. The estimated annual instalments remaining to be paid on the outstanding balance are as follows:

2011	\$	14
2012		12
2013		10
2014		6
2015		1
Total	\$	43

The Gold Bar assets, liabilities, revenues and expenses are reflected in the Water Services segment.

The Gold Bar Master Agreement identified that certain transfers of lands related to the Gold Bar plant would not occur until after the transfer date of March 31, 2009, pending the identification, subdivision and rezoning of Gold Bar site lands and adjacent lands owned by the City to be exchanged to meet future land requirements of both parties. The subdivision, rezoning and the subsequent transfer of title by the City to EPCOR is anticipated to occur in 2011. While the carrying amounts of the existing Gold Bar lands on City records is not material, the identification of lands to be exchanged may result in future payments being made by EPCOR to the City based on differentials in land values of the exchanged lands. Any difference between amounts paid and the carrying amount of the land, which is not expected to be material, will be recorded as an adjustment to contributed surplus.

**(b) Sale of power syndicate agreement:**

In June 2006, the Company finalized an agreement to sell its Battle River Power Purchase Arrangement and its related interest in the Battle River Power Syndicate Agreement (Battle River PSA). The agreement resulted in the sale of 75% of the Battle River PSA through to the year ended December 31, 2008.

During the first quarter of 2009, an additional 10% of the Battle River PSA was sold. The transaction is summarized as follows:



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	Six months ended June 30,	
	2009	
Cash proceeds from sale	\$	47
Less net book value and costs of disposal		17
Gain on sale before income taxes		30
Less future income taxes		4
Gain on sale after income taxes	\$	26

Refundable taxes of \$5 million, which arose from the taxable capital gains on the sale of the Battle River PSA, were charged to retained earnings.

The Company's remaining interest in the Battle River PSA was sold to Capital Power as part of the sale of the power generation business in July 2009.

**7. Other assets:**

	June 30,	December 31,
	2010	2009
Net investments in leases	\$ 125	\$ 124
Floating-rate notes	39	37
Goodwill	2	2
Other	1	-
	\$ 167	\$ 163

At June 30, 2010, the Company held \$39 million (2009 - \$37 million) in floating-rate notes. The floating-rate notes arose from the January 2009 restructuring of the Canadian non-bank asset backed commercial paper (ABCP) market including the Company's holdings in affected ABCP.

**8. Short-term and long-term debt:**

Bank lines of credit are unsecured and are available to the Company up to an amount of \$541 million, comprised of committed amounts of \$500 million and uncommitted amounts of \$41 million. Letters of credit totaling \$100 million have been issued under these credit facilities as described in note 13. Amounts borrowed, and letters of credit issued, if any, under these credit facilities which are not payable within one year, are classified as long-term debt.

The Company's commercial paper program has an authorized capacity of \$500 million and an issuance limit of \$225 million under the committed credit facilities. Commercial paper of \$59 million has been issued at June 30, 2010 (December 31, 2009 - \$nil).

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**9. Non-controlling interests:**

Results of operations which relate to non-controlling interests are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Non-controlling interests in CPILP	\$ -	\$ 30	\$ -	\$ 6
Preferred share dividends paid by subsidiary companies	-	1	-	3
	\$ -	\$ 31	\$ -	\$ 9

Prior to the sale of power generation business in July 2009, the Company held a controlling interest in CPILP.

**10. Fair value and classification of non-derivative financial assets and liabilities:**

The Company classifies its current and non-current derivative instruments assets and liabilities as held-for-trading and measures them at fair value. Accounts receivable are classified as loans and receivables; short-term debt, accounts payable and accrued liabilities, and other current liabilities are classified as other financial liabilities all of which are measured at amortized cost and their fair values are not materially different from their carrying amounts due to their short-term nature. The Company's beneficial interest in the sinking fund related to the City debentures is classified as available-for-sale.

The classification, carrying amounts and fair values of the Company's other financial instruments at June 30, 2010 and December 31, 2009 respectively are summarized as follows:

Financial asset or liability	Classification	June 30, 2010		December 31, 2009	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Other assets</b>					
Cash and cash equivalents	Held-for-trading	\$ 27	\$ 27	\$ 11	\$ 11
Floating-rate notes (prior to January 21, 2009 – ABCP)	Held-for-trading	39	39	37	37
Net investments in leases	Loans and receivables	130	134	127	143
<b>Long-term receivables</b>					
(including current portion)	Loans and receivables	655	710	897	955
<b>Long-term debt</b>					
(including current portion)	Other financial liabilities	1,696	1,919	1,917	2,058

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**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 instrument either directly or indirectly, a Level 3 valuation for the assets or liabilities are not based on observable market data.

Financial instruments were classified as follows:

June 30, 2010				
Financial instrument	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 27	\$ -	\$ -	\$ 27
Floating rate notes (prior to January 21, 2009 – ABCP)	-	39	-	39

  

December 31, 2009				
Financial instrument	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 11	\$ -	\$ -	\$ 11
Floating rate notes (prior to January 21, 2009 – ABCP)	-	37	-	37

**11. Derivative instruments and hedge accounting:**

Prior to the sale of the power generation business in July 2009, derivative financial and non-financial instruments were held for the purpose of energy purchases, merchant trading or financial risk management. Subsequent to the sale of the power generation business, derivative financial instruments may be held for the purpose of energy purchases or financial risk management. At June 30, 2010, the Company held no derivative financial instruments.

Unrealized and realized pre-tax gains and losses on derivative instruments recognized in other comprehensive income and net income were as follows:

	Three months ended June 30,			
	<u>2010</u>		<u>2009</u>	
	Unrealized gains (losses)	Realized gains (losses)	Unrealized gains (losses)	Realized gains (losses)
Energy cash flow hedges	\$ -	\$ -	\$ (7)	\$ (6)
Energy non-hedges	-	-	10	(12)
Foreign exchange non-hedges	-	-	30	5

  

	Six months ended June 30,			
	<u>2010</u>		<u>2009</u>	
	Unrealized gains (losses)	Realized gains (losses)	Unrealized gains (losses)	Realized gains (losses)
Energy cash flow hedges	\$ -	\$ -	\$ 16	\$ (17)
Energy non-hedges	-	-	9	(32)
Foreign exchange non-hedges	-	-	13	4

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Realized gains and losses disclosed above relate only to financial derivative instruments. Realized gains and losses on non-financial derivative instruments are recorded in energy revenues or energy purchases and fuel, as appropriate.

**12. Risk management:**

**Liquidity risk**

As at June 30, 2010, the Company had undrawn and committed bank credit facilities of \$403 million (December 31, 2009 - \$405 million) which are committed for at least 2 years.

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 June 30, 2010, the available amount remaining under the Canadian shelf prospectus was \$1 billion (December 31, 2009 - \$1 billion).

The following are the undiscounted cash flow requirements and contractual maturities of the Company's financial liabilities, including interest payments, as at June 30, 2010:

	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due between 3 and 4 years	Due between 4 and 5 years	Due after more than 5 years	Total contractual cash flows
<b>Non-derivative financial liabilities:</b>							
Short-term debt	\$ 59	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 59
Long-term debt	39	227	20	15	14	1,394	1,709
Interest payments on long-term debt	138	119	102	93	92	1,105	1,649
Accounts payable and accrued liabilities <sup>1</sup>	184	-	-	-	-	-	184
Other current liabilities	34	-	-	-	-	-	34
<b>Total</b>	<b>\$ 454</b>	<b>\$ 346</b>	<b>\$ 122</b>	<b>\$ 108</b>	<b>\$ 106</b>	<b>\$ 2,499</b>	<b>\$ 3,635</b>

<sup>1</sup> Excluding accrued interest payable of \$31 million on long-term debt.

The following are the undiscounted cash flow requirements and contractual maturities of the Company's financial liabilities, including interest payments, as at December 31, 2009:

	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due between 3 and 4 years	Due between 4 and 5 years	Due after more than 5 years	Total contractual cash flows
<b>Non-derivative financial liabilities:</b>							
Short-term debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term debt	242	232	24	18	14	1,400	1,930
Interest payments on long-term debt	150	130	107	97	92	1,152	1,728
Accounts payable and accrued liabilities <sup>1</sup>	209	-	-	-	-	-	209
Other current liabilities	32	-	-	-	-	-	32
<b>Total</b>	<b>\$ 633</b>	<b>\$ 362</b>	<b>\$ 131</b>	<b>\$ 115</b>	<b>\$ 106</b>	<b>\$ 2,552</b>	<b>\$ 3,899</b>

<sup>1</sup> Excluding accrued interest of \$32 million on long-term debt.

The Company has long-term loans receivable from Capital Power which match certain of the long-term debt liabilities above. The following are the undiscounted maturities of the long-term loans receivable from Capital Power as at June 30, 2010:

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Due within 1 year	Due 1 and 2 years	Due between			Due after more than 5 years	Total contractual cash flows
1 year	1 and 2 years	2 and 3 years	3 and 4 years	4 and 5 years	5 years	cash flows
<b>Long-term loans receivable from Capital Power:</b>						
\$ 33	\$ 225	\$ 14	\$ 8	\$ 9	\$ 324	\$ 613

**13. Guarantees:**

At June 30, 2010, the Company had letters of credit outstanding of \$100 million (December 31, 2009 - \$99 million) to meet the credit requirements of energy market participants and to meet conditions of certain service agreements.

Prior to the sale of its power generation business to Capital Power, the Company issued parental guarantees on behalf of subsidiaries to meet the credit requirements of energy market participants and to meet conditions of certain service agreements. During the second quarter of 2010, the Company transferred \$1,150 million of outstanding parental guarantees to Capital Power and at June 30, 2010, continued to have outstanding parental guarantees on behalf of Capital Power totaling \$19 million (December 31, 2009 - \$1,295 million). The Company and Capital Power expect to finalize transfer of the remaining parental guarantees to Capital Power by the end of 2010. Capital Power has indemnified EPCOR for any demand for payments under these guarantees. The expected liability associated with these guarantees is not material and has not been recorded in these financial statements.

**14. Commitment:**

On June 7, 2010, the Company entered into an agreement to acquire all of the outstanding shares of Chaparral City Water Company (Chaparral), a wholly owned subsidiary of American States Water Company, for an aggregate purchase price of US\$29 million subject to closing adjustments. Chaparral is a public utility company engaged principally in the purchase, production, distribution and sale of water to approximately 13,000 customers in the Town of Fountain Hill, Arizona and a small portion of Scottsdale, Arizona. The acquisition, which is subject to regulatory approval by the Arizona Corporation Commission, is expected to close in 2011.

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**(Unaudited, tabular amounts in millions of dollars)**

**15. Segment disclosures:**

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

**Distribution and Transmission**

Distribution and Transmission is involved in the rate-regulated 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 and small commercial customers in Alberta. Prior to the sale of the power generation business in July 2009, Energy Services was involved in the procurement, marketing and sale of electricity and natural gas in retail and wholesale markets in Alberta, Ontario, the North Eastern U.S. and the U.S. Pacific North West.

**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.

**Corporate**

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

**Generation**

Prior to the sale of the power generation business in July 2009, Generation was involved in the development and operation of rate-regulated and non-rate-regulated electrical generation plants within Canada and the United States.

**EPCOR UTILITIES INC.**  
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**June 30, 2010**  
**(Unaudited, tabular amounts in millions of dollars)**

Three months ended June 30, 2010								
	Distribution and Transmission	(1) Energy Services	Water Services	Corporate	Generation	Intersegment Eliminations	Consolidated	
Revenues – external	\$ 45	\$ 202	\$ 101	\$ 15	\$ -	\$ -	\$	\$ 363
Intersegment revenues	29	3	1	-	-	(33)	-	-
Total revenues	74	205	102	15	-	(33)	-	363
Energy purchases and fuel	18	181	-	-	-	(27)	-	172
Operations, maintenance, administration and foreign exchange losses (gains)	23	11	60	12	-	(5)	-	101
Franchise fee, property taxes and other taxes	10	-	5	-	-	-	-	15
Depreciation, amortization and asset retirement accretion	8	4	7	3	-	-	-	22
Operating expenses	59	196	72	15	-	(32)	-	310
Operating income (loss) before corporate charges	15	9	30	-	-	(1)	-	53
Corporate charges (income)	5	4	7	(16)	-	-	-	-
Operating income	\$ 10	\$ 5	\$ 23	\$ 16	\$ -	\$ (1)	-	53
Equity share of loss of Capital Power								(27)
Net financing expenses								(33)
Loss before income taxes and non-controlling interests								\$ (7)
Capital additions	\$ 17	\$ -	\$ 20	\$ -	\$ -	\$ -	\$ -	\$ 37

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	Three months ended June 30, 2009							
	Distribution and Transmission	(1) Energy Services	Water Services	Corporate	Generation	Intersegment Eliminations	Consolidated	
Revenues – external	\$ 24	\$ 374	\$ 91	\$ -	\$ 246	\$ -	\$ 735	
Intersegment revenues	28	7	1	-	31	(67)	-	
Total revenues	52	381	92	-	277	(67)	735	
Energy purchases and fuel	8	321	-	-	65	(57)	337	
Operations, maintenance, administration and foreign exchange losses (gains)	17	27	59	31	68	(10)	192	
Franchise fee, property taxes and other taxes	8	-	4	-	5	-	17	
Depreciation, amortization and asset retirement accretion	8	5	7	3	41	-	64	
Operating expenses	41	353	70	34	179	(67)	610	
Operating income (loss) before corporate charges	11	28	22	(34)	98	-	125	
Corporate charges (income)	5	7	6	(34)	16	-	-	
Operating income	\$ 6	\$ 21	\$ 16	\$ -	\$ 82	\$ -	125	
Net financing expenses							(38)	
Income before income taxes and non-controlling interests							\$ 87	
Capital additions	\$ 19	\$ 3	\$ 17	\$ 5	\$ 124	\$ -	\$ 168	

(1) The Energy Services segment operating income includes \$23 million for the three months ended June 30, 2009 related to the wholesale electricity and natural gas business that was sold to Capital Power.



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Six months ended June 30, 2010							
	Distribution and Transmission	Energy Services	Water Services	Corporate	Generation	Intersegment Eliminations	Consolidated
Revenues – external	\$ 85	\$ 406	\$ 180	\$ 30	\$ -	\$ -	\$ 701
Intersegment revenues	58	6	1	-	-	(65)	-
Total revenues	143	412	181	30	-	(65)	701
Energy purchases and fuel	33	365	-	-	-	(54)	344
Operations, maintenance, administration and foreign exchange (gains) losses	38	23	107	25	-	(11)	182
Franchise fee, property taxes and other taxes	22	-	8	-	-	-	30
Depreciation, amortization and asset retirement accretion	17	7	15	6	-	-	45
Operating expenses	110	395	130	31	-	(65)	601
Operating income (loss) before corporate charges	33	17	51	(1)	-	-	100
Corporate charges (income)	11	7	13	(31)	-	-	-
Operating income	\$ 22	\$ 10	\$ 38	\$ 30	\$ -	\$ -	100
Equity share of income of Capital Power							49
Net financing expenses							(67)
Income before income taxes and non-controlling interests							\$ 82
Capital additions	\$ 47	\$ -	\$ 32	\$ 2	\$ -	\$ -	\$ 81

**EPCOR UTILITIES INC.**  
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<b>Six months ended June 30, 2009</b>							
	Distribution and Transmission	<sup>(1)</sup> Energy Services	Water Services	Corporate	Generation	Intersegment Eliminations	Consolidated
Revenues – external	\$ 59	\$ 958	\$ 158	\$ -	\$ 456	\$ -	\$ 1,631
Intersegment revenues	59	12	1	-	61	(133)	-
Total revenues	118	970	159	-	517	(133)	1,631
Energy purchases and fuel	19	809	-	-	185	(116)	897
Operations, maintenance, administration and foreign exchange (gains) losses	35	41	103	54	127	(17)	343
Franchise fee, property taxes and other taxes	20	-	6	-	10	-	36
Depreciation, amortization and asset retirement accretion	16	12	12	7	83	-	130
Operating expenses	90	862	121	61	405	(133)	1,406
Operating income (loss) before corporate charges	28	108	38	(61)	112	-	225
Corporate charges (income)	10	16	12	(61)	23	-	-
Operating income	\$ 18	\$ 92	\$ 26	\$ -	\$ 89	\$ -	225
Gain on sale of power syndicate agreement							30
Net financing expenses							(80)
Income before income taxes and non-controlling interests							\$ 175
Capital additions	\$ 36	\$ 7	\$ 26	\$ 7	\$ 228	\$ -	\$ 304

<sup>(1)</sup> The Energy Services segment operating income includes \$88 million for the six months ended June 30, 2009 related to the wholesale electricity and natural gas business that was sold to Capital Power.

**Geographic information:**

	<b>Three months ended June 30, 2010</b>				<b>Three months ended June 30, 2009</b>			
	Canada	U.S.	Intersegment Eliminations	Total	Canada	U.S.	Intersegment Eliminations	Total
Revenues - external	\$ 363	\$ -	\$ -	\$ 363	\$ 637	\$ 98	\$ -	\$ 735
Intersegment revenues	-	-	-	-	6	-	(6)	-
Total revenues	\$ 363	\$ -	\$ -	\$ 363	\$ 643	\$ 98	\$ (6)	\$ 735

**EPCOR UTILITIES INC.**  
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	<u>Six months ended June 30, 2010</u>				<u>Six months ended June 30, 2009</u>			
	Canada	U.S.	Intersegment Eliminations	Total	Canada	U.S.	Intersegment Eliminations	Total
Revenues - external	\$ 701	\$ -	\$ -	\$ 701	\$ 1,417	\$ 214	\$ -	\$ 1,631
Intersegment revenues	-	-	-	-	18	2	(20)	-
<b>Total revenues</b>	<b>\$ 701</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 701</b>	<b>\$ 1,435</b>	<b>\$ 216</b>	<b>\$ (20)</b>	<b>\$ 1,631</b>

**16. Comparative figures:**

Certain of the comparative figures have been reclassified to conform with the current period's presentation.