

Condensed Consolidated Interim Financial Statements of

EPCOR UTILITIES INC.

Six months ended June 30, 2012 and 2011

EPCOR UTILITIES INC.

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Revenues (note 6)	\$ 424	\$ 391	\$ 924	\$ 802
Other income	8	10	15	21
Electricity purchases and system access fees	(189)	(212)	(486)	(460)
Other raw materials and operating charges	(36)	(28)	(64)	(49)
Staff costs and employee benefits expense	(70)	(60)	(139)	(117)
Depreciation and amortization	(34)	(26)	(66)	(51)
Franchise fees and property taxes	(19)	(18)	(39)	(37)
Other administrative expenses	(15)	(8)	(29)	(17)
Foreign exchange loss	-	(1)	(3)	(1)
Operating income	69	48	113	91
Finance expense	(29)	(22)	(58)	(51)
Loss on sale of a portion of investment in Capital Power	(36)	-	(36)	-
Equity share of income (loss) of Capital Power (note 7)	(23)	1	7	5
Income (loss) before income taxes	(19)	27	26	45
Income tax expense	(1)	(4)	(2)	(13)
Net income (loss) for the period				
– all attributable to the Owner of the Company	\$ (20)	\$ 23	\$ 24	\$ 32

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

EPCOR UTILITIES INC.

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net income (loss) for the period	\$ (20)	\$ 23	\$ 24	\$ 32
Other comprehensive income (loss):				
Equity share of other comprehensive income (loss) of Capital Power (note 7) ¹	1	3	4	(27)
Amounts realized in net income upon sale of a portion of investment in Capital Power ²	(2)	-	(2)	-
Unrealized loss on available-for-sale financial assets ³	-	-	(2)	(1)
Unrealized gain on foreign currency translation ⁴	6	-	4	-
Other comprehensive income (loss)	5	3	4	(28)
Total comprehensive income (loss) for the period - all attributable to the Owner of the Company	\$ (15)	\$ 26	\$ 28	\$ 4

¹ For the three and six months ended June 30, 2012, net of income tax expense of \$1 million, respectively. For the three and six months ended June 30, 2011, net of income tax expense of nil and income tax recovery of \$8 million, respectively.

² For the three and six months ended June 30, 2012 and 2011, net of income tax recovery of nil.

³ For the three and six months ended June 30, 2012 and 2011, net of income tax recovery of nil.

⁴ For the three and six months ended June 30, 2012 and 2011, net of income tax expense of nil.

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EPCOR UTILITIES INC.

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

As at June 30, 2012 and December 31, 2011

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 313	\$ 316
Trade and other receivables	300	372
Inventories	15	12
Derivatives	-	11
	628	711
Non-current assets:		
Finance lease receivables	127	127
Other financial assets	400	402
Deferred tax assets	44	43
Investment in Capital Power (note 7)	720	987
Intangible assets (note 8)	208	104
Property, plant and equipment (note 9)	3,391	2,658
	4,890	4,321
TOTAL ASSETS	\$ 5,518	\$ 5,032
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	\$ 219	\$ 264
Loans and borrowings (note 10)	14	17
Deferred revenue (note 11)	22	16
Provisions	15	18
Other liabilities	32	34
	302	349
Non-current liabilities:		
Loans and borrowings (note 10)	1,972	1,682
Deferred revenue (note 11)	858	586
Deferred tax liabilities	1	1
Provisions	58	33
Other liabilities	19	30
	2,908	2,332
Total liabilities	3,210	2,681
Equity attributable to the Owner of the Company:		
Share capital	24	24
Accumulated other comprehensive income	13	8
Retained earnings	2,271	2,319
Total equity	2,308	2,351
TOTAL LIABILITIES AND EQUITY	\$ 5,518	\$ 5,032

Commitments (note 13)

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)

Six months ended June 30, 2012 and 2011

	Share capital	Cash flow hedges ¹	Available- for-sale financial assets ¹	Cumulative translation account ¹	Investment in Capital Power ¹ (note 7)	Retained earnings	Equity attributable to the Owner of the Company
Balance at January 1, 2012	\$ 24	\$ (9)	\$ 4	\$ 1	\$ 12	\$ 2,319	\$ 2,351
Net income for the period	-	-	-	-	-	24	24
Other comprehensive income (loss):							
Equity share of other comprehensive income of Capital Power	-	-	-	-	4	-	4
Amounts realized in net income upon sale of a portion of investment in Capital Power	-	2	-	-	(4)	-	(2)
Unrealized loss on available-for-sale financial assets	-	-	(2)	-	-	-	(2)
Unrealized gain on foreign subsidiary	-	-	-	4	-	-	4
Total comprehensive income (loss)	-	2	(2)	4	-	24	28
Dividends	-	-	-	-	-	(71)	(71)
Balance at June 30, 2012	\$ 24	\$ (7)	\$ 2	\$ 5	\$ 12	\$ 2,272	\$ 2,308

	Share capital	Cash flow hedges ¹	Available- for-sale financial assets ¹	Cumulative translation account ¹	Investment in Capital Power ¹ (note 7)	Retained earnings	Equity attributable to the Owner of the Company
Balance at January 1, 2011	\$ 24	\$ (11)	\$ 3	\$ -	\$ 13	\$ 2,313	\$ 2,342
Net income for the period	-	-	-	-	-	32	32
Other comprehensive loss:							
Equity share of other comprehensive loss of Capital Power	-	-	-	-	(27)	-	(27)
Unrealized loss on available- for-sale financial assets	-	-	(1)	-	-	-	(1)
Total comprehensive income (loss)	-	-	(1)	-	(27)	32	4
Dividends	-	-	-	-	-	(69)	(69)
Balance at June 30, 2011	\$ 24	\$ (11)	\$ 2	\$ -	\$ (14)	\$ 2,276	\$ 2,277

¹ Accumulated other comprehensive income (loss)

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EPCOR UTILITIES INC.

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

Six months ended June 30, 2012 and 2011

	2012	2011
Cash flows from (used in) operating activities:		
Net income for the period	\$ 24	\$ 32
Reconciliation of net income for the period to cash from operating activities:		
Interest paid	(57)	(60)
Finance expense	58	51
Income taxes paid	(2)	(9)
Income tax expense	2	13
Depreciation and amortization	66	51
Contributions received (note 11)	8	15
Deferred revenue recognized (note 11)	(10)	(6)
Gain on disposal of floating-rate notes	-	(7)
Fair value change on derivatives	11	(2)
Loss on sale of a portion of investment in Capital Power	36	-
Equity share of income from Capital Power (note 7)	(7)	(5)
Foreign exchange gains	(4)	-
Other	(7)	(10)
	118	63
Change in non-cash operating working capital	49	-
Net cash flows from operating activities	167	63
Cash flows from (used in) investing activities:		
Acquisition or construction of property, plant and equipment and other assets	(123)	(109)
Business acquisition, net of acquired cash (note 5)	(460)	(27)
Change in non-cash investing working capital	(27)	(9)
Proceeds on sale of floating-rate notes	-	48
Proceeds on disposal of property, plant and equipment	1	-
Payment of Gold Bar transfer fees	(12)	(15)
Payments received on long-term receivables	-	33
Proceeds on sale of a portion of investment in Capital Power	221	-
Distributions from Capital Power (note 7)	24	30
Net cash flows used in investing activities	(376)	(49)
Cash flows from (used in) financing activities:		
Net issuance of short-term loans and borrowings	-	9
Proceeds from issuance of long-term loans and borrowings	300	-
Repayment of long-term loans and borrowings	(23)	(19)
Provisions	1	-
Common share dividends paid	(71)	(69)
Net cash flows from (used in) financing activities	207	(79)
Decrease in cash and cash equivalents	(2)	(65)
Foreign exchange loss on cash held in a foreign currency	(1)	-
Cash and cash equivalents, at January 1	316	104
Cash and cash equivalents, at June 30	\$ 313	\$ 39

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)

June 30, 2012

1. Nature of operations

EPCOR Utilities Inc. (the Company or EPCOR) builds, owns and operates electrical transmission and distribution networks, water and wastewater treatment facilities and infrastructure, and provides electricity and water services and products to residential and commercial customers.

The Company operates in Canada and the United States (U.S.) with its registered head office located at 2000, 10423 - 101 Street NW, Edmonton, Alberta, Canada, T5H 0E8.

The common shares of EPCOR are owned by The City of Edmonton (the City). The Company was established by Edmonton City Council under City Bylaw 11071.

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

2. Basis of presentation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared by management in accordance with International Accounting Standard 34 - Interim Financial Reporting, as issued by the International Accounting Standards Board and adopted by the Canadian Institute of Chartered Accountants. These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on August 3, 2012.

(b) Basis of measurement

The Company's condensed consolidated interim financial statements are prepared on the historical cost basis, except for valuation of the Company's beneficial interest in the sinking fund held with the City, and its derivatives which are measured at fair value. In addition, the Company's defined benefit pension assets are recognized as the net total of the plan assets, plus unrecognized past service costs and unrecognized actuarial losses, less unrecognized actuarial gains and the present value of the defined benefit obligation.

(c) Additional International Financial Reporting Standards measure

The Company uses "operating income", as an additional International Financial Reporting Standards (IFRS) 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 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 except for the revision or adoption of accounting policies as a result of the acquisition of Arizona-American Water Company and New Mexico-American Water Company, Inc. as described in note 5 below and which were renamed EPCOR Water Arizona Inc. (Arizona Water) and EPCOR Water New Mexico Inc. (New Mexico Water), respectively, subsequent to the acquisition close date.

(a) Foreign currency translation

At each reporting date, the monetary assets and liabilities of the Company's U.S. operations are translated into Canadian dollars at the exchange rate in effect at the balance sheet date, non-monetary items carried at historical cost are translated at the historical acquisition rate, and non-monetary items carried at fair value are translated at the rate that existed when the fair values were determined. Revenues and expenses are translated at average monthly exchange rates. The resulting gains or losses on translation are included in accumulated other comprehensive income. Given that the Arizona Water and New Mexico Water operations acquired in the first quarter of 2012 are much larger than the Chaparral City Water Company operations acquired in 2011, such translation gains or losses will be more significant. The functional currency of the Company's U.S. operations is the U.S. dollar.

EPCOR UTILITIES INC.

Notes to the Condensed Consolidated Interim Financial Statements
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June 30, 2012

(b) Intangible assets

Intangible assets are stated at cost, net of accumulated amortization and any impairment losses. In connection with the Arizona Water and New Mexico Water acquisition, the Company acquired certificates of convenience and necessity (CCN), water rights and other rights. CCN provide the Company with an exclusive right to serve within its specified geographic area in the U.S. The CCN and water rights have indefinite useful lives. Other rights include the right to provide sewage treatment and transportation services, the right to withdraw groundwater and the right to the supply of potable water for emergency and peak purposes. These other rights have useful lives ranging from 17 to 50 years.

(c) Property, plant and equipment

Property, plant and equipment (PP&E) are recorded at cost, net of accumulated depreciation, and accumulated impairment losses, if any. The water treatment and distribution assets acquired in connection with the Arizona Water and New Mexico Water acquisition have useful lives which are different than EPCOR's Canadian assets. The range of estimated useful lives for water treatment and distribution assets across EPCOR is now 3 to 93 years compared with 4 to 90 years before the acquisition.

(d) Provisions

In areas served by Chaparral City Water Company, Arizona Water and New Mexico Water, the Company may receive contributions from customers, homebuilders, real estate developers, and others to fund construction necessary to extend service to new areas. Certain of these contributions may be refunded for a limited period of time as new customers begin to receive service or other contractual obligations are fulfilled. The portion of contributions which are estimated to be refunded in the future have been recorded as provisions. The remaining contributions are classified as deferred revenue.

(e) Deferred revenue

Contributions received towards construction or acquisition of PP&E assets, which are used to provide ongoing service to a customer, are recorded as deferred revenue and are amortized on a straight line basis over the estimated economic useful lives of the related assets.

4. Use of judgments and estimates

The preparation of the Company's condensed consolidated interim financial statements in accordance with IFRS requires management to make, judgments in the application of accounting policies, and estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements.

(a) Judgments

Management applied judgment in determining the appropriate method of accounting for the Arizona Water and New Mexico Water acquisition.

(b) Estimates

Significant accounting estimates were made in determining the fair value of identifiable assets acquired and liabilities assumed in connection with the Arizona Water and New Mexico Water acquisition including discount rates, future income and cash flows, replacement costs, useful lives, residual values and weighted average cost of capital. The fair values were determined using generally accepted methods and the assistance of a third party valuation expert. The Company also estimates the provision for refundable contributions.

With the exception of the estimates relating to the purchase price allocation and potentially refundable contributions discussed above, the same accounting policies and methods of computation were applied in preparing these condensed consolidated interim financial statements as in the Company's annual consolidated financial statements as at and for the year ended December 31, 2011.

The Company reviews its estimates and assumptions on an ongoing basis and uses the most current information available and exercises careful judgment in making these estimates and assumptions. Adjustments to previous

EPCOR UTILITIES INC.

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June 30, 2012

estimates, which may be material, will be recorded in the period they become known. Actual results may differ from these estimates.

5. Acquisition of Arizona Water and New Mexico Water

On January 31, 2012, as the result of an award through a competitive bid process, the Company completed the acquisition of 100% of the stock of Arizona Water and New Mexico Water from American Water Works Company, Inc. for cash consideration of \$460 million (US\$458 million) and the assumption of \$9 million (US\$9 million) in long-term debt, subject to certain adjustments. Arizona Water and New Mexico Water are public utility companies engaged principally in the purchase, treatment, distribution and sale of water to approximately 123,000 customers and wastewater treatment and related services to approximately 51,000 customers in 13 municipalities in the states of Arizona and New Mexico. This investment provides the Company with a strong hub in the Southwestern U.S., consistent with the Company's strategic plan for expansion.

The purchase price was allocated to the assets acquired and liabilities assumed based on their preliminary estimated fair values as follows:

Trade and other receivables	\$	11
Goodwill		14
Intangible assets		92
Property, plant and equipment		658
Trade and other payables		(6)
Loans and borrowings		(9)
Provisions – (note 3(d))		(25)
Deferred revenue		(273)
Other non-current liabilities		(2)
	\$	460

The carrying amount of the acquired trade and other receivables and payables approximates the fair value due to their short-term nature.

The current amount of provisions for estimated refundable contributions is \$3 million.

The \$14 million of goodwill arising from the acquisition, included in intangible assets presented on the condensed consolidated interim statement of financial position, consists of the value of an assembled skilled workforce, the expectation of future cash flows and rate recoveries, and the benefits to the Company's growth strategies and future synergies which may result from the Company's expanded operations in the U.S.

The loans and borrowings were repaid in February 2012.

Under the terms of the agreement to acquire Arizona Water and New Mexico Water, the Company has until the fourth quarter of 2012 to decide whether to file jointly with the vendor, a U.S. Internal Revenue Service tax election to treat the acquisition as an asset purchase. If the joint tax election is filed, it would permit the goodwill to be deductible for income tax purposes and an amount agreed upon between the Company and the vendor would become payable to the vendor, resulting in an increase in the final purchase price. If the Company decides not to file the joint tax election, then the goodwill will not be deductible for income tax purposes.

Revenues of \$49 million and net income of \$6 million contributed by Arizona Water and New Mexico Water from the date of acquisition to June 30, 2012 are included in the condensed consolidated interim income statement. The condensed consolidated interim income statement would have included revenue of \$56 million and net income of \$6 million to June 30, 2012 had the Company owned the Arizona Water and New Mexico Water operations from the beginning of 2012. For the three months ended June 30, 2012, revenues of \$32 million and net income of \$6 million were contributed by Arizona Water and New Mexico Water.

The fair value estimates of assets acquired and liabilities assumed are preliminary and are expected to be finalized by

EPCOR UTILITIES INC.

Notes to the Condensed Consolidated Interim Financial Statements
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June 30, 2012

December 31, 2012 based on completion of review by management, including the decision to file the joint tax election. Such review could result in material adjustments to the fair value purchase price allocation.

6. Revenues

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Electricity and water sales	\$ 308	\$ 291	\$ 702	\$ 608
Provision of services	112	93	213	179
Finance lease income	3	3	7	7
Construction revenues	1	4	2	8
	\$ 424	\$ 391	\$ 924	\$ 802

7. 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 June 30, 2012, the Company owned 28.4 million (December 31, 2011 - 38.2 million) exchangeable limited partnership units of Capital Power L.P. (exchangeable for common shares of Capital Power Corporation on a one-for-one basis), representing a 29% (December 31, 2011 - 39%) economic interest in Capital Power. In April 2012, EPCOR sold 9,775,000 common shares of Capital Power at an offering price of \$23.55 per share for aggregate gross proceeds of \$230 million. The Company recorded a \$36 million non-cash loss on the sale.

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 Corporation is listed on the Toronto Stock Exchange under the symbol CPX. The quoted market price of the common shares of Capital Power Corporation at June 30, 2012 was \$23.78 per common share (December 31, 2011 - \$25.12 per common share).

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

	As at and for the six months ended June 30, 2012	As at and for the year ended December 31, 2011
Opening balance	\$ 987	\$ 1,192
Equity share of net income	7	90
Equity share of other comprehensive income (loss)	5	(5)
Capital Power distributions	(21)	(57)
Sale of a portion of the investment and dilutions	(258)	(233)
Closing balance	\$ 720	\$ 987

EPCOR UTILITIES INC.

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

June 30, 2012

8. Intangible assets

	Goodwill	Customer rights	Other rights	CCN	Software	Total
Cost						
Balance at January 1, 2012	\$ 11	\$ 51	\$ 7	\$ -	\$ 162	\$ 231
Additions through business acquisitions	14	-	29	63	-	106
Internally generated additions	-	-	-	-	4	4
Foreign currency translation adjustments	-	1	-	1	-	2
Balance at June 30, 2012	25	52	36	64	166	343
Accumulated amortization						
Balance at January 1, 2012	-	(27)	(1)	-	(99)	(127)
Amortization	-	(2)	-	-	(6)	(8)
Balance at June 30, 2012	-	(29)	(1)	-	(105)	(135)
Net book value						
Balance at June 30, 2012	\$ 25	\$ 23	\$ 35	\$ 64	\$ 61	\$ 208

	Goodwill	Customer rights	Other rights	CCN	Software	Total
Cost						
Balance at January 1, 2011	\$ 2	\$ 70	\$ 3	\$ -	\$ 167	\$ 242
Additions	-	-	-	-	1	1
Additions through business acquisition	9	-	3	-	-	12
Internally generated additions	-	-	1	-	6	7
Disposals and retirements	-	(19)	-	-	(12)	(31)
Balance at December 31, 2011	11	51	7	-	162	231
Accumulated amortization						
Balance at January 1, 2011	-	(44)	(1)	-	(97)	(142)
Disposals and retirements	-	19	-	-	12	31
Amortization	-	(2)	-	-	(14)	(16)
Balance at December 31, 2011	-	(27)	(1)	-	(99)	(127)
Net book value						
Balance at January 1, 2011	\$ 2	\$ 26	\$ 2	\$ -	\$ 70	\$ 100
Balance at December 31, 2011	\$ 11	\$ 24	\$ 6	\$ -	\$ 63	\$ 104

No borrowing costs on intangible assets were capitalized during the six months ended June 30, 2012 (2011 - nil). There are no security charges over the Company's intangible assets. Included in customer rights are the Company's customer rights to operate in the FortisAlberta service territory which expire December 31, 2020.

EPCOR UTILITIES INC.

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

June 30, 2012

9. Property, plant and equipment

	Construction work in progress	Land	Water treatment & distribution	Electricity transmission & distribution	Retail systems & equipment	Corporate information systems & other	Total
Cost							
Balance at January 1, 2012	\$ 96	\$ 30	\$ 2,015	\$ 1,354	\$ 14	\$ 78	\$ 3,587
Additions	123	-	-	1	-	-	124
Additions through business acquisitions	10	-	648	-	-	-	658
Disposals and retirements	-	-	(1)	(2)	-	-	(3)
Foreign currency translation adjustments	-	-	11	-	-	-	11
Balance at June 30, 2012	229	30	2,673	1,353	14	78	4,377
Accumulated depreciation							
Balance at January 1, 2012	-	-	(496)	(400)	(6)	(27)	(929)
Depreciation	-	-	(32)	(20)	(1)	(5)	(58)
Disposals and retirements	-	-	-	1	-	-	1
Balance at June 30, 2012	-	-	(528)	(419)	(7)	(32)	(986)
Net book value							
Balance at June 30, 2012	\$ 229	\$ 30	\$ 2,145	\$ 934	\$ 7	\$ 46	\$ 3,391
Cost							
Balance at January 1, 2011	\$ 71	\$ 30	\$ 1,867	\$ 1,209	\$ 15	\$ 79	\$ 3,271
Additions	63	-	98	129	1	36	327
Additions through business acquisitions	1	-	38	-	-	-	39
Disposals and retirements	-	-	(6)	(5)	(2)	(39)	(52)
Transfers into service	(39)	-	16	21	-	2	-
Foreign currency translation adjustments	-	-	2	-	-	-	2
Balance at December 31, 2011	96	30	2,015	1,354	14	78	3,587
Accumulated depreciation							
Balance at January 1, 2011	-	-	(461)	(365)	(7)	(53)	(886)
Depreciation	-	-	(39)	(38)	(1)	(10)	(88)
Disposals and retirements	-	-	5	3	2	36	46
Other changes and movements	-	-	(1)	-	-	-	(1)
Balance at December 31, 2011	-	-	(496)	(400)	(6)	(27)	(929)
Net book value							
Balance at January 1, 2011	\$ 71	\$ 30	\$ 1,406	\$ 844	\$ 8	\$ 26	\$ 2,385
Balance at December 31, 2011	\$ 96	\$ 30	\$ 1,519	\$ 954	\$ 8	\$ 51	\$ 2,658

EPCOR UTILITIES INC.

Notes to the Condensed Consolidated Interim Financial Statements
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June 30, 2012

Borrowing costs capitalized during the six months ended June 30, 2012 were \$2 million (2011 - \$2 million). The weighted average rate used to determine the borrowing costs eligible for capitalization was 5.99% (2011 – 6.22%).

10. Loans and borrowings

In January 2012, the Company established a new \$400 million committed syndicated bank credit facility in order to provide an additional source of liquidity. The new facility is extendible to January 2015 and can only be used to provide letters of credit. As at June 30, 2012, letters of credit of \$99 million were issued and outstanding against this facility.

In February 2012, the Company issued \$300 million, 4.55% medium-term notes due February 28, 2042 under its base shelf prospectus. The notes were priced to yield 4.565%, pay interest semi-annually and rank equally, except as to sinking fund and statutory preferred exceptions, with all other unsecured and unsubordinated indebtedness of the Company. After including underwriting costs, the effective interest rate of the notes is 4.65%.

11. Deferred revenue

	June 30, 2012	December 31, 2011
Opening balance	\$ 602	\$ 544
Contributions received	8	57
Assumed on business acquisition	273	12
Deferred revenue recognized	(10)	(12)
Foreign currency translation adjustments	7	1
	880	602
Less current portion	22	16
Closing balance	\$ 858	\$ 586

12. Related party balances and transactions

The Company is 100% owned by the City. The Company provides to the City maintenance, repair and construction services, along with customer billing services and purchases from the City printing services and supplies, mobile equipment services, public works and various other services pursuant to service agreements. Sales between the Company and the City are in the normal course of operations, and are generally based on normal commercial rates, or as agreed to by the parties.

Transactions between EPCOR and its subsidiary companies are eliminated on consolidation.

At June 30, 2012, the Company had a 29% interest in Capital Power. The investment is treated as an associate as the Company has significant influence over Capital Power. The Company provides distribution and transmission services to Capital Power and until June 30, 2011, Capital Power provided electricity under contracts to the Company. Transactions are in the normal course of operations and are based on normal commercial rates, as approved by regulation.

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(Unaudited, tabular amounts in millions of Canadian dollars unless otherwise indicated)

June 30, 2012

The following summarizes the Company's related party transactions with the City:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Consolidated income statement				
Revenues (a)	\$ 26	\$ 23	\$ 43	\$ 36
Other raw materials and operating charges (b)	3	4	6	7
Franchise fees and property taxes (c)	19	18	38	37
Finance expense (d)	4	6	9	13

(a) Included within revenue for the three months ended June 30, 2012 were electricity and water sales of \$1 million (2011 - \$1 million), service revenue including the provision of maintenance, repair and construction services of \$23 million (2011 - \$20 million), and customer billing services of \$2 million (2011 - \$2 million).

Included within revenue for the six months ended June 30, 2012 were electricity and water sales of \$1 million (2011 - \$1 million), service revenue including the provision of maintenance, repair and construction services of \$38 million (2011 - \$31 million), and customer billing services of \$4 million (2011 - \$4 million).

(b) Includes certain costs of printing services and supplies, mobile equipment services, public works and various other services pursuant to service agreements.

(c) For the three months ended June 30, 2012, includes franchise fees of \$12 million (2011 - \$12 million) at 0.66 cents per kilowatt hour of electric distribution capacity (2011 - 0.66 cents per kilowatt hour), franchise fees of \$4 million at 8% of qualifying revenues of water services and Gold Bar (2011 - \$4 million at 8%), and property taxes of \$3 million (2011 - \$2 million) on property owned within the Edmonton municipal boundaries.

For the six months ended June 30, 2012, includes franchise fees of \$24 million (2011 - \$24 million) at 0.66 cents per kilowatt hour of electric distribution capacity (2011 - 0.66 cents per kilowatt hour), franchise fees of \$8 million at 8% of qualifying revenues of water services and Gold Bar (2011 - \$7 million at 8%), and property taxes of \$6 million (2011 - \$6 million) on property owned within the Edmonton municipal boundaries.

(d) Interest expense on the obligation to the City at interest rates ranging from 5.20% to 9.00% and 5.20% to 9.63% for the three and six months ended June 30, 2012, respectively, (2011 - 5.20% to 9.88% and 5.20% to 9.88%, respectively).

The following summarizes the Company's related party balances with the City:

	June 30, 2012	December 31, 2011
Consolidated statement of financial position		
Trade and other receivables (e)	\$ 24	\$ 23
Property, plant and equipment (f)	1	3
Trade and other payables (g)	16	20
Other current liabilities (h)	10	12
Loans and borrowings (i)	160	172
Deferred revenue (j)	19	20
Other liabilities (h)	7	17
Common equity attributable to the Owner of the Company	24	24

(e) During the six months ended June 30, 2012, the Company received nil (December 31, 2011 - nil) of the accounts receivable balance relating to the negotiated sharing of the earnings of the City sinking fund.

(f) Costs of capital construction for water distribution mains and infrastructure.

(g) Includes \$3 million for drainage and construction services provided by the City (December 31, 2011 - \$2 million).

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- (h) Relates to the current portion of the transfer fee payable to the City for Gold Bar. The non-current portion of \$7 million (December 31, 2011 - \$17 million) is included within other non-current liabilities.
- (i) Debentures were issued, on behalf of the Company, pursuant to the City Bylaw authorization. The Company makes annual contributions into the sinking fund of the City pertaining to certain debenture issues.
- (j) Capital contributions received for capital projects and rebates relating to maintenance, repair and construction services.

The following summarizes the Company's related party transactions with Capital Power:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Consolidated income statement				
Revenues – electricity sales (k)	\$ 5	\$ 5	\$ 10	\$ 11
Other income (l)	7	10	13	21
Electricity purchases	-	103	-	230
Other administrative expenses (m)	(2)	(1)	(4)	(3)
Other raw materials and operating charges (n)	2	2	4	4
Equity share of income (loss) of Capital Power (note 7)	(23)	1	7	5
Other comprehensive income statement				
Equity other comprehensive income (loss) (note 7)	1	3	4	(27)

- (k) Relates to electricity distribution and transmission services provided to Capital Power.
- (l) Financing revenue on long-term receivable from Capital Power.
- (m) Includes recoveries for the provision of services by EPCOR to Capital Power under services agreements.
- (n) Includes utility bills and charges for the provision of transitional services by Capital Power to EPCOR under the services agreements.

The following summarizes the Company's related party balances with Capital Power:

	June 30,	December 31,
	2012	2011
Consolidated statement of financial position		
Trade and other receivables (o)	\$ 21	\$ 22
Other financial assets (p)	379	379
Deferred revenue (q)	(7)	(7)
Trade and other payables (r)	2	2

- (o) Includes \$10 million relating to the accrued interest on the long-term receivable from Capital Power (December 31, 2011 - \$6 million) and nil for operational cost recoveries relating to services agreement (December 31, 2011 - nil).
- (p) EPCOR received long-term loans receivable from Capital Power as part of the consideration on the sale of the power generation business.
- (q) Contributions for the construction of aerial and underground transmission lines.
- (r) Includes nil relating to electricity purchases from Capital Power (December 31, 2011 – nil).

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13. Commitments

There were no material changes to EPCOR's commitments since December 31, 2011 except as described below.

Arizona Water maintains agreements with the Central Arizona Water Conservation District for the purchase and transportation of water. These agreements are for terms of 100 years expiring at the end of 2107. Under the terms of these agreements, certain minimum payments of approximately \$0.5 million are due each year in order to maintain the agreements until they expire. Additional payment obligations related to orders placed in the fall of each year for water to be purchased and transported the following year, commit the Company only for the amount of the water ordered. For 2012, the combined obligations are approximately \$4 million. Water has not yet been ordered for years beyond 2012.

The Company has entered into an agreement for billing and customer care services for Arizona Water and New Mexico Water. The contract term is for ten years, expiring on August 31, 2021. The payments are estimated to be \$4 million in 2012, \$18 million in total from 2013 through 2016 and \$15 million in aggregate thereafter.

14. Segment disclosures

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

During the third quarter of 2011, the management of certain commercial services (Technologies), including the maintenance and repair of City-owned street lighting and transportation support facilities, were transferred from Water Services to Distribution and Transmission. The prior year segment disclosures were reclassified to reflect this change. The segment reporting for the three and six months ended June 30, 2011 reflects the transfer of Technologies' revenue of \$21 million and \$33 million, respectively, and related expenses of \$15 million and \$28 million, respectively.

Water Services

Water Services is primarily involved in the treatment and distribution of water and the treatment of wastewater within Edmonton and other communities throughout Western Canada and the Southwestern U.S.

Distribution and Transmission

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

Energy Services

Energy Services is primarily involved in the provision of regulated tariff electricity service and default supply electricity services to residential, small commercial and agricultural customers in Alberta.

Corporate

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

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Business information

	Three months ended June 30, 2012						Consolidated
	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination		
External revenues and other income	\$ 119	\$ 86	\$ 219	\$ 8	\$ -	\$ 432	
Inter-segment revenue	-	38	2	-	(40)	-	
Total revenue and other income	119	124	221	8	(40)	432	
Electricity purchases and system access fees	-	(30)	(195)	-	36	(189)	
Other raw materials and operating charges	(27)	(11)	-	-	2	(36)	
Staff costs and employee benefits expenses	(28)	(23)	(6)	(13)	-	(70)	
Depreciation and amortization	(18)	(11)	(2)	(3)	-	(34)	
Franchise fees and property taxes	(5)	(14)	-	-	-	(19)	
Other administrative expenses	(7)	(3)	(6)	(1)	2	(15)	
Operating expenses	(85)	(92)	(209)	(17)	40	(363)	
Operating income (loss) before corporate charges	34	32	12	(9)	-	69	
Corporate (charges) income	(6)	(8)	(3)	17	-	-	
Operating income	28	24	9	8	-	69	
Finance expense	(20)	(7)	(2)	-	-	(29)	
Equity share of loss of Capital Power	-	-	-	(23)	-	(23)	
Loss on sale of a portion of investment in Capital Power	-	-	-	(36)	-	(36)	
Income tax expense	-	-	(1)	-	-	(1)	
Net income (loss)	\$ 8	\$ 17	\$ 6	\$ (51)	\$ -	\$ (20)	
Total assets	\$ 2,612	\$ 1,431	\$ 196	\$ 1,294	\$ (15)	\$ 5,518	
Investment in Capital Power	-	-	-	720	-	720	
Total liabilities	2,137	845	150	93	(15)	3,210	
Capital additions	22	44	1	2	-	69	

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June 30, 2012

	Three months ended June 30, 2011						Consolidated
	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination		
External revenues and other income	\$ 79	\$ 72	\$ 240	\$ 10	\$ -	\$ 401	
Inter-segment revenue	-	35	2	-	(37)	-	
Total revenue and other income	79	107	242	10	(37)	401	
Electricity purchases and system access fees	-	(32)	(212)	-	32	(212)	
Other raw materials and operating (charges) recovery	(21)	(11)	1	-	3	(28)	
Staff costs and employee benefits expenses	(22)	(21)	(5)	(12)	-	(60)	
Depreciation and amortization	(10)	(9)	(3)	(4)	-	(26)	
Franchise fees and property taxes	(4)	(14)	-	-	-	(18)	
Other administrative (expenses) recovery	(2)	1	(7)	(2)	2	(8)	
Foreign exchange loss	-	-	-	(1)	-	(1)	
Operating expenses	(59)	(86)	(226)	(19)	37	(353)	
Operating income (loss) before corporate charges	20	21	16	(9)	-	48	
Corporate (charges) income	(5)	(10)	(3)	18	-	-	
Operating income	15	11	13	9	-	48	
Finance expense	(11)	(8)	(2)	(1)	-	(22)	
Equity share of income of Capital Power	-	-	-	1	-	1	
Income tax expense	-	-	(4)	-	-	(4)	
Net income	\$ 4	\$ 3	\$ 7	\$ 9	\$ -	\$ 23	
Total assets	\$ 1,738	\$ 1,035	\$ 218	\$ 1,862	\$ (12)	\$ 4,841	
Investment in Capital Power	-	-	-	1,132	-	1,132	
Total liabilities	1,389	726	146	315	(12)	2,564	
Capital additions	25	36	-	8	-	69	

EPCOR UTILITIES INC.

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June 30, 2012

	Six months ended June 30, 2012					
	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
External						
revenues and other income	\$ 209	\$ 164	\$ 551	\$ 15	\$ -	\$ 939
Inter-segment revenue	-	79	5	-	(84)	-
Total revenue and other income	209	243	556	15	(84)	939
Electricity purchases and system access fees	-	(60)	(501)	-	75	(486)
Other raw materials and operating charges	(48)	(20)	-	-	4	(64)
Staff costs and employee benefits expenses	(55)	(44)	(13)	(27)	-	(139)
Depreciation and amortization	(33)	(22)	(4)	(7)	-	(66)
Franchise fees and property taxes	(10)	(29)	-	-	-	(39)
Other administrative expenses	(10)	(5)	(13)	(6)	5	(29)
Foreign exchange loss	-	-	-	(3)	-	(3)
Operating expenses	(156)	(180)	(531)	(43)	84	(826)
Operating income (loss) before corporate charges	53	63	25	(28)	-	113
Corporate (charges) income	(15)	(18)	(7)	40	-	-
Operating income	38	45	18	12	-	113
Finance expense	(36)	(15)	(5)	(2)	-	(58)
Equity share of income of Capital Power	-	-	-	7	-	7
Loss on sale of a portion of investment in Capital Power	-	-	-	(36)	-	(36)
Income tax recovery (expense)	-	-	(3)	1	-	(2)
Net income (loss)	\$ 2	\$ 30	\$ 10	\$ (18)	\$ -	\$ 24
Total assets	\$ 2,612	\$ 1,431	\$ 196	\$ 1,294	\$ (15)	\$ 5,518
Investment in Capital Power	-	-	-	720	-	720
Total liabilities	2,137	845	150	93	(15)	3,210
Capital additions	32	86	1	4	-	123

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June 30, 2012

	Six months ended June 30, 2011						
	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated	
External revenues and other income	\$ 147	\$ 138	\$ 517	\$ 21	\$ -	\$ 823	
Inter-segment revenue	-	71	5	-	(76)	-	
Total revenue and other income	147	209	522	21	(76)	823	
Electricity purchases and system access fees	-	(58)	(469)	-	67	(460)	
Other raw materials and operating charges	(38)	(15)	-	-	4	(49)	
Staff costs and employee benefits expenses	(42)	(41)	(10)	(24)	-	(117)	
Depreciation and amortization	(19)	(20)	(5)	(7)	-	(51)	
Franchise fees and property taxes	(8)	(29)	-	-	-	(37)	
Other administrative expenses	(4)	(4)	(12)	(2)	5	(17)	
Foreign exchange loss	-	-	-	(1)	-	(1)	
Operating expenses	(111)	(167)	(496)	(34)	76	(732)	
Operating income (loss) before corporate charges	36	42	26	(13)	-	91	
Corporate (charges) income	(11)	(16)	(6)	33	-	-	
Operating income	25	26	20	20	-	91	
Finance expense	(23)	(15)	(3)	(10)	-	(51)	
Equity share of income of Capital Power	-	-	-	5	-	5	
Income tax expense	-	-	(5)	(8)	-	(13)	
Net income	\$ 2	\$ 11	\$ 12	\$ 7	\$ -	\$ 32	
Total assets	\$ 1,738	\$ 1,035	\$ 218	\$ 1,862	\$ (12)	\$ 4,841	
Investment in Capital Power	-	-	-	1,132	-	1,132	
Total liabilities	1,389	726	146	315	(12)	2,564	
Capital additions	35	65	-	9	-	109	

Intersegment transactions occur in the normal course of operations and are recorded at exchange amounts which are generally at normal commercial rates. There were no impairments that were recognized directly in equity during the three and six months ended June 30, 2012 and 2011.

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June 30, 2012

Geographic information

	Three months ended June 30, 2012				Six months ended June 30, 2012			
	Canada	U.S.	Inter-segment eliminations	Total	Canada	U.S.	Inter-segment eliminations	Total
Revenues – external revenues and other income	\$ 398	\$ 34	\$ -	\$ 432	\$ 886	\$ 53	\$ -	\$ 939
Inter-segment revenues	(40)	-	40	-	(84)	-	84	-
Total revenues and other income	\$ 358	\$ 34	\$ 40	\$ 432	\$ 802	\$ 53	\$ 84	\$ 939

	Three months ended June 30, 2011				Six months ended June 30, 2011			
	Canada	U.S.	Inter-segment eliminations	Total	Canada	U.S.	Inter-segment eliminations	Total
Revenues – external revenues and other income	\$ 400	\$ 1	\$ -	\$ 401	\$ 822	\$ 1	\$ -	\$ 823
Inter-segment revenues	(37)	-	37	-	(76)	-	76	-
Total revenues and other income	\$ 363	\$ 1	\$ 37	\$ 401	\$ 746	\$ 1	\$ 76	\$ 823

Non-current assets

	June 30, 2012	December 31, 2011
Canada	\$ 3,950	\$ 4,267
U.S.	940	54
	\$ 4,890	\$ 4,321

15. Comparative figures

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