EPCOR Utilities Inc.
Interim Report
June 30, 2007

Management's Discussion and Analysis

This management's discussion and analysis ("MD&A"), dated July 27, 2007, should be read in conjunction with the unaudited interim consolidated financial statements of EPCOR Utilities Inc. (hereinafter the "Company", "EPCOR", "we", "our" or "us") for the six months ended June 30, 2007 and 2006 and in conjunction with the audited consolidated financial statements and MD&A for the year ended December 31, 2006. In accordance with its terms of reference, the Audit Committee of the Company's Board of Directors reviews the contents of the MD&A and recommends its approval by the Board of Directors. The Board of Directors has approved this MD&A upon the recommendation of the Audit Committee.

FORWARD-LOOKING STATEMENTS

Certain information in this MD&A is forward-looking and related to anticipated financial performance, events and strategies. When used in this context, words such as "will", "anticipate", "believe", "plan", "intend", "target", "expect" or similar words suggest future outcomes. By their nature, such statements are subject to significant risks and uncertainties, which could cause EPCOR's actual results and experience to be materially different than the anticipated results. Such risks and uncertainties include, but are not limited to, operating performance, commodity prices and volumes, load settlement, regulatory and government decisions, weather and economic conditions, competitive pressures, construction risks, obtaining financing and the performance of partners, contractors and suppliers.

Readers are cautioned not to place undue reliance on forward-looking statements as actual results could differ materially from the plans, expectations, estimates or intentions expressed in the forward-looking statements. Except as required by law, EPCOR disclaims any intention and assumes no obligation to update any forward-looking statement even if new information becomes available, as a result of future events or for any other reason.

SIGNIFICANT EVENTS

Issue of preferred shares

In May 2007, EPCOR Power Equity Ltd. ("EPEL"), a subsidiary of EPCOR Power L.P. ("Power LP", a subsidiary of EPCOR), issued 5 million 4.85% cumulative, redeemable First Preference Shares, Series 1 at a price of $25.00 per share with dividends payable on a quarterly basis at the annual rate of $1.2125 per share. Net proceeds of $122 million were used to repay amounts outstanding under Power LP's bridge acquisition credit facility, due in October 2007 and incurred in conjunction with Power LP's acquisition of Primary Energy Ventures LLC ("PEV") in November 2006. On or after June 30, 2012, the shares are redeemable by EPEL at $26.00 per share, declining by $0.25 per share each year to $25.00 per share after June 30, 2016. The shares are not retractable by the holders.

The net proceeds from the issue were included in non-controlling interests in the consolidated balance sheet.

Limited partnership units offering by Power LP

In May 2007, Power LP issued 4,015,297 limited partnership units at $26.15 per unit for net proceeds of $102 million to repay amounts outstanding under Power LP's bridge acquisition credit facility due in October 2007 and a portion of the bridge acquisition credit facility due in October 2009, both incurred in conjunction with Power LP's acquisition of PEV in November 2006.

EPCOR, through wholly owned subsidiaries purchased 1,228,681 limited partnership units to maintain its 30.6% interest in Power LP. The net proceeds from the units issued to the public were included in non-controlling interests in the consolidated balance sheet.

Substantive enactment of tax rate reductions

In June 2007, the Government of Canada substantively enacted Bill C-33, "Income Tax Amendments – 2006", which included an effective rate reduction for taxes attributable to preferred share dividends paid commencing in 2003. This change applies to the dividends paid by two of the Company's subsidiaries and substantive enactment of this change resulted in an $8 million decrease in non-controlling interests in the quarter to recognize the impact of the rate reduction retroactive to 2003.

In June 2007, Canadian tax legislation included in Bill C-52, the Budget Implementation Act was substantively enacted. This included a general corporate tax rate reduction from 19% to 18.5% commencing January 1, 2011. As a result, we reduced the amount of future income tax balances by $1 million, with a corresponding increase in future income tax expense.

CONSOLIDATED RESULTS OF OPERATIONS

Net income

(Unaudited, $ millions)		Three months		Six months
Net income for the periods ended June 30, 2006	**$**	**383**	**$**	**569**
Impact of income tax rate reductions on future income tax assets and liabilities, excluding Power LP		22		22
Lower financing expenses and preferred share dividends, excluding Power LP financing		15		20
Gain on sale of 10% interest in Battle River PSA on January 1, 2007		-		30
Impact of recording a net future income tax asset associated with the restructuring of EPCOR Generation Inc. on January 3, 2006		-		(117)
Impact of recording a net future income tax asset associated with the Energy Services reorganization on January 1, 2007		(1)		10
Lower Alberta electricity margin		(4)		(8)
Lower income from investment in Power LP		(9)		(2)
Regulatory decisions for 2005 distribution and transmission tariffs and 2005 RRT non-energy charges received in 2006		(7)		(7)
Unrealized fair value changes in financial and non-financial derivative instruments, excluding Power LP		(17)		(42)
Gain on sale of 55% interest in Battle River PSA on June 5, 2006		(327)		(327)
Other		(2)		3
Decrease in net income		(330)		(418)
Net income for the periods ended June 30, 2007	**$**	**53**	**$**	**151**

Net income was $53 million and $151 million for the three and six months ended June 30, 2007 respectively, compared with $383 million and $569 million for the corresponding periods in 2006.

- The income tax rate reductions that were substantively enacted in June 2007 resulted in an increase in income tax expense in the current quarter of $1 million, as discussed under “Significant Events”. In the second quarter of 2006, the enactment of income tax rate reductions resulted in an increase in income tax expense of $23 million.

  The tax changes that were enacted in 2006 consisted of a provincial rate reduction effective April 1, 2006 and a federal income tax rate reduction that is scheduled to occur in increments over the period from January 1, 2008 to December 31, 2010. As a result, the impact of these reductions, based on the expected timing of the reversal of the Company’s taxable and deductible temporary differences, was estimated as a $16 million charge to net income in the second quarter of 2006. This charge consisted of a $7 million future income tax recovery relating to future income tax balances for Power LP and a $23 million expense relating to all other future income tax balances.

- Financing expenses, excluding Power LP financing, decreased primarily due to interest earned on higher cash balances, repayment in the third quarter of 2006 of a $98 million loan issued under a three-year credit facility and scheduled repayments of obligations to the City of Edmonton. Preferred share dividends decreased due to the substantive enactment of a tax rate reduction retroactive to 2003, as described under “Significant Events”. In addition, $150 million of subsidiary preferred shares were redeemed on June 30, 2006.

- On January 1, 2007, we sold a 10% interest in the Battle River Power Syndicate Agreement ("Battle River PSA") for cash proceeds of $59 million resulting in a pre-tax gain of $34 million. The associated income taxes were $4 million of expense and $7 million of refundable taxes which were charged to retained earnings. This sale was pursuant to the purchase and sale agreement entered into in June 2006 whereby EPCOR will sell its Battle River Power Purchase Arrangement ("Battle River PPA") and related interest in the Battle River PSA to ENMAX Corporation over a four-year period ending in January 2010. An initial 55% interest was sold for cash proceeds of $343 million on June 5, 2006.

- The January 3, 2006 reorganization of the Generation subsidiaries resulted in recognition of a future income tax asset associated with additional deductions available for income tax purposes, partly offset by the write-off of future income tax balances associated with the Alberta government's Payment in Lieu of Tax Regulation, thereby increasing income in 2006 by $117 million. There was no corresponding tax adjustment in the Generation segment in 2007.

- On January 1, 2007, we reorganized our two subsidiaries within the Energy Services segment that operate our regulated retail business. As part of the transactions, one of the subsidiaries, which was previously exempt from income taxes became subject to income taxes under the Income Tax Act. Upon becoming taxable, the subsidiary recognized future income tax assets of $10 million and a corresponding reduction in income tax expense.

- Alberta electricity margins from our retail Regulated Rate Tariff ("RRT") customers were lower in 2007 due to changes in the Energy Price Setting Plan ("EPSP") effective July 1, 2006 and unfavourable energy settlements compared with customer billings. The impact of our reduced interest in the Battle River PPA was partly offset by higher volumes of financial sales which settled with higher margins due to higher contract prices compared with the prior year. In addition, the net cost of the provisions under our acquired PPA contracts, including the Battle River PPA, for incentive, penalty and operating cost payments were higher in 2007 compared with 2006.

- In the second quarter of 2006, the Alberta Energy and Utilities Board ("AEUB") issued its decisions relating to the Company's general tariff applications for its electricity transmission, distribution and RRT services for the period from January 1, 2005 through December 31, 2006. Prior to receiving the Decisions, the Company had billed customers and recorded revenues based on AEUB-approved interim rates for 2005 and 2006. The 2005 effect of these decisions was $7 million of net income, which was recognized in the second quarter of 2006.

- Net income from Power LP decreased in the second quarter and increased in the first quarter compared with the prior year primarily due to the fair value changes in the natural gas supply contracts for its Ontario generation plants. These adjustments were due to the implementation of the new accounting standard for financial instruments that was implemented on January 1, 2007. The contracts did not qualify for the designation under the accounting standard as contracts used for the purpose of receipt of natural gas in

accordance with our expected purchase or usage requirements and therefore were measured at fair value. There was no comparable adjustment in 2006 as the new accounting standard is effective January 1, 2007. The opening fair value adjustment at January 1, 2007 was recorded in retained earnings. See “Changes in Accounting Standards – Accounting changes for 2007”.

- The unrealized fair value changes in derivative financial and non-financial instruments include unfavourable changes in Alberta merchant and wholesale positions, forward foreign currency contracts, and the Joffre contract-for-differences (“CfD”). The unfavourable change in the Alberta merchant and wholesale position was due to an increase in financial sales contracts which were not designated as hedges for accounting purposes combined with higher Alberta forward electricity prices than in the prior year. The increase in the volume of financial sales contracts not qualifying for hedge accounting was due to decreased generation as a result of our reduced interest in the Battle River PSA. The decrease relating to forward foreign currency contracts was due to unrealized losses on foreign currency purchase contracts in 2007 and unrealized gains in 2006. The decrease in the Joffre CfD was due to a smaller decrease in forward natural gas prices in 2007 compared with 2006, partly offset by higher forward Alberta electricity prices in 2007 compared with 2006.

Revenues

(Unaudited, $ millions)	Three months	Six months
Revenues for the periods ended June 30, 2006	**$ 689**	**$ 1,501**
Higher energy sales	130	234
Higher Power LP revenues	84	136
Lower commercial and other sales	(5)	(4)
Unrealized fair value changes in derivative financial and non-financial instruments	(33)	(103)
Increase in revenues	176	263
Revenues for the periods ended June 30, 2007	**$ 865**	**$ 1,764**

Consolidated revenues for the three and six months ended June 30, 2007 were higher than for the corresponding periods in 2006 primarily due to:

- Energy sales increased due to higher gas trading activities and higher RRT electricity rates, partly offset by a decrease in generation related to our reduced interest in the Battle River PSA. Generation availability incentive income and capacity payments were lower on a year-to-date basis.

- Revenues from Power LP were $165 million for the three months and $308 million for the six months ended June 30, 2007 compared with $81 million and $172 million for the corresponding periods in 2006. The increases were primarily due to the acquisition of PEV on November 1, 2006 and Frederickson Power LP (“Frederickson”) on August 1, 2006.

- Unrealized fair value changes on derivative financial instruments decreased energy revenues due to lower trading activity in the Ontario electricity market and increased forward Alberta electricity prices for financial sales contracts. In addition, on a year-to-

date basis, there was an increase in the volume of financial sales that were not designated as hedges for accounting purposes.

Capital spending and investment

(Unaudited, $ millions) **Six months ended June 30**		**2007**		**2006**
Generation	$	85	$	25
Distribution and Transmission		36		24
Energy Services		7		3
Water Services		49		29
Corporate – other		8		5
	$	**185**	**$**	**86**

Capital expenditures for property, plant and equipment were higher for the six months ended June 30, 2007 compared with the same period in 2006 due to construction activity on several projects including the Keephills 3 and Clover Bar generation projects, both of which commenced in the first quarter of 2007, new transmission infrastructure, and the EL Smith water treatment plant.

On February 26, 2007, EPCOR and TransAlta Corporation ("TransAlta") announced their decision to build Keephills 3, a 450 megawatt ("MW") supercritical coal-fired generation plant at TransAlta's Keephills site. Construction is expected to be completed by 2011. Our 50% committed share of the total capital cost is estimated to be $820 million. In addition, EPCOR and TransAlta have indemnified each other for up to $115 million during construction in the event that either party makes payments to the turbine supplier on behalf of the other party.

In December 2006, the AEUB approved our proposal to construct three natural gas-fired peaking power generation units for an aggregate gross generating capacity of 240 MWs at our Clover Bar site in northeast Edmonton.

In the first quarter of 2007, Distribution and Transmission commenced construction of the new high voltage transmission line and substation, which will supply electricity to downtown Edmonton. Water Services' construction on the EL Smith water treatment plant expansion continued in 2007. Both projects are scheduled for completion in 2008.

SEGMENT RESULTS

Generation

Generation results (including intersegment transactions) (Unaudited, $ millions)	**Three months ended June 30**		**Six months ended June 30**	
	2007	**2006**	**2007**	**2006**
Revenues	$ 265	$ 186	$ 509	$ 388
Expenses	212	101	329	199
Operating income	**$ 53**	**$ 85**	**$ 180**	**$ 189**

(Unaudited, $ millions)	**Three months**	**Six months**
Operating income for the periods ended June 30, 2006	**$ 85**	**$ 189**
Higher (lower) PPA availability incentive income	1	(4)
Lower operating income from Frederickson generation operations	(2)	(3)
Unrealized fair value changes in derivative instruments	(2)	(5)
Higher unrealized losses on foreign exchange derivatives	(5)	(12)
Higher (lower) operating income from Power LP	(24)	15
Increase (decrease) in operating income	(32)	(9)
Operating income for the periods ended June 30, 2007	**$ 53**	**$ 180**

Generation's operating income for the quarter and half year ended June 30, 2007 decreased by $32 million and by $9 million respectively, over the same periods in 2006 due to the following:

- Availability incentive income on the generation units operating under a Power Purchase Arrangement ("PPA") was $4 million lower on a year-to-date basis compared with the prior year due to a change in the estimate of Alberta electricity prices over the life of the PPA.

- The sale of the Frederickson facility on August 1, 2006 to Power LP resulted in higher Power LP operating income and lower operating income for the balance of the Generation segment. This sale had no overall impact on the Generation segment results.

- The generation from the Joffre plant is subject to a CfD which is a financial agreement whereby the difference between the Alberta electricity market price and the AECO-C price (Alberta gas trading price), and the contracted price, multiplied by the contracted volume, is remitted by one counterparty to the other. In the second quarter of 2007, the unrealized fair value changes on the CfD resulted in an increase in expenses of $2 million compared with the same period in the prior year. For the six months ended June 30, 2007, the unrealized fair value changes increased revenues by $2 million and expenses by $7 million. The net decrease in income was due to a smaller decrease in the forward natural gas prices in the current year, partly offset by higher increases in the forward Alberta electricity prices, compared with the prior year.

- Unrealized fair value changes on foreign exchange contracts decreased operating income by $5 million in the second quarter and $12 million on a year-to-date basis due to a strengthening Canadian dollar. The foreign exchange contracts in the current year were entered into in anticipation of purchases of generation related equipment related to the

Clover Bar gas-fired and Keephills 3 coal-fired generation projects whereas the prior year's foreign exchange contracts for the Kingsbridge I and II generation projects had unrealized gains and are no longer held.

- Power LP contributed $11 million of operating income in the second quarter and $92 million in the first six months of 2007. In 2006 Power LP's operating income was $35 million for the second quarter and $77 million for the first half of the year. Power LP's revenues and expenses were higher by $84 million and $109 million, respectively for the quarter and $136 million and $121 million, respectively for the six month period ended June 30, 2007 compared with the corresponding prior year periods primarily due to the acquisition of PEV on November 1, 2006 and Frederickson on August 1, 2006. Revenues also increased due to favourable changes in the fair value of foreign exchange contracts resulting from a strengthening Canadian dollar, partly offset by the non-recurrence of a settlement received from the Ontario Electricity Financial Corporation in the first quarter of 2006.

  Implementation of the new accounting standards for financial instruments, effective January 1, 2007, resulted in an increase in fuel expense arising from unfavourable unrealized fair value changes in the natural gas supply contracts for Power LP's Ontario generation plants, for the three months ended June 30, 2007. The decrease in the fair value of these contracts was a result of lower forward natural gas prices in the quarter as well as anticipated increases in natural gas supply costs at the Tunis plant. The increase in fuel expense in the quarter offset the first quarter decrease for positive unrealized fair value changes in these contracts. Fair value changes for accounting purposes in the natural gas supply contracts are not necessarily representative of changes in the economic value of these contracts when considered in conjunction with the economically hedged item, such as future natural gas requirements and future power sales.

  In the current quarter, Power LP's expenses also increased for realized losses on foreign exchange contracts that were entered into in anticipation of replacing US dollar denominated debt. These losses were partly offset by favourable changes in unrealized foreign exchange translation gains on US dollar denominated debt.

Distribution and Transmission

Distribution and Transmission results (including intersegment transactions) (Unaudited, $ millions)	**Three months ended June 30**		**Six months ended June 30**	
	2007	**2006**	**2007**	**2006**
Revenues	$ 59	$ 65	$ 118	$ 126
Expenses	50	47	98	99
Operating income	**$ 9**	**$ 18**	**$ 20**	**$ 27**

Distribution and Transmission's revenues and operating income decreased in the three and six months ended June 30, 2007 compared with the corresponding periods in 2006 primarily due to the 2005/2006 rate decision received in June 2006 which resulted in the recognition of $6 million of operating income relating to 2005 service.

Energy Services

Energy Services results (including intersegment transactions) (Unaudited, $ millions)	**Three months ended June 30**		**Six months ended June 30**	
	2007	**2006**	**2007**	**2006**
Revenues	$ 544	$ 448	$ 1,160	$ 1,020
Expenses	528	410	1,135	946
Operating income	**$ 16**	**$ 38**	**$ 25**	**$ 74**

(Unaudited, $ millions)	**Three months**	**Six months**
Operating income for the periods ended June 30, 2006	**$ 38**	**$ 74**
Higher natural gas margin	-	3
Lower Alberta electricity margin	(7)	(13)
Unrealized fair value changes in derivative instruments	(16)	(44)
Other	1	5
Decrease in operating income	(22)	(49)
Operating income for the periods ended June 30, 2007	**$ 16**	**$ 25**

Energy Services' operating income decreased $22 million for the quarter and $49 million for the six months ended June 30, 2007 compared with the same periods in 2006 due to the net impact of the following:

- Alberta natural gas margins were higher due to higher priced contracted gas sales and increased trading activities.

- Alberta electricity margins for the RRT customers were lower in 2007 due to changes in the Energy Price Setting Plan ("EPSP") effective July 1, 2006. The AEUB-approved EPSP sets out the price setting mechanism for determining the regulated rates to be charged to these customers for electricity, distribution and transmission services. The Alberta electricity margins were also impacted by unfavourable energy settlements compared with customer billings. Due to the imprecision in customer consumption data received from load settlement agents and the time lags inherent in the resettlement process, we use estimates for determining the amount of energy consumed but not yet billed. The variance is within an acceptable range for this estimate and could reverse with the receipt of future resettlement information.

  The lower Alberta electricity margins were also due to our reduced interest in the Battle River PPA, partly offset by higher volumes of financial sales which settled with higher margins due to higher contract prices compared with the prior year. In addition, the net cost of incentive, penalty and operating cost payments under the acquired PPA contracts, were higher in 2007 compared with 2006.

- Energy Services' energy revenues and expenses, excluding unrealized fair value changes, increased by $132 million and $138 million respectively, for the quarter and by $247 million and $254 million respectively, for the six months ended June 30 compared with the prior year periods. These increases were due to increased natural gas trading activities, higher energy revenues from settlements of financial sales due to increased volume and higher contract prices, and higher energy expenses due to increased volume resulting from the new EPSP and higher contract prices. These increases were partly offset by our

reduced interest in the Battle River PSA and expiry of the short term tolling arrangement with Calpine Power Income Fund for operation of their Calgary Energy Centre for the period from February 16, 2006 to June 30, 2006.

- The unrealized fair value changes in our financial electricity contracts were unfavourable compared with the prior year due to a combination of more financial sales contracts that were not designated as hedges for accounting purposes and higher Alberta forward electricity prices. These financial sales contracts hedge anticipated energy revenues on an economic basis. The volume of these instruments that were recorded at fair value was higher in 2007 due to decreased generation as a result of our reduced interest in the Battle River PSA.

  Unrealized fair value losses on derivative instruments decreased energy revenues by $34 million and energy purchases by $18 million for the current quarter compared with the same quarter in 2006 due to decreased trading activity in the Ontario power market and increasing forward Alberta electricity prices on financial sales and financial purchase contracts. Unrealized fair value losses on derivative instruments decreased energy revenues by $105 million and energy purchases by $61 million for the six months ended June 30, 2007 compared with the same period in 2006 due to decreased trading activity in the Ontario power market and a combination of increasing Alberta forward electricity prices on financial sales contracts and increased trading activity.

  Unrealized fair value changes in derivative instruments recorded for accounting purposes are not necessarily representative of the changes in economic value when considering them in conjunction with the economically hedged item such as future power supply.

Water Services

Water Services results (including intersegment transactions) (Unaudited, $ millions)	**Three months ended June 30**		**Six months ended June 30**	
	2007	**2006**	**2007**	**2006**
Revenues	$ 61	$ 56	$ 104	$ 99
Expenses	46	43	81	77
Operating income	**$ 15**	**$ 13**	**$ 23**	**$ 22**

Water sales were higher in 2007 due to increased rates as approved by the City of Edmonton. Water treatment costs were also higher due to more spring run-off and unfavourable water conditions due to the wet spring weather in 2007.

CONSOLIDATED BALANCE SHEETS

Significant changes in consolidated assets are outlined below:

	June 30, 2007	December 31, 2006	Increase (decrease) $ millions	Explanation
Cash and cash equivalents	$ 146	$ 260	$ (114)	Refer to cash flows summary below.
Accounts receivable (including income taxes recoverable)	433	644	(211)	Reflects two months of Alberta wholesale electricity settlements and Genesee generation revenues in the December 31, 2006 balance compared with one month at June 30, 2007. Pool receipts were lower due to lower Alberta electricity prices in the second quarter of 2007 compared with the last quarter of 2006.
Derivative instruments asset (current)	153	26	127	Reflects implementation of new financial instruments accounting standards for physical power and natural gas purchase and sales contracts and derivatives used in cash flow hedges of electricity.
Other current assets	88	73	15	Reflects customary increase in prepaid property taxes and insurance at mid year.
Property, plant and equipment	4,002	3,906	96	Reflects 2007 capital expenditures partly offset by depreciation and amortization expense.
Power purchase arrangements ("PPAs")	708	757	(49)	Reflects sale of 10% interest in Battle River PSA and amortization of PPAs.
Contract and customer rights and other intangible assets	198	207	(9)	Reflects amortization of customer and contract rights.
Derivative instruments asset (non- current)	141	20	121	Reflects implementation of new financial instruments accounting standards for physical power and natural gas purchase and sale contracts and derivatives used in cash flow hedges of electricity.
Future income tax asset (non-current)	139	127	12	Reflects increase in deductions available for tax purposes resulting from implementation of new financial instruments accounting standards and the Energy Services reorganization of January 1, 2007.
Goodwill	185	183	2	
Other assets	174	180	(6)	Reflects reclassification of deferred financing costs to long-term debt offset by a fair value adjustment for venture capital investments in accordance with the new financial instruments accounting standard.

Significant changes in consolidated liabilities and shareholder's equity are outlined below:

	June 30, 2007	**December 31, 2006**	**Increase (decrease) $ millions**	**Explanation**
Short-term debt	$ -	$ 216	$ (216)	Reflects repayment of Power LP's borrowing under its bridge acquisition credit facility.
Derivative instruments liability (current)	164	24	140	Reflects implementation of new financial instruments accounting standards for derivatives used in cash flow hedges of electricity and for physical power and natural gas purchase and sales contracts.
Accounts payable and accrued liabilities	375	603	(228)	Reflects two months of Alberta wholesale electricity settlements in the December 31, 2006 balance compared with one month at June 30, 2007. Pool receipts were lower due to lower Alberta electricity prices in the second quarter of 2007 compared with the last quarter of 2006.
Other current liabilities	111	129	(18)	Reflects changes in the tax legislation for dividends and reclassification of a loss carryforward from future income tax assets.
Long-term debt (including current portion)	2,040	2,179	(139)	Reflects ongoing scheduled debt repayments and reclassification of deferred financing costs from other assets in accordance with new financial instruments accounting standard.
Derivative instruments liability (non-current)	152	27	125	Reflects implementation of new financial instruments accounting standards for derivatives used in cash flow hedges of electricity and for physical power and natural gas purchase and sales contracts.
Future income tax liability (non-current)	86	80	6	
Other non-current liabilities	128	131	(3)	
Non-controlling interests	1,020	751	269	Reflects opening adjustment upon implementation of financial instruments accounting standards attributable to non-controlling interests, non-controlling interests' share of Power LP unit offering and income less distributions, and substantive enactment of the change in tax rate change applicable to preferred dividends. (See significant events).
Shareholder's equity	2,291	2,243	48	Reflects net income and adjustments to retained earnings upon implementation of financial instruments accounting standards, offset by common share dividends and refundable income taxes. Also reflects adjustment to accumulated other comprehensive income upon implementation of financial instruments accounting standards and other comprehensive income for 2007.

LIQUIDITY AND CAPITAL RESOURCES

Cash inflows (outflows) are summarized below:

	Three months ended		Increase	
	June 30, 2007	June 30, 2006	(decrease) $ millions	Explanation
Operating	$ 62	$ 140	$ (78)	Reflects change in non-cash operating working capital, primarily due to increased payments of liabilities including higher employee incentive payments in 2007 and higher working capital requirements for the PEV operations.
Investing	(101)	235	(336)	Reflects sale of the interest in the Battle River PSA, partly offset by higher capital expenditures, primarily Keephills 3 and Clover Bar generation projects, the EL Smith water treatment plant expansion and new transmission infrastructure.
Financing	(104)	(217)	113	Net financing outlays in 2007 included the repayment of Power LP's borrowing under its bridge acquisition credit facility partly offset by the issuance of preferred shares by a subsidiary in the quarter whereas 2006 financing was marked by the redemption of preferred shares by a subsidiary.

	Six months ended		Increase	
	June 30, 2007	June 30, 2006	(decrease) $ millions	Explanation
Operating	$ 201	$ 332	$ (131)	Reflects change in non-cash operating working capital, primarily due to increased payments of liabilities, including higher employee incentive payments in 2007, and higher working capital requirements for the PEV operations.
Investing	(115)	189	(304)	Reflects sale of a larger interest in Battle River PSA in 2006 than in 2007 and higher capital expenditures, primarily Keephills 3 and Clover Bar generation projects, EL Smith water treatment plant expansion and new transmission infrastructure.
Financing	(200)	(326)	126	Net financing outlays in 2007 included the repayment of Power LP's borrowing under its bridge acquisition credit facility, partly offset by the issuance of preferred shares by a subsidiary in the current quarter, whereas 2006 financing outlays were marked by the redemption of preferred shares by a subsidiary.

CONTRACTUAL OBLIGATIONS

There have been no material changes to the Company's purchase obligations during the second quarter, including payments for the next five years and thereafter. For further information on these obligations, refer to the 2006 annual MD&A.

CHANGES IN ACCOUNTING STANDARDS

Accounting changes for 2007

As we described in EPCOR's most recent annual MD&A, the Company has adopted accounting policies in accordance with the following new accounting standards.

Financial instruments, hedges and comprehensive income

On January 1, 2007, we adopted the Canadian Institute of Chartered Accountants' new accounting standards "Financial Instruments - Recognition and Measurement", "Financial Instruments – Disclosure and Presentation, "Hedges", and "Comprehensive Income".

As required by the new accounting standards, our comparative interim financial statements have not been restated, except to reclassify the foreign currency translation gains and losses on net investments in self-sustaining foreign operations from the cumulative translation adjustment account to accumulated other comprehensive income.

A statement called Consolidated Statement of Comprehensive Income has been added to our consolidated financial statements. This statement includes net income and the components of other comprehensive income such as unrealized foreign exchange gains and losses arising from the translation of self-sustaining foreign operations and the effective portion of the changes in the fair value of derivative instruments used in cash flow hedges of electricity sales and purchases and of anticipated foreign currency cash flows. As the foreign exchange gains and losses are realized or the hedged item of the cash flow hedge affects income, these items of other comprehensive income are reclassified to the income statement. Other comprehensive income is intended to capture the changes in the fair value of the financial instruments, derivatives or translated balances, which would not otherwise be recorded in the financial statements.

Each component of this new statement is recorded net of income taxes. Accumulated other comprehensive income is a new component of shareholder's equity.

Financial instruments

In accordance with the new accounting standard all financial assets, except for those classified as held-to-maturity, loans and receivables, are measured at their fair values. All financial liabilities are measured at amortized cost. All derivative instruments, except for those designated as contracts used in accordance with our expected purchase and sale requirements, are classified as held for trading and measured at fair value.

In accordance with the standard, we have reclassified $15 million of debt issue costs from other assets to long-term debt effective January 1, 2007 and amortized them using the effective interest rate method. Previously, debt issue costs were amortized on a straight-line basis over the life of the associated debt. Also, in accordance with the new accounting standard, we expense any transaction costs on financial instruments classified as "held for trading".

The fair values of our trade accounts receivable, short-term debt and accounts payable and accrued liabilities are not materially different from their carrying values due to their short-

term nature. The classification, carrying values and fair values of our other financial instruments at June 30, 2007 are summarized as follows:

	Carrying value					
	Held for trading	Available for sale	Loans and receivables	Other financial liabilities	Total	Total fair value
Derivative instruments asset – current	$ 153	$ -	$ -	$ -	$ 153	$ 153
Derivative instruments asset – non-current	141	-	-	-	141	141
Other assets	-	19	60	-	79	81
Derivative instruments liability – current	164	-	-	-	164	164
Derivative instruments liability – non-current	152	-	-	-	152	152
Long-term debt (including current portion, excluding capital lease obligations)	-	-	-	1,967	1,967	2,214

Risk management and hedging activities

We are exposed to changes in energy commodity prices, foreign currency exchange rates and interest rates. In order to manage our risks, we use various risk management techniques, including derivative instruments such as forward contracts, fixed-for-floating swaps, and option contracts, to reduce this exposure. The derivative instruments assets and liabilities used for risk management purposes consist of the following:

	Energy		Foreign exchange	Interest rate	
	Hedges	Non-hedges	Non-hedges	Non-hedges	Total
Total derivative instruments net asset (liability) as at June 30, 2007	$ (75)	$ 34	$ 20	$ (1)	$ (22)
Total derivative instrument net asset (liability) as at December 31, 2006	$ -	$ (11)	$ 5	$ 1	$ (5)

At June 30, 2007, the net fair value of financial derivative instruments specifically designated and qualifying for hedge accounting was a liability of $75 million and is included in derivative instruments asset and derivative instruments liability in the consolidated balance sheet. Prior to January 1, 2007, the fair value of financial derivative instruments that qualified for hedge accounting was not recorded in the balance sheet and was disclosed as an off-balance sheet item.

As a result of adopting the new accounting standards, all non-financial derivative instruments are required to be measured at fair value unless they are designated as contracts used for the purpose of receipt or delivery of a non-financial item in accordance with our expected purchase, sale or usage requirements. We hold certain physical power and natural gas purchase and sales contracts that are used to meet power generation and retail customer requirements, but are not designated as contracts used in accordance with our expected purchase requirements, as defined in the accounting standard, since the natural gas can at times be re-sold in the market and not entirely used to produce electricity or to sell to end use consumers. These contracts were therefore recorded at fair value in the balance sheet. As at January 1, 2007, the fair valuation of fuel supply contracts in Power LP resulted in an increase in derivative instruments asset of $96 million, an increase in non-controlling interests of $66 million, an increase in future income tax liability of $10 million, and an increase in opening retained earnings, net of income taxes, of $20 million. The fair valuation of other physical power and natural gas purchase and sales contracts resulted in opening transition adjustments that increased derivative instruments asset by $45 million and derivative instruments liability by $45 million.

In addition, opening 2007 retained earnings decreased $8 million net of income taxes to recognize the fair value of the ineffective portion of previously deferred losses.

For the six months ended June 30, 2007, the fair value of our aggregate energy commodity derivatives used for risk management purposes, including derivatives that were not designated as hedges for accounting purposes, is in a net derivative liability position due to increases in the forward Alberta electricity prices relative to the contract prices which is partly offset by the unrealized gain on our natural gas supply contracts due to increases in forward AECO-C prices relative to the contract prices.

For the six months ended June 30, 2007, the fair value of our forward foreign currency contracts increased, resulting in unrealized gains. This was due to the impact of a strengthening the Canadian dollar in the current year on foreign currency sales contracts used to hedge US denominated revenues. This was partly offset by unrealized losses on foreign currency purchase contracts used to hedge US denominated anticipated purchases and prior year unrealized gains on contracts no longer held in 2007. The weighted average fixed exchange rate for contracts outstanding for the quarter ended June 30, 2007 was $US 0.86 (December 31, 2006, $US 0.87) for every Canadian dollar.

Other Comprehensive Income

As of January 1, 2007, the changes in the fair value of the effective portion of the financial derivative contracts used to manage our energy portfolio and designated as accounting hedges, are recorded in other comprehensive income. The ineffective portion of the contracts is recorded in net income. Historically, such financial contracts were recorded in the income statement as they settled.

The transition adjustment to opening accumulated other comprehensive income included unrealized losses, net of income taxes, of $42 million related to cash-flow hedging relationships and $1 million of unrealized gains, net of non-controlling interests and income taxes, related to previously discontinued cash flow hedges no longer deferred in derivative

instruments asset and liability in the consolidated balance sheet.

For the six months ended June 30, 2007, a cumulative loss, net of income taxes, of $40 million was recorded in other comprehensive income for the effective portion of cash flow hedges, and an unrealized loss, net of income taxes, of $29 million was re-classified to energy purchases or revenues as appropriate. There was no ineffective portion of cash flow hedges for which unrealized losses were required to be recognized in income. Unrealized losses of $15 million in accumulated other comprehensive income (loss) at June 30, 2007 are expected to be reclassified to net income within the next twelve months.

Unrealized gains on financial instruments designated as available for sale are related to certain historical venture capital investments which are focused on strategic elements of the energy and water value chain. The shares held are not typically traded on an exchange and therefore can be difficult to value. During the three months ended June 30, 2007, an unrealized fair value gain on a venture capital investment was recognized in other comprehensive income as a result of market value appreciation after the initial public offerings of the investment. We have considered the effect of illiquidity and the restrictions on the shares held in determining its fair value.

Future accounting changes

Effective January 1, 2008, the new CICA Handbook Section 3031 "Inventories" will replace existing Section 3030 "Inventories" to be consistent with the International Accounting Standard for inventories. The new section requires inventories to be measured at the lower of cost and net realizable value, which is consistent with EPCOR's current policy for measuring inventories held for resale. EPCOR measures inventories held for consumption at the lower of cost and replacement value, which could be the best available measure for net realizable value. We are assessing the impact, if any, of the new standard.

CRITICAL ACCOUNTING ESTIMATES

Implementation of the new accounting standard on financial instruments has required us to record more of our derivative instruments at fair value than in the past, which involves a greater use of estimates. The most significant item requiring fair valuation for the first time was Power LP's natural gas supply contracts for its Ontario plants. This valuation reflects management's best estimates considering various factors including closing exchange or over-the-counter quotations, estimates of futures prices and foreign exchange rates, time value and volatility. In illiquid or inactive markets, we use appropriate price modeling to estimate fair value. It is possible that the assumptions used in establishing fair value amounts will differ from actual prices and the impact of such variations could be material.

RISK MANAGEMENT

This section should be read in conjunction with the Risk Management section of the most recent annual MD&A. EPCOR faces a number of risks including electricity price and volume risk, natural gas price and volume risk, operational risk, government and regulatory risk, supply risk of acquired PPAs, credit risk, environmental risk, project risk, availability of people risk, weather risk, foreign exchange risk, conflicts of interest risk, and general

economic conditions and business environment risks. The Company employs active programs to manage these risks.

Environmental risk

Effective July 1, 2007, EPCOR is subject to the Alberta Government's new Specified Gas Emitters Regulation ("the Regulation"). The Regulation is applicable to all facilities in Alberta that produce over 100,000 tonnes of carbon dioxide equivalent ("CO_2E" or greenhouse gas) per year. Accordingly, EPCOR's Genesee 1, 2 and 3 generating stations, and the Sundance 5 and 6 units which are subject to PPAs acquired by EPCOR, are subject to the Regulation.

The Regulation imposes a CO_2E intensity reduction of 12% from the average CO_2E emissions intensity for the 2003 to 2005 period. The Alberta Government will recognize three mechanisms for compliance with this regulation: (1) operational or plant changes to reduce emission intensity, (2) submission of greenhouse gas emission reduction offsets which are sourced from within Alberta, and (3) investment in a new Alberta technology fund at $15 per tonne of required CO_2E reduction. While compliance is required effective July 1, 2007, the first reporting deadline, which includes the submission of offsets, is March 31, 2008.

The costs associated with compliance with the Regulation for Genesee 1 and 2 generating units should be recoverable from the PPA holder under the terms of the PPA. These costs have been estimated at approximately $11 million per year. EPCOR's Genesee 3 unit is considered a new unit under the Regulation and will receive a "three-year grace period", after which time its compliance obligation will be phased in over 5 years, starting at a 2% intensity reduction and increasing to 12% by the end of the 5 years. The estimated cost of EPCOR's share of the compliance cost after the grace and phase-in periods is approximately $3 million per year. EPCOR's share of the compliance costs for Sundance 5 & 6 is estimated to be approximately $5 million per year. The cost of compliance for our reducing interest in the Battle River PPA is $1 million, $2 million and $2 million for the years 2007, 2008 and 2009, respectively.

The Regulation is expected to change by 2010 to coincide with the expected implementation of the Canadian Government's regulation requiring an 18% reduction in CO_2E intensity.

On April 26, 2007, the Canadian Environment Minister announced a new regulatory framework to reduce greenhouse gas emissions and air pollution in Canada. The Canadian government has set targets of a 20% absolute reduction in greenhouse gases from 2006 levels by 2020 and a 50% reduction in air pollution by 2015. The Company is an emitter of carbon dioxide (a greenhouse gas), nitrogen oxide and sulphur dioxide which are all targeted for reduction under the proposed new legislation. The operational and financial impact to the Company of the new regulatory framework cannot be determined until further details are announced, including the definition of the clean air fuel standard and how such costs will be allocated among producers and consumers.

The Company complies, in all material respects, with current federal, provincial, state and local environmental legislation and guidelines.

Availability of people

The availability of labour in the Alberta construction market has become a larger operational risk because of a reasonable probability of a building trade unions strike in the province. Given that EPCOR's planned construction projects are concentrated in Alberta, a strike could negatively impact both the timing and cost of these projects.

Government and regulatory risk

In the second quarter of 2007, tax legislation included in Bill C-52, the Budget Implementation Act, 2007 (the "Bill), was substantively enacted and will result in changes to the manner in which certain publicly traded trust and partnerships, such as Power LP, are taxed. Substantive enactment of the Bill resulted in the recognition of future income tax amounts based on estimated net taxable temporary differences that will reverse after 2010, but it was not material at a consolidated level.

In July 2007 the Company recovered the full $12 million receivable from the Ontario government for rebates under the "Market Power Mitigation Arrangement". In December 2004 the Ontario Government introduced new regulations in respect of the rebate mechanism which prospectively reduced the rebate due to the retailer. Notwithstanding this change, the Ontario government pledged to compensate retailers for any shortfall. Accordingly, the $12 million outstanding at June 30, 2007 was eliminated with the payment received in July 2007.

As part of its ongoing risk management practices, the Company reviews current and proposed transactions to consider their impact on the risk profile of the Company. There have been no other material changes to the risk profile or risk management strategies of EPCOR as described in the annual MD&A for 2006.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

There were no changes in the Company's internal controls over financial reporting during the interim period ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

OUTLOOK

Excluding the gain on sale of the interest in the Battle River PSA and the impact of fair value changes, earnings are expected to be slightly lower for the next two quarters, in part due to normal seasonal variances and plant maintenance activities. The implementation of the new accounting standard on financial instruments is expected to increase the volatility of our earnings, which may not be representative of the performance of the underlying business and has no impact on our cash flows.

QUARTERLY RESULTS

Quarter ended	Revenues	Net income from continuing operations	Net income (loss) from discontinued operations	Net income
		(Unaudited, $ millions)		
June 30, 2007	$ 865	$ 53	$ -	$ 53
March 31, 2007	899	98	-	98
December 31, 2006	728	16	1	17
September 30, 2006	702	47	9	56
June 30, 2006	689	383	-	383
March 31, 2006	812	186	-	186
December 31, 2005	866	46	(9)	37
September 30, 2005	582	63	22	85

Events for 2007, 2006 and 2005 quarters that have significantly impacted net income from continuing operations and net income and the comparability between quarters are:

- March 31, 2007 first quarter results include a $30 million gain from the sale of a 10% interest in the Battle River PSA, an $11 million reduction of future income tax expense resulting from a reorganization of two subsidiaries within the Energy Services segment, and higher income from Power LP due to the fair value changes in the natural gas supply contracts for its Ontario generation plants which were required under the implementation of the new accounting standard for financial instruments effective January 1, 2007. These gains were partly offset by unrealized fair value decreases in derivative financial instruments resulting from a combination of increasing volumes of financial sales contracts not qualifying for hedge accounting and increasing Alberta forward electricity prices.
- December 31, 2006 fourth quarter results include unrealized fair value decreases in derivative financial instruments which were not designated as hedges for accounting purposes, resulting from increasing forward market prices. In addition, income from Power LP included unrealized foreign exchange losses on the translation of US dollar debt. These events were partly offset by increased generation from a short-term tolling arrangement with Calpine Power Income Fund, higher generation incentive income and realized gains on foreign exchange forward contracts.
- September 30, 2006 third quarter results include a net income increase from discontinued operations of $10 million for the reduction of the Clover Bar asset retirement obligation offset by reduced Alberta electricity margins from the Battle River and Sundance PPAs resulting from the sale of partial interests in these agreements in the second quarter of 2006.
- June 30, 2006 second quarter results include the sale of a 55% interest in the Battle River PSA and related transactions which contributed $327 million to net income. The regulatory decisions for the 2005/2006 distribution and transmission tariffs and the RRT non-energy charge were received in the second quarter of 2006 resulting in a $10 million increase in net income. Future income tax assets and liabilities were adjusted to reflect the corporate income tax rate reductions that were enacted by the governments of Alberta

and Canada in the quarter. These tax adjustments reduced net income by $16 million.

- March 31, 2006 first quarter results include the tax impact of the Generation reorganization whereby a Generation subsidiary became subject to federal and provincial income taxes rather than the PILOT Regulation. As a result, additional deductions are available for income tax purposes and the net tax effect was recognized as non-current future income tax assets in the balance sheet with a corresponding increase in net income of $117 million. In addition, unrealized fair value changes in derivative financial instruments increased net income by $14 million.

- December 31, 2005 fourth quarter results include the impact of reduced Alberta electricity margins as margins on new and renewed electricity contracts decreased.

- September 30, 2005 third quarter results include a net income increase of approximately $17 million for the Clover Bar PPA termination payment partly offset by the write-down of the Clover Bar assets. The third quarter results also include gains of $13 million after income taxes on the sale of Alberta mid-market electricity contracts and settlement of litigation.

Additional information

Additional information relating to EPCOR is available on SEDAR at www.sedar.com.

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

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Revenues	$ 865	$ 689	$ 1,764	$ 1,501
Operating expenses (income):				
Energy purchases	455	327	994	788
Fuel	133	31	159	60
Operations, maintenance and administration	125	117	227	210
Franchise fee, property taxes and other taxes	16	15	32	31
Depreciation, amortization, and asset retirement accretion	63	56	126	114
Foreign exchange gain	(19)	(11)	(22)	(14)
	773	535	1,516	1,189
	92	154	248	312
Gain on sale of power purchase arrangement and related transactions (note 6)	-	378	34	378
Income before financing expenses	92	532	282	690
Financing expenses	34	37	75	75
Income before income taxes and amounts in lieu of income taxes and non-controlling interests	58	495	207	615
Income taxes and amounts in lieu of income taxes (reductions) (note 7)	5	83	4	(12)
Income before non-controlling interests	53	412	203	627
Non-controlling interests (note 9)	-	29	52	58
Net income	$ 53	$ 383	$ 151	$ 569

See accompanying notes to consolidated financial statements.

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

	June 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 146	$ 260
Accounts receivable	424	643
Income taxes recoverable	9	1
Inventories	64	57
Prepaid expenses	23	12
Derivative instruments asset (note 5)	153	26
Future income tax asset	1	1
Current assets of discontinued operations	-	3
	820	1,003
Property, plant and equipment	4,002	3,906
Power purchase arrangements	708	757
Contract and customer rights and other intangible assets	198	207
Derivative instruments asset (note 5)	141	20
Future income tax asset	139	127
Goodwill	185	183
Other assets	172	178
Non-current assets of discontinued operations	2	2
	$ 6,367	$ 6,383
Liabilities and Shareholder's Equity		
Current liabilities:		
Short-term debt	$ -	$ 216
Accounts payable and accrued liabilities	375	603
Income taxes payable	60	19
Derivative instruments liability (note 5)	164	24
Other current liabilities	17	13
Future income tax liability	32	92
Current portion of long-term debt	47	63
Current liabilities of discontinued operations	2	5
	697	1,035
Long-term debt	1,993	2,116
Derivative instruments liability (note 5)	152	27
Other non-current liabilities	128	127
Future income tax liability	86	80
Non-current liabilities of discontinued operations	-	4
	3,056	3,389
Non-controlling interests (note 9)	1,020	751
Shareholder's equity	2,291	2,243
	$ 6,367	$ 6,383

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	
	2007	2006	2007	2006
Retained earnings:				
Balance at beginning of period	$ 2,316	$ 1,920	$ 2,245	$ 1,765
Adjustment for changes in accounting policies (note 4)	-	-	12	-
Net income	53	383	151	569
Common share dividends paid	(32)	(32)	(64)	(63)
Refundable taxes	-	(42)	(7)	(42)
Balance at end of period	2,337	2,229	2,337	2,229
Accumulated other comprehensive loss:				
Balance at beginning of period	(66)	(8)	(2)	(8)
Adjustment for changes in accounting policies (note 4)	-	-	(41)	-
Other comprehensive income (loss)	20	-	(3)	-
Balance at end of period	(46)	(8)	(46)	(8)
Total shareholder's equity at end of period	$ 2,291	$ 2,221	$ 2,291	$ 2,221

See accompanying notes to consolidated financial statements.

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

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Net income	$ 53	$ 383	$ 151	$ 569
Other comprehensive income (loss), net of income taxes:				
Unrealized losses on derivative instruments designated as cash flow hedges [(1)]	(7)	-	(40)	-
Reclassification of losses on derivative instruments designated as cash flow hedges to net income [(2)]	19	-	29	-
Unrealized gains on financial instruments designated as available for sale [(3)]	9	-	9	-
Unrealized loss in self-sustaining foreign operations [(4)]	(1)	-	(1)	-
	20	-	(3)	-
Comprehensive income	$ 73	$ 383	$ 148	$ 569

(1) For the three and six months ended June 30, 2007, net of income tax recovery of $2 and $17, respectively.
(2) For the three and six months ended June 30, 2007, net of income tax expense of $9 and $13, respectively.
(3) For the three and six months ended June 30, 2007, net of income tax expense of $2.
(4) For the three and six months ended June 30, 2007, 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 June 30		Six months ended June 30	
	2007	2006	2007	2006
Operating activities:				
Net income	$ 53	$ 383	$ 151	$ 569
Items not affecting cash:				
Depreciation, amortization, and asset retirement accretion	63	56	126	114
Gain on sale of power purchase arrangement and related transactions (note 6)	-	(378)	(34)	(378)
Non-controlling interests in EPCOR Power L.P. (note 9)	4	22	53	46
Fair value changes on derivative instruments	36	-	16	-
Other non-cash items	(38)	(28)	(42)	(48)
Future income taxes and amounts in lieu of income taxes	-	87	(9)	(14)
	118	142	261	289
Change in other non-current items	2	2	(11)	6
Net change in non-cash operating working capital	(58)	(4)	(49)	37
	62	140	201	332
Investing activities:				
Property, plant, equipment and other assets	(111)	(48)	(185)	(86)
Net change in non-cash working capital	10	2	11	(6)
Proceeds on sale of Battle River PSA interest (note 6)	-	336	59	336
Proceeds on sale of Sundance PSA interest	-	17	-	17
Purchase of interest in Battle River PSA	-	(52)	-	(52)
Purchase of subscription receipts	-	(25)	-	(25)
Net business acquisitions and disposals	-	5	-	5
	(101)	235	(115)	189
Financing activities:				
Issue (redemption) of subsidiary preferred shares (note 8)	121	(150)	121	(150)
Decrease in short-term debt	(200)	-	(200)	(28)
Proceeds from long-term debt	-	210	-	210
Principal payments on long-term debt	(40)	(225)	(82)	(254)
Distributions to non-controlling interests	(22)	(20)	(44)	(41)
Issue of limited partnership units of EPCOR Power L.P. to non-controlling interests (note 9)	69	-	69	-
Common share dividends paid	(32)	(32)	(64)	(63)
	(104)	(217)	(200)	(326)
Increase (decrease) in cash and cash equivalents	(143)	158	(114)	195
Cash and cash equivalents, beginning of period	289	127	260	90
Cash and cash equivalents, end of period	$ 146	$ 285	$ 146	$ 285
Supplemental cash flow information:				
Interest paid	$ 51	$ 44	$ 89	$ 80
Income taxes paid net of income taxes recovered	4	2	21	8

See accompanying notes to consolidated financial statements.

EPCOR UTILITIES INC.
Notes to the Interim Consolidated Financial Statements
June 30, 2007
(Unaudited, 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 for interim financial statements and do not include all of the disclosures normally found in the Company's annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2006.

These financial statements have been prepared following the same accounting policies and methods as those used in preparing the most recent annual financial statements except for the changes in accounting policies as described in note 4.

2. Nature of operations:

Interim results will fluctuate due to plant maintenance schedules, 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 generally accepted accounting principles, the Company uses estimates in preparing its consolidated financial statements. Interim consolidated financial statements necessarily employ a greater use of estimates than the annual consolidated financial statements.

4. Changes in accounting policies:

Commencing January 1, 2007, the Company adopted new accounting standards as issued by the Canadian Institute of Chartered Accountants ("CICA") for Comprehensive Income, Equity, Financial Instruments and Hedges. In accordance with the new standards, the comparative interim financial statements have not been restated as a result of implementing the new accounting standards except to reclassify unrealized foreign currency translation gains and losses on net investments in self-sustaining foreign operations. They have been reclassified from the cumulative translation adjustment account to accumulated other comprehensive income, both within shareholder's equity.

4. Changes in accounting policies, (continued):

Comprehensive income and equity

These new standards establish requirements for the reporting and presentation of comprehensive income which is composed of net income and other comprehensive income and for the presentation of equity and changes in equity due to the comprehensive income requirements. Other comprehensive income includes unrealized gains or losses arising from the translation of net investments in self-sustaining foreign operations and the changes in the fair value of the effective portion of derivative instruments used in cash flow hedges. Each component of the statement of comprehensive income is recorded net of income taxes. Accumulated other comprehensive income is a new component of shareholder’s equity.

Financial instruments

The new standards require that financial assets be identified and classified as either available-for-sale, held for trading, held-to-maturity or loans and receivables. Financial liabilities are classified as either held for trading or other. Initially, all financial assets and financial liabilities must be recorded on the balance sheet at fair value with subsequent measurement determined by the classification of each financial asset and liability.

Financial assets and financial liabilities held for trading are measured at fair value with the changes in fair value reported in earnings. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading are measured at amortized cost. Available-for-sale financial assets are measured at fair value with changes in fair value reported in other comprehensive income until the financial asset is disposed of, or becomes impaired.

Transaction costs related to long-term debt are capitalized and amortized over the expected life of the instrument utilizing the effective interest method. Previously, these costs were deferred and amortized on a straight-line basis over the term of the debt. The effective interest method calculates the amortized cost of this financial liability and allocates the interest expense over the term of the debt using an effective interest rate.

All derivative instruments, including embedded derivatives, are recorded at fair value on the balance sheet as derivative instruments asset and derivative instruments liability unless exempted from derivative treatment as an expected purchase, sale or usage. All changes in their fair value are recorded in net income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income. The Company chose a transition date of January 1, 2003 for embedded derivatives and therefore will only be required to account separately for those embedded derivatives in any hybrid instruments issued, acquired or substantively modified after that date.

4. Changes in accounting policies (continued):

Hedges

The hedging standards specify the criteria that must be met in order for hedge accounting to be applied. Hedge accounting enables the recording of gains, losses, revenues and expenses from derivative instruments in the same period as for those related to the hedged item. Hedge accounting may be applied for fair value hedges, cash flow hedges and hedges of foreign currency exposures of net investments in self-sustaining foreign operations if the criteria are met. These standards also specify that hedge accounting is discontinued when the hedge is no longer determined to be effective, the hedging item is sold or terminated, or upon the sale or early termination of the hedged item.

Financial statement impact

Certain physical fuel purchase contracts are not designated as contracts used in accordance with our expected purchase requirements and, therefore, are measured at fair value. An opening adjustment to retained earnings to reflect the fair value of these contracts at January 1, 2007 has been recorded. Subsequent changes in the fair value of these contracts are reported in net income.

Qualifying cash flow hedges of electricity and natural gas sales and purchases have been established and the changes in the fair value of the effective portion of the associated derivative instruments have been reflected as an opening adjustment to accumulated other comprehensive income with subsequent changes to the effective portion included in other comprehensive income. The changes in the fair value of the ineffective portion of these derivatives are included in net income.

Prior to the adoption of these new standards, the unrealized losses on certain financial instruments which did not satisfy all the required conditions for hedge accounting were recorded as a derivative instruments asset in the balance sheet. As required by the new standards, these unrealized losses were reclassified to opening retained earnings.

Also prior to the adoption of these new standards, the unrealized gains associated with discontinued hedges were included in derivative instruments liability in the balance sheet. These gains were recognized in net income on the same basis as the net income recognition of the related hedged item. Consistent with the requirements of the new standards, these unrealized gains were reclassified to accumulated other comprehensive income as a cumulative opening adjustment.

EPCOR UTILITIES INC.
Notes to the Interim Consolidated Financial Statements
June 30, 2007
(Unaudited, in millions of dollars)

4. Changes in accounting policies (continued):

On January 1, 2007, the Company made the following adjustments to the balance sheet to adopt the new standards:

Description	Balance sheet item	Increase (decrease) $millions
Physical power and natural gas purchase and sales contracts measured at fair value	Derivative instruments asset – current	$ 47
	Derivative instruments asset – non-current	94
	Derivative instruments liability – current	18
	Derivative instruments liability – non-current	27
	Future income tax liability – current and non-current	10
	Non-controlling interests	66
	Opening retained earnings	20
Deferred unrealized losses relating to financial instruments not qualifying as hedges	Derivative instruments asset –non-current	(12)
	Future income tax asset – non-current	4
	Opening retained earnings	(8)
Cash flow hedges measured at fair value	Derivative instruments asset – current	59
	Derivative instruments asset – non-current	32
	Future income tax asset – non-current	18
	Derivative instruments liability – current	71
	Derivative instruments liability – non-current	80
	Opening accumulated other comprehensive loss	(42)
Deferred unrealized gains relating to certain previously discontinued hedges reclassified to accumulated other comprehensive income	Derivative instruments liability –non-current	(6)
	Future income tax liability – current and non-current	1
	Non-controlling interests	4
	Opening accumulated other comprehensive loss	1
Deferred financing costs reclassified from other assets to long-term debt	Other assets	(15)
	Long-term debt	(15)

EPCOR UTILITIES INC.
Notes to the Interim Consolidated Financial Statements
June 30, 2007
(Unaudited, in millions of dollars)

4. Changes in accounting policies (continued):

During the three and six month periods ended June 30, 2007, the new financial instruments accounting standards impacted the financial statements as follows:

	Increase (decrease) $millions	
Financial statement line item	Three months ended June 30, 2007	Six months ended June 30, 2007
Derivative instruments asset – current and non-current	$ (17)	$ 21
Future income tax asset	(6)	5
Other assets	10	10
Derivative instruments liability – current and non-current	23	49
Future income tax liability	(3)	2
Non-controlling interests (balance sheet)	(42)	(11)
Revenues	1	3
Fuel expense	60	16
Income tax expense	(5)	-
Non-controlling interests (statement of income)	(42)	(11)
Other comprehensive income (loss)	21	(2)

Future accounting changes

On December 1, 2006, the CICA issued new accounting standards for Capital Disclosures and Financial Instruments – Disclosures and Presentation. Effective January 1, 2008, the Company will adopt these new accounting standards.

As required by the new standards, the Company will disclose quantitative and qualitative information that is intended to provide users of the financial statements with additional disclosures on the Company's management of capital and on the risks associated with financial instruments. The Company is currently reviewing the impact of these new standards on its financial statements.

Effective January 1, 2008, the new CICA Handbook Section 3031 "Inventories" will replace existing Section 3030 "Inventories" to be consistent with the International Accounting Standard for inventories. The new section requires inventories to be measured at the lower of cost and net realizable value, which is consistent with EPCOR's current policy for measuring inventories held for resale. EPCOR measures inventories held for consumption at the lower of cost and replacement value, which could be the best available measure for net realizable value. We are assessing the impact, if any, of the new standard.

5. Financial instruments:

The fair values of the Company's trade accounts receivable, short-term debt and accounts payable and accrued liabilities are not materially different from their carrying values due to their short-term nature. The classification, carrying values and fair values of the Company's other financial instruments at June 30, 2007 are summarized as follows:

	Carrying value					
	Held for trading	Available for sale	Loans and receivables	Other financial liabilities	Total	Total fair value
Derivative instruments asset – current	$ 153	$ -	$ -	$ -	$ 153	$ 153
Derivative instruments asset – non-current	141	-	-	-	141	141
Other assets	-	19	60	-	79	81
Derivative instruments liability – current	164	-	-	-	164	164
Derivative instruments liability – non-current	152	-	-	-	152	152
Long-term debt (including current portion, excluding capital lease obligations)	-	-	-	1,967	1,967	2,214

Fair values of financial instruments are determined based on exchange or over-the counter quotations. Fair value amounts reflect management's best estimates considering various factors including closing exchange or over-the-counter quotations, estimates of futures prices and foreign exchange rates, time value and volatility. In illiquid or inactive markets, the Company uses appropriate price modeling, such as option pricing models and discounted cash flow analysis, using observable market-based inputs to estimate fair value. It is possible that the assumptions used in establishing fair value amounts will differ from actual prices and the impact of such variations could be material.

At December 31, 2006, the fair values of off-balance sheet contracts-for-differences were disclosed but were not included in the balance sheet.

5. Financial instruments (continued):

Risk management and hedging activities

The Company is exposed to changes in energy commodity prices, foreign currency exchange rates and interest rates. The Company uses various risk management techniques including derivative instruments to reduce its exposure. Derivative instruments include forward contracts, fixed-for-floating swaps, and option contracts. Such contracts may be used to establish a fixed price for an energy commodity, an interest bearing obligation, or an obligation denominated in a foreign currency. When the requirements are met and the derivative is highly effective, the Company uses hedge accounting for offsetting the changes in cash flows attributable to the hedged risk.

The derivative instruments assets and liabilities used for risk management purposes consist of the following:

	June 30, 2007				
	Energy		Foreign exchange	Interest rate	
	Hedges	Non-hedges	Non-hedges	Non-hedges	Total
Derivative instruments assets:					
Current	$ 82	$ 65	$ 6	$ -	$ 153
Non-current	43	79	19	-	141
Derivative instruments liabilities:					
Current	(101)	(59)	(3)	(1)	(164)
Non-current	(99)	(51)	(2)	-	(152)
	$ (75)	$ 34	$ 20	$ (1)	$ (22)

	December 31, 2006				
	Energy		Foreign exchange	Interest rate	
	Hedges	Non-hedges	Non-hedges	Non-hedges	Total
Derivative instruments assets:					
Current	$ -	$ 13	$ 12	$ 1	$ 26
Non-current	-	14	6	-	20
Derivative instruments liabilities:					
Current	-	(23)	(1)	-	(24)
Non-current	-	(15)	(12)	-	(27)
	$ -	$ (11)	$ 5	$ 1	$ (5)

5. Financial instruments (continued):

If hedge accounting requirements are not met, unrealized and realized gains and losses on the energy derivatives are recorded in energy revenues, energy purchases or cost of fuel, as appropriate.

Existing net losses of $15 million deferred in accumulated other comprehensive income at June 30, 2007 are expected to be reclassified to net income within the next twelve months.

6. Sale of power syndicate agreement:

During the first quarter of 2007, 10% of the Battle River Power Syndicate Agreement (“Battle River PSA”) was sold. This transaction was incremental to the initial sale of 55% of the Battle River PSA that was reported during the prior year. The current year’s transaction is summarized as follows:

Cash proceeds from sale	$	59
Less net book value and costs of disposal		25
Gain on sale before income taxes		34
Less future income taxes		4
Gain on sale after income taxes	$	30

7. Income taxes and amounts in lieu of income taxes:

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Current income taxes and amounts in lieu of income taxes	$ 5	$ 2	$ 66	$ 14
Future income taxes and amounts in lieu of income taxes	-	81	(62)	(26)
	$ 5	$ 83	$ 4	$ (12)

7. Income taxes and amounts in lieu of income taxes (continued):

Income taxes and amounts in lieu of income taxes consisted of:

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Income taxes and amounts in lieu of income taxes on income from continuing operations for the period	$ 3	$ 16	$ 9	$ 38
Income taxes arising on sale of power purchase arrangement and related transactions	-	51	4	51
Corporate income tax rate reductions	1	16	1	16
Reduction of income taxes resulting from corporate restructuring within the Energy Services segment	1	-	(10)	-
Reduction of income taxes resulting from corporate restructuring within the Generation segment	-	-	-	(117)
	$ 5	$ 83	$ 4	$ (12)

Corporate restructuring

On January 1, 2007, the Company reorganized certain subsidiaries within its Energy Services segment. As a result of the reorganization, the Company recognized future income tax assets of $10 million and a corresponding increase in consolidated net income in the first two quarters of 2007. The resulting future income tax assets will be reduced over time, as the underlying income tax deductions are utilized to reduce taxable income.

On January 3, 2006, the Company reorganized certain subsidiaries within its Generation segment. As a result, the Company recognized an increase in non-current future income tax assets in the Company's consolidated balance sheet, with a corresponding income statement reduction of income taxes of $117 million.

8. Preferred shares of subsidiary companies:

In the second quarter of 2007, EPCOR Power Equity Ltd. ("EPEL"), a subsidiary of EPCOR Power L.P. ("Power LP") issued 5 million of 4.85% cumulative, redeemable First Preference Shares, Series 1 priced at $25.00 per share with dividends payable on a quarterly basis at the annual rate of $1.2125 per share. Net proceeds of $122 million were used to repay amounts outstanding under the Power LP bridge acquisition credit facility, due in October 2007, incurred in conjunction with the acquisition of Primary Energy Ventures LLC ("PEV") in November 2006. On or after June 30, 2012, the shares are redeemable by EPEL at $26.00 per share, declining by $0.25 each year to $25.00 per share after June 30, 2016. The shares are not retractable by the holders.

On June 30, 2006, EPCOR Finance Corporation, a subsidiary of the Company, redeemed six million Cumulative Redeemable Perpetual First Preferred Shares, Series A ("Preferred Shares") at par for $150 million cash. The Preferred Shares were issued on June 29, 2001. The redemption was funded from cash balances.

The carrying value of the Preferred Shares prior to their redemption by the Company was $149 million, reflecting $150 million less issue costs, net of income tax, of $1 million which were incurred when the preferred shares were issued in 2001. The $1 million difference between the redemption price and the carrying value has been charged to non-controlling interests in the consolidated statements of income.

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	
	2007	2006	2007	2006
Non-controlling interests in Power LP	$ 4	$ 22	$ 53	$ 46
Preferred share dividends paid (dividend taxes recovered) by subsidiary companies	(4)	6	(1)	11
Preferred share issue costs recognized on redemption of preferred shares (note 8)	-	1	-	1
	$ -	$ 29	$ 52	$ 58

9. Non-controlling interests (continued):

Non-controlling interests reflected in the consolidated balance sheets consisted of:

	June 30, 2007	December 31, 2006
Non-controlling interests in Power LP, beginning of year	$ 554	$ 542
Partnership units issued to non-controlling interests	69	55
Earnings attributable to non-controlling interests	53	43
Other comprehensive income attributable to non-controlling interests	3	-
Opening retained earnings adjustment on implementation of financial instruments standards attributable to non-controlling interests	67	-
Distributions to non-controlling interests	(45)	(86)
Non-controlling interests in Power LP, end of period	701	554
Preferred shares issued by subsidiary companies, beginning of year	197	346
Preferred shares issued by subsidiary company (note 8)	122	-
Redemption of preferred shares by subsidiary company (note 8)	-	(149)
Preferred shares issued by subsidiary companies, end of period	319	197
	$ 1,020	$ 751

10. Guarantees:

The Company has issued letters of credit for $312 million (December 31, 2006 - $248 million) to meet the credit requirements of energy market participants, to meet conditions of certain debt and service agreements, and to satisfy legislated reclamation requirements.

11. Contingencies

A settlement agreement in principle, subject to completion of documentation, has been reached with Devon Canada Corporation in respect of its claim of frustration of the contract pursuant to which it supplies gas to Power LP at the Tunis, Ontario plant. No settlement has yet been reached in respect of a separate but similar claim by NAL Resources Ltd. The Power LP has accrued for expected additional payments and has incorporated anticipated increases in fuel supply costs into the determination of the fair value of derivative instruments at June 30, 2007.

12. Segment disclosures:

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

Generation

Generation is involved in the development and operation of rate-regulated and non-rate-regulated electrical generation plants within Alberta, British Columbia, Ontario, and in the United States in Washington, Colorado, New York, New Jersey, California and North Carolina.

Distribution and Transmission

Distribution and Transmission is involved in the transmission and distribution of electricity within The City of Edmonton.

Energy Services

Energy Services is involved in the procurement, marketing and sale of electricity and natural gas in retail and wholesale markets in Alberta and Ontario.

Water Services

Water Services is primarily involved in the treatment and distribution of water within The City of Edmonton and other communities throughout Western Canada. This segment also provides complementary commercial services including the maintenance and repair of City of Edmonton-owned streetlighting and transportation support facilities.

Corporate

Corporate reflects the costs of the Company's net unallocated corporate office expenses and net financing income earned from intercompany guarantee fees and intercompany interest charges.

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12. Segment disclosures (continued):

Three months ended June 30, 2007

	Generation	Distribution and Transmission	Energy Services	Water Services	Corporate	Intersegment Eliminations	Consolidated
Revenues – external	$ 238	$ 28	$ 541	$ 58	$ -	$ -	$ 865
Intersegment revenues	27	31	3	3	-	(64)	-
Total revenues	265	59	544	61	-	(64)	865
Energy purchases and fuel	130	15	497	-	-	(54)	588
Operations, maintenance, administration and foreign exchange gain	21	15	19	35	26	(10)	106
Franchise fee, property taxes and other taxes	4	10	-	2	-	-	16
Depreciation, amortization and asset retirement accretion	42	6	7	5	3	-	63
Operating expenses	197	46	523	42	29	(64)	773
Operating income (loss) before corporate charges	68	13	21	19	(29)	-	92
Corporate charges	15	4	5	4	(28)	-	-
Operating income	$ 53	$ 9	$ 16	$ 15	$ (1)	$ -	$ 92
Capital additions	$ 43	$ 24	$ 4	$ 35	$ 5	$ -	$ 111

Three months ended June 30, 2006

	Generation	Distribution and Transmission	Energy Services	Water Services	Corporate	Intersegment Eliminations	Consolidated
Revenues – external	$ 158	$ 32	$ 443	$ 56	$ -	$ -	$ 689
Intersegment revenues	28	33	5	-	-	(66)	-
Total revenues	186	65	448	56	-	(66)	689
Energy purchases and fuel	27	12	378	-	-	(59)	358
Operations, maintenance, administration and foreign exchange gain	25	17	19	34	18	(7)	106
Franchise fee, property taxes and other taxes	4	9	-	2	-	-	15
Depreciation, amortization and asset retirement accretion	37	5	7	4	3	-	56
Operating expenses	93	43	404	40	21	(66)	535
Operating income (loss) before corporate charges	93	22	44	16	(21)	-	154
Corporate charges	8	4	6	3	(21)	-	-
Operating income	$ 85	$ 18	$ 38	$ 13	$ -	$ -	$ 154
Capital additions	$ 12	$ 13	$ 2	$ 18	$ 3	$ -	$ 48

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12. Segment disclosures (continued):

Six months ended June 30, 2007

	Generation	Distribution and Transmission	Energy Services	Water Services	Corporate	Intersegment Eliminations	Consolidated
Revenues – external	$ 455	$ 56	$ 1,151	$ 101	$ 1	$ -	$ 1,764
Intersegment revenues	54	62	9	3	-	(128)	-
Total revenues	509	118	1,160	104	1	(128)	1,764
Energy purchases and fuel	157	31	1,075	-	-	(110)	1,153
Operations, maintenance, administration and foreign exchange gain	58	29	38	61	37	(18)	205
Franchise fee, property taxes and other taxes	9	19	-	4	-	-	32
Depreciation, amortization and asset retirement accretion	83	13	14	10	6	-	126
Operating expenses	307	92	1,127	75	43	(128)	1,516
Operating income (loss) before corporate charges	202	26	33	29	(42)	-	248
Corporate charges	22	6	8	6	(42)	-	-
Operating income	$ 180	$ 20	$ 25	$ 23	$ -	$ -	$ 248
Capital additions	$ 85	$ 36	$ 7	$ 49	$ 8	$ -	$ 185

Six months ended June 30, 2006

	Generation	Distribution and Transmission	Energy Services	Water Services	Corporate	Intersegment Eliminations	Consolidated
Revenues – external	$ 333	$ 59	$ 1,010	$ 99	$ -	$ -	$ 1,501
Intersegment revenues	55	67	10	-	-	(132)	-
Total revenues	388	126	1,020	99	-	(132)	1,501
Energy purchases and fuel	52	31	883	-	-	(118)	848
Operations, maintenance, administration and foreign exchange gain	56	30	38	60	26	(14)	196
Franchise fee, property taxes and other taxes	8	19	-	4	-	-	31
Depreciation, amortization and asset retirement accretion	74	12	14	8	6	-	114
Operating expenses	190	92	935	72	32	(132)	1,189
Operating income (loss) before corporate charges	198	34	85	27	(32)	-	312
Corporate charges	9	7	11	5	(32)	-	-
Operating income	$ 189	$ 27	$ 74	$ 22	$ -	$ -	$ 312
Capital additions	$ 25	$ 24	$ 3	$ 29	$ 5	$ -	$ 86

EPCOR UTILITIES INC.
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12. Segment disclosures (continued):

Geographic information:

	Three months ended June 30, 2007				Three months ended June 30, 2006			
	Canada	US	Intersegment Eliminations	Total	Canada	US	Intersegment Eliminations	Total
Revenues - external	$ 741	$ 124	$ -	$ 865	$ 634	$ 55	$ -	$ 689
Intersegment revenues	6	6	(12)	-	6	1	(7)	-
Total revenues	$ 747	$ 130	$ (12)	$ 865	$ 640	$ 56	$ (7)	$ 689

	Six months ended June 30, 2007				Six months ended June 30, 2006			
	Canada	US	Intersegment Eliminations	Total	Canada	US	Intersegment Eliminations	Total
Revenues - external	$1,533	$ 231	$ -	$1,764	$1,399	$ 102	$ -	$ 1,501
Intersegment revenues	11	12	(23)	-	12	2	(14)	-
Total revenues	$ 1544	$ 243	$ (23)	$1,764	$1,411	$ 104	$ (14)	$ 1,501

13. Comparative figures:

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