Condensed Consolidated Interim Financial Statements of

EPCOR UTILITIES INC.

Nine months ended September 30, 2017 and 2016

EPCOR UTILITIES INC.

Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2017 and 2016

EPCOR UTILITIES INC.

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

Three and nine months ended September 30, 2017 and 2016

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenues and other income:				
Revenues	$ 534	$ 504	$ 1,463	$ 1,458
Other income	3	3	9	11
	537	507	1,472	1,469
Operating expenses:				
Energy purchases and system access fees	212	192	596	551
Other raw materials and operating charges	46	53	122	139
Staff costs and employee benefits expenses	68	68	205	208
Depreciation and amortization	58	50	158	132
Franchise fees and property taxes	28	25	81	74
Other administrative expenses	19	21	57	61
	431	409	1,219	1,165
Operating income	106	98	253	304
Finance expenses	(28)	(27)	(82)	(90)
Dividend income from available-for-sale investment in Capital Power	-	2	-	9
Fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income	-	12	1	12
Income before income taxes	78	85	172	235
Income tax expense	(3)	(9)	(3)	(14)
Net income for the periods - all attributable to the Owner of the Company	75	76	169	221
Other comprehensive income (loss):				
Items that have been or may subsequently be reclassified to net income:				
Fair value gain on available-for-sale investment in Capital Power	-	15	-	29
Fair value gain on available-for-sale investment in Capital Power reclassified to net income	-	(12)	(1)	(12)
Fair value loss on available-for-sale beneficial interest in sinking fund	(1)	-	(1)	-
Unrealized gain (loss) on foreign currency translation	(16)	5	(32)	(21)
	(17)	8	(34)	(4)
Comprehensive income for the periods - all attributable to the Owner of the Company	$ 58	$ 84	$ 135	$ 217

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

EPCOR UTILITIES INC.

Condensed Consolidated Interim Statements of Financial Position
(In millions of Canadian dollars)

September 30, 2017 and December 31, 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 51	$ 191
Trade and other receivables	593	325
Available-for-sale investment in Capital Power	-	6
Inventories	16	14
	660	536
Non-current assets:		
Other financial assets	92	265
Deferred tax assets	87	84
Property, plant and equipment	8,759	4,983
Intangible assets and goodwill	278	293
	9,216	5,625
TOTAL ASSETS	$ 9,876	$ 6,161
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	$ 316	$ 299
Loans and borrowings	532	15
Deferred revenue	60	25
Provisions	19	25
Derivatives	1	-
Other liabilities	57	26
	985	390
Non-current liabilities:		
Loans and borrowings	2,039	1,905
Deferred revenue	3,132	1,016
Deferred tax liabilities	53	46
Provisions	82	86
Other liabilities	95	46
	5,401	3,099
Total liabilities	6,386	3,489
Equity attributable to the Owner of the Company:		
Share capital	817	24
Accumulated other comprehensive income	52	86
Retained earnings	2,621	2,562
Total equity	3,490	2,672
TOTAL LIABILITIES AND EQUITY	$ 9,876	$ 6,161

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

EPCOR UTILITIES INC.

Condensed Consolidated Interim Statements of Changes in Equity
(In millions of Canadian dollars)

Nine months ended September 30, 2017 and 2016

		Accumulated other comprehensive income (loss)				
	Share capital	Available-for-sale financial assets	Cumulative translation account	Employee benefits account	Retained earnings	Equity attributable to the Owner of the Company
Equity at December 31, 2016	$ 24	$ 2	$ 94	$ (10)	$ 2,562	$ 2,672
Net income for the period	-	-	-	-	169	169
Other comprehensive loss:						
Fair value gain on available-for-sale investment in Capital Power reclassified to net income	-	(1)	-	-	-	(1)
Fair value loss on available-for-sale beneficial interest in sinking fund	-	(1)	-	-	-	(1)
Unrealized loss on foreign currency translation	-	-	(32)	-	-	(32)
Total comprehensive income (loss)	-	(2)	(32)	-	169	135
Capital contribution from the Owner (note 4)	793	-	-	-	-	793
Dividends	-	-	-	-	(110)	(110)
Equity at September 30, 2017	$ 817	$ -	$ 62	$ (10)	$ 2,621	$ 3,490

		Accumulated other comprehensive income (loss)				
	Share capital	Available-for-sale financial assets	Cumulative translation account	Employee benefits account	Retained earnings	Equity attributable to the Owner of the Company
Equity at December 31, 2015	$ 24	$ 1	$ 105	$ (9)	$ 2,394	$ 2,515
Net income for the period	-	-	-	-	221	221
Other comprehensive income (loss):						
Fair value gain on available-for-sale investment in Capital Power	-	29	-	-	-	29
Fair value gain on available-for-sale investment in Capital Power reclassified to net income	-	(12)	-	-	-	(12)
Unrealized loss on foreign currency translation	-	-	(21)	-	-	(21)
Total comprehensive income (loss)	-	17	(21)	-	221	217
Dividends	-	-	-	-	(106)	(106)
Equity at September 30, 2016	$ 24	$ 18	$ 84	$ (9)	$ 2,509	$ 2,626

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

EPCOR UTILITIES INC.

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

Nine months ended September 30, 2017 and 2016

	2017	2016
Cash flows from (used in) operating activities:		
Net income for the period	$ 169	$ 221
Reconciliation of net income for the year to cash from (used in) operating activities:		
Interest paid	(80)	(82)
Finance expenses	82	90
Income taxes recovered (paid)	(4)	1
Income tax expense	3	14
Depreciation and amortization	158	132
Change in employee benefits provisions	(5)	(17)
Contributions received	27	21
Deferred revenue recognized	(22)	(28)
Fair value change on derivative instruments	(1)	(2)
Fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income	(1)	(12)
Dividend income from available-for-sale investment in Capital Power	-	(9)
Other	(2)	-
Funds from operations	324	329
Change in non-cash operating working capital	(61)	37
Net cash flows from operating activities	263	366
Cash flows from (used in) investing activities:		
Acquisition or construction of property, plant and equipment and other assets[1]	(352)	(341)
Business acquisition (note 4)	(46)	(51)
Proceeds on disposal of property, plant and equipment	4	18
Change in non-cash investing working capital	26	21
Payment of Drainage transition cost compensation to the City (note 4)	(8)	-
Net payments received on other financial assets	15	251
Net proceeds on sale of available-for-sale investment in Capital Power	6	69
Distributions received from Capital Power	-	10
Net cash flows used in investing activities	(355)	(23)
Cash flows from (used in) financing activities:		
Net proceeds from issuance (repayment) of short-term loans and borrowings (note 5)	87	(98)
Proceeds from issuance of long-term loans and borrowings (note 5)	-	50
Repayment of long-term loans and borrowings (note 5)	(23)	(138)
Refunds to customers and developers, net of contributions received (note 5)	(2)	(2)
Dividends paid	(110)	(106)
Net cash flows used in financing activities	(48)	(294)
Increase (decrease) in cash and cash equivalents	(140)	49
Cash and cash equivalents, beginning of period	191	36
Cash and cash equivalents, end of period	$ 51	$ 85

1 Interest payment of $4 million (2016 - $3 million) is included in acquisition or construction of property, plant and equipment and other assets.

1. Nature of operations

EPCOR Utilities Inc. (the Company or EPCOR) builds, owns and operates electrical, natural gas and water transmission and distribution networks, water and wastewater treatment facilities, and sanitary and stormwater systems. The Company also provides electricity, natural gas and water products and services 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 (Owner or 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, water and natural gas, changes in electricity and natural gas 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 (IASB). These condensed consolidated interim financial statements do not include all of the disclosure normally provided in the annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on November 7, 2017.

(b) Basis of measurement

The Company's condensed consolidated interim financial statements are prepared on the historical cost basis, except for its beneficial interest in the sinking fund held with the City, available-for-sale investment in Capital Power, derivative financial instruments and contingent consideration which are measured at fair value. These condensed consolidated interim financial statements are presented in Canadian dollars which is also the functional currency of the Company.

3. Significant accounting policies

(a) These condensed consolidated interim financial statements have been prepared following the same accounting policies and methods as those used in preparing the Company's most recent annual consolidated financial statements except as explained below and in note 7.

Common control transactions

A 'business combination involving entities or businesses under common control' is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Business combinations involving entities or businesses under common control are outside the scope of IFRS 3 - *Business Combinations* and currently there is no IFRS guidance on accounting for business combinations involving entities or businesses under common control. In accordance with IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*, if no applicable standard or interpretation exists then management must develop a policy that is reliable and relevant to the decision making needs of the users. As per the Company's business combinations under common control policy, common control transactions are accounted for using book value accounting; this requires the Company to recognize the transferred assets and liabilities at their respective carrying amounts. The difference between the fair value of consideration due and the net carrying amount of the assets and liabilities acquired is recorded as an adjustment to the capital account of the Owner.

(b) Standards and interpretations not yet applied

A number of new standards, amendments to standards and interpretations have been issued by the IASB and the International Financial Reporting Interpretations Committee, the application of which is effective for periods beginning on or after January 1, 2018. Those which may be relevant to the Company and may impact the accounting policies of the Company are set out below. The Company does not plan to adopt these standards early.

IFRS 9 – *Financial Instruments* (IFRS 9), which replaces IAS 39 – *Financial Instruments: Recognition and Measurement*, includes a new classification and measurement approach for financial assets that reflects the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three principal classification categories for financial assets including (i) measured at amortized cost, (ii) fair value through other comprehensive income and (iii) fair value through profit and loss. IFRS 9 also replaces the "incurred loss" model under IAS 39 with a forward looking "expected credit loss" model for recognition of impairment on financial instruments. The effective date for implementation of IFRS 9 has been set for annual periods beginning on or after January 1, 2018. Based on the Company's existing financial instruments, the Company is currently evaluating the impact of the application of IFRS 9 but does not expect it to have a significant impact on its consolidated financial statements.

IFRS 15 – *Revenue from Contracts with Customers* (IFRS 15), which replaces IAS 11 – *Construction Contracts* and IAS 18 – *Revenue* and related interpretations, is effective for annual periods commencing on or after January 1, 2018. IFRS 15 introduces a new single revenue recognition model for contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized.

The Company has developed an implementation plan and is currently performing detailed analysis on each revenue stream and the underlying contracts with customers to determine the impact of IFRS 15 on the consolidated financial statements. A significant portion of the Company's revenue is generated from the provision of utility goods and services that are simultaneously received and consumed by customers. Therefore, the Company will continue to recognize utility revenue over time as the goods and services are provided because the output method of revenue recognition depicts the entity's performance towards complete satisfaction of its performance obligation. The Company is reviewing whether IFRS 15 is applicable to contributions from customers and developers and, if applicable, the appropriate treatment of contributions under IFRS 15. For other contracts with customers, analysis is ongoing and the Company expects to report more detailed information, including estimated quantitative impacts, in future periods.

IFRS 16 – *Leases* (IFRS 16), which replaces IAS 17 – *Leases* (IAS 17), is effective for annual periods commencing on or after January 1, 2019. IFRS 16 combines the existing dual model of operating and finance leases under IAS 17 into a single lessee model. The Company is currently reviewing contracts that are identified as leases in order to evaluate the impact of adoption of IFRS 16 on the consolidated financial statements. Based on its preliminary assessment, the Company expects that there will be a material impact on its statements of financial position requiring the recognition of lease assets and lease obligations with respect to its leases for office space, which are currently classified as operating leases.

IFRIC 23 – *Uncertainty over Income Tax Treatments* is effective for annual periods commencing on or after January 1, 2019. The interpretation provides guidance on the recognition and measurement of current and deferred tax assets and liabilities under IAS 12 – *Income Taxes* when there is uncertainty over income tax treatments. The Company does not expect a material impact on initial application of the interpretation however the interpretation may impact the Company's recognition, measurement and disclosure of uncertain tax treatments in the future.

4. Business transfer and acquisition

Transfer of Drainage Utility Services from the City of Edmonton

The City transferred its Drainage Utility Services (Drainage) to EPCOR on September 1, 2017 pursuant to an Asset and Liability Transfer Agreement (Transfer Agreement). Drainage operations are comprised of the sanitary drainage utility and the stormwater drainage utility which provide wastewater and stormwater collection and conveyance, and bio solids management and disposal.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The transfer of Drainage was a business combination involving a business under common control as it did not result in a change in the ultimate control of the Drainage business. Consistent with the Company's policy for common control transactions as described in note 3, book value accounting has been applied to the transaction and therefore all assets and liabilities have been initially recognized at their carrying amounts as recorded by the City, on the date of transfer, adjusted to align with IFRS. As of September 1, the preliminary adjusted carrying amounts of the transferred assets and liabilities are summarized as follows:

Book value of net assets transferred:		
Trade and other receivables	$	91
Inventories		1
Property, plant and equipment		3,571
Intangible assets		1
Total assets		3,664
Trade and other payables		(39)
Deferred revenue		(2,146)
Other liabilities		(10)
Total liabilities		(2,195)
Net assets	$	1,469

Consideration:		
Promissory note	$	604
Transition cost compensation		72
Total consideration	$	676

The difference of $793 million between the adjusted carrying amount of the net assets transferred of $1,469 million less the fair value of consideration due of $676 million was recognized in equity as a capital contribution received from the City.

The amounts reported above are preliminary based on information available to management at the time of preparation of these financial statements. The amounts will be finalized on completion of review by management which could result in material adjustment to the carrying amounts of assets and liabilities as reported above.

The trade and other receivables include trade receivables of $13 million due from customers and $10 million from related parties of Drainage. Trade and other receivables also include a balance of $68 million due from the City, being the Drainage utility's cash on hand on the date of transfer. These funds were subsequently transferred to the Company on October 13, 2017.

Property, plant and equipment primarily consist of sanitary and stormwater collection and treatment facilities. Property, plant and equipment include construction work in progress of $111 million and land of $239 million.

Trade and other payables include trade payables, accrued liabilities, accrued interest and amounts due to employees.

Deferred revenue represents cash contributions and contributed assets received from customers and developers as well as grants received from government authorities. Deferred revenue will be recognized as revenue over the corresponding life of the respective assets to which the contributions or grants relate. As of September 30, 2017 the current portion of deferred revenue is $35 million.

Other liabilities primarily consist of deposits from customers and contractors.

The promissory note of $604 million represents the fair value of an obligation to the City which mirrors the principal and interest payment obligations of debentures issued by the City in respect of the Drainage operations. This long-term debt bears interest at a weighted average rate of approximately 3.43% and will be fully settled by June, 2042. During the term of the obligation, blended payments of principal and interest are due at various times throughout each year. Subsequent to the transfer of Drainage, the Company has made principal repayment of $3 million against the promissory note. As of September 30, 2017, the current portion of the promissory note is $30 million.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

As per the terms of the Transfer Agreement, the Company will pay transition cost compensation of $75 million to the City over time to compensate the City for stranded costs, including liabilities retained by the City, related to the transfer. The Company paid $8 million to the City on the transfer date and recognized the present value of the remaining transition cost compensation liability of $64 million within other liabilities on the condensed consolidated statements of financial position.

The annual breakdown of the payments for the obligations to the city is as follows:

	2017	2018	2019	2020	2021	2022 and thereafter	Total contractual cash flows
Promissory note:							
Principal repayments[1]	$ 14	$ 24	$ 24	$ 25	$ 25	$ 481	$ 593
Interest payments[1]	12	22	21	20	18	152	245
Transition cost compensation	8	21	17	13	10	6	75
	$ 34	$ 67	$ 62	$ 58	$ 53	$ 639	$ 913

1 Principal repayments and interest payments represent the actual payments as per the contractual terms of the promissory note. The difference between the total principal repayments of $593 million and the fair value of promissory note of $604 million on initial recognition will be amortized and adjusted against the finance expenses over the term of the promissory note.

On the transfer of Drainage, the Company has also assumed commitments for capital and construction projects of $15 million which are expected to be complete by the end of 2018.

The condensed consolidated interim statements of comprehensive income for three and nine months ended September 30, 2017 includes the following results for Drainage services:

	Three and nine months ended September 30, 2017
Revenue and other income	$ 19
Operating expenses	(17)
Operating income	2
Financing expenses	(2)
Net income for the periods	$ -

The financial results and assets and liabilities of Drainage have been incorporated in these condensed consolidated interim financial statements from the date of transfer of Drainage to the Company. Accordingly, the comparative information does not include any financial information relating to Drainage prior to the transfer date.

Hughes Gas Resources, Inc.

On June 1, 2017 the Company acquired 100% of the common shares of Hughes Gas Resources, Inc. (Hughes), a natural gas distribution, transmission and services holding company with four wholly owned subsidiaries operating northwest of Houston, Texas, for total consideration of $54 million (US$40 million) and the assumption of $14 million (US$10 million) in third party debt.

Hughes is primarily involved in the distribution of natural gas to approximately 4,300 customer connections through its rate regulated subsidiary Hughes Natural Gas, Inc. which owns and operates a 354 kilometer (220 mile) natural gas distribution network. Other subsidiaries include Alamo Pipeline, LLC, the owner and operator of a rate regulated natural gas transmission pipeline which transports natural gas from suppliers to Hughes Natural Gas, Inc. through its 51 kilometer (32 mile) pipeline. These operations are regulated by the Texas Railroad Commission. The acquisition also includes two unregulated subsidiaries, Pinehurst Utility Construction, LLC (infrastructure contractor) and Goliad Midstream Energy, LLC (intermediary company for negotiation of supply contracts).

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The purchase price was allocated to the assets acquired and liabilities assumed based on their fair values on the date of acquisition, in Canadian dollars as follows:

Fair value of net assets acquired:		
Trade and other receivables	$	2
Property, plant and equipment		66
Intangible assets		1
Trade and other payables		(1)
Loans and borrowings		(14)
Net assets acquired at fair value	$	54
Consideration:		
Cash	$	46
Contingent consideration		8
Total consideration	$	54

The intangible assets of $1 million represent the fair value of a franchise agreement with the City of Magnolia for the distribution of natural gas.

Loans and borrowings of $14 million represent the fair value of existing third party debt assumed by the Company as part of the transaction. Subsequent to the acquisition date, the Company repaid all of the assumed third party debt.

Contingent consideration with a fair value of $8 million was recognized at the date of acquisition. The contingent consideration consists of the Company's commitment to pay a fee, with a cap of US$8 million, to the previous owners of Hughes on the addition of new customer connections above a minimum of 600 incremental customer connections over a period of up to six years from the date of closing.

The transaction has been accounted for using the acquisition method in conformance with IFRS 3 – *Business Combinations* with the results of operations included in the condensed consolidated interim financial statements from the date of acquisition. Total revenue and net income included in the condensed consolidated interim statements of comprehensive income since the date of acquisition to September 30, 2017 was $3 million and nil, respectively. The condensed consolidated interim statements of comprehensive income up to September 30, 2017 would have included estimated revenue and net income of $5 million and $1 million, respectively, had the acquisition of assets occurred on January 1, 2017.

Management used assumptions and estimates about future events in the determination of fair values. The assumptions and estimates with respect to the determination of the fair value of property, plant and equipment, intangible assets and contingent consideration required the most judgment. The key assumptions in determination of fair value included future regulatory rates, discount rate, future growth rates and expected additional customer connections for supply of natural gas. Based on those assumptions and estimates, the purchase price was allocated to the identified assets and liabilities, including contingent consideration. The fair values were estimated by applying standard valuation techniques. For property, plant and equipment, a replacement cost estimate was prepared by an external consultant and the fair value was then determined internally by making adjustments for functional and economic obsolescence. The fair value of contingent consideration was based on management's expectations for the addition of new customer connections over the period of six years from the date of acquisition, discounted to present value.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

5. Changes in liabilities arising from financing activities:

	At December 31, 2016	Issued or received	Redemptions, repayments or payments	Foreign currency valuation adjustment	Other	At September 30, 2017
Long-term loans and borrowings (including current portion):						
Obligation to the City, net of sinking fund	$ 91	$ -	$ (10)	$ -	$ 601	$ 682
Public debentures	1,450	-	-	-	-	1,450
Private debt notes	390	-	(13)	(28)	14	363
Deferred debt issuance costs	(11)	-	-	-	-	(11)
Total long-term loans and borrowings (including current portion)	$ 1,920	$ -	$ (23)	$ (28)	$ 615	$ 2,484
Short-term loans and borrowings	$ -	$ 312	$ (225)	$ -	$ -	$ 87
Contributions from customers and developers	$ 21	$ 1	$ (3)	$ (2)	$ (1)	$ 16

	At December 31, 2015	Issued or received	Redemptions, repayments or payments	Foreign currency valuation adjustment	Other	At September 30, 2016
Long-term loans and borrowings (including current portion):						
Obligation to the City, net of sinking fund	$ 105	$ -	$ (8)	$ -	$ (3)	$ 94
Public debentures	1,580	-	(130)	-	-	1,450
Private debt notes	346	50	-	(15)	1	382
Deferred debt issuance costs	(12)	-	-	-	1	(11)
Total long-term loans and borrowings (including current portion)	$ 2,019	$ 50	$ (138)	$ (15)	$ (1)	$ 1,915
Short-term loans and borrowings	$ 98	$ 1,199	$ (1,297)	$ -	$ -	$ -
Contributions from customers and developers	$ 23	$ 1	$ (3)	$ (3)	$ (1)	$ 17

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

6. Financial instruments

Classification

The classification of the Company's financial instruments at September 30, 2017 and December 31, 2016 is summarized as follows:

	Classification				
	Fair value through profit or loss	Loans and receivables	Other liabilities	Available-for-sale	Fair value hierarchy
Measured at fair value					
Available-for-sale investment in Capital Power				X	Level 1
Derivatives	X				Level 1
Beneficial interest in sinking fund				X	Level 1
Other liabilities					
Contingent consideration - designated	X				Level 3
Measured at amortized cost					
Cash and cash equivalents		X			Level 1
Trade and other receivables		X			Level 3
Other financial assets		X			Level 2
Trade and other payables			X		Level 3
Debentures and borrowings			X		Level 2
Other liabilities					
Customer deposits			X		Level 3
Drainage transition cost compensation			X		Level 2

Fair value

The carrying amounts of cash and cash equivalents, trade and other receivables, current portion of other financial assets, trade and other payables and certain other liabilities (including customer deposits) approximate their fair values due to the short-term nature of these financial instruments. The carrying amounts and fair values of the Company's remaining financial assets and liabilities are as follows:

	September 30, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Available-for-sale investment in Capital Power	$ -	$ -	$ 6	$ 6
Non-current portion of other financial assets[1]	91	103	264	275
Loans and borrowings				
Debentures and borrowings	2,664	2,968	2,007	2,328
Beneficial interest in sinking fund	(93)	(93)	(87)	(87)
Derivatives	1	1	-	-
Other liabilities				
Contingent consideration	42	42	36	36
Drainage transition cost compensation	64	64	-	-

1 Excluding finance lease receivables $1 million (December 31, 2016 – $1 million).

Fair value hierarchy

The financial instruments of the Company that are recorded at fair value have been classified into levels using a fair value hierarchy. A Level 1 valuation is determined by unadjusted quoted prices in active markets for identical assets or liabilities. A Level 2 valuation is based upon inputs other than quoted prices included in Level 1 that are observable for the instruments either directly or indirectly. A Level 3 valuation for the assets and liabilities are not based on observable market data.

Available-for-sale investment in Capital Power

The available-for-sale investment in Capital Power represents an investment in common shares of Capital Power Corporation. The fair value of the investment is based on the quoted price of common shares of Capital Power Corporation (CPX) on the Toronto Stock Exchange at December 31, 2016. During the first quarter of 2017 the remainder of this investment was disposed.

Other financial assets

The fair value of the Company's unsecured long-term receivable from Capital Power is based on a current yield for the Company's receivable at September 30, 2017, and December 31, 2016. This yield is based on an estimated credit spread for Capital Power over the yields of long-term Government of Canada bonds that have similar maturities to the Company's receivable. The estimated credit spread is based on Capital Power's indicative spread as published by independent financial institutions.

The fair values of the Company's other long-term loans and receivables are based on the estimated interest rates implicit in comparable loan arrangements plus an estimated credit spread based on the counterparty risks at September 30, 2017, and December 31, 2016.

Loans and borrowings

The fair value of the Company's long-term public debt is based on the pricing sourced from market data as of September 30, 2017 and December 31, 2016. The fair value of the Company's remaining long-term loans and borrowings is based on determining a current yield for the Company's debt at September 30, 2017 and December 31, 2016. This yield is based on an estimated credit spread for the Company over the yields of long-term Government of Canada bonds for Canadian dollar loans and U.S. Treasury bonds for U.S. dollar loans that have similar maturities to the Company's debt. The estimated credit spread is based on the Company's indicative spread as published by independent financial institutions. The Company's long-term loans and borrowings (including the current portion) include City debentures which are offset by payments made by the Company into the sinking fund. The Company's beneficial interest in the sinking fund is a related party balance and has been recorded at fair value as it has been classified as an available-for-sale financial asset in accordance with the requirements of IFRS. The fair value of the beneficial interest in the sinking fund is based on quoted market values as determined by the City at or near the reporting date.

Derivatives

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

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

Contingent consideration

The contingent consideration is payable in U.S. dollars and payment is dependent on securing newly executed long-term contracts for the supply of water by EPCOR 130 Project Inc. and additional customer connections for natural gas by Hughes, the timing of which is uncertain. The fair value of the Company's contingent consideration is determined based on the expected timing of securing such new contracts and customer connections and the resulting cash flows are then discounted at risk adjusted discount rates. Any change in the timing of securing new contracts and customer connections, discount rate or foreign exchange rate can have material impact on the fair value of contingent consideration.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The change in the liability for contingent consideration is as follows:

	September 30, 2017	December 31, 2016
Balance, beginning of year	$ 36	$ -
Recognized on business acquisition	8	34
Unwinding of interest included in finance expenses	1	-
Foreign currency valuation adjustment	(3)	2
Balance, end of period / year	$ 42	$ 36

Drainage transition cost compensation

The transition cost compensation is payable in installments to the City to compensate for stranded costs related to the transfer of the Drainage business. The carrying value of the Drainage transition cost compensation represents the present value of the liability, discounted using interest rates prevailing at the time of initial recognition of liability. The fair value of the Drainage transition cost compensation is determined based on the future cash outflows discounted at risk adjusted interest rates prevailing at September 30, 2017.

7. Segment disclosures

During the quarter, the Company reassessed its business segments due to the addition of Drainage. Drainage has been aggregated with the existing Canadian water operations under the Water Services segment while U.S. Operations are now being reported as a separate business segment.

The Company uses significant judgement in identification and aggregation of business segments. The Company aggregates business segments when they offer similar products and services, have similar business processes, use similar methods to distribute the goods and services, have similar customer bases and operate under similar regulatory environments.

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

Water Services

Water Services is primarily involved in the treatment, transmission and distribution, and sale of water, the collection and conveyance of wastewater and stormwater and the treatment of wastewater within Edmonton and other communities in Western Canada. This segment's water and wastewater business also includes the provision of design, build, finance, operating and maintenance services for municipal and industrial customers in Western Canada.

Distribution and Transmission

Distribution and Transmission is involved in the transmission and distribution of electricity within Edmonton. This segment also provides commercial services including the construction and maintenance of street lighting, traffic signal and light rail transit electrical infrastructure for the City and for other municipal and commercial customers in Alberta.

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. This segment also provides competitive electricity and natural gas products under the Encor brand.

U.S. Operations

U.S. operations are primarily involved in the treatment, transmission and distribution, and sale of water, and the collection and treatment of wastewater within the Southwestern U.S. In addition, this segment also provides natural gas distribution and transmission services in Texas, U.S. All of the Company's operations conducted in the U.S. are included in this segment.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Other

Other includes all of the remaining business segments of the Company which do not meet the criteria of a reportable business segment. Other primarily includes financing revenues on the long-term receivable from Capital Power and the cost of the Company's net unallocated corporate office expenses. This segment also held the available-for-sale investment in Capital Power.

The segment information for all prior reporting periods presented in these condensed consolidated interim financial statements has been restated to correspond with the new business segments.

Lines of business information

Three months ended September 30, 2017

	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
External revenues and other income	$ 124	$ 132	$ 215	$ 63	$ 3	$ -	$ 537
Inter-segment revenue	-	52	3	-	-	(55)	-
Total revenues and other income	124	184	218	63	3	(55)	537
Energy purchases and system access fees	-	61	199	-	-	(48)	212
Other raw materials and operating charges	21	15	-	12	-	(2)	46
Staff costs and employee benefits expenses	25	22	7	8	8	(2)	68
Depreciation and amortization	22	21	1	10	4	-	58
Franchise fees and property taxes	7	20	-	1	-	-	28
Other administrative expenses	8	4	5	3	2	(3)	19
Operating expenses	83	143	212	34	14	(55)	431
Operating income (loss) before corporate charges	41	41	6	29	(11)	-	106
Corporate income (charges)	(3)	(5)	(2)	(2)	12	-	-
Operating income	38	36	4	27	1	-	106
Finance recoveries (expenses)	(17)	(14)	-	(11)	14	-	(28)
Income tax recovery (expense)	1	-	-	(6)	2	-	(3)
Net income	$ 22	$ 22	$ 4	$ 10	$ 17	$ -	$ 75
Capital additions	$ 62	$ 54	$ 1	$ 26	$ 3	$ -	$ 146

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Three months ended September 30, 2016 (Restated)

	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
External revenues and other income	$ 120	$ 122	$ 203	$ 60	$ 2	$ -	$ 507
Inter-segment revenue	-	45	3	-	-	(48)	-
Total revenues and other income	120	167	206	60	2	(48)	507
Energy purchases and system access fees	-	57	177	-	-	(42)	192
Other raw materials and operating charges	30	13	-	11	1	(2)	53
Staff costs and employee benefits expenses	23	22	7	7	10	(1)	68
Depreciation and amortization	15	20	2	10	3	-	50
Franchise fees and property taxes	6	18	-	1	-	-	25
Other administrative expenses	5	5	6	4	4	(3)	21
Operating expenses	79	135	192	33	18	(48)	409
Operating income (loss) before corporate charges	41	32	14	27	(16)	-	98
Corporate income (charges)	(6)	(7)	(3)	(1)	17	-	-
Operating income	35	25	11	26	1	-	98
Finance recoveries (expenses)	(15)	(13)	-	(9)	10	-	(27)
Dividend income from available-for-sale investment in Capital Power	-	-	-	-	2	-	2
Fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income	-	-	-	-	12	-	12
Income tax expense	(2)	-	-	(6)	(1)	-	(9)
Net income	$ 18	$ 12	$ 11	$ 11	$ 24	$ -	$ 76
Capital additions	$ 40	$ 71	$ -	$ 17	$ 3	$ -	$ 131

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Nine months ended September 30, 2017

	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
External revenues and other income	$ 313	$ 372	$ 610	$ 168	$ 9	$ -	$ 1,472
Inter-segment revenue	-	148	9	-	-	(157)	-
Total revenues and other income	313	520	619	168	9	(157)	1,472
Energy purchases and system access fees	-	192	545	-	-	(141)	596
Other raw materials and operating charges	57	35	-	33	1	(4)	122
Staff costs and employee benefits expenses	72	64	21	24	27	(3)	205
Depreciation and amortization	51	62	4	31	10	-	158
Franchise fees and property taxes	17	59	-	5	-	-	81
Other administrative expenses	17	12	19	10	8	(9)	57
Operating expenses	214	424	589	103	46	(157)	1,219
Operating income (loss) before corporate charges	99	96	30	65	(37)	-	253
Corporate income (charges)	(14)	(18)	(6)	(5)	43	-	-
Operating income	85	78	24	60	6	-	253
Finance recoveries (expenses)	(46)	(42)	(2)	(31)	39	-	(82)
Fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income	-	-	-	-	1	-	1
Income tax recovery (expense)	3	-	-	(11)	5	-	(3)
Net income	$ 42	$ 36	$ 22	$ 18	$ 51	$ -	$ 169
Capital additions	$ 112	$ 172	$ 3	$ 59	$ 6	$ -	$ 352

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Nine months ended September 30, 2016 (Restated)

	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
External revenues and other income	$ 344	$ 351	$ 603	$ 160	$ 11	$ -	$ 1,469
Inter-segment revenue	-	136	8	-	-	(144)	-
Total revenues and other income	344	487	611	160	11	(144)	1,469
Energy purchases and system access fees	-	156	523	-	-	(128)	551
Other raw materials and operating charges	82	33	-	28	2	(6)	139
Staff costs and employee benefits expenses	70	64	21	23	32	(2)	208
Depreciation and amortization	33	56	5	29	9	-	132
Franchise fees and property taxes	16	53	-	5	-	-	74
Other administrative expenses	16	14	19	11	9	(8)	61
Operating expenses	217	376	568	96	52	(144)	1,165
Operating income (loss) before corporate charges	127	111	43	64	(41)	-	304
Corporate income (charges)	(17)	(22)	(7)	(4)	50	-	-
Operating income	110	89	36	60	9	-	304
Finance recoveries (expenses)	(44)	(38)	(2)	(27)	21	-	(90)
Dividend income from available-for-sale investment in Capital Power	-	-	-	-	9	-	9
Fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income	-	-	-	-	12	-	12
Income tax recovery (expense)	(4)	-	-	(13)	3	-	(14)
Net income	$ 62	$ 51	$ 34	$ 20	$ 54	$ -	$ 221
Capital additions	$ 87	$ 197	$ 2	$ 49	$ 6	$ -	$ 341

The Company's assets and liabilities by lines of business at September 30, 2017 and December 31, 2016 are summarized as follows:

September 30, 2017

	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
Total assets	$ 5,947	$ 2,220	$ 157	$ 1,224	$ 3,133	$ (2,805)	$ 9,876
Total liabilities	4,537	1,514	124	1,028	1,988	(2,805)	6,386

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

December 31, 2016 (Restated)	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
Total assets	$ 2,328	$ 2,080	$ 163	$ 1,198	$ 3,276	$ (2,884)	$ 6,161
Total liabilities	1,762	1,407	150	1,005	2,049	(2,884)	3,489

Non-current assets

	September 30, 2017	December 31, 2016
Canada	$ 8,043	$ 4,469
U.S.	1,173	1,156
	$ 9,216	$ 5,625

8. Subsequent event

Natural Resources Gas Limited:

On November 1, 2017, the Company acquired substantially all of the natural gas distribution assets of Natural Resource Gas Limited (NRGL) for cash consideration of $22 million. NRGL sells and distributes natural gas in southwestern Ontario near London, providing services to over 8,700 residential, commercial and industrial customers in the counties of Elgin, Middlesex, Oxford and Norfolk.

9. Comparative information

The comparative business segment information in these condensed consolidated interim financial statements has been restated as explained in detail in note 7. The comparative information relating to operating expenses has also been reclassified, where applicable, to conform to current period presentation.