Condensed Consolidated Interim Financial Statements of

EPCOR UTILITIES INC.

Nine months ended September 30, 2018 and 2017

EPCOR UTILITIES INC.

Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2018 and 2017

EPCOR UTILITIES INC.

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

Three and nine months ended September 30, 2018 and 2017

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenues and other income:				
Revenues (note 4)	$ 465	$ 534	$ 1,292	$ 1,463
Other income	-	3	2	9
	465	537	1,294	1,472
Operating expenses:				
Energy purchases and system access fees	109	212	251	596
Other raw materials and operating charges	55	46	139	122
Staff costs and employee benefits expenses	85	68	251	205
Depreciation and amortization	76	58	217	158
Franchise fees and property taxes	31	28	90	81
Other administrative expenses	23	19	65	57
	379	431	1,013	1,219
Operating income	86	106	281	253
Finance expenses	(29)	(28)	(91)	(82)
Fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income	-	-	-	1
Income before income taxes	57	78	190	172
Income tax expense	(2)	(3)	(2)	(3)
Net income for the periods - all attributable to the Owner of the Company	55	75	188	169
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 reclassified to net income	-	-	-	(1)
Fair value loss on available-for-sale beneficial interest in sinking fund	-	(1)	-	(1)
Unrealized gain (loss) on foreign currency translation	(9)	(16)	15	(32)
	(9)	(17)	15	(34)
Comprehensive income for the periods - all attributable to the Owner of the Company	$ 46	$ 58	$ 203	$ 135

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, 2018 and December 31, 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 22	$ 338
Trade and other receivables	436	552
Inventories	19	17
	477	907
Non-current assets:		
Other financial assets	88	91
Deferred tax assets	93	90
Property, plant and equipment	9,279	8,963
Intangible assets and goodwill	294	293
	9,754	9,437
TOTAL ASSETS	$ 10,231	$ 10,344
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	$ 403	$ 384
Loans and borrowings	119	442
Deferred revenue	60	60
Provisions	24	25
Other liabilities	46	50
	652	961
Non-current liabilities:		
Loans and borrowings	2,418	2,424
Deferred revenue	3,350	3,221
Deferred tax liabilities	46	39
Provisions	91	91
Other liabilities	82	96
	5,987	5,871
Total liabilities	6,639	6,832
Equity attributable to the Owner of the Company:		
Share capital	798	798
Accumulated other comprehensive income	64	49
Retained earnings	2,730	2,665
Total equity - all attributable to the Owner of the Company	3,592	3,512
TOTAL LIABILITIES AND EQUITY	$ 10,231	$ 10,344

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, 2018 and 2017

	Share capital	Accumulated other comprehensive income (loss) Cumulative translation account	Accumulated other comprehensive income (loss) Employee benefits account	Retained earnings	Equity attributable to the Owner of the Company
Equity at December 31, 2017	$ 798	$ 64	$ (15)	$ 2,665	$ 3,512
Impact of changes in accounting policies (note 3(d))	-	-	-	1	1
Adjusted equity at December 31, 2017	798	64	(15)	2,666	3,513
Net income for the period	-	-	-	188	188
Other comprehensive gain:					
Unrealized gain on foreign currency translation	-	15	-	-	15
Total comprehensive income	-	15	-	188	203
Dividends	-	-	-	(124)	(124)
Equity at September 30, 2018	$ 798	$ 79	$ (15)	$ 2,730	$ 3,592

	Share capital	Accumulated other comprehensive income (loss) Available-for-sale financial assets	Accumulated other comprehensive income (loss) Cumulative translation account	Accumulated other comprehensive income (loss) 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	774	-	-	-	-	774
Dividends	-	-	-	-	(110)	(110)
Equity at September 30, 2017	$ 798	$ -	$ 62	$ (10)	$ 2,621	$ 3,471

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, 2018 and 2017

	2018	2017
Cash flows from (used in) operating activities:		
Net income for the period	$ 188	$ 169
Reconciliation of net income for the period to cash from operating activities:		
Interest paid	(85)	(80)
Finance expenses	91	82
Income taxes recovered (paid)	5	(4)
Income tax expense	2	3
Depreciation and amortization	217	158
Change in employee benefits provisions	(2)	(5)
Contributions received	35	27
Deferred revenue recognized	(48)	(22)
Fair value change on derivative instruments	-	(1)
Fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income	-	(1)
Other	1	(2)
Funds from operations	404	324
Change in non-cash operating working capital	(44)	(61)
Net cash flows from operating activities	360	263
Cash flows from (used in) investing activities:		
Acquisition or construction of property, plant and equipment and intangible assets[1]	(384)	(352)
Business acquisition	-	(46)
Proceeds on disposal of property, plant and equipment	1	4
Change in non-cash investing working capital	12	26
Net payments received on other financial assets	177	15
Payment of Drainage transition cost compensation to the City	(21)	(8)
Net proceeds on sale of available-for-sale investment in Capital Power	-	6
Net cash flows used in investing activities	(215)	(355)
Cash flows from (used in) financing activities:		
Net issuance of short-term loans and borrowings	86	87
Repayment of long-term loans and borrowings	(421)	(23)
Refunds to customers and developers, net of contributions received	(2)	(2)
Dividends paid	(124)	(110)
Net cash flows used in financing activities	(461)	(48)
Decrease in cash and cash equivalents	(316)	(140)
Cash and cash equivalents, beginning of period	338	191
Cash and cash equivalents, end of period	$ 22	$ 51

1 Interest payment of $4 million (2017 – $4 million) is included in acquisition or construction of property, plant and equipment and intangible 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 and infrastructure. 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 (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, 2017, 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 8, 2018.

(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, derivative financial instruments and contingent consideration, which are measured at fair value.

During the period, EPCOR finalized its measurement of the assets transferred and liabilities assumed pursuant to the transfer of Drainage from the City on September 1, 2017. As a result, the comparative balances of property, plant and equipment and share capital have each been reduced by $14 million compared to amounts previously reported.

These condensed consolidated interim financial statements are presented in Canadian dollars. The functional currency of EPCOR and its Canadian subsidiaries is the Canadian dollar; the functional currency of U.S. subsidiaries is the U.S. dollar. All the values in these condensed consolidated interim financial statements have been rounded to nearest million except where otherwise stated.

3. Significant accounting policies

These condensed consolidated interim financial statements have been prepared following the same accounting policies and methods as those used in preparing the Company's most recent annual consolidated financial statements except for certain accounting policies, which have been amended due to the adoption of new accounting standards effective January 1, 2018.

The Company adopted IFRS 9 - *Financial Instruments* (IFRS 9), which replaces IAS 39 – *Financial instruments: Recognition and Measurement* and IFRS 15 - *Revenue from Contracts with Customers* (IFRS 15), which replaces IAS 11 – *Construction Contracts* and IAS 18 – *Revenue* and related interpretations, using the modified retrospective approach with the cumulative effect of any adjustments recognized in the opening balance of retained earnings as of January 1, 2018. The comparative information has not been restated and continues to be reported under previous accounting standards. The Company's updated accounting policies resulting from implementation of the new standards, along with analysis of the changes from the previous accounting policies, are set out below.

(a) Revenue recognition

The Company recognizes revenue when it transfers control over a promised good or service, a performance obligation under the contract, to a customer and where the Company is entitled to consideration as a result of completion of the performance obligation. Depending on the terms of the contract with the customer, revenue recognition can occur at a point in time or over time. When a performance obligation is satisfied, revenue is measured at the transaction price that is allocated to that performance obligation. For contracts where non-cash consideration is received, revenue is recognized and measured at the fair value of the non-cash consideration.

Customer contracts may include the transfer of multiple goods and services. Where the Company determines that the multiple goods and services are not distinct performance obligations, they are treated as single performance obligation.

Revenue is classified as energy and water sales, provision of services, construction revenue and other commercial revenue depending on the nature of each distinct performance obligation.

Contract costs for obtaining a customer contract are expensed as incurred unless they create an asset related to future contract activity that the Company expects to recover.

Significant judgement may be required to determine the number of distinct performance obligations within a contract and the allocation of transaction price to multiple performance obligations in a contract, and to determine whether the Company acts as a principal or agent for certain performance obligations. When multiple performance obligations are identified in a contract, the transaction price is allocated based on the stand-alone selling price of each performance obligation. If stand-alone selling price is not observable, the Company estimates the stand-alone selling price for each distinct performance obligation based on the related expected cost plus margin. The Company is acting as a principal when the Company controls the goods or services before transfer to the customer. The Company is acting as an agent when it is obliged to arrange for the provision of the goods and services by another party that are not controlled by the Company before transfer to the customer. When the Company acts as an agent, the revenue is recognized net of any related costs incurred.

Prior to January 1, 2018, revenue was recognized to the extent that it was probable that economic benefits would flow to the Company for the provision of goods or services and when the revenue could be reliably measured. Revenues were measured at the fair value of the consideration received or to be received, excluding discounts, rebates and sales taxes or duty.

The Company's principal sources of revenue and methods applied to the recognition of these revenues in these condensed consolidated interim financial statements are as follows:

Energy and water sales

The contracts with customers for the supply of each of electricity, natural gas and water goods primarily consist of perpetual contracts that are effective until terminated by the customer or the Company. The Company provides a series of distinct goods, which are simultaneously received and consumed by the customers. Each of the performance obligations is satisfied over time using the output method for recognition of revenue, i.e. the units of each good supplied to the customer.

Revenues are calculated based on the customer's usage of the goods during the period, at the applicable rates as per the terms of the respective contracts. Customers are generally billed on a monthly basis and payment is generally due within 30 days of billing the customer.

Provision of services

The contracts with customers for each of electricity and natural gas transmission and distribution services, sanitary and stormwater collection and wastewater treatment services primarily consist of perpetual contracts that are effective until terminated by the customer or the Company. The Company provides a series of distinct services, which are simultaneously received and consumed by the customers. Each of the performance obligations is satisfied over time using the output method for recognition of revenue, i.e. quantifiable services rendered to the customer.

Revenues are calculated based on the services provided to the customer during the period, at the applicable rates as per the terms of the respective contracts. These revenues include an estimate of the value of services provided to the customers in the reporting period and billed subsequent to the reporting period. Customers are billed generally within a month and payment is generally due within 30 days of billing the customer.

Certain water services contracts include multiple services, which include operation, maintenance and renewal maintenance of water and wastewater infrastructure, each of which the Company has determined to typically constitute distinct performance obligations. Each of the performance obligations in these contracts relate to the provision of a series of distinct services, which are simultaneously received and consumed by the customers. Performance obligations under these contracts are satisfied over time using both input and output methods, depending on the nature of each distinct performance obligation.

Construction revenue

Revenue from the construction of water and wastewater treatment plants and other project upgrades and expansions provided to customers is recognized when control of the promised goods or services is transferred to the customer. Performance obligations under these contracts are satisfied over time using the input or output method, depending on the contract with customer.

Revenue from construction services includes the initial amount of the transaction price included in the contract plus any expected variable consideration, claims and incentive payments, to the extent it is probable that they will result in consideration receivable and can be reliably measured. Satisfaction of the performance obligation is estimated based on an assessment of progress towards its completion, costs incurred and the total projected cost of fulfilling the performance obligations under a construction contract. These estimates may result in the recognition of unbilled receivables as a contract asset when the revenues are earned prior to billing the amount to customers. If consideration received under the contract exceeds the revenue recognized to date, the difference is presented as a contract liability. When the satisfaction of the performance obligation cannot be measured reliably, contract revenue is recognized only to the extent of contract costs incurred that are probable to be recoverable, until such time the Company can reliably measure the outcome of the performance obligation.

Revenues earned under finance leases

Revenues earned from arrangements where the Company leases water, wastewater and other assets to customers are accounted for as finance leases. Revenues earned under these contracts are included within other commercial revenue (note 4). There is no change in the policy for revenue earned under finance leases as a result of the implementation of IFRS 15.

Other commercial revenue

Other commercial revenue is comprised of revenue from the financing of project upgrades and expansions for customers and is recognized over the term of each contract using the effective interest method based on the fair value of the loan calculated at inception for each contract. There is no change in the policy for other commercial revenue as a result of the implementation of IFRS 15.

IFRS 15 implementation impact

The implementation of IFRS 15 did not result in any adjustment to the opening balance of retained earnings or to the presentation of the condensed consolidated interim statement of financial position.

The implementation of IFRS 15 had an impact on the accounting policies with respect to contributions from customers and developers. Prior to January 1, 2018 contributions from both customers and developers were initially recorded as deferred revenue when received and were recognized as revenue on a straight-line basis over the estimated economic useful lives of the assets to which they relate. On implementation of IFRS 15, contributions received from customers where the Company has an ongoing performance obligation to the customer are within the scope of IFRS 15. These contributions continue to be presented as deferred revenue when received and subsequently recognized as revenue as described in note 3(b). Contributions from developers are not within the scope of IFRS 15 as they do not give rise to a contract with the customer. Currently there is no specific IFRS guidance on accounting for contributions received from developers. The Company has therefore developed an accounting policy for the initial recognition of such contributions and subsequent recognition of the related revenue, as described in note 3(b).

The implementation of IFRS 15 also had an impact on the presentation of revenue for collection of provincial transmission system access service charges and collection of distribution and transmission charges on behalf of the Alberta Electric System Operator and distribution companies, respectively. Prior to January 1, 2018, both of these items were presented as revenue, with all related costs presented as operating expenses within energy purchases and system access fees. On implementation of IFRS 15, the Company has determined that it is acting as an agent when fulfilling both of these obligations as the Company does not obtain control of the respective services before they are transferred to the customers. Therefore, effective January 1, 2018, revenue related to both of these obligations is being presented net of the related costs paid to the corresponding service providers. The impact of the change in the presentation of revenue due to implementation of IFRS 15 is described in note 4.

(b) Deferred Revenue

Certain assets may be contributed by customers or be constructed using non-refundable cash contributions from customers. Non-refundable customer contributions which are used to provide ongoing goods or services to these customers are recorded as deferred revenue. The deferred revenue is initially recorded at the fair value of contributed assets, or the amount of cash contributions received, and is recognized as revenue on a straight-line basis over the estimated lives of the contracts with the customers. Where contracts with customers are perpetual, the related contributed asset are used to provide ongoing goods or service to customers and as such the estimated life of the contract with the customers is estimated to be equivalent to the economical useful life of the asset to which the contribution relates.

Certain assets may be acquired or constructed using non-refundable government grants. Government grants are recorded as deferred revenue and are recognized as revenue on a straight line basis over the estimated economic useful lives of the assets to which they relate. There is no change in the policy for revenue recognition of government grants as a result of the implementation of IFRS 15.

Certain assets may be contributed by developers or be acquired or constructed using non-refundable cash contributions from developers. Non-refundable developer contributions that result in the Company having an ongoing obligation to provide goods or services with respect to the assets acquired or constructed are recorded as deferred revenue, at the fair value of the contributed assets or the amount of cash contribution received, and are recognized as revenue on a straight-line basis over the estimated economic useful lives of the assets to which the contribution relates.

(c) Non-derivative financial instruments

Financial assets are identified and classified based on the business model used by the Company for managing those financial assets, as one of the following: at amortized cost, at fair value through other comprehensive income, or at fair value through profit or loss. Prior to January 1, 2018, financial assets were identified and classified as one of the following: measured at fair value through profit or loss, loans and receivables, or available-for-sale financial assets. Non-derivative financial assets that were not classified in any of the above categories were designated as available-for-sales financial assets. Financial liabilities continue to be classified as measured at fair value through profit or loss or at amortized cost, as there is no change in classification of financial liabilities under IFRS 9.

Financial assets and financial liabilities are presented on a net basis when the Company has a legally enforceable right to offset the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

At amortized cost

Cash and cash equivalents, other financial assets and trade and other receivables except for derivative assets, which are classified as financial assets at fair value through profit or loss, are classified as financial assets at amortized cost. These financial assets are recognized initially at fair value plus directly attributable transaction costs, if any. After initial recognition, they are measured at amortized cost when they are held for collection of cash flows, where those cash flows solely represent payments of principal and interest using the effective interest method less any impairment as described in note 3(d). The effective interest method calculates the amortized cost of a financial asset and allocates the finance income over the term of the financial asset using an effective interest rate. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial asset, or a shorter period when appropriate, to the gross carrying amount of the financial asset.

The Company's trade and other payables, debentures and borrowings, contributions from customers and developers and other liabilities, except for contingent consideration and derivative liabilities which are classified as financial liabilities at fair value through profit or loss, are classified as financial liabilities at amortized cost and recognized on the date at which the Company becomes a party to the contractual arrangement. Financial liabilities are derecognized when the contractual obligations are discharged, cancelled or expire. Financial liabilities are initially recognized at fair value including discounts and premiums, plus directly attributable transaction costs, such as issue expenses, if any. Subsequently, these liabilities are measured at amortized cost using the effective interest rate method.

At fair value through other comprehensive income

Financial assets that are held for collection of contractual cash flows and for selling, where the assets' cash flows solely represent payments of principal and interest, are classified as financial assets at fair value through other comprehensive income. These financial assets are initially recognized at fair value plus directly attributable transaction costs. Subsequent to initial recognition, these financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income, except for the recognition of impairment losses, reversal of impairment losses, interest income and foreign exchange gains and losses, which are recognized in net income. On de-recognition of the financial asset, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to net income. Interest income from these financial assets is recognized as other income using the effective interest rate method.

At fair value through profit or loss

Financial instruments at fair value through profit or loss include instruments that are designated as financial instruments at fair value through profit or loss or those financial instruments that do not meet the criteria for classification under any other category.

Upon initial recognition, directly attributable transaction costs are recognized in net income as incurred. Changes in fair value of financial instruments measured at fair value through profit or loss are recognized in net income.

The Company's beneficial interest in the sinking fund with the City was classified as a financial asset at fair value through profit or loss under IFRS 9. Prior to January 1, 2018, the beneficial interest in the sinking fund with the City was classified as available-for-sale asset, which was re-designated at fair value through profit or loss on implementation of IFRS 9. Since there was no accumulated gain or loss in other comprehensive income relating to the beneficial interest in the sinking fund, re-designation of beneficial interest in the sinking fund did not have any impact on opening balance of retained earnings. The Company's beneficial interest in the sinking fund with the City was fully settled in September 2018.

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

The following table summarizes the classification and measurement for each class of the Company's financial assets and financial liabilities up to December 31, 2017 and subsequent to adoption of IFRS 9 effective January 1, 2018.

	Up to December 31, 2017	Effective January 1, 2018	Fair value hierarchy
Measured at fair value			
Derivative assets / liabilities	Fair value through profit or loss	Fair value through profit or loss	Level 1
Beneficial interest in sinking fund	Available for sale	Fair value through profit or loss	Level 1
Other liabilities			
Contingent consideration – designated	Fair value through profit or loss	Fair value through profit or loss	Level 3
Measured at amortized cost			
Cash and cash equivalents	Loans and receivables	Amortized cost	Level 1
Trade and other receivables excluding derivative assets	Loans and receivables	Amortized cost	Level 3
Other financial assets	Loans and receivables	Amortized cost	Level 2
Trade and other payables excluding derivative liabilities	Other financial liabilities	Amortized cost	Level 3
Debentures and borrowings	Other financial liabilities	Amortized cost	Level 2
Other liabilities			
Customer deposits	Other financial liabilities	Amortized cost	Level 3
Drainage transition cost compensation	Other financial liabilities	Amortized cost	Level 2

(d) Impairment of financial assets

The Company uses the "expected credit loss" model for calculating impairment and recognizes expected credit losses as a loss allowance for financial assets measured at amortized cost or at fair value through other comprehensive income. At each reporting date, the Company measures the loss allowance for financial assets, except for trade receivables without significant financing component, at an amount equal to the lifetime expected credit losses to determine if the credit risk on that financial asset has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for that financial asset at an amount equal to 12-month expected credit losses.

For trade receivables without significant financing component, the Company applies the simplified approach, which requires lifetime expected credit losses to be recognized on initial recognition. Trade and other receivables that are not assessed for impairment individually are assessed for impairment on a collective basis taking into consideration the unique risk factors associated with each customer group.

Prior to January 1, 2018, the Company was using objective evidence as the criteria to recognize impairment losses on financial assets. On implementation of IFRS 9 effective January 1, 2018, the Company changed the criteria for recognition of an impairment loss to utilize the expected credit loss model as described above, which resulted in a reduction in the lifetime expected credit loss on trade receivables of $1 million. This has been adjusted in opening balance of retained earnings.

(e) Standards and interpretations not yet applied

A number of new standards, amendments to standards and interpretations of standards 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, 2019. 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.

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

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. Under the new single lessee model, a lessee will recognize right of use assets and lease liabilities on the statement of financial position initially measured at the present value of unavoidable lease payments. IFRS 16 will also cause expenses to be higher at the beginning and lower towards the end of a lease, even when payments are consistent throughout the term. Lessors will continue with a dual lease classification model and the classification will determine how and when a lessor will recognize lease revenue and what assets will be recorded.

There are two methods by which the new standard may be adopted: (1) a full retrospective approach with a restatement of all prior periods presented, or (2) a modified retrospective approach with a cumulative-effect adjustment recognized in the opening retained earnings as of the date of adoption. The Company plans to adopt IFRS 16 using the modified retrospective approach with the cumulative effect of the adjustment, if any, recognized in the opening retained earnings as of January 1, 2019, subject to allowable and elected practical expedients. The Company is currently reviewing the practical expedients available under the standard, however on initial adoption the Company intends to use the following practical expedients, where applicable: (1) not applying the requirements of the standard to short-term leases, (2) treating operating leases with a remaining term of less than 12 months at January 1, 2019 as short-term leases, and (3) not applying the requirements of the standard to low value leases.

The Company has substantially completed its review of the existing contracts that are currently classified as leases under existing standard, or that could be classified as leases under IFRS 16, in order to identify the contracts that will be impacted by the new standard so that further analysis can be performed to quantify the impact of the adoption of IFRS 16 on the consolidated financial statements. Based on our preliminary assessment, the Company expects that there will be a material impact on its statements of consolidated financial position as a result of the recognition of right of use assets and lease liabilities with respect to its leases for land and buildings (including office space) as well as certain contracts for lease of vehicles and equipment. The Company's analysis of these contracts is ongoing and presently the Company is working to calculate the transitional adjustments required with respect to the contracts that have been identified as potential leases. The Company expects to report more detailed information, including the quantitative impact, in future periods.

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. Revenues

Revenues disaggregated by major goods or services, excluding intersegment revenues, are as follows:

Three months ended September 30, 2018	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Consolidated
Energy and water sales	$ 58	$ -	$ 114	$ 51	$ 1	$ 224
Provision of services	102	112	5	16	1	236
Construction revenue	3	-	-	-	1	4
Other commercial revenue	1	-	-	-	-	1
	$ 164	$ 112	$ 119	$ 67	$ 3	$ 465

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

Three months ended September 30, 2017	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Consolidated
Energy and water sales	$ 58	$ -	$ 212	$ 45	$ -	$ 315
Provision of services	62	132	3	18	-	215
Construction revenue	2	-	-	-	-	2
Other commercial revenue	2	-	-	-	-	2
	$ 124	$ 132	$ 215	$ 63	$ -	$ 534

Nine months ended September 30, 2018	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Consolidated
Energy and water sales	$ 168	$ -	$ 287	$ 139	$ 4	$ 598
Provision of services	302	316	15	45	5	683
Construction revenue	6	-	-	-	1	7
Other commercial revenue	4	-	-	-	-	4
	$ 480	$ 316	$ 302	$ 184	$ 10	$ 1,292

Nine months ended September 30, 2017	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Consolidated
Energy and water sales	$ 161	$ -	$ 600	$ 119	$ -	$ 880
Provision of services	140	372	10	49	-	571
Construction revenue	7	-	-	-	-	7
Other commercial revenue	5	-	-	-	-	5
	$ 313	$ 372	$ 610	$ 168	$ -	$ 1,463

As explained in note 3, the Company implemented IFRS 15 using the modified retrospective approach and as such the balances for the comparative period have not been restated. Had the Company continued using the previous policy for recognition of revenue, revenue from energy and water sales for the three and nine months ended September 30, 2018 would have been higher by $158 million and $467 million respectively and revenue from the provision of services would have been higher by $24 million and $69 million respectively, compared to the amounts presented within the condensed consolidated interim statements of comprehensive income.

Revenue from contracts with customers expected to be recognized in future periods related to performance obligations that are unsatisfied or partially satisfied at the reporting date are as follows:

1. The Company has several commercial contracts which may consist of single or multiple distinct performance obligations. These contracts relate to operating and maintenance, renewal maintenance and long-term financing of the projects. These contracts primarily consist of operating and maintenance of water and wastewater facilities for various cities and towns, management of wastewater operations for various commercial customers and repair and maintenance of street lighting and traffic signals for the city of Edmonton. The remaining terms of these contracts range between one to 26 years.
2. The Company has contracts for supply of water to a city and certain commercial customers in Texas, U.S. Under these contracts the customers have committed to take or pay for a contracted quantity of water. The terms of these contracts range between 20 to 43 years.
3. At September 30, 2018 the Company had $3,388 million of deferred revenue recorded in the statements of financial position related to contributions received from customers, developers and government grants. Revenue will be recognized in future periods related to this balance, as described in note 3(b), over periods ranging from two to 95 years.
4. The Company has numerous contracts with customers for supply of each of electricity, natural gas and water as well

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

as provision of sanitary and stormwater collection and wastewater treatment services. These contracts are perpetual with no agreed fixed term and can be terminated at any time either by customer or the Company. In case of termination of these contracts, the Company has the right to receive payment for the performance completed to the termination date.

5. Financial instruments

Fair value

The carrying amounts of cash and cash equivalents, trade and other receivables (excluding derivative financial assets), current portion of other financial assets, trade and other payables (excluding derivative financial liabilities) 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, 2018		December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair Value
Non-current portion of other financial assets[1]	$ 87	$ 97	$ 90	$ 99
Derivative assets	1	1	1	1
Loans and borrowings				
Debentures and borrowings	2,537	2,776	2,960	3,326
Beneficial interest in sinking fund	-	-	(94)	(94)
Other liabilities				
Contingent consideration	46	46	43	43
Drainage transition cost compensation	45	44	65	65

1 Excluding finance lease receivables of $1 million (December 31, 2017 – $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, as described in note 3(c). A Level 1 valuation is determined by unadjusted quoted prices in active markets for identical assets or liabilities. A Level 2 valuation is based upon inputs other than quoted prices included in Level 1 that are observable for the instruments either directly or indirectly. A Level 3 valuation for the assets and liabilities are not based on observable market data.

Other financial assets

The fair 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, 2018, and December 31, 2017.

Derivative assets

The fair value of the Company's financial electricity purchase contracts is determined based on exchange index prices in active markets and are based on the external readily observable market data such as forward electricity prices.

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

Derivative assets are presented within trade and other receivables in the condensed consolidated interim statements of financial position.

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

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

30, 2018 and December 31, 2017. 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, 2018, and December 31, 2017. 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 were partially offset by payments made by the Company into the sinking fund. The Company's beneficial interest in the sinking fund was fully settled in September 2018.

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

Contingent consideration

The contingent consideration is payable in U.S. dollars and payment is mainly 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 Natural Gas Inc., the timing of which is uncertain. The fair value of the Company's contingent consideration is determined based on the expected timing of securing new contracts and customer connections and the resulting cash flows are then discounted at risk adjusted discount rates. Any change in the timing of execution of new contracts, discount rate or foreign exchange rate can have material impact on the fair value of contingent consideration.

The changes in the liability for contingent consideration are as follows:

	September 30, 2018	December 31, 2017
Balance, beginning of the period / year	$ 43	$ 36
Recognized on business acquisition	-	8
Payment during the period / year	(1)	-
Unwinding of interest included in finance expenses	2	2
Foreign currency valuation adjustments	2	(3)
Balance, end of the period / year	$ 46	$ 43

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 sanitary and stormwater (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, 2018 and December 31, 2017, respectively.

6. Segment disclosures

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

Water Services

Water Services is primarily involved in the treatment, transmission, distribution and sale of water, the collection and conveyance of sanitary and storm water and the treatment of wastewater within Edmonton and other communities throughout Western Canada. This segment's water and wastewater business 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 of Edmonton and for other municipal and commercial customers in Alberta.

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

Energy Services

Energy Services is primarily involved in the provision of regulated tariff electricity service and default supply electricity services to customers in Alberta. This segment also provides competitive electricity and natural gas products under the Encor brand.

U.S. Operations

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

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 Canadian natural gas distribution business, financing income 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 until January 2017.

Three months ended September 30, 2018

	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
External revenues	$ 164	$ 112	$ 119	$ 67	$ 3	$ -	$ 465
Inter-segment revenue	-	4	3	-	1	(8)	-
Total revenues and other income	164	116	122	67	4	(8)	465
Energy purchases and system access fees	-	-	108	-	1	-	109
Other raw materials and operating charges	30	15	-	11	2	(3)	55
Staff costs and employee benefits expenses	35	22	7	9	14	(2)	85
Depreciation and amortization	36	23	2	12	3	-	76
Franchise fees and property taxes	9	20	-	1	1	-	31
Other administrative expenses	8	3	6	4	5	(3)	23
Operating expenses	118	83	123	37	26	(8)	379
Operating income (loss) before corporate charges	46	33	(1)	30	(22)	-	86
Corporate income (charges)	(8)	(6)	(3)	(2)	19	-	-
Operating income (loss)	38	27	(4)	28	(3)	-	86
Finance recoveries (expenses)	(20)	(15)	(1)	(11)	18	-	(29)
Income tax recovery (expense)	1	-	-	(4)	1	-	(2)
Net income (loss)	$ 19	$ 12	$ (5)	$ 13	$ 16	$ -	$ 55
Capital additions	$ 75	$ 42	$ 1	$ 27	$ 5	$ -	$ 150

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

Three months ended September 30, 2017

	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
External revenues	$ 124	$ 132	$ 215	$ 63	$ -	$ -	$ 534
Other income	-	-	-	-	3	-	3
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)

Nine months ended September 30, 2018

	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
External revenues	$ 480	$ 316	$ 302	$ 184	$ 10	$ -	$ 1,292
Other income	-	-	-	-	2	-	2
Inter-segment revenue	-	8	11	-	1	(20)	-
Total revenues and other income	480	324	313	184	13	(20)	1,294
Energy purchases and system access fees	-	-	244	4	3	-	251
Other raw materials and operating charges	73	36	-	34	4	(8)	139
Staff costs and employee benefits expenses	105	66	22	24	38	(4)	251
Depreciation and amortization	103	65	5	34	10	-	217
Franchise fees and property taxes	25	59	-	5	1	-	90
Other administrative expenses	22	11	18	10	12	(8)	65
Operating expenses	328	237	289	111	68	(20)	1,013
Operating income (loss) before corporate charges	152	87	24	73	(55)	-	281
Corporate income (charges)	(24)	(17)	(7)	(5)	53	-	-
Operating income (loss)	128	70	17	68	(2)	-	281
Finance recoveries (expenses)	(60)	(45)	(3)	(32)	49	-	(91)
Income tax recovery (expense)	2	-	-	(7)	3	-	(2)
Net income	$ 70	$ 25	$ 14	$ 29	$ 50	$ -	$ 188
Capital additions	$ 188	$ 121	$ 1	$ 64	$ 10	$ -	$ 384

(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	$ 313	$ 372	$ 610	$ 168	$ -	$ -	$ 1,463
Other income	-	-	-	-	9	-	9
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

The Company's assets and liabilities by business segments at September 30, 2018 and December 31, 2017 are summarized as follows:

September 30, 2018	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
Total assets	$ 6,234	$ 2,321	$ 208	$ 1,343	$ 3,063	$ (2,938)	$ 10,231
Total liabilities	4,724	1,553	178	1,090	2,032	(2,938)	6,639

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

December 31, 2017	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
Total assets	$ 6,074	$ 2,256	$ 184	$ 1,253	$ 3,532	$ (2,955)	$ 10,344
Total liabilities	4,685	1,514	168	1,034	2,386	(2,955)	6,832

Non-current assets by geography

	September 30, 2018	December 31, 2017
Canada	$ 8,465	$ 8,224
U.S.	1,289	1,213
	$ 9,754	$ 9,437

7. Subsequent event

Acquisition of Collingwood PowerStream Utility Services Corp.

On October 1, 2018, the Company acquired 100% of the issued and outstanding common shares of Collingwood PowerStream Utility Services Corp. (Collus), an electricity distribution and services holding company with operations in three major communities in Simcoe County, Ontario, for cash consideration of $28 million and assumption of $16 million in third party debt.

Collus is primarily involved in the distribution of electricity through its wholly owned subsidiary to over 17,000 service connections within the area of Collingwood, Stayner and Creemore (Clearview Township) plus the Town of Blue Mountains (Grey County). These operations are regulated by the Ontario Energy Board (OEB) under a price cap incentive cost-of-service rate setting framework. Collus distributes electricity in these service areas, under licenses issued by the OEB.