Condensed Consolidated Interim Financial Statements of

EPCOR UTILITIES INC.

(Unaudited)

Three months ended March 31, 2020 and 2019

EPCOR UTILITIES INC.

Condensed Consolidated Interim Financial Statements (unaudited)

Three months ended March 31, 2020 and 2019

EPCOR UTILITIES INC.

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

Three months ended March 31, 2020 and 2019

	2020	2019
Revenues (note 4)	$ 487	$ 458
Operating expenses:		
Energy purchases and system access fees	126	104
Other raw materials and operating charges	45	42
Staff costs and employee benefits expenses	92	88
Depreciation and amortization	83	78
Franchise fees and property taxes	33	31
Other administrative expenses	24	22
	403	365
Operating income	84	93
Finance expenses	(34)	(32)
Income before income taxes	50	61
Income tax expense	-	(5)
Net income for the periods – all attributable to the Owner of the Company	50	56
Other comprehensive income (loss):		
Items that may subsequently be reclassified to net income:		
Unrealized loss on cash flow hedges	-	(4)
Unrealized gain (loss) on foreign currency translation	55	(11)
Other comprehensive income (loss) for the periods	55	(15)
Comprehensive income for the periods - all attributable to the Owner of the Company	$ 105	$ 41

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

EPCOR UTILITIES INC.

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

March 31, 2020 and December 31, 2019

	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 37	$ 33
Trade and other receivables	435	473
Inventories	19	18
	491	524
Non-current assets:		
Other financial assets	139	127
Deferred tax assets	102	102
Property, plant and equipment	10,476	10,280
Intangible assets and goodwill	413	388
	11,130	10,897
TOTAL ASSETS	$ 11,621	$ 11,421
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	$ 372	$ 431
Loans and borrowings	145	55
Deferred revenue	72	71
Provisions	36	30
Other liabilities	57	65
	682	652
Non-current liabilities:		
Loans and borrowings	3,056	3,026
Deferred revenue	3,782	3,707
Deferred tax liabilities	59	56
Provisions	107	100
Other liabilities	169	176
	7,173	7,065
Total liabilities	7,855	7,717
Equity attributable to the Owner of the Company:		
Share capital	798	798
Accumulated other comprehensive income	106	51
Retained earnings	2,862	2,855
Total equity - all attributable to the Owner of the Company	3,766	3,704
TOTAL LIABILITIES AND EQUITY	$ 11,621	$ 11,421

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

EPCOR UTILITIES INC.

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

Three months ended March 31, 2020 and 2019

		Accumulated other comprehensive income (loss)				
	Share capital	Cash flow hedges	Cumulative translation account	Employee benefits account	Retained earnings	Equity attributable to the Owner of the Company
Equity at December 31, 2019	$ 798	$ (9)	$ 79	$ (19)	$ 2,855	$ 3,704
Net income for the period	-	-	-	-	50	50
Other comprehensive income:						
Unrealized gain on foreign currency translation	-	-	55	-	-	55
Total comprehensive income	-	-	55	-	50	105
Dividends	-	-	-	-	(43)	(43)
Equity at March 31, 2020	$ 798	$ (9)	$ 134	$ (19)	$ 2,862	$ 3,766

		Accumulated other comprehensive income (loss)				
	Share capital	Cash flow hedges	Cumulative translation account	Employee benefits account	Retained earnings	Equity attributable to the Owner of the Company
Equity at December 31, 2018	$ 798	$ -	$ 107	$ (9)	$ 2,795	$ 3,691
Net income for the period	-	-	-	-	56	56
Other comprehensive loss:						
Unrealized loss on cash flow hedges	-	(4)	-	-	-	(4)
Unrealized loss on foreign currency translation	-	-	(11)	-	-	(11)
Total comprehensive income (loss)	-	(4)	(11)	-	56	41
Dividends	-	-	-	-	(43)	(43)
Equity at March 31, 2019	$ 798	$ (4)	$ 96	$ (9)	$ 2,808	$ 3,689

EPCOR UTILITIES INC.

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

Three months ended March 31, 2020 and 2019

	2020	2019
Cash flows from (used in) operating activities:		
Net income for the period	$ 50	$ 56
Reconciliation of net income for the period to cash from (used in) operating activities:		
Interest paid	(16)	(11)
Finance expenses	34	32
Income tax expense	-	5
Depreciation and amortization	83	78
Change in employee benefits provisions	7	7
Contributions received	41	19
Deferred revenue recognized	(18)	(17)
Changes in fair value of financial electricity purchase contracts	1	1
Other	(3)	1
Net cash flows from operating activities before non-cash operating working capital changes	179	171
Changes in non-cash operating working capital	(26)	(38)
Net cash flows from operating activities	153	133
Cash flows from (used in) investing activities:		
Acquisitions or construction of property, plant and equipment and intangible assets[1]	(143)	(109)
Business acquisition	-	(31)
Changes in non-cash investing working capital	(33)	(18)
Proceeds on disposal of property, plant and equipment	1	-
Net payments received on other financial assets	1	1
Payment of Drainage transition cost compensation to the City of Edmonton	(14)	(17)
Net cash flows used in investing activities	(188)	(174)
Cash flows from (used in) financing activities:		
Net issuance of short-term loans and borrowings	90	84
Repayments of long-term loans and borrowings	(5)	(5)
Net refunds to customers and developers	-	(1)
Payments of lease liabilities, net of proceeds from finance lease receivable	(3)	(2)
Dividends paid	(43)	(43)
Net cash flows from financing activities	39	33
Increase (decrease) in cash and cash equivalents	4	(8)
Cash and cash equivalents, beginning of period	33	32
Cash and cash equivalents, end of period	$ 37	$ 24

1 Interest payments of $2 million (2019 - $2 million) have been capitalized and included in acquisitions 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*. These condensed consolidated interim financial statements do not include all of the disclosures 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, 2019, 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 April 27, 2020.

(b) Basis of measurement

The Company's condensed consolidated interim financial statements are prepared on the historical cost basis, except for its derivative financial instruments, long-term investment and contingent consideration, which are measured at fair value.

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. The Company has adopted amendments to various accounting standards effective January 1, 2020, which did not have significant impact on these financial statements.

(a) Standards and interpretations not yet applied

A number of new standards, amendments to standards and interpretations of standards have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee, the application of which is effective for periods beginning on or after January 1, 2021. The Company does not expect the implementation of these new accounting pronouncements to have a significant impact on its accounting policies.

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

4. Revenues

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

Three months ended March 31, 2020	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Consolidated
Energy and water sales	$ 54	$ -	$ 124	$ 40	$ 15	$ 233
Provision of services	104	115	6	17	4	246
Construction revenue	1	-	-	-	5	6
Other commercial revenue	1	-	-	-	1	2
	$ 160	$ 115	$ 130	$ 57	$ 25	$ 487

Three months ended March 31, 2019	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Consolidated
Energy and water sales	$ 50	$ -	$ 118	$ 37	$ 13	$ 218
Provision of services	98	110	5	16	5	234
Construction revenue	2	-	-	-	2	4
Other commercial revenue	1	-	-	-	1	2
	$ 151	$ 110	$ 123	$ 53	$ 21	$ 458

5. Financial instruments

Classification

The classifications of the Company's financial instruments measured at fair value at March 31, 2020 and December 31, 2019 are summarized as follows:

	Fair value hierarchy
Long-term investment	Level 3
Derivative financial instruments	
Financial electricity purchase contracts - designated	Level 1
Other liabilities	
Contingent consideration - designated	Level 3

Fair value

The carrying amounts of cash and cash equivalents, trade and other receivables, current portion of other financial assets, trade and other payables (excluding derivative financial instruments) 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 financial liabilities measured at amortized cost are as follows:

		March 31, 2020		December 31, 2019	
	Fair value hierarchy	Carrying amount	Fair value	Carrying amount	Fair value
Non-current portion of other financial assets[1]	Level 2	$ 132	$ 133	$ 120	$ 121
Loans and borrowings	Level 2	3,201	3,610	3,081	3,602
Other liabilities					
Drainage transition cost compensation	Level 2	15	15	29	29

1 Excluding long-term investment in Vista Ridge of $7 million (December 31, 2019 - $7 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 using 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.

Derivative financial instruments

The derivative financial instruments consist of financial electricity purchase contracts.

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 financial liabilities are presented within trade and other payables in the condensed consolidated interim statements of financial position.

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 EPCOR Gas Texas 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 and additional customer connections, discount rate or foreign exchange rate can have a material impact on the fair value of contingent consideration.

Non-current portion of other financial assets

The fair values of the Company's long-term receivables are based on the estimated interest rates implicit in comparable loan arrangements plus an estimated credit spread based on the counterparty risks at March 31, 2020 and December 31, 2019. The fair value of finance lease receivables is based on the estimated current market rates for similar assets discounted at the prevailing interest rates for comparable investments plus an estimated credit spread based on counterparty risks at March 31, 2020 and December 31, 2019.

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 March 31, 2020 and December 31, 2019. 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 March 31, 2020 and December 31, 2019. 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.

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

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 March 31, 2020 and December 31, 2019.

6. Financial risk management

This note disclosure should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2019. Further to the financial risk exposures identified and disclosed in the annual consolidated financial statements for the year ended December 31, 2019, the Company has updated its risk exposures as a result of the recent global outbreak of the novel coronavirus (COVID-19), which was declared a pandemic by the World Health Organization in March 2020.

In response to the COVID-19 outbreak, governmental authorities in Canada and internationally have introduced various recommendations and measures to try to limit spread of the pandemic, including non-essential business closures, quarantines, self-isolation, social and physical distancing and shelter-in-place. These measures have caused disruptions to businesses globally resulting in an economic slowdown. Given that the majority of the Company's operations consist of the provision of essential utility services, while there may be impacts on the Company's revenues and costs incurred to mitigate risks of the outbreak, it is not anticipated that the COVID-19 outbreak will have a material impact on the financial results of the Company. However, prolonged business disruption can negatively affect one or more factors that are essential for maintaining regular operations of the Company including, but not limited to, availability of employees for delivery of goods or services and availability of supplies and equipment for operations and planned construction of plants and other assets. In addition, the COVID-19 outbreak has also increased certain financial risks to the Company, including credit risk and liquidity risk. The ultimate duration and magnitude of the impact on the economy and consequential financial effect on the Company, is unknown at this time.

Credit risk

The COVID-19 outbreak has increased the credit risk of the Company as the economic slowdown could result in customers being unable to pay their utility bills when they are due. In addition, certain measures from various governments and municipalities have been implemented, which prevent utility companies from disconnecting customers for non-payment and allow certain utility customers to defer payment of their utility bills, and have also increased the credit risk of the Company. Due to the dynamic nature of the situation and recency of the enactment of the various government measures, it is not currently possible to measure the full financial impact of this elevated credit risk. However, based on the Company's current estimates and assumptions, the expected credit loss matrix has been adjusted to account for the higher level of potential customer defaults. As a result of the change in credit risk, the Company has recorded an additional provision for expected credit loss pertaining to the trade receivables outstanding at March 31, 2020. The impact of this adjustment was not material to these condensed consolidated interim financial statements. Given the high degree of volatility caused by the outbreak of COVID-19, the estimates and judgments made by management in the preparation of the expected credit loss allowance are subject to a high degree of estimation uncertainty. The Company will continue to monitor the situation, including information related to realized credit losses from customers and further pronouncements from governments and regulators, and if required, will make adjustments to the expected credit loss allowance in future periods.

Liquidity risk

The COVID-19 outbreak and resulting business disruptions have also resulted in volatility in the financial markets, which could create liquidity challenges in the market. A decrease in overall market liquidity could lead to limited availability of funds and/or increased financing costs for the Company. The reduction in near-term cash receipts from customers electing to defer their utility bill payments, in conjunction with higher credit losses from customer defaults, is not expected to have a material impact on the Company's short-term liquidity as the Company also anticipates lower capital expenditures in 2020 as a result of COVID-19 outbreak. These factors, in conjunction with availability of funds under the Company's existing credit facilities and operating cash inflows, will allow the Company to fulfill its financial obligations as they become due.

7. 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 in 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 design, 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 rate option 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 are primarily involved in the treatment, transmission, distribution and sale of water, and the collection and treatment of wastewater, and operating and maintenance services 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 Ontario natural gas and electricity distribution businesses and the cost of the Company's net unallocated corporate office expenses.

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

Three months ended March 31, 2020	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
External revenues	$ 160	$ 115	$ 130	$ 57	$ 25	$ -	$ 487
Inter-segment revenues	-	2	4	-	-	(6)	-
Total revenues	160	117	134	57	25	(6)	487
Energy purchases and system access fees	-	-	110	2	14	-	126
Other raw materials and operating charges	17	11	-	12	6	(1)	45
Staff costs and employee benefits expenses	38	21	9	10	15	(1)	92
Depreciation and amortization	38	23	2	14	6	-	83
Franchise fees and property taxes	9	22	-	2	-	-	33
Other administrative expenses	8	4	8	4	4	(4)	24
Operating expenses	110	81	129	44	45	(6)	403
Operating income (loss) before corporate income (charges)	50	36	5	13	(20)	-	84
Corporate income (charges)	(10)	(6)	(4)	(2)	22	-	-
Operating income	40	30	1	11	2	-	84
Finance recoveries (expenses)	(19)	(15)	(1)	(12)	13	-	(34)
Net income (loss)	$ 21	$ 15	$ -	$ (1)	$ 15	$ -	$ 50
Capital additions	$ 58	$ 44	$ -	$ 30	$ 11	$ -	$ 143

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

Three months ended March 31, 2019	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
External revenues	$ 151	$ 110	$ 123	$ 53	$ 21	$ -	$ 458
Inter-segment revenues	-	3	4	-	-	(7)	-
Total revenues	151	113	127	53	21	(7)	458
Energy purchases and system access fees	-	-	90	2	12	-	104
Other raw materials and operating charges	20	9	-	12	3	(2)	42
Staff costs and employee benefits expenses	37	20	7	9	17	(2)	88
Depreciation and amortization	36	22	2	12	6	-	78
Franchise fees and property taxes	8	21	-	2	-	-	31
Other administrative expenses	7	4	6	3	5	(3)	22
Operating expenses	108	76	105	40	43	(7)	365
Operating income (loss) before corporate income (charges)	43	37	22	13	(22)	-	93
Corporate income (charges)	(8)	(6)	(2)	(1)	17	-	-
Operating income (loss)	35	31	20	12	(5)	-	93
Finance recoveries (expenses)	(18)	(15)	(1)	(12)	14	-	(32)
Income tax expense	-	-	-	-	(5)	-	(5)
Net income	$ 17	$ 16	$ 19	$ -	$ 4	$ -	$ 56
Capital additions	$ 48	$ 40	$ -	$ 15	$ 6	$ -	$ 109

The Company's assets and liabilities by business segments at March 31, 2020 and December 31, 2019 are summarized as follows:

March 31, 2020	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
Total assets	$ 6,807	$ 2,524	$ 194	$ 1,646	$ 4,489	$ (4,039)	$ 11,621
Total liabilities	5,241	1,713	169	1,335	3,436	(4,039)	7,855

December 31, 2019	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
Total assets	$ 6,762	$ 2,529	$ 210	$ 1,492	$ 4,363	$ (3,935)	$ 11,421
Total liabilities	5,271	1,733	185	1,207	3,310	(3,935)	7,717

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

Non-current assets by geography

	March 31, 2020	December 31, 2019
Canada	$ 9,531	$ 9,449
U.S.	1,599	1,448
	$ 11,130	$ 10,897