Condensed Consolidated Interim Financial Statements of

EPCOR UTILITIES INC.

(Unaudited)

Nine months ended September 30, 2021 and 2020

EPCOR UTILITIES INC.

Condensed Consolidated Interim Financial Statements (unaudited)

Nine months ended September 30, 2021 and 2020

EPCOR UTILITIES INC.

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

Three and nine months ended September 30, 2021 and 2020

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Revenues (note 6)	$ 595	$ 518	$ 1,636	$ 1,476
Operating expenses:				
Energy purchases and system access fees	145	84	378	274
Other raw materials and operating charges	68	73	189	189
Staff costs and employee benefits expenses	95	87	271	265
Depreciation and amortization	95	87	277	255
Franchise fees and property taxes	38	32	106	95
Other administrative expenses	18	20	60	73
	459	383	1,281	1,151
Operating income	136	135	355	325
Gain on expropriation of the Bullhead City water utility systems (note 5)	69	-	69	-
Finance expenses	(39)	(35)	(113)	(102)
Income before income taxes	166	100	311	223
Income tax expense	(20)	(8)	(24)	(11)
Net income	146	92	287	212
Other comprehensive income (loss):				
Items that may subsequently be reclassified to net income:				
Foreign exchange gain (loss) on U.S. denominated debt designated as a hedge of net investment in foreign operations	(10)	9	-	(10)
Unrealized loss on derivative financial instruments designated as hedges of net investment in foreign operations (note 9)	(8)	-	(15)	-
Unrealized gain (loss) on foreign currency translation	30	(23)	(1)	26
Other comprehensive income (loss)	12	(14)	(16)	16
Comprehensive income	$ 158	$ 78	$ 271	$ 228

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)

September 30, 2021 and December 31, 2020

	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 69	$ 8
Trade and other receivables	534	488
Inventories	19	17
	622	513
Non-current assets:		
Other financial assets	213	189
Deferred tax assets	94	97
Property, plant and equipment	11,463	10,913
Intangible assets and goodwill	561	468
	12,331	11,667
TOTAL ASSETS	$ 12,953	$ 12,180
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	$ 496	$ 426
Loans and borrowings (note 7)	310	365
Deferred revenue	75	83
Provisions	24	33
Other liabilities	45	49
	950	956
Non-current liabilities:		
Loans and borrowings (note 7)	3,592	3,207
Deferred revenue	4,049	3,909
Deferred tax liabilities	49	43
Provisions	179	109
Other liabilities	200	165
	8,069	7,433
Total liabilities	9,019	8,389
Equity:		
Share capital	798	798
Accumulated other comprehensive income	17	33
Retained earnings	3,119	2,960
Total equity	3,934	3,791
TOTAL LIABILITIES AND EQUITY	$ 12,953	$ 12,180

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)

Nine months ended September 30, 2021 and 2020

	Share capital	Accumulated other comprehensive income (loss): Cash flow hedges	Cumulative translation account	Employee benefits account	Retained earnings	Total equity
Equity at December 31, 2020	$ 798	$ (9)	$ 63	$ (21)	$ 2,960	$ 3,791
Net income	-	-	-	-	287	287
Other comprehensive loss:						
Unrealized loss on derivative financial instruments designated as hedges of net investment in foreign operations	-	-	(15)	-	-	(15)
Unrealized loss on foreign currency translation	-	-	(1)	-	-	(1)
Total comprehensive income (loss)	-	-	(16)	-	287	271
Dividends	-	-	-	-	(128)	(128)
Equity at September 30, 2021	$ 798	$ (9)	$ 47	$ (21)	$ 3,119	$ 3,934

	Share capital	Accumulated other comprehensive income (loss): Cash flow hedges	Cumulative translation account	Employee benefits account	Retained earnings	Total equity
Equity at December 31, 2019	$ 798	$ (9)	$ 79	$ (19)	$ 2,855	$ 3,704
Net income	-	-	-	-	212	212
Other comprehensive income (loss):						
Foreign exchange loss on U.S. denominated debt designated as a hedge of net investment in foreign operations	-	-	(10)	-	-	(10)
Unrealized gain on foreign currency translation	-	-	26	-	-	26
Total comprehensive income	-	-	16	-	212	228
Dividends	-	-	-	-	(128)	(128)
Equity at September 30, 2020	$ 798	$ (9)	$ 95	$ (19)	$ 2,939	$ 3,804

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

EPCOR UTILITIES INC.

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

Nine months ended September 30, 2021 and 2020

	2021	2020
Cash flows from (used in) operating activities:		
Net income	$ 287	$ 212
Reconciliation of net income to cash from (used in) operating activities:		
Interest paid	(86)	(79)
Finance expenses	113	102
Gain on expropriation of the Bullhead City water utility systems (note 5)	(69)	-
Income taxes paid	(15)	(11)
Income tax expense	24	11
Depreciation and amortization	277	255
Change in employee benefits provisions	(7)	(5)
Contributions received	77	103
Deferred revenue recognized	(65)	(58)
Changes in fair value of financial electricity purchase contracts	-	(1)
Other	(2)	(2)
Net cash flows from operating activities before non-cash operating working capital changes	534	527
Changes in non-cash operating working capital	(20)	14
Net cash flows from operating activities	514	541
Cash flows from (used in) investing activities:		
Acquisitions and construction of property, plant and equipment and intangible assets[1]	(603)	(610)
Business acquisition, net of acquired cash (note 4)	(127)	(2)
Payment of outstanding consideration for Vista Ridge	-	(12)
Proceeds from expropriation of the Bullhead City water utility systems (note 5)	101	-
Proceeds on disposal of property, plant and equipment	6	2
Net advances on other financial assets	(28)	(52)
Payment of Drainage transition cost compensation to the City of Edmonton	(9)	(14)
Changes in non-cash investing working capital	24	(7)
Net cash flows used in investing activities	(636)	(695)
Cash flows from (used in) financing activities:		
Net repayments of short-term loans and borrowings	(155)	(2)
Proceeds from issuance of long-term loans and borrowings	500	400
Repayments of long-term loans and borrowings	(19)	(18)
Debt issuance costs	(3)	(2)
Net refunds to customers and developers	(5)	(2)
Payments of lease liabilities, net of proceeds from finance lease receivable	(7)	(7)
Dividends paid	(128)	(128)
Net cash flows from financing activities	183	241
Increase in cash and cash equivalents	61	87
Cash and cash equivalents, beginning of period	8	33
Cash and cash equivalents, end of period	$ 69	$ 120

1 Interest payments of $6 million (2020 - $8 million) have been capitalized and included in acquisitions and construction of property, plant and equipment (PP&E) 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.

Novel coronavirus

The novel coronavirus (COVID -19) outbreak continues to disrupt business activities around the world. Over the summer, given a decline in cases of virus infection in Canada and in the U.S., where the Company's operations are based, the local governments started relaxing restrictions and announced multi-phase re-opening plans. More recently, the number of virus infection cases in Canada and U.S. have increased significantly, resulting in reintroduction of certain restrictions by the local governments. The Company has been operating under its business continuity plan to ensure safety of its employees and customers. In view of the recent surge in number of virus infections, the Company is closely monitoring the situation (including advisories from the local governments), and planning to cautiously phase-in the reintegration of its employees back to their permanent work locations.

Since the majority of the Company's operations consist of the provision of essential utility services, the Company has not experienced any significant impact of COVID-19 on its operations and financial results except for a decline in sales to commercial customers mainly due to business closures resulting from government imposed restrictions, which has largely been offset by an increase in sales to residential customers. Overall, the COVID -19 pandemic did not result in any material impact on the financial results of the Company for the period ended September 30, 2021.

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, 2020, 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 October 29, 2021.

(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.

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

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, 2021, which did not have a significant impact on these consolidated 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, 2022. The Company does not expect the implementation of these new accounting pronouncements to have a significant impact on its accounting policies.

4. Business acquisition

Acquisition of Johnson Utilities LLC operations

On January 29, 2021, the Company acquired the operations of Johnson Utilities LLC (JU), through its wholly owned U.S. subsidiary EPCOR Water Arizona Inc., for total consideration of $141 million (US$110 million) including cash consideration of $128 million (US$100 million) and a long-term unsecured promissory note of $13 million (US$10 million).

The operations acquired from JU include the water treatment and distribution and wastewater collection and treatment assets (collectively JU operations), located southeast of the greater metropolitan Phoenix area. These operations provide services to approximately 30,000 water and 42,000 wastewater customers and hold a certificate of convenience and necessity that covers 160 square miles. The JU operations are regulated by the Arizona Corporation Commission.

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

		2021
Fair value of net assets acquired:		
Cash and cash equivalents	$	1
Trade and other receivables		11
Inventories		1
Other financial assets		2
Property, plant and equipment		216
Intangible assets and goodwill		98
Trade and other payables		(10)
Deferred revenue		(60)
Provisions		(84)
Other liabilities		(34)
Net assets at fair value	$	141
Consideration:		
Cash	$	128
Long-term unsecured promissory note		13
Total consideration	$	141

PP&E of $216 million (US$169 million) primarily consisted of the water and wastewater infrastructure including pipelines and treatment facilities. PP&E also included construction work in progress of $12 million (US$9 million).

The intangible assets and goodwill of $98 (US$76 million) million represents the goodwill recognized on the acquisition of operations. The goodwill represents the expected customer connection growth, leverage benefit and the potential synergies from the Company's expanded operations in Arizona. The goodwill is deductible for income tax purposes over time.

Deferred revenue of $60 million (US$47 million) represents the fair value of contributions received from customers and developers. Deferred revenue will be recognized as revenue over the corresponding life of the respective assets to which the contributions relate.

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

Provisions of $84 million (US$66 million) represents the fair value of advances in aid of construction (AIAC) from developers. The AIAC balances are refundable to the developers based on a percentage of revenues generated from the customers connected to assets for which AIAC was initially received.

Other liabilities primarily consisted of a liability of $27 million (US$21 million) related to the settlement with the Arizona Department of Environmental Quality, requiring the Company to contribute 30 percent up to a maximum of US$21 million towards the construction of a new wastewater treatment plant, to be built, owned and operated by the Company.

The consideration in the form of a long-term unsecured promissory note consisted of a $13 million (US$10 million) note, carrying an interest rate of 3% per annum. On January 30, 2021, an amount of $7 million (US$5 million) against the note was settled for the trade and other receivables which were due from the previous owner. As of September 30, 2021, the remaining principal balance of the long-term unsecured promissory note is $6 million (US$5 million) which is due in February 2024.

The transaction has been accounted for as a business combination 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.

Since the date of acquisition to September 30, 2021, the financial performance of the JU operations is as follows:

		2021
Revenues	$	32
Operating expenses		(21)
Operating income	$	11

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 PP&E and AIAC required the most judgment. Based on those assumptions and estimates the purchase price was allocated to the identified assets acquired and liabilities assumed with the residual amount attributed to goodwill. The fair values were estimated by applying standard valuation techniques and were based on significant inputs which were not observable in the market. The key assumptions in the determination of fair value included the discount rate, future customer connection growth and customer rates including a future surcharge as approved by the regulator.

5. Expropriation of the Bullhead City water utility systems

On November 5, 2019, voters in Bullhead City (BHC), a US municipality where the Company owned and operated the Mohave and North Mohave water utility systems (water utility systems), passed Proposition 415, authorizing the local government to take steps to acquire the Company's water utility systems and operations using power of eminent domain. Power of eminent domain is the right of a government to expropriate private property for public use, with payment of fair and equitable compensation. The passage of Proposition 415 allowed BHC to pursue the purchase of the Company's water utility systems through a legal process and failing agreement between the parties, ultimately allow the courts to decide the purchase price. On March 27, 2020, BHC filed a suit seeking to expropriate and take an immediate possession of the water utility systems. On May 21, 2021, the judge in the suit ruled that BHC must post a bond in an amount of US$80 million in order to "Quick Take" possession of and begin operating the water utility systems as municipal utility systems. The ruling did not set the final purchase price of the water utility systems and the fair value of the water utility systems will be determined by a jury trial scheduled to commence in January 2022.

On September 1, 2021, the Company received the bond proceeds of $101 million (US$80 million) from BHC and transferred possession of the water utility systems to BHC in compliance with the order of the court. As the final purchase price has not yet been determined, the consideration has been measured at US$80 million, which is equal to the preliminary proceeds received by the Company. The Company has recognized a preliminary gain on expropriation of the BHC water utility systems of $69 million (US$54 million).

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

The net book value of the BHC water utility systems upon transfer on September 1, 2021 was as follows:

		2021
Trade and other receivables	$	1
Inventories		1
Property, plant and equipment		53
Trade and other payables		(1)
Deferred revenue		(7)
Provisions		(15)
Net book value of the BHC water utility systems	$	32

The Company maintains that the preliminary compensation received from BHC does not represent the fair value of the water utility systems, supported by fair value appraisals carried out by a number of valuation consulting firms engaged by the Company, which indicate a significantly higher value. Therefore, in accordance with requirements of IFRS 15 - *Revenue from contracts with customers*, the Company has constrained the variable consideration and recognized the preliminary consideration, to the extent of the proceeds received from BHC, in the absence of the final purchase price to be determined by jury trial. When the jury trial concludes, the Company will increase or decrease the consideration to equal the fair value of the utility systems, with any corresponding impact to the gain on expropriation being recognized in income at that time.

The expropriation of the BHC water utility systems is not expected to result in any material impact on the operating income of the Company.

6. Revenues

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

Three months ended September 30, 2021		Water Services		Distribution & Transmission		Energy Services		U.S. Operations		Other		Consolidated
Energy and water sales	$	68	$	-	$	149	$	56	$	12	$	285
Provision of services		124		134		7		29		2		296
Construction revenue		1		-		-		-		11		12
Other commercial revenue		1		-		-		-		1		2
	$	194	$	134	$	156	$	85	$	26	$	595

Three months ended September 30, 2020		Water Services		Distribution & Transmission		Energy Services		U.S. Operations		Other		Consolidated
Energy and water sales	$	62	$	-	$	97	$	64	$	13	$	236
Provision of services		112		121		6		20		2		261
Construction revenue		1		-		-		-		18		19
Other commercial revenue		1		-		-		-		1		2
	$	176	$	121	$	103	$	84	$	34	$	518

Nine months ended September 30, 2021		Water Services		Distribution & Transmission		Energy Services		U.S. Operations		Other		Consolidated
Energy and water sales	$	188	$	-	$	391	$	151	$	36	$	766
Provision of services		352		357		20		78		10		817
Construction revenue		8		-		-		-		39		47
Other commercial revenue		3		-		-		1		2		6
	$	551	$	357	$	411	$	230	$	87	$	1,636

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

Nine months ended September 30, 2020	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Consolidated
Energy and water sales	$ 176	$ -	$ 298	$ 158	$ 37	$ 669
Provision of services	323	353	15	57	9	757
Construction revenue	3	-	-	-	41	44
Other commercial revenue	4	-	-	-	2	6
	$ 506	$ 353	$ 313	$ 215	$ 89	$ 1,476

7. Loans and borrowings

On June 28, 2021, the Company issued $500 million of three-tranche long-term unsecured public debentures, consisting of a $100 million three-year note with a coupon rate of 0.98% and an effective interest rate of 1.12%, a $200 million 10-year note with a coupon rate of 2.41% and an effective interest rate of 2.49% and a $200 million 30-year note with a coupon rate of 3.29% and an effective interest rate of 3.35%. The interest is payable semi-annually and the principal is due at maturity for all three notes.

8. Financial instruments

Classification

The classifications of the Company's financial instruments measured at fair value at September 30, 2021 and December 31, 2020 are summarized as follows:

	Fair value hierarchy
Long-term investment	Level 3
Derivative financial instruments	
Financial electricity purchase contracts	Level 1
Cross-currency interest rate swap contracts	Level 2
Foreign exchange forward contracts	Level 2
Other liabilities	
Contingent consideration	Level 3

Fair value

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

		September 30, 2021		December 31, 2020	
	Fair value hierarchy	Carrying amount	Fair value	Carrying amount	Fair value
Non-current portion of other financial assets[1]	Level 2	$ 207	$ 208	$ 182	$ 187
Loans and borrowings	Level 2	3,902	4,320	3,572	4,374
Other liabilities					
Drainage transition cost compensation	Level 2	6	6	15	15

1 Excluding long-term investment in Vista Ridge LLC (Vista Ridge) of $6 million (December 31, 2020 - $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.

Long-term investment

The long-term investment consists of the Company's 5% equity interest in Vista Ridge. Vista Ridge is a privately owned company; therefore, its equity instruments are not traded in an active market and the fair value of equity is not readily observable. Accordingly, the fair value of the long-term investment in Vista Ridge is determined based on unobservable inputs including the expected future cash flows from the investment discounted at a risk-adjusted discount rate.

Derivative financial instruments

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.

The fair value of the Company's cross-currency interest rate swap (CCIRS) contracts is determined as the present value of the estimated future cash flows using an appropriate interest rate yield curve and foreign exchange rate based on market conditions at September 30, 2021, discounted at a market rate. Derivative instruments reflect the estimated amount that the Company would receive or pay to settle the CCIRS contracts at September 30, 2021.

The fair value of the Company's foreign exchange forward contracts is estimated using the difference between the contractual forward price and the current forward price based on market conditions at September 30, 2021. Derivative instruments reflect the estimated amount that the company would receive or pay to settle the foreign exchange forward contracts at September 30, 2021.

Within these condensed consolidated interim statements of financial position, long-term derivative financial assets are presented within other financial assets, long-term derivative financial liabilities are presented within other liabilities, short-term derivative financial assets are presented within trade and other receivables and short-term derivative financial liabilities are presented within trade and other payables. At September 30, 2021, derivative financial instruments had balances of $1 million and $15 million, included within trade and other receivables and other liabilities, respectively.

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 September 30, 2021 and December 31, 2020. 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 September 30, 2021 and December 31, 2020.

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, 2021 and December 31, 2020. 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, 2021 and December 31, 2020. 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 September 30, 2021 and December 31, 2020.

9. Financial risk management

This note disclosure should be read in conjunction with the financial risk management (note 27) in the annual consolidated financial statements for the year ended December 31, 2020.

Liquidity risk

Further to the liquidity risks identified and disclosed in the annual consolidated financial statements for the year ended December 31, 2020, the Company has added a new committed bank credit facility totaling $200 million during the period ended September 30, 2021. This facility is valid for a period of three years and can be used for direct borrowing, issuance of letters of credit, and backstopping EPCOR’s commercial paper program. At September 30, 2021, there were no amounts drawn on this facility.

Foreign exchange risk

Further to the foreign exchange risks identified and disclosed in the annual consolidated financial statements for the year ended December 31, 2020, the Company during the period ended September 30, 2021, entered into CCIRS contracts designated as hedges of net investment in foreign operations, foreign exchange swap contracts and foreign exchange forward contracts to manage foreign exchange rate exposure.

Derivative financial instruments - hedges of net investment in foreign operations

The Company uses derivative financial instruments including the CCIRS contracts as a hedge of net investment in foreign operations to reduce the impacts of foreign exchange rate fluctuations arising from the retranslation of the net investment in foreign operations into the Company’s functional currency in the condensed consolidated interim financial statements. In order to hedge the foreign currency risk exposure related to net investment in foreign operations, the Company has executed the following CCIRS contracts and designated these as hedges of net investment in foreign operations:

- On March 17, 2021, the Company entered into a 30-year CCIRS contract, to swap Canadian dollars for U.S. dollars. The Company swapped the notional amount of $62 million for US$50 million at an exchange rate of $1.2405 to US$1. The Company receives semi-annual interest in Canadian dollars at 3.471% per annum and pays interest in US$ at 3.221% per annum on the aforementioned notional values. At maturity in March 2051, the Company will swap the original notional amounts at the same exchange rate.
- On March 23, 2021, the Company entered into a 30-year CCIRS contract, to swap the notional amount of $100 million for US$79 million at an exchange rate of $1.2587 to US$1. The Company receives semi-annual interest in Canadian dollars at 3.39% per annum and pays interest in US$ at 3.183% per annum on the aforementioned notional values. There was no physical exchange of currencies at inception; however, at maturity in September 2051, the Company will physically swap the original notional amounts at the same exchange rate.

The counterparties to the CCIRS contracts are major financial institutions. The fair value of the Company’s CCIRS contracts is determined based on a discounted cash flow model, using readily available information from the market. The inputs used include notional amounts, foreign exchange rates, the contractual fixed settlement rates and an applicable discount factor.

The Company performed an effectiveness test at the time of execution of contracts by comparing the changes in fair value of the net investment in foreign operations (hedged item), due to movements in the foreign currency rate with the changes in fair value of the hedging instruments and determined that a perfect hedging relationship existed at inception. The Company uses the hypothetical derivative method to determine the subsequent changes in fair value of the hedged item.

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

The Company performs the effectiveness test at each reporting date to ensure that the changes in fair values of the hedging instruments and the hedged item are moving in opposite directions and offsetting each other. At September 30, 2021, the Company performed the effectiveness test on the outstanding CCIRS contracts designated as hedges and determined that the hedges are effective and the hedging instrument and hedged item are moving in opposite directions.

The change in fair value of ($15) million of the effective portion of the hedges of net investment in foreign operations for the period ended September 30, 2021 was recorded in other comprehensive income. There was a negligible ineffective portion of the hedges of net investment in foreign operations identified during the period, which was recognized in net income within other administrative expenses.

The following table summarizes the Company's outstanding CCIRS contracts designated as hedges of net investment in foreign operations:

					September 30, 2021
Receive notional	Receive rate in $	Pay notional	Pay rate in US$	Maturity	Fair value
$ 62	3.471%	US$ 50	3.221%	March 19, 2051	$ (6)
$ 100	3.390%	US$ 79	3.183%	September 15, 2051	(9)
					$ (15)

Foreign exchange swap contracts

The Company entered into two foreign exchange swap contracts in March 2021 to convert excess foreign currency to Canadian dollars for a short duration. As per the terms of the contracts, the Company swapped US$50 million for $63 million at a fixed exchange rate. In April 2021, the Company settled the contracts and swapped the currencies back at a predetermined fixed exchange rate. The Company did not designate these financial contracts as hedges and the changes in the fair value of the contracts upon settlement of ($1) million was recognized in net income within other administrative expenses.

Foreign exchange forward contracts

The Company entered into three foreign exchange forward contracts in April 2021 to manage the foreign exchange risk associated with the expected purchase of US dollars for settlement of liabilities, including US dollar denominated loans and borrowings. Under the terms of the foreign exchange forward contracts, the Company has committed to buy US$80 million in exchange for $100 million. In September 2021, the Company entered into agreements with the financial institutions to extend the maturity date of the contracts from September 15, 2021 to December 15, 2021, on the similar terms. At maturity, the Company will exchange the currencies at predetermined fixed exchange rates. The Company has not designated these financial contracts as hedges and the changes in the fair value of the contracts are recognized in net income within other administrative expenses. During the period ended September 30, 2021, change in fair value of the foreign exchange forward contracts was $1 million.

10. 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 stormwater, 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 contract commercial services including the design, construction and maintenance and other support services of street lighting, traffic signal, light rail transit and other utility electrical infrastructure for 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, certain Canadian business development projects including the electrical infrastructure related to the Trans Mountain pipeline expansion project 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 September 30, 2021	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
External revenues	$ 194	$ 134	$ 156	$ 85	$ 26	$ -	$ 595
Inter-segment revenues	-	3	4	-	-	(7)	-
Total revenues	194	137	160	85	26	(7)	595
Energy purchases and system access fees	-	-	135	-	10	-	145
Other raw materials and operating charges	28	12	-	19	10	(1)	68
Staff costs and employee benefits expenses	39	22	9	12	15	(2)	95
Depreciation and amortization	43	27	2	16	7	-	95
Franchise fees and property taxes	11	24	-	3	-	-	38
Other administrative expenses	7	2	8	3	2	(4)	18
Operating expenses	128	87	154	53	44	(7)	459
Operating income (loss) before corporate income (charges)	66	50	6	32	(18)	-	136
Corporate income (charges)	(11)	(6)	(4)	(3)	24	-	-
Operating income	55	44	2	29	6	-	136
Gain on expropriation of the BHC water utility systems	-	-	-	69	-	-	69
Finance recoveries (expenses)	(20)	(14)	(2)	(14)	11	-	(39)
Income tax expense	1	-	-	(21)		-	(20)
Net income	$ 36	$ 30	$ -	$ 63	$ 17	$ -	$ 146
Capital additions	$ 135	$ 61	$ -	$ 47	$ 15	$ -	$ 258

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

Three months ended September 30, 2020	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
External revenues	$ 176	$ 121	$ 103	$ 84	$ 34	$ -	$ 518
Inter-segment revenues	-	5	4	-	-	(9)	-
Total revenues	176	126	107	84	34	(9)	518
Energy purchases and system access fees	-	-	72	-	12	-	84
Other raw materials and operating charges	26	15	1	16	17	(2)	73
Staff costs and employee benefits expenses	34	20	9	10	18	(4)	87
Depreciation and amortization	40	26	1	15	5	-	87
Franchise fees and property taxes	9	21	-	2	-	-	32
Other administrative expenses	8	3	6	4	2	(3)	20
Operating expenses	117	85	89	47	54	(9)	383
Operating income (loss) before corporate income (charges)	59	41	18	37	(20)	-	135
Corporate income (charges)	(9)	(6)	(2)	(2)	19	-	-
Operating income (loss)	50	35	16	35	(1)	-	135
Finance recoveries (expenses)	(19)	(14)	(1)	(13)	12	-	(35)
Income tax recovery (expense)	1	-	-	(5)	(4)	-	(8)
Net income	$ 32	$ 21	$ 15	$ 17	$ 7	$ -	$ 92
Capital additions	$ 167	$ 56	$ -	$ 25	$ 22	$ -	$ 270

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

Nine months ended September 30, 2021	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
External revenues	$ 551	$ 357	$ 411	$ 230	$ 87	$ -	$ 1,636
Inter-segment revenues	-	9	13	-	-	(22)	-
Total revenues	551	366	424	230	87	(22)	1,636
Energy purchases and system access fees	-	-	331	15	32	-	378
Other raw materials and operating charges	73	31	-	50	38	(3)	189
Staff costs and employee benefits expenses	110	59	29	35	44	(6)	271
Depreciation and amortization	124	76	6	48	23	-	277
Franchise fees and property taxes	29	69	-	7	1	-	106
Other administrative expenses	23	10	21	15	4	(13)	60
Operating expenses	359	245	387	170	142	(22)	1,281
Operating income (loss) before corporate income (charges)	192	121	37	60	(55)	-	355
Corporate income (charges)	(27)	(17)	(13)	(5)	62	-	-
Operating income	165	104	24	55	7	-	355
Gain on expropriation of the BHC water utility systems	-	-	-	69	-	-	69
Finance recoveries (expenses)	(58)	(44)	(4)	(40)	33	-	(113)
Income tax expense	-	-	-	(21)	(3)	-	(24)
Net income	$ 107	$ 60	$ 20	$ 63	$ 37	$ -	$ 287
Capital additions	$ 308	$ 172	$ 1	$ 89	$ 33	$ -	$ 603

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

Nine months ended September 30, 2020	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
External revenues	$ 506	$ 353	$ 313	$ 215	$ 89	$ -	$ 1,476
Inter-segment revenues	-	10	13	-	-	(23)	-
Total revenues	506	363	326	215	89	(23)	1,476
Energy purchases and system access fees	-	-	236	2	36	-	274
Other raw materials and operating charges	69	40	1	42	41	(4)	189
Staff costs and employee benefits expenses	108	60	26	32	46	(7)	265
Depreciation and amortization	117	73	5	44	16	-	255
Franchise fees and property taxes	26	62	-	6	1	-	95
Other administrative expenses	26	13	25	13	8	(12)	73
Operating expenses	346	248	293	139	148	(23)	1,151
Operating income (loss) before corporate income (charges)	160	115	33	76	(59)	-	325
Corporate income (charges)	(26)	(17)	(9)	(5)	57	-	-
Operating income (loss)	134	98	24	71	(2)	-	325
Finance recoveries (expenses)	(57)	(44)	(3)	(37)	39	-	(102)
Income tax recovery (expense)	1	-	-	(8)	(4)	-	(11)
Net income	$ 78	$ 54	$ 21	$ 26	$ 33	$ -	$ 212
Capital additions	$ 316	$ 158	$ -	$ 85	$ 51	$ -	$ 610

The Company's assets and liabilities by business segments at September 30, 2021 and December 31, 2020 are summarized as follows:

September 30, 2021	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
Total assets	$ 7,450	$ 2,741	$ 292	$ 1,867	$ 5,041	$ (4,438)	$ 12,953
Total liabilities	5,736	1,834	226	1,496	4,165	(4,438)	9,019

December 31, 2020	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
Total assets	$ 7,204	$ 2,636	$ 253	$ 1,547	$ 4,817	$ (4,277)	$ 12,180
Total liabilities	5,594	1,787	206	1,240	3,839	(4,277)	8,389

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

Non-current assets by geography

	September 30, 2021	December 31, 2020
Canada	$ 10,535	$ 10,175
U.S.	1,796	1,492
	$ 12,331	$ 11,667