EPCOR UTILITIES INC.

Management's Discussion and Analysis

For three months ended March 31, 2021

EPCOR Utilities Inc.
Interim Management's Discussion and Analysis
March 31, 2021

This interim management's discussion and analysis (MD&A) dated April 27, 2021, should be read in conjunction with the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the three months ended March 31, 2021 and 2020, including significant accounting policies (note 3), business acquisition (note 4), financial instruments (note 6) and financial risk management (note 7), the consolidated financial statements and MD&A for the year ended December 31, 2020, and the cautionary statement regarding forward-looking information at the end of this MD&A. In this MD&A, any reference to "the Company", "the Corporation", "EPCOR", "it", "its", "we", "our" or "us", except where otherwise noted or the context otherwise indicates, means EPCOR Utilities Inc., together with its subsidiaries. Financial information in this MD&A is based on the condensed consolidated interim financial statements, which were prepared in accordance with International Accounting Standard - 34 "*Interim Financial Reporting*" as issued by International Accounting Standards Board, and is presented in Canadian dollars unless otherwise specified. Terms used throughout this MD&A are defined in the Glossary at the end of this document.

In accordance with its terms of reference, the Audit Committee of the Company's Board of Directors reviews the contents of the MD&A and recommends its approval by the Board of Directors. This MD&A was approved and authorized for issue by the Board of Directors on April 27, 2021.

OVERVIEW

The Corporation, through its wholly owned subsidiaries, builds, owns and operates electrical, natural gas, and water transmission and distribution networks, water and wastewater facilities and sanitary and stormwater systems and infrastructure in Canada and the United States (U.S.). The Company also provides electricity, natural gas and water products and services to residential and commercial customers. The Company provides Regulated Rate Option (RRO) and default supply electricity related services and sells electricity and natural gas to Alberta residential consumers under contracts through its Encor brand. In addition, EPCOR provides design, build, finance, operating and maintenance services for electrical, water, wastewater and natural gas infrastructure for municipal and industrial customers in Canada and the U.S. As part of its environmental initiative, EPCOR also intends to invest in renewable energy generation projects, where commodity risk can be appropriately managed. EPCOR operates its business under the Water Services, Distribution and Transmission, Energy Services and U.S. Operations segments. The Company operates in Canada and the Southwestern U.S.

Net income was $55 million for the three months ended March 31, 2021, compared with net income of $50 million for the comparative period in 2020. The increase of $5 million for the three months ended March 31, 2021, was primarily due to favorable fair value adjustments related to financial electricity purchase contracts and higher Adjusted EBITDA, as described below, partially offset by lower transmission system access service charge net collections, lower net collection of U.S. natural gas procurement costs, as well as, higher depreciation and finance expenses.

Adjusted EBITDA is a non-IFRS financial measure as described in Adjusted EBITDA and Net Income section on page 3 of this MD&A.

Adjusted EBITDA was $194 million for the three months ended March 31, 2021, compared with $173 million for the comparative period in 2020. The $21 million increase was primarily due to higher water and wastewater customer rates and customer growth, higher electricity distribution and transmission customer rates, higher water consumption in Arizona and New Mexico due to dry weather conditions, Adjusted EBITDA from the newly acquired Johnson Utility LLC (JU) operations, as well as, lower provisions for expected credit losses from customers, partially offset by lower water consumption for commercial customers in the city of Edmonton and lower Energy Price Setting Plan (EPSP) margins.

SIGNIFICANT EVENTS

Business acquisition of Johnson Utilities LLC operations

On January 29, 2021, the Company acquired the operations of 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 long-term unsecured promissory note of $13 million (US$10 million).

The operations acquired from JU include 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.

For further information on the acquisition, refer to business acquisition (note 4) of the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the three months ended March 31, 2021 and 2020.

Novel Coronavirus (COVID-19)

The COVID-19 outbreak continues to evolve and disrupt the business activities around the world resulting in a global economic slowdown. In response to the recent resurgence in the spread of the virus, particularly related to an increased number of cases linked to highly contagious virus variants, the governmental authorities in Canada and the U.S. continued various measures to limit spread of the virus, including non-essential business closures, quarantines, self-isolation, social and physical distancing and shelter-in-place. Recently, where we have our operations in the U.S., the local governments have started lifting restrictions. The Company is closely monitoring the situation including pronouncements from governments and regulators, to assess potential impact on the operations of the Company and deploy and enforce a variety of health and safety controls to prevent any disruption to normal operations.

At present the Company is working under its business continuity plan, including the practice of working from home, to ensure safety of its employees and customers. Despite working under challenging circumstances created by the pandemic, the Company continued providing undisrupted safe and reliable services to all its customers.

One of the economic impacts of the COVID-19 outbreak was on our customers. In 2020 the Company, in collaboration with various governments, provided support to its customers during the difficult economic conditions with the measures including deferral of utility bill payments, as well as, temporarily suspending customer disconnections and collections activities. These measures resulted in delays in the collection of amounts due from customers, as well as higher expected credit losses from customers. The Company continues to recover the overdue amounts from the deferral program customers. It is expected that the Company will be able to recover the majority of the losses incurred under the utility bill payment deferral program and is working with its various regulators regarding methods for this recovery. Another economic impact of the COVID-19 pandemic faced by the Company is a decline in the sale of water and electricity to its commercial customers resulting from the closure of businesses as a consequence of government imposed restrictions, which continues to be mostly offset by higher sales to residential and multi-residential customers. During the three months ended March 31, 2021, the COVID-19 pandemic did not result in any material impact on the financial results of the Company.

For further discussion of the COVID-19 outbreak and its impacts on the Company, refer to the MD&A for the year ended December 31, 2020.

SIGNIFICANT ACCOUNTING POLICY CHANGES

The condensed consolidated interim financial statements for the three months ended March 31, 2021 and 2020, 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 the Company's financial statements.

CONSOLIDATED RESULTS OF OPERATIONS

Revenues

(Unaudited, $ millions) **Three months ended March 31,**		**2021**		**2020**
Water Services segment	$	170	$	160
Distribution and Transmission segment		116		117
Energy Services segment		145		134
U.S. Operations segment		64		57
Other		30		25
Intersegment eliminations		(6)		(6)
Revenues	**$**	**519**	**$**	**487**

Consolidated revenues were higher by $32 million for the three months ended March 31, 2021, compared with the corresponding period in 2020, primarily due to the net impact of the following:

- Water Services' segment revenues increased by $10 million primarily due to higher water and wastewater customer rates, customer growth, higher commercial revenues from certain operating and maintenance contracts, partially offset by lower water consumption for commercial customers.
- Distribution and Transmission segment revenues decreased by $1 million primarily due to lower transmission system access service charge net collections and lower commercial services revenues, partially offset by higher electricity distribution and transmission customer rates.
- Energy Services' segment revenues increased by $11 million primarily due to higher Encor revenues due to a change in the terms of certain customer contracts resulting in presentation of gross revenues in 2021, compared to revenues net of related expenses in the corresponding period in 2020, as well as, higher EPSP and default supply revenues due to higher electricity prices, partially offset by lower electricity consumption due to lower site counts.
- U.S. Operations' segment revenues increased by $7 million primarily due to revenues from JU operations acquired in January 2021, higher commercial services revenues due to the operations and maintenance services for the Vista Ridge pipeline, as well as, customer growth and higher water consumption due to dry weather conditions in Arizona and New Mexico, partially offset by lower foreign exchange rates.
- Other revenues increased by $5 million primarily due to higher construction revenues related to the electricity sub-station infrastructure for the Trans Mountain pipeline expansion project and other commercial construction contracts, partially offset by lower natural gas distribution revenues due to lower volumes resulting from dry weather.

Adjusted EBITDA and Net Income

We use earnings before finance expenses, income tax recovery (expense), depreciation and amortization, changes in the fair value of derivative financial instruments, transmission system access service charge net collections and net collections of U.S. natural gas procurement costs (collectively, Adjusted EBITDA) to discuss operating results for the Company's lines of business.

Change in fair value of derivative financial instruments represents the change in fair value of financial electricity purchase contracts between the electricity market forward prices and the contracted prices at the end of the reporting period, for the contracted volumes of electricity. Transmission system access service charge net collections is the difference between the transmission system access services charges paid to the provincial system operators and the transmission system access service charges collected from electricity retailers. Transmission system access service charge net collections are timing differences, which will be collected from or returned to electricity retailers as the transmission system access service charges and customer billing determinants are finalized. Net collections of U.S. natural gas procurement costs represents the difference between collection of flow through natural gas procurement costs from customers and natural gas procurement costs paid to suppliers or producers. Net collections of U.S. natural gas procurement costs are timing differences which will be collected from or returned to customers on finalization of the regulatory process.

We believe that Adjusted EBITDA provides an indicator of the Company's ongoing ability to fund capital expenditures, to incur and service debt and to pay dividends to its shareholder, which may be useful for external stakeholders in evaluating the operations and performance of the Company. Adjusted EBITDA is a non-IFRS financial measure, which does not have any standardized meaning prescribed by International Financial Reporting Standards (IFRS) and is unlikely to be comparable to similar measures published by other entities.

(Unaudited, $ millions) **Three months ended March 31,**		**2021**		**2020**
Adjusted EBITDA by Segment				
Water Services segment	$	88	$	78
Distribution and Transmission segment		60		53
Energy Services segment		8		9
U.S. Operations segment		28		25
Other		10		8
Adjusted EBITDA		**194**		**173**
Finance expenses		(36)		(34)
Income tax recovery		1		-
Depreciation and amortization		(92)		(83)
Change in fair value of financial electricity purchase contracts		5		(6)
Transmission system access service charge net collections		(3)		-
Net collections of U.S. natural gas procurement costs		(14)		-
Net income	**$**	**55**	**$**	**50**

Changes in each business segment's Adjusted EBITDA, for the three months ended March 31, 2021, compared with the corresponding period in 2020, are described in Segment Results below. Explanations of the remaining variances in net income for the three months ended March 31, 2021, compared with the corresponding period in 2020, are as follows:

- Higher finance expenses of $2 million were primarily due to issuance of long-term debt in May 2020, as well as, higher short-term debt in 2021.
- Higher income tax recovery of $1 million was primarily due to lower income subject to income tax in U.S. Operations as a result of lower net collection of U.S. natural gas procurement costs, partially offset by higher income subject to income tax in Canadian operations.
- Higher depreciation and amortization of $9 million was primarily due to depreciation expense on 2020 asset additions, as well as, depreciation on JU assets acquired in January 2021.
- Favorable changes in the fair value of financial electricity purchase contracts of $11 million were primarily due to electricity market forward prices being higher than the contracted prices in 2021, compared to contracted prices being higher than market forward prices in 2020.

- Lower transmission system access service charge net collections of $3 million were primarily due to higher payments to the Alberta Electric System Operator (AESO) for system access, partially offset by higher collections from customers.
- Lower net collection of U.S. natural gas procurement costs of $14 million represents the higher payments for procurement of natural gas in Texas, due to winter storm "Uri" (winter storm) in February 2021 compared to collections from customers. For further information, refer to U.S. Operations segment below.

SEGMENT RESULTS

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 also includes the provision of design, build, finance, operating and maintenance services for municipal and industrial customers in Western Canada.

With the scheduled expiration of the Bylaw 17698 "EPCOR Water Services and Wastewater Treatment Bylaw" and Bylaw 18100 "EPCOR Drainage Services Bylaw" on March 31, 2022, EPCOR has initiated the process of seeking approval of new bylaws for these services. The Performance Based Regulation (PBR) applications were filed in February 2021, and the approval process with City Council is expected to complete by mid-year 2021. The PBR application for water services will cover the five-year period effective from April 1, 2022 to March 31, 2027, while the PBR applications for wastewater, sanitary and stormwater services will cover a three-year period effective from April 1, 2022 to March 31, 2025.

(Unaudited, $ millions, including intersegment transactions) **Three months ended March 31,**		**2021**		**2020**
Revenues	$	170	$	160
Expenses		123		120
Operating income		**47**		**40**
Exclude depreciation and amortization		41		38
Adjusted EBITDA	**$**	**88**	**$**	**78**

Water Services' Adjusted EBITDA increased by $10 million for the three months ended March 31, 2021, compared with the corresponding period in 2020, primarily due to higher water and wastewater customer rates, customer growth and higher margin from the commercial operations, partially offset by lower water consumption for commercial customers.

Distribution and Transmission

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

Distribution's current performance based rate tariff covers the years 2018 to 2022. On March 1, 2021, the Alberta Utilities Commission (AUC) initiated a generic proceeding to determine the approach for a one year 2023 forecast which could be used to set going in rates for the next performance based rate tariff, should the AUC continue with that format for Distribution utilities. On March 22, 2021, utilities filed their proposed approaches to establishing 2023 Distribution rates with the AUC. Also on March 1, 2021, the AUC initiated a generic proceeding to review and evaluate the performance based rate tariff regulated framework in terms of whether it has achieved its intended goals and whether Distribution utilities should continue with performance based rate tariff. The AUC is seeking to understand the impacts performance based rate tariff has had on utility efficiencies, customer rates, regulatory efficiency and burden, service quality, and the potential scope of a next performance based rate tariff proceeding. Responses to the AUC were filed on April 22, 2021.

Early in 2020, EPCOR participated in the 2021 Generic Cost of Capital (GCOC) proceeding in which the AUC was planning to set the return on equity (ROE) and capital structure for 2021 and 2022 (GCOC parameters). On October 13, 2020, the AUC directed that the ROE for 2021 remains at 8.5% and the equity ratio remains at 37% for both Distribution and Transmission utilities extending the currently approved rate for the full duration of 2021. On December 22, 2020, the AUC initiated a GCOC proceeding for 2022. Utilities filed submissions requesting extension of current GCOC parameters into 2022 on a prospective and final basis. On March 4, 2021, the AUC approved the extension of current GCOC parameters (37% Equity and 8.5% ROE) for 2022 on a final basis. In April 2021, the Utilities Consumer Advocate filed an application with the Alberta Court of Appeal seeking permission to appeal the AUC 2022 GCOC decision. The review of this application is scheduled for July 2021.

(Unaudited, $ millions, including intersegment transactions) **Three months ended March 31,**		**2021**		**2020**
Revenues	$	116	$	117
Expenses		84		87
Operating income		**32**		**30**
Exclude depreciation and amortization		25		23
Exclude transmission system access service charge net collections		3		-
Adjusted EBITDA	**$**	**60**	**$**	**53**

Distribution and Transmission's Adjusted EBITDA increased by $7 million for the three months ended March 31, 2021, compared with the corresponding period in 2020, primarily due to higher electricity distribution and transmission customer rates, as well as lower staff costs due to vacancies, partially offset by lower commercial services work volumes.

Energy Services

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

2018-2021 EPSP was implemented effective April 1, 2019. During the quarter, EPCOR filed an application with the AUC for the 2021-2024 EPSP, for which a decision is expected in late 2021 or early 2022.

(Unaudited, $ millions, including intersegment transactions) **Three months ended March 31,**		**2021**		**2020**
Revenues	$	145	$	134
Expenses		134		133
Operating income		**11**		**1**
Exclude depreciation and amortization		2		2
Exclude change in the fair value of financial electricity purchase contracts		(5)		6
Adjusted EBITDA	**$**	**8**	**$**	**9**

Energy Services' Adjusted EBITDA decreased by $1 million for the three months ended March 31, 2021, compared with the corresponding period in 2020, primarily due to lower EPSP margins and higher staff costs related to additional operational support required for the implementation of the new billing system, partially offset by a lower provision for expected credit losses from customers.

U.S. Operations

U.S. Operations is primarily involved in the treatment, transmission, distribution and sale of water, 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.

In February 2021, Texas faced record-low temperatures during the winter storm resulting in higher demand for natural gas and a significant increase in the natural gas market spot prices. EPCOR's physical infrastructure in Texas was not significantly impacted by the winter storm and during the storm we were able to provide natural gas to 99.9% of our customers throughout the entire event. Due to the high demand during the winter storm, natural gas prices increased exponentially resulting in residential customer bills for the month of February escalating to thousands of dollars compared to average bill of around one hundred dollars per customer under normal circumstances. In order to minimize the immediate impact of utility bills on customers, the Railroad Commission of Texas, through its notice dated February 13, 2021, refrained the natural gas utility companies from immediately passing on the extraordinary natural gas costs to the customers. Currently, the Texas legislature has introduced two bills, HB1520 and SB1579, which are designed to repay the natural gas utility companies for the extraordinary cost of the natural gas procured (after ensuring reasonableness of the costs), and are expected to pass in the second quarter of 2021. The natural gas procurement costs are considered flow through costs to customers in Texas and any under recovery of procurements costs will be recovered by utility companies through regulatory mechanism in future periods. However for the quarter ended March 31, 2021, this event has resulted in a net after tax loss of approximately $10 million (US$8 million) for procurement costs incurred, that have not been billed to customers. The Company has adjusted the impact of flow through costs of $14 million (US$ 11 million) in the calculation of Adjusted EBITDA.

The U.S. federal government has recently announced its plans to increase the federal corporate income tax rates from the existing rate of 21% to 28%. If the proposed plan is approved and federal income tax rates are increased, the change will significantly increase the deferred tax liability related to the Company's U.S. Operations. Over the long-term, the change in tax rate is not expected to have any material impact on the financial results of the Company as the majority of Company's operations in the U.S. are rate regulated such that any increase in corporate income tax expense resulting from a rate increase should be recoverable in future rates from customers.

(Unaudited, $ millions, including intersegment transactions) **Three months ended March 31,**		**2021**		**2020**
Revenues	$	64	$	57
Expenses		66		46
Operating income (loss)		**(2)**		**11**
Exclude depreciation and amortization		16		14
Exclude net collection of U.S. natural gas procurement costs		14		-
Adjusted EBITDA	**$**	**28**	**$**	**25**

U.S. Operations' Adjusted EBITDA increased by $3 million for the three months ended March 31, 2021, compared with the corresponding period in 2020, primarily due to the Adjusted EBITDA from JU operations acquired in January 2021, higher commercial services revenues for operations and maintenance of the Vista Ridge pipeline in 2021 as well as, customer growth and higher water consumption due to dry weather conditions in Arizona and New Mexico, partially offset by increases in operating expenses related to closing costs for the acquisition of JU operations and lower foreign exchange rates.

Capital Spending and investment

(Unaudited, $ millions) **Three months ended March 31,**		**2021**		**2020**
Water Services segment	$	71	$	58
Distribution and Transmission segment		50		44
U.S. Operations segment		17		30
Other		7		11
Total capital spending		145		143
JU operations acquisition (net of acquired cash)		126		-
Total capital spending and investment	**$**	**271**	**$**	**143**

Total capital spending and investment increased by $128 million for the three months ended March 31, 2021, compared with the corresponding period in 2020, primarily due to the acquisition of JU operations with no corresponding first quarter acquisition in 2020 and higher capital spending in the Company's Water Services and Distribution and Transmission segments, partially offset by lower spending in the U.S. Operations segment and in Other.

Explanations of the significant variances in capital spending in each business segment for the three months ended March 31, 2021, compared with the corresponding period in 2020, are as follows:

- The Water Services segment had higher spending primarily on Kinnaird Sewer Separation project, 151 Street and 99 Avenue Trunk Rehabilitation, West Valley Line LRT Sewer Relocation project, several sanitary sewer main projects and various growth projects. This was partially offset by lower spending on Groat Road Trunk Sewer Rehabilitation project which was substantially complete in 2020.
- The Distribution and Transmission segment had higher spending primarily on the West Edmonton Transmission Upgrade Project, West Valley Light Rail Transit Distribution System Relocation project and various lifecycle replacement and performance improvement projects. This was partially offset by lower spending on the 15kV and 25 kV Circuit duct bank under the North Saskatchewan River project which was substantially complete in 2020.
- The U.S. Operations segment had lower spending on the sewer main extension and wastewater treatment plant expansion west of metropolitan Phoenix to accommodate new industrial and commercial customers, lower spending on various growth projects and lower foreign exchange on capital spending in 2021.
- In Other, lower spending was primarily due to lower spending on Southern Bruce Power Expansion project and Customer Information System (CIS) Replacement project. CIS is a new customer billing system for various EPCOR segments that are served by Energy Services that was substantially complete in 2020.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – ASSETS

(Unaudited, $ millions)	March 31, 2021	December 31, 2020	Increase (decrease)	Explanation of material changes
Cash and cash Equivalents	$ 22	$ 8	$ 14	Refer to Consolidated Statements of Cash Flows section.
Trade and other Receivables	490	488	2	Increase primarily due to acquisition of JU assets ($5 million), higher accruals for energy procurement costs due to higher prices, partially offset by reduction in receivables from the City of Edmonton (the City) relating to construction work as well as lower accrued revenues for the sale of water.
Inventories	18	17	1	Increase primarily due to acquisition of JU assets ($1 million).
Other financial assets	195	189	6	Increase primarily due to construction on the electricity infrastructure for the Trans Mountain pipeline expansion project and acquisition of JU assets ($2 million), partially offset by payments received on long-term receivables and finance lease receivable.
Deferred tax assets	95	97	(2)	Decrease is primarily due to utilization of deferred tax assets against income subject to income tax for 2021.
Property, plant and Equipment	11,187	10,913	274	Increase primarily due to capital expenditures and acquisition of JU assets ($218 million), partially offset by depreciation expense and foreign currency valuation adjustments.
Intangible assets and goodwill	560	468	92	Increase primarily due to capital expenditures and acquisition of JU assets ($97 million), partially offset by amortization expense and foreign currency valuation adjustments.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – LIABILITIES AND EQUITY

(Unaudited, $ millions)	**March 31, 2021**	**December 31, 2020**	**Increase (decrease)**	**Explanation of material changes**
Trade and other payables	$ 418	$ 426	$ (8)	Decrease primarily due to decrease in payables to the AESO for electricity costs, lower capital accruals and holdbacks, and lower income tax payable, partially offset by assumption of JU liabilities ($12 million), higher accrued interest on long-term debt, higher accruals for construction costs and higher franchise fees payable to the City.
Loans and borrowings (including current portion)	3,780	3,572	208	Increase primarily due to issuance of short-term debt ($210 million) and issuance of long-term unsecured promissory note on acquisition of JU operations ($6 million), partially offset by foreign currency valuation adjustments on U.S. dollar denominated debt and principal repayments of long-term debt.
Deferred revenue (including current portion)	4,067	3,992	75	Increase primarily due to assumption of JU liabilities ($59 million) and customer and developer contributions received, partially offset by foreign currency valuation adjustments and deferred revenue recognized.
Provisions (including current portion)	234	142	92	Increase primarily due to assumption of JU liabilities ($87 million) and higher employee benefit accruals, partially offset by foreign currency valuation adjustments.
Other liabilities (including current portion)	236	214	22	Increase primarily due to assumption of JU liabilities ($33 million), partially offset by Drainage transition cost compensation payment, payments for lease liabilities and foreign currency valuation adjustments.
Deferred tax liabilities	41	43	(2)	Decrease is primarily due to recognition of timing differences for US operations and foreign currency valuation adjustments.
Equity	3,791	3,791	-	

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, $ millions)
Cash inflows (outflows)

Three months ended March 31,	2021	2020	Increase (decrease)	Explanation
Operating	$ 181	$ 153	$ 28	Higher inflows primarily due to higher funds from the change in non-cash operating working capital, partially offset by lower net cash flows from operations.
Investing	(326)	(188)	(138)	Higher outflows primarily due to higher capital expenditures, acquisition of JU operations net of acquired cash ($126 million), higher advances on other financial assets primarily related to the Trans Mountain pipeline expansion project and higher outflow of funds related to the change in non-cash investing working capital, partially offset by lower Drainage transition cost compensation payment.
Financing	159	39	120	Higher inflows primarily due to higher proceeds from net issuance of short-term debt.
Opening cash and cash equivalents	8	33	(25)	
Closing cash and cash equivalents	$ 22	$ 37	$ (15)	

Operating Activities and Liquidity

The Company maintains its financial position through rate-regulated utility and contracted operations, which generate stable cash flows.

The Company expects to have sufficient liquidity to finance its plans and fund its obligations, including current liabilities in excess of current assets, for the next twelve months, with a combination of available cash, funds from operations, issuance of commercial paper, public or private debt offerings and availability of liquidity from committed credit facilities described under the Financing section below. Cash flows from operating activities would be impaired by events that cause severe damage to our facilities and would require unplanned cash outlays for system restoration repairs. Under those circumstances, more reliance would be placed on our credit facilities for working capital requirements until a regulatory approved recovery mechanism or insurance proceeds are put in place.

Capital Requirements and Contractual Obligations

During the first quarter of 2021, there were no material changes to the Company's capital requirements or purchase obligations, including payments for the next five years and thereafter, from those previously disclosed in the 2020 annual MD&A. For further information on the Company's contractual obligations, refer to the 2020 annual MD&A.

Financing

Generally, our external financing is raised at the corporate level and invested in the operating business units. Our external financing has consisted of commercial paper issuance, bank loans under credit facilities, debentures payable to the City related to utility assets transferred from the City, debentures payable to the other municipalities, publicly issued medium-term notes and U.S. private debt notes.

The Company has bank credit facilities which are used principally for the purpose of backing the Company's commercial paper program, issuance of bank loans for operational requirements and providing letters of credit, as outlined below:

($ millions) **March 31, 2021**	**Expiry**	**Total facilities**	**Letters of credit issued**	**Banking Commercial paper issued**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	November 2024	$ 600			
Bank credit facility[1]	March 2024	200			
Total committed		$ 800	$ -	$ 365	$ 435
Uncommitted					
Bank credit facilities[2]	No expiry	200	160	-	40
Bank credit facility	No expiry	25	-	-	25
Bank credit facility	November 2021	13	-	-	13
Total uncommitted		238	160	-	78
Total credit facilities		**$ 1,038**	**$ 160**	**$ 365**	**$ 513**

($ millions) **December 31, 2020**	**Expiry**	**Total facilities**	**Letters of credit issued**	**Banking Commercial paper issued**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	November 2024	$ 600	$ -	$ 154	$ 446
Uncommitted					
Bank credit facilities[2]	No expiry	200	85	-	115
Bank credit facility	No expiry	25	-	-	25
Bank credit facility	November 2021	13	-	-	13
Total uncommitted		238	85	-	153
Total credit facilities		**$ 838**	**$ 85**	**$ 154**	**$ 599**

[1] The Company's $600 million committed syndicated bank credit facility and $200 million committed bank credit facility, added during the first quarter of 2021, are available and can be used for direct borrowings, issuance of letters of credit and backstopping EPCOR's commercial paper program. The two committed bank credit facilities cannot be withdrawn by the lenders until expiry, provided that the Company operates within the related terms and covenants. The extension feature of EPCOR's two committed bank credit facilities gives the Company the option each year to re-price and extend the terms of the facilities by one or more years subject to agreement with the lenders. The Company regularly monitors market conditions and may elect to enter into negotiations to extend the maturity dates. At March 31, 2021, commercial paper totaling $365 million was issued and outstanding (December 31, 2020 - $154 million).

[2] The Company's uncommitted bank credit facilities consists of five bilateral credit facilities (totaling $200 million) which are restricted to letters of credit. At March 31, 2021, letters of credit totaling $160 million have been issued and outstanding (December 31, 2020 - $85 million) to meet the credit requirements of electricity market participants and to meet conditions of certain service agreements.

The Company has a Canadian base shelf prospectus under which it may raise up to $2 billion of debt with maturities of not less than one year. At March 31, 2021, the available amount remaining under this base shelf prospectus was $1.60 billion (December 31, 2020 - $1.60 billion). The Canadian base shelf prospectus expires in December 2021.

If the economy or capital market conditions were to deteriorate in the longer term, particularly in Canada and the U.S., the Company's ability to extend the maturity or revise the terms of bank credit facilities, arrange long-term financing for its capital expenditure programs and acquisitions, or refinance outstanding indebtedness when it matures could be adversely impacted. We believe that these circumstances have a low probability of occurring. We continually monitor our capital programs and operating costs to minimize the risk that the Company becomes short of cash or unable to honor its debt servicing obligations. If required, the Company would look to add temporary liquidity sources, reduce capital expenditures and operating costs.

Credit Rating

In September 2020, DBRS confirmed its A (low) / stable senior unsecured debt and R-1 (low) / stable short-term debt and Standard & Poor's Ratings Services (S&P) confirmed its A- / stable long-term corporate credit and senior unsecured debt ratings for EPCOR. S&P reaffirmed its A- / stable rating in December 2020.

These credit ratings reflect the Company's ability to meet its financial obligations given the stable cash flows generated from the rate-regulated water, wastewater, natural gas and electricity businesses. A credit rating downgrade for EPCOR could result in higher interest costs on new borrowings and reduce the availability of sources and tenor of investment capital.

Financial Covenants

EPCOR is currently in compliance with all of its financial covenants in relation to its bank credit facilities, Canadian public medium-term notes and U.S. private debt notes. Based on current financial covenant calculations, the Company has sufficient borrowing capacity to fund current and long-term requirements. Although the risk is low, breaching these covenants could potentially result in a revocation of EPCOR's credit facilities causing a significant loss of access to liquidity or resulting in the Company's publicly issued medium-term notes and private debt notes becoming immediately due and payable causing the Company to find a means of funding which could include the sale of assets.

RISK FACTORS AND RISK MANAGEMENT

This section should be read in conjunction with the Risk Factors and Risk Management section of the 2020 annual MD&A. Risk management is a key component of the Company's culture and we have cost-effective risk management practices in place. Risk management is an ongoing process and we continually review our risks and look for ways to enhance our risk management processes. As part of ongoing risk management practices, the Company reviews current and developing events and proposed transactions to consider their impact on the risk profile of the Company.

Currently, EPCOR's principal risks, in order of severity from most to least serious include public health crisis, political and legislative changes, regulatory, weather and climate change, health and safety, new business integration, cybersecurity, reputational damage and stakeholder activism, actual performance compared to approved revenue requirement, significant decline in the Alberta economy, billing errors, strategy execution, business interruption, electricity price and volume, failure to attract, retain or develop top talent, project delivery, environmental, credit, financial liquidity, foreign exchange, conflicts of interest, labor disruption, technological change and general economic conditions, business environment and other risks.

In order to manage the foreign exchange risk associated with the Company's net investment in foreign operations, the Company has executed the following two cross-currency interest rate swap (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$1. The Company will semi-annually receive interest in Canadian dollars at 3.471% per annum and will pay interest in US$ 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$1. The Company will semi-annually receive interest in Canadian dollars at 3.39% per annum and will pay interest in US$ at 3.183% per annum on the aforementioned notional values. There was no physical exchange of currencies at inception, however at maturity in 2051, the Company will physically swap the original notional amounts at the same exchange rate.

The change in fair value of $1 million of the effective portion of the hedges of net investment in foreign operations for the period ended March 31, 2021, has been recorded in other comprehensive income. There was no ineffective portion of the hedges of net investment in foreign operations identified during the period.

For further information on the Company's CCIRS contracts, refer to the condensed consolidated interim financial statements for the period ended March 31, 2021 and 2020.

LITIGATION UPDATE

The Company is not involved in any material litigation at this time.

FUTURE ACCOUNTING STANDARD CHANGES

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.

CRITICAL ACCOUNTING ESTIMATES

In preparing the condensed consolidated interim financial statements, management necessarily made estimates in determining transaction amounts and financial statement balances. The following are the items for which significant estimates were made in the condensed consolidated interim financial statements: electricity revenues, costs and unbilled consumption, fair values and income taxes. Although the current condition of the economy has not impacted our methods of estimating accounting values, it has impacted the inputs in those determinations and the resulting values. Interim results will fluctuate due to the seasonal demands for energy, water, related impact on sanitary system, changes in energy prices, and the timing and recognition of regulatory decisions. Consequently, interim results are not necessarily indicative of annual results.

For further information on the Company's other critical accounting estimates, refer to the consolidated financial statements and MD&A for the year ended December 31, 2020.

OUTLOOK

For the remainder of 2021, EPCOR will focus on ensuring continuity of services to our customers notwithstanding the COVID-19 outbreak, integration of recent acquisition of JU operations, continuing electrical sub-station infrastructure construction related to the Trans Mountain pipeline expansion project, wastewater treatment plant expansion in the U.S. Operations segment, natural gas pipeline construction in the Southern Bruce region of Ontario, construction of a solar farm near E.L. Smith Water Treatment Plant (E.L. Smith WTP), exploring construction of a renewable natural gas facility within Edmonton and continuing to target growth in rate-regulated and contracted water, wastewater, electricity and natural gas infrastructure. We expect much of this investment to come from new infrastructure to accommodate customer growth and lifecycle replacement of existing infrastructure primarily related to the Edmonton and U.S. based operations. We intend to expand our water and electricity commercial services activities and to invest in renewable energy generation, including solar and biogas facilities, which will be ancillary to our existing operations and will help us in improving our greenhouse gas footprint by reducing reliance on fossil fuel.

On November 5, 2019, voters in Bullhead City, a U.S. municipality where EPCOR owns a water utility system, passed Proposition 415, authorizing the local government to take steps to acquire EPCOR's Mohave and North Mohave water systems and operations using powers of eminent domain, which 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 allows Bullhead City to pursue the purchase of EPCOR's assets through a legal process and failing agreement between the parties, ultimately allow the courts to decide the purchase price. EPCOR is pursuing all avenues to ensure that the Company receives fair and equitable compensation. On March 27, 2020, Bullhead City filed a suit seeking to expropriate the utility systems and seeking immediate possession of the utility systems. The hearing for the suit is anticipated in the second quarter of 2021, and the final outcome of the suit remains uncertain. The financial impact of this water utility system's operations is not considered material to EPCOR's operations or financial condition.

On March 31, 2020, EPCOR entered into a 20-year design, build, own, maintain and transfer (DBOMT) agreement with the Trans Mountain Pipeline L.P. and a corresponding design-build agreement with a partnership between Kiewit Energy Group and Western Pacific Enterprises. The scope of the DBOMT is to build and maintain electrical sub-station infrastructure along the Trans Mountain pipeline expansion project. The Company started construction on the project pursuant to the DBOMT in April 2020 and is expected to be complete by the fourth quarter of 2021, with the maintenance period lasting 20 years.

EPCOR is considering constructing a renewable natural gas facility within the footprint of its existing Gold Bar wastewater treatment facility. The proposed facility would reduce flaring and greenhouse gas emissions while creating a green energy product for re-sale. The proposed facility would be expected to produce 230,000 gigajoules of renewable natural gas per year of operation.

EPCOR was previously awarded franchises by two municipalities and one township in the Southern Bruce region of Ontario near Kincardine to use municipal rights-of-way to build, own and operate a natural gas distribution system. EPCOR received all requisite approvals and started construction of the gas distribution system in July 2019, through a design build contractor. EPCOR's Southern Bruce natural gas distribution system started connections to industrial, agricultural and residential customers in second half of 2020. At March 31, 2021, 158km out of total 296km length of the pipeline has been installed. The remaining portion of the system is expected to be substantially complete by the end of 2021.

The Company is developing a new solar farm on EPCOR owned land near its existing E.L. Smith WTP. The solar farm, which is expected to have a peak generation capacity of 12 megawatts, will generate "green" energy to help power the E.L. Smith WTP. The project has received all requisite approvals including approval on the re-zoning application from the Edmonton City Council after public hearing and a development permit from the City. In December 2020, an opponent of the project, Edmonton River Valley Conservation Coalition, filed a judicial review of City Council's re-zoning approval alleging that the City erred in failing to apply the deemed essential test as set out in the North Saskatchewan River Valley Area Redevelopment Plan Bylaw. The review application is expected to be heard in the fourth quarter of 2021. EPCOR is planning to start construction in the second or third quarter of 2021.

QUARTERLY RESULTS

($ millions)	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020
Revenues	$ 519	$ 512	$ 518	$ 471
Expenses	429	408	383	365
Operating income	**90**	**104**	**135**	**106**
Finance expenses	(36)	(35)	(35)	(33)
Income tax recovery (expense)	1	(5)	(8)	(3)
Net income[1,2]	**$ 55**	**$ 64**	**$ 92**	**$ 70**

($ millions)	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019
Revenues	$ 487	$ 474	$ 493	$ 439
Expenses	403	385	376	347
Operating income	**84**	**89**	**117**	**92**
Finance expenses	(34)	(27)	(34)	(32)
Income tax expense[3]	-	(3)	(7)	(20)
Net income[1]	**$ 50**	**$ 59**	**$ 76**	**$ 40**

1. Quarterly results may fluctuate due to the seasonal demands for energy, water, related impact on sanitary system, changes in energy prices, and the timing and recognition of regulatory decisions.
2. During the quarter ended March 31, 2021, net income is lower due to higher natural gas procurements costs in U.S. Operations during the winter storm. The natural gas procurement costs in U.S. operations are considered flow through costs, which are expected to be recovered in future periods through a regulatory mechanism.
3. Higher income tax expense during the quarter ended June 30, 2019, was primarily due to a decrease in the Alberta corporate income tax rate pursuant to enactment of Bill 3.

FORWARD - LOOKING INFORMATION

Certain information in this MD&A is forward-looking within the meaning of Canadian securities laws as it relates to anticipated financial performance, events or strategies. When used in this context, words such as “will”, “anticipate”, “believe”, “plan”, “intend”, “target”, and “expect” or similar words suggest future outcomes.

The purpose of forward-looking information is to provide investors with management’s assessment of future plans and possible outcomes and may not be appropriate for other purposes.

There have been no changes in the material forward-looking information previously disclosed in the 2020 annual MD&A, including related material factors or assumptions and risk factors. Material forward-looking information within this MD&A, including related material factors or assumptions and risk factors, are noted in the table below:

Forward-looking Information	Material Factors or Assumptions	Risk Factors
The Company expects to have sufficient liquidity to finance its plans and fund its obligations, including current liabilities in excess of current assets, for next twelve months.	EPCOR is able to generate the expected cash flow from operations and various means of funding remain available to the Company.	EPCOR’s operations do not generate the expected level of cash flow and / or circumstances arise, including the COVID-19 outbreak, limiting or restricting the Company’s ability to access funds through the various means otherwise available.

For further information on the Company's forward looking information, refer to the 2020 annual MD&A.

Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks and uncertainties, which could cause actual results to differ from expectations and are discussed in the Risk Factors and Risk Management section above.

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

GLOSSARY

Adjusted EBITDA earnings before finance expenses, income tax recovery (expense), depreciation and amortization, changes in the fair value of derivative financial instruments, transmission system access service charge net collections and net collection of U.S. natural gas procurement costs	**GCOC** means General Cost of Capital
AESO means Alberta Electric System Operator	**IFRS** means International Financial Reporting Standard(s)
AUC means the Alberta Utilities Commission	**JU** means Johnson Utilities LLC
CCIRS means cross-currency interest rate swap	**JU Operations** mean water treatment and distribution and wastewater collection and treatment assets acquired from JU
CIS means Customer Information System Replacement project	**PBR** means Performance Based Regulation
COVID-19 means novel coronavirus	**ROE** means return on equity
DBOMT means design, build, own, maintain and transfer	**RRO** means Regulated Rate Option
Drainage means drainage utility services within the city of Edmonton	**S&P** means Standard & Poor's Ratings Services
E.L. Smith WTP means E.L. Smith Water Treatment Plant	**the City** means The City of Edmonton
EPSP means Energy Price Setting Plan	**Winter storm** means winter storm Uri in Texas

ADDITIONAL INFORMATION

Additional information relating to EPCOR including the Company's 2020 Annual Information Form is available on SEDAR at www.sedar.com.