EPCOR Utilities Inc.
Interim Management's Discussion and Analysis
March 31, 2020

This interim management's discussion and analysis (MD&A) dated April 27, 2020, should be read in conjunction with the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the three months ended March 31, 2020 and 2019, including significant accounting policies (note 3), financial instruments (note 5) and financial risk management (note 6), the consolidated financial statements and MD&A for the years ended December 31, 2019 and 2018, including significant accounting policies (note 3), other financial assets (note 13), property, plant and equipment (note 15), other liabilities (note 21), related party balances and transactions (note 25), financial instruments (note 26) and the cautionary statement regarding forward-looking information at the end of this MD&A. In this MD&A, any reference to "the Company", "EPCOR", "Corporation", "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 Financial Reporting Standards (IFRS), 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, 2020.

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 and wastewater infrastructure for municipal and industrial customers in Canada and the U.S. 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 $50 million for the three months ended March 31, 2020, compared with net income of $56 million for the comparative period in 2019. The $6 million decrease was primarily due to unfavorable fair value adjustments related to financial electricity purchase contracts, lower transmission system access service charge net collections and higher depreciation expense, partially offset by lower income tax expense and higher Adjusted EBITDA as described below.

Adjusted EBITDA was $173 million for the three months ended March 31, 2020, compared with $157 million for the comparative period in 2019. The $16 million increase was primarily due to higher water and wastewater rates, customer growth and higher water consumption, higher electricity distribution customer rates, higher work volumes and margins for commercial services work and higher Energy Price Setting Plan (EPSP) margins, partially offset by lower work volumes and margins for street lighting, traffic signals and light rail transit electrical services for the City of Edmonton (the City) and higher provisions for expected credit losses from customers. Adjusted EBITDA is a non-IFRS financial measure as described in the Adjusted EBITDA and Net Income section on page 3 of this MD&A.

SIGNIFICANT EVENT

NOVEL CORONAVIRUS (COVID-19)

In response to the recent novel coronavirus (COVID-19) outbreak, which was declared a pandemic in March 2020, governmental authorities in Canada and internationally have introduced various recommendations and measures to try to limit spread of the outbreak, including non-essential business closures, quarantines, self-isolation, social and physical distancing and shelter-in-place. These measures have caused disruptions to businesses globally, resulting in an economic slowdown.

One of the expected economic impacts of the COVID-19 outbreak will be on our customers. The Company is working with the various governments where we have operations to provide support to customers in these difficult economic conditions with measures including offering deferral of utility bills payments, as well as suspending customer disconnections and collections activities, during the term of the pandemic. These activities will likely result in delays in the Company collecting amounts due from customers as well as higher expected credit losses from customers. The Company continues to be in discussions with its various regulators regarding potential methods for recovery of losses which may be incurred by the Company.

For further discussion of the COVID-19 outbreak and its impacts on the Company, please refer to the Risk Factors and Risk Management section below.

SIGNIFICANT ACCOUNTING POLICY CHANGES

The condensed consolidated interim financial statements for the three months ended March 31, 2020 and 2019, have been prepared following the same accounting policies and methods as those used in preparing the Company's most recent annual consolidated financial statements. The Company has adopted amendments to various accounting standards effective January 1, 2020, which did not have significant impact on the Company's financial statements.

CONSOLIDATED RESULTS OF OPERATIONS

Revenues

(Unaudited, $ millions) **Three months ended March 31,**		**2020**		**2019**
Water Services segment	$	160	$	151
Distribution and Transmission segment		117		113
Energy Services segment		134		127
U.S. Operations segment		57		53
Other		25		21
Intersegment eliminations		(6)		(7)
Revenues	**$**	**487**	**$**	**458**

Consolidated revenues were higher by $29 million for the three months ended March 31, 2020, compared with the corresponding period in 2019, primarily due to the net impact of the following:

- Water Services' segment revenues increased by $9 million primarily due to higher water and wastewater customer rates, customer growth and higher water consumption, partially offset by lower commercial revenues from operating and maintenance contracts.
- Distribution and Transmission segment revenues increased by $4 million primarily due to higher electricity distribution rates and higher commercial services revenues, partially offset by lower transmission system access service charge net collections and lower revenues related to lighting, traffic signals and light rail transit electrical services for the City.

- Energy Services' segment revenues increased by $7 million primarily due to higher electricity prices and higher commercial services revenues related to billing and customer care services, partially offset by lower electricity consumption and decreases in RRO and default supply customer sites.
- U.S. Operations' segment revenues increased by $4 million primarily due to higher water rates, customer growth, higher water consumption and higher foreign exchange rates, partially offset by lower natural gas sales volumes due to warmer temperatures in Texas.
- Other revenues increased by $4 million primarily due to higher energy prices.

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 and transmission system access service charge net collections (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 Alberta Electric System Operator (AESO) 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.

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 IFRS and is unlikely to be comparable to similar measures published by other entities.

(Unaudited, $ millions) **Three months ended March 31,**		**2020**		**2019**
Adjusted EBITDA by Segment				
Water Services segment	$	78	$	71
Distribution and Transmission segment		53		50
Energy Services segment		9		11
U.S. Operations segment		25		24
Other		8		1
Adjusted EBITDA		**173**		**157**
Finance expenses		(34)		(32)
Income tax expense		-		(5)
Depreciation and amortization		(83)		(78)
Change in fair value of financial electricity purchase contracts		(6)		11
Transmission system access service charge net collections		-		3
Net income	**$**	**50**	**$**	**56**

Changes in each business segment's Adjusted EBITDA, for the three months ended March 31, 2020, compared with the corresponding period in 2019, are described in Segment Results below. Explanations of the remaining variances in net income for the three months ended March 31, 2020, compared with the corresponding period in 2019, are as follows:

- Lower income tax expense of $5 million primarily due to a lower income subject to income tax in 2020.
- Higher depreciation and amortization of $5 million primarily due to depreciation expense on 2019 asset additions.
- Unfavorable changes in the fair value of financial electricity purchase contracts of $17 million was primarily due to electricity contracted prices being higher than the market forward prices in 2020, compared to electricity market forward prices being higher than contracted prices in 2019.
- Lower transmission system access service charge net collections of $3 million was primarily due to payments to the AESO for system access in 2020 being fully offset by collections from customers. In 2019, collections from customers for system access were higher than payments to the AESO.

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.

(Unaudited, $ millions, including intersegment transactions) **Three months ended March 31,**		**2020**		**2019**
Revenues	$	160	$	151
Expenses		120		116
Operating income		**40**		**35**
Exclude depreciation and amortization		38		36
Adjusted EBITDA	**$**	**78**	**$**	**71**

Water Services' Adjusted EBITDA increased by $7 million for the three months ended March 31, 2020, compared with the corresponding period in 2019, primarily due to higher water and wastewater customer rates, customer growth and higher water consumption, as well as lower water treatment costs for operations in the city of Edmonton due to delayed spring runoff in 2020.

Distribution and Transmission

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

(Unaudited, $ millions, including intersegment transactions) **Three months ended March 31,**		**2020**		**2019**
Revenues	$	117	$	113
Expenses		87		82
Operating income		**30**		**31**
Exclude depreciation and amortization		23		22
Exclude transmission system access service charge net collections		-		(3)
Adjusted EBITDA	**$**	**53**	**$**	**50**

Distribution and Transmission's Adjusted EBITDA increased by $3 million for the three months ended March 31, 2020, compared with the corresponding period in 2019, primarily due to higher electricity distribution rates and higher work volumes and margins for commercial services revenues, partially offset by lower work volumes and margins for street lighting, traffic signals and light rail transit electrical services provided to the City.

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.

(Unaudited, $ millions, including intersegment transactions) **Three months ended March 31,**	**2020**	**2019**
Revenues	$ 134	$ 127
Expenses	133	107
Operating income	**1**	**20**
Exclude depreciation and amortization	2	2
Exclude change in the fair value of financial electricity purchase contracts	6	(11)
Adjusted EBITDA	**$ 9**	**$ 11**

Energy Services' Adjusted EBITDA, decreased by $2 million for the three months ended March 31, 2020, compared with the corresponding period in 2019, primarily due to a higher provision for expected credit losses from customers related to the economic impacts of the COVID-19 outbreak and a general economic slowdown, and higher staff costs related to additional operational support required during development of the new billing system, partially offset by higher EPSP margins and higher commercial services revenues related to billing and customer care services.

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.

(Unaudited, $ millions, including intersegment transactions) **Three months ended March 31,**	**2020**	**2019**
Revenues	$ 57	$ 53
Expenses	46	41
Operating income	**11**	**12**
Exclude depreciation and amortization	14	12
Adjusted EBITDA	**$ 25**	**$ 24**

U.S. Operations' Adjusted EBITDA increased by $1 million for the three months ended March 31, 2020, compared with the corresponding period in 2019, primarily due higher water rates, customer growth, higher water consumption and higher foreign exchange rate, partially offset by increases in various operating expenses.

Capital Spending and investment

(Unaudited, $ millions) **Three months ended March 31,**		**2020**		**2019**
Water Services segment	$	58	$	48
Distribution and Transmission segment		44		40
U.S. Operations segment		30		15
Other		11		6
Total capital spending		143		109
Rio Verde Utilities Inc. acquisition		-		31
Total capital spending and investment	**$**	**143**	**$**	**140**

Total capital spending and investment increased by $3 million for the three months ended March 31, 2020, compared with the corresponding period in 2019, primarily due to higher capital spending in the Company's operating segments, partially offset by acquisition of Rio Verde Utilities Inc. (Rio Verde) in 2019, with no corresponding acquisition year-to-date in 2020.

Explanations of the significant variances in capital spending in each business segment for the three months ended March 31, 2020, compared with the corresponding period in 2019, are as follows:

- The Water Services segment had higher spending primarily on several sanitary sewer main projects and various lifecycle projects. This was partially offset by lower spending on the Tawa Dry Pond project which was substantially complete in 2019.
- The Distribution and Transmission segment had higher spending primarily on a 25 kV circuits duct bank under the North Saskatchewan River and various lifecycle projects. This was partially offset by lower spending on a new substation in southwest Edmonton which was substantially complete in 2019 and on various other growth projects.
- The U.S. Operations segment had higher spending on the sewer main extension project in west of metropolitan Phoenix to accommodate new industrial and commercial customers, higher spending on various growth and lifecycle replacement projects as well as higher foreign exchange on capital spending.
- In Other, higher spending was primarily due to the Customer Information System Replacement project, which is a new customer billing system for various segments that are served by Energy Services.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – ASSETS

(Unaudited, $ millions)	March 31, 2020	December 31, 2019	Increase (decrease)	Explanation of material changes
Cash and cash Equivalents	$ 37	$ 33	$ 4	Refer to Consolidated Statements of Cash Flows section.
Trade and other Receivables	435	473	(38)	Decrease primarily due to lower receivables from the City relating to construction work and lower electricity and natural gas accruals resulting from lower volumes.
Inventories	19	18	1	
Other financial assets	139	127	12	Increase primarily due to purchase of early works assets related to the Trans Mountain pipeline expansion project, partially offset by payments received on long-term receivables and finance lease receivable.
Deferred tax assets	102	102	-	
Property, plant and Equipment	10,476	10,280	196	Increase primarily due to capital expenditures and foreign currency valuation adjustments, partially offset by depreciation expense.
Intangible assets and goodwill	413	388	25	Increase primarily due to capital expenditures and foreign currency valuation adjustments, partially offset by amortization expense.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – LIABILITIES AND EQUITY

(Unaudited, $ millions)	March 31, 2020	December 31, 2019	Increase (decrease)	Explanation of material changes
Trade and other payables	$ 372	$ 431	$ (59)	Decrease primarily due to decrease in payables to the AESO for electricity costs due to timing of payments, lower capital accruals and lower holdbacks payables, partially offset by higher accrued interest on long-term debt.
Loans and borrowings (including current portion)	3,201	3,081	120	Increase primarily due to issuance of short-term debt ($90 million) and foreign currency valuation adjustments on U.S. dollar denominated debt, partially offset by principal repayments of long-term debt.
Deferred revenue (including current portion)	3,854	3,778	76	Increase primarily due to customer and developer contributions received and foreign currency valuation adjustments, partially offset by deferred revenue recognized.
Provisions (including current portion)	143	130	13	Increase primarily due to higher employee benefit accruals and foreign currency valuation adjustments.
Other liabilities (including current portion)	226	241	(15)	Decrease primarily due to Drainage transition cost compensation payment and payments for lease liabilities, partially offset by foreign currency valuation adjustments.
Deferred tax liabilities	59	56	3	Increase is primarily due to foreign currency valuation adjustments.
Equity attributable to the Owner of the Company	3,766	3,704	62	

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, $ millions)
Cash inflows (outflows)

Three months ended March 31,	2020	2019	Increase (decrease)	Explanation
Operating	$ 153	$ 133	$ 20	Increase primarily due to higher net cash flows from operations and higher funds from the change in non-cash operating working capital.
Investing	(188)	(174)	(14)	Decrease primarily due to higher capital expenditures and lower funds from the change in non-cash investing working capital, partially offset by acquisition of Rio Verde in 2019, with no corresponding acquisition in 2020, and lower payment of Drainage transition cost compensation.
Financing	39	33	6	Increase primarily due to higher proceeds from issuance of short-term debt, partially offset by higher payments for lease liabilities.
Opening cash and cash equivalents	33	32	1	
Closing cash and cash equivalents	$ 37	$ 24	$ 13	

Operating Activities and Liquidity

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

While the COVID-19 outbreak is anticipated to result in lower cash flows from operating activities in the near-term as a result of customers deferring utility bill payments and the expected higher credit losses from customer defaults, the Company expects that these reduced cash flows will be mitigated by anticipated lower capital expenditures in 2020. As a result, 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 remainder of 2020, with a combination of issuance of commercial paper, public or private debt offerings and availability of liquidity from committed syndicated bank credit facility described under Financing section below.

Capital Requirements and Contractual Obligations

During the first quarter of 2020, 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 2019 annual MD&A except for the item noted below and the commitment related to execution of Trans Mountain expansion project, as described in Outlook section of this MD&A.

The Company in its 2019 annual MD&A had projected the cash requirements for capital spending and investment for 2020 to be between $825 million and $1,025 million. The Company expects the capital spending to be impacted by the COVID-19 outbreak as the Company is taking various measures to safeguard its employees and the public, and also re-prioritizing activities, including capital work, to ensure full and uninterrupted access to services for customers. These factors will likely result in deferral of capital projects and the Company having lower than anticipated cash requirements for capital spending and investment in 2020. As the full impact on capital spending for 2020 is still being determined, the Company will provide further updates during the year.

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 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:

(Unaudited, $ millions) **March 31, 2020**	**Expiry**	**Total facilities**	**Bank loans issued**	**Letters of credit issued**	**Banking commercial paper issued**	**Net amounts available**
Committed						
Syndicated bank credit facility[1]	November 2024	$ 600	$ -	$ -	$ 106	$ 494
Uncommitted						
Bank credit facilities[2]	No expiry	200	-	78	-	122
Bank credit facility	No expiry	25	-	-	-	25
Bank credit facility[3]	November 2020	14	6	-	-	8
Total uncommitted		239	6	78	-	155
Total credit facilities		**$ 839**	$ 6	**$ 78**	**$ 106**	**$ 649**

(Unaudited, $ millions) **December 31, 2019**	**Expiry**	**Total facilities**	**Letters of credit issued**	**Banking commercial paper issued**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	November 2024	$ 600	$ -	$ 22	$ 578
Uncommitted					
Bank credit facilities[2]	No expiry	200	99	-	101
Bank credit facility	No expiry	25	-	-	25
Bank credit facility[3]	November 2020	13	-	-	13
Total uncommitted		238	99	-	139
Total credit facilities		**$ 838**	**$ 99**	**$ 22**	**$ 717**

1 The Company's $600 million committed syndicated bank credit facility is available and primarily used for backstopping EPCOR's commercial paper program. The committed syndicated bank credit facility 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 committed syndicated bank credit facility gives the Company the option each year to re-price and extend the terms of the facility by one or more years subject to agreement with the lending syndicate. The Company regularly monitors market conditions and may elect to enter into negotiations to extend the maturity dates. At March 31, 2020, commercial paper totaling $106 million was issued and outstanding (December 31, 2019 - $22 million).

2 The Company's uncommitted bank credit facility consists of five bilateral credit facilities (totaling $200 million)

which are restricted to letters of credit. At March 31, 2020, letters of credit totaling $78 million have been issued and outstanding (December 31, 2019 - $99 million) to meet the credit requirements of electricity market participants and to meet conditions of certain service agreements.

[3] The Company's $14 million uncommitted bank credit facility (December 31, 2019 - $13 million) represents US$10 million facility used to meet the U.S. dollar operational requirements. At March 31, 2020, bank loans totaling $6 million (US$4 million) were issued and outstanding (December 31, 2019 - nil).

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, 2020, the available amount remaining under this base shelf prospectus was $2 billion (December 31, 2019 - $2 billion). The Canadian base shelf prospectus expires in December 2021.

If the economy 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 2019, DBRS confirmed its A (low) / stable senior unsecured debt and R-1 (low) / stable short-term debt ratings for EPCOR.

In October 2019, Standard & Poor's Ratings Services confirmed its A- / stable long-term corporate credit and senior unsecured debt ratings for EPCOR.

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 syndicated bank credit facility, 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.

For further information on the Company's contractual obligations, refer to the 2019 annual MD&A.

RISK FACTORS AND RISK MANAGEMENT

This section should be read in conjunction with the Risk Management section of the 2019 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.

During the first quarter of 2020, the COVID-19 outbreak developed into a pandemic, exposing the Company to a number of potential effects in addition to the risks disclosed in the Company's 2019 annual MD&A. The key short-term effects to EPCOR associated with the COVID-19 outbreak include: failure to maintain continuity of service to customers due to a shortage of available employees and / or key supplies to maintain operations should measures implemented to reduce spread of the virus be unsuccessful; lower net income due to lower revenues primarily from commercial customers, increased credit losses from customers, costs incurred to mitigate risks of the outbreak, and lower capitalization of operating costs due to reduced capital activity; and inability of the Company to fund its capital expenditure program due to a credit or liquidity crisis should they occur as a result of the outbreak. The Company has implemented its business continuity plan designed to ensure the health and safety of its employees and continuity of services to customers.

The extent of the Company's exposure to the effects of the COVID-19 outbreak is dependent upon a number of factors including, but not limited to, the spread, mortality rate and duration of the outbreak, including the length of time social distancing and isolation measures are to be applied as recommended by healthcare experts or required under government order; impact on customers, capital markets and the economy; ability of the Company's key suppliers to maintain service continuity; any government orders imposed on utilities preventing the cut-off of customers for non-payment during the COVID-19 outbreak or allowing customers to defer payment of their bills, for example; effectiveness of the Company's business continuity plan and ability to mitigate the various COVID-19 risks.

The Company expects capital expenditures to be lower than they otherwise would be through the forthcoming construction season and in addition, capital preservation measures have also been implemented. As a result, the Company believes it has adequate short-term liquidity to fulfill its obligations and requirements for capital, however, if necessary the Company could increase the limit of its syndicated bank credit facility or enter into other additional short-term financing arrangements to increase liquidity. Due to increased cyber security threats from malicious actors exploiting the world's heightened vulnerability during the COVID-19 outbreak, the Company has implemented additional controls and precautionary measures to protect against cyber-attacks and prevent fraud during this period.

Following the end of the COVID-19 outbreak, the Company could experience a further and sustained decline in revenues, income and cash flows if the economy fails to recover quickly or fully, possibly compounded by sustained low oil prices if world oil consumption does not return to pre-COVID-19 outbreak levels, which would exacerbate circumstances in Alberta where EPCOR's operations are most extensive. Other long-term effects could include operational challenges due to failure of the Company's supply chain relied upon for key parts, supplies and services, a credit rating downgrade leading to increased borrowing costs which in turn, could result in goodwill impairment or make the Company's cost of capital less competitive and limit growth potential.

In addition to the risks associated with the COVID-19 outbreak outlined above, EPCOR's other risks include political and legislative risk, regulatory risk, health and safety risk, weather and climate-change risk, environmental risk, new business integration risk, strategy execution risk, competitive risk, cybersecurity risks, reputational damage and stakeholder activism, actual performance compared to approved revenue requirement, billing error risk, business interruption risks, failure to attract, retain or develop top talent, electricity price and volume risk, project risk, credit risk, financial liquidity risk, foreign exchange risk, conflicts of interest, and general economic conditions, business environment and other risks.

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, 2021. 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, expected credit loss allowance, 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 years ended December 31, 2019, and 2018.

OUTLOOK

For the remainder of 2020, EPCOR will focus on ensuring uninterrupted services to our customers as a result of the COVID-19 outbreak, continuing natural gas pipeline construction in the Southern Bruce region of Ontario, begin construction of a renewable natural gas facility within Edmonton and continuing to target growth in rate-regulated and contracted water, wastewater, and 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 enhance our environmental performance.

On March 31, 2020, EPCOR entered into a 20-year design, build, own, maintain and transfer ("DBOMT") agreement with the Trans Mountain Corporation 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. Construction is expected to be complete by 2022, with the maintenance period lasting 20 years. As part of the DBOMT agreement, EPCOR acquired certain early-works assets already completed with respect to the electrical sub-station infrastructure from Trans Mountain Corporation.

EPCOR is proposing to build a new renewable natural gas facility within the footprint of its existing Gold Bar wastewater treatment facility. The proposed facility will reduce flaring and greenhouse gas emissions while creating a green energy product for re-sale. The facility is proposed to be constructed and operational in second half of 2021 and is expected to produce 230,000 gigajoules of renewable natural gas per year.

On November 5, 2019, voters in Bullhead City, a U.S. municipality where EPCOR owns a water utility system, passed Proposition 415, authorizing 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 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 will pursue all avenues to ensure we receive fair market value. On March 27, 2020, Bullhead City filed a suit seeking to expropriate the utility systems and seeking immediate possession of the utility systems. The timing of hearing for the suit will be determined at a later date and the final outcome of the suit remains uncertain. The financial impact of the water utility system operations is not considered material to EPCOR's operations or financial conditions.

EPCOR has been awarded franchises by two municipalities and one township in the Southern Bruce region of Ontario near Kincardine to use municipal rights-of-ways to build, own and operate a natural gas distribution system. EPCOR received all the requisite approvals and started construction of the gas distribution system in July 2019, through a design build contractor. It is expected that EPCOR's Southern Bruce natural gas distribution system will be connected to customers in the Municipality of Kincardine in the second half of 2020, with the remaining portion of the system to be substantially completed in 2021.

The Company is proposing to build a new solar farm on EPCOR owned land at its existing E.L. Smith Water Treatment Plant (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 approval from the Alberta Utilities Commission. The project also requires approval of a re-zoning application by the City. Edmonton City Council has asked for further consultation on the project with the Enoch Cree Nation and advice by the City Administration on whether the project would satisfy the "deemed essential" criteria applicable to developments on the City owned land. EPCOR anticipates receiving all final approvals in 2020, which will allow construction to start in 2020 or 2021.

QUARTERLY RESULTS

(Unaudited, $ millions) **Quarters ended**	**Revenues**	**Net income**
March 31, 2020	$ 487	$ 50
December 31, 2019	474	59
September 30, 2019	493	76
June 30, 2019	439	40
March 31, 2019	458	56
December 31, 2018	466	107
September 30, 2018	465	55
June 30, 2018	426	68

Events for the past eight quarters compared to the same quarters of the prior years that have significantly impacted net income included:

- March 31, 2020, first quarter results included unfavorable fair value adjustments related to financial electricity purchase contracts, lower transmission system access service charge net collections, higher depreciation expense, higher provision for expected credit losses from customers and lower work volumes and margins for street lighting, traffic signals and light rail transit electrical services for the City. This was partially offset by higher water and wastewater customer rates, customer growth and higher water consumption, higher distribution customer rates, higher EPSP margins, higher work volume and margins for commercial services work and lower income tax expense.
- December 31, 2019, fourth quarter results included lower work volumes related to street lighting, traffic signals and light rail transit electrical services for the City, lower water revenues due to a tax reform adjustment on customer bills, higher maintenance costs on water storage tanks in U.S. Operations, lower transmission system access service charge net collections, as well as, higher depreciation and income tax expenses. Partially offsetting these decreases were higher water and wastewater rates and customer growth, higher electricity distribution and transmission rates, higher EPSP margins, higher water volumes, higher commercial services revenues, lower unfavorable fair value adjustments related to financial electricity purchase contract and lower finance expenses.
- September 30, 2019, third quarter results included higher water and wastewater rates and customer growth, higher electricity distribution and transmission rates, higher EPSP margins, higher transmission system access

service charge net collections and lower unfavorable fair value adjustments related to financial electricity purchase contracts. Partially offsetting these increases were lower work volumes related to street lighting, traffic signals and light rail transit electrical services for the City, lower water consumption resulting from lower temperatures and higher precipitation for operations in the city of Edmonton, higher water treatment costs due to poor water quality of North Saskatchewan River and higher depreciation, finance and income tax expenses.

- June 30, 2019, second quarter results included lower water consumption due to low temperatures and high precipitation, lower Arizona water revenues due a tax reform adjustment credit on customer bills, lower work volumes related to street lighting, traffic signals and light rail transit electrical services for the City, higher depreciation expense due to 2018 asset additions and ROU asset additions in 2019, higher deferred income tax expense due to a decrease in the Alberta corporate income tax rate and unfavorable fair value adjustments related to financial electricity purchase contracts. Partially offsetting these decreases were higher EPSP margins, higher electricity distribution and transmission revenues due to higher rates, higher water and wastewater customer rates, higher Encor customer growth and higher transmission system access service charge net collections.
- March 31, 2019, first quarter results included lower EPSP margins, lower water consumption due to low temperatures and high precipitation, higher water treatment costs due to an early spring run-off in 2019, higher depreciation expense due to 2018 additions and ROU asset additions, and higher income tax expense. Partially offsetting these decreases were higher electricity distribution customer revenues due to higher rates, favorable fair value adjustments related to financial electricity purchase contracts, higher Encor customer growth and higher transmission system access service charge net collections.
- December 31, 2018, fourth quarter results included higher income tax recovery due to recognition of non-capital loss carry-forward balances, higher distribution revenues due to higher customer rates, higher EPSP margins, higher transmission system access service charge net collections, lower finance expense due to lower average debt outstanding and lower interest rates, and no losses on sale of surplus land. Partially offsetting these increases were lower water and wastewater revenues, unfavorable fair value adjustments related to financial electricity purchase contracts and higher depreciation expense due to asset additions for 2018.
- September 30, 2018, third quarter results included lower EPSP margins, higher unfavorable fair value adjustments related to financial electricity purchase contracts, lower transmission system access service charge net collections, higher finance expense due to the additional debt assumed upon the transfer of Drainage, as well as, higher depreciation expense due to the transfer of Drainage and asset additions for 2017 and 2018. Partially offsetting these decreases were three months of income from Drainage in 2018 compared to one month in 2017, higher water and wastewater revenues, higher electricity distribution customer rates and no losses on sale of surplus land in 2018.
- June 30, 2018, second quarter results included income from Drainage and Hughes, higher water and wastewater revenues, lower water treatment costs for operations in the city of Edmonton, higher electricity distribution customer rates, higher favorable fair value adjustments related to financial electricity purchase contracts. Partially offsetting these increases were lower EPSP margins, lower transmission system access service charge net collections, higher interest expense due to the additional debt assumed upon the transfer of Drainage, as well as, higher depreciation expense due to the transfer of Drainage and asset additions for 2017 and 2018.

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. 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 for the remainder of 2020.	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.

There have been no changes in the material forward-looking information previously disclosed in the 2019 annual MD&A, including related material factors or assumptions and risk factors except as disclosed in the Capital Requirements and Contractual Obligations section of this MD&A.

For further information on the Company’s forward looking information, refer to the 2019 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 and transmission system access service charge net collections	**EPSP** means Energy Price Setting Plan
AESO means Alberta Electric System Operator	**IFRS** means International Financial Reporting Standard(s)
COVID-19 means novel coronavirus	**Rio Verde** means Rio Verde Utilities Inc.
DBOMT means design, build, own, maintain and transfer	**RRO** means Regulated Rate Option
Drainage means drainage utility services within the city of Edmonton	**the City** means The City of Edmonton
E.L. Smith WTP means E.L. Smith Water Treatment Plant	

ADDITIONAL INFORMATION

Additional information relating to EPCOR including the Company's 2019 Annual Information Form is available on SEDAR at www.sedar.com.