# EPCOR UTILITIES INC.

# Management's Discussion and Analysis

For six months ended June 30, 2021

# EPCOR Utilities Inc.
# Interim Management's Discussion and Analysis
# June 30, 2021

This interim management's discussion and analysis (MD&A) dated July 29, 2021, should be read in conjunction with the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the six months ended June 30, 2021 and 2020, including significant accounting policies (note 3), business acquisition (note 4), loans and borrowings (note 6), financial instruments (note 7) and financial risk management (note 8), 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 July 29, 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 $86 million and $141 million for the three and six months ended June 30, 2021, respectively, compared with net income of $70 million and $120 million for the comparative periods in 2020, respectively. The increase of $16 million and $21 million for the three and six months ended June 30, 2021, respectively, 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, as well as, higher depreciation and finance expenses. In addition, for the six months ended June 30, 2021, net collections of U.S. natural gas procurement costs were also lower.

Adjusted EBITDA is a non-IFRS financial measure as described in Adjusted EBITDA and Net Income section on page 4 of this MD&A.

Adjusted EBITDA was $219 million and $413 million for the three and six months ended June 30, 2021, respectively, compared with $185 million and $358 million for the comparative periods in 2020, respectively. The increase of $34 million and $55 million for the three and six months ended June 30, 2021, respectively, was primarily due to higher rates and customer growth, higher water consumption due to hot, dry weather conditions, Adjusted EBITDA from the newly acquired Johnson Utility LLC (JU) operations and lower water treatment costs for operations in the city of Edmonton due to better water quality, as well as, lower provisions for expected credit losses from customers. These increases were partially offset by lower water consumption for commercial customers in the city of Edmonton due to COVID-19 related restrictions 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 six months ended June 30, 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. More recently, given a decline in cases of virus infection in Canada and the U.S. where the Company's operations are based, the local governments have started relaxing restrictions and announced multi-phase re-opening plans. In view of the recent developments, the Company is planning to reintegrate its employees back to their permanent work locations in a phased manner over coming months. The Company is closely monitoring the situation, including announcements from governments and regulators, to assess potential impact on the operations of the Company.

Despite working under challenging circumstances created by the pandemic, the Company continued providing undisrupted safe and reliable services to all its customers and has not experienced any significant impact on its operations. One of the economic impacts of the COVID-19 outbreak in 2020 was on our customers. In 2020, the Company, in collaboration with various governments, provided support to its customers during the difficult economic conditions with 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 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 has largely been offset by higher sales to residential and multi-residential customers. During the six months ended June 30, 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 six months ended June 30, 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 June 30, 2021 | Three months ended June 30, 2020 | Six months ended June 30, 2021 | Six months ended June 30, 2020 |
|---|---|---|---|---|
| Water Services segment | $ 187 | $ 170 | $ 357 | $ 330 |
| Distribution and Transmission segment | 113 | 120 | 229 | 237 |
| Energy Services segment | 119 | 85 | 264 | 219 |
| U.S. Operations segment | 81 | 74 | 145 | 131 |
| Other | 31 | 30 | 61 | 55 |
| Intersegment eliminations | (9) | (8) | (15) | (14) |
| **Revenues** | **$ 522** | **$ 471** | **$ 1,041** | **$ 958** |

Consolidated revenues were higher by $51 million and $83 million for the three and six months ended June 30, 2021, respectively, compared with the corresponding periods in 2020, primarily due to the net impact of the following:

- Water Services' segment revenues increased by $17 million and $27 million for the three and six months ended June 30, 2021, respectively, compared with the corresponding periods in 2020, primarily due to higher water and wastewater rates, customer growth, higher water consumption for residential and multi-residential customers due to hot, dry weather conditions in the city of Edmonton, as well as, higher commercial revenues from certain operating and maintenance contracts, partially offset by lower water consumption for commercial customers due to COVID-19 related restrictions.
- Distribution and Transmission segment revenues decreased by $7 million and $8 million for the three and six months ended June 30, 2021, respectively, compared with the corresponding periods in 2020, primarily due to lower transmission system access service charge net collections, partially offset by higher electricity distribution and transmission rates and higher commercial services revenues.
- Energy Services' segment revenues increased by $34 million and $45 million for the three and six months ended June 30, 2021, respectively, compared with the corresponding periods in 2020, primarily due to higher electricity prices, higher other revenues due to restrictions on collection of late payment charges and collection fees from customers in 2020 resulting from the utility bill payments deferral program and 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 periods in 2020, partially offset by lower electricity consumption due to lower site counts.
- U.S. Operations' segment revenues increased by $7 million and $14 million for the three and six months ended June 30, 2021, respectively, compared with the corresponding periods in 2020, 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, higher water consumption due to hot, dry weather conditions in Arizona and New Mexico as well as customer growth, partially offset by lower foreign exchange rates.

- Revenues in other operations increased by $1 million and $6 million for the three and six months ended June 30, 2021, respectively, compared with the corresponding periods in 2020, primarily due to higher construction revenues related to commercial construction contracts in Ontario and higher natural gas distribution revenues due to commencement of natural gas supply from Southern Bruce project, partially offset by lower construction revenues related to the electricity sub-station infrastructure for the Trans Mountain pipeline expansion project.

## 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 June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| **Adjusted EBITDA by Segment** | | | | |
| Water Services segment | $ 103 | $ 83 | $ 191 | $ 161 |
| Distribution and Transmission segment | 62 | 54 | 122 | 107 |
| Energy Services segment | 4 | 6 | 12 | 15 |
| U.S. Operations segment | 44 | 40 | 72 | 65 |
| Other | 6 | 2 | 16 | 10 |
| **Adjusted EBITDA** | **219** | **185** | **413** | **358** |
| Finance expenses | (38) | (33) | (74) | (67) |
| Income tax expense | (5) | (3) | (4) | (3) |
| Depreciation and amortization | (90) | (85) | (182) | (168) |
| Change in fair value of financial electricity purchase contracts | 9 | 3 | 14 | (3) |
| Transmission system access service charge net collections | (9) | 3 | (12) | 3 |
| Net collections of U.S. natural gas procurement costs | - | - | (14) | - |
| **Net income** | **$ 86** | **$ 70** | **$ 141** | **$ 120** |

Changes in each business segment's Adjusted EBITDA, for the three and six months ended June 30, 2021, respectively, compared with the corresponding periods in 2020, are described in Segment Results below. Explanations of the remaining variances in net income for the three and six months ended June 30, 2021, respectively, compared with the corresponding periods in 2020, are as follows:

- Higher finance expenses of $5 million and $7 million for the three and six months ended June 30, 2021, respectively, were primarily due to issuance of long-term debt in May 2020, as well as, higher short-term debt in 2021.
- Higher income tax expense of $2 million for the three months ended June 30, 2021, was primarily due to higher income subject to income tax in Canadian and U.S. operations.

  Higher income tax expense of $1 million for the six months ended June 30, 2021, was primarily due to higher income subject to income tax in Canadian operations, partially offset by lower income tax expense 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.
- Higher depreciation and amortization of $5 million and $14 million for the three and six months ended June 30, 2021, respectively, 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 $6 million for the three months ended June 30, 2021, were primarily due to higher favorable difference between electricity market forward prices and the contracted prices in 2021, compared to 2020.

  Favorable changes in the fair value of financial electricity purchase contracts of $17 million for the six months ended June 30, 2021, were primarily due to electricity market forward prices being higher than the contracted electricity prices in 2021, compared to contracted prices being higher than market forward prices in 2020.
- Lower transmission system access service charge net collections of $12 million and $15 million for the three and six months ended June 30, 2021, respectively, were primarily due to higher payments to the Alberta Electric System Operator (AESO) for system access and lower collections from customers, partially offset by lower electricity distribution flow though payments to Independent Electricity System Operator for operations in Ontario.
- Lower net collection of U.S. natural gas procurement costs of $14 million for the six months ended June 30, 2021, represents 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 initiated the process of seeking approval of new bylaws for these services. The Performance Based Regulation (PBR) applications were filed in February 2021. The Utility Committee of the City of Edmonton (the City) initiated the proceedings for review of PBR applications and there has been good progress on the PBR applications. It is expected that the City Council will complete the approval process in the third quarter of 2021. The new PBR for water services covers the five-year period effective from April 1, 2022 to March 31, 2027, while the new PBR for wastewater, sanitary and stormwater services covers a three-year period effective from April 1, 2022 to March 31, 2025.

| (Unaudited, $ millions, including intersegment transactions) | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Revenues | $ 187 | $ 170 | $ 357 | $ 330 |
| Expenses | 124 | 126 | 247 | 246 |
| **Operating income** | **63** | **44** | **110** | **84** |
| Exclude depreciation and amortization | 40 | 39 | 81 | 77 |
| **Adjusted EBITDA** | **$ 103** | **$ 83** | **$ 191** | **$ 161** |

Water Services' Adjusted EBITDA increased by $20 million and $30 million for the three and six months ended June 30, 2021, respectively, compared with the corresponding periods in 2020, primarily due to higher water and wastewater rates, customer growth, higher water consumption for residential and multi-residential customers due to hot, dry weather conditions in the city of Edmonton, lower water treatment costs for operations in the city of Edmonton due to better water quality, lower provision for expected credit losses from customers mainly due to the customer payment deferral program in 2020 with no such program in 2021 and higher margin from the commercial operations, partially offset by lower water consumption for commercial customers due to COVID-19 related restrictions.

## 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. On June 18, 2021, the AUC issued its decision directing that the 2023 rates will be set through a hybrid cost of service approach in which the extent of expenditure examination will be guided by the nature, size or complexity of the associated costs. EPCOR has been directed to file its application by January 17, 2022.

In addition, 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. On June 30, 2021, the AUC issued its decision that there will be a 3rd performance based rate term commencing January 1, 2024. The 2023 Distribution cost of service rates will be the basis for the 3rd performance based rate term.

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 Utilities Consumer Advocate also filed an application with the AUC for review and variance of the 2022 GCOC decision. The review of these applications is scheduled in the third quarter of 2021.

| (Unaudited, $ millions, including intersegment transactions) | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Revenues | $ 113 | $ 120 | $ 229 | $ 237 |
| Expenses | 85 | 87 | 169 | 174 |
| **Operating income** | **28** | **33** | **60** | **63** |
| Exclude depreciation and amortization | 24 | 24 | 49 | 47 |
| Exclude transmission system access service charge net collections | 10 | (3) | 13 | (3) |
| **Adjusted EBITDA** | **$ 62** | **$ 54** | **$ 122** | **$ 107** |

Distribution and Transmission’s Adjusted EBITDA increased by $8 million and $15 million for the three and six months ended June 30, 2021, respectively, compared with the corresponding periods in 2020, primarily due to higher electricity distribution and transmission rates, lower staff costs due to higher transfers to capital projects and higher commercial services work volumes and margin rates, partially offset by higher provision for bad debt expense.

## 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.

The 2018-2021 EPSP was implemented effective April 1, 2019. During the period, EPCOR filed an application with the AUC for the 2021-2024 EPSP, for which a decision is expected in the second half of 2021.

An application was filed with the AUC on July 16, 2021, for recovery of the lost revenues and bad debts incurred as a direct result of the Utility Payment Deferral Program mandated by the Government of Alberta in 2020 in response to the COVID-19 pandemic. A decision on this application is expected in late 2021.

The 2021-2022 RRO Non-Energy rate application is expected to be filed in the third quarter of 2021, with a decision expected in late 2021 or early 2022. Current rates are based on the prior 2018-2020 Non-Energy decision and the application for interim rates will also be filed with the submission of the 2021-2022 application.

| (Unaudited, $ millions, including intersegment transactions) | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Revenues | $ 119 | $ 85 | $ 264 | $ 219 |
| Expenses | 108 | 78 | 242 | 211 |
| **Operating income** | **11** | **7** | **22** | **8** |
| Exclude depreciation and amortization | 2 | 2 | 4 | 4 |
| Exclude change in fair value of financial electricity purchase contracts | (9) | (3) | (14) | 3 |
| **Adjusted EBITDA** | **$ 4** | **$ 6** | **$ 12** | **$ 15** |

Energy Services' Adjusted EBITDA decreased by $2 million and $3 million for the three and six months ended June 30, 2021, respectively, compared with the corresponding periods 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 and higher other revenues due to the utility bill payment deferral program in 2020 with no such program in 2021.

## 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 approximately 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 monthly 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 (RCT), through its notice dated February 13, 2021, restricted the natural gas utility companies from immediately passing on the extraordinary natural gas costs to the customers. Subsequently, the Texas legislature approved a house bill HB1520 which was designed to repay the natural gas utility companies for the extraordinary cost of the natural gas procured (after ensuring reasonableness of the costs), and was enacted into law on June 16, 2021.

As per the requirements of the new law, the Company has filed an application with the RCT for repayment of extraordinary procurement costs for natural gas, which is expected to be approved in late 2021. The natural gas procurement costs are considered flow through costs to customers in Texas and normally any shortfall in the recovery of procurements costs will be recovered by utility companies through regulatory mechanism in future periods. However for the six months period ended June 30, 2021, this event has resulted in an 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 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 June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Revenues | $ 81 | $ 74 | $ 145 | $ 131 |
| Expenses | 53 | 49 | 119 | 95 |
| **Operating income** | **28** | **25** | **26** | **36** |
| Exclude depreciation and amortization | 16 | 15 | 32 | 29 |
| Exclude net collections of U.S. natural gas procurement costs | - | - | 14 | - |
| **Adjusted EBITDA** | **$ 44** | **$ 40** | **$ 72** | **$ 65** |

U.S. Operations' Adjusted EBITDA increased by $4 million and $7 million for the three and six months ended June 30, 2021, respectively, compared with the corresponding periods 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 hot, dry weather conditions in Arizona and New Mexico, partially offset by higher legal expenses as a result of condemnation proceedings related to Bullhead City and lower foreign exchange rates. In addition, for the six months ended June 30, 2021, other administrative expenses were also higher due to closing costs for the acquisition of JU operations.

## Capital Spending and Investment

| (Unaudited, $ millions)<br>**Six months ended June 30,** | **2021** | **2020** |
|---|---|---|
| Water Services segment | $ 173 | $ 149 |
| Distribution and Transmission segment | 111 | 102 |
| Energy Services | 1 | - |
| U.S. Operations segment | 42 | 60 |
| Other | 18 | 29 |
| **Total capital spending** | **345** | **340** |
| JU operations acquisition (net of acquired cash) | 126 | - |
| Payment of consideration for Vista Ridge | - | 12 |
| **Total acquisition and investment** | **126** | **12** |
| **Total capital spending and investment** | **$ 471** | **$ 352** |

Total capital spending and investment increased by $119 million for the six months ended June 30, 2021, compared with the corresponding period in 2020. Explanations of the significant variances for the six months ended June 30, 2021, compared with the corresponding period in 2020, are as follows:

### Growth Projects

- Higher Distribution and Transmission segment spending on the AESO direct assigned electricity transmission upgrade project.
- Lower Distribution and Transmission segment spending on the 15kV and 25kV circuit additions project which was substantially complete in 2020.
- Lower U.S. Operations segment spending on the sewer main extension and construction of wastewater treatment plant to accommodate new industrial and commercial customers due to completion of the sewer main extension in 2020.
- Lower spending in Other, on the Southern Bruce Power Expansion project in Ontario due to phasing of construction.

**Sustaining and Lifecycle Projects**

- Higher Water Services segment spending on the sewer system relocation project due to upcoming construction of West Valley light rail transit in the city of Edmonton, partially offset by lower spending in Distribution and Transmission segment on the electricity system relocation project related to the West Valley light rail expansion, as a significant portion of the project was completed in 2020.
- Lower Distribution and Transmission segment spending on the electricity transmission capacity increase project, which was substantially complete in 2020.
- Lower spending on the Customer Information System Replacement project (a new customer billing system for various EPCOR business units) due to substantial completion of the project in 2020.
- Lower Water Services segment spending on sewer trunk rehabilitation projects due to completion of certain projects in 2020.
- Lower Water Services Segment spending on accelerated water main renewal program projects.

**Performance Improvement Projects**

- Higher Distribution and Transmission segment spending on the switchgear replacement project which will maintain the reliability of the electricity supply and enhance the grid capacity.
- Higher Water Services segment spending on the sewer separation project which will enhance environmental quality of wastewater discharge.

**Business Development Projects**

- Acquisition of JU operations in 2021 compared to no acquisition in comparative period.
- Higher Water Services segment spending on E.L. Smith solar farm projects due to commencement of construction.
- Settlement of remaining payment related to the Vista Ridge project in 2020, compared to no payments in the current period.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – ASSETS

| (Unaudited, $ millions) | June 30, 2021 | December 31, 2020 | Increase (decrease) | Explanation of material changes |
|---|---|---|---|---|
| Cash and cash equivalents | $ 165 | $ 8 | $ 157 | Refer to Consolidated Statements of Cash Flows section. |
| Trade and other Receivables | 483 | 488 | (5) | Decrease primarily due to reduction in receivables from the City relating to construction work and lower accruals related to natural gas sales, partially offset by higher accrued construction revenues and higher accruals for water sales revenues. |
| Inventories | 19 | 17 | 2 | Increase primarily due to acquisition of JU assets ($1 million). |
| Other financial assets | 207 | 189 | 18 | 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 | 94 | 97 | (3) | Decrease is primarily due to utilization of deferred tax assets against income subject to income tax for 2021. |
| Property, plant and equipment | 11,298 | 10,913 | 385 | 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 | 554 | 468 | 86 | 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) | June 30, 2021 | December 31, 2020 | Increase (decrease) | Explanation of material changes |
|---|---|---|---|---|
| Trade and other payables | $ 440 | $ 426 | $ 14 | Increase primarily due to increase in payables to the AESO for electricity costs and Fortis Alberta Inc. for distribution and transmission costs, assumption of JU liabilities and higher franchise fees payable to the City, partially offset by lower capital accruals and holdbacks, lower accruals for construction costs and lower income tax payable. |
| Loans and borrowings (including current portion) | 3,989 | 3,572 | 417 | Increase primarily due to issuance of long-term debt ($500 million), issuance of long-term unsecured promissory note on acquisition of JU operations ($6 million), partially offset by net repayment of short-term debt, foreign currency valuation adjustments on U.S. dollar denominated debt and principal repayments of long-term debt. |
| Deferred revenue (including current portion) | 4,091 | 3,992 | 99 | 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) | 211 | 142 | 69 | Increase primarily due to assumption of JU liabilities ($87 million), partially offset by lower employee benefit accruals and foreign currency valuation adjustments. |
| Other liabilities (including current portion) | 237 | 214 | 23 | 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 | 34 | 43 | (9) | Decrease is primarily due to recognition of timing differences for US operations and foreign currency valuation adjustments. |
| Equity | 3,818 | 3,791 | 27 | |

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, $ millions)

**Cash inflows (outflows)**

| **Three months ended June 30,** | **2021** | **2020** | **Increase (decrease)** | **Explanation** |
|---|---|---|---|---|
| Operating | $ 150 | $ 142 | $ 8 | Higher inflows primarily due to higher funds from the change in non-cash operating working capital, partially offset by lower contributions received from customers. |
| Investing | (182) | (233) | 51 | Lower outflows primarily due to lower advances on other financial assets related to the Trans Mountain pipeline expansion project, lower outflow of funds related to the change in non-cash investing working capital, payment of the outstanding consideration for Vista Ridge in 2020, partially offset by higher capital expenditures. |
| Financing | 175 | 272 | (97) | Lower inflows primarily due to higher net repayment of short-term debt, partially offset by higher proceeds from issuance of long-term debt in 2021 ($500 million) compared to issuance of long-term debt of in 2020 ($400 million). |
| Opening cash and cash equivalents | 22 | 37 | (15) | |
| Closing cash and cash equivalents | $ 165 | $ 218 | $ (53) | |

| (Unaudited, $ millions)<br>**Cash inflows (outflows)** | | | | |
|---|---|---|---|---|
| **Six months ended June 30,** | **2021** | **2020** | **Increase (decrease)** | **Explanation** |
| Operating | $ 331 | $ 295 | $ 36 | Higher inflows primarily due to higher funds from the change in non-cash operating working capital, partially offset by lower contributions received from customers. |
| Investing | (508) | (421) | (87) | Higher outflows primarily due to higher capital expenditures and acquisition of JU operations net of acquired cash ($126 million), partially offset by lower advances on the Trans Mountain pipeline expansion project, lower outflow of funds related to the change in non-cash investing working capital, payment of the outstanding consideration for Vista Ridge in 2020 and lower Drainage transition cost compensation payment. |
| Financing | 334 | 311 | 23 | Higher inflows primarily due to higher proceeds from issuance of long-term debt in 2021 ($500 million) compared to issuance of long-term debt of in 2020 ($400 million), partially offset by net repayment of short-term debt in 2021 compared to net issuance of short-term debt in 2020. |
| Opening cash and cash equivalents | 8 | 33 | (25) | |
| Closing cash and cash equivalents | $ 165 | $ 218 | $ (53) | |

## 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 six months ended June 30, 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)<br>**June 30, 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 | $ - | $ 94 | $ 706 |
| **Uncommitted** | | | | | |
| Bank credit facilities[2] | No expiry | 200 | 119 | - | 81 |
| Bank credit facility | No expiry | 25 | - | - | 25 |
| Bank credit facility | November 2021 | 12 | - | - | 12 |
| Total uncommitted | | 237 | 119 | - | 118 |
| **Total credit facilities** | | **$ 1,037** | **$ 119** | **$ 94** | **$ 824** |

| ($ millions)<br>**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 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 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 June 30, 2021, commercial paper totaling $94 million was issued and outstanding (December 31, 2020 - $154 million).

2 The Company's uncommitted bank credit facilities consist of five bilateral credit facilities (totaling $200 million) which are restricted to letters of credit. At June 30, 2021, letters of credit totaling $119 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 June 30, 2021, the available amount remaining under this base shelf prospectus was $1.10 billion (December 31, 2020 - $1.60 billion). The Canadian base shelf prospectus expires in December 2021.

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

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 September 2051, the Company will physically swap the original notional amounts at the same exchange rate.

The change in fair value of ($7) million of the effective portion of the hedges of net investment in foreign operations for the period ended June 30, 2021, was recorded in other comprehensive income. There was a negligible ineffective portion of the hedges of net investment in foreign operations identified during the period, which was recognized in net income within other administrative expenses.

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

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

For further information on the Company's financial instruments, refer to the condensed consolidated interim financial statements for the six months ended June 30, 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 the 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 reduce our greenhouse gas emissions by reducing reliance on fossil fuel.

On November 5, 2019, voters in Bullhead City, a U.S. municipality where EPCOR owns water utility systems, 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. On May 24, 2021, the judge in the suit ruled that the Bullhead City must post a bond in the amount of $US80 million in order to Quick Take possession of the system and begin operating these as municipal utility systems. The ruling did not set the final purchase price, which will be determined by a jury trial scheduled to commence in January 2022. On July 20, 2021, the Bullhead City Council voted to authorize the issuance of bonds and expects to complete the bond issuances by late August or early September. The financial impact of these 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 expect to complete the construction required to trigger the 20-year maintenance period by the fourth quarter of 2021.

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 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 June 30, 2021, 167km 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 with construction in several smaller communities to be completed in 2022.

On June 9, 2021, the Province of Ontario announced that EPCOR was selected for $20 million funding from the Ontario Natural Gas Expansion Program for a proposed EPCOR project to extend natural gas service to customers in the Municipality of Brockton. The Company is in the process of obtaining necessary approvals for this project.

The Company is developing a 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 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 (ERVCC), 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 judicial review application is expected to be heard in the fourth quarter of 2021. EPCOR commenced construction on the project in the second quarter of 2021.

## QUARTERLY RESULTS

| ($ millions) | June 30, 2021 | March 31, 2021 | December 31, 2020 | September 30, 2020 |
|---|---|---|---|---|
| Revenues | $ 522 | $ 519 | $ 512 | $ 518 |
| Expenses | 393 | 429 | 408 | 383 |
| **Operating income** | **129** | **90** | **104** | **135** |
| Finance expenses | (38) | (36) | (35) | (35) |
| Income tax recovery (expense) | (5) | 1 | (5) | (8) |
| **Net income**[1] | **$ 86** | **$ 55** | **$ 64** | **$ 92** |

| ($ millions) | June 30, 2020 | March 31, 2020 | December 31, 2019 | September 30, 2019 |
|---|---|---|---|---|
| Revenues | $ 471 | $ 487 | $ 474 | $ 493 |
| Expenses | 365 | 403 | 385 | 376 |
| **Operating income** | **106** | **84** | **89** | **117** |
| Finance expenses | (33) | (34) | (27) | (34) |
| Income tax expense | (3) | - | (3) | (7) |
| **Net income**[1] | **$ 70** | **$ 50** | **$ 59** | **$ 76** |

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.

## 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, is 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 of the 2020 Annual MD&A.

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 collections of U.S. natural gas procurement costs | **IFRS** means International Financial Reporting Standard(s) |
| **AESO** means Alberta Electric System Operator | **JU** means Johnson Utilities LLC |
| **AUC** means the Alberta Utilities Commission | **JU Operations** mean water treatment and distribution and wastewater collection and treatment assets acquired from JU |
| **CCIRS** means cross-currency interest rate swap | **PBR** means Performance Based Regulation |
| **COVID-19** means novel coronavirus | **RCT** means Railroad Commission of Texas |
| **DBOMT** means design, build, own, maintain and transfer | **ROE** means return on equity |
| **Drainage** means drainage utility services within the city of Edmonton | **RRO** means Regulated Rate Option |
| **E.L. Smith WTP** means E.L. Smith Water Treatment Plant | **S&P** means Standard & Poor's Ratings Services |
| **EPSP** means Energy Price Setting Plan | **the City** means The City of Edmonton |
| **ERVCC** means Edmonton River Valley Conservation Coalition | **Winter storm** means winter storm Uri in Texas |
| **GCOC** means Generic Cost of Capital | |

## ADDITIONAL INFORMATION

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