EPCOR Utilities Inc.
Interim Management's Discussion and Analysis
March 31, 2018

This management's discussion and analysis (MD&A) dated May 2, 2018, should be read in conjunction with the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the three months ended March 31, 2018, and 2017, including significant accounting policies (note 3), revenue (note 4), financial instruments (note 5), the consolidated financial statements and MD&A for the years ended December 31, 2017 and 2016, including significant accounting policies (note 3), business transfer and acquisitions (note 5), changes in liabilities arising from financing activities (note 27), related party balances and transactions (note 28) and financial instruments (note 29), 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. 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 May 2, 2018.

OVERVIEW

The Corporation, through 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 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 and commercial 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 reporting segments. The Company operates in Canada and the Southwestern U.S.

Net income was $65 million for the three months ended March 31, 2018, compared with net income of $38 million for the comparative period in 2017. The increase of $27 million in the quarter was primarily due to higher Adjusted EBITDA in 2018, as described below, unfavorable fair value adjustments related to financial electricity purchase contracts in 2017 and higher transmission system access service charge net collections in 2018, partially offset by higher finance and depreciation expenses in 2018.

Adjusted EBITDA was $164 million for the three months ended March 31, 2018, compared with $119 million for the comparative period in 2017. The increase of $45 million in the quarter was primarily due to Adjusted EBITDA from Drainage which was transferred to the Company in September 2017, higher water and wastewater revenues, lower water treatment costs for operations in the city of Edmonton, Encor customer growth and Adjusted EBITDA from the acquisition of Hughes in June 2017, partially offset by lower Energy Price Setting Plan (EPSP) margins. Adjusted EBITDA is a non-IFRS financial measure as described in Adjusted EBITDA and Net Income section on page 4 of this MD&A.

SIGNIFICANT SUBSEQUENT EVENTS

Southern Bruce Region, Ontario Franchises

On April 12, 2018 the Ontario Energy Board (OEB) awarded EPCOR the certificates of public convenience and necessity to construct works and natural gas supply in the franchise areas previously awarded to the Company. For further information on this project, see the Outlook section.

Changes to the Board of Directors

On May 2, 2018, Hugh J. Bolton retired as Chair of the Board of Directors after leading oversight of the Company since 2000, and Janice G. Rennie was appointed Chair of the Board of Directors.

On February 16, 2018, Alan J. Krause was appointed to the Board of Directors of the Company.

SIGNIFICANT ACCOUNTING POLICY CHANGES

Effective January 1, 2018, the Company implemented IFRS 15 – *Revenue from Customer Contracts (IFRS 15)* and IFRS 9 – *Financial Instruments (IFRS 9).* The implementation of the new IFRS standards resulted in changes in the accounting policies for revenue recognition and financial instruments. For a detailed discussion of the impacts of these new standards on EPCOR's accounting policies refer to note 3 of the condensed consolidated interim financial statements for the period ended March 31, 2018. The implementation of the new IFRS standards did not result in any significant impact on revenue recognition or net income; however, there have been significant changes in the presentation of revenue for the Distribution and Transmission and Energy Services segments as described below.

Prior to implementation of IFRS 15, the Distribution and Transmission segment presented provincial transmission system access service charge collections as revenue with all related costs being presented as expense under energy purchases and system access fees. On implementation of IFRS 15, the Company determined that it is acting as an agent for the collection of provincial transmission system access service charge on behalf of the Alberta Energy System Operator (AESO). Effective January 1, 2018, the transmission system access service charge collections are being presented net of related costs paid to the AESO. The change has resulted in lower revenues and lower operating expenses being presented for the Distribution and Transmission segment.

Prior to implementation of IFRS 15, the Energy Services segment presented distribution and transmission charges charged by distribution companies, as revenue with all related cost being presented as expense under energy purchases and system access fees. On implementation of IFRS 15, the Company determined that it is acting as an agent for the collection of distribution and transmission charges on behalf of the distribution companies. Effective January 1, 2018, the distribution and transmission charges are being presented net of related cost paid to distribution companies. The change has resulted in lower revenues and lower operating expenses being presented for the Energy Services segment.

The Company used the modified retrospective approach to implement IFRS 15 and as a result, comparative information has not been restated and continues to be reported under previous accounting standards. In the Consolidated Results of Operations section below, the impact of any changes for the three months ended March 31, 2018 due to the implementation of IFRS 15, as compared to the corresponding period in 2017, have been presented and discussed.

CONSOLIDATED RESULTS OF OPERATIONS

Revenues

(Unaudited, $ millions) **Three months ended March 31,**		**2018**		**2017**
Water Services segment revenues	$	149	$	90
Distribution and Transmission segment revenues		108		159
Energy Services segment revenues		91		210
U.S. Operations segment revenues		54		46
Other revenues		5		-
Intersegment eliminations		(6)		(50)
Revenues	**$**	**401**	**$**	**455**

Consolidated revenues were lower by $54 million for the three months ended March 31, 2018, compared with the corresponding period in 2017 primarily due to the net impact of the following:

- Water Services' segment revenues increased by $59 million primarily due to revenues from the Drainage operations which were transferred to the Company in September 2017, as well as higher water and wastewater revenues due to customer growth, higher customer rates and higher sales volumes.
- Distribution and Transmission segment revenues decreased by $51 million primarily due to presenting transmission system access service charge collections net of related costs due to the implementation of IFRS 15 ($67 million).
- Energy Services' segment revenues decreased by $119 million primarily due to presenting distribution and transmission revenues net of related costs due to the implementation of IFRS 15 ($160 million). These decreases were partially offset by higher customer growth, as well as higher electricity prices and sales volumes.
- U.S. Operations' segment revenues increased by $8 million primarily due to natural gas sales from Hughes which was acquired in June 2017, as well as higher wastewater rates and water sales volumes.
- Inter-segment revenue eliminations decreased by $44 million primarily due to no longer requiring certain elimination entries related to distribution and transmission revenue and expenses as a result of the implementation of IFRS 15 ($53 million).

Adjusted EBITDA and Net Income

During the quarter, we changed our non-IFRS financial measure from “income from core operations”, which was defined as operating results before results with respect to our previous investment in Capital Power and changes in the fair value of derivative financial instruments, to “Adjusted EBITDA”.

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 (Adjusted EBITDA) to discuss operating results for the Company’s lines of business. We believe that Adjusted EBITDA provides an indicator of the Company’s ongoing ability to fund capital expenditures and to incur and service debt, 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,**		**2018**		**2017**
Water Services segment Adjusted EBITDA	$	73	$	35
Distribution and Transmission segment Adjusted EBITDA		46		46
Energy Services segment Adjusted EBITDA		13		11
U.S. Operations segment Adjusted EBITDA		27		22
Other Adjusted EBITDA		5		5
Adjusted EBITDA		**164**		**119**
Finance expenses		(32)		(27)
Income tax recovery		2		2
Depreciation and amortization		(71)		(48)
Change in fair value of contracts-for-difference		-		(1)
Transmission system access service charge net collections		2		(7)
Net income	**$**	**65**	**$**	**38**

Changes in each business segment’s Adjusted EBITDA, compared with the corresponding period in 2017, are described in Segment Results below. Explanations of the remaining variances in net income for the three months ended March 31, 2018, are as follows:

- Higher financing expenses for the three months ended March 31, 2018, compared with the corresponding period in 2017, primarily due to higher interest expense on new debt relating to the transfer of Drainage. This increase was partially offset by lower interest expense related to lower interest rates from refinancing $400 million of public debentures.
- Higher depreciation and amortization was primarily due to higher depreciation expense resulting from the transfer of Drainage in September 2017 and 2017 asset additions.
- Unfavorable changes in the fair value of contracts-for-differences in 2017, with no corresponding amount in 2018.
- Higher transmission system access service charge net collections for the three months ended March 31, 2018, compared to the corresponding period in 2017.

SEGMENT RESULTS

In the third quarter of 2017, the Company reassessed its reportable business segments due to the addition of Drainage. Drainage has been aggregated with the existing Canadian water operations under the Water Services segment, while U.S. operations are now being reported as a separate business segment. As a result of reassessment of reportable business segments, the segment information for the comparative period has been revised to correspond with the new reportable business segments.

Water Services

Water Services is primarily involved in the treatment, transmission, distribution and sale of water, the collection and conveyance of wastewater 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,**		**2018**		**2017**
Revenues	$	149	$	90
Expenses		109		70
Operating income		**40**		**20**
Exclude depreciation and amortization		33		15
Adjusted EBITDA	**$**	**73**	**$**	**35**

Water Services' Adjusted EBITDA increased by $38 million for the three months ended March 31, 2018, compared with the corresponding period in 2017, primarily due to Adjusted EBITDA from the Drainage operations which were transferred in September 2017, as well as higher water and wastewater revenues due to customer growth, higher customer rates and higher sales volumes. In addition, there were lower water treatment costs due to a later spring run-off for operations in the city of Edmonton in 2018.

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 construction and maintenance of street lighting, traffic signal and light rail transit electrical infrastructure to the City of Edmonton (the City) and other municipal and commercial customers in Alberta.

(Unaudited, $ millions, including intersegment transactions) **Three months ended March 31,**		**2018**		**2017**
Revenues	$	108	$	159
Expenses		82		139
Operating income		**26**		**20**
Exclude depreciation and amortization		22		19
Exclude transmission system access service charge net collections		(2)		7
Adjusted EBITDA	**$**	**46**	**$**	**46**

As a result of the implementation of IFRS 15, the Distribution and Transmission segment is presenting transmission system access service charge collections net of related costs, as noted in the Significant Accounting Policy Changes section above. The change resulted in a reduction of $67 million in the 2018 Revenues and Expenses presented in the table above.

Energy Services

Energy Services is primarily involved in the provision of the RRO electricity service and default supply electricity services to residential, small commercial and agricultural 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,**		**2018**		**2017**
Revenues	$	91	$	210
Expenses		80		201
Operating income		**11**		**9**
Exclude depreciation and amortization		2		1
Exclude change in fair value of contracts-for-differences		-		1
Adjusted EBITDA	**$**	**13**	**$**	**11**

As a result of the implementation of IFRS 15, the Energy Services segment is presenting distribution and transmission charge collections net of related costs, as noted in the Significant Accounting Policy Changes section above. The change resulted in a reduction of $160 million in the 2018 Revenues and Expenses presented in the table above.

Energy Services' Adjusted EBITDA, increased by $2 million for the three months ended March 31, 2018, compared with the corresponding period in 2017, primarily due to growth in Encor customers and lower administrative expenses, partially offset by lower EPSP margins.

U.S. Operations

U.S. Operations is primarily involved in the treatment, transmission, distribution and sale of water, and the collection and treatment of wastewater within the states of Arizona, New Mexico and Texas. In addition, this segment also provides natural gas distribution and transmission services in Texas, U.S. 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,**		**2018**		**2017**
Revenues	$	54	$	46
Expenses		38		34
Operating income		**16**		**12**
Exclude depreciation and amortization		11		10
Adjusted EBITDA	**$**	**27**	**$**	**22**

U.S. Operations' Adjusted EBITDA increased by $5 million for the three months ended March 31, 2018, compared with the corresponding period in 2017, primarily due to higher wastewater customer rates, higher water sales volumes in the higher tiered rates blocks and Adjusted EBITDA from Hughes acquired in June 2017.

Capital Spending

(Unaudited, $ millions) **Three months ended March 31,**		**2018**		**2017**
Water Services segment	$	49	$	16
Distribution and Transmission segment		37		64
Energy Services segment		-		1
U.S. Operations segment		13		16
Other		2		1
Total capital spending	**$**	**101**	**$**	**98**

Total capital spending was higher for the three months ended March 31, 2018, compared with the corresponding period in 2017, primarily due to increased spending in the Water Services segment as a result of Drainage capital spending on various projects, the Rossdale Clarifier Upgrade project and various Gold Bar projects. This was partially offset by decreased spending in the Water Services segment for the Hydrovac Sanitary Grit Treatment Facility as the majority of the construction was completed in 2017. The Distribution and Transmission segment had lower spending on the Advanced Meter Infrastructure project and the Work Centre Redevelopment project which were substantially completed in 2017, and on various growth and lifecycle projects. This was partially offset by increased spending on the New Underground and Aerial Line Reconfigurations project. The U.S. Operations segment had lower spending on various lifecycle projects and lower foreign exchange on capital spending, which was partially offset by increased spending on various growth projects.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – ASSETS

(Unaudited, $ millions)	**March 31, 2018**	**December 31, 2017**	**Increase (decrease)**	**Explanation of material changes**
Cash and cash equivalents	$ 28	$ 338	$ (310)	Decrease primarily due to repayment of long-term debt ($404 million), capital expenditures and dividends paid, partially offset by funds from operations and payments received on long-term receivable from Capital Power ($163 million).
Trade and other receivables	390	552	(162)	Decrease primarily due to payments received on long-term loan receivable from Capital Power ($163 million).
Inventories	17	17	-	
Other financial assets	91	91	-	
Deferred tax assets	90	90	-	
Property, plant and equipment	9,071	8,977	94	Increase primarily due to capital expenditures and favorable foreign currency valuation adjustments, partially offset by depreciation expense and asset disposals and retirements.
Intangible assets and goodwill	296	293	3	Increase primarily due to favorable foreign currency valuation adjustments and capital expenditures, partially offset by amortization.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – LIABILITIES AND EQUITY

(Unaudited, $ millions)	March 31, 2018	December 31, 2017	Increase (decrease)	Explanation of material changes
Trade and other payables	$ 340	$ 384	$ (44)	Decrease primarily due to lower transmission system access service charge payable, lower holdbacks payable and lower capital and other accruals, partially offset by increase in accrued interest on long-term debt.
Loans and borrowings (including current portion)	2,470	2,866	(396)	Decrease primarily due to repayment of long-term debt ($404 million), partially offset by unfavorable foreign currency valuation adjustments on U.S. dollar denominated debt.
Deferred revenue (including current portion)	3,321	3,281	40	Increase primarily due to customer and developer contributions received and unfavorable foreign currency valuation adjustments, partially offset by deferred revenue recognized.
Provisions (including current portion)	123	116	7	Increase primarily due to higher employee benefits accruals.
Other liabilities (including current portion)	127	146	(19)	Decrease primarily due to Drainage transition cost compensation payment, partially offset by unfavorable foreign currency valuation adjustments.
Deferred tax liabilities	39	39	-	
Equity attributable to the Owner of the Company	3,563	3,526	37	Increase due to comprehensive income for the period, partially offset by dividends paid.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, $ millions)
Cash inflows (outflows)

Three months ended March 31,	2018	2017	Increase (decrease)	Explanation
Operating	$ 109	$ 82	$ 27	Increase primarily due to higher funds from operations, including funds from Drainage operations transferred in September 2017, partially offset by lower funds from the change in non-cash operating working capital.
Investing	28	(91)	119	Increase primarily due to payments received on long-term loans receivable from Capital Power and no advances related to construction financing in 2018. The increase was partially offset by payment of Drainage transition cost compensation, no proceeds from the sale of Capital Power shares in 2018 and higher capital expenditures.
Financing	(447)	(39)	(408)	Decrease primarily due to higher repayment of long-term debt and higher dividend payments to the City in 2018.
Opening cash and cash equivalents	338	191	147	
Closing cash and cash equivalents	$ 28	$ 143	$ (115)	

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 for the remainder of 2018 with a combination of cash on hand, cash flow from operating activities, the issuance of commercial paper, public or private debt offerings and availability of committed credit facility described below under Financing.

Cash flows from operating activities would be impaired by events that cause severe damage to our facilities and would require unplanned cash outlays for system restoration repairs. Under those circumstances, more reliance would be placed on our credit facilities for working capital requirements until a regulatory approved recovery mechanism or insurance proceeds are put in place.

Capital Requirements and Contractual Obligations

During the first quarter of 2018 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 2017 annual MD&A.

Financing

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

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

(Unaudited, $ millions) **March 31, 2018**	**Expiry**	**Total facilities**	**Letters of credit and other facility draws**	**Net amounts available**
Committed				
Syndicated bank credit facility[1]	November 2022	$ 600	$ -	$ 600
Uncommitted				
Bank credit facilities[2]	No expiry	200	74	126
Bank credit facility	No expiry	25	-	25
Total uncommitted		225	74	151
Total credit facilities		**$ 825**	**$ 74**	**$ 751**

(Unaudited, $ millions) **December 31, 2017**	**Expiry**	**Total facilities**	**Letters of credit and other facility draws**	**Net amounts available**
Committed				
Syndicated bank credit facility[1]	November 2022	$ 600	$ -	$ 600
Uncommitted				
Bank credit facilities[2]	No expiry	200	66	134
Bank credit facility	No expiry	25	-	25
Total uncommitted		225	66	159
Total credit facilities		**$ 825**	**$ 66**	**$ 759**

1 The Company's $600 million committed syndicated bank credit facility is available and primarily used for short-term borrowing and 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. No commercial paper was issued and outstanding at March 31, 2018 and December 31, 2017.

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, 2018, letters of credit totaling $74 million have been issued and outstanding (December 31, 2017 - $66 million) to meet the credit requirements of electricity market participants and to meet conditions of certain service agreements.

Amounts borrowed, if any, under these credit facilities which are not payable within one year are classified as non-current loans and borrowings.

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, 2018, the available amount remaining under this base shelf prospectus was $2 billion (December 31, 2017 - $2 billion). The Canadian base shelf prospectus expires in December 2019.

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 reduce capital expenditures and operating costs.

Credit Rating

In September 2017, DBRS confirmed its A (low) / stable senior unsecured debt and R-1 (low) / stable short-term debt ratings for EPCOR. In October 2017, Standard & Poor's Ratings Services confirmed its A- / stable long-term corporate credit and senior unsecured debt ratings for EPCOR.

Financial Covenants

EPCOR is currently in compliance with all of its financial covenants in relation to its syndicated 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.

For further information on the Company's contractual obligations, refer to the 2017 annual MD&A.

RISK FACTORS AND RISK MANAGEMENT

This section should be read in conjunction with the Risk Management section of the 2017 annual MD&A. EPCOR believes that risk management is a key component of the Company's culture and we have put into place cost-effective risk management practices. At the same time, EPCOR views risk management as 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 proposed transactions to consider their impact on the risk profile of the Company. There have been no material changes to the risk profile or risk management practices of EPCOR as described in the 2017 annual MD&A that have affected the condensed consolidated interim financial statements for the three months ended March 31, 2018, with the exception of the item noted below in the Political and Legislative Risk section.

Currently, EPCOR's risks include new business integration risk, health and safety risk, political and legislative risk, regulatory risk, strategy execution risk, information technology related security risks, risk of reputational damage, environment risk, business interruption risks, failure to attract, retain or develop top talent, water scarcity risk, electricity price and volume risk, project risk, weather and climate-related risk, financial liquidity risk, counterparty and credit risk, billing error risk, foreign exchange risk, conflicts of interest, and general economic conditions, business environment and other risks.

Political and Legislative Risk

In November 2013, the Alberta Utilities Commission (AUC) issued a decision in the Utility Asset Disposition Review proceeding directing that certain gains and losses due to extraordinary retirement of assets be borne by shareholders and not be reflected in customer rates. In September 2015, the Alberta Court of Appeal upheld the AUC's decision. In April 2018, the Government of Alberta introduced Bill 13: An Act to Secure Alberta's Electricity Future (Bill 13). Bill 13 proposes amendments that would authorize the AUC to allocate among owners of a utility and the customers of that utility any gains or losses arising from the disposition or removal from service of assets, and the authority to make rules respecting the considerations it takes into account when making such allocations. Allocations are to give consideration to the public interest, including having regard to any social, economic and environmental effects. The AUC is given the authority, without limitation, to establish the criteria it may consider when determining the public interest. Bill 13 would also grant the AUC, acting on its own initiative or at the request of an interested party, the authority to direct the removal of property from rate base. EPCOR continues to be engaged with the Government of Alberta to advocate that the final legislation adequately reflects previously stated policy intentions, including ensuring that customers are not subject to unfair risks and costs, providing a more stable investment climate for utilities and promoting regulatory certainty for stakeholders, as well as not adversely impacting ongoing investment in new assets and technologies that support renewable energy.

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 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, 2019. Those which may be relevant to the Company and may impact the accounting policies of the Company are set out below. The Company does not plan to adopt these standards early.

IFRS 16 - *Leases* (IFRS 16), which replaces IAS 17 – *Leases* (IAS 17), is effective for annual periods commencing on or after January 1, 2019. IFRS 16 combines the existing dual model of operating and finance leases under IAS 17 into a single lessee model. Under the new single lessee model, a lessee will recognize lease assets and lease liabilities on the statement of financial position initially measured at the present value of unavoidable lease payments. IFRS 16 will also cause expenses to be higher at the beginning and lower towards the end of a lease, even when payments are consistent throughout the term. Leases for duration of twelve months or less and leases of low value assets are exempted from recognition on the statement of financial position. Lessors will continue with a dual lease classification model and the classification will determine how and when a lessor will recognize lease revenue and what assets will be recorded.

The Company is currently reviewing the contracts that are identified as leases, or that could be classified as leases under IFRS 16, in order to evaluate the impact of adoption of IFRS 16 on the consolidated financial statements. Based on its preliminary assessment, the Company expects that there will be a material impact on its statements of consolidated financial position requiring the recognition of lease assets and lease obligations with respect to its leases for office space, which are currently classified as operating leases. The Company's analysis of these contracts is ongoing and the Company expects to report more detailed information, including quantitative impact, in future periods.

IFRIC 23 – *Uncertainty over Income Tax Treatments* is effective for annual periods commencing on or after January 1, 2019. The interpretation provides guidance on the recognition and measurement of current and deferred tax assets and liabilities under IAS 12 – *Income Taxes* when there is uncertainty over income tax treatments. The Company does not expect a material impact on initial application of the interpretation; however, the interpretation may impact the Company's recognition, measurement and disclosure of uncertain tax treatments in the future.

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 and costs, unbilled consumption of electricity, 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 impacts on sanitary and stormwater systems, 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 2017 annual consolidated financial statements and 2017 annual MD&A.

Outlook

For the remainder of 2018, EPCOR will focus on the ongoing integration of Drainage as well as other operations which have recently been acquired by the Company. In addition, we will continue 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 to power our operations and enhance our environmental performance.

EPCOR was previously awarded franchises by two municipalities and one township in the Southern Bruce region of Ontario near Kincardine to build and operate a natural gas distribution system. Based on the recently received OEB decision awarding the certificates of public convenience and necessity related to these franchise areas, EPCOR is required to file an application for approval of the franchises in a separate proceeding and to file a leave to construct by October 12, 2018, with the OEB. The activities necessary to meet each of these requirements are presently under way. The other proponent in the OEB process has 20 days in which it can request that the OEB review its decision or 30 days in which it can file an appeal of the decision with the provincial court in Ontario. Subject to OEB approval of EPCOR's franchise agreement and leave to construct applications, the initial phase of the natural gas distribution system is expected to be operational by late 2019, with system completed in 2021.

In October 2017, the Town of Collingwood (Collingwood) and EPCOR entered into an agreement for EPCOR to acquire 100% of the issued and outstanding shares of the holding company which owns Collus PowerStream Utility Service Corp (Collus PowerStream), an electricity distribution company based in Collingwood, Ontario for approximately $25 million and the assumption of $14 million of debt. As Collus PowerStream is jointly owned by Collingwood and Alectra Utilities Corporation (Alectra), as part of the transaction, Collingwood will acquire Alectra's 50% interest and immediately thereafter transfer 100% of the shares of the holding company to EPCOR. An application to approve the acquisition transaction is now before the OEB for approval. Upon completion, EPCOR would serve approximately 18,000 electricity customers in the Collingwood, Ontario area.

EPCOR is proposing to build a new solar farm just south of its existing E.L. Smith Water Treatment Plant (E.L. Smith WTP). The proposed solar farm will generate "green" energy to help power the existing E.L. Smith WTP and its water treatment and distribution processes, while reducing its greenhouse gas emissions. The solar farm is expected to have a peak generation capacity of approximately 12 megawatts. All necessary government approvals are currently expected to be received in the third quarter of 2018 which will allow construction to be completed by the end of 2019.

In December 2016, the Government of Alberta enacted Bill 21: the Modernized Municipal Government Act (MGA) which could impose restrictions on the ability of a municipally controlled corporation (MCC) to conduct its business. EPCOR, which is an MCC of the City, was previously exempted from the MGA and a similar exemption is not present in the new MGA. Until the new Division of the MGA is proclaimed into force, the current provisions apply and EPCOR remains exempted. EPCOR is working to ensure the previous exemption is re-instated as the related regulations are developed. Failing to obtain the exemption could materially impact EPCOR's ability to execute on its Long Term Plan.

QUARTERLY RESULTS

(Unaudited, $ millions) **Quarters ended**	**Revenues**	**Net income**
March 31, 2018	$ 401	$ 65
December 31, 2017	572	87
September 30, 2017	534	75
June 30, 2017	474	56
March 31, 2017	455	38
December 31, 2016	474	88
September 30, 2016	504	76
June 30, 2016	479	67

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

- March 31, 2018, first quarter results included income from Drainage, higher water and wastewater revenues, lower water treatment costs for operations in the city of Edmonton, Encor customer growth, income from Hughes, unfavorable fair value adjustments related to financial electricity purchase contracts in 2017 and higher transmission system access service charge net collections in 2018. Partially offsetting these increases were lower EPSP margins, higher interest expense due to the additional debt on transfer of Drainage operations, as well as, higher depreciation expense due to transfer of Drainage and 2017 asset additions.
- December 31, 2017, fourth quarter results included lower transmission system access service charge net collections, lower EPSP margins, higher depreciation expense due to asset additions, lower recognition of a fair value gain on sale of the remaining investment in Capital Power in January 2017 compared with the fair value gains recognized on sales of the investment in the third and fourth quarter of 2016, no favorable fair value adjustments related to interest rate swaps in 2017 and higher financing expenses. Partially offsetting these decreases were higher water, wastewater and electricity distribution customer rates, income from the Drainage operations, higher income related to industrial services contracts, higher water volumes in U.S. due to above average temperatures, lower income taxes and higher favorable changes in the fair value of contracts-for-differences.
- September 30, 2017, third quarter results included lower EPSP margins, higher depreciation expense due to asset additions, lower income from industrial services contracts primarily due to the termination of the Suncor financing and operating agreements in 2016, no fair value gain on sale of investment in Capital Power, no dividend income due to the sale of Capital Power shares and lower favorable fair value adjustments related to financial electricity purchase contracts. Partially offsetting these decreases were higher water, wastewater and electricity distribution customer rates, higher transmission system access service charge net collections and no unfavorable fair value adjustments related to interest rate swaps.
- June 30, 2017, second quarter results included lower income related to industrial services contracts, lower EPSP margins, a loss on sale of surplus land, lower water and wastewater volumes due to higher precipitation in the city of Edmonton, higher water treatment costs due to poor river quality conditions in the North Saskatchewan River and no dividend income due to the sale of Capital Power shares. Partially offsetting these decreases were favorable fair value adjustments related to financial electricity purchase contracts in 2017 and unfavorable fair value adjustments related to interest rate swaps in 2016 with no

corresponding transaction in the current year, higher water, wastewater and electricity transmission customer rates and higher transmission system access service charge net collections.

- March 31, 2017, first quarter results included unfavorable fair value adjustments related to financial electricity purchase contracts and no dividend income due to the sale of Capital Power shares, lower transmission system access service charge net collections, lower gains as a result of sales of surplus land in the first quarter of 2016, lower income related to industrial services contracts and lower EPSP margins. Partially offsetting these decreases were higher water, wastewater and electricity distribution and transmission customer rates and an unfavorable fair value adjustment related to interest rate swaps in the first quarter of 2016.
- December 31, 2016, fourth quarter results included the recognition of the fair value gain resulting from the sale of Capital Power shares, greater favorable fair value adjustments related to financial electricity purchase contracts and interest rate swaps and higher water, wastewater and electricity distribution customer rates, partially offset by lower electricity transmission customer rates, lower billing charge rates, higher depreciation and lower income related to industrial services contracts.
- September 30, 2016 third quarter results included greater favorable fair value adjustments related to financial electricity purchase contracts, the recognition of the fair value gain resulting from the sale of the Capital Power shares, and higher water, wastewater and electricity customer rates, partially offset by lower billing charge rates and higher depreciation expense. In addition, 2015 included an impairment of the Capital Power shares.
- June 30, 2016 second quarter results included lower favorable fair value adjustments related to financial electricity purchase contracts and interest rate swaps and excluded any gains related to Capital Power. These decreases were partially offset by higher water, wastewater and electricity customer rates and higher income related to industrial services contracts.

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 in 2018.	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 limiting or restricting the Company’s ability to access funds through the various means otherwise available.

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 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	**Gold Bar** means Gold Bar Wastewater Treatment Facility
Alectra means Alectra Utilities Corporation	**Hughes** means Hughes Gas Resources, Inc.
AUC means Alberta Utilities Commission	**IFRS** means International Financial Reporting Standards
Capital Power means Capital Power Corporation and its directly and indirectly owned subsidiaries including Capital Power L.P., except otherwise noted or the context otherwise indicates	**MCC** means Municipally Controlled Corporation
Collingwood means Town of Collingwood	**MGA** means *Bill 21: the Modernized Municipal Government Act*
Collus PowerStream means Collus Powerstream Utility Service Corp.	**OEB** means Ontario Energy Board
Drainage means Drainage Utility Services	**RRO** means Regulated Rate Option
E.L. Smith WTP means E.L. Smith Water Treatment Plant	

ADDITIONAL INFORMATION

Additional information relating to EPCOR including the Company's 2017 Annual Information Form is available on SEDAR at www.sedar.com.