EPCOR Utilities Inc.
Interim Management's Discussion and Analysis
June 30, 2018

This management's discussion and analysis (MD&A) dated July 27, 2018, should be read in conjunction with the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the six months ended June 30, 2018 and 2017, including significant accounting policies (note 3), revenues (note 4), financial instruments (note 5), the consolidated financial statements 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), the MD&A for the year ended December 31, 2017 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 July 27, 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 $68 million and $133 million for the three and six months ended June 30, 2018, respectively, compared with net income of $56 million and $94 million for the comparative periods in 2017, respectively. The increase of $12 million and $39 million for the three and six months ended June 30, 2018, respectively, was primarily due to higher Adjusted EBITDA in 2018, as described below and higher favorable fair value adjustments related to financial electricity purchase contracts in 2018, partially offset by lower transmission system access service charge net collections, as well as, higher finance and depreciation expense in 2018.

Adjusted EBITDA was $178 million and $342 million for the three and six months ended June 30, 2018, respectively, compared with $135 million and $254 million for the comparative periods in 2017, respectively. The increase of $43 million and $88 million for the three and six months ended June 30, 2018, respectively, was primarily due to Adjusted EBITDA from drainage utility services (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, higher electricity distribution customer rates and Adjusted EBITDA from the acquisition of Hughes Gas Resources Inc. (Hughes) in June 2017, partially offset by lower Energy Price Setting Plan (EPSP) margins. Adjusted EBITDA is a non-IFRS financial measure and is defined and described in the Adjusted EBITDA and Net Income section on page 4 of this MD&A.

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 six months ended June 30, 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 IFRS 9, 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 and six months ended June 30, 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 June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Water Services segment revenues	$ 167	$ 99	$ 316	$ 189
Distribution and Transmission segment revenues	100	177	208	336
Energy Services segment revenues	100	191	191	401
U.S. Operations segment revenues	63	59	117	105
Other revenues	2	-	7	-
Intersegment eliminations	(6)	(52)	(12)	(102)
Revenues	**$ 426**	**$ 474**	**$ 827**	**$ 929**

Consolidated revenues were lower by $48 million and $102 million for the three and six months ended June 30, 2018, respectively, compared with the corresponding periods in 2017 primarily due to the net impact of the following:

- Water Services' segment revenues increased by $68 million and $127 million for the three and six months ended June 30, 2018, respectively, compared with the corresponding periods in 2017, 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 sales volumes.
- Distribution and Transmission segment revenues decreased by $77 million and $128 million for the three and six months ended June 30, 2018, respectively, compared with the corresponding periods in 2017, primarily due to presenting transmission system access service charge collections net of related costs due to the implementation of IFRS 15 which resulted in lower presented revenues of $80 million and $147 million for the three and six months ended June 30, 2018, respectively, partially offset by higher electricity distribution customer rates.
- Energy Services' segment revenues decreased by $91 million and $210 million for the three and six months ended June 30, 2018, respectively, compared with the corresponding periods in 2017, primarily due to presenting distribution and transmission revenues net of related costs due to the implementation of IFRS 15 which resulted in lower presented revenues of $149 million and $309 million for the three and six months ended June 30, 2018, respectively, partially offset by customer growth and higher electricity prices charged to customers.
- U.S. Operations' segment revenues increased by $4 million and $12 million for the three and six months ended June 30, 2018, respectively, compared with the corresponding periods in 2017 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 $46 million and $90 million for the three and six months ended June 30, 2018, respectively, compared with the corresponding periods in 2017 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 ($49 million and $102 million for three and six months ended June 30, 2018, respectively).

Adjusted EBITDA and Net Income

During the first quarter, we changed our non-IFRS financial measure from “income from core operations”, which was defined as operating results before the impact of 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 June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Adjusted EBITDA by Segment				
Water Services segment	$ 84	$ 41	$ 157	$ 76
Distribution and Transmission segment	52	46	98	92
Energy Services segment	4	9	17	20
U.S. Operations segment	35	32	62	54
Other	3	7	8	12
Adjusted EBITDA	**178**	**135**	**342**	**254**
Finance expenses	(30)	(27)	(62)	(54)
Income tax expense	(2)	(2)	-	-
Depreciation and amortization	(70)	(52)	(141)	(100)
Change in fair value of financial electricity purchase contracts	7	4	7	3
Transmission system access service charge net collections	(15)	(2)	(13)	(9)
Net income	**$ 68**	**$ 56**	**$ 133**	**$ 94**

Changes in each business segment’s Adjusted EBITDA, compared with the corresponding periods in 2017, are described in Segment Results below. Explanations of the remaining variances in net income for the three and six months ended June 30, 2018, are as follows:

- Higher financing expenses of $3 million and $8 million for the three and six months ended June 30, 2018, respectively, compared with the corresponding periods in 2017, was 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 of $18 million and $41 million for the three and six months ended June 30, 2018, respectively, compared with the corresponding periods in 2017, was primarily due to higher depreciation expense resulting from the Drainage operations which were transferred in September 2017 and capital additions in 2017 and 2018.
- Higher favorable changes in the fair value of financial electricity purchase contracts of $3 million and $4 million for the three and six months ended June 30, 2018, respectively, compared with the corresponding periods in 2017, primarily due to electricity market forward prices being higher than contracted prices.

- Lower transmission system access service charge net collections of $13 million and $4 million for the three months and six months ended June 30, 2018, respectively, compared to the corresponding period in 2017, primarily due to higher operating reserve payments due to higher electricity prices.

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 this reassessment, the segment information for the comparative periods 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 June 30,		Six months ended June 30,	
	2018	**2017**	**2018**	**2017**
Revenues	$ 167	$ 99	$ 316	$ 189
Expenses	117	72	226	142
Operating income	**50**	**27**	**90**	**47**
Exclude depreciation and amortization	34	14	67	29
Adjusted EBITDA	**$ 84**	**$ 41**	**$ 157**	**$ 76**

Water Services' Adjusted EBITDA increased by $43 million and $81 million for the three and six months ended June 30, 2018, respectively, compared with the corresponding periods 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 sales volumes. In addition, there were lower water treatment costs due to favorable river water quality 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. This 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 June 30,		Six months ended June 30,	
	2018	**2017**	**2018**	**2017**
Revenues	$ 100	$ 177	$ 208	$ 336
Expenses	83	155	165	294
Operating income	**17**	**22**	**43**	**42**
Exclude depreciation and amortization	20	22	42	41
Exclude transmission system access service charge net collections	15	2	13	9
Adjusted EBITDA	**$ 52**	**$ 46**	**$ 98**	**$ 92**

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 $80 million and $147 million for the three months and six months ended June 30, 2018, respectively, in the 2018 Revenues and Expenses presented in the table above.

Distribution and Transmission's Adjusted EBITDA, increased by $6 million for the three and six months ended June 30, 2018, compared with the corresponding periods in 2017, primarily due to higher electricity distribution customer rates.

Energy Services

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

(Unaudited, $ millions, including intersegment transactions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Revenues	$ 100	$ 191	$ 191	$ 401
Expenses	90	180	170	381
Operating income	**10**	**11**	**21**	**20**
Exclude depreciation and amortization	1	2	3	3
Exclude change in fair value of financial electricity purchase contracts	(7)	(4)	(7)	(3)
Adjusted EBITDA	**$ 4**	**$ 9**	**$ 17**	**$ 20**

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 $149 million and $309 million for the three months and six months ended June 30, 2018, respectively, in the 2018 Revenues and Expenses presented in the table above.

Energy Services' Adjusted EBITDA decreased by $5 million and $3 million for the three and six months ended June 30, 2018, respectively, compared with the corresponding periods in 2017, primarily due to 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 Southwestern U.S. 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 June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Revenues	$ 63	$ 59	$ 117	$ 105
Expenses	39	38	77	72
Operating income	**24**	**21**	**40**	**33**
Exclude depreciation and amortization	11	11	22	21
Adjusted EBITDA	**$ 35**	**$ 32**	**$ 62**	**$ 54**

U.S. Operations' Adjusted EBITDA increased by $3 million and $8 million for the three and six months ended June 30, 2018, respectively, compared with the corresponding periods in 2017, primarily due to higher wastewater customer rates, higher water sales volumes in the higher tiered rates blocks, higher foreign exchange rates and Adjusted EBITDA from Hughes acquired in June 2017.

Capital Spending

(Unaudited, $ millions) **Six months ended June 30,**	**2018**	**2017**
Water Services segment	$ 113	$ 50
Distribution and Transmission segment	79	118
Energy Services segment	-	2
U.S. Operations segment	37	33
Other	5	3
	234	206
Hughes acquisition	-	46
Total capital spending	**$ 234**	**$ 252**

Total capital spending decreased for the six months ended June 30, 2018, compared with the corresponding period in 2017, primarily due to lower spending in the Distribution and Transmission segment on the Advanced Meter Infrastructure project and the Work Centre Redevelopment project which were substantially completed in 2017, and on various lifecycle projects. This was partially offset by higher spending on the New Underground and Aerial Line Reconfigurations project and on various growth projects. In addition, capital spending was lower in 2018 due to the acquisition of Hughes in June 2017 with no corresponding acquisitions in 2018. The Water Services segment had higher spending as a result of Drainage capital spending on various projects, the Rossdale Clarifier Upgrade project, Water Main Renewals in the city of Edmonton and various Gold Bar Wastewater Treatment Facility projects. This was partially offset by lower spending for the Hydrovac Sanitary Grit Treatment Facility as the majority of the construction was completed in 2017.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – ASSETS

(Unaudited, $ millions)	**June 30, 2018**	**December 31, 2017**	**Increase (decrease)**	**Explanation of material changes**
Cash and cash equivalents	$ 23	$ 338	$ (315)	Refer to Consolidated Statements of Cash Flows section.
Trade and other receivables	431	552	(121)	Decrease primarily due to payments received on long-term loan receivable from Capital Power ($163 million), partially offset by increase in contributions receivables from the City for various capital projects and prepaid expenses.
Inventories	19	17	2	
Other financial assets	89	91	(2)	
Deferred tax assets	91	90	1	
Property, plant and equipment	9,203	8,977	226	Increase primarily due to capital expenditures and favorable foreign currency valuation adjustments, partially offset by depreciation expense, asset disposals and retirements.
Intangible assets and goodwill	299	293	6	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)	June 30, 2018	December 31, 2017	Increase (decrease)	Explanation of material changes
Trade and other payables	$ 314	$ 384	$ (70)	Decrease primarily due to lower transmission system access service charge payable, payment of Drainage related liabilities to the City, lower accruals for gas purchases, lower capital and other accruals, partially offset by increase in higher accrued electricity costs primarily due to higher prices.
Loans and borrowings (including current portion)	2,577	2,866	(289)	Decrease primarily due to repayment of long-term debt ($415 million), partially offset by issuance of short-term debt ($112 million) and unfavorable foreign currency valuation adjustments on U.S. dollar denominated debt.
Deferred revenue (including current portion)	3,380	3,281	99	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)	111	116	(5)	Decrease primarily due to payment of employee benefits in excess of current period accruals, partially offset by unfavorable foreign currency valuation adjustments.
Other liabilities (including current portion)	128	146	(18)	Decrease primarily due to Drainage transition cost compensation payment, partially offset by unfavorable foreign currency valuation adjustments.
Deferred tax liabilities	44	39	5	Increase due to utilization of net operating loss carryforwards against current period net income.
Equity attributable to the Owner of the Company	3,601	3,526	75	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 June 30,	2018	2017	Increase (decrease)	Explanation
Operating	$ 60	$ 50	$ 10	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	(125)	(140)	15	Increase primarily due to no business acquisitions in 2018, partially offset by higher capital expenditures and lower payments received on long-term loans receivable from Capital Power.
Financing	60	(39)	99	Increase primarily due to proceeds from issuance of short-term debt in 2018, partially offset by higher repayment of long-term debt and higher dividend payments to the City in 2018.
Opening cash and cash equivalents	28	143	(115)	
Closing cash and cash equivalents	$ 23	$ 14	$ 9	

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, $ millions)
Cash inflows (outflows)

Six months ended June 30,	**2018**	**2017**	**Increase (decrease)**	**Explanation**
Operating	$ 169	$ 132	$ 37	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	(97)	(231)	134	Increase primarily due to payments received on long-term loans receivable from Capital Power and no business acquisitions in 2018, partially offset by higher capital expenditures, payment of Drainage transition cost compensation and no proceeds from the sale of Capital Power shares in 2018.
Financing	(387)	(78)	(309)	Decrease primarily due to higher repayment of long-term debt and higher dividend payments to the City in 2018, partially offset by proceeds from issuance of short-term debt in 2018.
Opening cash and cash equivalents	338	191	147	
Closing cash and cash equivalents	$ 23	$ 14	$ 9	

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 the 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 six months ended June 30, 2018, there were no material changes to the Company's capital requirements or contractual 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, bank loans under un-committed 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, issuance of bank loans for operational requirements and providing letters of credit, as outlined below:

(Unaudited, $ millions) **June 30, 2018**	**Expiry**	**Total facilities**	**Bank Loans issued**	**Letters of credit issued**	**Banking Commercial paper issued**	**Net amounts available**
Committed						
Syndicated bank credit facility[1]	November 2022	$ 600	$ -	$ -	$ 105	$ 495
Uncommitted						
Bank credit facilities[2]	No expiry	200	-	68	-	132
Bank credit facility	No expiry	25	-	-	-	25
Bank credit facility[3]	April, 2019	13	7	-	-	6
Total uncommitted		238	7	68	-	163
Total credit facilities		**$ 838**	**$ 7**	**$ 68**	**$ 105**	**$ 658**

(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. At June 30, 2018, commercial paper totaling $105 million was issued and outstanding (December 31, 2017 - nil).

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 June 30, 2018, letters of credit totaling $68 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.

3 The Company's $13 million uncommitted bank credit facility represents US$10 million facility used to meet the U.S. dollar operational requirements. At June 30, 2018, bank loans totaling $7 million (US$ 5 million) were issued and outstanding.

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 June 30, 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 six months ended June 30, 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 April 2018, the Government of Alberta introduced *Bill 13: An Act to Secure Alberta's Electricity Future* (Bill 13). As introduced Bill 13 would have authorized the Alberta Utility Commission (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 would take into account when making such allocations.

The Bill was later amended by the Government of Alberta to remove the section regarding the disposition of utility assets, leaving the status quo in place. The Minister's comments in the Legislature included a commitment to continuing to consult on utility asset disposition legislation.

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 a MCC of the City, was previously exempted from the MGA and a similar exemption is not present in the new MGA. However, on June 21, 2018, the Alberta Government published the Municipally Controlled Corporations Regulation (MCC Regulation), which confirms that EPCOR will remain exempt from the provisions of the MGA that impose these restrictions. The MCC Regulation containing the exemption and the relevant sections of the MGA are in force as of July 1, 2018 and will expire on June 30, 2021. EPCOR will continue to work to ensure that the exemption will be extended past June 30, 2021, or that a permanent exemption under the new MGA is granted, as failing to have the exemption could materially impact EPCOR's ability to execute its Long Term Plan.

EPCOR has received notification from two U.S. municipalities where we own water utility systems indicating they are reviewing the possibility of acquiring their respective water utility systems from EPCOR, either through a sale of the assets or through expropriation of the assets. Neither municipality has taken any formal action to this point. Should EPCOR be required to sell the assets back to the municipalities, the Company would be entitled to proceeds equivalent to the fair market value of the water utility assets. The combined financial impact of these water utility system operations is not considered material to EPCOR's operations.

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 which will be ancillary to our existing operations and will 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, own and operate a natural gas distribution system. On April 12, 2018, EPCOR received an Ontario Energy Board (OEB) decision awarding certificates of public convenience and necessity related to these franchise areas. EPCOR is preparing an application to the OEB for approval of the franchises in a separate proceeding and also expects to file a leave to construct application with the OEB later in the year. Subject to entering into franchise agreements with the three municipalities, obtaining OEB approvals, timely interconnection of the gas transmission system and execution of a funding agreement with the Province of Ontario, the initial phase of the natural gas distribution system is expected to be operational by late 2019, with system completion 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 $28 million and the assumption of $16 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 significant government approvals are currently expected to be received in 2018 which will allow construction to be completed by the end of 2019.

QUARTERLY RESULTS

(Unaudited, $ millions) **Quarters ended**	**Revenues**	**Net income**
June 30, 2018	$ 426	$ 68
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

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

- June 30, 2018, second quarter results included income from Drainage and Hughes, higher water and wastewater revenues, lower water treatment costs for operations in the city of Edmonton, higher electricity distribution customer rates, higher favorable fair value adjustments related to financial electricity purchase contracts in 2018. Partially offsetting these increases were lower EPSP margins, lower transmission system access service charge net collections, 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 asset additions for 2017 and 2018.
- March 31, 2018, first quarter results included income from Drainage and Hughes, higher water and wastewater revenues, lower water treatment costs for operations in the city of Edmonton, Encor customer growth, 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, no fair value gain on sale of investment in Capital Power, 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 financial electricity purchase contracts.

- 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 second quarter of 2017, 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.

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	**E.L. Smith WTP** means E.L. Smith Water Treatment Plant
AESO means Alberta Electric System Operator	**EPSP** means Energy Price Setting Plan
Alectra means Alectra Utilities Corporation	**Hughes** means Hughes Gas Resources, Inc.
AUC means Alberta Utilities Commission	**IFRS** means International Financial Reporting Standards
Bill 13 means *Bill 13: An Act to Secure Alberta's Electricity Future*	**MCC** means Municipally Controlled Corporation
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 Regulations means** Municipally Controlled Corporations Regulation
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 within the City of Edmonton	**RRO** means Regulated Rate Option

ADDITIONAL INFORMATION

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