EPCOR UTILITIES INC.

Management's Discussion and Analysis

For three months ended March 31, 2023

EPCOR Utilities Inc.
Interim Management's Discussion and Analysis
March 31, 2023

This interim management's discussion and analysis (MD&A), dated May 2, 2023 should be read in conjunction with the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the three months ended March 31, 2023 and 2022, including the cautionary statement regarding forward-looking information at the end of this MD&A. In this MD&A, any reference to "the Company", "the Corporation", "EPCOR", "it", "its", "we", "our" or "us", except where otherwise noted or the context otherwise indicates, means EPCOR Utilities Inc., together with its subsidiaries. Financial information in this MD&A is based on the condensed consolidated interim financial statements, which were prepared in accordance with International Accounting Standard – 34 "*Interim Financial Reporting*" as issued by International Accounting Standards Board (IASB) and is presented in Canadian dollars unless otherwise specified. Terms used throughout this MD&A are defined in the Glossary at the end of this document.

In accordance with its terms of reference, the Audit Committee of the Company's Board of Directors reviews the contents of the MD&A and recommends its approval by the Board of Directors. This MD&A was approved and authorized for issue by the Board of Directors on May 2, 2023.

Overview

The Corporation, through its wholly owned subsidiaries, builds, owns and operates electrical, natural gas, and water transmission and distribution networks, water and wastewater treatment facilities, and sanitary and stormwater systems in Canada and the United States (U.S.). The Company also provides electricity, natural gas and water products and services to residential and commercial customers. The Company provides Regulated Rate Option (RRO) and default supply electricity related services and sells electricity and natural gas to Alberta residential 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 segments. The Company operates in Canada and the Southwestern U.S.

Net income was $46 million for the three months ended March 31, 2023, compared with net income of $74 million for the comparative period in 2022. The decrease of $28 million for the three months ended March 31, 2023, was primarily due to fair value adjustments related to financial electricity purchase contracts, higher depreciation and finance expenses in 2023, partially offset by higher Adjusted EBITDA, as described below.

Adjusted EBITDA is a non-GAAP financial measure and is not a standardized financial measure under International Financial Reporting Standards (IFRS) and might not be comparable to similar financial measures disclosed by other issuers. It is described in the Adjusted EBITDA and Net Income section on page 3 of this MD&A.

Adjusted EBITDA was $242 million for the three months ended March 31, 2023, compared with $209 million for the comparative period in 2022. The increase of $33 million for the three months ended March 31, 2023 was primarily due to higher rates and customer growth and higher construction margins, partially offset by higher staff costs.

Significant events

Samsung Austin Semiconductor, LLC (Samsung) Projects

During the year ended December 31, 2022, the Company signed two Preliminary Service Agreements and subsequent amending agreements (collectively the PSAs) with Samsung, a wholly owned subsidiary of Samsung Electronics Co., Ltd., to carry out design work, site investigation, procurement of long lead equipment and completion of early works for construction of a groundwater supply system (Project Sandow) and an industrial water reclamation facility (Project Blue Sky) to support Samsung's new semiconductor fabrication facility in Taylor, Texas.

In December 2022 the Company signed a definitive Project Agreement (the PA) for Project Sandow to carry out the remaining work to design, build, own, operate, maintain and transfer the project assets to Samsung at the expiry of the full operation and maintenance term, or in certain instances of early termination. The construction of the project is expected to be substantially complete in 2024, with an initial operation and maintenance period of 30 years after completion of construction. Under the terms of the PA, the Company is committed to fund US$120 million in the project during the final stages of construction.

During the three months ended March 31, 2023, for Project Sandow the Company recorded construction revenues of $150 million (US$111 million), which were recognized on the basis of costs incurred plus an agreed-upon margin. The construction expenditures, totalling $145 million (US$107 million), were recorded in other raw materials and operating charges. The Company recorded $50 million (US$37 million) in the current portion other financial assets, which represents project to date construction revenues for Project Sandow, net of cash received, translated at the period end exchange rate. Subsequent to March 31, 2023, the entire amount was received and recorded against the other financial asset.

During the three months ended March 31, 2023, under the Project Blue Sky PSAs the Company recorded construction revenues of $231 million (US$171 million), which were recognized on the basis of costs incurred plus an agreed-upon margin. The construction expenditures, totalling $222 million (US$164 million), were recorded in other raw materials and operating charges. The Company recorded $177 million (US$130 million) in the current portion of other financial assets, which represents project to date construction revenues from early works for Project Blue Sky, net of cash received, translated at the period end exchange rate. Subsequent to March 31, 2023, $163 million (US$120 million) was received and recorded against the other financial asset.

In April 2023, the Company signed a definitive PA for Project Blue Sky to carry out the remaining work to design, build, own, operate, maintain and transfer the project assets to Samsung at the expiry of the full operation and maintenance term, or in certain instances of early termination. The construction of the project is expected to be substantially complete in 2024, with an initial operation and maintenance period of 30 years after completion of construction. Under the terms of the PA for Project Blue Sky, the Company is committed to fund US$180 million in the project during the final stages of construction.

Material Accounting Policy Changes

The condensed consolidated interim financial statements for the three months ended March 31, 2023 and 2022 have been prepared following the same accounting policies and methods as those used in preparing the Company's most recent annual consolidated financial statements.

Consolidated Results of Operations

Revenues

(Unaudited, $ millions)

Three months ended March 31,	2023	2022
Water Services segment	$ 183	$ 168
Distribution and Transmission segment	136	125
Energy Services segment	301	205
U.S. Operations segment	465	74
Other	32	26
Intersegment eliminations	(12)	(7)
Revenues	**$ 1,105**	**$ 591**

Consolidated revenues were higher by $514 million for the three months ended March 31, 2023, compared with the corresponding period in 2022, primarily due to the net impact of the following:

- Water Services' segment revenues increased by $15 million primarily due to higher customer rates and growth, partially offset by a change in customer mix.
- Distribution and Transmission segment revenues increased by $11 million primarily due to higher electricity distribution and transmission rates and higher transmission system access service charge net collections.
- Energy Services' segment revenues increased by $96 million primarily due to higher electricity rates partially offset by lower electricity volumes due to fewer RRO customer sites.
- U.S. Operations' segment revenues increased by $391 million primarily due to higher construction revenues for the Samsung Projects, customer growth and higher water and wastewater rates in Arizona, partially offset by lower usage volumes due to lower temperatures.
- Other revenues increased by $6 million primarily due to higher construction revenues for a water treatment plant at the Darlington Nuclear Generating station (Darlington) and higher natural gas rates and volumes in Ontario.

Adjusted EBITDA and Net Income

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

Change in fair value of derivative financial instruments represents the change in fair value of financial electricity purchase contracts between the electricity market forward prices and the contracted prices at the end of the reporting period, for the contracted volumes of electricity. Transmission system access service charge net collections is the difference between the transmission system access service charges paid to the provincial system operators and the transmission system access service charges collected from electricity retailers. Transmission system access service charge net collections are timing differences, which are collected from or returned to electricity retailers as the transmission system access service charges and customer billing determinants are finalized.

We believe that Adjusted EBITDA provides an indicator of the Company's ongoing ability to fund capital expenditures, to incur and service debt and to pay dividends to its shareholder, and may be useful for external stakeholders in evaluating the operations and performance of the Company. Adjusted EBITDA is a non-GAAP financial measure and is not a standardized financial measure under IFRS and might not be comparable to similar financial measures disclosed by other issuers.

(Unaudited, $ millions)

Three months ended March 31,	**2023**	**2022**
Adjusted EBITDA by Segment		
Water Services segment	$ 96	$ 83
Distribution and Transmission segment	61	60
Energy Services segment	22	21
U.S. Operations segment	51	33
Other	12	12
Adjusted EBITDA	**242**	**209**
Other income	2	-
Finance expenses	(47)	(37)
Income tax recovery (expense)	8	(4)
Depreciation and amortization	(100)	(91)
Change in fair value of financial electricity purchase contracts	(71)	(6)
Transmission system access service charge net collections	12	3
Net income	**$ 46**	**$ 74**

Changes in each business segment's Adjusted EBITDA, compared with the corresponding period in 2022, are described in Segment Results below. Explanations of the remaining significant variances in net income for the three months ended March 31, 2023, compared with the corresponding period in 2022, are as follows:

- Higher finance expenses of $10 million was primarily due to interest expense on long-term debt issued in 2022, and higher interest rates on short-term debt.
- Higher income tax recovery of $12 million was primarily due to lower net income in the Energy Services segment which includes the change in the fair value of electricity purchase contracts, partially offset by higher net income in the U.S. Operations segment primarily due to higher construction margins on the Samsung Projects.
- Higher depreciation and amortization of $9 million was primarily due to 2022 asset additions.
- Unfavourable change in the fair value of financial electricity purchase contracts of $65 million was primarily due to a timing difference between settled electricity market forward prices and contracted electricity prices.
- Higher transmission system access service charge net collections of $9 million was primarily due to higher collections from customers, partially offset by higher payments to Electric System Operators.

Segment Results

Water Services

Water Services is primarily involved in the treatment, transmission, distribution and sale of water, the collection and conveyance of sanitary and stormwater and the treatment of wastewater within Edmonton and other communities in Western Canada. This segment's water and wastewater business also includes the provision of design, build, finance, operating and maintenance services for municipal and industrial customers in Western Canada.

Water Services Operating Income and Adjusted EBITDA

(Unaudited, $ millions, including intersegment transactions) **Three months ended March 31,**		**2023**		**2022**
Revenues	$	183	$	168
Expenses		132		124
Operating income		**51**		**44**
Exclude depreciation and amortization		45		39
Adjusted EBITDA	**$**	**96**	**$**	**83**

Water Services' Adjusted EBITDA increased by $13 million for the three months ended March 31, 2023, compared with the corresponding period in 2022, primarily due to higher water, wastewater and drainage rates and customer growth, partially offset by a change in customer mix.

Distribution and Transmission

Distribution and Transmission is involved in the transmission and distribution of electricity within Edmonton. The segment also provides EPCOR affiliates with professional services, engineering design, project management and fleet services.

The AUC initiated a proceeding in June 2022 to establish the parameters of the Performance Based Regulation plans for Alberta distribution facility owners that will start in 2024. EPCOR expects that a decision on the Performance Based Regulation framework will be issued in mid-2023.

EPCOR filed its 2023 to 2025 Transmission Facility Owner Tariff Application in September 2022. In February 2023 EPCOR filed a negotiated settlement agreement on this application which was subsequently approved by the AUC in April 2023. EPCOR will true-up interim to final rates in May 2023 and charge approved rates thereafter through the end of 2025.

In January 2022, EPCOR received notification from the AUC on their planned approach to the 2023 Generic Cost of Capital (GCOC) and future years. The AUC requested all interested parties to submit comments by February 2022 on whether the 2022 GCOC rates should be maintained throughout 2023 (37% equity and 8.5% ROE). In March 2022, the AUC issued its decision to extend the 2022 cost of capital parameters to 2023. The AUC also notified interested parties that it would like to consider a formula-based approach to the GCOC for the year 2024 and beyond. The AUC is of the view that a formula-based approach to ROE could increase transparency and predictability, and ultimately save customers and utilities considerable time, resources and money associated with having fully litigated proceedings every one to three years. In June 2022, the AUC initiated Stage 2 of this proceeding to determine the GCOC parameters for 2024 and future test years. EPCOR expects a decision on Stage 2 of the proceeding to be issued in second quarter of 2023.

In October 2021, the AUC issued a decision that revised the regulatory accounting treatment for Alberta Electric System Operator (AESO) directed customer contributions. As per the decision, any AESO directed customer contributions made by the distribution facility owners after April 23, 2021, requires the contributing entity to expense the contributions for regulatory purposes in the year they are incurred. These contributions were previously considered rate base for which the contributing entity earned a return. These contribution related expenses have been included in EPCOR's 2023 distribution revenue requirement, with a true up between forecast and actual contributions to be settled in a future year. EPCOR filed a request for permission to appeal this decision with the Court of Appeal of Alberta, which was granted by the court in January 2022. The intent of the appeal is to reverse this decision and treat the contributions as capital investment on which either the transmission facility owner or distribution utility owner is entitled to earn a fair return. The appeal hearing took place in February 2023. EPCOR expects a decision in the second half of 2023.

Distribution and Transmission Operating Income and Adjusted EBITDA

(Unaudited, $ millions, including intersegment transactions) **Three months ended March 31,**		**2023**		**2022**
Revenues	$	136	$	125
Expenses		88		88
Operating income		**48**		**37**
Exclude depreciation and amortization		26		26
Exclude transmission system access service charge net collections		(13)		(3)
Adjusted EBITDA	**$**	**61**	**$**	**60**

Distribution and Transmission's Adjusted EBITDA increased by $1 million for the three months ended March 31, 2023, compared with the corresponding period in 2022, primarily due to higher electricity distribution and transmission 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, which partly mitigates the impact of RRO customer attrition. The service offerings which includes green energy options, provides an option to customers wishing to move from the RRO to a competitive contract with an Encor offering.

In December 2022 interim rates were filed for 2023 due to the delay in filing the 2023-2025 Non-Energy application. The AUC approved the interim rates and the 2023-2025 Non-Energy rate application is expected to be filed in the fall of 2023.

In December 2022, the Government of Alberta (GOA) passed Bill 2 including amendments to the Regulated Rate Option Stability Act, which implemented a ceiling on rates billed to RRO customers of 13.5 cents per kWh for electricity consumed during the three month period from January 2023 to March 2023. The difference between the approved RRO rate and the rate ceiling will be collected from RRO customers through adjustments to electricity rates between April 2023 and December 2024. During the quarter ended March 31, 2023, the Company received $138 million of funding from the GOA, which has been recorded within other liabilities. The funding received will be repaid to the GOA upon collection of deferred amounts from RRO customers during the billing periods between April 2023 and December 2024. The GOA has announced a review of the RRO, working with industry to examine options to improve affordability and rate stability.

Energy Services Operating Income and Adjusted EBITDA

(Unaudited, $ millions, including intersegment transactions) **Three months ended March 31,**		**2023**		**2022**
Revenues	$	301	$	205
Expenses		352		192
Operating income (loss)		**(51)**		**13**
Exclude depreciation and amortization		2		2
Exclude change in fair value of financial electricity purchase contracts		71		6
Adjusted EBITDA	**$**	**22**	**$**	**21**

Energy Services' Adjusted EBITDA increased by $1 million for the three months ended March 31, 2023, compared with the corresponding period in 2022, primarily due to higher Energy Price Setting Plan (EPSP) margins, customer growth and margins for competitive sites, partially offset by lower revenues due to a decrease in RRO customer sites and a higher provision for expected credit losses from customers as a result of higher commodity prices.

U.S. Operations

U.S. Operations are primarily involved in the treatment, transmission, distribution and sale of water, the collection and treatment of wastewater, construction of related facilities, and the provision of operating and maintenance services within the Southwestern U.S. This segment also provides natural gas distribution and transmission services in Texas. All of the Company's operations conducted in the U.S. are included in this segment.

In March 2023, the U.S. federal government proposed to Congress an increase in federal corporate income tax rate from the current 21% to 28% but the change in rates is yet to be enacted. The Company does not expect the new legislation, if implemented, to have a material impact on its financial results.

On December 31, 2022 the Company entered into a PA with Samsung for Project Sandow to carry out the remaining work to design, build, own, operate, maintain and transfer the project assets to Samsung at the expiry of the full operation and maintenance term. In April 2023 the Company also entered into a PA with Samsung for Project Blue Sky to carry out the remaining work to design, build, own, operate, maintain and transfer the project assets to Samsung at the expiry of the full operation and maintenance term.

U.S. Operations Operating Income and Adjusted EBITDA

($ millions, including intersegment transactions)		**2023**		**2022**
Revenues	$	465	$	74
Expenses		432		57
Operating income		**33**		**17**
Exclude depreciation and amortization		18		16
Adjusted EBITDA	**$**	**51**	**$**	**33**

U.S. Operations' Adjusted EBITDA increased by $18 million for the three months ended March 31, 2023, compared with the corresponding period in 2022, primarily due to higher construction margins related to the Samsung Projects, higher water and wastewater revenues due to customer growth and higher rates in Arizona, and a higher average foreign exchange rate, partially offset by higher staff and administrative costs.

Capital Spending and Investment

(Unaudited, $ million) **Three months ended March 31,**		**2023**		**2022**
Water Services segment	$	66	$	74
Distribution and Transmission segment		72		55
U.S. Operations segment		39		32
Other		6		6
Total capital spending and investment	**$**	**183**	**$**	**167**

Total capital spending and investment increased by $16 million for the three months ended March 31, 2023, compared with the corresponding period in 2022, primarily due to higher capital spending in the Company's Distribution and Transmission segment due to a new substation to facilitate interconnection of two new power generation units and U.S. Operations segments due to a new wastewater treatment facility in Arizona. The increase was partially offset by lower capital spending in the Company's Water Services segment due to the completion of the kīsikāw pīsim solar farm project in 2022.

Consolidated Statements of Financial Position – Assets

(Unaudited, $ millions)	**March 31, 2023**	**December 31, 2022**	**Increase (decrease)**	**Explanation of material changes**
Cash and cash equivalents	$ 91	$ 130	$ (39)	Refer to Consolidated Statements of Cash Flows section.
Trade and other receivables	645	653	(8)	Decrease is primarily due to payments received partially offset by higher customer rates and growth.
Inventories	25	25	-	
Other financial assets (including current portion)	565	682	(117)	Decrease primarily due to lower construction receivables relating to the Samsung Projects, partially offset by higher long term receivables from customers related to the Regulated Rate Option Stability Act and lease receivables for the water treatment plant at Darlington.
Deferred tax assets	79	67	12	Increase is primarily due to lower income subject to tax in Canada which includes unfavourable changes in the fair value of electricity purchase contracts.
Property, plant and equipment	12,590	12,491	99	Increase primarily due to capital expenditures and foreign currency valuation adjustments, partially offset by depreciation expense and disposal of assets.
Intangible assets and goodwill	554	558	(4)	
Total Assets	$ 14,549	$ 14,606	$ (57)	

Consolidated Statements of Financial Position – Liabilities and Equity

(Unaudited, $ millions)	March 31, 2023	December 31, 2022	Increase (decrease)	Explanation of material changes
Trade and other Payables	$ 806	$ 832	$ (26)	Decrease is primarily due to lower payables related to electricity purchases including rebates payable resulting from the Alberta Government initiated Electricity Rebate program partially offset by higher construction payables related to the Samsung Projects and higher accrued interest on long-term debt.
Loans and borrowings (including current portion)	4,356	4,557	(201)	Decrease primarily due to net repayment of short-term debt and principal repayments of long-term debt.
Deferred revenue (including current portion)	4,453	4,429	24	Increase primarily due to cash and asset contributions received partially offset by deferred revenue recognized.
Provisions (including current portion)	195	182	13	Increase is primarily due to receipt of construction advances and higher employee benefit accruals.
Other liabilities (including current portion)	335	201	134	Increase primarily due to the addition of funding received under the Regulated Rate Option Stability Act partially offset by a decrease in customer deposits and payments for lease liabilities.
Deferred tax liabilities	82	83	(1)	
Equity	4,322	4,322	-	
Total Liabilities and Equity	$ 14,549	$ 14,606	$ (57)	

Consolidated Statements of Cash Flows

(Unaudited, $ millions)
Cash inflows (outflows)

Three months ended March 31,	**2023**	**2022**	**Increase (decrease)**	**Explanation**
Operating	$ 295	$ 199	$ 96	Higher net cash flows from operations is primarily due to an increase in non-cash operating working capital and contributions received, partially offset by lower operating income.
Investing	(216)	(173)	(43)	Higher outflows primarily due to an increase in capital expenditures in 2023 and proceeds from the expropriation of the Bullhead City water utility system received in 2022.
Financing	(118)	(30)	(88)	Higher outflows primarily due to net repayments of short-term debt, partially offset by funding received under the Regulated Rate Option Stability Act.
Opening cash and cash equivalents	130	30	100	
Closing cash and cash equivalents	$ 91	$ 26	$ 65	

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 for the next twelve months, from a combination of available cash, funds from operations, issuance of commercial paper, public or private debt offerings and availability of liquidity from committed credit facilities described under the Financing section below to finance its plans and fund its obligations, including current liabilities in excess of current assets. 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

The Company has entered into a commitment related to a new PA signed in U.S. Operations, as described in the Significant Events section of this MD&A. There were no other 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 2022 annual MD&A.

Financing

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

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

($ millions) **March 31, 2023**	**Expiry**	**Total facilities**	**Banking Commercial paper issued**	**Letters of credit issued and other facility draws**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	November 2027	$ 750			
Bank credit facility[1]	November 2025	200			
Bank credit facility[1]	May 2026	150			
Total committed		$ 1,100	$ 185	$ -	$ 915
Uncommitted					
Bank credit facilities[2]	No expiry	330	-	170	160
Bank credit facility	No expiry	25	-	-	25
Total uncommitted		355	-	170	185
Total credit facilities		**$ 1,455**	**$ 185**	**$ 170**	**$1,100**

($ millions) **December 31, 2022**	**Expiry**	**Total facilities**	**Banking Commercial paper issued**	**Letters of credit Issued and other facility draws**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	November 2027	$ 750			
Bank credit facility[1]	November 2025	200			
Bank credit facility[1]	May 2026	150		$ 32	
Total committed		$ 1,100	$ 385	$ 32	$ 683
Uncommitted					
Bank credit facilities[2]	No expiry	240	-	236	4
Bank credit facility	No expiry	25	-	-	25
Total uncommitted		265	-	236	29
Total credit facilities		**$ 1,365**	**$ 385**	**$ 268**	**$ 712**

1 The Company's committed bank credit facilities are available and can be used for direct borrowings, issuance of letters of credit and backstopping EPCOR's commercial paper program. The committed bank credit facilities cannot be withdrawn by the lenders until expiry, provided that the Company operates within the related terms and covenants. The extension feature of EPCOR's committed bank credit facility gives the Company the option each year to re-price and extend the term of the facilities by one or more years subject to agreement with the lenders. The Company regularly monitors market conditions and may elect to enter into negotiations to extend the maturity dates. At March 31, 2023, commercial paper totalling $185 million (December 31, 2022 - $385 million) and letters of credit of $nil (December 31, 2022 - $32 million) were issued and outstanding.

2 The Company's uncommitted bank credit facility consists of six bilateral credit facilities (totalling $330 million) (December 31, 2022 – totalling $240 million) which are restricted to letters of credit. At March 31, 2023, letters of credit totalling $170 million have been issued and outstanding (December 31, 2022 - $236 million) to meet the credit requirements of electricity market participants and to meet conditions of certain service agreements.

The Company has a Canadian base shelf prospectus under which it may raise up to $2 billion of debt with maturities of not less than one year. At March 31, 2023, the available amount remaining under this base shelf prospectus was $1.55 billion (December 31, 2022 - $1.55 billion). The Canadian base shelf prospectus expires in January 2024.

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

Credit Ratings

In September 2022, S&P Global Ratings confirmed its A- / stable long-term corporate credit and senior unsecured debt ratings for EPCOR. In October 2022, DBRS Morningstar confirmed its A (low) / stable senior unsecured debt and R-1 (low) / stable short-term debt.

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

Financial Covenants

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

Risk Factors and Risk Management

This section should be read in conjunction with the Risk Factors and Risk Management section of the 2022 annual MD&A. Risk management is a key component of the Company's culture and we have cost-effective risk management practices in place. Risk management is an ongoing process and we continually review our risks and look for ways to enhance our risk management processes. As part of ongoing risk management practices, the Company reviews current and developing events and proposed transactions to consider their impact on the risk profile of the Company.

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

During the period ended March 31, 2023, the Company entered into a bond forward contract (the hedging instrument) to manage its interest rate risk associated with movements in long-term Canadian benchmark interest rates related to future planned long-term debt issuances (the hedged item). This financial instrument has been classified as a cash flow hedge. For further information on the Company's bond forward contract, refer to financial risk management (note 9) in the condensed consolidated interim financial statements for the periods ended March 31, 2023 and 2022.

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 IASB and the International Financial Reporting Interpretations Committee, the application of which is effective for periods beginning on or after January 1, 2024. The Company does not expect the implementation of these new accounting pronouncements to have a material impact on its accounting policies.

Critical Accounting Estimates

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

For further information on the Company's other critical accounting estimates, refer to the consolidated financial statements and MD&A for the year ended December 31, 2022.

Outlook

For the remainder of 2023, EPCOR will focus on the expansion and construction of wastewater treatment plants, the construction of a water treatment plant at Darlington and 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, acquisition of new customers, and lifecycle replacement of existing infrastructure primarily related to the Edmonton and U.S. based operations. The Company also intends to expand its water and electricity commercial services activities and to invest in renewable energy generation, including solar and biogas facilities, which will help reduce greenhouse gas emissions

The Company continues to carry out its commitments on the contracts entered into with Samsung for Projects Blue Sky and Sandow. In April 2023, the Company entered into a PA for Project Blue Sky to carry out the remaining work to design, build, own, operate, maintain and transfer the project assets to Samsung at the expiry of the full operation and maintenance term.

Quarterly Results

($ millions)	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022
Revenues	$ 1,105	$ 907	$ 882	$ 555
Expenses	1,022	756	709	420
Operating income	**83**	**151**	**173**	**135**
Other income	2	2	-	-
Finance expenses	(47)	(46)	(40)	(37)
Income tax recovery (expense)	8	(14)	(14)	(5)
Net income[1,2]	**$ 46**	**$ 93**	**$ 119**	**$ 93**

($ millions)	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021
Revenues	$ 591	$ 590	$ 595	$ 522
Expenses	476	466	459	393
Operating income	**115**	**124**	**136**	**129**
Other income	-	7	-	-
Finance expenses	(37)	(35)	(39)	(38)
Gain on expropriation of Bullhead City (BHC) water utility systems	-	20	69	-
Income tax expense	(4)	(15)	(20)	(5)
Net income[1,2,3]	**$ 74**	**$ 101**	**$ 146**	**$ 86**

1 Quarterly results may fluctuate due to the seasonal demands for energy, water, related impact on sanitary system, changes in energy prices, and the timing and recognition of regulatory decisions.

2 Higher net income during the quarter ended September 30, 2021 and December 31, 2021 was primarily due to the gain on expropriation of the BHC water utility systems.

3 Higher net income during the quarter ended December 31, 2021 due to the recognition of the recovery of extraordinary natural gas procurement costs that were incurred during the quarter ended March 31, 2021 as a result of winter storm Uri.

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, including current liabilities in excess of current assets, for next twelve months.	EPCOR is able to generate the expected cash flow from operations and various means of funding remain available to the Company.	EPCOR's operations do not generate the expected level of cash flow and / or circumstances arise, limiting or restricting the Company's ability to access funds through the various means otherwise available.
In April 2023, the Company signed a definitive PA for Project Blue Sky with Samsung. Under the terms of the PA, the Company is committed to fund approximately US$180 million in the project during the final stages of construction.	The Company is able to complete the remaining work to design and build Project Blue Sky within the required timelines.	The Company is unable to complete the remaining work to design and build Project Blue Sky within the timelines agreed with Samsung.

For further information on the Company's forward looking information, refer to the 2022 annual MD&A.

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

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

Glossary

Adjusted EBITDA earnings before finance expenses, income tax recovery (expense), depreciation and amortization, changes in the fair value of derivative financial instruments, transmission system access service charge net collections, net collections of U.S. natural gas procurement costs and other unusual items	**GOA** means Government of Alberta
AESO means Alberta Electric System Operator	**IFRS** means International Financial Reporting Standard(s)
AUC means the Alberta Utilities Commission	**IASB** means International Accounting Standards Board
BHC means Bullhead City	**PA** means Project Agreement
Darlington means Darlington Nuclear Generating station	**PSA** means preliminary services agreement
Drainage means sanitary and stormwater utility services within the city of Edmonton	**ROE** means return on equity
EPSP means Energy Price Setting Plan	**RRO** means Regulated Rate Option
GCOC means General Cost of Capital	**the City** means The City of Edmonton
GCOC parameters means capital structure for 2022 and 2023	

Additional Information

Additional information relating to EPCOR, including the Company's 2022 Annual Information Form, is available on SEDAR at www.sedar.com.