FORTISALBERTA INC.

Unaudited Interim Financial Statements
For the three and six months ended June 30, 2011

BALANCE SHEETS (UNAUDITED)

As at (all amounts in thousands of Canadian dollars)	June 30 2011	December 31 2010
Assets		
Current assets		
Accounts receivable (notes 8 and 10)	118,849	114,187
Prepaids and deposits	5,190	3,772
Future income taxes	2,838	1,128
Regulatory assets	41,218	56,336
	168,095	175,423
Accounts receivable (notes 8 and 10)	897	1,584
Property, plant and equipment	1,964,966	1,874,741
Intangible assets	63,039	65,455
Regulatory assets	62,558	42,648
Investment tax credits receivable	1,231	1,180
Accrued pension asset	2,751	2,607
Goodwill	189,309	189,309
	2,452,846	2,352,947
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable, accrued and other liabilities (notes 8 and 10)	139,600	133,855
Short-term debt (notes 3 and 10)	45,619	9,352
Regulatory liabilities	10,521	4,288
Income taxes payable	250	94
	195,990	147,589
Other liabilities	6,891	6,406
Regulatory liabilities	303,136	294,041
Future income taxes	38,369	23,996
Long-term debt (notes 3 and 10)	1,050,743	1,073,465
	1,595,129	1,545,497
Shareholder's Equity		
Share capital (note 4)	173,848	173,848
Contributed surplus (note 5)	571,231	541,231
Retained earnings	112,638	92,371
	857,717	807,450
	2,452,846	2,352,947

Commitments and Contingencies (note 9)

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(all amounts in thousands of Canadian dollars)	**2011**	2010	**2011**	2010
Revenues				
Electric rate revenue	100,976	86,161	200,470	171,728
Other revenue (note 8)	2,739	5,082	6,737	7,371
	103,715	91,243	207,207	179,099
Expenses				
Operating costs (notes 7 and 8)	35,533	35,588	70,784	71,073
Depreciation	30,016	21,163	59,622	42,134
Amortization	3,423	3,248	6,740	6,459
	68,972	59,999	137,146	119,666
Income before interest and income taxes	34,743	31,244	70,061	59,433
Interest on short-term debt	181	1	181	8
Interest on long-term debt (note 3)	15,136	13,733	28,740	27,685
	15,317	13,734	28,921	27,693
Income before income taxes	19,426	17,510	41,140	31,740
Current income tax expense	1,782	98	2,002	98
Future income tax (recovery) expense	(1,425)	16	(1,129)	(215)
	357	114	873	(117)
Net Income	19,069	17,396	40,267	31,857
Other comprehensive income	–	–	–	–
Net Income and Other Comprehensive Income	19,069	17,396	40,267	31,857
Retained earnings, beginning of period	103,569	64,860	92,371	59,149
Dividends (note 4)	(10,000)	(8,750)	(20,000)	(17,500)
Retained Earnings, end of Period	112,638	73,506	112,638	73,506

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(all amounts in thousands of Canadian dollars)	**2011**	2010	**2011**	2010
Operating Activities				
Net income	19,069	17,396	40,267	31,857
Add (deduct) items not involving cash:				
Depreciation	30,016	21,163	59,622	42,134
Amortization	3,530	3,346	6,959	6,653
Future income taxes	(1,425)	16	(1,129)	(215)
Allowance for funds used during construction	(13)	–	(3,296)	502
Gain on sale of property, plant and equipment	72	(574)	(1,254)	(574)
Changes in other non-cash items related to operations (note 11)	(7,177)	3,456	(9,405)	5,031
	44,072	44,803	91,764	85,388
Changes in non-cash working capital related to operations (note 11)	9,665	(2,858)	32,137	(6,755)
Cash from operating activities	53,737	41,945	123,901	78,633
Investing Activities				
Additions to property, plant and equipment	(84,280)	(88,950)	(165,753)	(152,201)
Customer contributions for property, plant and equipment	12,689	9,361	21,213	16,495
Additions to intangible assets	(2,032)	(2,854)	(5,242)	(4,284)
Proceeds from the sale of property, plant and equipment	357	2,951	2,075	3,245
Net change in employee loans	139	70	496	(167)
Cash used in investing activities	(73,127)	(79,422)	(147,211)	(136,912)
Financing Activities				
Increase in debt	48,931	26,287	100,477	69,644
Repayment of debt	(49,506)	(5,025)	(87,121)	(18,765)
Dividends paid (note 4)	(10,000)	(8,750)	(20,000)	(17,500)
Equity contributions (note 5)	30,000	25,000	30,000	25,000
Additions to transaction costs	(35)	(35)	(46)	(100)
Cash from financing activities	19,390	37,477	23,310	58,279
Change in cash and cash equivalents	–	–	–	–
Cash and cash equivalents, beginning of period	–	–	–	–
Cash and cash equivalents, end of period	–	–	–	–
Cash flows include the following elements:				
Interest paid	23,827	20,748	30,293	27,166
Income taxes paid	1,752	–	1,752	–

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements (Unaudited)

1. ENTITY DEFINITION AND NATURE OF OPERATIONS

FortisAlberta Inc. (the "Corporation") is a regulated electricity distribution utility in the Province of Alberta. Its business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers. The Corporation does not own or operate generation or transmission assets, is not involved in the direct sale of electricity, and has limited exposure to exchange rate fluctuations on foreign currency transactions. It is intended that the Corporation remain a regulated electric utility for the foreseeable future, focusing on the delivery of safe, reliable and cost-effective electricity services to its customers in Alberta.

The Corporation is regulated by the Alberta Utilities Commission (the "AUC") pursuant to the *Alberta Utilities Commission Act* (the "*AUC Act*"). The AUC's jurisdiction, pursuant to the *Electric Utilities Act* (the "*EUA*"), the *Public Utilities Act*, the *Hydro and Electric Energy Act* and the *AUC Act*, includes the approval of distribution tariffs for regulated distribution utilities such as the Corporation including the rates and terms and conditions on which service is to be provided by those utilities.

The Corporation is an indirect, wholly-owned subsidiary of Fortis Inc. (''Fortis''), a diversified, international electricity and gas distribution utility holding company having investments in distribution, transmission and generation utilities, real estate and hotel operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements and do not include all of the disclosures normally found in the annual audited financial statements for the Corporation. These interim financial statements should be read in conjunction with the Corporation's annual financial statements for the year ended December 31, 2010.

These financial statements have been prepared following the same accounting policies and methods as those used in preparing the most recent annual audited financial statements.

The preparation of interim financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures with respect to contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Certain estimates are necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until finalization and adjustments, if any, are determined pursuant to subsequent regulatory decisions or other regulatory proceedings. Due to the inherent uncertainty in making such estimates, actual results reported in future periods could differ materially from those estimated. Interim financial statements necessarily employ a greater use of estimates than the annual financial statements.

(b) Regulation

The Corporation is regulated by the AUC, pursuant to the *EUA*, the *Public Utilities Act*, the *Hydro and Electric Energy Act* and the *AUC Act*. The AUC administers these acts and regulations covering such matters as tariffs, rates, construction, operations and financing. The timing of recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using GAAP for entities not subject to rate regulation.

The Corporation operates under cost-of-service regulation as prescribed by the AUC. Rate orders issued by the AUC establish the Corporation's revenue requirements, being those revenues required to recover approved costs associated with the distribution business, and provide a rate of return on a deemed capital structure applied to approved rate base assets.

The Corporation applies for tariff revenue based on estimated costs-of-service. Once the tariff is approved, it is not adjusted as a result of actual costs-of-service being different from that which was estimated, other than for certain prescribed costs that are eligible for deferral treatment and are either collected or refunded in future rates. When the AUC issues decisions affecting the financial statements, the effects of the decision are recorded in the period in which the decision is received.

(c) Future Changes in Accounting Policies

Adoption of New Accounting Standards

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises would be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011.

The pace and outcome of the International Accounting Standards Board's project on rate-regulated activities has put Canadian rate-regulated entities at a significant disadvantage in terms of their ability to adopt IFRS as of January 1, 2011. Accordingly, the AcSB has provided qualifying entities with an option to defer their changeover to IFRS by one year. The necessary amendments to the CICA Handbook were published by the AcSB in October 2010.

While the Corporation's IFRS Conversion Project had proceeded as planned in preparation for the adoption of IFRS on January 1, 2011, the Corporation qualified for the optional one year deferral and, therefore, will continue to prepare its financial statements in accordance with Part V of the CICA Handbook for all interim and annual periods ending on or before December 31, 2011.

The Corporation is currently exploring the adoption of United States Generally Accepted Accounting Principles effective January 1, 2012.

(All amounts in thousands of Canadian dollars, unless otherwise noted)

3. DEBT

	Coupon Rate	Payment Terms	Maturity Date	2011 Effective Rate	June 30, 2011	December 31, 2010
Senior unsecured debentures	%			%	$	$
Series 04-1	5.33	Semi-annual	2014	5.47	200,000	200,000
Series 04-2	6.22	Semi-annual	2034	6.31	200,000	200,000
Series 06-1	5.40	Semi-annual	2036	5.48	100,000	100,000
Series 07-1	4.99	Semi-annual	2047	5.04	109,891	109,891
Series 08-1	5.85	Semi-annual	2038	5.94	99,492	99,488
Series 09-1	7.06	Semi-annual	2039	7.15	99,987	99,987
Series 09-2	5.37	Semi-annual	2039	5.42	124,946	124,946
Series 10-1	4.80	Semi-annual	2050	4.85	124,912	124,911
Drawing on the syndicated credit facility	Variable	Variable	2012	1.58	39,972	22,984
Cash balances in overdraft position	N/A	N/A	2011	–	5,718	9,352
Transaction costs	–	–	–	–	(8,556)	(8,742)
					1,096,362	1,082,817
Less: short-term debt (net of transaction costs)					45,619	9,352
Long-term debt					1,050,743	1,073,465

The Corporation has an unsecured syndicated credit facility with an amount available of $200.0 million, and with the consent of the lenders, the amount can be increased to $250.0 million. The maturity date of this facility is May 2012. Drawings under the syndicated credit facility are available by way of prime loans, bankers' acceptances and letters of credit. Prime loans issued under the syndicated credit facility bear an interest rate of prime. Bankers' acceptances issued under the syndicated credit facility are issued at the applicable bankers' acceptance discount rate plus a stamping fee calculated at 0.375%. The average interest rate for the six months ended June 30, 2011 on the syndicated credit facility was 1.6% (six months ended June 30, 2010 - 0.8%). As at June 30, 2011, there were $40.0 million in drawings under the facility for banker's acceptances (December 31, 2010 - $23.0 million), and there was $56.6 million drawn in letters of credit (December 31, 2010 - $56.6 million).

Under the Terms and Conditions of the Trust Indenture, the Corporation has the option to call the outstanding debentures in whole or in part for early redemption for the principal amount redeemed plus a redemption premium if applicable.

An unsecured demand facility of $10.0 million was available to the Corporation as at June 30, 2011. This facility bears an interest rate on all drawings equal to prime. There were no drawings on this facility as at June 30, 2011 (December 31, 2010 - $1.9 million which were included in short-term debt).

Scheduled principal repayments are as follows:

	$
2011	5,718
2012	39,972
2013	–
2014	200,000
2015	–
Thereafter	859,228
	1,104,918

(All amounts in thousands of Canadian dollars, unless otherwise noted)

4. SHARE CAPITAL

Authorized – unlimited number of:

- Common shares
- Class A common shares
- First Preferred non-voting shares, redeemable, cumulative dividend at 10% of the redemption price. Subject to applicable law, the Corporation shall have the right to redeem, at any time, all or any part of the then outstanding first preferred shares for $348.9 million together with any accrued and unpaid dividends up to the redemption date.

Issued – 63 Class A common shares, with no par value.

For the three and six months ended June 30, 2011, the Corporation declared and paid dividends totaling $10.0 million and $20.0 million respectively (three and six months ended June 30, 2010 - $8.8 million and $17.5 million respectively) to Fortis Alberta Holdings Inc. (the Corporation's parent and an indirectly wholly owned subsidiary of Fortis).

5. CONTRIBUTED SURPLUS

The Corporation was incorporated under the laws of Alberta for the initial purpose of acquiring the distribution and retail operations of TransAlta, pursuant to an asset transfer agreement, which had an effective closing date of August 31, 2000. The Corporation was acquired by an indirectly wholly-owned subsidiary of Aquila, a U.S. public company, on August 31, 2000. The consideration paid for this acquisition has been recorded in these financial statements using pushdown accounting, the final adjustment of which occurred on March 15, 2002.

Contributed surplus relates to the pushdown of the excess purchase price paid over the carrying value paid by the Corporation's former parent on acquisition of the Corporation, and equity contributions from Fortis Alberta Holdings Inc. for which no additional shares were issued. During the three and six months ended June 30, 2011, the Corporation received equity contributions of $30.0 million from Fortis Alberta Holdings Inc. (three and six months ended June 30, 2010 - $25.0 million).

6. CAPITAL MANAGEMENT

The Corporation's objectives when managing capital are to ensure ongoing access to capital to allow it to build and maintain the electrical distribution system within the Corporation's service territory. To ensure this access to capital, the Corporation targets a long-term capital structure that includes approximately 59% long-term debt and 41% equity, which is consistent with the Generic Cost of Capital Decision 2009-216. This targeted capital structure is after eliminating the effects of goodwill, the regulatory tax basis adjustment and other items that do not impact the deemed regulatory capital structure. This ratio is maintained by the Corporation through the issuance from time to time of bonds or other evidences of indebtedness, and/or equity contributions by Fortis Alberta Holdings Inc.

Summary of Long-term Capital Structure

	June 30, 2011		December 31, 2010	
	$ millions	%	$ millions	%
Long-term debt[(a)]	1,059.2	55.3	1,082.2	57.3
Shareholder's equity	857.7	44.7	807.5	42.7
Total	1,916.9	100.0	1,889.7	100.0

Note:

a. *The June 30, 2011, balance does not include transaction costs of $8.5 million (December 31, 2010 - $8.7 million).*

(All amounts in thousands of Canadian dollars, unless otherwise noted)

In the management of capital, the Corporation includes shareholder's equity (excluding accumulated other comprehensive income), short-term and long-term debt, and cash and cash equivalents in the definition of capital.

As at June 30, 2011, the Corporation has externally imposed capital requirements by virtue of the Trust Indenture and the syndicated credit facility to which it is subject that limit the amount of debt that can be incurred relative to equity. The Corporation is in compliance with these externally imposed capital requirements as at June 30, 2011.

7. EMPLOYEE FUTURE BENEFITS

During the three and six months ended June 30, 2011, the Corporation recorded pension and other post-employment benefit expenses of $2,829 and $5,399 respectively (three and six months ended June 30, 2010 - $1,878 and $4,264 respectively).

8. RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with its parent and other related companies under common control. The amounts included in accounts receivable and accounts payable for related parties were measured at the exchange amount and are as follows:

	Included in Accounts Receivable		Included in Accounts Payable	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
FortisBC Inc.	22	76	–	7
Fortis	–	12	598	594
FortisBC Pacific Holdings Inc.	2	–	–	–
Newfoundland Power	5	–	–	–
Fortis Turks and Caicos Inc.	467	15	–	–
Maritime Electric Company, Limited	7	–	–	–
FortisBC Holdings Inc.	3	–	–	–
Housing loans to officers of the Corporation[(a)]	700	750	–	–
Stock option loans to officers of the Corporation[(b)]	167	814	–	–
Employee share purchase plan loans to officers of the Corporation[(c)]	28	14	–	–
Employee computer loans to officers of the Corporation[(d)]	2	1	–	–
	1,403	1,682	598	601
Less: current portion	536	117	598	601
Long-term portion	867	1,565	–	–

Notes:

a. *The Corporation has granted housing and relocation loans to officers of the Corporation. The loans are interest-free for a period of three to six years from the loan grant date after which interest will accrue at the rate of prime plus 0.5%. The total amount of the loans must be repaid within 10 years of the loan grant date. The loans are secured by mortgages on the residences purchased by the officers.*

b. *The Corporation has granted stock options loans to officers of the Corporation for purposes of exercising their Fortis stock options. Each loan bears interest equal to the amount of the dividends received on the shares. The total amount of each loan must be repaid within 10 years of the loan grant date. Each loan is secured by the share certificates held by the officer.*

c. *The amounts receivable under the employee share purchase plan are for loans to officers of the Corporation under the employee share purchase plan. These loans are taken on an interest-free basis and must be repaid in full within one year of the share purchase date.*

d. *The amounts receivable under the computer loans are for loans to officers of the Corporation under the employee personal computer purchase program. These loans are taken on an interest-free basis and must be repaid in full within three years of the loan issue date.*

The Corporation bills related parties on terms and conditions consistent with billings to third parties. These require amounts to be paid on a net 30 day basis with interest on overdue amounts charged at a rate of 1.5% per month (19.56% per annum). Terms and conditions on amounts billed to the Corporation by related parties are net 30 days with interest being charged on any overdue amounts.

(All amounts in thousands of Canadian dollars, unless otherwise noted)

The amounts included in other revenue and operating costs for related parties for the three months ended June 30, 2011 and 2010 were measured at the exchange amount and are as follows:

	Included in Other Revenue		Included in Operating Costs	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
FortisBC Inc.	34	21	6	6
Fortis	–	57	708	740
FortisBC Pacific Holdings Inc.	3	–	–	–
Newfoundland Power	5	–	2	–
Fortis Turks and Caicos Inc.	86	–	–	–
Maritime Electric Company, Limited	15	3	–	–
FortisOntario Inc.	–	–	3	–
FortisBC Holdings Inc.	3	–	–	–
Total	146	81	719	746

The amounts included in other revenue and operating costs for related parties for the six months ended June 30, 2011 and 2010 were measured at the exchange amount and are as follows:

	Included in Other Revenue		Included in Operating Costs	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
FortisBC Inc.	77	61	14	12
Fortis	–	60	1,448	1,364
FortisBC Pacific Holdings Inc.	6	8	–	–
Newfoundland Power	5	–	2	–
Fortis Turks and Caicos Inc.	466	–	–	–
Maritime Electric Company, Limited	15	5	–	–
FortisOntario Inc.	–	–	7	–
FortisBC Holdings Inc.	3	–	1	–
Fortis Properties Inc.	–	–	–	2
Total	572	134	1,472	1,378

FortisBC Inc. – billed the Corporation in 2011 for charges consisting of pension costs, as well as travel and accommodation expenses for board meetings, air fare and meals. In 2011, the Corporation provided metering services, employee services, information technology services and material sales to FortisBC Inc.

Fortis – billed the Corporation in 2011 for charges relating to corporate governance expenses, stock-based compensation costs, subscription expenses, consulting services and travel and accommodation expenses.

FortisBC Pacific Holdings Inc. (formerly Fortis Pacific Holdings Inc.) – received metering services from the Corporation in 2011. Fortis Pacific Holdings Inc. was renamed to FortisBC Pacific Holdings Inc. effective March 1, 2011.

Newfoundland Power Inc. – billed the Corporation for consultant costs on risk management services in 2011. In 2011 the Corporation provided employee services to Newfoundland Power Inc.

Fortis Turks and Caicos Inc. – received employee services from the Corporation in 2011.

Maritime Electric Company, Limited – in 2011 the Corporation provided metering services to Maritime Electric Company, Limited.

FortisOntario Inc. – billed the Corporation in 2011 for charges relating to travel and accommodation expenses for board meetings.

(All amounts in thousands of Canadian dollars, unless otherwise noted)

FortisBC Holdings Inc. (formerly Terasen Inc.) – billed the Corporation in 2011 for consulting costs. In 2011 the Corporation provided employee services to FortisBC Holdings Inc. Terasen Inc. was renamed to FortisBC Holdings Inc. effective March 1, 2011.

All services provided to or received from related parties were billed on a cost-recovery basis.

9. COMMITMENTS AND CONTINGENCIES

(a) Capital Expenditures

As an electric utility, the Corporation is obligated to provide service to customers within its service territory. As such, the Corporation may be required to expend capital in excess of that which it has forecast in its distribution tariff application.

(b) Pension Contribution Obligations

The Corporation makes minimum pension contributions into a defined benefit component of the Corporation's pension plan for certain employees, which according to the Actuarial Valuation for Funding Purposes as at December 31, 2010 amounts to approximately $2.8 million in 2011 and 2012, and $2.3 million in 2013. Future actuarial valuations will establish the funding obligations for subsequent years, which could be materially different depending upon market conditions. The next required funding valuation is expected to be completed as at December 31, 2013.

10. FINANCIAL INSTRUMENTS

(a) Designation and Valuation of Financial Instruments

CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, requires an entity to designate its financial instruments into one of the following five categories: 1) loans and receivables, 2) assets held-to-maturity, 3) assets available-for-sale, 4) other financial liabilities, and 5) held-for-trading assets and liabilities. The Corporation did not designate any of its financial assets or liabilities as held-to-maturity, available-for-sale or held for trading as at June 30, 2011.

The Corporation has elected to designate its financial instruments as follows:

	June 30, 2011		December 31, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Loans and receivables				
Accounts receivable (short-term)[(a)(b)]	118,849	118,849	113,748	113,748
Accounts receivable (long-term)[(a)]	897	897	1,584	1,584
Other financial liabilities				
Accounts payable and accrued liabilities[(a)(c)]	138,133	138,133	133,760	133,760
Short-term debt[(a)(f)]	45,690	45,690	9,352	9,352
Long-term debt[(d)(e)]	1,059,228	1,194,569	1,082,207	1,223,015

Notes:

a. *Due to the nature and/or short maturity of these financial instruments, carrying value approximated fair value.*
b. *The December 31, 2010 balance does not include goods and services tax ("GST") receivable of $0.4 million.*
c. *Included within accounts payable, accrued and other liabilities in the Balance Sheet. The June 30, 2011 balance does not include GST payable of $1.3 million.*
d. *The June 30, 2011 balance does not include transaction costs of $8.5 million (December 31, 2010 - $8.7 million).*
e. *The fair value of the long-term debt is estimated based on the quoted market prices for the same or similarly rated issues for debt of the same or similar remaining maturities.*
f. *The June 30, 2011 balance does not include transaction costs of $0.1 million.*

(All amounts in thousands of Canadian dollars, unless otherwise noted)

(b) Derivatives

The Corporation currently does not have any stand-alone derivative instruments as defined under Section 3855. The Corporation conducted a review of contractual agreements for embedded derivatives.

Under Section 3855, an embedded derivative must meet three specific criteria to be accounted for under the Section. For contracts entered into by the Corporation, all potential embedded derivatives reviewed by the Corporation were closely related with the economic characteristics and risks of the underlying contract, had no notional amount that could be used to measure the instrument, or had no value.

(c) Risk Management

Exposure to counterparty credit risk, interest rate risk and liquidity risk arises in the normal course of the Corporation's business. The Corporation currently does not enter into derivative financial instruments to reduce exposure to fluctuations in any of the risks impacting the Corporation's operations. The Corporation enters into financial instruments to finance the Corporation's operations in the normal course of business.

(i) Counterparty Credit Risk

The Corporation defines counterparty credit risk as the financial risk associated with the non-performance of contractual obligations by counterparties. The Corporation extends credit to select counterparties in its role as an electrical system distribution provider.

The Corporation monitors its credit exposure in accordance with the Terms and Conditions of Distribution Access Service as approved by the AUC. The following table provides information on the counterparties that the Corporation extends credit to with respect to its distribution tariff billings as at June 30, 2011.

Credit Rating	Number of Counterparties	Gross Exposure	Exposure
AAA to AA (low)	1	1,907	–
A (high) to A (low)	8	4,878	–
BBB (high) to BBB (low)	9	17,226	–
Not rated	32	108,749	7,932
Total	50	132,760	7,932

Gross exposure represents the projected value of retailer billings over a 60-day period. As outlined in the Terms and Conditions of Distribution Access Service, the Corporation is required to minimize its gross exposure to retailer billings by obtaining an acceptable form of prudential. These acceptable forms of prudential include a cash deposit, bond, letter of credit, an investment grade credit rating from a major rating agency, or a financial guarantee from an entity with an investment grade credit rating.

Retailers with investment grade credit ratings have the exposure shown as nil since the rating serves to reduce the amount of prudential required under the Terms and Conditions of Distribution Access Service. For retailers that do not have an investment grade credit rating, the exposure is calculated as the projected value of billings over a 60-day period less the prudential held by the Corporation.

Volatility in the global capital markets and a slowdown in the Alberta economy could cause the credit quality of some of the Corporation's customers to decrease. In the event that the prudential obtained by the Corporation under the Terms and Conditions of Distribution Access Service is not sufficient to cover a loss due to non-payment from the Corporation's counterparties, the Corporation would review all other options available to collect the non-payment. However, these options would not ensure that a loss could be avoided by the Corporation.

(All amounts in thousands of Canadian dollars, unless otherwise noted)

No allowance for doubtful accounts has been recorded by the Corporation. The aging analysis of the Corporation's accounts receivable is as follows:

	June 30, 2011
Not past due	115,960
Past due 0-60 days	2,665
Past due 61 days and over	224
	118,849

(ii) Interest Rate Risk
The Corporation defines interest rate risk as the financial risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation's debentures bear fixed interest rates, thereby minimizing cash flow variability due to interest rate exposures. The fair value of the fixed rate debentures fluctuates as market interest rates change. However, the Corporation plans to hold these debentures until maturity and applies in its rate applications to recover the actual interest rates on the debentures, thereby mitigating the risk of these fluctuations. The drawings under the Corporation's syndicated credit facility are at current market short-term interest rates, exposing the Corporation to some cash flow risk, but minimal fluctuations in fair value.

A change in the Corporation's interest rates results in interest rate exposure for drawings under the syndicated credit facility. The Corporation has determined that a change in interest rates of an increase of 200 basis points and a decrease of 25 basis points represents a reasonably possible financial risk, and has prepared the following sensitivity analysis to represent the impacts of a change on net income for the three and six months ended June 30, 2011:

	Three months ended June 30, 2011		Six months ended June 30, 2011	
	25 basis point decrease	200 basis point increase	25 basis point decrease	200 basis point increase
	$	$	$	$
Increase (decrease) in net income	35	(279)	52	(415)

Further, changes to the credit rating of the Corporation also represent a financial risk. The Corporation has debt facilities, which have interest rate and fee components that are sensitive to the credit rating of the Corporation. The Corporation is rated by Moody's Investors Service ("Moody's"), Dominion Bond Rating Service Limited ("DBRS") and Standard and Poor's ("S&P") and a change in rating by any of these rating agencies could potentially increase or decrease the interest expense of the Corporation.

As at June 30, 2011, the Corporation was rated by Moody's at Baa1, by S&P at A-, and by DBRS at A (low). A downward one notch change in the rating by any of DBRS, Moody's or S&P on January 1, 2011 could potentially have increased interest expense under these debt facilities by approximately $22 for the three months ended June 30, 2011, and $40 for the six months ended June 30, 2011. An upward one notch change in the rating by any of DBRS, Moody's or S&P on January 1, 2011 could potentially have decreased interest expense under these debt facilities by approximately $15 for the three months ended June 30, 2011, and $29 for the six months ended June 30, 2011.

(iii) Liquidity Risk
The Corporation defines liquidity risk as the financial risk that the Corporation will encounter challenges in meeting obligations associated with financial liabilities. The Corporation anticipates it will be able to meet interest payments on outstanding indebtedness from internally generated funds but expects to rely upon the proceeds of new indebtedness to meet the principal obligations when due.

(All amounts in thousands of Canadian dollars, unless otherwise noted)

Volatility experienced in the global capital markets may increase the cost of issuance of long-term capital by the Corporation. Capital market volatility may also impact the Corporation's future funding obligations and/or pension expense associated with its defined benefit pension plan. There are a number of risks associated with the Corporation's defined benefit pension plan including: 1) there is no assurance that the Corporation's defined benefit pension plan will earn the assumed rate of return, 2) market driven changes may result in changes in the discount rates and other variables, which would result in the Corporation being required to make contributions in the future that differ from the estimates, and 3) there is measurement uncertainty incorporated into the actuarial valuation process. These risks are expected to be mitigated as the Corporation makes application in rates to collect from customers the actual cash payments into the Corporation's defined benefit pension plan and defined contribution pension plans. Therefore, an increase or decrease in the Corporation's future funding obligations and/or pension expense associated with either plan is expected to be collected or refunded in future rates, subject to forecast risk. In December 2009, the defined benefit assets were invested in a 100% long-term bond fund, which significantly reduces the forecast risk on future defined benefit funding obligations.

The Corporation's outstanding financial liabilities as at June 30, 2011, include short-term debt, accounts payable and accrued liabilities, and long-term debt. The Corporation expects to settle its financial liabilities relating to short-term debt and accounts payable and accrued liabilities in accordance with their contractual terms of repayment, which are generally within one year.

The following table summarizes the number of years to maturity of the principal outstanding and interest payments on the Corporation's long-term debt, which is composed of senior unsecured debentures, as at June 30, 2011:

	1–5 Years	6–10 Years	> 10 Years	Total
Senior unsecured debentures [(a)(b)]				
- Principal payments	200,000	–	860,000	1,060,000
- Interest payments	282,068	244,758	919,365	1,446,191
Total	482,068	244,758	1,779,365	2,506,191

Notes:

a. *The June 30, 2011 balance does not include transaction costs of $8.5 million.*

b. *Payments are shown after amortization of discounts.*

(All amounts in thousands of Canadian dollars, unless otherwise noted)

11. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in Other Non-cash Items Related to Operations:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Decrease (increase) in income taxes receivable	–	10	–	(1,102)
Increase in investment tax credits receivable	(26)	–	(51)	–
(Increase) decrease in non-current regulatory assets	(3,329)	2,707	(6,120)	5,287
(Increase) decrease in accrued pension assets	(431)	255	(144)	434
Increase in accounts payable, accrued and other liabilities	–	322	–	322
Increase in long-term other liabilities	170	300	485	626
Decrease in long-term regulatory liabilities	(3,562)	(145)	(3,572)	(552)
Increase (decrease) in unamortized bankers' acceptance discount	1	7	(3)	16
	(7,177)	3,456	(9,405)	5,031

Changes in Non-cash Working Capital Related to Operations:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
(Increase) decrease in accounts receivable	(5,050)	2,081	1,588	(7,022)
Increase in prepaids and deposits	(1,759)	(574)	(1,418)	(620)
Decrease in income taxes receivable	–	–	–	1,122
Decrease (increase) in regulatory assets	3,377	(2,395)	15,118	5,898
Increase (decrease) in accounts payable, accrued and other	9,506	(331)	10,460	(6,547)
(Decrease) increase in income taxes payable	(64)	–	156	–
Increase (decrease) in regulatory liabilities	3,655	(1,639)	6,233	414
	9,665	(2,858)	32,137	(6,755)

FortisAlberta Inc. Supplementary Financial Information Coverage Ratios

The following financial ratio is provided as additional supplementary information.

For the twelve months ended June 30	**2011**
Earnings coverage (times) [(a)]	2.406

Note:

a. Net income before interest expense and taxes divided by interest expense.