MANAGEMENT'S REPORT

The accompanying annual financial statements of FortisAlberta Inc. (the "Corporation") have been prepared by management, who are responsible for the integrity of the information presented. These annual financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

In meeting its responsibility for the reliability and integrity of the annual financial statements, management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to provide reasonable assurance that transactions are properly authorized and recorded, assets are safeguarded and liabilities are recognized. The systems of the Corporation focus on the need for training of qualified and professional staff and the effective communication of management guidelines and policies. The internal control system also includes an internal audit function and an established code of business conduct. The effectiveness of the internal controls of the Corporation is evaluated on an ongoing basis.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit, Risk and Environment Committee (the "Audit Committee"), which is composed of four members, all of which are independent. The Audit Committee oversees the external audit of the Corporation's annual financial statements and the accounting, financial reporting and disclosure processes and policies of the Corporation. The Audit Committee meets with management, the shareholder's auditors and the internal auditor to discuss the results of the external audit, the adequacy of the internal accounting controls and the quality and integrity of financial reporting. The Corporation's annual financial statements are reviewed by the Audit Committee with each of management and the shareholder's auditors before the statements are recommended to the Board of Directors for approval. The shareholder's auditors have full and free access to the Audit Committee.

The Audit Committee has the duty to review the adoption of, and changes in, accounting principles and practices, which have a material effect on the Corporation's annual financial statements and to review and report to the Board of Directors on policies relating to the accounting, financial reporting and disclosure processes. The Audit Committee has the duty to review financial reports requiring the Board of Directors approval prior to submission to the securities commissions or other regulatory authorities, to assess and review management judgments material to reported financial information and to review the shareholder's auditors' independence and auditors' fees.

The 2012 annual financial statements were reviewed by the Audit Committee and, on their recommendation, were approved by the Board of Directors of FortisAlberta Inc. Ernst & Young LLP, independent auditors appointed by the shareholder of FortisAlberta Inc. upon recommendation of the Audit Committee, have performed an audit of the 2012 annual financial statements and their report follows.

(signed)
Karl Smith
President and Chief Executive Officer

(signed)
Ian Lorimer
Vice President, Finance and Chief Financial Officer

February 5, 2013

INDEPENDENT AUDITORS' REPORT

To the Shareholder of FortisAlberta Inc.,

We have audited the accompanying financial statements of FortisAlberta Inc. which comprise the balance sheets as at December 31, 2012 and 2011, and the statements of income and comprehensive income, changes in shareholder's equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of FortisAlberta Inc. as at December 31, 2012 and 2011 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Ernst + Young LLP

Chartered Accountants

February 5, 2013
Calgary, Canada

BALANCE SHEETS

As at December 31 (all amounts in thousands of Canadian dollars)	2012	2011
Assets		
Current assets		
Cash	$ 44,072	$ –
Accounts receivable (notes 3 and 18)	118,464	144,170
Prepaids and deposits	3,805	4,731
Income taxes receivable	–	98
Deferred income taxes (note 16)	1,637	3,506
Regulatory assets (note 4)	1,468	47,824
	169,446	200,329
Accounts receivable (notes 3 and 18)	691	886
Income taxes receivable	1,409	1,280
Regulatory assets (note 4)	119,460	73,559
Property, plant and equipment (note 5)	2,421,054	2,135,182
Intangible assets (note 6)	55,387	61,386
Transaction costs	10,304	9,754
Goodwill	226,968	226,968
	$ 3,004,719	$ 2,709,344
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable and other current liabilities (notes 7 and 18)	$ 273,829	$ 184,845
Short-term debt (notes 9 and 18)	–	5,568
Income taxes payable	1,472	–
Regulatory liabilities (note 4)	6,716	16,859
	282,017	207,272
Other liabilities (note 8)	17,532	16,170
Regulatory liabilities (note 4)	351,669	303,811
Deferred income taxes (note 16)	68,776	44,619
Long-term debt (notes 9 and 18)	1,309,151	1,213,192
	2,029,145	1,785,064
Shareholder's Equity		
Share capital, no par value, unlimited authorized shares, 63 shares issued and outstanding (2011 – 63) (note 11)	173,848	173,848
Additional paid-in capital (note 12)	544,896	544,896
Accumulated other comprehensive loss (note 13)	(4,176)	(4,303)
Retained earnings	261,006	209,839
	975,574	924,280
	$ 3,004,719	$ 2,709,344

Commitments and Contingencies (note 17)

Approved on behalf of the Board:

(signed)
Al Duerr
Director

(signed)
Judith Athaide
Director

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

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Years ended December 31 (all amounts in thousands of Canadian dollars)	2012	2011
Revenues		
Electric rate revenue	$ 425,453	$ 396,145
Other revenue	23,573	12,134
	449,026	408,279
Expenses		
Cost of sales (exclusive of items shown separately below)	158,098	145,247
Depreciation	117,305	120,394
Amortization	15,952	13,706
	291,355	279,347
Other income	3,503	4,700
Income before interest and income taxes	161,174	133,632
Interest (note 10)	64,700	59,084
Income before income taxes	96,474	74,548
Income taxes (note 16)	307	969
Net income	$ 96,167	$ 73,579
Other comprehensive (income) loss		
Unrecognized other post-employment benefit costs (note 13)	(127)	197
Comprehensive income	$ 96,294	$ 73,382

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

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

Years ended December 31 (all amounts in thousands of Canadian dollars)	2012	2011
Share Capital (note 11)		
Balance, beginning of year	$ 173,848	$ 173,848
Share capital issued	—	—
Balance, end of year	$ 173,848	$ 173,848
Additional Paid-in Capital (note 12)		
Balance, beginning of year	$ 544,896	$ 489,896
Equity contributions	–	55,000
Balance, end of year	$ 544,896	$ 544,896
Accumulated Other Comprehensive Loss (note 13)		
Balance, beginning of year	$ (4,303)	$ (4,106)
Other comprehensive income (loss)	127	(197)
Balance, end of year	$ (4,176)	$ (4,303)
Retained Earnings		
Balance, beginning of year	$ 209,839	$ 176,260
Net income	96,167	73,579
Dividends (note 11)	(45,000)	(40,000)
Balance, end of year	$ 261,006	$ 209,839
Total Shareholder's Equity	$ 975,574	$ 924,280

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

STATEMENTS OF CASH FLOWS

Years ended December 31 (all amounts in thousands of Canadian dollars)	2012	2011
Operating Activities		
Net income	$ 96,167	$ 73,579
Non-cash items included in net income:		
Depreciation	117,305	120,394
Amortization	16,643	14,206
Deferred income taxes	(7,352)	(2,488)
Allowance for funds used during construction	(6,679)	(6,739)
Gain on sale of property, plant, and equipment	(4)	(1,254)
Changes in operating assets and liabilities and non-cash working capital balances:		
Current:		
Accounts receivable	23,105	(25,126)
Prepaids and deposits	926	(959)
Income taxes receivable	98	(98)
Regulatory assets	46,356	8,520
Accounts payable and current other liabilities	90,326	49,262
Income taxes payable	1,472	(94)
Regulatory liabilities	(10,394)	12,571
Non-current:		
Income taxes receivable	(129)	(100)
Regulatory assets	(12,273)	(9,245)
Other liabilities	1,362	(117)
Regulatory liabilities	41,335	(9,826)
Cash from operating activities	398,264	222,486
Investing Activities		
Property, plant and equipment	(432,582)	(405,341)
Customer contributions for property, plant and equipment	42,156	49,404
Intangible assets	(9,840)	(10,732)
Proceeds from the sale of property, plant and equipment	1,642	2,870
Net change in employee loans	142	666
Cash used in investing activities	(398,482)	(363,133)
Financing Activities		
Change in short-term debt	(5,568)	(3,784)
Proceeds from long-term debt, net of issue costs	124,002	123,995
Net borrowings under committed credit facility	(29,144)	5,436
Dividends paid (note 11)	(45,000)	(40,000)
Equity contributions (note 12)	–	55,000
Cash from financing activities	44,290	140,647
Change in cash and cash equivalents	44,072	–
Cash and cash equivalents, beginning of year	–	–
Cash and cash equivalents, end of year	$ 44,072	$ –

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

NOTES TO THE FINANCIAL STATEMENTS

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 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 and is not involved in the direct sale of electricity. 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''), which is 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

The financial statements of the Corporation have been prepared by management in accordance with accounting principles generally accepted in the United States ("GAAP") as codified in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). The preparation of 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 amount of revenues and expenses during the reported periods. 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. Significant accounting estimates made by management include income taxes, contingent liabilities due to general litigation, depreciation, amortization, employee future benefits, goodwill impairment, accrued revenue, expense accruals and other items impacted by regulation. Due to the inherent uncertainty in making such estimates, actual results reported in future periods could differ materially from those estimated. Certain prior period figures have been restated to conform to current period presentation.

(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 revenue requirements, customer rates, construction of assets, 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, the form of which is prescribed by the AUC. Rate orders issued by the AUC establish the Corporation's revenue requirements, being those revenues corresponding to the costs associated with the distribution business, and provide a rate of return on a deemed equity component of capital structure ("ROE") applied to rate base assets. When the AUC issues a decision affecting the financial results of the Corporation, the effects of the decision are recorded in the period in which the decision is received.

The Corporation applies for the revenue requirement based on the estimated costs to provide distribution service and once the revenue requirement is approved, it is not adjusted as a result of actual cost-of-service being different from that which was applied for, other than for certain prescribed costs that are eligible for deferral treatment and are either collected or refunded in future rates. As such, net income is impacted by: (i) changes in the AUC approved ROE; (ii) changes in rate base; (iii) changes in the actual number and composition of customers compared to forecast; (iv) variances between actual expenses incurred and forecast expenses used to determine the revenue requirement and set customer rates; and (v) timing differences within an annual financial reporting period, between when actual expenses are incurred and when they are recovered from customers in rates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(c) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and highly liquid investments with original maturities of three months or less.

(d) Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are measured at fair value and are reported at the gross outstanding amount adjusted for an allowance for doubtful accounts if necessary. Accounts receivable are subsequently measured at amortized cost, using the effective interest method. Accounts receivable are written off in the period in which the receivable is determined to be uncollectible. If required, the Corporation maintains an accumulated provision for uncollectible customer accounts receivable that is estimated based on known accounts, historical experience and other currently available information. Interest is charged on overdue accounts receivable balances.

(e) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Costs include direct labour, allocated overhead, and a portion of the depreciation of assets, such as tools and vehicles, used in the construction of other assets. Costs also include Alberta Electric System Operator ("AESO") contributions which are investments that the Corporation is required to make as a transmission customer to partially fund the construction of transmission facilities. Certain of the Corporation's assets may be acquired or constructed with financial assistance in the form of contributions from customers. These contributions are recorded as a reduction of property, plant and equipment and are depreciated over the life of the related assets. Materials and supplies are included within property, plant and equipment and are recorded at moving average cost.

Depreciation is provided on a straight-line basis at various rates ranging from 1.88% to 43.17% in 2012 (2011 – 2.42% to 33.36%) as approved by the AUC, based on depreciation studies prepared by the Corporation. Changes to depreciation rates approved by the AUC are accounted for on a prospective basis. Depreciation rates include an amount allowed for regulatory purposes for non-asset retirement obligation ("non-ARO") removal costs. The amount provided for in depreciation expense is recorded as a long-term regulatory liability. Actual non-ARO removal costs, net of salvage proceeds, are recorded against the regulatory liability when incurred.

Generally, when a regulated asset is retired or disposed of, there is no gain or loss recorded in net income. Any difference between the cost and accumulated depreciation of the asset, net of salvage proceeds, is charged to accumulated depreciation. It is expected that any gain or loss that is charged to accumulated depreciation will be reflected in future depreciation expense when it is refunded or collected in customer rates.

The Corporation capitalizes and includes in property, plant and equipment an allowance for funds used during construction ("AFUDC"), which represents an amount allowed for regulatory purposes for financing costs during construction. AFUDC is recovered in customer rates over the life of the assets through depreciation expense.

(f) Intangible Assets

Intangible assets subject to amortization are recorded at cost, which includes direct labour and allocated overhead, less accumulated amortization. Intangible assets not subject to amortization are recorded at cost. Costs incurred to renew or extend the term of intangible assets are capitalized and amortized over the new useful life of the asset.

Amortization is provided on a straight-line basis at various rates ranging from 2.88% to 43.04% in 2012 (2011 – 2.74% to 38.75%) as approved by the AUC, based on amortization studies prepared by the Corporation. Changes to amortization rates approved by the AUC are accounted for on a prospective basis.

Generally, when a regulated asset is retired or disposed of, there is no gain or loss recorded in net income. Any difference between the cost and accumulated amortization of the asset, net of salvage proceeds, is charged to accumulated amortization. It is expected that any gain or loss that is charged to accumulated amortization will be reflected in future amortization expense when it is refunded or collected in rates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(f) Intangible Assets (Cont'd)

The Corporation capitalizes and includes in intangible assets an AFUDC, which represents an amount allowed for regulatory purposes for financing costs during construction. AFUDC is recovered in customer rates over the life of the assets through amortization expense.

(g) Impairment of Long-Lived Assets

The Corporation reviews the valuation of long-lived assets subject to depreciation or amortization when events or changes in circumstances may indicate or cause its carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. An impairment loss, if any, would be recorded as the excess of the carrying value of the asset over its fair value.

(h) Asset Retirement Obligations

Asset retirement obligations ("AROs") related to the Corporation's distribution assets are recorded at fair value in the period in which they are incurred, unless the fair value cannot be reasonably determined. If a liability is recognized, a corresponding asset retirement cost is added to the carrying amount of the related long-lived asset, and is depreciated over the estimated useful life of the related asset. Accretion of the liability due to the passage of time is an operating expense, and is recorded over the estimated time period until settlement of the legal obligation. The Corporation has AROs associated with the removal of certain distribution system assets from rights-of-way at the end of the life of the assets. As it is expected that these assets will be in service indefinitely, an estimate of the fair value of asset removal costs cannot be reasonably determined at this time.

(i) Goodwill

Goodwill represents the excess, at the date of acquisition, of the purchase price over the fair value of the net amounts assigned to individual assets acquired and liabilities assumed relating to the business acquisition. Goodwill is recorded at initial cost less any previous amortization and any write-down for impairment. The goodwill recognized in the financial statements results from push-down accounting applied when the Corporation was acquired by Fortis in 2004.

The Corporation is required to perform an annual impairment test and any impairment provision is charged to net income. In addition to the annual impairment test, the Corporation also performs an impairment test if any event occurs or if circumstances change that would indicate that the fair value of a reporting unit was below its carrying value.

(j) Employee Future Benefits

All accrued obligations for defined benefit pension and other post-employment benefit ("OPEB") plans are determined using the projected benefits method prorated on services. Future salary levels affect the amount of employee future benefits for the defined benefit pension plans. In valuing the OPEB and defined benefit pension costs, the Corporation uses management's best estimate assumptions. For the liability discount rate, the Corporation uses the long-term market rate of high quality debt instruments at the measurement date. The Corporation uses third party quoted values to value plan assets. Unrecognized actuarial gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of plan assets are amortized into net income over the expected average remaining service period of the active employees receiving benefits under the plan. Unamortized past service costs are amortized into net income over the expected average remaining service period of the active employees receiving benefits as at the date of amendment.

The funded status of defined benefit pension and OPEB plans are recognized on the balance sheet. The funded status is measured as the difference between the fair value of the plan assets and the benefit obligation. With respect to the defined benefit plans, any unrecognized actuarial gains and losses and past services costs and credits that arise during the period are subject to deferral treatment. In the case of the OPEB plan, unrecognized actuarial gains and losses and past services costs and credits are not subject to deferral treatment and are recognized as a component of other comprehensive income.

The Corporation recovers in customer rates employee future benefit costs based on estimated cash payments. Any difference between the expense recognized under GAAP for defined benefit pension plans and that recovered in current rates, which is expected to be recovered or refunded in future rates, is subject to deferral treatment. Any difference between the expense recognized under GAAP for the OPEB plan and that recovered in current rates, which is expected to be recovered or refunded in future rates, is not subject to deferral treatment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(k) Revenue Recognition

Revenues are recognized in the period services are provided, at AUC-approved rates where applicable, and when collectability is reasonably assured.

According to the *EUA,* the Corporation is required to arrange and pay for transmission service with the AESO and collect transmission revenue from its customers, which is done by invoicing the customers' retailers through the Corporation's transmission component of its AUC-approved rates. As the Corporation is solely a distribution company, and as such does not own or operate any transmission facilities, it is largely a conduit for the flow through of transmission costs to the end-use customers as the transmission facility owner does not have the direct relationship with the customers. As a result, the Corporation reports revenues and expenses related to transmission services on a net basis in other revenue.

(l) Goods and Services Tax ("GST")

In the course of its operations, the Corporation collects GST from its customers. When customers are billed, a current liability for GST is recognized which corresponds to the revenue derived from the services provided by the Corporation. When expenses are incurred by the Corporation, a current asset for GST is recorded which corresponds to the expenditures derived from the goods or services received by the Corporation. The Corporation's revenues and expenses exclude GST. This net asset or liability is settled with the appropriate government authority.

(m) Stock-Based Compensation

The Corporation calculates compensation expense upon the issuance of stock options to its employees under Fortis stock option plans using the fair value based method. The compensation expense is amortized over the vesting period of the stock options.

(n) Leases

Leases that transfer to the Corporation substantially all of the risks and benefits incidental to ownership of the leased item are capitalized at an amount equal to the present value of the minimum lease payments. Capital leases are amortized over the term of the lease. Operating lease payments are recognized as an expense in net income over the term of the lease.

(o) Financial Instruments

Financial instruments are contracts that give rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial instruments are recorded initially at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Subsequent measurement depends on how the financial instrument has been classified. The Corporation's financial instruments, which include accounts receivable, accounts payable, accrued liabilities, short-term borrowings, dividends payable, other long-term liabilities and long-term debt are measured at amortized cost, using the effective interest method.

(p) Transaction Costs

The Corporation incurs transaction costs when entering into or renewing debt agreements. Transaction costs are deferred on the balance sheet when incurred and amortized to interest expense using the effective interest method over the life of the associated debt.

(q) Income Taxes

The Corporation follows the asset and liability method of accounting for income taxes in accordance with ASC *740 Income Taxes*. Income tax expense is recovered through customer rates based on income taxes that are currently payable for regulatory purposes. Therefore, current customer rates do not include the recovery of deferred income taxes related to temporary differences between the tax basis of assets and liabilities and their carrying amounts for regulatory purposes, as these taxes are expected to be collected in rates when they become payable. The Corporation recognizes an offsetting regulatory asset for the amount of income taxes that are expected to be collected in rates once they become payable.

Income tax interest and penalties are expensed as incurred and included in interest expense. Investment tax credits are deducted from the related assets and are recognized as a reduction of tax expense as the Corporation becomes taxable for rate setting purposes.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(q) Income Taxes (Cont'd)

Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recognized only when the more likely than not recognition threshold is met. The tax benefits are measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. The difference between a tax position taken, or expected to be taken, and the benefit recognized and measured pursuant to this guidance represents an unrecognized tax benefit.

(r) Accounting Changes

In 2011, the FASB issued two Accounting Standards Updates ("ASU") which amend guidance for the presentation of comprehensive income. The amended guidance requires an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The option to report other comprehensive income and its components in the statement of shareholder's equity has been eliminated. Although the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under existing guidance. The Corporation adopted these ASUs as at January 1, 2012 which did not change the Corporation's financial statement presentation of comprehensive income.

In 2011, the FASB issued an ASU which is intended to reduce complexity and costs by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. The ASU also expands upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The Corporation adopted this ASU as at January 1, 2012. In adopting the amendments, the Corporation has performed a qualitative assessment before calculating the fair value of its reporting unit when it performed its annual impairment test.

In 2011, the FASB issued an ASU which amends the wording used to describe many of the requirements for measuring fair value to achieve the objective of developing common fair value measurement and disclosure requirements, as well as improving consistency and understandability. Some of the requirements clarify the FASB's intent about the application of existing fair value measurement requirements while other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The Corporation adopted this ASU as at January 1, 2012 and it did not materially impact the Corporation's financial statements.

3. ACCOUNTS RECEIVABLE

	2012	2011
Trade accounts receivable	$ 116,279	$ 143,388
Related parties (note 15)	1,142	889
Employee receivables	563	508
Other receivables	1,171	271
Total receivables	119,155	145,056
Less: current portion	118,464	144,170
Total non-current receivables	$ 691	$ 886

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

4. REGULATORY ASSETS AND LIABILITIES

Based on previous, existing or expected AUC decisions, the Corporation has recorded the following amounts that are expected to be recovered from, or refunded to, customers in future periods. The remaining recovery and settlement periods are those expected and the actual recovery or settlement periods could differ based on future AUC decisions.

	2012	2011	Remaining Recovery Period (Years)
Regulatory assets			
Deferred income taxes *(i)*	$ 78,949	$ 45,321	Life of related assets
Deferred overhead *(ii)*	32,321	21,666	Life of related assets
Regulatory defined benefit pension deferrals *(iii)*	6,058	6,722	Benefit payment period
A1 rider deferral *(iv)*	2,236	–	2
Self-insurance reserve *(v)*	700	303	2
Hearing cost reserve *(vi)*	251	854	1
AESO charges deferral *(vii)*	213	44,164	2
AESO contributions deferral *(viii)*	200	–	1
Review and variance deferral *(ix)*	–	2,353	-
Total regulatory assets	120,928	121,383	
Less: current portion	1,468	47,824	
Long-term regulatory assets	$ 119,460	$ 73,559	

	2012	2011	Remaining Settlement Period (Years)
Regulatory liabilities			
Non-ARO removal cost provision (x)	$ 308,254	$ 301,731	Life of the related assets
AESO charges deferral *(vii)*	43,798	12,216	1-5
2011/2012 distribution adjustment rider deferral *(xi)*	3,853	1,758	1
Load settlement charges deferral *(xii)*	992	2,108	1
A1 rider deferral *(iv)*	766	1,585	1
AESO contributions deferral *(viii)*	400	1,200	1
Deferred income taxes *(i)*	250	-	Life of the related assets
Automated metering foreign exchange deferral *(xiii)*	72	72	1
Total regulatory liabilities	358,385	320,670	
Less: current portion	6,716	16,859	
Long-term regulatory liabilities	$ 351,669	$ 303,811	

(i) Deferred Income Taxes

This balance represents the amount of future income taxes expected to be recovered from, or refunded to, customers in future rates when the income taxes become receivable or payable.

(ii) Deferred Overhead

This balance represents deferred overhead costs that are expected to be collected from customers over the life of the related property, plant and equipment.

(iii) Regulatory Defined Benefit Pension Deferrals

This balance represents the deferred portion of the expense related to the defined benefit pension plan and the supplemental pension plan that is expected to be recovered from customers in future rates. Once recovered in rates, these deferred expenses will be recognized in net income. As prescribed by the AUC, expenses are recovered in rates and recognized in net income based on the cash payments.

4. REGULATORY ASSETS AND LIABILITIES (Cont'd)

(iv) A1 Rider Deferral

This balance represents the difference between the A1 rider revenue, which is the collection of linear taxes from customers in current rates based on municipality, and the actual linear tax incurred that is expected to be collected from customers in future rates. To the extent that the amount of revenue collected in rates for these items does not exceed actual costs incurred, the difference is deferred as a regulatory asset to be collected from customers in future rates. To the extent that the amount of revenue collected in rates for these items exceeds actual costs incurred, the excess is deferred as a regulatory liability to be refunded to customers future rates. This balance is not subject to a regulatory return.

(v) Self-Insurance Reserve

This balance represents actual insurance costs incurred in excess of the amount collected from customers in current rates and is expected to be collected from customers in future rates. To the extent that the amount of revenue collected in rates for these costs exceeds actual costs incurred, the excess revenue is deferred as a regulatory liability to be refunded to customers in future rates or settled as additional costs are incurred.

(vi) Hearing Cost Reserve

This balance represents actual costs incurred related to regulatory proceedings in excess of the amount collected from customers in current rates and is expected to be collected from customers in future rates. To the extent that the amount collected in rates for these costs exceeds actual costs incurred, the excess revenue is deferred as a regulatory liability to be refunded to customers in future rates or settled as additional costs are incurred.

(vii) AESO Charges Deferral

This balance represents expenses incurred in excess of revenue collected for various items, such as transmission costs incurred and flowed through to customers, that are expected to be collected in future customer rates. To the extent that the amount of revenue collected in rates for these items exceeds actual costs incurred, the excess is deferred as a regulatory liability to be refunded in future rates. As at December 31, 2012, the regulatory asset represented the over refunded amounts of the 2010 AESO charges deferral and the regulatory liability primarily represented the over collection of the AESO charges deferral accounts for 2009, 2011 and 2012.

(viii) AESO Contributions Deferral

The AUC prescribed a deferral account for the difference in the depreciation and return arising from any variance between forecast and actual AESO contributions. In the event that current rates are based on a lower forecast AESO contributions balance, the difference in depreciation and return is deferred as a regulatory asset. In the event that current rates are based on a higher forecast AESO contributions balance, the difference in depreciation and return is deferred as a regulatory liability. The asset or liability will be collected or refunded to customers in future rates.

(ix) Review and Variance Deferral

This balance represents depreciation on capital expenditures related to the automated metering project expenditures in excess of $104.3 million, additional meter reading costs, costs in respect of system settlement code changes and costs arising from changes to AUC rules.

(x) Non-ARO Removal Cost Provision

This balance represents the difference between actual non-ARO removal costs incurred and those collected in customer rates. Depreciation expense includes an allowed provision for the collection of non-ARO removal costs from customers. The amount collected from customers is credited to this deferral account while actual removal costs incurred are charged to this deferral account.

(xi) 2011/2012 Distribution Adjustment Rider Deferral

This balance represents the adjustment to the revenue requirements due to the difference in the 2011 and 2012 placeholder ROE of 9.0% and the subsequently approved ROE of 8.75%. This balance is not subject to regulatory return.

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

4. REGULATORY ASSETS AND LIABILITIES (Cont'd)

(xii) Load Settlement Charges Deferral

This balance relates to load settlement charges from the AESO. To the extent that actual costs incurred exceed the amount collected in revenue, the excess costs will be deferred as a regulatory asset to be collected from customers in future rates. To the extent that the amount of revenue collected in current rates for these costs exceeds actual costs incurred, the excess revenue is deferred as a regulatory liability to be refunded to customers in future rates or settled as additional costs are incurred.

(xiii) Automated Metering Foreign Exchange Deferral

This balance represents the difference in the depreciation and return arising from the variance between the foreign exchange rate used in the distribution tariff application relating to automated metering capital expenditures and the actual foreign exchange rate. This liability will be refunded to customers in future rates.

5. PROPERTY, PLANT AND EQUIPMENT

The cost and accumulated depreciation amounts are those used for regulatory rate setting purposes.

2012	Cost	Accumulated Depreciation	Net Book Value
Distribution system	$ 3,297,333	$ (1,006,363)	$ 2,290,970
AESO contributions	214,319	(15,334)	198,985
Buildings and furniture	133,833	(48,092)	85,741
Vehicles	76,158	(18,369)	57,789
Materials and supplies	39,507	–	39,507
Computer hardware	27,384	(14,340)	13,044
Tools and instruments	18,391	(7,791)	10,600
Land	13,220	–	13,220
Construction in progress	133,207	–	133,207
Customer contributions	(759,098)	337,089	(422,009)
	$ 3,194,254	$ (773,200)	$ 2,421,054

2011	Cost	Accumulated Depreciation	Net Book Value
Distribution system	$ 3,025,286	$ (970,939)	$ 2,054,347
AESO contributions	123,436	(10,285)	113,151
Buildings and furniture	128,393	(43,898)	84,495
Vehicles	73,315	(15,829)	57,486
Materials and supplies	37,578	–	37,578
Computer hardware	23,779	(10,491)	13,288
Tools and instruments	16,658	(6,877)	9,781
Land	13,236	–	13,236
Construction in progress	153,972	–	153,972
Customer contributions	(730,475)	328,323	(402,152)
	$ 2,865,178	$ (729,996)	$ 2,135,182

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

5. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Depreciation rates are a composite rate based upon the weighted average of the individual rates for each class of asset within the group, and were as follows:

(%)	2012	2011
Distribution system	3.73	4.18
AESO contributions	2.99	2.89
Buildings and furniture	3.59	4.58
Vehicles	10.83	9.70
Computer hardware	23.73	25.71
Tools and instruments	9.85	10.45
Customer contributions	2.64	2.75

Distribution system assets are those used to distribute electricity at lower voltages (generally below 25 kilovolts). These assets include poles, towers and fixtures, low-voltage wires, transformers, underground conductors, street lighting, meters, metering equipment and other related equipment.

6. INTANGIBLE ASSETS

The cost and accumulated amortization amounts are those used for regulatory rate setting purposes.

2012	Cost	Accumulated Amortization	Net Book Value
Computer software	$ 92,936	$ (47,066)	$ 45,870
Land rights	15,271	(5,754)	9,517
	$ 108,207	$ (52,820)	$ 55,387

2011	Cost	Accumulated Amortization	Net Book Value
Computer software	$ 84,577	$ (31,663)	$ 52,914
Land rights	13,809	(5,337)	8,472
	$ 98,386	$ (37,000)	$ 61,386

Computer software is amortized using a composite rate based upon the weighted average of the individual rates for each class of asset within the group. Land rights are amortized on a straight-line basis over the term of the contract. The amortization rates of intangible assets were as follows:

(%)	2012	2011
Computer software	17.62	16.18
Land rights	2.86	2.74

The service life ranges of intangible assets and the weighted-average remaining service life of intangible acquisitions during the years ended were as follows:

	2012		2011	
(Years)	Service Life Ranges	Weighted Average Remaining Service Life of Acquisitions	Service Life Ranges	Weighted Average Remaining Service Life of Acquisitions
Computer software	5-10	6.8	5-10	5.7
Land rights	36	35.5	35	34.5
Total	5-36	12.6	5-35	7.4

The Corporation's estimated aggregate amortization expense for each of the next five years is expected to be $15,980.

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

7. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

	2012	2011
Trade accounts payable	$ 242,770	$ 155,611
Interest payable	15,796	14,850
Employee payables	14,220	13,404
Other current liabilities	1,043	980
	$ 273,829	$ 184,845

8. OTHER LIABILITIES

	2012	2011
OPEBs (note 13)	$ 10,149	$ 9,598
Defined benefit liability (note 13)	5,908	6,572
Deferred lease revenue	1,475	–
	$ 17,532	$ 16,170

The Corporation entered into a lease agreement as the lessor with a third party in 2012 which permits the third party to use a portion of one the Corporation's facilities. The Corporation received a $1.5 million upfront payment during 2012; however, the third party is not expected to start leasing the premise until late 2013. Once the third party begins leasing the premise, amounts will be recognized as lease income throughout term of the lease.

9. DEBT

	Coupon Rate (%)	Maturity Date (Year)	2012 Effective Rate (%)	2012	2011
Senior unsecured debentures					
Series 04-1	5.33	2014	5.47	$ 200,000	$ 200,000
Series 04-2	6.22	2034	6.31	200,000	200,000
Series 06-1	5.40	2036	5.48	100,000	100,000
Series 07-1	4.99	2047	5.04	109,893	109,892
Series 08-1	5.85	2038	5.94	99,504	99,496
Series 09-1	7.06	2039	7.15	99,988	99,987
Series 09-2	5.37	2039	5.42	124,948	124,947
Series 10-1	4.80	2050	4.85	124,913	124,912
Series 11-1	4.54	2041	4.58	124,980	124,980
Series 12-1	3.98	2052	4.02	124,925	–
Drawings under the committed credit facility	Variable	2016	–	–	28,978
Cash balances in overdraft position	N/A	2013	–	–	5,568
				1,309,151	1,218,760
Less: short-term debt				–	5,568
Long-term debt				$ 1,309,151	$ 1,213,192

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. The debentures have semi-annual interest payments.

In October 2012, the Corporation entered into an agreement with a syndicate of agents, pursuant to which the Corporation agreed to sell $125.0 million of senior unsecured debentures, Series 12-1. The proceeds of the issue were used to repay existing indebtedness incurred under the committed credit facility, fund future capital expenditures and for general corporate purposes.

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

9. DEBT (Cont'd)

As at December 31, 2012, the Corporation had an unsecured committed credit facility with an available amount of $250.0 million maturing in August 2016. Drawings under the committed credit facility are available by way of prime loans, bankers' acceptances and letters of credit. Prime loans bear an interest rate of prime and bankers' acceptances are issued at the applicable bankers' acceptance discount rate plus a stamping fee of 1.0%. The average interest rate for the year ended December 31, 2012 on the committed credit facility was 2.3% (2011 - 1.8%). As at December 31, 2012, there were no drawings under the committed credit facility (2011 - $29.0 million) and $0.4 million drawn in letters of credit (2011 - $0.8 million).

The Corporation has externally imposed capital requirements by virtue of the Trust Indenture and the committed credit facility that limit the amount of debt that can be incurred relative to equity. The Corporation was in compliance with these externally imposed capital requirements for the year ended December 31, 2012.

Scheduled principal repayments in each of the next five years are as follows:

2013	$	–
2014		200,000
2015		–
2016		–
2017		–

10. INTEREST EXPENSE

		2012		2011
Interest on long-term debt	$	67,653	$	62,120
Interest on short-term debt		227		257
Less: AFUDC		(3,180)		(3,293)
	$	64,700	$	59,084

Transaction costs are amortized using the effective interest method over the life of the associated debt. Interest expense on long-term debt included $552 related to amortization of transaction costs in 2012 (2011 - $489).

11. 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.

In 2012, the Corporation declared and paid dividends totaling $45.0 million (2011 - $40.0 million) to Fortis Alberta Holdings Inc., the Corporation's parent and an indirectly wholly owned subsidiary of Fortis.

The Corporation must comply with the *Alberta Business Corporations Act* (the "*ABCA*") legislation and the terms and conditions of the committed credit facility and Trust Indenture in order to declare and pay dividends. In order to be compliant, the Corporation must be solvent as defined by the *ABCA* and cannot be in default of the committed credit facility or Trust Indenture as defined by their respective agreements. As at December 31, 2012 the Corporation was in full compliance with the solvency requirements of the *ABCA* and the terms and conditions set out in the committed credit facility and Trust Indenture agreements and was not subject to dividend declaration or payment restrictions.

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

12. ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital relates to the pushdown of the excess purchase price paid over the carrying value paid by the Corporation's parent on acquisition of the Corporation and equity contributions from Fortis Alberta Holdings Inc. for which no additional shares were issued. In 2012, the Corporation received no equity contributions from Fortis Alberta Holdings Inc. (2011 - $55.0 million).

13. EMPLOYEE FUTURE BENEFITS

Description

The Corporation sponsors a pension plan with a defined contribution and a funded defined benefit component. The defined contribution component is applicable to the majority of the Corporation's employees and is available to all new employees. The defined benefit component is applicable to certain long-service employees and is closed to new employees. The defined contribution component is based on a percentage of pensionable earnings, which includes base pay and eligible bonuses, while the defined benefit component is based on final average pensionable earnings. The Corporation also provides an unfunded OPEB plan that includes certain health and dental coverage provided to retired employees and an unfunded supplemental defined benefit pension plan provided to eligible employees.

The most recent actuarial valuation of the defined benefit component of the pension plan for funding purposes was completed as of December 31, 2010. Information from the funding valuation was used in the actuarial valuation completed for expense calculation purposes. The next actuarial valuation for funding purposes is required to be completed as of a date no later than December 31, 2013.

Plan Asset Information

The Corporation's objectives are to minimize the volatility of the value of plan assets relative to the pension plan liabilities and to ensure that the assets are sufficient to pay plan benefits. The Corporation's target asset allocations are 100% debt instruments. This allocation has been made to ensure the objectives set out are met, while minimizing risk.

Significant concentrations of risk in the plan assets relate to interest rates on the instruments held. Rate increases generally result in a decline in fixed income assets while reducing the present value of the liabilities. Conversely, rate decreases increase fixed income assets, partially offsetting the related increase in the liabilities.

The long-term rate of return on plan assets assumed for 2012 was 3.45% (2011 - 4.35%). This assumption considers inflation, bond yields, historical returns and other variables.

The fair value of plan assets as at December 31, 2012 and 2011 were as follows:

	2012	2011
Government bonds	$ 26,328	$ 22,319
Corporate bonds	4,981	4,822
Total [(1)]	$ 31,309	$ 27,141

Note:

(1) *The fair value of the plan assets was estimated using level 2 inputs based on third party quoted values.*

Included in the corporate bonds class of plan assets as at December 31, 2012 were $186 (December 31, 2011 - $150) of FortisAlberta Inc. bonds and $161 (December 31, 2011 - $158) of related party bonds.

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

13. EMPLOYEE FUTURE BENEFITS (Cont'd)

Reconciliation of Funded Status

	Defined Benefit Pension Plans		OPEB Plan	
	2012	2011	2012	2011
Change in benefit obligation [(1)]				
Balance, beginning of year	$ 33,863	$ 28,944	$ 10,212	$ 9,211
Current service cost	938	848	511	446
Interest cost	1,527	1,577	406	443
Member contributions	42	45	–	–
Benefits paid	(1,357)	(1,155)	(391)	(340)
Actual expenses paid	(333)	(314)	–	–
Net transfer in	13	–	–	–
Actuarial loss	2,674	3,918	162	452
Balance, end of year [(2)]	$ 37,367	$ 33,863	$ 10,900	$ 10,212
Change in fair value of plan assets				
Balance, beginning of year	$ 27,141	$ 21,597	$ –	$ –
Employer contributions	4,515	2,910	391	340
Member contributions	42	45	–	–
Benefits paid	(1,357)	(1,155)	(391)	(340)
Actual return on plan assets	1,288	4,058	–	–
Actual plan expenses	(333)	(314)	–	–
Net transfer in	13	–	–	–
Balance, end of year	$ 31,309	$ 27,141	$ –	$ –
Funded status	$ (6,058)	$ (6,722)	$ (10,900)	$ (10,212)

Notes:

(1) *Amounts reflect projected benefit obligation for defined benefit pension plans and accumulated benefit obligation for the OPEB plan.*

(2) *The accumulated benefit obligation for defined benefit pension plans, which includes no assumption about future salary levels, was $36.5 million as at December 31, 2012 (December 31, 2011 - $33.1 million).*

Amounts Recognized on the Balance Sheet

	Defined Benefit Pension Plans		OPEB Plan	
	2012	2011	2012	2011
Accounts payable and other current liabilities (note 7)	$ (150)	$ (150)	$ (751)	$ (614)
Other liabilities (note 8)	(5,908)	(6,572)	(10,149)	(9,598)
Net liabilities	$ (6,058)	$ (6,722)	$ (10,900)	$ (10,212)

Expected Benefits Payments

The following table provides the estimated expected benefits to be made over the next ten years.

	Defined Benefit Pension Benefits	OPEB Benefits
2013	$ 1,332	$ 751
2014	1,627	843
2015	1,774	938
2016	1,785	1,034
2017	1,950	1,182
2018 - 2022	10,736	5,457

Pension Plan Contributions

The Corporation estimates that total contributions of $2,296 will be made towards the defined benefit pension plans and $751 towards the OPEB plan in 2013.

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

13. EMPLOYEE FUTURE BENEFITS (Cont'd)

Components of Net Benefit Cost

	Defined Benefit Pension Plans		OPEB Plan	
	2012	2011	2012	2011
Service cost	$ 938	$ 848	$ 511	$ 446
Interest cost	1,527	1,577	406	443
Expected return on plan assets	(962)	(973)	–	–
Amortizations:				
Past service cost	80	80	158	158
Actuarial loss	1,401	1,527	131	97
Net benefit cost recognized	2,984	3,059	1,206	1,144
Regulatory adjustments	1,531	(149)	–	–
Net benefit cost recognized in financial statements	4,515	2,910	1,206	1,144
Defined contribution cost	7,516	6,833	–	–
Total employee future benefit cost	$ 12,031	$ 9,743	$ 1,206	$ 1,144

Accumulated Other Comprehensive Loss

The following table provides the components of accumulated other comprehensive loss that have not been recognized as components of net benefit cost.

	Defined Benefit Pension Plans		OPEB Plan	
	2012	2011	2012	2011
Past service cost	$ (89)	$ (169)	$ (1,420)	$ (1,578)
Actuarial loss	(7,903)	(6,956)	(2,756)	(2,725)
Accumulated other comprehensive loss	(7,992)	(7,125)	(4,176)	(4,303)
Regulatory adjustment	7,992	7,125	–	–
Accumulated other comprehensive loss	$ –	$ –	$ (4,176)	$ (4,303)

Past service costs of $80 and actuarial losses of $1,703 are expected to be amortized from accumulated other comprehensive income into net benefit cost in 2013 related to the defined benefit pension plans.

Past service costs of $158 and actuarial losses of $128 are expected to be amortized from accumulated other comprehensive income into net benefit cost in 2013 related to the OPEB plan.

Other Comprehensive (Income) Loss

The following table provides the components recognized in comprehensive income.

	Defined Benefit Pension Plans		OPEB Plan	
	2012	2011	2012	2011
Net actuarial loss arising during the year	$ 2,348	$ 833	$ 162	$ 452
Amortizations:				
Past service cost	(80)	(80)	(158)	(158)
Actuarial loss	(1,401)	(1,527)	(131)	(97)
Other comprehensive loss (income)	867	(774)	(127)	197
Regulatory adjustment	(867)	774	–	–
Total other comprehensive (income) loss	$ –	$ –	$ (127)	$ 197

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

13. EMPLOYEE FUTURE BENEFITS (Cont'd)

Weighted-Average Assumptions

	Defined Benefit Pension Plans		OPEB Plan	
	2012	**2011**	**2012**	**2011**
Discount rate during the year (%)	4.50	5.50	3.90	4.70
Discount rate as at December 31 (%)	3.90	4.50	3.40	3.90
Expected long-term rate of return on plan assets (%)	3.45	4.35	–	–
Rate of compensation increase (%)	3.25	3.25	–	–
Initial weighted average health care trend rate during the year (%)	–	–	6.40	7.30
Initial weighted average health care trend rate as at December 31 (%)	–	–	6.40	6.40
Ultimate weighted average health care trend rate	–	–	5.00	5.00
Year ultimate rate reached	–	–	2027	2027

The 2012 Effects of Changing the Health Care Trend Rate by 1%

	1% Increase in Rate	1% Decrease in Rate
Increase (decrease) in projected benefit obligation	522	(490)
Increase (decrease) in interest and current service costs	43	(41)

14. STOCK OPTIONS

Fortis is authorized to grant officers and certain key employees of Fortis and its subsidiaries options to purchase common shares of Fortis. The options are issued at the five-day volume weighted average trading price immediately preceding the date of grant. Options vest evenly over a four-year period on each anniversary of the date of grant and expire seven to ten years after the date of grant. The following table summarizes information related to the stock options granted to employees of the Corporation in 2012.

	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of year	473,496	$ 26.31
Granted	100,056	34.27
Cancelled/Forfeited/Expired	(14,115)	28.30
Exercised	(20,723)	25.45
Options outstanding, end of year	538,714	27.77
Options vested/exercisable, end of year [1]	321,148	25.01

Note:

[1] *As at December 31, 2012, the weighted average remaining contractual term of vested options was 2.76 years with an aggregate intrinsic value of $2,959.*

The fair values of the options granted were estimated on the date of grant using the Black-Scholes fair value option-pricing model and the following assumptions:

	2012	**2011**
Dividend yield (%) [1]	3.67	3.68
Expected volatility (%) [2]	22.20	23.10
Risk–free interest rate (%) [3]	1.50	2.00
Weighted-average grant date fair value of options granted ($)	4.21	4.57

Notes:

[1] *Based on the average annual dividend yield up to the date of grant and the weighted average expected life of the options*

[2] *Based on historical experience over a period equal to the weighted average expected life of the options*

[3] *Government of Canada benchmark bond yield in effect at the time of the grant that covers the weighted average expected life of the options*

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

14. STOCK OPTIONS (Cont'd)

Total stock based compensation costs and cash outflows were $351 in 2012 (2011 - $409). As at December 31, 2012, there was $594 of total unrecognized compensation expense related to stock options not yet vested which is expected to be recognized over a weighted-average period of 1.7 years.

15. RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with Fortis and other subsidiaries of Fortis. Amounts due to or from related parties were measured at the exchange amount and were as follows:

	2012	2011
Accounts receivable		
Housing loans [(1)]	$ 670	$ 700
Housing equity advance [(2)]	435	–
Other loans [(3)]	18	185
Related parties	19	4
	$ 1,142	$ 889
Accounts payable and other current liabilities		
Related parties	$ 2	$ 8

Notes:

(1) *These loans are to officers of the Corporation and 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 loans must be repaid within ten years of the loan grant date and are secured by mortgages on the residences purchased by the officers.*

(2) *This equity advance is to an employee of the Corporation to secure the purchase of a new residence as part of the employee's relocation. The equity advance is interest-free and would be repaid upon the sale of the existing residence. The equity advance is secured by the employee's existing residence.*

(3) *These loans are to officers of the Corporation and include stock option loans, employee share purchase plan loans and employee personal computer purchase program loans.*

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.

Related party transactions included in other revenue and cost of sales were measured at the exchange amount and were as follows:

	2012	2011
Included in other revenue [(1)]	$ 218	$ 618
Included in cost of sales [(2)]	3,412	3,242

Notes:

(1) *Includes services provided to subsidiaries of Fortis related to metering, information technology, material sales and intercompany employee services.*

(2) *Includes charges from Fortis relating to corporate governance expenses, stock-based compensation costs, consulting services and travel and accommodation expenses.*

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

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

16. INCOME TAXES

Deferred income taxes arise as a result of temporary differences between the tax basis of assets and liabilities and their carrying amount for regulatory purposes. Deferred income tax assets and liabilities were comprised of:

	2012	2011
Deferred income tax assets (liabilities):		
Net regulatory liabilities	$ 11,853	$ 687
OPEB liability	3,633	3,404
Loss carry forwards	–	11,691
Property, plant and equipment	(75,166)	(45,185)
Intangible assets	(4,137)	(318)
Net regulatory assets	(279)	(8,637)
Transaction costs	(2,574)	(2,328)
Income tax credits	(469)	(427)
Net deferred income tax liability	$ (67,139)	$ (41,113)
Current deferred income tax asset	$ 1,637	$ 3,506
Long-term deferred income tax liability	(68,776)	(44,619)
Net deferred income tax liability	$ (67,139)	$ (41,113)

Components of the income tax expense (recovery) were as follows:

	2012	2011
Current income tax expense before prior year adjustment	$ 10,896	$ 3,457
Prior year adjustment	(3,237)	–
Current income tax expense	7,659	3,457
Deferred income tax expense before adjustments	22,031	21,328
Prior year adjustment	2,765	–
Regulatory adjustment for the recovery of deferred income taxes in future customer rates	(32,148)	(23,816)
Deferred income tax recovery	(7,352)	(2,488)
Total income tax expense	$ 307	$ 969

Income taxes differ from the amount that would be expected if determined by applying the enacted Canadian federal and provincial statutory income tax rates to income before income taxes. The following is a reconciliation of the combined statutory income tax rate to the Corporation's effective income tax rate.

	2012	2011
Income before income taxes per financial statements	$ 96,842	$ 74,548
Statutory income tax rate	25.0%	26.5%
Income taxes, at statutory income tax rate	$ 24,210	$ 19,755
Non-deductible expenses	268	170
Deferred income tax rate changes	–	214
Regulatory adjustment	(23,699)	(19,170)
Prior year adjustments	(472)	–
Income taxes	$ 307	$ 969
Effective income tax rate	0.3%	1.3%

As at December 31, 2012, the Corporation had no non-capital loss carry forwards (December 31, 2011 - $46.8 million).

As at December 31, 2012, total investment tax credits receivable related to the acquisition of assets were $1.4 million (December 31, 2011 - $1.3 million). These credits are subject to carry forward and expire between 2026 and 2032.

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

16. INCOME TAXES (Cont'd)

For regulatory reporting purposes, the tax value of certain property, plant and equipment at the Corporation is higher than for legal entity corporate income tax filing purposes. In a future reporting period, the difference may result in higher corporate income tax expense than that recognized for regulatory rate setting purposes and collected in customer rates.

17. COMMITMENTS AND CONTINGENCIES

As at December 31, 2012, the Corporation's commitments in each of the next five years and thereafter are as follows:

	Total	2013	2014	2015	2016	2017	> 2017
Principal payments on long-term debt [1]	1,310,000	–	200,000	–	–	–	1,110,000
Interest payments on long-term debt	1,720,348	70,262	70,261	59,602	59,602	59,601	1,401,020
Operating lease obligations and other obligations	66,548	6,836	3,772	3,553	3,297	3,187	45,903
Total	3,096,896	77,098	274,033	63,155	62,899	62,788	2,556,923

Note:

(1) *Payments are shown exclusive of discounts.*

Operating Leases and Other Contractual Obligations

The Corporation has operating leases for facilities and office premises. Rental expense was $1,106 in 2012 (2011 - $988).

The Corporation and an Alberta transmission service provider have entered into an agreement in consideration for joint attachments of distribution facilities to the transmission system. The expiry terms of this agreement state that the agreement remains in effect until the Corporation no longer has attachments to the transmission system. Due to the unlimited term of this contract, the calculation of future payments after 2017 includes payments to the end of 20 years. However, the payments under this agreement may continue for an indefinite period of time. In addition, the Corporation and an Alberta transmission service provider have entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. The Corporation has provided the necessary notice to terminate these agreements at December 31, 2013.

In accordance with the latest actuarial valuation for funding purposes as at December 31, 2010, the Corporation is required to make defined benefit pension contributions of $2.3 million in 2013.

Legal Proceedings

The Corporation is subject to various legal proceedings and claims that arise in the ordinary course of business. The Corporation believes that the amount of liability, if any, from these actions would not have a material effect on the Corporation's financial position or results of operations.

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 incur capital expenditures in excess of that which has been forecast in its regulatory applications.

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

18. FINANCIAL INSTRUMENTS

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement is required to reflect the assumptions that market participants would use in pricing a financial asset or financial liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. A fair value hierarchy exists which prioritizes the inputs used to measure fair value.

The three levels of the fair value hierarchy are defined as follows:

Level 1: Fair value determined using unadjusted quoted prices in active markets
Level 2: Fair value determined using pricing inputs that are observable
Level 3: Fair value determined using unobservable inputs only when relevant observable inputs are not available.

The fair values of the Corporation's financial instruments reflect a point-in-time estimate based on current and relevant market information about the instruments as at the balance sheet dates. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment; therefore, they may not be relevant in predicting the Corporation's future earnings or cash flows.

The following table represents the fair value measurements of the Corporation's financial instruments as at December 31.

Long-term Debt	**2012**	**2011**
Fair value [(1)]	$ 1,609,235	$ 1,495,107
Carrying value	1,309,151	1,213,192

Note:
(1) *The fair value of the long-term debt was estimated using level 2 inputs based on the indicative prices for the same or similarly rated issues for debt of the same remaining maturities.*

The carrying values of financial instruments included in current assets, long-term accounts receivable, current liabilities and short term debt on the balance sheet approximate their fair values, which reflects the short-term maturity, normal trade credit terms and/or nature of these financial instruments.

Derivatives

The Corporation currently does not have any stand-alone derivative instruments as defined under the ASC 815, *Derivatives and Hedging*.

The Corporation conducted a review of contractual agreements for embedded derivatives. Under ASC 815, a derivative must meet three specific criteria to be accounted for under this standards codification. 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.

Risk Management

Exposure to counterparty credit risk and interest rate 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 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.

Counterparty Credit Risk

Counterparty credit risk is the financial risk associated with the non-performance of contractual obligations by counterparties. The Corporation extends credit to select counterparties in the normal course of business.

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

18. FINANCIAL INSTRUMENTS (Cont'd)

Counterparty Credit Risk (Cont'd)

The Corporation monitors its credit exposure for retailers 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 December 31, 2012.

Credit Rating	Number of Counterparties	Gross Exposure	Net Exposure
AAA to AA (low)	1	$ 1,501	$ –
A (high) to A (low)	8	4,207	–
BBB (high) to BBB (low)	10	46,280	–
Not rated	33	62,130	453
Total	52	$ 114,118	$ 453

Gross exposure represents the projected value of retailer billings over a 37-day period, decreased from 60 days in previous periods due to the Corporation changing its billing cycle from monthly to weekly. The Corporation is required to minimize its gross exposure to retailer billings by obtaining an acceptable form of prudential, which includes 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 credit rating serves to reduce the amount of prudential. For retailers that do not have an investment grade credit rating, the exposure is calculated as the projected value of billings over a 37-day period less the prudential held by the Corporation. The Corporation assesses non-retailer billings on an individual basis for collectability and these billings are not subject to obtaining prudential.

Factors such as volatility in the global capital markets and a slowdown in the Alberta economy could cause a reduction in the credit quality of some of the Corporation's customers. In the event that the prudential obtained by the Corporation 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.

The accounts receivable of the Corporation are not impaired and the aging analysis of accounts receivable, excluding goods and services tax receivable, as at December 31 was as follows:

	2012	2011
Not past due	$ 110,647	$ 139,930
Past due 0-60 days	3,911	3,711
Past due 61 days and over	2,735	258
Total	$ 117,293	$ 143,899

Interest Rate Risk

Interest rate risk is 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 of which the Corporation applies in its rate applications to recover, 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 thereby mitigating the risk of these fluctuations. The drawings under the Corporation's committed credit facility are at current market short-term interest rates, exposing the Corporation to some cash flow risk, but minimal fluctuations in fair value.

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

18. FINANCIAL INSTRUMENTS (Cont'd)

Interest Rate Risk (Cont'd)

A change in the Corporation's interest rates results in interest rate exposure for drawings under the committed credit facility. Further, the Corporation is subject to financial risk whereby changes in the Corporation's credit rating could affect the costs of financing and access to sources of liquidity and capital. The Corporation's committed credit facility has interest rate and fee components that are sensitive to the Corporation's credit ratings. 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 December 31, 2012, the Corporation was rated by Moody's at Baa1, by S&P at A-, and by DBRS at A (low). A one notch upward or downward change in the Corporation's credit ratings would have an immaterial effect on interest expense.

19. SUPPLEMENTAL CASH FLOW INFORMATION

	2012	2011
Cash paid for:		
Interest	$ 66,155	$ 60,680
Income taxes (net of taxes refunded)	6,089	3,649
Non-cash working capital changes included in investing activities:		
Accounts receivable	2,796	(4,159)
Accounts payable	(1,354)	1,303

20. SUBSEQUENT EVENTS

These financial statements and notes reflect the Company's evaluation of events occurring subsequent to the balance sheet date through February 5, 2013, the date the financial statements were available for issuance.

FORTISALBERTA INC. SUPPLEMENTARY FINANCIAL INFORMATION COVERAGE RATIOS (UNAUDITED)

The following financial ratio is provided as additional supplementary information.

For the twelve months ended December 31	**2012**
Earnings coverage (times) [(1)]	2.49

Note:

(1) *Net income before interest expense and taxes divided by interest expense.*