FORTISALBERTA INC.

Unaudited Interim Financial Statements
For the three and nine months ended September 30, 2016

FORTISALBERTA INC.

BALANCE SHEETS
(UNAUDITED)

As at (all amounts in thousands of Canadian dollars)	September 30, 2016	December 31, 2015
Assets		
Current assets		
Cash	$ 14,426	$ 4,742
Accounts receivable	125,554	119,421
Prepaids and deposits	5,503	3,444
Income tax receivable	3,592	3,692
Regulatory assets (note 3)	1,840	9,502
	150,915	140,801
Regulatory assets (note 3)	326,473	280,620
Property, plant and equipment	3,246,238	3,115,663
Intangible assets	62,679	56,816
Other assets	2,366	1,738
Goodwill	226,968	226,968
	$ 4,015,639	$ 3,822,606
Liabilities and Shareholder's Equity		
Current liabilities		
Short-term borrowings	$ -	$ 88,000
Accounts payable and other current liabilities	178,210	157,824
Regulatory liabilities (note 3)	38,385	15,004
	216,595	260,828
Other liabilities	18,278	17,948
Regulatory liabilities (note 3)	376,063	380,939
Deferred income tax	241,799	201,349
Long-term debt	1,819,535	1,670,545
	2,672,270	2,531,609
Shareholder's Equity		
Share capital, no par value, unlimited authorized shares, 63 shares issued and outstanding (December 31, 2015 - 63)	173,848	173,848
Additional paid-in capital	699,896	689,896
Accumulated other comprehensive loss	(2,208)	(2,398)
Retained earnings	471,833	429,651
	1,343,369	1,290,997
	$ 4,015,639	$ 3,822,606

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

FORTISALBERTA INC.

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,	
(all amounts in thousands of Canadian dollars)	**2016**	**2015**	**2016**	**2015**
Revenues				
Electric rate revenue	$ 139,419	$ 137,983	$ 418,067	$ 411,991
Other revenue	4,410	3,768	11,559	11,894
	143,829	141,751	429,626	423,885
Expenses				
Cost of sales (exclusive of items shown separately below)	47,631	43,191	142,136	132,639
Depreciation	41,964	39,331	126,951	118,025
Amortization	2,197	2,405	7,523	7,291
	91,792	84,927	276,610	257,955
Other income	-	-	1,657	1,307
Income before interest expense and income tax	52,037	56,824	154,673	167,237
Interest expense	21,474	20,205	63,226	59,208
Income before income tax	30,563	36,619	91,447	108,029
Income tax				
Current income tax recovery	(910)	(1,550)	(3,301)	(6,580)
Deferred income tax expense	1,086	1,398	3,816	6,038
	176	(152)	515	(542)
Net Income	$ 30,387	$ 36,771	$ 90,932	$ 108,571
Other comprehensive income				
Reclassification of other post-employment benefit items	64	64	190	190
Comprehensive Income	$ 30,451	$ 36,835	$ 91,122	$ 108,761

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

FORTISALBERTA INC.

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (UNAUDITED)

(all amounts in thousands of Canadian dollars)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Share Capital				
Balance, beginning of period	$ 173,848	$ 173,848	$ 173,848	$ 173,848
Share capital issued	-	-	-	-
Balance, end of period	$ 173,848	$ 173,848	$ 173,848	$ 173,848
Additional Paid-in Capital				
Balance, beginning of period	$ 699,896	$ 689,896	$ 689,896	$ 679,896
Equity contributions	-	-	10,000	10,000
Balance, end of period	$ 699,896	$ 689,896	$ 699,896	$ 689,896
Accumulated Other Comprehensive Loss				
Balance, beginning of period	$ (2,272)	$ (2,931)	$ (2,398)	$ (3,057)
Reclassification of other post-employment benefit items	64	64	190	190
Balance, end of period	$ (2,208)	$ (2,867)	$ (2,208)	$ (2,867)
Retained Earnings				
Balance, beginning of period	$ 457,696	$ 393,935	$ 429,651	$ 352,135
Net income	30,387	36,771	90,932	108,571
Dividends	(16,250)	(15,000)	(48,750)	(45,000)
Balance, end of period	$ 471,833	$ 415,706	$ 471,833	$ 415,706
Total Shareholder's Equity	$ 1,343,369	$ 1,276,583	$ 1,343,369	$ 1,276,583

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

FORTISALBERTA INC.

STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(all amounts in thousands of Canadian dollars)	**2016**	**2015**	**2016**	**2015**
Operating Activities				
Net income	$ 30,387	$ 36,771	$ 90,932	$ 108,571
Adjustments for non-cash items included in net income:				
Depreciation	41,964	39,331	126,951	118,025
Amortization	2,383	2,581	8,080	7,797
Deferred income tax	1,086	1,398	3,816	6,038
Equity component of allowance for funds used during construction	-	-	(1,657)	(1,307)
Change in long-term regulatory assets and liabilities	(7,659)	3,814	(29,824)	(10,701)
Change in other non-current operating assets and liabilities	(91)	424	(298)	1,066
Change in non-cash operating working capital (note 9)	25,417	(11,424)	33,625	(43,443)
Cash from operating activities	93,487	72,895	231,625	186,046
Investing Activities				
Property, plant and equipment	(89,614)	(95,160)	(244,870)	(295,116)
Customer contributions for property, plant and equipment	6,908	8,403	14,227	24,669
Intangible assets	(4,522)	(3,964)	(15,005)	(11,241)
Proceeds from the sale of property, plant and equipment	1,257	287	1,918	1,083
Net change in employee loans	168	129	(193)	(286)
Cash used in investing activities	(85,803)	(90,305)	(243,923)	(280,891)
Financing Activities				
Change in short-term borrowings	(10,864)	(11,477)	(35,000)	4,003
Proceeds from long-term debt, net of issuance costs	148,970	149,008	148,891	149,008
Net borrowings under committed credit facility	(115,114)	(105,121)	(53,159)	(23,166)
Dividends paid	(16,250)	(15,000)	(48,750)	(45,000)
Equity contributions	-	-	10,000	10,000
Cash from financing activities	6,742	17,410	21,982	94,845
Change in cash and cash equivalents	14,426	-	9,684	-
Cash and cash equivalents, beginning of period	-	-	4,742	-
Cash and cash equivalents, end of period	$ 14,426	$ -	$ 14,426	$ -

Supplemental cash flow information (note 9)

The accompanying notes are an integral part of these interim 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 electricity 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 electricity 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''). Fortis is a leader in the North American electric and gas utility business, serving customers across Canada and in the United States and the Caribbean.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States ("US GAAP") as codified in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). The preparation of financial statements in accordance with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting 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 tax, 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. There were no material changes to the Corporation's significant accounting estimates during the three and nine months ended September 30, 2016.

(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 US GAAP for entities not subject to rate regulation.

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

(b) Regulation (cont'd)

Effective January 1, 2013, the AUC prescribed that distribution utilities in Alberta, including the Corporation, move to a form of rate regulation referred to as performance-based regulation ("PBR") for a five-year term. Under PBR, a formula that estimates inflation annually and assumes productivity improvements is used to determine distribution rates on an annual basis. Each year this formula is applied to the preceding year's distribution rates. The 2012 distribution rates are the base rates upon which the formula was first applied and they were set using a traditional cost-of-service model whereby the AUC established the Corporation's revenue requirements, being those revenues corresponding to the costs associated with the distribution business, and provided a rate of return on a deemed equity component of capital structure ("ROE") applied to rate base assets. The Corporation's ROE for ratemaking purposes was 8.75% for 2012 with a deemed equity ratio of 41%. For 2013, 2014 and 2015, the Corporation's ROE was set at 8.30% with a deemed equity ratio of 40%. For 2016 and 2017, the Corporation's ROE has been set at 8.30% and 8.50%, respectively, with a deemed equity ratio of 37%. The ROE of 8.50% with a deemed equity ratio of 37% will remain in place for 2018 on an interim basis. The impact of changes to ROE and capital structure during the PBR term apply only to the portion of rate base that is funded by revenue provided by mechanisms separate from the formula.

The PBR plan includes mechanisms for the recovery or settlement of items determined to flow through directly to customers ("Y factor") and the recovery of costs related to capital expenditures that are not being recovered through the formula ("K factor" or "capital tracker"). The AUC also approved a Z factor, a PBR re-opener and an ROE efficiency carry-over mechanism. The Z factor permits an application for recovery of costs related to significant unforeseen events. The PBR re-opener permits an application to re-open and review the PBR plan to address specific problems with the design or operation of the PBR plan. The use of the Z factor and PBR re-opener mechanisms is associated with certain thresholds. The ROE efficiency carry-over mechanism provides an efficiency incentive by permitting a utility to continue to benefit from any efficiency gains achieved during the PBR term for two years following the end of that term.

Capital Tracker Applications

In February 2016, the AUC issued Decision 20497-D01-2016 (the "2016 Capital Tracker Decision") related to the Corporation's 2014 True-Up and 2016-2017 Capital Tracker Application. The Corporation sought: (i) capital tracker revenue for 2016 and 2017 of $71.5 million and $89.9 million, respectively; (ii) an update to the 2014 capital tracker revenue to reflect actual capital tracker expenditures; and (iii) approval of additional revenue related to capital tracker amounts for 2013, 2014 and 2015 that had not been fully approved in the 2015 Capital Tracker Decision. The 2016 Capital Tracker Decision also addressed depreciation-related matters.

With respect to the depreciation-related matters, the AUC directed that the impact of a 2015 depreciation technical update not be included in the determination of the K factor amounts for 2015, 2016 and 2017. Actual depreciation expense, as reflected in the financial results of the Corporation, continues to be determined in accordance with the depreciation rates established by the 2015 depreciation technical update.

The effects of the 2016 Capital Tracker Decision reduced the applied for capital tracker revenue for 2016 and 2017 by $0.6 million and $0.4 million, respectively, and was reflected in the Corporation's required Compliance Filing. In September 2016, the AUC approved the Corporation's Compliance Filing in Decision 21520-D01-2016, which approved capital tracker revenue for 2016 and 2017 of $70.9 million and $89.5 million, respectively.

In June 2016, the Corporation filed a 2015 True-Up Application to update 2015 capital tracker revenue for actual capital expenditures and the effects of the 2016 Capital Tracker Decision. A decision from the AUC on the 2015 True-Up Application is expected in the first quarter of 2017.

For the nine months ended September 31, 2016, capital tracker revenue related to 2013, 2014 and 2015 was reduced by $0.7 million to reflect the impact of the 2016 Capital Tracker Decision and the true-up for 2015 actuals.

The Corporation expects to recognize capital tracker revenue of $60.3 million for 2016, down $10.6 million from the $70.9 million per the Compliance Filing, to reflect actual capital expenditures, associated carrying costs, and the impact of the 2016 Generic Cost of Capital Decision, discussed below.

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

(b) Regulation (cont'd)

Generic Cost of Capital

In October 2016, the AUC issued Decision 20622-D01-2016 (the "2016 GCOC Decision") related to the 2016 and 2017 Generic Cost of Capital proceeding. In this decision, the AUC maintained an 8.30% allowed ROE for 2016 and increased the allowed ROE to 8.50% for 2017. The decision also set the equity portion of capital structure at 37% for most utilities, which is a decrease from 40% for FortisAlberta.

For Alberta utilities under PBR, including FortisAlberta, the impact of the changes to the allowed ROE and capital structure resulting from the 2016 GCOC Decision applies to the portion of rate base that is funded by capital tracker revenue only. For the nine months ended September 30, 2016, capital tracker revenue was reduced by $2.0 million to reflect the impact of the 2016 GCOC Decision.

(c) Changes in Accounting Policies

These unaudited interim financial statements have been prepared following the same accounting policies as those used in preparing the Corporation's 2015 audited annual financial statements.

(d) Future Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, FASB issued Accounting Standard Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. The amendments in this update create ASC Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the codification. This standard clarifies the principles for recognizing revenue and can be applied consistently across various transactions, industries and capital markets. This standard is to be applied on a full retrospective or modified retrospective basis and was originally effective for annual and interim periods beginning after December 15, 2016. In August 2015, FASB issued ASU 2015-14, *Deferral of the Effective Date.* The amendments in the update defer the effective date of ASU 2014-09 by one year to annual and interim periods beginning after December 15, 2017. Early adoption is permitted as of the original effective date.

In March 2016, FASB issued ASU 2016-08, *Principal vs Agent Considerations*, in April 2016, FASB issued ASU 2016-10, *Identifying Performance Obligations and Licensing,* and in May 2016, FASB issued *Narrow-Scope Improvements and Practical Expedients* to clarify implementation guidance in ASC Topic 606. The effective date of these updates is the same as the effective date and transition requirements of ASU 2014-09.

The majority of the Corporation's revenue is generated from the distribution of electricity to end-use customers based on published tariff rates, as approved by the regulator, and is considered to be in the scope of ASU 2014-09. The Corporation does not expect that the adoption of this standard, and all related ASUs, will have a material impact on the measurement of revenue generated from the distribution of electricity to end-use customers. The Corporation has not yet selected a transition method and is assessing the impact that the adoption of this standard, and all related ASUs, will have on its other revenue streams, and all related disclosures. The Corporation plans to have this assessment substantially complete by the end of 2016.

Leases

In February 2016, FASB issued ASU 2016-02, *Leases.* The amendments to this update create ASC Topic 842, *Leases,* and supersedes lease requirements in ASC Topic 840, *Leases.* The main provision of Topic 842 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. For operating leases, a lessee is required to do the following: (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; (ii) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis; and (iii) classify all cash payments within operating activities in the statement of cash flows. These amendments also require qualitative disclosures along with specific quantitative disclosures. This update is effective for annual and interim periods beginning after December 15, 2018 and is to be applied using a modified retrospective approach with practical expedient options. Early adoption is permitted. The Corporation is assessing the impact that the adoption of this update will have on its financial statements and related disclosures.

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

(d) Future Accounting Pronouncements (cont'd)

Measurement of Credit Losses on Financial Instruments

In June 2016, FASB issued ASU 2016-09, *Measurement of Credit Losses on Financial Instruments.* The amendments in this update require entities to use an expected credit loss methodology and to consider a broad range of reasonable and supportable information to inform credit loss estimates. This update is effective for annual and interim periods beginning after December 15, 2019 and is to be applied on a modified retroactive basis. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Corporation is assessing the impact that the adoption of this update will have on its financial statements and related disclosures.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments.* The amendments in this update address diversity in practice of how eight specific cash receipts and cash payments are presented in the statement of cash flows. This update is effective for annual and interim periods beginning after December 15, 2017 and is to be applied on a retroactive basis for each period presented. Early adoption is permitted. The Corporation does not expect the adoption of this update will have a material impact on its financial statements or related disclosures.

3. 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.

Regulatory assets	**September 30, 2016**	**December 31, 2015**
Deferred income tax	$ 248,140	$ 211,506
Deferred overhead	75,113	66,310
Regulatory defined benefit pension deferrals	2,388	2,940
K factor deferrals	1,418	9,292
A1 rider deferral	753	-
Y factor deferrals	501	74
Total regulatory assets	328,313	290,122
Less: current portion	1,840	9,502
Long-term regulatory assets	$ 326,473	$ 280,620

Regulatory liabilities	**September 30, 2016**	**December 31, 2015**
Non-asset retirement obligation removal cost provision	$ 369,530	$ 353,801
Alberta Electric System Operator charges deferral	20,661	25,354
K factor deferrals	20,501	11,894
A1 rider deferral	2,507	3,548
Y factor deferrals	1,249	1,346
Total regulatory liabilities	414,448	395,943
Less: current portion	38,385	15,004
Long-term regulatory liabilities	$ 376,063	$ 380,939

A detailed description of the nature of the Corporation's regulatory assets and liabilities was provided in Note 5 of the Corporation's 2015 audited annual financial statements.

4. DEBT

In July 2016, the Corporation renegotiated and amended its syndicated credit facility, extending the maturity date of the facility to August 2021 from August 2020. The amended agreement contains substantially similar terms and conditions as the previous agreement.

In September 2016, the Corporation entered into an agreement with a syndicate of agents, pursuant to which the Corporation sold $150.0 million of senior unsecured debentures. The debentures bear interest at a rate of 3.34%, to be paid semi-annually, and mature in 2046. Proceeds of the issue were used to repay existing indebtedness incurred under the committed credit facility to finance capital expenditures and for general corporate purposes.

5. EMPLOYEE FUTURE BENEFITS

Costs Recognized

For defined benefit pension plans, the difference between the expense recognized under US GAAP and that recovered in current rates is subject to deferral treatment and is expected to be recovered or refunded in future rates. For the other post-employment benefit ("OPEB") plan, the difference between the expense recognized under US GAAP and that recovered in current rates is not subject to deferral treatment.

Components of Net Periodic Costs

	Defined Benefit Pension Plans		OPEB Plan	
Three months ended September 30	**2016**	**2015**	**2016**	**2015**
Service cost	$ 92	$ 165	$ 162	$ 155
Interest cost	411	397	97	99
Expected return on plan assets	(223)	(228)	-	-
Amortizations:				
Past service cost	-	-	63	64
Actuarial loss	60	177	-	-
Net benefit cost recognized	340	511	322	318
Regulatory adjustments	118	(495)	-	-
Net benefit cost recognized in financial statements	458	16	322	318
Defined contribution cost	2,095	2,044	-	-
Total employee future benefit cost	$ 2,553	$ 2,060	$ 322	$ 318

	Defined Benefit Pension Plans		OPEB Plan	
Nine months ended September 30	**2016**	**2015**	**2016**	**2015**
Service cost	$ 277	$ 496	$ 485	$ 467
Interest cost	1,233	1,193	293	298
Expected return on plan assets	(669)	(683)	-	-
Amortizations:				
Past service cost	-	-	190	190
Actuarial loss	179	532	-	-
Net benefit cost recognized	1,020	1,538	968	955
Regulatory adjustments	374	(1,500)	-	-
Net benefit cost recognized in financial statements	1,394	38	968	955
Defined contribution cost	7,159	7,076	-	-
Total employee future benefit cost	$ 8,553	$ 7,114	$ 968	$ 955

5. EMPLOYEE FUTURE BENEFITS (cont'd)

Pension Plan Contributions

The Corporation made total contributions to the defined benefit retirement plan of $0.4 million and $1.3 million for the three and nine months ended September 30, 2016, respectively. Minimum funding contributions of approximately $1.8 million will be made towards the defined benefit pension plan and contributions of $1.0 million toward the OPEB plan in 2016.

An actuarial valuation of the defined benefit component of the pension plan for funding purposes was filed as of December 31, 2015. Refer to Note 8 for further information.

6. FAIR VALUE MEASUREMENTS

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; and
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:

Long-term debt	**September 30, 2016**	**December 31, 2015**
Fair value [(1)]	$ 2,279,063	$ 1,938,533
Carrying value[(2)]	1,833,588	1,683,825

(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.*
(2) *Carrying value is presented gross of debt issuance costs of $14,053 (December 31, 2015 - $13,280).*

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

7. FINANCIAL RISK MANAGEMENT

Exposure to credit risk, interest rate risk and liquidity risk arises in the normal course of the Corporation's business.

Credit Risk

The Corporation has a concentration of credit risk as a result of its distribution service billings being to a relatively small group of retailers, or counterparties. 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.

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 September 30, 2016.

7. FINANCIAL RISK MANAGEMENT (cont'd)

Credit Risk (cont'd)

Credit Rating	Number of Counterparties	Gross Exposure	Net Exposure
AAA to AA (low)	2	$ 1,425	$ -
A (high) to A (low)	8	38,206	-
BBB (high) to BBB (low)	9	12,149	-
Not rated	36	73,573	1,620
Total	55	$ 125,353	$ 1,620

Gross exposure represents the projected value of retailer billings over a 37-day period. The Corporation is required to minimize its net 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 net 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 net 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.

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 expense which is recovered in current distribution rates, thereby minimizing cash flow variability due to interest rate exposures. Any new issues of fixed rate debentures by the Corporation within the five-year PBR term would be exposed to cash flow variability to the extent that the inflation and productivity factor of the PBR formula may not fully provide for the interest expense. The fair value of the Corporation's 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.

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 DBRS and Standard and Poor's ("S&P") and a change in rating by either of these rating agencies could potentially increase or decrease the interest expense of the Corporation. As at September 30, 2016, the Corporation's debentures were rated by DBRS at A (low) and by S&P at A-. In December 2015, DBRS confirmed the Corporation's credit rating of A (low) but revised its outlook on the Corporation from Positive to Stable, reflecting DBRS' view of the current regulatory framework in Alberta. In October 2016, S&P returned the Corporation's outlook to Stable from Negative as a result of the closing of Fortis' acquisition of ITC Holdings Corp.

Liquidity Risk

Liquidity risk is 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. The number of years to maturity of the principal outstanding and interest payments on the Corporation's long-term debt as at December 31, 2015 were summarized in Note 18 of the Corporation's 2015 audited annual financial statements.

The Corporation's financial position could be adversely affected if it fails to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange sufficient and cost-effective financing is subject to numerous factors, including the results of operations and financial position of the Corporation, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions.

7. FINANCIAL RISK MANAGEMENT (cont'd)

Liquidity Risk (cont'd)

To mitigate this risk, the Corporation has a $250.0 million unsecured committed credit facility to support short-term financing of capital expenditures and seasonal working capital requirements. As at September 30, 2016, the Corporation had no drawings on this facility (December 31, 2015 - $53.0 million).

8. COMMITMENTS AND CONTINGENCIES

A detailed description of the nature of the Corporation's commitments and contingencies was provided in Note 18 of the Corporation's 2015 audited annual financial statements. There have been no material changes to the nature or amounts of these items, except as discussed below.

During the second quarter of 2016, the Corporation filed an actuarial valuation of the defined benefit component of the pension plan for funding purposes as at December 31, 2015. The actuarial valuation set the minimum pension contributions for 2016 through 2018 at approximately $1.8 million per year.

The Corporation's obligation for future principal and interest payments have increased as a result of the September 2016 issuance of $150.0 million senior unsecured debentures. Refer to Note 4 for further information.

9. SUPPLEMENTAL CASH FLOW INFORMATION

Change in Non-Cash Operating Working Capital:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Accounts receivable	$ 9,886	$ 2,203	$ (5,086)	$ (14,726)
Prepaids and deposits	1,087	65	(2,059)	(1,836)
Income tax receivable and payable	5,041	9,429	100	4,399
Regulatory assets	1,132	(9,948)	7,662	(10,340)
Accounts payable and other current liabilities	(170)	1,412	9,627	(3,149)
Regulatory liabilities	8,441	(14,585)	23,381	(17,791)
	$ 25,417	$ (11,424)	$ 33,625	$ (43,443)

Non-Cash Investing Activities:

As at September 30	**2016**	**2015**
Additions to property, plant and equipment and intangible assets included in current liabilities	$ (67,175)	$ (78,610)
Customer contributions for property, plant and equipment included in current assets	3,688	5,613

10. SUBSEQUENT EVENTS

These financial statements and notes reflect the Company's evaluation of events occurring subsequent to the balance sheet date through October 31, 2016, the date the financial statements were available for issuance.