

FORTISALBERTA INC.

**Unaudited Interim Financial Statements
For the three months ended March 31, 2010**

BALANCE SHEETS (UNAUDITED)

| As at (all amounts in thousands of Canadian dollars) | March 31, 2010 | December 31, 2009 |
|--|-------------------|----------------------|
| Assets | | |
| Current assets | | |
| Accounts receivable (notes 8 and 10) | 91,061 | 80,211 |
| Prepays and deposits | 2,913 | 2,867 |
| Income taxes receivable | – | 1,122 |
| Future income taxes | 107 | 379 |
| Regulatory assets | 62,665 | 70,958 |
| | 156,746 | 155,537 |
| Accounts receivable (notes 8 and 10) | 1,588 | 1,587 |
| Property, plant and equipment | 1,681,194 | 1,651,477 |
| Intangible assets | 66,511 | 68,417 |
| Regulatory assets | 26,786 | 27,510 |
| Income tax receivable | 1,112 | – |
| Accrued pension asset | 3,272 | 3,451 |
| Goodwill | 189,309 | 189,309 |
| | 2,126,518 | 2,097,288 |
| Liabilities and Shareholder's Equity | | |
| Current liabilities | | |
| Accounts payable, accrued and other liabilities (notes 8 and 10) | 126,003 | 136,212 |
| Short-term debt (notes 3 and 10) | 4,812 | 15,176 |
| Regulatory liabilities | 6,255 | 4,202 |
| | 137,070 | 155,590 |
| Other liabilities | 5,602 | 5,276 |
| Regulatory liabilities | 268,343 | 268,021 |
| Future income taxes | 2,371 | 1,019 |
| Long-term debt (notes 3 and 10) | 988,193 | 948,154 |
| | 1,401,579 | 1,378,060 |
| Shareholder's Equity | | |
| Share capital (note 4) | 173,848 | 173,848 |
| Contributed surplus (note 5) | 486,231 | 486,231 |
| Retained earnings | 64,860 | 59,149 |
| | 724,939 | 719,228 |
| | 2,126,518 | 2,097,288 |
| <i>Commitments and Contingencies (note 9)</i> | | |

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

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

| Three Months Ended (all amounts in thousands of Canadian dollars) | March 31, 2010 | March 31, 2009 |
|--|-------------------|-------------------|
| Revenues | | |
| Electric rate revenue | 85,567 | 75,617 |
| Other revenue (note 8) | 2,289 | 3,883 |
| | 87,856 | 79,500 |
| Expenses | | |
| Operating costs (notes 7 and 8) | 35,485 | 33,642 |
| Depreciation | 20,971 | 19,312 |
| Amortization | 3,211 | 3,066 |
| | 59,667 | 56,020 |
| Income before interest and income taxes | 28,189 | 23,480 |
| Interest on short-term debt | 7 | 94 |
| Interest on long-term debt (note 3) | 13,952 | 11,654 |
| | 13,959 | 11,748 |
| Income before income taxes | 14,230 | 11,732 |
| Current income tax (recovery) | – | (20) |
| Future income tax (recovery) | (231) | (541) |
| | (231) | (561) |
| Net Income | 14,461 | 12,293 |
| Other comprehensive income | – | – |
| Net Income and Other Comprehensive Income | 14,461 | 12,293 |
| Retained earnings, beginning of period | 59,149 | 28,821 |
| Dividends (note 4) | (8,750) | (7,500) |
| Retained Earnings, End of Period | 64,860 | 33,614 |

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

STATEMENTS OF CASH FLOWS (UNAUDITED)

| Three Months Ended (all amounts in thousands of Canadian dollars) | March 31, 2010 | March 31, 2009 |
|--|-------------------|-------------------|
| Operating Activities | | |
| Net income | 14,461 | 12,293 |
| Add (deduct) items not involving cash: | | |
| Depreciation | 20,971 | 19,312 |
| Amortization | 3,307 | 3,156 |
| Future income taxes | (231) | (541) |
| Allowance for funds used during construction | 502 | 232 |
| Changes in other non-cash items related to operations (note 11) | 1,575 | 7,452 |
| | 40,585 | 41,904 |
| Changes in non-cash working capital related to operations (note 11) | (3,897) | (17,269) |
| Cash from operating activities | 36,688 | 24,635 |
| Investing Activities | | |
| Additions to property, plant and equipment | (68,394) | (87,903) |
| Customer contributions for property, plant and equipment | 7,134 | 4,557 |
| AESO contribution refund | 5,143 | – |
| Additions to intangible assets | (1,430) | (2,253) |
| Proceeds from the sale of property, plant and equipment | 294 | 234 |
| Net change in employee loans | (237) | (219) |
| Cash used in investing activities | (57,490) | (85,584) |
| Financing Activities | | |
| Increase in debt | 43,357 | 153,232 |
| Repayment of debt | (13,740) | (103,579) |
| Dividends paid (note 4) | (8,750) | (7,500) |
| Equity contributions (note 5) | – | 20,000 |
| Additions to deferred financing fees | (65) | (1,204) |
| Cash from financing activities | 20,802 | 60,949 |
| Change in cash and cash equivalents | – | – |
| Cash and cash equivalents, beginning of period | – | – |
| Cash and cash equivalents, end of period | – | – |
| Cash flows include the following elements: | | |
| Interest paid | 6,418 | 3,472 |

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

Notes to the Financial Statements (Unaudited)

1. ENTITY DEFINITION AND NATURE OF OPERATIONS

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

Prior to January 1, 2008, the Alberta Energy and Utilities Board (the "EUB") was the chief provincial regulator of the Alberta energy industry. Effective January 1, 2008, the *Alberta Utilities Commission Act* (the "AUC Act") separated the EUB into two regulatory bodies; the Energy Resources and Conservation Board (the "ERCB") and the Alberta Utilities Commission (the "AUC").

The ERCB regulates the safe, responsible and efficient development of Alberta's energy resources including oil, natural gas and coal.

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. Hereafter, any use of the term "AUC" will refer to the EUB prior to January 1, 2008 and the AUC subsequently.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements and do not include all of the disclosures normally found in the annual audited financial statements for the Corporation. These interim financial statements should be read in conjunction with the Corporation's annual financial statements for the year ended December 31, 2009.

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

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

Notes to the Financial Statements (Unaudited)
For the three months ended March 31, 2010 and 2009

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

(b) Regulation

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

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

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

(c) Future Changes in Accounting Policies

Transition to IFRSs in Canada

In October 2009, the Accounting Standards Board (the "AcSB") issued a third and final International Financial Reporting Standards ("IFRS") Omnibus Exposure Draft confirming that publicly accountable enterprises will be required to apply IFRS, in full and without modification, on January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Corporation for its year ended December 31, 2010, including the opening balance sheet as at January 1, 2010. The AcSB proposes that Canadian Institute of Chartered Accountants ("CICA") Handbook Section - *Accounting Changes*, which would require an entity to disclose information relating to a new primary source of GAAP that has been issued but is not yet effective and that the entity has not applied, not be applied with respect to the IFRS Omnibus Exposure Draft. Consequently, the Corporation does not intend to disclose the full impact of the transition to IFRS in publicly available financial statements prior to 2011. The Corporation is continuing to assess the financial reporting impacts of adopting IFRS in 2011. While the impact on the Corporation's future financial position and results of operations is not fully determinable at this time, proposals put forth by the International Accounting Standards Board (the "IASB") in its July 2009 Exposure Draft – *Rate-Regulated Activities*, if adopted, should reduce earnings' volatility at the Corporation that may have otherwise resulted under IFRS, in the absence of an accounting standard for rate-regulated activities. At the April 2010 meeting, the IASB approved the additional IFRS 1 deemed cost exemption for operations subject to rate regulation for first-time adopters. Under the exemption a first-time adopter may elect to use the carrying amount of items of property, plant and equipment or intangible assets used in rate-regulated activities at the date of transition to IFRSs as deemed cost. The exemption will be included in the 2010 Improvements to IFRSs that will be released by the IASB at the end of April 2010. The IASB staff continues its research and analysis on the rate-regulated activities project, focusing on the key issue of whether regulatory assets and regulatory liabilities exist in accordance with the current Framework for the Preparation and Presentation of Financial Statements and whether they are consistent with other current IFRSs.

The Corporation does expect to derecognize amounts previously recorded under pushdown accounting, as well as, a potential change in the manner in which it will measure and recognize property, plant and equipment and intangible assets. The Corporation also anticipates a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required as well as systems changes that may be necessary to gather and process the required information.

Notes to the Financial Statements (Unaudited)
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(All amounts in thousands of Canadian dollars, unless otherwise noted)

(d) Changes in Items Capitalized

In accordance with AUC Rule 026, effective January 1, 2010 the Corporation began to capitalize a portion of the depreciation of assets, such as tools and vehicles, used in the construction of other assets as well as the cost of line patrols.

3. DEBT

| | Coupon Rate | Payment Terms | Maturity Date | 2010 Effective Rate | March 31, 2010 | December 31, 2009 |
|---|-------------|---------------|---------------|---------------------|----------------|-------------------|
| Senior unsecured debentures | % | | | % | \$ | \$ |
| Series 04-1 | 5.33 | Semi-annual | 2014 | 5.47 | 200,000 | 200,000 |
| Series 04-2 | 6.22 | Semi-annual | 2034 | 6.31 | 200,000 | 200,000 |
| Series 06-1 | 5.40 | Semi-annual | 2036 | 5.48 | 100,000 | 100,000 |
| Series 07-1 | 4.99 | Semi-annual | 2047 | 5.04 | 109,890 | 109,890 |
| Series 08-1 | 5.85 | Semi-annual | 2038 | 5.94 | 99,482 | 99,480 |
| Series 09-1 | 7.06 | Semi-annual | 2039 | 7.14 | 99,987 | 99,987 |
| Series 09-2 | 5.37 | Semi-annual | 2039 | 5.42 | 124,945 | 124,945 |
| Drawing on the syndicated credit facility | Variable | Variable | 2012 | 0.77 | 61,985 | 21,995 |
| Cash balances in overdraft position | N/A | N/A | 2010 | – | 4,812 | 15,176 |
| Deferred financing fees | – | – | – | – | (8,096) | (8,143) |
| | | | | | 993,005 | 963,330 |
| Less: short-term debt | | | | | 4,812 | 15,176 |
| Long-term debt | | | | | 988,193 | 948,154 |

The Corporation has an unsecured syndicated credit facility with an amount available of \$200.0 million, and with the consent of the lenders, the amount can be increased to \$250.0 million. The maturity date of this facility is May 2012. Drawings under the syndicated credit facility are available by way of prime loans, bankers' acceptances and letters of credit. Prime loans issued under the syndicated credit facility bear an interest rate of prime. Bankers' acceptances issued under the syndicated credit facility are issued at the applicable bankers' acceptance discount rate plus a stamping fee calculated at 0.375%. The average interest rate for the three months ended March 31, 2010 on the syndicated credit facility was 0.8% (three months ended March 31, 2009 – 1.8%). As at March 31, 2010, there were \$62.0 million in drawings under the facility for bankers' acceptances (December 31, 2009 - \$22.0 million), and there was \$40.5 million drawn in letters of credit (December 31, 2009 - \$23.4 million).

In December 2008, the Corporation filed a short-form base shelf prospectus ("Shelf") with the security commissions or similar authorities in Canada. This Shelf contemplates the issuance of up to \$350.0 million medium term note debentures, which would be senior unsecured obligations of the Corporation.

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

An unsecured demand facility of \$10.0 million was available to the Corporation as at March 31, 2010. This facility bears an interest rate on all drawings equal to prime. There were no drawings on this facility as at March 31, 2010 (December 31, 2009 – \$1.7 million which was included in short-term debt).

Scheduled principal repayments are as follows:

| | \$ |
|------------|------------------|
| 2010 | 4,812 |
| 2011 | – |
| 2012 | 61,985 |
| 2013 | – |
| 2014 | 200,000 |
| Thereafter | 734,304 |
| | <u>1,001,101</u> |

4. SHARE CAPITAL

Authorized – unlimited number of:

- Common shares
- Class A common shares
- First Preferred non-voting shares, redeemable, cumulative dividend at 10% of the redemption price.

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

For the three months ended March 31, 2010, the Corporation declared and paid dividends totaling \$8.8 million (three months ended March 31, 2009 - \$7.5 million) to Fortis Alberta Holdings Inc. (the Corporation's parent and an indirectly wholly owned subsidiary of Fortis).

5. CONTRIBUTED SURPLUS

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

Contributed surplus relates to the pushdown of the purchase price premium paid by the Corporation's former parent on acquisition of the Corporation and equity contributions from Fortis Alberta Holdings Inc. for which no additional shares were issued. During the three months ended March 31, 2010, the Corporation received no additional equity contributions from Fortis Alberta Holdings Inc. (three months ended March 31, 2009 – \$20.0 million).

6. CAPITAL MANAGEMENT

The Corporation's objectives when managing capital are to ensure ongoing access to capital to allow it to build and maintain the electrical distribution system within the Corporation's service territory. To ensure this access to capital, the Corporation targets a long-term capital structure that includes approximately 59% long-term debt and 41% equity, which is consistent with the Generic Cost of Capital Decision 2009-216. This targeted capital structure is after considering the effects of the elimination of the goodwill and regulatory tax basis adjustment due to the anticipated adoption of IFRS. As indicated in Note 2(c), it is expected that the goodwill and regulatory tax basis adjustment resulting from pushdown accounting will likely be eliminated upon the adoption of IFRS. This ratio is maintained by the Corporation through the issuance from time to time of bonds or other evidences of indebtedness, and/or equity contributions by Fortis Alberta Holdings Inc.

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Summary of Long-term Capital Structure

| | March 31, 2010 | | December 31, 2009 | |
|-------------------------------------|----------------|--------------|-------------------|--------------|
| | \$ millions | % | \$ millions | % |
| Total long-term debt ^(a) | 996.3 | 57.9 | 956.3 | 57.1 |
| Shareholder's equity | 724.9 | 42.1 | 719.2 | 42.9 |
| Total | 1,721.2 | 100.0 | 1,675.5 | 100.0 |

Note:

a) The March 31, 2010, balance does not include deferred financing fees of \$8.1 million (December 31, 2009 – \$8.1 million).

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

As at March 31, 2010, the Corporation has externally imposed capital requirements by virtue of the Trust Indenture and the syndicated credit facility to which it is subject that limit the amount of debt that can be incurred relative to equity. The Corporation is in compliance with these externally imposed capital requirements as at March 31, 2010.

7. EMPLOYEE FUTURE BENEFITS

During the three months ended March 31, 2010, the Corporation recorded pension and other post employment benefit expenses of \$2,386 (three months ended March 31, 2009 - \$2,409).

8. RELATED PARTY TRANSACTIONS

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

| | Included in Accounts Receivable | | Included in Accounts Payable | |
|--|---------------------------------|-------------------|------------------------------|-------------------|
| | March 31, 2010 | December 31, 2009 | March 31, 2010 | December 31, 2009 |
| FortisBC Inc. | 5 | 10 | – | – |
| Fortis | – | – | 619 | 272 |
| Fortis Turks and Caicos Inc. | 3 | 17 | – | – |
| Teresan Gas Inc. | – | – | – | 5 |
| Housing loans to officers of the Corporation ^(a) | 750 | 750 | – | – |
| Stock option loans to officers of the Corporation ^(b) | 814 | 814 | – | – |
| Employee share purchase plan loans to officers of the Corporation ^(c) | 49 | 14 | – | – |
| Total | 1,621 | 1,605 | 619 | 277 |

Notes:

- The Corporation has granted housing and relocation loans to officers of the Corporation. The loans are interest-free for a period of three years from the loan grant date after which interest will accrue at the rate of prime plus 0.5%. The total amount of the loans must be repaid within 10 years of the loan grant date. The loans are secured by mortgages on the residences purchased by the officers.
- The Corporation has granted stock options loans to officers of the Corporation for purposes of exercising their Fortis stock options. Each loan bears interest equal to the amount of the dividends received on the shares. The total amount of each loan must be repaid within 10 years of the loan grant date. Each loan is secured by the share certificates held by the officer.
- The amounts receivable under the employee share purchase plan are for loans to officers of the Corporation under the employee share purchase plan. These loans are taken on an interest-free basis and must be repaid in full within one year of the share purchase date.

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.

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

The amounts included in other revenue and operating costs for related parties for the three months ended March 31, 2010 and 2009 were measured at the exchange amount and are as follows:

| | Included in Other Revenue | | Included in Operating Costs | |
|------------------------------------|---------------------------|-------------------|-----------------------------|-------------------|
| | March 31, 2010 | March 31, 2009 | March 31, 2010 | March 31, 2009 |
| FortisBC Inc. | 40 | 10 | 6 | 5 |
| Fortis | 3 | – | 624 | 480 |
| Fortis Pacific Holdings Inc. | 8 | – | – | – |
| Fortis Properties Inc. | – | – | 2 | 6 |
| Maritime Electric Company, Limited | 2 | – | – | – |
| Newfoundland Power Inc. | – | – | – | 3 |
| Total | 53 | 10 | 632 | 494 |

FortisBC Inc. - billed the Corporation in 2010 for charges consisting of pension costs, as well as airfare and travel for board meetings. In 2010, the Corporation provided metering services, employee services, information technology services and material sales to FortisBC Inc.

Fortis - billed the Corporation in 2010 for charges relating to corporate governance expenses, stock-based compensation costs, pension costs, subscription expenses and travel and accommodation expenses for board meetings. In 2010, the Corporation provided employee services such as airfare and accommodation for board meetings.

Fortis Pacific Holdings Inc. – received employee services such as meter compliance testing from the Corporation in 2010.

Fortis Properties Inc. – billed the Corporation for travel and accommodation expenses for board meetings in 2010.

Maritime Electric Company, Limited – received employee services such as meter compliance testing from the Corporation in 2010.

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

9. COMMITMENTS AND CONTINGENCIES

(a) Legal Proceedings

The Corporation is subject to various legal proceedings and claims that arise in the ordinary course of business operations. 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.

A Statement of Claim was filed on December 18, 2007 in which the Plaintiff, a minor, claims damages in excess of \$4.5 million against the numerous defendants, including the Corporation. The Plaintiff's claim arises from personal injuries he suffered in August, 2006 as a result of a motorcycle accident. The Plaintiff alleges that the defendants or any of them, including the Corporation, negligently erected or failed to remove a wire that was strung between a sign and a power pole of the Corporation. While riding his motorcycle, the Plaintiff is alleged to have struck the wire causing his injuries. On August 27, 2008 the parents of the Plaintiff issued a Statement of Claim in the Court of Queen's Bench of Alberta, Judicial District of Edmonton claiming that they suffered damages arising from the mental distress they are alleged to have suffered as a result of witnessing the aftermath of their son's injuries. The combined value of the damages claimed in the action by the two parents is approximately \$0.35 million. The Corporation's insurer has agreed to extend coverage for the Plaintiff's claim as well as the claim of his parents. Based on a preliminary investigation of the claims, management believes that the accident was not caused by the Corporation's facilities and that the Corporation has no liability for either the Plaintiff's

Notes to the Financial Statements (Unaudited)
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(All amounts in thousands of Canadian dollars, unless otherwise noted)

claim or that of his parents. However, it is too early in the proceedings to provide a definitive assessment of the Corporation's exposure.

(b) Capital Expenditures

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

(c) Pension Contribution Obligations

The Corporation makes minimum pension contributions into a defined benefit component of the Corporation's pension plan for certain employees, which according to the Actuarial Valuation for Funding Purposes as at December 31, 2007 amounts to approximately \$1.6 million in 2010. Future actuarial valuations will establish the funding obligations for subsequent years, which could be materially different depending upon market conditions. The next required funding valuation is expected to be completed as at December 31, 2010.

10. FINANCIAL INSTRUMENTS

(a) Designation and Valuation of Financial Instruments

CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, requires an entity to designate its financial instruments into one of the following five categories: 1) loans and receivables, 2) assets held-to-maturity, 3) assets available-for-sale, 4) other financial liabilities, and 5) held-for-trading assets and liabilities. The Corporation did not designate any of its financial assets or liabilities as held-to-maturity, available-for-sale or held for trading as at March 31, 2010.

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

| | March 31, 2010 | | December 31, 2009 | |
|---|----------------|----------------------|-------------------|----------------------|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| Loans and receivables | | | | |
| Accounts receivable (short-term) ^{(a)(b)} | 91,061 | 91,061 | 79,250 | 79,250 |
| Accounts receivable (long-term) ^(a) | 1,588 | 1,588 | 1,587 | 1,587 |
| Other financial liabilities | | | | |
| Accounts payable and accrued liabilities ^{(a)(c)(e)} | 124,998 | 124,998 | 136,048 | 136,048 |
| Short-term debt ^(a) | 4,812 | 4,812 | 15,176 | 15,176 |
| Long-term debt ^{(d)(f)} | 996,289 | 1,070,444 | 956,297 | 1,008,455 |

Notes:

- a) Due to the nature and/or short maturity of these financial instruments, carrying value approximated fair value.
- b) The March 31, 2010 balance does not include GST input tax credits receivable of nil (December 31, 2009 - \$1.0 million).
- c) Included within accounts payable, accrued and other liabilities in the Balance Sheet.
- d) The March 31, 2010 balance does not include deferred financing fees of \$8.1 million (December 31, 2009 - \$8.1 million).
- e) The March 31, 2010 balance does not include GST payable of \$0.8 million (December 31, 2009 - nil).
- f) The fair value of the long-term debt is estimated based on the quoted market prices for the same or similarly rated issues for debt of the same remaining maturities.

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(b) Derivatives

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

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

(c) Risk Management

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

(i) Counterparty Credit Risk

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

The Corporation monitors its credit exposure in accordance with the Terms and Conditions of Distribution Access Service as approved by the AUC. The following table provides information on the counterparties that the Corporation extends credit to with respect to its distribution tariff billings as at March 31, 2010.

| Credit Rating | Number of Counterparties | Gross Exposure | Exposure |
|-------------------------|---------------------------------|-----------------------|-----------------|
| AAA to AA (low) | 1 | 1,079 | - |
| A (high) to A (low) | 7 | 3,321 | - |
| BBB (high) to BBB (low) | 8 | 10,024 | - |
| Not rated | 34 | 78,169 | 3,203 |
| Total | 50 | 92,593 | 3,203 |

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

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

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

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For the three months ended March 31, 2010 and 2009

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

The accounts receivable of the Corporation are not impaired and the aging analysis of the Corporation's accounts receivable is as follows:

| | March 31, 2010 |
|---------------------------|----------------|
| Not past due | 90,347 |
| Past due 0-60 days | 390 |
| Past due 61 days and over | 324 |
| | 91,061 |

(ii) Interest Rate Risk

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

A change in the Corporation's interest rates results in interest rate exposure for drawings under the syndicated credit facility. The Corporation has determined that a change in interest rates of an increase of 200 basis points and a decrease of 25 basis points represents a reasonably possible financial risk, and has prepared the following sensitivity analysis to represent the impacts of a change on net income for the three months ended March 31, 2010:

| | Three months ended March 31, 2010 | |
|-----------------------------------|-----------------------------------|--------------------------|
| | 25 basis point decrease | 200 basis point increase |
| | \$ | \$ |
| Increase (decrease) in net income | 32 | (258) |

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

As at March 31, 2010, the Corporation was rated by Moody's at Baa1, by S&P at A-, and by DBRS at A (low). A downward one notch change in the rating by any of DBRS, Moody's or S&P on January 1, 2010 could potentially have increased interest expense under these debt facilities by approximately \$20 for the three months ended March 31, 2010.

(iii) Liquidity Risk

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

Capital market volatility may impact the Corporation's the cost of issuance of long term capital by the Corporation as well as future funding obligations and/or pension expense associated with its defined benefit pension plan. There are a number of risks associated with the Corporation's defined benefit pension plan including: 1) there is no assurance that the Corporation's defined benefit pension plan will earn the assumed rate of return, 2) market driven changes may result in changes in the discount rates and other variables, which would result in the Corporation being required to make contributions in the future that differ significantly from the estimates, and 3) there is measurement uncertainty incorporated into the actuarial valuation process. These risks are expected to

Notes to the Financial Statements (Unaudited)
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be mitigated as the Corporation makes application in rates to collect from customers the actual cash payments into the Corporation's defined benefit pension plan and defined contribution pension plans. Therefore, an increase or decrease in the Corporation's future funding obligations and/or pension expense associated with either plan is expected to be collected or refunded in future rates, subject to forecast risk.

The Corporation's outstanding financial liabilities as at March 31, 2010, include short-term debt, accounts payable and accrued liabilities, and long-term debt. The Corporation expects to settle its financial liabilities relating to short-term debt and accounts payable and accrued liabilities in accordance with their contractual terms of repayment, which are generally within one year. The following table summarizes the number of years to maturity of the principal outstanding and interest payments on the Corporation's long-term debt, which is composed of drawings on the syndicated credit facility and senior unsecured debentures, as at March 31, 2010:

| | 1–5 Years | 6–10 Years | > 10 Years | Total |
|--|----------------|----------------|------------------|------------------|
| Drawings on the syndicated credit facility ^{(a)(c)} | 62,000 | - | - | 62,000 |
| Senior unsecured debentures ^{(b)(c)} | | | | |
| - Principal payments | 200,000 | - | 735,000 | 935,000 |
| - Interest payments | 268,058 | 214,758 | 800,518 | 1,283,334 |
| Total | 530,058 | 214,758 | 1,535,518 | 2,280,334 |

Notes:

- a) *The Corporation's syndicated credit facility has a maturity date of May 2012. The drawings under the syndicated credit facility as at March 31, 2010 are bankers' acceptances, which have their own contractual maturity dates. The amounts shown above reflect the principal and interest due when the current bankers' acceptances mature. This balance will fluctuate between March 31, 2010 and the maturity date of the syndicated credit facility.*
- b) *The March 31, 2010 balance does not include deferred financing fees of \$8.1 million.*
- c) *Payments are shown after amortization of discounts.*

11. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in Other Non-cash Items Related to Operations:

| | March 31, 2010 | March 31, 2009 |
|---|-------------------|-------------------|
| | \$ | \$ |
| (Increase) decrease in income taxes receivable | (1,112) | 1,555 |
| Decrease in non-current regulatory assets | 2,580 | 6,037 |
| Decrease in accrued pension assets | 179 | 84 |
| Increase in long-term other liabilities | 326 | 309 |
| Decrease in long-term regulatory liabilities | (407) | (425) |
| Increase (decrease) in unamortized bankers' acceptance discount | 9 | (108) |
| | 1,575 | 7,452 |

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

Changes in Non-cash Working Capital Related to Operations:

| | March 31, 2010 | March 31, 2009 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Increase in accounts receivable | (9,103) | (1,888) |
| Increase in prepaids and deposits | (46) | (205) |
| Decrease (increase) in income taxes receivable | 1,122 | (20) |
| Decrease (increase) in regulatory assets | 8,293 | (12,850) |
| Decrease in accounts payable, accrued and other liabilities | (6,216) | (3,221) |
| Increase in regulatory liabilities | 2,053 | 915 |
| | (3,897) | (17,269) |

FortisAlberta Inc. Supplementary Financial Information Coverage Ratios

The following financial ratio is provided as additional supplementary information.

| | |
|--|-------|
| For the twelve months ended March 31 | 2010 |
| Earnings coverage (times) ^(a) | 2.123 |

Note:

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