FORTISALBERTA INC.

Unaudited Interim Financial Statements
For the three and nine months ended September 30, 2010

BALANCE SHEETS (UNAUDITED)

As at (all amounts in thousands of Canadian dollars)	September 30, 2010	December 31, 2009
Assets		
Current assets		
Accounts receivable (notes 8 and 10)	99,738	80,211
Prepaids and deposits	4,377	2,867
Income tax receivable	–	1,122
Future income taxes	915	379
Regulatory assets	74,806	70,958
	179,836	155,537
Accounts receivable (notes 8 and 10)	1,583	1,587
Property, plant and equipment	1,798,795	1,651,477
Intangible assets	64,701	68,417
Regulatory assets	38,259	27,510
Income tax receivable	1,208	–
Accrued pension asset	2,812	3,451
Goodwill	189,309	189,309
	2,276,503	2,097,288
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable, accrued and other liabilities (notes 8 and 10)	138,305	136,212
Short-term debt (notes 3 and 10)	11,825	15,176
Regulatory liabilities	6,775	4,202
Income tax payable	94	–
	156,999	155,590
Other liabilities	6,154	5,276
Regulatory liabilities	280,086	268,021
Future income taxes	18,933	1,019
Long-term debt (notes 3 and 10)	1,030,316	948,154
	1,492,488	1,378,060
Shareholder's Equity		
Share capital (note 4)	173,848	173,848
Contributed surplus (note 5)	526,231	486,231
Retained earnings	83,936	59,149
	784,015	719,228
	2,276,503	2,097,288

Commitments and Contingencies (note 9)

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(all amounts in thousands of Canadian dollars)	**2010**	**2009**	**2010**	**2009**
Revenues				
Electric rate revenue	107,960	77,683	279,688	228,939
Other revenue (note 8)	1,951	6,332	9,322	15,580
	109,911	84,015	289,010	244,519
Expenses				
Operating costs (notes 7 and 8)	32,839	32,832	103,912	97,749
Depreciation	42,431	21,223	84,565	60,443
Amortization	3,036	3,087	9,495	9,349
	78,306	57,142	197,972	167,541
Income before interest and income taxes	31,605	26,873	91,038	76,978
Interest on short-term debt	6	-	14	95
Interest on long-term debt (note 3)	12,744	12,173	40,429	35,947
	12,750	12,173	40,443	36,042
Income before income taxes	18,855	14,700	50,595	40,936
Current income tax (recovery) expense	(4)	57	94	(1,888)
Future income tax recovery	(321)	(815)	(536)	(2,131)
	(325)	(758)	(442)	(4,019)
Net income	19,180	15,458	51,037	44,955
Other comprehensive income	–	–	–	–
Net Income and Other Comprehensive Income	19,180	15,458	51,037	44,955
Retained earnings, beginning of period	73,506	43,318	59,149	28,821
Dividends (note 4)	(8,750)	(7,500)	(26,250)	(22,500)
Retained Earnings, End of Period	83,936	51,276	83,936	51,276

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

STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(all amounts in thousands of Canadian dollars)	**2010**	**2009**	**2010**	**2009**
Operating Activities				
Net income	19,180	15,458	51,037	44,955
Add (deduct) items not involving cash:				
Depreciation	42,431	21,223	84,565	60,443
Amortization	3,136	3,176	9,789	9,614
Future income taxes	(321)	(815)	(536)	(2,131)
Allowance for funds used during construction	(1,945)	–	(1,443)	232
Gain on sale of property, plant, and equipment	30	–	(544)	–
Changes in other non-cash items related to operations (note 11)	2,351	18,484	7,382	46,146
	64,862	57,526	150,250	159,259
Changes in non-cash working capital related to operations (note 11)	(9,629)	(4,418)	(16,384)	(47,889)
Cash from operating activities	55,233	53,108	133,866	111,370
Investing Activities				
Additions to property, plant and equipment	(99,534)	(108,811)	(251,735)	(309,027)
Customer contributions for property, plant and equipment	11,985	7,473	28,480	15,663
Additions to intangible assets	(1,989)	(1,880)	(6,273)	(7,593)
Proceeds from the sale of property, plant and equipment	267	946	3,512	1,535
Net change in employee loans	105	120	(62)	(625)
Cash used in investing activities	(89,166)	(102,152)	(226,078)	(300,047)
Financing Activities				
Increase in debt	42,618	35,994	112,262	255,266
Repayment of debt	(14,935)	(6,950)	(33,700)	(120,243)
Dividends paid (note 4)	(8,750)	(7,500)	(26,250)	(22,500)
Equity contributions (note 5)	15,000	27,500	40,000	77,500
Additions to deferred financing fees	–	–	(100)	(1,346)
Cash from financing activities	33,933	49,044	92,212	188,677
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	6,637	6,639	33,803	27,580
Income taxes received	–	(2,010)	–	(2,010)

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 except for the change in method described in note 2(d).

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

(b) Regulation

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

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

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

On July 6, 2010, the AUC issued Decision 2010-309 (the "Decision") on the Corporation's 2010 and 2011 Phase 1 Distribution Tariff Application. In the third quarter of 2010 the Corporation recorded the impacts of the Decision. The most significant changes due to the Decision were in revenue, regulatory assets and depreciation and amortization expense. The Decision resulted in a net increase in revenue and regulatory assets primarily as a result of the increase in distribution rates. In addition, there was an increase in overall depreciation and amortization rates resulting in higher depreciation and amortization expense when comparing to the prior year and the second quarter of 2010.

(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 would 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.

In September 2010 the AcSB issued an amendment to the introduction of Part I (the "Amendment") of the Canadian Institute of Chartered Accountants ("CICA") Handbook revising the mandatory date for first-time adoption of IFRS by qualifying entities with rate-regulated activities to interim and annual financial statements relating to annual periods beginning on or after January 1, 2012. Earlier adoption is permitted.

A qualifying entity would be an entity that: (i) has activities subject to rate regulation meeting the definition of that term in Generally Accepted Accounting Principles, paragraph 1100.32B, in Part V of the CICA Handbook; and (ii) in accordance with Accounting Guideline AcG-19, Disclosures by Entities Subject to Rate Regulation, discloses that it has accounted for a transaction or event differently than it would have in the absence of rate regulation (i.e., that it has recognized regulatory assets and liabilities). The Amendment also requires that an entity choosing to defer its IFRS changeover date disclose that fact.

While the Corporation's IFRS conversion project has proceeded as planned in preparation for the adoption of IFRS on January 1, 2011, the Corporation qualifies for the proposed deferral option. The Corporation expects to take the election to defer the adoption of IFRS until 2012 and would, therefore, continue to prepare its financial statements in accordance with Part V of the CICA Handbook for all interim and annual periods ending on or before December 31, 2011.

The AcSB proposes that 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 2012.

The Corporation is continuing to assess the financial reporting impacts of adopting IFRS in 2012. The impact on the Corporation's future financial position and results of operations are not fully determinable at this time.

At the April 2010 meeting, the International Accounting Standards Board (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 was included in the 2010 Improvements to IFRSs that was released by the IASB in May 2010.

At its September 2010 meeting, the IASB continued its discussions on Rate-regulated Activities. The IASB received papers that focused on:

- whether the effect of regulation should be analyzed in the context of IAS 38 Intangible Assets and IAS 37 Provisions, Contingent Liabilities and Contingent Assets;
- whether the effect of regulation should be recognized in financial statements that are prepared in accordance with existing IFRSs;
- the status of the Rate-regulated Activities project as a stand-alone project; and
- whether IFRSs should be amended to require specific disclosure requirements related to the impact of regulation on an entity that is subject to regulations

The IASB did not reach conclusions on any technical issues at this meeting. The IASB reconfirmed its earlier view that the matter could not be resolved quickly. Accordingly the IASB decided that the next step should be to consider whether to include rate regulated activities in its future agenda.

The IASB decided to include in its public consultation on its future agenda a request for views on what form a future project might take, if any, to address the rate-regulated activities. The feedback received will assist the IASB in setting its future agenda. The potential future steps include, but are not limited to:

- a disclosure only standard;
- an interim standard, similar to IFRS 4 or IFRS 6, to grandfather previous GAAP accounting practices with some limited improvements;
- a medium term project focused on the effects of rate-regulation; or
- a comprehensive project on intangible assets

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.

(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.

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

3. DEBT

	Coupon Rate	Payment Terms	Maturity Date	2010 Effective Rate	September 30, 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	99,486	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	124,946	124,945
Drawing on the syndicated credit facility	Variable	Variable	2012	0.99	103,944	21,995
Cash balances in overdraft position	N/A	N/A	2010		11,825	15,176
Deferred financing fees	–	–	–		(7,937)	(8,143)
					1,042,141	963,330
Less: short-term debt					11,825	15,176
Long-term debt					1,030,316	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 nine months ended September 30, 2010 on the syndicated credit facility was 1.0% (nine months ended September 30, 2009 – 1.1%). As at September 30, 2010, there were $103.9 million in drawings under the facility for bankers' acceptances (December 31, 2009 – $22.0 million), and there was $42.2 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 September 30, 2010. This facility bears an interest rate on all drawings equal to prime. There were $3.9 million drawings on this facility as at September 30, 2010 (December 31, 2009 – $1.7 million), which was included in short-term debt.

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

Scheduled principal repayments are as follows:

	$
2010	11,825
2011	–
2012	103,944
2013	–
2014	200,000
Thereafter	734,309
	1,050,078

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 and nine months ended September 30, 2010, the Corporation declared and paid dividends totaling $8.8 million and $26.3 million respectively (three and nine months ended September 30, 2009 – $7.5 million and $22.5 million respectively) to Fortis Alberta Holdings Inc. (the Corporation's parent and an indirectly wholly owned subsidiary of Fortis).

5. CONTRIBUTED SURPLUS

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

Contributed surplus relates to the pushdown of the 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 and nine months ended September 30, 2010, the Corporation received equity contributions of $15.0 million and $40.0 million respectively (three and nine months ended September 30, 2009 – $27.5 million and $77.5 million respectively) from Fortis Alberta Holdings Inc.

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.

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

Summary of Long-term Capital Structure

	September 30, 2010		December 31, 2009	
	$ millions	%	$ millions	%
Total long-term debt[(a)]	1,038.3	57.0	956.3	57.1
Shareholder's equity	784.0	43.0	719.2	42.9
Total	1,822.3	100.0	1,675.5	100.0

Note:
[(a)] *The September 30, 2010, balance does not include deferred financing fees of $7.9 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 September 30, 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 September 30, 2010.

7. EMPLOYEE FUTURE BENEFITS

During the three and nine months ended September 30, 2010, the Corporation recorded pension and other post-employment benefit expenses of $1,867 and $6,131 respectively (three and nine months ended September 30, 2009 – $1,794 and $5,632 respectively).

8. RELATED PARTY TRANSACTIONS

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

	Included in Accounts Receivable		Included in Accounts Payable	
	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009
FortisBC Inc.	3	10	–	–
Fortis	–	–	484	272
Fortis Turks and Caicos Inc.	12	17	–	–
Terasen 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)]	31	14	–	–
Employee computer loans to officers of the Corporation[(d)]	1	–	–	–
Total	1,611	1,605	484	277

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

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

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

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

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

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.

The amounts included in other revenue and operating costs for related parties for the three months ended September 30, 2010 and 2009 were measured at the exchange amount and are as follows:

	Included in Other Revenue		Included in Operating Costs	
	September 30, 2010	**September 30, 2009**	**September 30, 2010**	**September 30, 2009**
FortisBC Inc.	15	53	6	7
Fortis	–	–	410	440
Fortis Properties Inc.	–	–	6	2
Maritime Electric Company, Limited	5	7	–	–
Fortis Turks and Caicos Inc.	12	–	–	–
Total	32	60	422	449

The amounts included in other revenue and operating costs for related parties for the nine months ended September 30, 2010 and 2009 were measured at the exchange amount and are as follows:

	Included in Other Revenue		Included in Operating Costs	
	September 30, 2010	**September 30, 2009**	**September 30, 2010**	**September 30, 2009**
FortisBC Inc.	76	69	18	18
Fortis	60	7	1,774	1,402
Fortis Pacific Holdings Inc.	8	3	–	–
Fortis Properties Inc.	–	–	8	15
Maritime Electric Company, Limited	10	12	–	–
Fortis Turks and Caicos Inc.	12	–	–	–
Newfoundland Power Inc.	–	–	–	3
Total	166	91	1,800	1,438

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 and also invoiced related expenses.

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 amounts in thousands of Canadian dollars, unless otherwise noted)

Fortis Turks and Caicos Inc. – received employee services, information technology services and material sales 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

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.

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 September 30, 2010.

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

	September 30, 2010		December 31, 2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Loans and receivables				
Accounts receivable (short-term)[(a)(b)]	99,738	99,738	79,250	79,250
Accounts receivable (long-term)[(a)]	1,583	1,583	1,587	1,587
Other financial liabilities				
Accounts payable and accrued liabilities[(a)(c)]	137,964	137,964	136,048	136,048
Short-term debt[(a)]	11,825	11,825	15,176	15,176
Long-term debt[(d)(e)]	1,038,253	1,187,585	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 September 30, 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. The September 30, 2010 balance does not include GST payable of $0.1 million (December 31, 2009 – nil).*
(d) *The September 30, 2010 balance does not include deferred financing fees of $7.9 million (December 31, 2009 – $8.1 million).*
(e) *The fair value of the long-term debt is estimated based on the quoted market prices for the same or similarly rated issues for debt of the same remaining maturities.*

(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 for separate recognition 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.

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

(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 September 30, 2010.

Credit Rating	Number of Counterparties	Gross Exposure	Exposure
AAA to AA (low)	1	1,448	-
A (high) to A (low)	8	4,017	-
BBB (high) to BBB (low)	8	11,847	-
Not rated	33	88,632	1,893
Total	50	105,944	1,893

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

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

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

The Corporation has not recorded an allowance for doubtful accounts and the aging analysis of the Corporation's accounts receivable is as follows:

	September 30, 2010
Not past due	98,641
Past due 0-60 days	884
Past due 61 days and over	213
	99,738

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

(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 and nine months ended September 30, 2010:

	Three months ended September 30, 2010		Nine months ended September 30, 2010	
	25 basis point decrease	200 basis point increase	25 basis point decrease	200 basis point increase
	$	$	$	$
Increase (decrease) in net income	64	(503)	142	(1,133)

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 September 30, 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 $27 for the three months ended September 30, 2010, and $70 for the nine months ended September 30, 2010. An upward one notch change in the rating by any of DBRS, Moody's or S&P on January 1, 2010 could potentially have decreased interest expense under these debt facilities by approximately $19 for the three months ended September 30, 2010, and $51 for the nine months ended September 30, 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 cost of issuance of long term capital 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 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

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

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 September 30, 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 September 30, 2010:

	1–5 Years	6–10 Years	> 10 Years	Total
Drawings on the syndicated credit facility [(a)(c)]	104,000	-	-	104,000
Senior unsecured debentures [(b)(c)]				
- Principal payments	200,000	-	735,000	935,000
- Interest payments	262,728	214,758	779,042	1,256,528
Total	566,728	214,758	1,514,042	2,295,528

Notes:

(a) *The Corporation's syndicated credit facility has a maturity date of May 2012. The drawings under the syndicated credit facility as at September 30, 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 September 30, 2010 and the maturity date of the syndicated credit facility.*

(b) *The September 30, 2010 balance does not include deferred financing fees of $7.9 million.*

(c) *Payments are shown after amortization of discounts.*

11. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in Other Non-cash Items Related to Operations:

	Three months ended September 30,		Nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
Decrease in long-term accounts receivable	-	-	-	1,555
Increase in income tax receivable	(106)	-	(1,208)	-
Decrease in non-current regulatory assets	1,878	18,129	7,165	43,806
Decrease in accrued pension assets	205	120	639	379
Decrease in accounts payable, accrued and other liabilities	(322)	-	-	-
Increase in long-term other liabilities	252	297	878	903
Increase (decrease) in long-term regulatory liabilities	426	(62)	(126)	(392)
Increase (decrease) in unamortized bankers' acceptance discount	18	–	34	(105)
	2,351	18,484	7,382	46,146

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

Changes in Non-cash Working Capital Related to Operations:

	Three months ended September 30,		Nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
(Increase) decrease in accounts receivable	(14,383)	7,086	(21,405)	620
(Increase) decrease in prepaids and deposits	(890)	539	(1,510)	(1,697)
Decrease in income taxes receivable	–	2,063	1,122	69
Increase in regulatory assets	(9,746)	(14,566)	(3,848)	(43,382)
Increase (decrease)in accounts payable, accrued and other liabilities	13,137	(273)	6,590	(5,816)
Increase in regulatory liabilities	2,159	733	2,573	2,317
Increase in income tax payable	94	–	94	–
	(9,629)	(4,418)	(16,384)	(47,889)

12. SUBSEQUENT EVENTS

On October 22, 2010 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. The debentures bear interest at a rate of 4.80%, to be paid semi-annually, and mature on October 27, 2050. The transaction closed on October 27, 2010, and it is management's intention to use the proceeds of the issue to repay existing indebtedness incurred under the syndicated credit facility, and for general corporate purposes.

FortisAlberta Inc. Supplementary Financial Information Coverage Ratios

The following financial ratio is provided as additional supplementary information.

For the twelve months ended September 30	2010
Earnings coverage (times) [(a)]	2.21

Note:

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