FORTISALBERTA INC.

Unaudited Interim Financial Statements
For the three and nine months ended September 30, 2011

BALANCE SHEETS (UNAUDITED)

As at (all amounts in thousands of Canadian dollars)	September 30 2011	December 31 2010
Assets		
Current assets		
Accounts receivable (notes 8 and 10)	136,881	114,187
Prepaids and deposits	4,985	3,772
Future income taxes	2,670	1,128
Regulatory assets	66,127	56,336
	210,663	175,423
Accounts receivable (notes 8 and 10)	890	1,584
Property, plant and equipment	2,018,551	1,874,741
Intangible assets	63,139	65,455
Regulatory assets	70,608	42,648
Investment tax credits receivable	1,240	1,180
Accrued pension asset	2,743	2,607
Goodwill	189,309	189,309
	2,557,143	2,352,947
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable, accrued and other liabilities (notes 8 and 10)	195,415	133,855
Short-term debt (notes 3 and 10)	2,846	9,352
Regulatory liabilities	14,116	4,288
Income taxes payable	150	94
	212,527	147,589
Other liabilities	7,195	6,406
Regulatory liabilities	304,934	294,041
Future income taxes	43,292	23,996
Long-term debt (notes 3 and 10)	1,123,126	1,073,465
	1,691,074	1,545,497
Shareholder's Equity		
Share capital (note 4)	173,848	173,848
Contributed surplus (note 5)	571,231	541,231
Retained earnings	120,990	92,371
	866,069	807,450
	2,557,143	2,352,947

Commitments and Contingencies (note 9)

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(all amounts in thousands of Canadian dollars)	**2011**	2010	**2011**	2010
Revenues				
Electric rate revenue	99,846	107,960	300,316	279,688
Other revenue (note 8)	3,007	1,951	9,744	9,322
	102,853	109,911	310,060	289,010
Expenses				
Operating costs (notes 7 and 8)	35,430	32,839	106,214	103,912
Depreciation	30,101	42,431	89,723	84,565
Amortization	3,433	3,036	10,173	9,495
	68,964	78,306	206,110	197,972
Income before interest and income taxes	33,889	31,605	103,950	91,038
Interest				
Interest on short-term debt	74	6	255	14
Interest on long-term debt (note 3)	15,207	12,744	43,947	40,429
	15,281	12,750	44,202	40,443
Income before income taxes	18,608	18,855	59,748	50,595
Income taxes				
Current income tax expense (recovery)	768	(4)	2,770	94
Future income tax recovery	(512)	(321)	(1,641)	(536)
	256	(325)	1,129	(442)
Net Income	18,352	19,180	58,619	51,037
Other comprehensive income	–	–	–	–
Net Income and Other Comprehensive Income	18,352	19,180	58,619	51,037
Retained earnings, beginning of period	112,638	73,506	92,371	59,149
Dividends (note 4)	(10,000)	(8,750)	(30,000)	(26,250)
Retained Earnings, end of period	120,990	83,936	120,990	83,936

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)	**2011**	2010	**2011**	2010
Operating Activities				
Net income	18,352	19,180	58,619	51,037
Add (deduct) items not involving cash:				
Depreciation	30,101	42,431	89,723	84,565
Amortization	3,551	3,136	10,510	9,789
Future income taxes	(512)	(321)	(1,641)	(536)
Allowance for funds used during construction	–	(1,945)	(3,296)	(1,443)
Gain on sale of property, plant and equipment	–	30	(1,254)	(544)
Changes in other non-cash items related to operations (note 11)	(6,121)	2,351	(15,526)	7,382
	45,371	64,862	137,135	150,250
Changes in non-cash working capital related to operations (note 11)	3,840	(9,629)	35,977	(16,384)
Cash from operating activities	49,211	55,233	173,112	133,866
Investing Activities				
Additions to property, plant and equipment	(77,977)	(99,534)	(243,730)	(251,735)
Customer contributions for property, plant and equipment	12,619	11,985	33,832	28,480
Additions to intangible assets	(3,681)	(1,989)	(8,923)	(6,273)
Proceeds from the sale of property, plant and equipment	253	267	2,328	3,512
Net change in employee loans	28	105	524	(62)
Cash used in investing activities	(68,758)	(89,166)	(215,969)	(226,078)
Financing Activities				
Increase in debt	32,992	42,618	133,469	112,262
Repayment of debt	(2,872)	(14,935)	(89,993)	(33,700)
Dividends paid (note 4)	(10,000)	(8,750)	(30,000)	(26,250)
Equity contributions (note 5)	–	15,000	30,000	40,000
Additions to transaction costs	(573)	–	(619)	(100)
Cash from financing activities	19,547	33,933	42,857	92,212
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	6,534	6,637	36,827	33,803
Income taxes paid	868	–	2,620	–

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

Notes to the Financial Statements (Unaudited)

1. ENTITY DEFINITION AND NATURE OF OPERATIONS

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

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

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

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

(b) Regulation

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

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

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

(c) Future Changes in Accounting Policies

Adoption of New Accounting Standards

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

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

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

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

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

3. DEBT

	Coupon Rate	Payment Terms	Maturity Date	2011 Effective Rate	September 30, 2011	December 31, 2010
Senior unsecured debentures	%			%	$	$
Series 04-1	5.33	Semi-annual	2014	5.47	200,000	200,000
Series 04-2	6.22	Semi-annual	2034	6.31	200,000	200,000
Series 06-1	5.40	Semi-annual	2036	5.48	100,000	100,000
Series 07-1	4.99	Semi-annual	2047	5.04	109,892	109,891
Series 08-1	5.85	Semi-annual	2038	5.94	99,494	99,488
Series 09-1	7.06	Semi-annual	2039	7.15	99,987	99,987
Series 09-2	5.37	Semi-annual	2039	5.42	124,947	124,946
Series 10-1	4.80	Semi-annual	2050	4.85	124,912	124,911
Drawing on the syndicated credit facility	Variable	Variable	2015	1.58	72,968	22,984
Cash balances in overdraft position	N/A	N/A	2011	–	2,846	9,352
Transaction costs	–	–	–	–	(9,074)	(8,742)
					1,125,972	1,082,817
Less: short-term debt					2,846	9,352
Long-term debt					1,123,126	1,073,465

The Corporation has an unsecured syndicated credit facility with an amount available of $250.0 million. The maturity date of this facility is September 1, 2015. 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 plus 0.1%. Bankers' acceptances issued under the syndicated credit facility are issued at the applicable bankers' acceptance discount rate plus a stamping fee calculated at 1.1%. The average interest rate for the nine months ended September 30, 2011 on the syndicated credit facility was 1.6% (nine months ended September 30, 2010 - 1.0%). As at September 30, 2011, there were $73.0 million in drawings under the facility for banker's acceptances (December 31, 2010 - $23.0 million), and there was $1.9 million drawn in letters of credit (December 31, 2010 - $56.6 million).

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

In August 2011, the Corporation filed a short-form prospectus ("Shelf") with the security commissions or similar authorities in Canada. This Shelf contemplates the issuance of up to $500.0 million medium term note debentures, which would be senior unsecured obligations of the Corporation.

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

Scheduled principal repayments are as follows:

	$
2011	2,846
2012	–
2013	–
2014	200,000
2015	72,968
Thereafter	859,232
	1,135,046

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

4. SHARE CAPITAL

Authorized – unlimited number of:

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

Issued:

- 63 Class A common shares, with no par value.

For the three and nine months ended September 30, 2011, the Corporation declared and paid dividends totaling $10.0 million and $30.0 million respectively (three and nine months ended September 30, 2010 - $8.8 million and $26.3 million respectively) to Fortis Alberta Holdings Inc. (the Corporation's parent and an indirectly wholly owned subsidiary of Fortis).

5. CONTRIBUTED SURPLUS

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

Contributed surplus relates to the pushdown of the excess purchase price paid over the carrying value paid by the Corporation's former parent on acquisition of the Corporation, and equity contributions from Fortis Alberta Holdings Inc. for which no additional shares were issued. During the three and nine months ended September 30, 2011, the Corporation received equity contributions of nil and $30.0 million respectively from Fortis Alberta Holdings Inc. (three and nine months ended September 30, 2010 - $15.0 million and $40.0 million respectively).

6. CAPITAL MANAGEMENT

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

Summary of Long-term Capital Structure

	September 30, 2011		December 31, 2010	
	$ millions	%	$ millions	%
Long-term debt[(a)]	1,132.2	56.7	1,082.2	57.3
Shareholder's equity	866.1	43.3	807.5	42.7
Total	1,998.3	100.0	1,889.7	100.0

Note:

a. *The September 30, 2011, balance does not include transaction costs of $9.1 million (December 31, 2010 - $8.7 million).*

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

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

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

7. EMPLOYEE FUTURE BENEFITS

During the three and nine months ended September 30, 2011, the Corporation recorded pension and other post-employment benefit expenses of $2,273 and $7,672 respectively (three and nine months ended September 30, 2010 - $1,867 and $6,131 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, 2011	December 31, 2010	September 30, 2011	December 31, 2010
FortisBC Inc.	3	76	–	7
Fortis	–	12	598	594
FortisBC Pacific Holdings Inc.	1	–	–	–
Fortis Turks and Caicos Inc.	–	15	9	–
Housing loans to officers of the Corporation[a]	700	750	–	–
Stock option loans to officers of the Corporation[b]	167	814	–	–
Employee share purchase plan loans to officers of the Corporation[c]	26	14	–	–
Employee computer loans to officers of the Corporation[d]	1	1	–	–
	898	1,682	607	601
Less: current portion	31	117	607	601
Long-term portion	867	1,565	–	–

Notes:

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

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

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

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

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

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

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

	Included in Other Revenue		Included in Operating Costs	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
FortisBC Inc.	19	15	6	6
Fortis	–	–	692	410
FortisBC Pacific Holdings Inc.	5	–	–	–
Newfoundland Power	–	–	19	–
Fortis Turks and Caicos Inc.	1	12	–	–
Maritime Electric Company, Limited	–	5	–	–
FortisOntario Inc.	–	–	10	–
Fortis Properties Inc.	–	–	–	6
Total	25	32	727	422

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

	Included in Other Revenue		Included in Operating Costs	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
FortisBC Inc.	96	76	20	18
Fortis	–	60	2,140	1,774
FortisBC Pacific Holdings Inc.	11	8	–	–
Newfoundland Power	5	–	21	–
Fortis Turks and Caicos Inc.	467	12	–	–
Maritime Electric Company, Limited	15	10	–	–
FortisBC Holdings Inc.	3	–	1	–
FortisOntario Inc.	–	–	17	–
Fortis Properties Inc.	–	–	–	8
Total	597	166	2,199	1,800

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

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

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

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

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

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

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

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

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

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

9. COMMITMENTS AND CONTINGENCIES

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

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

10. FINANCIAL INSTRUMENTS

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

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

	September 30, 2011		December 31, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Loans and receivables				
Accounts receivable (short-term)[(a)(b)]	135,650	135,650	113,748	113,748
Accounts receivable (long-term)[(a)]	890	890	1,584	1,584
Other financial liabilities				
Accounts payable and accrued liabilities[(a)(c)]	195,225	195,225	133,760	133,760
Short-term debt[(a)]	2,846	2,846	9,352	9,352
Long-term debt[(d)(e)]	1,132,200	1,362,199	1,082,207	1,223,015

Notes:

a. *Due to the nature and/or short maturity of these financial instruments, carrying value approximated fair value.*
b. *The September 30, 2011 balance does not include goods and services tax ("GST") receivable of $1.2 million (December 31, 2010 - $0.4 million).*
c. *Included within accounts payable, accrued and other liabilities in the Balance Sheet.*
d. *The September 30, 2011 balance does not include transaction costs of $9.1 million (December 31, 2010 - $8.7 million).*
e. *The fair value of the long-term debt is estimated based on the quoted market prices for the same or similarly rated issues for debt of the same or similar remaining maturities.*

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

(b) Derivatives

The Corporation currently does not have any stand-alone derivative instruments as defined under Section 3855.

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

(c) Risk Management

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

(i) Counterparty Credit Risk

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

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

Credit Rating	Number of Counterparties	Gross Exposure	Exposure
AAA to AA (low)	1	2,134	–
A (high) to A (low)	8	5,074	–
BBB (high) to BBB (low)	9	16,174	–
Not rated	32	116,408	6,323
Total	50	139,790	6,323

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

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

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

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

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

	September 30, 2011
Not past due	129,520
Past due 0-60 days	5,935
Past due 61 days and over	195
	135,650

(ii) Interest Rate Risk

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

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

	Three months ended September 30, 2011		Nine months ended September 30, 2011	
	25 basis point decrease	200 basis point increase	25 basis point decrease	200 basis point increase
	$	$	$	$
Increase (decrease) in net income	28	(235)	80	(650)

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, 2011, the Corporation was rated by Moody's at Baa1, by S&P at A-, and by DBRS at A (low). A downward one notch change in the rating by any of DBRS, Moody's or S&P on January 1, 2011 could potentially have increased interest expense under these debt facilities by approximately $27 for the three months ended September 30, 2011, and $67 for the nine months ended September 30, 2011. An upward one notch change in the rating by any of DBRS, Moody's or S&P on January 1, 2011 could potentially have decreased interest expense under these debt facilities by approximately $14 for the three months ended September 30, 2011, and $43 for the nine months ended September 30, 2011.

(iii) Liquidity Risk

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

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

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

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

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

	1–5 Years	6–10 Years	> 10 Years	Total
Drawings on the syndicated credit facility [a][c]	73,000	–	–	73,000
Senior unsecured debentures [b][c]				
- Principal payments	200,000	–	860,000	1,060,000
- Interest payments	282,068	244,758	913,091	1,439,917
Total	555,068	244,758	1,773,091	2,572,917

Notes:

a. *The Corporation's syndicated credit facility has a maturity date of September 2015. The drawings under the syndicated credit facility as at September 30, 2011 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, 2011 and the maturity date of the syndicated credit facility.*

b. *The September 30, 2011 balance does not include transaction costs of $9.1 million.*

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

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

11. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in Other Non-cash Items Related to Operations:

	Three months ended September 30,		Nine months ended September 30,	
	2011	**2010**	**2011**	**2010**
Increase in income taxes receivable	–	(106)	–	(1,208)
Increase in investment tax credits receivable	(9)	–	(60)	–
(Increase) decrease in non-current regulatory assets	(2,446)	1,878	(8,566)	7,165
Decrease (increase) in accrued pension assets	8	205	(136)	639
Decrease in non-current accounts payable, accrued and other	–	(322)	–	–
Increase in long-term other liabilities	304	252	789	878
(Decrease) increase in long-term regulatory liabilities	(3,983)	426	(7,555)	(126)
Increase in unamortized bankers' acceptance discount	5	18	2	34
	(6,121)	2,351	(15,526)	7,382

Changes in Non-cash Working Capital Related to Operations:

	Three months ended September 30,		Nine months ended September 30,	
	2011	**2010**	**2011**	**2010**
Increase in accounts receivable	(17,214)	(14,383)	(15,626)	(21,405)
Decrease (increase) in prepaids and deposits	205	(890)	(1,213)	(1,510)
Decrease in income taxes receivable	–	–	–	1,122
Increase in regulatory assets	(24,909)	(9,746)	(9,791)	(3,848)
Increase in accounts payable, accrued and other liabilities	42,263	13,137	52,723	6,590
(Decrease) increase in income taxes payable	(100)	94	56	94
Increase in regulatory liabilities	3,595	2,159	9,828	2,573
	3,840	(9,629)	35,977	(16,384)

12. SUBSEQUENT EVENTS

(a) Bond Issuance

On October 14, 2011 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 4.54%, to be paid semi-annually, and mature on October 18, 2041. The transaction closed on October 19, 2011, and the proceeds of the issue were used to repay existing indebtedness incurred under the syndicated credit facility, and for general corporate purposes.

(b) Bondholder Approval of Change in Accounting Principles

On October 19, 2011, the Corporation received approval from its Bondholders to adopt US GAAP in place of Canadian GAAP – Part V for the reporting period beginning January 1, 2012. The Corporation will proceed to adopt US GAAP as at January 1, 2012.

FortisAlberta Inc. Supplementary Financial Information Coverage Ratios

The following financial ratio is provided as additional supplementary information.

For the twelve months ended September 30	**2011**
Earnings coverage (times) [(a)]	2.339

Note:

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