

FORTISALBERTA INC.

Unaudited Interim Financial Statements
For the three and nine months ended September 30, 2012

BALANCE SHEETS (UNAUDITED)

As at (all amounts in thousands of Canadian dollars)	September 30, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	19,779	–
Accounts receivable	116,699	144,170
Prepays and deposits	4,929	4,731
Income taxes receivable	3,336	98
Deferred income taxes	1,235	3,506
Regulatory assets	1,797	47,824
	147,775	200,329
Accounts receivable	745	886
Property, plant and equipment	2,330,370	2,135,182
Intangible assets	56,305	61,386
Regulatory assets	106,452	73,559
Income taxes receivable	1,400	1,280
Transaction costs	9,567	9,754
Goodwill	226,968	226,968
	2,879,582	2,709,344
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable, accrued and other liabilities	284,754	184,845
Short-term debt	–	5,568
Regulatory liabilities	36,622	16,859
	321,376	207,272
Other liabilities	16,863	16,170
Regulatory liabilities	306,831	303,811
Deferred income taxes	70,472	44,619
Long-term debt	1,200,223	1,213,192
	1,915,765	1,785,064
Shareholder's Equity		
Share capital, no par value, unlimited authorized shares, 63 shares issued and outstanding (December 31, 2011 – 63)	173,848	173,848
Additional paid-in capital	544,896	544,896
Accumulated other comprehensive loss	(4,086)	(4,303)
Retained earnings	249,159	209,839
	963,817	924,280
	2,879,582	2,709,344

Approved on behalf of the Board:

(signed)
Al Duerr
Director

(signed)
Judith Athaide
Director

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

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

(all amounts in thousands of Canadian dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues				
Electric rate revenue	108,360	99,653	317,695	297,640
Other revenue	7,892	3,007	16,933	8,490
	116,252	102,660	334,628	306,130
Expenses				
Cost of sales (exclusive of items shown separately below)	40,049	35,659	116,189	106,855
Depreciation	29,231	30,101	86,725	89,723
Amortization	3,822	3,433	11,713	10,173
	73,102	69,193	214,627	206,751
Other income	–	–	1,763	2,959
Income before interest and income taxes	43,150	33,467	121,764	102,338
Interest expense	16,727	15,281	48,521	44,202
Income before income taxes	26,423	18,186	73,243	58,136
Income taxes				
Current income tax expense (recovery)	97	768	(2,843)	2,770
Deferred income tax expense (recovery)	310	(512)	3,016	(1,641)
	407	256	173	1,129
Net income	26,016	17,930	73,070	57,007
Other comprehensive income				
Amortization of past service costs and actuarial losses for the post-retirement benefit plan	73	64	217	192
Comprehensive income	26,089	17,994	73,287	57,199

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

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (UNAUDITED)

(all amounts in thousands of Canadian dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Share Capital				
Balance, beginning of period	173,848	173,848	173,848	173,848
Share capital issued	–	–	–	–
Balance, end of period	173,848	173,848	173,848	173,848
Additional Paid-in Capital				
Balance, beginning of period	544,896	519,896	544,896	489,896
Equity contributions	–	–	–	30,000
Balance, end of period	544,896	519,896	544,896	519,896
Accumulated Other Comprehensive Loss				
Balance, beginning of period	(4,159)	(3,978)	(4,303)	(4,106)
Amortization of past service costs and actuarial losses for the post-retirement benefit plan	73	64	217	192
Balance, end of period	(4,086)	(3,914)	(4,086)	(3,914)
Retained Earnings				
Balance, beginning of period	234,393	195,337	209,839	176,260
Net income	26,016	17,930	73,070	57,007
Dividends	(11,250)	(10,000)	(33,750)	(30,000)
Balance, end of period	249,159	203,267	249,159	203,267
Total Shareholder's Equity	963,817	893,097	963,817	893,097

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

STATEMENTS OF CASH FLOWS (UNAUDITED)

(all amounts in thousands of Canadian dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Operating Activities				
Net income	26,016	17,930	73,070	57,007
Adjustments to reconcile net income to net cash from operating activities:				
Depreciation	29,231	30,101	86,725	89,723
Amortization	4,025	3,615	12,361	10,702
Deferred income taxes	310	(512)	3,016	(1,641)
Allowance for funds used during construction	–	–	(3,366)	(3,296)
Gain on sale of property, plant, and equipment	–	–	–	(1,254)
Changes in operating assets and liabilities:				
Current:				
Accounts receivable	18,097	(17,214)	25,233	(15,626)
Prepays and deposits	1,344	205	(198)	(1,213)
Regulatory assets	916	(24,752)	46,249	(8,927)
Accounts payable, accrued and other liabilities	61,457	42,344	94,007	52,948
Income taxes receivable	(75)	(100)	(3,238)	56
Regulatory liabilities	11,898	3,595	19,763	9,828
Non-current:				
Income taxes receivable	(9)	(9)	(120)	(60)
Regulatory assets	(2,478)	(1,831)	(8,007)	(6,602)
Other liabilities	(155)	(186)	693	(842)
Regulatory liabilities	(999)	(3,975)	(1,076)	(7,691)
Cash from operating activities	149,578	49,211	345,112	173,112
Investing Activities				
Property, plant and equipment	(100,370)	(77,977)	(296,709)	(243,730)
Customer contributions for property, plant and equipment	9,280	12,619	29,998	33,832
Intangible assets	(3,158)	(3,681)	(7,019)	(8,923)
Proceeds from the sale of property, plant and equipment	242	253	962	2,328
Net change in employee loans	62	28	(38)	524
Cash used in investing activities	(93,944)	(68,758)	(272,806)	(215,969)
Financing Activities				
Change in short-term borrowings	(2,456)	(2,872)	(5,568)	(6,506)
Long-term debt issuance costs	(12)	(107)	(66)	(119)
Net borrowings under committed credit facility	(22,137)	32,526	(13,143)	49,482
Dividends paid	(11,250)	(10,000)	(33,750)	(30,000)
Equity contributions	–	–	–	30,000
Cash (used in) from financing activities	(35,855)	19,547	(52,527)	42,857
Change in cash and cash equivalents	19,779	–	19,779	–
Cash and cash equivalents, beginning of period	–	–	–	–
Cash and cash equivalents, end of period	19,779	–	19,779	–

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

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

1. ENTITY DEFINITION AND NATURE OF OPERATIONS

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP" or "US GAAP") as codified in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") and do not include all of the disclosures normally found in the annual audited financial statements for the Corporation. These unaudited interim financial statements include all adjustments that are considered necessary for fair presentation of its respective financial statements in accordance with US GAAP. All adjustments are of a normal, recurring nature, except as otherwise disclosed. These unaudited interim financial statements should be read in conjunction with the Corporation's voluntarily filed US GAAP annual audited financial statements for the year ended December 31, 2011.

These unaudited interim 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 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 revenue requirements, customer rates, construction of assets, operations and financing. The timing of recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using GAAP for entities not subject to rate regulation.

The Corporation operates under cost-of-service regulation 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 equity component of capital structure ("ROE") applied to

approved rate base assets. When the AUC issues a decision affecting the financial results of the Corporation, the effects of the decision are recorded in the period in which the decision is received.

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

In April 2012, the AUC issued Decision 2012-108 ("2012 Decision") on the Corporation's 2012 Negotiated Settlement Agreement. The cumulative impacts of the 2012 Decision were recorded in the second quarter of 2012. The most significant impacts were a net increase in other revenue due to the discontinuance of the deferral of transmission volume variances associated with the Corporation's Alberta Electric System Operator ("AESO") charges deferral account and a decrease in depreciation expense due to an overall reduction in depreciation rates. There was an increase in other revenue and net income due to the recognition of previously deferred positive volume variances. In the absence of full deferral, the Corporation is subject to volume risk on the actual transmission costs relative to those charged to customers based on forecast volumes and price. The overall reduction in depreciation rates was included in the determination of the interim customer distribution rates effective January 1, 2012.

(c) Accounting Changes

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

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

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

3. REGULATORY ASSETS AND LIABILITIES

All amounts deferred as regulatory assets and liabilities are subject to AUC approval. As such, subject to the provisions of the *EUA*, the AUC could alter the amounts subject to deferral, at which time the change would be reflected in the financial statements. Based on regulatory decisions, the Corporation records the amount expected to be recovered or refunded.

(a) Regulatory Assets

As at:	September 30, 2012	December 31, 2011
Hearing cost reserve	452	854
Self-insurance reserve	356	303
AESO charges deferral	–	44,164
Supplemental pension plan asset deferral	1,720	1,692
Regulatory defined benefit pension deferral	3,866	5,030
Deferred income tax regulatory deferral	70,429	45,321
Deferred overhead	29,665	21,666
Review and variance decision	609	2,353
A1 rider deferral	1,152	–
	108,249	121,383
Less: current portion	1,797	47,824
Long-term portion	106,452	73,559

(b) Regulatory Liabilities

As at:	September 30, 2012	December 31, 2011
A1 rider deferral	11	1,585
Provision for non-asset retirement obligation removal costs	305,827	301,731
AESO contributions deferral	225	1,200
Load settlement charges deferral	794	2,108
Automated metering foreign exchange deferral	72	72
AESO charges deferral	33,195	12,216
2011/2012 distribution adjustment rider deferral	3,329	1,758
	343,453	320,670
Less: current portion	36,622	16,859
Long-term portion	306,831	303,811

A detailed description of the nature of the Corporation's regulatory assets and liabilities was provided in Note 5 of the Corporation's US GAAP annual audited financial statements for the year ended December 31, 2011.

4. EMPLOYEE FUTURE BENEFITS

(a) Costs Recognized

For defined benefit and supplemental pension plans, the difference between the expense recognized under GAAP and that recovered in current rates is subject to deferral treatment and is expected to be recovered or refunded in future rates. For the other post-retirement non-pension benefit plan the difference between the expense recognized under GAAP and that recovered in current rates is not subject to deferral treatment.

Components of Net Periodic Costs for the three months ended:

September 30, 2012	Retirement Plan	Supplemental Plan	Non-Pension Benefits	Total
Service cost	172	63	127	362
Interest cost	361	21	102	484
Expected return on plan assets	(241)	–	–	(241)
Amortizations:				
Past service cost	20	–	40	60
Actuarial loss	367	–	33	400
Initial net asset	–	(13)	–	(13)
Net periodic costs	679	71	302	1,052
Regulatory adjustments to net periodic costs	(50)	(60)	–	(110)
Net periodic costs recognized in the financial statements	629	11	302	942
Defined contribution net benefit cost recognized in the financial statements	1,684	–	–	1,684
Total recognized in the financial statements	2,313	11	302	2,626

September 30, 2011	Retirement Plan	Supplemental Plan	Non-Pension Benefits	Total
Service cost	151	60	112	323
Interest cost	375	19	110	504
Expected return on plan assets	(243)	–	–	(243)
Amortizations:				
Past service cost	20	–	40	60
Actuarial loss (gain)	386	(3)	24	407
Net periodic costs	689	76	286	1,051
Regulatory adjustments to net periodic costs	(56)	(74)	–	(130)
Net periodic costs recognized in the financial statements	633	2	286	921
Defined contribution net benefit cost recognized in the financial statements	1,557	–	–	1,557
Total recognized in the financial statements	2,190	2	286	2,478

Components of Net Periodic Costs for the nine months ended:

September 30, 2012	Retirement Plan	Supplemental Plan	Non-Pension Benefits	Total
Service cost	515	189	383	1,087
Interest cost	1,082	64	305	1,451
Expected return on plan assets	(722)	–	–	(722)
Amortizations:				
Past service cost	60	–	119	179
Actuarial loss	1,100	–	98	1,198
Initial net asset	–	(39)	–	(39)
Net periodic costs	2,035	214	905	3,154
Regulatory adjustments to net periodic costs	4	(28)	–	(24)
Net periodic costs recognized in the financial statements	2,039	186	905	3,130
Defined contribution net benefit cost recognized in the financial statements	5,789	–	–	5,789
Total recognized in the financial statements	7,828	186	905	8,919

September 30, 2011	Retirement Plan	Supplemental Plan	Non-Pension Benefits	Total
Service cost	454	182	335	971
Interest cost	1,125	58	332	1,515
Expected return on plan assets	(730)	–	–	(730)
Amortizations:				
Past service cost	60	–	119	179
Actuarial loss (gain)	1,157	(11)	73	1,219
Net periodic costs	2,066	229	859	3,154
Regulatory adjustments to net periodic costs	(3)	(144)	–	(147)
Net periodic costs recognized in the financial statements	2,063	85	859	3,007
Defined contribution net benefit cost recognized in the financial statements	5,283	–	–	5,283
Total recognized in the financial statements	7,346	85	859	8,290

(b) Pension Plan Contributions

The Corporation made total contributions to the defined benefit retirement plan of \$629 and \$2,039 for the three and nine months ended September 30, 2012, respectively, and estimates that total contributions of \$2,817 will be made towards the defined benefit retirement plan for fiscal year 2012.

5. FINANCIAL INSTRUMENTS

(a) Fair Value

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

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

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

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

The following table represents the fair value measurements of the Corporation's financial instruments as they relate to the fair value hierarchy, as well as the corresponding financial instruments carrying value.

Other Financial Liabilities - Long-Term Debt:

As at:	September 30, 2012	December 31, 2011
Carrying value	1,200,223	1,213,192
Fair value ^(a)	1,517,768	1,495,107

Note:

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

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

(b) Risk Management

Interest Rate Risk

Interest rate risk is the financial risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation's debentures bear fixed interest rates, 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 committed credit facility are at current market short-term interest rates, exposing the Corporation to some cash flow risk, but minimal fluctuations in fair value.

A change in the Corporation's interest rates results in interest rate exposure for drawings under the committed credit facility. Further, the Corporation is subject to financial risk whereby changes in the credit rating could affect the costs of financing and access to sources of liquidity and capital. The Corporation's committed credit facility has interest rate and fee components that are sensitive to the Corporation's credit ratings. The Corporation is rated by Moody's Investors Service, Dominion Bond Rating Service Limited and Standard and Poor's and a change in rating by any of these rating agencies could potentially increase or decrease the interest expense of the Corporation.

6. COMMITMENTS

(a) Operating Leases and Other Contractual Obligations

The Corporation has operating leases for facilities and office premises. Also, the Corporation and an Alberta transmission service provider have entered into an agreement in consideration for joint attachments of distribution facilities to the transmission system. The expiry terms of this agreement state that the agreement remains in effect until the Corporation no longer has attachments to the transmission facilities. In addition, the Corporation and an Alberta transmission service provider have entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. The service agreements have minimum expiry terms of five years from September 1, 2010, and are subject to extension based on mutually agreeable terms.

(b) Legal Proceedings

The Corporation is subject to various legal proceedings and claims that arise in the ordinary course of business operations, none of which are currently material to the Corporation.

(c) Capital Expenditures

As an electricity 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.

(d) 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 \$2,817 in 2012 and \$2,296 in 2013. Future actuarial valuations will establish the funding obligations for subsequent years, which could be materially different from prior years depending upon market conditions. The next required funding valuation is expected to be completed as at December 31, 2013 and will be filed in 2014.

(e) Letters of Credit

The Corporation carries letters of credit that have a maximum potential payment of \$820 as at September 30, 2012 (December 31, 2011 - \$820). These letters of credit arise in the ordinary course of business on construction projects within the Corporation's service territory. All letters of credit have a term of one year and are automatically annually renewed at the expiry date or once a request from the contracted party to cancel the letter of credit is provided. Should the Corporation not perform its obligations under contract it may be liable up to the amount of the individual outstanding letter of credit attached to the construction project. The Corporation is currently not at risk of paying any obligations and has minimal risk of non-performance.

7. SUBSEQUENT EVENTS

(a) Bond Issuance

On October 18, 2012, the Corporation entered into an agreement with a syndicate of agents, pursuant to which the Corporation agreed to sell \$125.0 million of senior unsecured debentures. The debentures bear interest at a rate of 3.98%, to be paid semi-annually, and mature on 2052. The transaction closed on October 23, 2012, and the proceeds of the issue were used to repay existing indebtedness incurred under the committed credit facility, fund future capital expenditures and for general corporate purposes.

(b) Subsequent Event Evaluation

These financial statements and notes reflect the Corporation's evaluation of events occurring subsequent to the balance sheet date through October 30, 2012, the date the financial statements were available for issuance.

FORTISALBERTA INC. SUPPLEMENTARY FINANCIAL INFORMATION COVERAGE RATIO

The following financial ratio is provided as additional supplementary information.

For the twelve months ended September 30	2012
Earnings coverage (times) ^(a)	2.41

Note:

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