

FORTISALBERTA INC.

**Unaudited Interim Financial Statements
For the three months ended March 31, 2013**

BALANCE SHEETS (UNAUDITED)

As at (all amounts in thousands of Canadian dollars)	March 31, 2013	December 31, 2012
Assets		
Current assets		
Cash	\$ 917	\$ 44,072
Accounts receivable	126,396	118,464
Prepays and deposits	3,608	3,805
Income taxes receivable	3,205	–
Deferred income taxes	1,801	1,637
Regulatory assets (note 3)	7,230	1,468
	143,157	169,446
Accounts receivable	626	691
Income taxes receivable	1,503	1,409
Regulatory assets (note 3)	131,056	119,460
Property, plant and equipment	2,469,693	2,421,054
Intangible assets	53,427	55,387
Transaction costs	10,180	10,304
Goodwill	226,968	226,968
	\$ 3,036,610	\$ 3,004,719
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable and other current liabilities	\$ 203,879	\$ 273,829
Income taxes payable	–	1,472
Regulatory liabilities (note 3)	47,802	6,716
	251,681	282,017
Other liabilities	17,415	17,532
Regulatory liabilities (note 3)	341,531	351,669
Deferred income taxes	78,915	68,776
Long-term debt	1,357,154	1,309,151
	2,046,696	2,029,145
Shareholder's Equity		
Share capital, no par value, unlimited authorized shares, 63 shares issued and outstanding (December 31, 2012 – 63)	173,848	173,848
Additional paid-in capital	544,896	544,896
Accumulated other comprehensive loss	(4,104)	(4,176)
Retained earnings	275,274	261,006
	989,914	975,574
	\$ 3,036,610	\$ 3,004,719

Approved on behalf of the Board:

(signed)
Judith Athaide
Director

(signed)
Douglas Haughey
Director

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

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

Three months ended (all amounts in thousands of Canadian dollars)	March 31, 2013	March 31, 2012
Revenues		
Electric rate revenue	\$ 113,211	\$ 105,285
Other revenue	5,052	2,962
	118,263	108,247
Expenses		
Cost of sales (exclusive of items shown separately below)	40,279	38,679
Depreciation	31,860	31,407
Amortization	4,196	3,499
	76,335	73,585
Other income	1,729	1,763
Income before interest expense and income taxes	43,657	36,425
Interest expense	16,500	15,131
Income before income taxes	27,157	21,294
Income taxes		
Current income tax recovery	(413)	(241)
Deferred income tax expense	802	28
	389	(213)
Net Income	\$ 26,768	\$ 21,507
Other comprehensive income		
Reclassification of other post-employment benefit items (note 4)	72	73
Comprehensive Income	\$ 26,840	\$ 21,580

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

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (UNAUDITED)

Three months ended (all amounts in thousands of Canadian dollars)	March 31, 2013	March 31, 2012
Share Capital		
Balance, beginning of period	\$ 173,848	\$ 173,848
Share capital issued	—	—
Balance, end of period	\$ 173,848	\$ 173,848
Additional Paid-in Capital		
Balance, beginning of period	\$ 544,896	\$ 544,896
Equity contributions	—	—
Balance, end of period	\$ 544,896	\$ 544,896
Accumulated Other Comprehensive Loss		
Balance, beginning of period	\$ (4,176)	\$ (4,303)
Reclassification of other post-employment benefit items (note 4)	72	73
Balance, end of period	\$ (4,104)	\$ (4,230)
Retained Earnings		
Balance, beginning of period	\$ 261,006	\$ 209,839
Net income	26,768	21,507
Dividends	(12,500)	(11,250)
Balance, end of period	\$ 275,274	\$ 220,096
Total Shareholder's Equity	\$ 989,914	\$ 934,610

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

STATEMENTS OF CASH FLOWS (UNAUDITED)

Three months ended (all amounts in thousands of Canadian dollars)	March 31, 2013	March 31, 2012
Operating Activities		
Net income	\$ 26,768	\$ 21,507
Non-cash items included in net income:		
Depreciation	31,860	31,407
Amortization	4,406	3,729
Deferred income taxes	802	28
Allowance for funds used during construction	(3,262)	(3,366)
Changes in operating assets and liabilities and non-cash working capital balances:		
Current:		
Accounts receivable	(1,841)	(3,082)
Prepays and deposits	197	313
Income taxes receivable	(4,677)	(248)
Regulatory assets	(5,762)	34,671
Accounts payable and other current liabilities	(64,315)	42,410
Regulatory liabilities	41,067	(3,919)
Non-current:		
Income taxes receivable	(94)	(66)
Regulatory assets	(2,473)	(2,801)
Other liabilities	(117)	(383)
Regulatory liabilities	(13,363)	(490)
Cash from operating activities	9,196	119,710
Investing Activities		
Property, plant and equipment	(92,273)	(76,906)
Customer contributions for property, plant and equipment	7,368	10,035
Intangible assets	(3,013)	(1,603)
Proceeds from the sale of property, plant and equipment	443	397
Net change in employee loans	(357)	(343)
Cash used in investing activities	(87,832)	(68,420)
Financing Activities		
Change in short-term debt	–	(5,568)
Long-term debt issuance costs	(19)	(16)
Net borrowings (repayments) under committed credit facility	48,000	(28,971)
Dividends paid	(12,500)	(11,250)
Cash from (used in) financing activities	35,481	(45,805)
Change in cash and cash equivalents	(43,155)	5,485
Cash and cash equivalents, beginning of period	44,072	–
Cash and cash equivalents, end of period	\$ 917	\$ 5,485

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 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"), 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 by management in accordance with accounting principles generally accepted in the United States ("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 Corporation's annual audited financial statements. The preparation of 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 amount of revenues and expenses during the reported periods. Certain estimates are necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until finalization and adjustments, if any, are determined pursuant to subsequent regulatory decisions or other regulatory proceedings. Significant accounting estimates made by management include income taxes, contingent liabilities due to general litigation, depreciation, amortization, employee future benefits, goodwill impairment, accrued revenue, expense accruals and other items impacted by regulation. Due to the inherent uncertainty in making such estimates, actual results reported in future periods could differ materially from those estimated.

Interim financial statements necessarily employ a greater use of estimates than the annual financial statements and include all adjustments that are considered necessary for fair presentation of the Corporation's financial statements in accordance with GAAP. All adjustments are of a normal, recurring nature, except as otherwise disclosed. Certain prior period figures have been restated to conform to current period presentation. These unaudited interim financial statements should be read in conjunction with the Corporation's annual audited financial statements for the year ended December 31, 2012.

(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.

Effective January 1, 2013, the AUC prescribed that distribution utilities in Alberta, including the Corporation, move to a form of rate regulation referred to as performance-based regulation (“PBR”) for a five-year term. Under PBR, a formula that estimates inflation annually and assumes productivity improvements is used to determine distribution rates on an annual basis. Each year this formula is applied to the preceding year’s distribution rates and for 2013 the formula was applied to the 2012 distribution rates. The 2012 distribution rates were set using a traditional cost-of-service model whereby the AUC established the Corporation’s revenue requirements, being those revenues corresponding to the costs associated with the distribution business, and provided a rate of return on a deemed equity component of capital structure (“ROE”) applied to rate base assets. The Corporation’s ROE for ratemaking purposes was 8.75% for 2012 with a deemed equity capitalization at 41%. For 2013, an ROE of 8.75% was established by the AUC on an interim basis.

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

(c) Changes in Accounting Policies

These unaudited interim financial statements have been prepared following the same accounting policies as those used in preparing the Corporation’s 2012 audited annual financial statements, except as follows.

Effective January 1, 2013, the Corporation prospectively adopted Accounting Standards Update 2013-02 which amended ASC 220, *Comprehensive Income*. The amendments improve the reporting of reclassifications out of accumulated other comprehensive income (“AOCI”) and require entities to report, in one place, information about reclassifications out of AOCI and to disclose additional information about changes in AOCI balances by component and significant items reclassified out of AOCI. An entity must now disaggregate the total change of each component of other comprehensive income (“OCI”) and separately present reclassification adjustments and current period OCI. The amendments did not have a material effect on the Corporation’s interim financial statements for the three months ended March 31, 2013.

3. REGULATORY ASSETS AND LIABILITIES

Based on previous, existing or expected AUC decisions, the Corporation has recorded the following amounts that are expected to be recovered from, or refunded to, customers in future periods.

	March 31, 2013	December 31, 2012
Regulatory assets		
Deferred income taxes	\$ 88,072	\$ 78,949
Deferred overhead	35,081	32,321
Regulatory defined benefit pension deferrals	5,827	6,058
K factor deferral ⁽ⁱ⁾	3,645	–
Y factor deferrals ⁽ⁱⁱ⁾	2,286	1,151
A1 rider deferral	2,236	2,236
2013 distribution adjustment rider deferral ⁽ⁱⁱⁱ⁾	822	–
Alberta Electric System Operator (“AESO”) charges deferral	317	213
Total regulatory assets	138,286	120,928
Less: current portion	7,230	1,468
Long-term regulatory assets	\$ 131,056	\$ 119,460
	March 31, 2013	December 31, 2012
Regulatory liabilities		
Non-asset retirement obligation removal cost provision	\$ 311,548	\$ 308,254
AESO charges deferral	70,918	43,798
2011/2012 distribution adjustment rider deferral	3,853	3,853
Y factor deferrals ⁽ⁱ⁾	2,366	1,464
A1 rider deferral	448	766
Deferred income taxes	200	250
Total regulatory liabilities	389,333	358,385
Less: current portion	47,802	6,716
Long-term regulatory liabilities	\$ 341,531	\$ 351,669

A detailed description of the nature of the Corporation’s regulatory assets and liabilities was provided in Note 4 of the Corporation’s 2012 annual audited financial statements, except as noted below.

(i) K factor deferral

This balance represents the approved placeholder for the 2013 K factor amount. This balance is expected to be collected from customers in 2013.

(ii) Y factor deferrals

These balances relate to the future recovery or settlement of items determined to flow through directly to customers. The asset and liability balances are expected to be collected from and refunded to customers in 2013 and 2014.

(iii) 2013 distribution adjustment rider deferral

This balance represents the recognition of the Corporation’s revenue impact for the first quarter of 2013 associated with the combined inflation and productivity factor in the PBR formula. This balance is expected to be collected from customers in 2014.

4. EMPLOYEE FUTURE BENEFITS

(a) Costs Recognized

For defined benefit 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-employment benefit (“OPEB”) 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

As at March 31	Defined Benefit Pension Plans		OPEB Plan	
	2013	2012	2013	2012
Service cost	\$ 270	\$ 235	\$ 141	\$ 128
Interest cost	319	382	94	102
Expected return on plan assets	(274)	(241)	–	–
Amortizations:				
Past service cost	20	20	40	40
Actuarial loss	422	367	32	33
Initial net asset	–	(13)	–	–
Net benefit cost recognized	757	750	307	303
Regulatory adjustments	(185)	84	–	–
Net benefit cost recognized in financial statements	572	834	307	303
Defined contribution cost	2,612	2,420	–	–
Total employee future benefit cost	\$ 3,184	\$ 3,254	\$ 307	\$ 303

(b) Pension Plan Contributions

The Corporation made total contributions to the defined benefit retirement plan of \$572 for the three months ended March 31, 2013 and estimates that minimum funding contributions of \$2,296 will be made towards the defined benefit pension plans and contributions of \$751 towards the OPEB plan in 2013.

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; and
- Level 3: Fair value determined using unobservable inputs only when relevant observable inputs are not available.

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

The following table represents the fair value measurements of the Corporation's financial instruments:

Long-term debt	March 31, 2013	December 31, 2012
Fair value ⁽¹⁾	\$ 1,585,000	\$ 1,609,235
Carrying value	1,357,154	1,309,151

Note:

⁽¹⁾ The fair value of the long-term debt was estimated using level 2 inputs based on the indicative prices for the same or similarly rated issues for debt of the same remaining maturities.

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

(b) Interest Rate Risk

Interest rate risk is the financial risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation's debentures bear fixed interest expense which is recovered in current distribution rates, thereby minimizing cash flow variability due to interest rate exposures. If the Corporation issues new fixed rate debentures within the five-year PBR term it would be exposed to cash flow variability to the extent that the inflation and productivity factor of the PBR formula may not fully provide for the interest expense. The fair value of the Corporation's current fixed rate debentures fluctuates as market interest rates change; however, the Corporation plans to hold these debentures until maturity thereby mitigating the risk of these fluctuations. The drawings under the Corporation's committed credit facility are at current market short-term interest rates, exposing the Corporation to some cash flow risk, but minimal fluctuations in fair value.

The Corporation's committed credit facility has interest rate and fee components that are sensitive to the Corporation's credit ratings. The Corporation is rated by Dominion Bond Rating Service Limited ("DBRS") and Standard and Poor's ("S&P") and a change in rating by either of these rating agencies could potentially increase or decrease the interest expense of the Corporation. As at March 31, 2013, the Corporation was rated by DBRS at A (low) and by S&P at A-.

(c) Letters of Credit

The Corporation has issued letters of credit that have a maximum potential payment of \$416 as at March 31, 2013 (December 31, 2012 – \$411).

6. COMMITMENTS AND CONTINGENCIES

A detailed description of the nature of the Corporation's commitments and contingencies was provided in Note 17 of the Corporation's 2012 annual audited financial statements. There have been no material changes to the nature or amounts of these items.

7. SUPPLEMENTAL CASH FLOW INFORMATION

As at March 31	2013	2012
Non-cash working capital – investing activities:		
Additions to property, plant and equipment and intangible assets included in current liabilities	\$ 49,968	\$ 52,924
Customer contributions for property, plant and equipment included in current assets	11,532	7,485

8. SUBSEQUENT EVENTS

These financial statements and notes reflect the Company's evaluation of events occurring subsequent to the balance sheet date through April 26, 2013, the date the financial statements were available for issuance.

FORTISALBERTA INC. SUPPLEMENTARY FINANCIAL INFORMATION COVERAGE RATIOS (UNAUDITED)

The following financial ratio is provided as additional supplementary information.

For the twelve months ended March 31	2013
Earnings coverage (times) ⁽¹⁾	2.56

Note:

⁽¹⁾ Net income before interest expense and taxes divided by interest expense.