FORTISALBERTA INC.

Unaudited Interim Financial Statements
For the three months ended March 31, 2016

FORTISALBERTA INC.

BALANCE SHEETS
(UNAUDITED)

As at (all amounts in thousands of Canadian dollars)	March 31, 2016	December 31, 2015
Assets		
Current assets		
Cash	$ -	$ 4,742
Accounts receivable	123,759	119,421
Prepaids and deposits	3,785	3,444
Income tax receivable	5,266	3,692
Regulatory assets (note 3)	7,791	9,502
	140,601	140,801
Regulatory assets (note 3)	297,046	280,620
Property, plant and equipment	3,145,222	3,115,663
Intangible assets	58,939	56,816
Other assets	1,806	1,738
Goodwill	226,968	226,968
	$ 3,870,582	$ 3,822,606
Liabilities and Shareholder's Equity		
Current liabilities		
Short-term borrowings	$ 95,159	$ 88,000
Accounts payable and other current liabilities	163,643	157,824
Regulatory liabilities (note 3)	22,699	15,004
	281,501	260,828
Other liabilities	17,849	17,948
Regulatory liabilities (note 3)	381,653	380,939
Deferred income tax	213,248	201,349
Long-term debt	1,670,589	1,670,545
	2,564,840	2,531,609
Shareholder's Equity		
Share capital, no par value, unlimited authorized shares, 63 shares issued and outstanding (December 31, 2015 - 63)	173,848	173,848
Additional paid-in capital	689,896	689,896
Accumulated other comprehensive loss	(2,335)	(2,398)
Retained earnings	444,333	429,651
	1,305,742	1,290,997
	$ 3,870,582	$ 3,822,606

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

FORTISALBERTA INC.

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

Three months ended March 31 (all amounts in thousands of Canadian dollars)	2016	2015
Revenues		
Electric rate revenue	$ 138,865	$ 142,807
Other revenue	3,126	3,843
	141,991	146,650
Expenses		
Cost of sales (exclusive of items shown separately below)	47,695	46,292
Depreciation	42,245	38,713
Amortization	2,641	2,391
	92,581	87,396
Other income	1,657	865
Income before interest expense and income tax	51,067	60,119
Interest expense	20,068	18,748
Income before income tax	30,999	41,371
Income tax		
Current income tax expense (recovery)	247	(2,155)
Deferred income tax (recovery) expense	(180)	2,143
	67	(12)
Net Income	$ 30,932	$ 41,383
Other comprehensive income		
Reclassification of other post-employment benefit items	63	63
Comprehensive Income	$ 30,995	$ 41,446

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

FORTISALBERTA INC.

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (UNAUDITED)

Three months ended March 31 (all amounts in thousands of Canadian dollars)	2016	2015
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	$ 689,896	$ 679,896
Equity contributions	-	-
Balance, end of period	$ 689,896	$ 679,896
Accumulated Other Comprehensive Loss		
Balance, beginning of period	$ (2,398)	$ (3,057)
Reclassification of other post-employment benefit items	63	63
Balance, end of period	$ (2,335)	$ (2,994)
Retained Earnings		
Balance, beginning of period	$ 429,651	$ 352,135
Net income	30,932	41,383
Dividends	(16,250)	(15,000)
Balance, end of period	$ 444,333	$ 378,518
Total Shareholder's Equity	$ 1,305,742	$ 1,229,268

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

FORTISALBERTA INC.

STATEMENTS OF CASH FLOWS (UNAUDITED)

Three months ended March 31 (all amounts in thousands of Canadian dollars)	2016	2015
Operating Activities		
Net income	$ 30,932	$ 41,383
Adjustments for non-cash items included in net income:		
Depreciation	42,245	38,713
Amortization	2,825	2,546
Deferred income tax	(180)	2,143
Equity component of allowance for funds used during construction	(1,657)	(865)
Change in long-term regulatory assets and liabilities	(9,485)	(7,127)
Change in other non-current operating assets and liabilities	(163)	155
Change in non-cash operating working capital (note 8)	14,029	(23,017)
Cash from operating activities	78,546	53,931
Investing Activities		
Property, plant and equipment	(73,986)	(102,589)
Customer contributions for property, plant and equipment	5,449	9,874
Intangible assets	(5,511)	(2,980)
Proceeds from the sale of property, plant and equipment	295	352
Net change in employee loans	(367)	(525)
Cash used in investing activities	(74,120)	(95,868)
Financing Activities		
Change in short-term borrowings	(9,841)	10,937
Long-term debt issuance costs	(77)	-
Net borrowings under committed credit facility	17,000	46,000
Dividends paid	(16,250)	(15,000)
Cash (used in) from financing activities	(9,168)	41,937
Change in cash and cash equivalents	(4,742)	-
Cash and cash equivalents, beginning of period	4,742	-
Cash and cash equivalents, end of period	$ -	$ -

Supplemental cash flow information (note 8)

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 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''). Fortis is a leader in the North American electric and gas utility business, serving customers across Canada and in the United States and the Caribbean.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States ("US GAAP") as codified in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). The preparation of financial statements in accordance with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting 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 tax, 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. There were no material changes to the Corporation's significant accounting estimates during the three months ended March 31, 2016.

(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 US 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. The 2012 distribution rates are the base rates upon which the formula was first applied and they 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 ratio of 41%. For 2013, 2014 and 2015, the Corporation's ROE has been set at 8.30% with a deemed equity ratio of 40%. The impact of changes to ROE and capital structure during the PBR term apply only to the portion of rate base that is funded by revenue provided by mechanisms separate from the formula.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Regulation (cont'd)

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 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. 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.

Capital Tracker Applications

The funding of capital expenditures during the PBR term is a material aspect of the PBR plan for the Corporation. The PBR plan includes a capital tracker mechanism to fund the recovery of costs associated with certain qualifying capital tracker expenditures.

In February 2016, the AUC issued Decision 20497-D01-2016 (the "2016 Capital Tracker Decision") related to the Corporation's 2014 True-Up and 2016-2017 Capital Tracker Application. The 2016 Capital Tracker Decision determined that the Corporation's applied for capital trackers met the established criteria and were, therefore, approved for collection from customers as a K factor. The 2016 Capital Tracker Decision also addressed previously unapproved capital tracker amounts related to prior years, capital tracker groupings in the accounting test, and depreciation-related matters.

With respect to the depreciation-related matters, the Commission directed the Corporation to remove the impact of a 2015 depreciation technical update from the K factor calculation in the accounting test. While actual depreciation expense, as reflected in the financial results of the Corporation, continues to be determined in accordance with the deprecation rates established by the 2015 depreciation technical update, the Commission determined that changes in depreciation rates should not be reflected in the accounting test underpinning the determination of capital tracker revenue during the PBR term. Also, the Corporation was directed to use the same accounting test allocation methodology for depreciation expense in the true-up to actual of capital tracker revenue as that used in calculating forecasts of capital tracker revenue.

In the first quarter of 2016, capital tracker revenue related to 2013, 2014 and 2015 was reduced by $0.6 million due to the impact of the 2016 Capital Tracker Decision and the true-up to actuals. Capital tracker revenue related to 2015 is still subject to change. The Corporation will file a 2015 True-Up Application in the second quarter of 2016, with a decision from the AUC expected in the first quarter of 2017.

(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 2015 audited annual financial statements.

(d) Future Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, FASB issued Accounting Standard Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. The amendments in this update create ASC Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the codification. This standard completes a joint effort by FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for US GAAP and International Financial Reporting Standards that clarifies the principles for recognizing revenue and that can be applied consistently across various transactions, industries and capital markets. This standard is to be applied on a full retrospective or modified retrospective basis and was originally effective for annual and interim periods ending after December 15, 2016. In August 2015, FASB issued ASU 2015-14, *Deferral of the Effective Date.* The amendments in the update defer the effective date of ASU 2014-09 by one year to annual and interim periods beginning on or after December 15, 2017. Early adoption is permitted as of the original effective date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Future Accounting Pronouncements (cont'd)

Revenue from Contracts with Customers (cont'd)

In March 2016, FASB issued ASU 2016-08, *Principal vs Agent Considerations* and in April 2016, FASB issued ASU 2016-10, *Identifying Performance Obligations and Licensing,* to clarify implementation guidance in ASC Topic 606. The effective date of these updates is the same as the effective date and transition requirements of ASU 2014-09.

The majority of the Corporation's revenue is generated from the distribution of electricity to end-use customers based on published tariff rates, as approved by the regulator, and is considered to be in the scope of ASU 2014-09. The Corporation has not yet selected a transition method and is assessing the impact that the adoption of this standard, and all related ASUs, will have on its financial statements and related disclosures. The Corporation plans to have this assessment substantially complete by the end of 2016.

Leases

In February 2016, FASB issued ASU 2016-02 and the amendments to this update create ASC Topic 842, *Leases,* and supersedes lease requirements in ASC Topic 840, *Leases.* The main provision of Topic 842 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. For operating leases, a lessee is required to do the following: (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; (ii) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis; and (iii) classify all cash payments within operating activities in the statement of cash flows. These amendments also require qualitative disclosures along with specific quantitative disclosures. This update is effective for annual and interim periods beginning after December 15, 2018 and is to be applied using a modified retrospective approach with practical expedient options. Early adoption is permitted. The Corporation is assessing the impact that the adoption of this update will have on its financial statements and related disclosures.

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.

Regulatory assets	**March 31, 2016**	**December 31, 2015**
Deferred income tax	$ 223,584	$ 211,506
Deferred overhead	69,385	66,310
K factor deferrals	9,027	9,292
Regulatory defined benefit pension deferrals	2,809	2,940
Y factor deferrals	32	74
Total regulatory assets	304,837	290,122
Less: current portion	7,791	9,502
Long-term regulatory assets	$ 297,046	$ 280,620

3. REGULATORY ASSETS AND LIABILITIES (cont'd)

Regulatory liabilities	**March 31, 2016**	**December 31, 2015**
Non-asset retirement obligation removal cost provision	$ 359,653	$ 353,801
Alberta Electric System Operator charges deferral	24,016	25,354
K factor deferrals	16,323	11,894
A1 rider deferral	3,060	3,548
Y factor deferrals	1,300	1,346
Total regulatory liabilities	404,352	395,943
Less: current portion	22,699	15,004
Long-term regulatory liabilities	$ 381,653	$ 380,939

A detailed description of the nature of the Corporation's other regulatory assets and liabilities was provided in Note 5 of the Corporation's 2015 audited annual financial statements.

4. EMPLOYEE FUTURE BENEFITS

Costs Recognized

For defined benefit pension plans, the difference between the expense recognized under US 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 US GAAP and that recovered in current rates is not subject to deferral treatment.

Components of Net Periodic Costs

	Defined Benefit Pension Plans		**OPEB Plan**	
Three months ended March 31	**2016**	**2015**	**2016**	**2015**
Service cost	$ 92	$ 165	$ 162	$ 156
Interest cost	411	398	98	99
Expected return on plan assets	(223)	(228)	-	-
Amortizations:				
Past service cost	-	-	63	63
Actuarial loss	60	177	-	-
Net benefit cost recognized	340	512	323	318
Regulatory adjustments	72	(495)	-	-
Net benefit cost recognized in financial statements	412	17	323	318
Defined contribution cost	3,033	3,021	-	-
Total employee future benefit cost	$ 3,445	$ 3,038	$ 323	$ 318

Pension Plan Contributions

Minimum funding contributions for the defined benefit pension plan were approximately $1.6 million for each of 2014, 2015 and 2016, and the 2016 contributions have been funded by excess contributions made in 2014 and 2015. The Corporation estimates that contributions of $1.0 million will be made toward the OPEB plan in 2016. The most recent actuarial valuation of the defined benefit pension for funding purposes was completed as of December 31, 2012. The next actuarial valuation for funding purposes will be completed in 2016, as of a date no later than December 31, 2015.

5. FAIR VALUE MEASUREMENTS

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, 2016**	**December 31, 2015**
Fair value [1]	$ 1,993,526	$ 1,938,533
Carrying value[2]	1,683,831	1,683,825

[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.*
[2] *Carrying value is presented gross of debt issuance costs of $13,242 (December 31, 2015 - $13,280).*

The carrying value of financial instruments included in current assets, long-term other assets 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.

6. FINANCIAL RISK MANAGEMENT

Exposure to credit risk, interest rate risk and liquidity risk arises in the normal course of the Corporation's business.

Credit Risk

The Corporation has a concentration of credit risk as a result of its distribution service billings being to a relatively small group of retailers, or counterparties. Counterparty credit risk is the financial risk associated with the non-performance of contractual obligations by counterparties. The Corporation extends credit to select counterparties in the normal course of business.

The Corporation monitors its credit exposure in accordance with the Terms and Conditions of Distribution Access Service as approved by the AUC. The following table provides information on the counterparties that the Corporation extends credit to with respect to its distribution tariff billings as at March 31, 2016.

Credit Rating	**Number of Counterparties**	**Gross Exposure**	**Net Exposure**
AAA to AA (low)	2	$ 1,327	$ -
A (high) to A (low)	8	36,677	-
BBB (high) to BBB (low)	9	10,695	-
Not rated	38	68,135	1,201
Total	57	$ 116,834	$ 1,201

6. FINANCIAL RISK MANAGEMENT (cont'd)

Credit Risk (cont'd)

Gross exposure represents the projected value of retailer billings over a 37-day period. The Corporation is required to minimize its net exposure to retailer billings by obtaining an acceptable form of prudential, which includes 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 net exposure shown as nil since the credit rating serves to reduce the amount of prudential. For retailers that do not have an investment grade credit rating, the net exposure is calculated as the projected value of billings over a 37-day period less the prudential held by the Corporation. The Corporation assesses non-retailer billings on an individual basis for collectability and these billings are not subject to obtaining prudential.

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. Any new issues of fixed rate debentures by the Corporation within the five-year PBR term 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 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 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, 2016, the Corporation's debentures were rated by DBRS at A (low) and by S&P at A-. In December 2015, DBRS confirmed the Corporation's credit rating of A (low) but revised its outlook on the Corporation from Positive to Stable, reflecting DBRS' view of the current regulatory framework in Alberta. In February 2016, S&P revised the Corporation's outlook from Stable to Negative as a result of the announcement by Fortis that it had entered into an agreement to acquire ITC Holdings Corporation.

Liquidity Risk

Liquidity risk is 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. The number of years to maturity of the principal outstanding and interest payments on the Corporation's long-term debt as at December 31, 2015 were summarized in Note 18 of the Corporation's 2015 audited annual financial statements.

The Corporation's financial position could be adversely affected if it fails to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange sufficient and cost-effective financing is subject to numerous factors, including the results of operations and financial position of the Corporation, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions.

To mitigate this risk, the Corporation has a $250.0 million unsecured committed credit facility to support short-term financing of capital expenditures and seasonal working capital requirements. As at March 31, 2016, the Corporation had $70.0 million drawings on this facility.

7. COMMITMENTS AND CONTINGENCIES

A detailed description of the nature of the Corporation's commitments and contingencies was provided in Note 18 of the Corporation's 2015 audited annual financial statements. There have been no material changes to the nature or amounts of these items.

8. SUPPLEMENTAL CASH FLOW INFORMATION

Change in Non-Cash Operating Working Capital:

Three months ended March 31	**2016**	**2015**
Accounts receivable	$ (4,694)	$ (17,386)
Prepaids and deposits	(341)	(722)
Income tax receivable and payable	(1,574)	(2,155)
Regulatory assets	1,711	338
Accounts payable and other current liabilities	11,232	(3,158)
Regulatory liabilities	7,695	66
	$ 14,029	$ (23,017)

Non-Cash Investing Activities:

As at March 31	**2016**	**2015**
Additions to property, plant and equipment and intangible assets included in current liabilities	$ 51,111	$ 47,381
Customer contributions for property, plant and equipment included in current assets	2,115	4,683

9. SUBSEQUENT EVENTS

These financial statements and notes reflect the Company's evaluation of events occurring subsequent to the balance sheet date through April 29, 2016, the date the financial statements were available for issuance.