FORTISALBERTA INC.

Unaudited Interim Financial Statements
For the three months ended March 31, 2017

FORTISALBERTA INC.

BALANCE SHEETS
(UNAUDITED)

As at (all amounts in thousands of Canadian dollars)		March 31, 2017		December 31, 2016
Assets				
Current assets				
Restricted cash	$	3,933	$	3,933
Accounts receivable		125,530		107,028
Prepaids and deposits		4,012		3,486
Income tax receivable		849		-
Regulatory assets (note 3)		11,279		854
		145,603		115,301
Regulatory assets (note 3)		351,682		339,745
Property, plant and equipment		3,349,667		3,310,897
Intangible assets		63,882		64,201
Other assets		1,796		1,799
Goodwill		226,968		226,968
	$	4,139,598	$	4,058,911
Liabilities and Shareholder's Equity				
Current liabilities				
Short-term borrowings	$	132,964	$	92,610
Accounts payable and other current liabilities		188,135		158,742
Income tax payable		-		1,927
Regulatory liabilities (note 3)		29,274		26,136
		350,373		279,415
Other liabilities		15,939		16,390
Regulatory liabilities (note 3)		404,336		412,033
Deferred income tax		254,666		244,927
Long-term debt		1,819,597		1,819,478
		2,844,911		2,772,243
Shareholder's Equity				
Share capital, no par value, unlimited authorized shares, 63 shares issued and outstanding (December 31, 2016 - 63)		173,848		173,848
Additional paid-in capital		699,896		699,896
Accumulated other comprehensive loss		1,353		1,329
Retained earnings		419,590		411,595
		1,294,687		1,286,668
	$	4,139,598	$	4,058,911

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)	2017	2016
Revenues		
Electric rate revenue	$ 143,452	$ 138,865
Other revenue	3,451	3,126
	146,903	141,991
Expenses		
Cost of sales (exclusive of items shown separately below)	51,907	47,695
Depreciation	46,405	42,245
Amortization	2,447	2,641
	100,759	92,581
Other income	888	1,657
Income before interest expense and income tax	47,032	51,067
Interest expense	22,472	20,068
Income before income tax	24,560	30,999
Income tax		
Current income tax (recovery) expense	(610)	247
Deferred income tax expense (recovery)	925	(180)
	315	67
Net Income	$ 24,245	$ 30,932
Other comprehensive income		
Reclassification of other post-employment benefit items	24	63
Comprehensive Income	$ 24,269	$ 30,995

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)		2017		2016
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	$	699,896	$	689,896
Equity contributions		-		-
Balance, end of period	$	699,896	$	689,896
Accumulated Other Comprehensive Gain (Loss)				
Balance, beginning of period	$	1,329	$	(2,398)
Reclassification of other post-employment benefit items		24		63
Balance, end of period	$	1,353	$	(2,335)
Retained Earnings				
Balance, beginning of period	$	411,595	$	429,651
Net income		24,245		30,932
Dividends		(16,250)		(16,250)
Balance, end of period	$	419,590	$	444,333
Total Shareholder's Equity	$	1,294,687	$	1,305,742

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)	2017	2016
Operating Activities		
Net income	$ 24,245	$ 30,932
Adjustments for non-cash items included in net income:		
Depreciation	46,405	42,245
Amortization	2,623	2,825
Deferred income tax	925	(180)
Equity component of allowance for funds used during construction	(888)	(1,657)
Change in long-term regulatory assets and liabilities	(14,151)	(9,485)
Change in other non-current operating assets and liabilities	(459)	(163)
Change in non-cash operating working capital (note 8)	5,061	14,029
Cash from operating activities	63,761	78,546
Investing Activities		
Property, plant and equipment	(90,548)	(73,986)
Customer contributions for property, plant and equipment	5,214	5,449
Intangible assets	(2,851)	(5,511)
Proceeds from the sale of property, plant and equipment	679	295
Net change in employee loans	(327)	(367)
Cash used in investing activities	(87,833)	(74,120)
Financing Activities		
Change in short-term borrowings	5,354	(9,841)
Long-term debt issuance costs	-	(77)
Net borrowings under committed credit facility	34,968	17,000
Dividends paid	(16,250)	(16,250)
Cash from (used in) financing activities	24,072	(9,168)
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" or "FortisAlberta") 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, 2017.

(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 2016 and 2017, the Corporation's ROE has been set at 8.30% and 8.50%, respectively, with a deemed equity ratio of 37%. 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

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. In that Application, the Corporation had sought: (i) capital tracker revenue associated with 2016 and 2017; (ii) an update to the 2014 capital tracker revenue to reflect actual capital tracker expenditures; and (iii) approval of additional revenue related to capital tracker amounts for 2013, 2014 and 2015 that had not been fully approved in the 2015 Capital Tracker Decision received in March 2015.

In June 2016, the Corporation filed a 2015 True-Up Application to update 2015 capital tracker revenue for actual capital tracker expenditures and the effects of the 2016 Capital Tracker Decision. The AUC issued its decision on the 2015 True-Up Application in January 2017, approving the 2015 capital tracker amount as filed, pending the Corporation submitting a Compliance Filing. In February 2017, FortisAlberta filed its 2015 Capital Tracker True-Up Compliance Filing in accordance with the Commission's decision.

The Corporation included the adjustments related to the 2016 Capital Tracker Decision and the 2015 Capital Tracker True-Up Application in its 2017 Annual Rates Application, discussed below.

Generic Cost of Capital

In October 2016, the AUC issued Decision 20622-D01-2016 (the "2016 GCOC Decision") related to the 2016 and 2017 Generic Cost of Capital proceeding. In this decision, the AUC maintained an 8.30% allowed ROE for 2016 and increased the allowed ROE to 8.50% for 2017. The decision also set the equity portion of capital structure at 37% for most utilities, which was a decrease from 40% for the Corporation.

For Alberta utilities under PBR, including the Corporation, the impact of the changes to the allowed ROE and capital structure resulting from the 2016 GCOC Decision applies to the portion of rate base that is funded by capital tracker revenue only.

2017 Annual Rates Application

In September 2016, the Corporation filed its 2017 Annual Rates Application. The rates and riders, proposed to be effective on an interim basis for January 1, 2017, included a decrease of approximately 2.4% to the distribution component of customer rates. However, the overall distribution tariff impact, which included the impact of transmission and generation, was an increase of 4.6%.

The decrease in the distribution component of rates reflected: (i) a combined inflation and productivity factor (I-X) of negative 1.9%; (ii) a K factor placeholder of $89.5 million that was 100% of the depreciation and return associated with the 2017 forecast capital tracker expenditures; (iii) a refund of $13.1 million that was the difference between the 2013-2016 K factor amounts applied for or approved and the amounts collected; (iv) a refund of $0.5 million of K factor carrying costs; and (v) a net collection of Y factor amounts of $0.5 million. The refund of $13.1 million was primarily due to the over collection of 2015 capital tracker revenue, as accounted for in the K factor deferrals on the balance sheets as at December 31, 2016 and 2015.

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

(b) Regulation (cont'd)

2017 Annual Rates Application (cont'd)

In December 2016, the Commission issued a decision approving the 2017 rates, options, and riders schedules, on an interim basis, effective January 1, 2017, with a rate mitigation measure for residential customers only. The Commission imposed this rate mitigation strategy until April 1, 2017 in order to partially offset the impact of the transmission and generation-related increase. The Corporation filed an application in February 2017 for revised residential distribution rates effective April 1, 2017, to give effect to the approved annual rate increases over the remaining nine months of 2017. In March 2017, the Commission issued Decision 22415-D01-2017 approving the Corporation's 2017 PBR rates as filed, on an interim basis until any required true-up amounts or placeholders are finalized by the Commission. The Corporation recorded a rate mitigation deferral at March 31, 2017 for revenues to be recovered from residential customers under these rates as of April 1, 2017.

Electric Distribution System Purchases

If the Corporation and a municipality or a Rural Electrification Association ("REA") come to an agreement to transfer electric distribution system assets to the Corporation, the transfer and purchase is subject to regulatory oversight. The municipality or REA is required to apply to the AUC to cease and discontinue its operations. Concurrently, the Corporation is required to apply to the AUC to alter its electric service area to include the electric service area of the municipality or REA, and obtain approval of the purchase price for the distribution system assets and the related rate treatment.

In 2015, the Corporation was granted AUC approval to, and did acquire, the electric distribution systems of the Kingman REA Ltd. and the VNM REA Ltd. for $5.1 million and $16.0 million, respectively. Subsequently, in 2016, upon request by the Office of the Utilities Consumer Advocate, the AUC initiated a review of its decisions regarding these acquisitions to confirm that the purchase prices paid by the Corporation were properly determined. While the scope of the proceeding, as established by the AUC, will not permit the withdrawal of the approval for the transfer of assets involved in the acquisitions, this proceeding may result in amounts other than the purchase prices paid being approved for recovery in the Corporation's rates. A decision on this matter is expected in the second quarter of 2017.

In July 2016, the Corporation and the Municipality of Crowsnest Pass ("CNP") agreed to the acquisition by the Corporation of CNP's electric distribution system for a proposed purchase price of $3.7 million, and filed the related Applications with the AUC. In December 2016, as a result of the AUC decision to review the purchase prices of the Kingman and VNM REA acquisitions, the AUC suspended its consideration of the acquisition of CNP until it issues a decision on the purchase prices of the Kingman and VNM REAs. In the interim, the Corporation has an operating agreement with CNP to oversee and maintain its electric distribution system and has placed the proposed purchase price of $3.7 million, plus GST, in trust, as disclosed in Note 2(d) to the 2016 audited annual financial statements. A decision on this matter is expected in the second half 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 2016 audited annual financial statements, except as follows.

Effective January 1, 2017, the Corporation adopted Accounting Standards Update ("ASU") 2017-04, Simplifying the Test for Goodwill Impairment. The amendments in this update simplify the subsequent measurement of goodwill by eliminating step two in the current two-step goodwill impairment test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. The above-noted ASU was applied prospectively and did not impact the Corporation's interim unaudited financial statements for the three months ended March 31, 2017.

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

(d) Future Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the FASB issued 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 clarifies the principles for recognizing revenue and can be applied consistently across various transactions, industries and capital markets. In 2016, a number of additional ASUs were issued that clarify implementation guidance in ASC Topic 606. This standard, and all related ASUs, is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted for annual and interim periods beginning after December 15, 2016. The Corporation does not expect to early adopt.

The new guidance permits two methods of adoption: (i) the full retrospective method, under which comparative periods would be restated, and the cumulative impact of applying the standard would be recognized as at January 1, 2017, the earliest period presented; and (ii) the modified retrospective method, under which comparative periods would not be restated and the cumulative impact of applying the standard would be recognized at the date of initial adoption, January 1, 2018. The Corporation expects to use the modified retrospective approach; however, it continues to monitor interpretive issues that remain outstanding. Any significant developments in interpretive issues could change the Corporation's expected method of adoption.

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 does not expect that the adoption of this standard, and all related ASUs, will have a material impact on the recognition of revenue; however, the Corporation does expect it will impact its required disclosures. Certain specific interpretive issues remain outstanding and the conclusions reached, if different than currently anticipated, could have a material impact on the Corporation's financial statements and related disclosures. The Corporation continues to closely monitor developments related to the new standard.

Leases

In February 2016, FASB issued ASU 2016-02, *Leases.* 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.

Measurement of Credit Losses on Financial Instruments

In June 2016, FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments.* The amendments in this update require entities to use an expected credit loss methodology and to consider a broad range of reasonable and supportable information to inform credit loss estimates. This update is effective for annual and interim periods beginning after December 15, 2019 and is to be applied on a modified retroactive basis. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Corporation is assessing the impact that the adoption of this update will have on its financial statements and related disclosures.

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

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

(d) Future Accounting Pronouncements (cont'd)

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which amends the requirements related to the presentation of the components of net periodic benefit cost for an entity's defined benefit pension and other postretirement plans. ASU 2017-07 requires entities to (1) disaggregate the current-service-cost component from the other components of net benefit cost and present it with other current compensation costs for related employees in the income statement and (2) present the other components elsewhere in the income statement and outside of income from operations. The ASU will be effective in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Corporation is currently evaluating the impact on its financial statements of adopting this standard.

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, 2017**	**December 31, 2016**
Deferred income tax	$ 265,979	$ 257,165
Deferred overhead	81,678	78,348
Alberta Electric System Operator charges deferral *(i)*	7,559	-
Regulatory defined benefit pension deferrals	3,940	4,084
Rate mitigation deferral *(ii)*	2,703	-
A1 rider deferral	696	696
K factor deferrals	283	306
Y factor deferrals	123	-
Total regulatory assets	362,961	340,599
Less: current portion	11,279	854
Long-term regulatory assets	$ 351,682	$ 339,745

Regulatory liabilities	**March 31, 2017**	**December 31, 2016**
Non-asset retirement obligation removal cost provision	$ 375,499	$ 372,168
Alberta Electric System Operator charges deferral *(i)*	33,598	36,956
K factor deferrals	22,409	26,193
Y factor deferrals	1,260	1,181
A1 rider deferral	844	1,671
Total regulatory liabilities	433,610	438,169
Less: current portion	29,274	26,136
Long-term regulatory liabilities	$ 404,336	$ 412,033

(i) Alberta Electric System Operator charges deferral

These balances represent revenue collected in excess of expenses incurred for various items, such as transmission costs incurred and flowed through to customers, that are expected to be refunded in future customer rates. To the extent that the amount of actual costs incurred exceeds revenue collected in rates for these items, the excess is deferred as a regulatory asset to be collected in future rates. As at March 31, 2017, the regulatory asset primarily represented the under collection of the Alberta Electric System Operator ("AESO") charges deferral account for 2017 and the regulatory liability primarily represented the over collection of the AESO charges deferral account for 2016.

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

3. REGULATORY ASSETS AND LIABILITIES (cont'd)

(ii) Rate mitigation deferral

This balance represents the deferral of revenue associated with the AUC's approved rate mitigation measures for residential customers as discussed in Note 2(b) above. The rate mitigation deferral balance is expected to be collected from customers over the remaining nine months of 2017.

A detailed description of the nature of the Corporation's other regulatory assets and liabilities was provided in Note 4 of the Corporation's 2016 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	**2017**	**2016**	**2017**	**2016**
Service cost	$ 167	$ 92	$ 95	$ 162
Interest cost	403	411	75	98
Expected return on plan assets	(216)	(223)	-	-
Amortizations:				
Past service cost	-	-	63	63
Actuarial loss (gain)	294	60	(39)	-
Net benefit cost recognized	648	340	194	323
Regulatory adjustments	(150)	72	-	-
Net benefit cost recognized in financial statements	498	412	194	323
Defined contribution cost	3,236	3,033	-	-
Total employee future benefit cost	$ 3,734	$ 3,445	$ 194	$ 323

Pension Plan Contributions

The Corporation made total contributions to the defined benefit retirement plan of $0.5 million for the three months ended March 31, 2017. Minimum funding contributions of approximately $1.8 million will be made towards the defined benefit pension plan and contributions of $0.8 million toward the OPEB plan in 2017.

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.

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

5. FAIR VALUE MEASUREMENTS (cont'd)

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, 2017**	**December 31, 2016**
Fair value [(1)]	$ 2,154,255	$ 2,117,122
Carrying value[(2)]	1,833,602	1,833,594

[(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 $14,005 (December 31, 2016 - $14,116).*

The carrying value of financial instruments included in current assets, long-term other assets, short-term borrowings 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, 2017.

Credit Rating	**Number of Counterparties**	**Gross Exposure**	**Net Exposure**
AAA to AA (low)	2	$ 1,475	$ -
A (high) to A (low)	8	37,609	-
BBB (high) to BBB (low)	9	12,708	-
Not rated	34	75,407	1,801
Total	53	$ 127,199	$ 1,801

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.

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

6. FINANCIAL RISK MANAGEMENT (cont'd)

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 that 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 facilities 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 facilities have 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, 2017, the Corporation's debentures were rated by DBRS at A (low) and by S&P at A-. In December 2016, DBRS confirmed the Corporation's credit rating of A (low) with an outlook of Stable. In October 2016, S&P returned the Corporation's outlook to Stable from Negative as a result of the closing of Fortis' acquisition of ITC Holdings Corp.

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, 2016 were summarized in Note 17 of the Corporation's 2016 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, 2017, the Corporation had $35.0 million drawings on this facility (December 31, 2016 - $nil).

7. 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 2016 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	2017	2016
Accounts receivable	$ (17,249)	$ (4,694)
Prepaids and deposits	(526)	(341)
Income tax receivable and payable	(2,776)	(1,574)
Regulatory assets	(10,425)	1,711
Accounts payable and other current liabilities	32,899	11,232
Regulatory liabilities	3,138	7,695
	$ 5,061	$ 14,029

8. SUPPLEMENTAL CASH FLOW INFORMATION (cont'd)

Non-Cash Investing Activities:

As at March 31	2017	2016
Additions to property, plant and equipment and intangible assets included in current liabilities	$ 63,324	$ 51,111
Customer contributions for property, plant and equipment included in current assets	5,332	2,115

9. SUBSEQUENT EVENTS

These financial statements and notes reflect the Corporation's evaluation of events occurring subsequent to the balance sheet date through April 28, 2017, the date the financial statements were available for issuance.